NATIONAL DEVELOPMENT PLANS AND PRE-ACCESSION STRUCTURAL FUNDS: LEARNING FROM THE EXPERIENCES OF IRELAND[1]

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ABSTRACT. *As it moves towards the new millennium, the Irish economy is impressive not only because of the extent/speed of the transformation and of its growth performance but also due to the fascinating effectiveness in implementing the Structural Funds programmes. In this respect, the article explores the role of the Structural Funds in Ireland within three separate themes: institutional and organisational aspects of EU funds; procedures and instruments associated with EU funds; interrelations of monitoring, evaluation and management of EU funds. Even though, not all aspects of the Irish experience are likely to be equally relevant to Central and Eastern European policy makers and analysts, it is important to learn the essentials of the Irish case. Presumably one of the most important lessons, considering the new challenges of the Central and Eastern European Countries, is that the active structural policy pursued was decisively coupled with sound macroeconomic policies. Thus, Ireland demonstrates today what can be achieved if Structural Funds assistance is integrated into a coherent domestic policy which, in particular, maintains healthy macroeconomic conditions and which is supported by social consensus.*

1. Introductory remarks

Today Ireland enjoys the many economic advantages that come with full membership of the European Union. One crucial advantage is that Irish policy makers – in both the public and private sectors – have been able over the past decade to engage in investment planning in a more stable environment, with the co-operation as well as with the active financial support of other member states through the medium of generous Structural Fund development aid. As a consequence, in today's increasingly internationalised economy, some elements of domestic policy-making autonomy have been ceded by small states (such as Ireland) to supranational organisations (such as the European Union). The policy-making autonomy of small nation states wishing to be integral parts of the international economy is now heavily circumscribed and recognising this fact, and exploiting the consequences, is a wise exercise of national sovereignty.

National development planning in the less developed EU member states revived in the late 1980s in the context of enlargement of the EU regional aid budget. Four major driving forces of EU regional policy set the scene for dramatic changes in public policy making in the lagging regional states:

(a) The **progressive enlargement** of the EU after its foundation in 1956 – when there had

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been a degree of homogeneity at the national level – brought about an ever-increasing degree of socio-economic heterogeneity with the entry of Ireland (1973), Greece (1982), Portugal and Spain (1986). This brought about a growing willingness to address regional disparities within nation states as well as between states. Today, the EU is faced with a new enlargement, involving a group of very low-income states from Central and Eastern Europe (CEE), and EU regional policy faces new challenges.

(b) In addition to the simple aspect of enlargement, **the internal and external socio-economic challenges** faced by the member states and regions became more complex and forced EU policy makers to address the task of preparing weaker states and regions to handle such initiatives as the Single Market (SEM), Economic and Monetary Union (EMU) and more recently the need to prepare for the transition of economies of Central and Eastern Europe to EU membership.

(c) While all nation states operated internal regional policies of various types, what was different about EU regional policy was that significant **financial resources** were made available by the wealthier member states to fund regional policy initiatives in a limited number of the poorer member states as well as poorer regions of states. The available EU budget had initially been dominated by the need to support the Common Agricultural Policy (CAP), but there were major expansions in resources to fund regional development aid through the so-called *Community Support Frameworks* (CSFs) of Structural Funds over the periods 1989-93, 1994-99 and 2000-06.

(d) Finally, **the state of economic theory** had a significant influence on the expansion of resources for regional development within the EU. Another driving force of EU regional policy came from the insights and guidance provided by theory, in particular by advances in the "new" trade and growth theories of the mid-1980s (Helpman and Krugman, 1985; Barro and Sala-i-Martin, 1995) and in economic geography in the 1990s (Fujita, Krugman and Venables, 1999).

The reform of EU regional investment aid programmes into fully integrated CSFs in the late 1980s presented EU as well as national policy makers and analysts in recipient countries like Ireland with major challenges. The political rationale behind the CSF had come from the fear that not all EU member states were likely to benefit equally from the Single Market, whose purpose was to dismantle all remaining non-tariff barriers within the Union. In particular, the less advanced economies of the Southern and Western periphery (mainly Greece, Portugal, Spain and Ireland) were felt to be particularly vulnerable unless they received development aid (Cecchini, 1988).

What was special about the reformed regional investment aid policies was their goals, i.e., the provision of financial aid to assist the design and implementation of policies whose explicit aim was to transform the underlying structure of the beneficiary economies in order to prepare them for exposure to the competitive forces about to be unleashed by the Single Market and EMU. Thus, CSF policies moved far beyond a conventional demand-side stabilisation role of public expenditure policies, and were directed at the promotion of structural change, faster long-term growth, and real convergence through improvement of mainly supply-side processes.

Ireland, together with Portugal and Greece, were the only countries designated in their entirety as Objective 1 (i.e., countries whose general level of development lagged behind that of the EU average and whose GDP per head was less that 75 per cent of that average). Such countries (as well as large regions within Spain, Italy, Germany and the United Kingdom) received very generous development aid, measured as a share of GDP or as a share of total public investment. In the cases of Greece, Ireland and Portugal, the resulting CSFs came to dominate the entire programme of public sector investment expenditure in each country. In the Irish case, this had important implications for monitoring and for evaluation procedures in the entire public sector.

