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# Fresh Approaches to Employment Activation and Sustainable Communities: Lessons for the Competitiveness and Employment Regions



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

The Tenth Thematic Report of the IDELE Project

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## **1. INTRODUCTION**

### **1.1. The IDELE project**

For over a decade, LED has emerged as an increasingly successful part of the European Employment Strategy and has become widely adopted within the European Structural Funds. This process has been driven by a strong ‘bottom up’ movement - keen to empower and engage players at the regional and local levels and to see more consistent funding available for a range of local economic, social and environmental initiatives. The European Commission and many Member States have responded by privileging the use of local stakeholders as key agents in the development of local strategies and the delivery of services.

As part of this support, 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 good practice on the ways that local actors and actions can add value to European, national and regional programmes. Twelve IDELE seminars during the period 2004-06 have provided 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 (LED) across Europe. The objective is to disseminate lessons and practical tools as widely as possible through the events, the reports that follow them and through the IDELE website<sup>1</sup>.

As the IDELE seminars have confirmed, local employment development projects can range from loose confederations of essentially local projects to well organised strategy-driven partnerships and delivery agencies with a clear place in the system of governance. We have been able to show in IDELE how local organisations and the other key stakeholders have developed the skills and the infrastructure essential for the delivery of high quality outputs.

During the 2000-06 funding period, the European Commission - working alongside other stakeholders, such as Member State governments - has encouraged local players to develop:

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

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<sup>1</sup> [www.ecotec.com/idele](http://www.ecotec.com/idele)

All of these developments still have their power but the background circumstances against which they are applied are rapidly changing. In terms of the policy environment, IDELE sets out to reflect the changes that are taking place as the EU moves to implement the revised Lisbon strategy<sup>2</sup>, respond to enlargement and streamline and simplify the Structural Funds programme. We are about to enter the implementation of the 2007-2013 Programming Period for the Structural Funds and Member States are finalising their National Strategic Reference Frameworks.

## ***1.2. Objectives of this Thematic Report***

The most disadvantaged regions and localities of the EU15 have been benefiting from significant Structural Funds assistance for decades. With enlargement, this is about to undergo a very substantial change. While those eligible under the *Convergence Objective* can expect substantial continued support, those outside this category and subject only to benefits from the *Regional Competitiveness and Employment Objective* (RCE) are destined to see levels of support fall dramatically for the new 2007-13 funding period.

Those regions that were the traditional beneficiaries of Objective Two will see the most significant change. Such regions are, for the most part, 'old' industrial regions whose economies have had to respond to the harsh disciplines of the new international division of labour over the past 40 years. As newspaper headlines show every day, this is an ongoing process that is far from complete. Factory closures continue to mark the way to an economic base where the share of manufacturing jobs is as low as 15 percent and still falling. In these sorts of regions, local employment development initiatives of all kinds are going to have to confront this harsh new reality. After two decades of experimentation and innovative action the call is for "mainstreaming" with Member State governments being exhorted to carry forward the fruits of the experiments with their own domestic resources.

The focus of this thematic report is on 'mature' local employment development within those regions that will benefit from the Regional Competitiveness and Employment Objective within the 2007-13 period of EU Structural Funds. In most RCE regions, there is a long track record of local partnership approaches to employment development and EU Structural Funds have been particularly important in stimulating and supporting them. The funding for local employment development in these regions will be vastly reduced in the 2007-13 period and there is much to lose if the transition to a new mainstream funding regime is badly handled. As IDELE has shown, a very substantial platform of LED initiatives has been built up stretching from the remotest parts of the rural north to the cities of the Mediterranean south. In the old industrial heartlands of the north LED is having a particularly critical role in easing the social integration of minority groups and helping to ameliorate conflict as a new, more mobile and volatile, European workforce responds to the free marketplace of opportunity.

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<sup>2</sup> Agreed by all 25 Member States at the 2005 Spring Council. Should Romania and Bulgaria join the EU in 2007, they will adopt the Strategy as part of the Aquis Communautaire.

Faced with the new circumstances, many Member States have already incorporated the acknowledged value of acting locally into their mainstream national programmes. For some, there has been a long-standing recognition of the intrinsic value of local partnership action as a driver of competitive success. As Member States fine-tune their plans for 2007-13, this is the time to seek out and exchange good practice lessons about established *mainstream* success in local employment development. There are substantial lessons to be shared about how local partnerships have found their own funding, for example by operating as social enterprises, by winning contracts from (national or regional) public authorities or by being accepted as part of the public realm. In other cases, of course, local partnerships have emerged in a more 'spontaneous' manner - without a prior dependence on public intervention - as local economic players have come together to seek individual and collective competitive advantage.

The aim of this report is therefore to:

- demonstrate the contribution of LED in RCE regions to the EU's 'Lisbon process'; here, LED is mature, often mainstream, numerous examples and approaches, both stimulated by national policy and locally-initiated
- show how national policy can achieve its objectives, in part, by supporting LED
- explore the conditions under which LED can flourish;
- demonstrate the diversity of approaches to LED, and how different actions can be either conceived, managed or implemented at the local level;
- identify lessons for national policy, including the NSRFs; and
- promote good practice principles for local actors.

The report is based on research culminating in an international seminar that took place in Bologna, Italy on 27-28 April 2006.

## **2. THE EMERGING POLICY CONTEXT**

### **2.1. A changing world**

*“Europe must find its place in a global economy, which will nonetheless enable it to uphold its own distinctive choices about the social model that it rightly wants to retain...To realise this ambition, Europe needs more growth and people in work.”*<sup>3</sup>

Just as ‘no man is an island’<sup>4</sup>, so no locality is separate from the global economy and immune to its changes and challenges. Indeed, such changes and challenges cannot be ignored by local and regional actors, but require a proactive response. If the new RCE regions are to enjoy ‘growth and jobs’ and social cohesion, not only do they require effective and co-ordinated policies at the European and national level; they must also develop their own strategic, coherent and co-ordinated responses to such changes and challenges.

Before considering what the most effective local responses are and how national governments can best support them, we consider the challenges of the global economy as faced by RCE regions. According to the UK’s Presidency of the European Union, Europe faces six key global economic challenges.

- A changing balance of global economic activity, in which the EU’s share of global output diminishes at the expense of China, India and other emerging economies;
- Increasing integration of global economic activity, which is intensifying competition amongst producers and recipients of foreign direct investment (FDI).
- Increasing tradability of goods and services and relocation of economic activities, with production increasingly fragmented and dispersed across the world.
- Increasing rewards from innovation, as global competition and technical change increase.
- A need to reform labour markets and welfare systems in response to rapid technological and market changes.
- Increasing pressure on resources and the natural environment.

Facing these economic challenges, the EU and its Member States have responded by setting out the Lisbon Strategy with its commitment to growth and jobs. In the remainder of this section, we outline the Lisbon Strategy and explore how its implementation sets the wider policy context in which local actors in the RCE regions must implement their activity.

### **2.2. The Lisbon Strategy**

In March 2000, the Lisbon European Council set out a ten-year strategy to make the EU the world's most dynamic and competitive, knowledge based economy. The *Lisbon Strategy* is, in its widest sense, a commitment to bring about economic, social and environmental renewal. It has been adopted as the driving force shaping the future of the European Union

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<sup>3</sup> *Facing the Challenge: The Lisbon Strategy for Growth and Employment*; Report from the High Level Group chaired by Wim Kok, November 2004.

<sup>4</sup> *Devotions Upon Emergent Occasions, Meditation XVII*, John Donne (1572-1631).

and its constituent Member States. Under the strategy, a stronger economy will drive job creation. This will sit alongside social and environmental policies that ensure sustainable development and social inclusion. The range of Lisbon objectives includes the following:

- Competitiveness: stepping up structural reform for competitiveness and innovation, and completing the internal market;
- Knowledge-based economy: information society and research;
- Economic growth: appropriate macro-economic policy mix;
- More and better jobs: goal of full employment;
- Greater social cohesion: modernising the European social model; investing in people; and combating social exclusion; and
- Sustainable development.

A series of ambitious targets has been set out to measure progress toward these objectives. According to the Kok report<sup>5</sup>, progress to date has been slow, but there is a renewed drive to configure policy around the Lisbon goals and to see that both EU and Member State actions are closely aligned with them. To this end, EU policy is now underpinned by a series of *Integrated Guidelines for Growth and Jobs*<sup>6</sup> that bring together in one framework document all of those guidelines needed to drive policy – including *Broad Economic Policy Guidelines (BEPG)* and the *Employment Guidelines* that provide the context for IDELE:

#### **The Employment Guidelines (2005 – 2008)<sup>7</sup>**

- Guideline 17: Implement employment policies aiming at full employment, improving quality and productivity at work and strengthening social and territorial cohesion;
- Guideline 18: Promote a lifecycle approach to work;
- Guideline 19: Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive;
- Guideline 20: Improve matching of labour market needs;
- Guideline 21: Promote flexibility combined with employment security and reduced labour market segmentation having due regard to the role of social partners;
- Guideline 22: Ensure employment-friendly labour cost developments and wage setting mechanisms;
- Guideline 23: Expand and improve investment in human capital;
- Guideline 24: Adapt education and training systems in response to new competences required.

