

COMMISSION OF THE EUROPEAN COMMUNITIES

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COM(86) 784 final/2

Brussels, 9 February 1987

FOLLOW-UP TO COUNCIL RESOLUTION

of 7 June 1984

on the contribution of local employment initiatives
to combatting unemployment

(Communication from the Commission)

COM(86) 784 final/2

FOLLOW-UP TO COUNCIL RESOLUTION OF 7 JUNE 1984
ON THE CONTRIBUTION OF LOCAL EMPLOYMENT INITIATIVES
TO COMBATTING UNEMPLOYMENT

The political background

In its Resolution of 7 June 1984 (1), the Council recognized the contribution that local employment initiatives (LEIs) can make to combatting unemployment and to assisting the revival of economic activity. This Communication is a progress report on action taken by the Member States, and at Community level, and includes proposals for further measures.

It is appropriate to set the contents of this Communication against the background of the Commission's overall strategy for combatting unemployment, and the Council Resolution concerning an Action Programme for Employment Growth agreed at the end of 1986.

The Council has adopted the Cooperative Strategy for Growth and Employment set out in the Annual Economic Report for 1985-1986. This called for cooperation, not only between governments at Community level, but also between the social partners and governments at national and Community levels. The strategy proposed in the Annual Economic Report 1985-1986, and reiterated in the Report for 1986-1987, recognizes that the type of growth that generates employment depends not only on macro-economic actions but also on micro-economic conditions.

In this connection, the new Annual Economic Report for 1986-1987 proposes a number of measures allied to the micro-economic approach : reorganisation of working time, job protection systems, opportunities for training or re-training, as well as rules affecting the creation of small businesses, establishment of self-employed and cooperative undertakings, and measures to re-employ long-term unemployed workers.

The SME context

In August 1986, the Commission put forward an Action Programme for Small and Medium-sized Enterprises (SMEs) (2) which was adopted by the Council in October 1986. That programme forms part of the Community's growth and employment strategy. The need for urgent action justified the creation of the SME Task Force.

The SME action programme explicitly incorporates LEIs in particular in the context of :

- encouraging the establishment of firms and
- improving the social environment of SMEs, underlining the important role of cooperatives.

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(1) O.J.N^oC 161 of 21.6.1984, see Annex 1.

(2) Doc. COM(86) 445 final.

Inter alia, the Commission declared its intention to draw on the wealth of experience coming from LEIs for the purpose of implementing policies on SMEs in general and its intention to prepare special programmes in some areas to promote the creation of cooperatives for certain types of production or services.

At Community level, the intention is to link the promotion of more commercially oriented LEIs fully within the Action Programme for SMEs allowing for differences between SMEs and LEIs in the start-up phase.⁽¹⁾ New and more effective ways have still to be sought, however, in order to assist more socially oriented LEIs, which generally have the greatest difficulties in obtaining appropriate support.

The development of SMEs and LEIs that has been observed over recent years leads to the following conclusions:

- The number and variety of LEIs continue to grow, although it is impossible to produce representative statistical data, since the majority of LEIs are being registered as small enterprises in the private sector;
- in most EC countries, LEIs have contributed to a considerable degree to the promotion of the spirit of enterprise in the SME sector as a whole, and have led to more innovative responses on the part of public administrators;
- LEIs contribute to enlarging that part of the population which undertakes to innovate, to take risks to respond positively to the consequences of structural changes and sometimes even help to transform distressed communities into "opportunity" areas ;
- in the case of disadvantaged areas and regions (e.g. areas undergoing industrial restructuring, remote rural areas), LEIs have been often either the only one or one of the very rare sources of new job opportunities ;
- the entrepreneurial activity of creating or assisting LEIs has often been undertaken by persons who do not have the classical profile of an entrepreneur in terms of education, prior business experience, availability of start-up capital, network of business relations, etc. In particular, new groups of persons, underrepresented in the business world, have had opportunities to set up their own business or - together with other persons - to set up cooperatives or other forms of self-managed, or jointly managed, enterprises ;
- in the same way, unemployed people or people threatened with unemployment - among them young people, ethnic minorities, etc. - have found, often with the help of socially motivated "prime mover" organizations, job opportunities in new businesses, cooperatives or other forms of self-managed, or jointly managed, enterprises ;
- worker take-overs of enterprises - whether failing or bankrupt, or simply facing problems of succession - have become an increasingly significant phenomenon throughout the Community. And while the worker take-over process may require considerable external advice and support, it is in general simpler and cheaper to save a given number of jobs in this way than to create the same number of jobs from scratch.

