

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

The Seventh Thematic report of the IDELE Project

based on an international seminar on 9-10 June 2005 in Nice-France



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## Introduction

IDELE is a three year project operated by ECOTEC on behalf of the European Commission. It involves the:

**I**dentification  
**D**issemination and  
**E**xchange of good practice in  
**L**ocal  
**E**mployment Development.

Each year, IDELE focuses on four themes in local employment development and identifies good practice examples from which key lessons can be learnt. These will be of interest to:

- Policymakers at all levels;
- Practitioners involved in local employment development;
- Other local stakeholders; and
- Academics and researchers.

This seventh Thematic Summary explores the issue of how to secure financial resources for sustaining local employment development into the future and, in particular how to find ways to reduce dependency on the existing funding base.

Twelve international IDELE seminars and reports provide a platform for policy-makers and project promoters to share a dialogue about how the local approach can make a difference. This thematic report reflects the outcomes of the seventh IDELE seminar held on 9-10 June in Nice, France.



## **Rationale behind IDELE**

IDELE is a key element of the European Commission's activity to encourage the exchange of good practice and networking in local employment development (LED). The local level has been recognised in EU policy since 1984 and has since gained in importance through the Commission's White Paper on Growth, Competitiveness and Employment in 1993 and the European Employment Strategy in 1997. While policies at other levels – macro-economic, structural and regional/sectoral – continued to address the broader competitiveness and cohesion agenda at the level of the economic system as a whole, a policy that proposed to use local actors to seek out local solutions had (and continues to have) strong appeal.

At the end of two decades of experimentation and significant funding both for pilot actions and under Structural Funds measures there is a need to review what has been learned and disseminate and exchange the lessons from practice. IDELE comes at an opportune moment in a more general sense, however. Local actors seem, with or without external exhortation, to be becoming more involved in trying to capture employment and development for their regions and it is important to recognise this. While the European Commission programmes have been a significant spur to action, IDELE provides an opportunity to capture learning from a much wider social movement. IDELE also has the capacity to look at how the overall aim of the EES is being achieved by actions in the wider local setting.

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## **Possibilities for local action**

When the local approach came to play an increasing role in the policy frameworks of the EU and a number of Member States (during the 1980s and 1990s), it was chiefly envisioned as an instrument of unemployment policy and this has determined its development pathway. From the perspective of economic analysis LED is seen to work on both the supply and the demand side.

On the supply side, it offers a means to mobilise labour to adapt to new work opportunities and to acquire relevant skills by drawing the unemployed and socially excluded along 'pathways to integration' with strongly local points of entry. On the demand side, it is a means to prospect for new sources of jobs at the local level – particularly by identifying those service gaps and market failures that were unfilled by private enterprise or public provision as service demands changed faster than orthodox responses. With a re-awakening of interest in social enterprise and the social economy, another demand side option has been to stimulate alternative forms of enterprise within local communities that gave both the prospect of addressing gaps in 'proximity services' and the chance that the locally unemployed could create 'tailor-made jobs' by acting as social entrepreneurs.

Another entry point to the possibilities of action at the local level has come from the orthodox perspective of market economics and from the logic of arguments about *market failure*. Indeed, the essence of the highly influential LDEI initiative that emanated from the European Commission's Cellule de Prospective in 1996 was to position local action as an instrument to address existing and emergent market failures in a fast moving economy.



## Local employment development (LED)

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

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

## Seeking pathways to sustainable finance for LED organisations

With the support of the European Commission, LED has become an important plank of the general framework for employment and local development policy. However, policy frameworks for the EU are now being re-framed and the Commission's view of the basis for the future sustainability of LED is unequivocal. After a long period of innovative action, the need is now to *consolidate and to mainstream* rather than to continue with experimental pilot actions and short-term initiatives.

For those LED organisations aspiring to find mainstream support, they can expect to be scrutinised as never before and will need to present strong evidence for their value added contribution in competition with other claimants for State funds. However, many will have to look to *non-State forms of financial support* if they are to survive. The experience of social enterprise shows how difficult it is likely to be the road to non-public funding.

There are, however, a growing number of new opportunities to be taken up - particularly from that cluster of social banking initiatives that fall variously under the headings of Community Finance Initiatives (CFIs), Community Development Finance Instruments (CDFIs) or more simply Patient Capital. Three key components of interest to us within this are:

- *Micro-credit* - micro credit schemes are small credits lent often with the intention of helping unemployed people and those who are marginalised in the labour market either into self employment or to set up a company or co-operative
- *Mutual Credit or Guarantee Funds* - As an adjunct to micro-credit there is considerable interest in larger scale mutual guarantee schemes.
- *Social risk capital and loan guarantee funds* - The idea behind this complex group of instruments is to develop new financial engineering products that can provide finance in the form of loans or equity to community based ventures or social enterprises in the same way as venture and risk capital are provided to businesses in the market economy.