A second important factor in the Irish case is that domestic public investment policies shifted from a purely domestic process, buffeted by the short-term exigencies of maintaining balance in the public finances, to a more stable longer-term process that was carried out in co-operation with the European Commission. Of course, in Ireland as in the other aid recipients, there continued to be a very natural desire to maximise local control over design, monitoring and evaluation of development policy. However, the ceding of some policy autonomy to the Commission in Brussels generated minimal friction since the whole Structural Fund process was perceived to be a genuine partnership that allowed successive Irish administrations to break with the previous process of annual capital budgeting and put in place development plans of much longer duration (i.e., five, six and seven years), and to finance them with far less difficulty in terms of increased public sector borrowing or taxation.[2]

The strict monitoring arrangements that were mandatory for the Structural Funds, as well as the need to carry out *ex-ante*, mid-term and *ex-post* evaluations served to promote and guide applied economic research agendas in Ireland since 1989. Indeed, research at the most aggregate level of monitoring/evaluation became something of an Irish area of specialisation during the past decade, and some of the approaches developed came to widely used in other recipient countries as well as by the Commission itself.[3] More recently, Irish researchers have collaborated with and advised applicant states in Central and Eastern Europe, where the development challenges have many similarities to those faced by the present EU periphery countries, but are of a much more challenging nature.[4]

Why might the Irish experience of monitoring/evaluating EU Structural Fund aid be of interest to other CEE policy makers? First, some of the background of how the Structural Fund monitoring was initiated and evolved over the decade since 1989 may be of interest. Techniques of monitoring/evaluation are still evolving, and have grown in their degree of formality and sophistication over the years. The CEE applicant states are coming to this process after a decade of evolution in which they have not yet participated.

[2] On the financing issue, the Structural Funds were an important factor in stimulating higher economic growth, which generated increased revenue buoyancy. Only in the very early years of the CSF 1989-93 programme was the issue of absorptive capacity regarded as a possible problem. During the later years of CSF 1994-99 the Irish public finances moved into surplus, facilitating a much higher level of domestic public investment during CSF 2000-06 when the EU funding declined.

[3] For example, the work of the ESRI was used in the recently published *Second Report on Economic and Social Cohesion*, and used research from Ireland to develop evaluation procedures for the other Objective 1 countries and regions.

[4] In the cases of Latvia and Estonia, documentation on ex-ante evaluation of pre-accession Structural Fund aid is available in Bradley *et al*, 2000 and 2001.

Second, an Irish perspective on the crucial interdependencies between the monitoring and the evaluation of Structural Fund programmes may also be of interest. The Irish experience is that monitoring and evaluation are best seen as a very integrated process rather than as two completely separate and unrelated processes. Perhaps definitions of these two terms - monitoring and evaluation - may be useful at this stage:

Monitoring: This term is usually used to describe the verification of adequate compliance with policies agreed and codified in the CSF treaties and their supporting documents, including financial aspects (was funding spent according to the plan?), as well as the collection and analysis of relevant activity and performance indicators (length of roads built, numbers of people trained, etc.).

Evaluation: This term refers to the examination of whether the Structural Fund programmes implemented actually brought about the achievement of the desired goals. This involves the tracing out and quantification of the chain of causality between structural measures being applied and the securing of intended objectives. At the most aggregate level, the basic question is whether or not the Structural Fund programmes taken as a whole promoted convergence (or cohesion).[5] At the most detailed level, one might seek to evaluate how an individual project (such as the construction of a specific section of new road, the execution of a specific training scheme, or the provision of a specific aid to company export marketing) increased economic efficiency or addressed market failure.

However, not all aspects of the Irish experience of monitoring and evaluation are likely to be equally relevant to CEE policy makers and analysts. For example, Ireland is a very small country, with a population of 3.8 million. It also has a very centralised system of public administration and has never had to address the challenges that large countries like Poland, Romania and Hungary face in tackling serious regional disparities within partly devolved regional administrations. Furthermore, by the time the Structural Fund aid arrived in 1989, Ireland had been an EU member for 17 years and had a reasonably well functioning market economy and market-based institutions.

In particular, in Ireland the transparent systems of accountability for domestic public finances had been well established long before the arrival of EU financial aid. These existing systems, with relatively minor modifications, were broadly used to receive and record EU aid, to combine it with domestic co-finance in the appropriate proportions, and to monitor its disbursement to institutions, firms and individuals who operated approved schemes. Thus, the actual financial monitoring of the Structural Funds posed few new challenges for Irish policy makers and created few problems for the European Commission. Perhaps this encouraged increased emphasis on monitoring of physical activity indicators (i.e. outputs) as well as on programme evaluation (i.e. causality and achievements of targets).

