

# **EU STRUCTURAL FUNDS IN IRELAND**

## **A Mid-Term Evaluation of the CSF 1994-99**

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*Edited by*  
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## Abbreviations

CSF	Community Support Framework
MTE	Mid Term Evaluation of Individual OP
OP	Operational Programme
SF	Structural Fund
SI	EU Structural Interventions

### *Operational Programmes*

AG	Agriculture, Rural Development and Forestry OP
EI	Economic Infrastructure OP
EN	Environmental Services OP
FI	Fisheries OP
HO	Hospital Infrastructure
HR	Human Resources OP
ID	Industrial Development OP
LU	Local, Urban and Rural Development OP
TO	Tourism OP
TR	Transport OP

### *Other*

ABT	An Bord Tráchtála	DIT	Dublin Institute of Technology
ADM	Area Development Management	DOE	Department of the Environment
AG	Agriculture, Rural Development and Forestry OP	EAGGF	European Agricultural Guidance and Guarantee Fund
ATS	Advanced Technical Skills	ECU	European Currency Unit
BIM	Bord Iascaigh Mhara	EEA	European Economic Area
BOP	Balance of Payments	EEISS	Energy Efficiency Investment Support Scheme
BSE	Bovine Spongiform Enzyme	EFTA	European Free Trade Association
CAP	Common Agricultural Policy	EI	Economic Infrastructure OP
CAs	Compensatory Amounts	EIS	Environmental Impact Statement
CEB	County Enterprise Board	EMU	European Monetary Union
CEGs	Community and Enterprise Groups	EN	Environmental Services OP
CFP	EU Common Fisheries Policy	EPA	Environmental Protection Agency
CI	Community Initiative	ERDF	European Regional Development Fund
CO <sub>2</sub>	Carbon Dioxide	ERM	Exchange Rate Mechanism
CSGs	County Strategy Groups	ERS	Early Retirement Schemes
CSO	Central Statistics Office	ESB	Electricity Supply Board
DAFF	Department of Agriculture, Food & Forestry	ESF	European Social Fund
DDA	Designated Disadvantaged Area	ESL	Early School Leavers
DG	Directorate General		

*Abbreviations (continued)*

ESRI	Economic and Social Research Institute	NESF	National Economic and Social Forum
EU	European Union	NGO	Non Governmental Organisation
FEOGA	French for EAGGF	NISP	Northern Ireland Single Programme
FFI	Family Farm Income	NO <sub>x</sub>	Compounds of Nitrogen
FI	Fisheries OP	OECD	Organisation for Economic Co-Operation and Development
FIFG	Financial Instrument for Fisheries Guidance	PATs	Programmes in Advanced Technology
FIP	Farm Improvement Programme	PESP	Programme for Economic and Social Progress
GDP	Gross Domestic Product	PLCs	Post Leaving Certificate Courses
GNP	Gross National Product	PMS	Performance Monitoring System
HEA	Higher Education Authority	PPP	Purchasing Power Parity
HO	Hospital Infrastructure	R & TD	Research & Technological Development
HR	Human Resources OP	RTC	Regional Technical College
HTBS	Higher Technical and Business Skills	SAC	Special Areas of Conservation
ID	Industrial Development OP	SI	EU Structural Interventions
IDA	Industrial Development Agency Ireland	SME	Small to Medium Enterprise
ILO	International Labour Organisation	SO <sub>2</sub>	Sulphur dioxide
INTERREG	Community Initiative	SSPPR	Special Support Program for Peace and Reconciliation
IPC	Integrated Pollution Control	SST	Specific Skills Training
ISCED	International Standard Classification of Educational Qualifications	TMC	Targeted Marketing Consultancy
LD	Local Development	TO	Tourism OP
LEADER	Community Initiatives	TR	Transport OP
LFAs	Less Favoured Areas	TSS	Training Support Scheme
LTU	Long Term Unemployed	UCD	University College Dublin
LU	Local, Urban and Rural Development OP	VEC	Vocational Education Committee
LUAS	Dublin urban light rail transit system	VPT	Vocational Preparation & Training Programme
MECU	Million ECU	VTOS	Vocational Training Opportunities Scheme
MIS	Management Information Systems	WCM	World Class Manufacturing
MLT	Middle Level Technician		
MTR	Medium Term Review		
MTS	Moving Towards Sustainability		
NESC	National Economic and Social Council		

## EXECUTIVE SUMMARY

### *Overview*

The Irish Community Support Framework (CSF) represents a notable success story. Funds have been deployed effectively to support and enhance what has been a remarkable economic recovery. Under the CSF process, medium-term planning of public expenditure has come much more to the fore, allowing a more systematic and effective programming in many areas. Capacity and capability has been increased in the productive sectors; there has been a quantum-leap in the provision of public infrastructure; education and training attainment forges ahead; and experimental institutional arrangements have galvanised local initiatives.

The task of this mid-term evaluation is much harder than if success had been more limited. Of course improvement is possible, and some corrections necessary. Separate mid-term evaluations of the individual Operational Programmes (OP) making up the CSF have already pointed to specific shortcomings and opportunities for improvement. Our business here is to take a broader view and ask what re-orientations seem desirable now, and looking towards the period beyond the current CSF.

Our evaluation of the public spending programmes included in the CSF begins from the premise that the opportunity cost of public funds is high. All public spending must be measured on a competitive basis against the best alternative use of funds. It is not enough to say that a particular expenditure is within budget and contributing to the goals set for it. We must try to assess whether it could be better spent.

There are three main elements to the thinking underlying our recommendations. First, we look anew at the original balance of CSF spending and its elements: better and more detailed information about the programmes and a more refined approach to analysing them allows us to arrive at some conclusions about the original balance of spending priorities. Second, changing external and general economic circumstances force us to reappraise priorities. Third, the internal performance to date of specific measures points in the direction of some particular recommended changes.

Underlying the 1994-99 CSF were *ex ante* appraisals of the individual draft OPs and an overall appraisal of the National Plan. The overall appraisal, carried out by The Economic and Social Research Institute (1994), was completed before draft OPs had been prepared, and therefore worked on the basis of the rather general and aggregate policy indications contained in the National Plan. Now, with three years of the CSF spending complete, it is possible to obtain a much clearer

## CSF MID-TERM EVALUATION

picture of the nature of the interventions that it finances, and to benefit from much more detailed information in evaluating their appropriateness and their performance. This analysis leads us to raise some questions about the value of devoting public resources to a number of specific measures, notably free or subsidised provision of services for which firms would be willing to pay for themselves, and other grants which are poorly targeted or have undesirable side-effects.

Changing circumstances can alter the relative need for different types of intervention. The unexpectedly rapid growth in the Irish economy in the past three years certainly qualifies as a sufficient change. In broad terms, this change points in a couple of important directions. First, our analysis indicates that, in order to ease congestion, there is now a clear need for more public spending on physical infrastructure than was earlier anticipated, and that the relative priority of different types of infrastructure have changed, with a clear need for more spending on non-urban roads. Second, the spend on several demand-led measures (notably relating to the productive sectors) are deviating sharply from plan: in many of these cases we argue that the appropriate response is a revision of spending targets in line with actual evolution, rather than altering rates of subsidy or grant. But the strong performance of the economy has not yet made sufficient inroads into youth and long-term unemployment to remove measures to ease these from the priority list. Indeed, we argue for an increase in allocations to specific measures for education of the disadvantaged.

The individual mid-term evaluations provide a set of detailed recommendations about the management and implementation of specific measures and sub-measures. These will not be repeated here. However, there are several major areas of concern. These include deadweight and other unintended side-effects including, but not limited to, those affecting the environment. There also seems to have been insufficient attention to ensuring competitive provision of subvented services, with the result that several state agencies have consolidated their *de facto* quasi-monopoly position in areas where private competition could have kept them on their toes.

We have come to believe that the use of formal performance indicators can be of greater use than has hitherto been recognised. There is no substitute for clear goals and comparing measurable outcomes with pre-set benchmarks. The current CSF represents the biggest experiment along these lines ever attempted in Ireland, and we make many suggestions for improvements.

A mid-term review is not the time for a root-and-branch restructuring of expenditure plans. Indeed, this sort of exercise is best undertaken before firm political commitments are made to the various programmes and projects. With this in mind, we make some suggestions for the longer run, based on our overall

## EXECUTIVE SUMMARY

assessment of impact, effectiveness and efficiency of the CSF and its measures. It is not too soon to make a start on adjustments that are desirable.

### **Macroeconomic Framework and Overall Evaluation**

#### *Actual Spending Relative to Plan*

The trend of spending relative to plan is tabulated in the body of the report. In 1994 and 1995 spending fell below plan (even though the plan incorporated considerable back-loading). By 1996, the rate of spending had improved and, though the net position is that the overall spending of structural funds in the CSF is behind schedule at this stage, there should be no real obstacle to drawing down all the SF within the available time (though with some spending probably spilling over – as permissible – into the period after end-1999).

The main concern in this area is the risk for a small number of measures that over-optimism concerning the administrative ability to draw-down the funds could leave funds allocated to these measures until it is too late to transfer them elsewhere, and they have to be surrendered. As a general proposition, the lesson must be that, if a measure is running into such a difficulty, funds should be transferred out of that measure and spent to advantage elsewhere. If it is desirable to fund the measure later, then Exchequer finance can be sought.

Recent exchange rate movements raise an interesting element in the spending profile. Although the CSF is agreed in ecu terms, the budgeting for individual measures is almost all in Irish pounds. Since late 1996, the market exchange rate for the Irish pound in terms of ecu has been very volatile. A sharp appreciation presented a serious risk that the Irish pound counterpart of the ecu structural funds will fall far short of what had been envisaged. Thus, were the average exchange rate in the first quarter of 1997 (£1 = ecu 1.354) to have prevailed for the rest of the century, there would have been a shortfall of Irish pound counterpart funds of about £250 million relative to what spending agencies have been counting on. Although subsequent exchange rate movements reduced this figure substantially, an early decision should be taken on whether and how such a shortfall is to be made up.

#### *The Macroeconomic Background*

The success of Ireland's recent economic performance is widely discussed. How is it that an economy which, only a decade ago, was a byword for under-performance, is now being held up as a model? A variety of potential contributory factors have been identified by various commentators, including the tightening of fiscal policy, the successive national pay agreements from 1987 on, the devaluation of 1986, the adherence to a strong currency policy from 1987, the

## CSF MID-TERM EVALUATION

increasing level of average educational qualifications and the inflow of structural funds. But the role of most of these possible explanatory factors can be, and has been, disputed.

The vigour of recent economic performance should not be overstated. Perhaps the best general purpose measure of Irish economic performance is GNP adjusted for terms of trade. Growth on this basis has averaged less than 4 per cent from the trough in 1986 to 1996. This recovery has eventually been accompanied by rapid employment growth, but the impact on unemployment has been somewhat muted, reflecting the long-standing complication of international migration in influencing trends in Irish unemployment.

No single factor can explain the economic turnaround. The success can more easily be understood if we recognise the mutually reinforcing effect of forces that were operating over quite different timescales. At the lowest frequency, there is the gradual accumulation of human capital. At the highest frequency, the short-run impact of the achievement of fiscal control and maintenance of wage competitiveness. And at a middle frequency, the institutional shake-out caused by the recession of the early 1980s. Among the external influences also at work have been the sharp increase in structural funds, and it is at the middle frequency that their role should be placed.

Against a background of fiscal retrenchment, particularly in public capital formation, the expansion of the structural funds in 1989 came at a very good time. A backlog of postponed projects and urgent unfilled public needs meant that the 1989-93 CSF could direct funds quickly to well-established priorities thereby gaining a very substantial pay-off. The benefits have already been documented in previous studies from which it is clear that, without the support of the structural funds, congestion in public infrastructure and constraints in third level education would have limited the recovery of those years.

### *Overall Macro Impact*

A model-based macro-economic assessment of the overall impact of the total structural fund spending has been carried out. Several alternative simulations are presented. Perhaps the most useful is that which shows the impact on GNP of the actual relative to what would have happened had there been no structural funds, but the national component of the public spending had been maintained.

Figure A shows the cumulative impact of the Structural Funds under the two recent rounds: 1989-93 and 1994-99. Their combined effect in the period 1995 to 1999 is to raise the level of GNP by between 3 per cent and 4 per cent above the level it would have been without the CSF (EU funding alone). The long-run impact of the two CSFs will be to raise the level of GNP by about 2 per cent above the level it would have been without them.

## EXECUTIVE SUMMARY

Figure A

### CSF 1989-1993 and 1994-1999

Addition to level of GNP, percentage points

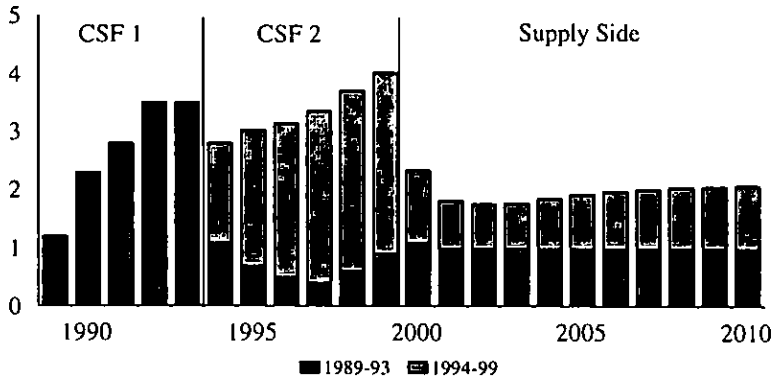
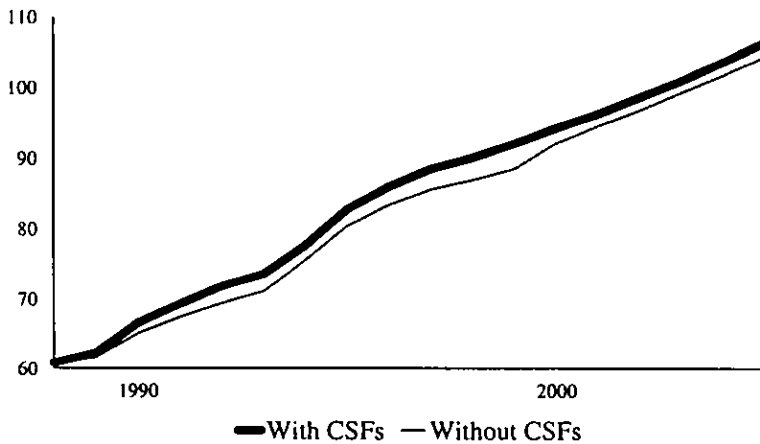


Figure B

### Ireland Compared to EU

GNP per head at PPP with and without CSFs



## CSF MID-TERM EVALUATION

Figure B shows the impact of the two CSFs in promoting convergence in living standards between Ireland and the rest of the EU. The impact is particularly marked in the 1990s when the demand side effects are likely to be at their peak. The advent of the first CSF in 1989 was particularly apposite given the prevailing pessimism about the future and the drive to cut all forms of public expenditure. At a crucial time the CSF encouraged a return to investment in public infrastructure, without which the economy to-day would be encountering more problems of bottlenecks.

On the other hand, new evidence is provided which suggests that it may be no easier now to escape from long-term unemployment than it was before.

### *Four Main Priorities*

The CSF defined four priority areas:

- direct support for productive investment as well as accompanying measures to improve the environment for enterprises;
- infrastructure expenditure to offset geographic and structural disadvantages;
- spending on human resources to augment human capital; and
- harnessing the potential of local initiatives.

General performance under each of the four main priorities is considered. It is not easy to identify the role of the CSF relative to other factors in contributing to the outturns. While it would therefore be facile to draw strong policy conclusions about the CSF from the successful economic performance in the sectors targeted by the Productive Sector priority, nevertheless the general outturn has to be considered very favourable.

Most of the spending under the Economic Infrastructure priority is earmarked for roads and public transport. The impact of the road improvement programme is palpable, despite the rapid growth in traffic – well above projections. This rapid traffic growth increases the need for continued improvements in the road infrastructure.

The Human Resource spending is conventionally broken into “competitiveness” and “equity” initiatives – a somewhat false dichotomy, we argue. In the context of the competitiveness effort, the falling rate of unemployment, the sustained rates of private return on education (despite growing numbers) and the continued strong growth in employment numbers are beyond what could have been hoped for. However, the disappointments with long-term unemployment suggest the need for some refocusing in the “equity” area.

There is no doubt that spending on the Local, Urban and Rural Development priority has galvanised local initiative throughout the country. For the longer term the lessons are less clear. Can the success stories be generalised? Will the



## EXECUTIVE SUMMARY

spending remain focused on the areas of greatest need to the extent that may have been achieved to date?

### **Microeconomic Analysis of Spending**

Our approach to evaluation of spending in the CSF goes well beyond a verification of adequate compliance with agreed policies – that task has already been substantially accomplished by individual OP mid-term evaluations. Nor do we confine ourselves to checking the CSF-level indicators: as they stand at present and taken collectively, they provide only a skimpy basis for normative analysis.

Instead we take account of the overriding imperative – so obvious that it is sometimes neglected – that the authorities must seek to get the best value for money in achieving the goals of the CSF. Each measure must justify itself in terms of the opportunity cost of public funds.

### *Sub-optimal Policy Design*

Public policy must try to avoid creating its own distortions. In addition to the familiar problems of deadweight and displacement, externalities and other distortions have even led to situations where, spending in one OP is trying to offset the adverse effects of spending in another OP. We also note a number of cases (in regional policy and rural development) for which structural fund spending is being adopted as a solution where simpler and more effective approaches are available. A common source of sub-optimal policy is where investment decisions are being made in circumstances when the prices facing investors and other actors are wrong: many problems being addressed by the structural funds would be eased by improved pricing mechanisms. Examples can easily be multiplied.

Another desideratum is the avoidance, where practicable, of reinforcing the quasi-monopoly acquired by some delivery agencies. Introducing competition where possible should be a goal constantly in the foreground of policy design, and it is not clear that the existing Monitoring Committee structure is well adapted to achieving this, heavily representative as it is of existing delivery agencies. Opening up several types of operation to competitive supply that are now provided by quasi-monopolies should offer savings.

### *Evaluating Spending Measures*

In order to arrive at recommendations that are meaningful at the level of individual measures, it is essential to employ a coherent approach to microeconomic policy analysis. The approach which we adopt has, as its central idea, the principle that public policy should be directed towards correcting distortions. This simple maxim provides a powerful tool for analysing effectiveness of public spending policy. For one thing, any spending of available

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public funds that is not directed to easing a distortion is undesirable, because of the deadweight costs of taxation. Therefore each spending programme has to pass a more rigorous test, namely: does it reduce distortions enough to justify the additional taxation involved? This question needs to be asked even in respect of the Structural Funds, as, at the margin, it is possible for the government to substitute a higher rate of co-financing, or additional non-cofinanced spending for a shortfall in structural funds. Therefore, by eliminating an unnecessary SF financed measure, the government is ultimately enabled to reallocate funds in such a way as to reduce the overall need for taxation.

In practice, full quantification is rarely possible. Some areas, such as transport infrastructure, yield a clearly calculable benefit. Other measures, such as interventions to combat information gaps and breach barriers of disadvantage, are less reliably linked to outputs. They are in the nature of speculative investments. It would be a mistake to rule against interventions simply because their effect is uncertain. Just as the private investor will take a chance on the unquantifiable, so must the public investor, where it is unclear how to correct the distortion. Nevertheless, the approach shows what the analyst of public spending must look for: not the financial yield of the investment, but the distortion which is being addressed. It is easy to lose sight of this goal, as have some of the mid-term evaluations of individual OPs.

### *Four-way Classification of Measures*

Our microeconomic analysis of public spending in the CSF employs the following classification of measures:

First, spending to provide services which are thought to have a "*public good*" characteristic that would inhibit their optimal provision in the private sector.

Second, schemes chiefly designed to alter relative prices facing private firms and individuals in order to correct for some externality; in other words, what is known as a *corrective* subsidy. Characteristically these are largely passive grant schemes where the administration of the scheme is confined to ensuring that it is reaching the target group and delivering the intended change in relative prices – with perhaps an eye also to minimising deadweight.

Third, *targeted* schemes designed to alter behaviour where private agents are thought to be inadequately informed, or where a specific externality exists; these involve a much more active administration, greater selectivity

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and considerable value-added in the form of training or advice. Unlike the second type, these are not open-ended subsidies.

Fourth, subsidies whose chief effect is *redistributional* in character.

### *Evaluation and Recommendations*

#### Public Goods

Among the public good-type programmes, there are several which appear severely underfunded, and a few whose credentials as public goods are too limited to warrant the volume allocated to them.

One type of public good where more funding is needed is in the Early School-leavers and Youthreach programmes: here the original budget was inadequate in light of the scale of the problem and the per-person cost of providing the needed services.

The road programme – even that part of it which is funded within the CSF now appears inadequate in the light of the substantial increase in traffic flows above the envisaged trend. Furthermore, the original costings were too low, and the intended quantum of roads cannot be delivered within the original budget. Therefore, although there is scope for lowering the cost by modifying design standards, there is a clear and strong case for a substantial increase in public funding for roads.

On the other hand, provision of SF funding for some port and airport public works can be safely reduced: the necessary works would be forthcoming with lower subventions. Further, the appropriateness of providing public funding on the current scale for some business services, such as Forbairt's technology services, and several of the services provided by ABT, continue to be questioned. Could these costs not be recovered from the market?

Finally, we note that, although funding for water provision and waste water in the Cohesion Fund is very high indeed, and despite further provision in the CSF, it appears that some smaller water provision schemes have been neglected with the result that sub-optimal private wells are being sunk. The list of smaller municipal water supply projects should be re-assessed for possible further allocations of funds where demand now exceeds capacity.

#### Corrective Subsidies

If correctly priced, corrective subsidies should be open-ended. Extra demand should be met, if necessary from Exchequer funds. Conversely, under-demanded corrective subsidies should not be adjusted to ensure take-up: their budget should be cut.

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The major instance of this is in the case of industrial expansion grants and employment grants. In this case, the funds earmarked for the food sector are not being taken up, whereas demand is outstripping budget for the non-food industrial sector. (As discussed earlier, we are treating these as a special type of corrective subsidy, where a sector has been earmarked for special treatment because of a perceived higher degree of responsiveness to the cost environment. The argument is stronger for inward investment than for indigenous, because of the diversion of effort into rent-seeking and the grant mentality that these subsidies can give rise to.) Accepting them as corrective subsidies, it is an essential corollary of our reasoning that the budget for the under-demanded primary food processor grants be adjusted downward, without any implication that the funds released should remain with the food sector: they should go to where they are most needed.

As elaborated in the report, a few other schemes of the general corrective type can be questioned as possibly mis-priced: either the distortion to which they are directed does not seem great, or is offset by a neglected distortion in the opposite direction.

### Targeted Action

It is easy to be unduly swayed in favour of the interventions we have described as targeted subsidies. Almost invariably these achieve attractive results: newly trained workers, new high-tech production equipment etc. But do they pass the more stringent test of correcting a distortion sufficiently large to overcome the excess cost of public funds?

A proposed downward revision of the allocation for a targeted subsidy is being proposed where we have come to doubt whether the underlying distortion to be corrected is actually present. This is especially relevant to subsidies for actions that should be privately profitable, and where the subsidy is designed to overcome an information barrier. As we argue, paradoxically, an excess demand for such grants is *prima facie* evidence that the assumptions underlying the intervention were wrong: possibly because the firms or individuals concerned were not at all unaware of the private profitability of the action and are simply taking the subsidy without significant change in their behaviour. The high deadweight involved argues for either suspension of such schemes or for reducing the grant rates. Note the sharp contrast between the appropriate action here and that for the open-ended corrective subsidy.

Therefore, some of our recommendations involve reducing subsidies for training which, in itself, is good. On the other hand, we recommend a drastic refocusing of the Industry Training for the Unemployed measure so that it more adequately reaches the originally envisaged target group.

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### Redistribution Measures

We have identified several substantial measures or sub-measures for which the major justification appears to be redistributive in character. Some of these are reasonably well-targeted at groups in need of income support and have positive side-effects (such as Community Employment, with its training component – albeit minimal – and the Control of Farm Pollution programme, which offsets a cost imposition on smaller farmers and gives some greater assurance that they do comply with anti-pollution regulations). Others, such as Headage Payments and the Peat Generation project, are poorly targeted and have adverse side-effects.

### Recommendations for Restructuring Spending

Based on the analytical framework proposed, and drawing on the description by the mid-term evaluation reports for individual OPs, we have highlighted some two dozen measures for which we question the need for the current level of planned allocation. We also note a handful of measures which clearly need additional funds. (Table 2.5.2)

For the longer term we also highlight “sunrise” and “sunset” areas: fields which should either begin to be phased out as the century ends, or which need to be amplified in the next planning phase. Among the sunrise areas are: upgrading of rural networks, broadband telecommunications and managed urban transport. Among the sunset areas are some which we already targeted for cuts in the immediate future, such as poorly designed rural relief measures, under-priced services to industry, poorly focused grants for tourism development, proliferation of local development bodies (we call for better integration with a strengthened local government system) and expansion grants for immobile firms.

Finally we call for greater reliance on pricing mechanisms to solve problems now addressed with steel-and-concrete solutions.

### Monitoring, Evaluation and Control

As compared with its predecessor, the current CSF 1994-99 contains significant developments in the use of quantitative indicators, as a means of monitoring the implementation of the CSF, assessing its impact and for the purposes of determining progress towards meeting the overall objectives. The approach is novel and in many respects is still at an experimental stage.

There are subjects with respect to which it is difficult to isolate the impact of programmes from others at a conceptual level, for example, measures to promote local development. In such areas it is very difficult to derive appropriate indicators of impact.

The development of indicators is quite uneven to date. The information available by way of indicators is inadequate to assess performance and could be

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inadequate from the point of view of detecting if satisfactory progress is being achieved in implementing the OPs concerned.

The work of the Evaluation Units is of a high professional standard and they provide a valuable resource to Monitoring Committees on an on-going basis. However, they are being required to conduct work programmes which are excessively broad. Given the commitment of resources to them, a more focused approach, which concentrated the efforts of the limited resources available on achieving improvements in the implementation and impact of the CSF, would be more appropriate. However, in the case of the CSF Evaluation Unit, the opposite conclusion is drawn about its work programme: we consider that its remit should be broadened to include analysis, in addition to evaluation.

Examination of the cost-benefit analyses carried out for three large projects reveal technical weaknesses which point to an urgent need to establish a common framework for such analyses, and one which is adequately adapted to Irish conditions. We recommend that the CSF Evaluation Unit be given greater responsibility in regard to the commissioning and maintenance of standards for cost-benefit analyses. Furthermore, such analyses should be carried out before political or institutional commitment is given to the projects being assessed.

The CSF process is intended to be a partnership between the National Government, the European Union and the Social Partners, who are represented on the Monitoring Committees of the various Operational Programmes. In overall terms it does, in fact, represent such a process. Indeed it is widely accepted and acknowledged that, relative to the experience with other countries the position of Ireland, in terms of openness of approach, willingness to share information and communicate openly with the Commission is considered to be very good. Thus, any comments made must be seen in the context of a process that has been well developed and is regarded to be working well.

At the aggregate level of the CSF, there is complementarity, on a broad scale, with other Community Policies such as the environment, equal opportunities and employment. Achieving employment growth and reducing unemployment is a key priority of the Community. The CSF is contributing to the achievement of rapid employment growth and falling unemployment in Ireland.

Issues of co-ordination arise both horizontally and vertically at the level of the CSF. However, the CSF Monitoring Committee's role would appear to be potentially greatest with respect to horizontal matters. There are several major priorities of the CSF which are implemented through or are affected by (parallel) actions and measures being pursued in several OPs. The key priorities which are affected in this way are:

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- **Human Resources Development.** In addition to the dedicated OP, there are significant human resources development measures or programmes contained in the OPs relating to Agriculture, Fisheries, Industry, Local, Urban & Rural Development, and Tourism. In addition, the main OP has feedback effects to these OPs.
- **Local, Urban & Rural Development.** The priorities and objectives of this OP are influenced to a significant degree by programmes and measures contained in the OPs relating to Agriculture, parts of Economic Infrastructure, Fisheries, Tourism and Transport.
- **Environment.** A number of OPs have the capacity to have a significant impact on environmental quality, in particular, Agriculture, Fisheries, aspects of Economic Infrastructure, Tourism, Local, Urban & Rural Development and Transport appear in this category.

### Specific Areas of Focus

#### *Human Resources*

Human resource spending in the CSF is scattered across three dozen measures in five different OPs. The Human Resource Development OP itself accounts for about four-fifths of CSF spending on human resources. Apart from that, each of the four OPs focused on the productive sectors contain human resource spending as does the Local, Urban & Rural Development OP.

*Still a need to focus on the disadvantaged:* The labour market opportunities of those with very low or no educational qualifications do not improve much when wider labour market conditions strengthen. Indeed, the relative situation facing this group may be worsening. There is thus both an opportunity and a need to focus measures on the most disadvantaged. Interventions classified as "equity" have become relatively more relevant, at least in terms of how human resource spending under the CSF is allocated.

In particular there is a need to intensify preventative efforts in initial education. Elimination of labour market disadvantage at the earliest possible point in an individual's life yields the greatest pay-off in terms of number of years of active labour market participation. Though only a small part of the total effort in this area, key measures which fall into this category are Preventive Actions and Youthreach. Additional places and a second year course are both needed; it is known from research results that limited duration participation in general training does not generate lasting employment achievement.

The provision of the necessary progression options both from Youthreach, and from certain other basic schemes is also crucial. This implies the application of additional resources in such a way that a much more intensive effort is brought to bear on the problem. Room should be found for this in the funding assigned to the

## CSF MID-TERM EVALUATION

poorly targeted Specific Skills Training scheme which needs urgent refocusing. (Survey results showed that 29 per cent of SST participants had education levels above Leaving Certificate.) Efforts should also be intensified in the area of guidance, placement and counselling.

Consistent with the need to ensure that sheltered employment is combined with a worthwhile training experience if it is to be effective in achieving re-integration, we endorse the recent creation of two options within the Community Employment scheme, with most of the training effort to be focused on a reintegration option. This should be pushed further.

*Increased deadweight in other schemes:* There is less need than before for CSF-funded grants for employer-provided training as in the TSS scheme, and others in the productive sector OPs. The evidence is that deadweight has been very high, especially for large firms, and it is surely increasing. Likewise, there has to be a questionmark over the public funding of postgraduate study in the ATS measure.

*Target groups:* We also discuss the impact of human resources spending on particular target groups. The impact on the long-term unemployed could be improved by better focusing of programmes, by improved provision of progression routes and by a more intensive guidance and placement effort. The human resource measures are impacting upon women but gender segregation along occupational/subject lines is still in evidence. Barriers to the re-entry of women into the labour force remain and these should be addressed.

### *Impact on the Environment*

A detailed overview of environmental impacts of the different OPs reveals the importance of environmental side-effects in many areas, and a number of specific recommendations are made. Overall, the environmental effects of expenditure under the CSF are mixed. The OP for Environmental Services will result in improvements but there is insufficient evidence to determine whether the Programme gives best value for money. It is evident that the CSF did not target some of the major areas of concern. With regard to the other OPs, the results are more varied, ranging from actual harm, through missed opportunities, to genuine improvements. Some of the potential harm had been flagged beforehand.

Given the above, the mid-term evaluations of individual OPs displayed the inadequacy of the information available to measure the environmental impacts. Data on several aspects of environmental quality not being to hand, comprehensive inventories on conditions before activities started were needed. The environment was put at risk and some irreversible damage occurred owing to the lack of what would constitute "evidence" of damage.



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The recent confirmation of the Government's intention to develop a more concerted approach to the use of economic instruments in the interests of sustainable development is welcome, since the CSF cannot realise its full potential if national environmental policy is inadequately developed.

### *Northern Ireland*

EU-supported funding for the border areas and for cross-border transport infrastructural development is seen as ample to prospective needs. It is not considered that a refocusing of CSF funding in this regard would materially help the Peace Process.

### *Returns to Educational Investment*

The rapid growth in the proportion both of new entrants and of the overall labour force with Leaving Certificate and higher qualifications might have been expected to lower the rate of return on investing in such qualifications. To assess this, a micro-econometric modelling exercise involving the estimation of earnings functions was carried out on a large sample of wage-earners obtained in 1994, and the results compared with those for 1987.

In general, there is little evidence of a decline in the private returns to education. Returns to university degrees are at worst constant and may have increased. This may reflect increased demand for higher qualifications. Note that evidence of increased returns is weakest for the youngest age group; this would indicate the supply effect is operating here, i.e., the demand effect is being partially offset by increased supply thus limiting the increase in returns. Returns to the Group, Junior and Intermediate Certificates have risen relative to the "no qualification category". This effect has been particularly strong for young and middle-aged men. This raises a concern about the further marginalisation of the most disadvantaged and points to the importance of intervention to aid this group. The results for diplomas and other third level qualifications are mixed; in many cases the returns have decreased.

\* \* \*

Although it will remain as much an art as a science, the task of deciding how best to spend scarce public funds can only benefit from a systematic and rational analysis. This we have attempted to do, in a way which is consistent with the pursuit of sustainable development, efficiency, social justice and the common good. Our attempt to assess the relative merits of different measures in the CSF is necessarily based on partial information. But much has been learnt in the past few

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years, allowing us to point in the direction of desirable changes. Some broad messages are clear-cut.

The rapid economic growth has increased the need for certain types of public infrastructure, notably non-urban roads and urban public transport.

On the other hand, there is less need than before of special targeted incentives to encourage business to undertake investment and training activities that evidently contribute to their profits, or to subsidise the provision to business of services for which they should willingly pay full price.

The CSF pays for part of ongoing policy to sustain rural prosperity; but measures that are supported here have adverse side-effects, and should be phased out in favour of a better-funded programme of upgrading rural networks.

Labour market action to help the disadvantaged needs to be much better focused on those in need.

Some of the CSF spending goes to offset the effects of taxation, and other policies. It would be better (in the longer run) to adjust these other policies (including pricing policies) so that they no longer create avoidable distortions. In the longer run also the institutional structure of local development initiatives will need to be recast.

The CSF has introduced the use of quantified indicators to assess the performance of public spending into many areas. This is still in its infancy and further efforts need to be devoted to improving the choice of indicators and their measurement, for example in monitoring environmental side-effects of policy.

As is appropriate for such an evaluation, we have dwelt on problem areas and recommendations for change. This must not be allowed to obscure the important contribution which the CSF spending has made and will continue to make, the professionalism and integrity with which it is managed in the public interest, and indeed the openness to improvement and refinement which is evident among the membership of its Monitoring Committees.

## INTRODUCTION

This overall evaluation report on the Community Support Framework (CSF) 1994-99 is designed to contribute to the process of improving and refining the spending under the framework for the remainder of the period to the end of the century. It also looks forward to the period beyond: now is the time to begin phasing out certain initiatives, and also to make advance preparations for spending that cannot be accomplished in the remaining three years, but would be desirable thereafter.

The report has been prepared in response to terms of reference provided by the Department of Finance. As was envisaged, much of our work has been based on the nine mid-term evaluations (MTE) of individual Operational Programmes (OPs) and the Regional MTE, which became available to us at various dates between January and mid-March, 1997. The report was finalised in April 1997 and considered by the CSF Monitoring Committee on 6 May 1997, since when only minor editorial amendments have been made.

The report is organised in four parts as follows.

Part 1 presents the philosophy of the CSF, outlines the spending magnitudes and discusses the overall context in which the spending is taking place. It provides a macroeconomic evaluation of the spending, measuring its contribution to output, employment and unemployment. The broad performance is evaluated relative to the four main priorities of the CSF.

Part 2 turns to the microeconomic issues, beginning with the evaluation methodology adopted, highlighting the various unintended side-effects which can mar public spending, surveying the major results of the individual MTEs, and finally making concrete recommendations about shifting spending between different measures.

Part 3 is concerned with the questions of monitoring, evaluation and control, essential to obtaining good performance. The complementarity of the CSF with Community policies, notably on the environment, on equal treatment for women and other target groups, and the Common Agricultural and Fisheries Policies, is also assessed.

Part 4 contains three annexes, one dealing with cross-programme environmental issues, the second presenting the results of a new micro-econometric analysis of the returns on investment to education and the third including tabular material presented in ecus to complement the Irish pound figures in Part 1.

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### *Abbreviations*

Because of the large number of measures and bodies referred to, most of which have lengthy titles, it has been decided to make extensive use of abbreviations. A list of these abbreviations is provided. Several appear repeatedly: as indicated already, OP means one of the nine Operational Programmes into which the CSF is divided; each of these OPs has been subjected to an individual mid-term evaluation (MTE) and each has a two-letter abbreviation. Here are the OPs with their abbreviations, in the standard order in which they appear in the CSF:

ID	Industrial Development OP
AG	Agriculture, Rural Development and Forestry OP
FI	Fisheries OP
TO	Tourism OP
TR	Transport OP
EI	Economic Infrastructure OP
EN	Environmental Services OP
HR	Human Resources OP
LU	Local, Urban and Rural Development

The abbreviation SF means structural funds, SI denotes "structural interventions" and includes the Cohesion Fund as well as the SF.

### *Reading Guide*

Many readers will not wish to read the whole report, being interested only in certain aspects. The following guide may be of assistance.

The *general reader* is encouraged to read Part 1 for the overall and macroeconomic effects, and then sections 2.1, 2.2.1, 2.4 and 2.5 for the microeconomic analysis (thus skipping section 2.3 and the remainder of 2.2 which go into greater detail).

For *readers interested in a particular OP*, Table 2.2.1 contains a list of all measures by OP, together with the SF allocated. This also provides the mnemonic used for each measure.

In order to find comments on a particular OP, note that:

- Its role in contributing to a main priority is dealt with in 1.3. (Priorities listed in the standard CSF order.)
- There is a commentary on the relevant MTE in 2.3 (OPs are dealt with in the standard CSF order).

## INTRODUCTION

- The need for possible financial restructuring is in 2.5 (measures dealt with according to their type as shown in Table 2.2.1). Any particular recommendation here really needs to be read in conjunction with 2.5.2 and 2.1.
- Discussion of indicators by OP is in 3.1 (again OPs are dealt with in the standard CSF order).
- Discussion of monitoring by OP is in 3.2.1.
- Environmental impact is dealt with in 3.4.1, and in the Annex at 4.1.

In addition there are specific comments on

ID at 3.4.2

AG at 2.3.11, 2.4.2 and 3.3.4

TR at 2.4.1 and 2.4.2

FI at 3.3.4

TO at 3.2.4

EI at 2.4 and 3.2.4

EN at 3.3.2

HR at 2.3.11, 2.5.5, 3.3.3 and 3.4.1

LU at 2.3.11, 2.5.5, 3.3.3, 3.4.1

## Part 1

### *OVERALL CONTEXT, PHILOSOPHY AND MACROECONOMIC EFFECTS*

This first part of the report is concerned with overall performance of the CSF. Section 1.1 discusses the policy framework adopted and the economic challenges which it addresses. After introductory remarks providing an overview of the evaluation (1.1.1), we outline the overall framework and initial conditions which have governed the programme (1.1.2). We describe and interpret the favourable macroeconomic environment within which this CSF and the last have operated (1.1.3), before discussing the economic policy philosophy underlying the CSF (1.1.4). Sub-section 1.1.5 provides a quantified account of the overall spending involved and the pattern of spending against target. Section 1.2 presents the overall macroeconomic evaluation, and includes in particular (1.2.6) a discussion of trends in the employment prospects of the long-term unemployed. Section 1.3 evaluates in broad terms how the four main priorities of the CSF have fared.

#### *1.1 Economic Challenges and the Policy Framework*

##### **1.1.1 Introductory Remarks: Overview of the Evaluation**

The Irish CSF 1994-99 represents a notable success story. Funds have been deployed effectively to support and enhance what has been a remarkable economic recovery. Under the CSF process, medium-term planning of public expenditure has come much more to the fore, allowing a more systematic and effective programming in many areas. Capacity and capability has been increased in the productive sectors; there has been a quantum-leap in the provision of public infrastructure; education and training attainment forges ahead; and experimental institutional arrangements have galvanised local initiatives.

Our evaluation of the public spending programmes included in the CSF begins from the premise that the opportunity cost of public funds is high. All public spending must be measured on a competitive basis against the best alternative use of funds. It is not enough to say that a particular expenditure is within budget and contributing to the goals set for it. We must try to assess whether it could be better spent.

There are three main elements to the thinking underlying our recommendations. First, we look anew at the original balance of CSF spending and its elements: better and more detailed information about the programmes and a more refined approach to analysing them allows us to arrive at some conclusions about the original balance of spending priorities. Second, changing external and general economic circumstances force us to reappraise priorities. Third, the internal performance to date of specific measures points in the direction of some particular recommended changes.

Underlying the 1994-99 CSF was the National Development Plan of October 1993, which was appraised for the Commission by the ESRI (1994). That appraisal was completed before draft Operational Programmes had been prepared, and was therefore based on the rather general and aggregate policy indications contained in the National Development Plan. Now, with three years of the CSF spending complete, it is possible to obtain a much clearer picture of the nature of the interventions that it finances, and to benefit from much more detailed information in evaluating their appropriateness and their performance.

Changing circumstances can alter the relative need for different types of intervention. The unexpectedly rapid growth in the Irish economy in the past three years certainly qualifies as a sufficient change. Our analysis indicates that, in order to ease congestion, there is now a clear need for more public spending on physical infrastructure than was earlier anticipated, and that the relative priority of different types of infrastructure have changed, with a clear need for more spending on non-urban roads. Second, the spending on several demand-led measures (notably relating to the productive sectors) is deviating sharply from plan: in many of these cases we argue that the appropriate response is a revision of spending targets in line with actual evolution, rather than altering rates of subsidy or grant. But the strong performance of the economy has not yet made sufficient inroads into youth and long-term unemployment to remove measures to ease these from the priority list. Indeed, we argue for an increase in allocations to specific measures for education of the disadvantaged.

Individual mid-term evaluations (MTE) have been carried out for each of the Operational Programmes; a list is provided in the bibliography. These MTEs provide detailed recommendations about the management and implementation of specific measures and sub-measures. These will not be repeated here. However, there are several major areas of concern. These include deadweight and other unintended side-effects, including, but not limited to those affecting the environment. There also seems to have been insufficient attention to ensuring competitive provision of subvented services, with the result that several state agencies have consolidated their *de facto* quasi-monopoly position in areas where private competition could have kept them on their toes.

### 1.1.2 Overall Policy Framework and Initial Conditions

#### *Evolution of the Structural Funds*

The history of structural assistance to Ireland from the EC is one of progressively increasing amounts, of an increasing range of programmes, initiatives and funds, and of increasing sophistication in the procedures of monitoring and in the intensity of evaluation.

From the outset of its membership in 1973, Ireland received structural assistance from the Regional Development and Social Funds (ERDF and ESF) and from the guidance section of the Agricultural Guidance and Guarantee Fund (FEOGA).

In 1988, following the Single European Act, the structural funds were reorganised with a view to ensuring effective co-ordination with the goal of economic and social cohesion. This reform involved the use of Community support frameworks (CSF), each representing a coherent multi-year programme agreed between the Commission and national authorities, identifying development priorities and effectively programming the funding to be provided from the structural funds as well as from national resources. The first CSF covered the period 1989-93, and the second one is for the six-year period 1994-99.

Ireland benefited from the greatly increased funding allocated, following their reform, to the structural funds for the period 1989-93. There was also an enhanced emphasis on procedures for evaluation. For example, overall spending in the 1989-93 CSF was subjected to an extensive mid-term analysis in Bradley, Fitz Gerald, Kearney, *et al.* (1992), and to an *ex post* evaluation with recommendations for the current programme in ESRI (1993).

#### *The Current CSF, 1994-99*

Total public spending in the current CSF was budgeted in real 1994 prices terms at £6.4 billion, of which £4.6 billion represented structural funds.<sup>1</sup> This represents a further real increase on the average amounts disbursed in 1989-93, though as shown later it does not represent an increase from the level reached in 1993.

In addition to the sums programmed under the CSF, part of structural fund assistance has been flowing through a varying number of cross-national Community Initiatives (CI) each targeted at a specific sector or at broad regions with specific needs. There is also some funding for projects under the EEA financial mechanism. Finally, there is the Cohesion Fund, negotiated at the time of the Maastricht Treaty and established in 1993; it finances projects to improve transport infrastructures and environmental protection in Ireland, Greece, Portugal and Spain. The sums involved are provided in detail in 1.1.5 below; in summary,

<sup>1</sup>The final outturn will be affected by the deflator and by exchange rate movements.



during 1994-99, some £1.5 billion of structural funds are being disbursed in Ireland to projects financed by the Cohesion Fund or by the EEA financial mechanism, and to Community Initiatives. Even though this non-CSF spending covers measures and projects that are closely-related to those financed by the CSF, it does not fall within the ambit of this evaluation. The consequence of this artificial constraint on the scope of the evaluation is that we are confined here to examining programmes accounting for three-quarters of EU structural intervention spending in Ireland during this period. Nevertheless, the principles that we propose do, of course, have wider application.

This report is concerned with impact, effectiveness and efficiency of the CSF and not with accounting or legal issues. However, it is relevant to note that the CSF is constructed around ten Operational Programmes (OPs)<sup>2</sup> which are managed separately, each with its own Monitoring Committee. The Monitoring Committees, representative of the relevant Government Departments, State Agencies, Social Partners and other relevant entities, as well as the European Commission, are the main decision-making bodies for the expenditure of the funds allocated to each OP. Decisions on cross-programme issues are taken by the CSF Monitoring Committee, representing Government Departments, the European Commission and the European Investment Bank. As already mentioned, in addition to this overall evaluation, each OP has been the subject of a separate independent mid-term evaluation; there has also been an evaluation of the regional impact within Ireland.

Several different DGs of the Commission are involved, not least because four different Structural Funds (SFs) financed by the European Community Budget are contributing to the CSF: the long-established ERDF, ESF and FEOGA having been joined from 1994 by the Financial Instrument for Fisheries Guidance (FIFG). In addition, public co-financing is provided by the Irish Exchequer, Irish State Agencies and the private sector.

#### *Objectives of the CSF*

The central objectives set out for the National Development Plan on which the CSF was based were:

Ensuring the best long-term return for the economy by increasing output, economic potential and long-term jobs and

Reintegrating the long-term unemployed and those at high risk of becoming so into the economic mainstream.

- The stated strategy focused on four *priority areas*:
- Direct support for productive investment as well as accompanying measures improving the environment for enterprises;

<sup>2</sup> There is also the Tallaght Hospital project.

- Infrastructure expenditure to offset geographic and structural disadvantages;
- Spending on human resources to augment human capital;
- Harnessing the potential of local initiatives.

### *The Ex Ante Appraisal*

In an *ex ante* appraisal of the National Development Plan, prepared in 1994 for DGXVI, the ESRI observed that the main features of the plan continued a policy strategy that had been in place for several years. As in 1989-93 Human Resources spending was still to take the largest single share, followed by the hard infrastructure (especially Transport and Environmental Services) and by supports for Industry and Agriculture.

We expressed the opinion that, in its own terms, the plan would probably work, but that its aims were limited, and that it would do comparatively little to solve some deep-seated weaknesses of the Irish economy. In the event, the five quantifiable macro objectives for the CSF – for employment, output and capital formation – are being easily exceeded. At the micro level, most of the measures are working well and, though some have been slow to get going (often because of delays in negotiating the CSF itself), expected results are typically in line with, or better than, expectations.

At the time of the *ex ante* appraisal, details of the planned spending were not available, and it is only now that the true nature of the spending programme can be assessed as a whole.

We stated that the shortfall of Ireland's GDP per capita relative to the EU average was intimately related to the problem of unemployment and low employment. This view has been vindicated by the rapid subsequent convergence of per capita income. As will be explained, this convergence has been critically dependent on a rapid increase in employment – about 16 per cent in the past four years.

The plan's central emphasis on contributing to employment growth was thus fully justified. It proposed action on the side of both supply and demand for labour. Investment in market activities and investment in infrastructure to make market-driven investment viable and attractive. Investment in human capital was designed to make labour more employable and more productive. Focusing in particular on the perceived ratchet effect in long-term unemployment and the resulting exclusion of many from success in the labour market, action to try to keep the long-term unemployed in contact with the labour market was a significant element in the plan also.

But the plan was only one element in overall economic strategy, and the favourable outcome cannot be wholly attributed to it. The *ex ante* appraisal stressed the importance of complementary policies, including policies for macroeconomic stability, as well as micro-policy areas such as tax policy, especially direct taxes

on earned income; social welfare policy especially as it impinges on the labour market; and labour market inflexibility – all items that had been emphasised in the Culliton report. Though it is possible to point to several important actions that seem to run counter to this, stated government policy has remained broadly supportive of this policy thrust.

In the *ex ante* appraisal, we outlined Ireland's economic weaknesses as seen around 1993. The key symptoms were in the dimensions of unemployment and slow employment growth, slow private investment and weak indigenous firms.

We noted at the time that many underlying factors contributed to the main symptoms of weakness. Some of these were not directly amenable to correction through the CSF, including the lasting effects of inherited shocks, inefficiencies in the sheltered sectors, wage-setting institutions and other labour market rigidities, the CAP and what we described as a policy sclerosis inhibiting radical policy reform. But other underlying factors could be helped by application of the structural funds, including the problems of educational drop-out and labour market marginalization, weak infrastructure (soft and hard), and even the high level of public debt, which could be eased to the extent that the structural funds would reduce the pressure for further borrowing. Clearly, the main thrust of the CSF was to make improvements in these areas.

We also noted that the design of the CSF could influence the degree to which the tax and subsidy regime contributed to distortions in the economy. It remained to be seen whether in this respect the net effect of interventions would prove positive (subsidise investment to offset other contributions to high cost) or negative (perpetuate grant-mentality thereby weakening indigenous firms; damage environment as a side-effect of income maintenance in agriculture).

Written at a time of pause in the otherwise sustained Irish economic recovery of the past decade, the assessment proved to be too downbeat. Unemployment has fallen, employment growth is rapid, and there has been some increase in private investment. Before looking in more detail at the philosophy of the CSF and examining the extent to which it may need to be revised in the light of developments, it is necessary to examine the causes of this improvement.

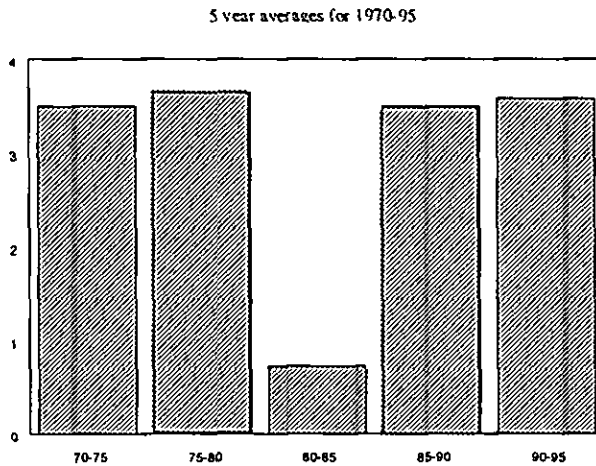
### 1.1.3 Interpreting Ireland's Recent Economic Success

The success of Ireland's recent economic performance is widely discussed. How is it that an economy which, only a decade ago, was a byword for under-performance, is now being held up as a model? A variety of potential contributory factors have been identified by various commentators, including the tightening of fiscal policy, the successive national pay agreements from 1987 on, the devaluation of 1986 and 1993, the adherence to a strong currency policy from 1987 to 1992, the increasing level of average educational qualifications and the

inflow of structural funds. But the role of most of these possible explanatory factors can be, and has been, disputed.

It is essential not to overstate the vigour of recent economic performance. As is well known, GDP growth rates are bloated by the profits of foreign multinationals, which do not contribute to Irish national income. The alternative measure GNP includes only those factor incomes accruing to residents and thus excludes the multinationals distortion. Another distorting factor which leads to an exaggerated impression of recent performance is the unfavourable trend in the terms of trade: growth rates of output measured at constant prices overstate the growth in Irish purchasing power because of a fairly systematic upward trend in the ratio of import to export prices. As a result, the purchasing power of GNP is rising less rapidly than the volume of GNP output.

Figure 1.1.1: *Growth in GNP Adjusted for Terms of Trade*



In order to take account of these effects by looking at GNP instead of GDP and adjusting for the terms of trade effect, we find that annual growth has averaged 3.5 per cent in the late 1980s and 3.6 per cent during 1990-95. Exactly the same growth rates were recorded during the 1970s (Figure 1.1.1). Only the early 1980s dipped below this average. Taking account of current and capital transfers from abroad (including the structural funds) does not alter the average growth in the decade from 1985, which still works out at just under 3.6 per cent.<sup>3</sup>

<sup>3</sup>GNDI, which also includes the flow of current transfers from abroad, shows the same pattern. Indeed, GNDI grew slightly faster in the 1970s at 3.8 per cent per annum, compared with 3.6 per cent in 1985-95.

(The 1996 performance was better, though – and 1986 worse – with the net result that the ten-year average from 1986 to 1996 is about 3.8 per cent.)

Note, however, that population growth was considerably faster in the 1970s – more than 1.5 per cent per annum – than since 1985. Indeed, population fell by about 1 per cent overall in the late 1980s, while it has been growing at only about 0.5 per cent per annum since 1990. So growth rates per head of population have been rather higher in the more recent period. This has largely been because numbers at work have grown vigorously: at about 1 per cent per annum in the late 1980s and about 2 per cent per annum since 1990. This rapid growth in employment is effectively the outstanding feature of the strong Irish economic performance of the past decade.

The impact of this strong employment performance on unemployment has been somewhat muted, reflecting the long-standing complication of international migration in influencing trends in Irish unemployment. Having peaked at 17.8 per cent in 1986, unemployment dipped to 13.0 per cent in 1990, before rising to another peak of 15.7 per cent in 1993. Since then it has fallen – probably to about 11 per cent by 1997. The recent trend is certainly in the right direction, but cannot yet be said to represent an outstanding success. A noteworthy feature of recent trends in unemployment is the fact that the share of long-term unemployment in the total has not risen, implying that long-term unemployment has been falling too.

Looking at the sectoral composition of recent growth, the importance of net exports is evident (even after appropriate adjustment for the effects of the multinationals). But the recovery in capital formation, especially investment in machinery and equipment, has not been strong enough to lift the investment ratio to the levels customary before 1987: even if the efficiency of investment has improved, there is room for some doubt as to whether current rates of growth can be sustained without increased investment intensity in the years ahead.

### *Monocausal Theories*

In explaining the strength of recent Irish economic performance, monocausal explanations will not do. For instance, it is hard to reconcile simple versions of the model of "expansionary fiscal contraction", which underlies the arguments of those who lay stress on the fiscal turnaround, with the failure of the economy to respond favourably to the earlier attempts at fiscal consolidation. Evidently there is no simple relationship between the level and trend of the government borrowing requirement and macroeconomic performance. Besides, the sequence in which the various macroeconomic expenditure components recovered during 1988-90 do not correspond with the simple account of the expansionary fiscal contraction story. That account predicts that a cut in the government deficit will, by reducing the projected level of future taxation, encourage investment and release precautionary saving. However, the historical record shows that it was net exports that recovered

first (in 1987). Though there was subsequently a big reduction in the personal saving ratio, the role of the large tax amnesty in 1988 in reducing measured personal saving must be acknowledged. Only in 1989-90 – thus well into the recovery – did investment begin to bounce back.

On the face of it, the two exchange rate stories – one suggesting that the 1986 devaluation was the cause of take-off, the other that the later avoidance of devaluation was the key – are mutually incompatible, unless one assumes both that the first gave a competitiveness gain without loss of credibility and that the second boosted credibility without loss of competitiveness. In practice, the timing of the devaluations of both 1986 and 1993 ensured that they helped competitiveness without generating serious inflationary pressures. But currency policy can only be counted as a contributory factor, generally favourable and important at crucial points.

The role of the pay agreements is also disputed by those who question the appropriateness of collective agreements negotiated primarily on behalf of those with jobs in an economy with high unemployment to provide for wage rates consistent with a reduction in unemployment. (There was some involvement of negotiator-advocates of the unemployed and disadvantaged in the negotiation of Partnership 2000, though the traditional social partners remain the key players.)

Finally, though the benefit of the inflow of structural funds is indisputable, their magnitude has not been sufficient to explain more than a fraction of recent growth unless their spending has had an extraordinarily high rate of return. After all, total structural fund spending peaked in 1993 at about 3½ per cent of GNP. As will be evident from our discussion below, most estimates of their contribution to GNP arrive at an estimate which is not much greater than that as a share of GNP. Therefore, the structural funds cannot explain more than a small portion of the cumulative 57 per cent growth in GNP from 1987 to 1996.

#### *A Consistent Account*

The position of this report is that no single factor can explain the economic turnaround. But much of what has happened can be captured by a relatively simple schematic story which takes account of the main elements mentioned above. According to our view, the extraordinary success can more easily be understood if we recognise the mutually reinforcing effect of domestic forces that were operating over quite different timescales. At the lowest frequency, there is the gradual accumulation of human capital. At the highest frequency, the short-run impact of the confidence-restoring correction in the public finances as well as the protection of international competitiveness through wage agreements and exchange rate policy. And at a middle frequency, the institutional shake-out caused by the recession of the early 1980s, including, but not limited to, the sea-change in labour force attitudes.

These domestic causal factors have interacted favourably with several external forces which can likewise be categorised by the timescale over which they are operating. First, at low frequency, the progressive shift (resulting from globalisation and from technological changes) in the premium which the market pays for such characteristics as adaptability, problem-solving and communication skills (in which Ireland may be held to be strong) over installed plant, routine and size of home market (in which Ireland has less to offer). Second, the favourable conjunction at (high-frequency) of demand growth in our major trading partners when this was needed to kick-start the recovery. At the middle frequency may be placed the contribution of the structural funds, which is the main focus of this paper.

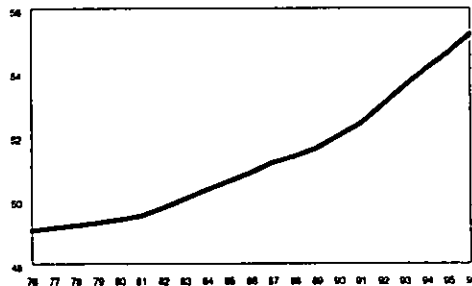
A number of smaller virtuous circles swirling around the main success, may also be noted. For example, though its main causes lie elsewhere, the sustained growth in tourism has been helped by, and in turn has likely contributed to, a number of cultural successes notably in popular music.

*Low Frequency: Factors of Production and Shifting Technology*

An important low frequency factor in current economic performance has been the decline in age dependency rates. This is attributable to the bulge of births which peaked in 1979, and whose members have been reaching working age in recent years, generating a large workforce to support a relatively static older population, and a rapidly declining number of children. Age dependency has been improving in Ireland since the early 1970s with some acceleration since about 1991 (Figure 1.1.2), so this provides no explanation for turnaround as such.

Figure 1.1.2: *Age Dependency*

20-64 as a % of total annual population



Of course, a large working-age population is only a blessing to the extent that they are at work. Prospective growth in the non-agricultural labour force has long been presented as a problem for Irish economic policy. Countless reports and several National Plans have interpreted the growth as a burden increasing the number of jobs that need to be created. Now it is beginning to be seen as an

opportunity. In the 1960s and especially in the 1970s the jobs were created, but so many were created in public or in sheltered and uncompetitive, private services where they contributed too little to net exports for the macroeconomic outturn to be sustainable without a substantial balance of payments deficit and heavy public borrowing.

After the adjustment of the 1980s, little of the resumed growth in employment has occurred in the public sector, and sheltered entities like the banks of the 1960s have been replaced as the main sources of private service employment by more market-driven and competitive enterprises.

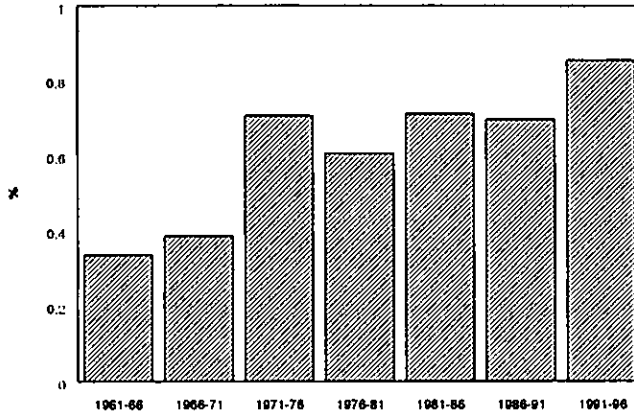
Despite growing participation and little net emigration since 1990, job growth has been sufficient not only to absorb labour force growth but also to make significant inroads into the high unemployment rates which had been reached during the recession of 1980-86. The lesson this teaches is that the economy can deliver job growth on a sustained basis even without the artificial support of deficit financed public sector job creation measures. The productivity of these new jobs is such that they do not generate a payments deficit. Indeed, the fact that the public sector is no longer absorbing such a large part of the annual flow of new young entrants to the labour force has effectively widened their horizons.

There has been a fairly steady increment to human capital as reflected, for example, in the index shown in Figure 1.1.3. This index is a weighted average of workers with different educational levels. The weight attached to each worker corresponds to base-year average earnings for their education level (Figure 1.1.3). This index suggests that human capital growth could have contributed about 0.7 percentage points to wage rates on average 1970-95, with the highest contribution during 1990-95 at 0.8 per cent. It may be that the contribution of education to output is higher than that, with some of the gains having spilled over in externalities, or been captured in profits. It may also have contributed to the changing attitudes (discussed below) which have begun to reduce unemployment.



Figure 1.1.3: *Contribution of Improved Human Capital to Growth Rate*

5 year average, 1961-96



Although the increased supply of educated labour means that many job-types are now being filled by more-educated workers than ever before, it appears from new research carried out for this report (Section 4 below) that there has been little change in the proportionate wage differentials for different education levels. This suggests that external and technological demand shifts in favour of the more educated have offset the tendency of increased supply of education to lower its market value.

The suggestion that similar global technological changes have shifted the terms of trade in favour of labour market traits increasingly characteristic of the Irish workforce is hard to document quantitatively, but is well exemplified by the conspicuous (though small in scale) success of the Irish music industry.

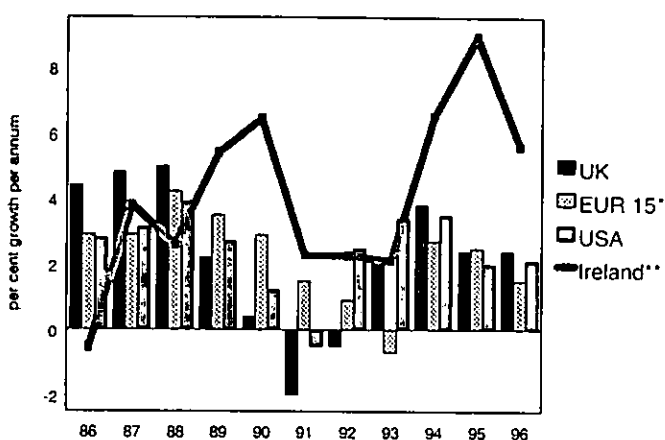
#### *High Frequency Factors*

Short-term swings in autonomous demand, inflation, exchange rates or interest rates can all affect macroeconomic performance. As already mentioned, the boom in the UK and world economy during 1987-90 partly offset the domestic fiscal contraction in those years and, together with the lower world interest rates prevailing in 1987-89 and the improved competitiveness following the devaluation of 1986, helped kick-start the Irish economy into recovery.

Looking at the main indicators of these high-frequency factors in more recent years, it is evident that only inflation has displayed a uniformly favourable trend over the past three years, let alone since 1990. Certainly UK demand growth has been strong since the currency crisis of 1992, and the US economy has also been strong since about then. Continental economies have generally displayed a weak tone. Thus external demand forces have been moderately favourable during the

three years of the current CSF (Figure 1.1.4). Domestic government demand has been reasonably strong (Figure 1.1.5), despite the fact that the government deficit has remained moderate – indeed it can be argued that control over public spending has been less tight than it should have been, inhibiting much reduction in the tax take. But growth in autonomous demand as measured by these indicators has been well below GDP growth; to the extent that they have been relatively stable, that has been an enabling factor rather than a driver of strong Irish output growth.

Figure 1.1.4: *GDP Growth in Ireland and Partner Countries*



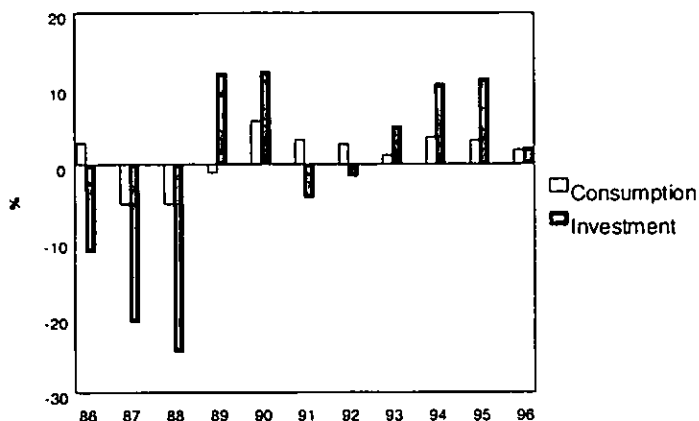
\*Until 1994 West Germany only. \*\*GNP.

Though confidence in overall macroeconomic stability has been helped by inflation remaining low, both by domestic historical standards, and in comparison with other EU countries, interest rates have been stubbornly high, compared with those in other prospective EMU participants. The withdrawal of sterling from the ERM triggered the most severe and sustained interest rate crisis ever in Ireland, and this certainly contributed to the output slowdown of 1993. But by mid-1993 interest rates had returned to their customary differential above DM rate. All in all, therefore, interest rates have not been low enough to be regarded as a positive factor in contributing to growth (Figure 1.1.6).

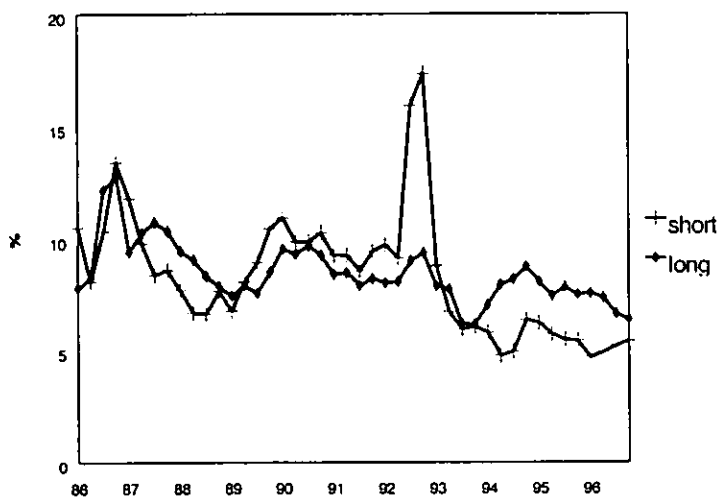
## CSF MID-TERM EVALUATION

Figure 1.1.5: *Growth in Government Demand*

real percentage change

Figure 1.1.6: *Interest Rates*

short and long term



From the end of the narrow-band ERM in mid-1993 (and until May 1997) the trend of the effective exchange rate for the Irish pound was generally upward, with a cumulative appreciation of about 10 per cent to the end of 1996. This average masks sharp fluctuations both in the rate against sterling and in the rates against the DM and other wide-band participants. Both the average strength and the fluctuations cannot have been regarded as very conducive to output growth in the

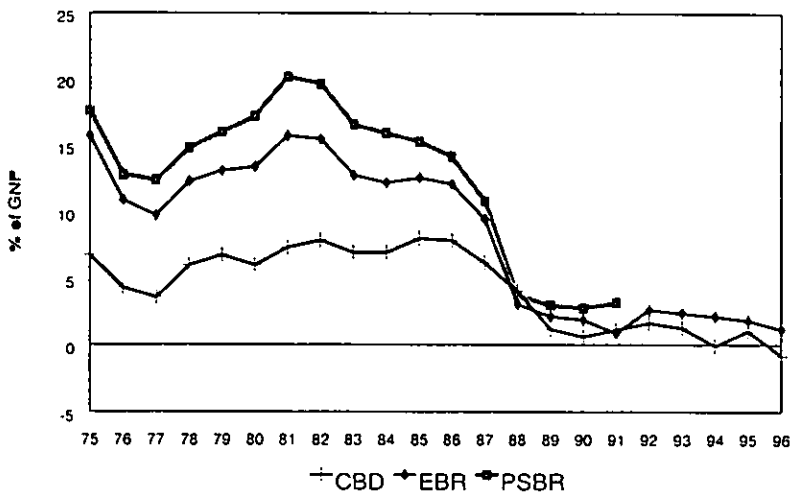
short-term, though the average strength of the currency has undoubtedly contributed to inflation stability.

*The Middle Frequency: Institutional Response and the Structural Funds*

Though the prolonged recession of the early 1980s, attributable to the partial nature of the fiscal adjustment in those years (Figure 1.1.7 – which shows the evolution of the three main measures of the fiscal deficit) and the reliance on tax increases as a means of reducing government borrowing (exacerbated by the UK recession and high world interest rates) was damaging in the short run, it had the effect of disturbing a complacent institutional equilibrium which had kept performance well below potential. This mechanism has enabled Ireland to reposition itself more favourably to compete effectively in the global economy.

Figure 1.1.7: *Government Deficit and Borrowing, 1975-96*

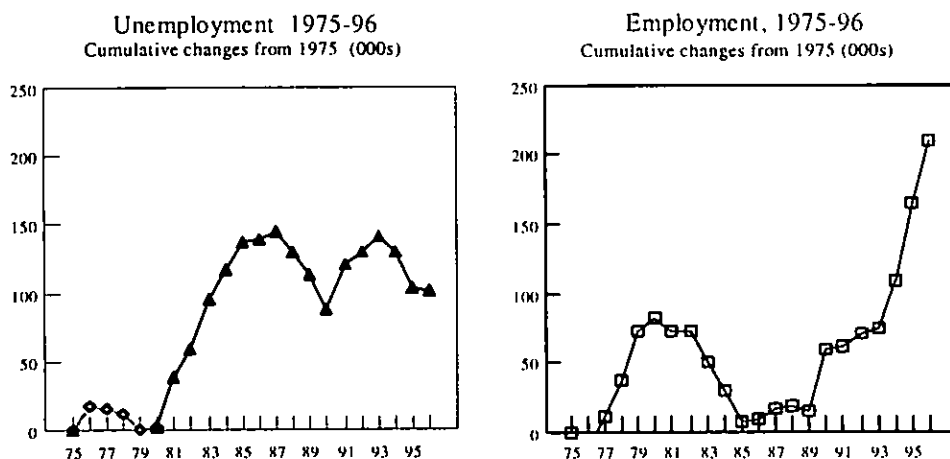
Current Deficit, Exchequer & Public Sector Borrowing



The pressures that have accomplished this change include the huge increase in unemployment in the mid-1980s (Figure 1.1.8). This led to a reassessment of old certainties and a growing recognition of the link between restrictive practices and cross-subsidies that damaged competitiveness on the one hand and disappointing employment outturns on the other. The legitimacy of privileges for those with jobs began to be questioned. The scarcity of job opportunities created a new spirit of self-reliance among the younger generation. Among the manifestations of the new institutional adaptability are: (i) a new approach on the part of trade union leadership to industrial relations – this was manifested in the national pay

agreements, and in a sharp fall in days lost to industrial action (Figure 1.1.9);<sup>4</sup> (ii) the beginnings of a restructuring of the semi-state sector – liquidation of Irish Shipping Ltd., licensing of Ryanair as a low cost competitor for Aer Lingus (driven, at least in part, by deregulation of aviation at EU-level), and more recently the negotiated down-sizing, albeit costly, of the ESB (also a consequence of impending EU deregulation) were landmarks in this process, which still has a long way to go.

Figure 1.1.8: *Employment and Unemployment*  
(Labour Force Survey Basis)

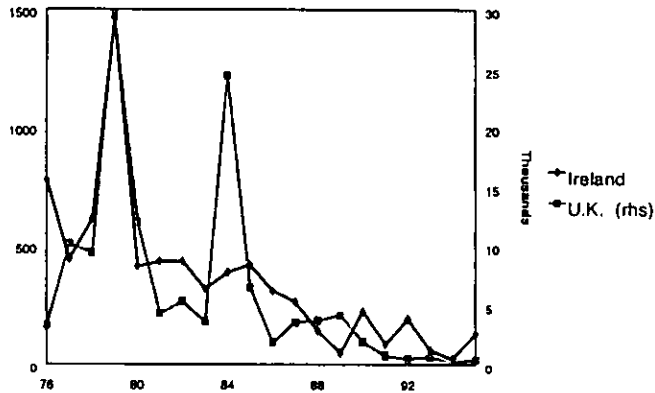


Against a background of fiscal retrenchment, particularly in public capital formation, the expansion of the structural funds in 1989 came at a very good time. A backlog of postponed projects and urgent unfilled public needs meant that the 1989-93 CSF could direct funds quickly to well-established priorities thereby gaining a very substantial pay-off. The benefits have already been documented in previous studies from which it is clear that, without the support of the structural funds, congestion in public infrastructure and constraints in third level education would have limited the recovery of those years.

