

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 662 final

Brussels, 21st November 1983

COMMUNITY ACTION TO COMBAT UNEMPLOYMENT

THE CONTRIBUTION OF LOCAL EMPLOYMENT INITIATIVES

(Communication from the Commission to the Council)

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(83) 662 final/2

CORRIGENDUM

Brussels, 17 January 1984

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English version of the document COM(83) 662 final

- Page 5, Point 16 , last sentence should end :

....."in general, new initiatives are small in size comprising less than 10-15 people and often fewer than 5."

- FINANCIAL SUMMARY, Page 2 :

The total under leading 1986 for Budget line 6400 should read 700.

- ANNEX II, Page 5, table "Global loans granted 1977 to 1982" :

The total 1980 should read 413,9 and annual rate of increase 1980 should read 107% ; the annual rate of increase 1981 should read 13%.

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INTRODUCTION

1. In its Resolution of 12th July, 1982, on Community Action to Combat Unemployment (1), the Council recognised the need for additional actions over and above aggregate growth policies in order to reduce unemployment.

2. Within the range of policies to be pursued - which included those on which Commission communications have since been produced, notably on public and private investment (2), on youth unemployment (3), on the problems of industrial restructuring (4) and on working time reduction and reorganisation (5), the Council stated that :

"It considers that the possibilities should be examined for promoting the development potential of small and medium-sized undertakings, which are a source of innovation and hence a factor for creating employment, by providing them, in particular, with appropriate assistance in areas such as training, know-how, information and access to credit, with a view to making them more competitive.

It stresses its interest in the job-creation process which is also apparent in local initiatives and co-operatives and requests the Commission to submit the results of its research and its thoughts on the matter to it so that it can assess the contribution of such initiatives to creating employment."

3. In pursuit of the first part of that mandate, the Commission has already submitted a Communication on financing innovation in small and medium-sized firms (6) and is continuing its work, taking into account also Reports and Resolutions by the European Parliament on SMEs(7), commerce and crafts(8) and co-operatives(9), and Reports and Opinions by the Economic and Social Committee on SMEs (10). In addition, the Commission will be evaluating the conclusions of the colloquia and seminars organised within the framework of the 'Year of the SMEs and Crafts' in 1983 (11).

4. In the present Communication, the Commission reports on its investigations into the part that local initiatives and co-operatives are playing in the fight against unemployment, in line with the Council's request set out above. For convenience of presentation, the Commission has adopted the term 'local employment initiatives' (LEIs), also used by the OECD. The subject matter remains the same, however, namely those initiatives that have occurred at the local level - often involving cooperation between individuals, action groups, the Social Partners and

(1) OJ C 186, 21.7.1982

(10) OJ C 205, 9.8.1982

(2) COM (82) 365 final, COM(82) 641 final

(11) OJ C 227, p.8/9, 24.8.1983

(3) COM(83)211 final

(4) COM (83) 158 final and COM (83) 355 final

(5) COM(82)809 final - COM(83)543 final

(6) COM(83)241 final

(7) OJ C 66, 15.3.1982

(8) OJ C 184, 11.7.1983

(9) OJ C 128, 16.5.1983

local and regional authorities - with the specific aim of providing additional, permanent employment opportunities through the creation of new, small scale enterprises.

5. In order to prepare this Communication, the Commission undertook research into the growth of local employment initiatives, in particular in the form of co-operatives, held discussions with the representative bodies that exist, notably the workers co-operative group at European level (CECOP) and held a series of 22 public consultations at the local level bringing together people involved directly in employment creation, regional and local government authorities and a variety of groups active in the employment and social field. A brief account of these consultations is given in Annex I. As a broad indication, eight consultations were held in urban areas (often inner cities and hard-hit by long-term unemployment), eight in areas covering both rural and urban counties, and six in rural areas, predominantly small villages.

6. In total, some 1 200 persons had the opportunity of directly presenting and discussing their experiences and plans and it is estimated that over 7 000 people have taken part or have contributed to the conclusions reached.

7. The Commission has also worked in close collaboration with the OECD's Co-operative Action Programme on Local Employment Initiatives (1) in which a majority of Community governments have participated since its inception in 1982.

8. The results of these enquiries are embodied in this Communication, which:

- analyses the main characteristics of local employment initiatives;
- evaluates the actual, and potential, contribution of LEIs to the achievement of overall employment policy objectives;
- identifies the needs of the people and enterprises involved and the key factors which determine their successful establishment and survival;
- assesses the impact of existing policies and provisions;
- proposes guidelines for future policies to encourage the development of LEIs, together with lines of action at Community level.

(1) ILE (82)1, 10.9.82

BACKGROUND: UNEMPLOYMENT AND SOCIAL CHANGES

9. All parts of the Community now suffer from unemployment, but the problem is increasing most rapidly in areas undergoing major industrial restructuring, and it is having its most serious impact on those people already in a weak position on the labour market.

10. Many local economies and local labour markets have been decimated by structural changes, especially in areas which were dependent on a limited number of large scale industries and firms whose labour requirements have fallen rapidly in recent years, as a result of efforts to reduce structural over-capacity.

11. Even in regions and areas which had attracted newer branches of industry or services, the process has been halted or reversed. Rural areas have seen their prospects of more diversified employment disappear even further into the future, while problems of under-employment and depopulation persist.

12. In the Community as a whole, the decline in industrial employment opportunities has been paralleled by a slow-down in public service employment creation due to constraints on public spending. This decline in public employment opportunities has occurred at all levels - national, regional and local - and in all types of services, including transport, education, health and social caring services. Moreover, it has tended to cut most deeply into newer activities, notably in areas of health and education, where demand and employment had been growing fastest. Public temporary job creation or work experience schemes for specific groups or the longer term unemployed - widespread in the second half of the 1970s - have also been drastically reduced under budgetary pressure.

13. Just as particular areas and regions have been especially affected, so have certain groups in the labour market. The problems of young people under 25 years of age are now well-known (1). Equally, older workers who lose their jobs, women, especially those who seek to re-enter the labour market (2), migrant workers or workers with few or no skills, or handicapped workers, have found themselves in an increasingly disadvantaged position in the labour market. Most suffer long periods of unemployment or unstable jobs and many eventually become permanently unemployed, or withdraw from the labour market, becoming dependent on social transfers or their wider families for survival until they draw retirement benefits. The Community now has over 1 million workers who have been unemployed for over 2 years.

(1) COM(83) 211 final

(2) COM(83)1494 final

14. There have also been more secular changes in attitudes towards the nature and aims of employment and economic activity. These have included increased concern for the environment and the use of non-renewable natural resources. They have involved greater concern with job satisfaction which has expressed itself, in part, through the search for new forms of work organisations and patterns of working life. The desire to re-establish or develop local and regional identities has also been important, as has the promotion of equal opportunities for men and women in the labour market.

THE LOCAL RESPONSE: THE CONTRIBUTION OF LEIS

15. The traditional response for regions or localities suffering a lack of sufficient or suitable job opportunities has been to seek to attract employment from outside by offering various forms of incentive to private enterprises and influencing the siting of public enterprises or seeking the dispersion of public sector employment. A number of factors have led to a change of approach not least the scarcity of private investment projects and the freezing of much public sector expansion. There have also been increasing doubts about the longer term benefits to local economies of such forms of development. The result has been a greater emphasis on endogenous development - on locally generated employment related to local resources and needs. In parallel to this have been various local efforts to retain threatened employment by restructuring enterprises or by salvaging viable parts, often with changes of ownership and management.

16. LEIs have sprung up as part of this process of local restructuring and regeneration. In some cases, individual initiatives may concern large numbers of people, especially where they involve the transformation of older enterprises but, in general, new initiatives are small in size comprising less than 10-15 people and often fewer.

17. LEIs resemble in many respects other SMEs. There are, however, important differences in emphasis. They tend to differ from traditional SMEs in terms of their reasons for being created, the background of their members and the types of activity on which they concentrate, as is outlined below. As they grow and mature, LEIs may become more integrated into the small firms sector as a whole, while at the same time changing its average complexion. However, for the present the differences seem sufficiently great to justify separate analysis.

CHARACTERISTICS OF LEIs

The people - the workforce and 'prime movers'

18. Most LEIs result from action by individuals or groups of people, commonly either unemployed or threatened by unemployment. In some of the consultations held by the Commission, as many as 85% of those attending who were engaged in local employment initiatives had previously been unemployed. In a majority of cases, they are new to entrepreneurship or to the participation in management of enterprises, having previously been employees. A number may have been attracted to self-employment in the past but never made the break until they lost their jobs. Others, notably many young people and women, had previously experienced employment difficulties, or failed to enter the labour market at all.

19. Apart from individual efforts, a variety of local 'prime mover' groups are involved, including firms reducing their workforces but willing to help ex-employees find alternative jobs, trade unions, local government agencies concerned with employment and local economic and social development, action groups such as women's groups, educational and cultural organisations and charitable, welfare and church organisations, who have turned to employment creation as an additional and more positive way of tackling social problems.