[5] The term “convergence” is often used to describe the type of nominal convergence issues stated in, say, the Maastricht criteria. The term “cohesion” is used to indicate “real” convergence, such as the level of GDP per head.

Monitoring of Structural Funds in Ireland has always gone far beyond the simple verification of adequate compliance with agreed policies. Those responsible for monitoring tend to ensure that best value for money is obtained in achieving the stated goals of the underlying National Development Plans. In particular, the EU aid is never treated as "free" money. Rather the same "opportunity cost" is used for EU as for purely local expenditures. If a project cannot be justified in terms of purely domestic funding, it tends not to be approved for Structural Fund purposes. In simplified terms, what the Structural Funds permitted was a level of public investment that was considerably higher than would have been possible if all public expenditure had to be financed by domestic tax revenue or borrowing.

Ireland receives EU funding through two main channels: the price support system of the Common Agriculture Policy (CAP) and Structural Funds, including the Agricultural Guidance and Guarantee Fund (EAGGF). In what follows we ignore the former (price support) element and focus on the latter (Structural Fund) element.

It is of interest to explore the role of Structural Funds within three separate themes:

a. Institutional and organisational aspects of EU funds

b. Procedures and instruments associated with EU funds

c. Interrelations of monitoring, evaluation and management of EU funds

Having explored these themes in the following three sections, in the remainder of the paper we turn to some broader issues. In section 5 we consider the types of economic models that are needed to carry out evaluations of the aggregate impacts of Structural Funds on an economy. In Section 6 we consider how such models have been developed and used in the main cohesion countries, in regions such as East Germany, and are beginning to be used in some applicant states such as Latvia and Estonia. We conclude in Section 7 by asking the question of the extent to which Ireland's recent period of fast growth was purely the result of Structural Fund aid, or the result of a combination of other factors.

2. Institutions and organisation of Structural Funds

The Irish institutional and organisational set-up of National Development Planning for Structural Funds has important horizontal and vertical elements. Concerning *horizontal* aspects, an active system of Social Partnership has always operated in Ireland, and this has been increasingly formalised since the year 1986, i.e., just before the enlargement and reform of Structural Fund aid in the year 1989. The Social Partnership consists of the main Trade Union organisation (The Irish Congress of Trades Unions, ICTU), the main employers organisation (the Irish Business and Employers Confederation, IBEC), the main Farmers organisations, representatives of the unemployed and socially excluded, and Government. This Social Partnership operates at the very heart of strategic policy-making, and in particular is a vehicle used to negotiate a social pact every three years that covers issues such as wage determination, the level of social support and many other aspects of government policy. The Social Partners tend to become involved in the monitoring of EU funds mainly through participation in Steering

Committees for the individual Operational Programmes of the Structural Funds. Social Partners also lobby government on the formulation and priorities of the National Development Plans that precede the agreement of the CSFs with the European Commission. But they are not normally involved directly in actual policy decisions.

Concerning *vertical* aspects, it must be stressed that regional government in Ireland is very weak, with little or no policy-making discretion and no fund-raising powers. The small size of the country has tended to encourage centralisation in policy-making, particularly in aspects such as planning the physical infrastructure of the country in an integrated way, and in ensuring that systems of education and training, as well as investment incentives, were designed with national interests and standards in mind.

The first two EU Structural Funds (or CSFs) covered the periods 1989-93 and 1994-99, and were designed and implemented with a purely national focus. For the purposes of these CSFs, the whole country was designated as Objective 1, i.e., as a lagging region in need of development and structural adjustment. These CSFs were designed and administered centrally, by various Government Departments as will be described below. The nature of monitoring was determined at the implementation stage. For example, the actual constructions of roads were administered at the level of Local Government, which also had a role in monitoring progress. Education and training schemes were designed by the responsible Central Government department and administered through a mix of central institutions (such as the national training agency, FAS) as well as through vocational schools, which came under the control of Local Government.

In summary, it could be said that the first two Irish CSFs were designed, monitored and evaluated within a system that had strong *horizontal* elements, but only limited *vertical* elements. Only at the implementation stage did *vertical* organisational elements come to the fore. This had implications for outsourcing for CSF evaluation. Prior to the year 1996, almost all evaluation, and some aspects of monitoring, of the CSFs were commissioned by the responsible Central Government departments and carried out by private consultants, under remits set by the government. At the very lowest level of monitoring and evaluation of individual projects, as well as of Operational Programmes, this work was usually undertaken by firms of private consultants in the commercial sector. More aggregate analysis (at the level of the entire CSF), as well as analysis requiring technical or research aspects, were usually carried out by organisations such as the Economic and Social Research Institute (ESRI), a private research institute supported by a state grant to carry out research on issues of widespread public importance. Individual government departments also carried out some evaluation "within-house", and of course were responsible to the European Commission for the monitoring of expenditure of funds.

