
Funding the Long Term – Mainstreaming and Sustainable Finance for Local Employment Development



The Seventh Thematic Report of the IDELE Project

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1.0 INTRODUCTION

1.1 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 widely.

1.2 The seminar theme: A sustainable future for local employment development

For almost two decades local employment development (LED) has emerged as a central and increasingly successful component of European policies to create more and better jobs and to give local people more equal chances to develop their own human capital and to find employment. Ever since the Luxembourg Council, acting locally for employment has become an accepted principle of the European Employment Strategy. In practice, the local approach has also become widely adopted within the Member States Operational Programmes for the Structural Funds. This process has been running in parallel with the emergence of a strong ‘bottom up’ movement across the board with local people keen to participate more effectively in the employment and development process in their localities and neighbourhoods. Policies have been brought to bear to empower and engage players at the regional and local levels and for a range of local economic, social and environmental initiatives.

As the IDELE series of seminars has confirmed, local employment development comes in a wide variety of forms. It can range from a single project acting alone, through networks of integrated projects and activities, to well organised strategy driven programmes. The principle of *partnership* is all-pervasive – with groups of local stakeholders coming together for a commonly agreed purpose. In previous theme reports we have been able to identify at least four types of LED activities¹:

- Institutional LED organisations steered by but not controlled by the public authorities;
- Top down institutional partnerships operating within strict public policy guidelines;
- Bottom up more decentralised and autonomous partnerships made up of independent local actors, and

¹ This aspect of local partnership and its relationships with wider governance was the subject of an earlier IDELE Theme Report. See: *Connecting the Local: Linking Local Employment and Economic Development into National and Regional Governance Systems. Sixth Thematic Report of the IDELE Project, Ecotec Research and Consulting Ltd, 2005*

- Community owned or stakeholder managed activities operating in a limited company format but with a public interest mission;

At its best, LED is driven by partnership bodies of all these kinds that have a clear place in the system of governance. What is indisputable is that an enormous amount of time and resources has been applied to the task of building local capacity in the sphere of employment and development through the medium of EU pilot and experimental actions.

During the 2000-06 funding period, LED projects have been encouraged to take on board greater levels of:

1. *Active horizontal partnership*: having broad coalitions of local players move beyond the skills necessary simply to implement an activity towards a more engaged and coordinated role in decision-making more generally;
2. *Effective vertical integration* within higher level governance systems: equipping themselves (and their sponsors) to see where they can best fit in to a multi-level strategic approach to local development; and
3. *Strategic engagement*: having found their most appropriate role and positioning, going on to identify gaps, design solutions and engineer strategies to achieve the best possible outcomes in concert with other levels of governance.

From the perspective of this report, we would wish to add a fourth item to the list:

4. *Financial sustainability*: taking early steps to secure the finance needed to support current activity into the future;

What we have then is 20 years of active development of the LED model across Europe and a very considerable asset base in the skills and capacities of local partnerships and their participant organisations. What we do not have, however, is a clear strategy for ensuring that the best of these assets are maintained sustainably for the future once short-term grant based funding is no longer available. It was, then, the task of the IDELE seminar in Nice to explore the issue of how to secure financial resources for sustaining local employment development into the future and, in particular, how to find ways to reduce dependency on the existing funding base.

2.0 LED AND THE NEW FINANCIAL ARCHITECTURE OF THE EU

2.1 New policy frameworks from the EU

With the support of the European Commission, LED has become an important plank of the general framework for employment and local development policy. However, policy frameworks for the EU are now being re-framed and the Commission's view of the basis for the future sustainability of LED is unequivocal. After a long period of innovative action, the need is now to *consolidate and to mainstream* rather than to continue with experimental pilot actions and short-term initiatives. LED is to be promoted for the future through the vehicle of the *European Employment Strategy* and the primary practical means for doing this will be by using the *open method of coordination* agreed by the Lisbon Council in 2000². The essence of the new approach is the development of broad overall European Strategic Guidelines and then inviting policy actors to find the best ways to achieve them – taking account of their own national, regional or local context. From this perspective, the principal contribution of the European Commission to sustainability for LED will be by seeking to *sustain the learned good practice* across the EU. What is of particular importance to the subject matter for this report is that there is no necessary requirement here financially to maintain the *current bearers of LED practice* themselves. This is seen to be a matter for Member State governments and is the essence of what the European Commission means when it talks about “mainstreaming”.

In strictly practical terms the new financial architecture of the EU will no longer include Community Initiatives; (for example EQUAL or Article 6) or funding for pilot projects – both of which have been prime resourcing platforms for LED. In addition, responsibility for Structural Funds operational programming will be a matter for the Member States acting within the system of Strategic Guidelines we spoke about earlier. Due process will see the European Commission charged with ensuring that the strategic goals are met and that, within the context of subsidiarity and the recognition of national differences, the Strategic Guidelines are implemented. As a consequence of all this, many valuable projects in the EU15 will be finding themselves ‘at risk’ if they have not already taken steps to find alternative funding outside the traditional sources and the first aim for sustainability must surely be to avoid a last-minute dash for alternative forms of ‘short term’ funding that simply transfers ‘Euro-dependency’ on to some other source of time-bound public grant aid.

² This approach is based on what can be described as the “comparative method” – seeking out good practice between comparable players, places, regions and activities and finding ways to have them and their governments share and learn the lessons. The method is designed to be *dynamic* with an emphasis on having actors continuously share their experiences with others in an open “policy learning system” that will embed both guidelines and good practice to achieve convergence across the European Union. The practical tools include such things as benchmarking, score cards, performance indicators, peer and thematic review, policy audit, mutual inspection and so on. Applied cross-nationally and across policy networks these are the instruments to identify, disseminate and exchange ideas about good practice between actors on the ground. IDELE is, of course, part of this process.

The message could not be clearer. Current funding lines will be coming to an end and the challenge will be to find new backers or sources of income as soon as possible. It is inevitable that the funds to support LED will reduce overall – at least in the EU15. For those aspiring to find mainstream support, they can expect to be scrutinised as never before and will need to present strong evidence for their value added contribution in competition with other claimants for State funds. However, and this is the main thrust of this report, many will have to look to *non-State forms of financial support* if they are to survive. There is a positive take on this, however. There may be large numbers of current LED partnership bodies and stakeholder organisations that have a real capacity to generate traded revenue and to secure their future on the basis of equity and loan finance. This potential has, in the experience of IDELE so far, been rarely exploited and there is a need to raise the profile of these alternative approaches.

2.2 Securing LED in the national and European policy mainstream

The idea of mainstreaming as the route to a secure future for LED takes us onto a different terrain in a number of ways. While a technical focus on: i) how better to "design money"³ to make it easier to get sustainable finance, and ii) how to help local players be better able to access it, is necessary, we have to go wider. The real challenge for achieving sustainability of LED will be to tackle the much harder task of having local partnership approaches to employment and development accepted as part of the normal *day-to-day business* for Member State governments. Future prospects for LED will not just be about finding new sources of money but also by having it accepted in the *sphere of politics* as a normal component in multi-level governance (see IDELE Thematic Report No 6). There is still a huge job to be done in making the case that partnership based local approaches can be a source of *real added value*.

Mainstreaming will also bring up the challenging issue of *opportunity costs*. So long as LED remains the preserve of "one time" experimental funding, the opportunity cost question rarely comes up. When we talk about entry to the mainstream, however, it becomes central. What mainstreaming forces governments to do is to choose this option over that, to take this road and not the other and to consider what else a given amount of resource might have bought. This will bring LED into direct competition with all the other approaches that claim to be effective and efficient in creating new jobs, helping people access them and assuring equal opportunity. Sustaining LED will become a *strategic question of national policy choice* as well as a set of established projects looking for funding support for the future.

³ That is not to regard money as a fixed item (cash or currency for example) but as a flexible medium of exchange that can be engineered and re-engineered to meet specific requirements and changing circumstances.

This returns us to the issue of the new policy architecture for the EU that we discussed earlier. Acting locally for employment and development is recognised in the *Strategic Guidelines* and is a component of the *European Employment Strategy* - as is the idea of working in partnership. Member State governments are, therefore, under an obligation to consider these issues in their general policy frameworks and to reflect them in their national strategic policy choices. This timing of this is critical for the "community" of LED providers as they seek to transfer their search for funding from EU pilot initiatives to their own Member State mainstreams. The need for the Member States to respond to the *European Guidelines* offers a vital window of opportunity for them to get the case for sustainable funding for LED presented for formal consideration. This should not, however, deflect us from simultaneously examining alternative funding strategies from non-governmental sources and it is to this we now turn our attention.