Aims of LEIs

20. Most employment initiatives place the creation of permanent employment as their primary objective but they nevertheless seek to operate by commercial criteria and to be economically viable by accepted standards - ie to have income at least equalling expenditure, with sufficient surplus to build up capital or to replace capital when necessary. This is as true for the worker co-operatives or non-profit making bodies as for enterprises which take the form of the traditional firm.

21. The counterpart to the emphasis on employment creation is relatively low income aspirations. Indeed, faced by difficult market conditions, and in the absence of any significant personal capital, those involved are often obliged to accept relatively low levels of hourly income or excessively high hours of work, at least in the beginning, as most new enterprises have traditionally done.

22. The degree to which such sacrifices are necessary, and the extent to which they are quickly overcome vary between areas and types of enterprises. Where there exist, for example, financially strong co-operative bodies,

as in Italy, many new worker co-operatives start with a satisfactory level of capital and minimum trade union wage rates, avoiding the process of 'sweat equity' which others are forced to accept.

23. Another characteristic of many LEIs is that their objectives reflect the concerns outlined in para 14 above. These concerns are in turn reflected in their choice of legal form, location and activity.

24. Some initiatives receive public financial support in the early stages, although rarely from funds for SMEs, but more often from funds linked to short-term job creation, training or urban and regional regeneration. Most enterprises operate without any continuing public subsidy and the objective of achieving or maintaining independence from public subsidies was clearly expressed by the enterprises themselves in the Commission's consultations.

25. Public funds are involved in other ways, however; firstly, through the funding of support structures as discussed later, and secondly when LEIs provide goods and services normally purchased by public authorities. Such public purchases can take various forms. For example, they may involve the full or partial funding of small enterprises which provide public services (in, say, health care or child care), where centralised provision has been reduced or discontinued, or where it has not been expanded to meet new or growing needs.

26. A further range of LEIs, often initiated by 'prime movers', has the objective of providing employment, work experience or training for the particularly disadvantaged who would otherwise have great difficulty in obtaining regular employment. Thus a number of LEIs represent a positive response to the problems faced by disabled people in finding permanent jobs. Others aim to provide marginalised people - including young offenders and former drug addicts - with a means of reintegration into society by giving them a period of stable employment. Many such enterprises cannot easily become economically self-sufficient and normally receive continuing subsidies from public funds.

Legal form

27. A wide variety of models has been employed for new enterprises. In most Member States, it is possible to establish small-scale employment units in the form of self-employment; a company with private ownership - the traditional form of the small firm; an enterprise with collective ownership - notably the worker co-operative; a non-profit making company or voluntary organisation.

28. The form chosen in particular cases is influenced by both legal convenience and individual or group preference. Company law is being harmonised across the Community (1), although this is not yet the case regarding co-operatives or "community businesses". Moreover, taxation arrangements for different legal forms of enterprise vary between Member States.

29. Because of these differences in treatment, the legal forms taken by LEIs vary between Member States. In Italy, for example, the collective form of the worker co-operative is, on balance, advantageous and therefore commonly used although, even there, there is a minimum number of employees requirement which gives difficulties. In the Federal Republic, on the other hand, collective ownership by workers is not facilitated under existing legislation and rules. In many countries, the non-profit making option is simple and attractive for professional organisations which work for fees or on contract and have only limited physical capital invested. For many purposes, though, the traditional form of the private firm remains more convenient. In most countries, newer forms of business, such as community businesses run by groups rather than individuals, face legal problems.

30. The choice is not only one of legal simplicity. People previously employed on the shop floor, for example, often prefer the co-operative form of collective organisation when launching into self-employment, since they feel that this will increase job satisfaction and improve personal relationships. This form of organisation has also proved attractive to those seeking less formal systems of work organisation, particularly women and young workers.

Activities

31. LEIs cover the full range of economic and social activities. The Commission's consultations have indicated, however, that activities vary greatly and are strongly influenced by local factors.

32. The Commission found the following to be common:

- Enterprises exploiting local skills, notably in the craft and engineering sectors.
- Enterprises exploiting the potential natural resources of a region or area, covering agriculture, forestry and aquaculture as well as tourism or tourist related activities.
- Enterprises devoted to the exploitation of renewable local energy resources (notably water and wind), environment projects of many

(1) Six Directives have been adopted; amended proposals for a Fifth Directive (OJ C 240, 9/9/83) and an Eighth Directive (OJ C 317, 18/12/79) have been presented by the Commission.

sorts, and recycling and refurbishing schemes for a variety of products - domestic appliances, furniture, cycles and other vehicles.

- Enterprises involved in the implementation of urban renewal programmes, eg housing renovation and neighbourhood projects.
- Take over of the viable parts of failed enterprises or the establishment of smaller firms to handle the marginal and previously unprofitable activities of parent companies. These include the fulfilment of maintenance contracts, for older technology equipment.

33. A majority of LEIs involve the supply of services, private and collective. The spread of activities is wide, although they generally avoid the traditional, more overcrowded, areas and enter areas with growth potential or where market specialisation is achievable (eg, health food supply, specialist publishing and printing, consultancy or information services). Other developments have included the growth of labour-only contracting groups, particularly in urban areas, and the organisation of teams of relief workers or managers, particularly in rural areas where, for example, small farmers may call on temporary replacement.

Technology, capital intensity

34. A majority of LEIs operate in labour intensive areas of activity or have opted for labour intensive forms of production, where a choice of efficient production technologies exists. This is in part out of necessity - since finance is scarce - but it also reflects their primary concern for employment creation. In many cases, it combines naturally with other social aims, as in the case of initiatives providing care for young children or the elderly.

35. Some LEIs operate in areas of high technology in relation to energy conservation and in the use of natural resources, or in the provision of information technology services. Others have developed innovative applications of new technologies to traditional and craft activities or display imaginative approaches to well-known application areas, such as programmable machine tools. With the advent of low cost computing power, many LEIs are also users of micro-computers, although their needs may extend beyond standard business software packages to programmes suited to collective enterprises or to communications within networks of enterprises - a phenomenon which has already emerged in the USA (1).

(1) Study no. 81/31, Commission Programme of Research and Actions on the Development of the Labour Market.

36. Even among the majority of LEIs observed which have a labour intensive bias and do not make widespread use of new technologies, a number have a high value added since they use relatively high labour skills, are efficient, hard-working, and innovative in seeking out market opportunities. In most cases, however, the aims of new local initiatives are more modest, and many are seeking simply to establish viable jobs as an alternative to the deprivations and frustration of unemployment.

BENEFITS AND POTENTIAL : HOW MANY EXTRA JOBS?

37. It is not possible to assess accurately the number of jobs created by LEIs in recent years, since they take a variety of legal forms and only an (unknown) proportion are federated and hence identifiable. Equally, it is not possible to compare statistically the rate of new employment creation in LEIs with that in other enterprises, since no comparable information exists for the totality of enterprises or for SMEs. The information which is available, however, shows a rapid growth in importance of LEIs.

As an indication, and taking into account the fact that many LEIs take the form of co-operatives, the number of people working in worker co-operatives has increased in net terms from 298 000 to 540 000 over the past 5 years, whilst the number of worker co-operatives has grown from 6 500 to 13 900 and is continuing to rise rapidly. It would seem likely, on the basis of the Commission's consultations, that a considerably larger number of people are involved in other enterprises which could be categorised as LEIs.

38. Set against the massive increase in unemployment in the Community, this is a positive but modest contribution: even if their current rate of growth is maintained or increased, LEIs can clearly only complement and not substitute existing policies aimed at employment growth. Quite apart from possible limits on the growth potential of individual LEIs, only a proportion of people who become unemployed are likely to be willing and able to undertake the demanding task of employment creation.

39. Global evaluation must be made cautiously, however, since LEIs are often very important in particular localities: Indeed, in deprived areas, they may be the only sources of new employment. Moreover, LEIs may have a development role and an influence which extends well beyond their own walls since they embody and promote ideas such as self-help, cooperation, local and regional regeneration, or support for the disadvantaged which can have a positive influence on the thinking and behaviour of other enterprises and public bodies. The cumulative benefits can be considerable, particularly in areas in which the endogenous capacity for economic development has been lost, often due to over-dependence on one or two large industries or firms which have gone into decline. LEIs can help revive this capacity and restore confidence by providing legitimate vehicles for using local energies to meet local needs, avoiding them being diverted into 'black economy' activities or dissipating in other ways.

40. As indicated in para 18, local employment initiatives can also offer the prospect of employment for those who would otherwise have difficulty entering the labour market. Commission research (1) has shown how co-operatives and other forms of collective self-management enterprises have helped to integrate women in the labour market when the main alternatives, especially for unskilled women, were low paid and part-time work, often in the black economy. While some women's LEIs are confined to very traditional areas, such as cleaning or hand knitting, co-operatives and other collective groups have also been successfully used by women to enter previously 'male dominated' areas, such as construction and electronics. A growing number of LEIs are being created as a response to youth unemployment. Some are initiated by young people themselves, often relatively highly qualified, sometimes with the declared aim of involving other, more disadvantaged young people. The increasing involvement of social workers and welfare organisations in LEIs frequently focusses on underprivileged or marginalised young people.