The above situation was adequate in the early stages of the CSFs, but was acknowledged to be less than ideal. In order to bring a greater degree of uniformity to the monitoring and evaluation function, in 1996 the government set up a centralised *CSFs Evaluation Unit*, which reported to the Monitoring Committee of the Technical

Assistance Operational Programme.[6] This is a relatively small unit, with some 20 staff on a mixture of short and long-term contracts, whose function is to advise and assist the government and the European Commission on the evaluation of EU Structural Fund programmes. It also promotes co-ordination and best practice in Structural Fund evaluation work, as well as acting in the role of "evaluator of the evaluators". In other words, much of the evaluation work is still outsourced, but the *CSF Evaluation Unit* ensures that high quality and best practice standards are observed.[7]

The Managing Authority for each Operational Programme of the CSF is vested in a range of different bodies. Taking the latest CSF for the period 2000-2006, the Managing Authority for the overall CSF is the Department of Finance and there are seven Operational Programmes, as set out below:

1) Economic and Social Infrastructure (Dept of Environment and Local Government)

2) Employment and Human Resources Development (Dept of Enterprise, Trade and Employment)

3) Productive Investment (Dept of Enterprise, Trade and Employment)

4) Border, Midlands and West Regional Programme (BMW Regional Assembly)[8]

5) Southern and Eastern Regional Programme (S&E Regional Assembly)

6) Peace Programme (Special EU Programmes Body)[9]

7) Cohesion Fund (Department of Finance)

The principal responsibilities of the Managing Authority for each Operational Programme is as follows:

(a) Chairing and providing the secretariat for the Monitoring Committee.

(b) Assembling statistical and financial information required for monitoring and supplying this information to the CSG Evaluation Unit in the Department of Finance.

(c) Drawing up an annual implementation report for approval by the Monitoring Committee and for submission to the European Commission.

(d) Submitting payment claims to the paying authorities for Structural Funds.

(e) Ensuring that EU funded expenditure is properly accounted for and managed.

6 Prior to 1996 there were four separate government evaluation units: Analysis and Evaluation Unit in the Agriculture, Rural Development and Forestry Operational Programme; an ESF Programme Evaluation Unit; an Industry Evaluation Unit; and an overall CSF Evaluation Unit.

7 The *CSF Evaluation Unit* estimated that the total annual cost of all activities in the area of monitoring and evaluation (i.e., both its own work and that of work outsourced) was in the region of 1 to 1.5 per cent of Structural Fund expenditures. The average level of expenditure lay close to 1 per cent, but some Operational Programmes proved more expensive to evaluate (e.g., Fisheries (3.5 per cent), and Local Urban and Rural Development (1.4 per cent)). Details of the cost of monitoring and evaluation are given in CSF Evaluation Unit (1998), pp. 34-37). A list of publications by the *CSF Evaluation Unit* is given in the bibliographic appendix.

8 For the purposes of CSF 2000-2006, Ireland has been divided into two regions: the Border, Midlands, West (BMW!) region, designated as Objective 1, and the Southern and Eastern (S&E) region, designated for transitional aid. An account of how these new levels of regional government may operate in the future is provided in Morgenroth (2000), a copy of which has been supplied with this report.

9 The Peace funding is a special issue related to the civil conflict in Northern Ireland, which has affected the border areas of the Republic of Ireland adversely.

(f) Ensuring compliance with EU policies on public procurement, publicity, the environment and equality.

Each Operational Programme and the CSF as a whole, is supervised by Monitoring Committees, whose membership has remained fairly stable over all previous CSFs. Typically, there are representatives from the Managing Authority, the Department of Finance (which exercises a general supervisory role), other Government Departments and public bodies involved in implementation of programme measures, representatives from the regional assemblies and from the Social Partners (all pillars). In addition, there are representatives of equal opportunity and environmental interests drawn from relevant Government Departments or other statutory bodies.

The Monitoring Committee is responsible for decisions regarding EU co-funded measures in the Operational Programmes, including decisions on the reallocation of co-funded expenditure between measures within the Operational Programmes or between Operational Programme in the case of the overall CSF Monitoring Committee. They are also responsible for the mid-term review of the Operational Programmes in conjunction with the CSF Evaluation Unit in the Department of Finance. As regards operating procedures, each Monitoring Committee is responsible for drawing up its own rules of procedure and agreeing them with the Managing Authority and the Department of Finance. The Monitoring Committee is chaired by a representative of the Managing Authority.

The Department of Finance is the Managing Authority of the overall CSF and has representatives on all the other Operational Programme Monitoring Committees. All statistical and financial information must be supplied to the Department of Finance acting in its role as CSF Managing Authority. The special character of the EU funded programmes is that they oblige the Irish government to carry out monitoring and evaluation in the full glare of publicity. Hence, the Social partners and the European Commission authorities are an integral part of the monitoring and evaluation system. This has obvious and tangible benefits.

In general, it can be said that all domestic public expenditure is monitored and evaluated with a high degree of diligence. When standards fall below the acceptable, the Comptroller and Auditor General highlights the facts in his annual report to Parliament, and this usually attracts the full glare of media and public attention.