2.3 Seeking pathways to alternative funding for LED

In beginning to consider how the "community" of partnerships and stakeholder organisations that fall under the banner of local employment development can access alternative funds, there is a vital need to widen the debate in another way. A particularly helpful route to take is to link our discussions of the financial future of LED with very similar ones that are also taking place in the field of *social enterprise and the social economy*. In many ways, the kinds of organisations involved and the core objectives they pursue are very much the same, regardless of the labels applied. Indeed, as our case examples for IDELE show, many of the players in LED could equally well be described as social economy organisations or as social enterprises. Using the different labels is, perhaps, more about *looking through a different window* than about observing two different sets of organisations. For example, the same sorts of seedbed conditions – filling local gaps and having people participate - that we identified as sponsoring the growth of local partnerships, are precisely those underpinning the development of social enterprise and the social economy. Indeed, in a number of Member States the debates on LED and on the social economy are regarded as indistinguishable. Take, for example, the following quotation taken from a European Commission document produced in 1999:

“The social economy and the activities oriented to meet the needs unsatisfied by the market can lead to the development of a new sense of entrepreneurship particularly valuable for economic and social development at local level. This sense of entrepreneurship is closer to the aspirations and values of people that do not seek profit making but rather the development of socially useful activities or jobs. These forms of entrepreneurship have a useful role in promoting social cohesion and economic local (sic) performance”.

What is particularly important to take from this as we go on to look at sustainable finance for LED is the phrase; "entrepreneurship is particularly valuable for economic and social development at local level". Although the word entrepreneurship has figured only occasionally in our reports on good practice in LED, it is abundantly clear that in the best of the reported case examples, this is precisely what we have been talking about. We already know that many of the case example organisations presented in IDELE are already constituted as *companies* and already think of themselves as *enterprises* (see IDELE Theme Report No

6). What is vital to our current discussion is that if many of the players in the established LED “community” are to survive in a world where public funds are much harder to get, it is the language and practice of *entrepreneurship and enterprise* that is going to be needed. It would deflect us here to go further into the voluminous literature of the social economy but to proceed to the next section of the report we need to have it accepted that for some aspects of the discussion of financial sustainability for LED, the use of the label social enterprise is more appropriate for that segment of the LED “community” that has the ability to take up a business stance while maintaining a public service ethos.

3.0 BREAKING OUT – FACILITATING REVENUE-EARNING ACTIVITY AND HAVING THE PUBLIC CONTRIBUTION VALUED

3.1 From quasi-public body to revenue earning enterprise

Having established the overall European funding position and suggested that in future public finance will be considerably harder to access, we turn our attention to explore some of the financial opportunities that are available to social enterprises and, therefore, to support LED in general. We begin by looking at the kinds of attributes that might be seen currently as preventing these sorts of organisations from capturing *sources* of finance other than public ones (from outside the public sphere generally) to support their activities.

The most significant of these is that the organisations underpinning LED have been the beneficiaries of funds that not only did not require them to think of themselves as enterprises but offered disincentives for them to think in terms of generating surpluses or building assets. From the perspective of banks and other commercial funders appraising them for loan and equity finance this would have them seen as “poorly managed” - at least in a strictly business sense. It follows then that taking a more business-like view of themselves would be a first requirement for any LED organisation wishing to secure finance from banks or other finance institutions. Setting out on this path will require them to undertake a rigorous re-examination of both mission and mindset. Not all can, or even should follow this road - but for many of the most successful local partnerships and stakeholder organisations, the closing of the door to a history of grant support can present an opportunity as much as threat.

To pursue the routes to sustainability that lie outside the public domain, those LED and social enterprises that aspire to it need to think more in terms of being able to capture investment funds, generate income, build assets, trade and offer secure employment to well trained and paid staff. This is, of course, what the best of them already do. They compete with other providers (private, public, other voluntary and community sector) to meet the service specifications set out by public (and other) agencies through invitations to tender. They look for investment capital to replace grant aid and offer a business plan based on their trading performance to secure it. They attempt to accumulate surpluses and either sediment them into assets or apply them to ventures appropriate to their social purposes. It is fully acknowledged that not all can do this but the key task is to raise significantly the proportion of LED organisations that can.

3.2 Compensation for the merit goods or welfare contribution

To facilitate this move from a culture of short-term grants to a more sustainable “value for service rendered” ethos first requires an affirmation that local partnerships and social enterprises also deliver *valuable merit goods* and should be compensated for it. They offer a measurable benefit to society as a whole (as well as the public purse) by offering jobs, skills development and an enhanced quality of life for socially excluded people. Where, in parallel with this, they also help to fill personal and social services gaps, there is a double benefit to be retrieved.

Currently, the time-limited grant system serves as the primary source of compensation for this wider social contribution. But, as we have seen, this has serious downside effects when it comes to securing finance for the future. To provide a stable platform for sustainable growth there is a need for the normal marketplace for public services to be moulded in a way that allows social economy organisations to compete on a more level playing field. This means finding some legitimate way for the public authorities to recognise the special value added these organisations produce and to find a way to return appropriate recompense to them for doing it. Simply demanding that they convert themselves into relatively orthodox businesses runs the risk that their vital social contribution will be lost. This is the essence of what is identified in the literature as *isomorphism* – making everything the same. The fear is that those things that are not measurable in cash terms will be allowed to disappear.

To mould the marketplace to recognise this sort of service-based contribution would, however, demand a significant change in the behaviour of the public service contracting agencies so that they give due weight to the special qualities that local partnerships and social enterprise organisations can offer. From such a starting point it should be possible both to acknowledge the value of the social enterprise contribution and to provide an open, legitimate and long-term means to justify public assistance.

3.3 LED and social enterprise: The barriers to be overcome

For LED organisations the road to non-public funding is likely to be paved with difficulties. The experience of social enterprise generally shows how difficult it is likely to be. Organisations that see their role not as earning profits for their owners but whose mission is to create social benefits – often for the poorest segments of society – present special conditions for the finance community. Among these are the following:

- The difficulties of getting access to markets
- The problems of gaining access to the right sort of finance
- Local or regional factors – the areas they serve may be too poor to sustain their contribution under normal trading conditions
- As the market develops difficulties exist that stop them having the capacities or distribution networks to expand
- The volatility of the markets they serve and their inability immediately to adapt to that volatility.
- The tendency for them naturally to inhabit low profits sectors
- The difficulty faced in accumulating capital reserves

What these special conditions usually mean is that social enterprises are likely to be regarded as at the very least “unusual” customers by orthodox banks and funding agencies. They have at least four characteristics that make it harder for financial institutions to deal with them (Granger, 1999, 2000).

- *High complexity* - The multiple objectives of the projects/enterprises call for complex financing solutions since they will often need to combine privately generated income from trading activities with public sponsorship for social purposes. They are neither standard clients nor “normal” partners and traders.
- *Low profitability and unknown risk* - Measured against any traditional criteria of a firm’s internal yield, they are not very profitable in orthodox terms. Their economic objectives are tempered by their social aims. Risk is difficult to measure and reward at the level of the enterprise difficult to capture
- *Slowness and high transaction costs* - Their complexity entails lengthy negotiations; their low profit potential means time must be spent to find resources; the lack of funds limits the capacity to take risks; partnerships are slow to build into working forms.
- *Absence of “normal” track record* - Most organisations have no past in terms of business performance, only a “hoped for” future.

Faced with this sort of situation it would be sensible not to assume that the burden of providing sustainable finance for LED organisations can be transferred to the orthodox financial institutions. Clearly, some of the very best social enterprises can succeed in doing this – but the numbers will be minute in relation to the numbers of organisations looking for support. The real battle to provide sustainable finance for the future must be fought on two fronts. The most important is to capture mainstream public finance as discussed above in Section 2 and to which we will return in the Conclusion. A second, and increasingly important, secondary opportunity comes from the fast emerging field of *new social banking* and it is to this we now turn our attention.

4.0 NEW SOCIAL BANKING AND THE SUPPLY OF FINANCE FOR SUSTAINABILITY

4.1 Community Finance Initiatives

The sorts of enterprises that might emerge from the LED "community" do not, as we have seen, thrive naturally in the contemporary world of finance⁴. Because of their combined economic and social mission, the majority will probably always need public or philanthropic support in one form or another. There are, however, a growing number of new opportunities to be taken up - particularly from that cluster of social banking initiatives that fall variously under the headings of Community Finance Initiatives (CFIs), Community Development Finance Instruments (CDFIs) or more simply Patient Capital. Three key components of interest to us within this are:

- *Micro-credit* - micro credit schemes are small credits lent often with the intention of helping unemployed people and those who are marginalised in the labour market either into self employment or to set up a company or co-operative. They tend to be created by associations, co-operatives, mutual insurance organisations and other non-profit associations linked to churches or workers' unions taking the role of "a bank in place of the bank", in order to help finance small-scale initiatives. Mentors or peer groups are used to cross-guarantee the loan funds and spread the risk of loss.
- *Mutual Credit or Guarantee Funds* - As an adjunct to micro-credit there is considerable interest in larger scale mutual guarantee schemes. These tend to work more with established SMEs but the same concept of mentor or peer group cross-guarantees applies. Banks find it safer and cheaper to lend to groups of enterprises than to individual companies and this model is successfully used to lever in more orthodox private sector finance to add to the scale of the overall fund.
- *Social risk capital and loan guarantee funds* - The idea behind this complex group of instruments is to develop new financial engineering products that can provide finance in the form of loans or equity to community based ventures or social enterprises in the same way as venture and risk capital are provided to businesses in the market economy. They are designed directly to overcome the problems of lack of capital, lack of collateral, and the absence of normal equity that characterises the typical community development venture or social enterprise.