41. A further benefit of LEIs, given the high proportion of previously unemployed people involved, lies in the direct reduction of social charges resulting from their entry into employment (as a minimum, in cases where social transfers are maintained in the short-term, there is a counterpart in terms of economic activity). In addition, many LEIs which are devoted to providing productive employment for disadvantaged people otherwise likely to be wholly dependent on long-term support from public funds are not only reducing net costs, but can also claim to create longer term benefits in the sense of better prospects of reintegration into society.

FACTORS AFFECTING THE GROWTH OF LEIs

42. In order to encourage action and combat resignation, prime mover groups are important in animating local activity aimed at promoting the idea of 'self help' employment creation. However, LEIs are fragile types of SMEs who need not only encouragement but intensive practical advice and support from outside in order to be set up and in order to develop into viable enterprises. Few people have the capacity to move from being unemployed to being successful entrepreneurs or cooperators unaided. Such 'hand-holding' is not expensive, but it is time and labour intensive. Because of this, the existence of appropriate development agents and agencies able to perform this role has proved crucial to the development of LEIs.

43. In many cases, regional and local authorities have also played an important role in providing the framework within which the Social Partners and other groups involved can help LEIs to be set up. However, there is

(1) Study n0. 81/26, Commission Programme of Research and Actions on the Development of the Labour Market.

still considerable scope for increased cooperation in the field of employment creation at the level of the local labour market and for more explicit recognition of the potential of LEIs in policies of economic development and local labour market management.

A supportive environment : regional and local government roles

44. Many regional and local authorities now take a diversified approach to economic development, including the promotion of LEIs, often in conjunction with individuals or groups at the grass-roots level.** Public authorities have been involved in providing or converting premises, setting up of financing support and advisory structures, funding of projects in some cases or helping groups save parts of enterprises threatened with closure.

45. The extent of regional and local government support is important for the growth of LEIs. At present, such support is not evenly spread throughout the Community, being strongest in France, where national legislation dating from 1982 now permits local authorities to participate directly in the process of economic development, in parts of Italy (especially in the North) and in the UK, but there is evidence that it is beginning in other Member States.

46. In the Community, regional and local authorities do not generally have a sufficiently large independent revenue base to promote employment creation from their own financial resources. However, they are often empowered with delivering national and Community funds earmarked for employment creation and training. Moreover, they have powers of regulation and planning regarding properties and may own property and premises which they can make available to new enterprises.

Social Partner involvement with LEIs

47. Social Partner involvement in LEIs varies considerably across the Community and where there is official trade union involvement it tends to be directed particularly at worker co-operatives. In Italy, for example, two major trade union confederations, the CISL and the CGIL, have each formed bodies with their respective co-operative movements to promote worker co-operatives. In other Member States, such direct action is rare, although in the UK, the Wales TUC has set up a Co-operative Development and

** Evidence of this is usefully summarised in a recent report to the Council of Europe by the Standing Conference of Local and Regional Authorities of Europe, entitled "The local and regional authorities and the challenge of unemployment", CPL (18) 9 of 23 September 1983.

Training Centre. More common is active local level trade union involvement with a more neutral position at higher levels. Within the Community as a whole, some national trade union organisations have expressed broadly positive support, eg in Belgium, the Netherlands, Denmark, France and Italy.

48. Involvement by employers has been more commonly through the actions of large companies rather than through representative confederations. Large private sector companies such as Phillips, United Biscuits, Rank Xerox, Levi Strauss and national public enterprises, such as British Steel, have often been very active in helping create new local enterprises, particularly in areas where they are themselves cutting back operations. Support has been in terms of making premises available, providing managerial assistance and, in some cases, purchases of the output of the new enterprise. LEIs created with this support include both private companies and worker co-operatives. Again, the level of involvement varies greatly between Member States.

Development agents and agencies

49. Agencies which service LEIs have already begun to emerge in some Member States. They are distinguished by their attempts to work very closely with their clients, to provide a full range of services and to give their attention particularly to those with little or no business experience. Some of these agencies are independent, particularly in countries where LEIs are relatively undeveloped, but in other cases they are often linked, albeit loosely, in networks as is the case with the 40 Boutiques de Gestion in France and the 140 Enterprise Agencies and 80 Co-operative Development Agencies in the UK. Agencies are generally locally based and controlled, but often have national bodies covering their interests.

50. Given that other business support agencies commonly exist, the growth of new agencies has raised the issue of duplication or fragmentation of efforts, and whether or not would-be entrepreneurs are confused by the existence of alternative sources of support in the same locality. The Commission's findings are that, while there may be some overlap, different support structures commonly exist because they operate at different levels in the 'market', with different client groups. Some agencies seek to identify high growth potential or high technology projects. Others deal with average, middle of the road, small businesses in traditional sectors. The Boutiques de Gestion or the Co-operative Development Agencies, on the other hand, work primarily with LEIs. Whilst these different groups of agencies ostensibly offer the 'same' services, in practice they could not satisfactorily substitute for one another.

51. The services offered by the newer development agencies need to be comprehensive in order to meet the needs of their clients. In particular, they need to:

- provide pre start-up support involving finding market gaps suited to the skills of the people concerned, feasibility studies, advice on appropriate legal status, search for suitable premises, financial arrangements (including information on public aid schemes, tax regulations, etc.),
- provide on-going support, such as solving management problems, help in building competence in accounting, financial control, marketing etc. and providing specialist advice, as well as providing general encouragement,
- provide training courses in both the pre start-up and the operational phase, as necessary, often tailor-made to the projects concerned.

52. Staff in these agencies often have previous business experience in small firms and studies confirm that perhaps the best preparation for setting up a small firm, or advising them, is having worked in one. However, a number of large companies have been willing to loan experienced personnel to support agencies dealing with small firms. In some cases - notably some of the Enterprise Agencies in the UK - the agencies were effectively created by large firms.

Training and Learning needs

53. While all Member States have provisions for vocational and management training and considerable efforts have been made to adapt such provisions to the needs of SMEs, to an even greater extent than traditional and established small firms, LEIs need flexible training arrangements geared to their specific needs, which do not necessarily correspond to existing courses aimed at the acquisition of formal qualifications.

54. Many people involved in LEIs have either not had recent experience of formal learning or training - the case especially of older adult workers - or have been unsuccessful in formal education - the case of many young unemployed. For such people there is often a need for pre-training or complementary educational support in order to improve literacy and numeracy and develop learning habits.

55. Even for those people who do not start off with such handicaps, effective training for work in small enterprises needs to be very much a process of 'training by doing', learning how to manage complex projects, acquiring the necessary skills and understanding in a variety of operational and managerial areas.

56. These training needs are commonly met by the development agency support structures who may themselves organise training courses or employ 'field workers' - often the case in France - or may turn to existing training or educational institutions to provide courses, often developed in relation to specific needs - as in the UK.

57. Many of these training initiatives fall outside traditional training arrangements which are considered to be geared more to the needs of larger employers, and where the course content and general approach may still reflect past conditions of high, stable economic growth, rather than the needs of enterprises in a period of recession and rapid change. Whilst such relative shortcomings are most apparent in countries with least developed training facilities, such as Italy and Greece, it is also true elsewhere. Even in the Federal Republic, where the dual system of vocational training is particularly supported by SMEs with over 60% of apprentices receiving their training in enterprises employing under 50 workers, the training is generally skill specific with little training in self-employment and management.

58. New training needs also affect the skill requirements of trainers. Many traditional 'management school' educators, for example, are ill-equipped to deal with the total needs of very small firms, not least because management education has itself become segmented and specialised. Successful management training for such firms requires that trainers be willing and able to learn from the experiences of enterprises and respond in an inter-active way to their needs.

59. Development agencies which undertake this work commonly rely on staff who have a particular ability in this respect, or have a particular combination of relevant experience, often acquired by chance. An increase in the number of people able to do this work cannot rely, however, on uncovering more such people, and will require more formal specific training and re-training.

60. Additional training needs include the need to sensitise and inform vocational guidance and placement officials of employment agencies of the opportunities and needs of LEIs within the framework of their work on the local labour market. Whilst there has been a considerable amount of

positive press publicity for employment initiatives of all sorts, there remains a need to educate and inform the wider public about employment and self-employment issues, particularly in areas where little has so far happened.

Premises, finance and information

61. In some cases, in order to help LEIs to start up without long term commitments on premises, a variety of flexible arrangements have been made for the renting of space or premises on an 'easy-in easy-out' basis. Such workshops are commonly set up by local or regional government authorities or made available by large companies through the adaptation and rehabilitation of vacant industrial and other buildings with no alternative uses. In the case of larger complexes, common services - technical, secretariat, etc. - are often available.

62. The difficulties encountered by small firms in obtaining finance are compounded in the cases of many LEIs. They commonly lack capital or fixed assets which could act as security for loans: this is a particular problem for young people and is often compounded by the fact that enterprises which are typically labour intensive tend to have a greater need for working capital than for fixed capital investment funds. More generally, the aims activities, background and structure of many LEIs may differ from those of the traditional small businesses with which financial institutions are familiar, even though they may be viable, employment creating propositions.