3. Procedures for monitoring Structural Funds

Three aspects can be distinguished here: financial, physical and socio-economic. With respect to the **financial** focus, the monitoring of EU funded programmes builds on and extends the underlying monitoring systems that are used for all domestic public expenditure. With respect to financial accountability, within the Irish public sector no distinction is made between purely domestic expenditure and programmes involving co-funded EU expenditure such as the CSF. Of course, the technical aspects of financial accountability for co-funded EU programmes must be set up in a more open and internationally accountable way, but the underlying principles of accountability and procedures are the same across all public expenditure.

With respect to **physical monitoring**, this tends to reflect the nature of the particular Operational Programme or project within an Operational Programme. The systems used depend on whether or not there are "intermediate" funding agencies involved that interface between central government and individual grant-aided projects. For example, projects within the Operational Programme for Economic and Social Infrastructure are managed by the Department of Environment and Local Government. Actual projects (such as roads, ports, etc.) tend to be commissioned by Local Government authorities as approved by the Department and the National Roads Authority. Physical monitoring will involve a process of data flow from individual projects, to the implementing Local Authority or the National Roads Authority (in the case of national highways), and from there to the Department and the Operational Programme Monitoring Committee.

In the case of projects within the Operational Programme for Employment and Human Resources Development, these are commissioned by the Department of Enterprise, Trade and Employment and are delivered mainly by state training agencies, universities and colleges of technology. Physical monitoring takes place within the state training agency, the universities and the colleges of technology, and data are fed up to the Monitoring Committee chaired by the Department as Managing Authority.

Aid to the productive sector (investment incentives, management training, marketing and design, trade fairs, etc.) is administered mainly by the two state agencies: *Enterprise Ireland* (with responsibility for local industry) and the *Industrial Development Agency* (IDA) (with responsibility for attracting foreign direct investment). Once again, the physical monitoring takes place within these two agencies, and data are fed up to the Monitoring Committee.

The new regionalisation of Ireland (into a poorer Border-Midlands-West region and a more developed South-East region) poses very difficult problems in terms of the role that the two new regional Assemblies will play in monitoring and evaluating their respective Operational Programmes during 2000-2006. As the paper by Morgenroth (2000) describes, the political and administrative modalities of regional devolution in Ireland in the context of EU funding have yet to be worked out. Pending new arrangements, it is likely that the Department of Finance, together with the Department of Environment and Local Government, will play a key role is making sure that all monitoring and evaluation procedures are followed.

Aspects of EU programmes related to **socio-economic impact** tend to be handled by specialist agencies such as *Combat Poverty* and the *National Economic and Social Forum* (NESF), with basic research provided by organisations like the Economic and Social Research Institute and the universities. In the case of the ESRI, a large-scale and regular survey of living conditions is carried out and used to examine the longer-term impacts of public policy, including EU-funded policies. In addition, the ESRI has developed a range of macroeconomic and sectoral models that are used for CSF evaluation exercises.

During the first two CSFs (1989-93 and 1994-99), there was little or no standardisation of monitoring indicators. The selection of indicators varied between Operational Programmes. In the case of basic infrastructure projects, the selection of *performance* indicators is relatively simple (kilometres of roads constructed, additional telecommunication capacity, upgraded rail links, etc.). For projects aimed at employment and human resources, *performance* indicators are also relatively easy to design, although in the case of employment there are usually many other forces influencing the outcome, particularly in the private sector. As part of the remit in monitoring and evaluation, external consultants were usually asked to devise monitoring and performance indicators.

The difficulties tended to arise in the design of *impact* indicators, i.e., measures of how effective the policy interventions were in achieving the targets and goals of the programmes. For example, shorter travel times over specified road links usually result when the roads are first improved, but often degrade again as traffic levels build up and congestion problems occur.

In the mid-term review of the Irish CSF 1994-99, a review was carried out of the collection, analysis and review of performance indicators by the various Monitoring Committees (Honohan (ed.), 1997). In the case of the large programme of economic infrastructure, shortcomings regarding indicators were highlighted, including the absence of indicators in some sub-programmes, the very broad nature of indicators relating to infrastructure telecommunications upgrades and postal services. Across all the Operational Programmes the feeling was that the development of monitoring indicators was an inexact science, and it tended to be handled in an *ad-hoc* manner, depending on the nature and quality of data flowing from individual projects. In Operational Programmes below a certain size, monitoring data were expensive to collect and were not very useful. In Operational Programmes above a certain size, and where only a limited number were involved, mainly in the public sector, monitoring indicators were easier to gather and process.

At present there are no centralised IT-based systems to handle all aspects of EU-funded programmes. Such systems are under development in the IT section of the CSF Evaluation Unit and are due to be commissioned and implemented within the next few months. The experience gained in operating the previous manual and partially computerised systems has provided an invaluable guide to the systems analysts as they designed a uniform data-driven IT system. For the near future, both systems will be run in parallel.

4. Interrelations of monitoring, evaluation and management

The simplest form of monitoring and management operates through the phased payments made to individual projects. A fraction of the funds are paid up-front. Subsequent payments are made only when project milestones are met and documentary evidence produced to accompany any demand for payment. At this simple level, monitoring tends to be used as a "control" tool rather than as a "management" tool.