All of these forms of financial engineering are concerned with what might be called the "design of money" to make it more appropriate to non-standard borrowers of the type that LED is likely to contain. They also have a feature of particular interest - most of the money is provided in the context of some sort of *support structure* that "brings clients along"

⁴ What is making this more urgent is that while LED organisations are looking to engage with it more actively, the banking business itself is changing rapidly. Traditional banks are abandoning entire segments of their former customers, preferring to concentrate on high-profitability and corporate clients and raising minimum loan thresholds out of the reach of small businesses.

supports and trains them and seeks to make them investment or loan ready⁵. These take the form of intermediate support organisations acting as mentors, guarantors, brokers and market makers – and many of them are indistinguishable from the organisations that underpin much of LED. As we shall see in the next section of the report we have good practice examples of this already in place and, from the point of view of the supply of funds to support LED organisations and social enterprises, there are some grounds for guarded optimism.

4.2 *New disciplines needed for LED organisations*

To make full use of these opportunities, however, requires careful planning and demands that the organisations seeking to capture them engage with new ways of presenting themselves to those they want to fund them. For example, accessing any of these forms of credit must be seen as a *discipline* for the project or organisation – demanding evidence of responsible management, planning and proper accounting practices. While grant applications tend to focus on the past and invariably focus on compliance with rules and the avoidance of failure, credit has to be seen as a *focus on the future*. What is also needed are the legal and governance frameworks that can positively support the growth of new social banking and that can help LED organisations align themselves better with the new funding future.

In confronting this kind of discipline, one of the questions that LED organisations will need to ask themselves is “what sort of things do those who might fund us really want to purchase?” For traditional funders – mostly governments - it might be their desire and the ability to “buy” *substantive welfare outcomes* -- jobs, skills and inclusion for example as an extension to state action. For others – the private or public-private finance providers – the answer might be *reasonable returns on an investment* with perhaps an *ethical value* that is part of their wider view of corporate social responsibility. For a community of local people what might be needed might be a *degree of voice* and the acquisition of some *service or facility* that they wish to control by themselves. Being confused about the answers to such questions or being naïve about the impact that choosing one or the other will have on the need to change the core mission of the organisation or partnership is a prescription for disaster.

There are then at least two very different kinds of sustainability:

- Sustaining the LED organisation: where the objective is to keep the organisation itself going by providing a service of some kind and being “paid” to do it; the service might be provided competitively in a notional or real marketplace for public and social services. It might cover areas such as the provision of jobs, training and helping older people, etc. – much of it the typical output list for a grant funded project;
- Sustaining the LED mission: a socio-political objective locally to meet the needs of a particular group of people or a place by the best means available. This may be by maintaining the set of existing organisations but this would be based on a judgement about whether or not they constitute the best available means to achieve the objective. The focus here is on the outcomes and beneficiaries rather than the self-surviving LED

⁵ The contributions in skills, consulting, training and so on go far beyond the basic services of a traditional banker. But the managers consider them essential to their own job: consulting is part of the loan; investment without training makes no sense.

organisation. It may imply options like embedding the learned LED experience in other kinds of organisations or government departments.

There is a tendency to be less than clear-minded about this distinction. Sustaining LED is perhaps in part about finding ways to maintain those organisations that have been the carriers of the concept during its experimental phase but in the main it must be about making a carefully argued case for more attention to be given to those actions most appropriately positioned at local level in the system of overall governance. It is perhaps the quality of the ideas, tools and practices that needs to be sustained into the future. Some of these are, of course, ideas about the types of bodies best suited to acting locally. The concept of partnership is well understood to be an idea with value in its own right – not necessarily the partnerships that currently exist as beneficiaries of past grant aid but partnership as a powerful element in good governance.

The disciplines we spoke about earlier need to make existing LED partnerships and organisations more self-aware and willing to confront the changes that are coming. Some can, indeed, re-engineer themselves successfully to meet the demands of public-private finance providers. In doing so, however, they may need fundamentally to change the nature of their core mission. Others (perhaps the majority) will continue to see themselves as supplying substantive public welfare outcomes - jobs, skills and inclusion - as an extension to state action but in doing so they must confront the fact that as organisations they represent just one alternative available to the public agencies. To make the case the value added will need to be clearly evidenced and this, as we see, is not without its difficulties. A third group may want primarily to see themselves as rooted in their communities with a need to take care about the dangers of diluting their independence of voice and legitimacy by having to comply with the funding regimes of outsiders.

4.3 Market forces, state provision and the "third way"

From this perspective of discipline and choice, we can return briefly to those "grand narrative" arguments covered earlier. If we are talking about sustaining a platform of LED organisations that already exists, having them compete in a *mixed marketplace* of competing suppliers is one way to validate their claims to survive. As in any market context, success will come from meeting the client's (usually the state's) needs in quality, delivery and price in competition with others. Revenues – fees, contracts, direct payments – will pay for the running of the organisation and surpluses will lever in credit and funds for future development. The known difficulty with the wholesale adoption of this approach (the fear of "isomorphism" we explored earlier) is how to ensure that there is a "level playing field" that acknowledges the non-standard nature of the social enterprise and the kinds of disadvantaged terrain over which it normally operates.

Alternatively, mainstream public revenue support for the overall LED mission can be seen as coming in the form of direct state funds to drive the policy. The organisations and activities selected should simply be those most efficient and effective in meeting this objective. Privileging providers that can meet the aims of the policy and doing this from the public purse can deal with the issue of the "level playing field" referred to above. In practice, this can

come from part or whole subsidies to organisations and enterprises in recognition that the market will not support public policy in normal operation. It can also come from alterations in the formal functions of government and its agencies – taking on board in mandatory terms and in the public mainstream the functions that LED organisation currently carry out.

The argument set out in the previous section - making a simple distinction between a mixed marketplace of public provision and direct state action - fails, however, to take on board a fast changing political economy at the macro level. What we are seeing (and LED and social economy organisations are very much a part of it) is the rise of some *Third System* that lies between private enterprise and the state – a hybrid mix of enterprises and business-like but socially driven organisations that can also deliver and be rewarded for a public welfare contribution⁶. The process that this involves – new kinds of mixed private and public sector funding (public-private partnerships and joint public-private ventures alongside a myriad of hybrid business forms at the micro-level) – may well see a more benign environment for LED as it seeks to sustain itself financially.

It is certain that there will be some level of continuing public finance to support LED. Governments will continue to want to "buy" both substantive welfare activities and social capital from local partnership bodies. However, as we have already indicated, LED will have to find its place alongside all the other claims on national mainstream funds. Some organisations will be able to trade competitively and will be in a position to replace public investment by trade-based revenue. It is also increasingly possible that private-for-profit companies will be looking to invest funds in local partnerships and NGOs in accordance with their corporate social responsibility objectives. The route to philanthropic gifts will also remain open to some.

The key issue in looking for sustainable finance for LED policy is what, should be the right balance between market-led social enterprises and quasi-public providers of welfare goods, services and social capital in the long run. It would be a serious mistake to imagine that even a simple majority of LED organisations could set off successfully along the trade-equity-loan finance route. Perhaps the proportion may be as little as 10-20 percent. Philanthropic giving and CSR may have their role but will probably account for even smaller numbers. What is abundantly clear is that if the huge asset base of competencies and organisations that has grown up around LED is not to be substantially lost, the *public authorities* are going to be the key players. It will be for them to make the choice whether to sustain the existing body of LED organisations or to take a different route. Either way there is still a job to be done to ensure that Local Employment Development has a sustained role within the economy and in the system of governance.

⁶ See *Third System and Employment Programme, Final Report*, European Commission, DG Employment and Social Affairs, 2001.

5.0 THE CASE EXAMPLES: NEW SOCIAL BANKING AND SUPPORT STRUCTURES

In what follows we set out a framework and use it to examine how our series of case study examples demonstrate how the general processes described up to this point are being played out on the ground. The aim is to explore how LED organisations are in practice being re-engineered to confront the new circumstances and how a variety of new kinds of intermediary support bodies have grown up in response the need for new social banking to bring together funders and borrowers in an environment that offers discipline, shared learning, mutual support and the distribution on risk.

5.1 LED organisations confronting change

The IDELE process has thrown up many examples of organisations confronting change and being forced to work out strategies for their future survival. In what follows, we deal with just three from our set of case examples. All are bodies that owe much of their existence to those European Commission initiatives that gave such impetus to the creation of local partnership bodies and complex policy networks during the last two decades. All are now, alongside their partners in the local community and in the state agencies, trying to see how they (or perhaps just the activities and competencies they represent) are going to be sustained for the future. They offer clear lessons about both the challenge to be confronted and the complexity in the range of solutions on offer. All three examples are drawn from the UK. This is because the lessons they offer are of particular interest for the overall story.