<sup>4</sup>Note however that the reduction in days lost was paralleled in the UK and elsewhere at the same time.

Figure 1.1.9: *Work-days Lost Due to Industrial Action*

Ireland and UK, 1976-95



#### 1.1.4 Philosophy of the CSF

It is not just that public spending represents only a part of economic policy. In addition, the CSF-financed element represents only a fraction – less than 7 per cent – of total public spending in Ireland, most of which contributes to economic policy goals. Finally, as mentioned, the CSF accounts only for some three-quarters of the EU structural fund transfers. Accordingly, the selection of policy priorities to be financed from the CSF does not (and should not) delimit the overall policy approach to economic development.

Nevertheless, in order to explore the mechanisms thought to be at work in the CSF, it is essential to describe the economic philosophy underlying the CSF. We already attempted this in the *ex ante* appraisal. Of course the CSF document itself sets out clear objectives and proposed indicators of performance (which are dealt with as appropriate in Parts 2 and 3), but that is a rather lengthy and formal document which requires some commentary here, especially as our understanding has been amplified by observing the programmes in action.

##### *Approach to Productive Sector*

In the *ex ante* appraisal, we observed that the scale of grant assistance to industry, natural resources and tourism betrayed an anxiety that the private sector would not generate enough investment without significant cash inducements to do so. In many cases it remains hard to pinpoint what market failure the grants are seen as filling. We wondered whether it was a perceived gap in the private financial infrastructure in Ireland; if so the nature of the grant assistance effectively stifles any incentive for private initiative to close those gaps. To the extent that it was perceived externalities in marketing and R&D spending that

motivated assistance, we observed that such support should normally be on a cost-recovery basis to a much greater extent.

We noted that grants are needed to compete with those offered to internationally mobile investment by other member states and regions. But, for less mobile projects, such a degree of reliance on grant support to private investment sits uneasily with a generally pro-market stated policy. As we wrote: "While the Government's apparent unwillingness to reduce the scale of grant support is partly related to a perception that high taxation reduces the profitability of productive investment in the exposed sectors, the optimal policy response would involve tax reform rather than patching the situation with grant aid. That would seem likely to remove the "grant mentality" and result in a more self-reliant and enterprising private sector". This observation remains valid today.

From observation of the CSF in operation, it becomes easier to understand much of the spending in terms of what might be called an "*Ireland, Inc.*" approach to productive investment. Thus funds are allocated to investment in plant (manufacturing, fishing boat modernisation, tourist facilities) as a large corporation might do. But *Ireland, Inc.* seems to be a firm that is unduly focused on market share (especially in tourism) and geographical diversification (in tourism, fisheries and agriculture). More generally, it is a firm many of whose product lines (agriculture, fisheries, tourism) are input-constrained or subject to congestion. Manufacturing and the internationally traded services are not so constrained, but why the neglect of the bulk of the economy in employment terms? We will later discuss the rationale for not extending employment or investment grants to the economy at large, but that does not detract from the general point that an efficient and growing economy requires contributions from all sectors: there is a risk of undue focusing of the national training and research effort on the selected subsectors.

It will be evident that we are unsympathetic to the *Ireland, Inc.* approach and to its influence on the various OPs for the productive sectors. If the rapid employment growth of recent years – most of it in sectors other than those on which the CSF is focused – tells us anything, it is that the initiative of entrepreneurs responding to market signals can generate rapid growth in employment and output without draining public resources in an unsustainable manner.

#### *Approach to Economic Infrastructure*

We noted in the *ex ante* appraisal that much of the infrastructural spending in the plan is driven by two types of consideration: (i) the perceived need to meet the requirements of EU Directives, (ii) the perceived continuing need to upgrade transport infrastructure and close evident gaps between Irish and EU standards in this regard. This presents certain risks, especially that the design and scale of

infrastructural spending will be disproportionate to Irish needs and local conditions.

In the event, the major projects in Transport and the Environment – just those which have the greatest risk of falling into the traps mentioned – are being funded by the Cohesion Fund, and as such fall outside the purview of a general evaluation such as this. That is a pity because, although each of these projects is subject to a cost-benefit analysis, the results of such analyses are subject to wide variation depending on the precise terms of reference and the shadow prices used. Without there being any agency charged with the maintenance of common standards (as recommended in our 1993 *ex post* evaluation of the 1989-93 CSF), there is little prospect of coherent choices being made. Is the marginal waste water project in the Cohesion Fund better than that in the CSF? Is it better than the marginal road project? We may have our suspicions, but we cannot know. Indeed we cannot go beyond reiterating the proposition that lowest cost solutions to compliance with EU Directives should always be sought, especially in instances where the Directives point to investments which would otherwise be of low domestic importance, as may be the case for some of the larger waste water projects.

#### *Approach to Human Resources*

From the outset it was clear that a major driving force behind some of the costliest human resource interventions was a perception that unemployed, displaced or low-skill workers have neither the resources nor the information to acquire training for themselves. The same applies to those preparing to enter the labour market. We noted the importance of ensuring that the initiatives adopted to meet these problems were well-designed.

On closer inspection of the CSF as it is operating, it becomes evident that a further large part of human resource spending is essentially providing an important part of the national initial education programme. It is chiefly technical and vocational education that is supported, and the provision of courses of these types is undoubtedly much greater as a result of the policy dialogue surrounding the CSF than it would otherwise have been.

So far as non-initial training for those other than the unemployed or disadvantaged is concerned, the motivation behind the various initiatives is more complex and varied. As discussed further below, the needs here continue to be great, but the effectiveness of the interventions remains uneven.

#### *Approach to Local, Urban and Rural Development*

A perception that existing institutions were not adequate to give local development initiative the opportunity or funding to express itself was behind the local initiative element of the CSF. This perception had several strands, including the view that unemployment blackspots could not be tackled except by an area-based approach, the view that the loss of financial independence by local



authorities needed to be compensated in some way, and the view (especially coming from the Commission) that Irish public administration was too (because uniquely) centralised. The results have not been uniformly favourable, and the lessons of this experiment are still being learnt, as discussed below.

### *Dependence*

Hand-outs can create dependency, whether at the level of the national government, regional bodies, private enterprises or the individual. It has always been important to guard against the creation of dependence as a side-effect of the flow of structural fund resources. As the era of enlarged structural funds nears the end of its first decade, it is essential to take stock of the position which has been reached.

The main priorities of the CSF will remain important goals of public policy for the indefinite future. But, in catalysing a "big-push", the CSF has helped bridge the public finance gap that would otherwise have emerged in attaining the current and emergent standards of human and physical capital.

At the national level, the issue is whether the government's budgetary planning has become unduly dependent on a sustained flow of structural funds. Certainly, there has been less restraint in overall public spending growth in the 1990s than *might have been expected from the late-1980s performance, and from the need to reduce the burden of taxation on a sustained basis.* Perhaps the best way to consider the issue of national budgetary dependence on the structural funds is by reference to the borrowing limit of 3 per cent agreed in the Stability and Growth Pact. The projected rate of general government borrowing in 1999 is, at 1.5 per cent of GDP, below this limit (and it does make a contingency provision equivalent to 0.6 per cent of GDP). However, historical experience of fluctuations in the cyclical component of the government deficit in Ireland (*European Economy, 1995*) implies that the government's accounts should be balanced in an average year, in order to allow sufficient headroom below that ceiling to avoid any risk of hitting it as a result of business cycle fluctuations. In addition, current and projected economic performance is, by any reckoning, above the mid-point of the cycle. Far from allowing any leeway, targeting a deficit of as much as 1.5 per cent of GDP for 1999 implies accepting some degree of fiscal dependence on continuation of the structural funds at close to current levels. Any sudden reduction could involve difficult adjustments in spending and taxation.

However, the intention here is not to place Ireland's current and prospective fiscal performance in too poor a light. Not only is it very favourable by EU standards, but as explained in Section 1.2 below, likely continued revenue buoyancy should make it comparatively easy to tighten the deficit targets in the years ahead.

At the level of recipients too, there must be some risk of dependence. In particular interventions that were designed to make a once-and-for-all adjustment in behaviour should, at some point, begin to be phased out. This applies, for example, to targeted interventions designed to boost the level of management competence and to make managers more aware of the need for training of their staff, and for R&D spending. The perceived gaps in Irish performance in these dimensions have been put down to information deficiencies – to a failure to appreciate that more training and R&D are not only in the interest of the enterprise, but are indeed essential to its performance and prosperity. The effort to boost training and R&D performance through subsidies can only be of short duration. If successful it will no longer be needed; if unsuccessful it should be withdrawn anyway. There is insufficient evidence of any pre-planning of the phasing-out of such interventions.

Our 1994 *ex ante* appraisal recommended proceeding with the proposed allocations subject to two important caveats. The first, already mentioned above, was that grant-aid for indigenous industry expansion was only appropriate to the extent that tax reform improving the competitiveness of industry could not be achieved. The second was that the large spending on human resources could only be justified to the extent that it was effective. Now, some tax reform has taken place, but it is seen as insufficient to reduce the need for grant-aid. The effectiveness of the human resource measures to improve the lot of the long-term unemployed is, as discussed below, also in doubt. Evidently, both of these areas risk becoming ones of chronic need. It is not easy to determine the appropriate policy conclusion.

The nexus between tax reform and productive sector development grants brings us into territory well beyond the scope of our terms of reference, and we can only suggest that, as implied by the Culliton report of five years ago, the prospect of an indefinite continuation of grant-driven indigenous industry development is wholly unsatisfactory. We question whether the structural funds should be used to bolster this system much beyond the turn of the century.

The evident continued need for positive labour market support to reduce the incidence of long-term unemployment cannot be masked by the disappointing performance of measures to date. The logical next step in trying to solve this intractable problem must surely be institutional restructuring which, it is understood, is already in train.

#### *Reassessment of the Philosophy of the CSF*

Experience with the CSF confirms several of our *ex ante* concerns. These include doubts about the basis for providing free or underpriced services and grants to industry, and in particular about the *Ireland, Inc.* approach to productive

sector development. We propose an alternative approach to intervention in the productive sector in Section 2 below.

Our concerns about the basis for choice of infrastructure projects remains, and is now reinforced by the fact that many such projects have been removed from the CSF where they would have had to compete with funds on a wider basis. (The imposition of a 50-50 division rule between transport and environmental projects in the Cohesion fund virtually guarantees that investment decisions will be taken that are wrong at the margin.) In particular, misallocation of resources is resulting from compliance with EU-wide technical standards (notably on waste water emission standards) that are inappropriate for Irish conditions.

In human resource spending the major concerns are still with improving quality, rather than with matters of policy philosophy. Those parts of training for the productive sectors (other than training of the long-term unemployed or otherwise excluded) which would substantially continue even without the support of public spending should be de-emphasised.

All concerned are by now well aware of the actual and potential problems of the maze of local development initiatives. This experiment will not be repeated: the challenge is designing lasting and adequately funded local authority development structures.

Economic circumstances have changed in a direction that points toward reduced intervention in directly supporting the productive sectors. On the other hand there are increased infrastructural needs. Despite the improved overall economic conditions, maintenance of the public infrastructure for human resource development and continued efforts to reintegrate the excluded, remain important.

### **1.1.5 Financial Structure of the CSF**

An indication of the magnitude of the funds involved and their distribution is given in Table 1.1.1, which shows, for each year of the framework, the expected spending of SF on each of the eleven OPs. Also shown are indicative figures for receipts from the Cohesion Fund, in respect of Community Initiatives and from the special resources contributed by the new EEA-EFTA member states. The grand total of Structural Intervention funding over the six years 1994-99 is projected at £6.1 billion, of which just over three-quarters, or £4.7 billion comes under the CSF. As they are beyond the scope of our terms of reference, this report does not deal with the details of Cohesion Fund or Community Initiative spending, except inasmuch as they may arise in relation to specific CSF issues. (The figures in Tables 1.1.1-4 represent estimates made around the end of 1996 and provided to us by the Department of Finance. For the most part they correspond to the data circulated to the December 1996 CSF Monitoring Committee. Clearly any such estimates will be subject to continuous revision, but it is desirable to maintain data

Table 1.1.1: 1994-99 Structural Initiative Spending

<i>Indicative estimates £ million</i>	<i>Community Grant (All Funds)</i>						
	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>94-99</i>
CSF Total	534.1	656.9	787.9	845.1	897.1	934.2	4655
<b>Productive Sector Priority</b>	<b>235.8</b>	<b>285.7</b>	<b>371.4</b>	<b>395.9</b>	<b>382.4</b>	<b>404.9</b>	<b>2076</b>
Industrial Development OP	93.5	102.5	139.8	152.2	173.6	191.5	853
Agriculture, Rural Development and Forestry OP	118.7	139.8	143.9	148.1	119.4	112.2	782
Fisheries OP	2.7	7.7	17.2	15.5	11.5	9.8	64
Tourism OP	20.9	35.7	70.4	80.1	78.0	91.4	377
<b>Infrastructure Priority</b>	<b>85.0</b>	<b>126.9</b>	<b>135.7</b>	<b>154.8</b>	<b>208.5</b>	<b>211.0</b>	<b>922</b>
Transport OP	64.9	105.4	107.1	114.8	173.6	171.4	737
Economic Infrastructure OP	1.5	7.0	10.5	19.5	24.3	26.6	89
Environmental Services OP	13.5	5.5	8.4	12.9	10.1	13.1	63
Hospital Infrastructure OP	5.1	9.0	9.8	7.6	0.5	0.0	32
Human Resources Development OP	209.1	218.1	236.3	249.0	257.2	265.9	1435
Local Urban & Rural Development OP	4.1	26.0	44.1	43.0	46.9	50.2	214
CSF Technical Assistance OP	0.1	0.2	0.6	2.4	2.2	2.1	8
Cohesion Fund	133.2	155.2	156.5	161.8	201.3	204.4	1012
Community Initiatives	0.4	19.1	68.9	129.5	73.4	77.2	368
EEA (EFTA) Funds	0.0	0.0	0.0	20.0	8.0	0.0	28
Total Structural Funds under 1994-99 Programme	667.8	831.3	1015.3	1156.0	1180.2	1214.0	6065
as per cent of GNP	2.12	2.39	2.73	2.90	2.72	2.58	2.57

Source: Based on Figures Provided by Dept of Finance, January 1997.

Table 1.1.2: 1994-99 CSF: Structure of Spending

<i>Indicative estimates per cent of CSF total</i>	<i>Community Grant (All Funds)</i>						
	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>94-99</i>
CSF Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Productive Sector Priority</b>	44.1	43.5	47.1	46.8	42.6	43.3	44.6
Industrial Development OP	17.5	15.6	17.7	18.0	19.3	20.5	18.3
Agriculture, Rural Development and Forestry OP	22.2	21.3	18.3	17.5	13.3	12.0	16.8
Fisheries OP	0.5	1.2	2.2	1.8	1.3	1.0	1.4
Tourism OP	3.9	5.4	8.9	9.5	8.7	9.8	8.1
<b>Infrastructure Priority</b>	15.9	19.3	17.2	18.3	23.2	22.6	19.8
Transport OP	12.2	16.0	13.6	13.6	19.3	18.3	15.8
Economic Infrastructure OP	0.3	1.1	1.3	2.3	2.7	2.8	1.9
Environmental Services OP	2.5	0.8	1.1	1.5	1.1	1.4	1.4
Hospital Infrastructure OP	1.0	1.4	1.2	0.9	0.1	0.0	0.7
Human Resources Development OP	39.1	33.2	30.0	29.5	28.7	28.5	30.8
Local Urban & Rural Development OP	0.8	4.0	5.6	5.1	5.2	5.4	4.6
CSF Technical Assistance OP	0.0	0.0	0.1	0.3	0.2	0.2	0.2

*Source: Based on Figures Provided by Dept of Finance, January 1997.*

Table 1.1.3: 1994-99 Structural Fund Spending

<i>Indicative estimates £ million</i>	<i>Community Grant (All Funds)</i>						
	94	95	96	97	98	99	94-99
<b>Industrial Development OP*</b>	93.5	102.5	139.8	152.2	173.6	191.5	853
Indigenous Industry Development	29.5	29.8	10.6	30.8	33.6	42.1	169
Inward Investment	20.8	8.1	7.9	11.6	17.6	23.2	85
Research & Development	19.7	27.0	50.5	41.1	42.9	47.1	209
Market Development	6.9	9.8	15.2	10.4	19.4	21.2	77
Gaeltacht Development	5.5	10.1	8.6	5.6	5.7	4.2	37
Food Industry	7.9	14.0	41.6	47.2	48.2	47.1	189
Land and Buildings	2.8	3.2	4.5	2.9	3.8	4.0	19
Technical Assistance	0.5	0.6	0.9	2.5	2.4	2.6	9
<b>Agriculture, Rural Development &amp; Forestry OP</b>	118.7	139.8	143.9	148.1	119.4	112.2	782
Structural Improvement and Rural Development	63.9	130.7	131.9	136.9	108.4	101.1	673
Forestry	7.4	10.5	10.1	10.7	10.6	10.7	60
Evaluation and Technical Assistance	0.0	0.1	0.5	0.4	0.4	0.4	2
Recoupment on Obj 5(a) Expenditure in 1993	47.3	0.0	0.0	0.0	0.0	0.0	47
<b>Fisheries OP</b>	2.7	7.7	17.2	15.5	11.5	9.8	64
<b>Tourism OP</b>	20.9	35.7	70.4	80.1	78.0	91.4	377
Natural / Cultural Tourism	4.0	6.9	15.2	23.6	21.3	25.0	96
Product Development	0.2	7.3	31.3	31.7	31.1	40.2	142
Marketing	4.4	8.8	10.1	9.5	9.5	9.5	52
Training	12.2	12.4	13.2	14.6	15.4	16.3	84
Technical Assistance	0.2	0.3	0.7	0.7	0.7	0.4	3
<b>Transport OP</b>	64.9	105.4	107.1	114.8	173.6	171.4	737
Supporting National Economic Development	46.8	84.7	80.7	71.1	89.6	88.9	462
Supporting Sub-Regional Economic Development	18.1	20.7	26.3	43.7	83.9	82.5	275
<b>Economic Infrastructure OP</b>	1.5	7.0	10.5	19.5	24.3	26.6	89
Energy	0.5	1.6	5.1	10.4	17.5	21.0	56
Communications	1.0	5.5	7.0	8.5	6.7	3.5	32
Technical Assistance	0.0	0.0	0.3	0.3	0.4	0.4	1
<b>Environmental Services OP</b>	13.5	5.5	8.4	12.9	10.1	13.1	63
Water Services	13.3	2.8	4.3	6.8	4.2	4.1	36
Waste Management	0.0	1.2	2.0	4.0	4.0	7.1	18
Coastal Protection	0.1	0.7	0.7	0.7	0.7	0.8	4
Environmental Monitoring R & D	0.0	0.5	0.6	0.6	0.4	0.4	3
Technical Assistance	0.1	0.2	0.5	0.4	0.4	0.4	2
<b>Hospital Infrastructure OP</b>	5.1	9.0	9.8	7.6	0.5	0.0	32

Table 1.1.3: 1994-99 Structural Fund Spending (continued)

Indicative estimates £ million	Community Grant (All Funds)						
	94	95	96	97	98	99	94-99
<b>Human Resources Development OP</b>	209.1	218.1	236.3	249.0	257.2	265.9	1435
Initial Education and Training	88.9	110.0	114.6	118.3	121.7	124.6	678
Continuing Training for the Unemployed	33.1	22.9	24.9	25.4	26.5	28.7	162
Objective 3 - Social Exclusion	70.0	51.5	52.2	53.2	53.9	55.2	336
Objective 4 - Adaptation to Industrial Change	8.3	9.8	9.8	8.7	8.7	9.9	55
Improvement of the Quality of Training Provision	8.9	23.8	30.2	37.6	43.4	44.5	188
<b>Local Urban &amp; Rural Development OP</b>	4.1	26.0	44.1	43.0	46.9	50.2	214
Local Enterprise	0.0	8.6	12.4	13.7	13.8	14.5	63
Integd. Devt. of Designated Disadv & Other Areas	2.1	3.7	12.8	18.8	20.8	22.6	81
Urban and Village Renewal	1.8	13.1	16.7	8.8	11.4	12.1	64
Technical Assistance	0.2	0.7	2.1	1.8	0.9	1.1	7
<b>CSF Technical Assistance OP</b>	0.1	0.2	0.6	2.4	2.2	2.1	8
<b>All OPs</b>	534.1	656.9	787.9	845.1	897.1	934.2	4655

Source: OP Totals provided by Dept of Finance, January 1997. Sub-programme estimates derived from various sources and are of different vintages. \*Note: The sub-programme figures for Industrial Development have been proportionately adjusted to sum to the OP totals.

Table 1.1.4: 1994-99 Structural Fund Spending

<i>Indicative estimates £ million</i>	<i>National Administrations</i>						
	94	95	96	97	98	99	94-99
<b>Industrial Development OP*</b>	43.4	40.6	40.0	49.2	60.0	68.4	301
Indigenous Industry Development	9.9	10.2	3.0	10.6	11.7	13.3	62
Inward Investment	13.6	5.6	2.4	5.9	9.7	15.3	55
Research & Development	6.4	6.2	8.7	6.9	7.2	8.1	44
Market Development	2.3	3.3	4.6	3.0	5.7	6.3	26
Gaeltacht Development	1.8	3.4	2.6	1.6	1.7	1.3	12
Food Industry	2.6	4.4	9.1	14.3	15.1	14.7	63
Land and Buildings	6.6	7.4	9.4	5.9	7.7	8.3	45
Technical Assistance	0.2	0.2	0.3	1.1	1.1	1.1	4
<b>Agriculture, Rural Development &amp; Forestry OP</b>	-19.1	61.1	63.9	63.3	53.4	50.5	273
Structural Improvement and Rural Development	26.2	58.4	59.6	59.8	50.0	47.0	301
Forestry	2.0	3.3	3.4	3.3	3.3	3.3	19
Evaluation and Technical Assistance	0.0	0.0	0.2	0.1	0.1	0.1	1
Recoupment on Obj 5(a) Expenditure in 1993	-47.3	0.0	0.0	0.0	0.0	0.0	-47
<b>Fisheries OP</b>	1.1	2.5	4.9	3.0	2.4	2.2	16
<b>Tourism OP</b>	6.3	9.0	15.5	19.1	18.2	21.0	89
Natural / Cultural Tourism	1.3	2.3	5.1	7.8	7.1	8.3	32
Product Development	0.1	1.4	4.5	4.6	4.1	5.6	20
Marketing	0.7	1.0	1.0	1.7	1.8	1.8	8
Training	4.1	4.1	4.6	4.7	5.0	5.3	28
Technical Assistance	0.1	0.1	0.2	0.2	0.2	0.1	1
<b>Transport OP</b>	40.5	66.0	60.1	66.3	99.4	99.6	432
Supporting National Economic Development	23.0	46.8	37.4	33.7	41.4	43.5	226
Supporting Sub-Regional Economic Development	17.5	19.2	22.7	32.5	58.0	56.1	206
<b>Economic Infrastructure OP</b>	1.5	7.8	12.6	30.8	34.0	33.1	120
Energy	0.4	1.5	3.6	19.9	25.2	28.7	79
Communications	1.1	6.2	7.9	12.1	8.3	4.3	40
Technical Assistance	0.0	0.0	0.1	0.1	0.1	0.1	0
<b>Environmental Services OP</b>	13.4	1.7	2.2	3.6	2.4	3.2	27
Water Services	13.3	2.1	1.5	2.3	1.4	1.4	22
Waste Management	0.0	0.2	0.3	0.8	0.6	1.3	3
Coastal Protection	0.0	0.2	0.3	0.2	0.3	0.3	1
Environmental Monitoring R & D	0.0	0.0	0.0	0.0	0.0	0.0	0
Technical Assistance	0.0	0.1	0.2	0.1	0.2	0.1	1
<b>Hospital Infrastructure OP</b>	12.0	20.9	22.9	18.4	1.2	0.0	75



Table I.1.4: 1994-99 Structural Fund Spending (continued)

<i>Indicative estimates £ million</i>	<i>National Administrations</i>						
	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>94-99</i>
<b>Human Resources Development OP</b>	76.6	77.8	86.1	90.1	93.3	95.6	520
Initial Education and Training	29.6	36.7	38.2	39.4	40.6	41.5	226
Continuing Training for the Unemployed	11.0	7.6	8.3	8.5	8.8	9.6	54
Objective 3 - Social Exclusion	31.0	24.5	25.0	25.3	25.5	25.3	157
Objective 4 - Adaptation to Industrial Change	1.9	1.2	3.3	2.9	2.9	3.3	16
Improvement of the Quality of Training Provision	3.0	7.8	9.6	12.3	14.5	14.9	62
<b>Local Urban &amp; Rural Development OP</b>	2.0	9.8	18.3	17.3	21.0	22.6	91
Local Enterprise	0.0	2.9	4.1	4.5	4.6	4.8	21
Integd. Devt. of Designated Disadv & Other Areas	0.7	1.2	4.3	6.3	6.9	7.5	27
Urban and Village Renewal	1.3	5.5	9.2	5.9	9.2	9.9	41
Technical Assistance	0.1	0.2	0.7	0.6	0.3	0.4	2
<b>CSF Technical Assistance OP</b>	0.0	0.1	0.2	0.8	0.7	0.7	3
<b>All OPs</b>	177.7	297.1	326.7	361.8	386.0	396.8	1946

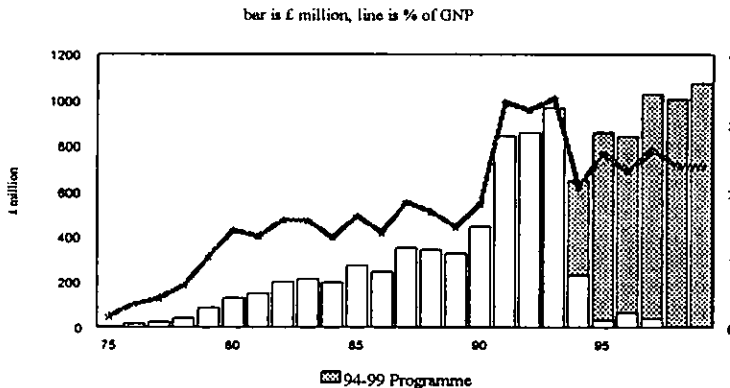
*Source: OP Totals provided by Dept of Finance, January 1997. Sub-programme estimates derived from various sources and are of different vintages. \*Note: The sub-programme figures for Industrial Development have been proportionately adjusted to sum to the OP totals.*

for as close to a common "vintage" as possible, rather than updating on a piecemeal basis. In order to avoid confusion, we have confined almost all of the discussion to Irish pounds; corresponding tables drawn up for ecu spending are shown in the Annex at 4.3.)

The overall flow of SF receipts in Ireland since EU membership in 1973 is shown in Figure 1.1.10. (Differences between the timing of spending and of receipts, and different assumptions as to future exchange rates, makes the data in this figure rather different from that in Table 1.1.1.) The main features are clear. A gradual increase dramatically accelerated in 1989, rising to a peak in 1993. The time taken to negotiate the new framework for 1994-99, together with inevitable start-up lags, resulted in a fairly sharp fall in receipts in 1994, but since then there has been a renewed increase, though the 1993 receipts have not been surpassed to date. As a percentage of GNP, the flows peaked in 1993 at about 3.3 per cent; the average in 1994-99 will be about 2 ½ per cent.

Apart from the small Technical Assistance OP, the remaining ten OPs are grouped as focusing on one of four Priorities, namely the Productive Sector and Economic Infrastructure (each accounting for four OPs), and Human Resources and Local, Urban and Rural Development (each with just one OP). The groupings are shown in Table 1.1.1. Just under a half of the CSF SF will be spent on the Productive Sector priority, and just under one-third on the Human Resources priority (Table 1.1.2).

Figure 1.1.10: *Structural Fund Receipts, 1975-99*



Most of the OPs are made up of several sub-programmes which in turn have several measures, or sub-measures. Table 1.1.3 shows the SF spending at sub-programme level for each year; while Table 1.1.4 shows the Irish Government's

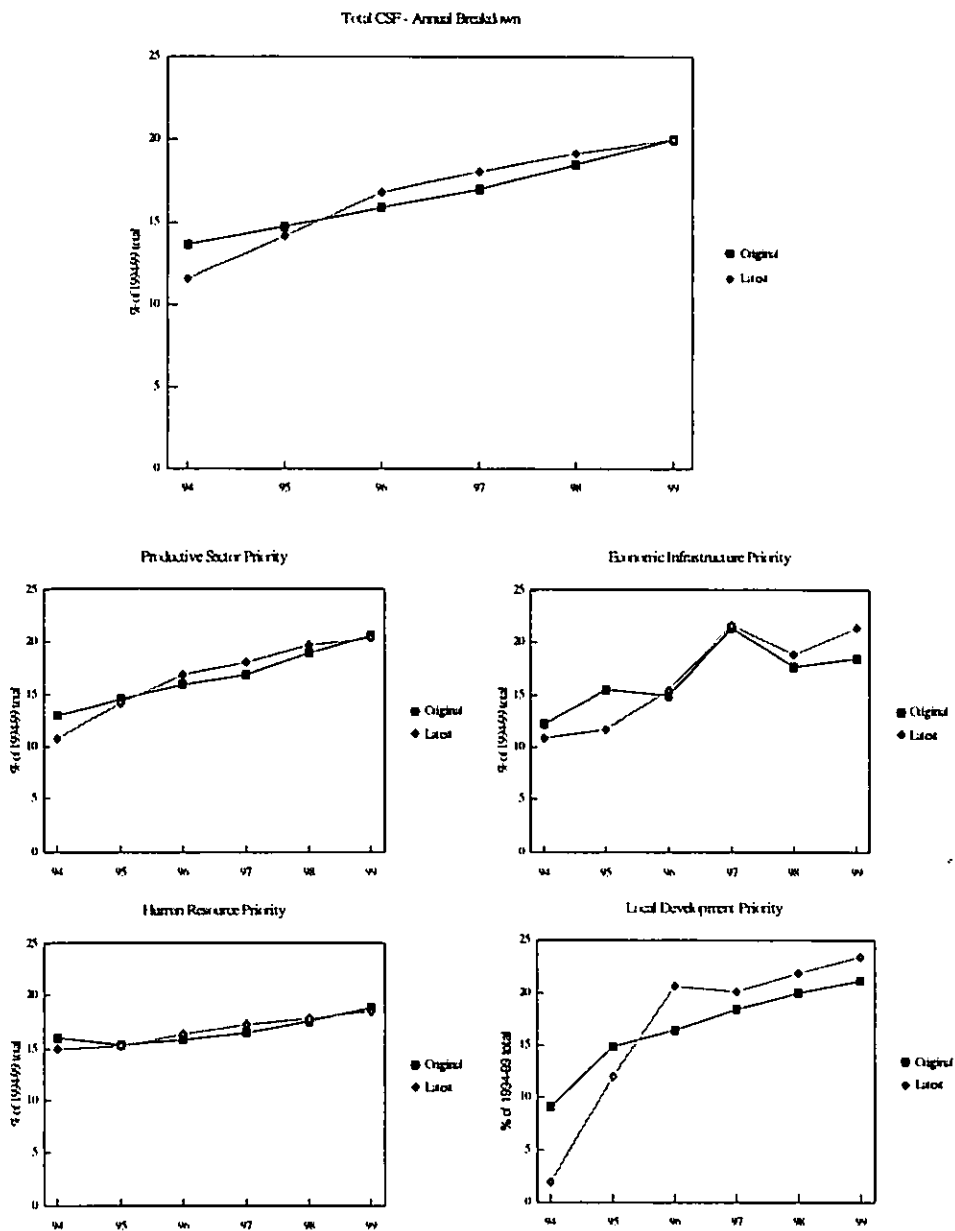
co-financing at the same level. (Measure and sub-measure information is provided in Section 2 below.) (The vintage of the sub-programme details does not fully correspond to the OP totals, so there are inevitable small discrepancies.)

Later sections of the report will deal in some detail with spending measures in different OPs. Detailed financial analysis of the individual spending to date on each measure is contained in the mid-term evaluations (MTE) which have been prepared by external consultants in respect of nine of the OPs. It is not therefore appropriate for this report to analyse financial outcomes in detail. In order not to get overwhelmed by different numbers, it will prove sensible to confine attention largely to the SF component in what follows, and to de-emphasise the Irish Government co-financing. After all, Government spending in each of the broad areas defined by the OPs is greater than that included as co-financed expenditure under the CSF. Therefore the Government component of OP spending is primarily of accounting or legal interest.

We will also focus mainly on the overall framework period 1994-99 rather than on individual years. However, it should be noted that, since the CSF was agreed, there has been some drift from the original figures, which are set in ecus, but which may be adjusted in line with increases in the price deflator. Two elements of drift are worth focusing on here.

First, spending on some measures has fallen behind schedule and, although other measures are ahead of schedule, the net position is that the overall spending of SF is behind schedule at this stage. It is confidently expected that this underspend to date will be fully reversed in time (though with some spending probably spilling over into the period after end-1999). Figure 1.1.11 shows the current projection both for the total CSF and for each of the main priorities. The local development priority was the slowest to get going. The main concern in this area is the risk that for a small number of measures that over-optimism concerning the administrative ability to draw-down the funds could leave funds allocated to these measures until it is too late to transfer them elsewhere, and they have to be surrendered. Such an outcome would be in no-one's interest (after all, our EU partners do intend that the full CSF allocation to Ireland should be spent). As a general proposition, the lesson must be that, if a measure is running into such a difficulty, funds should be transferred out of that measure and spent to advantage elsewhere. If it is desirable to spend the funds on the measure, but after the end of the programme, then Exchequer funding can be sought.

Figure 1.1.11: *Original and Latest Spending: Share of Programme Total*



The second interesting timing element is the effect of exchange rates. Although the CSF is agreed in ecu terms, the budgeting for individual measures is almost all in Irish pounds. Recent exchange rate movements, since late 1996, have sharply affected the market exchange rate for the Irish pound in terms of ecu, highlighting the risk that the Irish pound counterpart of the ecu SF could fall well short of what was envisaged in late 1996, and indeed embodied in Tables 1.1.1-4.<sup>5</sup> Thus, were the exchange rate current at mid-March 1997 (£1 = ecu 1.37) to prevail for the rest of the century, there would be a shortfall of Irish pound counterpart funds of as much as £280 million. Tables 1.1.1-4 correspond to an average exchange rate of 1.23 - more than 10 per cent below the March 1997 value. (The ecu value of the Irish pound fell back again in May 1997. Nevertheless, the shortfall at a rate of £1 = ecu 1.30 would be £150 million, even at £1 = ecu 1.25 it would be £50 million.)

By 1999, the EMU should have begun, and ecus will be replaced by euros, but it is not yet clear at what exchange rate the Irish pound will convert to euros. One possibility is that the conversion will be close to the current "central rate"; that would more or less eliminate the shortfall in 1999. A gradual decline during 1998 from March 1997 values to the central rate would, as shown in Table 1.1.5, still involve a substantial shortfall.

Table 1.1.5: *Calculation of Potential Shortfall in Counterpart Funds*

	1994	1995	1996	1997	1998	1999	1994- 1999
End-96 Estimate							
£ million	534.1	656.9	787.9	845.1	897.1	934.2	4,655
End-96 Estimate							
mecus	665.6	814.7	966.2	1,036.3	1,100.2	1,145.5	5,729
£/ecu				1.37	1.30	1.23	
Potential							
shortfall							
£ million				88.7	50.8	2.9	142

The appropriate policy response to such a shortfall needs to be considered at an early date. It is as if the unit costs for each measure had been increased. Should there be a cutback in the volume of spending? Should the Exchequer meet the

<sup>5</sup>Note that the projected receipts shown in Figure 1.1.11 do appear to take some account of recent exchange rate changes.

shortfall? Would Ireland be entitled to more favourable treatment in regard to the deflator? There may seem to be a case for deferring conversion of the ecu receipts to Irish pounds, but this would fall under the heading of exchange rate policy or debt management policy rather than CSF policy. One thing is clear, if the exchange rate does not change, a substantial cash squeeze for implementing agencies could well emerge and require action.

## *1.2 The Macroeconomic Effects of the Structural Funds*

### **1.2.1 Introduction**

The detailed examination of the various measures in the CSF, carried out in the MTEs and discussed in later sections of this report, tells us much about the economic effects of the different programmes. However, to assess the full impact of EU Structural Interventions (SI)<sup>6</sup> it is necessary to take account of the wider macro-economic implications of the individual programmes and measures. The programmes affect the economy both through their impact on domestic demand for goods and services and also through the permanent impact on the production capacity of the economy. In this section we examine the macro-economic significance of the SI as a whole, taking into account all these indirect effects.

The ESRI Medium Term (MT) Model provides the essential framework within which we analyse the impact of the current round of EU support on the Irish economy. The demand side impact can be handled in a reasonably straightforward manner using the model. Sufficient detailed information has been provided to allow a reasonable estimate to be made of these effects. It is the quantification of the supply side effects, i.e., the impact on the long-term productive potential of the economy, which poses greater problems. However, much can be learnt from the evaluations of the individual programmes, described in Part 2 below.

In this section we consider the impact of all the expenditure funded by the EU under the CSF, the Cohesion Fund and the Community Initiatives. These together are referred to as the SI. As detailed in Section 1.1 above, total expenditure under the SI over the period 1994-99 will be a little over £8 billion at current prices. The source of the funds is shown in Figure 1.2.1. Of the total approximately £6 billion will have come from the EU and a little over £2 billion from the Irish government. In this section we examine separately the effects of the CSF, broadly defined, both including and excluding the Irish government contribution.

<sup>6</sup> The term is used instead of "Structural Funds" in order to make it clear that this section includes the Cohesion Fund, which is not strictly a Structural Fund.

Figure 1.2.1

Source of Funds

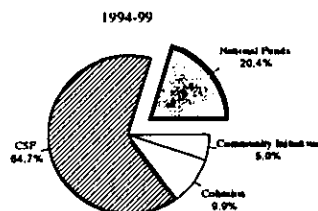
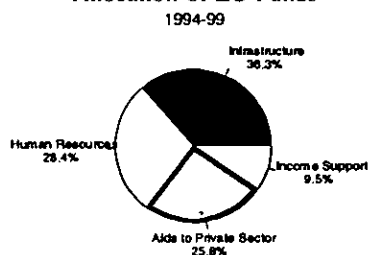


Figure 1.2.2

Allocation of EU Funds



Different breakdowns of the spending are needed for different purposes. For the purpose of the modelling exercise, we do not use the breakdown by priority discussed in sub-section 1.1.4 above, or the functional classification introduced in Part 2 below. Instead, in order to estimate the macroeconomic effects, we distinguish between physical infrastructure, human resources, financial aids to the private sector and income support. The spending was distributed on the basis of analysis at sub-programme and measure level. The two biggest categories were investment in physical infrastructure and in human resources with around 34 per cent and 27 per cent respectively. A wide range of support measures for the industry and services sectors accounted for just under a quarter of the total and around 9 per cent were devoted to the income support, primarily in the agricultural sector.

In sub-section 1.2.2 below we consider the macro-economic background to the CSF – the likely growth in the major aggregates to the end of the decade when account is taken of all factors, including the positive impact of the CSF. The channels through which the CSF can be expected to affect the economy are discussed in sub-section 1.2.3. In sub-section 1.2.4, using the MT Model, we examine the likely macro-economic effects of the current CSF over the period of the CSF, 1994-99 as well as considering the longer term effects running into the next decade. Sub-section 1.2.5 summarizes the results from the macro-model and includes a comparison with the impact of the 1989-93 programme. Finally, sub-section 1.2.6 discusses the issue of unemployment escape rates and assesses the evidence for a change in these during the period of the CSF.

## 1.2.2 The Macroeconomic Environment

### *Growth and Consumption*

Analysing the macroeconomic impact of the CSF is done by way of comparing a benchmark forecast of likely medium-term developments in the economy with a counterfactual simulation without the CSF spending. As presented in the ESRI

*Medium-Term Review 1997-2003* (Duffy *et al.*, 1997), and for reasons which have been discussed in Section 1.1 above, the consistent high growth rate in recent years (Figure 1.2.3) suggests that Ireland has entered on a period of unusually rapid economic development. Our benchmark scenario (which is essentially that of the *Medium-Term Review*, and does not supersede it) builds in continued strong growth through to 2010, with a medium-term growth potential of at least 5 per cent per annum.

We assume that EMU will go ahead as planned in 1999 with Ireland a member and the UK remaining outside at least initially. It seems likely that the period immediately before EMU begins may see some disruptive speculation (caused by uncertainty about exchange rates at the time of accession to the EMU) with the possibility of temporarily raised interest rates. This could see a temporary reduction in growth but it should be offset on entry to EMU in 1999 by the stimulatory effect of lower interest rates than would otherwise have obtained.

The growth of the Irish economy in the 1990s, even allowing for the likely population growth, means that the growth in GNP (and GDP) per head will be extremely rapid, certainly when compared to our EU partners. This means that Ireland will move from a position of having a GDP per head of 75 per cent of the EU average in the early 1990s to around 110 per cent of the EU (15 members) average by 2000. Even using GNP per head, a more appropriate measure, Ireland is likely to be over 90 per cent of the EU average in 2000, as shown in Figure 1.2.4.

Table 1.2.1: Central Forecast, Major Aggregates

	1993	1994	1995	1996	1997	1998	1999	2000	1990- 1995	1995- 2000	2000- 2005
GNP	2.2	6.4	9.2	6.4	5.7	5.9	5.3	4.4	4.7	5.5	5.0
Consumption Deflator	1.9	2.6	2.0	2.2	2.1	1.9	2.1	2.2	2.4	2.1	2.1
Employment, April	1.4	3.0	4.8	3.6	3.1	3.9	2.9	1.5	1.8	3.0	2.0
Balance of Payments, % of GNP	4.3	3.1	2.5	1.3	0.9	0.4	0.3	0.5			
Debt GDP Ratio, % (New basis)	109	101	96.9	87.7	83.4	77.2	71.6	66.9			
Exchequer Borrowing, % of GNP	2.8	1.9	2.3	1.2	1.6	0.4	0.1	0.1			
Unemployment Rate, % (ILO basis)	15.7	14.8	12.2	11.9	10.9	9.1	8.3	8.6			



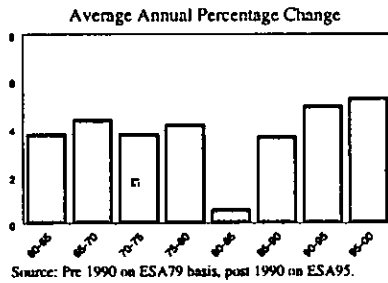
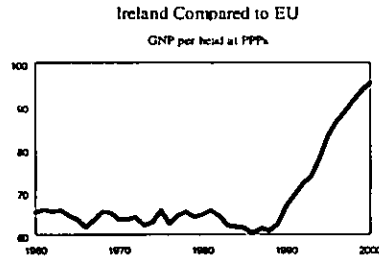
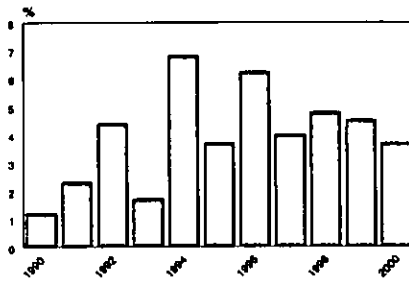
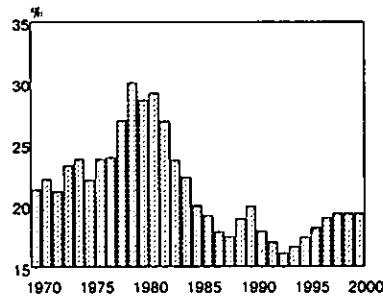
Figure 1.2.3: *GNP, Expenditure Basis*Figure 1.2.4: *Ireland Compared to EU*Figure 1.2.5: *Personal Consumption*Figure 1.2.6: *Investment / GNP Ratio*

Figure 1.2.5 shows the forecast for consumption over the rest of the decade. We currently expect a rapid growth in personal consumption expenditure out to 2000. This will be a much more favourable performance than in the 1980s and it augurs well for firms providing goods and services to the domestic market. The very high volume increase in consumption in 1996 involved a fall in the personal savings ratio to a level not experienced since 1989. This reflects a high level of consumer confidence. The savings ratio is one of the most difficult aggregates to forecast, partly because it contains many of the errors and shortcomings in the national accounts. The forecast for consumption shown here assumes a return to a stable savings rate somewhat above the current level, though still lower than observed in the past in periods of uncertainty.

#### *Investment*

A striking feature of the Irish growth experience in the 1990s has been the low level of investment which has accompanied expansion throughout the economy. Figure 1.2.6 shows the ratio of investment to GNP which is likely to be still below 20 per cent this year. For most rapidly growing economies the ratio tends to be above 20 per cent so that the Irish level appears very low, especially for an

economy growing so rapidly. On the other hand, when investment was very high in the late 1970s and early 1980s the output growth response was comparatively weak, implying a high incremental capital-output ratio: quality as well as quantity of investment matters. While we envisage a growth in investment over the next 2 years at a somewhat faster rate than that of GNP it will still leave the ratio slightly under 20 per cent. There remains the possibility that growth in the future may require some further rise in investment above that currently envisaged.

*Inflation and Employment*

The rate of inflation of consumer prices is forecast to remain around 2 per cent over the rest of the decade, slightly lower than previously forecast.

With a continuation of rapid growth over the next few years we envisage a substantial further increase in total employment. Over the period to April 1998 employment will probably continue rising at over 2.5 per cent a year and thereafter we forecast an average increase of over 2 per cent a year (Figure 1.2.7). This is substantially higher than previously forecast and it reflects the slightly higher forecast growth rate and the evidence of favourable developments in the labour market in recent years.

Figure 1.2.7: *Total Employment*

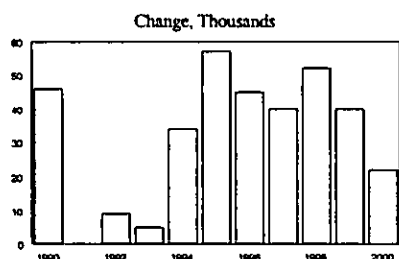


Figure 1.2.9: *Exchequer Borrowing Requirement*  
as percentage of GNP

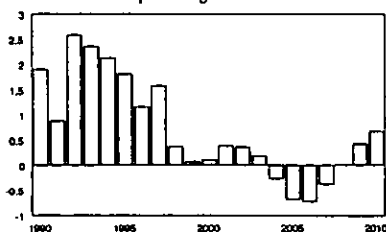


Figure 1.2.8: *Unemployment*  
as percentage of Labour Force

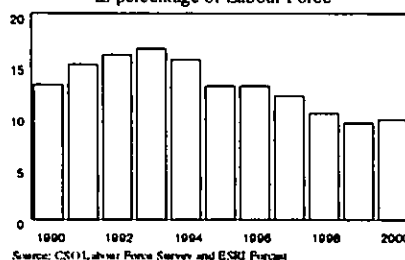
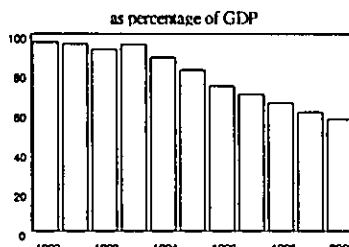


Figure 1.2.10: *Debt / GDP Ratio*  
as percentage of GDP



The rapid rise in the labour force, however, means that this growth in employment will be slow to affect the unemployment rate defined on a labour force basis. (This gets away from the problems associated with the live register measure

of unemployment.) The combined effects of employment growth, the increase in the labour force, and zero net emigration will mean that the unemployment rate, on a labour force basis, should fall slowly from its current high level of 12.9 per cent to around 9.5 per cent in 2000 (Figure 1.2.8). This represents more rapid progress than was forecast 3 years ago when the current CSF was drawn up with the Irish unemployment rate already at the EU average or even below it for the first time in many years.

Recent definitional changes have greatly reduced the recorded balance of payments surplus for the last few years. It now appears much more realistic than it did in the past. However, the official figures now underestimate the strength of the Irish balance of payments position as definitional changes mean that much of the EU structural funds are now excluded from the current account of the balance of payments. While this may be correct from an accounting point of view, because the payments are grants (there is no requirement to repay) and because they will continue till at least 1999, they can appropriately be considered as resources available to fund domestic investment. In fact that is the logic behind the CSF process. When these EU transfers are taken into account, the external position of the Irish economy can be seen to remain strong. The rapid rate of growth in the coming years, if realised, will be consistent with a continuing balance of payments surplus. As a result, the balance of payments is not likely to prove a restraint on growth in the foreseeable future.

Finally, the combination of substantial growth in the economy, the support for infrastructural investment through the CSF, and the assumed stance of fiscal policy could see the Exchequer maintaining a small borrowing requirement, or even a surplus out to the end of the decade (Figure 1.2.9). In spite of the expenditure overruns in recent years the rapid growth and resulting revenue buoyancy has meant that Exchequer borrowing has fallen more rapidly than might have been anticipated. The debt to GNP ratio should fall steadily so that by 2000 it could be close to 60 per cent (Figure 1.2.10).

#### *Uncertainty*

As with all such forecasts there is no certainty that it will prove right. However, we feel that it is as likely to prove pessimistic as optimistic. Prudent planning normally involves paying special attention to possible unfavourable surprises which we do here.

Possibly the most serious potential danger to the apparently benign medium-term growth scenario is the possibility of a shock to the international financial system. We do not consider here how such a shock might occur; German unification was just such a shock and it was totally unforeseen. The run up to EMU may also occasion a significant degree of instability which might be characterised as a potential "shock". As a very indebted country the direct effect of

a rise in world interest rates is to increase substantially the outflow of interest payments to foreign creditors. The need to finance this outflow has meant that Irish governments have had less room for manoeuvre in the first half of the 1990s than if interest rates had remained lower.

Possibly the most likely domestic source of an adverse shock would be a return to the pattern of wage formation behaviour which characterised the period 1960-80. Since at least the late 1980s the rate of increase in wages has kept more in line with the domestic rate of inflation. This has meant that the economy has, at worst, maintained competitiveness and in many cases actually improved its position compared to its EU partners. A return to the "bad old ways" could put this at risk by pricing many businesses out of their foreign markets. If wage rates were to rise by 1 percentage point a year more than we have forecast this would have a major cumulative effect on the economy. While this adverse effect would take time to materialise its most notable manifestation would be a deterioration in the forecast for unemployment.

There remains the possibility that some government could repeat the mistakes of the late 1970s through an expansionary fiscal policy. Alternatively, and possibly more likely, a government could prove weak in the face of an external shock and fail to take necessary corrective action to prevent a spiralling borrowing requirement. Either course of action could have an adverse effect on the medium-term growth rate. However, the advent of EMU will place additional restraints on fiscal policy which will reduce the likelihood of very unwise decisions in the future.

Finally, probably the most likely force to bring to a halt the current rapid economic growth will be the cumulative effect of congestion in many forms on prices in factor markets. Some of the infrastructure of the Republic is less developed than that in, for example, Northern Ireland and this may contribute to traffic congestion costs. In particular in urban areas the pressure from rapid employment increase will affect land prices and, therefore, housing prices. The problems of commuting in congested urban areas will eventually change the relative desirability of different locations for mobile skilled workers. If handled properly this process will result in a gradual rise in prices and an improvement in the terms of trade simultaneous with the unemployment rate approaching full employment.

### **1.2.3 The CSF – Channels of Influence on the Economy**

The initial impact of the CSF on the Irish economy occurs as the funds are spent on buying goods and services. While a significant proportion of these goods and services may be imported, the bulk of the initial expenditure is generally spent within the country. (The expenditure in 1993-94 was an exception where the

biggest single project funded under the CSF involved investment in a gas pipe-line in the UK.) The very substantial volume of expenditure financed by the CSF means that there is a considerable domestic impact. The investment in infrastructure in particular is a major determinant of the demand for the output of the building sector.

The resulting "demand side" impact persists so long as the expenditure under the CSF itself persists. This initial demand side impact is generally substantially greater than the supply side effect. However, as it only lasts as long as the expenditure continues the long-term impact on the economy will depend on the increase in productive potential which the CSF funded investment achieves.

In considering the long-term impact of the CSF expenditure on the economy we consider four main channels. Three of these channels involve a significant impact on the Irish economy's long-run supply potential: the fourth, income support, is unlikely to have any such lasting impact.

Considerable uncertainty exists concerning the magnitude of the supply side effects though in the case of "Aids to the private sector" we have been able to estimate the likely impact within the context of the standard model. Here we discuss the mechanisms in turn and how we have approached the quantification of each of them within the overall context of the MT Model. Further details of the model are given in Bradley and Fitz Gerald (1991).

#### *Human Capital*

The demand side impact of the investment in human capital is handled by the model. The allocation of the expenditure between the salaries of teachers and trainers and the payments to trainees is done on the basis of evidence on the allocation of expenditure under the last CSF.

The supply side impact of the human resource investment affects the economy through a number of different channels. First, it is designed to increase the human capital of the labour force. Second, it aims to improve the labour market participation of certain disadvantaged groups – e.g., the long-term unemployed and the disabled. It will affect the supply potential of the economy through a range of different mechanisms.

To the extent that the additional people being trained or educated are taken out of the active labour force, the potential labour force will be reduced temporarily. This, in turn, will tend to reduce unemployment and emigration. Because of the Phillips curve effect, the reduction in unemployment will lead to an increase in wage rates, with knock-on effects on productivity. However, this effect is not likely to be very important in the context of the long-run output potential of the economy.

The second way in which the increase in human capital will impact on the economy will be through the increased supply of educated and skilled labour.

While some of the skilled labour force may emigrate, this increase in supply will still reduce pressures in the labour market arising from any skill shortages and will tend to reduce the rate of growth in wages below what it would otherwise have been. The implication of this analysis is that, when faced with a fixed downward sloping demand for skilled labour, any increase in supply will not be fully matched by an increase in employment. However, unless the supply of skilled labour is infinitely elastic, there will be some increase in total employment and output in the economy. While the majority of the skilled workers will find employment in positions which require their skills, there will also be some increase in the number of skilled workers in jobs which do not require their full talents. In the case of skilled labour, an increase in supply will tend to reduce wage rates (provided that the supply curve is not infinitely elastic). However, the corresponding reduction in supply of unskilled labour (as they are educated or trained) need not affect the going wage rate if social welfare rates already set a floor to wages in that market. In assessing the full impact of the investment in education it is necessary to take account of not only the change in employment, but also of the resulting change in wage rates.

If the demand curves for the two kinds of labour, skilled and unskilled, had remained unchanged over time, the wages of skilled employees relative to unskilled would have fallen as a result of the increase in supply of skilled labour, partly funded by the CSF. This fall would have been particularly acute if many of the skilled were unable to find skilled employment and were forced to work in unskilled jobs. Figure 1.2.11 shows the average earnings of those employed in 1987 and 1994 classified by their level of education (Callan, 1993 and Callan and Wrenn, 1994).<sup>7</sup> These data suggest that there was little change in the differential over that seven-year period. Given the very substantial increase in supply of skilled labour over the same period this would indicate that the demand curve for skilled labour must also have shifted outwards, offsetting any tendency for the increase in supply to reduce the return to the investment.

An alternative possibility is that a significant proportion of the skilled labour force might have emigrated. However, the evidence suggests, firstly, that net emigration has been extremely low in the latter part of the period since the first CSF began. Since 1991 there has actually been net immigration. In addition, even with the substantial net emigration over the last 30 years, those who are best educated have been more likely to return. This is shown in Figure 1.2.13 where it can be seen that a high proportion of those with third level education aged over 40 had lived abroad for at least a year. The figure for those with lower levels of

<sup>7</sup> These data are simply the average earnings of those with the different education levels, without adjustment for other personal characteristics. A detailed analysis of the 1994 sample, taking account of individual characteristics, is presented in Section 4.2 below.

education (who accounted for the bulk of emigrants) is much lower, though still high by the standards of other EU countries. Thus the increase in the output of the educational programmes funded by the CSF has served to increase the domestic supply of skilled labour.

Figure 1.2.11:  
*Returns to Education - Male*

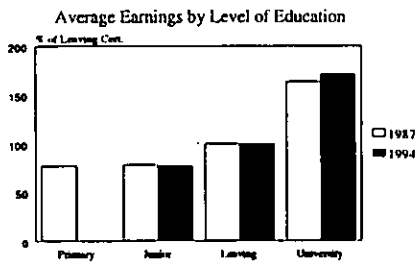


Figure 1.2.12:  
*Returns to Education - Female*

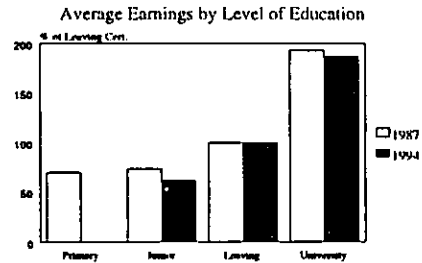


Figure 1.2.13:  
*Males who have resided abroad*

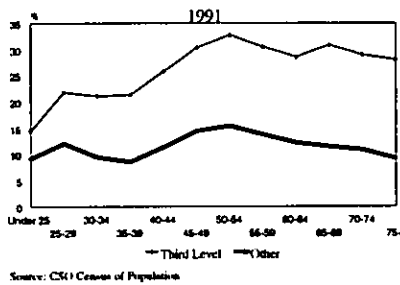
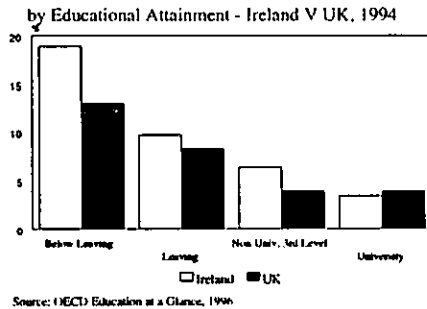


Figure 1.2.14:  
*Comparative Unemployment Rates*



Finally, as shown in Figure 1.2.14 the unemployment rate for those who are well educated has been relatively low and for university graduates the unemployment rate in Ireland in 1994 was comparable to that in the UK. All this would suggest that the investment in the education system has had an impact, increasing the productive potential of the economy.

In so far as the CSF is successful in giving the long-term unemployed the skills and confidence to participate in the active labour force, by increasing the proportion of short-term unemployed, it will reduce wage pressures for unskilled labour at any given level of unemployment.

Generally, if the increased skills and education of the labour force are utilised in Ireland the investment in human capital will add to the productive capacity of the economy through increasing efficiency and productivity. The CSF will not only have an effect through reducing any skill bottlenecks which may exist but will also result in many of the new labour force entrants playing a more effective role in their sectors of the economy. This could reduce the costs of existing firms, increase the quality of output, and lead to new firms setting up to exploit the increased productivity of the labour force.<sup>8</sup>

However, while the possible economic mechanisms whereby increased training and education could increase national productivity are clear, the quantification of these effects remains uncertain and is discussed in the next sub-section.

In the case of the increased productivity which might arise from a more skilled and educated labour force, the pure human capital effect, Callan, 1993 indicated that returns to the individual can range between 10 and 15 per cent. The new results presented in Section 4.2 confirm that returns to education have not shown any systematic tendency to decline. Some evidence for the US suggests a rate of return to additional education of 7.5 per cent (Angrist and Krueger, 1990). In this section we have assumed a 7.5 per cent rate of return to the economy in the long run from investment in education. Bearing in mind the critique of Part 2 below, we have assumed a somewhat lower rate of return (about 6 per cent) from investment in training.

#### *Infrastructural Investment*

Infrastructural investment takes a number of different forms: increased expenditure on roads and ports; increased investment in sanitary services. These investments will first impact on the economy through an increased demand for building services. The MT model can handle these effects satisfactorily.

It is on the supply side that this infrastructural investment can be expected to have the biggest long-term impact and it is here that the greatest uncertainty arises. While the model allows us to assess the impact on the industrial sector of a given percentage change in transport costs, it has no mechanism for measuring the potential impact on such costs of any given level of infrastructural investment.

Infrastructural investment may have a non-linear effect on the economy (there may be increasing returns to scale). For example, a telephone system below a required standard may simply prevent any industrial investment of a high technology type. Incremental telecommunications investment may not become effective until a threshold standard is passed. Thereafter, the provision of an adequate telecommunications system may facilitate such investment but it can not

<sup>8</sup>The benefits of increased productivity will reduce firms' costs even if they are shared equally with employees, as past experience would suggest is likely.



guarantee it. The provision of improved roads may have little effect if they merely serve to shift traffic jams from one town to another. However, the completion of the final link on a major artery could have a very big effect on travel times and, thus, on industrial costs.

As with the measurement of the supply side effects of investment in human capital, we take an experimental approach to quantifying the effects of the infrastructural investment. We have tested the effects on the economy of different realised rates of return on the infrastructural investment. We implement these effects through a change in the cost of production of the industrial sector. Within the model, a reduction in the cost of production in Ireland increases competitiveness leading to increased output and employment on a long-term basis. The reduction in transport costs will also reduce the costs of imports. However, given the very high level of import penetration already, this is unlikely to have a major effect on the volume of imports.

A range of other CSF funded investment will have a rather similar supply side effect to that of investment in physical infrastructure.

#### *Aids to the Private Sector*

Aids to the private sector take on a wide range of forms. Here we consider assistance given in the form of a grant or subsidy designed to encourage the private sector to undertake certain investments which are believed to be highly desirable or of strategic importance. These aids take the form of incentives to expand or develop new industries as well as incentives for agricultural investment.

These measures first impact on the economy when the firms benefiting from the grants or subsidies undertake the desired investment expenditures. The crucial first link in assessing the impact of this aspect of the CSF is the quantification of the link between assistance and investment. The effects of a change in the grant provision of the IDA on industrial investment and output in the long-term can be quantified within the model (see Bradley, Fitz Gerald and Kearney, 1993). However, the quantification obtained must still be seen as imprecise because small changes in the terms or eligibility conditions, which might significantly affect behaviour, cannot be identified at a macroeconomic level.

Having quantified the impact on investment behaviour, the MT model provides a good tool for examining the long-term supply side impact of the resulting increase in the productive potential of the economy. The increase in potential supply results in higher exports and employment in the longer term. The initial impact of the increase in investment is to disimprove the balance of payments as investment (largely imported goods) increases. However, once the new capital stock is in place and productive, the effects on the balance of payments become positive.

*Aggregate Effects*

The increase in employment and output will have additional effects, through the multiplier process, on all sectors of the economy. These multiplier effects are directly covered by the MT model. The improvement in the balance of payments and government borrowing requirement, which will arise as by-products of the CSF, must also be taken into account. The increase in growth and employment financed by the CSF will reduce certain aspects of government spending and increase tax revenue through buoyancy effects. The results of these indirect changes are likely, in time, to more than offset the cost to the government of financing part of the CSF expenditure. Depending on how these benefits to the balance of payments and the public sector balances are used, they may add to the growth rate in the medium term. For example, if these indirect benefits are used to repay foreign debt then future debt interest payments will be reduced. In this section we have assumed that the additional revenue buoyancy over and above that needed to fund the government's contribution to the investment projects under the CSF, is used to repay debt (or avoid incurring additional debt). The benefits of this investment in debt reduction appears as an increase in GNP (though not in GDP) as foreign debt interest payments are reduced in the long run.

**1.2.4 Quantification of the Full Effect of the Current Round of Structural Interventions***The Alternative*

In quantifying the effects of the current round of EU structural financial assistance it is essential to define the alternative situation, "what might have been", if there had been no funds coming from the Union. Because of the size of the Structural Intervention (SI) flows, it is no simple matter to define this alternative or benchmark scenario; certainly many other domestic policies might have been different without the very substantial support from the EU.

It is important in an exercise such as this that the definition of the "with" and "without" SI scenarios actually adopted should be a simple one. We consider three different scenarios. Under two of these scenarios we do not try and second guess what might have been but instead assume that all the expenditure funded by Structural Interventions between 1994-99 would not have taken place without the SI and that all other spending and taxation parameters would have remained unchanged. In the first scenario each programme which is receiving support from the EU is reduced by the exact amount of the EU funding. This is defined as the "without CSF" benchmark scenario. The second scenario involves reducing it by both the EU funding and the domestic co-funding. This is referred to as the without "CSF and national funding" scenario. The third scenario involves

assuming that there was not full additionality with the Irish government only increasing investment by 70 per cent of the EU funding – the “limited investment” scenario.

This means that we are assuming that in scenarios 1 and 2 the current round of SI gave rise directly to an increase in investment over the period 1994-99 with no direct or carryover effects on expenditure thereafter. We are also assuming that the state's contribution to public capital expenditure would have remained at the same level even without the SI over the period 1994-99.

If EU funding had not been available, the Irish government might well have chosen a different level and composition of public expenditure from that which we have assumed. However, the set of assumptions used has the major virtue of simplifying the explanation of the effects of the SI. If compositional changes were superimposed on changes in the level of expenditure it would be very hard to disentangle the results. In particular, this means that we do not assume that it was EU money that met particular bottlenecks: what the infusion of funds did was ease the overall budgetary pressure.

In implementing these assumptions we run the MT model twice for each scenario: on the first occasion we produce a forecast for the major economic aggregates to the year 2010 on the assumption of no SI expenditure over the period 1994-99; on the second, we produce a forecast including the SI expenditure over the period 1994-99. The effects of the SI are then defined as the difference between the two scenarios.

When we talk below of, for example, a change in GNP or consumer prices as a result of the SI we are talking of the difference between these two scenarios; the difference between the level of GNP and consumer prices in the “with CSF” scenario and the levels in the “without CSF” or benchmark scenario. Thus when we talk of the CSF raising GNP in 1999 by over 3 per cent this does not mean that the growth rate will be over 3 per cent but that the level of GNP in 1999 will be 3 per cent above the level it would otherwise have been without the CSF.

In the discussion below we concentrate first on scenario 1 where the impact of the EU funding alone is considered. The other two scenarios are then considered in a more summary form to illustrate how they differ from one another.

#### *The Macroeconomic Effects – EU Funding Alone*

The best estimate of the total impact of the SI, using the MT model, is summarised in Table 1.2.2 and Figure 1.2.15. Each panel shows the difference between the benchmark scenario and the scenario without structural spending.

The major objective of the SI is to promote cohesion in the EC through adding to the growth rate in peripheral regions such as Ireland. The single most important measure of the achievement of the SI must therefore be their effects on the level of GDP and GNP. As shown in panel (a), the initial impact of the SI in the period

1994-99 is much greater than the more permanent effects shown for the period after 1999. This is because the demand side impact is purely transitory and it fades away rapidly when the current round expenditure is assumed to end in the year 1999. (This is a purely technical assumption as the EU transfers from the SI process will clearly remain significant well into the next decade.) The supply side impact takes some time to build up but it persists long after the funds are spent.

As shown in panel (a) the cumulative effect of this round of SI is to raise GNP by between 2.5 and 3 per cent by 1998-99. When the demand side effects have disappeared in the year 2000 and the supply side effects have built up, the permanent effect of the 1994-99 round is to raise the level of GNP by around 1 per cent compared with the level it would have been.

The effects on GNP are somewhat greater than on GDP. This reflects the fact that the improvement in the balance of payments and the public finances, accruing from the injection of SI, is a substantial benefit to the nation. This results in a reduction in foreign indebtedness and debt interest payments paid abroad. This, in turn, narrows the wedge between GDP and GNP, resulting in the more rapid rise in GNP. By 1998 GNP was around 3 per cent above the level it would otherwise have been. When the demand side effects have disappeared after 2000 the long term effect is to raise GNP by 1 per cent.

However, the impact on GNP per head is somewhat lower than the impact on total GNP because of an increase in the population over the period to the year 2010 as a direct result of the CSF. This increase occurs because the spending strengthens the domestic labour market reducing emigration or inducing immigration (panel e). The net effect of all these factors is to leave GNP per head 0.7 per cent higher in the year 2010 than it was in the benchmark. The difference between the effects of the SI on GNP and GNP per head reflects the problems in using any one measure of national welfare. If one uses GNP per head as the measure of progress this ignores any welfare increase to Ireland accruing to those who can find employment in Ireland rather than abroad.

Because of the exclusion from this set of simulations of the co-funded investment under the CSF the impact on the balance of payments is particularly striking. For the period of the current CSF it seems likely that the balance of payments surplus is between 1.2 and 1.7 percentage points of GNP above the level it would have been without the CSF. This reflects the fact that while a substantial part of the initial investment goes on imported capital goods and material inputs, the bulk of the rest of the expenditure goes on purchases of domestic goods and services. The EU transfers then exceed the volume of imports generated by the increased investment. After the demand side effects peter out from 1999 onwards, the balance of payments remains in surplus as a result of the lower debt interest payments and the increased output capacity and general competitiveness of the

productive sector. The capital outflow balancing this surplus builds up foreign assets (or runs down foreign liabilities) and the return on this net foreign investment makes a further contribution to the growth of GNP.

Figure 1.2.15: *Impact of the SI on:*  
(EU Funding Alone)

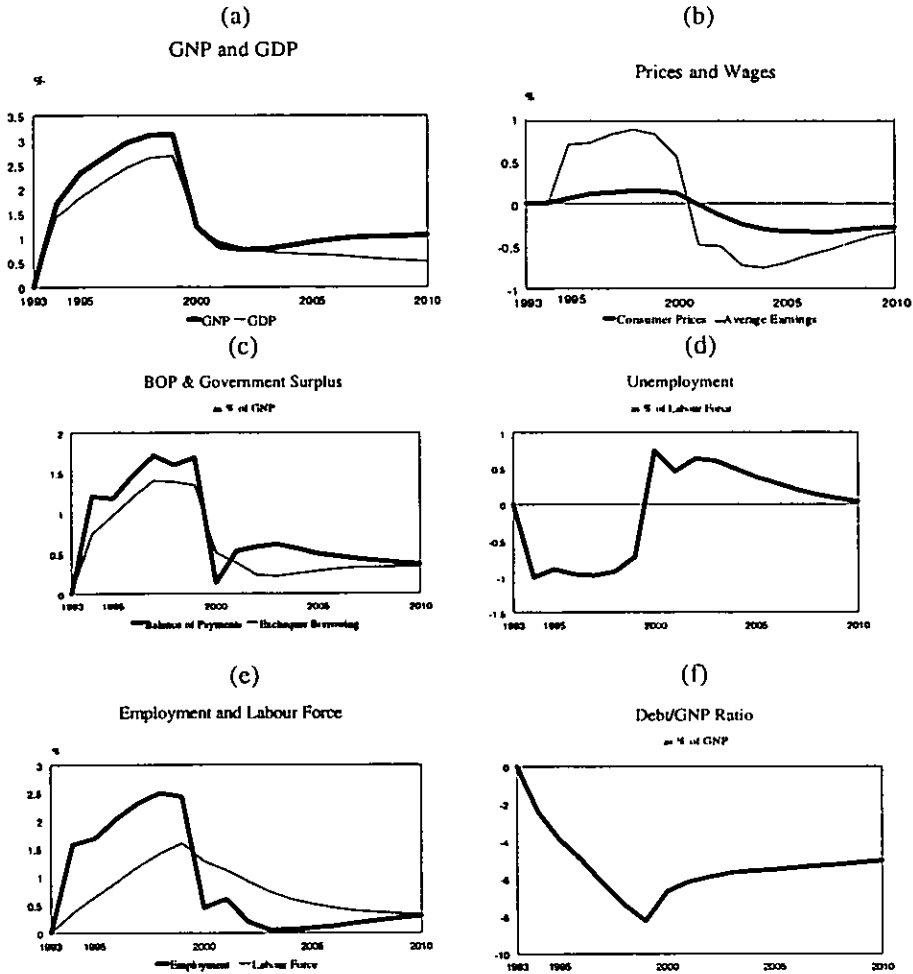


Table 1.2.2: *Macroeconomic Consequences of Structural Intervention 1994-99*

	Change Compared to Benchmark											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP (%)	1.4	1.8	2.1	2.4	2.6	2.7	1.2	0.9	0.8	0.7	0.7	0.7
GNP (%)	1.7	2.3	2.6	2.9	3.1	3.1	1.2	0.8	0.8	0.8	0.8	0.9
Balance of Payments as % of GNP	1.2	1.2	1.5	1.7	1.6	1.7	0.1	0.5	0.6	0.6	0.6	0.5
Exchequer Surplus as % of GNP	0.7	1.0	1.2	1.4	1.4	1.3	0.5	0.4	0.2	0.2	0.2	0.3
Debt/GNP Ratio (as % of GNP)	-2.5	-3.9	-5.0	-6.3	-7.4	-8.3	-6.7	-6.2	-5.9	-5.7	-5.6	-5.5
Consumer Prices (%)	0.3	2.8	2.7	0.9	0.9	0.1	-1.8	-7.4	-6.9	-5.5	-3.4	-1.6
Industrial Wage rates	-0.0	0.7	0.7	0.8	0.9	0.8	0.6	-0.5	-0.5	-0.7	-0.8	-0.7
Unemployment Rate (as % of Labour Force)	-1.0	-0.9	-1.0	-1.0	-0.9	-0.7	0.7	0.5	0.6	0.6	0.5	0.4
Total Employment (thousands)	18.3	20.4	25.6	30.0	33.1	32.7	6.1	8.4	2.9	0.9	0.9	1.3
Labour Force (thousands)	5.0	9.0	13.3	17.5	21.4	24.2	19.9	17.6	14.6	12.0	10.0	8.5
Net Migration Abroad (thousands)	-3.0	-4.3	-5.2	-5.7	-5.9	-5.4	-1.0	0.7	2.1	2.9	3.0	2.8

In the years covered by the current CSF, 1994-99, the EU financed expenditure provides a substantial stimulus to the economy. This stimulus, in turn, results in an increase in tax revenue and some reduction in government expenditure on transfers and debt interest. The result is a very substantial improvement in the borrowing requirement as a percentage of GNP (here shown as an improvement in the Exchequer surplus) – panel (c). Between 1997 and 1999 the Exchequer surplus (negative borrowing) will be almost 1.5 percentage points of GNP above what it would have been without SI. Thereafter, as the demand side effects of the stimulus disappear, the improvement in the Exchequer's finances is reduced. However, in the year 2005, due to the permanent supply side benefits of the SI-financed investment, it will still amount to around 0.4 per cent of GNP.