However, there are wider issues involved here. Monitoring operates in its most detailed form at the level of individual projects. Evaluation tends to take place at the level of Operational Programmes and sub-Programmes, other than for very large-scale individual projects (e.g., the construction of electricity power stations).[10]

[10] A full discussion of cost-benefit analysis carried out on a range of large-scale Irish projects is provided in CSF Evaluation Unit (1997).

During the mandatory mid-term review, each Operational Programme is evaluated in great detail, based on the existing monitoring data. This work is almost always outsourced and carried out by specialised and expert consultants. Shortly afterwards, all the mid-term evaluations of the Operational Programmes are collated and used as inputs to a full macroeconomic evaluation of the entire CSF. An example of this aggregate mid-term evaluation, carried out by the Economic and Social Research Institute, was published as Honohan (ed.), 1997.

So, the interrelation between monitoring and evaluation takes place in its simplest form as a process of collection of data at the level of individual projects, and the subsequent systematic aggregation of those data into full Operational Programmes and into the complete CSF. However, evaluation at the level of individual projects is also a part of large-scale projects, such as those mentioned above. Here, an *ex-ante* cost-benefit analysis will be an essential element of evaluation at the proposal stage, before approval for funding. This process can often throw up difficult problems and choices, for example what is the correct "opportunity cost" of labour, even when the level of unemployment is high?

The CSF is designed to ensure that good choices are likely to be made *ex-ante.* So, the European Commission insists on an *ex-ante* evaluation of any proposed National Development Plan, which must include a full macroeconomic evaluation of the likely impacts of the plan on the "cohesion" objective. In the Irish case, an example of such an *ex-ante* evaluation of CSF 1989-93 was published by the ESRI as Bradley *et al*, 1992.[11]

No matter how careful the *ex-ante* evaluation, problems always arise during a CSF. In some cases, these problems become clear when negative side effects of programmes manifest themselves. In other cases, rapid changes in technology occur as the CSF is implemented, in areas that were not envisaged at the time of drawing up the original National Development Plan upon which the CSF was based. These types of problems tend to be identified during the mid-term evaluation, at a time when consideration is being given to any follow-up CSF a few years down the line.[12] In the above referenced ESRI mid-term review of CSF 1994-99, the authors designated what they called "sunset" and "sun-rise" areas in the CSF, and we illustrate some of these below.

Sunset areas:

(a) Poorly designed schemes of rural relief (e.g., headage payments for mountain sheep, which resulted in environmental degradation and no increased production..

(b) Under-priced business services (e.g., subsidised venture capital services by the state development agencies).

(c) Proliferation of local development entities that get in the way of larger regional and national initiatives that offer better outcomes at the local level.

(d) Expansion grants for immobile firms, where there is often a very high dead-weight element.

[11] The *ex-ante* evaluation of CSF 1989-93 was carried out in 1988 and early 1989, although was not published until 1992. In fact, it had never occurred to the ESRI authors that such an evaluation would be of wider international interest! After making manuscript versions of the report available to anybody who requested one, the ESRI eventually realised that there was a wider interest and published the report.

Sun-rise areas:

(a) Investment in the new broad-band telecommunications (to facilitate inward investment in the IT industry).

(b) Greater provision of managed urban transport (made increasing necessary by the growing congestion in the national capital and elsewhere).

(c) Upgrading of rural networks in areas such as telecommunications, electricity, television and roads.

(d) More reliance on pricing mechanisms in projects.

These areas were identified in the mid-term evaluation of CSF 1994-99 and the lessons were incorporated into CSF 2000-06. Six years had separated the design stages of these two CSFs. This is such a long period that the particular need to carry out a thorough and searching *ex-ante* evaluation of national development requirements must be emphasised. Mistakes of omission or commission made in the design of the CSF can be costly and opportunities to engineer structural changes and modernisation can easily be lost.

Prior to the year 1989 (when the first CSF started), there had been no culture of carrying out detailed national planning in the full glare of publicity and with a process of consultation that involved oversight by a supra-national agency like the European Commission. Of course, previous national plans had been developed, starting in 1958 with the path-breaking *First Programme for Economic Expansion*. But these had been "indicative" or aspirational plans, and never committed the government to public expenditure programmes spanning many years (and possibly, many administrations!). The level of evaluation of these earlier plans was very limited, even if monitoring of public expenditure was carried out carefully through the annual budgetary process.

The high and rigorous level of monitoring and evaluation of the CSFs served to transform the culture of these practices in Ireland. Back in 1989, monitoring and evaluation tended to carried out in a grudging way simply because it was required in order to gain access to EU funds. Since then, the utility of monitoring and evaluation has made it a part of public culture. Not only are such standards required within the public sector, but also the European Commission's requirement that these be carried in the public domain has generated interest all across civil society. This has been assisted by the pro-active stance on publication.