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<sup>5</sup> *Facing the Challenge; The Lisbon strategy for growth and employment*, Report from the High Level Group chaired by Wim Kok, November 2004.

<sup>6</sup> *Integrated Guidelines for Growth and Jobs*, COM (2005) 141 Final

<sup>7</sup> Adopted 12/07/05

### 2.3. *National Strategic Reference Frameworks*

In parallel with the revised Lisbon Strategy and the BEPG, the *Third Cohesion Report (2004)* sets out a statement of the new priorities that should inform the growth and cohesion process. These were:

- Strengthen the strategic focus of EU regional policy;
- Apply the Lisbon principles – cohesion/growth/jobs; and
- Apply the Gothenburg accord – environmental sustainability

The Commission also issued (for consideration by the Council) *Community Strategic Guidelines* (CSG) ‘to give effect to the priorities of the Community with a view to promote balanced, harmonious and sustainable development’<sup>8</sup>. As part of this process, each Member State is required to produce a *National Strategic Reference Framework (NSRF)* outlining its strategy for delivering Structural Funds in line with the broader EU objectives and reflecting the Integrated Guidelines for Growth and Jobs. NSRFs will normally include a SWOT<sup>9</sup> analysis; a set of thematic and territorial priorities; and a list of Operational Programmes. They are to be prepared in consultation with partners and in discussion with the Commission. However, events concerning the *Financial Perspective* delayed the process and thus reduced the time available to finalise the NSRFs in 2006. Final agreement will come from the Commission after a dialogue over the broad aims, the list of *Operational Programmes* and the allocation of funds.

The NSRF is, then, an important tool to demonstrate how a Member State is setting out to address the CSG priorities and the revised Lisbon agenda - with the aim, in each case, of ensuring a strategic focus on the core priorities. An important further element in the overall policy package is the regulatory context. This is set by Articles 25 and 26 of the *General Structural Funds Regulation* of July 2004.

### 2.4. *Funds Allocation in the New Programmes*

The allocation of resources for the new round of Structural Funds has now been agreed. A total of € 307.6 Billion has been allocated and this will be disbursed under three *Objectives* as follows:

- *Convergence Objective (CO)*: 81.9% of total funds (€ 251.3 Billion)
- *Regional Competitiveness and Employment Objective*: 15.6% of total funds (€ 48.8 Billion)
- *Territorial Cooperation Objective*: 2.4% of total funds (€ 7.5 Billion)

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<sup>8</sup> *Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-13*; COM (2005) 0299

<sup>9</sup> Strengths, Weaknesses, Opportunities, Threats

Within the *Convergence Objective* there are sub-allocations as follows:

- Cohesion Fund: 24.4% of CO Funds (€ 61.4 Billion)
- "Phasing Out": 4.8% of CO Funds (€ 12.5 Billion)<sup>10</sup>

Significantly, for local employment development in the RCE regions, the new Structural Funds programmes will not include Community Initiatives, such as EQUAL (funded by ESF) or Innovative Actions such as Territorial Employment Pacts (mostly funded by ERDF). Across the RCE regions, such Community Initiatives and Innovative Actions have funded local partnerships that encourage economic growth, development and increased employment opportunities.

For example, the EQUAL Community Initiative has tested and promoted new ways of combating all forms of discrimination and inequalities faced by those groups most disadvantaged in the labour market. These groups include women, ethnic minorities, and people with disabilities, older worker, refugees, ex-offenders, abusers of drugs and alcohol, asylum seekers and refugees. Activities have been carried out by strategic "Development Partnerships". These Development Partnerships bring together geographical and sectoral representatives to define a strategy and workplan for tackling inequality and discrimination in the labour market within a chosen Theme.

With no specific Community Initiatives or Innovative Actions planned for 2007-13, the responsibility will be with Member States to recognise in their NSRFs the value of bottom-up approaches and their potential contribution to the aims and objectives of the Lisbon Strategy – and to allocate appropriate funding. Local partnerships themselves must also become more self-reliant, building on the best of their experiences to date and making their approaches more self-financing, given the reduction in subsidy from the EU Structural Funds.

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<sup>10</sup> The "phasing out" category refers to those regions that would have been eligible for funding under the EU15 rules but lose eligibility in the EU25 and those where their GNI per capita will now exceed 90 percent of the new EU25 average.

### **3. CREATING THE DEMAND FOR LABOUR AND SKILLS**

#### **3.1. What is it that creates jobs locally?**

Macroeconomics tells us that factor costs of production must be sufficiently low for jobs to be created. Individual producers, localities, regions, nations and, indeed, the whole EU need to be competitive by producing at, or below, market prices, and thus remain economically viable in the long run. As noted earlier, global economic activity is intensifying competition amongst producers; manufacturing production is increasingly moving to low-cost economies in emerging Asian economies. RCE regions face the continual need for industrial restructuring and diversifying into newer, higher value-added, higher skilled sectors, particularly in services.

These hard economic realities cannot be ignored and RCE regions can not, and probably should not attempt to, compete with such countries on the basis of price alone. But, particularly in a post-Fordist world, crude factor costs of production are not the whole story. Beneath the global, macroeconomic statistics lies a 'real world' of people and places. Raising productivity or lowering average costs is not just about 'beating down' wage costs, for example.

There is enormous scope for imaginative responses to combining capital and labour, within the constraints of the hard economic realities. Indeed, competitiveness can come as much from enterprise, creativity and flexibility – of individuals, companies, and of localities – as it does from low nominal factor costs of production. There is a premium on such qualities and national governments endeavour to find the right mix of policies that will generate them.

However, creating such qualities can often happen only locally. In fact, all production takes place somewhere and so all production is, in some sense, local. So (the cost of) production is inherently determined by local characteristics (the "milieu") in addition to global economic realities (e.g. global cost of capital). Localities have different traditions, cultures and attributes that emerge according to their own particular mix of historical, social, cultural circumstances, as well as the individuals that live and work there. Positive attributes like entrepreneurship, innovation creativity and flexibility can not necessarily be engineered nationally – though national policy is an important 'background' circumstance that helps 'set the scene'.

### 3.2. *Conditions under which enterprise, innovation and creativity flourish*

*'Innovation does not follow the market. It takes it by surprise.'* Gruppo Sanpaolo IMI, Italy.

The overall policy objective for these regions has been to find ways to re-position them away from the traditional sectors in decline and to install new drivers for economic growth. Diversification of the economic base has been the first-order policy objective and for the majority this sort of policy has been in place for at least 30-40 years virtually regardless of national designation. At its simplest, the aim has been two-fold:

- attract inward investment in new growth oriented sectors; and
- boost indigenous potential - particularly through boosting levels of entrepreneurship and SME (small and medium-sized enterprises) development.

Intervention has been through deliberate measures to reduce factor costs and to raise the overall efficiency of factor utilisation. Put in simple terms, this means using state funds to offset the extra costs of land, labour and capital in these places in an attempt to make them more attractive as potential hosts to successful firms from inside and outside<sup>11</sup>. From the perspective of this paper we can, however, point to a tendency for centrally-driven economic policies to work in tandem with *locally inspired and delivered initiatives* with an increased role for local actors.

These local actions have, however, to find their place within a complex portfolio of other – usually longstanding – interventions. Acting locally in these regions usually implies not just pursuing local area based activities in deprived neighbourhoods but finding ways to *add a more local dimension* to any or all of the following policies:

- Inward investment
- Sectoral clustering and the promotion of inter-firm networks
- SME development and entrepreneurship
- New technology and innovation strategies

The story of the *Italian Industrial Districts* model, which has pervaded the literature of territorially-based innovation since the 1960s, offers particularly useful lessons for local job creation and innovation.

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<sup>11</sup> While “reactive” instruments such as factor cost subsidy have been a regular feature of such policies, there has also been the application of more “proactive” approaches in some countries where new investment has been explicitly directed to old industrial and mining regions.

## **Distretti Italia**

The Italian Industrial Districts, now known as *Distretti Italiani*, demonstrate a particular form of local employment creation. Each District consists of an open community of people and of firms in particular locality, where clusters of SMEs specialise in particular production processes within the same industry or service sector. For example, the *Distretto calzaturiero di Lucca* specialises in the production of footwear and consists of more than 600 enterprises employing more than 500 people in the provinces of Pistoia, Pisa and Lucca, with a combined turnover exceeding €1900m. In all, there are between 150 and 225 Distretti, depending on the particular definition used. They account for 46% of Italy's exports, 27% of GDP and 2 million jobs.

The origins of the Districts lie firstly in the centuries-old production traditions of the 200+ localities, but primarily in the challenges of the post-war economy. These included the growing demand for product differentiation and higher quality standards, which did not sit easily with fordist models of production. By a process, that was neither planned nor entirely spontaneous (a system of 'conscious governance'), local SMEs multiplied and both competed and co-operated locally within the same industries. New forms of combining the factors of production, notably labour, were created, with an emphasis on high quality products that were distinctively local, yet exported globally.

