

## 10 Luxembourg

### Work-integration social enterprises in an emerging third sector

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#### Introduction

Given the particular employment situation in Luxembourg as the last European Union country in which full employment is still the rule, and the repercussions this has for the development of structures and organisations in the third sector, and for labour-market insertion in particular, we shall start by describing the labour-market situation in the country and its particular features. We will then try to explain the emergence of the third sector in Luxembourg, before going on to focus on the structures for insertion and their importance, roles, manner of operation and results.

#### 1 Luxembourg: an employment situation unique in Europe

Unlike other countries in the European Union, the Grand Duchy of Luxembourg has so far avoided mass unemployment, although since the mid 1990s the number of persons seeking employment has risen above 3 per cent of the working population and continues to rise appreciably despite continued growth in internal employment.

The Luxembourg labour market has a number of unique features insofar as the supply of internal employment has known a period of uninterrupted growth lasting more than twenty years, and the number of available jobs in Luxembourg itself has grown by an average of 6 per cent a year for the last five years, with 44,000 new jobs bringing the number today to 238,000.<sup>1</sup> The country's job market is attractive to frontier workers, given both the high rates of unemployment in the surrounding regions – 7 per cent in the Belgian province of Luxembourg, 10 per cent in Lorraine, 5.7 per cent in Rheinland-Pfalz and 9.1 per cent in the Saar (Gengler 1998) – and the markedly higher levels of pay offered in Luxembourg compared with its neighbours. For these reasons, 32 per cent of jobs in Luxembourg are held by frontier workers (Hausman 1999).

The education system, particularly in Luxembourg, has many repercussions on the labour-market situation. The system in Luxembourg is based on a thorough knowledge of two foreign languages, French and German, and is highly

selective. In the absence of full university courses or many higher training courses, the Ministry for National Education has imposed a very demanding educational programme because the authorities want to make sure that students reach a level which is sufficient to gain entry to universities in neighbouring countries. This leads to large-scale failure in Luxembourg schools. The most recent available statistics show that more than half of pupils (52 per cent) leave school without qualifications (Kollwelter 1998). The proportion rises steeply for the children of migrant workers, particularly from the Portuguese community, which is by far the largest immigrant community in Luxembourg. Luxembourg has rates of enrolment in secondary and higher education which are 2–3 per cent lower than the average in the European Union (Kollwelter 1998).

Luxembourg's education system is, today, unable to ensure a sufficient output in terms of people with qualifications to maintain and develop the country's economic well-being. In a competitive labour market, young people are at a particular disadvantage compared with their peers from surrounding frontier regions.

Unemployment among young people under the age of twenty-six (aged 17–26) is running at almost 10 per cent<sup>2</sup> and represents a quarter of all unemployment, despite the fact that a high proportion of these young people are the beneficiaries of active insertion measures aimed at enabling them to find work relatively easily. As long as young people do eventually find work, the situation is not desperate, since the rate of unemployment is still at an acceptable level. But this situation could deteriorate rapidly if there were to be a serious economic crisis. Job seekers living in Luxembourg are mainly unqualified people, or people whose qualifications do not match the profiles sought in the labour market.

To these characteristics, we must add the profound socio-economic changes which have taken place in the country since the mid 1970s, with the decline of the two major pillars of the economy at that time, viz. the iron and steel industry (including iron ore extraction) and agriculture. These two industries – which, between them, employed one worker in four in 1974<sup>3</sup> – now account for only 4 per cent of global employment.<sup>4</sup> Employment drifted towards the service sector, where it has grown by 300 per cent in the same period; this sector now employs seven workers out of ten.

Against this background, successive governments have striven since the 1960s to introduce initiatives to diversify the economy and avoid dependence on a single sector of activity. Following the crisis of 1973, when the iron and steel industry, at that time the largest employer in the country, began to feel the effects of the international fall in demand for steel products, significant unemployment made its first appearance. It was to creep slowly upwards and was not to be curbed. The government reacted in 1975 by drawing up and adopting the law of 26 July 1975 giving itself powers 'to take measures aimed at preventing redundancies due to economic conditions and guaranteeing full employment'. This law opened the way for a changing legislative framework allowing sectoral or individual measures to be taken through government orders. A year later, this first law was supplemented by the 'creation of a fund for employment and the

regulation of the payment of unemployment benefit', thus setting up a framework for the application of measures to fight unemployment. It must be said that these 'passive measures' served to manage existing unemployment rather than to reduce it.