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1) For the Commission, LEIs have been defined as initiatives that have occurred at the local level - often involving cooperation between individuals, action groups, the Social Partners and local and regional authorities - with the specific aim of providing additional, permanent employment opportunities through the creation of new, small-scale enterprises. 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. Doc.COM(83)662 final.

The regional employment context

One of the main aims of the traditional incentive systems for regional development in the Member States is to attract private inward investment. However, in period of economic difficulty their impact is rather limited since enterprises are reluctant to assume investment risks, especially if there is no expectation of satisfactory profits in return, despite the granting of substantial amounts of non-repayable aid. The eleventh annual report of the Commission on the activity of the European Regional Development Fund (ERDF) (1) indicate that since the creation of the ERDF approximately 18 % of the aid granted has been for creating and maintaining jobs in the industrial sector and the service supply sector. The bulk of ERDF aid has been allocated to infrastructure investments, which in some cases have direct relevance to LEIs, for example workshops units.

At Member States level, restructuring and modernization of existing industries is a primary issue in most of the industrial problem areas but is rarely the subject of thoroughly planned integrated measures. Often, as a spontaneous, even desperate, 'last-ditch' response, 'prime movers' and individuals become involved in LEIs. The new ERDF rules (2) (notably those relating to development of the endogenous potential of the regions) offer greater possibility for aid to LEIs. Since the ERDF aids the public financing of programmes or consistent sets of projects, the LEIs run by local and regional authorities can benefit from these measures. The first decisions taken since 1985 show that, in certain cases, LEIs can be supported by the ERDF.

The labour market context

At the beginning of 1986, the Commission launched an Action Programme on Local Labour Market Development as part of its employment and labour market policy. The overall aim of this programme was to identify and evaluate successful local employment strategies in order to develop practical guidelines for tackling unemployment through local employment development techniques and through forward looking labour market policies. The work carried out in the first year of the programme has consisted mainly of reviews of selected issues and action research projects in twelve areas in the Community.

Evidence from the first year of the project demonstrates that much is currently being done not only by public, or semi-public, agencies but also by private and voluntary organisations. The measures examined under the Programme on Local Labour Market Development have included, on the one hand, the more traditional types of action involving infrastructural improvement and promotional activities, and on the other hand measures more recently introduced in support of SMEs (mainly new business) and vocational training (especially for young people). However, because of the rapid growth of these various actions, their innovative nature, and the fragmented and often unfavourable environment within which they have to operate, their effectiveness is not always fully exploited.

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(1) Eleventh Annual Report (1985) to the Council, the European Parliament and the Economic and Social Committee by the Commission : European Development Fund COM (86) 545 final.

(2) O.J. N° L169 of 28.6.1984

This illustrates again that innovative responses to unemployment in general have difficulty - just like LEIs - in gaining acceptance or in being widely known.

Further follow-up to Council Resolution of 7 June 1984
- proposed priority actions -

In a Working Document of the Commission services (1) an inventory has been made of actions at Member States and Community level as well as of various findings based on research and consultations. That review was discussed with senior national government officials prior to the preparation of this Communication. (2)

Some of the findings in that review had at first seemed contradictory, e.g. differing opinions as to whether the financing of LEIs projects should be person- or project-oriented basis. However, such apparent contradictions indicate that needs differ between localities, regions, etc. and that, for that reason, measures promoting LEIs should be flexible and adapted to local/regional situations.

In the Council Regulation of 7 June 1984, the measures envisaged were aimed primarily at aiding LEIs themselves, and the further actions proposed in this Communication follow the same approach. Nevertheless, the promotion of LEIs should take place within the framework of an overall policy aimed at national employment growth as well as of specific strategies of regional and local development.

There is a clear evidence that, at Member States level, a number of the actions listed in the Resolution have not been fulfilled, and that at Community level the loan instruments are still not as accessible to LEIs as it was intended. Certainly, the full potential of LEIs development has not yet been exploited.

In the Commission's view, the Member States need to review the relevant parts of national policies and ensure that the policy guidelines laid down in Chapter III of the Resolution are fully observed. For its part, the Commission will continue to support measures by the Member States in line with - and, where necessary, beyond - the provisions made in Chapter IV of the Resolution.

Proposals for priority actions

(i) General recommendations

If Member States are to encourage the dynamic of enterprise creation, of LEI creation and of job creation in general at the local level, this objective should be reflected in the following fields :

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(1) Doc. V/1848/86 and Annexes will be made available at a later date.

(2) Meeting of Directors-General of Employment and of Directors of the Employment Services - 26-27 November 1986.