63. There are as yet few signs of flexible funding arrangements geared to the needs and characteristics of LEIs emerging, although a few groups of enterprises have developed their own revolving loan funds and others have attracted local savings. Schemes in operation or under discussion in different Member States to create special funds for local employment initiatives include the scheme by the French Institut de développement de l'économie sociale (IDES) for investing funds managed by friendly societies in employment creation projects; the proposed creation of a solidarity fund in Italy and the projects supported by the Irish Youth Development Agency on the basis of a 1% levy on income.

An interesting development is the continued payment of unemployment benefit over a period to people who start their own businesses (eg, the Enterprise Allowance scheme in the UK), although this does not remove the need for sources of supplementary and longer term finance.

64. In general, there will be a need to ensure close links between the provision of finance and the provision of advice, training and financial monitoring. In this respect, grants for training, feasibility studies,

market research and management or technical consultancy, where available, have been found useful by LEIs, especially when locally accessible and simply administered. As indicated in paras 26 and 27, longer term public sector support may be justified for some enterprises because they provide a community service or because they involve particularly disadvantaged people. Such enterprises may be especially dependent on the coordination of policies and action between different public authorities.

65. An indirect but equally important benefit derives from finance provided for development agencies: to the extent that such agencies concentrate their activities on LEIs, they are likely to require a degree of public or private sector sponsorship to allow them to continue providing the necessary level of practical support and monitoring.

66. The lack of funding arrangements suited to the needs and aims of LEIs clearly demonstrates the widespread failure, in contrast with the well-developed mechanisms for encouraging capital investment or providing financial support for the unemployed and their dependents, to find ways of providing financial support for private employment creation coordinated with other necessary support measures, in a coherent policy framework.

67. In the Commission's consultations, there was keen interest in knowing about local employment creation in other areas and in other Member States. This has also been reflected in the growth of news sheets and publications. This interest seems to reflect both a need for re-assurance about the existence of other experiences - given that a feeling of isolation and discouragement may arise in the face of some of the difficulties outlined above - and a desire to identify successful activities or techniques elsewhere which can be replicated in their own locality.

MAIN CONCLUSIONS OF ANALYSIS

68. The Commission has sought to assess the contribution of local employment initiatives to creating employment. Its conclusions are as follows:

- 1) LEIs have grown rapidly in number in the last 2-3 years, and are now making a modest but positive contribution in the fight against unemployment by creating worthwhile and relatively stable jobs. As an indication, over 500 000 people are now employed in worker co-operatives in the Community; probably considerably more people are employed in other enterprises which could be categorised under the general heading of LEIs.

- 2) Their importance is not only limited to their direct employment creation since they prepare the ground for the future development of areas in which they occur by rebuilding confidence, maintaining or developing skill usage and restoring the capacity for enterprise. They are making a particularly valuable contribution in areas of very high unemployment and for people who are in an increasingly difficult position on the labour market, including women and young people. A number of LEIs successfully perform a further social role by helping to integrate particularly disadvantaged people into the labour market.
- 3) While LEIs can provide only a partial response to the problem of unemployment, their rapid growth in numbers and their importance to the areas and the people hardest hit by unemployment in particular, reveal in the Commission's view a potential in terms of enterprise, imagination and exploitation of human skills and local resources which deserves more intensive and concerted encouragement, with the aim of increasing the rate of creation of such enterprises and improving their prospects of survival.
- 4) LEIs face many problems similar to those of SMEs as a whole, but in a more acute form. The Commission's work has not only highlighted their specific difficulties but has also cast further light on the needs of SMEs in general.
- 5) LEIs generally seek to operate as viable businesses. However they generally place a higher priority on employment creation than on economic or financial performance, and while they would benefit from easier access to normal forms of support and facilities for SMEs, rather than being dependent on short term aid (eg, aid for temporary job creation or urban renewal projects), some adjustment of the criteria and methods of delivery of such facilities to take account of the aims and characteristics of LEIs would appear necessary for this to happen.
- 6) Support at regional and local level is particularly important for these small, locally generated enterprises. They are now starting to receive an increasing amount of encouragement and support from regional and local authorities as well as material guidance and assistance for their managerial and training needs. The Social Partners are also becoming increasingly involved in LEIs at the local level. It is less common, however, to find any wider policy framework of regional or local economic development and labour market management which takes account of the potential of LEIs and within which the actions of public authorities, the Social Partners, development agents and local 'prime mover' groups can be concerted to achieve maximum results.

- 7) The assistance which the Social Partners may provide in terms of management expertise or guidance on wage rates and working conditions can be valuable in helping to ensure that LEIs develop as viable enterprises forming an integral part of the small firms sector, rather than running the risk of marginalisation or the emergence of a dual economy, based on differing standards of efficiency and terms of work.
- 8) The existence of development agents and agencies able to provide appropriate support and advice at all stages, particularly for people with little or no business experience, is crucial. Yet the availability of such agencies, which need to be situated locally on a permanent basis and which commonly require at least partial public funding, varies greatly between regions and between Member States.
- 9) Whilst LEIs generally require considerable amounts of staff time from support agencies, the total demands which they make on public funds are likely to be modest in proportion to the economic and social benefits achieved, notably in terms of the use of human and local resources which would otherwise have been idle, and the reduction of social transfers.
- 10) Premises are to some extent being made available for LEIs according to their needs, on an 'easy-in easy-out' basis, often with common services. Financial needs for both investment and working capital are less well served, although grants for specific purposes are available in some Member States. General incentives to unemployed people to start up their own businesses need to be accompanied by measures to ensure that the necessary support services are also made available to them.
- 11) LEIs have extensive training and learning needs which put even greater demands for flexibility and adaptation to individual cases on existing training arrangements than do SMEs in general. This also has implications for the supply of trainers adept at meeting those needs.
- 12) LEIs take on a variety of legal forms, but it is not always easy or legally possible to create certain forms of business, such as worker co-operatives and community businesses, which is inhibiting those who seek a legal framework which reflects the objectives and operational style of the enterprise.
- 13) The potential for replicating successful LEIs in other areas or Member States through the transfer of ideas, techniques and experience is considerable. Information channels are, however, undeveloped and unlikely to improve across the Community without outside support.

POLICY GUIDELINES

69. In order that the growth of LEI s can be encouraged and assisted there is a need to:

- (1) develop strengthened and more coherent policies on employment creation, local and regional development and local labour market management within which support for LEIs can be enhanced and coordinated;
- (2) encourage cooperation between public authorities, the Social Partners and other groups involved in employment creation;
- (3) take action to encourage employment creation through the development of appropriate support structures at local level;
- (4) increase the funds available for LEIs through adaptation of existing measures for small firms as well as other potential sources;
- (5) examine relevant aspects of company and tax legislation with a view to facilitating the creation of LEIs;
- (6) review provisions for meeting training and learning needs.

A policy framework

70. Policies relating to employment creation, local and regional development and local labour market management should take explicit account of the potential contribution of local employment initiatives to the fight against unemployment and the revival of local economies. In particular they should ensure:

- (i) where possible, the involvement of local and regional authorities in the establishment and operation of national job creation schemes so as to reflect, and link into, local activities and priorities: where the schemes relate to temporary job creation there should be provisions encouraging potentially viable enterprises to continue on a permanent basis;
- (ii) the development of a capacity to anticipate changes in the labour market at an early stage and, in particular, to identify likely closures of firms of any size in order that opportunities to preserve viable parts, or to take early steps to encourage the creation of new enterprises, can be grasped;

- (iii) public recognition of LEIs, accompanied as necessary by appropriate legal provisions, with a view to promoting their development and encouraging others to follow the same path. Positive public policy statements or expressions of goodwill can help to achieve this but it also requires a willingness on the part of government authorities and the social partners to actively encourage and assist local employment creation.

Cooperation

71. Close communication should be developed between all those involved in encouraging employment creation, particularly at the level of the local labour market, in order to improve the level of cooperation and the transfer of useful experience.

72. Effective cooperation is also needed between all the parties concerned to reinforce the many positive features of LEIs and avoid the risk of them forming a marginal or dual economy. Each of the parties has a particular role to play: trade union support may be particularly relevant in ensuring respect for appropriate pay and working conditions. Large scale public or private enterprises can help by seconding management to support agencies or particular enterprises: governments should consider the need to provide incentives for this in the same way that private sector financial contributions to support agencies already benefit from tax relief in some Member States.

Support at local level

73. At their level, regional and local authorities can have a key role to play as animators and catalysts of local potential, in view of their close contacts with the local economy and population.