After 1978, government policy changed in both analysis and approach, and a number of measures promoting youth employment were introduced. The law of 27 July 1978 set up a pool of temporary workers (the *Division d'Auxiliaires Temporaires*) which could be used for tasks of public or social utility or cultural value proposed and carried out by the state or by local authorities. This law also established an enterprise-based work experience scheme guaranteeing a practical introduction to young job seekers and easing the transition between education and the beginning of working life. These two measures were complemented in 1983 by a further work experience scheme aimed at providing alternating periods of practical experience and theoretical training.

Following views expressed by the Economic and Social Council and the Labour and Employment Commission of the Chamber, stressing the need to focus on young people and the long-term unemployed in the fight against unemployment, the law of 12 May 1987 provided measures aimed at helping registered job seekers, mainly through training and vocational guidance.

Since 1992, the growth of unemployment has taken a more worrying turn, increasing by around 1,000 persons a year (Borsenberger 1996); the unemployment rate rose from 1.2 per cent (1,800 persons) to 3.2 per cent (6,400 persons) between 1992 and 1998. This has led the government to introduce further and more diverse measures, more targeted on young university graduates (the creation in 1995 of a 'pool of assistants' to work in secondary education), women and the long-term unemployed. By 1996 almost half of unemployed young people were covered by one or other existing measure (Kollwelter 1998).

Finally, the active part played by Luxembourg in organising the first European employment summit in Luxembourg in November 1997 forced the government to produce a 'national action plan' for employment which was particularly ambitious, if scarcely original. The new legislation renews the earlier proposals by reorganising, co-ordinating and adding to the existing body of measures. However, it goes further. Job seekers aged over thirty are offered trainee posts with a view to re-entering the world of work, the schools are opened up to adults<sup>5</sup> and a 'second chance' school is to be provided for young people excluded from the education system.<sup>6</sup>

As a number of politicians and economic agents have pointed out, national unemployment is caused by the mismatch between supply and demand and not, as in other industrialised countries, by a lack of vacancies. The employment policies followed by the Luxembourg government have succeeded in diversifying the economy; they have introduced new specialisation into existing sectors, including the iron and steel industry, and developed the role of the financial sector; and they have also created a variety of measures to prevent mass unemployment.

## 2 From voluntary social aid to the state-contracted voluntary sector: the birth of a third sector

Until the end of the 1960s, the care of the poor and sick in Luxembourg depended for the most part on the religious orders which took care of the needy and of disabled people. The church was responsible for all the schemes providing both healthcare and social support. Apart from the social security provided by the state, all social work, including the provision of accommodation for children, hospitals and the care of the elderly, was almost entirely dependent on private initiatives and was run by the religious orders (Als 1991). However, without financial resources, given the almost complete absence of financial assistance from the state, the infrastructures were often outdated, and the concept of care, based exclusively on the voluntary service of monks and nuns, was out of touch and no longer corresponded with the real needs of society.

Social changes at the end of the 1960s, such as the rise in women's employment and the breakdown of the traditional family, together with the growth in state resources, led the government to better take public needs into account. From 1968 on, the state agreed contracts taking responsibility for the operational and staff costs of certain religious groups in order to improve professional standards in existing support structures and to modernise outdated buildings and infrastructure (Als 1991). After 1975, because of the flexibility of these arrangements, such contracts were to become the most common approach adopted by ministries for the creation of new social, family or healthcare services. Since then, the state-contracted voluntary sector has grown in importance as the agent responsible for carrying out the tasks which arose as the welfare state took over from religious institutions.