- in the functioning of their public authorities at central, regional and local level, and in particular of those authorities involved in the implementation of employment and training measures at local level e.g. by 'sensitizing' and training their personnel to become better equipped to give information, encouragement and practical advice; become 'animators' and actors at the local level; cooperate more closely with other public and private sectors; become at the disposal of those other local actors rather than be simply the executors of centrally defined provisions ;
- in the elaboration and delivery of central and regional measures in favour of employment and training e.g. the introduction of necessary flexibility in order to ensure greater decentralisation and contribute more effectively to LEIs creation and local development in general, by allowing local actors to link up and package measures (e.g. in the case of measures for young people, community programmes, etc.).

In practice, this would mean that Member States make greater efforts to adapt the provision of various measures and resources in favour of employment creation to the demands of those involved in local development and business creation, and in particular to the demands of LEIs promoters, since there exist, at present, serious problems in the delivery systems which often discourage local actors.

The Commission also recognises similar problems in the objectives and nature of the Community's loan instruments and will renew its efforts to find appropriate solutions.

More generally, new modalities need to be sought in the Member States in order to provide appropriate assistance to more socially-oriented LEIs.

(ii) Improving the LEI environment

Measures proposed to Member States : elimination of existing barriers to LEIs by creating a more favourable environment, in particular in the start-up phase; establishment of promotion bodies and delivery systems for financial aid explicitly geared to LEIs, in particular at regional/local level; encouragement of sponsorships by existing SMEs and large firms; the creation and support of effective national and local information systems about LEIs, their potential and resources available.

The Commission proposes that its services responsible for employment policy and the SME Task Force carry out accompanying actions such as technical support, meetings with potential sponsors, seminars, and the development of information material for the general public, etc. To this end, the Commission will strengthen the Community-wide ELISE information system which it has established to promote and assist LEIs and will strengthen its existing co-operation with OECD in this field, including by giving support to the joint ELISE-ILE promotional publication.

(iii) Providing finance for LEIs

- Measures proposed to Member States: making it easier for LEIs to have access to traditional sources of finance; creation of new financial instruments such as guarantee funds, small-scale venture capital funds; encouragement of local financial mechanisms; assurance of finance for LEIs and LEIs support structures over a period of more than one year (three years would be a reasonable period within which LEIs could realistically plan their development).
- The Commission, for its part, will examine the various Community financial instruments in the first place to see to what extent their objectives and nature are compatible with those of LEIs. Depending on the results of this examination, it will study how to ensure adequate finance for LEIs either from existing financial instruments or from other sources, as appropriate.

The proposal for a European Employment Fund which has been put forward by different bodies, among them the European Parliament and the Economic and Social Committee, must be discussed in a wider political context, in particular also in the context of the impending review of the ESF.

(iv) Promoting workers cooperatives and other types of self-managed, or jointly managed, enterprises

- Measures proposed to the Member States : active encouragement for the development of the 'worker owner' sector (including co-operatives) through provision of specific financial arrangements; promotion of workers cooperatives within national, regional policies; review of their cooperative legislation and elimination of legislative or other barriers, provision of specific training schemes for cooperatives; development of systematic approaches to enterprise closures, involving worker take-over schemes.
- The Commission will examine the proposals on financing and will also study the experience of Member States in the creation of workers co-operatives began on a voluntary basis. In the light of these findings, it will examine the possibility of making proposals for legislation. Where appropriate, the Commission will submit proposals on financial aspects and on legislation affecting co-operatives.

(v) Providing specialized support agencies

- Measures proposed to Member States : promotion of LEIs by existing agencies, promotion of new support agencies and the financing of such agencies; introduction of schemes for meeting needs of development agents both for training and continuing support; review of the efficacy of existing schemes.
- Subject to the outcome of the current review, the Community financial instruments, in particular the ESF and the ERDF, will continue to provide funds, in the framework of their financial possibilities, for the training of development agents and for support measures for development agencies. In the context of this review, the Commission

will also examine accessibility for LEIs support agencies to the funds in this respect. The Commission will consider possibilities for financing further exchange visits between development agents, other key actors involved in LEIs development, and actors in relevant networks; and will encourage co-operation between the different networks and agencies, such as Business Innovation Centres and Development Agencies.

Summary and Conclusions

The Commission is pleased to report the positive attitude taken by Member States with respect to the implementation of the 1984 Resolution. However, positive attitudes have not always been translated into effective actions and much remains to be done if the full employment creating potential of LEIs is to be exploited.

During the next two years, the Commission will actively pursue the full implementation of the Council Resolution, giving particular attention to the issues enumerated above. To this end, the Commission will make any necessary proposals to the Council and will prepare its full report on the implementation of the Resolution in 1988.