74. They should also be encouraged to take practical measures to develop the local support structure for LEIs, notably by:

- i) providing initial information and guidance on available support to individuals and 'prime mover' groups wishing to develop local employment initiatives;
- ii) providing and/or channelling financial support towards the establishment of development agencies able to provide pre-start up and on-going support to those seeking to undertake LEIs and to facilitate access to various forms of financial, training or other assistance available;
- iii) converting vacant buildings into suitable premises for small enterprises and workshops;
- iv) providing possibilities for tendering for public contracts, including those for the provision of collective services

Funds for employment creation

75. Existing measures to improve the access of SMEs to finance or to provide public financial support should be reviewed to ensure that the criteria, conditions, decision making procedures and delivery systems are appropriate to the needs of very small firms, especially LEIs, and easily accessible to them. Types of facility which should be given particular consideration include:

- i) grants for feasibility studies;
- ii) start up grants and loans or loan guarantees on reasonable terms;
- iii) revolving loan funds, providing a source of continuing finance for LEIs.

76. Existing methods of providing public support for enterprises which provide community services or involve particularly disadvantaged people should be reviewed to ensure that procedures are coordinated and simplified where necessary, and that decisions on projects requiring continuing support are taken on a long term basis rather than year by year.

77. The continuing payment of unemployment benefits for several months to those who undertake LEIs represents an imaginative use of funds which would anyway have to be paid in social security transfers. Governments who have not yet adopted such schemes should be encouraged to experiment, and the Commission proposes to undertake a general evaluation of such schemes. Certain conditions need to be met, however, over and above the precautions necessary to prevent abuse. Firstly, the option should be entirely voluntary. Secondly, adequate support structures should be made available. Thirdly, the persons concerned should not lose their original entitlement to unemployment benefit if the enterprise fails.

78. Innovative schemes such as those referred to in section 63 to create special funds for local employment initiatives also merit serious consideration, while private initiatives such as those already being taken in a number of Member States to attract local savings into funds which can be used as loans to support local economic and employment activities should be encouraged.

Company and tax legislation

79. National legislation should be reviewed and measures taken to ensure that:

- (i) it is easy to set up business, by streamlining the formalities involved and ensuring that costs are reasonable;
- (ii) it is easy to set up businesses in the form of enterprises such as co-operatives or community businesses;
- (iii) taxation arrangements encourage the creation of new businesses by the unemployed;
- (iv) ex-employees are not confronted with a sharp increase in income tax and national insurance contributions on becoming self-employed or joining particular forms of enterprise such as worker co-operatives, if necessary by allowing them to retain their legal and financial status as employees for a transitional period.

Training and learning needs

80. Initial and continuous training in both operating activities and management should be reviewed in the light of this Communication and the Council Resolution on Vocational Training in the 1980s () in order to ensure that it is available in a form appropriate to LEIs. Attention should be given to:

- (i) the accessibility at local level of training arrangements and their adaptation to local requirements;
- (ii) provisions for pre-training or complementary educational support for those without recent educational or training experience;
- (iii) arrangements for the initial training and retraining of educators and trainers to help them cope with the total, often varied, needs of enterprises in a flexible way;
- (iv) the training needs of vocational guidance and placement officials as well as staff who come into regular contact with people actually or potentially involved in local employment initiatives and who should be able to provide appropriate information and advice.

ACTION-AT COMMUNITY LEVEL

81. The European Community institutions have already provided some limited direct and indirect financial support to local employment initiatives, notably through the European Social Fund, the European Regional Development Fund and Article 56 of the ECSC Treaty. In addition to the new action programme on vocational training in the 1980s, further Commission communications in areas of employment and regional policy at present before the Council contain proposals relevant to LEIs.

82. Annex 2 outlines the principle actions that have been undertaken and the proposals that have been made. The Commission now proposes a set of lines of action for the development of local employment initiatives, within the framework of existing Community instruments and actions in the field of employment and regional policy. The main axes will be:

- (i) enhancement of the role of existing Community instruments in promoting LEIs;
- (ii) action to promote the growth of LEIs through consultation and the exchange of information on a Community-wide basis;
- (iii) continuing evaluation and research to provide the basis for development of policies and future action.

The role of Community instruments

European Social Fund

83. On the basis of the revised legal provisions governing the European Social Fund (4) a number of operations relating to the development of LEIs will be eligible for support, in particular:

- training for young people, unemployed people, women wishing to return to work, handicapped people and migrant workers to prepare them for employment in LEIs or to assist them in setting up their own enterprises;
- aid for recruitment to additional jobs or for employment in projects for the creation of additional jobs which fulfil a public need, for young people under 25 who are seeking employment and for the long-term unemployed;
- the training of development agents as well as instructors and vocational guidance or placement experts.

(4) OJ L289, 22 October 1983

84. These types of aid may be used in combination in the framework of programmes conceived at local level and specifically adapted to the local economic situation, with the aim of mobilising local potential for enterprise. The European Social Fund already has experience of supporting such programmes (cf Annex 2) and intends to continue to give high priority to such operations, particularly in so far as they take place in areas of high and long-term unemployment and/or industrial and sectoral restructuring.

85. There is in addition a specific role for the Fund to play in supporting innovatory projects in the field of local employment creation under Article 3.2 of Decision 83/516/EEC. The Commission intends to place particular emphasis on pilot actions which:

- develop innovative training methods for development agents and instructors adapted to the needs of local employment initiatives, including the management training needs of collective enterprises;
- develop innovative training and support methods designed to respond to the needs of the more disadvantaged categories, including the under employed or long-term unemployed, who are likely to require pre-training or complementary educational support;
- are designed to meet the needs of young people and women for support structures and training, according priority to encouraging the development of LEIs involving innovative applications of new technologies and activities in which women have been traditionally under represented;
- aim to develop local employment initiatives in areas with a particularly high immigrant population or a concentration of ethnic or cultural minorities.

86. The scope for further specific actions will be reviewed periodically in the framework of the programme of action and determined with reference to the guidelines of the European Social Fund.

87. The Commission has already provided pilot support to enable the establishment of a limited number of development agencies. Given the significant role that can be played by development agents in stimulating employment creation, the Commission considers it essential that the European Social Fund should be able to support in a more comprehensive way the activity of such agents. In the context of small enterprises and local employment initiatives, the role of a development agent should in effect be increasingly assimilated to that of an instructor for the purposes of public authority support towards the cost of decentralised employment and labour market measures.

88. The Commission took a position on this already in its Opinion on the ESF Review (1). The present Communication sets out in more detail the specific role of such agents in the context of LEIs. As requested by the Council (2) the Commission will now proceed with the preparation of a specific proposal to amend the implementing Regulation (3) in such a way as to achieve this objective as soon as possible.

89. In doing so, and in relation to all interventions at Community level to promote local employment initiatives, the Commission will have particular regard to the proper coordination and management of Community funds and lending instruments, following the principles outlined in its Report and proposals on ways of increasing the effectiveness of the Community's structural funds (4), notably the need to avoid any unwarranted overlap.

European Regional Development Fund

90. Under the non-quota section of the ERDF the Commission has already contributed to the carrying out, in certain disadvantaged regions of the Community, of actions in favour of SMEs, from which LEIs can also benefit. These include a range of aids relating to the collection and dissemination of technological innovations, market research, establishment of common services and development of management consultancy services as well as promotion of craft industries and farm tourism (5)(6). This initiative has been enhanced and complemented by a second series of non-quota actions which the Commission has presented to the Council (7) and which envisage, among other new measures, the establishment of economic animation agencies (6) which could be of greater benefit to LEIs.

91. Meanwhile the Commission adopted on 3 November 1983 a new proposal for a revised ERDF Regulation (8), based on the lines indicated in the Report on ways of increasing the effectiveness of the Community structural funds (9), prepared at the request of the European Council at Stuttgart. The new Fund should devote an increasing proportion of its resources to the implementation, in the disadvantaged regions of the Community, of 'Community programmes' and 'national programmes of Community interest'. In the context of these programmes, particular attention will be given to actions aimed at exploiting the potential for internally generated development of the regions, in order to support the financing of measures to help small and medium sized enterprises, craft industries and tourism, similar to those already in operation in the framework of non-quota actions.

European Agricultural Guidance and Guarantee Fund

92. Existing measures relevant to LEIs in rural areas (see Annex 2) will be drawn to the attention of those potentially concerned in the course of the Commission's local consultations (section 93), since knowledge of these measures at the local level is often lacking.

(1) COM(82)485

(2) OJ L 289/4, 22 October 1983

(3) OJ L 289/1, 22 October 1983

(4) COM(83)501 final

(5) Council Regulation EEC/2615/80 to 2619/80, 7/10/80

(6) See Annex 2

(7) COM(82)652 final

(8) COM(83)649 final

(9) COM(83)501 final

Global loans: ECSC, European Investment Bank and New Community Lending Instrument

93. As indicated in Annex 2, a significant and increasing proportion of funds from the Community lending institutions are being channelled into SMEs by means of global loans. Whilst it is not possible to identify whether LEIs have been able to benefit from these facilities, it seems unlikely that they have received a significant share in view of the conditions imposed, particularly the requirement for adequate security. Even the threshold of 25 000 ECUs which generally applies to EIB and NIC loans would be too high for many LEIs, given that loans are usually limited to 50% of fixed investment costs. The Commission therefore proposes to examine LEI's loan finance needs and whether it would be desirable to adapt present global loan practice to facilitate borrowing by very small enterprises.