The Distretti go beyond a mere 'cluster' of SMEs specialised in certain production processes. Instead they are both a 'production cycle organisation' that provides for competition at each stage of the process, and a cultural and territorial 'model'. Indeed, they have been called the 'rediscovery of the village as a starting point from which to communicate with and attract the world'. Their essence is that of *genius loci*, consisting of:

- shared history;
- strong product;
- culture of self-help / mutual-help;
- growing division of labour between local businesses (with consequent inter-sector dependence);
- progressive accumulation of knowledge and skills (in part through the strong interaction between local production and the local socio-educational system); and
- continual reproduction of entrepreneurial skills.

For example, the Prato Industrial District emerged from the closure of vertically integrated production of wool, itself triggered by the closure of key export markets (India, South Africa) and reductions in orders from the state. At this time, demand was growing both domestically and from Europe and the USA – but was both changing and becoming more differentiated. Redundant employees formed their own small businesses and trade unions worked together with businesses to ensure fair prices and competition locally.

Key features of the development of the district were:

- Increased division of labour between local firms, which generated entrepreneurship and innovation as well as creating economies of scale, e.g. greater creativity and learning locally;
- Flexible integration of production between different firms, which enhanced competitiveness; local markets were created for specialised inputs, with prices thus set competitively; such flexible integration gave rise to implicit 'rules of behaviour' between local players and more formal supporting institutions, such as business associations and technical schools, etc.
- Collective action, in the form of local collective bargaining and provision of local collective goods such as roads, industrial areas, centralised purification plants, etc.

Consequently, the number of local textile firms rose from 800 in 1951 to 14 600 in 1981, with employment growing from 21 500 to 61 000 over the same period.

Whilst the industrial districts enjoyed spectacular growth until the 1980s, they were not immune to the challenges of increasing globalisation. Such challenges are continuing, indeed accelerating. They include customer demands for greater differentiation and higher quality products as well as stiffer competition from low-cost countries in the more standardised products and processes. If not managed properly, such international competition threatens not only local jobs, but also social stability in those localities that risking losing out in the new global economy.

The response of the Distretti has been to adapt continually, doing whatever is necessary to prosper yet without losing the values that they embody and their rootedness in the local area. This response consists broadly of the following:

- presenting unique products certified by local 'branding' – with a history, quality and uniqueness rooted in the territory; in short, producing something of high value that cannot be imitated elsewhere;
- continual adaptation and diversifying away from standard processes/products and to higher value added activities and products;
- support from regional government that acknowledges, enhances and supports the Districts without over-regulating and thus interfering with their spontaneity;
- identifying new sources of finance, such as private equity, insurance funds and social security funds; where local SMEs come together in recognised Distretti, they can enjoy lower interest rates than they would individually;
- Internationalising their operations by identifying localities in lower-cost countries with many of the attributes of districts, where production synergies can be exploited; such internationalisation can be through advice or co-operation or even through the transfer of elements of the district 'production' cycle to these lower-cost localities.
- Increasing the access of districts (and their SMEs) to technological innovations emerging from research 'poles' in Italy, the rest of the EU and beyond; for example, the *Distretti*

*Italiani* has signed an agreement with Veneto innovazione giving the Districts access to technological transfer networks.

### 3.3. *What about places without these pre-requisites in place?*

Whilst the *Distretti Italiani* provide useful lessons and examples of what is possible, it must be recognised that some localities do not have in place the pre-requisites for such development. Rather than having a strong and diverse SME base, these localities may have suffered from the disappearance of a few large employers in 'old' industries on which they have been traditionally dependent. The departure of such employers reduces the availability of job opportunities. Consequently, instead of enjoying strong local communities, a sense of place and a tradition of mutual-help, such localities may suffer from high levels of out-migration, particularly of young people, who depart in search of 'a better life'. Those left behind are increasingly the aged, the lower-skilled and the socially excluded. They suffer from reduced job opportunities, a worsening environment and high levels of crime.

In these places, employment development must be set within a wider context of economic, social and civic renewal; 'supply-side' activities (e.g. those related to education, training and insertion) alone are insufficient. This broader mix of policies includes initiatives related to crime, housing, training, education, youth, environment, etc. in addition to job creation and job insertion measures. In short, what are needed are efforts to make localities more attractive places to live, work, invest and create new jobs and businesses.

#### **Ondernemershuis Amsterdam Zuidoost (Entrepreneurs house Amsterdam Southeast, Netherlands)**

Because of a tendency for ethnic minorities to concentrate in particular localities, the development of some local economies, employment and the standard of living within them, may be heavily influenced by the nature and extent of ethnic minority business development. Migrants demonstrate a particular tendency to start their own business, reflecting in part the difficulties in gaining salaried employment, but also the fact that, by their very nature, they tend to be young, well-educated and enterprising.

The decentralisation of policies for unemployment, youth and minorities to the municipal level has increased the extent of local actions supporting migrant and ethnic minority business start-ups. Local approaches have increasingly encouraged target groups to take 'ownership' of their own life and environment, and to create real opportunities for participation, such as support for starting their own businesses.

The existence of a large immigrant and ethnic minority population in Amsterdam Southeast encouraged the District Council to develop its own local approach. Ondernemershuis Amsterdam Zuidoost is a business advisory bureau providing free consulting services to all types of small businesses on topics such as business planning, finance options, and the development of marketing plans. The bureau also refers clients to financial and management assistance programs and assists in the development of educational training programs to support small business enterprise. Other projects of Ondernemershuis Amsterdam Zuidoost have encouraged the development of community enterprises and affordable premises (incubators) intended to help new and established entrepreneurs.

Two key services are offered:

- “Basic Package” of general information & advice on taxes, permits, financing, business housing, marketing and employment of personnel. Special network meetings also serve as a platform for new entrepreneurs. Every meeting is focussed on a particular theme or on a specific aspect of business enterprise, with a guest speaker giving a presentation or a workshop. Networking meetings are especially intended for meeting fellow entrepreneurs and exchanging ideas.
- “Plus Package” of regular courses. These are one-day workshops dealing with practical issues such as Business Planning, Practical bookkeeping, Insurance, Income taxes, Promotion and Marketing, Import & Export, Doing business across the border, Finding and keeping customers and VAT.

The Plus Package also provides a coaching module to match experienced entrepreneurs with aspiring ethnic minority entrepreneurs. This coaching module provides special expertise tailored to the individual person or business in question. The coaches are themselves ethnic or native businessmen who have, or had, their own small or medium-sized businesses and who want to share their expertise.

Ondernemershuis Amsterdam Zuidoost provides important lessons for supporting job creation in deprived localities.

- Local government should initiate and facilitate the provision of low-cost business units and improve access to finance. This will encourage the established institutions to join in partnership to provide such amenities.
- Local Government should create a sustainable business environment that acts as a catalyst for business growth through collaboration with the local community, for example upgrading the shopping area to make it more attractive for other communities.
- Policy Barriers and ‘Red Tape’ should be kept to a minimum. Despite commitment and enthusiasm, business support providers remain frustrated that many of their clients are hindered from achieving their business ambitions because of such barriers.
- National and local chambers of commerce should understand the unique character of the migrant community in order to attract them into the business community. They should provide a comprehensive range of services to assist the growth of migrant business, for example by providing excellent local networking opportunities or by helping to remove barriers to business registration.

- Outreach needs to be a core part of business support. Business support staff should really understand the communities they work in and seek to build the self-confidence of entrepreneurs. They should avoid imposing a 'one size fits all' approach.
- Success should be measured in terms of both economic and social outcomes.

Whilst many places have been the subject of top-down developments, such developments have often been imposed with limited local consultation and involvement of local actors. Consequently, development initiatives have sometimes taken little account of genuinely local needs and thus fallen short of their stated objectives. National policy, instead of seeking to impose uniform solutions on deprived localities, should instead create the frameworks for local partnerships to design and implement their own programmes.

### **National Strategy for Neighbourhood Renewal (UK)**

In 2001, the UK Government established the National Strategy for Neighbourhood Renewal Action Plan to address the continuing deprivation in many neighbourhoods across England. This strategy is overseen by a dedicated unit within the Department for Communities and Local Government - the Neighbourhood Renewal Unit (NRU).

The strategy aims to harness the hundreds of billions of pounds of mainstream funding spent by central government departments rather than relying on ad hoc projects. A range of different programmes have been established to determine local needs and to pilot new ways to reduce deprivation in the poorest and most deprived communities.

The NRU works through regional government offices and neighbourhood renewal teams, supporting local strategic partnerships in the 86 most deprived districts in England. It provides direct funding of £500m per year. Most of this money is channelled into local strategic partnerships involving local communities and residents. The NRU also supports pilot initiatives and programmes tackling the worst aspects of deprivation including New Deal for Communities, Neighbourhood Management and Neighbourhood Wardens.

The New Deal for Communities (NDC) programme has provided £2bn of funding for 39 local partnerships since 1998. These partnerships develop locally-owned strategies that tackle five key themes of: poor job prospects; high levels of crime; educational under-achievement; poor health; and problems with housing and the physical environment.

