

COMMISSION OF THE EUROPEAN COMMUNITIES

SEC(94) 2199

Brussels, 19.12.1994

INVENTORY OF COMMUNITY ACTION
TO SUPPORT LOCAL DEVELOPMENT
AND EMPLOYMENT

(Commission Staff Working Paper)

EXECUTIVE SUMMARY

As early as 1984, the European Institutions took note of the potential of development processes at local level and publicly expressed the intention of promoting them. The time has come to try to take stock of ten years of experience in development through local initiatives.

The present report is devoted to answering this question, posed by the Corfu European Council

The first part of this working document provides an inventory of the tools made available for local development by the European Union.

The second part of the document assesses the use made of these instruments, starting from the idea that local development and financing of localized investment in an area must not be confused.

The general finding is fairly clear: progress in quantitative terms (financing volumes devoted to action in which local initiative has a place) is tangible, especially for the new programming period from 1994 to 1999 (5% of the structural funds for the period from 1989-1993, 10% for the period from 1994-1999), but action that can be genuinely described as integrated local development involving partnership is still rare.

The obstacles to the spread of local initiatives are not budgetary: a simple transfer of 10% of the Union's resources devoted to infrastructure would double the resources available for local initiatives. The difficulty lies elsewhere: a change of administrative organization and mentality is required, achieving of which will not be easy.

The last part of the document sets out a number of proposals, based around the three functions of local development, which - bearing in mind subsidiarity - argue for cooperative support from the Union's structural instruments for local initiative processes. The fact that this is in some degree a social innovation justifies increased support for local initiatives from the Union and the Member States:

- The task of supporting experimentation must be continued, since new fields have appeared. But more than in the past this task must concentrate on evaluating and disseminating transferable local initiative models.

- A separate effort is required at Union level to ensure real transfer of good practice, particularly in the urban context. Not only infrastructure but proper cooperation networks are required and the use of technical assistance should become much more widespread.

- Lastly, the Structural Funds themselves (Community support frameworks and single programming documents) need to be used to spread the integrated partnership-based practices that local initiatives need to flourish. This task will involve organizational reform within Community and national administrations that is only sketched out. It also calls for dialogue and partnership at the highest level between national (including budgetary) and Community authorities.

CONTENTS

Introduction: Ten Years of Local Development Experience

1. **Community instruments supporting local development**
 - 1.1 Historical review
 - 1.2 Functions and tools of Community action to promote local development
 - Specific support measures for experimentation
 - Community Initiatives: dissemination of good practice
 - Community support for national structural policies
2. **An assessment of the use made of existing Community instruments in support of local initiatives**
 - 2.1 Progress to date has been very modest (1989-93)
 - 2.2 Trends in the next programming period (1994-99)
 - Enlarging the scope of the operations qualifying under local initiatives
 - Priorities in the next programming period in favour of local initiatives
 - 2.3 Still a lack of adequate methodology and organization
3. **Proposals to improve the effectiveness and consistency of Community measures**
 - 3.1 Continuing to encourage and enrich experimentation
 - 3.2 Assessing experimentation and creating transferable methods
 - 3.3 Consolidating and multiplying European networks for information on local initiatives
 - 3.4 Creating European networks for cooperation, particularly in urban areas
 - 3.5 Making extensive use of technical assistance for local initiatives
 - 3.6 Promoting a favourable national framework for local initiatives
 - 3.7 Enhancing the partnership between Member States and the Union in support of local initiatives

INTRODUCTION AND SUMMARY TEN YEARS OF LOCAL DEVELOPMENT EXPERIENCE

As early as 1984, the European Institutions took note of the potential of development processes at local level and publicly expressed the intention of promoting them¹. Since then local development has emerged more and more from obscurity and experience has diversified and multiplied, throwing further into relief the fundamental importance of locally taken initiatives in the face of the obstacles to and opportunities for development and employment.