Consultation and Exchange of information

94. Based on the evaluation of its series of local consultations (Annex 1), the Commission proposes to continue and develop its programme of consultation and information transfer by:

- (i) undertaking a further series of local consultations over a two-year period. The new series will continue to pursue the original objectives but will focus more strongly on the function of animation/improved cooperation and on the identification of specific local needs for the development of intermediate support structures which might be eligible for support from Community funds.

The consultations will also cover further types of locality, notably maritime and peripheral regions, to complement the existing range of areas covered.

The Commission will also seek to identify and exploit specific opportunities for the direct transfer of experience between those involved in local employment initiatives by inviting entrepreneurs and cooperators from different Member States to participate in relevant consultations.

- (ii) facilitating the direct exchange of experiences at Community level between development agents, representatives from Ministries and other national public bodies, regional and local economic development officers and representatives of the Social Partners and financial institutions involved in the promotion of local employment creation.

Meetings would focus on a selected number of specific issues identified in the policy guidelines, with the dual aim of providing an input into the Commission's further research (section 96 below) and encouraging closer coordination of policies and actions at Community, national and regional/local level.

- (iii) providing support for the establishment of an information exchange network aimed at promoting the development of LEIs, through the transfer of information, ideas and experience, the need for which was clearly expressed during the Commission's local consultations.

95. All these actions will be closely coordinated with those of the OECD, which focus on the exchange of operational information between national governments.

The Commission will in particular seek to ensure that the results of the OECD's work on the responsibilities and actions of national governments in relation to LEIs are integrated into the action at Community level, since they will form a necessary complement to the activities proposed in this Communication.

Continuing Research and Evaluation of policies

96. The Commission will maintain a continuous review of its policy guidelines and action programme in the light of information and experience obtained. It also intends to carry out specific studies on outstanding issues which require comparative analysis at Community level and which will provide guidance on future action. In the first instance the Commission proposes to:

- (i) produce a detailed analysis and evaluation of the most apt and innovative methods of providing finance for LEIs, including the use of social transfer funds at national level. The study of the scope for support from the Community lending institutions (section 93 above) will be incorporated into this work;
- (ii) investigate, in conjunction with representative organisations, the specific legal and fiscal conditions governing establishment and growth of enterprises such as co-operatives and community businesses, with a view to assisting Member States to facilitate the creation of LEIs;
- (iii) carry out a Community-wide study of organisational structures and pay and working conditions in co-operative enterprises, notably worker co-operatives, in line with the request of the European Parliament in its Resolution on the Co-operative Movement in the European Community (1).

(1) OJ C 128/51, 16th May 1983

Draft Council Resolution
on
the contribution of local employment initiatives
to combatting unemployment

The Council of the European Communities,

Having regard to the Treaty establishing the European Economic Community,

Having regard to the draft Resolution presented by the Commission,

Having regard to the Opinion of the European Parliament,

Having regard to the Opinion of the Economic and Social Committee,

Whereas the Council reiterated its profound concern regarding the continued high level of unemployment and recognised the need for additional actions in its Resolution of 12 July 1982 on Community Action to Combat Unemployment, in which the Commission was asked to submit the results of its research and its thoughts on the contribution of local initiatives and co-operatives to the creation of employment.

It Adopts this Resolution:

1. and notes a new phenomenon in the labour market of local employment initiatives (LEIs) which have the specific aim of providing additional, permanent employment opportunities through the creation of new, small scale enterprises or the transformation of the viable parts of other, failed, enterprises, often involving co-operation between individuals, action groups, the Social Partners and local and regional authorities.
2. Notes that such local employment initiatives, which include many in the form of co-operatives, have grown rapidly in number in the last 2-3 years, and are making a useful contribution in the fight against unemployment by creating worthwhile and relatively stable jobs notably for women and young people, as well as for particularly disadvantaged people, including migrant workers and the disabled.

3. Considers that, in addition to their direct contribution to employment creation, LEIs prepare the ground for the future development of areas in which they occur by rebuilding confidence, maintaining or developing skill usage and restoring the capacity for enterprise.
4. Recognises that local employment initiatives generally seek to operate as viable businesses but place a higher priority on employment creation than on economic or financial performance.
5. Considers that support at regional and local level is particularly important for these small, locally generated enterprises and notes that they are starting to receive an increasing amount of encouragement and support from regional and local authorities as well as guidance and assistance for managerial and training needs.
6. Recognises the contribution that the Social Partners can make in ensuring that LEIs develop as viable enterprises forming an integral part of the small firms sector.
7. Recognises that, while LEIs generally require intensive support in their early stages, the total demands which they make on public funds are modest in proportion to the economic and social benefits achieved, notably in terms of the use of human and local resources which would otherwise have been idle, and the reduction of social transfers.
8. Recognise that there is considerable potential for transferring to other areas or other Member States successful ideas, techniques and experience in the creation of local employment initiatives.

- II. Invites Member States to adopt the following policy guidelines for the promotion of local employment initiatives:
 1. Policies relating to employment creation, local and regional development and local labour market management should take explicit account of the potential contribution of local employment initiatives to the fight against unemployment and the revival of local economies. Public recognition of LEIs with a view to promoting their development and encouraging others to follow the same path should be accompanied as necessary by appropriate legal provisions.
 2. Close communication should be developed between all those involved in encouraging employment creation, especially the social partners and public authorities, particularly at the level of the local labour market, in order to improve the level of co-operation and the transfer of useful experience.
 3. Practical measures should be encouraged to develop the local support structure for local employment initiatives, notably by:
 - (i) providing initial information and guidance on available support to individuals and 'prime mover' groups wishing to develop local employment initiatives;
 - (ii) providing financial support towards the establishment of development agencies able to provide pre-start up and on-going support of those seeking to undertake LEIs and to facilitate access to various forms of financial, training or other assistance available;
 - (iii) converting vacant buildings into suitable premises for small enterprises and workshops;
 - (iv) providing possibilities for tendering for public contracts, including those for publicly funded collective services;having particular regard to the contribution which local and regional authorities can make in this respect.
 4. Existing measures to improve the access of SMEs to finance or to provide public financial support should be reviewed to ensure that the criteria, conditions, decision making procedures and delivery systems are appropriate to the needs of very small firms, especially LEIs and easily accessible to them.

5. Existing methods of providing public support for enterprises which provide community services or involve particularly disadvantaged people should be reviewed to ensure that procedures are coordinated and simplified and that decisions on projects requiring continuing support are taken on a long term basis.
6. New methods of providing finance for LEIs should be considered, including the continuing payment of unemployment benefits for several months to those who undertake LEIs. Schemes in operation or under discussion in different Member States to create special funds for local employment initiatives merit serious consideration as do private initiatives to attract local savings into funds.
7. National legislation should be reviewed and measures taken to ensure that:
 - (i) it is easy to set up business, by streamlining the formalities involved and ensuring that costs are reasonable;
 - (ii) it is easy to set up business in the form of enterprises such as co-operatives or community businesses;
 - (iii) taxation arrangements encourage the creation of new businesses by the unemployed;
 - (iv) ex-employees are not confronted with a sharp increase in income tax and national insurance contributions on becoming self-employed or joining particular forms of enterprise, such as worker co-operatives, if necessary by allowing them to retain their legal and financial status as employees for a transitional period.
8. Initial and continuous training in both operating activities and management should be reviewed in order to ensure that it is available in a form appropriate to LEIs. Attention should be given to:
 - (i) the accessibility at local level of training arrangements and their adaptation to local requirements;
 - (ii) provisions for pre-training or complementary educational support for those without recent educational or training experience;
 - (iii) arrangements for the initial training and re-training of educators and trainers to help them cope with the total, often varied, needs of enterprises in a flexible way;

- (iv) the training needs of vocational guidance and placement officials as well as staff who come into regular contact with people actually or potentially involved in local employment initiatives.

III.1 The Council encourages the Commission to carry out the lines of action at Community level described in the Communication, which is specifically aimed at the development of local employment initiatives and of which the main axes will be:

- (i) enhancement of the role of existing Community instruments in promoting LEIs;
- (ii) action to promote the growth of LEIs through consultation and the exchange of information on a Community-wide basis;
- (iii) continuing evaluation and research to provide the basis for development of policies and future action.

2. The Council notes in particular the Commission's intention:

- (i) to place particular emphasis on support from the European Social Fund for pilot actions which:
 - develop innovative training methods for development agents and instructors adapted to the needs of local employment initiatives, including the management training needs of collective enterprises;
 - develop innovative training and support methods designed to respond to the needs of the more disadvantaged categories, the under-employed or long-term unemployed, who are likely to require pre-training or complementary educational support;
 - are designed to meet the needs of young people and women for support structures and training, according priority to encouraging the development of LEIs involving innovative applications of new technologies and activities in which women have been traditionally under represented;
 - aim to develop local employment initiatives in areas with a particularly high immigrant population or a concentration of ethnic or cultural minorities;

(ii) to continue and develop its programme of consultation and information transfer by undertaking a further series of local consultations over a two-year period; facilitating the direct exchange of experiences at Community level between those involved in the promotion of local employment creation; providing support for the establishment of an information exchange network aimed at promoting and development of LEIs.