We interpret "published" as meaning the placing of the results in the public domain by means of printed reports and monographs, as well as in the form of postings on web sites.[13] An obvious form of publication consists of "inspirational" accounts of particularly significant EU programmes, written in an informal way and usually lavishly illustrated by coloured photographs. These clearly serve an important purpose in bring home to the general public how EU funds are aiding development at the very basic human level. Even the European Commission published such documents. An example is the recent publication of *A European success story: EU regional policy in Ireland* published by the Commission this year.

[12] In a perfect world, the problems of one CSF would be identified fully in an *ex-post* evaluation. But, in practice, the *ex-post* evaluation comes too late in the process of designing the follow-on National Development Plan. So, the mid-term evaluation tends to be very influential.

[13] The web site of the CSF Evaluation Unit is as follows: www.eustructuralfunds.ie

Detailed monitoring results tend not to be published, although could be regarded as being in the public domain. Project evaluations (in the case of large-scale projects such as mentioned previously) as well as evaluations carried out at the Operational Programme or sub-programme level, are usually placed in the public domain and could be considered as "published". However, their readership would be very limited, and the form of publication would usually be simple "ring-bound" photocopies of the original report. In effect, these reports are best regarded as inputs to the Operational Programme Monitoring Committees and tend to be read only narrowly within the relevant government departments and agencies.

Where there is an important role for proper publication is either at the aggregate CSF evaluation level or when special research studies are carried out on particular Operational Programmes, sub-Programmes or Projects. Three example of the publication of analysis at the aggregate level would include the first *ex-ante* evaluation of the Irish CSF 1989-93 (Bradley *et al*, 1992); the mid-term review of the Irish CSF 1994-99 (Honohan ed.), 1997; and the *ex-ante* exploration of national investment priorities for the most recent Irish National Development Plan (Fitz Gerald *et al*, 1999). An example of a research-based evaluation of aspects of the ESF labour market programmes was Denny, Harmon and O'Connell (2000). An earlier examination of the role of EU loan instruments through the EIB is Honohan, 1992. When placed in the context of a wider domestic public interest in Irish economic development, and given the large size of the EU funds as a proportion of GDP, such published studies usually generate a high degree of interest and present relatively accessible accounts of how the CSF adds up to produce significant increased growth and employment.

5. Was Ireland a case study of successful EU regional policy?

The original Cecchini *ex ante* study of the impact of the Single Market had been based on analysis of the four largest EU economies plus Belgium and the Netherlands, and the EU-wide results (including Ireland and the other poorer countries) were then derived by grossing up the results for these six economies (Cecchini, 1988). This presented an inaccurate picture of likely developments in the periphery, however, since developmental processes in the periphery tend to be quite different from those pertaining to the core.

A central element in the analysis of the likely implications of the SEM and EMU for the poorer EU member states concerned their impact mainly on the manufacturing sector, which consists of both tradable and non-(internationally)-tradable components. Activity in manufacturing is determined mainly by a combination of international cost-competitiveness and domestic and world demand. The greater the tradable component, the larger the impact on output of world demand relative to domestic demand. Among the poorer peripheral economies in 1989, Ireland was the most open of the four economies in this regard, and Spain the least open.

For the four cohesion economies, the effects of the Single Market on manufacturing fall into different categories. For example, "static" effects are those that arise as various sectors expand and others contract in each country in the wake of EU market integration. To determine which sectors are likely to expand and which contract, use was made of a detailed study of the competitiveness of industrial sectors in each EU country carried out by the European Commission (O'Malley, 1992). The successful sectors expand through capturing increased foreign market share and the unsuccessful sectors decline through losing home-market share. Research suggested that the "static" shock was positive for Ireland, marginally negative for Portugal, moderately negative for Spain and strongly negative for Greece. The reason for this was that Ireland and Portugal have the largest shares of employment and output in the sectors in which these individual countries were expected to benefit from the Single Market, relative to those in the country-specific sectors that were expected to be adversely affected..

For both Spain and Portugal, however, the adverse "static" shocks were more than compensated for by beneficial "locational" effects, by which is meant the increased foreign direct investment (FDI) inflows that these economies had experienced. These increased inflows can be ascribed either to EU entry or to the Single Market programme. To the extent that the SEM is responsible, the net "static" plus "locational" effects for Ireland, Spain and Portugal were all found to be positive, but were negative for Greece. Finally, "growth-dependent" effects arise since, with further trade liberalisation increasing the proportion of internationally tradable relative to non-tradable goods, the periphery economies will be more strongly affected by growth in the EU core than is the case at present. The converse is also the case, and economies like Ireland are now more affected by world recessions than when they were less open to the international economy.

Of course, one of the main reasons for the introduction of the Community Support Framework of development aid, consisting of the 1989-93 and 1994-99 packages, and currently the 2000-06 package, was the fear that gains to core countries from the Single Market would dominate the gains to the periphery. The expanded CSF programmes of regional development aid were designed to prevent this relative disadvantage in the poorer countries. These programmes had effects on both the demand-side of the economy (in the sense of increasing aggregate spending) and on the supply-side (in the sense of increasing the productive capacity of the economy). The mechanisms underlying the first set of demand effects are far simpler than those underlying the second set of supply-side effects. There were three main channels through which the supply-side effects operate: the CSF improves the physical infrastructure of the economy, raises the level of human capital (through enhancing the skills and education of the labour force), and directly assists the private sector by subsidising investment.