Regeneration Exchange – Sunderland UK

Regeneration Exchange is a network organisation funded by the North East Regional Development Agency, *One North East* and Government Office for the North East. It is hosted by Sunderland City council. Its aim is to develop complex mutual support networks that will increase the capacity of regeneration partnerships (LED organisations) to deliver services effectively. In practice it promotes the sharing of knowledge, information and regeneration skills, arranges dissemination events, publishes newsletters and facilitates visits between authorities. The project partnership includes representatives from all levels of the regional governance structure and it provides a significant learning resource and database for the region. The project is regarded as successful. It was cited as "best practice" by the Joseph Rowntree Foundation 2001 and by the National Network of Regeneration Partnerships and the Neighbourhood Renewal Unit in their report; *Networking across regeneration partnerships: a national study of regional approach*. It is, however, subject to short-term funding with no guarantee of support 2006. The great difficulty that it confronts is to produce the sort of hard evidence of its value added impact that will be needed when it public agency partners have to consider the opportunity costs of supporting it in the regional policy mainstream.

Belfast Local Strategic Partnership; United Kingdom

The mission of BLSP is to promote effective social partnership at a strategic level within Belfast and to administer funding under the *EU Programme for Peace and Reconciliation* in the city. Under the programme, the measure to support the social economy has seen in excess of 40 projects receiving funding totalling £9.5m in the period 2002-2004. Formally, it is an implementing body under the Peace II Programme with responsibility for some £25m. A cross-sectoral, cross-community Board oversees the work of the executive team. The partnership has now to confront a new funding situation. The Peace II European funding programme is moving on to transition arrangements as is Northern Ireland's *Building Sustainable Prosperity* Objective One programme. Under these and other European and UK based grant aid measures, Northern Ireland has built up an enormous platform of local partnerships, LED organisations and social economy bodies. It is estimated, for example, that 30,000 jobs exist within NI in the community and voluntary sectors. Many of these are wholly dependent upon Peace II funding. In the future the partnership finds it difficult to see where alternative funding will come from to sustain these jobs, particularly in the face of diminishing public sector resources available through central government departments. Further, a number of innovative "structural" instruments like Local Strategy Partnerships (LSPs) will also struggle to survive and a current view in government is that they may well "wither on the vine".

The Women's Employment Enterprise and Training Unit (WEETU), United Kingdom

WEETU, based in Norwich, aims to create new jobs for women and it has long been regarded as an example of European best practice in this field. It was set up as an independent voluntary agency in 1987 and is a not-for-profit Company Limited by Guarantee. WEETU is a social enterprise governed by a Board of Directors whose role is to maintain the strategic direction of the Company, monitor achievements in line with the overall mission and ensure financial and operational accountability. In parallel, WEETU is also a Community Development Finance Institution (CDFI) supplying capital and business support to individuals and organisations in its region. It set up a micro credit project called 'Full Circle' – a mutual credit scheme for women set within a package of close mentoring and support and this is now nationally available under the brand name Full Credit. WEETU's activities are currently supported by a variety of European, national and private sector funding streams most of which are coming to an end. It sees key threats to its future financial sustainability coming from a lack of understanding of what it does amongst the key funders and a degree of disinterest among the regional development authorities. Trust and charitable (philanthropy based) funding is also seen as being too highly restrictive for its purposes. Above all it is concerned about the highly competitive nature of the "marketplace" for all potential forms of future funding. A consequence of this is that there is little organisational continuity and higher levels of stress. Short-term funding restricts innovation and development and too much time is spent fund raising and undertaking funding led activity. There is no current capacity to develop future strategy including a strategy to look towards financial sustainability.

These three organisations represent a microcosm of what is the case across Europe. As recognised best practice examples under threat, they offer us a benchmark against which to view the sustainability arguments we have rehearsed more abstractly in the first sections of the report. What is abundantly clear is that it is not just the LED organisations themselves that are under threat but those "client" bodies and projects set up under their auspices. Both the Sunderland and Northern Ireland cases represent bodies that play a critical role in their wider communities and that cannot easily be dropped into some fee-for-service regime without the danger that the integrated core of their mission would be lost. The WEETU example indicates how difficult it is going to be for even the most well known and best regarded of social enterprises to preserve the continuity of their services since they have to confront a competitive (and often ill-informed) marketplace for activities that have a public welfare component. We have to take on board the fact that the new institutional framework for European funding that we outlined in Section 2 is destined to have effects at local level that are both widespread and extremely serious – particularly for the most disadvantaged people and places that have benefited so much from the support of the last two decades. Equally, we need to take on board the fact that the *transition* between the past grant regime (with all its acknowledged weaknesses) and the hoped for replacements in mainstreaming and new social banking (with all their potentialities) will see much human, social and institutional capital lost.

5.2 *New financial instruments, new social banking and intermediate support bodies*

We introduced earlier, in Section 4, the notion that part of the solution to the need financially to support LED organisations and social enterprises lies in what might be called the "design of money". We also pointed up the encouraging trend of the last decade for new social banking to emerge as part of the financial community. The case examples we now present give some hard evidence for the sort of practical tools that are coming into use and the sorts of bodies set up to design and deliver them. The examples cover a number of dimensions of this relatively new movement toward Community Development Finance Initiatives (CDFIs) and, looking across them, we can identify six different dimensions of what is usually *support plus finance* that should be of interest to LED organisations looking to set off along the road of alternative sources of investment finance. What we can identify are the following:

1. Organisations building and consolidating networks that bring new lenders in to support LED and social enterprises
2. Organisations that take ethical and responsible and CSR stances from the perspective of private business and will discount rates to LED and social enterprises
3. Organisations creating new instruments and different "designs" for money – vouchers, loan guarantees, mutual guarantees
4. Flexible micro-lenders specialising in dedicated tools to the most disadvantaged
5. Credit unions – working in the sphere of consumer credit helping individuals manage credit and debt to sustain local economies
6. Micro-enterprise credit providers – helping new small enterprises to access credit and loan finance

Most of the cases cover a number of these dimensions at once in an integrated portfolio of actions and in describing each organisation as an integrated whole we flag each action in the text (for example (5) for credit unions) in terms of the components in the list.

We begin with two Italian initiatives that operate from different but secure funding platforms. The first, MAG4 operates as a gatherer of ethical savings and loan funds that it bundles together to provide support for cooperatives, associations and mutual aid societies with a stake in the local community. The second, COSIS is a dedicated non-profit joint stock company underwritten by its parent bank with the mission to support the set-up, growth and development of non-profit companies. The Italian examples have particular merit since they show the benefit to be derived from having a clear legal framework for social enterprise – in this case the Italian Social Cooperatives Law.

Cooperativa Mag4Piemonte, Torino, Italy

MAG4 is a financial intermediary having the legal form of a co-operative and established under the Italian legal code. It encourages the formation of ethical organisations that promote and develop alternative ways to encourage and support local business (1). It operates as a group intermediary, gathering savings from businesses and individuals who wish to see their money used to offer a social purpose rather than simply to maximise investment income (2). It provides loans and consultancy services to cooperatives, associations and mutual aid societies also associated with MAG4 as benefits the local community (6). The MAG4 philosophy can be summarised as giving priority to the job and the person, seeking to avoid speculation and usury. As a result, both investors and beneficiaries have an active role in the management of the activity. MAG4 also provides training and advice services. It sees itself as operating within a network of like-minded associations and government agencies - seeking to promote enterprise, employment and social benefits amongst more disadvantaged people. MAG4 is itself sustainable in that it is able to attract considerable investment income from people who require a relatively low return in exchange for community benefit. It can also provide loan and micro-credit (6) services at a cost considerably lower than conventional lenders. It develops a customer loyalty and expects them as they succeed to invest in the MAG. This further reinforces its ability to support new business. The following are indicators of success used by MAG4: the growth of MAG4 itself (from an informal institution to a clearly defined organisation with 7 employees, more than 1000 partners, capital reserves in excess of €900.000 and deposits amounting to €2.500.000); very low interest rates (1-1.2%); the development of network capacity and the creation of a group with a common interest to support beneficiaries and the establishment of privileged relationship with loan beneficiaries. The long-term sustainability of MAG4 is linked to the success of the social enterprise sector in general and the continuing willingness of businesses and private individuals to provide support.