The cumulative impact of the increased growth and lower government borrowing reduces the debt/GNP ratio by 5 percentage points by the end of the next decade (panel f). This, in turn, reduces debt interest payments. This will represent a significant contribution towards the achievement of the Maastricht guidelines on the public finances.

The employment effects of the CSF have built up to a peak of over 30,000 jobs by this year (1997) (panel e). Much of this increase in employment is due to the demand stimulus financed by the SI. After 1999, when the demand stimulus falls off, so too does the positive impact on employment. However, by the year 2010 there will still be 5,000 additional jobs as a result of the investment in the period 1994-99.

The effects on unemployment are rather different. Initially, the change in unemployment mirrors the effects on employment as many potential labour force entrants or long-term unemployed are absorbed by the employment increases to meet the increase in demand. This results in a fall in the unemployment rate of around 1 per cent of the labour force (panel d). However, the reduction in numbers unemployed deteriorates after 1999. First, the improvement in the domestic labour market up to 1999 results in a substantial reduction in emigration (or increase in immigration) below the level it would otherwise have been (Table 1.2.2). As a result, the labour force rises and, because of the slow adjustment of migration to changing labour market circumstances, it continues rising out to 1999 (panel e).

When the increase in the labour force is combined with the reduction in the number of additional jobs from their peak in 1997-99, the unemployment rate actually shows an increase compared to the benchmark in the period immediately after the current CSF. However, as the labour force adjusts back down through migration and as the supply side benefits of the CSF provide a sustained increase in employment, the unemployment rate is again reduced to zero by the year 2010. If more time were allowed for the adjustment the end result would probably be a

further small reduction in the unemployment rate in the early years of the following decade.

Because of the nature of the CSF, the inflationary effects, with one exception, are really quite small. Much of its long-term impact occurs through increasing the output potential of the economy rather than by directly increasing demand. Thus the rise in consumer prices peaks at under 0.2 per cent in 1999 (panel b). While consumer price inflation is quite low, the big increase in employment, and consequential reduction in unemployment, significantly tightens the labour market. In spite of the increased supply of skilled labour there is a tendency for wage rates to rise. They peak at over 0.8 per cent above the benchmark level in 1998. With the reduction in the demand stimulus and the continuing reduction in emigration there is a fall off in labour market tension after that date. The positive labour market effects of the human resources also make a major contribution. It is only the price of building output which shows a substantial increase above the benchmark level, due to the major demand stimulus applied to that sector.

In the long run the improvement in competitiveness arising from the CSF results in a permanent increase in value added in industry. Initially industrial output rises to a temporary peak of 3 per cent above the benchmark in 1999. This owes much to the stimulus to the building industry. However, the long term effects on the sector are primarily determined by the fate of the manufacturing sector. As a result of the supply side effects of the CSF, value added in industry is over 0.7 per cent above the benchmark in the year 2010.

Output in the market services sector is also over 2.5 per cent above the benchmark level in 1998. In this case, while the CSF will have some direct effect on the sector's productive potential, the bulk of the growth has its origins in the multiplier effects of the demand stimulus.

All of these estimates (and those below) are quite insensitive to variations in the benchmark macro-scenario, as experience has shown that the model used is almost linear in this regard. No reasonable variation in the benchmark would alter any of the numbers in Table 1.2.2 by more than 0.1.

#### *The Macroeconomic Effects – EU plus National Funding*

The second scenario which we considered was the case where both EU funded and Irish government co-funded expenditure under the current CSF were excluded from the benchmark. The result then shows the combined effects of expenditure funded in this way. Naturally the effect on GNP is somewhat higher during the period 1994-99 reflecting the larger stimulus from the CSF when measured in this way. The stimulus peaks at around 4 per cent of GNP in the late 1990s (Figure 1.2.16a). In the long run the supply side effects on GNP are rather similar to those where only the EU funded element is considered. This reflects the fact that the

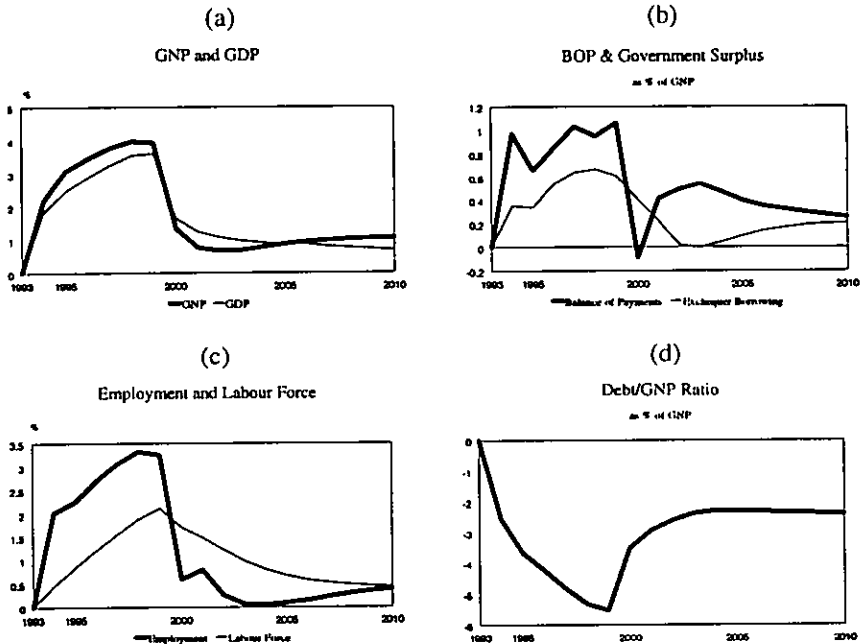


higher Irish government expenditure is financed by foreign borrowing. As a result, while the bigger increase in productive potential achieved with the Irish government expenditure increases output under this scenario, this gain is partly offset by the smaller debt reduction undertaken as part of the CSF (panel e).

However, the co-funded expenditure undertaken by the Irish government as part of the CSF is more than covered by the revenue buoyancy arising from the EU funded investment. This is reflected in panel (b) which shows that the Exchequer Borrowing Requirement is reduced (surplus is increased) as a result of the combined effect of the EU and co-funded expenditure under the CSF. The Exchequer Borrowing Requirement peaks at over 0.5 percentage points of GNP below the benchmark in 1997-99. Even after the investment is assumed to end the Exchequer position remains positive because of the lower debt interest payments on a lower level of debt (panel d).

The employment effects of SI expenditure under this definition are also greater than in the case where EU funded expenditure alone is considered. Even after the current CSF ends in 1999 employment remains above the benchmark for the foreseeable future reflecting the increase in the productive potential of the economy.

Figure 1.2.16: *Impact of the SI on:*  
(EU plus co-funded investment)



*Additionality*

According to economic theory, a rational government's response to receiving substantial financial support on a multi-annual basis would be to reduce its own net spending commitments and also the net level of taxation. The reduction of net spending would not be pound-for-pound with the receipt of structural funds. After all, the marginal social cost of public funds is lower at a reduced level of taxation, so some additional gross public spending should be carried out. However, the presumption is that structural fund assistance should not increase gross public spending by anything like the total of assistance.

In reality the legal situation governing the spending of the structural funds is of course quite different to what economic theory proposes as being optimal. Instead of allowing for a substitution of structural fund financing for tax financing, the regulations governing the structural funds call for all spending supported by the structural funds to be "additional". Indeed, they must be co-financed from domestic sources. Nevertheless, the concept of "additionality" is not an easy one to make operational, and it seems unlikely that public spending in Ireland is £1 billion higher than it would otherwise be as a result of the structural funds. Furthermore, given the fungibility of money, not all of the additional spending that has been leveraged will represent spending on the structural fund items – there can be little doubt that in the counterfactual, some of what is currently being funded by the structural funds would have occurred anyway, being funded by domestic sources. In other words there is inevitably some amount of what might, from the Commission's point of view, be regarded as akin to deadweight.

Regression analysis of historic trends seems to confirm that this theoretical point has held in practice. Basing the regression equations on a specification derived from the idea that governments balance their desire for more spending and less taxation with their aversion to excessive borrowing, and also assuming that they prefer not to change the level of spending or taxation drastically, we estimate that an exogenous shock of £100 million in the level of non-discretionary spending (specifically interest payments) has been absorbed (in the same year) by an offsetting change in other spending amounting to about £60 million, in taxation of about £25 million and in borrowing of about £15 million.

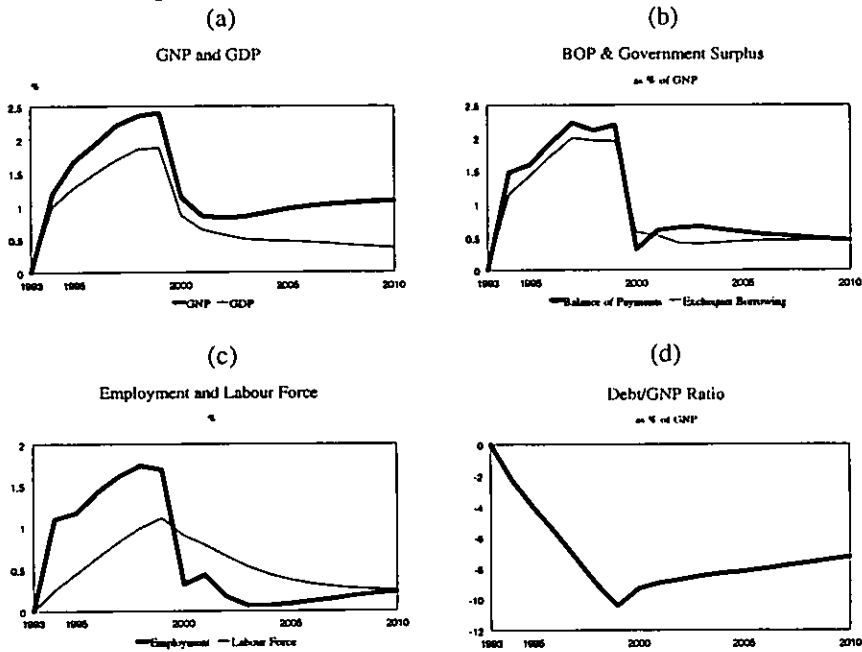
*The Macroeconomic Effects – Limited Investment*

In this set of simulations we considered the scenario where the Irish government is assumed to only increase investment by 70 per cent of the value of the funds received from the EU under the CSF. This is the opposite to the previous scenario in that here the Irish government takes even more of the benefits in the CSF as an improvement in its own financial position. The reason for looking at a scenario of this sort is set out in the accompanying box on additionality. While the short-term impact on GNP is significantly lower than in the previous two

scenarios, peaking at around 2.5 per cent of GNP, the long-term effects are rather similar. The similarity of the long-term effects of the CSF under the 3 different sets of assumptions, all of them suggesting an ultimate rise in the level of GNP of 1 percentage point, reflects the fact that the assumed rates of return on financial assets are rather similar to the rates of return assumed for the CSF financed investment in physical and human capital.

The impact of the reduced investment shows up as a greater reduction in the debt/GNP ratio by 1999 (Figure 1.2.17d). This means that the Exchequer surplus (borrowing) is increased (reduced) significantly over the next decade leaving greater room for investment in physical assets in the future. Naturally, the smaller demand side impact of the lower level of investment sees a smaller growth in employment in the late 1990s.

Figure 1.2.17: *Impact of the SI - Less than Full Additionality*



### 1.2.5 Overall Impact of SI since 1989

The basis on which this exercise has been carried out should be clearly understood. In examining the EU contribution to the 1994-99 CSF on its own we are ignoring the fact that the CSF for those years is part of a longer term process.

As a result, what we present here is not a forecast but rather an attempt to quantify the full macro-economic benefits from a particular programme of investment initiatives. In reality, the full effects of the current round of CSF expenditure will be superimposed on the effects of the next round and of the many other factors driving the economy in the medium term.

In this section we have analysed the likely impact of the current round (CSF 2) using a similar methodology to that used to analyse the first CSF (CSF 1) in ESRI (1993). While the absolute magnitude of the funds available under the current CSF is greater than under the 1989-93 CSF, they are not that different when expressed as a percentage of current GNP. As a result, it is not surprising that we find that using a similar definition of CSF expenditure (the EU funded element excluding co-funding) the impact of the current CSF will be similar in magnitude to the last one.

In Figure 1.2.18 we show the cumulative impact of the two CSFs over the period 1989 to 2010. Their combined effect in the period 1995 to 1999 is to raise the level of GNP by between 3 per cent and 4 per cent above the level it would have been without the CSF (EU funding alone). The fall in the 1994-95 period reflects a decline in receipts (expressed as a percentage of GNP) in the initial years of the current CSF. The long-run impact of the two CSFs will be to raise the level of GNP by about two percentage points above the level it would have been without them.

Figure 1.2.19 shows the impact of the two CSFs in promoting convergence in living standards between Ireland and the rest of the EU. The impact is particularly marked in the 1990s when the demand side effects are likely to be at their peak. The advent of the first CSF in 1989 was particularly apposite given the prevailing pessimism about the future and the drive to cut all forms of public expenditure. The CSF encouraged a return to investment in public infrastructure at a crucial time. Without such investment the economy to-day would be encountering more problems of bottlenecks.

The analysis presented in this section is based on a series of vital assumptions about the likely rate of return from different types of investment. While the analysis in this report has brought together a range of evidence on this issue, the evidence remains weak and patchy. Thus the results of the analysis must be viewed with considerable caution. However, the use of a macroeconomic model does allow us to make a rough estimate of the combined direct and indirect effects of the current CSF, a task which could not be carried out in any other way.

There are a number of areas where our assumptions may have to be adjusted in the light of future economic research. In particular, it seems likely that certain

forms of investment in education may have a higher rate of return than we have assumed here.

There is also the problem of quantifying the full impact of investment in physical infrastructure, especially transport infrastructure. It seems likely that with rapidly increasing levels of output, and related traffic, the returns from reducing physical bottlenecks could be substantially higher. However, the figures which we have used here for rates of return from different types of investment remain plausible taking account of the wide spectrum of results for investment under the different programmes.

Figure 1.2.18: *Contribution of Structural Interventions to GNP, 1989-2010*

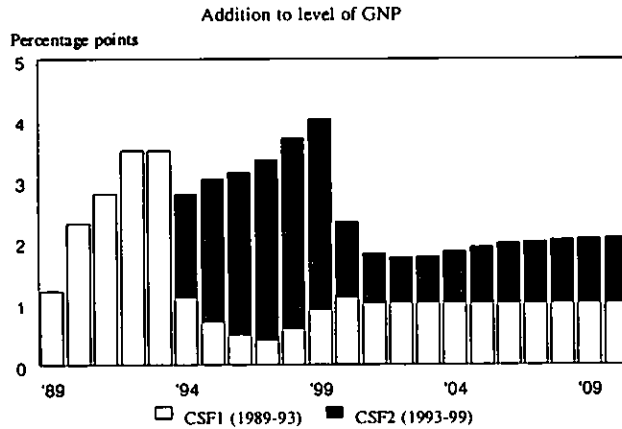
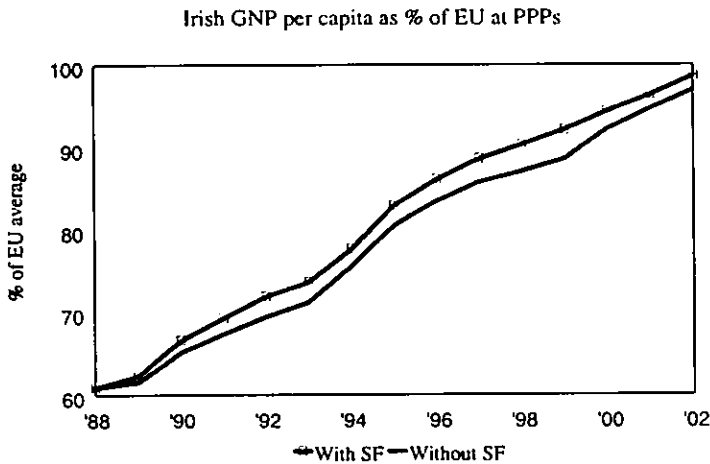


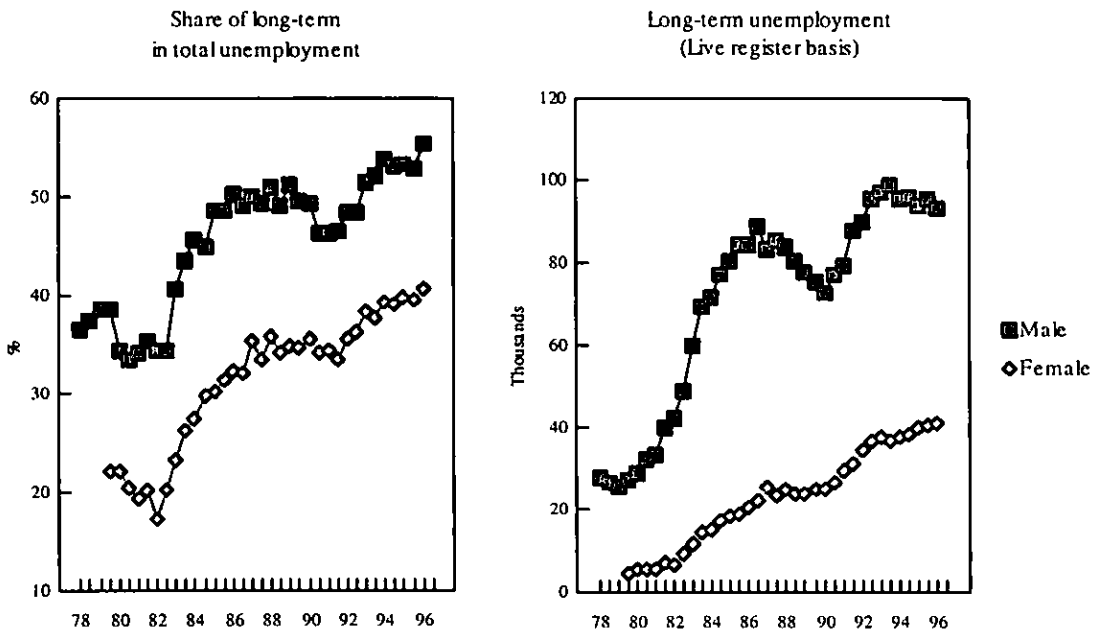
Figure 1.2.19: *Contribution of Structural Interventions to Ireland's Convergence*



### 1.2.6 Escape from Long-term Unemployment: Separating the Effects of Macroeconomic Conditions and Policy Changes

A key goal of the CSF is the reduction of long-term unemployment. Indeed, there has been some reduction in long-term registered unemployment of males, from 97,000 at end 1993 to 93,400 at end 1996. This was largely offset by a rise in female registered long-term unemployment from 37,800 to 40,900 in the same period. (Figure 1.2.20). In both cases the share of long-term in the total has risen: from 52 per cent to 55 per cent for males; 39 per cent to 41 per cent for females.

Figure 1.2.20: *Unemployment 1978-96*



When unemployment begins to fall, the share of long term in the total has a tendency to rise, as the initial impact of improved conditions is usually felt chiefly in fewer new registrants. Thus it might be that employment prospects for the long-term unemployed have actually improved even though their share in the total has been increasing. What we need to know is (a) has the chance of escaping from long-term unemployment improved and (b) what part has policy played in delivering any such improvement?

Breen and Honohan (1992) developed a method for calculating these escape probabilities (also known as "hazard rates") from the duration of unemployment tabulations which have been made semi-annually from the live register for several decades, and quarterly in recent years. In that paper it was shown that escape probabilities for the long-term unemployed had remained remarkably stable between 1979 and 1990 (apart from a distinct seasonal effect), despite the fact that this period included sub-intervals of sharp rises and falls in total unemployment and periods of net immigration as well as net emigration.

Based on this historical experience, it is of interest to explore the implications of the working assumption that broad economic conditions do not affect the long-term escape probabilities, and that any improvement in these escape probabilities is the result of active labour market policy. To examine this, we computed the estimated escape probabilities for 1990-96. First, the results for the live register are shown in Figure 1.2.21. The estimated probability of escaping from short-term registered unemployment (under six months) has improved slightly – from 0.548 on average during 1987-88 to 0.565 on average during 1994-96 for males, and from 0.598 to 0.622 for females. But the estimated escape probability from long-term registered unemployment has, if anything, deteriorated, falling from 0.265 to 0.214 for males; from 0.344 to 0.279 for females.<sup>9</sup> These falls are just within the confidence interval estimated over the period 1979-90, allowing us to accept the hypothesis that there has been no underlying decline in the escape probabilities.

The labour force survey measures of unemployment are conceptually more satisfactory and we know that many claimants on the live register do not report themselves as unemployed. However, the time series on duration of long-term unemployment based on the labour-force survey is much shorter. In addition, the sampling errors involved in the survey add considerably to the noise in a series purporting to compute changes in escape probabilities.<sup>10</sup> Nevertheless, we computed escape probabilities from the nine years of data provided. These are shown in Figure 1.2.23, and reveal a sharp jump in escape probabilities in 1994 (applies to the twelve months from April 1994), with a drop in the following year

<sup>9</sup> This assumes the hazard for medium term (6-12 months) and long-term are the same. If we assume instead that the hazard declines linearly between the three durations – equivalent to assumption  $\phi=1$  in Breen and Honohan (1992), then the fall is steeper from 0.226 to 0.173 for long-term males; from 0.290 to 0.220 for long-term females.

<sup>10</sup> Ongoing work by Anthony Murphy and Brendan Walsh of UCD aims to infer the factors affecting escape probabilities based on micro-analysis of the labour force survey, 1994. But for the present their work does not extend to earlier periods.

to about the average of 1991-1993.<sup>11</sup> By 1995-6, then, escape probabilities for the long-term unemployed seem to be hardly better than at the outset of the CSF.

Figure 1.2.21: *Escape probabilities from unemployment (by duration)*  
Live Register

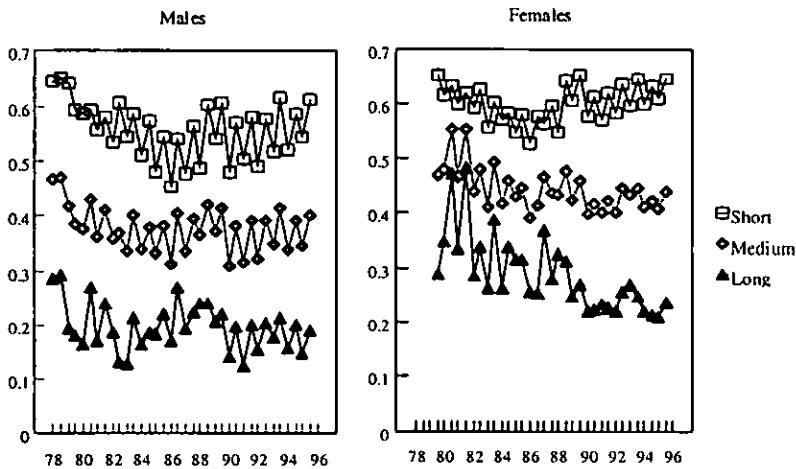
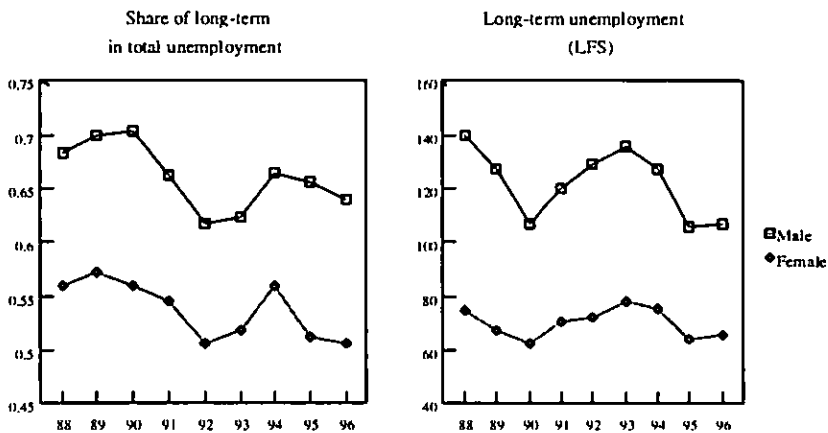


Figure 1.2.22: *Unemployment 1986-96*  
Labour Force Survey

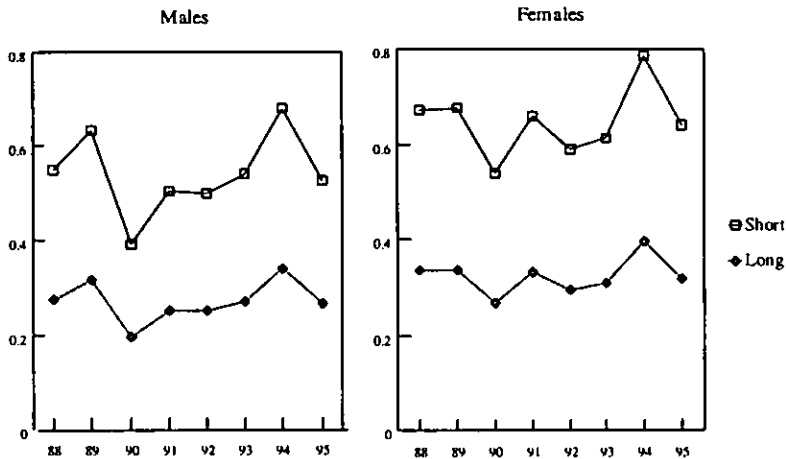


<sup>11</sup>The estimate requires an assumption about the ratio of long-term to short-term hazards, but the statement in the text holds for all values of that ratio from zero to unity.



The finding that escape from long-term unemployment has been no easier during 1995-96, despite vigorous active labour market measures, is somewhat discouraging. The conditional nature of the finding should be stressed: it is based on a very simple model and the relevance of the live register data (which is the most pessimistic) may be questioned. However, it does leave a doubt about the overall effectiveness of the measures being adopted to reduce long-term unemployment and about our understanding of the long-term unemployment problem and what is to be done about it.

Figure 1.2.23: *Escape Probabilities from Unemployment (by duration)*  
Labour Force Survey



### 1.3 Meeting the Priorities

As outlined in Section 1.1.2 above, the four principal priorities under which the objectives of the CSF were to be met relate respectively to (1) the Productive Sector, (2) Economic Infrastructure, (3) Human Resources and (4) Local, Urban and Rural Development. In the CSF document the convention was adopted of identifying each OP with a particular priority, although it should be recognized that most OPs contribute to more than one of the priorities. The following discussion generally respects the convention, but will mention some of the important practical exceptions.

Spending to date by priority has, as shown in Tables 1.1.1-4 above, broadly matched the final intended split among the priorities. Thus spending on the productive sector priority has accounted for rather less than a half of the SF spending, human resources has taken about 30 per cent, infrastructure rather less

than one-fifth, with the local urban and rural development priority accounting for about 5 per cent.

It is sometimes suggested that an assessment as to the appropriate balance of funding between the four priorities could be made without reference to the design of the relevant OPs and their component measures. For example, could one conclude from the more-rapid-than-expected growth in employment and economic activity that funds should be shifted into economic infrastructure and away from the productive sector and human resources? While such an argument would have a certain persuasiveness, it is unduly schematic, and neglects known information about the effectiveness and potential of individual measures. To the extent that it is driven by a view that decision-making would be streamlined and decentralised by introducing multi-tier budgeting, such a view would fail to recognise the practical reality of the Irish CSF, where key decision-makers, both from the national administration and the Commission services, overlap between the OP Monitoring Committees and the CSF Monitoring Committee.

In the light of this, we make no attempt to impose an a priori allocation of resources between priorities, instead reserving our recommendations about transfer of funds to Part 2 of the report, where explicit account is taken of the individual measures whose budgets might be adjusted. It is nonetheless desirable to arrive at an overall perspective on the performance of the CSF to date in contributing to the four priorities. We will not duplicate here the detailed analysis of impact, effectiveness and efficiency contained in the individual OP MTEs. Instead, the purpose of this section is to highlight the main achievements and issues under the four priorities.

### **1.3.1 Productive Sectors Priority**

#### *Impact*

If it is through the Productive Sectors priority that the CSF's contribution to the main macroeconomic indicators – employment, output and investment growth – was to come, then the substantial overshoot of all of these indicators must be accounted a great success for this priority. As explained in Part 3 below, progress towards meeting the CSF-level indicators established for the four individual OPs has also been good, with performance slipping behind target in just a few cases. These are mostly output (or market share) and employment indicators, with some others, such as environmental indicators included for Agriculture. As discussed in some detail in Part 3, it is well recognised that these broad indicators represent only part of the story: hiding some successes, and failing to alert some areas of difficulty. (For example, the fact that, as shown in Tables 3.4 and 3.5, estimated

job growth in Fisheries and Tourism appears to fall well short of the targets set for this indicator, should not unduly detract from the strong output growth of these sectors: probably the employment targets were over-optimistic.) It is also not easy to identify the role of the CSF relative to other factors in contributing to the outturns. While it would therefore be facile to draw strong policy conclusions about the CSF from the successful economic performance in the sectors targeted by the productive sector priority, nevertheless the general outturn has to be considered very favourable.

The spending for the Productive Sectors priority has important common features across the four relevant OPs, relating to industry; agriculture, rural development and forestry; fisheries and tourism.

Entrepreneurs in each of these sectors are in receipt of grant-assistance supporting capacity expansion activities.

Each has R&D and specific human resources components, and  
Most have a marketing element.

Of the £2 billion in SI applied to this priority, about two-fifths is assigned to capacity expansion (including public sector tourism product), about 15 per cent to R&D, 8 per cent to marketing and 17 per cent to specific human resources and other capability development aspects. That leaves about 20 per cent assigned to other elements - mainly the Compensatory Amounts (CAs - "headage").

#### *Grants for Capacity Expansion*

A major issue for this evaluation regarding grant-aid is ensuring comparability across these sectors, to the degree to which that is appropriate. The segmentation of grant-aid to manufacturing is a particular source of concern in this regard. The originally established budgets will need to be revised to ensure that comparable value for money is achieved. This is likely to involve shifting funds away from the food sector in particular, because sufficient appropriate projects are not forthcoming. The original budget cannot be regarded as irrevocably committed to the food sector; otherwise good projects elsewhere (including, for example, in fish processing - clearly a food sector, but in a different OP) would risk being underfunded while the quality threshold was lowered for projects or activities that happened to be in the food sector.<sup>12</sup> It is true that the CSF document indicated that "a greater share of available resources will be directed towards the indigenous

<sup>12</sup>The issue of comparability between indigenous and foreign companies is also sometimes raised. Of course this must be tempered by avoidance of deadweight: there is no basis for awarding an internationally-immobile indigenous company grant-aid at the level sometimes required to attract mobile multi-national companies, if that is far more than would be necessary to ensure that the indigenous firm's investment goes ahead.

sector (particularly toward the food sector)". But meeting that intention cannot override the objective of obtaining value for money.

Another aspect to these grants is the degree to which they may be used to influence design, location and quality of the associated investment. This is perhaps of most importance in Tourism, where the scattershot nature of development has been subject to some criticism. The CSF has been a force for coherence here, but the large number of publicly-funded initiatives other than those in the Tourism OP militates against this, despite continued efforts.

### *R&D*

Like its predecessor, the CSF plays an enormously important role in contributing to R&D. A series of careful official analyses with a clearly supportive government policy stance has begun to move Ireland from close to the bottom of some R&D "league tables" in recognition of the crucial importance of this dimension to competitiveness and growth. The demonstration and catalytic effect of official commitment will have contributed to the recent acceleration in business R&D expenditure, now running well ahead of the CSF target and ahead of the growth in CSF co-financed R&D spending. The challenge for R&D policy is to keep ahead of the curve: there are no universally accepted formulae for how to stimulate effective R&D, and there has to be a readiness to experiment continually with institutional design while at the same time offering sufficient continuity and patience to reap the benefits of long-term research. The opportunity cost of trapping able researchers in a dysfunctional research environment is high. Accordingly, while the importance of R&D cannot be questioned, the appropriateness of specific initiatives must constantly be reassessed. This indeed has been the experience of the past decade where publicly-funded research is concerned. Although public bodies such as Teagasc and Forbairt, as well as hybrid entities such as the PATs,<sup>13</sup> continue to play a very important role, they now share public funding with private entities under the Industry R&D initiative and similar

<sup>13</sup> In general terms, the Programmes in Advanced Technologies (PATs) are funded by the Office of Science and Technology, and administered by Forbairt, with most of the resultant research centres being located in the Irish universities. It can be said that they have evolved from the original concept of research centres of excellence to being largely commercial organizations receiving a growing proportion of their income from non-Exchequer or CSF sources. New institutional arrangements are now being implemented for the PATs with the intention of putting them on a proper legal footing, while at the same time ensuring a fair representation of the various partners involved. This issue is discussed again below.

measures. The best mechanism for allocating these grant funds for R&D and the optimal evolution of the public research bodies must remain the subject of discussion and experimentation.

### *Effectiveness*

Some measures for this priority, including R&D and venture capital measures, as well as some large tourism facilities, have been slow to get started. The delays have been fully explicable – late approval of the OPs, understandable long lead times, and so forth. A rapid catch-up is anticipated for most of these slow-starters, but they will need to be kept under scrutiny lest funds now earmarked for them need to be surrendered. According to the MTEs, it already seems appropriate to decommit funds in a few cases.

### *Efficiency*

The issue of economic efficiency is explored in some detail in Part 2 of the report. Here we confine ourselves to a brief discussion of one of the most problematic large elements in the CSF, namely the scheme of compensatory allowances. This long-standing scheme, which absorbs 8 per cent of total SF spending in the CSF, appears somewhat anomalous in the overall structure of the CSF. We are, of course, fully aware of the commitments made by the Government in regard to continued funding of this scheme.

While the CSF document recognised "the major role played by the CAs in maintaining farm income" it also promised an examination of the balance between income support and development measures "with a view to ensuring that farming can become more self-reliant and integrated into the rural economy".

Although it could perhaps be argued that the CAs indirectly promote development insofar as they help strengthen the financial position of farm households, thereby placing them in a better position to invest in diversified farm development, the alternative view is that the Scheme is anti-development in the sense of impeding structural adjustment. Payments, linked as they are to stock numbers, affect producer expectations and production decisions and given the nature of the CA Scheme it may slow down the rate of decline in the number of uneconomic holdings which is contrary to the rationale for structural adjustment. This is the objective of policies on early retirement and the installation of younger farmers; thus there is some degree of conflict between the CA Scheme and the objectives of the latter policies.

A more self-reliant farming implies larger-scale farming with fewer farmers. But rural depopulation is not unambiguously accelerated by a process of structural adjustment. If farming is to become more integrated into the larger rural economy, farmers would be expected to engage in activities in addition to farming. In practice, of course, this is the reality of the situation. On about one-third of holdings in the less-favoured areas (LFAs), either the spouse or operator has an

off-farm job and in that sense is participating in the wider economy in addition to their role in upstream and downstream activities which characterise the contribution of farming to economic development.

Undoubtedly, the CA scheme has had some impact in maintaining, if not improving, relative incomes per farm in the LFA, and may have helped to offset the effects of the reduction in agricultural activity. It is less clear that they have been effective in delivering equity. After all, need should ideally be assessed relative to total farm household income and not solely in terms of Family Farm Income. Unfortunately, our information here is limited to FFI data, in terms of which the CAs appear to operate in a broadly progressive manner. For low-income farms they are clearly a major source of farm income. For instance, on farms with an FFI below £2,500 – which account for about 40 per cent of farms in the LFAs – the CAs account for about 75 per cent of FFI. This coefficient drops steadily as we progress up the income scale.

### *Scope*

It is worth noting how little of the economy has been targeted for the Productive Sectors priority. Indeed, these sectors themselves only account for little more than one-third of total employment. And it would evidently be very blinkered to suggest that they are the only productive sectors. Nor are they all sectors with strong growth possibilities. Indeed, there are evident restrictions on the long-term employment prospects in both agriculture and fisheries (though many of the specific measures here are designed to help producers in these sectors to diversify into the less restricted products or sub-sectors).

The issue of ensuring high productivity, competitiveness and employment growth in other sectors must not be neglected in the longer term. However, it is clear that grant-aid for expansion, and subsidies for R&D would hardly be attractive options for most of the other sectors, and it is in this light that the ring-fencing of these sectors can be defended. The issue of ring-fencing is indeed crucial, and one to which we return below.

### **1.3.2 Economic Infrastructure**

The Economic Infrastructure priority will account for about £0.9 billion of SI, the bulk of it on roads and public transport facilities, with a scattering of much smaller but significant initiatives especially in energy, telecommunications, water and waste, together with the Tallaght Hospital project. Examined on its own, the pattern of spending on this priority may appear somewhat lop-sided in terms of national infrastructural needs, but it has to be seen in the wider context, not only of a larger allocation of funds to related projects under the Cohesion Fund, but also

the ongoing infrastructural spending being carried out by state-owned enterprises such as the ESB and Telecom out of their own earned and borrowed resources.

The impact of the road improvement programme is palpable, despite the rapid growth in traffic – well above projections. This rapid traffic growth increases the need for continued improvements in the road infrastructure. Progress in completing the planned improvements in the four key corridors (north-south; south-west, east-west and western) is somewhat behind target, with current expectations that the six year period will see completion only of a further 16.5 per cent of the network as compared with the planned 18 per cent. Still, computed time-saving to 1996 on these corridors is about half of the planned savings to 1999. The actual time savings are probably greater than modelled, given that, with increased traffic, there would otherwise have been a serious deterioration compared with the 1993 base-line.

Two broad issues have emerged in terms of road construction. The first is cost-overruns, or rather initial cost under-estimates. It appears that the initial outline costings were over-optimistic, and that a more realistic budgeting would have allocated more funds for the quality and quantity of roads envisaged. The first issue is partly offset by the second, namely an apparent tendency to design to an unnecessarily high road quality.

Digitalisation of the telephone system is on target and quality of service objectives set for 1999 have already been achieved. This is a notable success.

As noted in Part 3, some of the impact indicators for the remainder of the Infrastructure priority are only weakly associated with CSF spending as such, so that it does not seem appropriate to rely on them for an assessment of impact of the CSF on the priority. For example, the fact that overall passenger numbers at the three state airports was already well above the 1999 indicator by 1996 could give a misleading signal regarding the need to go ahead with the planned investments to the extent that growth has been much slower at Shannon. Likewise, it is unclear what normative use should be made of the indicators showing projected share of primary energy by fuel source (coal, peat, oil, gas, renewable/hydro).

As with other priorities, a number of measures have been slow to get going, and there begins to be concern about the ability to complete them within the time-frame. The LUAS and Peat Power projects have been mentioned in this context. In neither of these cases should the question of timing be decisive: these projects stand or fall on their intrinsic merits. Indeed, despite the size and importance of the LUAS project it can be argued that not enough has been done in this CSF for public transport in Dublin, in line with the goals set of tackling congestion and improving accessibility and links to disadvantaged and peripheral areas of Dublin.

Although infrastructural needs have undoubtedly increased as a result of faster economic growth, this does not provide a blanket endorsement of all and any infrastructural projects. Later sections examine some specific measures which may warrant contraction. In particular, the impact of some of the energy measures in achieving the goals set may be questioned. This applies in particular to the goal of relying on national energy requirements inasmuch as the qualifier that this should be within what "is economically possible" is probably not being adequately respected.

On the other hand, a case can be made for some new infrastructural spending initiatives, as well as pointing out the potential for reducing the demand for infrastructure through reform of taxation and pricing mechanisms.

### 1.3.3 Human Resources

The Human Resources priority has its own OP and thus has already been subject to an MTE. Spending in support of human resources is also undertaken in five other OPs as shown in Table 1.3.1 below (where the OPs are identified by the abbreviations which are introduced in Section 2.2 below). The table reveals that more than four-fifths of SI spending on human resources is in the HR OP.

The human resource priority was sub-divided into what have become known as the competitiveness and equity goals. This is partly a false dichotomy, in that any success in "enhancing the employment prospects of unemployed people particularly the long-term unemployed and persons excluded from the labour market" (equity) will also help "boost human capital in Ireland by enhancing education and skill levels" (competitiveness). There might once have been a view that gains in employment by the disadvantaged would be at the expense of others, but such concerns have largely evaporated in the stronger labour market which prevails today.

Where objectives for the CSF indicators for this priority have been established, progress has generally been good (the details are presented in Table 3.10 below). As pointed out in Part 3, most of these indicators relate to results rather than impact. For example, numbers receiving publicly funded training have jumped from 157,000 to 190,000 instead of falling to 152,000 as envisaged. Education attainment has also improved, with the share of the working-age population below ISCED level 3 falling from 57 to 54 per cent. Of course impact is less easy to identify, hence the need for qualitative consideration of the measures as referenced in Part 2 below.



Table 1.3.1 *ESF Spending on Human Resources Across OPs*

<i>Operational Programme</i>	<i>£m</i>	<i>%</i>
ID - Industrial Development	124	7.9
AG - Agriculture, Rural Development and Forestry	49	3.1
FI - Fisheries	5	0.3
TO - Tourism	82	5.2
HR - Human Resources	1271	81.0
LU - Local, Urban and Rural Development	44	2.8
Total	1577	100.0

Two of the three qualitative objectives set for the priority relate chiefly to competitiveness. These called for efforts to improve competitiveness through improving access to and quality of education and initial training as well as science and technology services; and by adapting the workforce to the challenge of changes in the global economy in particular through continuing training. The overall outcome in terms of the falling rate of unemployment, the sustained rates of private return on education (despite growing numbers) and the continued strong growth in employment numbers is beyond what could have been hoped for.<sup>14</sup> Net emigration and the drain of highly skilled young people has been stemmed. (The figures for employment and unemployment are shown in Table 1.3.2 and Figure 1.1.8. Further discussion of macroeconomic developments is in Sections 1.1 and 1.2 above). Indeed, the strong economic and employment performance suggests that public funding of some of the initiatives that are being co-financed could be redundant in the sense that the private sector would be willing to pay for these itself.

However, the ultimate goals of the third objective: increased employment and improved employability of the long-term unemployed, have only been met partly in that the numbers of long-term unemployed did fall between 1994 and 1995 (Table 1.3.3 and Figure 1.2.22), but have since stabilised. As pointed out in Sub-section 1.2.6 above, the escape rate from long-term unemployment is no better now than it was at the start of the CSF. Admittedly, the objective envisaged the improvements

<sup>14</sup>Although there are unemployment indicators, no targets were set for them.

for long-term unemployed being achieved "in the medium-term", but the outturn is somewhat disappointing.

Table 1.3.2: *Numbers at Work and Unemployed, 1993 to 1996*

<i>Year</i>	<i>At Work (000)</i>	<i>Unemployed (000)</i>	<i>Labour Force (000)</i>	<i>Unemp. Rate (%)</i>
1993	1,148	229.6	1,337.6	16.7
1994	1,182	218.3	1,400.3	15.6
1995	1,239	190.8	1,429.8	13.3
1996	1,285	189.9	1,474.9	12.9

*Source: Labour Force Survey 1996* (figures based on principal economic status definition).

Table 1.3.3: *Numbers Long-term Unemployed*

<i>Year</i>	<i>Number LTU (000)</i>
1993	125
1994	127
1995	102
1996	102

*Source: Labour Force Survey 1996* (figures based on ILO definition).

Just as it is not really possible to assign all of the successes to the credit of the Human Resource priority spending, it would be unwise to blame the disappointing results in long-term unemployment on the relevant measures. Still, they do give some cause for concern. We discuss below some issues with regard to the targeting and design of measures intended to be focused on the long-term unemployed and those at risk of long-term unemployment. The discussion will offer some hope that specific revisions in these measures can help improve the performance here, and

we will suggest that this course of action be followed rather than the alternative of cutting back substantially on this objective given the disappointing results.

The broad conclusion must be that, while there is certainly a continuing need for a strong competitiveness input from the CSF, especially in initial training and education, there is a need to refocus the measures designed to improve the lot of the unemployed and those at risk of unemployment (especially long-term unemployment). There is likely scope for savings in the co-financing of privately profitable continuing training.

Further more detailed comments with regard to effectiveness and efficiency are presented in Part 2.

### **1.3.4 Local, Urban and Rural Development**

The Local, Urban and Rural Development priority is covered by a single OP, and as such has already been analysed by a comprehensive MTE, reviewed in Section 2.3 below. It accounts for about £0.2 billion, or less than 5 per cent of SF spending in the CSF. The bulk of the resources provide funding to local groups or organizations with the intention of enabling them in turn to provide grant assistance for local job-creating schemes. At about £1 million per county per year the resources being provided are by no means enormous. Yet there is no doubt that the availability of even these relatively modest funds has galvanized local initiative throughout the country. Even if quantification of results (in terms of the pre-established indicators) has not been made available, it is clear that, in the short-run, the gains have been considerable and have been broadly in the directions intended.

For the longer term the lessons are less clear. Can the success stories be generalised? Will the spending remain focused on the areas of greatest need to the extent that may have been achieved to date?

The major issue in this priority is to what extent the remainder of the programme should be managed with a view to strengthening the initiatives so that they endure for a longer time horizon. It is imaginable that, having rejuvenated some depressed areas, and instilled a new spirit of enterprise at local level, at least some elements of the OP should be wound down at the end of the century.

It is a commonplace to observe that the emerging institutional framework for local development as reflected in the institutions which manage this and related interventions at local level is plainly unsatisfactory. Clearly there is considerable duplication of grant-giving entities at local level. This could be a form of constructive disorder, potentially bearing greater fruit than would an ossified but orderly set of institutions (as noted in the recent OECD report, Sabel, 1996). Recent moves to co-ordinate and rationalise have been partially successful. Evidently the capacity of the standing local authorities to play a full part over the

years in economic development at the local level has been weakened by shortage of funds and other factors. But it can be argued that, by bypassing them, this proliferation of *ad hoc* development entities at local level, each with discretionary budgets, further weakens the local authorities. In addition, these entities have but weak democratic control at local level, and this is surely a recipe for their being gradually captured by cliques in the years ahead. Of course, the whole issue of enhanced democratic local government institutions is being addressed in a wider forum.

\* \* \*

Seen in the context of the goals set for the four priorities, economic and policy performance to date during this CSF must be accounted a significant success. Only at a small number of points have apparent shortcomings emerged. The challenge now is threefold. First, to improve on the efficiency of the measures adopted, emphasising value for money; second, to correct the few shortcomings and adjust budgets accordingly and third, to address the challenges posed by success. Parts 2 and 3 suggest how this may be tackled.

## Part 2

### *MICROECONOMIC EFFECTS AND RECOMMENDATIONS*

From the overall macroeconomic perspective and the broad priorities, we turn now to the OPs and measures of which the CSF is composed. This part of the report presents our main overall conclusions and recommendations concerning the spending measures in the CSF. We begin in 2.1 with an explanation of the methodological approach to be adopted. Then Section 2.2 presents a classification of the measures and sub-measures by type of intervention. Section 2.3 briefly reviews the salient observations of the MTEs on spending in each of the OPs and also provides a reflection on priorities and delivery in human resource spending across the CSF. Section 2.4 describes some of the types of design fault that have been detected. Finally, Section 2.5 proceeds to assess the potential for reallocation of funds.

#### *2.1 Evaluation of Spending Programmes*

This section explains our approach to evaluation of spending in the CSF. It provides the methodological underpinning for the remainder of Part 2. Our approach goes well beyond a verification of adequate compliance with agreed policies – that task has already been substantially accomplished by individual MTEs. Nor do we confine ourselves to checking the CSF-level indicators. These are reviewed in Section 1.3 above insofar as they help to describe the broad performance of the CSF under the four main priorities, and they are analysed in greater detail in Part 3. But, as they stand at present and taken collectively, they provide only a skimpy basis for normative analysis.

Instead we take account of the overriding imperative – so obvious that it is sometimes neglected – that the authorities must seek to get the best value for money in achieving the goals of the CSF. Each measure must justify itself in terms of the opportunity cost of public funds.

In short, the setting of goals is not a substitute for continuous assessment of the efficiency of the economic instruments used to meet these goals. In discussions, we have encountered the suggestion that a zero-based or root-and-branch examination of the efficiency of public spending in this mid-term review of the

CSF might represent an unwarranted "shifting of goal-posts". In our view, that suggestion is not sustainable. Undoubtedly continuity of policy is desirable and radical disruption of ongoing measures would need justification. But if the current mid-term review does not dig beneath the veneer of compliance with pre-set goals, then there is the risk of missed opportunities to improve the efficiency of expenditure even in the short run. More important, the ground must now be being prepared for spending into the next century. It is for these reasons that we make no apology for attempting a wide-ranging fundamental evaluation of the appropriateness of spending measures in the CSF.

It would also clearly be a mistake to regard as beyond the scope of the review all matters on which Government decisions have been taken. This evaluation report is offered as policy advice to the Government; as such it must remain open to recommendations that would involve revisions of Government policy. On the other hand, engaged as we have been by the Department of Finance, we do not consider it appropriate to make recommendations strategically to induce the Government and the Commission to do things of which they cannot openly be persuaded. (For example, we have not made recommendations to remove items from the CSF with the intention of exploiting the Government's known intention of funding them anyway, in order to make room for some item less favoured by the Government.)

Though wide-ranging and fundamental, the evaluation is necessarily substantially reliant on secondary material for the basic information. Thus we have used the MTEs of individual OPs very heavily. It is not appropriate or possible for us to duplicate that work. In particular we do not attempt to provide a detailed assessment of the performance of each measure within its own terms, instead accepting (for the most part) the corresponding assessment of the MTE. Nevertheless, the analytical framework which we provide, combined with the information contained in the MTEs, is sufficient to point to several desirable shifts in policy. Although based on the factual information of the MTEs, a few of these recommendations are contrary to what is recommended by the MTEs.

### **2.1.1 Beyond GNP and Employment: Other Aspects of Economic Welfare Gains**

#### *Macro-modelling and Policy Design*

The model-based macroeconomic simulations provide the best overall assessment of the impact of CSF spending on GNP and its various elements, on employment, and on inflation and the balance of payments. They take account of indirect effects that can amplify or offset the initial effect of the spending.

But, though generally recognised as the best omnibus measure of economic activity, GNP is not ideally suited as an indicator of economic welfare or

performance. As a result, it needs to be supplemented if we are to make an adequate detailed assessment of policy interventions. This is partly because the valuation of different elements in the GNP accounts is based primarily on relative market prices, whereas most policy interventions are motivated by the desire to compensate for a gap between market prices and relative social valuations. Accordingly, a good policy intervention might actually lower measured GNP by shifting resources from an activity with a high market value to something which is socially superior but underpriced in the market.

A full discussion of the problems that would arise if we relied too heavily on GNP accounts is not appropriate here. Three examples will suffice to illustrate the relevance of the problems in the context of the CSF evaluation.

- We would surely be inclined to rate the sustained employment of someone who would otherwise have been long-term unemployed as a more significant positive result (all other things being equal) than employment of someone who is almost indifferent between having a job, or entering early retirement. However, the contribution of each to GNP will be measured by the wage they earn, thereby likely reversing the ranking. (Thus a high-wage job for a graduate accountant, subsidised by the Industrial Development OP, may well contribute more to GNP than half-a-dozen places in the Community Employment scheme.)
- A public expenditure programme which absorbs domestically provided goods and services will directly contribute to GNP in accordance with that part of its cost – regardless of whether or not the programme is producing anything of value. (The abortive spending on certain visitor centre sites under the previous CSF added to measured GNP.) Obviously this direct contribution to GNP cannot be used to evaluate impact or efficiency.
- Many public investment projects involve a choice between alternative designs, routes or uses of locations. Even if the chosen option contributes considerably to GNP, it must be evaluated against alternative uses, which might have been even more productive. Because of the unique nature of many of these projects, there will often be no presumption that the alternative use would yield no more than a market rate of return. (For example, a hypothetical project for the substantial expansion of marina and yacht anchorage facilities at Dun Laoghaire would have precluded the expansion of the ferry port there: but the hypothetical project, had it gone ahead, would likely have shown a contribution to GNP, albeit smaller than that of the ferry port.)

These simple examples show that, even without considering issues of environmental impact and congestion costs – both substantially ignored in the GNP accounts – it is clear that the evaluator's task must go beyond GNP, and indeed employment.

*The Welfare Economics of Public Policy Interventions*

In order to do this, we need to select the most relevant of the tools of welfare economics. There is more than one way of looking at this, so an outline of the underlying methodological approach is necessary. Thus, it is useful to break the analysis of economic welfare into efficiency and distributional aspects. A fully optimal outcome is one in which an economy is functioning *efficiently* and with an appropriate *distribution* of resources between individuals. The economy is functioning efficiently if it is producing as much as possible with the resources available, and investing enough to generate sustained growth of capacity subject to respecting the needs of current consumption and environmental protection. In order to detect the types of policy intervention necessary to achieve this it is customary to describe the conditions under which an ideal economy would function efficiently without need of policy intervention. Among the conditions least likely to be satisfied in practice are the absence of *public goods* or *externalities*, *gaps in information*, and other "distortions" such as those caused by prejudice or by the exercise of monopoly power. It is to these likely sources of market failure that most policy intervention is directed. The CSF is no exception.

Refined definitions of these sources of market failure are not necessary in the present context.<sup>15</sup> A public good is one for which it is not possible or convenient to charge all of the beneficiaries. Making it available for one effectively makes it available for many. Private producers will tend to undersupply such goods or services relative to the social optimum. As a result, it is appropriate for the Government to act to ensure that such goods are made available. We include here services for which the obstacle to charging is more political than technical, such as primary and secondary education.

In a formal sense, a public good is just one of the many types of externality which may exist. Externalities matter when the consequences of my action alter the possibilities available to others. If I act without regard to those consequences for others, I will not act in a socially optimal manner. However, I could be induced to act in a socially efficient manner by a tax or subsidy which alters the relative prices which I face. There might also be other institutional arrangements that could adequately correct for the externality, but the corrective subsidy is the one most relevant for the CSF.

Policy interventions to try to adjust for these distortions or sources of market failure will inevitably be imperfect. Therefore it is not enough to say that a policy does not perfectly correct a distortion; the question is whether it makes the best

<sup>15</sup>Cornes, R. and T. Sandler (1986) provides a thorough and rigorous discussion of the notion of public goods and externalities and the relation between the two, which is considerably more subtle than suggested in the present report.



possible correction towards efficient functioning without inducing undue adverse side-effects. This suggests that a useful way of approaching the evaluation of particular policy measures is to identify the distortion to which it is principally addressed, and to assess its performance chiefly as a correction for that distortion. This point will be pursued below.

If an undistorting system of personal taxation and subsidies could be devised, policy to achieve the optimal distribution of resources would be a simple matter, and one which could be entirely separated from the question of efficiency. However, redistribution usually has side-effects, and these may interact with the attempt to achieve efficiency.

### 2.1.2 Rationales for Public Spending

Thus we arrive at the conclusion that the theory of public finance can rationalise several different forms of public spending. Of those relevant to the CSF the following four are clearly important and must be distinguished:

First, spending to provide services which are thought to have a "*public good*" characteristic that would inhibit their optimal provision in the private sector.

Second, schemes chiefly designed to alter relative prices facing private firms and individuals in order to correct for some externality; in other words, what is known as a *corrective* subsidy. Characteristically these are largely passive grant schemes where the administration of the scheme is confined to ensuring that it is reaching the target group and delivering the intended change in relative prices – with perhaps an eye also to minimising deadweight.<sup>16</sup>

Third, *targeted* schemes designed to alter behaviour where private agents are thought to be inadequately informed, or where a specific externality exists; these involve a much more active administration, greater selectivity and considerable value-added in the form of training or advice.

Fourth, subsidies whose chief effect is *redistributional* in character.

The key difference between the second and third form is that the second is open-ended in terms of financial commitment whereas the third envisages a particular quantum of intervention. Thus if demand falls short of the original budget for an intervention of the corrective form, the budget should not be spent; conversely if there is excess demand then the budget needs to be increased to meet it.

<sup>16</sup>The concepts of deadweight and displacement are discussed in sub-section 2.4.2 below.

As an example of an intervention of the targeted type, one can imagine a management training subsidy designed to raise awareness of the potential and usefulness of particular types of management training. Once this awareness is widely achieved by word of mouth and by the evident success of those who have completed the training, the need for a subsidy will be at an end. Thus, a demand for such subsidies in excess of the budget does not imply a need to expand the budget: on the contrary, it suggests that the process has been successful and can continue on a self-financed basis. To extend the subsidy would be to risk very substantial deadweight.

We will use this type of intervention classification extensively below to help form judgements on the relative performance of different measures.

### 2.1.3 Quantifying the Effect of the Major Distortions in the Irish Economy

The view that public policy should be seen as directed towards correcting distortions gives us a powerful tool for analysing effectiveness of public spending policy. For one thing, any spending of available public funds that is not directed to easing a distortion is undesirable, because of the deadweight costs of taxation. Therefore each spending programme has to pass a more rigorous test, namely, does it reduce distortions enough to justify the additional taxation involved? This question needs to be asked even in respect of the Structural Funds, as, at the margin, it is possible for the government to substitute a higher rate of co-financing, or additional non-co-financed spending for a shortfall in structural funds. Therefore, by eliminating an unnecessary SF financed measure, the government is ultimately enabled to reallocate funds in such a way as to reduce the overall need for taxation.

Formal project and programme evaluation therefore needs to be able to quantify the social cost of the main distortions and the social cost of additional public funds. The impact of programme deadweight must also be quantified. Though, with 166 measures in the CSF, such a systematic quantification is well beyond the scope of the present review, it is instructive to consider briefly some of the major distortions and how they might be quantified.

#### *Corrective Treatment of Unemployment and Migration*

As indicated above, the factors causing unemployment are seen by the CSF as the key distortions requiring correction. Its reduction is seen as a major objective. To the extent that some of this unemployment is attributable to a scarcity of jobs at the going wage rate an expansion of employment will help. But the results of econometric research highlight the fact that job creation is only partly effective in reducing unemployment. It would be a major error to credit as social gain the full wage bill of a project that created, say, 100 jobs, if the net effect of this project

was to reduce unemployment by only 20-30 jobs. But something of that order is the most likely outcome, on average, when account is taken of the response of migration flows and other labour market participation decisions. As a result of this consideration, the "shadow wage rate" used for jobs created in the open market should be of the order of 70-80 per cent of the wage rate.<sup>17</sup>

#### *Tax-induced Distortions*

We frequently hear the argument in favour of a particular subsidy that the subsidy would be self-financing in that the Exchequer will recover most or all of the subsidy outlay as a result of the tax revenue generated from the additional economic activity that ensues. While this might be true in an isolated case, the argument contains a serious fallacy, essentially because it focuses only on one grant application at a time. The argument fails to acknowledge that, were the argument to be applied generally, massive deadweight could not be avoided, with the result that tax rates would have to be raised so far as effectively to negate the benefit of the subsidy. Enterprises not receiving the subsidy would be faced with higher tax rates, which could lead to reduced activity. In fact, tax and subsidy rates have to be set with a view to raising the overall revenue needed for provision of essential services. There are various theories about the best optimal structure of taxation, but they all take account of the systemic effects of the tax rates.

Once we recognise this, we see that a valid line of argument in this area would require the definition of a clearly identifiable sector or category of economic activity whose responsiveness to subsidies was higher than the rest of the economy. Such a subsidy might have the effect of lowering unemployment overall, by increasing employment in the favoured sector, at the cost of a more moderate lowering of employment in the rest of the economy. In other words, if such a sector could be defined, then it might be appropriate to subsidise it, even if that meant a higher rate of tax on other sectors.

This rationalisation has been offered for the long-standing policy of subsidising manufacturing and internationally traded services, and there is some evidence that these sectors do have a higher elasticity of response to wage costs, and *a fortiori* to subsidies. It is by no means certain that this two-tier approach to taxation and grants is actually optimal. Furthermore, as we indicated in the 1994 *ex ante* appraisal, tax reform measures could reduce the need for special treatment of any particular sector. Nevertheless, for the purposes of this evaluation, we will accept this argument and treat the fixed asset support grants for inward investment as a corrective subsidy – in the sense that it is designed to achieve a lowering of

<sup>17</sup>The argument is presented in more detail in Honohan (1996).

net taxes on this mobile or elastic sector. Other grants in closely related sectors also seem to fall into the same category.

Note that this rationalisation does not imply that the policy-maker looks primarily to manufacturing industry for reduction of employment; only that the policy-maker regards that sector as more sensitive to tax and subsidy than other sectors. The sector so-defined must be ring-fenced and the boundaries must be permanent. Any tendency to expand the scope of such favourable treatment would undermine the logic that sustains the policy and ultimately make the policy dysfunctional.

The proliferation of grants and subsidies for job creation in the measures of the CSF raise the question as to whether they too could fall under the same rubric as the fairly long-standing and restrictive categories of manufacturing and internationally-traded services. The merits of these subsidies can be considered individually, but it does appear that there has been an undue and arbitrary proliferation of subsidies for employment creation or capacity expansion, inspired by the schemes for manufacturing and traded services, but not based on a coherent logic. There is no clear dividing line between activities that benefit from these subsidies and those that do not. There is no evidence in general that more responsive activities have been favoured. It is unlikely that they have contributed to reducing unemployment overall by achieving a net increase in jobs in the open market. Therefore, the presumption is that this proliferation has been a false turn. Unless such subsidies are also effective in reducing other distortions they should be phased out.

Some of the unemployed are not much affected by conditions in the open labour market. Subsidies that are effective in eliminating the distortions that prevent them from so participating fall into a different category to the generalised subsidies for job creation discussed in this section.

#### *The Marginal Cost of Public Funds*

In appraising public spending it is crucial to recognise the true value of public funds. This applies both as a general proposition and in particular with reference to use of the Structural Funds. Each £1 million of public spending has an alternative use in another public programme – or it could be returned to the taxpayer. Because the tax system is inevitably distorting, the last or marginal £1 million raised through taxation imposes an economic cost considerably greater than £1 million. Essentially this is because of the readjustment of spending and investment decisions that would result from the slightly lower tax rates would make economic decisions reflect true economic scarcity more closely, thereby increasing the productivity of human capital and other economic resources.

Estimates of this marginal cost of public funds for Ireland in the mid-1980s suggested that it could reasonably be as high as £2 or more for every £1 raised.

Since then marginal tax rates have fallen, and a recent estimate suggests a marginal cost of social funds of about £1.5 per £1 raised (Honohan, 1996). That means that, to pass the test of social benefit exceeding cost, the benefit each £1 million of public spending needs to be judged to be as large as £1.5 million in the hands of the marginal taxpayer. When this is combined with the deadweight often observed in subsidy schemes, the threshold can be quite high. For example, if (as has been estimated in several subsidy schemes in the CSF) deadweight accounts for at least one-half of the subsidy, then each pound spent needs to be worth at least £3.<sup>18</sup>

Because they come from abroad, the Structural Funds are sometimes thought of as being in a different category – free money whose spending need not satisfy as stringent a test. However, it is clear that this cannot be so. After all, there is considerable fungibility between different measures, sub-programmes and even OPs (hence this mid-term review) so that the benefit of each spending of SF needs to match the highest alternative benefit available within the ambit of the whole CSF. Besides, there are several programmes which overlap so considerably with non-co-financed spending of the Irish government as to imply that, if optimally designed, the marginal benefit of the CSF must be the same as the marginal benefit of public spending in general.

#### *The Cost of Deadweight and Displacement*

Almost all public spending measures have side-effects. Sometimes these are beneficial, and in such cases the schemes may meet more than one of the above goals. In other cases the side-effects are negative. Sections 2.2-3 examines these side-effects in some detail.

Displacement and deadweight are often mentioned, though they are not the most acute types of negative side-effect. Deadweight is essentially the phenomenon that arises when a desired change in relative prices affects average as well as marginal relative prices. Attempts to limit deadweight amount to trying to operate a two-tier price system so that the new price applies only to marginal decisions. Deadweight is only costly to the extent that the social cost of public funds is more than £ for £ (which of course it is).

Having some estimate of deadweight is really crucial to quantifying the net benefits of a scheme. If a project or subsidy does not change behaviour at all, then not only does it redistribute income arbitrarily, thereby damaging economic welfare and undermining the legitimacy of public spending, but it also reduces economic efficiency because the social cost of public funds is more than £ for £.

<sup>18</sup>The estimated deadweight implies that a half of the £3 would have occurred anyway, leaving only £1.5 – just sufficient to offset the marginal cost of public funds.

### *Measuring the Benefit of Other Non-market Consequences*

Beneficial spill-overs of R&D and education, and environmental effects, both positive and negative, are important to an evaluation of many of the programmes and measures. But general principles are hard to define. It may be unwise to bury quantified assumptions about these matters in cost-benefit analyses, as the uncertainty surrounding them means that almost any project can be assessed favourably if sufficiently optimistic assumptions are made about these intangible aspects. The indications are that this has been a problem with many of the cost-benefit studies prepared for specific projects in the CSF and the Cohesion Fund.

Displacement has an additional cost relative to deadweight: not only are public funds being spent for no real gain, but private agents are being disrupted, with potentially large transitional costs, as when the establishment of a publicly-funded firm causes an existing one to close.

#### **2.1.4 Impact of Proposed Approach to Evaluation**

The approach which we have outlined implies that any public spending must satisfy a stringent test: not only must the spending be a good idea, but it must justify itself as correcting a sufficiently large distortion to warrant paying the premium cost of public funds.

In practice, full quantification is rarely possible. Some areas, such as transport infrastructure, yield a clearly calculable benefit. Other measures, such as interventions to combat information gaps and breach barriers of disadvantage, are less reliably linked to outputs. They are in the nature of speculative investments. It would be a mistake to rule against interventions simply because their effect is uncertain. Just as the private investor will take a chance on the unquantifiable, so must the public investor, where it is unclear how to correct the distortion.

Nevertheless, the approach shows what the analyst of public spending must look for: not the financial yield of the investment, but the distortion which is being addressed. It is easy to lose sight of this goal, as have some of the MTEs of individual OPs. What we have called the *Ireland Inc.* approach embodies this error. *Ireland Inc.* looks for growth-generating opportunities of whatever type. But that can imply the application of (socially costly) public funds where (socially cheaper) private funds should be used. This reduces welfare overall, and often implies that the policy-maker is distracted from taking less glamorous action to correct distortions such as those which perpetuate unemployment, and those which ensure that good infrastructure is in place.

Therefore, although only limited quantification is available, this approach is quite powerful in throwing light on the relative merits of different measures in the CSF, as we show in the remainder of Part 2.

Public policy must also try to avoid creating its own distortions. We will have occasion to discuss incentive and environmental side-effects below. Another factor that needs to be borne in mind is the avoidance, where practicable, of quasi-monopoly delivery agencies. ABT, FÁS, Forbairt and Teagasc are the largest such potential monopolies in this policy arena. Of course they have competitors in their field, but in many instances they alone are the channel for particular subsidies which is equivalent to having a monopoly power. Introducing competition where possible should be a goal constantly in the foreground of policy design, and it is not clear that the existing Monitoring Committee structure is well adapted to achieving this, heavily representative as it is of existing delivery agencies. It is not just a question of unit costs, but of maintaining an open environment in which innovations can flourish. Detailed recommendations on how to achieve this are beyond the scope of this CSF-level report, but the matter should be explored at the *level of individual OPs – at first through the use of pilot schemes.*

## **2.2 Classification of Spending**

### **2.2.1 Classifying Spending by Type of Intervention**

The CSF document grouped the different spending programmes by the broad priorities to which each measure was chiefly addressed. In making the evaluation, we find it useful to refer to the classification by type of intervention already mentioned in Section 2.1.1 above.

Table 2.2.1 provides a comprehensive list of each of the 166 measures and sub-measures of the CSF, together with the (originally approved<sup>19</sup>) SF and national public spending. The Table 2.2.1 also provides a uniform identifying code against each measure. In order to avoid repeating the often-lengthy titles of different measures, we use this identifier throughout the rest of the report, as a convenient way of referring to measures, sub-programmes and OPs.

Each measure and sub-measure is also assigned to its type of intervention in Table 2.2.1. The codes I, II, III and IV correspond to the four types proposed above. Thus measures have been classified according to whether they may be regarded as primarily (I) provision of a public good, (II) a corrective subsidy, (III) a targeted intervention to change behaviour or (IV) a redistributive measure. The assignment is somewhat subjective, as several measures could be assigned to more than one type; section 2.2.4 illustrates how the assignments were arrived at. Section 2.2.3 discusses a further sub-division of Type III, also shown in the Table.

<sup>19</sup>Latest projections for the actual spend to end-99 show some deviation from the original, but the overall pattern is little changed.