Ten years on, the principles of 'bottom-up development' are the same. But the general European economic situation has altered, making still more relevant the new approach to employment that these principles embody. On the one hand the new globalized conditions of competition, the unavoidable reform of social security systems, the switch to a service economy, and the increasing pressure of structural unemployment are combining to accentuate the advantages of an approach by geographical area that exploits diversity. On the other hand, as with the active employment policies recommended in the white paper on "Growth, competitiveness, and employment", supporting local initiatives is undoubtedly an interesting option from the point of view of the cost-benefit field of budgetary resources.

The time has come to try to take stock of ten years of experience in development through local initiatives. Two questions in particular must be answered:

- Can a successful common approach be worked out from this variety of local experiences that will work throughout the Community in all its diversity? Can this approach significantly enrich the present way of pursuing development and the employment generated by economic growth? The report on 'innovations in job creation' gives a positive response to these questions.
- Have the Community instruments gradually introduced since 1984, in particular as part of the reform of the structural policies, worked to the advantage of local development? The present report is devoted to answering this question, posed by the Corfu European Council².

The first part of this working document provides an inventory of the tools made available for local development by the European Union. Local development is in fact taken into consideration throughout the Union's structural policies, whether putting the accent primarily on local economic development in general (regional policies), on job creation (social policies) or on the entrepreneurial fabric (action in support of small and medium-sized enterprises - SMEs). Whatever aspect of local development is involved however, the same three concerns automatically apply: encouraging exciting but vulnerable innovatory experiments, facilitating acquaintance with good practice in Europe through technical assistance and networking, and disseminating these practices

¹ Council Resolution of 7 June 1984 (84/C-161/01)

² See the Corfu Council Presidency conclusions: 'The European Council notes the Commission's intention, within the framework of the report on new potential sources of employment to be submitted to the European Council in Essen, to draw up a detailed inventory of the various actions at Community level to foster local development and local employment initiatives, particularly those concerning micro-enterprises and craft industries. This inventory will be accompanied by the proposals deemed necessary to enhance the consistency and the effectiveness of those actions.'

through the agency of the Structural Funds. These three functions are embodied in a range of financial instruments, details of which are annexed.

The second part of the document assesses the use made of these instruments, starting from the idea that local development and financing of localized investment in an area must not be confused. An attempt has been made to gauge to what extent the Community instruments have supported genuine local development and employment initiatives, i.e. initiatives characterized by real involvement of local actors cooperating in partnership with public authorities that are coordinated among themselves for the purposes of such development.

The general finding is fairly clear: progress in quantitative terms (financing volumes devoted to action in which local initiative has a place) is tangible, especially for the new programming period from 1994 to 1999, but action that can be genuinely described as integrated local development involving partnership is still rare. In reality, with the notable exception of rural development and certain networks for combatting social exclusion and poverty, utilization of Community instruments is still largely focused on support for experimentation. It has not yet permitted widespread transmission of the results of that experimentation, owing to difficulties of organization and method found both in national administrations and in the Community's administration.

The obstacles to the spread of local initiatives are not budgetary: a simple transfer of 10% of the Union's resources devoted to infrastructure would double the resources available for local initiatives. The difficulty lies elsewhere: a change of administrative organization and mentality is required, achieving of which will not be easy.

The similar difficulties of banking systems in coping with the specific needs of SMEs spring to mind. The time spans of local initiatives and the diversity that constitutes their richness likewise demands that the public authorities invest proper human resources.

The last part of the document sets out a number of proposals, based around the three functions of local development, which - bearing in mind subsidiarity - argue for cooperative support from the Union's structural instruments for local initiative processes. The fact that this is in some degree a social innovation justifies increased support for local initiatives from the Union and the Member States.

- The task of supporting experimentation must be continued, since new fields have appeared. But more than in the past this task must concentrate on evaluating and disseminating transferable local initiative models.
- A separate effort is required at Union level to ensure real transfer of good practice, particularly in the urban context. Not only infrastructure but proper cooperation networks are required and the use of technical assistance should become much more widespread.
- Lastly, the Structural Funds themselves (Community support frameworks and single programming documents) need to be used to spread the integrated partnership-based practices that local initiatives need to flourish. This task will involve organizational reform within Community and national administrations that is only sketched out. It also calls for dialogue and partnership at the highest level between national (including budgetary) and Community authorities so that, in line with each country's traditional ways of working and in harmony with the past implementation of Community financing procedures, effective and trustful cooperation can be redefined in the service of the local initiative mechanism.