The features of NDC that are of particular importance include:

- Long-term commitment to deliver real change – local partnerships receive funding for 10 years;
- Community involvement and ownership – local partnership boards comprise local residents in addition to statutory agencies;
- Building local capacity for action; a 'Skills and Knowledge' programme provides support and advice to each partnership, including guidance documents, regional seminars and training events and access to Neighbourhood Renewal Advisers. Partnerships are encouraged to build regional networks of support and advice with other NDC partnerships;
- Joined-up thinking and solutions; co-ordinating activities addressing different needs in the same neighbourhood, as well as bringing together the activities of different statutory agencies;
- Action based on evidence of 'what works' and what doesn't;
- Role for the national level consisting of pump-priming, helping build capacity, support, monitoring

Of particular importance, then, is the need to build capacity for local action to bring about this wider renewal. Indeed, where localities have suffered an out-migration of people and businesses in addition to social and environmental problems, it will take time to rebuild community morale, leadership and the capacity for action.

The Clapham Park Project in South London provides an example of a New Deal for Communities partnership that has focussed on generating local vision and ownership and building local capacity *before* activity commences.

### **Clapham Park (UK)**

Clapham Park Project is a "New Deal for Communities" local partnership, working with people excluded from mainstream activities and services in a deprived part of South London. It is a not-for-profit organisation governed by a partnership board that includes local residents and statutory agencies.

The target area is an estate of 3,200 households housing 7,100 people. It has a high immigrant population, low employment levels, a large number of welfare benefits claimants and little or no access to local advice, information and advocacy services.

The project emerged from resident dissatisfaction with housing, crime and lack of community safety as well as from government calls for proposals targeted at local estates in the London borough of Lambeth. The Clapham Park Project worked with residents to develop a masterplan to regenerate the area. In order to help deliver this plan, the London Borough of Lambeth consulted residents about the transfer of the ownership and management of the Council's housing on the Clapham Park Estate to Clapham Park Homes (CPH), a new local community-led charitable housing association. These three years of community consultation led to a successful compromise on housing tenure and management for the area that culminated in a successful transfer of ownership of local housing to CPH. This change laid the foundations for the implementation of the rest of the masterplan.

The three main objectives of the partnership are to:

- create 'bottom up' approaches to regeneration activity;
- create 'test beds' for the design and delivery of local services; and
- build long term capacity and provide 10 years funding for deprived areas.

These objectives are pursued in the areas of Health, Crime and Community Safety, Business, Employment and Training, Education and Youth, and Neighbourhood Management and Community Development. Thematic action is overseen by theme groups that include members from residents and statutory agencies, theme managers, project managers and project staff. Some projects are delivered in-house and some through outside agencies. All activities have adopted a community regeneration 'bottom up' approach with inbuilt project cycle management monitoring and evaluation processes and procedures.

The partnership has been recognised as best practice by the Neighbourhood Renewal Unit. Clapham Park has been given a 'good' rating for the last two years which is the second highest rating. There is also evidence of mainstream education services using best practice through the employment of project based staff in local schools.

With good local capacity in place, the Clapham Park Project has made significant achievements, particularly relating to crime reduction and educational standards. These have included:

- Significantly narrowing the gap in educational achievement between the target area and the rest of the country – the performance of local schools in Maths and English increased by 14% between 2002 and 2004; and
- A reduction in crime of 28.5% between 2000 and 2005.

Lessons learned from the Clapham Park Project are as follows.

- Transience: once people get a good job, they tend to move out of the deprived area; consequently, there is a continual need to build capacity in the neighbourhood.
- Bureaucracy: a lot of money can be wasted in the first two years of activity; it is best to spend the first year or two planning for the next nine or ten years, before spending large amounts of money; once robust plans and sufficient capacity are in place, then real activity can begin.
- Resident involvement: this is vitally important but very difficult to achieve; it is unlikely that everyone in a neighbourhood will co-operate to the same purpose; instead, any partnership becomes reliant on individuals; however, good resident involvement can balance local aspirations against the broad policy objectives of national government;
- Statutory partners: do not solely offer funding; they bring important experience, partners, human resources, infrastructure and network in support of local partnership strategies.
- Government acceptance: the principle of working with and through local residents can be accepted even by the highest levels of government, e.g. UK Treasury, where it can be proven to achieve results.

#### **3.4. *Extending the job creation potential of local public expenditure***

Within those RCE regions that face the loss of Objective 2 funding, the largest employers are often the local offices of the central administration, the local authorities and the health authorities. The numbers of available job opportunities available from these sources is, of course, chiefly underpinned by the allocation of public expenditure. Efficiency savings are usually an issue but in areas of high unemployment the public sector is a key player in local job creation. Grants and initiatives from national governments and the EU also offer job opportunities through public projects and programmes and the demand side of the labour market in old industrial and mining regions is powerfully influenced by the way the public agencies devise programmes for using them.

Maximising the job potential of the local authorities is a key component of the European Commission's Communication *Acting Locally for Employment*<sup>12</sup>. As part of this, there is a growing recognition that bringing people and key economic and public stakeholders together in partnerships around local employment development can produce significant innovation in the creation and preservation of jobs that originate from sources of public finance. Whilst local authorities will, quite rightly, be under pressure to provide cost-efficient public services, there remains scope to combine such services innovatively with training and insertion activities, in order to create new job opportunities.

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<sup>12</sup> 'Acting Locally for Employment – A Local Dimension for the European Employment Strategy' - COM (2000) 196, 7 Apr 2000

## **IGO Leuven (Belgium)**

IGO Leuven is a service-delivery association for local authorities in Leuven – covering a population of 440 000 people. It initiates and finances sustainable, socially relevant services of high quality, anticipating the needs of the local governing boards and their inhabitants in order to stimulate the socio-economic development of the locality. Together with its public and private partners, IGO Leuven develops actions in relevant socio-economic fields, including employment, well-being, environment, tourism, culture and international co-operation. These actions include:

### **Regional development**

- Inter-disciplinary research
- Environmental improvements
- Information-networks for culture, tourism and agriculture

### **Social welfare programmes**

- Welfare Development Plans for the municipal level
- Poverty-relief programmes
- Community structure projects
- After-school childcare

### **Welfare-employment programmes**

- Vocational training and work-experience for semi-skilled and unskilled long-term jobseekers in technical professions: landscaping, gardening, maintenance of green areas; construction and renovation; cleaning; executive administration; home-care; sale and distribution of regional products;
- Creation of sustainable employment for unskilled, long-term with continual vocational training and acquisition of skills and competencies
- Inter-municipal nature and landscaping team of 50 workers, pooled across the different municipalities

### **Education and training**

- Training and education for employees of the municipalities
- Education programmes customised to the needs of local employers, including health & safety at work, communication, jobsearch and interview techniques, etc.

The role of IGO-Leuven in this activity includes:

- Initial policy work for a single or a group of local authorities;
- Providing training and education;
- Individual and collective services;
- Organized and co-ordinated consultation and co-operation;
- Various executive tasks for local authorities;
- Creating employment; and

- Co-ordinating development activity across the territory, when given such a mandate by the local authorities.

The key value of IGO Leuven is, firstly, in the economies of scale that it offers by working on behalf of up to 30 municipalities. Secondly, IGO Leuven maximises the job creation potential of public expenditure through combining training and insertion activities with public service delivery.

### **3.5. *The job creation potential of the économie solidaire***

Taking this approach one stage further, there is potential to exploit the "gap" that exists between the public and private sectors of the economy. Here, jobs can be created through the provision of non-market services, i.e. services that are valuable yet would not otherwise be provided by the public or private sectors. This gap is one place where the "économie solidaire" can operate.

The économie solidaire encompasses various concepts and activities, all of which experiment with new "models" of economic activity. It is inherently linked with the "social economy"<sup>13</sup>, although the social economy is perhaps more concerned with particular types of organisation operating in the wider economy, rather than an alternative economic system. The particular relevance of the économie solidaire to local employment development is its focus on creating networks of mutual aid at the local level, particularly in disadvantaged localities. Indeed, a strong feature of the économie solidaire is often the notion of the "village". This emphasises fair trade between local producers and consumers to the mutual advantage of both, particularly where good relations of trust can be established. The idea is that more value can be created and retained locally by removing unnecessary "middle-men" and by retaining more income in the local economy.

For example, in Italy, the économie solidaire has been stimulated in particular through the development of social cooperatives. These cooperatives have their foundations in experiments in the 1970s and focus on education, social inclusion and routes into employment. They owe their continued existence primarily to their ability to secure contracts to deliver public services.

One notable example of the économie solidaire in operation is that of Objectif Plein Emploi in Luxembourg.

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<sup>13</sup> For a more detailed consideration of social enterprise and the social economy, see the 7<sup>th</sup> Thematic Report of the IDELE project:

[www.ecotec.co.uk/idele/themes/sustainability/resources/idele\\_thematic\\_report\\_sustainable.pdf](http://www.ecotec.co.uk/idele/themes/sustainability/resources/idele_thematic_report_sustainable.pdf)

## **Objectif Plein Emploi (Luxembourg)**

Objectif Plein Emploi (OPE) implements local and long-term development projects of general interest and, at the same time, creates jobs for unemployed people, whose personal and professional development is enhanced through continuing vocational training. Emerging from the real needs of the society, OPE aims to integrate idealism and pragmatic strategy, innovation and tradition. Indeed, its mission is to build an economic system characterised by solidarity and equality and thus create:

“A democratic system in which each person can assume his or her responsibility as a fully-integrated citizen and contribute to long-term, fair local development.”