Table 2.2.1: CSF Spending 1994-99 by Measure  
as originally projected in OP documents

ID		Structural Funds		Government	Type
		IR£m % of total	IR£m	IR£m	
ID	<b>Industrial Development</b>	<b>832</b>	<b>18.2</b>	<b>292</b>	
ID1	<b>Indigenous Industry Development</b>	<b>178</b>	<b>3.9</b>	<b>41</b>	
ID1 .1	Development of Competitive Capability	36	0.8	12	III b
ID1 .2	Human Resources Capability Development	47	1.0	16	III a
ID1 .3	Capacity Expansion	42	0.9	14	II
ID1 .4	Venture Support and Traditional Industry Adjustment	54	1.2	0	II
ID2	<b>Inward Investment</b>	<b>88</b>	<b>1.9</b>	<b>6</b>	
ID2 .1	Fixed Asset Support	39	0.9	39	II
ID2 .2	Human Resource Development	49	1.1	16	II
ID3	<b>Research &amp; Development</b>	<b>217</b>	<b>4.7</b>	<b>43</b>	
ID3 .1	Industry R&D Initiative	88	1.9	0	III c
ID3 .2	Industry/Third Level Co-operation Services	103	2.3	34	III c
ID3 .3	Human Resource Development	10	0.2	4	III a
ID3 .4	Research Support	17	0.4	6	I
ID4	<b>Market Development</b>	<b>80</b>	<b>1.7</b>	<b>27</b>	
ID4 .1	Marketing Information & Promotion	48	1.0	16	I
ID4 .2	Marketing Expertise & Advice	6	0.1	2	I
ID4 .3	Marketing Investment	26	0.6	9	II
ID5	<b>Gaeltacht Development</b>	<b>38</b>	<b>0.8</b>	<b>13</b>	
ID5 .1	Finance for Industry	20	0.4	7	II
ID5 .2	Training & Recruitment Incentives (ESF)	10	0.2	3	II
ID5 .3	Advisory Support	8	0.2	3	III a
ID6	<b>Food Industry</b>	<b>205</b>	<b>4.5</b>	<b>63</b>	
ID6 .1	Capital Investment Grants - Reg 866/90 (EAGGF)	102	2.2	34	II
ID6 .2	Capital Investment Grants - Non Annex II	24	0.5	8	II
ID6 .3	Research & Development	47	1.0	10	III c
ID6 .4	Marketing and Promotion	24	0.5	8	I
ID6 .5	Human Resources	9	0.2	3	III c
ID7	<b>Land and Buildings</b>	<b>20</b>	<b>0.4</b>	<b>47</b>	<b>I</b>
ID8	<b>Technical Assistance</b>	<b>6</b>	<b>0.1</b>	<b>2</b>	<b>I</b>
AG	<b>Agriculture, Rural Development and Forestry</b>	<b>763</b>	<b>16.7</b>	<b>358</b>	
AG1	<b>Structural Improvement and Rural Development</b>	<b>653</b>	<b>14.3</b>	<b>382</b>	
AG1 .1	On Farm Investment	146	3.2	49	IV
AG1 .2	General Structural Improvement	23	0.5	8	IV
AG1 .3	Diversification	27	0.6	9	III b
AG1 .4	Compensatory Headage Payments	363	7.9	279	IV
AG1 .5	Research	24	0.5	8	I
AG1 .6	Advisory Service for Farm Viability and Rural Enterprise	28	0.6	9	III a
AG1 .7	Human Resources	43	0.9	20	III a
AG2	<b>Forestry</b>	<b>61</b>	<b>1.3</b>	<b>23</b>	
AG2 .1	Second Instalment Grants	7	0.2	2	II
AG2 .2	Forestry Development	47	1.0	19	II
AG2 .3	Human Resources	7	0.2	2	III a
AG3	<b>Evaluation and TA</b>	<b>2</b>	<b>0.0</b>	<b>1</b>	<b>I</b>
AG4	<b>Recoupment on 1993 5 (a) expenditure</b>	<b>47</b>	<b>1.0</b>	<b>-47</b>	<b>I</b>



Table 2.2.1: CSF Spending 1994-99 by Measure (continued)

		Structural Funds	Government	Type
		IR£m % of total	IR£m	
<b>FI</b>	<b>Fisheries</b>	<b>63</b>	<b>1.4</b>	<b>16</b>
FI .1	Adjustment of Fishing Effort	5	0.1	2 IV
FI .2	Renewal and Modernisation of the Fishing Fleet	9	0.2	2 IV
FI .3	Aquaculture	11	0.2	2 II
FI .4	Enclosed Seawater Areas	0	0.0	0 I
FI .5	Port Facilities & Infrastructure	14	0.3	5 I
FI .6	Processing	10	0.2	2 II
FI .7	Marketing of Produce/Promotion	2	0.0	1 I
FI .8	Training	5	0.1	2 III c
FI .9	Research	6	0.1	2 III e
FI .10	TA	1	0.0	0 I
<b>TO</b>	<b>Tourism</b>	<b>369</b>	<b>8.1</b>	<b>84</b>
TO1	National/Cultural Tourism	94	2.1	31
TO1 .1	National/Regional Cultural Activities	54	1.2	I
TO1 .2	National Monuments & Historic Properties	20	0.4	I
TO1 .3	Natural Environment	20	0.4	I
TO2	Product Development	139	3.0	19
TO2 .1	Large Projects	55	1.2	I
TO2 .2	Tourist Information and Heritage	34	0.7	I
TO2 .3	Tourism Angling	13	0.3	I
TO2 .4	Special Interest Holiday Facilities	23	0.5	II
TO2 .5	Specialist Accommodation	12	0.3	II
TO3	Marketing	51	1.1	5 I
TO4	Training	82	1.8	27
TO4 .1	Unemployed	23	0.5	III d
TO4 .2	Initial Training	47	1.0	I
TO4 .3	Continuing Training	12	0.3	III c
TO5	Technical Assistance	3	0.1	I
<b>TR</b>	<b>Transport</b>	<b>718</b>	<b>15.7</b>	<b>420</b>
TR1	Supporting National Economic Development	451	9.9	220
TR1 .1	National Primary Roads - Major Improvements	213	4.7	71 I
TR1 .2	National Primary Roads - Integrated Network Improvement	89	1.9	30 I
TR1 .3	National Secondary Roads	70	1.5	37 I
TR1 .4	Mainline Rail	29	0.6	29 I
TR1 .5	State Airports	19	0.4	19 I
TR1 .6	Commercial Seaports	28	0.6	31 I
TR1 .7	Technical Assistance	3	0.1	2 I
TR2	Supporting Sub-Regional Economic Development	267	5.8	200
TR2 .1	Non-National Roads	112	2.4	112 I
TR2 .2	DTI Public Transport	125	2.7	67 I
TR2 .3	DTI Management	22	0.5	12 I
TR2 .4	Regional Ports	8	0.2	8 I

Table 2.2.1: CSF Spending 1994-99 by Measure (continued)

		Structural Funds	Government	Type
		IR£m % of total	IR£m	
EI	Economic Infrastructure	87	1.9	6
EI1	Energy	56	1.2	5
EI1 .1	Peat Generation	21	0.5	0 IV
EI1 .2	Energy Efficiency	16	0.3	5 III f
EI1 .3	Renewables	15	0.3	0 II
EI1 .4	Cut-away Bogs	1	0.0	0 I
EI1 .5	Rural Networks	2	0.0	0 IV
EI2	Communications	31	0.7	0
EI2 .1	Telecommunications	26	0.6	0 I
EI2 .2	Postal Services	5	0.1	0 I
EI3	TA	2	0.0	1 I
EN	Environmental Services	63	1.4	27
EN1	Water Services	36	0.8	22
EN1 .1	Water Supply	10	0.2	6 I
EN1 .2	Waste Water Treatment	19	0.4	13 I
EN1 .3	Group Water Schemes	7	0.2	2 I
EN2	Waste	19	0.4	3
EN2 .1	Hazardous Waste	5	0.1	0 I
EN2 .2	Municipal Waste	14	0.3	3 I
EN3	Coastal Protection	4	0.1	2 I
EN4	R&D	2	0.0	0
EN4 .1	ESRM	2	0.0	0 I
EN4 .2	CP	1	0.0	0 I
EN5	TA	2	0.0	1 I
HO	Hospital Infrastructure	32	400.0	74 I

Table 2.2.1: CSF Spending 1994-99 by Measure (continued)

		Structural Funds		Government	Type
		IR£m	% of total	IR£m	
<b>HR</b>	<b>Human Resources</b>	<b>1429</b>	<b>31.3</b>	<b>519</b>	
HR1	Initial Education and Training	667	14.6	222	
HR1 .1	Preventative Action (Youthstart)	16	0.3	5	I
HR1 .2	Early School Leavers (Youthstart)	27	0.6	9	III d
HR1 .3	Vocational Preparation & Training Programme (Youthstart)	213	4.7	71	I
HR1 .4	Apprenticeship (Youthstart)	112	2.4	37	I
HR1 .5	Middle Level Technician & Higher Technical Skills Prog.	264	5.8	88	I
HR1 .6	Advanced Technical Skills (ATS)	37	0.8	12	III c
HR2	Continuing Training for the Unemployed	159	3.5	53	
HR2 .1	Industry Training for the Unemployed	137	3.0	46	III d
HR2 .2	Local Enterprise	22	0.5	7	III d
HR3	Social Exclusion	331	7.2	154	
HR3 .1	Counselling, Guidance and Placement	6	0.1	2	I
HR3 .2	Community Employment	66	1.4	66	IV
HR3 .3	Re-Integration Training	39	0.9	13	III d
HR3 .4	Community Training	42	0.9	14	III d
HR3 .5	VTOS	61	1.3	20	III d
HR3 .6	Training of Ex-Offenders	0.6	0.0	0.2	III d
HR3 .7	Training for People with Disabilities	117	2.6	39	III d
HR4	Adaptation to Industrial Change	54	1.2	18	
HR4 .1	Training Support Scheme	37	0.8	12	III c
HR4 .2	Training Services to Industry	17	0.4	6	III c
HR5	Improvement of the Quality of Training	218	4.8	72	
HR5 .1	Vocational Training Infrastructure	158	3.5	53	I
HR5 .2	Training of Trainers	41	0.9	14	I
HR5 .3	Certification	8	0.2	3	I
HR5 .4	Promotion of Equal Opportunities	6	0.1	2	I
HR5 .5	TA	5	0.1	1	I
<i>Memo: HR OP by Agency</i>					
	<i>Dept of Education</i>	<i>711</i>	<i>15.6</i>	<i>281</i>	
	<i>FAS</i>	<i>434</i>	<i>9.5</i>	<i>191</i>	
	<i>NRB</i>	<i>121</i>	<i>2.6</i>	<i>46</i>	
	<i>Dept of Justice</i>	<i>1</i>	<i>0.0</i>	<i>0.2</i>	
	<i>TA</i>	<i>5</i>	<i>0.1</i>	<i>1</i>	

Table 2.2.1: CSF Spending 1994-99 by Measure (continued)

		Structural Funds	Government	Type
		IR£m % of total	IR£m	
LU	Local Urban and Rural Development	208	4.5	89
LU1	Local Enterprise	61	1.3	20
LU1 .1	Enterprise Plans/Promoting Enterprise Culture	2	0.0	1 III b
LU1 .2	Business Info, Advice, Counselling, Mentoring Support	9	0.2	3 III b
LU1 .3	Financial Assistance	44	1.0	14 II
LU1 .4	Management Development (ESF)	7	0.2	2 III a
LU2	Integrated Devt. of Designated Disadv & Other Areas	79	1.7	26
LU2 .1	Enterprise Creation and Development, etc.	41	0.9	14 III d
LU2 .2	Education and Training, Services for the Unemployed, etc.	38	0.8	13 III d
LU3	Urban and Village Renewal	62	1.4	41
LU3 .1	Five Major Initiatives	20	0.4	20 I
LU3 .2	Urban Improvements	7	0.2	7 I
LU3 .3	Village Improvements	16	0.3	5 I
LU3 .4	Urban Conservation	3	0.1	3 I
LU3 .5	Temple Bar Cultural Quarter	16	0.3	6 I
LU4	TA	6	0.1	2
LU4 .1	TA ERDF	4	0.1	1 I
LU4 .2	TA ESF	2	0.0	1 I
TA	CSF TA	8	0.2	3 I
Total all CSF OPs		4572	100.0	1888
Memo: ESF		2341	51.2	

Type: I - Public good provision; II - Altering relative prices to correct distortion; III - Targeted inducement to alter behaviour; IV - Income redistribution.

Within III: a - management; b enterprise strategy; c skills; d disadvantaged; e r&d; f other.

Table 2.2.1 (continued): *Spending by Sub-measure: Industrial Development*  
*Original OP*

ID		Structural Funds		Government	Type
		IR£m	% of total	IR£m	
ID	<b>Industrial Development</b>	<b>832</b>	<b>100.0</b>	<b>292</b>	
ID1	<b>Indigenous Industry Development</b>	<b>178</b>	<b>21.4</b>	<b>41</b>	
ID1 .1	<b>Development of Competitive Capacity</b>	<b>35</b>	<b>4.3</b>	<b>12</b>	
	(a) Company Development	5	0.6	2	III b
	(b) National Linkage Programme	3	0.4	1	I
	(c) Studies	1	0.1	0	I
	(d) Business Innovation Centres	9	1.1	3	III b
	(e) IPC Consultancy Support	2	0.3	1	III b
	(f) Graduate Placement	2	0.3	1	III c
	(g) Mentor	1	0.1	0	III a
	(h) Film Industry	10	1.2	3	II
	(i) National Software Directorate	2	0.2	1	I
ID1 .2	<b>Human Resources Capability Development</b>	<b>47</b>	<b>5.7</b>	<b>16</b>	
	(a) Management Development Support	8	0.9	3	III a
	(b) Management Development and Strategic Compet	5	0.6	2	III a
	(c) Delivery of Management Training	0	0.0	0	I
	(d) Training Support	10	1.1	3	III c
	(e) Employment Grants	22	2.6	7	II
	(f) Film Industry Human Resources Development	2	0.2	1	III c
	(g) Development of the Crafts Industry	1	0.1	0	III b
ID1 .3	<b>Capacity Expansion</b>	<b>42</b>	<b>5.0</b>	<b>14</b>	
	(a) Fixed Asset Support	23	2.8	8	II
	(b) Equity	9	1.1	3	II
	(c) Enterprise Development Programme	6	0.7	2	III b
	(d) Business Partnerships	4	0.4	1	III c
ID1 .4	<b>Venture Support and Traditional Industry Adjustm</b>	<b>54</b>	<b>6.4</b>	<b>0</b>	
	(a) Seed and Venture Capital	33	4.0	0	II
	(b) Software Application Development Initiative	9	1.1	0	III e
	(c) Promoting adjustment in indigenous and tradl. ma	11	1.3	0	III b
ID2	<b>Inward Investment</b>	<b>88</b>	<b>10.6</b>	<b>56</b>	
ID2 .1	<b>Fixed Asset Support</b>	<b>39</b>	<b>4.7</b>	<b>39</b>	
	(a) Existing Industries	15	1.8	15	II
	(b) New Skills and Technologies	24	2.9	24	II
ID2 .2	<b>Human Resource Development</b>	<b>49</b>	<b>5.9</b>	<b>16</b>	
	(a) Training Grants	31	3.7	10	II
	(b) Employment Grants	18	2.1	6	II
ID3	<b>Research and Development</b>	<b>217</b>	<b>26.1</b>	<b>43</b>	
ID3 .1	<b>Industry R&amp;D Initiative</b>	<b>88</b>	<b>10.6</b>	<b>0</b>	<b>III e</b>
ID3 .2	<b>Industry/Third Level Cooperation Services</b>	<b>103</b>	<b>12.3</b>	<b>34</b>	
	(a) Capability Support	23	2.7	8	I
	(b) Technology Services	23	2.8	8	I
	(c) Technology Service Centres	11	1.4	4	I
	(d) Programmes in Advanced Technology	45	5.5	15	III e
ID3 .3	<b>Human Resource Development</b>	<b>10</b>	<b>1.2</b>	<b>3</b>	
	(a) Graduate Training	3	0.4	1	III e
	(b) Enterprise Development	1	0.2	0	III c
	(c) RTD Management Development	5	0.6	2	III a
ID3 .4	<b>Research Support</b>	<b>17</b>	<b>2.0</b>	<b>6</b>	<b>III e</b>
ID4	<b>Market Development</b>	<b>80</b>	<b>9.6</b>	<b>27</b>	

Table 2.2.1 (continued): *Spending by Sub-measure: Industrial Development*

		Structural Funds		Government	Type
		IRLm	% of total	IRLm	
ID4 .1	Marketing Information and Promotion	48	5.7	16	I
ID4 .2	Marketing Expertise and Advice	6	0.7	2	
	(a) Marketing Consultancy Services	2	0.2	1	I
	(b) Product Design and Packaging	4	0.5	1	I
ID4 .3	Marketing Investment	26	3.2	9	
	(a) Market Entry Grants	8	1.0	3	II
	(b) Market Expansion Grants	18	2.2	6	II
ID5	Gaeltacht Development	38	4.5	13	
ID5 .1	Finance for Industry	20	2.4	7	II
ID5 .2	Training and Recruitment Incentives	10	1.2	3	II
ID5 .3	Advisory and Support Services	8	1.0	3	III a
ID6	Development of the Food Industry	205	24.6	63	
ID6 .1	Capital Investment Grants: Reg. (EC) No. 866/90	102	12.2	34	II
ID6 .2	Capital Investment Grants: Products outside scope	24	2.9	8	II
ID6 .3	Research and Development	47	5.7	10	
	(a) In-company R&D	16	2.0	0	III e
	(b) Institutional R&D	31	3.7	10	I
ID6 .4	Marketing and Promotion	23	2.8	8	I
ID6 .5	Human Resources	9	1.1	3	III c
ID7	Land and Buildings	20	2.4	47	I
ID8	Technical Assistance	6	0.7	2	I

Table 2.2.1 (continued): *Spending by Sub-measure: Agriculture, Rural Development and Forestry*  
Original OP

		Structural Funds		Government	Type
		IR£m	% of total	IR£m	
AG	Agriculture, Rural Development and Forestry	763	100.0	358	
AG1	Structural Improvement and Rural Development	653	85.6	382	
AG1.1	On Farm Investment	146	19.2	49	
	(a) Farm Improvement Programme	30	3.9	10	II
	(b) Improvement of Animal Welfare Standards	6	0.8	2	IV
	(c) Improvement of Dairy Hygiene Standards	35	4.6	12	IV
	(d) Control of Farm Pollution	75	9.8	25	IV
AG1.2	General Structural Improvement	23	3.0	8	
	(a) Installation Aid for Young Farmers	13	1.7	4	IV
	(b) Scheme for the Subsidisation of Milk Quota Rest	8	1.0	3	IV
	(c) Producer Groups	1	0.1	0	III b
	(d) Improvement of Cattle Breeding Infrastructures	2	0.2	1	I
AG1.3	Diversification	27	3.5	9	
	(a) Housing/Handling Facilities for Alternative Enter	1	0.2	0	II
	(b) Development of the Horse Industry	2	0.2	1	III b
	(c) Development of the Greyhound Industry	1	0.1	0	III b
	(d) Horticulture and Potatoes	6	0.7	2	II
	(e) Development of Organic Farming	1	0.1	0	III b
	(f) Agri-Tourism	8	1.0	3	II
	(g) Services in Rural Areas	1	0.1	0	I
AG1.4	Compensatory Headage Payments	363	47.6	279	IV
AG1.5	Research	24	3.1	8	
	(a) Research in Sustainable Agriculture and Rural De	22	2.9	7	I
	(b) Research Stimulus Fund	2	0.2	1	I
AG1.6	Advisory Service for Farm Viability and Rural Ent	28	3.6	9	III a
AG1.7	Human Resources	43	5.6	20	
	(a) Training for Agriculture and Rural Development	42	5.5	20	III a
	(b) Training for the Horse Industry	1	0.1	0	III c
AG2	Forestry	61	8.0	23	
AG2.1	Second Instalment Grants	7	0.9	2	II
AG2.2	Forestry Development	47	6.2	19	
	(a) Woodland Improvement	7	0.9	2	II
	(b) Reconstitution	6	0.8	2	II
	(c) Publicity/Awareness	2	0.3	1	I
	(d) Downstream Development Supports	8	1.0	3	III f
	(e) Harvesting	7	0.9	2	II
	(f) Technical Assistance	1	0.1	0	I
	(g) Forest Roads	13	1.7	8	I
	(h) Research and Development	4	0.5	1	I
AG2.3	Human Resources	7	0.9	1	III a
AG3	Evaluation and TA	2	0.3	1	I
AG4	Recoupment on 1993 5 (a) expenditure (mainly headage)	47	6.2	-47	I

Type: I - Public good provision; II - Altering relative prices to correct distortion; III - Targeted inducement to alter behaviour; IV - Income redistribution.

Within III: a - management; b enterprise strategy; c skills; d disadvantaged; e r&d; f other.

Table 2.2.2 shows the proportion of the spending under each of the CSF priorities which falls into each of our spending types.

Table 2.2.2: *Functional Distribution of SF Spending (% of priority)*

<i>Priority</i>	<i>Public Goods (I)</i>	<i>Corrective Subsidy (II)</i>	<i>Targeted Intervention (III)</i>	<i>Redistribution (IV)</i>	<i>Total</i>
Productive Sector OPs	26	23	26	27	100
Infrastructure OPs	94	2	2	3	100
HR OP	58	0	37	5	100
LU OP	33	21	46	0	100
All Human Resource Spending	52	4	41	4	100
Total CSF	49	12	25	14	100

### 2.2.2 Criteria for Assessing Different Forms of Public Spending

The point of distinguishing between different types of measure is so that one can focus on the very different criteria one would use to assess their performance and the desirability of assigning more or less funding to them. In order to illustrate the point, this sub-section provides a very brief checklist of the more important criteria that would need to be considered for each of the four types identified above. It will be seen that, although there are some common features, having different questions for different types allows one to focus on the quite different aspects of performance which are typically relevant. We use this checklist below in sub-section 2.5.3 to provide an initial screening of one hundred measures.

#### *I Public Goods*

- (i) Is the target area important?
- (ii) Is this measure contributing to the target; is it excluding other measures that might be more effective?
- (iii) Is delivery at least cost; could delivery be more competitive?
- (iv) Is this necessarily a public good or might it be privately provided without subsidy? Is there displacement of private providers?
- (v) Are there environmental side-effects?



*II Corrective*

- (i) Is the adjustment to relative prices correct (given the externality being corrected for, and including the effect of deadweight)?
- (ii) Is the externality itself policy-induced, suggesting the possibility of a more direct correction?
- (iii) Is the budgetary provision in line with current projections of demand?

*III Targeted*

- (i) Is the target area important?
- (ii) Is there a genuine information gap, or specific externality?
- (iii) Is behaviour changing as intended?
- (iv) Are the value-added services being delivered in a cost-effective manner; to the extent possible, are the value-added services being competitively provided. Is there displacement?
- (v) How great is deadweight?
- (vi) Are there environmental or incentive side-effects (including dependency)?

*IV Redistribution*

- (i) Does this redistribute an appropriate amount to the members of the target group?
- (ii) Are there training and experience side-effects?
- (iii) Are there other side-effects, e.g. environmental?
- (iv) What is the deadweight (including funds spent exceeding redistribution)?

**2.2.3 Subdividing Targeted Interventions (type III)**

Of the 122 measures in the CSF, about three dozen can be labelled interventions of type III. About two-thirds of these are funded by the ESF. The type III interventions account for about 26 per cent of total SF expenditure. Examination of these measures reveals that most fall into one of five varieties. Together with a residual "other" category, these are listed below:

- (a) Enterprise management development;
- (b) Strategic positioning of enterprises;
- (c) Other market skills;
- (d) Labour market skills for the disadvantaged;
- (e) Enterprise or applicable R&D;
- (f) Other.

By grouping the type III interventions in this way, we can more easily make cross-programme assessments to try to ensure that the marginal benefit of like schemes in different programmes is being equalised.

The types of behaviour which are being induced differ quite sharply as between the different varieties. For example, variety (a), designed to ensure that managers have skills of a type which they do not even know they need, is clearly enormously different from variety (d) composed of measures designed to lift disadvantaged groups out of a skills, experience and perhaps, motivation trap. The differences lie in the target group, type of incentive required, nature of value added service, and source of the underlying market failure. Variety (d) in turn differs from variety (c), intended to enhance the skill level of the general work-force. Likewise the R&D variety (e) differs sharply from all of the others. Only in the case of (a) and (b) could there be a doubt as to the importance of the distinction: we prefer to keep them separate, recognising that the focus in (b) is on the enterprise itself, rather than its manager. The "other" category seems necessary only for one *sui generis* measure – the energy efficiency measure of INF.

#### 2.2.4 Categorising Measures in Practice: an Illustration from the HR OP

The major measures of the HR OP mainly involve public good type interventions (I) and targeted subsidies (III), together with an element of redistribution (IV).

The most difficult sub-programme to classify is HR1. In Ireland, universal second level education is provided free of charge, and the recent extension of fee-free third level education means that this too must now be seen as part of the basic public good infrastructure of the state. The first three measures in HR1 relate to parts of the second level education programme. While that programme in general is a public good, some of the measures are on the borderline with targeted interventions. HR1.1, providing for special teachers to reduce the incidence of early school leavers, could be seen as a targeted intervention, though we prefer to treat it as merely a better provision of the second level system and classify it as a public good. HR1.2 Youthreach is special post-school training for early school leavers, and there is a financial inducement to encourage participation. This argues for including it in IIIc; though on the other hand it is really just an alternative environment designed to meet some of the difficulties which prevent school leavers from reaching a school leaving standard. Apprenticeship, HR1.4, is also on the borderline with IIIc, as it goes beyond the traditional second level provision. From an analytical point of view HR1.5 (MLT/HTBS) can best be seen as essentially funding part of the core RTC curriculum. On the other hand HR1.6 (ATS) is clearly a targeted inducement of the skills improvement type IIIc.

Both of the measures in HR2, and all but two in HR3 fall naturally under type III d, being support for the labour market performance of the disadvantaged. These are special training or counselling programmes provided free of charge, and sometimes with stipends, for those without the resources or know-how to acquire in the market-place the skills they need to re-enter the labour market successfully. The exceptions are HR3.1 – a public good – and HR3.2, Community Employment, where the income maintenance component of the spend is so high as to dominate the training element (though this could be disputed).

HR4 comprises measures of type III c, enhancing the general skill level, while HR5 consists of public good provision, type I.

### *2.3 Commentary on the Individual Operational Programme Evaluations*

This section reviews key aspects of each of the OPs, based primarily on the individual OP Mid-term evaluations (MTE). We have chosen the issues that seem worth highlighting at the CSF level. We make no attempt to summarise the MTEs comprehensively, or to provide a detailed assessment of their specific recommendations, most of which fall to be dealt with at the OP level. Instead the purpose is to provide a qualitative overview of the sorts of measure being employed in the different programmes, together with an indication of how they are performing, as a necessary background to interpreting the recommendations made in Sections 2.4 and 2.5 below.

#### **2.3.1 Industrial Development**

The Industrial Development OP is one of the most complex as well as one of the largest in the CSF. It accounts for over £800 million or 18 per cent of total SF spending in the CSF. Its 52 distinct measures or sub-measures cover a wide range of initiative types, from generalised grants for fixed asset investment, through funding of sectorally-specialised semi-state bodies to grants for graduate placement. This diversity of measures reflects the continuous evolution of a long-established suite of policies for the manufacturing and traded services sector, combined with an injection of new EU-inspired initiatives.

##### *Indigenous Industry*

Just over a fifth of the OP is assigned to the development of indigenous industry, other than the food sector. The 23 sub-measures here are broken into human resources ID1.2, other capability ID1.1, capacity ID1.3, and a sub-programme for three new types of action ID1.4 which has, in practice, not yet got well under way.

Almost all of the spending so far in the Human Resources sub-programme ID1.2 has been for Management Development and especially Employment Grants.

The former, which covers grants for the employment of senior managers as well as overseas experience and long-term training is what we have called a targeted measure. The difficulty has been to identify how much deadweight is involved. The latter (employment grants) amount to a corrective subsidy according to the approach we have adopted.

The other capacity sub-programme ID1.1 includes two long-established national programmes, Company Development and Linkage, which seem to be performing much as expected. The former, a targeted type of intervention, spends just under £20,000 each on about 50 companies a year, trying to identify ways in which they could develop improved strategies. Even though the agencies identify most of the candidate firms themselves, only about one-in-three "benefits greatly" according to Forbairt; many seem to see the programme chiefly as a *de facto* hurdle towards getting a subsequent grant. The number of companies using Linkage (a public good) has expanded, and the value of Irish raw materials purchased has increased substantially, but the share of Irish raw materials has not increased as a share of foreign-owned companies' non-food purchases.

There are two EU-inspired measures in ID1.1, namely the Business Innovation Centres and Mentor. The former funds five centres set up by local initiative in the five main cities. This is a reasonably costly scheme – especially if generalised throughout the country; it is too early to see whether results commensurate with the cost will be obtained, especially given the parallel development of local support mechanisms (albeit of a rather different type) under LU. Mentor relies largely on retired business people who give their time free to advise companies. This is a striking success, with an amazingly low cost, relying as it does on the goodwill of volunteers who are paid only out-of-pocket expenses.

Other schemes show less promise. The subvention to IPC ID1.1e is being phased out; and the MTE raises questions over the justification for public funding of the Software Directorate<sup>20</sup> ID1.1i and the graduate placement programme ID1.1f.

The capacity supports of sub-programme ID1.3 are all heavily over-subscribed. These are either to be seen as corrective, or corrective with some targeting (as in the Enterprise Development Programme, which combines grants with hands-on advice from the agencies, and the Business Partnerships programme, aimed at facilitating and grant-aiding joint ventures with foreign firms).

Spending under several other sub-measures has either not started or is well behind schedule. In the former category are Film Industry ID1.1h and ID1.2f; and

<sup>20</sup>We understand that a new policy is being developed here.

all of ID1.4, and only some of the delay is attributable to a slow start. The MTE has identified the need for transfers of funds out of these and other underspending measures.

#### *Inward Investment*

The MTE regards the spending on grants in the Inward Investment sub-programme ID2 as essentially demand driven (though potentially influenced by IDA Ireland's own promotion activities). The fixed asset support ID2.1 and the employment grants element of ID2.2 are being heavily oversubscribed, giving rise to the question of a need for further allocation of resources. The training grants component (under which start-up firms are given grants for a programme of training, developed in conjunction with FÁS) is being underspent, though it is doubtful whether inward investors would be strongly influenced by such grants in deciding the appropriate level of training for their staff. It is observed that these grants are less popular among inward investors than employment grants, notably because of the heavier administrative burden involved.

#### *Research and Development*

Demand is running ahead of budgeted funds for the Industry R&D Initiative ID3.1, which provides up to 50 per cent grants for projects proposed by industry (individual grants are less than £0.5 million). This raises the question as to whether the present system, whereby successful applicants enter a queue for funds, can be improved upon. The MTE suggested that it might be preferable to have periodic bidding for available funds, a proposal with which Forbairt does not concur. If the scheme is (in our terms) corrective, then the budget should be increased, but if (as on balance seems better) it is seen as a targeted intervention, then an increase in allocation is harder to argue for.

The heterogeneous group of items in ID3.2 reflect the institutional origin of this measure, being essentially all old Eolas activities, the functions of some of which fit closely with items in ID1.

By far the biggest part refers to the Programmes in Applied Technology. The appropriate institutional arrangements for, and the future funding of, these research bodies which are mostly located in the Universities and are partly financed by fee income from industry at home and abroad, have been discussed and varied frequently in recent years. Although it is certainly desirable to put the PATs on a proper legal footing and develop a commercial approach, the MTE is probably right to worry that the new arrangements being put in place may not prove ideal (MTE, para. 7.63.25). It is also noteworthy that only 40 per cent of the fee income comes from indigenous firms (although this is higher than indigenous industry's 25 per cent share of the national spend in business R&D). Little of the research funded under ID3.1 is performed by the PATs, although it would be

unwise to read too much into that. The failure, after a decade, to arrive at a truly adequate and well-functioning system of performance indicators is also worrying.

Somewhat similar concerns are raised about the much less costly measure funding regional technology service centres, though it is said that these are performing better in Ireland than their counterparts elsewhere in Europe. This is a new initiative that deserves a further period of probation.

The relatively large subvention to Forbairt to cover its technology services (information, materials, environment, testing) ID3.2b also comes in for adverse comment. Could these functions not be tendered for competitively?

### *Marketing*

ABT's activities and grants are co-financed by the Marketing Development sub-programme ID4. Though there is no question about the importance of marketing in achieving sustained export performance,<sup>21</sup> and although there is a clear argument in principle for public funding of the fixed costs of a marketing advisory and assistance body (to help small firms), the MTE raises some questions about the cost effectiveness of ABT in this regard. This applies both to ID4.1 (where ABT advice is reported "more expensive than the private sector", with no better quality, and the cost of participating through ABT in trade fairs reported as "more expensive" than participating directly),<sup>22</sup> and to ID4.3, whose market access grant scheme had "little impact" and is being refined. The larger so-called "Targeted Marketing Consultancy"<sup>23</sup> (TMC) scheme of ID4.3 is regarded as being more effective, and may be seen as a kind of venture funding for marketing initiatives.

The initiatives of ID4.2, which provides marketing consultancy and product advice and places marketing graduates with companies is seen as technically effective, but one which does not necessarily require a public subsidy.

### *Gaeltacht and Food*

Initiatives for the Gaeltacht areas, and for the Food Industry are each segregated in a sub-programme of their own ID5 and ID6, and have their own implementing agencies. In the main, these programmes are broadly akin to a microcosm of the wider industrial sub-programmes. Despite their contribution to

<sup>21</sup>And new pressures for Irish exporters to diversify further into export markets other than the UK may arise with EMU. This and other goals have been identified by ABT in a recent strategic refocusing.

<sup>22</sup>Though these observations can be criticised as "anecdotal", conversely continued high demand for publicly subsidised services is not evidence of value for money.

<sup>23</sup>As a corrective subsidy, this scheme is, despite the word "targeted" in its title, assigned to our Type II.

agricultural and regional policy, they should be assessed primarily against the immediately comparable measures in the rest of ID.

Thus ID5.1 and .2 represent capital and labour (employment and training) grants respectively for the Gaeltacht area, while ID5.3 funds the advisory services of Udarás.

About one-quarter of the SF in the ID programme is for the Food sub-programme, which is articulated in more detail, with two separate capital grant measures (the first mainly for processors of primary produce eligible under a FEOGA scheme), and distinct measures for R&D, Marketing and Human Resources. Once again, the relevant comparison is with the comparable sub-measures for the rest of industry. In this regard it is noteworthy that industry demand for the first category of grants is falling well behind budget and the MTE recommends transferring substantial funds out of this measure. The average cost-per-job approved in the second capital grant measure (at almost £20,000 in 1996)<sup>24</sup> seems very high; at the margin, grant packages under this scheme should not be more generous than those in ID1. The Food R&D measure is divided into in-company research, which is integrated with ID3.1, and institutional research, which funds "public good" research in the Universities, Teagasc and elsewhere. The MTE comments on the sub-sectoral focus of the research, with what they regard as inadequate attention to such issues as seasonality, market-led food processing, raw material requirements for the food industry and overall quality and safety – in effect a failure to keep the whole value chain from field to table in view.

#### *Property*

The MTE endorses the recommendations of the Forfás analysis of the property policy, which might involve some reduction in the pressure on the funding for ID7.

### **2.3.2 Agriculture, Forestry and Rural Development**

This is the third largest OP in terms of Structural Fund spending, amounting to one-sixth of the total or over £0.75 billion over the six years.

By far the largest part of this OP is AG1.4 Compensatory Headage Payments, accounting for almost one-half of the SF in the OP. These payments go to farmers in disadvantaged areas (which amount to almost three-quarters of the country). The payments are based chiefly on the stocks of cattle and sheep, and there is a limit per applicant on the number of animals for which payments are made. (It should be noted that these headage payments amount to only about a quarter of the total of headage and premia payments made under EU and national schemes; in particular, the ewe premium payments which have a much higher ceiling on the

<sup>24</sup>MTE, para. 10.17.9.

number of eligible animals is much larger than the sheep headage payment under AG1.4.)

The average annual headage payment comes to about £1,300 per farm, equivalent to 30 per cent of farm income for these farms. The payments may have slowed the decline in farm population by a small amount, but, as noted in Section 1.3 above, it is hard to argue that they have any real developmental function. Suggestions have been made for skewing the payments in the direction of younger producers, or those more likely to become efficient, but for the present the scheme must be seen as a redistributive scheme, and a rather arbitrary one at that. Suggestions that the scheme be removed from the OP because it has no development function need to be tempered by the consideration that if were to be continued outside the OP, then it would have to take its budget with it, and no real change would have occurred.

Turning to the other elements of the OP, we find some sub-measures that also seem to fall primarily into the category of redistribution, bringing the total share of public spend in the OP that falls into this category to 72 per cent. It may seem unusual to classify Capital Investment measures as redistributive, but the point is that most of these capital investments would be undertaken anyway either for profit or to meet regulatory requirements. Thus the probable thrust of the interventions is to subvent the farmer with comparatively little net effect on investment. These measures include the subsidies for animal welfare, dairy hygiene and control of farm pollution (AG1.1 b,c and d), as well as the installation aid for young farmers and the scheme for the subsidisation of milk quota restructuring (AG1.2 a and b). In each of these cases either the spending is to subsidise the achievement of mandated standards or are substantially ineffective in eliminating any externality. The last-mentioned two schemes are under review.

Special attention needs to be given to the Control of Farm Pollution scheme (AG1.1d). Applications for this scheme was closed when about 18,000 applicants had filed as, with the average grant running at over £9,000, the scheme looked like exceeding its budget of £100 million. The scheme is limited to those with off-farm income below a reference level of about £15,000, and is skewed to smaller farms. The construction of waste storage and disposal facilities, financed by the grants, are undoubtedly a positive feature. But they should have been constructed anyway, given the fact that ground-water pollution is an offence. Thus any impact on ground water quality of the subsidy reflects inadequate enforcement of existing legislation, and should be seen as a favourable side-benefit of the subsidy rather than it being a goal. That is why we treat it as primarily a redistributive scheme (IV). The "polluter pays" principle argues against such subsidies. However, relying on enforcement may be a counsel of perfection. If so, the side-effect



benefits might be sufficient to warrant considering re-opening the scheme with an increased budget, i.e., treating it as if it were a corrective (type II) intervention.

Several measures are similar to job-creation interventions which we have treated as corrective in our discussion of ID, notably the Farm Improvement Programme AG1.1a, and much of the diversification initiatives of AG1.3. But, given that most of the investment supported by these measures is privately profitable, and that they appear to have relatively little by way of value added in inducing improved management or strategic planning, it is not clear for what distortion these measures are correcting. The projected grant-cost per job varies between about £7,000 in the FIP-horticulture, to about £30,000 in AG1.3 (horticulture), suggesting that these schemes need at least to be rationalised.<sup>25</sup> Furthermore, considerable deadweight is noted by the MTE.

The bulk of the remaining spending in AG1 is to cover Teagasc's budget for research, advice and training. The MTE rightly questions the virtual monopoly which Teagasc has in these areas in the sector. Moves to introduce more competition, such as the "Research stimulus fund", do not go far enough.

Forestry is covered by AG2, most of whose spending is employed in forestry development grants. Earlier design flaws here are being corrected, though once again it is not clear what distortion these grants are designed to correct for.

As the MTE notes, the fundamental dilemma at the core of this OP is that it is geared to subsidising small producers to stay in production while slowing the pace of productive restructuring. Though fully compliant with the detailed agreements embodied in the CSF, and contributing to some extent<sup>26</sup> to the seven identified objectives for the OP, it has to be acknowledged that its thrust is not as clearly focused – indeed almost runs counter to – the two central objectives of the CSF (as reiterated in sub-section 1.1.1 above). This contradiction is probably inherent in the CAP itself,<sup>27</sup> but it also reflects an unresolved tension between the national drive for well-paid employment growth based on productivity on the one hand and a perception that rural areas need to be populated by active farmers. Whether a viable and acceptable alternative solution can be found to the rural development

<sup>25</sup>As highlighted by the MTE, the only spending so far in the "Development of the Greyhound Industry" measure has been for TV and radio advertising, and the production of promotional videos and CD ROMs for Shelbourne Park racetrack. Although the sums involved are small, it is not easy to rationalise this as a reasonable use of costly public funds.

<sup>26</sup>According to the MTE, the impact has been "medium" or "low", except for the income maintenance objective.

<sup>27</sup>And the measures under discussion are fully compliant with Council Regulation (EEC) 2085/93 laying down the conditions governing the allocation of FEOGA aid under the current round of SF.

problem remains unclear. This tension will not be resolved by the present evaluation, nor can we expect much change in the volume of spending under this programme, which is largely funded by FEOGA. The best we can hope for is some rationalisation of spending measures and some readjustment in the direction of achieving favourable side-benefits in terms of environmental improvement.

### 2.3.3 Fisheries

The Fisheries OP accounts for just 1.4 per cent of Structural Fund spending in the CSF. It includes a number of apparently distinctive measures and has its own delivery agency (BIM). There is also a distinct common fisheries policy (CFP) at EU level. Some of the measures are directly related to this policy (for example measures relating to the adjustment of the fleet). However, it is useful for present purposes to compare the goals of this programme with that of the Industrial Development OP. The appropriateness and scale of the interventions should be compared against the benchmarks established in that (much larger) OP. This is not to deny the very specific nature and characteristics of fishing, nor its particular difficulties. Nor do we question the fact that success in achieving the objectives of the CFP would imply higher fish stocks and a more profitable fishing sector.

The first two measures FI.1 and FI.2 relate to the retirement of old fishing vessels and the modernisation of others. The former scheme has been a disappointment. Only 18 vessels have been decommissioned; a further 50 or so having withdrawn their application. The latter measure is achieving its spending targets and has been associated with some safety improvements, but its main rationale is injecting funds into the fishing community. Many of the grants are for small sums – probably not exceeding the cost of normal maintenance and the level of deadweight is thought by the MTE to be high. More seriously the mechanism is not well adapted to achieve the stated objective of fleet modernisation, in that purchase of new vessels is not covered.

More generally, given the quantity constraints applying now, or in the future, to much of fishing, the target of fleet modernisation (though in line with the CFP) is but weakly related to the fundamental objectives of the CSF.<sup>28</sup> It is not clear that these measures contribute to employment growth or even to much sustained employment.

A similar objection can be made to much of the spending to date under the processing measure FI.6. Unfortunately, most of the grants so far here have gone to meeting new EU hygiene regulations, and have not been job creating. However,

<sup>28</sup>Although there is still unused quota, and the value of non-quota catch has increased rapidly to the point where it is approaching the value of quota catch.

new spending proposals supported by Forbairt or the IDA and satisfying their normal criteria should be funded. It may well be that this will lead to the need for additional funds here despite past performance.

The aquaculture measure FI.3 is more clearly focused on job creation, but here the cost-per-job created (not necessarily sustained), estimated at about £21,000 by the MTE, is well in excess of what would be the norm for Forbairt grant-aid to indigenous industry (though there are exceptions). Persuasive scientific evidence implies that finfish aquaculture has had severe effects on the sea-trout population and there are other adverse environmental impacts, as mentioned below.

Little or no attempt is made to achieve co-financing or cost recovery in two other measures, the construction of port facilities (FI.5) and the research measure (FI.9). The construction and improvement of fishing ports is costly, but if economically justified there is no reason why its cost should not be recoverable through user charges. For research, there is an argument that externalities would justify a degree of subsidy, but it is not clear why (in contrast to the parallel measures in the ID) there is (according to the MTE) little or no co-financing by the private commercial sponsors.

The marketing and promotion measure (FI.7) also seems out of line with ID. For example, though public funding of non-generic export advertising is wisely prohibited by EU regulation, a domestic advertising campaign is funded from this measure. Even accepting the BIM estimate of the impact of this campaign (and the MTE did not), an increased sales-to-advertising budget ratio of 3 to 1 is far below what could be deemed cost effective (especially considering that the product has an alternative export market albeit at a lower price).

The argument has been made that this OP is in fact largely a redistributive scheme for rural areas. However, such redistribution would be arbitrary as between regions and individuals within those regions. Alternative mechanisms of redistribution are available.

In short, a number of FI measures need to be refocused with a clear employment objective and greater attention to cost-effectiveness.

### **2.3.4 Tourism**

The Tourism OP is of medium size, accounting for £369 million, or over 8 per cent of SF spending. Against the background of a vigorous and sustained expansion in tourism output, there are two main challenges to a mid-term evaluation. First, understanding the degree to which this success is attributable to public spending programmes and the extent to which continued expansion requires sustained public spending. Second, given the emerging problems of congestion, identifying the appropriate strategy for focusing future growth and management measures to relieve anticipated congestion without damaging the environment or

otherwise causing adverse long-term repercussions on tourism demand. It should also be borne in mind that tourism benefits specifically from a number of tax concessions.

It also seems doubtful that the boom has been driven by the OP. Much of it has been in Dublin, where few facilities financed by the OP have come on stream, and there has been relatively little success in reducing the seasonal structure, though this was a key goal of the OP. Although tourism is job-intensive, the estimated cost-per-job created in tourism by the OP is, at £30,000, rather high.<sup>29</sup> Furthermore, deadweight and negative externalities of a quite serious type seem to pervade the OP.

In addition to the Tourism OP itself, tourism-related spending is co-financed under about eight different OPs or CIs, and indeed, as noted by the MTE, tourism could be impacted by spending in almost any of the OPs and CIs. This has resulted in a scattershot approach to Tourism which is rightly criticised by the MTE.

Of the three sub-programmes, the first, TO1 – which helps with the funding of publicly-owned facilities, including the major museum construction projects, national monuments, canals and national parks – comes in for criticism on the grounds that many of the projects being financed are more in the nature of conservation of local heritage rather than being likely to achieve a significant increase in tourist revenue. This judgement may be a little narrow, given the long-term focus of many of these projects, and the fact that a legitimate though non-tourist public purpose is being served by their completion. Indeed the MTE does not question the merits of the expenditure *per se* so much as the identification of associated tourist benefits.

TO2.1, the largest measure in the OP, is a grant facility for large “flagship” projects. Such grants can be rationalised on the basis that there is a presumption of positive externalities in such projects not accruing to promoters. It had been envisaged that, apart from the proposed National Conference Centre, these projects would be located away from traditional tourist centres, but in many cases the projects being grant-aided are in areas already threatened with congestion: the externalities associated with these could be negative rather than positive.

Other measures under the Product Development sub-programme TO2 receive a mixed rating from the MTE. The danger of debasing the “heritage town” designation under TO2.2 is noted; as are the problems of making the Angling measure TO2.3 effective, against a background of declining angler numbers and image problems. On the other hand the grant schemes for special interest holiday facilities and accommodation look like being greatly oversubscribed. However, it

<sup>29</sup>The MTE indicates that this estimate is not very reliable.

can be questioned whether the use of public funds is necessary for grant-aiding cruising, sailing and golf facilities which are privately profitable and whose externalities need not be positive. The MTE noted an absence of genuinely innovative products. If this sub-programme is being driven by an *Ireland Inc.* approach to the sector, that company looks seriously in need of a stronger strategic focus!

The marketing and training sub-programmes TO3 and TO4 come in for less criticism. The externalities of marketing are evident, and the training programmes seem to show quite effective results. However, the level of deadweight in Continuing Training TO4.3, which large firms are using to get cheap training, is a matter for concern.

### 2.3.5 Transport

The Transport OP represents only a part of the SF spending in the area, with a half or more of the Cohesion fund expected to be spent on road, rail and port investment. Nevertheless, TR accounts for 16 per cent of SF spending in the CSF, the major elements being road measures and the LUAS. With the latter still in the planning stages, road spending has accounted for four-fifths of TR spending to date, but will fall back to three-fifths in the last three years.

Road spending is broken into major improvements TR1.1<sup>30</sup> and smaller "integrated network improvements" TR1.2 to the Primary network, work on National Secondary roads TR1.3 and on non-national roads TR2.1. Traffic growth on roads is projected by the MTE to be running at double the rate envisaged at the outset of the programme, with cumulative growth 1993-99 put at 42 per cent compared with 19 per cent anticipated at the outset. In addition, poor initial costings mean that the volume of improvements envisaged will not be achieved within the budget provided – the shortfall will be of the order of £100 million. The combination of these two points implies that, by the end of the century, road congestion will be considerably worse than planned. Even without increased congestion, conservative cost-benefit calculations indicate high rates of return. As against this, the MTE points out that several roads that are being completed to dual carriageway or motorway standard would provide adequate service quality at a lower design standard. In fact, the MTE stresses that there is scope for greater economy in road design.

The potential for reducing urban congestion by improved pricing mechanisms is discussed in sub-section 2.4.1 below.

<sup>30</sup>Our notation TR1 corresponds to the OP's N sub-programme; TR2 to the S sub-programme.

Rail traffic has hardly grown since 1993. The mainline rail spending TR1.4 represents mainly rolling stock purchases to complement much more costly permanent way improvements that are being financed by the Cohesion Funds. Most of the spending here has already been incurred.

TR1.5 is for airport improvements – mainly terminal facilities in Dublin and Shannon, together with some spending at Cork. With much higher than planned traffic at Dublin and Cork this spending is clearly needed, whereas the relatively slow growth in traffic at Shannon (though in line with expectations) raises a question-mark over the project there.<sup>31</sup> There is also the question of how necessary grant-aid is: though tourism and other sectors are heavily dependent on low cost and efficient airports, Aer Rianta is making substantial profits as things stand.

Improvements at five major commercial ports are covered by TR1.6, while TR2.4 provides for regional ports. Despite traffic increases, overall port capacity will remain adequate. There is a question as to what extent the cost reductions made possible by grant-aid to private port operators are being passed through to the users.<sup>32</sup> (When financing from the Maritime Interreg CI is included, the improvements to the Dublin and Dun Laoghaire ferryports alone attracted grants totalling £16 million).

TR1.7 is the LUAS. The issues here include whether the financial provision is adequate, and whether the project will go ahead in time to draw-down the SF (the current time-scale would permit this).

### 2.3.6 Economic Infrastructure

The small Economic Infrastructure OP, accounting for £87 million or just under 2 per cent of total SF spending in the CSF is divided between energy EI1 and communications EI2 sub-programmes.

The largest item in EI1 is the peat generating station. This project has been slipping behind schedule. Because of possible implicit cross-subsidisation (it is understood that the ESB will be a captive purchaser of the output), the drawback of high CO<sub>2</sub> emissions, and a high cost-per-job, this scheme can best be rationalised as an income redistribution measure.

Energy Efficiency EI1.2 and Renewables EI1.3 take most of the remainder of the SF in the sub-programme. The MTE expressed some doubts about the efficiency and deadweight involved in these initiatives. About half of the EI1.2 funds are assigned to schemes of grant-assistance for energy saving measures. The average grant given has been about £20,000. Is there still an information gap that

<sup>31</sup>But terminal traffic grew much more rapidly than total traffic at Shannon in the period 1993-96.

<sup>32</sup>It is understood that a consultant's study on this matter is bearing completion.

requires substantial grant-aid to achieve private cost savings for small businesses in this area? The remainder of the funding goes on marketing, information and support measures.

Although it would be natural to see the renewables funding in the context of a longer-term R&D effort, potentially yielding substantial externalities, we have been advised that the biomass project is *not* experimental. If so, one wonders what social purpose is served by giving it a 50 per cent grant.

Apart from a small amount on computerisation of rural post offices and regional mail centres, the communications spending covers a small fraction of Telecom Eireann's ongoing technological upgrading. The MTE points out that, with increasing competition in the telecoms market, a fear is that such spending could simply be absorbed as a subsidy to Telecom Eireann's overheads.

### 2.3.7 Environmental Services

Though one of the smaller OPs with SF spending at about £63 million, accounting for less than 1½ per cent of the total CSF, Environmental Services is complemented by substantial spending, of the order of £500 million, on environmental projects co-financed by the Cohesion Fund. It is mainly smaller projects which are co-financed under the CSF OP and this dividing line is seen as working reasonably well by the MTE, though it does flag the danger of medium-sized projects falling between the two.

Most of the Cohesion Fund environmental money spent or committed so far has been for waste water and water treatment facilities, and this also accounts for well over half of the OP spending. Included are water supply and waste water treatment schemes proposed by local authorities, and group water schemes proposed by non-statutory groups in rural areas. A rather high proportion of households in rural areas has been without piped water or sewerage facilities, and the structural funds have represented a significant lever for improvements in these areas. The major policy issues in this area relate to pricing, and to the achievement of goals on a least-cost basis. With regard to the latter, the schemes financed by the CSF OP are inframarginal, with the controversial decisions arising in respect of the larger CF-funded schemes. The local authorities' waste water schemes may represent a reasonable ranking of projects, though the MTE notes that the indicators that would be needed to confirm this are not available, and in particular there might be scope for switching funds to a few small but crucial schemes.

Though we classify it as primarily in the "public good" category, grant-aid for group water schemes in rural areas can also be seen as having a redistributive element: in effect helping to maintain rural population. However, it is striking that one of the reasons which has led to the demand for the two group water schemes selected as examples by the MTE was the water pollution caused by over-stocking

of sheep. This overstocking can be directly related to the headage payments and ewe premia also funded by EU schemes.

Much of the planned spending under the heading "municipal waste" represents an extremely popular grant scheme for recycling facilities. Many applications will be rejected. This suggests a need to review the feasibility of the targets for recycling and the most cost-effective way of achieving them. It is unlikely that such a review would lead to an expansion of funding for this recycling grant measure.

Coastal protection is an innovative area which might not have been financed were it not for the OP. However, the original plan to spend most of this in Bray, Co. Wicklow, has fallen foul of planning delays, and instead it is to be spent elsewhere, notably in Waterville, Co. Kerry. The planning difficulties in Bray, Co. Wicklow, do highlight the fact that large scale intervention in coastal protection may not be an unambiguous gain for the environment. Revetments and breakwaters protect existing physical assets, but perhaps at the cost of eroding the natural environment. The term coastal protection is itself often a euphemism – or at least a contraction – for protection of existing physical structures near the coast.

Although most of the OP spending goes to provide mundane services for residents, advocacy for particular projects often relies on an assertion that tourism will benefit. A prosperous tourism industry demands a high quality environment. At the same time, it is clear that expansion of tourist numbers threatens to degrade the environment. The MTE is surely right in arguing for an integrated area-based approach to tourism and environmental planning.

### 2.3.8 Human Resources

The largest OP in the CSF, Human Resources is assigned £1.4 billion in SF, representing just under one-third of the total SF in the CSF. It contains measures designed to boost human capital in Ireland (which are customarily referred to as "competitiveness"), and specifically to enhance the employment prospects of the unemployed ("equity"). Actually, most of the "equity" interventions are directed towards improving human capital also, with the difference being that they are focused not on the general population, but on sub-groups who, for one reason or another, are unable to perform effectively in the labour market. As such, these too boost efficiency.

Almost one-half of the SF spending is allocated to sub-programme HR1, which helps to fund initial education and training at second and third level, primarily in "technical subjects", though that term has a broad definition and includes, for example, business studies.

Within this sub-programme, only a small amount – £43 million is set-aside for the so-called "equity" objective, in measures for prevention HR1.1 and remedial



action HR1.2 for early school leavers (ESL). It is pointed out that much prevention activity is being funded outside the CSF, but the problem of ESL has generally been recognised as the key to reducing the incidence of long-term unemployment and exclusion for future cohorts. The target group here is as many as 7,000 per annum, with 1,000 who do not even enter the secondary cycle. Careful application of additional resources in this area (including preventative measures at primary school level) obviously has a high potential pay-off. The recommended expansion and deepening of the Youthreach (remedial) programme for ESL at a cost of £6 million in 1997 (presumably £20 million for the remainder of the programme) is plausible.

The remainder of the spending in HR1 is allocated to funding of "technical courses in secondary schools and PLCs (HR1.3), and RTCs (HR1.5). The expanded Apprenticeship programme (HR1.4) and some postgraduate courses (HR1.6). Apart from the last, these are part of what is now an almost entirely free-of-tuition-fees second and third level initial education system. As such, the relevant issues are about curriculum design, effectiveness of teaching and so on. The MTE offers some comments on these issues, to which we would add the need for better measurement of school and college performance. We would not agree with the particular concern raised by the MTE to the effect that the abolition of fees will reduce the price advantage favouring these courses.<sup>33</sup>

The postgraduate courses of the ATS (HR1.6) are also praised for their relevance and focus. However, as the private returns to these are high, we share the MTE's view that increased private funding would be desirable. Indeed, it is questionable whether the fees should be paid for out of public funds at all.

The purpose and achievement of HR2, called Continuing Training for the Unemployed, and supposedly an "equity" sub-programme, is questioned rather acutely by the MTE. Of the two component measures the largest is HR2.1 which embodies the already established Specific Skills Training and Job Training FÁS schemes, along with FÁS Traineeships. Although these schemes are said to be targeted at the unemployed. However, in 1996, one quarter described themselves as "at work" before the course, and fewer than one-in-six was from the long-term unemployed. Nor should it be thought that they focus effectively on disadvantaged groups: over two-thirds of participants have Leaving Certificate and about a quarter entered the course with a post-Leaving Certificate, diploma or degree. Although the older unemployed are also supposed to be a target group, only 40 per cent of participants are over 25 years. In terms of effectiveness, while placement rates of two-thirds are reported, and three-quarters of participants were employed

<sup>33</sup> Indeed, we would see this as a favourable side-effect of a policy which in other respects has created many incentive problems.

at the time of the 1996 follow-up survey, fewer than one-half stated that they used the (specific!) skills obtained even "a lot of the time". Clearly the purpose of this measure needs to be redefined more precisely, with quantitative targets for participation.

The main idea behind funding such a measure should be to help ensure that persons who are unemployed and cannot quickly find suitable employment can acquire relevant skills. On the other hand, there is much less justification for providing free training to the general body of well-educated labour market participants in skills that are well-known to be in short supply. What the MTE and other commentators perceive is that there is a gap left by the basic measures of HR1.2 and HR3, which do not quite lift the disadvantaged and the ESL to the threshold of productive participation in the open labour market. This measure is the nearest thing to filling the gap, but because of a failure to narrow the focus effectively on the relevant target groups, too much of the spending is going on people who could more effectively fend for themselves, acquiring necessary skills in the open training market.

The Local Enterprise measure HR2.2 does better in reaching older participants and the long-term unemployed. And, although again more than two-thirds had a Leaving Certificate or better, this may not be unreasonable for a measure designed to develop local enterprises. The MTE points out that little is known about its effectiveness in generating local enterprise and in regard to the linkages with local development initiatives.

Re-integration of the socially excluded is the ("equity"-related) goal of HR3. Here the biggest overall expenditure is on HR3.2, Community Employment (CE), the scheme designed to give some part-time work to the long-term unemployed or their spouses. Although a large volume (about 40,000 places) low value-added scheme, this is something that has proved quite popular with participants in its various guises over the past ten years. Job placement is rather low, though a two-year follow-up showed that over one-third of former CE participants were at work. The new training component – essentially provided through training of supervisors, is well under way and various efforts are being made to improve the image of CE among employers. The focusing of the scheme has been subject to criticism – only three of every five 1994 participants had been unemployed for over a year. The problem here is the usual one, that many sponsors will tend to seek the most productive potential participants. The recent steps to refocus the participant composition will have to be continuously monitored. We understand that more recently nationwide targets for the share of long-term and older unemployed have been established. This is to be welcomed; the targets should be taken seriously and enforced. The income support component of this measure is thought to be very high. Therefore the modest results that are obtained in terms of

reintegration and work satisfaction of the previously excluded probably represent good value for money. No doubt there will be continued experimentation in the design of this measure to improve its success; in this regard, the MTE's view that not too much should be expected from this measure in re-integrating participants into the open labour market should be respected.

Apparently less satisfactory, because the potential of the target group would seem to be higher, is the impact of Re-integration (HR3.3) designed for persons with low skill and low esteem, and Community Training (HR3.4), a more general-purpose workplace-based measure. The former has four different modules, one aimed at middle-aged women returning to work, the others aimed at the under 20 year olds. Among the major problems identified by the MTE is the lack of progression routes for those who are not placed in a job after going through one of the four modules of HR3.3, especially perhaps the Linked Work Experience programme – itself designed as a progression option for Youthreach finishers. This seems to be a question of there being a clear set of needs, a broadly appropriate level of funding, but inadequate design. As the MTE recommends, greater co-ordination of interventions in favour of young persons could be desirable.

HR3.5 is the second-chance education measure VTOS, which gives over-21s an opportunity to study for the Leaving Certificate. This measure does not appear to reach out sufficiently to its target group – chiefly the older long-term unemployed. In practice, the vast majority of participants are under 25, and need only be on the live register for 6 months. Nevertheless, the demand is low – only about 5000 participants. Only about two-thirds of these graduate with certification, and only about one quarter are placed in jobs (a further one-quarter go on to further training).

The substantial allocation for training of people with disabilities (HR3.7) is appropriate and, though the results in terms of placement are somewhat discouraging, this is attributable to the scarcity of sheltered employment for the disabled.

The other two measures are both important, though small. Training for “ex-offenders” (actually for prisoners) HR3.6 is one of a number of initiatives in improving the performance of the prison system that have the potential to yield large returns to the investment of public funds. Counselling (HR3.1), which provides for additional staffing in FÁS local offices, is said by the MTE to be under-resourced but, bearing in mind the existence of extensive funding of parallel-type local initiatives under LU, this recommendation might need to be treated with caution.

Adaptation to industrial change HR4 comprises a grant scheme (TSS) and a measure which meets the costs of various FÁS studies and planning activities. TSS grant-aided 2,500 companies in 1995, with the average number of

participants at ten per company, and the average course duration at 63 hours. Although the proposition that Irish firms spend too little on training is widely accepted, it is less clear that the least-cost way of fixing this is to provide a grant scheme such as TSS. Still, some of the potential deadweight here is being reduced by targeting on small firms. This whole area is said to be the subject of an imminent policy initiative involving institutional restructuring. It is noteworthy what a small proportion of the TSS grants are used to train women, a worrying feature in that the kinds of training funded under the measure are mostly short management-related courses. (The issue of ensuring adequate training for women is to the fore in the MTE, which provides comprehensive information for the whole of the OP - see also Section 3.3 below.)

Measures to improve the quality of training HR5 includes a very substantial block of funds for vocational training infrastructure. There is some doubt as to whether these funds will be drawn down as the Department of Education's building programme priorities do not match with ERDF criteria. The Department is rightly reluctant to reschedule its programme in order to draw down funds that have been earmarked for it. The MTE suggests that some savings should be switched to FÁS capital spending.

The other measures in HR5 are diverse, including in-service training and small allocations for certification and for the promotion of equal opportunities.

### 2.3.9 Local, Urban and Rural Development

The LU OP accounts for about 4½ per cent of all SF spending in the CSF. This amount is evenly divided between three sub-programmes focused on local enterprise, disadvantaged areas and town renewal. In contrast to much of the rest of the CSF, the interventions financed in the LU are relatively new and experimental. It has been both a strength and a weakness that these interventions have required the emergence of new institutional structures. This has been a strength inasmuch as new players have been drawn into the process of economic development, a weakness inasmuch as there have inevitably been some disappointments in the form of institutional failure of one sort or another.

The major issue in this OP is to what extent the remainder of the programme should be managed with a view to strengthening the initiatives so that they endure for a longer time horizon. It is conceivable that, having rejuvenated some depressed areas, and instilled a new spirit of enterprise at local level, at least some elements of the OP should be wound down at the end of the decade.

It is a commonplace to observe that the emerging institutional framework for local development as reflected in the institutions which manage this and related interventions at local level is plainly unsatisfactory. Clearly there is considerable duplication of grant-giving entities at local level. As mentioned already, this could

be a form of constructive disorder, potentially bearing greater fruit than would an ossified but orderly set of institutions. Recent moves to co-ordinate and rationalise have been partially successful.

Evidently the capacity of the standing local authorities to play their part in economic development at the local level has been weak. But it can be argued that, by bypassing them, this proliferation of *ad hoc* development entities at local level, each with discretionary budgets, further weakens the local authorities. In addition, these entities have but weak democratic control at local level, and this is surely a recipe for their being gradually captured by cliques in the years ahead. The whole issue of enhanced democratic local government institutions is being addressed in a wider forum (to which the recent policy paper, Department of the Environment, 1996b, represents a further contribution).

Sub-programme LU1 is the funding of the County Enterprise Boards (CEBs). The total budget here comes to about £0.5 million per CEB per annum. It is being spent largely on grants to entrepreneurs (Measure LU1.3). The recipients are almost all micro-enterprises with fewer than four employees, and more than half of them are new start-ups. Most got a grant that worked out at about £4,000 per job and created 1-2 jobs. The sectors supported are not limited to manufacturing and internationally traded services, and indeed more than half of those supported were not in these sectors. It is reckoned that the associated jobs are being created at the gross rate of about 2,000 per year. It is hard to see the logic behind these grants. Clearly, they go only part of the way to reducing the burden of taxation. Unlike the relatively clearly ring-fenced "manufacturing and internationally traded services" area within which Forbairt must work, the sectoral remit is open-ended. It is noteworthy that previously unemployed persons account for fewer than one in five promoter beneficiaries, and fewer than one-third had a woman among the promoters. It is not clear how effective this measure is in leveraging a good strategic management plan for the micro-enterprises concerned.<sup>34</sup> The MTE pointed out the great variation between the approaches adopted by different CEBs in deciding who gets grants.

The MTE recognise that this scheme, if anything, reinforces the "grant mentality" criticised by the Culliton report. They argue that attempts should be made to move the scheme over to a loan basis. In so far as repayments of the loan would provide a revolving fund for continuing community reinvestment, such an approach could strengthen the local enterprise culture, especially if the interest rates are not subsidised below the commercial cost of funds. However, it is legitimate to ask whether local credit unions do not already provide such a

<sup>34</sup>One of the projects funded in Wexford was described as being for the development of video brochures for auctioneering.

function, and whether use of loan finance from the structural funds might not undermine the activities of the credit unions.

The indications are that the demand for LUI.3 grants will greatly outstrip the budget proposed for this measure, as 1995-96 disbursements have been over twice the forecast. The scale of deadweight is fairly high: 52 per cent of those who responded said they would have gone ahead without the grant. It is legitimate to suppose that the rate of deadweight will increase as the measure matures and the back-log of only-viable-with-grant projects is cleared.

Other spending in LUI is for management training – almost 2,000 managers per annum are getting approved training. On average the courses involve about 100 contact hours and 200 hours overall; the average age of participants is 37. The public expenditure per participant appears to be only about £200, but this average figure may be misleading (based on the external evaluation p.50 Table 4.3). The only issue arising here is whether the courses that are being funded are the most appropriate available or if demand is being skewed away from the best courses. No information is available about this. In order to avoid such distortions, where a subsidised course of low quality displaces an unsubsidised but better course, the participants should be able to choose from a wide range of approved courses.

The remainder of the LUI spend is to pay for the County Enterprise Plans and for soft enterprise support. The sums involved are small, and one can tolerate the inevitable loss of scale economies (such as when Limerick City Enterprise Board decides to develop its own video for primary schools to stimulate the “enterprise culture”).

Overall, the LUI sub-programme has clearly made a substantial immediate impact on economic activity and local business co-operation across the country. It has had a useful catalytic effect in promoting management training. But the logic of the major financial innovation is weak, and a continuation of this kind of intervention in the longer term seems hard to justify. The criteria for grant-aid needs to be narrowed, to avoid increasing deadweight and unjustifiable discrimination. Furthermore, the institutions delivering the sub-programme must evolve in line with the long-term goal of achieving a more effective democratic local administration.

A decision will have to be taken about the funding of the grants – Measure LUI.3. At the present rate of spending, these funds would run out before the end of the programme. We tentatively class this as a “corrective” type of measure, but there must be some doubt as to its effectiveness. The likely growth of deadweight, especially because of the lack of adequate criteria delimiting the scope of the grant-aid, mean that this measure should be refocussed, so that the remaining budget achieves the objectives of the sub-programme more effectively. This could

involve either restricting the grants to projects thought to have important local spin-offs, to projects promoted by members of target groups such as the unemployed or women, or (as an inducement) to projects where the promoters participate in an approved management development course along the lines of those funded under LU1.4.

Sub-programme LU2 supports disadvantaged areas. The 38 areas defined as disadvantaged in that they are covered by a Partnership company funded under LU2 now account for more than half of the country (by population). Here again funding amounts to about £0.5 million per Partnership. A further 33 Community groups and 15 selected organisations are also being funded, though on a smaller scale.

Despite the broad geographical coverage of the Partnerships, it must be acknowledged that this sub-programme is targeted at the disadvantaged and should be evaluated as a sheltered support programme, rather than an intervention in the open market. Therefore, activities similar to those which might be questioned if operated as an open local initiative by a CEB, can be endorsed to the extent that they are being directed at a group which is caught in a trap of disadvantage.

There are two measures in the sub-Programme, corresponding to elements that are funded by the ESF and ERDF respectively. Each is further sub-divided, and of the six sub-measures two, namely Enterprise Creation and Development, and Community Development account for about half the spending so far. The former is mainly a grant mechanism for job creation in micro-enterprises; there is little information about the nature of the actions taken under the latter or their success.

The MTE have noted the lack of quantified outcomes. It appears that we do not even know what proportion of beneficiaries of assistance under the sub-programme had been unemployed. The key to the effectiveness of this type of initiative is that it should remain targeted at disadvantaged groups. As soon as it begins to leak substantially into the general market economy, it becomes dysfunctional.

Because of the lengthy start-up period that has been involved in this sub-programme, with Partnerships having to present detailed local development plans, spending is in the early stages. There is no basis either in theory or in practice for making a significant revision in the allocations to this sub-programme. The major concerns relate to institutional arrangements for a continuation of sheltered initiatives to disadvantaged areas after the end of the century, and the question of integration with the evolving local authority system.

Sub-programme LU3 is for urban and village renewal. More than half of the funding here is going to the Temple Bar area in Dublin (LU3.5) and to five "flagship" projects in the largest cities (LU3.1). These can be seen as provision of public infrastructure.

The Temple Bar spending is the continuation of a much wider scheme supported by tax concessions as well as grants. Through these, public authorities have paid for a very high fraction of the development, public and private, in the Temple Bar area. As such, the development has been extremely expensive and does not represent a model that could be generalised.

The five "flagship" projects are also in areas benefiting from some urban area tax reliefs. The spending supported by LU3.1 is for integrated plans which were submitted by the relevant local authorities. The spending is in the early stages and outcomes cannot yet be substantially evaluated.

The remainder of the sub-programme is funding for local authorities to pay for urban and village renewal and conservation.<sup>35</sup> In order to obtain this funding – which averages out at about £150,000 per county per annum – local authorities had to submit action plans. This attempt to leverage a systematic collaborative local planning initiative was partly successful in that some local authorities mobilised considerable local interest and involvement, though others complied with the action plan requirement only in a minimal way. In the event, the size of grant provided was perfectly correlated with the county population rankings – so extra planning effort yielded no cash benefits. The sums involved are individually rather small. They have been spent chiefly on paving, street furniture, putting services underground, and the like. While some benefit may have been gained by the excitement generated by this first wave, such a paternalistic approach to the provision of funding for what should be the normal responsibility of local authorities sits uneasily with the government's commitment to increased local democratic control. These measures should be terminated as soon as adequate funding arrangements for local authorities generally have been accomplished.

### **2.3.10 Regional Impact**

Sub-regional issues are not directly addressed in the CSF, but a mid-term evaluation report has nevertheless been prepared. It presents a useful overview of the development issues and priorities in each of the regions. No purpose would be served by attempting to repeat the summary of this material provided.

At the broad macro level, although it is evident that all areas have benefited from the economic upturn, the MTE focuses on a number of indicators which suggest that the Midlands, Mid-East and Mid-West may have done disproportionately well, with the South-East coming just after these. Comparing the relative performance of different regions with their base-year status suggest

<sup>35</sup>FEOGA funding supports the village renewal measure LU3.3. These measures are fully discussed in the MTE.



neither a convergence of performance nor a systematic tendency for the more prosperous to pull further ahead.

Looking in more detail, the MTE takes the regional pattern of spending in four OPs (AG, ID, LU, HR) and compares them with key overall sectoral performance indicators available by region. The same is done for the overall CSF spend, compared with the MTE's regional performance ranking. Curiously, the MTE does not compute correlation coefficients. We computed rank correlation coefficients for the six comparisons made in the MTE. Though positive as expected, these prove to be all insignificant at the conventional 5 per cent confidence level. This justifies the cautious tone of the MTE at this point. (The closest to significance is for ID, correlated with employment growth in agency assisted firms, with a rank correlation of 0.62, well below the 0.71 required for significance. The problem of reverse causality arising from sample selection bias is, of course, relevant in this case.)<sup>36</sup>

The ongoing regional review of CSF implementation does not appear to be working well, and the MTE recommendations seem sensible, though implementation will need to take account of wider changes in local administration in line with Government policy.

### **2.3.11 Human Resource Spending Across the CSF: Priorities and Impact**

This sub-section reflects on the major issues in Human Resource spending across the CSF.<sup>37</sup> The broad issues involved and the fact (already noted in Section 1.3 above) that human resource spending spreads across six different OPs means that the commentary already provided in Section 2.3.8 on the HR OP cannot suffice. About 19 per cent of Human Resource SF spending is in five other OPs (cf. Table 1.3.1). Much is working well in these initiatives. The question of strategic direction in Human Resource policy does arise however, especially considering the relatively disappointing performance on the long-term unemployment front. The discussion is under five headings. The urgency of strengthening the efforts (a) to reduce the entry into long-term unemployment, and (b) to improve the prospects of escape are evident. This perspective, together with the rapid output and employment growth, prompts (c) a reconsideration of the role of other forms of public subsidy for training. Finally we briefly address the questions of (d) delivery and (e) comparability across OPs.

<sup>36</sup>The other correlations are 0.024 for ID with corporate R&D spending; 0.465 for TO with tourism revenue; 0.347 and 0.342 for HR and LU respectively with change in long-term unemployment and 0.012 for the overall CSF.

<sup>37</sup>The Department of Enterprise and Employment is the National Authority for the ESF.

*Prevention of Long-term Unemployment*

The labour market opportunities of those with very low or no educational qualifications do not improve much when wider labour market conditions strengthen. It has long been established that such individuals are disadvantaged in the labour market (Sexton and O'Connell, 1996, Chapter 3), and there is evidence to suggest that the situation facing this group is worsening. The demand for unskilled labour appears to be falling throughout the developed world. This may be because of the increasingly technological nature of work or because of the availability of cheap unskilled labour in the undeveloped world. Whatever the reason, the worldwide situation facing the unskilled is bad and getting worse (Katz, 1994) – recent indications of real increases in unskilled wages at home notwithstanding.

Given the situation facing the low- and non-skilled and the improved situation facing others in the labour market, there now exists an opportunity and a need to focus measures on the most disadvantaged. In this we go further than the HR MTE which states that, in terms of their breakdown between "competitiveness" and "equity", both objectives "remain as relevant as ever" (p. 232). In our view, the interventions classified as "equity" have become more relevant than the "competitiveness" objective, at least in terms of how human resource spending under the CSF is allocated. There should therefore be no difficulty in increasing allocations to such measures focused on the disadvantaged which seem to require additional funding to be effective.