Currently, there are about 5,000 salaried employees in the social, family support and therapeutic sectors, about half of whom are paid by the state under conditions similar to those of civil servants (recognition of salary scales, comparable social advantages etc.), and the costs represent 2.6 per cent of the total state budget – 4,440 million LUF (110 million Euro) in 1998 – or ten times the figure for the early 1980s.<sup>7</sup> The third sector in Luxembourg has been built on just this basis of state support and involvement.

Through contracts with the Ministries of Health, Labour, and Social Security, the Ministry for the Family and Solidarity and the Ministries for Women's Affairs, Culture and Youth, a number of schemes have been introduced over the last thirty years, mostly in the form of non-profit associations (*Associations Sans But Lucratif*). This has encouraged significant rates of participation by citizens in the associative sector. In 1997 more than one adult in six claimed to carry out some voluntary work in an associative movement, and many people are involved in two, three or even four voluntary activities on a weekly basis. Volunteers are attracted to cultural, sporting, social and humanitarian activities. They devote an average of five hours a week to this unpaid work (Le Jealle 1998). However, it must be noted that most of these initiatives enjoy a full subsidy for their expenses and run no financial risks. The norm in Luxembourg is thus that the public

authorities alone support almost all social provision and contribute significantly to the provision of cultural and sporting activities and other voluntary work.

Although the voluntary sector is very prevalent, the concept of a third sector as such remains undeveloped in Luxembourg compared to other European countries, except in certain organisations active in the social and vocational insertion of the unemployed and of people with few qualifications. It is therefore not surprising that, unlike other countries in the European Union, Luxembourg has no legal or regulatory framework for the third sector, other than the concept of 'aid to employment of socio-economic utility', which appears officially in the law of 1983. This law makes it possible to support new projects for creating jobs reserved for disadvantaged unemployed workers, specifically those who can only make the transition towards normal employment through socio-educational guidance.

### 3 The social community approach underlying initiatives for insertion through economic activity

It was at the end of the 1970s and beginning of the 1980s that the first active measures to promote integration really developed. This period saw the birth of a number of associations which brought a new perspective to social assistance – the social community approach. Unlike traditional social work, which continues to be generally applied in the various social assistance services and which consists of providing the available aid according to certain criteria, the community approach prefers to tackle the source of the problem through structural change.

Of course in Luxembourg, where the unemployment rate has stuck at 3–4 per cent of the population, the question of combating exclusion is not posed in the same terms as in neighbouring countries. However, structural unemployment (which is not due to economic conditions) does affect a part of the population. Before the introduction of the minimum guaranteed income (*RMG, Revenu Minimum Garanti*), 8 per cent of households were living in very precarious conditions, and a further 18 per cent were on the threshold of poverty.<sup>8</sup> The law of 26 July 1986, which established the right to an *RMG*, enabled some to fight back against poverty, but by no means eliminated it.

Following a study of the inhabitants of two districts in the town of Luxembourg, the Grund and the Pfaffental, then considered to be districts at risk, concerned social workers decided to become involved in projects for integration through work and in the fight against delinquency. At the end of the 1980s the following three associations appeared almost simultaneously:

- the *Inter-Action Faubourg* association, which set up several other structures including *Inter-Actions Asbl*, *Polygone Sarl*,<sup>9</sup> *B4 Construction Sarl* and *Ecotec Sarl*;
- the agricultural association *Co-labor* which would later assume co-operative status;

- the *Nei Aarbecht* association which is directly answerable to the National Committee for Social Defence attached to the Ministry of Justice.

(Georges and Borsenberger 1997)

These three initiatives were to be a source of inspiration for other associations and today there are approximately forty initiatives working in the field of reintegration, and half of these have developed commercial activities. These initiatives for integration through economic activities are active in areas such as the environment, agriculture, forestry, building, waste management and restoration.

Despite the small size of the territory and the rather small number of organisations, there is a great diversity of Luxembourg structures active in integration, all having their own characteristics in terms of their activities, the nature of their target groups, their objectives and their mode of operation. This diversity can be explained by the particular method of state subsidy, which has sought to support specific pilot projects.

### 4 Integration initiatives: some examples

Most of these initiatives have opted for the non-profit association status (*Asbl*) and have a unitary structure covering all their services which include social support, training, workshops or production services and accommodation where necessary.