To make full use of these opportunities requires careful planning and demands that the organisations seeking to capture them engage with new ways of presenting themselves to those they want to fund them. For traditional funding agencies – mostly governments - it might be their desire and the ability to "buy" *substantive welfare outcomes* -- jobs, skills and inclusion for example as an extension to state action. For others – the private or public-private finance providers – the answer might be *reasonable returns on an investment* with perhaps *an ethical value* that is part of their wider view of corporate social responsibility.

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

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

There is a tendency to be less than clear-minded about this distinction. Sustaining LED is perhaps in part about finding ways to maintain those organisations that have been the carriers of the concept during its experimental phase but in the main it must be about making a carefully argued case for more attention to be given to those actions most appropriately positioned at local level in the system of overall governance. It is perhaps the quality of the ideas, tools and practices that needs to be sustained into the future. Some of these are, of course, ideas about the types of bodies best suited to acting locally.

### **Lessons from experience**

The experience good practice examples identified by IDELE highlights two groups of lessons in relations to sustainable finance.

The first group of lessons has to do with the wider issues of governance and of the sorts of support structures required for future sustainability. The second is more concerned with the detail of the way the system of finance and support should operate.

#### *Governance for sustainability*

**Value for money.** Public sector values are critical to success but they need to be applied within the context of being able to demonstrate value for money and being competitive. Activities firmly shaped by a public sector and welfare ethos, need to justify the resources they received. Measurement systems for determining the value of the activities' contribution to the public mainstream (social audit methods, balanced scorecards etc) are going to become significantly more important as the pressures on sustainable funding increase.



### ***Regeneration Exchange – Sunderland UK***

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

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

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



### ***Cooperativa Mag4Piemonte, Torino, Italy***

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

**Clear relationship and right balance between the top down and bottom up approaches.** The message here is that "sorting out" the best allocation of responsibilities both horizontally and vertically was a task that needed careful consideration and, if left unresolved, could have a negative impact on claims for mainstream funding for the future. The move to a greater dependence on mainstream funding would be likely to bring with it a need for LED organisations to be considerably more realistic about their place within the multi-level system of governance.

#### *New sources of finance*

**The development of social economy.** More attention needed to be given to the general development of the social economy as a platform for those new financial instruments and mentoring and support activities that will be needed for the sustainability of some elements of the LED community. The best practice examples demonstrated that CDFIs and the organisations providing them were usually just one component of a more complex "social economy in general" that saw a cluster of activities in place ranging from political influencing, to mentoring and guidance, to business support advice and that was embedded in its local or regional context. Such structures



take time to evolve and the message here is that LED is likely to be at its most vulnerable were this broader platform of support has not had time or opportunity to evolve.

### **Community Enterprise in Strathclyde – CeIS**

CEiS is an innovative leader in the development of the social economy in the west of Scotland. As well as having a promotional role for the social economy in Scotland (which we shall address later in this section), CEiS is also committed to building the financial capacity and assets of individuals and organisations in its region. Despite the presence of many private organisations like banks and investment companies to provide a wide range of financial services, there is still a large excluded group of organisations and people that find it difficult of access mainstream finance. CEiS is developing projects and new ways of working in conjunction with partners that will build a range of financial services to meet the needs of the more excluded individuals and organisations (3). Part of the package is the support of Credit Unions (5). CEiS assists them to become more accessible to their communities (geographically or of interest) and enable them to offer a range of financial services that their members want. This also involves linking them with potential partners such as housing associations, money advice organisations and others into an overall plan for service delivery. New UK regulations now make it easier and more profitable for trade unions to provide these services. CEiS also supports Money Advice Organisations of various kinds and helps these organisations develop their businesses.

**A balanced system for sustainable future finance.** A gulf exists across the LED community when it comes to securing sustainable finance for the future. For some, the need is to finance project activities in the form of loans or equity, thus becoming a product of "sustainable market-based cash flows" that derive from the product or service offering. By contrast, for others a recourse to the market model would have the effect of distorting the mission for LED bodies beyond the purpose for which they had been set up in the first place and that the "isomorphism" involved would see local activities inevitably drawn along a narrow pathway toward being versions of the market driven business model. The two propositions set out above are, of course, by no means mutually exclusive and a balanced system for sustainable future finance would seek to accommodate both models.

**Flexibility.** There is a need to maintain the maximum possible variety in the available pathways to sustainable finance for the future. Fixed positions and ideological stances - privileging one route over another – could be potentially highly damaging.



## Conclusion

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

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

There is still much work to do on the identification, dissemination and exchange of good practice. It is also important to state again that LED carries within it some ideas that have much wider social and political significance. These come from the power of the local to recapture those, now unfashionable, but perhaps in the future even more vital, distinctively European, ideals of common purpose, mutuality, solidarity and inclusiveness. The worry must be that with a dash to the marketplace and the contractual relationship these ideals might just turn out to be among the first casualties of the new funding climate.



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## Contact Details

The full thematic reports and thematic summaries and further information on IDELE can be found on the project website: [www.ecotec.co.uk/idele](http://www.ecotec.co.uk/idele)

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