*Prevention of early school leaving:* The chief of these are the preventative measures of initial education. Clearly, the elimination of labour market disadvantage at the earliest possible point in an individual's life yields the greatest pay-off in terms of number of years of active labour market participation. However, we should warn that the elimination of disadvantage may be a costly exercise. Consider the following from the OECD which comes from a commentary on the effectiveness of active labour market programmes:

*Youths* are the most difficult group to help. There are very few evaluated programmes in any area that appear to have been successful in increasing youth earnings/employment. It appears for this group very careful targeting is required. ... This suggests that relatively intensive and costly programmes may be needed for youths. (Fay, 1996).

If we are to seriously tackle the problem of disadvantaged youth, the application of a sizeable amount of additional resources will most likely be required. But as we have said, if the economy is tackling other human resource problems, then the opportunity exists to divert resources towards this end.

For these reasons, measures which are aimed at tackling the development of a pool of low-skilled people at the earliest point should be expanded. Measures which fall into this category and which warrant additional spending are Preventative Actions and Youthreach, both part of HR, and human resource measures of the Integrated Development of Designated Disadvantaged and Other Areas sub-programme of LU.

The most evident case for expansion is Youthreach HR1.2, in respect of which we share the MTE's views as to the desirability of increased throughput and of longer treatment. The National Economic and Social Forum (1996) recently advocated the provision of an additional 1,000 places, and the MTE also suggested a figure of this amount, with which we concur. Many participants on programmes such as Youthreach suffer levels of disadvantage which lead them to require intensive on-going attention. Completion of a one-year Youthreach course does not translate into effective labour market performance. Follow-up is needed, both in terms of a second year Youthreach and the possibility of transition to training more closely focused on market opportunities. There is solid evidence that limited duration participation in general training does not generate lasting employment achievement (O'Connell and McGinnity, 1997). It is wasteful of resources to apply them too sparingly here.

With respect to Preventative Actions HR1.1 (and also LU2.2), a range of schemes are currently operated by the Department of Education. These schemes are: Early-Start Pre-School; Provision for Disadvantaged Schools; the Home School Community Liaison Scheme; Remedial Education Services; Book Grant and Rental Scheme; Teacher Counsellor Posts; "Breaking the Cycle". In recommending additional funding in this area, we are relying on the general argument outlined on the importance of early intervention. As to the precise manner in which the funding should be allocated across the programmes mentioned and possibly others, the principle of maximising returns at the margin should be adhered to. For this reason, it is desirable that the relative effectiveness and needs of the various elements of the Preventative Actions measure be scientifically evaluated in detail so that the increased resources can be applied optimally. In the short-run, however, a pragmatic approach to the allocation of the additional resources will still yield substantial benefits. As recommended in the recent ESF Programme Evaluation Report on this topic, there is scope to draw the various programmes together in a more strategic manner.

The potential of the Training of Trainers measure (HR5.2) is important here too. As the identification of those at risk of early leaving is a crucial element in solving the problem of early school leaving, and as teachers are best positioned to do the identifying, it is important that teachers are equipped in this regard. According to the MTE, less attention has been given to this type of "social"

concern relative to identifying and remedying learning difficulties; we believe there is a potential value in giving greater attention to this area.

Provision of the necessary progression options both from Youthreach, and from certain basic schemes funded under HR3 is also crucial. The MTE have suggested introduction of a new progression measure to act as a bridge between the lower levels of training and Specific Skills Training. Again, this implies the application of additional resources in such a way that a much more intensive effort is brought to bear on the problem. Room should be found for this in the funding already assigned to the poorly targeted SST (see sub-section 2.3.8 above).

#### *Training for the Disadvantaged and the Long-term Unemployed*

There is scope for improving the focus of measures designed to improve the escape prospects of the long-term unemployed.

In discussing training and education programmes for the unemployed, one has to be mindful of the recent "bad press" which such programmes have received. The following quote from *The Economist* gives a flavour of what we mean:

In a growing body of research, economists have compared groups of unemployed people who enter government training schemes with similar groups who do not. In almost every case, these studies have found that the schemes have failed to improve either the earnings or the employment prospects of their clients. After surveying the results of various broadly based training programmes for unemployed adults, the training-friendly OECD was forced to conclude in 1994 that there is "remarkably meagre support for the hypothesis that such programmes are effective". (*The Economist*, April 6, 1996.)

The qualification "broadly-based" is, however, an important one. The OECD Review (1993) did suggest that training specifically targeted at the disadvantaged did yield more positive results. For Ireland, there is clear evidence that design of interventions matters. Recent research (O'Connell, 1996; O'Connell and McGinnity, 1997), found that the relative "success" of different FÁS and other schemes depended on how closely the scheme was related to its degree of orientation to the labour market. In particular, training for particular jobs (as opposed to foundation training) and subsidised employment programmes in private sector jobs (as opposed to jobs in the sheltered sector) improved the labour market prospects of participants.

Furthermore, although placement rates for less advantaged course participants will often be lower, yet the net social and private benefit of their participation in training courses is typically higher than for the more advantaged.

The lesson to be drawn from this is that FÁS programmes at the foundation level will only be of value if progression to the more successful market-oriented programmes is secured. In the same way that we emphasised the importance of progression from Youthreach, we also emphasise the need for progression through FÁS programmes. This again implies a more concentrated application of resources on individuals; spending below a threshold amount will help little, and leave FÁS open to the description of a "holding mechanism".

*Community Employment:* While, for some individuals, the more intensive application of resources will aid their integration into the labour market, it has to be admitted that this will not be the case for others. For this group, the provision of employment in a sheltered environment, such as through Community Employment (HR3.2), is an appropriate and important service. However, the current practice in Community Employment of providing a small training component appears wasteful. We have already made the point that the provision of minimal amounts of training to people with serious disadvantage appears to make little difference to their chances of re-integration into the labour market. For this reason, one of two strategies, or a combination of the two should be pursued. Either provide a greater amount of training whereby a significant contribution is made to chances of re-integration or view the Community Employment scheme as a form of sheltered employment for people with little chance of competing in the labour market. The combination of the two would mean the greater targeting of the sheltered employment option on the most disadvantaged and the provision of a real training option to those with a realistic chance of return to the labour market. We think that the existing arrangement renders the CE programme unclear in its objectives.

To an extent, in following the recommendations of the Task Force on Long-term Unemployment and creating two options within the Community Employment scheme, we believe that FÁS are implicitly recognising the logic of our argument in the previous paragraph. One option, the part-time integration option, is focused on "the integration of the long-term unemployed into the labour market" (Task Force on Long-term Unemployment, 1995); the other option, the part-time jobs option, is designed for those who "because of their detachment from the labour force and their age are less likely to get jobs in the open labour market in the short-term" (ibid). The target breakdown between the two options was 30,000 for the former and 10,000 for the latter, thus indicating that re-integration was still the primary goal. However, the Task Force on Long-term Unemployment estimated that 60 per cent of those on the live register are long-term unemployed with poor prospects of obtaining unassisted employment. We would argue that the direction which Community employment took in the creation of the two options should be pushed further by differentiating more sharply between the level of training

involved in the two options. Furthermore, balance of places between the two measures should be shifted to reflect more closely the needs of the long-term unemployed. Along with this, the expansion of the training element under the re-integration option would be advised. Given the current funding structure of Community Employment, we would assume the ESF would see itself as having more of a role in the expanded training component of the measure.

*MLT/HTBS.* The objective of this measure (HR1.4) is "to enhance industrial competitiveness and growth by providing initial third level education and training to meet the technical and higher level manpower needs of the economy". However in 1995, 53 per cent of participants went on to further education and training whereas only 39 per cent found employment (MTE, p. 77). These figures would seem to indicate that the measure is not actually meeting manpower needs but rather seems to be acting as a bridge to further education and training. Such a role may be of value but it should not be that the measure plays this role by default. There would appear to be a need to take a closer look at this measure to see more clearly what is being achieved.

*Industry training for the unemployed:* Mention has already been made of the fact of poor targeting in HR2.1, Industry Training for the Unemployed, and specifically that funding at present assigned to SST should be diverted away from those who already have either the financial or human capital resources (or both) to succeed; a group that is at present absorbing too much of the available resources. We have in mind here the result from an ESRI survey in 1996 which showed that 29 per cent of SST participants had education levels above Leaving Certificate. According to FÁS's own figures 68 per cent of participants in measure HR2.1 have Leaving Certificate or better. Reserving places for graduates of the CE could help here.

#### *Deadweight in Training in a Strong Market*

In terms of the distinction between spending focused on "competitiveness" and that directed towards "equity", the HR MTE noted a split of roughly two to one in total public spending in that OP. Table 2.3.2 extends this analysis to human resource spending in other Ops.

It can be seen from this table that the breakdown between "competitiveness" and "equity" spending is almost four-to-one in favour of the former. This is somewhat higher than the ratio in HR, and lifts the overall share of "competitiveness", though only by about 2 percentage points. Should there be an explicit target for the share of funds going to "equity"? We have already indicated the fragility of that distinction, and therefore accept neither the basis for the recommendations made by the MTE in regard to setting a new target for the share of "competitiveness" spending nor their quantitative conclusion. Better to examine

the focusing and design of individual measures and the degree to which they continue to meet a social purpose justifying the cost in terms of public funds.

Table 2.3.1 "Equity" and "Competitiveness" in Human Resource Spending (other OPs)

<i>Category</i>	<i>Measure</i>	<i>Total</i>
Equity		97
	ID5.2 Gaeltacht	16
	TO4.1 Unemployed	31
	LU2.2 Disadvantaged Areas	50
Competitiveness		364
	ID1.2; ID2.2; ID3.3; ID6.5	181
	AG1.7; AG2.3	81
	TO4.2; TO4.3	80
	FI.8	7
	LU1.4 Local Enterprise	15

As noted above conditions in the Irish labour market have improved significantly in recent years. The market is now dealing with some of the problems for which it was envisaged that CSF might be needed. Therefore it is now possible to divert resources in a more focused way to where the market is not reaching. In particular, the need for many of the targeted interventions, designed to encourage workers and employers to enhance human capital in order to improve employability and productivity is not so clear. The private benefits of such training activity is now so evident that the prompting of a targeted intervention is becoming far less necessary. This logic does not apply to those trapped in disadvantaged situations, but it does apply widely. The conclusion must be that measures that were designed for the long-term unemployed or the disadvantaged must be carefully focused, or refocused, on the target groups, and that public spending on general measures now surely involving considerable and increasing deadweight, should be wound down.

Consideration of a number of measures in HR and other OPs will illustrate the issue and motivate the refocusing and reallocations which we recommend.

*Training Support Scheme:* Under the TSS programme (HR4.1) grants are provided towards the training costs of companies. We can comment on this scheme with some confidence, given the evaluation carried out by O'Connell and Lyons (1995). Using information on participating firms from 1992 and comparing these firms with non-participants, it was possible to conclude that scheme generated additional training activity only in small firms (with less than 20 employees). In larger firms the only effect was to subsidise training that was happening anyway. The recommendation which arises from such a result is that TSS grants should be restricted to small firms and according to the MTE this altered approach has been adopted by FÁS. We would suggest that the focusing on very small firms be rigidly adhered to; if deadweight existed in the early 1990s when O'Connell and Lyons gathered their data, it would most certainly exist today.

*Training for industry:* The test of likely deadweight is also needed for a number of other measures. In looking at the ID human resource measures, we must ask of each measure what market failure is being corrected for. There is, of course, a long-established argument relating to the appropriability of the benefits of training that suggests that firms may under-provide training. But this conclusion may be fragile, and anyway begs the question of whether a sharing of costs between employers and workers would not internalise the externality.

Admittedly, smaller firms may face greater constraints in financing human resource investments and so if grants are going exclusively to small companies the measures may be justifiable.<sup>38</sup> It is, however, noteworthy that performance indicators for such measures as ID1.2(a) management development support apply to the individuals assisted and not to the firms. The MTE point out the difficulties that this creates in evaluating the measure, and others like it. In the absence of good information on the nature of the companies being grant-aided, and more importantly in the absence of a study along the lines of O'Connell and Lyons (1995), it is difficult to say whether the industry measures are correcting for market failure. In particular, it is likely that training support for the film and crafts industries (ID1.2f and g) is dominated by deadweight; these schemes should be privately funded. While the MTE appears to view the strong placement rates performance of the crafts measure as being evidence of a good measure, we take the placement rates to imply that the labour market is vibrant in this area and so people are quite likely to fund their own training.

With respect to training and employment grants under the Indigenous Industry and Inward Investment sub-programmes of ID, the MTE draws attention to the

<sup>38</sup>Fox (1994) still found evidence of continuing under-investment in in-company training for small firms.



shift towards employment grants and away from training grants which is occurring. While some view this as a cause of concern and worry about the under-provision of training that will arise, it may well be that firms seek grants in a manner that will be most convenient to them and that the notion that the training grants lead to more training is misplaced.

*Training for other productive sectors:* We have similar concerns regarding the financing of tourism training. Some argue that the booming economy has led to a skill shortages in tourism and that the CSF funds should therefore be used help fill these skill shortages. We consider there to be a significant flaw in this argument. Standard economic theory tells us that skill shortages should lead to wage increases and hence an increased incentive for people to train in that area, and for firms in the area to offer more training. The poor image that tourism has in the labour market, as reported in the MTE, has probably contributed to the skill shortages which that sector is experiencing. The MTE does also make reference to efforts by the tourism industry to improve that image; if these efforts are successful then there will be an increase in labour supplied to the industry and training, if required, can be funded privately, even if it is still provided by CERT. The provision of extra training by the government merely takes responsibility off employers (and employees) in this area. Again it can be argued that small firms in this sector may have some difficulty in financing training, though it is questionable that the associated market failure is big enough to warrant use of scarce public funds.

The human resource measures in AG should be analysed in similar terms. A number of innovative courses in rural development have been set up, but should there not be greater cost recovery, having regard to the opportunity cost of public funds? Incidentally, while progression to employment is high from these Teagasc courses, most of the participants were employed also at the outset of the course; besides, almost 60 per cent of them have Leaving Certificates or higher.

*Postgraduate courses:* There is a strong case for asking students to bear the costs of courses currently being funded under the ATS measure, HR1.6, a point also made by the MTE. It is generally believed that most of the returns to education at third level are private, i.e., the gains in terms of higher salaries accrue to the individuals. For this reason, the prospect of good employment opportunities will entice students to take courses even if they have to pay for them. While the MTE went half-way, by suggesting a means-tested approach to the funding of ATS, that would not take account of the other problem with this measure, namely that it introduces an artificial and generally unpersuasive degree of discrimination between different course types, thereby distorting the choice and provision of postgraduate courses in an unduly instrumental manner. The funding of post-

graduate education is, of course, a much wider issue, and one to which the ATS measure introduces what is, on balance, probably an undesirable distortion.

#### *Delivery*

If public financing for training (other than training for target groups) is being reduced, what does that mean for existing providers? Clearly, what we are looking for is primarily increased cost-recovery of existing courses which are successful in their own terms, and better focusing of public money on the target groups. Therefore, there need be no drastic reduction in the overall demand for training, and existing providers will be well-placed to retain a considerable market share. There will, however, also be a greater opportunity for alternative training providers to enter the market and provide healthy competition from existing providers who have been sheltered in a quasi-monopolistic situation to the extent that they have received the subsidies.

Of these delivery agencies, FÁS is the largest (though it must be recognised that it does not itself provide all of the training for which it is responsible). While OPs have their own delivery agencies concerned with aspects of human resource development, such as Forbairt, Teagasc, CERT and various local bodies, the activities of FÁS cross several OPs. Its activities in HR are set out in Table 2.3.2. In addition it is involved in:

ID1.2a	management development support (indigenous industry)
ID1.2f	film industry human resource development (indigenous industry)
ID2.2	training grants (inward investment)
ID6.5	human resources (food industry)
LU1.4	management development (local enterprise)
LU2.2	the human resource measure in the designated areas sub-programme.

Table 2.3.2 *FÁS Activities in HR*

<i>Measure</i>	<i>SF Spending £ million</i>	<i>% of ESF Spending in HR</i>
Apprenticeship	65	15.0
Ind. Training for Unemployed	137	31.6
Local Enterprise	22	5.0
Guidance, Placement. and Counselling	6	1.3
Community Employment	66	15.0
Re-Integration Training	39	8.9
Community Training	42	9.6
Training Support Scheme	37	8.6
Training Services to Industry	17	3.9
Infrastructure	8*	-
Training of Trainers	1	0.3
Promotion of Equal Opportunity	3	0.7
Total	434	100.0

\*ERDF

It would also be desirable to broaden the range of actual providers, in order to increase the competitiveness of the training market. Of course there are practical problems of control and quality assurance, and previous experience of this type have not been uniformly successful. However, some new pilot experiments should be tried.

#### *Ensuring Comparable Value for Money Across OPs*

In considering the human resource measures across the CSF, a comparison of the impact and effectiveness of measures would have been enormously useful in the pursuit of (a) the optimal allocation of funds and (b) best practice. However, the information that is available does not allow for such a comparison. The closest we come to such an exercise is the comparison of CERT and FÁS contained in the MTE of TO. While it would be unwise to draw too much from the comparison presented, we can at least derive some questions based on what is there. According to this comparison (Table 8.7, p. 94) full-time placement is 85 per cent for CERT

and 56.7 per cent for FÁS. Whereas only 44 per cent of CERT clients have a Leaving Certificate, the corresponding number for FÁS is 60 per cent. Clearly this rough comparison raises a question about the relative effectiveness of CERT and FÁS and one that could be usefully explored. On the other hand, it is fair to say that CERT is operating in a particularly buoyant sector.

## *2.4 Design of Interventions*

### **2.4.1 Designing for Impact**

The measures contained in the various Operational Programmes of the Community Support Framework consist in the main of assistance with the expansion of the stock of physical and human capital. There are also some measures which are concerned more with income maintenance.

All of these measures are being pursued in the context of the pre-existing framework of national policy. The interventions of the CSF are not the only interventions going on, and they may not always be consistent with other policy actions. For example, the CSF may involve the expenditure of funds designed to remedy problems which would not arise if policy, ongoing in the particular sector, were better designed.

The question raised here can be stated in very simple terms: is the remainder of existing policy, including national policy and elements of EU policy in certain cases, to be treated entirely as a given, fixed input when CSF measures are designed? If the answer is always yes, there is a risk that CSF funds can be dissipated in pursuit of objects which could more cheaply and efficaciously be achieved through modifications in (non-CSF) policy.

#### *Investment with False Prices*

The most important single area where this risk arises is in the appraisal of investments, where the market in question is characterised by false prices.

It is well understood that investment appraisal cannot be usefully undertaken unless the prices of inputs and outputs in the markets in question truly reflect the full social costs of the factors and products involved. The compartmentalisation of decision-making within the CSF, within its component Operational Programmes, and within disparate elements of the same Operational Programme, have resulted in this principle being overlooked. This is best illustrated by example, and we choose just one of a number of possible current items.

#### **Example: Urban Transport**

Unless it can be assumed that urban transport users are faced with the full social costs of their activities, it may not be optimal to build capacity to meet demand. The external social costs of urban trip-making include congestion, atmospheric pollution and noise. If the cost of trips by the various modes does not

reflect these costs fully, the apparent level of demand for trip-making may be spurious, and a misleading guide to the volume and to the composition of the infrastructure investment which should take place. This problem is well understood, and is addressed in the reports of the Dublin Transportation Initiative. However the transport measures of the CSF are largely in the area of infrastructure provision.

There is a risk that too little attention has been paid to price measures. Indeed, some tax incentives have implicitly – and inadvertently – subsidised urban car usage by promoting provision of off-street car parks. The urban transport pricing problem is evident throughout the EU, and solutions to it are difficult and complex.

#### Remedies for Mispricing

The first-best solution to problems of this kind is to adjust the prices in question in such a way as to fully reflect social cost. The levels of demand, and of demand forecasts, would then become a reliable guide to the level of infrastructure provision which was appropriate.

However policy changes in the desired direction may be difficult and unlikely to emerge in the short-term. The reasons may be political or may also include technological factors, as with urban transport pricing.

If a more rational price policy is not in immediate prospect, a dilemma is created for the CSF. It is not sensible to create capacity to meet a level of prospective demand which exceeds the social optimum. But that level of demand is in fact likely to emerge, at least for some considerable time to come.

#### *Ineffective Interventions*

The stated objectives of the Community Support Framework are discussed elsewhere in this Review. One of the issues considered at length in the MTEs of the various OPs, as reviewed in Section 2.3 above, is the effectiveness of specific interventions. As indicated, some interventions have been adjudged to lack effectiveness, within the terms of the relevant OP, in achieving the intended impact.

At the level of the CSF, an important issue is the class of cases where ineffective interventions in one OP should be viewed as alternative to potentially more effective interventions elsewhere in the CSF, through augmentation of existing measures in other Programmes, or through the introduction of new measures in other Programmes.

This issue arises in particular where the objective being pursued is of a very general or global nature. The two examples we have chosen to illustrate the point are regional development and rural development, which are to some extent related.

### Regional Development:

There has been a considerable focus, in the contributions of the Regional Authorities and in the political debate generally, on the pattern of CSF expenditure across spatial areas. This concern is reflected in the preparation of a special report on this aspect, as part of the CSF Mid-term Evaluation, and also in the content of that report.

The expenditure of CSF funds in a particular region can of course be viewed as a tool of regional policy, and there is no doubt that the volume of funds expended in a particular region will have a specific and perhaps sizeable impact in that region. There will be a demand impact regardless of the effectiveness of the measures concerned. If these measures rate highly on effectiveness, they will also have a positive and ongoing impact on the supply side, through enhancing the productive capacity of the region concerned.

However, there can be an excessive focus on region-by-region calculations of CSF spending and on crude measures such as per capita spend. There are a number of reasons for this assertion.

Some facilities which are being funded under the CSF are of national importance, but are located in one, or only a few, regions. The main commercial seaports and the three State airports are examples. The traffic hinterlands of these facilities extend beyond the region in which they happen to be located.

The county of Kildare happens to contain several national primary roads which have been upgraded under this and the previous CSF. But these roads link the West and South to Dublin and the share of national road investment which has occurred in County Kildare cannot be viewed as delivering benefits to that county only, or indeed to the East Region only. To the extent that the regions suffer development handicaps relative to Dublin and Cork, for example, these handicaps derive from transport and communications costs which are lowered through investments outside the regions in question, as well as within those regions.

There is also the issue of policies outside the CSF framework. The electricity and telecoms investment programmes are, apart from a few minor items, not being co-funded under the CSF. This may also be a reasonable procedure, since the companies concerned can command adequate resources to fund their investment programmes, and there would have been deadweight risks had they been included. However these investment programmes are national in character, and are driven by standards of service delivery which are intended to be uniform nationally. They thus involve an element of cross-regional subsidisation. It seems clear that these programmes are designed to deliver, and do deliver, services in the more remote areas which help to offset regional imbalances.

There have also been some specific policy departures during the recent past, outside the CSF, which have a strong regional policy flavour. Examples include

the regional air services subsidy scheme, and the announcement of a resumption of differential capital grant payments by IDA Ireland. Under the last-mentioned proposal, industrial projects outside the major cities will be eligible for higher grant rates.

Consideration of the regional impact of CSF measures needs to pay due attention to these factors. The reduction of the development handicaps which are faced by, for example, the West region, may be addressed by CSF investments in roads in the Midlands, or by non-CSF investments in telecoms or the energy sector.

#### Rural Development:

It has long been an explicit objective of Irish Government policy to support the retention of population in rural areas. The sharp declines which have occurred in the demand for labour in farming, a Europe-wide phenomenon, have made this difficult, and a variety of measures within the CSF are aimed at supporting the rural community. These are considered in the mid-term evaluations of the Operational Programmes concerned, particular AG and LU. These kinds of measures will become more relevant to the extent that the CAP is increasingly re-nationalised in the years ahead.

But a concentration on the relative allocations of funds within the existing CSF measures does not serve to illuminate the full range of options open at CSF level in this case.

We comment elsewhere on the extent of straight income support, through headage payments, in the range of measures being deployed in support of rural living. These measures can be presumed to support rural consumption levels and lifestyles rather than rural development.

There are however deficiencies in rural infrastructures in areas which are not addressed at all, or only incidentally, by the CSF. These include road transport where the minor road network is acknowledged to be in generally poor condition. There is a measure for sub-national roads, but most of the funds, quite reasonably, are being concentrated on the more heavily trafficked non-national roads. The level of spend on the low-traffic rural network is not co-financed.

Another example is the rural electricity distribution network. The Irish Rural Electrification Programme took place between thirty and fifty years ago. Many rural areas are still supplied by the systems as first installed. In many areas around the country, the distribution systems are now under strain through a combination of an ageing infrastructure and the sharp increase in demand in rural Ireland. The Electricity Supply Board has commenced a programme of renewal of these networks with only very limited modest EU or Government financial support. Rural network renewal must therefore compete with the other priorities in the

ESB's capital programme, including generation and transmission, and the profitable urban distribution business.

The telecoms business faces problems with many similarities to the electricity business. But its networks are newer, and it does not have the same burden of network renewal in rural Ireland. Rural network investment is not EU co-funded, nor (in the main) are postal service infrastructures.

A final area under this broad heading is broadcasting. Signal delivery in rural Ireland is a controversial topic, due to decisions about technology made by the Government in the 1980s. The CSF does not contain any funding measures in this area either.

Thus in pursuit of the maintenance of rural life, the CSF has chosen to fund the direct income support measures, where the bulk of the monies can be presumed to leak into current consumption; and the measures in LU and TO which are mainly aimed at the stimulation and support of job-creation and enterprise development.

But rural networks in transport communications and energy, are, in the main, not supported by CSF. The decision to exclude these areas was taken when the 1994-99 CSF was being formulated. Any decisions at this stage to reduce support for existing measures on effectiveness grounds should be accompanied by a re-consideration of policy toward rural network provision. This would involve the creation of new measures rather than a re-allocation of funds between existing measures.

#### **2.4.2 Undesirable Side-effects**

##### *Deadweight*

Some measures run the risk of subventing projects or programmes of investments which would take place in the same absence of the subvention. Some of these are mentioned specifically in the MTEs, and the evaluators were clearly conscious of this inframarginality problem.

In the case of certain proportional grant schemes to private sector operators, the buoyancy of the markets into which they are selling is in many cases markedly greater than when the various Operational Programmes were conceived. Other things being equal, this would indicate that these grants should be scaled back, through a lower intervention rate, or withdrawn altogether.

There is a different category of problem in the case of certain grants targeted at public authorities or State agencies. Some such schemes subvent the capital programmes of bodies which do not have a revenue base, such as road authorities. But others do, and the MTE of the Transport Operational Programme mentions the sea and air ports in this connection. To the extent that the commercial



performance of these bodies has been better than expected, their capacity to fund capital schemes may be better than was envisaged when the CSF was formulated. The investments might well occur anyway, in the absence of EU or Exchequer funding.

The availability of capital grants may discourage these bodies from the generation of current revenue, and hence of the capacity to fund their own capital programmes. A number of cultural/heritage organisations would appear to fall under this heading. It is notable that museums and galleries in Ireland do not make any admission charges.

Objections to so doing are regularly advanced, and include

- need to avoid the exclusion of the poor,
- need to encourage young people to participate,

and others along similar lines. However, cultural/heritage attractions in other EU member states have devised methods of dealing with this objection. School groups, and those with student cards, old age pensioner cards, or welfare recipient cards, are admitted free or at reduced rates. Some attractions are free to all comers one day per week (often Mondays).

The absence of any charges in Ireland results in a situation where scarce capital funds are in effect displacing an available revenue source, in the form of current charges to willing purchasers of a pure private good.

Existing Irish policy has the incidental, and undesirable, side-effect of eliminating an important source of information on the true level of demand for cultural/heritage products.

Another area where deadweight problems are a risk is in the more job and skill specific training programmes. Here, there is the additional factor of the sharp change in labour market conditions, and the gradual emergence of labour shortages in some sectors. This may well mean that employees are more willing to incur expenditure on this type of training now than they were expected to be when the CSF measures were being designed.

#### *Displacement*

A further problem concerns the displacement of productive capacity in existing operations due to the public subvention of new or expanded capacity in those selected for grant assistance. This problem is a potential risk in subventing private sector operators to provide leisure or conference centres, or expanded hotel accommodation in the hotel sector, for example. The risk of deadweight may also arise here, since buoyant markets and easier credit combine to increase the likelihood that these projects could proceed without support, or more realistically, with lower intervention rates.

There can be displacement across national frontiers. The port authorities in the Republic complained, during the last (1989-93) CSF, that Northern Ireland ports

had drawn traffic away from the South because the Northern ports had been granted aid to improve facilities and to enhance capacity.

The complaints under the current CSF have been in the reverse direction, as the Southern ports have begun to win back business from the North. The adjudication of the rights and wrongs of this matter is not our concern here – the point to be stressed is that a national perspective may not be enough in some cases.

This example illustrates a further complexity in regard to displacement. In order to encourage competition in certain industries, some margin of aggregate excess capacity is necessary, and CSF measures should take this into account, and not follow rules which constrained capacity to a zero margin over predicted demand. But if the margin over demand becomes too great, the promotion of competition can translate into the displacement of perfectly adequate capacity.

#### *Distortions and Externalities*

Certain measures can have unintended effects in Operational Programmes other than the one containing the particular measure, and can even give rise to demands for expenditure under other Programmes in order to offset negative side effects.

This can be illustrated by making reference (once again) to the scheme of headage payments for sheep in those areas of the country which qualify.

Increased sheep numbers have several side effects. There can be negative impacts on the quality of water supply, creating demands on the Environmental Services Programme. It has been alleged that the presence of these animals in certain parts of the country has interfered with the quality of angling waters, with deleterious consequences for tourism. It was noted in the TR MTE that the increased rates of rainfall run-off from mountain-sides create problems for old bridges, and shorten their useful lives. This increased rate of run-off is blamed on the increase in sheep numbers, and the consequent grazing away of vegetation which previously helped to retain moisture.

The extent of these problems – which are localised in certain parts of the country – is not our concern here. It is important however to observe that it is only at the level of the CSF Monitoring Committee that these cross Programme issues can be satisfactorily addressed. The sheep headage scheme is not the only example. Afforestation is alleged to impact on watercourses and on the visual amenity aspect of tourism. It also creates heavy vehicle traffic on minor road networks unable to cope with it. These are areas where the CSF Evaluation Unit could do useful work.

A similar problem arises with respect to finfish aquaculture. Persuasive scientific evidence associates the sharp decline in sea-trout numbers with this activity. The fear that the species would be extinguished has led to other CSF-funded expenditure on conservation measures designed to allow for the

preservation of the sea-trout species until the problem of lice has been eliminated. Here again one CSF expenditure has been needed to offset the adverse side-effects of another.

Ireland is party to EU policies regarding the adoption of national emission quotas for atmospheric pollutants. Once these national limits are being approached, additional projects which emit the pollutants in question must be constrained in some fashion. Whatever method is employed, the implication is that a penalty, in the form of some shadow price, must now be attached to the projects in question. These shadow prices could be significant, and could materially affect the economics of a project. This issue is likely to become a serious matter in areas such as heavy industry or power generation, and is one concern regarding the European project, discussed elsewhere in this report.

## ***2.5 Restructuring Spending***

### **2.5.1 Assessing the Potential for Reallocation of Funds – Methodological Approach**

It is one thing to make recommendations to improve the design of schemes and delivery of schemes with a view to improving efficiency and reducing side-effects. Much more controversial is any attempt to rank schemes with a view to scaling some down and enlarging others. Indeed, there are rather few recommendations in the individual MTEs that call for a reduction in the allocation to a measure that would otherwise reach its spending target, and it is fair to say that none comes out with a categorical recommendation to surrender funds from the OP they are evaluating.

From the perspective of the mid-term evaluation of the CSF as a whole, it is evident that the spending boundaries represented by the individual OPs should be irrelevant. Funds transferred out of one measure or sub-measure should be treated as available for the best alternative use in any OP of the framework. Any suggestion that these funds are owned by the OP should be rejected as implying an artificial constraint which would amount to a waste of EU and national public funds.

Broadly speaking, funds should be transferred out of a measure if the need for such a measure has diminished, or if the measure is proving to be ineffective (against the criteria we have discussed above). Technical difficulties with spending money on a particular measure within the allowed time frame would also be a reason for shifting funds away. Shifting funds into measures is also possible, especially for measures where the funding has proved inadequate or where the needs have increased, provided that an effective and expandable measure is in place. Practicalities will militate against the advisability of embarking on wholly

new measures at this stage, though sub-section 2.5.5 will discuss the longer term perspective.

Continuity of policy is desirable. Having a mid-term review should not entail unnecessary chopping-and-changing. Commitments need to be respected. Some of what we recommend can only be accomplished over a time-scale that extends beyond the end of this CSF. That should not be an argument against making a start now, and taking measured steps that will accomplish the restructuring goals in due course.

In judging measures that seem ineffective, we are on much firmer ground if the comparison is between measures of the same general type. For this reason, the methodology which we adopt has two stages. First, for each of the four measure types we select one or two anchor measures against which other measures of this type are compared. Second, we compare the selected anchor measures across measure types.

The six anchor measures chosen are large-scale, long-established and well-understood elements of the Irish policy portfolio. In some cases they represent the model on which other measures – for example sectorally specialised measures – have been based. In such cases it is both essential and conceptually more straightforward to ask whether spending on the derived measure is going too far, or not far enough. In other cases, the comparison is not as straightforward, but is nevertheless instructive. Ideally, the comparison would be formal and quantified; absence of sufficient data means that it must remain informal and qualitative for the present.

For *public goods*, we choose as anchor the main National Primary Road measure TR1.1; for *corrective* subsidies the anchor is the Capacity Expansion measure ID1.3; the anchor for *targeted* measures is the Industry R&D Initiative ID3.1; and for primarily *redistributional* action, we have chosen the Community Employment scheme HR3.2.

Thus the task of evaluating each measure is reduced to comparing it with the most comparable anchor measure or measures. For example, the Port Facilities & Infrastructure measure FI.5 is compared with National Primary Roads; the Special Interest Holiday Facilities grant scheme TO2.4 with Capacity Expansion grants; Management Development LU1.4 with the Industry R&D Initiative and the Peat Generation measure EI1.1 with Community Employment.<sup>39</sup> The comparisons are not simple, but they are at least conceivable.

In this exercise we have to skirt around a trap which, if one falls into it, would prevent one from making any recommendations that cut across different OP. The

<sup>39</sup>Ideally, the comparison is made by reference to the measure as improved by the various recommendations made by the individual MTEs and in this report.

trap is that of relying too heavily on compliance with the specific OP-level goals as a basis for justifying expenditure. It is true that each OP does have its own specific sectoral goals. But these are not absolute and do not supersede the overall objectives of the CSF. Those objectives are aimed at the economic welfare of people, not of sectors.

In order to summarise our findings from this approach to assessment, we present first a broad description of the major issues that arise. Then we go into more detail in sub-section 2.5.3.

## 2.5.2 Relative Effectiveness of Different Measures

### *Public Goods*

Among the public good-type programmes, there are several which appear severely underfunded, and a few whose credentials as public goods are too limited to warrant the volume allocated to them.

The road programme – even that part of it which is funded within the CSF – now appears inadequate in the light of the substantial increase in traffic flows above the envisaged trend. Furthermore, the original costings were too low, and the intended quantum of roads cannot be delivered within the original budget. Therefore, although the MTE's suggestions for lowering the cost by refining the design standards are well taken, there is a clear and strong case for a substantial increase in public funding for roads.

Another type of public good where more funding is needed is in the Initial Education Preventative Action measure: here the original budget was inadequate in light of the scale of the problem and the per-person cost of providing the needed services.

On the other hand, the TR MTE has pointed to the fact that allocations of funding can be reduced to some port and airport public works: the needed works will be forthcoming at lower levels of subvention. Further, the appropriateness of treating as public goods, requiring public funding, such spending as Forbairt's technology services, and several of the services provided by ABT continue to be questioned. Could these costs not be recovered as private goods?

Finally, we note that, although funding for water provision and waste water in the Cohesion Fund is very high indeed, and despite further provision in EN, it appears that some smaller water provision schemes have been neglected with the result that sub-optimal private wells are being sunk. The list of smaller municipal water supply projects should be re-assessed for possible further allocations of funds where demand now exceeds capacity.

*Corrective Subsidies*

If correctly priced, corrective subsidies should be open-ended. Extra demand should be met, if necessary from Exchequer funds. Conversely, under-demanded corrective subsidies should not be adjusted to ensure take-up: their budget should be cut.

The major instance of this is in the case of industrial expansion grants and employment grants. In this case, the funds earmarked for the food sector are not being taken up, whereas demand is outstripping budget for the non-food industrial sector. (As discussed earlier, we are treating these as a special type of corrective subsidy, where a sector has been earmarked for special treatment because of a perceived higher degree of responsiveness to the cost environment. The argument is stronger for inward investment than for indigenous, because of the diversion of effort into rent-seeking and the grant mentality that these subsidies can give rise to.) Accepting them as corrective subsidies, it is an essential corollary of our reasoning that the budget for the under-demanded primary food processor grants be adjusted downward, without any implication that the funds released should remain with the food sector: they should go to where they are most needed.

As elaborated below, a few other schemes of the general corrective type can be questioned as possibly mis-priced: either the distortion to which they are directed does not seem great, or is offset by a neglected distortion in the opposite direction.

*Targeted Action*

It is easy to be unduly swayed in favour of the interventions we have described as targeted subsidies. Almost invariably these achieve attractive results: newly trained workers, new high-tech production equipment etc. But do they pass the more stringent test of correcting a distortion sufficiently large to overcome the excess cost of public funds?

A downward revision of the allocation for a targeted subsidy is being proposed below where we have come to doubt whether the underlying distortion to be corrected is actually present. This is especially relevant to subsidies for actions that should be privately profitable, and where the subsidy is designed to overcome an information barrier. Paradoxically, an excess demand for such grants is *prima facie* evidence that the assumptions underlying the intervention are wrong: possibly because the firms or individuals concerned were not at all unaware of the private profitability of the action and are simply taking the subsidy without significant change in their behaviour. The high deadweight involved argues for either suspension of such schemes or for reducing the grant rates. Note the sharp contrast between the appropriate action here and that for the open-ended corrective subsidy.

The argument that business needed assistance to overcome reluctance to undertake activities likely to be privately profitable had more persuasiveness when the CSF was drawn up than it has today after such a protracted period of strong

economic growth. This growth has been highly profitable for most firms and placed them in a strong financial position to undertake development and training activities, whether using their own or borrowed funds; though there will inevitably be specific exceptions.

#### *Redistribution Measures*

We have identified several substantial measures or sub-measures for which the major justification appears to be redistributive in character. Some of these are reasonably well-targeted at groups in need of income support and have positive side-effects (such as Community Employment, with its training component – albeit minimal, and the Control of Farm Pollution programme, which offsets a cost imposition on smaller farmers and gives some greater assurance that they do comply with anti-pollution regulations). Others, such as Headage Payments and the peat power project, are poorly targeted and have adverse side-effects.

None of these Type IV measures really owns up to being primarily for income redistribution. If it did, the need for analysis to determine by whom the benefit is received would become obvious. It is likely that this would reveal that these schemes have a rather arbitrary impact on personal or household income distribution, thereby contrasting with the anchor measure of Community Employment.

#### *Delivery Mechanisms*

Opening up several types of operation to competitive supply that are now provided by quasi-monopolies should also offer savings, as suggested in Section 2.1 above, though these may be modest and long in coming.

In many other countries, the sorts of service provided on a subsidised basis to business in Ireland by State Agencies (such as marketing from ABT, training from FÁS, technical advice from Forbairt) are provided by the commercial market. It is sometimes argued that the private sector in Ireland is too weak to fill the gap which would be left were the State to withdraw. However, the existence of subsidised State provision inhibits the development of a competitive market in these services through the capture of customers and the crowding out of the private sector in the market for specialised staff. Thus the position involves a circularity.

CSF funding underpins many of these subsidies. Breaking into this circle cannot be done overnight, but a start ought to be made during the life of this CSF.

#### *Underspends*

The need for additional funding for some areas identified will likely exceed the amounts that can, in practice, be freed from other measures between now and the end of the century. If so, there may have to be additional calls on the Exchequer. In these circumstances, it is essential to act promptly in transferring funding from measures that risk being underspent lest some of the total SF funding be lost at the

end of the programme. It will be clear that we regard underspending due to practical or administrative reasons as but one of many triggers for transferring funds at this mid-term review. But the issue of underspend must not be neglected.

### 2.5.3 Implications for Possible Reallocation of Resources

Following the methodology outlined in sub-section 2.5.1 and in order to flesh out and illustrate the broad conclusions arrived at in sub-section 2.5.2, this sub-section highlights interventions of each type which seem problematic in terms of application of the volume of public spending allocated to them. This discussion is necessarily rather tentative, given that we are relying in large part on the descriptions of different measures and their performance coming from the MTEs. Nevertheless we have been encouraged to provide as much detail as possible in order that our recommendations be as concrete and practical as possible. Though relying in large part on their factual descriptions, we do not always accept the MTE's recommendations, as their methodology is often not as broad-based as ours. For example, they take as given OP operating objectives which we have questioned. On the other hand, our recommendations are focused on the issue of reallocation: they do not otherwise purport to second-guess or reiterate the more detailed and comprehensive recommendations about measure design and implementation made by the evaluators of individual OPs. (Several small measures involving less than £10 million in SF are not included.)

The discussion here of each type of measure is ordered by the priority goal ostensibly being targeted by each measure. Evidently, with 166 distinct measures and sub-measures, it is not practicable to attempt a comprehensive welfare analysis. Instead, we have identified the measures against which a question mark has been placed either explicitly by the evaluators or implicitly by combining the evaluators' qualitative comments with the methodology presented here.

Table 2.5.1 provides a preliminary screening of the one hundred distinct measures. In each case the measure is rated according to the criteria specified in sub-section 2.2.2 above. A very simple three-way categorisation is provided and this is based mainly on the description of the measures and their performance in the MTEs and on the further discussion of this report where applicable. The scoring system is set out in the Box, together with the weighting which we use to arrive at a composite indicator for pre-screening. Evidently, this is no more than a very crude flag and its purpose is only to screen out measures that reach a threshold value of the indicator. The score should not be taken as providing a ranking of each measure. We actually used this device essentially as a preliminary screening device, and include it in our report primarily as an indication of the sort



*Preliminary screening of the measures - scoring system*

Sub-section 2.2.2 presented selected criteria for assessing the different types of intervention. These criteria were used along with a very simple scoring approach to provide preliminary ratings for one hundred measures shown in Table 2.5.1. This box presents the scoring method used. This is necessarily subjective, the weights having been chosen in such a way as to yield composite ratings that provide acceptable rankings for those measures with which the authors are most familiar. Reference should be made back to the more detailed listing of the criteria in sub-section 2.2.2.

		Score:	+1	0	-1	Weight
I	<i>Public Goods</i>					
(i)	Importance		very	a bit	not very	0.3
(ii)	Contribution		much	fair	poor	0.3
(iii)	Cost of delivery		good	not great	bad	0.1
(iv)	Truly requires public funding?		yes	maybe	no	0.2
(v)	Environmental side-effects?		favourable	none	adverse	0.1
II	<i>Corrective</i>					
(i)	Correct relative prices?		not enough	just right	too generous	0.4
(ii)	Policy-induced externality?		no		yes	0.2
(iii)	Budget?		insufficient	OK	excessive	0.4
III	<i>Targeted</i>					
(i)	Importance		very	a bit	not very	0.2
(ii)	Genuine distortion?		yes	maybe	no	0.3
(iii)	Behaviour as intended?		yes	don't know	no	0.2
(iv)	Cost of delivery		good	not great	bad	0.1
(v)	Deadweight?		little		much	0.1
(vi)	Side-effects?		favourable	none	adverse	0.1
IV	<i>Redistribution</i>					
(i)	Targeting, amount?		well	adequate	arbitrary	0.4
(ii)	Training etc., side-effects?		favourable	none	adverse	0.2
(iii)	Environmental side-effects?		favourable	none	adverse	0.2
(iv)	Deadweight?		little		much	0.2

The purpose of the scoring is to provide a preliminary screening, not a ranking. Thus some ambiguities, as when a measure contains sub-measures of different types, can be tolerated.

For Type II, 0.5 is added to the average, for comparability with the others (otherwise, for example, a satisfactory "just right-no-OK" assessment would score only 0.2). A cut-off of 0.5 for the weighted average flags some two dozen measures deserving of further scrutiny as discussed in the text.



Table 2.5.1: *Screening of measures (continued)*

		Structural	Composite	Rating according						
		Funds	Type	rating	to criteria					
		IREM			i	ii	iii	iv	v	vi
<b>FI</b>	<b>Fisheries</b>	<b>63</b>								
FI .1	Adjustment of Fishing Effort	5	IV	0.0	?	0	0	0	0	0
FI .2	Renewal and Modernisation of the Fishing Fleet	9	IV	0.2	?	0	0	1	0	
FI .3	Aquaculture	11	II	0.1	?	-1	0	0		
FI .4	Enclosed Seawater Areas	0	I							
FI .5	Port Facilities & Infrastructure	14	I	0.6	1	0	1	1	0	
FI .6	Processing	10	II	0.9	1	0	0			
FI .7	Marketing of Produce/Promotion	2	I							
FI .8	Training	5	III c							
FI .9	Research	6	III c							
FI .10	TA	1	I							
<b>TO</b>	<b>Tourism</b>	<b>369</b>								
<b>TO1</b>	<b>National/Cultural Tourism</b>	<b>94</b>								
TO1 .1	National/Regional Cultural Activities	54	I	0.7	0	1	1	1	1	
TO1 .2	National Monuments & Historic Properties	20	I	1.0	1	1	1	1	1	
TO1 .3	Natural Environment	20	I	1.0	1	1	1	1	1	
<b>TO2</b>	<b>Product Development</b>	<b>139</b>								
TO2 .1	Large Projects	55	I	0.7	1	1	1	0	0	
TO2 .2	Tourist Information and Heritage	34	I	0.6	0	1	1	1	0	
TO2 .3	Tourism Angling	13	I	0.6	1	0	1	1	0	
TO2 .4	Special Interest Holiday Facilities	23	II	0.3	?	-1	1	0		
TO2 .5	Specialist Accommodation	12	II	0.3	?	-1	1	0		
<b>TO3</b>	<b>Marketing</b>	<b>51</b>	<b>I</b>	<b>0.8</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	
<b>TO4</b>	<b>Training</b>	<b>82</b>								
TO4 .1	Unemployed	23	III d	0.7	1	1	1	0	0	0
TO4 .2	Initial Training	47	I	0.6	1	1	0	0	0	
TO4 .3	Continuing Training	12	III c	0.3	?	1	0	1	0	-1
<b>TO5</b>	<b>Technical Assistance</b>	<b>3</b>	<b>I</b>							
<b>TR</b>	<b>Transport</b>	<b>718</b>								
<b>TR1</b>	<b>Supporting National Economic Development</b>	<b>451</b>								
TR1 .1	National Primary Roads - Major Improvements	213	I	0.8	1	1	0	1	0	
TR1 .2	National Primary Roads - Integrated Network Improvement	89	I	0.9	1	1	1	1	0	
TR1 .3	National Secondary Roads	70	I	0.9	1	1	1	1	0	
TR1 .4	Mainline Rail	29	I	0.7	0	1	1	1	1	
TR1 .5	State Airports	19	I	-0.3	?	-1	0	0	0	0
TR1 .6	Commercial Seaports	28	I	0.3	?	0	1	1	0	-1
TR1 .7	Technical Assistance	3	I							
<b>TR2</b>	<b>Supporting Sub-Regional Economic Development</b>	<b>267</b>								
TR2 .1	Non-National Roads	112	I	0.9	1	1	1	1	0	
TR2 .2	DTI Public Transport	125	I	0.9	1	1	0	1	1	
TR2 .3	DTI Management	22	I	1.0	1	1	1	1	1	
TR2 .4	Regional Ports	8	I	0.0	?	0	0	0	0	0

Table 2.5.1: *Screening of measures (continued)*

		<i>Structural</i>	<i>Composite</i>	<i>Rating according</i>						
		<i>Funds</i>	<i>Type</i>	<i>rating</i>	<i>to criteria</i>					
		<i>IR£m</i>			<i>i</i>	<i>ii</i>	<i>iii</i>	<i>iv</i>	<i>v</i>	<i>vi</i>
EI	<b>Economic Infrastructure</b>	<b>87</b>								
EI1	<b>Energy</b>	<b>56</b>								
EI1 .1	Peat Generation	21	IV	-0.2	?	0	1	-1	-1	
EI1 .2	Energy Efficiency	16	III f	0.5		1	1	0	-1	0
EI1 .3	Renewables	15	II	0.1	?	-1	0	0		
EI1 .4	Cut-away Bogs	1	I							
EI1 .5	Rural Networks	2	IV							
EI2	<b>Communications</b>	<b>31</b>								
EI2 .1	Telecommunications	26	I	0.7		1	1	1	0	0
EI2 .2	Postal Services	5	I	0.9		1	1	1	1	0
EI3	TA	2	I							
EN	<b>Environmental Services</b>	<b>63</b>								
EN1	<b>Water Services</b>	<b>36</b>								
EN1 .1	Water Supply	10	I	0.8		1	1	1	0	1
EN1 .2	Waste Water Treatment	19	I	0.7		1	1	0	0	1
EN1 .3	Group Water Schemes	7	I	0.8		1	1	1	0	1
EN2	<b>Waste</b>	<b>19</b>								
EN2 .1	Hazardous Waste	5	I	0.0	?	1	0	-1	-1	0
EN2 .2	Municipal Waste	14	I	0.6		1	1	-1	0	1
EN3	<b>Coastal Protection</b>	<b>4</b>	<b>I</b>	<b>0.6</b>		<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>
EN4	<b>R&amp;D</b>	<b>2</b>								
EN4 .1	ESRM	2	I							
EN4 .2	CP	1	I							
EN5	TA	2	I							
HO	<b>Hospital Infrastructure</b>	<b>32</b>	<b>I</b>	<b>0.9</b>		<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>



of thinking underlying our selection of measures to question. The two dozen measures that fail to pass this screen are discussed below, together with a dozen candidates for expansion.

The expansion candidates fall into four groups:

- road infrastructure (where the case for expansion is quite clear from the MTE;
- expansion of industrial grants (because demand for these corrective subsidies is outstripping the budget);
- prevention measures in human resources, the decisive arguments for which are presented in 2.3.11 above;
- two large grant items for which individual OP Monitoring Committees have suggested very substantial increased allocations.

So far as the failing measures are concerned, even after having confined ourselves to these measures, the time available in the evaluation precluded a detailed measure-level analysis (that is not the purpose of this overall review, having already been carried out by the MTEs). Nevertheless, the information presented in the MTEs, combined with our methodology, does allow us to arrive at broad recommendations with regard to reallocations which we believe will stand up to scrutiny.

The identified measures are grouped according to their type, as assigned above, and by priority, as set out in the CSF. Ideally, one would be able to quantify the results obtained, but this is not realistic at the current state of development of indicators. The judgements are thus necessarily somewhat subjective, but should nevertheless prove persuasive.

The amounts of potential savings shown all refer to savings of SF only. Corresponding additional savings of co-financing would also be made.

### *1 Public Goods*

Under Productive Sectors and priority

Most of the measures slated for reduction here display rather weak public good characteristics. It is increasingly recognised that the services could indeed be provided on a cost recovery basis, and that the existing delivery agencies do not have unique capabilities in this area. There is really no contest when one considers the benefit to the competitiveness of industry of an additional £10 million in several of these measures and the same in improving the primary road system.

*ID3.2 (b) Industry/Third Level Co-operation Services (technology services)*<sup>40</sup>  
Deficit financing of a series of Forbairt's technology services in ID3.2(b) has been rightly questioned by the MTE. The public good nature of these services is mild. A much greater degree of cost recovery should be attainable. A progressively increasing target for cost recovery should be put in place, potentially saving up to £5 million in SF. This would also facilitate a more competitive provision of such services.

*ID4.1, ID4.2, ID4.3 Market Development*

The problem with the market development sub-programme is that much of it is not truly a public good. Much could be provided on a cost-recovery basis, thereby freeing-up public funds. Grants for international marketing expenditure are being provided despite the fact that most or all of the return will be private. The services provided under the sub-programme should also be provided in a more competitive environment, which would be enhanced by reducing the level of subsidy involved. The MTE provides some (admittedly limited) evidence that the existing provider may in some instances be charging more than private providers despite the existence of public funding. A full review of these operations is well beyond the scope of the present exercise, but the presumption should be of the possibility of a rapid move to a much greater level of cost recovery. In general, ABT's ability to provide a range of marketing services and supports to small business at home and abroad does not mean that it should receive a subsidy to provide them. Our methodological framework, combined with the factual material provided by the MTE, thus points to the desirability of scaling back the financial allocations here. A saving of £10 million in SF would not seem an unrealistic target. (ID4.3 is classified as Type II.)

*ID6.4 Marketing and Promotion (Food)*

This measure logically falls into the same general category as the previous item ID4. Although the provider is different (Bord Bia) and the specific comments about delivery that have been made by the MTE do not necessarily carry through, this is not enough to overcome the presumption in favour of close-to-full cost recovery in the medium term. Savings of £5 million in SF should be aimed for.

<sup>40</sup>Part of ID3.2 is classified as Type III, and this is the category into which the sub-programme has been placed in Table 2.2.1. However, the sub-measure under scrutiny here, namely ID3.2(b), is classified as Type I.

*Under Economic Infrastructure priority**TR1.1, TR1.2, TR1.3 National Roads (possible increase)*

Road traffic volumes are substantially ahead of what had been anticipated when the programme was drawn up: the outturn of 7 per cent annual growth compares with a projected 3 per cent. The volumes carried in 1996 were already equal to those anticipated for the year 2000; growth for 1997 and later years now seems likely to exceed 3 per cent by a further wide margin. The resultant pressure on capacity has been compounded by higher unit construction costs than had been envisaged. An increased allocation of £60 million in SF would contribute to bridging the gap that has emerged between volumes of traffic and network capacity. As has been recommended by the MTE, increased funding should be conditional on improvements in cost control and on economies in road design. (Note that the recommended increased allocation is *not* for road development within urban areas.)

*TR1.5, TR1.6, TR2.4 Ports & Airports*

We concur with the MTE's recommendation that the State Airports measure TR1.5 should be withdrawn in its entirety. The very rapid growth in traffic, as well as increasing pressure on airport facilities has also increased the financial resources of Aer Rianta, which has adequate resources to cover any needed works. In respect of seaports, and for analogous reasons, the MTE has recommended a reduced allocation. The MTE conclude that there is no persuasive evidence that there are widespread capacity deficiencies in the seaports. Moreover, improved volumes are enhancing the financial capacity of the ports to finance the needed investments. The MTE concluded that a reduced subvention rate would be adequate. In total, the MTE's suggestions here would release some £23 million in SF.

*Under Human Resources priority**HR1.1 Preventative Action (possible increase)*

The importance of success in reducing early school leaving has been discussed in sub-section 2.3.11 above. Despite the range of existing measures here, we recommend additional funding of about £5 million to be focused on the points of maximum return in this area. It would, as mentioned, be desirable to have more research done to help achieve this, and to help in the improved strategic focus of the various early school leaver programmes advocated by the recent ESF Programme Evaluation Report on this topic.

*HR3.1 Counselling, Guidance & Placement (possible increase)*

According to the OECD "one outcome of evaluation research is that job search assistance appears to provide satisfactory results on a consistent basis" (OECD, 1993). While such services may be limited by poor labour market



conditions, their potential has increased in the current strong labour market. One caveat here is that, given the recent establishment of the Local Employment Services there may be a case for directing available additional funding there under the LU. Anyway, the focus should clearly be the long-term unemployed. It will be important to ensure that best practice arrangements are put in place to ensure optimal use of increased SF resources, which could potentially be of the order £3 million as recommended by the HR MTE.

## *II Corrective Subsidies*

### *Under Productive Sectors priority*

#### *ID1.3, ID2 Capacity Expansion, Inward Investment (possible increase)*

See the discussion under ID6.1 below. An estimate of the SF sums required to meet demand for these corrective subsidies is £50 million and £30 million respectively.

#### *ID1.4 Venture Support and Traditional Industry Adjustment.*

In principle, this should be a high-scoring measure, potentially more efficient at the margin than the anchor measure of grants for foreign industry. The problem here is that, because of late start-ups and design difficulties, the measure as a whole is likely to be underspent. Actually there was no spending whatever under any of the three sub-measures to mid-1996. Although this overstates the problem, as there are projects in the works (and enough applications to ID1.4a to fill the budget, if they could be completed on time), the MTE feels that a significant underspend is likely, though this is disputed by Forbairt. If the MTE is right, it would not be unreasonable to envisage as much as £20 million in SF being transferred out of this measure, leaving more than three-fifths behind.

#### *ID4.3 Market Development*

See under I (Public Goods) above.

#### *ID6.1 Capital Investment Grants (Food-Primary)*

This is a corrective subsidy which, in line with the discussion above, we compare with the grants for inward investment. The scheme is clearly over-budgeted and funds must be transferred out of it. We concur with the MTE's suggestion that £36 million in public funds (£27 million in SF) needs to be transferred out. Judging from trends to date, a much larger transfer would seem possible without resulting in under-provision relative to demand. (There

is no presumption that these funds need to be reallocated within the same sub-programme or even the same OP.)<sup>41</sup>

An exactly symmetric argument implies that the budget for ID1.3, Capacity Expansion, ID2 Inward Investment, and F1.6 Fish Processing, should be expanded to allow funding of qualifying projects at the volumes that can now be anticipated.

### *F1.3 Aquaculture*

These are grants for expansion much like the anchor measure. The problem with them is not only that they lie outside the traditional ring-fence for preferential treatment (discussed above in Section 2.1), but also that the likely adverse environmental side-effects vitiate most of the grant schemes here. Although licensing offers some protection, the case for subsidies is weak. Because of side-effects, and comparing with IDA-type grants, it is unlikely that these grants are corrective – probably they distort in themselves. A saving of £5 million of SF would be attainable if decisive action is taken.

### *F1.6 Processing (possible increase)*

This corrective subsidy should be fully comparable to the corresponding ID subsidies. It is understood that the existing budget for this corrective subsidy will prove inadequate even applying standard Forbairt-type approaches; as such it should be expanded.

### *TO2.4; TO2.5 Special Tourism Grants*

Tourism has always been outside the traditional ring-fence (Section 2.1), and the question here is whether there is an externality involved at all. At this stage the success of the tourist industry means that positive externalities begin to be matched by negative ones (as has been documented by Deegan and Dineen, 1997, pp. 113-118). The MTE has raised several concerns about them.<sup>42</sup> Although the MTE has suggested some increase in allocation (albeit with modifications), and we acknowledge that the grant mechanism can help fashion the design of the facilities constructed, the logic of our position suggests rather that the underlying “corrective subsidy” rationale for these grants is increasingly doubtful. Rather than increasing the allocation, a sharp

<sup>41</sup>We note that a side-effect of this measure could be to reduce reliance on intervention, which is a goal of the CAP. As implied by sub-section 2.4.1 above this is a weak argument: are firms to be given subsidies in order to wean them off subsidies?

<sup>42</sup> Although the MTE did not find evidence of deadweight, it is likely that most of the private activities being funded by these grant schemes are privately profitable – the large demand for TO2.5 grants suggests considerable deadweight, despite the Department's best efforts through selective approval and strict qualifying criteria.

brake should be placed on the expansion of these grants. A saving up to £5 million of SF could be sought.

#### Under Economic Infrastructure priority

##### *E11.3 Renewables*

This is a marginal case. As noted by the MTE, one half of the funds here will go to a biogas project. Indications are that the environmental impact of this project may be favourable. Although, at 3.2p per kWh, the price envisaged is below the ceiling set by the Department, it is still a relatively expensive source of power at this stage. The urgency of the need for this diversification into biomass/biogas is unclear. Savings of up to £10 million in SF are available.

### *III Targeted interventions*

#### Under Productive Sectors priority

##### *ID1.2 Human Resources Capability Development*

There are two issues that point to a question mark over this measure. First is the question of deadweight in ID1.2a Management Development, and ID1.2b Management Development and Strategic Competencies. In both cases, grants are provided for activities that should yield substantial private returns. Unless such grants are carefully targeted on firms that fail to recognise the existence of these returns, and that require substantial grants to induce them to become involved, the likelihood is that deadweight will be close to 100 per cent. The first of these sub-measures funds recruitment of senior managers, provision of overseas experience and long-term management training programmes. There is a substantial overspend to date. The second pays for 50 per cent of the costs of a specific quality improvement consultancy WCM. In this case there is underspend. In neither case is evidence provided that the measure is successfully targeted on firms that require such a significant subsidy to overcome their lack of conviction as to the merits of management training; but that is precisely what is required to show that there is a distortion or information gap here. These schemes seem likely to fall well short of the anchor standard (R&D) in terms both of addressing a pre-existing distortion and limiting deadweight. We recommend that the rate of grant in ID1.2a be halved. This will probably release funds. In addition, funds should be transferred out of ID1.2b. Our recommendations here differ from that of the MTE who advocated provision of larger grants to larger companies (but still under 200 employees). We agree that the management needs of larger companies are greater, but believe that their ability to recognise management gaps is also greater.

The second issue is underspend in ID1.2d Training Support. It is not altogether clear why this is occurring. Forbairt state that it is because of their current policy. Anyway, firms seem to prefer employment grants to becoming involved in the bureaucracy of this scheme, though there is no automatic choice available to them. That does not necessarily mean that the firms will under-train, and may instead reflect problems with the design of this programme. Either way, there has to be the presumption that budget should be cut here.

The small training support sub-measures for the film and crafts industries (ID1.2f and g) also lack a clear market failure justification for use of public funds.<sup>43</sup> Note, in contrast, that there is also a corrective sub-measure ID1.2e which is under-provided for at present.

Overall, at a rough estimate, the potential savings of SF in this measure could be about £10 million.

### *ID3.1 Industry R&D Initiative (possible increase?)*

The acknowledged importance of science, technology and innovation in determining the quality of both economic and social development means that initiatives that support R&D will rightly tend to attract sympathetic attention. With the existing funding for the Industry R&D Initiative effectively exhausted there is a proposal to assign further funding. The demand for this scheme (which is one of our anchor measures) is sufficiently great for it to absorb a substantial increase, and this has been recommended by the ID Monitoring Committee. In our terms, such an increase would be more easily justified if the scheme could be classified as "corrective", e.g., on the grounds that the externalities captured in Ireland from this kind of R&D were substantial. This line of argument has some merit,<sup>44</sup> but it is probably preferable to think of this scheme as "targeted", specifically that it is intended to stimulate a self-sustaining R&D culture through the initial stimulus of the grant scheme. If so, the very success of the scheme in volume terms actually militates against reallocating large sums to it. Regardless of how good and important R&D may be, additional public spending on it can only be justified if it passes the same test as any other form of public spending: namely does it represent a better use of scarce resources than any others. For the reasons given, we are *not*

<sup>43</sup>It should be noted that Forbairt do not accept the above analysis, including the view that there is deadweight in Management Development, and that there is a trade-off between training support for employment grants in the indigenous sector.

<sup>44</sup>But extensive international research suggests that the benefits of R&D spill across countries. Small open developing economies receive the benefit of much external R&D as free-riders on the larger, more developed countries through trade and direct investment, cf. Coe, Helpman and Hoffmaister (1997).

convinced of the justification for allocating increased resources here, though it is a marginal case.

#### *TO4.3 Continuing Training*

We question the need for subsidising continuing training in such a booming sector as Tourism. The training is no doubt effective, and there is a demand for the skills involved. The delivery is also considered to be of high quality. But none of these considerations amount to a justification for the use of public funds. There is nothing here corresponding to the information gaps that credibly warrant the anchor measure (R&D grants).

#### Under Human Resources priority

##### *HR1.6 Advanced Technical Skills*

Though ATS is clearly working well in its own terms, it does not appear to meet the broader criteria we have discussed for public spending. It remains unclear that postgraduate training in technical skills requires a specific subsidy. The benefits are largely private and there is no evident information gap. That Ireland has traditionally exported postgraduate scholars with advanced technical skills raises doubts about any supposed information gaps that might be inhibiting students from enrolling in such courses. There is nothing here corresponding to the R&D gap in small industry. Besides, the whole principle of selecting courses that fill identified skill gaps may distort students' choice of subject away from their comparative advantage. The wider issue of support for postgraduate education and research in the Universities and RTCs is beyond the scope of the present report, but this scheme does not seem to have been a good way to go about it. Public funding for this scheme should be reduced (with corresponding adjustments in ID3.3a and ID3.4). To the extent that the Universities may have become partly dependent on this scheme (presuming that it has displaced Exchequer funding which should otherwise have been forthcoming), there may need to be at least partial substitution of alternative public funding for them.

##### *HR2.1 Industry Training for the Unemployed*

It is not that the need for such a measure is doubted, but the present scheme should be drastically restructured to focus public spending more on target groups less well able to cope with the open labour market. Too many beneficiaries are not facing any labour market barrier that they cannot deal with themselves without government funding. That over two-thirds of participants have Leaving Certificate or better, and one quarter were at work before entering the course points clearly in this direction. It has to be borne in mind that the focusing of this scheme has been the subject of previous recommendations, with disappointing results as we see. In order to ensure that

a decisive step in the right direction is taken (and considering that it will undoubtedly take some time to refocus the scheme in the desired direction), a continuation of the existing level of funding cannot be recommended. A net cutback of £10 million in SF should be insisted upon. This will still leave enough funds for substantial refocusing of this measure in order to provide progression from foundation level courses. (This implies that the gross sums involved in refocusing are considerably larger.)

*HR1.2 Early School Leavers (possible increase)*

Recalling again the discussion in sub-section 2.3.11 of the need to prevent long-term unemployment, it is evident that there should be an expansion in Youthreach HR1.2, in respect of which we share the MTE's views as to the desirability of increased throughput and of longer treatment. The National Economic and Social Forum (1996) recently advocated the provision of an additional 1,000 places, and the MTE also suggested a figure of this amount, with which we concur. It should be noted that there is a backlog of eligible young people to be cleared; in the longer run, the flow need will decline. A sum of £15 million of SF would not be too much to assign here.

#### IV *Redistribution*

##### Under Productive Sectors priority

*AG1.2 General Structural Improvement*

As explained above, a reading of the MTE reveals that sub-measures AG1.2a and b really function as redistributive supports – and not particularly well-focused ones at that. However, it appears that most of the funding may already be committed, thereby limiting the funds that could be stopped here.

*AG1.1d Control of Farm Pollution (possible increase?); AG1.4 Headage Payments*

Problems with the headage payments are discussed at several points in the text, including sub-sections 1.3.1, 2.3.2, 2.4.2, 3.3.4 and 4.1. Though they certainly support rural incomes, the efficiency of their targeting in income redistribution terms has not been conclusively demonstrated. Ultimately some alternative must be found to reduce the environmental degradation associated with these and other non-CSF income supports in rural areas. One idea is that a substantial block of the funds remaining in the measure could be assigned to enabling the reopening of the Control of Farm Pollution scheme AG1.1d, preferably even more targeted at the less well-off farm families, thereby recognising its true (though not ostensible) rationale as a redistributive

measure with favourable environmental side-effects.<sup>45,46</sup> It is recognised, however, that the idea of switching funds in this manner runs up against the Government's commitment in *Partnership 2000* to maintaining the level of spending on headage.<sup>47</sup>

#### *F1.1, F1.2 Fleet Adjustment*

These two measures, which were criticised by the MTE, exemplify the difficulty with FI, part of which derives from the CFP. The FI purports to be focused on the development of a productive sector, but – aquaculture aside – the resource is constrained (whether by quota or in the long-run by biology). Maximum efficiency of sea fisheries would be attained at very low levels of employment on board ship. The first of the two measures offers a sum of money to fishermen with old vessels, provided the vessels are destroyed. The second offers a sum of money for old vessels, provided the vessels are modernised. Neither project helps optimise efficiency of production, though each has some rationale in terms of injecting funds into the fishing community. The second measure has the merit of improving safety on board – this is a favourable side-effect; otherwise neither measure seems efficiently targeted. However, it is hard to believe that a better way cannot be found of easing the transition of some of those now active in the sector to land-based occupations. Attempts must be made to refocus spending within the constraints of the Common Fisheries Policy. If improvements are not made, substantial funds (up to £5 million in SF) should be transferred out of these schemes.

#### Under Economic Infrastructure priority

##### *E11 Peat Generation*

This project provides a small quantum of electrical power, and marginally improves security of supply and diversity of sources. However, it is uneconomic as a power supplier and this intervention must be seen as primarily designed as an income maintenance measure, considering the

<sup>45</sup>Though justifying it by favourable side-effects is perilously close to arguing for a subsidy to those abiding by the law.

<sup>46</sup>Allocation of additional funds to the Control of Farm Pollution could not be justified without withdrawing funds from headage.

<sup>47</sup>The Government have also initiated formal negotiations with the Commission on proposed amendments to the scheme for 1997 and 1998. These would exclude farmers over 66 years, place an annual ceiling of around £3,000 per farmer and introduce environmental conditions where participants are located in designated overgrazed areas or Special Areas of Conservation etc. These proposed changes move in the right direction.

associated employment at Bord na Mona providing the main fuel.<sup>48</sup> As explained in Section 3.2 below, the cost-benefit study prepared for the project (ostensibly showing a potential social gain from the employment created) used special assumptions regarding the alternative use of funds. In fact, applying the standard IDA/Forbairt methodology to this project would lead to its rejection. In addition, the generation of power in this way adds substantially to CO<sub>2</sub> produced.<sup>49</sup> If stricter CO<sub>2</sub> emission standards are adopted at EU-level, as is currently mooted, the cost of abatement elsewhere in Ireland (in order to preserve output from this plant) would be very high indeed – a multiple of the total subsidy now proposed for the construction. For all of these reasons, the project would be a high candidate for withdrawal of budget in the CSF, even were it not for the risk that it might not be completed in time to qualify for funds in this CSF, thereby threatening the overall transfer of funds to Ireland. Stopping the scheme should save all of the £21 million in SF.

#### 2.5.4 Reallocations

The above list provides some two dozen measures for which it seems desirable to begin now to try to reduce funding for the remainder of the programme, together with ten for which expansion seems appropriate. They are set out in tabular form below. The ordering is the standard one – it is not a ranking by quality. In addition, there are other borderline cases which our methodology suggests could have been added.

It should be stressed that this is not intended as a drastic exercise. In most cases there is no operational imperative for a sudden change. Indeed, in several cases we are looking more to positioning for the end of the Century. Reasonable continuity of policy is desirable and indeed the multi-annual time-frame offered by the CSF has contributed to improved conditions for programme planning. Some of the adjustments, such as the proposed cutbacks in E11.1 (Europeat), ID6.1 (Food Industry grants) and FI.3 (Aquaculture), and the increases in TR (Roads) and in HR1 (Prevention and Early School Leaving) are more pressing than others.

<sup>48</sup>This is implicitly acknowledged by those who use (in support of the project) facts such as the declining Bord na Mona employment in the area, and its designation as a severely disadvantaged area for LU. It may be remarked in this context that the proposed site is within commuting distance of Dublin and is close to an outer suburban area which has seen buoyant labour demand in the last few years.

<sup>49</sup>The fact that some other, less efficient, peat-fired power stations will be decommissioned in the years to come, thereby offsetting the increase in CO<sub>2</sub> emissions from the new station, is not relevant to evaluation of this project. Europeat will have higher emissions than available (and less costly) alternatives.



We are not close enough to the operational detail to judge how much may be feasible in terms of firm commitments that may already have been made and which would limit the scope for reallocations in practice. Our estimates are based on the statistical reports provided to us about spending to date and the MTEs.

So far as the expansion measures are concerned, note that our suggested increase in Control of Farm Pollution is strictly conditional on a quantitatively equivalent reduction in Compensatory Headage Payments, and as such would require a revision of Government policy. The case for an increase in allocation to the Industry R&D Initiative ID3.1 is considered in the text above, but rejected. Funds permitting, there may be scope for beginning on new initiatives, such as those discussed in Section 2.5.5 below under "Sunrise".

The question of amounts is a difficult one, which would need to be validated by experts at OP level. We indicate some quantification in the discussion of 2.5.3 above, guided partly by what was said in individual MTEs. If the maximum amount was saved in each instance, there would be a net saving overall, which could be treated as a contingency or applied to early action in the "sunrise" directions mentioned in sub-section 2.5.5 below. More likely, the maximum savings will prove difficult to attain.

Finally, it is appropriate to reiterate that most of the largest projects in rail and road, waste water and water supply, have been funded by the Cohesion Fund outside the CSF. Thus they are not being evaluated as part of this mid-term review, though they did fall within the ambit of the original 1993 National Plan, and (though funded project by project) for most purposes effectively represent a large additional OP. Most of the Cohesion Fund projects are quite similar to projects funded under the CSF. However, as they are outside our terms of reference we are inhibited from researching and offering parallel recommendations here which could improve the overall effectiveness of the spending. Nevertheless, the principles we have presented in regard to transportation and environmental spending do apply.