1. COMMUNITY INSTRUMENTS SUPPORTING LOCAL DEVELOPMENT

A brief historical survey will make clear the reasoning behind the introduction of the principal Community instruments and the great variety of tools available to the Union, since later measures have not replaced but supplemented earlier ones.

1.1 Historical review

The Union first manifested its interest in local development in the ERDF 'non-quota' programmes of 1979 and in a consultation programme running from 1982 to 1984 organized in conjunction with the OECD and covering some 50 local job creation projects. On 7 June 1984, following a Commission communication and given the interest shown by numerous Member States, the Council adopted a resolution on the contribution of local employment initiatives to combatting unemployment³ in which it stated that development of such initiatives should be supported and stimulated by the Member States' policies accompanied by specific measures at Community level. Around the same time the Council revised the ERDF Regulation and introduced Article 15 aimed at promoting locally generated development through joint financing of assistance to SMEs.

Over the last decade Community policy has matured into a full range of instruments:

- In the first phase, from 1984 onwards, Community action concentrated on research and action programmes such as LEDA and these were supplemented by information and exchange programmes targeted on specific groupings (ERGO, EGLEI, TURN, ELISE). Some measures, albeit modest in scope, gave financial support to certain types of local initiative (LEI and Poverty programmes).
- The second phase, initiated by the 1988 Structural Fund reform, saw a move towards more solid action. Community Initiatives enabled the Commission to set guidelines for jointly financed projects and support networks. The Commission was also able to launch pilot projects and contribute to financing of innovative action.

At the same time, but still in an embryonic way, the Union has attempted to widen the scope of its support by making local development one of the Structural Fund tasks, as reflected in the programmes in the Community support frameworks (CSFs) and single programming documents (SPDs) adopted on the initiative of Member States.

For instance, 'global development grants' were introduced under the Structural Fund reform in 1988 specifically in order to finance local development. The Commission enters into a contract with and makes over funds directly to an intermediary organization responsible for planning and executing a territorial development strategy.

In the last few years a reference to local development has also been incorporated in certain programmes not exclusively concerned with structural policy, notably programmes to help SMEs.

1.2 Functions and tools of Community action to promote local development

The Community instruments are at the present time aimed at fulfilling three functions: support for pilot experiments, support for European initiative networks and dissemination of 'good practice',

³ OJ No C 161, 21.06.1984.

and transposition of local development into the structural policies of the Union and the Member States. Each of these functions itself has three main target areas depending on whether the accent is put on local development in general, local employment initiatives or micro-enterprises (cf. detailed list of these instruments in Annex I). In practice, outworking of these three functions is through three separate budget instruments roughly corresponding to each one: specific measures to support experimentation, the Community Initiatives, and Community support for national structural policies.

Specific support measures for experimentation

Community action in support of experimentation, financed under Article 8 of the EAGGF Regulation, Article 6 of the ESF Regulation and Articles 7-10 of the ERDF Regulation, is concentrated on both the identification of new approaches to urban problems and rural development and the creation of jobs, either directly through financing linked to the ESF or indirectly by action to help SMEs.

Under Article 10 of the ERDF Regulation, the Commission has co-financed 32 urban pilot projects, the main feature of which has been an original, partnership-based approach in a specific area in order to resolve economic growth problems and improve the welfare of the residents and users of the city.

Over the last decade eight main instruments have been used to promote local employment and development initiatives. Some of these (LEDA, ERGO, EGLEI, ELISE and TURN) have been aimed chiefly at improving the innovation process and exchange of the experience gained from regional and local employment initiatives. Other instruments (Poverty III, LEI and SPEC), although also intended to encourage innovation, good practice and local autonomy, have in the main served to provide direct financial assistance to permit the launching of diverse local job-creating activities.