OPE is rooted at the local level through the network of not-for-profit organisations. Through collaboration with local partners – both public and private – as well as local residents, these organisations identify local needs and develop appropriate solutions.

In short, OPE:

- Fills gaps in local services;
- Delivers public service contracts;
- Implements active labour market policy actions; and
- Contributes to the personal development of unemployed and disadvantaged people.

The OPE network comprises the “Moulin Bestgen” resource centre and thirty not-for-profit organisations (Centres d’Initiative et de Gestion / Centres of Initiative and Management / CIG) across Luxembourg. The CIG are active in numerous economic domains including:

- Environmental services
- Community care and social cohesion services
- New communication technologies
- Education and training
- Culture and tourism

Each CIG has the legal status of a not-for-profit organisation. The law stipulates that these associations must have a governing board. The members of these boards are local residents and representatives of local actors all of whom invest a considerable amount of their own time to ensure the smooth running of “their” CIG.

Prior to 2000, OPE received funding from:

- ESF (37.5%)
- National Government (37.5%)
- Local authorities (25%)

However, OPE has sought to build long-term financial sustainability without public subsidy. It relies on a model of *mixed-financing*, consisting of local authority funding for activities that meet local needs, national ministry funding to deliver active labour market policy actions, public funding to provide services, private revenue from the provision of neighbourhood, domestic and personal services, and volunteer time. EU funding provides additional money for developing special projects, e.g. new and innovative activities. On average, OPE now receives 85% of its revenue from contracts with public and private organisations and 15% from delivering services to individuals.

The activities undertaken by OPE include:

- local development; OPE forms partnership with different local actors, in order to meet, *new needs* (environment, local community-based services, new technologies, culture and tourism), neglected by the market or by the public services, and thus create jobs, improve quality of life and promote social integration and equal opportunities;
- partnership at local level; each project, realised by former local jobseekers, fits into the local policy, so that the continuity between the territorial requirements and the projects is ensured.
- partnership at national level; OPE collaborates with national ministries, public services, federations and other institutions within the mainstream economy;
- continuing education; a wide range of vocational and social training not only improves the employability of individuals, but also creates a climate of confidence and motivation, in which each individual is supported in his or her development; for example, OPE provides careers advice adapted to individuals' needs.

The experience of OPE offers useful lessons for national and local actors concerned with employment.

- There is a philosophical gap to overcome between the 'solidarity' approach of OPE and the Government's active labour market policy. But each can serve the other's purpose. For example, the Ministry recognises the potential of the *économie solidaire* in moving registered jobseekers towards the "first" labour market. Constructive dialogue is needed here. Indeed, discussions with the Ministry of Labour and Employment *can* influence the national legal framework to facilitate a more local approach in line with OPE's objectives.
- The grand aims of the Lisbon process (and policies that result such as Active Labour Market Policies) are valid – but they have to be matched to the grass-roots realities at the local level.

- Idealism at the local level is important, but it has to confront (and work with) the hard reality of national and European policy. European and national frameworks are not necessarily designed to help local partnerships; but local partnerships should be creative in identifying and exploiting every possibility *within* these frameworks.

An interesting innovation of the *économie solidaire* is that of new forms of exchange. The *économie solidaire* recognises that local people often demand and have the potential to provide useful local services, yet they are not able to do so through conventional market mechanisms. In short, they may not have the money to purchase a particular service but they may be able to offer something else in return.

Such forms of exchange include "Local Exchange Trading Systems" (LETS). LETS tend to consist of non-profit-making networks operating at the local level that allow their members to exchange goods and services without the need for printed currency. They adopt systems of interest-free local "mutual" credit, so direct exchanges of service are not necessary. The real benefit of LETS is that they stimulate economic activity in disadvantaged communities without the need for external financing, with the added benefit of strengthening a sense of local community. They often also enable individuals that are excluded from the formal economy to undertake productive activity – for which they receive a direct benefit.

Faced with a substantial reduction in EU Structural funding, local partnerships in the RCE regions would do well to learn from the *économie solidaire* and its activities such as LETS, as a way of continuing to create a demand for local labour in a way that is creative and financially sustainable.

#### 4. ACTIVATING LABOUR AT THE LOCAL LEVEL

Having considered ways to increase the demand for labour at the local, we now move on to consider local approaches to activating labour at the local level to meet that demand.

##### 4.1. Introduction

*“The Commission is committed to the modernisation and development of the European social model as well as to the promotion of social cohesion, as part of both the Lisbon Strategy and of the Sustainable Development Strategy.”<sup>14</sup>*

The future of the “European social model” is a subject of great current debate. Member State governments face the pressures of high and/or persistent unemployment, particularly amongst certain segments of the population, as well as political pressures to cut levels of welfare spending. These pressures exert themselves at the same time as EU economies face increased competition from low-cost producer countries and the consequent need for industrial restructuring. Policymakers at all levels are grappling with the issue of whether the European social model can and should be sustained and, if so, how best?

In fact, as many as 15 social models exist in EU15 – one for each of the old Member States, although these can be grouped together into a smaller number. For example, Sapir<sup>15</sup> presents four types:

- *Nordic*: welfare state, high level of social protection, high level of taxation, extensive intervention in the labour market, mostly in the form of job-seeking incentives
- *Anglo-Saxon*: more limited collective provision of social protection merely to cushion the impact of events that would lead to poverty;
- *Continental*: provision of social assistance through public insurance-based systems; limited role of the market in the provision of social assistance;
- *Mediterranean*: social welfare system, high legal employment protection; lower levels of unemployment benefits; spending concentrated on pensions.

Whilst this grand debate takes place at the highest political levels, it is interesting to explore the implications of the reform of these models for the local level – particularly where responsibilities are being decentralised to local actors such as municipalities. This is particularly relevant to the RCE regions, where unemployment often persists amongst certain groups, despite successes in job creation. The remainder of this section therefore considers how the process of decentralisation is working in different contexts and what the best approaches to work activation at the local level are.

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<sup>14</sup> *Communication from the Commission on the Social Agenda*; COM (2005)33.

<sup>15</sup> *Globalisation and the reform of the European social models*; paper by André Sapir for the think-tank Bruegel, presented at the ECOFIN Informal Meeting in Manchester on 9 September 2005.

#### 4.2. Work activation at the local level

As noted in the previous section, there is a policy trend in many countries to decentralise integration and active labour market policies down to the regional or municipal level. This is driven in part by the perceived cost savings, as much as by recognition of the value of the local approach. Nevertheless, such decentralisation provides new and important opportunities for local actors to take charge of their own employment development.

Two examples of national policies to decentralise elements of employment policy are those of the Work and Social Assistance Act (WWB) in the Netherlands and the Hartz reforms in Germany.

##### Structure for the Administration of Work and Income (SUWI) and Work and Social Assistance Act (WWB) (Netherlands)

The key recent development in Dutch national policy has been the new Structure for the Administration of Work and Income (SUWI) introduced in 2002. This development has decentralised labour market policy towards the local level and changed the responsibilities of regional and local actors. SUWI aims to increase the effectiveness and efficiency of measures addressing work and income and thus reintegrate benefit claimants into the labour market. It does this through different measures such as:

- creating a single contact point for work and income;
- decentralisation of responsibility for social assistance to municipality level;
- decentralisation of responsibility for subsidised jobs to municipality level;
- privatisation of reintegration measures, initially compulsory, now at the discretion of municipalities provided that they have the capacity to provide the services themselves;
- requiring employers to pay sick employees for 2 years (most employers are insured against this).

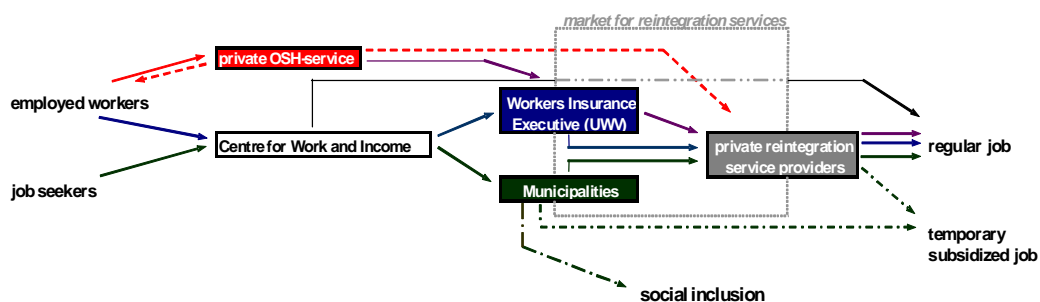


Figure 5.1 presents the Dutch model. Employed workers and jobseekers are assessed by the Centre of Work and Income (CWI) as to their eligibility for either the state system of Workers Insurance (UWV) or social assistance from the municipality. Both the municipalities and UWV can then hire private reintegration providers to help jobseekers back into employment through a regular job, a temporary subsidised job or through social inclusion. Dutch municipalities take a pro-active approach again by ensuring close cooperation with the CWIs often meaning that they are present within the CWI office to ensure proper assessment.