Table 2.5.2: *Restructuring Spending – Summary of Main Suggestions by Measure and Sub-measure*

<i>Possible Shrink (Type)</i>		<i>Possible Expand (Type)</i>	
ID1.2	Human Resources Capability Development (III)	ID1.3	Capacity Expansion (II)
ID1.4	Venture Support and Traditional Industry Adjustment (II)	ID2	Inward Investment (II)
ID3.2b	Industry/Third Level Co-operation Services – Technology Services (I)	AG1.1d	On Farm Investment – Control of Farm Pollution (IV) <i>NB Conditional on matching cut in AG1.4</i>
ID4.1, ID4.2, ID4.3	Market Development (I), (II)	FL6	Processing (II)
ID6.1	Capital Investment Grants (Food-Primary) (II)	TR1.1, TR1.2, TR1.3	National Roads (I)
ID6.4	Marketing and Promotion (Food) (I)	HR1.1	Preventative Action (I)
AG1.2a,b	General Structural Improvement – Installation Aid & Milk Quota (IV)	HR1.2	Early School Leavers (III)
AG1.4	Compensatory Headage Payments (IV)	HR3.1	Counselling, Guidance and Placement (I)
FL1., FL2	Fleet Adjustment (IV)		<i>See also: "Sunrise" in Section 2.5.5 below.</i>
FL3	Aquaculture (II)		
TO2.4, TO2.5	Special Tourism Grants (II)		
TO4.3	Continuing Training (III)		
TR1.5, TR1.6, TR2.4	Ports & Airports (I)		
EII.1	Peat Generation (IV)		
EII.3	Renewables (II)		
HR1.6	Advanced Technical Skills (III)		
HR2.1	Industry Training for the Unemployed (III)		

### 2.5.5 Sunrise and Sunset: New Areas Worth Considering and Others to be Phased-out

It is necessary to keep an eye on the longer term in this mid-term review. For one thing, abolishing established measures is not something that should be done lightly or precipitately. A degree of policy stability and consistency is desirable, and even where it is thought that a private sector supply will be forthcoming to substitute for the measure, that may take time and encounter unexpected difficulties. Accordingly, there will be many measures still in operation by the turn of the century which should be phased-out early in the new century. Some of these have already been identified in sub-section 2.5.3 above for cutback, such as under-priced business services provided by semi-state bodies, somewhat "scattershot" grants for tourism development and poorly designed subsidies to maintain rural incomes. In addition one may mention the following items.

#### *Sunset*

We have already identified the whole area of expansion and employment grants to the productive sectors as one whose policy justification is a fragile one, and which would be much less necessary if further tax reform were effected. There may also be increasing pressures from EU-wide policy on State Aids, making these kinds of intervention difficult to sustain in the long run. Accordingly, it would be worth examining the implications of a target of eliminating most of these grants by, say, 2005. (But, to the extent that EU-wide policy remains ineffective, a level-playing field with other parts of Europe will require retention of grants for internationally mobile investment.) Of the gaps for which these grants are sometimes held to be correcting, a shortage of risk or venture capital is often identified. However, Forbairt's experience to date of the greatly expanded venture capital programme is not uniformly encouraging. It is clear, if unsurprising, that entrepreneurs prefer grants to equity. Probably only a small fraction of industrial grants have really been making up for deficiencies in the supply of venture capital. There is, indeed, a certain risk that the preference share investments (already made at what are, effectively, subsidised rates) will be closed off on advantageous terms, thereby reconverting them *ex post* into grants. Arguably, Forbairt have not yet discovered the formula that will allow them to function effectively as an indigenous enterprise promotion agency without the extensive use of grants or quasi-grants. But if grants are to be phased-out, as was clearly envisaged by the Culliton Report and the Government's response to it, such a formula must be devised.

In the longer run too, such measures as the urban and village improvements measures (LU3.2 and LU3.3) should be replaced by better provision for local authority finances on a wider scale. The institutional structure of local

*Institutional reform for local government and development*

Given the plethora of measures and actions impinging on local development, integration is an important dimension in the framing and implementation of relevant and focused local development initiatives. New institutional arrangements for the better integration of local government and local development have been proposed in Department of the Environment (1996b). These include:

a more significant role for local councillors in the strategic management of their councils through the mechanisms of Strategic Policy Committees (SPC), which will include other local partnership interests, and whose chairs will form a Corporate Policy group designed to give increased focus to the policy role of councillors.

The appointment of a Director of Community and Enterprise Development in each local authority will help link local government and development institutions.

New Community and Enterprise Groups (CEGs), inclusive of members from local development bodies, will replace the CSGs, but will carry on the co-ordinating role of the latter.

A new system of funding based on the full yield for motor taxation.

Whether these initiatives will be enough is somewhat doubtful. They certainly appear to leave in place an excessive degree of institutional complexity. If a benefit of the "constructive disorder" of present arrangements was that one could learn from a variety of experiences what works and what does not, then this learning period should now be drawing to an end. Therefore (i) as the LU MTE recommended, the best-performing integrated strategies should be identified and promoted as "models" of best practice to be adopted more widely, in order that the learning process will have borne fruit and (ii) long-term institutional planning for local government and development should not become an interdepartmental football. The goal of the Taoiseach's Department in this matter should be to find a way of establishing the primacy in local development matters of appropriately reconstituted local government entities.

development initiatives will also need to be recast: despite its success, a repeat of the existing programme here would not be appropriate (see Box).

By the same token, there are new areas of initiative for which preliminary action should be taken now, even if there is insufficient time to get such measures up and running before the end of this round. Here are some suggestions.

*Sunrise*

In the effort to maintain the quality of rural life and the vigour of the rural economy, there needs to be a shift from thinly-camouflaged income maintenance subsidies, many of them with adverse side-effects, to a better-funded and coherent programme of upgrading rural networks – telecoms, electricity, television and roads. The advantages of this approach have been presented in Section 2.4 above (and are already reflected in the rather limited EI1.5 measure). Some of this could be brought into place quickly, inasmuch as it implies an acceleration of work which existing semi-state bodies are inclined to long-finger because of its low commercial priority.

There needs to be a more coherent and better-funded approach to urban transportation – in particular for Dublin – taking account of the need for pricing and management as well as construction of physical infrastructure. This will include (as is already envisaged) a third LUAS line, probably to Ballymun and possibly to the Airport. It would now be wholly unrealistic to envisage construction spending on the third line within this programme period, but it should be ready to go early in the new century. Additional funding to provide an adequate standard of construction of LUAS may also be necessary. Concrete and steel is not, however, the only, or even the most important element of urban transportation policy. Planning and research work on improved urban congestion pricing should go ahead now so that state-of-the-art technology is ready to be implemented as early as possible. This will likely include a need for electronic collection mechanisms (as well as mundane reforms to conventional taxation and tax reforms, including on those elements of tax policy that subsidise city-centre parking facilities).

It is essential that Ireland should not fall behind in the provision of broad-band telecommunications facilities, as has been recognised in several recent reports and in the provision of the basic infrastructure capacity necessary to support the development of the “Information Society”. The sums potentially involved are very large, and there are sound reasons to believe that they would not necessarily be forthcoming from the market. The comparatively modest allocation in the current CSF for telecoms improvements (EI2.1) reflects recognition of a major problem in this area, namely the difficulty of separating the funding for new telecommunications technology from the excess cost condition in which Telecom Éireann finds itself. A solution to this problem that ensures full additionality of any funding provided would be needed if more were to be spent. But this problem cannot be allowed to delay technological progress indefinitely. In this context, the Government decision to charge the EI lead Department with defining measures towards implementing the telecommunications infrastructural element of the “Information Society” is to be welcomed.

The MTE for ID also suggested a major new emphasis on food quality and safety research: though this seems worthwhile, it should probably be envisaged within the existing scale of financing for agriculture-related research. Other suggestions both in the MTEs and in the present report for further research and analysis may be less easy to accommodate within the existing budgetary parameters.

Finally, through the tax system or through charges, and potentially using innovative approaches to correct problems, including congestion problems, to which the current preferred (but wasteful) solution is to build.

*Sunset*

Poorly designed rural relief  
Under-priced business services  
Proliferation of local development entities  
Expansion grants for immobile firms

*Sunrise*

Upgrading of rural networks  
Broad-band telecommunications  
Managed urban transport  
More reliance on pricing mechanisms

## Part 3

### *MONITORING, INFORMATION AND CONTROL*

#### *3.1 Indicators*

As compared with its predecessor, the current CSF 1994-99 contains significant developments in the use of quantitative indicators as a means of monitoring the implementation of the CSF, assessing its impact and for the purposes of determining progress towards meeting the overall objectives. The approach is novel and in many respects is still at an experimental stage. Generally speaking, it is easier to develop relevant activity and performance indicators – showing whether a programme is proceeding as planned as far as budget and output is concerned – than it is to establish impact indicators – showing the effect or contribution of the programme to final objectives such as income and employment growth. Furthermore, there are subjects with respect to which it is difficult to isolate the impact of programmes at a conceptual level, for example, measures to promote local development. In such areas it is very difficult to derive appropriate indicators of impact. Indeed, it is widely acknowledged that evaluation of the quantitative impact of measures designed to bring about structural change of an economy, such as those contained in the structural funds, is extremely difficult. Yet, it is important that efforts be made to undertake such assessments reliably as, without them, it would be difficult to judge whether the considerable sums being expended through the CSF are being deployed effectively and efficiently and to measure the contribution that is being made by the programmes to achieving the objectives which have been set.

The purpose of this section is to assess the indicators which are contained in the CSF, 1994-99 and to determine if they are:

- relevant to the objectives which are contained in the CSF;
- reliable, in the sense of reflecting the impacts of the measures contained in the Programmes constituting the CSF; and
- available on a periodic basis (or could be made available) to permit the ongoing monitoring of the CSF.

The quality and relevance of impact indicators is highly variable. As a result, many of the CSF level indicators appear to have had little practical effect. The usefulness of the indicator approach will only become apparent if implementing agencies keep searching for practical improvements bringing them closer to measuring true impact, preferably without imposing too heavy a collection cost.

Recommendations are contained for bridging existing gaps and deficiencies and for improving the methodological framework within which indicators are employed.

The approach used is as follows. First, a logical framework for classifying indicators and identifying different kinds of indicators is set out. Second, the CSF 1994-99 is cast in terms of this framework. Third, the indicators included at CSF level are outlined and assessed with respect to the criteria listed above. An evaluation is conducted of the general approach underlying the present system and proposals are made aimed at securing improvement during the remainder of the CSF.

### **3.1.1 Logical Evolution of an Indicator Approach to Measuring Structuring Effects**

It is notoriously difficult to separate the impact of structural fund measures from other influences on the economy and society and to determine whether these impacts contribute to the objectives which have been established. The use of a system of indicators offers one possible approach to such an assessment. To be relevant indicators should be based on a good measure of the objectives. In addition, they should represent the ultimate impact of the structural measure being applied rather than some intermediate output associated with it. This latter aspect is often the most difficult to establish in practice. For this reason it is extremely important that there is clarity with respect to the chain of causality between the structural measure being applied and securing the intended objective.

Simple "theories of action" can be useful devices in establishing such logical chains and determining, at least in theory and at a conceptual level, what might be expected to be the impact of a particular measure and its role in securing a stated objective. They can also assist in separating intermediate outputs from ultimate impacts.

Box 3.1 contains an illustration of process and a stylised example.<sup>50</sup> Thus, resources basically represent budgets of public money arranged into programmes; sub-programmes; measures; sub-measures and initiatives. These budgets are spent by many implementing agencies, authorities or operators. The action of spending gives rise to a set of "outputs", in terms of financial or physical implementation

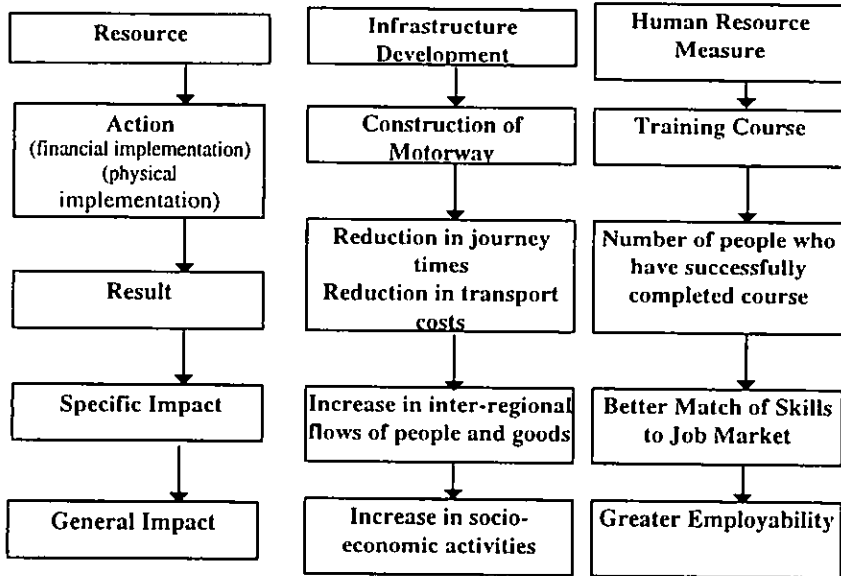
<sup>50</sup> The material contained here is based on European Commission, 1995a.



indicators. In effect, indicators at this stage record progress in implementation, e.g., kilometres of motorway constructed, number of training courses provided. "Results" are the changes which happen in the behaviour of beneficiaries from the measure, e.g., time and money saved in transporting goods; the number of people who successfully complete a training course. It is to be expected that results will lead to an ultimate impact. For example, achieving more competitive transport costs would be expected to assist with bringing about more inter-regional trade. Similarly, training could provide a better match between skills and labour market requirements thereby enhancing employability.

Thus, clear a priori reasoning can assist with determining how particular measures could be expected to have a durable impact; therefore it has an important role to play in the process of selecting relevant impact indicators. However, the process has obvious limitations. For example, having determined a causal relationship on grounds of a priori reasoning, it is another matter to predict the nature of the cause-effect relationship which is involved or to isolate the impact of measures taken to influence that relationship from the effects of other variables that are at work. In practice, other empirical issues, too, can constrain the effectiveness of particular impact indicators. In particular, there may be long and variable time lags between the achievement of results and the impact on socio-economic variables, such as growth or employment. Thus the impact of some measures contained in the current CSF may not begin to accrue until after 1999, while the impact of some measures from the previous CSF, 1989-93 may be accruing only at present. Another issue relates to the nature of the impact which a particular measure gives rise to. The CSF is concerned with the achievement of structuring effects, that is to say "lasting changes in socio-economic structures" (European Commission, 1995b, p.8). In theory, therefore, impact indicators of structural funds on economic growth and employment need to discount short-term demand side effects associated purely with any additional spending that may be involved in their implementation. However, separating growth as between demand and supply side influences may be impossible to accomplish in practice. Many of these issues and questions are addressed in some depth in the MTEs. The analysis which follows draws on relevant findings from those studies.

**“Action Theory” of Structuring Effects With Selected Illustrative Examples**



### 3.1.2 The CSF 1994-99: An Action Framework

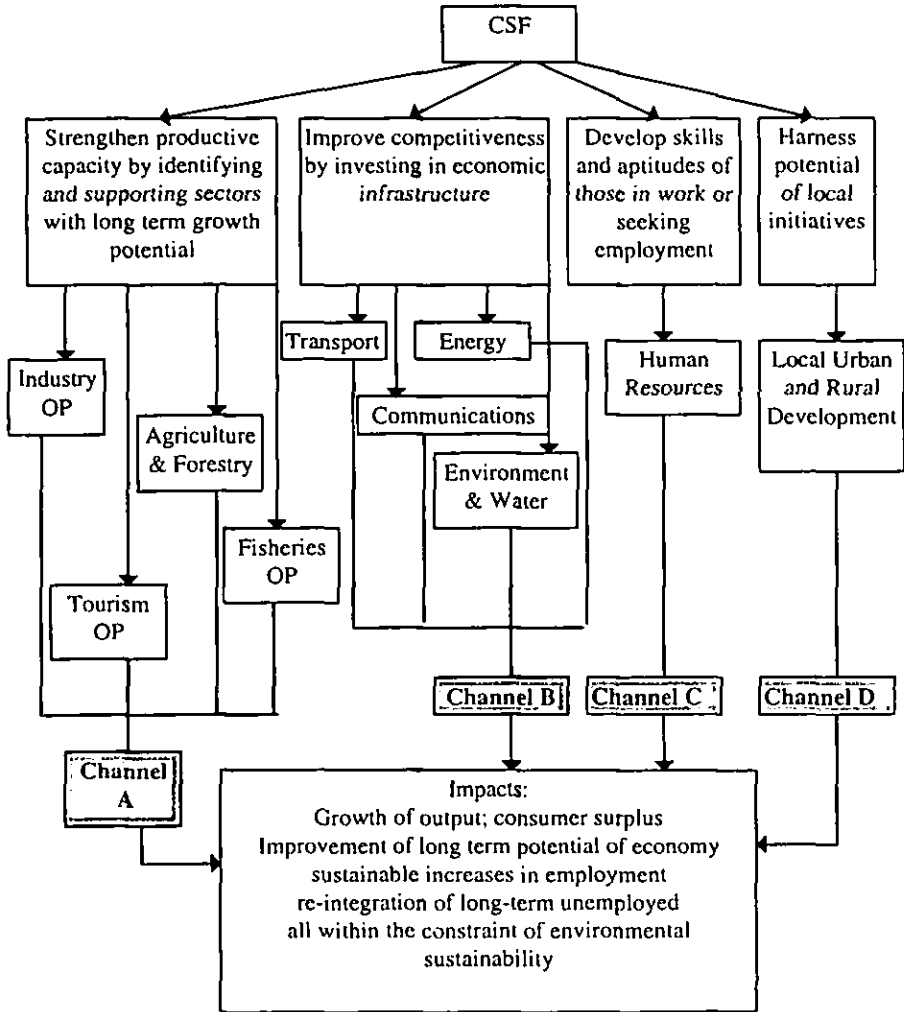
In this section the CSF 1994-99 is cast in a framework similar to that outlined in the previous section. The purpose is to assist with placing the current CSF indicators in an appropriate context in which to conduct an evaluation of them. As shown, there are four principal headings under which assistance is provided – strengthening the productive capacity of the economy; improving its competitiveness; developing skills and aptitudes, and harnessing potential from local initiatives. The ten OPs are the means through which the assistance is provided. As a result of these interventions there is expected to be an impact on:

- economic growth;
- the development potential of the economy;
- employment creation;
- the re-integration of the long term unemployed; and
- environmental sustainability.

Relevant indicators of the effectiveness of the CSF need to measure the influence on these variables. In addition, it is important to be able to judge if the channels through which the measures of assistance are expected to influence these variables are responding in the anticipated manner. So, what precisely are the

channels through which the proposed measures of assistance are expected to impact on the objective variables?

The CSF 1994-99



*Channel A: Support for Productive sectors*

Support for the productive sectors is expected to *result in*:

raised investment to: (a) expand capacity; (b) increase productivity; (c) encourage development through RT&D or (d) through marketing and brand development, for example in the case of tourism.

The additional investment is expected to result in a number of *specific impacts* with regard to:

- (a) raised productivity
- (b) reduced production costs and
- (c) improved competitiveness of the sectors concerned.

These specific impacts would be expected to contribute to the *general objectives* as market share expands – in response to the improvement in competitiveness and output capacity rises – with the increase in investment. The magnitude of the contribution to overall performance depends on the impact on the sector receiving assistance, its relative size and the importance of inter-linkages between it and other productive sectors.

*Channel B: Support for Infrastructure*

Development of economic infrastructure is expected to *result in*:

- (a) a direct contribution to improved living standards, through, for example better quality transportation and communications services and (b) reductions in production costs and (c) a relaxing of production or delivery constraints, for example, associated with physical bottle-necks at ports.

Results in these areas would be expected to have a *specific impact* on:

The competitiveness of the producing sectors and their market share in overseas markets.

These specific impacts should reinforce the competitiveness improvements experienced by the productive sectors arising through *Channel A* effects as described above.

*Channel C: Support for Human Resources Development*

Support for human resources development is expected to *result in*:

The provision and uptake of new skills and the achievement of enhanced capabilities in terms of human capital.

The *specific impact* of these results would be expected to be

(a) improved employability; (b) greater adaptability and (c) higher productivity. These in turn would be expected to contribute to the general objectives through an improvement in competitive advantage and associated rise in employment (or reduction in unemployment).

#### *Channel D: Support for Local, Urban and Rural Development*

The principal process involved here is that market failures in terms of availability of information, financial assistance and infrastructure weaknesses at local level prevent the full development potential of small enterprise initiatives at local level from being realised. Thus assistance is aimed at unlocking the potential which is believed to exist at this level by assisting and supporting the development of a particular type of enterprise – local, small scale firms at an early stage of development – as opposed to a particular sector of production or service.

### **3.1.3 Indicators Contained in CSF 1994-99**

This section describes briefly the indicators which are contained in the current CSF. A judgement is made of the extent to which they are relevant to monitoring the objectives of the CSF and the extent to which they are a reliable guide of the likely impact of measures contained in the CSF. A comment is contained on their current availability and recommendations are made for changes aimed at securing an improvement during the balance of the period of the CSF.

#### *Macroeconomic Indicators*

The CSF contains six macroeconomic indicators with targets for 1999. These are shown in Table 3.1, along with the baseline position for 1993 and the position to date. The indicators measure, changes in employment, the rate of economic growth as expressed by GDP and GNP at constant prices and (through investment growth) the expansion of the productive capacity of the economy.

Table 3.1: *Macroeconomic Indicators*

	<i>Unit</i>	<i>1993</i>	<i>Annual Average 1994-99</i>	<i>Latest: Average 1994-96</i>
Net employment change	(numbers)	+8,000	+15,000	+45,000
Gross Job Creation	( do. )	-	+33,000	-
Employment	( do. )	1,130,000	1,220,000 <sup>51</sup>	1,284,000
Gross Fixed Capital Formation	(93 £ m)	4,850	4%	10.6%
Gross domestic product (GDP)	( do. )	31,350	4%	7.9%
Gross national product (GNP)	( do. )	27,800	4%	7.0%

<sup>51</sup> End-1999 level.

With the exception of gross job creation, these are all relevant to measuring the objective variables of the CSF. Gross job gains cannot immediately be mapped to a stated objective. In any event it does not appear to be feasible to measure gross job gains meaningfully. Furthermore, there is no baseline data for this variable. In respect of the other five indicators, data for 1995 and up to date estimates for 1996 have been provided by the Department of Finance for the twice-yearly CSF Monitoring Committee Meetings. (A revised forecast for the average annual growth rates up to 1999 was produced in late 1996.)

The indicator used to monitor investment, namely, gross fixed capital formation, is excessively broad. The purpose of monitoring the trend in investment is to determine if the output potential of the economy is being expanded. However, the aggregate indicator used includes residential construction. A more appropriate indicator to use would be non-residential fixed investment and that should distinguish infrastructure investment carried out by the public sector from other non-residential fixed investment. It is recommended that this amended indicator should be monitored for the balance of the CSF.

Significant improvements could be made to the reliability of macroeconomic indicators from the point of view of monitoring and assessing the impact of the CSF, if different approaches were employed to constructing and presenting macroeconomic indicators. It will be seen from Table 3.1 above that all the principal targets for 1999 have been achieved at this stage. It seems doubtful if this result is due to the CSF, rather exogenous developments have been much more favourable than was anticipated when the original forecasts were made.

Ideally, the CSF Monitoring Committee should have some explicit assessment, on an ongoing basis, that would focus on the role of exogenous factors as compared with CSF influences in relation to trends in the economy. To help meet this gap we sketch a framework which could assist the Committee in teasing-out the difficult question of what influences are underlying economic performance and the development of the economy's productive potential.

The projections used for the purposes of monitoring, are not structured to provide information on the impact of CSF measures as compared with the effects of other, exogenous developments. From the point of view of monitoring the impact of the CSF, this is a shortcoming. For example, it is not possible to discuss and draw judgements about the potential role of CSF developments in the current economic performance, as compared with the original projections. This is mainly because the forecasts used (prepared by the Department of Finance primarily for other purposes) are couched predominantly in terms of income and expenditure developments. As such there is little focus on supply influences, output and structuring effects, which factors are the principal perspective of the CSF.

This is not a criticism of the Department of Finance's approach to forecasting as such. But the underlying framework is not ideally adapted to monitoring and assessing the CSF. It would be more useful to employ projections that were derived from a framework which reflected more closely the structural approach and supply aspects of the CSF. The gains would not be expected to arise primarily in terms of an assessment of the marginal quantitative contribution of the CSF to macroeconomic performance at any point in time. While more explicit focusing on this aspect would be an advantage, the value would be limited by the fact that quantitative estimates of the impact would be likely to fall within the margin of error associated with any medium term projections. Rather, the primary benefit would be expected to arise from applying a framework or model which focuses explicitly on the channels and influences through which the CSF is expected to operate, rather than one which does not. By articulating a more relevant model or framework within which to conduct on-going monitoring, better informed judgements and debate could be achieved as regards the impact of CSF measures and in terms of forming an integrated view of these with other developments taking place.

A final point is that macroeconomic indicators contained in the CSF are expressed in terms of average annual growth rates over the period of the CSF, 1994-99. It would be appropriate to include 1999 levels as well as these average annual changes. At present it is not clear what the implications are for the indicators used if performance in any one year exceeds or falls short of the forecast average or what process of evaluation is being applied to decide on revisions to targets.

On the basis of this assessment it could be worth experimenting with very simple macroeconomic estimates constructed for the specific purpose of monitoring the CSF and reflecting its explicit priorities by focusing on improving supply potential and competitiveness and responsiveness of the economy. This could involve preparing estimates along two lines. First, "Benchmark" annual estimates and projections, based on exogenous influences but excluding estimates and projections of the estimated effects of CSF expenditure and the effect of measures included in it should be prepared. Second, annual estimates of actual performance could be constructed. It is recognised and acknowledged that projections along these lines would probably involve wide margins of error. However, their purpose is not seen primarily as a forecasting tool; but rather as an analytical device that would help to focus more clearly on the channels of influence of the CSF and the degree to which they are important and working well.

As they evolved, the estimates could begin to include a reconciled sector output table in order to focus more closely on the priority of the CSF of raising the growth potential of the producing sectors and promoting the supply side of the

economy, including assessments of the factors considered to be directly relevant to this end.

Each half year, in preparation for CSF Monitoring Committee meetings, revisions to macroeconomic estimates and projections should be made in terms of changes due to "benchmark" influences and those that are considered to be related to CSF measures. Furthermore, the implications of undertaking revisions for any one year for the expected average annual performance over the entire period 1994-99 should be made explicit, in terms of the likely effect on the projected 1999 level. For example, if it is expected that growth in the near term will be faster than previously anticipated and slower thereafter, with no overall impact on the average performance or 1999 level this should be stated explicitly. On the other hand if short term performance is expected to be stronger and the pre-existing pattern is expected to be maintained subsequently, the implications for the forecast levels for 1999 should be made explicit and the implications drawn for other relevant OP indicators included in the CSF.

The benefits of adopting this recommended approach would be to:

- provide a rolling update of the underlying macroeconomic situation and the implications of current developments for the forecasts for 1999;
- establish a focus on the incremental impact of CSF expenditure and the effect of structuring measures in the monitoring of macroeconomic conditions;
- provide a better focus on the supply-side priorities of the CSF and
- by emphasising the output composition of growth explicitly, enable a closer association to be established between OP indicators, included in the CSF and macroeconomic performance.

#### *Industry and R&TD*

The indicators for Industry and R&TD included at CSF level are shown in Table 3.2 along with the baseline data for 1993 and the "latest available"<sup>52</sup> data. The indicators relate to gross job creation in enterprises supported by the OP; the value of exports at constant 1993 prices; expenditure on R&D and the value added in industry.

It is considered that the indicators are relevant and consistent with the macro economic indicators used to monitor overall objectives of the CSF. In effect, they measure the same things, at the level of industry, as the macroeconomic indicators do for the economy as a whole.

<sup>52</sup> In the main these "latest available" indicators (here and for the other OPs) are the data that were available to end-year Monitoring Committees. In some instances we have included more recently updated figures.



Table 3.2 *Industry and R&TD Indicators at CSF Level*

	<i>Unit</i>	<i>1993</i>	<i>1999</i>	<i>Latest Available</i>
Gross job creation-direct	(Nos.)	+18,000	+20,000 <sup>53</sup>	+25,473 (1995)
Value of exports	(93 £m.)	20,300	28,800	27,300 (1995)
Business Expenditure on R&D	(% GDP)	0.65	0.82	0.97 (1995)
Gross Expenditure on R&D	(% GDP)	1.0	1.3	1.41 (1995)
Value added in Industry	(93 £m.)	8,356	+11,973	8356 (1993)

As regards reliability, the same shortcomings apply as noted above with respect to the macroeconomic indicators. Furthermore, it cannot be inferred that all employment growth in these firms is the result of the assistance provided. Analysis undertaken in the MTE of ID suggests that the net employment performance of firms assisted by the OP is significantly better than the remainder of industry.<sup>54</sup> However, this may simply reflect the characteristics of firms being assisted – ones which have better performance than firms which are not assisted – or the effects of more buoyant demand conditions on the sectors which are being assisted.

Output growth of industry depends on strong export performance. The extent to which the export performance contributes to GNP growth depends on the import content of exports and (inversely) on the extent of profit repatriation by multinational corporations in Ireland. These latter influences are picked-up by the inclusion of the value-added indicator. Export competitiveness is a function, in part of R&D and other investment spending on capacity expansion and productivity growth. Accordingly it is appropriate that R&D expenditure should be included. However, again, there is the issue of the causal relationship between assistance under the OP and in this instance, the trend in R&D expenditure.

More research should be undertaken aimed at reinforcing or establishing the line of causality, at a micro-level, between the performance of firms and assistance provided. A number of approaches could be followed to throw light on this question, including time-series analysis of data. However, it is thought more likely that better insights would be gained from comparative studies of firms assisted compared with a control group of similar firms that have not received assistance.

Export growth in volume terms should be related to the expansion of Ireland's export markets, to provide an indicator of performance in terms of export market share achieved. This would serve as an indicator of competitiveness, broadly defined, and act as an indicator of expansion in productive capacity. The additional data required to construct such an indicator, i.e., the rate of expansion

<sup>53</sup> Average annual 1994-99.

<sup>54</sup> Net employment in firms which have been assisted rose by 11 per cent between 1993 and 1995, whereas it fell by 6 per cent in other firms.

in Ireland's export markets, is provided twice yearly in the OECD's *Economic Outlook*.

As noted above, R&D expenditure (as a percentage of GDP) is included as an indicator. However, there is no indicator of fixed investment by industry. Given that this is one of the channels through which the Industry OP would be expected to contribute to the long term development of the economy's productive potential it would seem appropriate that such an indicator should be included at CSF level. Accordingly, it is recommended that data on the trend in fixed investment by industry, consistent with the macroeconomic objective for fixed investment, should be included for monitoring during the remainder of the CSF.

As regards the current availability of indicators, the principal shortcoming relates to value-added in industry. The latest figure for this item presented to the December 1996 CSF Monitoring Committee meeting refers to 1993. However, if macroeconomic estimates and projections were prepared along the lines proposed above it should be possible to obtain estimates of value-added by industry that would be consistent with the growth in exports, GNP and the rate of investment being undertaken by industry.

It appears that the forecasts/objectives established for 1999 have already been attained – this is the case with respect to gross job creation, and the indicators for R&D – and it would appear that the other targets will be easily exceeded. A new forecast for gross job creation for 1994/99 of 22,000 was adopted in early 1997, but this was not done for any of the other indicators.<sup>55</sup> Furthermore, it is unclear if the revised forecast simply reflects the effect of out-performance, in the years 1994 and 1995, relative to what was originally expected, or if it involves a deeper assessment of future prospects.

It is recommended that revised forecasts/objectives, consistent with available resources, for all of the above indicators should be established for the remainder of the life of the current CSF.

#### *Agriculture, Forestry and Rural Development*

The indicators for agriculture, forestry and rural development contained in the CSF are summarised in Table 3.3, along with the baseline position in 1993 and the "latest available" indicators. Given the quota restrictions which constrain the output potential of the farm sector, the primary focus of the CSF with regard to it is to improve the efficiency of the producing sector, make it more market oriented and less demanding on environmental quality. The indicators for net value added per annual work unit and the proportion of agricultural output being sold into

<sup>55</sup> This revised forecast was agreed by the Industry Monitoring Committee at its meeting in March 1996.

intervention are relevant to these objectives and appear to be available with reasonable time lags.

Table 3.3: *Agriculture, Forestry and Rural Development Indicators Included in the CSF*

	<i>Unit</i>	<i>1993</i>	<i>1999</i>	<i>Latest Available</i>
Proportion of agricultural output sold to intervention	Per cent	26	8	18 (1995)
Social Welfare Payments in rural areas compared to the national average	(93 £/head/week)			
rural areas		21.97	20.12	n/a
national average		19.53	18.51	n/a
Net Value added per annual work unit	(£m 1993 prices)	8,323	10,904	9,260 (1995)
Population density of rural areas	(per sq. km.)	33	32	34
Serious pollution from agriculture waste	(km of river)	32 <sup>56</sup>	28	24 (1994)
Number of fish kills due to agriculture	recorded kills	22	15	18 (1995)
Gross forestry output	(93 £m)	108	274	124 (1995)

The environmental indicators relate to agriculture's contribution to "serious" pollution levels and episodes resulting in fish kills. However, as an indicator the number of fish kills may not be informative since it ignores the size of kills. It is recommended that the existing indicators of environmental quality should be replaced by an indicator(s) which measures the contribution of agriculture to the *moderate* and serious pollution load of *all* inland waterways (lakes as well as rivers). This is consistent with the recommendation below to include a broad indicator of environmental quality and sustainability for monitoring during the balance of the period of the CSF. In addition, it is recommended that additional resources should be devoted to improving the timeliness with which this indicator is made available. The latest data provided for the pollution load on rivers relates to 1994.

It is difficult to know what the indicator relating to social welfare payments is trying to measure. In any event, data are not available since the baseline estimate. It is recommended that this indicator be dropped from the CSF level.

A principal objective of AG is to secure a vibrant rural society. In addition, significant amounts of expenditure in other OPs are devoted to securing this objective or should indirectly contribute to its attainment – e.g., LU, FI, TO, HR

<sup>56</sup> Figure relates to 1991.

and TR. In this context, the CSF indicators of rural development appear inadequate. There is a measure of population density in rural areas. However, this is defined as the total population minus Co. Dublin and County Boroughs. In effect everywhere outside the main cities. Having regard to the amount of money being spent directly or indirectly affect living conditions in rural Ireland, it is recommended that initiatives should be undertaken to improve the relevance of the existing indicators. Bearing in mind the explicit objective of establishing a vibrant rural society and the overall objectives of the CSF it would appear that indicators should be collected on the following variables:

- the rate of family formation in large towns and cities compared with rural areas;
- income *per capita* in large towns and cities compared with rural area;
- household satisfaction with infrastructure resources, such as access to education, health-care facilities, employment opportunities, housing, sports and recreation facilities, in rural as compared with urban situations.

It is accepted that it may be rather late-in-the-day to start collecting this information at this stage. However, without some such indicators it will be extremely difficult to evaluate if the objective is being achieved. Accordingly, it is recommended that the feasibility of constructing some such indicators from a survey approach should be investigated with specialists in this type of work. For example, with respect to the "satisfaction" indicator, it may be more appropriate to commission the services of a specialist market survey firm to undertake the task.

With respect to forestry the indicator relates to gross output rather than value added. The latter would be more appropriate. However, in view of the small scale of this sector in the context of the overall economy the existing indicator of gross output is probably adequate.

#### *Fisheries*

There are three indicators for fisheries included at CSF level. They relate to gross employment in the sector, the value and volume of fish landings, aquaculture production and fish exports. Data on these is contained in Table 3.4.

Table 3.4: *Fisheries Indicators Included in the CSF*

	<i>Unit</i>	<i>1992</i>	<i>1999</i>	<i>Latest Available</i>
Gross Employment	Numbers	15,470	17,470	15,500 (1995)
Fish Landings	Value £ Million	98	118	125.38 (1995)
	Volume Tonnes	254,300	301,000	387,822 (1995)
Aquaculture Production	Value £ Million	40.4	103.1	47.64 (1995)
	Volume Tonnes	27,060	69,140	27.368 (1995)
Fish Exports	Value £ Million	186	276	202.78 (1995)
	Volume Tonnes	235,000	302,600	295,600 (1995)

They are appropriate and relevant to the sector and are consistent indicators with the overall objectives of the CSF. Estimates are available for each of them up to and including 1995. However, given that much of the expenditure contained in this OP is in the form of income maintenance, (See Section 2.1.3) and that, in the opinion of the external evaluator, there are significant deadweight issues in many areas of FI, it is unclear how the assistance will result in a significant impact on the indicators for the fisheries sector. Unlike other sectors, for example, it would appear that the employment indicator for this sector is somewhat behind relative to the target. It is recommended that consideration be given to removing the indicators for this sector from the CSF or at least reducing the number. For example the main development potential of the sector could probably be captured by monitoring aquaculture production and fish exports. The sector is very small in the context of the overall economy, the programme is small in the context of the CSF and the forms of assistance are not likely to result in a significant contribution to the impact indicators for the sector, let alone the economy as a whole.

#### *Tourism*

Indicators for Tourism included in the CSF are shown in Table 3.5, with baseline and latest available positions for comparison. The indicators relate to employment creation, the growth in the volume of foreign tourism revenue, the growth of foreign exchange earnings relative to that in other EU countries and the percentage of visitors arriving in the off-peak period. The indicators are relevant to the overall objectives for tourism contained in the CSF and are consistent with the objectives of the CSF and in terms of monitoring the impact of tourism development on these objectives.

Table 3.5: *Tourism Indicators Included in the CSF*

	<i>Unit</i>	<i>1993</i>	<i>1999</i>	<i>Latest Available</i>
Net Job Creation				
- Direct	(Numbers)	n/a	+17,250	+1,800 (1995)
- Indirect	(Numbers)	n/a	+11,750	+1,800 (1995)
- Construction	(Job equivalents per annum)	n/a	+6,000	+2,300 (1996)
Percentage Increase in Ireland's foreign exchange earnings relative to the EU		n/a	1.5	1.4 (1995)
Foreign tourism revenue	93 £ m	1,367	1,920	1,677 (1995)
Visitors in the off-peak period	Per cent	70	75	70 (1995)

The indicator of relative growth in foreign earnings from tourism is particularly appropriate since it focuses attention on the international competitiveness of the industry and on the capacity of the sector. It is

acknowledged that the estimates being provided are tentative and that further work is required to refine the indicator. However, it would be appropriate that resources should be applied in this direction. The absence of baseline data for net employment creation in the industry makes it difficult to judge the relevance and appropriateness of the objective for 1999. Furthermore there are problems with the manner of estimating employment changes. These are described in the MTE. In essence, employment estimates are derived from revenue data. Therefore, they do not constitute an independent observation on employment changes. Furthermore, the derived estimates of employment performance in 1994 and 1995, at about 2,000 jobs per annum, suggests that there will need to be a rapid growth during the remainder of the life of the CSF if the forecast/objective contained in the CSF for 1999 is to be attained. Another related question is whether employment growth in tourism is constrained by bottle-necks in the supply of labour.

Without a reliable benchmark measure of employment trends in tourism it is extremely difficult to monitor if the tourism industry is making the level of contribution to the CSF objectives which are envisaged for it. Therefore, it is recommended that a survey based approach should be initiated to establish what the current trend is in employment in tourism in Ireland and if in fact it is developing according to the objectives contained in the CSF. As a start, the annual *Labour Force Surveys* and *The Employment Survey of the Tourism Industry in Ireland*, conducted on behalf of CERT,<sup>57</sup> should be examined in order to establish if material collected by them, would be sufficient to use as a basis for a reliable benchmark. If these sources by themselves are inadequate, a separate survey to bridge outstanding gaps should be developed.

The indicator of indirect employment creation in the construction sector should be dropped from the CSF. These effects are probably not likely to be permanent. The potential of the tourism industry to generate significant numbers of indirect jobs on an ongoing basis is explicitly provided for in the set of indicators.

#### *Transport*

The indicators contained in the CSF include three activity or results indicators with respect to the four key road corridors, namely, road expenditure on the four key corridors, the degree of completion of the four key road corridors and time saving on the four key road corridors. Target levels for each of these in 1999 are set (see Table 3.6). As noted earlier (see Section 3.1.2), the principal channel through which improvements to infrastructure can contribute to CSF objectives is by their impact on the competitiveness of the producing sectors. Therefore, an indicator of the impact of the OP on transport costs is what should be included in

<sup>57</sup> BDO Simpson Xavier Consulting, 1996.

the CSF. However, it is understood that previous efforts at constructing such an indicator have not been successful.

Table 3.6: *Transport Indicators Included in the CSF*

	Unit	1993	1999	Latest (1996)
Time savings on the 4 key Road corridors	Minutes	-	204	80+
Degree of Completion of the 4 Key Road Corridors	%	35	53	49
Road expenditure on the 4 Key Road Corridors	%	-	70	80
Rail Revenue Generated	'93 £ Million	42.8	45	48.3
Rail Passenger Numbers	Millions of Passengers	7.9	8.7	8.4
Airport passenger and Freight traffic	Millions of Passengers			11.96
	Freight Tonnes	94,100	128,000	141,700
Combined Port and Shipping Costs to Users	%	-	15	

A project designed to estimate Route Transit Time impacts of expenditures under TR on National Roads has been completed by the National Roads Authority. The External Evaluator to this Programme has translated these estimates into indicators of cost savings, and these have been used to prepare estimates of supply-side impact, using the ESRI's econometric model; results for this exercise are given in the MTE of TR and further work is continuing. Objectives should be set for an indicator using this type of methodology, and progress with respect to the objective, expressed in these terms, should be monitored.

The CSF contains a target with respect to the combined port and shipping costs to users – i.e., achieving a reduction of 15 per cent by 1999. However, to date no data have been available to monitor whether this target is likely to be attainable. A study dealing with port charges has been financed under TR1.7 and is nearing completion. The study will assess trends in recent years and will develop a methodology for continuous data collection.

Finally, under this heading, there is an indicator and target of physical capacity with respect to airport passenger numbers and freight traffic. This indicator is appropriate in the context of the OP. However, it seems rather narrow at the aggregate level of the CSF. Accordingly, it is recommended that the capacity indicators for airport passenger numbers and freight traffic should be dropped. Similarly, the two indicators and targets related to the rail service – rail revenue generated and rail passengers carried – appear excessively narrow in the context of

the overall CSF. It is recommended that this indicator, also, should be relinquished.

On the other hand, it is recommended that consideration be given to the development of service quality indicators for the transport sector. Specifically:

- for road and rail, attained speeds could be measured for the principal routes;
- for airports, surveys of check-in times, congestion-induced delays, baggage delivery times;
- for seaports, demurrage incidents due to port congestion.

#### *Infrastructure, Energy and Communications*

As in the case of transport, it is considered that the impact indicators at CSF level should focus on the competitiveness with which these services and products are supplied. Furthermore, given the priority attaching to environmental sustainability in the CSF it is considered appropriate that targets and indicators of the impact of energy supply on the environment and environmental sustainability should be included. The existing indicators included in the CSF along with the baseline and latest available position are contained in Table 3.7.

Table 3.7: *Energy Indicators Included in the CSF*

	Unit	1993	1999	Latest Available
Energy Intensity of GDP	1980=100	83	75	76 (1995)
Primary Energy Supply by Source:	Per cent			
-Coal		20	18	18 (1995)
-Peat		12	10	11 (1995)
-Oil		49	53	51 (1995)
-Natural Gas		17	17	18 (1995)
-Renewable/Hydro		2	2	2 (1995)
Energy Supplied from renewables	MW	8	Original: 75 Revised: 219	15 (1995)
Contribution of Indigenous Fuels to Total Primary Energy Requirement	Per cent	31	14	29 (1995)

The target for energy intensity is relevant in the context of the CSF objectives from two perspectives. First, it is relevant from an environmental point of view since reduced energy intensity of production improves environmental sustainability and reduces the pollution load associated with economic output. Second, the lower energy intensity implies cost savings and hence is relevant to industry competitiveness. According to the most up to date information (for 1995) energy intensity has fallen sharply (partly reflecting the shifting sectoral composition of GDP) and the 1999 target is almost met.

Similarly, the target for energy from renewables is relevant at the CSF level in the context of the priority of environmental sustainability. In September 1996, a more ambitious target was established in respect of this variable. The target for



energy intensity should be reassessed and a new target for 1999 should be put in place. Furthermore, it is recommended that the cost savings implications, associated with reduced energy intensity, should be formulated explicitly and included as a separate target and indicator which should be monitored by the Monitoring Committee. If necessary, "before-and-after" studies of the impact on targeted firms should be undertaken in order to formulate this target.

The indicators included for communications are shown in Table 3.8, along with 1993 baseline data and the latest available position. As may be seen the indicators are mainly quality of service variables. With respect to postal services, a cost competitiveness indicator is included also. It is considered that a relative cost indicator should be included for business telecommunications services as well.

Table 3.8: *Communications Indicators Included in the CSF*

	<i>Unit</i>	<i>1993</i>	<i>1999</i>	<i>Latest Available</i>
<b>Telecommunications Service:</b>				
Rate of Digitalisation	Per cent	70	100	77 (1995)
Faults cleared in two working Days	Per cent	85	97	96 (1995)
<b>Call Failure Rates</b>				
-Local	Per cent	0.61	0.45	0.46 (1995)
-STD	Per cent	0.95	0.75	0.75 (1995)
-International	Per cent	2.7	2.0	1.9 (1995)
Telephone Penetration rates	Per cent	75	82	80 (1995)
<b>Postal Service:</b>				
Rate of overnight delivery achieved				
	Per cent	94	94	93 (1996)
Postal Cost as a % of EU average	Per cent	113	100	101 (1996)

While these variables are considered relevant with respect to the attainment of the objectives of the CSF, it is to be noted that the MTE expresses doubts about the reliability of these indicators as measures of the impact of the assistance provided in the OP. The basis of the concern rests on the fact that:

- expenditures from the OP represent only a very small proportion of the total expenditure being made on a wide range of projects that are being assisted and
- that it is concluded that many of the projects might have proceeded in the absence of the OP assistance.

However, against this it appears that Telecom Éireann had not planned to complete digitalisation until 2005. Consequently, the earlier attainment of this objective can be attributed, at least in part, to the OP.

*The Environment*

The indicators included at CSF level in respect of the environment are contained in Table 3.9, along with baselines, targets for 1999 and the latest available position.

Table 3.9: *Environment Indicators Included in the CSF*

	Unit	1993	1999	Latest Available
Compliance with EU drinking water quality standards: (a) public	Per cent	94	100	94.4 (1994)
(b) group water supplies	Per cent	81	100	80.9 (1994)
Proportion of urban waste water being treated in accordance with the requirements of the urban waste water treatment Directive	Per cent	12.3	80	14.1 (1995)
Dumping of sewage sludge at sea	Per cent	40	0	40 (1995)
Recovery rate for packaging waste	Per cent	10	25	15.6 (1995)
Level of recycling of municipal solid waste	Per cent	8	15	8 (1995)

These indicators are relevant in the context of the CSF objectives. However, Cohesion Fund investment also contributes to their attainment. Thus, while the stated CSF target is compliance with the EU Drinking Water Directive (80/778/EEC) nationally, spending under the CSF Water Supply Measure EN1.1 is contributing to compliance with these regulations in only six rural/urban locations. Similarly, the CSF Group Water Schemes Measure EN1.3, is targeted at only 30 locations.

Data are collected with respect to progress of the OP. However, there does not seem to be data collected with respect to the impact of all spending. Consequently, there has not been updating of the national baseline positions. Commenting on the OP indicators, the MTE states that: "For the purposes of measuring the impact of the OP it is clearly important that the contribution to the CSF targets is used as a basic indicator of progress and attainment."

Most of the performance indicator targets given in the OP appear to have been surpassed, according to the MTE's figures for 1996. It is not clear whether completion of projects started under the earlier OP is the cause. The results of monitoring, or the MTE report of it, are less than explicit. The recommended performance and impact indicators in the MTE summary Table 4.6a should be aimed for.

The indicators of real importance are those about the state of the waters. The number of fish kills is also a guide but an incomplete one, as the number of kills from causes unspecified forms a large share, at 50 out of a total of 83 fish kills in 1995. It is noted that 17 fish-kills were due to low water levels, 1995 having a hot summer, and 8 were due to civil and water works (Department of the Environment, 1996).

When the indicator of most relevance, namely the trend in quality of inland waters is examined, the results deriving from the totality of expenditure (including from Cohesion Funds) are less reassuring. The latest figures on monitored river length, show that the percentage of length judged as being in the category with "slight to moderate pollution" has recently increased. Some 12,700 km., or 96 per cent of total river length has been monitored from 1987, and the proportion in this category has increased from 21.7 per cent to 27.2 per cent. About a quarter of this stretch, which has been monitored for longer because it was deemed more vulnerable, shows an increase in the "slight to moderate pollution" category from 33 per cent in 1990 to 41 per cent in 1994.

While there has been a marked improvement in terms of the decline in river length that is seriously polluted, from 0.9 per cent to 0.6 per cent of length, this may not be a good return on total expenditure on environmental services (including Cohesion Funds) amounting eventually to some £0.6 billion. To this must be added the costs of dealing with the extra sludge generated and of bringing about the required cessation of dumping sludge at sea. A threefold increase in sludge generation by 2005 is forecast by the EPA (Stapleton, 1996). Another concern is the possible absence of funding of small water service projects, presumably because the Programme is motivated by Directives which specify populations of over 2000.

The MTE suggests that the performance of the Group Water Schemes measure to date is rather low by comparison with the indicators in the OP, which suggests they "require revision" (p. 46). No reason is given. Neither is it clear to what extent compliance with the Drinking Water Directive is or would be furthered. Nationally, a useful indicator would again be the extent to which these projects improve the proportion of water samples without coliforms. For water schemes, the performance and impact indicators in the MTE summary Table 4.6a should be aimed for.

Applications for recycling projects, largely from the private sector, amount to double the sum available for the entire sub-programme and it appears that the allowable 50 per cent grant will not be needed. It is reported that the 10 schemes which are going ahead provide a range of nationwide and local projects, rural and urban projects, kerbside (or "collect") and "bring" projects, and private, public and mixed funding. The application procedure took longer than expected. Given the OP's stated objectives, the performance indicators for recycling are soundly based. (OP p. 35)

A further issue relates to the adequacy of the overall set of indicators. An objective of the CSF is to achieve the economic objectives in an environmentally sustainable way. Attainment of the targets would represent a contribution in this direction. However, it is considered that it would be appropriate to include an

indicator at this level to reflect the demands of economic development on the assimilative capacity of the environment and provide a broad picture of the environmental quality of ambient air, water and land.

These matters have been the subject of considerable research in Ireland.<sup>58</sup> Based on this it would appear that a number of approaches and measurements could be used, with varying levels of sophistication. On the understanding that simplicity and cost-effectiveness are desirable attributes of an indicator, it is recommended that targets should be established for the following broad indicators of environmental quality and should be monitored on an annual basis during the remainder of the CSF, and in the vicinity of projects that are assisted under the CSF:

- The percentage of inland waterways that are "moderately" or "severely" polluted, as defined by the EPA in its *The State of the Environment*. The production of water quality reports by the EPA should be sufficiently resourced to ensure that they provide an adequate continuing basis for monitoring water quality for the CSF.
- An index of the standard of air quality in major towns and cities based on emissions of gases such as SO<sub>2</sub>, NO<sub>x</sub> and particulates.
- An index of land quality in terms of (a) the area of wildlife and wetlands habitats of international importance and (b) degradation of the built heritage.

With the inclusion of appropriate environmental sustainability indicators along the lines recommended, this range of indicators would provide a more comprehensive picture of a principal objective of the CSF. In fact, a study is already under way (financed by TR1.7) to measure the environmental emissions from all modes of transport and to study the scope for ameliorating measures. The results of this study should prove useful in improving the range of EN indicators as suggested.

#### *Human Resources*

There are 25 indicators included in the CSF under this heading. However, with respect to 12 of these there are no targets or objectives established.<sup>59</sup> The position is summarised in Table 3.10. With regard to participation rates in initial education and training, targets are set by age group. However, for the age ranges 3 to 5 years

<sup>58</sup> See, for example, Scott, Nolan and Fahy, 1996.

<sup>59</sup> These comprise the following: total in employment as percentage of working age population; the unemployment rate distinguishing total, those under the age of 25 and long term as a percentage of the total; the student teacher ratio, at first and second level; the percentage of teachers/trainers trained and the educational attainment of the working age population, according to ISCED classification.

and 6 to 14 years these targets are the baseline levels for 1993. For the 15 to 19 year and 20 to 24 year groups data for 1995 show that over 90 per cent and 80 per cent of the target levels have been attained. Similarly percentage targets exist for those leaving second level education with either Junior Certificate or Leaving Certificate. These targets too have been achieved to over 90 per cent in 1995. There are targets for the numbers receiving publicly funded training, distinguished according to gender and whether employed or unemployed. The targets for 1999 were achieved in 1995. Finally, there are targets for numbers of disadvantaged groups benefiting from vocational training, temporary employment, guidance counselling and job search. All of these have been attained, according to preliminary data submitted to the Monitoring Committee Meeting of 5 December 1996.

Table 3.10: *Human Resources Development Indicators Included in the CSF*

	Unit	1993			1999			Latest Available 1996 Preliminary		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Total in employment as a % of working age population	Per cent	64.99	31.88	47.41				67.66	41.88	54.83
Unemployment Rate										
- Total		18.9	12.6	16.72				14.77	9.61	12.89
- Under 25s as % of total	Per cent	26.34	34.53	29.10				22.92	28.85	25.14
- LTU as % of Total	Per cent	48.86	36.92	44.84				52.97	39.71	48.16
Participation rate in initial education and training by age groups									(1995)	
- 3 to 5	Per cent	52.5	54.5	53.5	53.5			49.9	51.8	50.8
- 6 to 14	Per cent	100.0	100.0	100.0	100.0			100.0	100.0	100.0
- 15 to 19		71.6	78.9	75.2	85.0			73.7	81.3	77.4
- 20 to 24		16.9	16.6	16.8	22.0			16.1	17.4	17.5
Young People Who Leave School with									(1995)	
- No qualification	Per cent	8.6	3.9	6.3	0			4.1	2.2	3.3
- Junior Certificate but no Leaving Certificate	Per cent	18.8	14	16.4	10			18.3	10.9	14.7
- Leaving Certificate		72.6	82	77.4	90			77.6	86.7	82.1
Student / Teacher Ratio										
- First level	ratio			25.1:1						21.9:1
- Second Level				17.0:1						16.0:1

Table 3.10 (Continued)

		1993			1999			Latest Available 1995		
		Male	Female	Total	Male	Female	Total	Male	Female	Total
Numbers receiving publicly funded training	Thousands									
- Employed		22.2	10.2	32.4	26.1	12.0	38.1	40.2	9	49.2
- Unemployed		76.9	47.7	124.7	69.6	44.1	113.8	68.3	44.1	141.1
- Total		99.1	58.0	157.2	95.8	56.1	151.9	113	77.3	190.3
Number of the disadvantaged group benefiting from	Thousands									
- Vocational training		14.1	6.6	20.8	8.3	6.0	14.3	7.4	6.4	13.8
- Temporary Equipment		4.7	2.2	6.9	14.5	10.5	25.0	35.2	19.5	54.7
- Guidance/counselling/ job-search		-	-	-	22.8	16.5	32.0	40.0	23.8	63.8
% of teachers/trainers trained	%									
- Dept of Education				26						67
- FAS				100						62
- NRB				87						100
Education attainment level of working age population	%									
- ISDEC 0-2		59.9	53.3	56.6				57.21	50.36	53.8
- ISDEC 3-5		31.8	40.4	36.1				34.14	42.81	38.46
- ISDEC 6-9		8.3	6.3	7.3				8.31	6.51	7.41

The principal observation is that the indicators included in the CSF, which are outlined above, are more in the nature of "results" rather than "impacts" as defined and discussed earlier (See Section 3.1.1). While they are of more limited value for this reason, bearing in mind that impact indicators are very difficult to design, it is considered that the indicators of participation rates ought to be retained. In order to make them pertinent, it is recommended that targets for participation rates should be set at levels that are higher than the present or baseline cases. If it is not practical to do this, then, consideration should be given to dropping these indicators.

An explicit objective of the CSF is the re-integration of the long-term unemployed. While it is undoubtedly a very complex matter to establish a causal relationship between measures such as those contained in the OP and the rate of long-term unemployment, this is the variable which should be influenced if the assistance being provided by the OP is effective. Accordingly, it is recommended that a target for the rate of long-term unemployment should be set for 1999 and progress towards it should be monitored by the CSF Monitoring Committee.

Investment in human resources can be expected to contribute to the aims of the CSF by ensuring availability of skills and knowledge to ensure competitiveness. At the aggregate level of the CSF it is very difficult to define a quantitative indicator which could appropriately reflect the impact of assistance on this priority. However, as the objective of the assistance is to provide vocational training that meets the skills needs of the Irish economy, it is considered that it would be worthwhile to focus attention on the percentage of graduates assisted by the CSF – at different levels – who are employed in Ireland within nine months of having completed their course. Accordingly it is recommended that the following indicators should be included in the CSF, with appropriate targets of achievement for 1999, namely the percentage of students completing courses in the following categories who are employed in Ireland nine months afterwards:

- Middle Level Technician (MLT) and Higher Technical and Business Skills (HTBS) courses provided at RTCs; and
- Vocational Preparation and Training (VPT) courses, at second level.

The requisite data to construct these proposed indicators may be found in the *First Destination Survey* (HEA) and the *Annual School Leavers Survey*.

Another area in respect of which there is significant assistance is continuing training. Yet there is no indicator to capture the trend in this. Accordingly, it is recommended that monitoring and targeting of the impact of assistance towards continuing training should be undertaken by using the results to the question contained in the *Annual Labour Force Survey* of "training received in the past four weeks". The trend in the past number of years in this has been quite static.



*Local, Urban and Rural Development*

Under this heading, the indicators at CSF level are: gross job creation (directly and indirectly in construction), numbers of new business start-ups and the survival rate of new business. There is no effective baseline for these indicators and to date there has been no data relating to them presented to the Monitoring Committee. (See Table 3.11). The MTE of LU expresses concern with the lack of performance measurement in the sub-programmes of this OP to date. Until these matters are resolved it is probably premature to be seeking to monitor impact effects at an economy-wide level. The OP comprises measures to improve local infrastructures and provide assistance to local enterprise development. It is considered that it would be extremely difficult in practice to disentangle the impact effects of this OP from the effects on rural development of measures contained in other OPs – in particular AG and FI. If the recommendations contained above regarding the monitoring rural development in the context of the Agriculture OP, were accepted and implemented these would provide a sufficient basis for monitoring the impact on rural development at the level of the CSF.

Table 3.11: *Local, Urban and Rural Development Indicators Included in the CSF*

	Unit	1993	1999	Latest Available
Gross Job Creation	Numbers			
- direct		-	16,900	
- Construction	Job equivalents		500	
Number of New Business Start-ups	Number	-	5,900	
Survival Rate of New Businesses	%	25	50	

**3.2 Mechanisms of Monitoring**

The mechanisms of monitoring the CSF comprise:

- Periodic reviews of the CSF Monitoring Committee and OP Monitoring Committees using a wide range of performance and impact indicators collected by implementing agencies and lead Departments and of expenditure undertaken or committed by them in the course of implementation.
- Work conducted by the various Evaluation Units – CSF Evaluation Unit; Analysis and Evaluation Unit of the Agriculture, Rural Development and Forestry OP and the Industry and ESF Programme Evaluation Units of the Department of Enterprise and Employment.
- The work of external evaluators to the OPs, including the conduct by them of *ex ante*, *mid-term* and *ex post* evaluations of the OPs.
- Appraisals of individual large projects.

### 3.2.1 Collection, Analysis And Review of Performance Indicators by Monitoring Committees

An important question is how effective are the current arrangements in terms of detecting implementation failures and for assessing performance? Given the dominant practice of using indicators at every level – programme, sub-programme, measure and sub-measure, the answer to the questions posed rests, in significant part, on the reliability, quality and relevance of the indicators used and the responses of the implementing agencies and monitoring committees when deviations from plans occur.

The European Commission has prescribed a *Common Guide For Monitoring And Interim Evaluation* with a view to ensuring consistency of approach and uniform standards. However, as might be expected, the experience across programmes is mixed. In the case of a number of OPs, in particular LU, HR and EN, the situation to date is not very satisfactory; the information available by way of indicators is inadequate to assess performance and could be inadequate from the point of view of detecting if satisfactory progress is being achieved in implementing the OPs concerned. In the discussion below, programmes are ranked commencing with the situations that give rise to the most urgent concerns and where remedial action is most in need.

#### *Local, Urban and Rural Development*

Financial reporting structures appear to be adequate. However, the situation with respect to performance monitoring of this programme has moved ahead only very slowly. A new Performance Monitoring System (PMS) has been developed during 1996, which adheres to the requirements of the Monitoring Committee and the *Common Guide* and the needs of the implementing Agencies. The full PMS comprises a listing of some 40 pages of detailed indicators for each Sub-Programme and measures thereunder. It was finalised in August 1996. Data will be on the system as from January 1997. It is considered by the external evaluator that the lead Department (Department of an Taoiseach) needs to play a more active and guiding role *vis-à-vis* the implementing Agencies. It is concluded that considerable efforts will be needed by all parties concerned throughout 1997 to complete the PMS at all levels. The external evaluators have made specific recommendations to assist with achieving this outcome.

#### *Human Resources*

The MTE for HR has expressed similar concerns with regard to HR as to LU. Basically, much fewer resources have been devoted to performance monitoring than to financial monitoring and reporting. The reports to the Monitoring Committee are considered by the external evaluators to be unduly elaborate whilst, at the same time, failing to show the main trends in an easily accessible manner. Furthermore, the external evaluators consider that the financial tables are

incomprehensible. The reports to the Monitoring Committee notably fail to inform the Committee about any changes in the labour market nor do they provide a constant review of where the implementation of the Programme stands *vis-à-vis* its annual targets. It is considered that with leadership from the lead Department – Enterprise and Employment – it would be possible for the implementing agencies to develop a more appropriate Management Information System, with the explicit objective of satisfying this requirement. To this end the MTE recommends that the implementing agencies should devote additional resources to developing more effective MISs within an agreed time frame and work programme. In particular it is recommended that these should allow the immediate monitoring of their programmes along the key objectives as laid out under the OP.

In relation to the Department of Enterprise and Employment it is recommended that expertise and resources should be applied as follows:

- efforts should be made to bring the impact indicators of all agencies into a single data system;
- controls should be asserted in respect of the quality of the data submitted;
- corrections should be made to the reporting format where inconsistent data returns between different agencies indicate insufficient data specification;
- calculations should be undertaken and reported to each Monitoring Committee as to the relative costs and overall impact of the Programme and Sub-Programmes, their effectiveness in reaching the intended target groups and the relative efficiency of individual measures within the Programme.

In addition, there is a need to improve the focus of attention between assistance provided under the OP and employment growth and reductions in the proportion of long-term unemployment. There is some evidence to suggest that this is not happening to the degree intended. For example, funding under the MLT and HTBS Sub-Programme is designed to provide vocational training and education at sub-third level to meet employment needs at this level. However, according to the *First Destination Survey* of the HEA, only 44 per cent of those completing diploma courses at RTCs are employed nine months after completing and the trend has been tending to fall. About the same proportion of students proceed to further education, presumably at degree level.

#### *Environment*

There are significant and widespread limitations regarding the data available and used to monitor this OP. These are catalogued at length in the EN MTE. The principal shortcomings relate to:

- lack of baseline conditions against which to measure progress, e.g., Measures relating to Water Supply, Waste Water Treatment and Group Water Schemes;
- lack of quantified targets and objectives for various Measures, e.g., Municipal Waste, Coastal Protection and Cleaner production;

- Weaknesses in impact indicators, e.g., Environmentally Sustainable Resource Management; Hazardous Waste.

Given these conditions it is concluded that monitoring of this aspect of the CSF is relatively weak. It is considered that, as a priority, the gaps identified by the MTE and the proposals and recommendations which they make to ameliorate the position should be implemented. As a means of expediting the process it is recommended that the task should be the subject of an assignment to an external consultant, providing clear terms of reference to provide an appropriate MIS, including assessment of baseline conditions, to assist with improving the monitoring of the OP, during the remainder of the CSF.

### *Tourism*

An examination has been made of the degree to which performance indicators in this OP meet with certain principles, namely that they should:

- be available, easily collected or sufficiently important to justify collection difficulties;
- as far as possible cover the entire Programme/Sub-Programme/Measure/Theme;
- be closely related to the objectives established, particularly tourism related objectives;
- be useful in other contexts, particularly to the implementing agency;
- be reliable and consistent from one time period to the next;
- be based on clear and consistent definitions;
- be collected on a regular basis with, at most, a two year gap between collections.

The overall conclusion was that these principles are fulfilled, for the most part. However, some of these principles are rather broad and they are not equally important or relevant. For example, as the MTE for TO points out, there are no indicators of the quality of the tourism product contained in the OP. This shortcoming would seem to represent a fundamental breach of the principle relating to "closely related to the objectives established, particularly tourism related objectives". Adoption of the MTE's recommendation that this gap should be bridged, with data from the biannual *Visitor Attitudes Survey* would represent an improvement and the recommendation should be undertaken.

Another short-coming of the data identified by the external evaluators is the lack of "linkage" between activity indicators of the OP and tourism numbers and spending. Accordingly, it is recommended that, in assessing the adequacy of indicators, particular regard should be given to the extent to which they are "closely related to the objectives established" and contain accurate information about the extent to which the attainment of these objectives is being assisted. This

aspect should be the primary focus of any additional resources being applied to the upgrading of indicators.

#### *Agriculture, Rural Development and Forestry*

The MTE concludes that there has been a very large improvement across the whole range of implementation mechanisms, indicators, interim evaluations, quality of information for Monitoring Committees, as compared with the situation in 1989-93. In particular, the following key features are noted:

- the presence of a co-ordinating unit for the overall OP within the Department, spanning the range of measures and sub-measures. Previously, these were divided among a series of OPs and Objective 5 (a) instruments without such co-ordination;
- the development and implementation of a streamlined financial reporting system so that all normally required financial information is now available;
- the establishment of the independent Analysis and Evaluation Unit;
- definition, development and assembly of a major body of physical progress and impact indicators designed to meet the normal national, EAGGF and ESF reporting requirements. This again is a major development since the previous CSF when no such central body of information existed; and
- initiation of a series of reviews and evaluations of individual components of the OP.

Again, detailed recommendations are contained in the MTE for refinements that would secure further improvement in the remainder of the OP.

#### *Industry*

A study was conducted in 1996 into performance indicators and general reporting of information relevant to the OP.<sup>60</sup> It was concerned with gaining an understanding of the manner in which indicators and reporting information is assembled and reported and assessing the adequacy, appropriateness and timeliness of the system. It identified a considerable number of problem areas in the current system and contains recommendations for improvement. Among the conclusions was that, in general, performance indicators are being collected to comply with requirements. The data is not being used regularly as a management tool by the implementing agencies. The main recommendation was that the OP indicative performance measures need to be integrated with the internal administrative systems of the agencies, so as to ensure consistency and that there is clear management responsibility for achieving the targets of the OP. In particular, the Report recommends that a consultative process should be established between the Lead Department and the implementing Agencies which would:

<sup>60</sup> Ernst & Young, 1996.

- Determine necessary, appropriate and practical targets in relation to each sub-measure and measure. These targets to be set specifically in relation to (a) output at measure and sub-measure level; (b) quality as well as quantity; and (c) measurement and minimisation of displacement and dead-weight.
- Establish links between measures and sub-programme targets.
- Define management responsibilities for achieving these targets and not merely reporting results.
- Establish a formal process for review and if appropriate, documented revision of targets or indicators.
- Agree to the introduction of a consistent, regular system of data collection and reporting at agency and departmental level.

#### *Transport*

The transport area is among the most susceptible to the collection of informative and reliable indicators for the purpose of monitoring and adapting the programme. The Monitoring Committee has taken advantage of this and has commissioned a number of useful indicator studies, which (as mentioned above) will prove helpful during the second half of the programme.

#### *Fisheries*

In a number of sub-programmes there are concerns over the adequacy of the indicators for monitoring and evaluation purposes. For example, eight indicators were proposed in relation to the port infrastructure measure, including increases in berthing capacity, improvement in safety and hygiene etc. None of these indicators was quantified or related to baseline data. The MTE proposes numerous and detailed improvements which should be made to performance indicators to improve monitoring and evaluation.

#### *Economic Infrastructure*

The principal shortcomings regarding the indicators used to monitor this OP are:

- The absence of indicators for certain measures, namely Rural Energy Networks, and Cutaway Bogs and
- That some indicators used are too broad. This is the case with measures relating to Infrastructural Telecommunications Upgrades and the Postal Services Measure.

Further work is required on these indicators to improve monitoring and assist with evaluation.

### 3.2.2 The Work of the Evaluation Units

As noted above there are a number of Evaluation Units comprising:

- CSF Evaluation Unit;
- Analysis and Evaluation Unit of the Agriculture, Rural Development and Forestry OP;
- ESF Programme Evaluation Unit and
- Industry Evaluation Unit, of the Department of Enterprise and Employment.

The work of some of these units is considered by certain of the relevant MTEs, notably, the ESF Programme Evaluation Unit (in the MTE for HR) and the Analysis and Evaluation Unit of AG. Considering these reports the following remarks are added from the perspective of the overall CSF. The work of the Evaluation Units is of a high professional standard and they provide a valuable resource to Monitoring Committees on a on-going basis. However, it is considered that they are being required to conduct work programmes which are excessively broad. Given the commitment of resources to them, a more focused approach, which concentrated the efforts of the limited resources available on achieving improvements in the implementation and impact of the CSF, would appear to be more appropriate.

In designing the work programmes of evaluation units it is recommended that a number of principles should be followed. Namely, that work should be focused on:

- Operational issues rather than policy or thematic matters. The latter can tend to require specialised skills which can change depending on the issue or theme being examined. For this reason it may be more appropriate to contract-in these specialised skills as required rather than rely on the finite skills available in the evaluation units.
- Improving implementation efficiencies and the impact of the programmes.
- Carrying out projects which employ statistical and other quantitative methodologies which are aimed at measuring performance and impacts, on a measure by measure basis, especially follow-up survey techniques of control groups, to establish cause and effect relationships between measures and target groups.
- Conducting statistical analysis of indicators to establish relationships and inter-linkages between activity, output, results, performance and impact indicators and the lag structures that might characterise these relationships; and
- Establishing and implementing a clear and explicit process to assist with reviewing and revising targets and objectives on a regular basis.

With regard to the CSF Evaluation Unit, having examined its work programme it is considered that, in addition to the above recommendation, the remit of this evaluation unit should be broadened to include analysis, in addition to

evaluation. In particular, it is recommended that it should be made responsible and appropriately resourced so as to be able to:

- Collect data for the purposes of the CSF indicators from implementing Departments;
- Conduct analysis of data in a manner that provides consistent assessment of the progress as regards implementing the CSF and the achievement of its objectives and
- Achieve a standard of presentation of indicators that allows them to be absorbed easily by those using them, thus providing a more effective management information tool.

The CSF Evaluation Unit should also be made responsible for procuring the effective implementation of the recommendations of sub-section 3.1.3 above on the macroeconomic indicators, and for integrating the outputs from that process into the analysis proposed in the preceding paragraph.

### 3.2.3 External Evaluators and Evaluation Processes

There are external evaluators appointed to six of the OPs.<sup>61</sup> In respect of a further two (as discussed above in Section 3.2.2) there are evaluation units established in the lead Departments – the ESF Evaluation Unit for HR at the Department of Enterprise and Employment and the Analysis and Evaluation Unit for AG at the Department of Agriculture. Therefore, EN is the only OP which is not subject to explicit continuous evaluation. It may be considered that, as this OP is relatively small, it would not be worthwhile to have an external evaluator. However, in view of the widely acknowledged benefits that are associated with the process of external evaluation, and the fact that there are serious shortcomings with respect to the information baseline and indicators available to monitor effectively the progress and impact of this OP, consideration should be given to appointing a suitably qualified person to act as external evaluator to the EN for the remainder of the life of the OP.

The work of external evaluators comprises two main activities:

- The provision of expert advice and consulting services on an ongoing basis to the Monitoring Committee of the OP in question; and
- Conducting *mid-term* evaluations and *ex post* evaluations of the OPs.

The wide consensus is that the ongoing services of external evaluators are provided to a high professional standard and that there is worthwhile value obtained from having the perspective of a well qualified and knowledgeable external expert.