COSIS, Roma, Italy

In 1995 the Fondazione Cassa di Risparmio di Roma established FEO - Fondazione Europa Occupazione. This is the major shareholder of COSIS, Compagnia Sviluppo Imprese Sociali S.p.A. a “non-profit joint stock company” with the mission to “support the set-up, growth and development of non-profit companies and organization through specialized funding arrangements” (1). It offers share capital and loan funds to social enterprises up to a limit of 500,000E (6). COSIS is the first "Ethical Merchant Bank" to be established in Italy (2). During the ten years since its inception, COSIS S.p.A. has provided funding of €46 million to 341 social cooperatives and consortia, supporting a total of 442 projects and creating 1997 new jobs. More than 15% of these jobs have been for disadvantaged people (disabled people, former drug addicts, inmates and ex-offenders) (4). Since 1999 COSIS has been managing the "OASIS" Global Grant, the first grant in favour of social enterprises. The project provides leveraged finance to social cooperatives and develops skills and sponsors new initiatives by providing loans not grants and seeking to provide as many productive links as possible between the private sector and the social enterprise sector in order to transfer managerial and technical skills and work opportunities. It is concerned to measure and disseminate good stories about its success as part of its wider lobbying role for the social cooperative sector generally. It has, for example, led to the growth and development of 61 social enterprises and the birth of 26 new social enterprises as well as the creation of employment for disadvantaged people in particular.

We are also able to offer a Spanish case example of a way that the banking community can take on an ethical stance and provide support for community welfare as part of their corporate social responsibility. The requirement for what we earlier discussed under the heading of the *need for discipline* among LED organisations and social enterprises taking the business route is again emphasised in this case where funding *follows* a case being made for financial viability.

BBK Solidaroa, Spain

BBK is a Spanish bank that invests 30% of its profits in social activities (2). It does this through BBK Solidaroa. This is dedicated to providing financial support to disadvantaged groups and individuals through loans to people who are seeking to develop social enterprises or enter self-employment (4, 6). Access to the business support facilities of the bank and other agencies is provided in parallel. BBK Solidaroa also undertakes functions similar to a credit union – providing grants and loans to support domestic financial needs (5). Whilst BBK has clear social objectives, its decisions on finance are made only after a strict review of the financial viability of the activity to be supported. As part of this it receives recommendations and support from a range of other community organisations and sees itself as fully integrated into the local employment development network. BBK Solidaroa itself receives a regular income from its host bank and has access directly to its professional and other services. It is already in the private funding mainstream. While it has relatively small losses is on its loan fund, it does have a regular expectation that any losses will be covered by the annual injection of cash from the bank⁷.

⁷ Despite many requests we were not provided with a more detailed fiche from this interesting venture.

Ireland is the source of so many of the best practices in LED and the example of Clann Credo that follows is consistent with that reputation. This is a charitable foundation that has used its ethical position, contacts and skills to assemble together a powerful rolling social investment fund from which it can sustainably support local economic development. .

Clann Credo Ltd – the Social Investment Fund; Ireland

Clann Credo is an organisation set up to provide finance to organisations and activities leading to a social benefit (1). It is involved in giving loans or entering into equity agreements for a variety of social and financial purposes and tries to establish bespoke financial solutions to fit local needs (2). It sees itself as a social investment fund providing money to organisations that seek a social return or a social dividend but are also expected to secure a financial return (3). To date over €7 million has been invested in a wide range of community-based projects. The Clann Credo basic fund - derived from private sources - now exceeds €9 million. Clann Credo also seeks to promote innovations in social finance that contribute to the overall prosperity of local areas and to develop social capital in ways that benefit the whole community. Community groups, projects and enterprises are advanced capital by Clann Credo once they can demonstrate that the funding can deliver the social return. Funding is usually provided by way of loans but direct investment is sometime agreed. Its aim is also to change the way the beneficiaries and government think about finance, capital and investment. In doing this, it aims to search out and work with projects that might not necessarily get funding from conventional sources or in conventional ways. Clann Credo is happy to enter into partnerships with other funding agencies that share its vision and practice. One such relationship has been with the Western Development Commission, which jointly provides loan finance for voluntary and community sector organisations. The Commission has access to €34.4 million and it shares with Clann Credo the same principles of seeking a social return and a positive impact for the local community as well as requiring financial competence and the ability to repay loans. Clann Credo provides both loans and equity finance (3). Using loans it aims to bridge gaps in financial support for start-up and growing social enterprises. Loans underpin the financial viability of community enterprises, making them more sustainable in the long term. Community loans also act as a catalyst to increase the flow of funds into the social economy, encouraging community enterprises to become less grant-dependent and more self-sufficient.

Historically the community sector has found access to funding a major challenge; it is Clann Credo's principal objective to break down this barrier. Using equity finance Clann Credo can take a proportion of the share capital of the company in return for funds invested provided it is targeted at community companies with growth potential. This offers medium-term finance for companies where more traditional, debt based funding is not available to the extent required to realise the company's potential. An important consideration is that an appropriate exit strategy must be sought for the investment to be provided.

We encountered WEETU earlier when discussing organisations that are going to have to confront a more challenging and competitive future funding environment. This is an organisation that has appeared in many of the best practice handbooks both of the CDFI movement and of LED. It started from very small beginnings with a charismatic leader and has become recognised internationally for its creative approach to helping women into self-

employment and business. The fact that it feels itself vulnerable in the face of emerging financial trends should have us sit up and take notice.

The Women’s Employment Enterprise and Training Unit (WEETU), United Kingdom
WEETU, which we encountered earlier in Section 5.1, is a highly regarded best practice example that falls under the heading of *new financial instruments* and *intermediate support provider*. It supplies capital and business support to individuals and organisations its region. ‘Full Circle’ is a mutual credit scheme for women who wish to become self-employed or further develop an existing business (3). The programme comprises pre-enterprise training, business skills training and ongoing support and access to loans and is set within a package of close mentoring and support and this is now nationally available under the brand name Full Credit. The program offers a holistic approach to running a business, looking not only at the technicalities of bookkeeping and business plans but also at the implications for family life and personal growth. Lending Circles, comprising other women who are developing businesses, offer women an ongoing support group, helping to combat isolation, which is the main reason for women failing in self-employment. WEETU’s loan fund is aimed at financially disadvantaged women who can now access money to help build and develop their businesses (6). They can borrow at competitive rates of interest without having to offer collateral or go through credit checks.

Like Ireland, Scotland has a long tradition of working to support locally deprived communities by creative means. In the case of Glasgow (Strathclyde), the record of innovation spans three decades with best practice examples of inner area renewal such as Glasgow East Area Renewal (GEAR), and the beginnings of the UK's now widespread Intermediate Labour Market movement (WISE Group⁸) among many others. CEiS has grown out of both initiatives and from a cadre of individuals with a continuity of experience in Scottish urban case.

Community Enterprise in Strathclyde – CEiS

CEiS is an innovative leader in the development of the social economy in the west of Scotland. As well as having a promotional role for the social economy in Scotland (which we shall address later in this section), CEiS is also committed to building the financial capacity and assets of individuals and organisations in its region. Despite the presence of many private organisations like banks and investment companies to provide a wide range of financial services, there is still a large excluded group of organisations and people that find it difficult of access mainstream finance. CEiS is developing projects and new ways of working in conjunction with partners that will build a range of financial services to meet the needs of the more excluded individuals and organisations (3). Part of the package is the support of Credit Unions (5). CEiS assists them to become more accessible to their communities (geographically or of interest) and enable them to offer a range of financial services that their members want. This also involves linking them with potential partners such as housing

⁸ The WISE group is regarded as having been the pioneer of Intermediate Labour Market (ILM) approaches in the UK, specialising in offering the unemployed short-term contracts plus training and mentoring as a means of making them “job ready”.

associations, money advice organisations and others into an overall plan for service delivery. New UK banking and consumer credit regulations now make it easier and more profitable for credit unions to provide these services. CEiS also supports Money Advice Organisations of various kinds and helps these organisations develop their businesses. The aim is to widen their understanding of the opportunities available to them and to focus on linking service provision to housing associations, health care, credit unions and employment-related initiatives to develop sustainable and adaptable organisations better able to meet the changing demands of their customers while remaining

Developing Strathclyde Ltd (DSL).

CEiS also supports the growing provider population for CDFIs (Community Development Finance Initiatives) that specialise in giving loans to social economy organisations or to organisations and businesses based in areas that are under invested. These sorts of instruments are designed for organisations and people that cannot normally access traditional business funding. CEiS has created its own subsidiary - *Developing Strathclyde Ltd* (DSL) - the largest CDFI in Scotland. Consistent with the overall CEiS philosophy, DSL does more than just providing loans. It is equally concerned about what businesses and social enterprises do with this finance in terms of providing jobs and services. To date DSL has invested over £5 millions in around 500 local businesses. Any surpluses from the portfolio are used to expand the business support and loans platform in accordance with the not-for-profit legal form of the company. In terms of the categories of financial instruments set out earlier (Section 5.2) DSL offers elements 1, 4 and 6.