Since the introduction of the Work and Social Assistance Act (WWB) in 2004, municipalities have had full political and financial responsibility for reintegration. This allows them to operate more flexibly and respond better to local needs, as well as to save money by successfully reintegrating beneficiaries. So local municipalities now have more resources and freedom to participate in local employment partnership activity.

In addition, many have developed programmes to combat the premature dropout of young people from school. Some have also enabled particular target groups to enter the labour market, for example by providing child care. Municipalities also have responsibility for the promotion of new job creation.

In fact, even before the decentralisation of responsibility to municipalities, many Dutch municipalities initiated their own activities in response to what they perceived to be the failure of national services to operate in a holistic or integrated way. This pro-active approach reflects the traditional strength of municipalities in the Netherlands.

With this decentralisation, comes considerable variation within local employment policies in the Netherlands, due to:

- size of the municipality, as larger municipalities receive more financial resources from the government than do smaller ones;
- local socio-economic circumstances and labour market needs;
- political composition of each municipality and its willingness to conduct employment policy; and
- regional economic activities.

### **Hartz IV (Germany)**

The *Hartz IV* reform introduced a new system of administration and payment for the long-term unemployed by merging unemployment and social assistance, the so-called *Arbeitslosengeld II* (“Unemployment Benefit II”). From 2005, all those out-of-work for more than 12 months, but able to work, receive the same, means-tested benefit to guarantee minimum subsistence and are required to look for and accept any reasonable work available.

The Hartz reforms, named after their architect Peter Hartz a former Volkswagen executive, introduced structural reforms of interest to local employment strategies. This includes:

- giving more room for manoeuvre and responsibility for local budgets to local labour agencies;
- involving local authorities, (with or without local labour offices), in activating and guiding the unemployed;
- involving local authorities (with or without local labour offices), in creating second labour market options with a specific budget for this task;
- creation of new (financial and advisory) support mechanisms and frameworks for self-employment, part-time employment and low-wage employment.

Implementation of Hartz IV has not been without its difficulties. The first 18 months have seen a huge increase in the number of welfare recipients from 2.6m to 4m, at a cost of €25bn instead of €15bn in the first year<sup>16</sup>. Critics of Hartz IV say that it has created the wrong incentives and encouraged fraud. Indeed, fraudsters have usually only had to repay money when caught rather than risk fines and with the courts overloaded, there have been few, if any convictions. Local agencies, moreover, are said to be poorly organised and the division of responsibilities between the federal labour agency and municipal welfare offices blurred.

### *The end of ‘fordism’ in public services*

In addition to the drive for cost savings, the decentralisation of work activation reflects the more general tendency in the provision of public services away from ‘one-size-fits-all’ programmes towards more tailored, customised public services for individuals. If correctly designed and implemented, local work activation policies can reap great benefits.

Customised services are often, if not always, best provided at the local level. Local decision-makers can often source services better, using the full ‘supermarket’ of options available locally. Such ‘holistic’ approaches are less possible at the national level, where small local providers, for example, are less visible. Moreover, local programmes are usually better able to understand and work within the particular local mix of local circumstances that has a bearing on the jobs available locally, the reasons for unemployment or inactivity and the ability of individuals to gain employment.

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<sup>16</sup> *Financial Times*, 26 June 2006

### **Municipality of s-Hertogenbosch (Netherlands)**

The social assistance programme in s-Hertogenbosch serves approximately 2000 people, each of which is assigned a personal case manager. Behind the case manager is a “supermarket” of options which enables the case manager to provide “tailor-made” assistance to each individual. These options include careers advice and guidance, training, work experience, reintegration services, and personal services such as psychological help, debt advice, drug addiction treatment, etc.

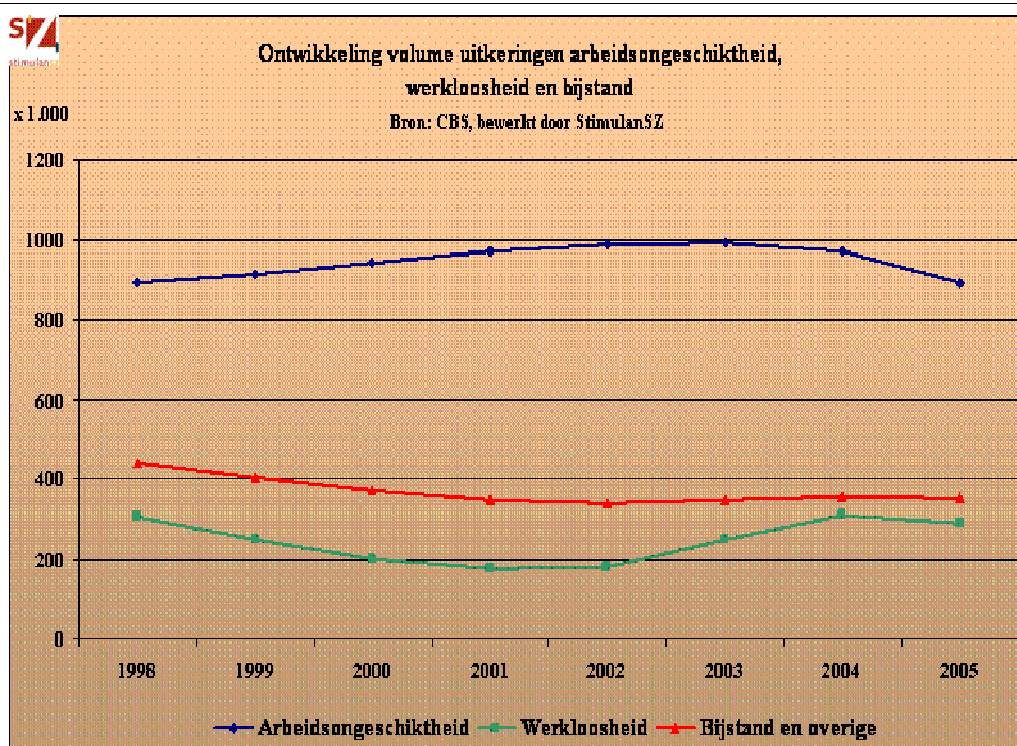
Within 24 hours of referral, the case manager, makes a “diagnosis” and hires one or more services from the supermarket to help the individual back into work. An important feature of the system is the freedom to purchase services from private companies where the municipality is unable to provide such a service.

The additional freedoms and flexibilities for municipalities and other local actors potentially create new burdens for them, particularly in the short term. However, such bodies need to build the capacity necessary to learn and to take advantage of these opportunities. In particular, a change of *culture* may be particularly necessary, with municipalities needing to balance their ethos of public service with the need to deliver results efficiently and make cost savings. They will also need to give a high priority to constructive co-operation with employers and ensure that the insertion of individuals meets employers’ needs – or the employers will soon choose not to receive such individuals.

### **Impact of local approaches on the level of social assistance (Netherlands)**

The effectiveness of the new local approach to work activation in the Netherlands can, in part, be measured by changes in the numbers of people entering social assistance in recent years. Historically, the number of unemployment benefit claimants (green line) and the number of social assistance claimants (red line) has increased during periods of slow economic growth or recession. However during the economically difficult years of 2002-05, whilst the number of unemployment benefit claimants increased, the number of social assistance claimants stabilised and even began to fall. This effect is strongly correlated with the decentralisation of responsibility for social assistance to the municipality level. In short, the new mechanisms proved more efficient in delivering concrete results, i.e.:

- getting newly unemployed people back into employment instead of leaving them to drift into social assistance; and
- delivering costs savings for the municipalities.



Many, if not most, municipalities have responded to their new responsibilities by adopting a "work-first" approach. Here, the emphasis is enabling the individual to return to work as soon as possible, if not immediately. In this, the Dutch approach contrasts with that of other countries, such as the UK where much support is only available after six months of unemployment. The work-first approach is often used in combination with fraud prevention, by checking whether people are at home or earning money on the black money, etc. Attention to date has mostly focused on new entrants to social assistance, with the eligibility of those already receiving social assistance not checked as stringently. However, as municipalities gain in competence, they will begin to examine these cases more closely in due course.

Of course, the new approach has not come without its risks. When municipalities received responsibility for social assistance, they began to act as "gate-keeper", trying to keep as many people out of social assistance as possible to ensure limited budget spending. This is obviously beneficial as far as it results in people returning to work more quickly. But the risk is that others "slip through the net" of social protection and are left to fend for themselves or even resort to criminal activity. The extent of this problem is largely unknown and merits further investigation.

The new local approach has also led to considerable variations in rights to social assistance from locality to locality, since each municipality is free to determine the rules. Some have become tougher, others more lenient. Many claim that this encourages potential recipients to move to the more lenient municipalities, but substantial proof of this behaviour remains to be found.

It also led to a lack of co-operation with employers- the question is whether they co-operated before, unclear status. Perhaps more importantly, each municipality started to re-invent the wheel – consequently cooperation with other municipalities is very important.