<sup>61</sup> EI, FI, ID, LU, TO, TR.



As regards the periodic evaluations of the OPs themselves, considerable progress has been made in raising their average standard, to a high level and in ensuring consistency in depth and coverage across subject areas. The application of the *Common Guide for Monitoring and Interim Evaluation* has been a primary impetus in bringing about these improvements. Nevertheless, even closely drawn terms of reference are open to different interpretations when being applied by different evaluators.

For the future, greater value could be achieved from interim evaluations if the terms of reference were more confined. It is considered generally that reports are too long. The use of executive summaries is an advantage in this regard but the basic problem remains. Another significant shortcoming is that evaluators normally do not (and are not required) to cost recommendations which they make. Finally, steps should be taken to assist with achieving more consistency in the interpretation and treatment of issues by evaluators of different OPs.

The following recommendations are aimed at achieving improvement in these areas:

- The terms of reference for interim evaluations should be confined to dealing only with matters essential to the interim review process.
- With a view to improving the consistency of interpretation by external evaluators, the CSF Evaluation Unit should be made accountable and given responsibility for this aspect in the Steering Committees, rather than be involved in that process in a purely advisory capacity.

Evaluators should be required to assess the cost implications of recommendations made.

#### **3.2.4 Cost-benefit Analysis in Practice: Three Major Projects**

In designing interventions, formal cost-benefit analysis, which measures the main distortions and credits the project for unpriced benefits which it conveys, is useful, especially for large projects. We discussed some of the principles above, and here examine how they have been observed in practice for the cost-benefit analyses that have been carried out for the three large stand-alone projects of the CSF.

The three largest stand-alone projects in the CSF for which cost-benefit analyses were carried out are the National Museum conversion of Collins Barracks in TO1.1, the proposed National Conference Centre at the RDS (TO2.1), and Europeat (EI.1). The application of cost-benefit analysis is important to all three projects inasmuch as none is projected to be privately profitable. The focus of the analyses in all three cases are thus on additional social benefits which are not captured in the project financial returns.

In all three cases, the shadow price of labour used, ranging from about 10 per cent of the wage rate to *minus* 5 per cent is far too low. As mentioned in Section 2.1 above, the appropriate shadow wage for unsheltered employment in Ireland is no lower than 70-80 per cent. The studies all happened to be conducted by UK firms; in that connection it is interesting to note that cost-benefit studies for the UK government are required to use a shadow wage of 100 per cent.

In the case of the National Museum, the projected social benefits are chiefly in the form of additional tourist revenue to Ireland. Given that the financial projections are reasonably certain, the results of the cost-benefit analysis are crucially dependent on the projections of how well the new museum will generate this additional flow of tourist revenue. Essentially, the analysts calculate that, if the new site does no better than generating as many visitors again as the existing Kildare Street site, then the project will not generate national income as large (in present value terms) as the cost. On the more optimistic assumption that the new site generates about three times the number of visitors as the existing site, then national income generated will be larger than cost – by a factor of 2.5-3 if numbers subsequently grow at 5 per cent per annum. Note that the optimistic scenario implies that the new site will be one of the top three visitor attractions in the country. The assumed shadow wage is implicitly zero. Applying a higher shadow wage, and the marginal cost of public funds, would reduce the net benefits by at least 50 per cent. Nevertheless, if the optimistic scenario is correct, then there could still be a positive net present value. An intangible “heritage value” needs to be assigned to this project if it is to be considered better than marginal, especially considering the speculative nature of the tourism number projections.

The National Conference Centre proposal also relies on external tourism benefits.<sup>62</sup> Although recognising that Dublin had 1.2 per cent of the European conference market in 1995 – the same as Barcelona, and higher than Edinburgh, Milan or Munich, for example – the analysts project that a large conference centre would generate net additional business. (Though the analysts’ projections are much lower than those of the RDS.) The analysts consider it debatable “if the Centre will make a positive financial contribution even with [a 75 per cent] grant”. But hotel spin-offs will be positive, notably to the hotel that is planned on part of the RDS property. Assuming the rental that it charges to the hotel developer reflects full value, the RDS will capture some of these spin-offs. Other benefits would accrue especially to hotels and restaurants which are not contributing to the cost. Once again, the assumed shadow wage is zero, and in addition a £5,000 bonus per job created is credited to the project – an unusual procedure. Applying a

<sup>62</sup>The Department of Tourism and Trade observe that this project is the subject of ongoing discussions with the Commission and that the Cost-Benefit Analysis process has not yet concluded.

higher shadow wage of about 80 per cent would reduce the benefits by more than one-third, but this would not be enough to eliminate the calculated net welfare gain, assuming that the additional tourist revenue materialises. This project also has some environmental congestion externalities, not costed into the analysis.

The positive evaluation of the conference centre is very fragile. Though it seems to qualify at higher shadow wages, this neglects the speculative nature of the projected tourist benefits. If that speculative nature was recognised by additional discounting then the margin of advantage could be eliminated. For example, discounting the conference centre future benefits at 8 per cent instead of 5 per cent reduces the gross present value of the benefits by more than a quarter; together with a shadow wage of 0.8 this would be enough to reduce the computed net benefit from £82 million to £9 million; a 10 per cent discount rate would bring the net benefit to *minus* £3 million.

Turning to Europeat, it appears that, if the proposed grant is paid, and if the ESB is prepared to purchase power from the peat power project at the price assumed by the analysts (which they argue is a commercial rate), then the plant should be able to operate at a profit at the price proposed by Bord na Mona for the peat. However, the number of jobs generated is not enough to justify the grant. A manufacturing project for the midlands with this profile of employment would easily fail the IDA/Forbairt cost-benefit threshold at this level of grant.<sup>63</sup> Again the problem is the application of too low a shadow wage, and the neglect of deadweight and the marginal cost of public funds.<sup>64</sup> Even without considering the negative environmental aspects, and the risk that the very large CO<sub>2</sub> emissions per unit of electricity generated will entail massive abatement costs to meet possible future EU requirements, it is clear that the very modest security of supply benefits afforded by this project cannot be sufficient to justify it.

#### *Common Problems with Cost-Benefit Studies*

The various cost-benefit studies considered here, and some others of which we are aware, undertaken elsewhere in the CSF, lack uniformity of approach. For example, different assumptions are made about the shadow-price of labour. In the procedure used by the National Roads Authority, labour is priced as 100 per cent of market wages; in the cases above at figures close to zero. Varying assumptions are also made about other key parameters such as the real discount rates (despite a Department of Finance guide-line in regard to the latter).

<sup>63</sup>A rough calculation indicates that, using the old IDA methodology, the benefit-cost score would be about 1.5, against a minimum threshold of 4; using the new methodology proposed for Forfás, the project would score about 0.4 against a minimum threshold of 1.

<sup>64</sup>The analysts explicitly conducted their study on the basis of a special "constant pressure of demand" assumption which has the effect of minimising the shadow wage.

The lack of an uniform approach creates so much latitude for those conducting the cost-benefit appraisal that results are not comparable across studies. The body commissioning these studies appears to be, in all cases, the sponsoring Department or Agency, which may already be publicly committed to the project. There is thus a risk that those conducting the studies may feel inhibited in giving due weight to the negative features of projects.

We have two suggestions to make which we believe would enhance the value of cost-benefit appraisals.

The first is that (except where a standard procedure exists, as in the case of road projects at present) they should be commissioned by the CSF Evaluation Unit, rather than by the sponsoring Department or Agency. This would help to facilitate a greater consistency of approach.

The second is that these studies should be undertaken prior to the adoption of public commitment to the project in question by Government. When undertaken afterwards, as is the common practice, there is a risk that the cost-benefit study will come to be seen as a tedious compliance requirement with EU rules, rather than as a dispassionate evaluation of costs and benefits, and as a tool for the rational structuring of priorities.

### *3.3 Complementarity with Community Policies*

Clearly it is of considerable importance to the EU partner countries that the CSF should be complementary and compliant with Community Policies. Of course the broad thrust of the CSF is not only complementary with, but directly focused on key community objectives such as output and employment growth and reducing unemployment. The CSF document lists a large number of specific policies which need to be complied with.

In this section we consider first the working of the Partnership Process, which is central to the CSF and its operation. We then examine five areas in particular for conformity with Community policies: the environment and human resources (including equal opportunity), because of their cross-programme importance, the CAP and CFP, and Co-operation with Northern Ireland. Of the other areas on which we do not focus it is worth mentioning competition rules and award of contract rules, as these are highlighted in the CSF document. A scrutiny of the MTEs indicates that they have not detected any violations of procedural policies in respect to award of contracts; nor have violations of competition rules been reported.<sup>65</sup>

<sup>65</sup>Though as discussed in Part 2, there may be scope for improving the competitive environment in regard to delivery of some subsidised services.

### 3.3.1 The Partnership Process

The CSF process is intended to be a partnership between the National Government, the European Union and the Social Partners, who are represented on the Monitoring Committees of the various OPs. In overall terms, it is considered that it does, in fact, represent such a process. Indeed it is widely accepted and acknowledged that relative to the experience with other countries the position of Ireland, in terms of openness of approach, willingness to share information and communicate openly with the Commission is considered to be very good. Thus, any comments made must be seen in the context of a process that has been well developed and is regarded to be working well. Moreover, it should be stated at the outset, that assessing the quality of partnership in any objective sense is extremely difficult. Variations can occur across OPs and over time, which complicates assessment.

The commentary below is based on views and comments obtained from Irish and European Commission officials, closely involved with implementation of the CSF and observations by the evaluators at selected Monitoring Committee meetings.<sup>66</sup>

Dealing firstly with the involvement of social partners, there are two perspectives from which their involvement can result in valuable contribution. First, by providing input and specialised knowledge and perspective from the point of view of the constituency which they represent, respectively. Second, by bringing to bear their considerable experience and depth of knowledge in a manner that enhances the chances of achieving the objectives of the CSF. On balance, it is judged that their involvement in the process has tended to focus more on the first channel of influence than the second. In overall terms, greater exercising of the wider perspective, if it could be achieved, would be more in tune with the spirit of partnership which it is being sought to achieve. There are no explicit proposals regarding how this could be achieved other than to note the conclusion.

Turning to the relationship between national authorities and the Commission, the following observations appear pertinent:

- There is some perception that the national authorities can be less flexible than they might be. An example of how this manifests is considered to be the position of the national authorities on the apportionment of the deflator i.e. *pro rata*, across OPs and Sub- Programmes as compared with the Commissions preferred option i.e. *pro rata* across OPs only. A possible inference from this is that national authorities may not have worked out their positions as fully as might be possible. Against this, the national authorities would argue that the

<sup>66</sup>It should be noted that observations by national and Commission officials were not confined solely or exclusively to the positions taken by the other and *vice versa*.

deflator is a means of adjusting for the effects of inflation. Accordingly, the logical allocation is on a *pro rata* basis across programmes, sub-programmes and measures. After that, it is a separate and distinct matter as to whether there should be changes in the allocation of real resources.

- From the perspective of the national authorities it can appear that there is a lack of consistency in the position of the Commission or a difficulty in understanding what precisely is the position of the Commission. Different issues appear to be given different priorities depending upon the agenda of the relevant Commissioner at a particular point in time. A complicating feature in this regard is that Directorate Generals can have multiple concerns, for example DG-XVI has been concerned with the environment and this also is the main concern of DG-XI. Similarly, there have been parallel concerns regarding the issue of equality between DG-XVI and DG-V.

The partnership ethos could be improved if the process of implementing the CSF was more integrated with the system of planning and delivering non-co-financed spending. Under present arrangements, the EU Structural Funds Section is part of the Finance Division of the Department of Finance and not the Public Expenditure Division. This, to some extent at any rate, is symptomatic of a view held by the national authorities which would prefer to regard the CSF primarily in terms of a financing device for national spending priorities, rather than a true meeting of minds between the authorities and the Commission with regard to expenditure programmes which, if co-financed, could advance the achievement of the mutual priorities of both the national and European administrations.

Nevertheless, there are possible developments through which the partnership process could be strengthened. For example, similar standards of evaluation could be applied to all public expenditure planning in Ireland, as are currently applied in the CSF. Standardisation along these lines could enhance the scope for co-financing in the future.

Another potential route for more fruitful partnership relates to improving the process of implementing the CSF. The main approach has been to use established implementing agencies, e.g., FÁS, IDA Ireland, Forbairt, BIM, Bord Failte, etc., to deliver the programmes of assistance. Indeed with respect to local, urban and rural development implementation of the relevant OP Measures seems to constitute the predominant activity of CEBs and Local Partnerships. There are potential negative side-effects associated with this approach. Building larger permanent implementation agencies is not necessarily the best way of delivering a programme with a finite five year life. During the remainder of this CSF greater attention should be given to using new approaches to delivery and implementation. Clearly, there could be consequences for the resourcing of these agencies. Hence the

desirability of proceeding on the basis of partnership. As a step in this direction consideration could be given, on a pilot basis, to contracting out on a competitive basis the delivery and implementation of certain CSF measures and programmes.

Finally, there is a Structural Funds Information Officer, whose task it is to improve communications with the public with regard to the CSF process and its impact on the development of the Irish economy and society; create awareness of the type of assistance provided through the CSF, how it complements national policies; explain the respective roles played by national authorities, the social partners and the Commission and the intended and actual impact of measures undertaken is an important task. This is an extremely important role.

It is suggested that it may be worthwhile assigning higher priority to it, perhaps through more frequent media briefings and other public pronouncements and public events provided in partnership, to provide a public image of partnership and promote greater public awareness and understanding of the CSF process and the role it is playing alongside national policies in promoting Irish economic and social development.

### 3.3.2 The Environment

Our terms of reference called for a particular examination of environmental aspects, and we provide a relatively full discussion here and in the annex included as Section 4.1 below.

*The environment as a resource:* Ireland is undergoing rapid development, with the aid of the CSF and other EU funds. At such times it is to be expected that environmental resources will come under pressure in a way that other resources will not. By the term "environmental resources" is meant the array of services provided by the environment, ranging from scenery to carrying capacity for wastes. What makes the environment vulnerable is that use of its services is largely free, which happens because its various components, like scenery and biodiversity, are not owned and would be difficult to charge for.

*Objectives and approaches of environmental policy:* Environmental policy is concerned with the avoidance of such misuse, in particular with reducing:

- pollution of environmental media which have finite assimilative capacities – resources such as the air, water, land, (including scenery, natural habitats and urban areas).
- Destruction of vital environmental systems such as the climate, under threat from greenhouse gases, and the ozone layer.
- Depletion of natural resource stocks, such as fisheries and species of wildlife, and reduction of built heritage.

The broad policy approaches available to counter misuse of the environment are regulations, such as standard setting, (like drinking water standards, or bans on smoky fuel) and pricing, (such as higher rates of tax on leaded petrol and charges on industrial effluent going to treatment facilities). Policy in the EU and in Ireland follows these two approaches, though there has been more reliance on regulation than on pricing in Ireland recently. There are of course variants on these two options, such as requiring semi-state bodies to achieve an environmental objective (which is like a selective regulation). Another variant is direct government action, and the award of subsidies to environmental protection. These require to be financed, often via higher taxation. They tend therefore not to conform to the Polluter Pays Principle, but might be justified on the grounds that they are helping with an adjustment process.<sup>67</sup> Some aids under the CSF, particularly under the Operational Programme for Environmental Services (EN), would fall into this category.

*Environmental issues in Ireland:* The present environmental situation can be described under the three main headings, air, water and land. The emerging priority issues, under these headings, which need to be addressed are: urban air quality; greenhouse gas reduction; water pollution from agriculture and sewage; afforestation-induced acidity; reduction of fish stocks; litter; derelict buildings; ribbon development; destruction of architectural heritage; loss of peatlands; hill-side erosion; and loss of habitat and species.

Planned spending in EN forms less than 2 per cent of the CSF but, taking other CSF programmes into consideration together with the expenditure of other EU funds (especially the Cohesion Fund), the overall effects of the Structural Funds on the environment are potentially large and wide-ranging.

It is useful to start with an overview of the areas where these funds impact on the environment. Such an overview is shown in Table 3.3.1, which indicates where there are effects on the environment from (a) EN, (b) the other OPs, and (c) other EU expenditure, including the Cohesion Fund. The interactions between the three are important, reflecting cross-media and cross-sectoral spillovers, which are an inevitable feature of the environment. The conditions affecting the environment under, say, Cohesion funding are likely to be similar under expenditure from the CSF, so that the issues overlap and can be relevant whichever fund is under discussion.

<sup>67</sup> OECD (1975). The Polluter Pays Principle is contained in the EU Treaty which also states that financial support (from the Cohesion Fund) can be provided for "without prejudice to the principle that the polluter should pay" (Articles 130r para. 2 and 130s para.5)



For each spending measure, Table 3.3.1 gives the original planned public spending, which will stand unless there are changes of plan. The third column of the table shows main aspects of the environment which are affected by the measure (sometimes negatively, as shown by the minus sign).

Table 3.3.1: *CSF Spending: Where It May Impact on the Environment*

<i>Spending measure</i>	<i>Planned public spending (£m)</i>	
		<i>Main aspect affected</i>
<b>(a) OP Environmental Services:</b>	<b>90</b>	
Water services	58	
of which: Water supply	16	Drinking water quality, quantity (+)
Waste-water treatment	32	Quality of surface waters (+)
Group water schemes	9	Aquatic life (+)
Waste	22	
of which: Hazardous waste	5	Multiple effects: incl. land, surface and ground waters
Municipal waste	17	
Coastal protection	5	Land, species. (+)
Environmental monitoring + R & D	2	
of which: Envir. sustainable resource mgmt.	2	Multiple effects via improved technology and policy selection
Cleaner production	1	
Technical assistance (training)	3	Quality of surface waters (+)
<b>(b) Other relevant OPs:</b>		
OP Economic infrastructure		
of which: Energy efficiency	21	Greenhouse effect, air (+)
Renewables	15	Greenhouse effect, air (+)
Peat fired station	21	Greenhouse effect, emissions, dust, siltation (-)
Rural energy networks	2	Greenhouse effect (-)
Cutaway bogs	1	Scenery and habitat (+)
OP Agriculture, Rural Development and Forestry		
of which: Compensatory headage payments	642	Water, ecosystems incl. fishlife (-)
Control of farm pollution	100	Greenhouse effect, scenery, ecosystems, fish (+)
Forestry	84	Scenery, water (+/-)
Research in sustainable agric. & rural development	29	
OP Fisheries		
Aquaculture	13	Scenery, wild fish stocks (-)
OP Tourism	453	Built heritage, scenery, wilderness, traffic, congestion (-/+)
OP Transport	113	
Rail	8	Air, land, noise, Greenhouse effect (+/-)
Road		Air, land, noise, Greenhouse effect (-)
OP Industry		
Development of the food industry	268	Water, air
OP Local urban and rural development		
Urban and village renewal	103	Heritage, conservation of buildings (-/+)

Source for spending data: Table 2.2.1 above.

The CSF was not drawn up with the environment as its major consideration. Apart from EN, expenditure was planned with other objectives in mind, but within the overall constraint of environmental sustainability, which is discussed below. In some cases, environmental considerations would have been a constraint, in others an added justification for expenditure. Examples might include the Sub-programme for Development of the Food Industry (ID6), which would have to operate within the constraints of the regulatory regime of Integrated Pollution Control (IPC) licensing. An example where the environment might provide justification for expenditure would be Forestry, which would be seen as helping to restrain the greenhouse effect.

To summarise the effects of the CSF on the environment, it would be ideal if the pluses and minuses in the right hand column could be expressed in monetary values. If they were, the values could then be added to give a net effect. Furthermore, such values could be incorporated as costs and revenues in the investment appraisals undertaken for individual OPs. The criterion for investment would lead to selection of those projects showing highest returns overall. Without such clear-cut valuations, environmental issues enter as discretionary considerations.

More recently, commitments have been made to the promotion of development that is "sustainable" (Brundtland Report 1987, European Commission 1992, *A Government of Renewal* 1994). The term sustainable is used to describe a system in which, broadly speaking, the asset base is not being run down, and that is the interpretation which will be employed here.<sup>68</sup> In many instances, it is this carrying capacity that matters. If carrying capacity is not taken into account, and an unrelated emission standard is applied, improvements obtained may be unnecessarily expensive. The task of standard setters is to "think carefully about costs and benefits before demanding expensive standards... if too much is spent pursuing standards of limited benefit, there will be insufficient money to pay for those that are worthwhile", according to a recent study of several regions of the world (Johnstone and Horan, 1994). Overall, the environment would improve if funds were diverted from these situations of relative under-use of the environment to situations of over-use.

If use of the environment's carrying capacity were priced, for example, by charges on emissions and resource use, the tendency to unsustainable use would be reduced. In the many cases where this is impracticable, standards are applied,

<sup>68</sup> In fact we are selectively applying "strong sustainability". It could be said that in the past, when (and if) the gains from development were claimed to justify losses of environmental assets, "weak" sustainability was being applied. Resulting man-made assets were implicitly assumed to be substitutes for the environmental assets forgone.

which should be drawn up having regard for costs and resulting environmental effects of compliance.

The question has been raised of the suitability for Ireland of EU Directives which do not take account of the carrying capacity pertaining to Ireland's situation (the provenance of funds supporting compliance is irrelevant, as explained in the introduction to this report). The switch from environmental quality objectives (or EQOs), which were used previously, to the use of emission standards in the Urban Waste Water Directive takes inadequate account of the state of the receiving medium.<sup>69</sup> Yet the state of the receiving medium is what affects people's well-being. Expenditure on high treatment levels at coastal treatment plants and on cessation of sludge dumping at sea needs to be justified by reference to the benefits which are expected to ensue. If the benefits are not commensurate with the costs, then such an extent of compliance with the Directive is not the best use of funds. Better uses could include paying more attention to pollution of inland waters, to remove serious pollution and arrest the increase in river length having "slight to moderate pollution". Such pollution arises largely from agricultural wastes and fertilisation of land (Stapleton, 1996). A two-sided approach to this problem might be required, consisting of increased expenditure on farm pollution control on the one side, and of taxing polluting behaviour, including excess fertiliser application, on the other.<sup>70</sup>

While discussing the desirability of the two-sided approach, the running costs of the much enlarged water services deserve mention. The operation of greater capacity, and to higher standards of treatment, will require increased expenditure on water services in a few years time amounting 20 per cent higher than current levels (Lawlor and Scott, 1997). These costs should devolve onto those whose demands for water and whose emissions of waste water cause these costs to be incurred. In order not to encourage unsustainable behaviour, charges for operation and maintenance, as well as for the capital cost, should be based on relevant costs

<sup>69</sup>It raised concern that Ireland could be put to unnecessary cost given the high share of food production within the industrial sector (Kilgallon, 1992).

<sup>70</sup>It has been suggested that VAT or a similar tax be imposed on fertiliser (which, uniquely in Ireland, is zero-rated for VAT) and that subsequent deductibility be subject to the condition that farmers deal correctly with farm pollution, for example by showing a satisfactory balance of nutrients on the farm, given their soil conditions. Farmers that were not polluting would be financially unaffected, being allowed to deduct VAT paid, or, in the case of small farms, would receive a raised flat-rate compensation on their sales. The simplicity of administering this system commends it, as well as the correction of incentives and absence of adverse distributional effects (Scott, 1997).

imposed by the user/polluter.<sup>71</sup> If they are not, users/polluters will impose added demand on water services, dependence and unsustainability will be encouraged, not to mention the extra taxation that will be required to finance operation of the services.

Overall, the environmental effects of expenditure under the CSF are mixed. The EN OP will result in improvements but there is insufficient evidence to determine whether the OP gives optimal value for money. It is evident that the CSF did not target some of the major areas of concern. With regard to the other OPs, the results are more varied, ranging from actual harm, through missed opportunities to genuine improvements.

The inadequacy of the information available to measure environmental impacts has been displayed by the MTEs. Data on several aspects of environmental quality not being to hand, comprehensive inventories describing conditions before activities started would have been needed. The environment was put at risk and some irreversible damage occurred owing to the lack of "evidence" of damage. In some instances, warnings of third parties went unheeded for too long.

It is worth reiterating the overriding consideration that the CSF cannot realise its full potential if national environmental policy in relation to the legal and fiscal frameworks is inadequately developed.

### **3.3.3 Target Groups for Human Resources**

This sub-section reviews the contribution of Human Resource spending to equal opportunity for women, and for two other target categories of wider EU policy: young labour market entrants and the long-term unemployed.

#### *Equal Opportunity for Women*

The CSF enhances equal opportunity, primarily through the Human Resources elements of HR and LU; there is also a significant positive impact through the TO.<sup>72</sup> The MTE for HR note a lack of action in implementing intended childcare provision activities (HR5.4) and that the provision of pre-school care in Ireland is amongst the lowest in Europe. It is also concluded that certain sub-groups of women, e.g., those with disabilities; Travellers; those living in low income

<sup>71</sup> Charges should be related to quantity of service and volume of polluting material being treated and reflect costs incurred in the short run (for operating costs), and in the long run (for capital costs), along the lines suggested by Scott and Lawlor (1994).

<sup>72</sup> Sub-programme TO4 (Training) which is co-financed by the ESF, has a dedicated measure and explicit targets in relation to the unemployed and the MTE reports that there is no evidence of gender imbalance.

households; lone parents; elderly persons; would benefit from a closer targeting of assistance.

Women have made up about 40 per cent of beneficiaries of HR spending. Though the target for participation has been reached, it is a modest achievement in the context of the rapid increase in female labour force participation rates. Women have been well represented in programmes such as Local Enterprise, Re-Integration Training, VPT and ATS, although less well represented on the TSS and Apprenticeship training. However, within the MLT/HTBS there is the disappointing observation to be made that the traditional gender breakdown across courses still holds to a degree. For example, although 48 per cent of MLT/HTBS participants were women, only 6 per cent of female graduates were in engineering. The specific needs of women who are trying to return to work following child-rearing are addressed through the Re-integration measure and the pilot return to work courses under the Promotion of Equal Opportunities measure; these two measures had a combined throughput of 5,000 in 1995.

Information on the impact of LU on women is limited. The only information in the MTE concerns the number of women on Partnership Boards. While the number is low, this cannot be taken to necessarily mean that women are not being served by the Programme.

With respect to FI, although the MTE remarked that "there are relatively low levels of female participation on many of the training courses particularly those involving the catching sector" they report that women form 34 per cent of those trained under FI: a creditable performance for this sector given traditional attitudes.

Although more than a half of TO4.3 training is of women, they account for less than one-half of the management course.

Despite vigorous provider efforts, only 19 per cent of trainees in the AG training course for adults were women, no doubt again due to cultural barriers on the demand side.

Finally, the management development support measure in ID also shows a gender stratification with only 38 women participating in 1994 out of a total of 261.

The broad conclusion for this would seem to be that the human resource measures are impacting upon women but that gender segregation along occupational/subject lines is still in evidence. It should, however, be pointed out that barriers remain to the re-entry of women into the labour force and that these should be addressed. As the HR MTE puts it, if programmes are to be made more accessible to women greater childcare provision is required and greater flexibility in programme delivery is required too, such as part-time courses. But also of importance is the impossible constraint that faces many women, that is ineligibility

for courses because of Live Register status. Is this barrier in place simply or primarily to improve the optical impact of measures on the live register figures? If so, it should be removed.

#### *Impact of HR on Other Target Groups*

*Young Labour Market Entrants.* With respect to young labour market entrants, the bulk of activity aimed at them is under HR1 with some additional activity under HR2 and HR3. Of the 33,000 persons under 20 years who participated in HR schemes in 1995, about 60 per cent participated in VPT (HR1.3). To a great extent then, the success of this measures influences the effects on this group.

*Long-Term Unemployed.* The main measure through which the CSF impacts upon the long-term unemployed is Community Employment (HR3.2), 69 per cent of whose 55,000 participants in 1995 were long-term unemployed. The proportion of long-term unemployed on this measure is likely to have increased given the change in eligibility requirements introduced in 1996.

### **3.3.4 Common Agricultural and Fisheries Policies**

The measures part-financed by the SF which relate to the CAP are largely those under the AG OP, but ID6, LU2 and LU3.3 in particular are also relevant.

Virtually all of the objectives and measures in AG are in conformity with the objectives of the CAP as set out in Articles 39 *et seq.* of the Treaty of Rome. The latter include increasing productivity, ensuring a fair standard of living for the agricultural community, stabilising agricultural markets, and ensuring supplies at reasonable prices to consumers. Article 39 states further that the CAP should take account of the social structure of agriculture and the structural and natural disparities between regions. However, one reservation must be entered concerning AG1.4, the Compensatory Allowances Scheme. This measure, where it applies in certain circumstances, is not in conformity, in the first place, with one of the objectives for agriculture in the CSF, viz., the promotion of farming in harmony with the environment. This measure would now be increasingly at variance with the new orientation to the CAP which places growing emphasis on the preservation of wildlife habitats and on production methods which reflect increasing concerns with conservation, landscape protection and wider environmental problems.

The Food Industry Sub-programme ID6 and the relevant measures in LU are in conformity with the objectives and spirit of the CAP. The former aims to build a competitive food industry while helping to sustain rural economies. The latter aim to counter disadvantage through support for rural communities and underpin the economic future of rural villages.

The Common Fisheries Policy, which came into effect in 1983, covers all aspects of the fishing industry from the sea to the consumer. It seeks to co-ordinate

access to available fish stocks in the Community and the size and capability of the Community fleets competing for the resource. The CFP seeks to ensure a balance in the conservation and management of fish stocks while guaranteeing livelihoods of fishermen and the interests of coastal communities reliant on the fishing industry.

In principle, the measures in the CFP are fully complied with under the CSF. As fisheries is a common resource there is a need to control fleet capacity in line with fish stocks. The key targets for fleet capacity are set out in the Multi-annual Guidance Programmes for three to five year periods. To comply with these targets measures have been introduced to enable the capture of available fish quotas. This is the rationale for the measures for decommissioning of older vessels and the modernisation and renewal of existing vessels to improve their productivity and safety. (There is a critique of the efficiency and effectiveness of these measures in Sections 2.3 and 2.5 above.)

The marketing measure in FI is also in line with the CFP, with common rules covering a wide range of fresh and processed seafood. These rules are designed "to stabilise the market and guarantee a steady supply of quality products and ensure reasonable prices for the consumer". Under this measure support has been deployed for investment in processing to meet EU Health and Hygiene Regulations.

The Aquaculture measure is also in line with those aspects of the CFP which identify this as an industry for development, though to the extent that parts of the measure have had adverse effects on sea-trout, it could be considered contrary to other objectives of the CFP.

### **3.3.5 Northern Ireland**

Finally, we include here – as relevant to broader EU policies – a brief discussion of the issue of potential refocusing of CSF spending with a view to supporting the Peace Process. Naturally this requires consideration of spending focused on the border areas, and in particular on North-South transport and communications links. A special common chapter on North-South Co-operation was included in both Development Plans, and there has been a degree of co-operation in practice.

#### *Prospects for Northern Ireland Economy*

Up to the end of the 1980s, the Northern Ireland economy shared approximately the same long-term growth rate as the UK as a whole, but since about 1990 it began to grow rather more rapidly, with a 1990-95 annual average growth rate of 2.4 per cent *per annum* – still a lot less than the Republic of Ireland, but well above the 0.9 per cent recorded by Great Britain. As in the Republic, the recent improvement in performance has been associated with

relatively rapid employment growth – running at about 1.2 per cent *per annum*. The relative improvement came in three stages (Gudgin, 1997): first, a strong performance of industry toward the end of the 1980s UK boom, perhaps reflecting a spillover from capacity-constrained UK firms; second, the fact that (as with the Republic) the 1990-92 recession was shallower than in the UK, and third, more rapid growth in the post 1992 period. It is likely that the cease-fires helped this recovery in 1994 and especially 1995. Though the end of the IRA ceasefire was a definite set-back, with a flattening-out of most activity indicators and a decline in business confidence reported, unemployment continued to fall and house-prices to soar throughout 1996. On a balanced assessment, general economic conditions could be said to remain favourable despite the ongoing political uncertainties (cf *Economic Outlook and Business Review*, March 1997). Some Belfast-based forecasters are predicting continued strength in the Northern Ireland economy to the end of the Century, though it remains controversial to what extent this would be dependent on a resumption of the ceasefires. Clearly tourism is a sector which will be heavily dependent on these matters.

#### *EU Initiatives*

Although they preceded the cease-fires declared in September and October, 1994, the Irish and Northern Irish development plans drawn up prior to the finalisation of the CSF 1994-99 treaty included a common chapter which emphasised the desirability of joint planning and co-ordination.

The EU is co-financing the NISP (Northern Ireland Single Programme) for structural funds, which can be viewed as the programme corresponding to the CSF in Northern Ireland. All of the spending under NISP is confined to the six counties of Northern Ireland.

However, the border counties of the Republic, in addition to assistance from the CSF and Cohesion Fund, also benefit from a range of other EU-funded schemes and initiatives. These are, principally,

- the Leader programme
- Interreg
- SSPPR (the Special Support Programme for Peace and Reconciliation)
- International Fund for Ireland (to which the EU is a major contributor).

Of these, two, namely Interreg and the SSPPR were explicitly targeted at North-South co-operation. The evaluation of these non-CSF programmes is beyond the scope of this report. However we would note that the problem of overlap between different EU-funded programmes and initiatives, which arises everywhere in Ireland, is particularly acute in the border counties of the Republic, since they qualify for assistance under a greater range of funding instruments.

It was noted by the authors of the MTE on the Regional Impact of the CSF that the border counties of the Republic have been allocated a considerably larger



share of CSF funds than would have been justified on the grounds of population. This suggests that there is no a priori basis for redressing any imbalance that might have arisen in EU funding to the detriment of this area because of lack of co-operation or any other reason.

In terms of sub-programme areas, Table 3.3.2 shows the extent of overlap potential.

*Table 3.3.2: Overlap Potential, EU-funded Schemes, Border Counties*

<i>Spending Area</i>	<i>CSF</i>	<i>SSPPR</i>	<i>Leader</i>	<i>Interreg</i>	<i>Cohesion</i>
Regional Development	*	*	*	*	
Human Resources	*	*	*	*	
Infrastructure	*	*		*	*
Agriculture, Forestry, Fishing	*	*		*	
Environment	*			*	*

The table does not include the International Fund for Ireland which also supports projects in the border counties of the Republic. There are also private sector schemes on a smaller scale, such as the Ireland Fund.

The Interreg Programme Ireland/Northern Ireland 1994-1999 was extended a Community allocation of 157 mecu. We understand that there has been a substantial under-spend on Interreg, which has a funds allocation of roughly 50:50 on each side of the border.

The SPAR is largely targeted at Northern Ireland; however 20 per cent of the funds are allocated to the border counties of the Republic, and a further 15 per cent for cross-border projects. There has also been an underspend on this programme.

Local matching funds are required for CSF measures. We understand that in certain cases in border counties, the "matching funds" have come from the International Fund for Ireland, a programme part-financed by the EU.

#### *Transport Needs and the CSF*

The weakness of cross-border transport links have often been cited as a factor inhibiting cross-border economic activity, and the idea of a Dublin-Belfast economic "corridor" has been mooted. Several initiatives co-financed by the EU structural funds have begun to improve the situation and will continue to do so,

notably in terms of rail and road links. As to whether special additional steps should be taken, this is quite doubtful.

The MTE of the TR OP considered the cross-border traffic evolution in the context of funds allocation to transport infrastructure, and special reports on this topic have been prepared by the External Evaluator to that OP. The rapid growth in traffic evident in 1995 appears to have run its course, consequent to the ending of the IRA ceasefire in February 1996. Indeed the volume of cross-border rail passenger traffic experienced a substantial decline in 1996 over 1995. The Evaluator to TR did not recommend any increase in funds allocation to cross-border transport infrastructures.

In view of the substantial underspend on Interreg, and the underspend on SSPPR, the CSF Monitoring Committee should consider whether the border counties of the Republic should continue to attract a disproportionate share of CSF resources.

#### *The Peace Process*

In light of the current prospects for the Northern Ireland economy, the existing financial provisions for various cross-border initiatives, and the speculative nature of any link between additional spending and a change in political attitudes or decisions, it is not considered that allocation of additional funding for special initiatives under the CSF would materially affect the Peace Process at this stage.

### **3.4 Co-ordination**

This section is concerned with the subject of co-ordination of the CSF. The CSF Monitoring Committee is formally responsible for the co-ordination of the CSF. The Committee meets every six months and comprises national civil servants from the Departments of Finance; Agriculture Food and Forestry; Arts Culture and the Gaeltacht; Education; Enterprise and Employment; Environment; Equality and Law Reform; Foreign Affairs; Health; The Marine; An Taoiseach; Trade and Tourism; Transport Energy and Communications. These number 21 persons. There is one member from the European Investment Bank. Finally there are 9 members from relevant European Commission Directorates General. In all, therefore, membership comprises 31 persons.

#### **3.4.1 Horizontal Co-ordination Issues**

Issues of co-ordination arise both horizontally and vertically at the level of the CSF. However, the CSF Monitoring Committee's role would appear to be potentially greatest with respect to horizontal matters. There are several major priorities of the CSF which are implemented through or are affected by (parallel) actions and measures being pursued in several OPs. The key priorities which are affected in this way are considered to be:

- **Human Resources Development:** In addition to the dedicated OP, there are significant human resources development measures or programmes contained in the OPs relating to Agriculture; Fisheries; Industry; Local and Urban Development; and Tourism. In addition, the main OP has feedback effects to these OPs.
- **Local, Urban and Rural Development:** The priorities and objectives of this OP are influenced to a significant degree by programmes and measures contained in the OPs relating to Agriculture, parts of Economic Infrastructure, Fisheries, Tourism and Transport.
- **Environment:** A number of OPs have the capacity to have a significant impact on environmental quality, in particular, Agriculture; Fisheries; aspects of Economic Infrastructure; Tourism; Local, Urban and Rural Development and Transport appear in this category.

#### *Human Resources Co-ordination*

The CSF provided for the establishment of a Human Resource Co-ordinating Committee, reporting to the Monitoring Committee of the Human Resources Development OP. Such a Committee has been established under the Chairmanship of the Department of Enterprise and Employment and comprising members from the lead Departments and implementing agencies, which are responsible for programmes and measures with an ESF component. To date it has met twice – in June 1995 and May 1996. It has examined two reports undertaken by the ESF Programme Evaluation Unit concerned with *Early School Leavers Provision* and *Training for People with Disabilities*. In addition, it has addressed the issue of consistency of eligibility criteria for assistance under ESF and the measurement of impact indicators.

It is considered that the committee could play a more effective role in assisting with co-ordination if it was given: clearer reporting lines; a prioritised work programme and adequate secretariat resources to carry-out the work programme or procure that it is carried out. To date, the committee has operated on an *ad hoc* basis. Going forward, it is recommended that a more structured approach should be adopted as follows:

It might be more effective if this Committee was a sub-committee of the CSF Monitoring Committee. The latter is required to apply a breadth of perspective that is wider than other Monitoring Committees. Accordingly, it should be better able to take account of views and insights which the HRD Co-ordination Committee might propose. Its primary task should be to procure that co-ordination issues identified by the Monitoring Committee and prioritised by it, on foot of the mid-term evaluation, are addressed and pursued. It is recommended that these priorities should be determined by reference to three headings:

- education and training issues;
- establishing employment implications of human resources developments; and
- equality issues

The co-ordination committee should meet one month in advance of the CSF Monitoring Committee to approve its report and proposals for actions and other prescriptions which it may have formulated on the above subject matters and to ensure that these are available to the Monitoring Committee to decide and act upon. The Monitoring Committee should decide the working agenda of the co-ordination committee taking account of the advice and views of the co-ordination committee.

#### *Development at Regional and Local Level*

The issue of co-ordination with respect to regional and local development is a difficult and complex one, as may be judged from discussions contained in the MTE for LU and the Regional MTE. It is not proposed to repeat those discussions here. Rather, the starting point is *Better Local Government: A Programme For Change*.<sup>73</sup> This sets out government policy for developing local government, including structures and organisational features, for the 21st century. As such, it provides a context which can guide co-ordination of CSF interventions at sub-national level.

There are two broad sets of issues in respect of which developments and improvements are needed if the process of co-ordination of the CSF at regional and local level is to be improved and put on a sounder footing. The first concerns the relationship between local administration, development agencies and other organisations at county level and between these and Regional Authorities. The second relates to the capacity of the Regional Authorities to provide a useful input to the central CSF monitoring process and the relationship between regional authorities and central administration.

The government proposals are clear. They involve the integration of local development with local administration. Co-ordination is to be achieved by the appointment at local authorities of:

- Directors of community and enterprise development; and
- Community and Enterprise Groups (CEGs), to take-over the role performed to date by County Strategy Groups.

The latter are charged with devising "fully worked out plans of how to achieve integration of the two systems in its areas" by the end of 1997 (*op. cit.*, p.30).

Furthermore, there are proposals to extend the remit of local government, pending recommendations by the *Devolution Commission*.

<sup>73</sup> Department of the Environment, 1996b.

Taken together these proposals, when implemented successfully, will place local authorities in a more central position, in terms of performing a co-ordinating role in respect of various local development initiatives that are underway. If they are implemented speedily and efficiently, they have the potential to make significant improvements in the co-ordination and the efficiency with which local development initiatives are implemented and delivered to the local communities, which they are intended to assist, in the latter part of the life of this CSF.

As regards the role of the regional authorities in assisting effectively with co-ordination of the CSF it would appear that their primary focus should be with assisting local authorities with the planning of public service provision and with co-ordinating local development initiatives in the regions. The provision, contained in the government's proposals, for assigning a county/city manager with overall responsibility for the regional authority, to provide better co-ordination and linkage between local authorities should assist the regional authorities in performing this function. Another side of the equation concerns their ability to provide relevant information and data to assist local authorities in the regions. At present, they do not have the capacity to provide this link.

It is considered that the following proposals would assist with improving the present situation and contribute to the achievement of more effective co-ordination of the CSF at regional level.

Effective co-ordination requires that relevant information is available to assess the impact of actions on the ground. There are major deficiencies with regard to the availability of information. First, there is inadequate socio-economic data available at regional level in terms of employment trends, income developments and the sector composition of the economy at regional level to enable any meaningful benchmarking or formulation of strategic development objectives to take place at regional level. Second, the monitoring information provided to the Regional Authorities is out of date, of variable quality and in many cases not in a form that is specific to the regions.

As regards socio-economic data, additional resources should be made available to the CSO to enable it to improve the socio-economic statistical profile of regions. Without adequate socio-economic data to provide a statistical profile of the regions co-ordinating CSF interventions to achieve the goals in an effective way at regional level is extremely difficult.

Therefore, with respect to the monitoring information available to the Regional Authorities it is recommended that the proposed Analysis function, which it is recommended should be attached to the CSF Evaluation Unit (see above) should be charged and resourced adequately to collect, analyse and provide commentary on data relating to expenditure and progress of implementation according to generally accepted indicators of performance under the various programmes and

sub-programmes of the CSF, according to a regional classification. This should be done at six monthly intervals. In addition, where there are approvals of large projects the relevant Regional Authority should be informed on a "when-it-happens" basis. These improvements should deal with much of the criticism of Regional Authorities of information received by them with regard to consistency in content, format, quality across OPs and timeliness of data.

Having appropriate data is one thing being able to use it is another. It is considered that the Regional Authorities would require additional specialised technical secretariat assistance to evaluate information compare it with benchmarks and assess if the progress is appropriate to the regional requirements and objectives. In order to bridge this gap it is proposed that technical assistance should be provided by the CSF Evaluation Unit to each of the Regional Authorities in the form of an appropriately qualified person, employed under fixed term contract, to assist the Regional Authorities secretariat with interpretation and evaluation of CSF performance at Regional level. This should culminate with a timely presentation of reports by the Regional Authorities, to the CSF Monitoring Committee, articulating their view as regards the contribution of the CSF to regional strategies and identifying shortcomings and advising on how these might be overcome, within the overall CSF framework. It is proposed that the process of feedback to the CSF Monitoring Committee should be arranged around a schedule that would see relevant findings and proposals from, say two, Regional Reports being submitted each six months to the CSF Monitoring Committee.

It is considered that such a process could lead to a strengthening of the capacities of Regional Authorities to determine the impact of CSF measures on the regions and assist in evaluating if regional strategies are being achieved. It is thought the process would also benefit the CSF Monitoring Committee by providing it with a perspective on the effectiveness of the various OPs at regional level and where implementation failure may be occurring.

#### *Research and Technological Development*

An RTD Co-ordinating Committee established under the current CSF covers all RTD activities in the various OPs. Representative of Departments, agencies and the social partners, it acts as a forum to promote cross-fertilisation of ideas, work methods and co-ordinating RTD activities across Departments, Agencies and OPs. It reports to the CSF Monitoring Committee and can advise that Committee on specific technical issues as appropriate. It is understood that it will shortly make recommendations (in the context of the mid-term review) designed to improve complementarity across schemes, avoid overlap and improve consistency of treatment across schemes. It would appear that scope exists for this Committee to increase its role and relevance to the CSF Monitoring Committee by bringing relevant matters to its attention more frequently.

*The Environment*

It is considered that closer co-ordination needs to be achieved between OPs from the point of view of assessing and managing their impact on the environment. Explicit indicators are contained in the CSF with respect to AG and EN.<sup>74</sup> However, as discussed elsewhere (See Section 3.3.2) the impact of the CSF on the environment is wider than the aspects dealt with by these two OPs. Bearing in mind the environment's finite assimilative capacity, some re-balancing between programmes and measures could lead to a better overall outcome. An example may illustrate the point well. The Agri-Tourism Sub Measure, is the largest within the Farm Diversification Measure. It is considered to be effective and efficient in promoting non-farm income. It seems likely that this measure would have positive environmental effects resulting from less intensive pursuit of agriculture and investment in pollution management of farm-yards. Against this, some measures contained in the Tourism OP may not have associated positive environmental effects, indeed on the contrary concentration of development at some tourism centres is resulting in congestion and pressures on local environments.<sup>75</sup> A preliminary assessment of potentially important consequences for the environment of relevant Operational Programmes is contained in the Annex at 4.1. Key recommendations for consideration, that emerge from this assessment are:

*Recommendations for AG1:* Income supports should aim to reward desired activities. Ownership of cattle and sheep, where it is uneconomic, does not fall into this category of activity. Funds should be diverted to improve the reward to activities in Special Areas of Conservation, to extend the REPS (Rural Environment Protection Scheme) or to encourage early retirement.

The MTE (p.177) suggests that receipt of all Exchequer and FEOGA assistance be subject to compliance on the part of the farmer with at least minimum environmental standards. The MTE's suggestion is that the precondition would be a type of environmental clearance certificate. Though possibly expensive to administer, it has some merit if the fiscal or grant system could easily adopt cross-compliance, and it should be investigated further.

With eutrophication being a major problem, the option of correcting the incentive structure, should be investigated. The potential for fiscal measures with or without built-in compensation needs to be assessed along with the issue of implementation.

<sup>74</sup>The MTE for TO contains some discussion of the environmental effects of that programme, See pp 39-43.

<sup>75</sup>The MTE for TO contains a proposal to establish an Environment Initiative aimed at relieving congestion, protecting key natural resource tourism areas etc.

Advisory funds might also be assigned to helping farmers learn about and organise management of nutrients, in relation to their farms' requirements.

In view of the ubiquitous nature of environmental issues and the evident tendency to allow problems to escalate before their existence is acknowledged, a consultative process involving local communities is required.

*Recommendations for AG2:* Before grants are awarded, areas must be thoroughly scrutinised for potential environmental gains and losses from afforestation, with more meaningful consultation and options for maintaining farmers' incomes. On account of the potential effects on waters and fish, the absence of assured carbon sequestration, not to mention the effects on unique scenery, grants for planting near acid-sensitive waters or on peatlands are short on justification.

Adherence to the guidelines and restrictions on planting needs independent assessment to ensure that achievement of the ambitious programme of afforestation does not take precedence. Protection of wildlife, water quality and scenery and the quota for broadleaf planting should take precedence over the achievement of planting targets.

The scale of the planting programme also has implications for the scale of the eventual felling programme. Considerable attention needs to be paid to the curtailment of some harmful felling practices sometimes used and to ensuring that the extensive potential environmental harm of felling in the future is avoided.

Monitoring and enforcement require adequate funds, which by all accounts, need to be sizeable in order to be effective. However, there is not enough information in the MTE on which to judge whether or not the above issues are being addressed. They are raised here because the scale of the afforestation programme merits critical attention. Proof of environmental damage is hard to document if there has been no official record kept of conditions prior to activity, and the impression gained is that the afforestation targets take priority.

*Recommendations for TO:* Being a growth area, cultural and historical tourism should be encouraged as it can be structured to reduce congestion at peak periods.

Conservation of built and natural heritage should be more strongly applied. Adherence to *Conservation Guidelines* should be a requirement for planning approval and for receipt of funds. Area Management Plans should be drawn up to protect the natural environment.

Monitoring needs to be enhanced, perhaps with the aid of advice from NGOs, advice from professionals and feedback of representative users of major facilities such as museums and concert halls. Information on which to base indicators and policy, and "low impact" pilot projects are needed.

Many of the pressures on the environment arise from inappropriate legal and fiscal frameworks. These need to be addressed if policies are not to work in opposing directions.



*Recommendations for LU3:* For consistency, either the terms of reference of the sub-programme, relating to rehabilitation of the built environment and conservation of architecture and heritage buildings, need to be deleted, or a reorientation of this sub-programme to address these tasks is required. For sustainability the latter course is called for, and to avoid the "bland uniformity" flagged in the MTE – an inevitable result of ignoring the authentic built fabric that remains. This reorientation could build on some of the good results to come out of the sub-programme to date, including enhanced partnership, revitalisation and new-found pride in communities.

Reorient the sub-programme's activities to include the stated objectives of rehabilitation of the built environment and conservation of architecture and heritage buildings (OP p. 14).

The Conservation Advisory Panel should fulfil its role for the Sub-programme, as stated (OP p.89), not just for Measure 4.

Three requirements,<sup>76</sup> which should be aided by the Technical Assistance Sub-programme, are:

- (a) Inventories of historic building stock in the relevant areas, giving exterior and interior details.
- (b) A Code of Practice for Conservation,<sup>77</sup> relating to repair of stone work, windows, wood panelling, et cetera, and best practice manuals. Compliance with the code should be a prerequisite for aid and tax privileges, and indeed planning permission.
- (c) A framework for giving advice on matters of rehabilitation.

In order that the environment dimension of the CSF is explicitly recognised and that programmes and measures are co-ordinated from this perspective it is recommended that a sub-Committee of the CSF Monitoring Committee should be established with terms of reference to examine the environmental impact of implementing the CSF and to consider the recommendations above, and other changes could be made across programmes and measures to achieve the same outcome with a better environmental profile.

<sup>76</sup>Described *inter alia* in Inter-Departmental Working Group (1996), Smith and Convery (1996).

<sup>77</sup>Such as the Department of the Environment's (1996) set of 16 guides produced at modest cost.

### 3.4.2 Vertical Co-ordination Issues

The structure of CSF Monitoring, through a system of OP Monitoring Committees means that most issues of vertical co-ordination arise for the relevant OP Committee. A number of structures have been established by Forfás to facilitate Co-ordination between the Agencies, including cross membership of boards; a Chief Executives Committee and an Inter-Agency Planning Group. In addition, a number of specific co-ordination initiatives have been undertaken. Within these structures and initiatives, issues of co-ordination in relation to strategies; policies; performance indicators; the development of the Business Information System and overlaps can be addressed.

However, the external evaluators have found considerable evidence of inadequate co-ordination at operational level between agencies in the areas of:

- Research
- Strategy
- Policies
- Company Development
- Definition and
- Service delivery

There should be urgent action taken to address specific deficiencies of co-ordination that represent real barriers to the effectiveness and impact of the Operational programme. In particular, there needs to be action to ensure co-ordination and integration of Agencies' activities in the areas of company development, linkages and the development of sector analysis and strategies.

## Part 4

### ANNEXES

#### **4.1 Aspects of Environmental Sustainability in CSF Policy**

This Annex discusses the main environmental externalities of the other OPs, that is of the OPs other than EN. We look specifically at the following OPs: AG, FI, TO, TR, EI and LU. The aim is to outline the positive and negative environmental external effects. As the effects on the environment of the OPs in this section are potentially extensive, it will not be possible to do a full appraisal. Most attention will therefore focus on any damaging aspects.

Programmes in the CSF were drawn up subject to the constraint that there would be a high level of environmental protection.<sup>78</sup> Therefore any negative effect that is found warrants reappraisal of the measure in question. This reappraisal could point to suggestions for remedying the adverse effects, a scaled down version of the measure or a discontinuation of it. Such remedies might in turn entail expanding other existing measures, or introducing new ones. To be effective, these remedies might also need to be accompanied by other policies, including those relating to the fiscal or legal system.

#### **AG Agriculture, Rural Development and Forestry**

##### *AG1 Agriculture*

The context for agriculture is that farmers have been operating under a regime which has encouraged intensive farming practices. Such practices have resulted in environmental damage, mainly to water, habitat and in potential global climate

<sup>78</sup> "...Community policy in the field of the environment is designed to ensure a high level of protection while taking account of the variety of situations in the various regions of the Community...requirements of environmental protection should form part of the definition and implementation of other Community policies", p. 40, European Commission (1993).

change. However in other respects, farmers have provided a positive benefit to society through their role as guardians of habitats of wild species, deriving from the fact that most of the land that is available as habitat is under the control of farmers.

The measures under the agriculture sub-programme which most affect the environment are:

On Farm Investment (AG1.1a to c)

Control of Farm Pollution (AG1.1d)

Farm diversification, including Organic Farming and Agri-Tourism (AG1.3)

Compensatory Headage Allowances (AG1.4)

Research in Sustainable Agriculture and Rural Development (AG1.5) and Advisory Service (AG1.6).

On-Farm Investment has the potential for environmental protection and it is possible, though not certain, that new investments incorporate features embodying better environmental protection. In the absence of information on this, it will be assumed that on balance this sub-measure is environmentally beneficial.

The Control of Farm Pollution sub-measure was over-subscribed and suspended in April 1995. According to the MTE, when in operation, priority was accorded to REPS (Rural Environment Protection Scheme) participants, who were presumably already employing good practices and where therefore diminishing environmental benefits may have set in. Some 38 per cent of recipients were in REPS. As stated in the Evaluation, the sub-measure might have had a bigger environmental impact if priority had been based on the extent of pollution risk from farms. The scheme combines grant-aid with a stipulation on the allowed period for manure spreading by participants. A survey of 92 randomly selected participants in schemes showed that in fact 80 per cent were complying with the REPS stipulations on manure spreading which are slightly stricter than those required by the sub-programme. The survey also showed that the sub-programme added considerably to farm viability. The beneficial environmental result is that fish-kills from agricultural wastes have declined. However fish-kills resulting from eutrophication have increased, which suggests that the different though related problem of excess and incorrect application of fertiliser should also be addressed (as described above).

The Compensatory Headage Allowances measure contributes to the problem of over-stocking of sheep on hillsides, and this has been a problem in certain parts of the country. As has been argued, a larger cause of over-stocking is the ewe premium scheme, which is under the purview of the Guarantee side of FEOGA, and as such not part of the CSF. However the Headage Allowance (which *is* in the CSF) can add some 50 per cent to the amount received per ewe in disadvantaged areas, where some of the most vulnerable areas are located.

The impact on water quality of over-grazing by sheep was highlighted at two seminars as early as 1991, one run by the Salmon Research Agency, the other by the Environmental Institute at UCD. The problem of over-grazing is now accepted as serious in the upland regions of the west of Ireland. Vegetation is denuded and the ensuing peat and soil erosion has led to siltation of lakes and rivers. The capacity of mountain boglands to retain and slowly release water is reduced, so that rivers and streams become more prone to drying out in dry periods and then to flooding in wet periods. As the loss of peat occurs during the winter months, clogging of spawning gravels will reduce fish survival rates. Decreased water clarity and irritation of fish has been reported. Hillside ecology and landscape aesthetics are impaired. Important habitats for many of Ireland's upland bird species have been severely damaged, in particular red grouse, golden plover and the hen harrier have been affected (Murphy, 1995). Meanwhile owing to the reduced vegetation, at the lean end of the year some farmers carry supplementary rations of feed up to the sheep, which is an indication of the incentive effect of the Headage Allowances (Mitchell, 1993).

Not being a straightforward case of pollution where clearly defined administrative procedures and legislation exist, extensive damage<sup>79</sup> has occurred before any serious attempt at control. The extent of the damage is not confined to a small area. Bowman *et al.* (1996) describes how in the course of its biological river surveys, it has recorded widespread degradation of water quality due to overgrazing in several catchments including those of:

The Aille and Owenbrin rivers

The Crumlin catchment

The Glendavock, Glennamong and Owengarve catchments

The catchments of the Cloonalaghan, Glenamoy and Gweedaney rivers.

Amendments introduced to the REPS in November 1995 were aimed at reducing stock densities of REPS members in badly affected regions. This may have effected a small improvement, though information is not to hand. An assessment of the effects on soils and habitats of increased hill grazing by sheep is now under way. Furthermore there is a proposal under review which, if accepted, would operate from 1 January 1998 and would require recipients of headage allowances and premia, in what are classified as degraded areas, to conform to a sustainable plan or to join REPS.

Degraded areas include the lands west of Galway and north to Ballina, and parts of Leitrim, Sligo, Donegal and Kerry. Many degraded areas are also designated Special Areas of Conservation (SACs), such that farmers could benefit

<sup>79</sup> Bleasdale and Sheehy-Skeffington (1991), Sheehy-Skeffington *et al.* (1996), Whelan (1996), Bowman *et al.* (1996).

under provisions for SACs, but the funds from the Department of Arts, Culture and the Gaeltacht are limited. Meanwhile concern has been expressed that there needs to be real pecuniary benefits from the designation of SACs. Otherwise, as experience with listed buildings has shown, the result could be inadequate conservation. (Convery, 1994). Because some of the areas where income supports are needed happen to be the areas that are environmentally vulnerable, production grants evidently are not the appropriate route for delivering income support. They should be replaced by transferring some of the funds to support environmentally desirable objectives or at least decoupled from stock numbers.

### *AG2 Forestry*

The measures under the Forestry sub-programme are:

- Second Instalment Grants (AG2.1)
- Forestry Development (AG2.2)
- Human Resources (AG2.3)

Another aid relating to forests is the measure Development of the Timber Processing Sector which comes under ID. Most funding to afforestation derives from the guarantee section of FEOGA, but the funds from the CSF do constitute a sizeable additional incentive to this activity.

The Government's Strategic Plan<sup>80</sup> has a target for afforestation of 25,000 hectares per year to the year 2000, and 20,000 hectares per year to 2030. Productive planted area will more than double from 7 per cent of land area to 17 per cent by 2030, which is a fast rate of afforestation.

Private returns to forestry in the absence of grants would be low or marginally economic in many cases (Farrell and Boyle, 1990). Therefore the subsidy from public funds is justified in so far as there are net external benefits to society.

Positive environmental externalities from afforestation include such benefits as the amenity and recreation value of woods for the local community and for tourists, their habitat value for wildlife and species, their enhancement of views, and their carbon sequestration which helps combat the greenhouse effect.

Negative environmental externalities would include soil erosion which occurs at the planting stage, acidification at the mature forest stage due to interception of substances in clouds (both erosion and acidification are harmful to aquatic life), disturbance to habitat at planting and felling stages, and possible carbon emissions in the development phase if planting on peatlands. Other potential harms are the risk to community patterns, to built heritage and archaeological remains, intrusion on views and gradual but fundamental change to scenery.

<sup>80</sup> Department of Agriculture, Food and Forestry (1996).

The MTE states that planting on unsuitable soils and monoculture are "less acute" problems than in recent years as a result of changed practices and new guidelines (p. 176). The MTE says that there are still some problems nonetheless. It also recommends that socio-economic and market-related research should receive more attention as should knowledge as to how public attitudes to forestry are changing.

The incentives to broadleaf planting are much higher than those for conifers, which grow faster. Broadleaf forests are probably more favoured by the public and as habitat, but take longer to grow. Sub-measure AG2.2a which provides the opportunity to improve the stock of broadleaf woodland has shown slow uptake. The MTE recommends more publicity be awarded to this by sub-measure AG2.2c which funds publicity and awareness.

Several reports of the last six years have indeed drawn attention to the effects of afforestation on waters and fish in certain areas.<sup>81</sup> These would be areas where the surface waters show low alkalinity. They are situated in Donegal, Connemara, County Clare, County Kerry and in Wicklow. The environmental benefits from planting in such areas are thereby reduced and may be negative. New European Habitats Regulations and the soil status requirements of the Strategy could preclude planting in these areas, but it is important to ensure that this is actually the case.

As for carbon sequestration, there is some uncertainty with afforestation on peatlands as to whether the carbon sequestered by the forest compensates for the carbon losses resulting from oxidation of the peat during the planting phase of forests (Farrell, 1996). Planting on peatlands therefore cannot be assumed to be making a contribution to Ireland's efforts to reduce emissions of Greenhouse Gases.

In many other areas, whether the external effect is good or bad depends on the manner in which the forestry activity is conducted. It depends on adherence to guidelines for reporting archaeological finds and on siting and distances from thoroughfares and buildings, and on harvesting. Harvesting needs to be staggered to ensure some habitat continuity, and it is not clear that methods employed for harvesting at present are devoid of harmful effects.

Concern has been expressed at the delayed designation of areas of wildlife protection. It is not clear that the incentives are adequate for the retention of areas of natural and semi-natural vegetation, such as hedgerows and broadleaved groves. The consultative process ensures that proposals for afforestation above 25 hectares be referred to county councils, fisheries boards and the Department of the

<sup>81</sup> Bowman, J. (1991), Bowman and Bracken (1993), Allott and Brennan (1993), Stapleton (1996) and EPA (1996).

Arts Culture and the Gaeltacht, but unless there are alternative options on offer, these bodies will feel the pressure not to appear to be opposing the creation of jobs. Much also depends on there being adequate monitoring and enforcement, the costs of which must be considerable.

## FI Fisheries

### FI.3 Aquaculture

The measure under this OP which, potentially, has most effect on the environment is Aquaculture, both marine and land-based. The budget for aquaculture is £45 million. The principal objective is to continue sustainable expansion of output, which by 1999 is projected at two and a half times the 1992 level, on a volume basis. Aquaculture at the start of the programme was some 25 per cent of total Irish fish production. The biggest increases on a value basis are projected for farmed salmon and trout.

This measure does provide for technical support covering environmental aspects among other things, and priority is being accorded to projects intended to adapt aquaculture to environmental and other standards. Local community involvement and integration between the inshore fishing sector and aquaculture are to be the responsibility of regional personnel "aquaculture facilitators/enterprise officers"). In addition to identifying suitable sites for the expansion of the industry, they are to play an important role in documenting the actual and potential impact of aquaculture on the environment and *vice versa*. They will also draw-up environmental guidelines/best practices for site design, construction and seascaping, devise environmental codes of practice and promote their application throughout the finfish and shellfish industries.

The largest problem here has been the apparent impact of finfish culture on sea trout. The most up-to-date scientific research is persuasive in linking the adverse pressure on sea trout stocks to finfish culture, thereby confirming the views expressed by the 1994 *Report of the Sea Trout Task Force*.

As regards finfish culture, an attempt to protect the environment is offered by the requirement that developers of finfish farms greater than 100 tonnes production capacity, and hatcheries producing more than 1 million smolts, must compile an Environmental Impact Statement (EIS), which must be available for public inspection. Shellfish undertakings are not required to compile an EIS as aquaculture does not come within the ambit of the Environmental Protection Agency's licensing control. The execution of FI.3 is required to take due account of the objectives to conserve habitats and flora and fauna and to safeguard species, and to incorporate the recommendations of the Sea Trout Task Force report, insofar as salmonoid breeding at sea farms is concerned. It remains to be seen just



how effective these controls are in eliminating adverse environmental side-effects of aquaculture.

A number of indicators have been proposed (OP p. 70) which have environmental features. These are:

- Reduction in disease incidence.
- Improvements in line with recommendations in the *Sea Trout Report*, presumably in mind are the recommendations on "fallowing" (or moving the cages around to prevent the build up of concentrations), and on medication and feed practices.
- Improvements in environmentally friendly production, et cetera.

Availability of such indicators could contribute to knowledge of the environmental impacts. However, the MTE gives no report of such indicators. "Environmental Impacts on Progress" are considered in the MTE, but not the reverse effect – aquaculture's effect on the environment.

A current issue is the siting of shellfish culture in areas designated as Special Protection Areas (SPAs). A zoning proposal and management study for SPAs, prepared by the National Parks and Wildlife Service, is currently being assessed. In the absence of coastal zone designation and management plans, the identification of sites suitable for shellfish cultivation is reached in advance, with the applicant, with assistance from Department of the Marine or Marine Institute's Technical Services and those of BIM and (Udaras na Gaeltachta, depending on the location). The sensitivity of each site is checked through advance site inspections, undertaken by the Department's Divisional Engineers, prior to applicants' obtaining clearance to proceed to the Public Notice stage. Until zoning is in place, growers can pursue applications to the decision stage, irrespective of the sensitivity of the location proposed. (A LIFE-co-financed project is currently underway to regulate aquaculture and harvesting of marine products in coastal Special Protection Areas, through zoning and having regard to bird populations and habitat conditions. The intention is to establish pragmatic mechanisms to facilitate compatibility between conservation/protection objectives and the degree to which shellfish culture needs to be circumscribed or not.)

Aquaculture licensing proposals – whether for fin-fish or shell-fish – are submitted to the Department of the Marine, comments being invited through a public consultative process, which includes advertisement in the local press and consultation with relevant bodies such as local authorities, National Parks and Wildlife Service, Bord Failte, Regional Fisheries Boards. Compliance with conditions is understood by the MTE to be closely monitored by the Department of the Marine. New legislation is putting in place an improved statutory framework for licensing and regulation. The licensing authority shall have regard to the effects

of proposals on wild fisheries, natural habitats and flora and fauna and the licensing authority can impose stringent environmental conditions.

### **TR Transport**

The EU 5th Environmental Action Plan (EAP) "Towards Sustainability" – recommends the use of road pricing to help achieve "sustainable mobility". The recent EU Green Paper "Towards Fair And Efficient Pricing in Transport" is part of the process of bringing this policy into practice. However, the EAP and the Earth Summit "Agenda 21" framework were only adopted in 1992. It was not possible to incorporate all of the consequences from them in the Operational Programme, which was agreed in early-1994. Responses to the EAP and "Agenda 21" are developing both at national and international levels. The complexity of the issues involved means that a broader response to transportation and the environment is necessary, while not removing the need to address current infrastructure deficiencies.

In the meantime, most projects planned for in the OP are based on demand for transport services, in a context where many of these services are under-priced. The most obvious example is urban road usage. However, the same point can be made in relation to air travel. However, road pricing is extremely unpopular and the political will to introduce it is unlikely to exist in the short run. That said, the OP has dealt with the question of environmental impact at a number of levels. For example:

Major infrastructure projects have been subject to Cost Benefit Analyses and Environmental Impact Assessments, prior to their approval, though these do not quantify the environmental impacts in a systematic way.

The assistance of the Dublin Transport Initiative (DTI) is a direct linking of infrastructure investment and environmental issues, though road pricing would have a role to play here.

Much of the roads programme is for by-passes of urban areas. By reducing the effects of urban road transport, these measures tend to have an environmentally positive effect.

For each measure within the OP there are laid out targets and monitoring and assessment indicators, i.e., the criteria by which the implementation of the programme will be evaluated. Many of these criteria are environmental in nature.

Under the Technical Assistance Programme TR1.7, there is provision for research into the environmental impact of the measures in the programme and work is underway to measure the environmental emissions from all modes of transport.

While the measures contained in the OP will have both positive and negative environmental impacts, the increased usage of transport expected as a result of economic growth and facilitated in the OP will tend to have a detrimental effect. Although consideration is given to these impacts, it is fair to say that the OP has not incorporated environmental considerations in a systematic way into its design and to a even lesser degree into its implementation.

The TR OP is primarily an investment programme which will see a considerable improvement in the transport infrastructure in this country, enabling more and faster travel to be undertaken. In the view of the MTE, the environmental impact would probably be worse without the OP. However, the increased demand for transport is based on a situation where much transport is under-priced. This means that demand is too high. The optimal policy would be to internalise the external/environmental cost of travel, through road pricing and fuel taxes, among other measures, and base infrastructure investments on the "true" demand levels.

There is a lack of integration of environmental issues into wider policy areas, as envisaged in the EAP. That said, the OP does contain a number of measures which will give an environmental benefit and it provides for studies of the various environmental impacts of the Programme. The MTE has made specific recommendations to refocus the OP in a more environmentally positive way.

### **TO Tourism**

This is an important OP where the physical and cultural environment and heritage are concerned. Most of the £278 million expenditure under this OP, excluding expenditure on the Training sub-programme, has environmental implications.

Because the environment is such a prominent "productive" asset of this sector, it is worth restating the pressures. Ordinary commercial sectors will invest in, maintain and use their productive assets, but in this sector one of its most important assets is a public good by nature. It is clear a priori that any rise in the sector's activity – a doubling of tourist visitors by 2010 in this case – needs to have a process in place, (monitoring, laws and, where appropriate, pricing) to prevent unsustainable demands on the asset. The absence of such safeguards would bring to mind the example of the Parthenon which is said to have suffered more damage from the past 25 years of tourism than the damage sustained over the previous 2500 years (cf. Deegan and Dineen, 1997). Only with a well-developed process firmly in place can such threats be reduced. It is noted that the previous OP was criticised (Meldon, 1992) for not taking fully into account the fact that the clean unspoilt environment was the result of low economic development, rather

than the result of conscious planning philosophy or of well developed environmental legislation.

In the absence of indicators of the environmental effects of this OP and without undertaking a detailed assessment of individual measures, it is not possible to say what the environmental record is exactly. Indeed such indicators are not well developed internationally,<sup>82</sup> for the effect on the environment is dependent on the carrying capacity of individual areas or sites, which in turn is subject to differing views as to when it would be breached. It is therefore necessary to address the issues in general terms, which are broadly two-fold, as follows:

- (i) how appropriate is the choice of development in the OP? Does it put pressure on the capacity of the environment? Does it help to reduce the concentration of tourism at peak times and in congested regions, and
- (ii) how adequate is the operation and maintenance of environmental assets? Also what are the cross-programme issues to be highlighted?

Without repeating here a description of the environmental asset, a few aspects that are in danger from tourism in particular can be mentioned. These include isolated wildernesses, scenery that has evolved through long-term small-scale human intervention, special eco-systems, village streetscapes, historic vernacular architecture, and interiors. Also important is the human aspect of the environment, that is, family links to a locality, language and culture and people's civic participation. It should be added that while on the one hand these are endangered by tourism and tourism development, they are also part of what many tourists come to savour, so that in the correct circumstances these assets can be enhanced.

#### *(i) Choice of Development*

The appropriate choice of development will be discussed first. It is noted that of the holiday-makers from mainland Europe, some two-thirds visit places of cultural or historical interest while in Ireland. The fastest growth in tourist numbers is from mainland Europe. Given that many cultural and historical facilities can operate all year round, such development is indeed helpful in extending the time profile. Furthermore, the recent growth of such a clientele suggests that future demand for such facilities will grow. This reduces the strength of the argument put forward in the MTE that the allocation of funds to cultural and heritage projects does not constitute an investment in tourism *per se* and is consequently too high.

To some extent the mistakes of the previous OP have provided useful insights. They have shown how private gain can be subsidised by the public purse, and also at the expense of the national heritage when demolition and pressures occur.

<sup>82</sup> A study of indicators for tourism is being carried out by the European Environment Agency (1997).

Where public projects are concerned, an important regulatory improvement of recent times is the elimination of the exemption of the state authority from planning permission. This still does not mean that the framework is satisfactory, however. Inappropriate development continues in the economy at large due to other unsatisfactory aspects of planning legislation, which is described as historically poor.<sup>83</sup> Furthermore, the fiscal system works in favour of demolition of culture and heritage, rather than its preservation, owing to poor incentives to maintain old buildings and a plethora of tax-breaks to the building industry to erect new buildings (which incidentally is not a mix which leads to most jobs).

This OP has taken on board some of the criticisms about too many "imitation" projects and insufficient attention paid to the authentic cultural and physical environment. A stronger emphasis is now put on improvements to existing buildings, as opposed to "new build". The MTE (p.39) gives a preliminary estimate of only 25 per cent of approvals being for new build. It adds however that predominantly "additional" facilities rather than improvements have been built in Sub-programme TO2. Upgrade of vernacular buildings, using local materials, would be preferable in many instances, employing conservation techniques such as those recently recommended by the Department of the Environment<sup>84</sup> (described elsewhere under the OP for Local and Urban Development). Use of these techniques on historic buildings should ideally be made a condition for obtaining planning approval and funding. It is important that Product Development under TO2, be it aided private sector investment or public investment, does not contribute to irreversible damage to the built heritage.