Appropriately enough, since Greece was found to benefit least substantially from the Single Market, it, along with Portugal, benefited most substantially from the CSF. The benefits to Ireland and Spain were very much less. The relative size of these effects was due primarily to the relative size of the CSF funds allocated to each economy. For example, although Ireland did well in per capita terms from the CSF allocations, its relatively large GDP per head meant that the CSF allocations as a ratio of GDP were smaller than the equivalent ratios for Greece and Portugal.

After a full decade of Structural Funds and the Single Market, how have the cohesion countries performed? In Table 1 we show the convergence experience of these four countries, where it is seen that some quite rapid convergence has taken place in recent years.

Table 1: Relative GDP per capita in purchasing power parity terms (EU15 = 100)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Ireland	69.6	73.3	76.3	79.3	82.4	86.8	92.1	92.9	101.6	107.0	111.4	114.3
Spain	75.6	76.5	80.9	78.9	79.5	77.6	78.1	79.1	79.4	80.4	81.6	82.1
Greece	59.9	58.3	60.6	62.0	63.9	64.7	65.8	66.7	65.6	65.8	66.9	67.1
Portugal	59.7	61.0	64.4	65.4	68.0	69.8	70.5	70.1	73.4	74.8	75.7	75.7

Source: *European Economy, No. 70*, 2000

Adaptation to the competitive rigors of the Single Market and efficient use of Structural Funds underpin the dramatic convergence of Ireland that coincided with the implementation of the new EU regional policies. One is tempted to suggest that the combination of openness and the use of Structural Funds were the primary forces driving Irish convergence, but of course the full picture is more complex. Many other domestic issues were associated with accelerated Irish growth, such as the growth of human capital, fiscal stabilisation, social partnership, etc. Nevertheless, it is the policy of openness and the use of Structural Funds that served to distinguish Ireland from, say, Greece, which had a similar distance to travel but which has only recently set its wider policy framework in the context of embracing internationalisation. Portugal, on the other hand, is in the process of repeating Irish success. It remains to be seen if these countries can sustain their convergent behaviour in times of recession as well as in times of growth.

Looking at the way poorer regions can seek to accelerate their growth rate in order to catch up, it has been suggested that the Irish experience is essentially a working out of Marshallian externalities (Krugman, 1997); i.e.,

(a) An initial clustering of similar industries (often foreign owned and in the high technology areas such as computer equipment, software and pharmaceuticals) supported by local suppliers of specialised inputs subject to economies of scale. This process was started by incentives based mainly on a policy of very low rates of corporate taxation with high rates of personal income tax and indirect taxes;

(b) These clusters generated a local labour market for skilled workers that further facilitated the growth of the cluster. At this stage, the training and human resource policies of the Structural Funds were crucial aid in ensuring elastic labour supply;

(c) Spillovers of information further encouraged growth in the high technology sectors and provided the basis for additional clustering effects, often in traditional areas that could benefit from new technologies in their supply chains (e.g., food processing). Here, the improvements in physical infrastructure and in the productive environment supported by the Structural Funds were crucial.

(d) Finally, a consensual process of social partnership needed to be put in place to ensure that there were as few losers as possible in the economic restructuring that accompanied such a virtuous circle, with the result that growth was less likely to be choked off by industrial unrest. Although there were valuable lessons to be learned in Ireland from wider EU experience in this area, the policies put in place tended to be country specific.

Thus, openness to the full rigors of competition in the international marketplace was a necessary condition for Irish economic success, but was not sufficient. Four broad domestic policy strategies accompanied the external orientation of the economy:

i. The pursuit of policies designed to bring about a steady build-up of the quality and quantity of education and training of the workforce.

ii. The major improvements in the quality of the economy's physical infrastructure.

iii. The facilitation of the growth of a competitive Irish business sector through improved management, quality marketing, better services, lower costs of utilities, and more systematic linkages with other complementary activities (or clustering)

iv. The provision by government of a stable domestic macroeconomic policy environment, where "stop-go" budgetary changes did not disrupt business planning.

As to the relevance of Ireland's experience for the CEE region, the policy initiatives that ensured that Ireland enjoyed an advantageous "first mover" status in the early 1960s are unlikely to benefit other smaller economies to the same extent. Furthermore, cluster development in the Irish case was seeded and reinforced by foreign direct investment, mainly by an industrial policy that distorted competition in Ireland's favour (through an initially zero rate of corporation tax on exports). It is doubtful if such a radical departure from tax harmonisation would be tolerated in the EU of today! In addition, generous Structural Fund development aid arrived at the optimum time, when modernisation of the industrial sector was well advanced, but where serious infrastructure and training deficiencies needed to be addressed.

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