#### **4.3. *Bringing a joined-up approach to work activation at the local level***

The experience of the Netherlands is interesting in the way that it illustrates the potential of full decentralisation of certain responsibilities for employment development. However, in other countries, the situation is more complex. National bodies may be unwilling or politically unable to fully devolve employment services to the local level. Moreover, there may be capacity constraints at the local level that inhibit the adoption of such responsibilities.

There are perhaps two schools of thought here. The first, based on the Dutch experience, is that full decentralisation itself will stimulate, perhaps even coerce, local actors (particularly local authorities) to build or buy in the capacity for action. The second is that some kind of supporting national or regional framework needs to be put in place to support the development of local capacity. Such an approach can allow local players to adopt responsibilities more incrementally, as and when the necessary capacity is developed. This has been the approach in Germany and Italy.

Two common factors in the cases of Germany and Italy have been the perceived "rigidity" of the labour market in each country and the reforms aimed at introducing greater flexibility. These reforms reflect the challenges of a global economy, which manifests itself in tougher competition and increased volatility for employers. In both countries, national policy has attempted to relax certain restrictions on employing and dismissing workers, with the aim of encouraging businesses to increase recruitment.

For example, the Schröder government, in response to rising unemployment, introduced reforms in 2003 that provided greater incentives for the unemployed to return to work and for companies to hire low-paid workers part-time. These reforms also made it easier to employ workers on temporary and part-time contracts and to dismiss such workers. However, conditions for those on full-time, permanent contracts remain largely unchanged in terms of generous salaries, full entitlement to health, pension and security benefits and legal protection against dismissal. Critics of the reforms claim that they have created a two-tier labour market – with a shrinking number of employees enjoying the benefits of the top tier and a growing number trapped in the bottom tier. For example, in the two years following the reforms (2003-05), whilst employment as a whole was falling, the employment of temporary workers rose from 750,000 to 1m.

Similarly, in Italy, the Biagi reform of 2003 introduced new forms of employment contract such as on-call working, job-sharing, accessory working, work experience programmes, and staff leasing on an open-ended basis. This was part of a wider effort to bring Italian labour market policy into line with the guidelines of the European Employment Strategy. Supporters of the reforms claim that the reforms have made the labour market more efficient

and flexible. However, critics point to the growing "army" of people on short-term contracts who now require greater support from active labour market policies.

In both countries, these reforms have also accompanied greater decentralisation of competencies in the area of employment – Hartz IV in the case of Germany, and the devolution of the management of local employment services to the local level in 1997 in Italy. The combined effect of such reforms has been to put the onus on the local level to create some kind of alternative to the previous, highly-protective national systems. As noted above, supporting national or regional frameworks - often including some kind of intermediary body - may need to be put in place to help create the capacity at the local level to fulfil such a role.

One approach in Germany has been that of introducing local employment pacts for older people, within the context of a supportive national framework.

#### **Perspektive 50plus – Employment Pacts for older people in the Regions (Germany)**

During the 1980s and 1990s early retirement schemes were used to lay off many older workers in Germany, some years before they reached the official pension age. At the time, this policy was supported by politicians, employers and trade unions as an instrument to reduce labour supply and thus, it was hoped, create vacancies for unemployed people. However, it is now recognised that this policy has been too expensive. Indeed, in some cases, it has been used as an excuse for enterprises to cut jobs through “downsizing”. Given demographic projections in Germany, there is the need for a shift in policy in order to finance social security and pensions. The aim is now to raise the employment rate of those aged 55+ in Germany from 41% towards the EU-target of 50% by in 2010.

Since 1 January 2005 the Hartz IV reforms have made 444 Jobcentres and local communities responsible for the long-term unemployed. This new institutional structure provides the mechanism through which the employment of the 50+ can be addressed. But it has been recognised that local approaches to supporting this target group will be more effective within some kind of broader national and regional framework.

The German government aims to provide this framework through “Perspektive 50plus”. Perspektive 50plus is a programme funded by the Federal Ministry of Labour and Social Affairs (BMAS), as well as ESF in some places. It is operated by Gesellschaft für soziale Unternehmensberatung (GSUB - Social Business Consultancy). The specific objectives of Perspektive 50plus are to:

- identify best practices for the re-integration of the target group in the labour market;
- mainstream identified best practices into new federal laws or programmes; and
- increase public awareness the of difficult labour market situation facing long-term unemployed persons aged 50+.

The Jobcentres or communities are responsible for the implementation of projects at the local or regional level. Perspektive 50plus provides regional networks of key actors in labour market policy, including municipalities, trade unions, employers associations and training institutions. The key focus of these networks – or employment pacts – is the development and implementation of new ways to help the target group back into work. Conferences and thematic workshops facilitate the identification and exchange of good practice between members. A programme-level evaluation will also provide useful lessons from experience.

In total, some 62 projects have been supported across Germany. They were selected through a competitive process operating at the national level. Such an approach has combined a “top-down” approach to the conception of employment pacts with “bottom-up” approaches to identifying needs and designing and implementing activity on the ground. In short, it has cemented the relationship between national policy priorities and local needs and activities. The approaches developed within Perspektive 50plus have directly helped many individuals back into employment. However, Perspektive 50plus has also generated other important outcomes including:

- sustainable employment pacts bringing together actors from different localities all with new responsibilities under Hartz IV;
- transfer of know-how and innovation between different localities, relating to the organisation and operation of Jobcentres and communities as well as strategies for the reintegration of people aged 50+;
- greater public awareness of the need to increase the employment rate of older workers; and
- proposals for new policy instruments at the federal level.

Lessons learned from Perspektive 50plus are that:

- local approaches to employment achieve most when given national political priority;
- a competitive system of selecting proposals can raise the quality of local approaches;
- an important balance needs to be struck between conceiving policy tools at the national level with national objectives in mind, and allowing local actors sufficient freedom to customise those tools to their own particular circumstances;
- given this freedom, local actors can and will develop a surprising variety of strategies, approaches and instruments.

In contrast to the German approach, supportive frameworks for local employment development have been initiated more often at the regional level in Italy.

#### **UPAL – The Network on Active Labour Market Policies (Italy)**

Employment development in Italy is the responsibility of a large number of local and national authorities and other formal and informal institutions. This diversity has been enhanced by the decentralisation of more decision-making powers to the local level. Indeed, Law 469/1997 and Regional Law 1/99 specifically provided for the transfer of responsibilities for employment services from the State to the Regions and to the Provinces – in terms of both policy and implementation.

The Provincie are now the key actors in employment development. They have the strategic role of managing the matching of labour demand and supply, which they fulfil through the “Servizi per l’Impiego”. These local employment services work with networks of local actors to design and implement employment policies at the local level, in tandem with the provision of vocational training.

In the north Italian region of Lombardy, the UPAL network has been established within the framework of Law 469/1997 and Regional Law 1/99 to promote new methods of co-operation and integration among provincial and regional authorities as regards active labour market policy. The ultimate goal of UPAL is to support targeted and coordinated measures for people excluded from the labour market and to help meet employers’ needs.

In particular, it aims at:

- creating a local network of efficient cooperation;
- defining active labour market policies in synergy with the regions and in coordination with the local authorities; and
- meeting specifically local labour market needs.

The UPAL network consists of 11 experts, one for each Province, who have the task of supporting the Provinces with technical assistance. These experts promote the exchange of information and best practice at local level as well as the transfer of know-how from the Region to the Provinces.

Although Lombardy enjoys a fairly buoyant labour market, certain disadvantaged groups still suffer from low rates of employment, particularly those aged over 40 year, ethnic minorities, immigrants and women. Again, critiques of the Biagi reforms suggest that these groups have suffered from the loss of employment protection and the growth in insecurity, for example through part-time or temporary contracts. What is without doubt, is that there is a need for active labour market policies implemented at the local level that can reach these groups.

The key activities and achievements of the UPAL Network have included:

- development of local active labour market policies and programmes carried out by the Provinces, the network UPAL and the Agenzia Regionale per il Lavoro;
- promotion of Borsa Lavoro Lombardia, a regional system for employment services – now replicated in several other Italian regions;
- contribution to the design of territorial agreements;
- establishing a team of experts on active labour market policies (the first in Italy); and
- bringing regional government closer to the local territories; and
- more efficient and transparent dialogue among the institutions.

Participants in the UPAL Network report that the network approach and the inclusive involvement of the actors make active labour policies more successful. Sharing a common method of coordination at different political levels makes planning and management of policies more efficient and brings institutions closer to the needs of local citizens.

## 5. CONCLUSIONS

### 5.1. *The maturation of local employment development*

Employment in Europe faces great upheaval. Old certainties relating to security of tenure, generous provision of health, pension and social security benefits and ever-rising wages are, for a growing number of people, a thing of the past. Globalisation challenges the extent to which national labour markets can remain immune to developments elsewhere – the accession of 10 New Member States to the EU (with two more due to follow in 2007), the growing power of China and India, rapid technological change, increasingly mobile capital.