With the natural environment there are similar difficulties. Designations under the Habitats Directive will see an improvement in some areas, though largely when the designations have gone through. It is recommended (Bord Failte, 1994) that comprehensive Area Management Plans be drawn up for a small number of areas of the country where landscape is particularly sensitive and subject to increasing tourism pressure. Such areas include the Burren; Connemara; the Ring of Kerry; the Dingle Peninsula; and the Wicklow Mountains. Recognition, with involvement of local communities, rather than designation, could be a more satisfactory approach to landscape management (Meldon, 1996). This may still not be enough, under current legislation. Irish landscape has been described as "being whittled

<sup>83</sup> Deegan and Dineen (1997). There is apparently no obligation on the owner of a listed building to maintain it and neglect of a listed building is not an offence punishable by law. There is also an apparent reluctance on the part of planning authorities to take enforcement proceedings following breaches of planning controls in respect of listed buildings, according to the Inter-Departmental Working Group (1996).

<sup>84</sup> The Department of the Environment (1996) has produced commendable guidelines to help people wishing to restore historic buildings.

away at a startling rate (an outcome which, given the low population density of Ireland, could easily have been prevented) pointing to the requirement for development plans to incorporate definite principles" (Dillon, 1997). Vermont is cited as one example of the successful result of applying planning principles, where apparently the visual difference in siting and architectural control greets one at the border.

The other important issue is that of peak-time congestion. Given that spreading peak demand is beneficial to overseas visitors as well as to the environmental resource, some activities are more worthy of aid than others. From this point of view, angling is a good activity – cruiser holidays and marinas would tend to be less good. Marinas in particular need scrutiny as they are not required to go through the usual planning procedures and could conflict with fishstock restoration, which is a project under this OP. Special interest schemes, such as literature-based projects, peatland projects and peatland conservation (which can be the subject of field-trips and courses attended by visiting students) would also help to spread the load.

In connection with the Clara Peatland project, it should be noted that agreement on the purchase price with owners of bogs is likely to be expedited if introduction of a tax on carbon emissions is in prospect. With but 20,000 hectares of pristine raised bog remaining (out of fifteen times this area in existence 50 years ago) and with good performance on greenhouse gases by living peatlands (positive performance on carbon dioxide though negative on methane), not to mention their role in the cycle of aquatic life in the upper reaches of water courses, bog conservation provides many benefits and is worthy of support.

Finally, the type of visitor which is attracted, and the orientation of the marketing effort, will have effects on the environment. People with school-going children will tend to visit at peak times. People with strong interests in culture and the countryside will tend to be more flexible. Customers who can appreciate the special environment on offer need to be targeted. In addition to targeting visitors, peak charges can be applied to some extent to certain activities, possibly through an accommodation tax, differentiated by time and place (Barrett, Lawlor and Scott, 1997). Another alternative, which in fact ought to be adopted in any case, is peak pricing of environmental services such as water services supplied to holiday accommodation. There is also the enduring question of the absence of tax on aviation fuels which should be imposed in order to internalise the environmental costs imposed by air travel. Though not directly under the control of the CSF, such measures should be recognised as providing other options for achieving similar objectives.

In order that emerging environmental issues be addressed, the MTE recommends that a new sub-programme, an "Environment Initiative", be set up to

provide information to help with policy. The information identified as necessary includes identification of the environmental problems and areas that are vulnerable areas or have growth potential, and the scope for "low impact tourism". Accompanying this investigation would be pilot projects. It is clear that investigation along the lines suggested is needed.

*(ii) Operational and Other Issues:*

*Monitoring:* While the OP states (p.9) that progress on the consistency between tourism developments and the principle of sustainable development will be continually monitored as part of the programme, the results of such monitoring are not reported. Satisfaction Ratings by periodic surveys of departing visitors can cover environmental factors and are a useful guide, if partly to show whether there has been a good match of client to product. The congestion indicator in the MTE, supplied by Bord Failte, which gives the number of beds in approved accommodation in 26 towns as a percentage of the resident population, is very informative. It could be further linked to the number of local visitor attractions, the pressures on local authorities' environmental services, and the like, with projections. Target numbers of visitors could be set that are sensitive to the region. The OP does not reveal strong awareness of the dangers, however. At a minimum it would be advisable to investigate the feasibility of setting up local monitoring groups, perhaps drawn from NGO membership.

On a related topic, for some of the projects it would be sensible to set up user groups to provide feedback, such as concert hall or museum users groups. Other projects need to improve their publicity at times, such as the Irish Museum of Modern Art.<sup>85</sup> Furthermore, information offices could also benefit from a feedback mechanism. Tourist Offices should be open on busy days such as Bank Holidays, especially as those are the days when directing visitors to venues which are uncongested would have most benefit.

There are peripheral but pressing problems, including the quality of river and lake water and ubiquitous visible rubbish. It would be surprising if the £400 million or so spent between EN and TO could not make some inroads into the litter problem. Though not a major environmental threat, litter can be hazardous to wildlife and is considered a bad point by many holiday makers who are surveyed. Meanwhile cruisers on restored waterways<sup>86</sup> ought not to be surrounded by water that is polluted by agricultural and other emissions. Then again, the Royal Canal, which is aided under TO, will have insufficient water, owing to shortages in the

<sup>85</sup> Improved access, e.g., by better public lighting on route to public transport stop.

<sup>86</sup> Employing state-of-the-art technology on the lockgates but with yellow foam on the water, testing for phosphate P at 5.57 mg/litre and ammonia at 27.81 mg/litre in one waterway restored under the previous OP.

Dublin region, potentially aggravated by removal of the option of domestic charging. Additional funds will be needed for extraction from Loch Owel to supply the Royal Canal.

In the meantime developments funded by other OPs have the potential to detract from the tourism product and should be subject to careful assessment and control. For example, aquaculture can detract from marine scenic views. Overgrazing, forestry and aquaculture render more difficult the restoration of fish species (part of this OP), forestry can detract from the traditional farming landscape, and highways can detract from the rural character of the scenery.

### **EI Economic Infrastructure**

The measures under this OP which have a potentially significant impact on the environment are those relating to: EI1.2 Energy Efficiency, EI1.3 Renewable Energy and EI2.1 Infrastructural Telecommunications Upgrades. There is also be an issue in regard to the CO<sub>2</sub> produced by the EI1.1 Peat Generation measure.

The Energy Efficiency Investment Support Scheme (EEISS) provides grant assistance in favour of projects aimed at securing improvements in energy efficiency. In large measure it has been found that the pay back from this measure is adequate (MTE). As there are energy savings involved there is an associated positive external benefit to the environment. However, there is no information available that would allow a judgement to be made as to whether these effects are potentially significant.

Similarly, Irish Energy Centre grant-aids energy audits. Again it is very hard to evaluate the environmental effects of this scheme because no indication is given of its effects in terms of reductions in energy consumption.

While there are the usual difficulties attaching to estimation of what would have occurred in the absence of these measures, there should be studies undertaken of all or a sample of enterprises which have had a assistance from these measures. They should look at the "before and after" energy consumption.<sup>87</sup> In the absence of such evaluations being available, it is impossible to say whether the associated environmental impact is potentially significant. It is understood that the Irish Energy Centre has been doing some work on this, as part of the administration of the scheme. This could be developed to assess the environmental impact.

The Renewable Energy Measure is driven primarily from the perspective of fuel diversity, security of supply and development of indigenous energy sources. In addition, it is likely to have environmental benefits, e.g. reducing CO<sub>2</sub> emissions.

<sup>87</sup> As undertaken by Lawlor (1995) and (1997).



Apart from the CO<sub>2</sub> abatement cost effect discussed in Part 2 above, the proposed peat-fired power station is not expected to have a significantly adverse environmental impact in Ireland. The principal threat would appear to be the risk of peat particulates being washed into river catchments, notably the Boyne and the Barrow. This eventuality has the potential to be a hazard to fish stocks.

### **LU Local, Urban and Rural Development**

*Objectives:* The main environmental impact from this OP arises in Sub-programme LU3, dealing with Urban and Village Renewal, which has a budget of £62 million. The overall aim of the sub-programme is to rejuvenate the social and economic life of inner urban core areas and villages, rehabilitate the built environment, and restore and conserve important elements of Irish urban architecture and heritage buildings (p.13). It would appear from these aims concerning rehabilitation of the built environment and conservation of heritage buildings that this sub-programme would fill in the gaps on this front in TO.

In particular, objectives involving the environment include five major initiatives in main cities (LU3.1, £20 million); urban improvements involving landscaping, et cetera (LU.3.2, £7 million); village landscaping, maintenance of rural heritage and development of meeting places (LU3.3, £16 million); rehabilitation of the built environment through conservation and restoration of urban architecture and heritage buildings as well as support of the living-over-the-shop concept (LU3.4, £3 million); and development of the Temple Bar Cultural Quarter (LU3.5, £16 million).

*Outcomes:* It is difficult to gauge the extent to which these objectives have been achieved, or indeed addressed. Each measure is discussed in turn.

Slow start-up and partial response from the five authorities mean that there is scant information on the Five Initiatives in LU3.1. In Cork and in Dublin (the HARP project) the initiatives are being closely linked with improvements in public transport under TO.

Of the expenditure that is recorded to date in LU3.2 and LU3.3, some 82 per cent has been spent on landscaping and on putting overhead service wires underground.<sup>88</sup> Of the remainder, only £0.044 million was spent on building renovation, which amounts to 0.01 per cent of recorded expenditure under these two measures. Another £0.095 million on stone walls (some of which might have been rehabilitation). Schemes involving traffic calming and pedestrianisation have

<sup>88</sup> The 82 per cent is made up of footpaths and paving at 52 per cent; soft landscaping at 16 per cent; and "undergrounding" of service wires at 14 per cent.

been minor. In some cases these would be offset by the stimulus to driving cars in towns coming from the fiscal incentives to build car parks. Expenditure on provision of artistic features has also been marginal. Wicklow County Council's Building Facade Project and Laois County Council's shopfront competition are recorded as having a beneficial effects. These small-scale projects are reported as generally enhancing villages and towns and the well-being of communities. They have given local authorities valuable experience in partnership and the ensuing revitalisation has led to an expectation of a halt to rural decline.

There is no indication of activity levels under LU3.4, Urban Conservation, except that there was a huge response, reflecting the inadequacies in financial measures and assistance which are currently in place to aid the conservation of buildings of architectural and historical interest (MTE p.147). Apparently the 50 per cent matching finance is hard for some bodies to find, and the MTE states that wider measures are required if significant inroads are to be made into conserving the built environment.

LU3.5 (Temple Bar) Constructed: 6 cultural centres; created: 172 new businesses; and achieved reduction in dereliction on 50 sites and buildings. Expenditure on this measure is now coming to an end. The MTE is not sure how sustainable the cultural projects will be in the long run. There are no data on usage.

*Assessment:* There is no measure of "new build" versus restoration (as given in the MTE on TO) except, that is, for the minute expenditure on renovation given above. Overall this sub-programme displays a mismatch between the stated objective of preserving heritage buildings and the outcome. It is as if, for both LU and TO, in each case the assumption was made that this objective would be mainly taken care of by the other OP.

A recent An Taisce report (Smith and Convery, 1996) discusses the Temple Bar scheme in overall terms, of which expenditure under the OP measure forms a small part. The report notes that in Temple Bar there have been a few examples of excellence in modern architecture, the "finest to grace the city for decades", and in conservation. However, no complete inventory of existing structures preceded development and An Taisce's work on this score seems not to have been used. It lists 20 buildings of character and distinction which have been demolished, of which five dated from the 18th century, some with fine interiors (interiors are not protected by law), and seven buildings which were treated destructively. (The MTE states that the principle of conservation originally embodied in the Corporation's Temple Bar Area Action Plan and in the Temple Bar Properties Framework Plan has been superseded.) The report also points out that the 50 per cent tax allowance still applied to the new development though a building of conservation interest was demolished. Various estimates have been made of the

amount of public funds which have gone into Temple Bar, directly or indirectly. Though the estimates differ, it is clear that the amount is to be measured in scores of millions. Whatever the precise figure, it is clear that this scale of expenditure needs to be contrasted with Dublin Corporation's grant for all conservation in the entire city of Dublin of £70,000 in 1995, to help voluntary conservation bodies like the Dublin Civic Trust. Meanwhile, for example, Dublin churches with sound heritage credentials,<sup>89</sup> some situated in communities which could benefit from having meeting places (an aim of this sub-programme), are decaying.

The incentive to "new build" has already been raised (under TO) as a problem when it comes to the choice of how to deal with an old building. To some extent this OP is also trying to counteract some of the side effects of the method of local authority financing. In addition the Irish Planning Acts have come under criticism.<sup>90</sup>

The overall size of the sub-programme, at £43 million excluding Temple Bar, is quite small, given that this is to cover the Five Initiatives for inner cities. However, without progress on the flaws in the legal and fiscal systems, the case for expanding the budget to counteract them is weakened in some respects.

<sup>89</sup> Wolfe Tone was baptized and Wesley preached in St Mary's, Robert Emmet was hanged at St Catherine's, Lord Edward FitzGerald is buried in St Werburgh's and Handel reputedly rehearsed the Messiah on the organ in St Michan's.

<sup>90</sup> Which "taken in their entirety are fundamentally obsolete: as legislation, they are incapable of protecting the quality of the built (and thus visual) environment in a time of rapid economic change..., local authorities have had virtually complete discretion", Dillon (1997).

## **4.2 Returns To Education – New Estimates**

### **4.2.1 Introduction**

This Annex reports on special econometric research carried out as part of this mid-term review and designed to deepen our understanding of the systemwide implications of human resource investment. It presents new estimates of the returns to educational investment in Ireland.

Earlier estimates of the returns to educational investment in Ireland were presented as part of the *ex post* evaluation of the Community Support Framework 1989-1993, (Callan, 1993). Using data from a nationally representative sample of individuals in 1987, the extent to which higher levels of education were associated with higher wages was estimated. As noted in that paper, there are a number of valuable purposes to such an exercise. In the context of this report, the value arises through the possibility of using the estimates to evaluate patterns of spending in education and to guide future policy.

In this section of the report, we update the estimates from 1987 using data from a nationally representative sample of individuals in 1994. The motivation for undertaking this update arises partly from the evidence that returns to higher levels of education have increased in other countries. In the Irish context, the increased supply of graduates arising from the expansion of third level education in Ireland may have acted to dampen down this effect. In addition, the national wage agreements of recent years may have restricted movement in relative wages across education groups.

The analysis is structured as follows. In Section 4.2.2 we will discuss the factors that may have acted to alter returns to educational investment. In Section 4.2.3 we describe the data that we use to estimate the returns. In Section 4.2.3 we present our estimates of the returns in both 1987 and 1994. The analysis of the 1987 data has been expanded for this paper and so we present a set of estimates for that year. Finally, in Section 4.2.5 we draw some conclusions.

### **4.2.2 Factors Affecting Returns to Educational Investment**

In considering why returns might have changed, we will focus on three broad factors: (i) supply effects; (ii) demand effects; (iii) institutional effects.

#### **(i) Supply Effects:**

If we think about wages as simply being the price of labour, we can say that the different wage rates for individuals with different levels of education reflect prices for different types of labour, e.g., skilled versus unskilled. In the same way then that prices in general react to changes in supply and demand, so too should

the prices of different types of labour respond to changes in their supply and demand.

With respect to education levels, evidence as to the reaction of wage rates to changes in relative quantities is reviewed in Levy and Murnane (1992). Looking at the US, they note that between 1971 and 1979, the number of male college graduates aged 25-34 years old in the labour force increased by 85 per cent; the comparable figure for high school graduates was 13 per cent. For women the pattern was similar; there was a 151 per cent increase over the period in college graduates in the labour force and a 66 per cent increase in high school graduates. According to Levy and Murnane "this dramatic increase in the supply of college educated workers was the single most important factor contributing to the reduction in the earnings premium associated with a college education in the 1970s" (Levy and Murnane, 1992). They go on to point out that the rise in the same premium rose again in the 1980's, during which time the growth rate of college graduates as a fraction of the labour force slowed down.

While there are institutional differences between the US and Irish labour markets that might reduce the impact of such supply changes on wages, there exists the possibility that large changes in the relative supplies of different types of labour would have effects similar to those just described. Given the rapid growth in participation in education in Ireland in recent years and, in particular, the growth in third level participation, it can be said that there has been a shift in relative supplies, especially when the nature of the inflow into the labour market is combined with retirements and other withdrawals of less educated workers. In order to see the size of the shifts, consider Table 4.2.1.

It is clear from the table that there has been a relative increase in the numbers in the upper education categories (Leaving Certificate and above) and a decline at the lower end. If the effect of supply on wages identified above works in Ireland then, other things being equal, a decrease in the wage premium of degrees, diplomas, certificates and leaving certificates, would be expected. Of course, everything else was not constant; in particular, there is reason to believe that there was a relative increase in demand for those with higher levels of education. We will now consider this element of the story.

(ii) Demand Effects:

There is wide agreement in the economics literature that the demand for skilled (and hence more educated) workers relative to unskilled workers has been increasing in the developed world since the 1980s (Levy and Murnane, 1992; Katz and Murphy, 1992). This increasing relative demand has been found to be a contributing factor to rising wage levels for skilled workers relative to unskilled

workers and so it is clearly possible that the same effect has been in operation in Ireland.

While there may be agreement on the existence of rising demand for skilled workers, there is less agreement on the source of that demand. Two main opposing theories have been advanced so we will consider each.

The first theory is based on the changing nature of the workplace (Berman, Bound and Griliches, 1994). The idea behind this theory is that technological change has increased the productivity of highly skilled workers and reduced that of low skilled workers. In particular, the increasing importance of computers has been identified as conferring an advantage on the skilled (Krueger, 1993).

Table 4.2.1: *Education Level, Full-time Employees, Ireland 1987 and 1994*

<i>Education level</i>	<i>1987</i>	<i>1994</i>
Primary only	17.9	8.6
Secondary/Group Certificate	18.8	14.0
Inter./Junior Certificate	15.7	16.3
Leaving Certificate	29.9	33.2
Certificate/Diploma	7.5	11.7
Degree	10.1	16.1
All	100.0	100.0

*Source:* Barrett, Callan and Nolan (1997).

The second theory is based on the growth of international trade. With the "internationalisation" of production, there are now greater opportunities for companies to transfer those elements of the production process that are low-skill intensive to areas of the world where such low-skill labour is cheap. This, of course, results in a decline in demand for low-skilled workers in the developed world and a decline in their wages.

Whichever theory is correct, the open nature of the Irish economy and labour market would lead us to believe that the relative demand shift described has affected Ireland. In order to get some picture of the effect, consider Table 4.2.2.

We can see from the table that the top two groups increased their share in the non-agricultural employed group from 26.1 per cent to 30.4 per cent. In contrast, the share for the bottom two groups fell from 39.6 per cent to 33.2 per cent.

Hence, we can tentatively say that our suspicion that Ireland has been affected by the international shift in demands between skill groups has been borne out.

Table 4.2.2: *Persons at Work Classified by Occupation Group 1981 and 1991*

<i>Occupation</i>	<i>1981</i>		<i>1991</i>	
	<i>(000)</i>	<i>%</i>	<i>(000)</i>	<i>%</i>
Managers/Proprietors	94.3	10	114.6	11.7
Professional etc.	152.4	16.1	183.7	18.7
Clerical	157.9	16.7	158.0	16.2
Service Occupations	167.1	17.6	194.5	19.9
Skilled Manual	215.8	22.8	198.3	20.1
Semi-skilled, Unskilled	159.3	16.8	128.2	13.1
<b>Total</b>	<b>946.8</b>	<b>100</b>	<b>977.3</b>	<b>100</b>

Source: Derived from Table 2.4 in Sexton and O'Connell, 1996.

N.B. Agriculture excluded.

### (iii) Institutional Context

Since 1987, the Irish labour market has been characterised by comprehensive national wage agreements whereby wages for a large number of employees have been set through collective bargains. One outcome of such an approach to wage setting is that the market is not allowed to influence relative wages across groups. Hence, although the demand and supply changes which we have identified would tend to generate pressure for changes in the relative wages of education groups, the institutional context works to keep the relative wage rates constant.

By bringing wage determination out of the market mechanism, our expectation is that the effect of the collective bargaining process would be to insulate relative wages from the type of supply and demand changes discussed above. Of course, those changes would still have impacts on the labour market but the effect would be through quantities as opposed to prices, i.e., we would see relative changes in employment and unemployment across educational groups instead of relative changes.

In summary, we have identified three factors which may have altered the relative returns to different levels of education over the period 1987 to 1994. The first factor, supply shifts, would have lowered returns to higher levels of education; the second factor, demand shifts, would have increased those returns;

finally, the collective wage agreements would have worked to keep relative wages constant.

#### 4.2.3 The Data

As was the case in the original paper, i.e. Callan 1993, the data used to estimate the returns to education in 1987 come from the ESRI's Survey of Income Distribution, Poverty and Usage of State Services carried out in 1987. Responses from 3,294 households were obtained, with a response rate of 64 per cent of valid addresses contacted. The sampling frame was the register of Electors and the survey was designed to provide a national sample from the population resident in private households. The sample has been reweighted to correct for non-response, on the basis of four variables – number of adults in the household, urban/rural location, age and socio-economic group of household head – using external information from the much larger Labour Force Survey. The representativeness of this sample has been validated by comparison with a variety of external information, and it has been used extensively in research on poverty and tax and social welfare policy in Ireland. (A full description of the survey is in Callan, Nolan *et al.*, 1989, and an overview of this research is in Nolan and Callan 1994.) Information on earnings, education, labour market experience and other characteristics of about 2,700 employees in sample households was obtained. This appears to represent employees well when compared with available data from the Census of Population and the Labour Force Survey, and has served as the basis for an in-depth analysis of the extent and nature of low pay in Ireland at that date (Nolan, 1993), as well as research on the determinants of individual earnings and on male-female wage differentials.

The more recent source of data on earnings and poverty is the 1994 Living in Ireland Survey, the first wave of the Irish element of the European Community Household Panel (ECHP) being carried out for Eurostat by the ESRI. This obtained information for 4,048 households, a response rate of 62.5 per cent of the valid addresses contacted; once again, the Electoral Register was the sampling frame and the responses were re-weighted to accord with the Labour Force Survey in terms of key household characteristics. First results from this survey on household poverty have been published in Callan *et al.* (1996) which also contains a comprehensive description of the survey itself. The sample contains over 3,000 individual employees who responded fully to questions about their earnings and hours of work, occupation, labour market experience and education.



#### 4.2.4 The Estimates

In order to estimate the returns to education in both 1987 and 1994, we begin by estimating for both years the following types of equations:

$$\ln w = \beta X + \varepsilon$$

where  $\ln w$  is the natural log of the hourly wage,  $X$  is a vector of individual characteristics and  $\beta$  is a vector of coefficients. Included in the  $X$  vector are four educational categories; these are as follows:

- Junior cycle: this includes the Group and Intermediate Certificates, as well as their recent replacement, the Junior Certificate;
- Leaving Certificate: this includes participants on PLC and other VPTP<sup>91</sup> courses;
- diploma or other third level: this includes non-degree qualifications from such institutions as regional technical colleges;
- university degree: this includes both primary and higher degrees.

(We omit the category "no qualifications beyond primary level" so our estimates of returns to each educational level are relative to this category.)

We estimate a range of specifications whereby the contents of  $X$  are varied, so as to see if our estimates of returns to education are sensitive to model specification. These specifications are as follows:

- Specification 1: Age and its square, the educational categories, sex and sex interacted with marital status, residence in Dublin and another urban area, having "served your time";
- Specification 2: As 1 but with the educational categories interacted with age bands (15-32, 33-49 and 50-64);
- Specification 3: Years worked with its square, years spent in a return to training or education, years not worked and its square, the educational categories, the sex/marital status dummies, the Dublin/urban residence dummies and the time served dummy;
- Specification 4: As 3 but with occupation- and industry-specific unemployment rates (obtained on a 1 digit basis from the Labour Force Survey) added;
- Specification 5: As 4 but with interaction terms for the levels of education and the three age bands.

Given the complexities arising from the endogeneity of female labour supply with respect to the wage rate and the rise in women's labour force participation over the period, we have performed the analysis for the full sample and, in

<sup>91</sup> VPTP refers to the Vocational Preparation and Training Programme.

addition, for men only. We will begin by presenting the results for Specification 1, 3 and 4 together, as these do not differentiate returns across age bands but rather view returns as being constant across age bands. The results are presented in Table 4.2.3.

Looking at the estimates across the entire sample we see the following. Returns to the Group, Intermediate and Junior Certificates have increased, as have returns to university degrees. Returns to the Leaving Certificate have essentially stayed constant. In the case of diplomas and other third level qualifications, we see decreased returns. In terms of direction of change, the only difference to emerge in the male only estimates is with respect to the diploma and other category; the results for males only indicate that returns were either constant or increased over the period.

Table 4.2.3: *Estimates of Returns to Education (non age-specific), 1987 and 1994*

Specification	Education Category	All		Males	
		1987	1994	1987	1994
(1)	Group, Inter, Junior Cert	0.17	0.22	0.18	0.24
	Leaving Cert	0.37	0.41	0.36	0.38
	Diploma or other third level	0.58	0.54	0.47	0.47
	University degree	0.86	1.01	0.76	0.89
(3)	Group, Inter, Junior Certificate	0.12	0.18	0.13	0.21
	Leaving Certificate	0.36	0.36	0.35	0.37
	Diploma or other third level	0.59	0.53	0.49	0.52
	University degree	0.88	1.01	0.79	0.95
(4)	Group, Inter, Junior Cert	0.11	0.17	0.13	0.21
	Leaving Certificate	0.34	0.34	0.32	0.37
	Diploma or other third level	0.56	0.51	0.46	0.52
	University degree	0.85	0.98	0.74	0.95

Turning now to Table 4.2.4, we consider the estimates which take account of the fact that returns may vary across age groups. In Callan (1993) this variation was observed so it is important to consider the issue again.

Looking firstly at the whole sample and the youngest age group, we see increased returns for the Group, Intermediate and Junior Certificates and decreased returns for diplomas and other third level qualifications. The results for the Leaving Certificate indicate no change while for university degrees we see evidence of constancy and an increase.

For the group aged 33-49, we see increased returns for the four educational categories. Given the mixture of results already observed, this raises the question

as to why this should be the case for this group. Of similar interest is the decline for older workers in returns to three educational levels: Group etc., Leaving and diploma etc. Returns to university degrees have increased, however, for this group.

Table 4.2.4: *Estimates of Age-specific Returns to Education, 1987 and 1994*

Specification	Educational Category	All		Male	
		1987	1994	1987	1994
(2)	<i>Age Group 15-32</i>				
	Group, Inter, Junior Certificate	0.08	0.11	0.11	0.19
	Leaving Certificate	0.23	0.21	0.19	0.22
	Diploma or other Third Level	0.39	0.26	0.29	0.26
	University degree	0.73	0.73	0.65	0.63
	<i>Age Group 33-49</i>				
	Group, Inter, Junior Certificate	0.18	0.24	0.12	0.23
	Leaving Certificate	0.42	0.52	0.43	0.46
	Diploma or other Third Level	0.56	0.67	0.46	0.58
	University degree	0.90	1.13	0.78	0.97
	<i>Age Group 50-64</i>				
	Group, Inter, Junior Certificate	0.21	0.14	0.23	0.15
	Leaving Certificate	0.49	0.35	0.64	0.38
	Diploma or other Third Level	0.87	0.71	0.67	0.55
	University degree	0.94	1.04	0.80	0.95
	(5)	<i>Age Group 15-32</i>			
Group, Inter, Junior Certificate		0.05	0.14	0.07	0.21
Leaving Certificate		0.26	0.26	0.19	0.30
Diploma or other Third Level		0.46	0.39	0.34	0.42
University degree		0.86	0.91	0.78	0.86
<i>Age Group 33-49</i>					
Group, Inter, Junior Certificate		0.12	0.18	0.08	0.22
Leaving Certificate		0.38	0.42	0.40	0.47
Diploma or other Third Level		0.54	0.60	0.48	0.62
University degree		0.88	1.06	0.78	1.06
<i>Age Group 50-64</i>					
Group, Inter, Junior Certificate		0.16	0.13	0.15	0.15
Leaving Certificate		0.45	0.34	0.53	0.38
Diploma or other Third Level		0.79	0.63	0.58	0.55
University degree		0.78	0.95	0.66	0.95

Turning to the male only estimates across these two specifications, we find different patterns for the youngest age group relative to the full sample. There is evidence of increased returns to diplomas etc., and for the Leaving Certificate. However, there is also evidence of a decreased return to diplomas etc. Perhaps most noteworthy from this set of results is the change from 1987 to 1994 in the Group etc., returns to emerge from Specification 5; the threefold increase may point to interesting developments in that sector of the labour market. It should also be noted at this point that a similar increase is observed for this education group in the 33-49 age bracket.

Finally, for the oldest group of men the result of most interest is the large decline in returns to the Leaving Certificate. In addition, the increased returns observed for young and middle-aged men with a Group Cert etc., is not seen for older men.

Before turning to the next part of the analysis, one more point should be made about the estimation procedure. Participants on PLC and other VPTP courses are included in the Leaving Certificate category mainly because they amount to a small group in the data and so will not have a large impact on the estimates. However, the numbers in this group are increasing; in 1991 there were 23,000 people on these courses and this number rose to 32,000 in 1995. Given this rise, it is now more important that we have separate estimates on the returns for this group. In order to get reliable estimates, it would be necessary to have more observations on VPTP participants than are available in the data set we are using so a survey that would generate such observations would be of great value. Using the data available, we find that VPTP participants in the age group 15-32 have earnings that are not significantly different from Leaving Certificate holders and so the approach of combining these groups is acceptable.

An alternative approach to looking at the returns to education is to calculate the returns which an individual will enjoy over a lifetime by investing in education. In order to do this, certain restrictive assumptions are required but the figures which emerge do shed additional light on how returns might have changed. The following approach is adopted. Using the coefficient estimates from Specifications (2) and (5), we predict the income stream for average individuals who (a) leave school at 15 with no qualifications, (b) leave school at 16 with an Intermediate, Group or Junior Certificate; (c) leave at 18 with a Leaving Certificate; (d) complete a diploma or certificate at third level and begin to work at 20; (e) complete a university degree and begin to work at 22. We assume the individuals work full-time and full-year until they are 65 and omit taxation from the analysis.

Having calculated the income streams, we calculate the internal rate of return to an Intermediate Certificate (or other similar qualification) over leaving school at age 14 with no qualifications. This is done by viewing the two years of forgone income while doing the Intermediate Certificate as being the value of the "investment". The "yield" is the higher level of income over the remainder of the lifetime. In calculating returns to the Leaving Certificate we consider holders of this qualification relative to holders of Intermediate Certificates etc.; in the case of diplomas etc. and degrees holders, we consider each relative to someone who left the education system with a Leaving Certificate. The results are presented in Table 4.2.5.

Table 4.2.5: *Internal Rates of Return to Various Levels of Educational Investment*

	Specification 2: All		Specification 5: All	
	1987	1994	1987	1994
Inter etc. v. no qualifications	.136	.171	.163	.263
Leaving v. Inter. etc.	.125	.086	.106	.053
Diploma/Certificate v. Leaving	.128	.038	.103	.063
University Degree v. Leaving	.183	.188	.162	.177
	Specification 2: Males		Specification 5: Males	
	1987	1994	1987	1994
Inter etc. v. no qualifications	.028	.114	.043	.186
Leaving v. Inter. etc.	.072	.032	.100	.072
Diploma/Certificate v. Leaving	.083	.027	.117	.090
University Degree v. Leaving	.166	.152	.210	.192

Using the internal rates of return, it can be seen from the table that returns to university level education have remained close to constant across the range of specifications. However, in our estimates we have not taken account of the fact that fees had to be paid in 1987 and that this is no longer the case. Inclusion of fees in the 1987 estimates reduced the internal rate of return by about one percentage point so the policy change regarding fees should be kept in mind when comparing returns over time. The figures also indicate a general decrease in the returns to the Leaving Certificate relative to Intermediate Certificate (and other qualifications at that level). The findings with respect to the diploma/certificate category are striking; while the extent of the decline in returns varies, it emerges in

all specifications. Returns to Intermediate Certificates and similar level qualifications have increased relative to having no qualifications, with the change being particularly strong in the case of males. This is important as it points to an increased earnings disadvantage for the lowest skilled and hence a greater marginalisation of this group.

The rates of return just calculated reflect the earnings advantage that individuals receive from various levels of education. As such, they are essentially private rates of return, although the government may take some of the return through taxation. It should be pointed out that in addition to the wage advantage, education yields other returns; for example, more educated workers typically *enjoy a reduced risk of unemployment and shorter durations of unemployment*. For this reason, the returns reported in Table 5 understate the total returns to education.

While the returns to university degrees are the highest, this does not imply that the government should spend additional resources in this level of the education system and less elsewhere. As outlined in the preceding paragraph, the returns presented are private returns. Governments should aim to maximise social returns and so spending should be focused where social returns are the highest. Given that the returns to university degrees are largely private, it is likely that the social returns at that level are actually quite small and so the case for diversion of public money away from this level can be made. It is still important that the government should ensure that university places are made available; however, it is not required that they fund those places also.

#### 4.2.5 Conclusion

Given that there were factors having opposing effects on returns to educational investment, it was not possible to say a priori what the net effect would be. The empirical investigation was required to ascertain what had actually happened.

Before recapping on the results, the following qualifications should be noted. First, although we have discussed the estimates without reference to their standard errors, they do of course vary in terms of their precision. However, the estimation of a range of specifications has allowed us to distil a general pattern. Second, our estimates may suffer in a way that other estimates of returns to education may suffer, i.e., to the extent that unobserved ability is correlated with educational attainment, the estimates of returns are biased upwards (for a fuller discussion on this point see *Harmon and Walker (1995) and Callan and Harmon (1997)*).

Accepting these qualification, the results from this investigation have given rise to a number of observations. First, we have found that returns to university

degrees are at worst constant and may have increased. As such spending in this area is effective in raising earnings although, as noted above, the returns on the spending are largely private. While the increase is most likely related to increased demand for this group, we find that the evidence of increased returns is weakest for the youngest age group; this would indicate the supply effect is operating here, i.e., the demand effect is being partially offset by increased supply thus limiting the increase in returns.

Returns to the Group, Junior and Intermediate Certificates have risen relative to the "no qualification category". This effect has been particularly strong for young and middle-aged men. This raises a concern about the further marginalisation of the most disadvantaged and points to the importance of intervention to aid this group.

The findings that generate most concern for current policy are the mixed results on returns to diplomas and other third level qualifications. In many cases the returns have decreased. While it could be argued that this is evidence of a supply effect, we have seen with respect to university degrees that the increase in demand seems to have outweighed the increased supply effect. This raises questions as to the quality of the qualifications in question.

### 4.3 ECU TABLES

This Annex includes tables corresponding to the Irish pound tables 1.1.1-1.1.4.

Table 4.3.1: 1994-99 Structural Initiative Spending

<i>Indicative estimates mecu</i>	<i>Community Grant (All Funds)</i>						
	94	95	96	97	98	99	94-99
CSF Total	665.6	814.7	966.1	1036.3	1100.0	1145.6	5728
<b>Productive Sector Priority</b>	292.4	356.2	455.2	485.2	468.7	496.3	2554
Industrial Development OP	115.6	128.6	171.4	186.5	212.8	234.8	1050
Agriculture, Rural Development and Forestry OP	147.3	173.5	176.4	181.5	146.3	137.5	963
Fisheries OP	3.4	9.7	21.0	19.0	14.1	12.0	79
Tourism OP	26.1	44.4	86.3	98.2	95.6	112.0	463
<b>Infrastructure Priority</b>	105.1	158.9	166.6	190.1	255.9	259.1	1136
Transport OP	80.3	132.2	131.2	140.7	212.8	210.1	907
Economic Infrastructure OP	1.8	8.7	12.8	23.9	29.8	32.6	110
Environmental Services OP	16.7	6.9	10.5	16.2	12.7	16.4	79
Hospital Infrastructure OP	6.3	11.0	12.0	9.4	0.6	0.0	39
Human Resources Development OP	263.0	267.7	289.7	305.2	315.2	325.9	1767
Local Urban & Rural Development OP	5.1	31.7	54.0	52.8	57.5	61.6	263
CSF Technical Assistance OP	0.2	0.3	0.7	3.0	2.7	2.6	9
Cohesion Fund	167.9	190.4	197.9	218.4	271.8	275.9	1322
Community Initiatives	0.6	23.7	85.1	160.2	90.2	95.3	455
EEA (EFTA) Funds	0.0	0.0	27.0	10.8	0.0	0.0	38
Total Structural Funds under 1994-99 Programme	834.0	1030.2	1219.0	1416.9	1456.6	1502.5	7459
as per cent of GNP	2.64	2.97	3.28	3.56	3.35	3.20	3.17

Source: Based on Figures Provided by Dept of Finance, January 1997.



Table 4.3.2: 1994-99 CSF: Structure of Spending

<i>Indicative estimates per cent of CSF total</i>	<i>Community Grant (All Funds)</i>						
	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>94-99</i>
CSF Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Productive Sector Priority</b>	<b>43.9</b>	<b>43.7</b>	<b>47.1</b>	<b>46.8</b>	<b>42.6</b>	<b>43.3</b>	<b>44.6</b>
Industrial Development OP	17.4	15.8	17.7	18.0	19.3	20.5	18.3
Agriculture, Rural Development and Forestry OP	22.1	21.3	18.3	17.5	13.3	12.0	16.8
Fisheries OP	0.5	1.2	2.2	1.8	1.3	1.0	1.4
Tourism OP	3.9	5.4	8.9	9.5	8.7	9.8	8.1
<b>Infrastructure Priority</b>	<b>15.8</b>	<b>19.5</b>	<b>17.2</b>	<b>18.3</b>	<b>23.3</b>	<b>22.6</b>	<b>19.8</b>
Transport OP	12.1	16.2	13.6	13.6	19.3	18.3	15.8
Economic Infrastructure OP	0.3	1.1	1.3	2.3	2.7	2.8	1.9
Environmental Services OP	2.5	0.8	1.1	1.6	1.2	1.4	1.4
Hospital Infrastructure OP	0.9	1.4	1.2	0.9	0.1	0.0	0.7
Human Resources Development OP	39.5	32.9	30.0	29.5	28.7	28.5	30.8
Local Urban & Rural Development OP	0.8	3.9	5.6	5.1	5.2	5.4	4.6
CSF Technical Assistance OP	0.0	0.0	0.1	0.3	0.2	0.2	0.2

*Source: Based on Figures Provided by Dept of Finance, January 1997.*

Table 4.3.3: 1994-99 Structural Fund Spending

<i>Indicative estimates mecu</i>	<i>Community Grant (All Funds)</i>						
	94	95	96	97	98	99	94-99
<b>Industrial Development OP*</b>	115.6	128.6	171.4	186.5	212.8	234.8	1050
Indigenous Industry Development	36.4	37.3	13.0	37.8	41.2	51.6	221
Inward Investment	25.7	10.2	9.7	14.2	21.6	28.5	110
Research & Development	24.3	33.9	61.9	50.4	52.6	57.7	272
Market Development	8.5	12.3	18.6	12.7	23.8	26.0	100
Gaeltacht Development	6.7	12.7	10.6	6.9	6.9	5.2	47
Food Industry	9.8	17.5	51.0	57.9	59.0	57.7	248
Land and Buildings	3.5	4.0	5.5	3.6	4.6	4.9	25
Technical Assistance	0.6	0.7	1.1	3.1	3.0	3.2	12
<b>Agriculture, Rural Development &amp; Forestry OP</b>	147.3	173.5	176.4	181.5	146.3	137.5	963
Structural Improvement and Rural Development	79.3	162.1	161.7	167.8	132.9	123.9	828
Forestry	9.2	13.0	12.3	13.2	13.0	13.1	74
Evaluation and Technical Assistance	0.0	0.1	0.7	0.5	0.4	0.5	2
Recoupment on Obj 5(a) Expenditure in 1993	58.8	-	-	-	-	-	59
<b>Fisheries OP</b>	3.4	9.7	21.0	19.0	14.1	12.0	79
<b>Tourism OP</b>	26.1	44.4	86.3	98.2	95.6	112.0	463
Natural / Cultural Tourism	4.9	8.6	18.6	28.9	26.1	30.7	118
Product Development	0.3	9.0	38.4	38.9	38.1	49.2	174
Marketing	5.5	11.0	12.3	11.7	11.7	11.7	64
Training	15.1	15.4	16.2	17.9	18.8	19.9	103
Technical Assistance	0.3	0.4	0.9	0.9	0.9	0.5	4
<b>Transport OP</b>	80.3	132.2	131.2	140.7	212.8	210.1	907
Supporting National Economic Development	57.9	106.3	99.0	87.1	109.9	109.0	569
Supporting Sub-Regional Economic Development	22.4	25.9	32.3	53.6	102.9	101.1	338
<b>Economic Infrastructure OP</b>	1.8	8.7	12.8	23.9	29.8	32.6	110
Energy	0.6	2.0	6.3	12.8	21.5	25.7	69
Communications	1.2	6.7	8.5	10.5	8.3	4.3	39
Technical Assistance	0.0	0.0	0.4	0.4	0.5	0.5	2
<b>Environmental Services OP</b>	16.7	6.9	10.5	16.2	12.7	16.4	79
Water Services	16.4	3.4	5.5	8.6	5.3	5.2	44
Waste Management	0.0	1.5	2.5	5.0	5.1	8.9	23
Coastal Protection	0.1	0.8	0.9	0.9	0.9	1.0	5
Environmental Monitoring R & D	0.0	0.6	0.8	0.8	0.5	0.5	3
Technical Assistance	0.1	0.2	0.6	0.6	0.6	0.6	3
<b>Hospital Infrastructure OP</b>	6.3	11.0	12.0	9.4	0.6	0.0	39

Table 4.3.3: 1994-99 Structural Fund Spending (continued)

<i>Indicative estimates £ million</i>	<i>Community Grant (All Funds)</i>						
	94	95	96	97	98	99	94-99
<b>Human Resources Development OP</b>	263.0	267.7	289.7	305.2	315.2	325.9	1767
Initial Education and Training	111.8	135.0	140.5	145.1	149.2	152.7	834
Continuing Training for the Unemployed	41.6	28.1	30.5	31.1	32.5	35.2	199
Objective 3 - Social Exclusion	88.0	63.3	64.0	65.3	66.1	67.7	414
Objective 4 - Adaptation to Industrial Change	10.4	12.0	12.0	10.7	10.7	12.2	68
Improvement of the Quality of Training Provision	11.1	29.3	37.0	46.1	53.2	54.6	231
<b>Local Urban &amp; Rural Development OP</b>	5.1	31.7	54.0	52.8	57.5	61.6	263
Local Enterprise	0.0	10.5	15.2	16.7	17.0	17.7	77
Integd. Devt. of Designated Disadv & Other Areas	2.6	4.5	15.7	23.0	25.5	27.7	99
Urban and Village Renewal	2.3	15.9	20.4	10.8	14.0	14.8	78
Technical Assistance	0.3	0.8	2.6	2.2	1.1	1.4	8
<b>CSF Technical Assistance OP</b>	0.2	0.3	0.7	3.0	2.7	2.6	9
<b>All OPs</b>	665.6	814.7	966.1	1036.3	1100.0	1145.6	5728

*Source: OP Totals provided by Dept of Finance, January 1997. Sub-programme estimates derived from various sources and are of different vintages. \*Note: The sub-programme figures for Industrial Development have been proportionately adjusted to sum to the OP totals.*

Table 4.3.4: 1994-99 Structural Fund Spending

<i>Indicative estimates £ million</i>	<i>National Administrations</i>						
	<i>94</i>	<i>95</i>	<i>96</i>	<i>97</i>	<i>98</i>	<i>99</i>	<i>94-99</i>
<b>Industrial Development OP*</b>	53.7	50.9	49.0	60.3	73.5	83.9	371
Indigenous Industry Development	12.3	12.8	3.7	13.0	14.4	16.3	80
Inward Investment	16.8	7.0	2.9	7.2	11.9	18.8	71
Research & Development	7.9	7.8	10.6	8.5	8.8	10.0	57
Market Development	2.8	4.1	5.6	3.6	7.0	7.7	33
Gaeltacht Development	2.2	4.2	3.2	2.0	2.0	1.5	16
Food Industry	3.2	5.5	11.2	17.5	18.5	18.0	83
Land and Buildings	8.2	9.2	11.5	7.2	9.5	10.1	59
Technical Assistance	0.2	0.2	0.3	1.3	1.3	1.4	6
<b>Agriculture, Rural Development &amp; Forestry OP</b>	-23.1	75.4	78.3	77.6	65.4	61.9	336
Structural Improvement and Rural Development	33.3	72.1	73.1	73.4	61.2	57.6	371
Forestry	2.3	4.0	4.2	4.1	4.0	4.1	23
Evaluation and Technical Assistance	0.0	0.0	0.2	0.2	0.1	0.2	1
Recoupment on Obj 5(a) Expenditure in 1993	-58.8	-	-	-	-	-	-59
<b>Fisheries OP</b>	1.4	3.2	6.0	3.6	2.9	2.8	20
<b>Tourism OP</b>	7.8	11.1	19.0	23.4	22.3	25.8	109
Natural / Cultural Tourism	1.6	2.9	6.3	9.6	8.7	10.1	39
Product Development	0.1	1.7	5.5	5.6	5.0	6.9	25
Marketing	0.9	1.3	1.2	2.1	2.2	2.2	10
Training	5.0	5.1	5.7	5.8	6.1	6.4	34
Technical Assistance	0.1	0.1	0.3	0.2	0.2	0.1	1
<b>Transport OP</b>	50.1	82.8	73.6	81.2	121.8	122.1	532
Supporting National Economic Development	28.5	58.7	45.8	41.3	50.8	53.4	278
Supporting Sub-Regional Economic Development	21.6	24.1	27.8	39.9	71.1	68.7	253
<b>Economic Infrastructure OP</b>	1.8	9.5	15.4	37.8	41.7	40.5	147
Energy	0.4	1.9	4.5	24.4	30.9	35.1	97
Communications	1.4	7.6	9.6	14.9	10.2	5.3	49
Technical Assistance	0.0	0.0	0.1	0.1	0.2	0.2	1
<b>Environmental Services OP</b>	16.6	2.1	2.8	4.5	3.0	4.0	33
Water Services	16.5	2.6	1.8	2.9	1.8	1.7	27
Waste Management	0.0	0.3	0.4	1.0	0.7	1.7	4
Coastal Protection	0.0	0.3	0.3	0.3	0.3	0.3	2
Environmental Monitoring R & D	0.0	0.0	0.0	0.0	0.0	0.0	0
Technical Assistance	0.0	0.1	0.2	0.2	0.2	0.2	1
<b>Hospital Infrastructure OP</b>	14.6	25.6	28.1	22.5	1.5	0.0	92

Table 4.3.4: 1994-99 Structural Fund Spending (continued)

<i>Indicative estimates £ million</i>	<i>National Administrations</i>						
	94	95	96	97	98	99	94-99
<b>Human Resources Development OP</b>	96.3	95.5	105.6	110.4	114.4	117.2	639
Initial Education and Training	37.3	45.0	46.8	48.4	49.7	50.9	278
Continuing Training for the Unemployed	13.9	9.4	10.2	10.4	10.8	11.7	66
Objective 3 - Social Exclusion	39.0	30.1	30.6	31.0	31.3	31.0	193
Objective 4 - Adaptation to Industrial Change	2.4	1.5	4.0	3.6	3.6	4.1	19
Improvement of the Quality of Training Provision	3.7	9.6	11.7	15.1	17.7	18.3	76
<b>Local Urban &amp; Rural Development OP</b>	2.5	12.0	22.4	21.2	25.8	27.7	112
Local Enterprise	0.0	3.5	5.1	5.6	5.7	5.9	26
Integd. Devt. of Designated Disadv & Other Areas	0.9	1.5	5.2	7.7	8.5	9.2	33
Urban and Village Renewal	1.6	6.7	11.2	7.2	11.2	12.1	50
Technical Assistance	0.1	0.3	0.9	0.7	0.4	0.5	3
<b>CSF Technical Assistance OP</b>	0.1	0.1	0.2	1.0	0.9	0.9	3
<b>All OPs</b>	221.8	368.3	400.5	443.6	473.3	486.6	2394

*Source: OP Totals provided by Dept of Finance, January 1997. Sub-programme estimates derived from various sources and are of different vintages. \*Note: The sub-programme figures for Industrial Development have been proportionately adjusted to sum to the OP totals.*

## Checklist of Recommendations:

### *General recommendations on evaluation*

An early decision is needed about whether or to what extent the Exchequer or Commission will make up the probable exchange-rate related shortfall in Irish pound counterpart funds. (1.1.5)

Each measure must justify itself in terms of the opportunity cost of public funds. (2.1)

Public policy must also try to avoid creating its own distortions. (2.1)

Introducing competition where possible should be a goal constantly in the foreground of policy design (2.1)

Less expenditure of CSF funds to remedy problems which could be avoided with better policy (2.4).

Prices that are distorted by policy should be corrected rather than devoting CSF funding to try to offset their effects. (2.4)

Consideration of the regional impact of CSF measures needs to pay due attention to the fact that regions typically benefit from spending that occurs in other regions. (2.4)

Assistance to rural areas should focus more on improving deficiencies in rural infrastructures than in income support. (2.4)

Opening up the provision of subsidised training and business services to competitive supply should be tried on a pilot basis. (2.5)

### *Proposed Reallocations (2.5.4)*

#### *ID1.2 Human Resources Capability Development*

Several adjustments needed, including reduced grant rates and likely underspend.

#### *ID1.3, ID2 Capacity Expansion, Inward Investment (increase)*

More funding to meet demand.

*ID1.4 Venture Support and Traditional Industry Adjustment.*

Decommit funding if underspend threatened.

*ID3.1 Industry R&D Initiative (possible increase ?)*

No increase justified.

*ID3.2 (b) Industry/Third Level Co-operation Services (technology services)*

Achieve greater cost recovery

*ID4.1, ID4.2, ID4.3 Market Development*

Achieve greater cost recovery.

*ID6.1 Capital Investment Grants (Food-Primary)*

Decommit unneeded funding.

*ID6.4 Marketing and Promotion (Food)*

Increase cost recovery.

*AG1.2 General Structural Improvement*

Cut any remaining funds for poorly targeted measures.

*AG1.1d Control of Farm Pollution (possible increase ?); AG1.4 Headage Payments*

Switch funds from Headage to the Control of Farm Pollution

*FI.1, FI.2 Fleet Adjustment*

Redesign measures for better impact, or cut.

*FI3 Aquaculture*

Sharp cut-back: adverse side-effects, etc.

*FI.6 Processing (possible increase)*

Meet demand from qualified projects.

*TO2.4; TO2.5 Special Tourism Grants*

A sharp brake on these grants because of externalities and probable deadweight (despite MTE).

*TO4.3 Continuing Training*

Cut allocations because of deadweight.

*TR1.1, TR1.2, TR1.3 National Roads (increase)*

Increase allocation conditional on improvements in cost control and design.

*TR1.5, TR1.6, TR2.4 Ports & Airports*

Reduce allocation: needed capacity will still be forthcoming.

*E11 Peat Generation*

Cancel project.

*E11.3 Renewables*

Cancel biomass: insufficient social value yet.

*HR1.1 Preventative Action (increase)*

Assign more funding to areas of maximum return.

*HR1.2 Early School Leavers (increase)*

More places and second year: extra funding needed to clear backlog.

*HR1.6 Advanced Technical Skills*

Reduce public funding for this too-directive subsidy for postgraduate study.

*HR2.1 Industry Training for the Unemployed*

Retarget drastically: meanwhile some cut in allocation pending adjustment.

*HR3.1 Counselling, Guidance & Placement (increase)*

Assign more funding as recommended by MTE.

*Longer term*

There will be many measures still in operation by the turn of the century which should be being phased-out early in the new century:

- Poorly designed rural relief;
- Under-priced business services;
- Proliferation of local development entities;
- Expansion grants for immobile firms.



Looking towards the next CSF: Plan on:

Upgrading of rural networks;  
Broad-band telecommunications;  
Managed urban transport;  
More reliance on pricing mechanisms in preference to concrete  
and steel solutions.

*On specific measures (for OP Monitoring Committees)*

There is scope for greater economy in road design.

EN: Conflict between compliance with urban waste water directive and optimal use of funds needs to be resolved. Better returns available from attention to pollution of inland waters instead of high treatment levels at coastal treatment plants. (3.3)

The list of smaller municipal water supply projects should be re-assessed for possible further allocations of funds where demand now exceeds capacity. (2.3.7)

The activities in HR2 needs to be refocused, with quantitative targets for participation. (2.3.8)

Greater co-ordination of interventions in favour of young persons (in HR3) would be desirable. (2.3.8)

The potential of the Training of Trainers measure (HR5.2) in prevention should be exploited. (2.3.11)

Provision of the necessary progression options both from Youthreach, and from certain basic schemes funded under HR3 is also crucial. (2.3.11)

Training programmes need more concentrated application of resources on individuals; spending below a threshold amount will help little. (2.3.11)

The two option approach to Community Employment should be pushed further by differentiating more sharply between the level of training involved in the two options. Furthermore, balance of places between the

two measures should be shifted to reflect more closely the needs of the long-term unemployed. (2.3.11)

MLT/HTBS should be re-examined to see why it is acting as a bridge to further education and training instead of to employment. (2.3.11)

The new focus of TSS on very small firms should be rigidly adhered to. (2.3.11)

It would also be desirable to broaden the range of training providers, in order to increase the competitiveness of the training market. (2.3.11)

LUI scheme, if anything, reinforces the "grant mentality" criticised by the Culliton report. (2.3.9)

In regard to LU, the goal of the Taoiseach's Department should be to find a way of establishing the primacy in local development matters of appropriately reconstituted local government entities. (2.5)

*In addition*, a number of detailed recommendations on the environment are included for different OPs at (3.4)

#### *CSF Indicators* (for CSF Monitoring Committee)

Simple "benchmark" and "actual" macro-economic estimates constructed for the specific purpose of monitoring the CSF should be tried. (3.1)

Gross fixed capital formation indicator is excessively broad: should be replaced by non-residential fixed investment (distinguishing between public and private). (3.1)

ID: More research should be undertaken aimed at reinforcing or establishing the line of causality, at a micro-level, between the performance of firms and assistance provided. (3.1)

New ID indicators: export growth should be related to market share; fixed investment by industry should be added. (3.1)

Measure contribution of agriculture to the *moderate* and serious pollution load of *all* inland waterways; make available more promptly. (3.1)

Drop Social Welfare payments indicator from AG. (3.1).

Rural development indicators need to be strengthened, possibly using survey approach. (3.1)

Need to obtain more information about employment trends in tourism. (3.1)

The indicator of indirect employment creation in the construction sector for tourism should be dropped from the CSF. (3.1)

Tougher targets should be set for HR participation rates. Also, a target should be set for rate of long-term unemployment and progress towards it monitored by the CSF Monitoring Committee. (3.1).

Follow-up placement indicators should be developed for ATS, MLT/HTBS and VPT second level. (3.1).

Track trends in continuing training using Labour Force Survey results. (3.1).

Several TR indicators are too narrow and should be dropped. (3.1).

More ambitious energy intensity indicator should be set. Impact on firms targeted for energy savings should be monitored. (3.1).

The indicators for the supply of primary energy by source should be replaced by the environmental emissions or other more relevant indicators. (3.1).

Indicators for fisheries at CSF level should be dropped. (3.1).

Water, air quality and land quality environmental targets should be established and monitored on an annual basis in the vicinity of CSF assisted projects. (3.1).

*Monitoring and Control:* (for CSF Monitoring Committee)

A more focused approach for the Evaluation Units, but the CSF Evaluation Unit's should be broadened to include analysis. (3.2.2)

Except where a standard procedure is in place (e.g., roads) cost-benefit studies should be commissioned by the CSF Evaluation unit; conducted on a

uniform basis, using appropriate shadow prices (especially higher shadow wage). They should be undertaken prior to the adoption of public commitment to the project. (3.2.4)

In line with partnership approach, consideration could be given, on a pilot basis, to contracting out on a competitive basis, the delivery and implementation of certain CSF measures and programmes. (3.3.1)

TA should be provided to each Regional Authority to help interpret CSF performance at regional level. (3.4)

A sub-committee of the CSF Monitoring Committee should be established to examine the environmental impact of implementing the CSF and to recommend what changes could be made across programmes and measures to achieve the same outcome with a better environmental profile. (3.4)

*Monitoring and Control:* (for individual OPs)

More effective MIS needed for LU. (3.2.1)

For ID: consultative process needed to set appropriate targets for output, quality, deadweight and displacement. (3.2.1)

For HR: need to bring the impact indicators of all agencies into a single data system, control data quality, correct reporting format to ensure consistency, calculate relative costs and impacts of different measures. (3.2.1)

For EN: establish an appropriate MIS with baseline positions. (3.2.1)

TO indicators need to be upgraded especially to ensure they are "closely related to the objectives established and contain accurate information. (3.2.1)

Action is still needed to address specific deficiencies of coordination between the industrial development agencies. (3.4)

### Link between the Working Brief and this Report

Coverage in this report of the items highlighted by the Working Brief (which is attached) is arranged as follows:

(i) Impact

Overall net socio-economic effect of the CSF and its contribution to the overall objectives of the CSF is dealt with at the macroeconomic level in Sections 1.1 and 1.2; analysis of impact at the level of the four main priorities is in Section 1.3.

(ii) Effectiveness

This is considered at the overall level in Section 1.1; at the level of individual OPs, the discussion is in Section 2.3.

(iii) Efficiency

Efficiency of the components of the CSF is discussed in detail in Sections 2.3-2.5 based on the methodology presented in Sections 2.1-2.2.

(iv) Indicators

The quantified indicators are discussed in Section 3.1.

(v) Complementarity

This is the subject of Section 3.4.

(vi) Human Resource Strategy

Cross-programme issues are discussed in sub-sections 2.3.11 and 3.3.3, and in Section 1.3. Other discussion of human resources is in sub-section 2.3.8, and recommendations for reallocations affecting human resources are in Section 2.5. Research results on returns to education are in the Annex at 4.2.

(vii) Monitoring

This is dealt with in Section 3.2.

(viii) Implementation Structures

This is in Section 3.2 and (for Partnership) in sub-section 3.3.1.

(ix) Environment

The environment is discussed in sub-section 3.3.2 and the Annex at 4.1, as well as the discussion of the EN OP at sub-section 2.3.7.

(x) Complementarity with Community Policies

Complementarity with Community Policies is the subject of Section 3.3.

(xi) Peace Process

This is dealt with in sub-Section 3.3.5.

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# Mid-Term Evaluation of the Community Support Framework for Ireland, 1994-1999

## Working Brief

### Background

1. Structural fund assistance for Ireland is channelled through the Community Support Framework, (CSF) 1994 - 1999 and its nine operational programmes (OPs) covering key sectors of the economy. Additional assistance is provided through a number of Community Initiatives. Total expenditure under the CSF financial plan (at 1994 prices) is some 10,383 million ECU of which some 5,620 million ECU represents EU participation. The central objectives of the CSF are to:
  - ensure the best long-term return for the economy by increasing output, economic potential and long-term jobs,
  - reintegrate the long-term unemployed and those at high risk of becoming so into the economic mainstream.
2. The development strategy to achieve these objectives comprises actions to:
  - strengthen the overall productive capacity of the economy and identify and support the key sectors with the best long-term growth potential,
  - improve competitiveness by investing in economic infrastructure,
  - develop the skills and aptitudes of those in work and those seeking employment by both addressing the needs of the productive sectors of the economy and by integrating those who are marginalised and disadvantaged,
  - harness the potential of local initiatives to contribute to economic development.
3. Reflecting these objectives and development strategy, assistance under the CSF is provided under four principal priorities - the Productive Sector incorporating the Industry, Agriculture, Forestry and Rural Development, Fisheries and Tourism OPs; Economic Infrastructure comprising the Transport, Economic Infrastructure and Environmental Services OPs, Human Resources and Local Urban and Rural Development which both have single operational programmes. There is also a single project under hospital infrastructure, namely Tallaght Hospital.
4. The OPs are national programmes. Responsibility for each of the programmes rests with a lead government department which provides the secretariat for it. A monitoring committee, comprising representatives of the European Commission the lead department, the implementing agencies, the social partners and, as appropriate,

community/voluntary interests, has overall responsibility for each of the programmes. The Department of Finance is the lead department for the purposes of the CSF. There is also a separate monitoring committee comprising representatives of the European Commission, the Department of Finance and the lead departments which has overall responsibility for the CSF.

5. At regional level, there are eight regional authorities with responsibility for reviewing progress on the implementation of the CSF, OPs and Community Initiatives in their functional areas. The eight regional authorities are assisted in this task by broadly based EU Operational Committees comprising representatives of the constituent local authorities, officials of local and central government, the implementing agencies, the social partners and community/voluntary interests. Regional authorities may offer an opinion on any aspect of the implementation of the CSF or OPs in their region to the appropriate monitoring committee. The chairman of a regional authority has the right of audience with any monitoring committee to present such an opinion if he/she so desires. Regional authorities do not have executive functions and they are not directly involved in implementation of the CSF and OPs.

### **Basis for the Mid- Term Evaluation**

6. The CSF Technical Assistance Operational Programme and the Structural Funds Regulations provide for a mid-term review of the CSF and constituent OPs. The mid-term review is an important event in the life of the CSF. The mid-term evaluation will inform the mid-term review. The CSF and each of the OPs will be the subject of separate evaluations by an external evaluator to assess their efficiency, effectiveness and impact so that any adjustments required (financial and otherwise, within and across programmes) can be made. The Community Initiatives Interreg, Peace and Reconciliation, Leader, Adapt and Employment will be the subject of separate evaluations while the remaining initiatives Pesca, Urban and SME will be evaluated as part of the relevant OPs. Responsibility for the mid-term review of the CSF and operational programmes rests with the CSF and Programme Monitoring Committees respectively.
7. The Department of Finance, in partnership with the Commission of the European Communities, are, therefore, inviting applications from suitably qualified consultants who wish to tender for the task of carrying out of a mid-term evaluation of the CSF.

### **Terms of Reference**

8. There are two interlinked elements to the mid-term evaluation of the CSF. Firstly, the overall efficiency, effectiveness and socio-economic impact of the CSF (as a development strategy for the Irish Economy) should be evaluated. Secondly, the relative efficiency, effectiveness and impact of the component priorities and programmes should be assessed. The evaluation should address the continued relevance of the programmes in the light of socio-economic situation since 1994 and the prospective medium-term outlook. In this regard, the evaluation should take as a basis the mid-term evaluations at operational programme level and the regional evaluation. The evaluation should also take account of prior appraisals and interim evaluation, where applicable, and any changes made to the CSF since its inception. This approach will facilitate consideration at the mid-term review of changes in the

overall strategy and its components, including adjustments in financial allocations.

### Analysis of External Environment

9. The evaluation should:-

- review relevant developments in the socio-economic environment of the CSF since 1994 (e.g. macro economic developments, changes in the labour market situation, structural changes in the economy);
- review other relevant external developments to the CSF, including the changing political situation in Northern Ireland;
- review relevant policy developments that impinge on the CSF, particularly macro economic and structural policies at national level and EU policies, notably in the areas of Employment, Equal Opportunities and the Environment;
- review the economy's mid-term prospects identifying key challenges likely to arise; and
- review and assess the original CSF rationale, objectives and development strategy in the light of the above.

### Focus of the evaluation

10. Having regard to the analysis of the external environment as set out above, the CSF should be evaluated under the following headings:-

(i) **Impact**

At an overall CSF level, an assessment should be made of the overall net socio-economic effect of the CSF in terms of the objectives (quantified and otherwise) set down with particular reference to the objectives of increasing output, economic potential and sustainable employment and the integration of the socially excluded and promoting equal opportunity. In particular, the focus should be on the supply side or long run impacts of the CSF (taking account of dead-weight, displacement and substitution effects). In addition, an assessment should be made of the contribution of the component Operational Programmes to the overall objectives of the CSF, in particular on employment growth.

(ii) **Effectiveness**

There should be an evaluation of the overall effectiveness of the CSF in terms of actions and results (action taken as compared to intended action; results secured as compared to those expected). Results should focus on progress made in attaining the overall development objectives and addressing the structural disparities in Ireland. In addition, there should be an assessment of the relative effectiveness of the component Operational Programmes in terms of sectoral objectives and disparities in Ireland.



- (iii) **Efficiency**

A comparison should be carried out between the output or impact of the CSF and its Operational Programmes on the one hand and their costs on the other, taking due account of socio-economic considerations. The evaluation should assess the extent to which the impacts/benefits across programmes are commensurate with the resources deployed.
- (iv) **Indicators**

The evaluation should undertake a detailed examination, to include feasibility, relevance and reliability of the impact indicators included in the CSF document and in periodic reports presented to the Monitoring Committee. The mid-term review will have to examine how well they serve the purpose for which they were intended, e.g. are the indicators measurable (plus suggestions on their collection e.g. sources, recommended frequency), feasible (examine information needed for their preparation), relevant and reliable, closely linked to the impacts being measured etc.
- (v) **Complementarity**

Assess the degree of Complementarity and linkage between the component programmes of the CSF, including the effectiveness of co-ordination arrangements and synergy between funds.
- (vi) **Human Resource Strategy**

Provide an overview of the effectiveness of the human resource strategy across the CSF and the extent to which it is achieving the CSF human resource objectives. Special attention should be paid to the integration of human resource strategies and objectives in sectoral OPs (Agriculture, Industry, Tourism etc).
- (vii) **Monitoring**

Review the adequacy of monitoring and evaluation arrangements and suggest improvements where necessary.
- (viii) **Implementation Structures**

Review the effectiveness of implementation structures, the use of technical assistance, information and publicity arrangements and the implementation of the partnership principle. Suggest improvements where necessary.
- (ix) **Environment**

Provide an overview of the environment impact of the CSF with reference to the "environmental situation" and "environmental objectives" outlined in the CSF document.
- (x) **Complementarity with Community Policy**

Assess the extent of complementarity between the CSF and Community Policies in areas such as employment, the environment and equal opportunities.
- (xi) **Peace Process**

Evaluate the scope for refocusing the CSF to support the Peace Process.

### Recommendations/Conclusions

11. The recommendations of the Evaluation should, in particular, address the following issues on the basis of the analysis at 8, 9 and 10 above:-
  - the relevance and validity of the objectives and development strategy underpinning the CSF in light of progress made to date, changes in the external environment and the medium-term outlook and future challenges facing the economy; and
  - the need for adjustment of the CSF to improve the effectiveness and efficiency and to maximise its contribution to the goals of economic cohesion and employment growth.

### **Summary**

12. The evaluation report must contain a concise executive summary not exceeding 15 pages. It should also contain a separate chapter detailing the various recommendations contained in the report.

### **Miscellaneous**

13. A steering committee comprising representatives of the Department of Finance, the CSF Evaluation Unit and the European Commission will be established to monitor progress of the evaluation. The successful consultant will be required to report to the steering committee.
14. In carrying out the evaluation the successful consultant will, in particular, be required to consult with the Department of Finance, the lead departments for the OPs, the European Commission and the CSF Evaluation Unit. An information meeting will be held for all organisations who wish to submit tenders in response to this Brief at which additional information or clarification can be sought on the content of this document. The meeting will take place in the Department of Finance, Conference Room, 73 Lr Mount Street, Dublin 2 on Friday 27 September, 1996 at 10 AM.

### **Timing**

15. Draft outline structures for reports and final reports of the OP evaluations and the regional evaluation will be available in November 1996 and January, 1997 respectively. These will be made available to the evaluator for the CSF through the lead departments and must be drawn upon in producing the CSF evaluation report. A draft outline of the CSF evaluation report must be produced by the end of December, 1996. The final CSF evaluation report must be produced by the end of March, 1997 for presentation and consideration by the CSF Monitoring Committee at their first meeting in 1997.

### **Requirements for the External Evaluator**

16. The external evaluator must demonstrate the capacity to fulfil the terms of reference outlined above. In particular the evaluator must:

- have the range of analytical and advisory skills necessary for the task;
- possess the necessary range of financial, technical and socio-economic expertise required, including macro-economic and econometric modelling and public policy evaluation. The evaluator must possess an adequate knowledge of and experience of CSF and operational programmes.
- be able to prepare succinct and informative reports and papers in compliance with tight deadlines and to make high quality oral presentations.

### **The Written Submission**

17. The written submission shall, inter alia:

- a. Outline the applicant's proposed methodology for meeting the terms of reference.
- b. Detail the applicant's perception of the work involved and of the methods, skills, expertise and experience he/she will apply to successfully carry it out;
- c. State the number, names, qualifications, experience, and field of expertise and level of participation of all persons who will be employed in carrying out the work;
- d. Nominate a person to liaise with the Steering Committee Secretariat;
- e. Give an all inclusive tender price for the cost of providing the evaluation, including a breakdown of the fee charged for each individual and an estimate of other expenses. The estimate shall be inclusive of VAT @ 21% and be denominated in Irish pounds. The actual cost will be the subject of negotiation after oral presentations, if any, have been completed;
- f. Outline the method and phasing of payments;
- g. Confirm acceptance of the General Conditions which follow.
- h. Tender documentation should be a maximum of 20 pages.
- i. 10 copies of the applicant's written submission shall be sent by registered post or recorded delivery service or delivered by hand and clearly marked so as to arrive not later than the specified date.

### **Selection of External Evaluator**

18. A Selection Committee comprising representatives of the Department of Finance, the EU Commission and the CSF Evaluation Unit will select the successful tenderer.

## General Conditions

- 19a. The external evaluator shall treat the details of all documents supplied to him in connection with his assignment as Private and Confidential.
- b. In the unlikely event that any additions or amendments to the Terms of Reference as set out in this Brief be deemed necessary prior to the date of the tender submission, these will be issued to the applicant in the form of Supplementary Documents and will form part of the Terms of Reference.
- c. The external evaluator will be engaged by the Department of Finance in its capacity as co-ordinating Department for the CSF and payments will issue from this Department.
- d. The tender or negotiated tender price will be agreed between the Department of Finance and the consultant and shall be that amount which is necessary to carry out all of the work required to satisfy the requirements of this Brief. This sum shall include costs of all labour, printing, materials, travel and other expenses, overheads, insurances, permits, licences, liaison with all relevant authorities etc.
- e. The tender price referred to above will in particular include the cost of providing copies of any documents, as appropriate, and the evaluation report to be submitted to the Steering Committee, the CSF Evaluation Unit and the Monitoring Committee. 1500 copies of the final report will be required.
- f. The lowest tender received is not a guarantee of securement of the contract. Suitability and previous experience will be a consideration.
- g. If during the course of his appointment, the external evaluator is directed by the Department of Finance to carry out additional work which is beyond the scope of work contained in this Brief and which could not have been reasonably foreseen by the external evaluator, he shall submit a quotation for that work, based on the original Schedule of Costs. If this quotation is deemed reasonable, the order to carry out the work will be issued by the Department of Finance.
- h. The work of the external evaluator shall be deemed to be carried out in the Republic of Ireland and shall be governed by the Laws of the Republic of Ireland.
- i. Before commencement of his appointment, the external evaluator shall take out policy or policies with an approved insurance company completely indemnifying himself and the parties in the Steering Committee from any claims by third parties for injuries to them or their property and by the evaluator's employees (under the Social Welfare (Occupational Injuries) Act, 1966, Employers' Liability Act, or any Statute, or at Common-Law) arising out of work done or in progress in accordance with this Brief.
- j. It will be a condition of appointment that the external evaluator and all sub-contractors (domestic or otherwise) appointed by him be able to produce for inspection either a valid C2 certificate, a tax clearance certificate, or in the case of a resident outside the State, a statement from the Revenue Commissioners as to the

suitability for appointment on tax grounds. The external evaluator and all sub-contractors (domestic or otherwise) shall continue to hold, in good standing, current issues of all such certificates for the duration of the appointment.

- k. Under the Finance Act, 1987 a withholding tax must be deducted from payments for professional services. This tax, which is at a rate of 27% will be deducted from payments made to the external evaluator in respect of his work and will be remitted to the Irish tax authorities. A non national external evaluator can reclaim this tax by making application on form F45/1 to the Revenue Commissioners, Claims Branch, Dublin Castle, Dublin 2.
- l. Any irreconcilable dispute arising during the appointment as external evaluator shall be referred to arbitration to a person to be mutually agreed upon, or, failing agreement, in accordance with the Arbitration Act, 1954 or any statutory re-enactment thereof for the time being in force.
- m. An integral element of the contract will include a stipulation that if the firm employed is not achieving its preset objectives or is deviating from its terms of reference, the Monitoring Committee for this evaluation will be empowered to terminate the contract.

**EU(Structural Funds) Section**  
**Department of Finance**  
**August 1996**

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