Particularly original is the approach of the *Inter-Actions* association, which has taken the unusual step of setting up a socio-economic support structure composed of three limited liability enterprises (*Sarl*) alongside the social/educational structure. In this way the association has positions available in the normal labour market for young unemployed people who are difficult to place (Nottrot 1999).

#### *Target groups*

The help offered by the various organisations is generally targeted on a particular public. Among those targeted are: people with a physical, mental or psychological disability, people receiving the guaranteed minimum income, women, and former prisoners. However, it should be noted that, while most of the active measures to fight unemployment introduced by the state are aimed at young vulnerable unemployed people under the age of thirty, structures developing commercial activities are also targeting this group. This is partly in response to the expectations of the state and the ministries with regard to contractual arrangements, and partly so as to benefit from two subsidised forms of contract, viz. the 'introductory traineeship' and the 'temporary assistantship'. These contracts were set up by the Employment Department, which assumes responsibility through the Employment Fund for 50 per cent of the allowance

paid (which may be 80 per cent or 100 per cent of the minimum social wage, i.e. 46,270 LUF (1,147 Euro per month)), as well as for all the employers' costs.

These integration schemes are thus keen to employ their beneficiaries under this kind of contract, which compensate both for the reduced profit levels, which are inevitable when employing disadvantaged people who need extra support, and for the effort which these services put into the provision of vocational training and social skills.

Apart from the financial aspect, the use of these schemes also has consequences for the length of contracts offered, which is restricted to eighteen or sometimes even twelve months. This means that the help given has to be concentrated into this period. This limitation on the duration of contracts emphasises the role of these structures as a gateway to employment for the young. In a country where full employment is the rule, it remains fairly easy for those responsible for social follow-up and integration to find a trainee position or other job for these young people reaching the end of their contracts. However, a young person who is insufficiently prepared cannot fully avail of the opportunity offered.

It appears that only the co-operative *Co-labor* stands apart from the other initiatives in this area. This co-operative, active in the field of horticulture and environmental management, offers permanent jobs to about thirty people who have experienced exclusion (out of total staff of seventy). Although its staff turnover varies between 15 and 30 per cent annually, the co-operative achieves more lasting results in integrating people into the labour market than other systems (in which the insertion period is limited in time), because employees move on to a new position without the pressure of a deadline (*Co-labor* 1998).

### ***Economic aspects***

Through the contracts concluded with their supervising ministries, integration bodies enjoy economic and financial stability, at least for their activities in providing socio-economic support and training. Some have also benefited from substantial subsidies for co-financed measures under Objective 3 and other EU initiatives. During the period 1995–2000 no less than 102 million Euro have been shared among the different organisations (Calmes, Hartman-Hirsch and Pals 1997).

In terms of the organisations which are developing commercial activities, it has to be stressed that generally speaking, in Luxembourg, initiatives which have launched business activities have not encountered problems, and even though there are wide variations, the launching of business activities is generally followed by an increase in turnover. Subsequently, as one might expect, the situation stabilises in most services. The founders of integration initiatives with commercial activities almost all came from a background in social work and they were consequently ill prepared for the world of business and the economy, sometimes even having an outright aversion to it. They often got off to a difficult start in business management and, without state support, most of these initiatives would probably have run into trouble.

The development of insertion organisations has evolved towards a greater reliance on market resources which has led to an increase in technical demands, due to the economic compulsion to accept always more complex rules. This, together with a certain degree of competitive pressure, coming *inter alia* from frontier companies, has led the management of these enterprises to recruit more qualified staff, including business managers. This phenomenon clearly shows in the variations between the proportion of the target public (the people to be integrated) to qualified workers employed in the business. In every case this proportion has fallen over the past ten years from four out of five, to three out of four, to less than one half.

There has been a gradual shift away from management by volunteers, as was traditional in associations, to an increasingly professional management approach, with very positive effects. Today the long-standing enterprises have overcome their teething problems and the newest can benefit from their experience, since in such a small geographic space contacts and discussions are particularly lively.