What we have seen from this cluster of examples is the sheer variety of new social banking initiatives emerging across different parts of Europe. It is the newly arising demand for these sorts of services that is bringing more and more players into the Community Development Finance marketplace. There is a wealth of both experience and enterprise available already and it is possible to be optimistic about the future prospects of the CDFI movement. However, it has also to be said that the speed of build up in this new capacity, the scale of resource likely to be available and the inability of vast numbers of existing LED organisations to meet the "disciplines" necessary to participate will mean that this route is going to be limited to only a special sub-set of the total population. It is for this reason that we move to case examples in the next section that re-introduce the absolute importance to the sustainability of LED of *making the case to the mainstream*.

5.3 Trying to make the case for LED and its continuance – policy influencing and voice

One of the key tasks for established organisations in the LED and social enterprise sectors at the present time is to take up the challenge of having local, regional and national governments understand the importance of the sector and to encourage them to consider the need for mainstreaming once the European funding comes to an end. We have already encountered the issue for Northern Ireland in the case of BLSP and how vital it will be to have UK national (in the absence of devolution) and NI-Regional (should devolved powers be restored) authorities move to support the huge LED and social economy platform that has been put in place over the past two decades. A highly influential voice in this is the Northern Ireland Council for Voluntary Action. This has the scale, established credentials and capacity to be taken

seriously in the corridors of power and offers a lesson on the sort of organisation that may well be needed to break through to capture central government attention.

The Northern Ireland Council for Voluntary Action NICVA

NICVA of began life in the late 1930s as the Northern Ireland Council of Social Services responding to the high levels of unemployment at that time. It promoted a variety of social action programmes - growing over time to become an umbrella organisation for projects tackling social deprivation in the communities across the North of Ireland. It currently represents the interests of over 5000 voluntary and community groups and provides a comprehensive range of infrastructure support services. Its current development plan recognises the need to develop further its policy development and representative roles and to become a challenging organisation independent from government. It undertakes lobbying and campaigning activities in association with local groups across the Province and is part of a platform of support bodies that includes the Northern Ireland Civic Forum, the Economic Development Forum, the European Policy Advisory Group and Concordia. Concordia has a particularly important role in the Northern Ireland context, bringing together local businesses, agricultural interests, trade unions and the voluntary sector to promote the economic development and long-term sustainability of a region suffering the consequences of conflict.

In seeking greater independence for itself, NICVA also aims to support greater sustainability by individual voluntary and community organisations and is working to create an environment for this to occur - including pressing for legislative change and demonstrating how organisations working with the private sector can become more sustainable whilst continuing to deliver the needed social welfare or economic services to the communities.

In Scotland there are also a number of high profile and well-established organisations in place that have the necessary capacity and influence to ensure that the LED and social enterprise sectors are considered for the mainstream. We have already reported on the *Strathclyde European Partnership Ltd (SEP Ltd)* in IDELE Thematic Report No. 6 and its activities would also be relevant here. Specifically dedicated to social enterprise and the social economy is *Community Enterprise in Strathclyde*.

Community Enterprise in Strathclyde - CEiS

CEiS, which we encountered earlier in its role as a CDFI provider, is also an innovative leader in the development of the social economy in general in the West of Scotland. Operationally, this is delivered through their *social economy support service*. This activity has been ERDF funded since 1998 (which presents them with a sustainability issue for the future). It undertakes the following activities: assisting organisations in the social economy to identify key issues for development and to increase their competitiveness and effectiveness; helping social enterprises identify the most efficient responses to these issues; providing practical management support and providing longer term after care and evaluation for the organisations. CEiS believes that it cannot achieve its objectives alone and therefore seeks to develop *long-term strategic partnerships* especially with those organisations that funded it or support it in other ways. These have tended to be public organisations such as city or district councils, the Strathclyde European Partnership and Scottish Executive together with organisations that CEiS has assisted such as the Govan Initiative, the East End (of Glasgow) Partnership and the Easterhouse Development Company.

The value of the CEiS case is that it is already positioned to assist activities in its area to take on board the discourse, practices and actions of *enterprise* as a way to securing the future. It is, therefore, already a pioneer in lobbying and influencing government to support the social enterprise sector and is at the same time an active player in helping previously grant-aided projects think of themselves as potentially revenue earning. In making the case to higher authorities it is clear that one of the most valuable approaches is through finding and disseminating hard evidence for the added value of the sector. It sees a key part of its own added value coming from helping to measure the impact of the sector and provides quantitative and qualitative assessments of jobs created or saved, income multiplier effects and of local change and development. CEiS uses its wealth of experience to influence local, regional, national and European level government to support social enterprise. It provides its development expertise to the Strathclyde European Partnership: it has been commissioned by the Scottish Executive to assist it with issues relating to Equity Funding in support social enterprise organisations. At the level of the local project or activity the CEiS Development Team provides direct support to local community organisations so that they can maximise their impact in the local economy and create value for local people. These services can be offered on a consultancy basis or can be provided as direct support to organisations and individuals. CEiS also works with many other agencies to provide tailored training and advice to social enterprise and to community organisations.

Development Work for the Scottish Credit Union Partnership

CEiS has been commissioned by the SCUP (Scottish Credit Union Partnership) to assist independent credit unions in Scotland (8 in total) to increase their financial stability and build capacity. Credit unions are being offered a menu of support that will be flexible to their needs. CEiS will work in partnership with the accreditation body (ACE) to ensure that support services are not being duplicated and that the credit unions involved receive the most appropriate support. This is part of a wider development by the Scottish Executive (Regional Government).

Perhaps the critical lesson to come from these two case studies is that to promote mainstreaming solutions in the regional and national government sphere it is of enormous advantage to have long-established and well-regarded bodies in place. The issue for sustainability, however, is that while such organisations may well be found and can be influential in those Member States where LED has been long established, those where LED is still struggling to gain a foothold may not have the high-level capacity in place to stop the asset base of LED eroding once the current funding regime comes to an end.

5.4 Preserving and extending the human, social and institutional capital – policy networks and learning support

Even if the projects and organisations that constitute LED and social enterprise find it problematic to achieve financial sustainability for themselves - as we have already indicated there is considerable merit in ensuring that the learned lessons and the active networks find a way to go forward. Here we have a number of case examples that provide evidence for the way LED has spawned policy networks locally, nationally and in some cases internationally. These represent an example of *embedding activities* that should see the best aspects of LED and social enterprise continuing on beyond the time-limited funding streams.

Saturno, Lombardy, Italy

Saturno is an organisation promoted by the local chamber of commerce to promote and consolidate entrepreneurship and enterprise growth in Lombardy Italy. The lead organisation of Saturno is the Chamber of Commerce of Milan, in co-operation with its special agency Formaper. In Italy, Chambers of Commerce are public bodies. Their mission is to promote the general interests of enterprises and the local economy. Saturno's relationship with the Chamber gives it a very clear overview of the local economy and access to many businesses and support agencies inside government. This enables it to develop a range of highly targeted support (1), which focuses particularly on business growth and development and on the difficulties experienced by small family businesses in planning the *succession*. Saturno provides two services – direct services to businesses and an information and economic monitoring role for the Chamber and its partners. The direct services include a range of innovative ideas including the provision of vouchers (3) that can be used by businesses in exchange for training and advice services provided by partner institutions. Attention to local needs is a key objective of the project and in this sense it is a classic LED organisation but one that tends more to the enterprise development dimension than to state aid directly (though it is a public body). In effect, Saturno is already an element of the mainstream in Lombardy. It serves to bring the network of publicly supported Chambers of Commerce into the wider local employment development role.

A rather different form of network support organisation is illustrated by DQE a cross-national partnership set up to explore new and creative ways of stimulating both SME competitiveness and environmental awareness in a set of peripheral regions.

DQE (Towards the Sustainable Region)

DQE is a regional development company, focusing on business promotion and based in Kainuu and Päijät Häme, Finland. Its purpose is to develop SME tools and regional development policies that address the issue of integrated development following the Gothenburg strategy. In confronting an uncertain future from a peripheral region it has decided that the best way to proceed is to collect together places where the local circumstances are similar and to find some way of giving profile and logic to development activities in such places. In doing this it has established a substantial policy network that involves 17 partners from 4 EU members – all from non-central regions. The participating regions, from Finland, Ireland, Greece and Germany, have to address problems of being on the periphery of their country, of lacking industrial or commercial specialisms and having other chronic structural economic problems. DQE, which represents ‘design’, ‘quality’ and the ‘environment’, aims to stimulate growth in the partner regions by promoting small and medium-sized enterprise development that is both profitable and takes into account ecological values. The policy network brings together regional authorities, business promotion organisations, and universities using Lisbon principles of the knowledge economy – integrating knowledge creation, knowledge transfer to businesses, and knowledge valuation by the policy makers and implementers – as their *raison d'être*. A key objective is to form and orchestrate constructive exchange between the regional and interregional partners in order to capture a degree of competitiveness out of constructively exploring their similarity of circumstances. The vehicle for this is the SME and the network aims to support SMEs across the member regions. A focus is the opportunities presented by the drive for environmental sustainability and a practical tool has been developed to assist local businesses to take on board both competitive behaviours and environmentally sustainable ones. The value added here is to develop an international supporting structure to demonstrate to local enterprises how to internalise environmental measures into SME and product competitiveness. .