The Council stresses the desirability of ensuring that these actions are closely coordinated with the OECD's Cooperative Action Programme on Local Employment Initiatives;

(iii) to complement these actions by carrying out specific studies on outstanding issues which require comparative analysis at Community level and which will provide guidance on future action, in the first instance relating to:

- the most apt and innovative methods of providing finance for LEIs;
- the legal and fiscal environment for the establishment and growth of enterprises such as co-operatives and community businesses;
- organisational structures and pay and working conditions in co-operatives.

3. The Commission is requested to inform the Council periodically of progress made in the implementation of these actions.
4. The financing of the measures to be implemented at Community level shall be provided in the framework of the rules and procedure governing the Community budget.

Financial implications cont'd

<u>Budget line</u>	<u>Year</u>			<u>Remarks</u>
	<u>1984</u>	<u>1985</u>	<u>1986</u>	
b/f	200	250	-	
	-	400	400	Exchange of experience: Organisation of 3 Community level seminars per year. Cooperation with and participation in OECD activities (section 94(iii)and 95)
	195	300	300	Operation of information exchange network (section 94(iii))
Total	<u>395*</u>	<u>950</u>	<u>400</u>	
6400	275**	300	300	Programme of Community level studies on LEIs: finance, legal and fiscal environment; pay and working conditions (section 96)

* Action D, 1984 Draft Budget

** Action C, 1984 Draft Budget

Level of support: 50% - 100%

7. Observations

Actions eligible for support under the European Social Fund (Decision 83/516/EEC), the European Regional Development Fund and the European Agricultural Guidance and Guarantee Fund (Guidance Section) will be funded according to the rules and procedures governing the Community budget.

As an indication of the possible expenditure on innovatory projects under Article 3.2 of Decision 83/516/EEC, the following estimates are given:-

<u>Budget heading</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	'000 ECU
Chapter 61 ESF: specific actions	6.000	11.000	14.000	

COMMISSION CONSULTATIONS OF LOCAL EMPLOYMENT INITIATIVES (LEIs)

1. THE RESEARCH MOTIVATIONS

The consultations on LEIs were organized under the Commission's Programme of Research and Actions on the Development of the Labour Market. This fact-finding exercise did not start from any one particular viewpoint or definition but rather from the observation that in some at least of the Member States, more specifically in France and the UK, the term, local employment initiatives, had come into increasingly accepted usage to describe a variety of different phenomena.

In France this had led to a national policy, legislation and machinery for implementing the legislation. In the UK a more fragmented development comprised the appearance of various new units both of local employment creation and enterprise and at the intermediate promotional and supporting level. There, in addition to commonly used forms such as small and medium-sized enterprises, self-employment, family business, workers co-operatives, municipal enterprises, a new set of terms was coming into use to describe innovative kinds of units : community businesses, local enterprises, neighbourhood co-operatives, community co-operatives, and at the intermediary level bodies such as local enterprise trusts, local enterprise boards, cooperative development agencies, mutual aid networks, job creation resource centres and others besides. The assumption was made that growing unemployment would have elicited a similar response in other countries even if less well documented (e.g. as in the case of Italy) or less developed or less acknowledged.

The consultations therefore set out to discover what existed at the local level and how any such units had come into existence. Practitioners of new initiatives and other key individuals at the local level were asked to describe their work and reflect on their performance and the sort of local, regional, national or Community level support that would unlock its full potential.

Practical aims were to stimulate an exchange of information, discuss ideas, expertise and necessary support for projects, also to collect data relevant to policy makers on the potential contribution to employment of different approaches and the factors constraining their use.

2. THE ORGANISATION AND METHODOLOGY

Twenty-two local consultations were held in 1982/83 throughout the Community and ranged in numbers from 25 to 125 participants (most were attended by 40 - 60 persons). The majority of participants were those actually engaged in or planning new local initiatives while the balance consisted of officials, elected representatives and persons from the social partners whose interest and support was found to be important to the promotion and success of local employment initiatives.

Meetings were of 1 or 2 days' duration and were planned and administered by a local associate organisation in cooperation with and under sub-contract to the Centre for Employment Initiatives (CEI), London, chosen by the Commission as project managers.(1)

The organisations acting as local "associates" could be classified as follows :

Primarily concerned with employment creation	: 7
Regional and community development	: 4
Local government authority	: 4
Co-operatives	: 3
Welfare and Youth	: 2
Alternative economy	: 2
Church training and conference centre	: 1
Organisation of unemployed	: 1
Cultural activities	: 1
University research centre	: 1
Trade Union training centre	: 1

(In some meetings more than one organisation was involved; local government authorities were associated in many consultations : in the four listed above under local government authority, they took the primary organisational role).

(1) Their final report on the consultations will be available at end - 1983.

In most consultations, plenary sessions alternated with group meetings. Typical work groups in consultations in several countries covered the following areas of interest : local revitalization, social insertion and reinsertion through employment, enterprise creation by unemployed, workers' co-operatives and other collective enterprises, women, innovatory technology, and, in rural areas, agriculture.

3. THE LOCATIONS

The pilot consultations were in the Kreuzberg district of West Berlin, Federal Republic of Germany, known for its small-scale "alternative" workshops; and in Cork, Republic of Ireland, with participants from both rural and urban areas of Ireland.

Other consultations were held between November 1982 and July 1983 in the following areas :

- Belgium - Wallonia
- Heuvelland, a rural area of 14 villages in Flanders
- Denmark - a mixed urban and rural area of Jutland
- France - the highly industrialized area of Pas-de-Calais
- the "fragile" mountain area of the Pyrénées
- Federal Republic of Germany - the mixed urban and rural areas of Hesse (Rhein/Main)
- the land of Lower Saxony
- the 'alternative workshop' area of West Berlin
- Greece - a rural area in central Boetia
- the small town of Koropi and parts of Attica
- Ireland - the town of Cork with rural and urban participants
- Italy - an alpine village area of northern Udine
- a group of small towns in Toscana
- the rural and urban areas of Brescia Province
- mixed rural and small town area of Campania
- Netherlands - mixed rural and urban area of North Brabant with participants from other parts of the country

United Kingdom - mixed industrial and residential London Borough

- highly industrialized area of North-East England
- mixed urban and rural area of Belfast and adjoining districts in Northern Ireland
- highly industrialized area around Glasgow, Scotland
- rural area of North Wales
- the industrialized county of Gwent, South Wales.

No consultation was held in Luxembourg : participants from there took part in the meeting in Wallonia, Belgium.

The size of the area from which participants came varied considerably. In Flanders and Udine all came from a group of villages within a few kilometers of each other : in Brescia and Loccum, Lower Saxony, they came from a province or "Land" (in the case of Loccum, participants also came from Bremen, Hamburg and West Berlin); in Cork and Den Bosch, while most came from the surrounding county or province, some were from different parts of the country.

In total, some 1200 persons had the opportunity of presenting and discussing their experiences and plans. In several instances the consultation itself had been preceded by informal discussion meetings and in some cases, eg in Heuvelland, Belgium and Campania, Italy - members of local enterprises elected one of their number to attend the consultation on their behalf and express their views.. It may be conservatively estimated that over 7000 people have taken part or have directly contributed to the conclusions reached.

4. THE INTRINSIC VALUE OF LOCAL CONSULTATIONS

The utilisation of local consultations as a form of fact-finding and action-oriented project proved to have a number of advantages of which only the most important ones are mentioned here :

- it was possible to elicit a substantial amount of firsthand information about local employment initiatives with a minimum expenditure of resources of money and manpower;
- the process of pre-consultation surveys and enquiries produced a snowball effect so that many hitherto unknown initiatives came to light;
- the fact that the programme was sponsored by the Commission and in most instances involved a "foreign" organisation (Centre for Employment Initiatives, London) gave a certain cachet and prestige to initiatives which otherwise might easily have gone unrecognised;

- the process of bringing together local entrepreneurs and representatives of both public and private institutions proved to be in itself a form of "animation" or promotion, and the first stage of an ongoing process;
- the participation in the consultations of representatives of central and other "distant" official bodies proved to be mutually beneficial and educative to both these representatives and the local entrepreneurs;
- the process of compiling case studies and other forms of preparation for the consultation (local discussions, negotiations, etc.) proved invaluable in clarifying local people's understanding of what was involved and indeed what they were seeking to do through their initiatives.

Finally, the success of the local approach can perhaps also be measured by the great response at local level : on the one hand, there was from the very beginning a keen interest by local bodies in organising such consultations (resulting in a doubling of the initially planned number of meetings, even without taking account of all relevant proposals); on the other hand, the follow-up in terms of proposals for projects, requests for information systems, etc. submitted to the Commission has been most impressive.