Faced with these challenges, national policymakers face immense challenges. Many have sought to create more ‘flexible’ and ‘efficient’ labour markets by introducing reforms that loosen restrictions on the ability of employers to ‘hire and fire’. But few have been bold enough to propose unpicking the essential elements of their country’s particular social model – despite the fact that those models seem to privilege a steadily decreasing proportion of the workforce, while others face ever greater uncertainty.

As a part of these considerations, two key trends have been evident across the 15 “old” EU Member States. Firstly, there has been a concerted trend to decentralise responsibilities for employment development to the regional and even, in some cases, the local level. Whilst some of this decentralisation has been driven by the desire for cost-savings in the delivery of welfare services, a key motor has nonetheless been the perception that some things are best done locally. This first trend has manifested itself at the same time as a second trend - the 15-20 years of experimentation, initiated in part by the EU, in designing and implementing local approaches to employment development – witness the plethora of programmes such as LEDA, Article 6, Preparatory Measures, Territorial Employment Pacts, EQUAL, Leader +, etc.

Together these two trends (decentralisation of policy responsibilities and experimentation with local approaches to employment) have ensured that *local employment development should now be considered as having ‘matured’*. In many, if not most, of the RCE regions there is substantial experience of pilot approaches to local employment development. The time has surely come for local actors to consider what has worked and find ways to continue it build on it, expand it and make it sustainable. Local actors should also consider what activities have not worked well and be brave enough to abandon them – whilst still learning the lessons from these experiences.

It is not merely desirable to consider local employment development as having matured in the RCE regions; it is essential, because *the period of EU-funded experimentation in these regions is now essentially complete*. No further Community Initiatives are planned and the overall level of EU structural funding for the RCE regions will be greatly reduced in the 2007-13 period. Whilst it may be possible to finance some local employment activity through Interreg and Leader +, local actors will have to rely primarily on mainstream sources

of funding, whether at the national, regional or local level, as well as revenue-generating activities<sup>17</sup>.

In fact, given the maturation of LED and the evidence of 15-20 years of experimentation, *local employment development should now be considered as constituting a mainstream policy option in the RCE regions*, alongside national and regional approaches. Given the problems facing the various forms of the European ‘social model’ and the growing numbers of those excluded from its benefits, it should be acknowledged that LED can offer something that other activities cannot – the ability to identify and diagnose specifically local needs and opportunities and the flexibility to respond quickly and efficiently.

## **5.2. Supporting LED**

National policymakers are, in fact, recognising the value in acting locally and are increasingly devolving responsibilities to the local level. Whilst this is encouraging, it should be recognised that *decentralisation of responsibilities for employment development may require a supportive framework to be in place*. This framework should help localities to build capacity where necessary, facilitate the transfer of know-how and innovation between different localities, create synergies between LED and broader regional development, help translate national policy priorities into effective local action (without stifling local innovation and freedom of action) and enable experience from the local level to help shape national policy.

Experience shows that an *intermediary body can be vitally important in providing such a supportive framework for effective local approaches to employment*. Examples of intermediary bodies include the UPAL Network in Italy, GSUB in Germany and Pobal in Ireland. In the case of Shropshire (UK), intermediary support has been made available through the regional office of the national government as well as the county-level strategic partnership.

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<sup>17</sup> See the Seventh Thematic Report for more extensive consideration of sustainable sources of finance.

### **Shropshire Local Strategic Partnership (UK)**

The Government Office for the West Midlands (GOWM) is the regional arm of the UK Government and the managing authority for the Objective 2 programme in the West Midlands of England. GOWM has delegated amounts of ESF and ERDF Objective 2 grant funding to local partnerships operating at the county level, including Shropshire. This money funds the action plans of “Strategic Packages” which group together projects that meet local economic, social and environmental needs.

In addition to the project funding, GOWM has also – crucially – funded the costs of two technical assistance officers. These individuals facilitate the design, development, monitoring and evaluation of the action plans. They also support the development of individual projects from application stage to completion. The Objective 2 programme also supports a sub-regional network to support the delivery of horizontal themes. Activity of the network includes appraisal of projects related to the horizontal themes and the development of a “Sustainability Pack” that highlights social, economic and environmental considerations.

The Shropshire Local Strategic Partnership (SLSP) has developed three “strategic packages” that focus on creating the right conditions for growth and jobs. The packages complement activity at the local level and deliver strategic activities identified through sector strategies and policies. They are:

- Regenerating Communities Action Plan; this plan stimulates the economy in disadvantaged neighbourhoods through support to voluntary and community groups, multi-purpose community facilities and social and community enterprises.
- Tourism Action Plan; this plan implements large, strategically important tourism projects; and
- Creative Industries Action Plan; this plan develops strategic business projects in this sector, in line with the county-level Creative Industries Strategy.

The Shropshire example demonstrates how mainstream funding, in this European funding, can facilitate local approaches that simultaneously meet local needs as well as regional priorities. Support from the regional Government Office and the county-level partnership has enabled projects to be implemented within a broader strategy of economic development. Such support has also helped build capacity at the local level through appropriate technical assistance and co-operating across the sub-region to share best practice and co-ordinate activities.

### 5.3. *Releasing potential for employment development*

As traditional models of social welfare strain under the pressures of global competition and of their own costs, *policymakers should consider how public expenditure more generally can release job creation potential at the local level*. Opportunities remain to be fully exploited within public procurement through, for example, making public service contracts more accessible to local SMEs and, in particular, social enterprises that support disadvantaged groups. In addition, as the example of IGO Leuven demonstrates, there may also be opportunities to combine training and insertion with the delivery of public services, thus maximising the employment impact of public expenditure. Of course, the challenge here will be to ensure that value for public money is maintained, particularly where that relates to retaining economies of scale; not every item of public expenditure lends itself to local employment development.

Some of those that dislike capitalism and are disillusioned with the welfare state have created their own alternative, perhaps even radical, approach. This is the *économie solidaire*. The essence of the *économie solidaire* is not about dependence on public subsidy; it is about self-help, mutual help and democratic engagement. However, *national policymakers should consider how its national legal frameworks, policies and expenditure can allow the économie solidaire to flourish of its own accord*. For example, in Luxembourg the national government has recognised the *économie solidaire* as a “third pillar” of the economy. In addition to some initial “pump-priming”, it has introduced new legal forms more applicable to the *économie solidaire*, as well as creating opportunities for the *économie solidaire* within public procurement.

### 5.4. *Doing it for yourself*

Ultimately, however, local employment development is most effective when local actors resolve to “do it for themselves”. In the RCE regions, where EU funding is going to be greatly reduced, it is imperative that local actors take responsibility for their own development – albeit within a supportive national policy framework, where possible.

The Italian districts demonstrate how *the essence of creating growth and jobs at the local level depends on local actors finding and creatively developing the “genius loci” of their own area*. Put simply, localities should discover what they are best at doing and do it in their particular, unique way. By carefully cultivating, branding and selling their genius loci to the world, localities can enjoy a premium in world markets through activity that draws on and reinforces the very best of their traditions and local character. But localities must continuously adapt and update the way that they exploit their genius loci, in response to changes such as technological advancement or increased globalisation

As we see in the case of Italy, governments face a dilemma when faced with a flourishing of innovative and effective local employment development. They wish, quite rightly, to nurture and support it. Yet when trying to support it, particularly financially or legislatively, they must avoid the temptation to strangle it – through narrowly defining it, excessively regulating it, or closely controlling it. *National policymakers must accept that for local*

*employment development to contribute substantially to their own objectives, they must give up a degree of control over it – and accept the associated risks (and failures) as inevitable.*

Across the EU, national governments are indeed relinquishing a degree of control through devolving certain responsibilities for employment to the regional or local level. Examples include the Hartz IV reforms in Germany, the Italian Servizi per l'Impiego, the powers given to the autonomous regions in Spain and the Work and Social Assistance Act in the Netherlands. Decentralisation has perhaps gone furthest in the Netherlands, where municipalities can not only “do it for themselves” but enjoy direct financial savings by enabling those on social assistance to return to work – up to €6m annually, in the case of s-Hertogenbosch.

Here, the lesson municipalities have learned is that *new responsibilities for employment at the local level require new capacity to be built and new approaches to be adopted.* For example, social assistance provision in s-Hertogenbosch has changed in two years from being primarily a bureaucracy to being a business-oriented organisation, with clear goals translated into fixed targets, real financial incentives and a more direct approach to delivery. The message emerging from the Dutch municipalities is that, whilst capacity is not built instantly – and the supermarket of services may not be in place at the outset - this should not deter activity. *When given new responsibilities, local actors should be bold and brave enough to initiate new activities, building the capacity step-by-step and even creating new markets for services in order to stimulate new providers to emerge.*

In summary, then, whilst EU’s grand aims for ‘growth and jobs’, as stated in the ‘Lisbon process’, may seem somewhat remote from the local level, two decades of experience has proved that local approaches to employment can make a difference. There is a huge wealth of experience, capacity and innovation across those regions to which the new Regional Competitiveness and Employment Objective will apply. The challenge now is for those regions to continue, expand and extend their LED activities with considerably less EU funding than in recent years. They must now find their own way; but in doing that they can and should be enabled by the regional and national levels, who themselves must recognise that their own priorities can be met by enabling key players to act locally.