What DQE points up is the creative value that can be embedded in international policy networks for "downloading" to local firms and economies. What it also raises is the issue for a "mainstreaming" strategy of preserving policy and learning networks where there are many players from individual nations involved. It is clearly far more difficult to draw the DQE network into the mainstream funding practices of 4 different Member States. One of the most valuable elements of the traditional funding of LED through the Community Initiatives was this mandatory trans-nationality. Into whose funding "mainstream" should such initiatives go? INTERREG will, of course, be continuing in the new financial architecture and it may be that financial survival for these critical cross-border learning networks will depend upon them making a case under this funding stream.

A policy-learning network of a very different kind has arisen out of the activities of the Regeneration Exchange that we described earlier as a project seeking the means for future sustainability. What has been built up and what the "mainstream" will be encouraged to support is an LED learning machine dedicated to disseminating knowledge and expertise across the local activities of a largely disadvantaged area.

Regeneration Exchange – Sunderland UK

The North East of England is the first English region to support a project dedicated to promoting the sharing of knowledge, information and regeneration skills. It is supported by public resources and provides its services to local authorities and voluntary sector agencies across the region. It arranges dissemination events, publishes newsletters and facilitates visits between the players at various levels. The aim is to develop complex mutual support network that will increase the capacity of local partnerships to deliver services effectively. It provides a significant learning resource and database for the region.

In addition to its lobbying and influencing role that was outlined earlier, NICVA in Northern Ireland also provides a significant learning network resource for the promotion and development of the voluntary and community sectors and local development in general.

NICVA

NICVA also has a key mission to develop and support new and existing voluntary and community activity. It pays particular attention to developing locally based infrastructure, enhancing support networks, encouraging the adoption of appropriate legislative frameworks and supporting the dissemination of good practice. In order to provide services to voluntary and community organisations NICVA also has a dedicated research capacity. This aims to develop the knowledge of the local voluntary and community service sector and to promote a collaborative approach to voluntary and community sector research. In doing this it has established clear links between the voluntary and community sector, government and academic research. NICVA undertakes consultation exercises, provides responses to current issues, for example, to the Northern Ireland Human Rights Commission, and provides both information on European programmes and responses to both national government and to the European Commission on issues that impact upon the communities of the North of Ireland. It is currently responding on behalf of the sector to a proposed three-year regional budget where departmental efficiency savings are placing enormous pressures on local voluntary and community organisations.

A similar but larger scale partnership and supporting network has been set up in the Spanish Basque Country with a view to giving the necessary scale and scope of action to be both efficient and effective. This example and the others like it points the way toward the proposition that one of the most effective ways of engaging LED organisations, social enterprises and local SMEs with the mainstream is by having government – national or regional – underwrite the secure future development of intermediary support networks at whatever scale is right for the context involved.

GARAPEN, Bilbao, Spain

GARAPEN was founded in 1992 as the Basque Association of Development Agencies. It was a response to increasing economic and social pressures that were being felt across the local authority areas around Bilbao and the Basque region. There was a need to optimise local performance both in the generation of wealth, jobs and in the distribution of social welfare. But, in an increasingly competitive national economy and in the face of increasing globalisation, it was seen as difficult for individual local authorities to be successful unless it was at the expense of their neighbours. Garapen, currently a partnership of 23 development agencies, is the platform where the agencies can exchange information, offer support to each other and take advantage of good practice for the benefit of all. It can also act as a voice on behalf of the 23 local areas in relation to the regional, national and European LED strategies. Garapen's aims and goals can be summarised as follows: to support the establishment of new development agencies in the Basque country and to consolidate the ones already in existence: to act as a forum for discussion where local issues can be dealt with: to support the development agencies in respect of support to SMEs and the creation of employment in local areas and to be a representative body for members.

5.5 Summary - The Key Lessons suggested by the case examples

As part of the seminar process the participants were asked to summarise the lessons they felt need to be passed on to the wider community. They are reported below verbatim as they emerged from the workshop discussions. The list is made up of two groups of responses. The first has to do with the wider issues of governance and of the sorts of support structures required for future sustainability. The second is more concerned with the detail of the way the system of finance and support should operate.

Governance for sustainability

"Public sector values are critical to success but they need to be applied within the context of being able to demonstrate value for money and being competitive";

What participants seemed to be reflecting here was that though most of them considered their activities to be firmly shaped by a public sector and welfare ethos, they understood the need to justify the resources they received. "Value for money" was, for the most part, couched in terms of a justification for public expenditure, while "being competitive" was more to do with assuring their own claims on public funds in the face of alternatives. This meant that their position within the governance structure was regarded as critical in the sense that a case needed to be made for the added value of acting locally through organisations like themselves. Mainstreaming was then as much an issue of ensuring the security of their role and position within the hierarchy of governance as it was of being attached to a continuing government budget line. This produced a lesson for the wider community that measurement systems for determining the value of their contribution to the public mainstream (social audit methods, balanced scorecards etc) are going to become significantly more important as the pressures on sustainable funding increase.

"There is merit in having a political coalition to oversee the capture and operation of funds in conjunction with commercial managers"

The importance of having wide "political cover" in the search for sustainability was emphasised by the successful projects. The arrival of real questions of opportunity costs - as projects previously funded from "other people's money" come knocking on the door of the national authorities - was clearly understood. Where the hard question to be asked by those allocating these mainstream funds is; "shall we fund more LED projects or recruit more nurses or teachers for the same expenditures?" the decision framework is sharply different. The message here was that engineering opportunities to argue the case for LED politically has a high priority and having a supportive political coalition in place can make a real difference to the prospects for success.

"It is vital to set up intermediary bodies that can operate within the overall political objectives but that also have the flexibility to respond to local and other emerging issues in a way government departments and agencies find difficult";

The importance of having intermediary bodies with the scope and capacity to act on behalf of local partnership bodies came through strongly as a message. Economies of scale are critical to making the case for efficiency in a cost-constrained environment. It is consistent with the arguments just made that having appropriate "umbrella" bodies to look after those that of necessity act in a small scale local way, is considered to be a vital component for sustainability. These may take a variety of forms – providing common services (with accounts or in bulk purchasing, for example), acting to lobby and work with political players, providing customised finance and business support and so on.

"Clear relationships and who does what need to be agreed so that any territorial disputes are minimised - also the right balance between the top down and bottom up approaches is needed";

Many of the best practice projects, particularly from the UK, had stories to tell about "boundary disputes" and the duplication of effort between projects in the same city or region. They were also aware of the need to have a clear grasp of what the local scale of action could realistically achieve and what would best be within the span of control of higher-level bodies. The message here was that "sorting out" the best allocation of responsibilities both horizontally and vertically was a task that needed careful consideration and, if left unresolved, could have a negative impact on claims for mainstream funding for the future. The move to a greater dependence on mainstream funding would be likely to bring with it a need for LED organisations to be considerably more realistic about their place within the multi-level system of governance.

New sources of finance

"The future and the sustainability of non-trading financial intermediary activities should be seen as closely linked to the general development of the social economy".

There was a view that more attention needed to be given to the general development of the social economy as a platform for those new financial instruments and mentoring and support activities that will be needed for the sustainability of some elements of the LED community. The best practice examples demonstrated that CDFIs and the organisations providing them were usually just one component of a more complex "social economy in general" that saw a cluster of activities in place ranging from political influencing, to mentoring and guidance, to business support advice and that was embedded in its local or regional context. Such structures take time to evolve and the message here is that LED is likely to be at its most vulnerable where this broader platform of support has not had time or opportunity to evolve.

"The discipline of the market needs to be brought to community investment and the emphasis should be on strong projects based on sustainable market-based cash flows";

"The operation of a system of finance for the social economy should be by means of specialisation and collaboration rather than competition";

These two views coming from the workshops straddle the gulf that exists across the LED community when it comes to securing sustainable finance for the future. For some, the need is for projects to ask themselves seriously what it is that they can offer to those who might value their services – be they local people, businesses or government agencies – and to seek to capture a sustainable revenue from supplying them. Finance for their activities in the form of loans or equity thus becomes a product of "sustainable market-based cash flows" that derive from their product or service offering. The role of CDFIs in this case is to act as "patient" lenders and to take on board some of what the orthodox lending community would see as unacceptable risk but what, as a knowledgeable part of the wider social economy, they would see as manageable and acceptable. The challenge here is for a marketplace to be created and sustained that will, in turn, give the CDFI providers the scale and deal flow they need to be sustainable themselves. The experience of some participants is that such a version of the wider social economy either exists already or can be engineered into place – though it is patchy. The message from this constituency is that, for those that can take this pathway, new mindsets need to be taken on board that will see them acting more as social enterprises than as quasi-public service providers.