On support for micro-enterprises and craft industries, while it is important to remember that 90% of EC enterprises employ less than ten persons, it must be acknowledged that Community action has essentially targeted SMEs without distinction of size. It has either focused on sectoral programmes, as in the case of provision to help businesses, tourism, the social economy and craft industries, or has been concerned with enterprise establishment or development on the basis of local partnership, under the ERDF (Articles 7 and 10 of the Regulation and a non-ERDF budget item for the European Business and Innovation Centre Network), or aid for enterprise modernization in the case of the EAGGF (Regulations (EEC) Nos 866/90 and 867/90).

Community Initiatives: dissemination of good practice

Under the terms of the 1988 Structural Fund reform the Commission can, on its own initiative, invite Member States to submit applications for assistance for action of particular interest to the Union that is not covered by the CSFs and SPDs. The Community Initiatives thus offer some degree of flexibility and make possible special forms of cooperation and innovation. They can include schemes of cross-frontier scope, reflect Union interests and priorities in addition to those of the Member States, introduce additional aid during the programming process for specific areas and groups of workers where the economic circumstances demand, and are meant to contribute to innovation by including experimental new approaches that if successful can subsequently become an integral part of CSFs and SPDs. They are designed to provide a way of disseminating pilot methods that have proved their worth, to form exchange networks and also to encourage dissemination of good practice.

Most of the fourteen Community Initiatives in the period 1989-93 led to diversification of activity in their respective areas and can all accordingly be considered as local development instruments, but only some of them genuinely adopted an approach focusing on partnership and local integration or actually set up a European initiative network: LEADER and to a lesser extent HORIZON, INTERREG, REGIS, NOW.

Community support for national structural policies

Since the 1988 reform, the Structural Funds can authorize financing of local development initiatives in the context of on-going dialogue procedures between the Member States and the Commission, on the basis of the CSFs and the SPDs.

Local development

The predominant criterion for local development measures in general is the geographical one in that these measures take their shape from the characteristics of the areas to which they apply. They may equally well involve all significant actors in these areas, local authorities, heads of enterprises, inhabitants, etc.

First of all, these are the regions where development is lagging behind (Objective 1), where the EAGGF Guidance Section, the ERDF and the ESF provide joint financing for programmes covering SMEs, tourism, business services, village renewal, etc.

In areas covered by Objective 2, i.e. industrial areas in decline with high unemployment and a serious drop in industrial employment, the ERDF and ESF support programmes which are targeted principally on research and the creation of SMEs as well as urban regeneration and improvement of the natural and cultural environment.

The Objective 5(b) programmes, also aided from the three Funds, implement an integrated rural development strategy. These programmes are run in zones characterized by a low level of economic development, a high rate of agricultural employment, low agricultural incomes and a low population density and/or serious depopulation trend.

Local initiatives for employment

ESF assistance is directed to the people in a given area, more especially those who have most difficulty in accessing more general schemes aimed at stimulating the local economy, such as the long-term unemployed, young people, women, migrants and refugees, and workers threatened by unemployment.

Through the CSFs and SPDs the ESF encourages local development by jointly financing a large range of activities that can be grouped into three main categories:

- job creation and enterprise development in order to stimulate economic growth, by means of aid for self-employment and recruitment, support for SMEs, cooperatives and social economy enterprises, vocational training, business consultancy services, training in business start-ups for the unemployed and workers threatened with unemployment, etc.;
- wider socio-economic support, to change attitudes and improve the regional image in order to prevent depopulation and attract investors;

action to boost local dynamism and exploit local potential: training of local development agents to assist individuals and groups to identify and exploit business opportunities, technical assistance to raise financial, management and assessment skills.

Action to help micro-enterprises and craft industries

The integrated programme for SMEs and craft industries provides a general framework for various new and existing initiatives and is designed to enhance their mutual consistency and increase their visibility. The integrated programme does not replace other measures being implemented at Community or national level but is an instrument of policy orientation that helps compliance with the financial perspective by taking account of all the various Union contributions to support SMEs and craft industries.

The programme introduces a new element: mutual consultation and coordination between Member States for the purposes of improving the environment in which businesses operate and activating support measures for SMEs.

The programme puts a stress on Community contributions to improve the administrative, legal and fiscal environment of SMEs and set up support services to them that will improve access to finance and credit, cooperation, management quality and their adjustment to structural change and the internal market.