### ***The results***

Overall today, slightly more than 1,500 people are beneficiaries of these various schemes in Luxembourg. About one third (550 in 1997) have a recognised physical, mental or psychological disability (Calmes, Hartman-Hirsch and Pals 1997). Apart from services for the disabled, there are six schemes operating on a somewhat larger scale, providing jobs for more than thirty people – the other associations being rather smaller.

All these schemes benefit from broad state support, which may be as high as 100 per cent of their costs except in the case of organisations which have developed commercial activities. In the latter case, the proportion of state aid, which is restricted to the social and educational activities carried out under contract, is reduced as the importance of the commercial business expands.

Services working with young people generally record reintegration rates ranging from 50 to 70 per cent. Given the fact that the social and economic situation in Luxembourg is such that unemployed young people are particularly hard to place,<sup>10</sup> these initiatives may be regarded as extremely successful.

## **5 Which way next?**

Since unemployment in Luxembourg continues to grow, it can be expected that the third sector will also develop further during the next few years. Although we continue to deplore the absence of a legal framework for the social economy, the Minister for Family Affairs stated in the periodical *Forum* that the debate is now open in our country regarding the need for a legal framework enabling the state to intervene financially in the social economy. New needs have been identified in a number of areas, including the environment, local development and neighbourhood services. Legislation should be able to adapt to these new situations

and make it possible to meet present and future needs. Any public intervention must of course be based on transparency. A qualitative and quantitative assessment of the projects and their results seems to be of paramount importance in justifying the use of public money. The debate should also consider the particular situation in Luxembourg and the different kinds of public targeted by the social economy (Jacobs 1999).

So it seems that concerted moves between the ministers concerned and representatives of existing organisations could lead to the creation of a post of inter-departmental minister with responsibility for the social economy. This would certainly enable the needs and special circumstances of the whole sector to be better taken into account.

The recent involvement of the two major national trade unions in activities relating to local development and integration will undoubtedly open the way to a greater appreciation of the needs of people most removed from employment. However, there is a danger that these two organisations, which are involved in social negotiations at national level (the tripartite negotiations), may tend to take all the credit to the detriment of existing structures, as happened when EU subsidies under Objective 3 were distributed. Stricter and less political government arbitration would preserve the existing balance and protect the development of the whole sector.

Finally, a special effort should be made to train project developers, who are the vital links in creating new structures and new sectors of activity.

## Notes

- 1 *Bulletin Luxembourgeois de l'Emploi* 09/98, 11/98 and 04/99.
- 2 *Bulletin Luxembourgeois de l'Emploi* 09/98, 11/98 and 04/99.
- 3 STATEC (1990).
- 4 *Bulletin Luxembourgeois de l'Emploi* 09/98, 11/98 and 04/99.
- 5 The 'dual system', within some professional formations, allows apprentices to work in an enterprise with a specific real worker's contract while undertaking complementary theoretical training for about 200 hours per year (one day per week) in a technical school.
- 6 *Loi du 12 février 1999 concernant la mise en oeuvre du plan d'action national en faveur de l'emploi 1998 Mémorial A no. 13 du 23 février 1999*, page 190.
- 7 *Rapport de la Commission de la Famille et de la Solidarité Sociale sur le projet de la loi dite 'ASFT', 2 juillet 1998 - document no. 3571 de la Chambre des Députés, session ordinaire 1997-1998, Luxembourg*.
- 8 See the report referred to in note 7. One of the main factors accounting for this figure - which could seem surprisingly high for a country in which the unemployment rate is particularly low - is the definition of the threshold of poverty. A family whose income is lower than half of the mean income in the country is considered under the threshold of poverty. As a consequence of the fast development of the service sector, especially the financial sector, which practises a policy of raising wages (policy which has also been followed by the governmental and other public sectors), the mean income in Luxembourg has grown significantly.
- 9 *Sarl, Société à responsabilité limitée*, that is limited liability company.
- 10 In general, young people find a job quite easily; but those who do not are usually people with serious problems, for whom it is very difficult to find a job. In other words, although the unemployment rate is very low, the proportion of people with a low employability among the unemployed in general is high.

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