By contrast, other participants took the view that a recourse to the market model would have the effect of distorting the mission for LED bodies beyond the purpose for which they had been set up in the first place and that the "isomorphism" involved would see local activities inevitably drawn along a narrow pathway toward being versions of the market driven business model. For this constituency, the basis for sustainability is an acknowledgement of the public welfare value of their activities and for this to be funded the requirement is for the special contribution to be recognised and for the LED sector itself to become collaboratively better organised to deliver it efficiently. This positions them squarely as providers within the public

domain and demands that for their sustainability the case will need to be made to the mainstream. The message here is that LED organisations need to take steps to have the value of their contribution appropriately measured and recognised by the public mainstream.

The two propositions set out above are, of course, by no means mutually exclusive and a balanced system for sustainable future finance would seek to accommodate both models. The issue that needs to be addressed, however, is in what proportion? Is the market-based model likely to be as low as 10 or up to 50 percent, for example? How will these proportions vary across Member States? These are questions that can attract informed speculation but that we are in no position to answer at this stage.

"Flexibility is the key to continued success in the future";

Consistent with what has just been said, all the participants were aware of the need to maintain the maximum possible variety in the available pathways to sustainable finance for the future. Fixed positions and ideological stances - privileging one route over another - were seen as potentially highly damaging at this juncture. This is entirely consistent with the overall IDELE philosophy that any lessons that can be drawn have to have a clear sense of the context from which they are drawn and to which they might subsequently be applied.

6.0 CONCLUSIONS

We are now at the end of two decades of investment by the EU in local partnership and social economy organisations and institutions. There is evidence of a truly remarkable record of success both in the way local approaches have been widely adopted and in the way they have come to “colonise” so much of the local development scene. It is true that not every Member State has adopted LED with the same enthusiasm, but the broad sweep of success is unchallengeable. We are now, however, in new and uncharted waters. What has gone before in LED has been largely publicly financed and almost exclusively by the Community Initiatives and Experimental Pilot Actions of the European Commission. What we are now faced with is the new financial architecture of the EU. The time for experimentation is declared to be over and the time for mainstreaming has arrived

The sorts of problems these experiments and new ideas were brought in to solve have, of course, not gone away. Indeed, quite the reverse is the case. The EU still has 20 million unemployed and unacceptably large numbers of people living in poverty and social exclusion and demographic ageing is placing extreme pressures on the public finances and the rights and entitlements of the social democratic compromise. What has changed, it appears, is the ability of the public finances to sustain the intensity and creativity of the response to these pressing problems. The European Social Model is under pressure, the demands of globalisation have been intensifying and the drive to adopt neo-liberal remedies to sustain competitiveness has become extreme. One thing is very clear for the future as LED organisations seek to secure their financial future - the pressures on *mainstream public finance* of all kinds will be extreme.

What the first two years of the IDELE series of seminars has clearly revealed is that, faced with all this, few of the "client" organisations for LED have yet begun to take on board the seriousness of the new situation. Very large numbers are in denial – expecting some grant regime or other to come up to save them. There are stirrings, of course, with some projects beginning to lobby their domestic politicians and public servants and some beginning to consider how they might be able to generate revenue streams that banks and lending institutions would accept as making them investment worthy. The bearers of these behaviours are, it has to be said, still very few in number and highly variable from country to country and from region to region.

Mainstreamed LED will now have to make its stand against the unassailable claims of security, health, education, pensions and so on at a time of fiscal restraint. In the face of this it would be naïve to think that future financial sustainability for the organisations that did such a good job of colonising Europe with LED will be other than hard to come by. Very large numbers of the promoters and beneficiary bodies of LED (as the BLSP and Regeneration Exchange cases made clear) are in danger of disappearing when the current funding cycle comes to an end. Some, it is true, can adopt the *social enterprise pathway* we have been exploring here and - in some fortunate places like Ireland, Scotland, Italy and the Basque Country as our case examples show – will be able to find strong organisations in place to support them. The vast majority will not, however, be in a position to follow this track. There is also an issue of mission and values. For some, an engagement with the marketplace

will imply an abandonment of deeply held views about the welfare, voice and public service nature of their mission. For this group the dangers of neo-liberal isomorphism – "we all have to become surplus generating revenue businesses" – will be starkly unacceptable.

There has to be a concern that LED organisations will struggle to survive in large numbers. What we have been able to show in this Theme Report is that in some places there do exist favourable supporting structures that can support them but across Europe as a whole this support is patchy. There is some cause for optimism that the new social banking movement will grow and gain in strength. But, this has to be tempered by the likely scale of the need for future support if even a reasonable number of the existing LED bodies are to survive. The CDFI sector itself still has to overcome many barriers if it is to get to an efficient scale of operation for its own long-term survival. It needs to be accepted that the next 2-3 years will see a rapid diminution in the numbers of LED bodies in existence as their funding streams finally run out. But is this depressing scenario really what "sustaining LED" is about? Mainstreaming also implies *embedding* and against the gloom of the preceding paragraphs there is a much more positive proposition that, even if the raft of past LED project promoters should largely disappear, the value of the contribution to ideas and practice will live on.

There are then *different sustainabilities* to be explored. What is it that we really need financially to find the resources to sustain – the projects or the good ideas that show the way to do things better? The last two decades have seen enormous strides in the adoption of more open, creative and inclusive approaches to doing what might be called "substantive" things – creating more and better jobs, giving people access to skills and tackling social exclusion. Much of this has been founded on acting locally and in making use of partnerships of committed and creative stakeholders (entrepreneurs). There is every reason to believe that these sorts of approaches will indeed be mainstreamed and sustained – though perhaps in other organisational and policy forms. Different players - quasi-public agencies or "fee for service" providers - may well be involved and, no doubt, many of the creative individuals who pioneered LED under European grant aid will continue to be the ones making things happen.

There are, however, some more important things that might not be so easily sustained in a new harder and more market-driven world of new public service. LED is as much about *voice and empowerment* as it is about those substantive job and access outcomes discussed earlier. These crucial elements of the value added of LED are notoriously hard to measure and even to put a value on and yet they may well have been the "x-factor" that defined the best local activities and delivered the best quality job and access outcomes. Having a stake in or owning the venture collectively is a way to capture competitive advantages of other kinds – being able to handle complex multiple objectives, being able to integrate different things together in creative ways, being able to use trust to spread risk and so on.

The grand notation of *social capital* is used to try capture what is involved by some of these "intangibles" but it fails so often to help in making the case where it needs to be made because so few understand what it means at the level of practice. The projects themselves know, however. It is about the buzz of driving toward a common purpose, the clever resolution of a long festering conflict, the engagement of people who have been driven to be outsiders and so

on. We are talking here about much more than some economist's concept of "public welfare goods" and the label social capital is too abstract to capture it. The real concern about mainstreaming is that those hard to measure, hard to define, social, civic and political products of the grand LED experiment will be the *first to go* under the new financial architectures and in the new "mixed economy of public service delivery".

We are it seems at a critical "fork in the road" for LED. Moving on from the EU support of LED to national mainstreaming and taking on the new social banking and social enterprise approaches will present some difficult strategic policy choices at the national level about which it important to make politicians and public servants more aware. Despite these weighty issues, we are able, on the basis of the Nice seminar, to offer some rather simpler recommendations:

- *Mainstream* the local as a component in governance but at the same time *allow for and demand flexibility and innovation* in those organisations that can take on the role of social enterprise;
- Establish and sustain *intermediary support organisations* (like the ones explored in our case examples) to be the scale efficient bearers of the knowledge and competences needed both to influence policy and to install the disciplines of being more business-like;
- Be assiduous in *removing the barriers* that exist in legal systems, banking regulations, allowable forms of state subsidy, rules and procedures and so on that, often unwittingly, constrain the release of new forms of enterprise where a social outcome is delivered as well as a service product;
- See the local not so much as a bundle of projects and organisations looking for more money but as a fundamental component of a *highly valued social model* that offers innovation and entrepreneurship in a context of social justice and enhanced citizen involvement;

In the last analysis what we have been describing across all the IDELE seminars is a very considerable *economic and social asset*. This has been carried for the most part by those who originally started out as the "project promoters" for short-term European funds. Over time, the values, ideas and practices of LED have already become widely embedded in the mainstream through the sorts of policy networks and consortia we have described in many of the case examples. To some extent, then, it could be argued that, with such embedding, the task of the experimental phase is done and the mainstream is already primed to adopt it. To some extent, perhaps, but it is also important to point out that across Europe there remains huge national and regional variation and that the local approach has not found acceptance in some systems of governance. There is still much work to do on the identification, dissemination and exchange of good practice. It is also important to state again that LED carries within it some ideas that have much wider social and political significance. These come from the power of the local to recapture those, now unfashionable, but perhaps in the future even more vital, distinctively European, ideals of common purpose, mutuality, solidarity and inclusiveness. The worry must be that with a dash to the marketplace and the contractual relationship these ideals might just turn out to be among the first casualties of the new funding climate.