5. THE NEED FOR FOLLOW-UP WORK

This field study was of course only a beginning and could not by itself provide any complete or convincing framework. Considerable more work is required in that direction, especially since this random sample of some twenty consultations could not include the total variety of local communities and regions within Europe. It can safely be assumed that overall there are even more variations in local employment initiatives than came to light in this programme of limited duration and extent.

Moreover, there is great scope for action by using a further series of consultations as a vehicle for "animation" and promotion of local initiatives. In particular, further consultations would be geared to specific local needs such as the establishment of development agencies. To this end, such consultations can encourage local actions and alliances, as a preliminary step to financial intervention through the European Social Fund. The Commission sets out relevant proposals in the main part of this Communication.

Existing Commission activities and existing proposals

Community support for local initiatives has been given primarily through the European Social Fund, the European Regional Development Fund and the European Coal and Steel Community, but there has also been some indirect support through the European Agricultural Guidance and Guarantee Fund, and the opportunities for obtaining finance through the European Investment Bank using its own funds and those of the New Community Instrument have been increased. The extent of the support to date has, however, been limited, partly because the need is relatively new and partly because of the practical difficulties of ensuring access to Community funds at the local level.

European Social Fund

Social Fund support has been directed towards stimulating and assisting local employment creation as follows:

- the establishment of a programme of seven actions of training and development at the local level in the U.K., France, Italy aimed at preparing the ground for the creation of new employment. Projects are designed to meet the specific problems of both urban and rural areas. The actions cover three years - 1982 to 1984 - and are being subjected to continuous monitoring and evaluation;
- pilot support for development agencies providing technical assistance and training for local employment initiatives. These include support for the first 5 'Boutiques de Gestion' in France (1980 - 1983), Development Training Officers for the Highlands and Islands Developments Board, U.K. (Scotland) (1981 - 1983) and the Wales Co-operative Development and Training Centre (1983 - 85).
- pilot projects supported in 1982 have included a number which can be categorised as LEIs - 6 concerned with training in small firms and co-operatives, 6 concerned with employment creation for young people and others in the craft sector and for disadvantaged groups.

European Regional Development Fund

The European Regional Development Fund (1) aims to correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural under-employment. With a view to realising these objectives, the Fund may finance two kinds of actions:

(1) Council Regulation EEC n. 724/75 and subsequent amendments.

a) under art. 4 of the Fund Regulation, Community actions in support of regional policy measures taken by the Member States, such as:

- 1) investments in industrial, handicraft or service activities;
- 2) investments financed by public authorities for the creation of infrastructures which contribute to the development of the region or the area in which they are situated;
- 3) investments in infrastructures covered by article 3 (2) of the Council Directive on mountain and hill farming and farming in certain less-favoured areas,

for which the resources of the Fund are distributed according to national quotas, and

b) under art. 13 of the Fund Regulation, specific Community regional development measures which are linked with Community policies and with measures adopted by the Community in order to take better account of their regional dimension or to reduce their regional consequences. The resources of the Fund for those measures are quota-free.

In the framework of the measures provided for by Article 13 and acting on a proposal from the Commission, on 6th October 1980, the Council adopted five Regulations (1) bringing into effect a first series of specific regional development measures, certain of which directly affect SMEs. These measures are intended to contribute to the development of certain mediterranean regions in the context of future Community enlargement, to the development of new activities in certain regions affected by the steel and shipbuilding crisis, as well as to the improvement of secure energy supply in the internal regions of the Mezzogiorno. In addition, a measure in favour of the border areas of Ireland / Northern Ireland has also been adopted. Within the framework of these measures, the intervention envisaged covers a wide range, according to the type of action including, notably, making available to SMEs the means and services to allow them to increase their possibilities of reaction (investment aids, sectoral analyses, consultancy agencies), the promotion of industrial innovation, of craft industries and rural tourism, the cleaning up of run-down industrial and urban areas, the construction and modernisation of housing.

Latterly, in 1982, the Commission has presented to the Council a second series of non-quota measures (2), which constitute a follow-up to and financial reinforcement of the measures already under way in the Southern areas of the Community, as well as introducing measures for the particular benefit of Greece. It should be added that a new measure, contributing to the development of new economic activities in the regions affected by the restructuring of the textile and clothing industry, was also included.

(1) Council Regulation (EEC) no. 2615/80 to 2619/80
(2) COM (82) 652 final

Under this second series, aid can also be offered within the areas eligible, for the establishment of economic development agencies whose role is the opening up of possibilities for new ventures through direct contacts at local level.

Meanwhile the Commission adopted and sent to the Council on 3 November 1983 a proposal for a regulation amending the present ERDF Regulation, which suggests that the Fund's interventions be effected through 'Community programmes' and 'national programmes of Community interest' under which the Fund can contribute through a range of specific aids, to the exploitation of the potential for internally generated development of the less favoured regions of the Community.

Under the revised Social Fund (1) as well as under the proposal for a revised ERDF regulation priority will be given to integrated development operations which combine and coordinate the use of Community instruments and national resources within a limited geographical area. An increased level of support from the ERDF is proposed in the context of such operations.

European Agricultural Guidance and Guarantee Fund (Guidance Section)

This Fund was established under Article 40 of the Treaty in order to attain the objectives of the Common Agricultural Policy, primarily increased productivity through rational development of agricultural production and optimum utilisation of the factors of production, in particular labour.

The principal measures adopted by the Community in furtherance of these structural objectives concern

- the modernisation of agricultural holdings ;
- the encouragement of older farmers to retire and the re-allocation of the land released ;
- the provision of socio-economic guidance to farmers and the acquiring of occupational skills by persons engaged in agriculture ;
- the improvement of the methods of processing and marketing of agricultural products ;
- compensation for the natural handicaps affecting farming in mountain, hill and other less-favoured regions.

In addition to these more general measures the Community has adopted a series of specific regional measures including a set of pilot integrated development programmes with a view to improving the socio-economic situation in the less-favoured regions.

(1) OJ L 289, 22.10.1983

In its Report and proposals (1) on ways of increasing the effectiveness of the Community Structural funds the Commission has proposed that the EAGGF (Guidance Section) should in future concentrate on certain priority tasks, viz

- the promotion of modernisation and conversion projects in farming
- the processing and marketing of agricultural products
- the preservation and improved use of non-productive rural areas
- an improvement in agricultural income in less-favoured regions.

To be fully effective however the Commission indicated that EAGGF Guidance intervention must be dovetailed into a more comprehensive regional development framework alongside but co-ordinated with the other Funds.

The Commission's proposals on (2) Integrated Mediterranean Programmes and its more recent proposals on (3) agricultural structures policy in general have been framed with these policy considerations in mind.

European Coal and Steel Community

Article 56 of the Treaty makes it possible, not only to re-train and provide financial support for workers who lose their jobs through the re-structuring of the coal and steel industries, but also to encourage the creation of new employment through reduced interest rate loans to new or expanding enterprises in the ECSC areas. The technique of global loans to intermediary bodies has proved particularly useful for helping provide financial help to small and medium-sized firms and there are now possibilities for the co-financing of collective workshops providing space for a number of small enterprises with the possibility of using common services. Earlier this year the Commission adopted a number of changes to the operating principles of ECSC loans, in particular raising the interest rate subsidy on global loans from 3 to 5%.

Access to capital

The various lending arms of the European Community have for many years provided significant amounts of loan capital to SMEs. For the sake of efficiency they do this through a system of global loans:

(1) COM(83) 501 final
(2) COM(83) 495 final
(3) COM(83) 559 final

Reduced to its simplest form, this consists of opening a line of credit to an intermediary financing institution which then onlends the proceeds in smaller amounts (which can be as low as 25,000 ECU) and at its own risk, in favour of ventures falling within the terms of reference of the Community financing arm concerned. Projects, which must be financially viable, can be financed up to 50 % of their fixed asset cost. The volume of such loans has increased considerably in recent years (see table). This has reflected the Commission's political will to see SMEs favoured, for example 40 % of the funds made available for investment under NCI 2 (1) have been allocated to global loans, and it is expected that this trend will continue under NCI 3 (2).

Table
Global loans granted 1977 to 1982
(million ECUs)

	ECSC	EIB	NCI	Total	Annual rate of increase
1977	3,7	91,3	-	95,-	-
1978	8,7	99,9	-	108,6	+ 14 %
1979	62,6	137,1	-	199,7	+ 84 %
1980	148,4	265,5	-	388,9	+ 95 %
1981	150,3	318,4	-	468,7	+ 21 %
1982	232,8	592,9	249,1	1074,8	+ 129 %

The Commission has taken a further significant step in proposing that the Council empowers it to grant innovative small and medium-sized enterprises financial help in the form of European Innovation Loans. The scheme, whose details are contained in a communication to the Council (3) is intended to operate through national intermediaries.

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- (1) 1,000 million ECU made available by the Council under the NCI on 26 April 1982
 - (2) 1,500 million ECU made available as a first tranche by the Council under the NCI on 13 June 1983
 - (3) Towards Community financing of innovation in small and medium-sized enterprises. Proposal for a Council Decision empowering the Commission to help finance innovation within the Community COM(83) 241.