The Irish Experience in Structural Funds

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1. Introduction

By the end of 2006, Ireland will cease to be a major recipient of Structural Funds. This is a key milestone for the country, after 20 years of relative reliance on Structural Funds for major investments in infrastructure, human resource development, rural and regional development and the broader drive for growth and competitiveness.

Over this period the GDP per capita of Ireland has gone from being among the very lowest in the EU to becoming second only to Luxembourg. According to a recent International Monetary Fund report, Ireland is now fifth in the entire world in terms of GDP per capita. Certainly the sense of new found economic prosperity is everywhere in the country. From the conspicuous consumption of citizens to the congested roads, from the huge labour shortages to the high levels of migrant labour, from the remarkable level of housing construction to the endless public works, from the slow death of market towns and villages to the vibrant, cleaner and busy growing urban centres.

2. Structural Funds Impact on Ireland

The extent to which Structural Funds have contributed to all of this remains a subject of much debate. Below we offer some personal reflections on why and where Structural Funds were most significant, and the conditions which allowed them to fulfill their promise.

But Structural Fund success in Ireland has been assisted by many other factors and it is essential to bear tbese in mind. Over the last 20 years, the world economy has dramatically shifted to high added-value services and this shift has hugely suited the young, well educated Irish population, previously deprived of adequate job opportunities in an economy that never quite developed a robust industrial tissue. A service economy is, if anything, even more mobile than industry: and this has suited well with the “openess” and administrative and fiscal simplicity of the Irish system. The fact the country is English-speaking is also an advantage as is its large “American” diaspora. The arrival of peace in the north of the country has also assisted, and the fruits of the difficult choices of the early and late eighties in terms of consolidating the public finances have come forth in the nineties. Finally, and to our view very importantly, the Irish public administration, in comparison to all other old Cohesion countries has undoubtedly been superior in organisation, professionalism and performance. This last factor, more than anything else, explains the continually high levels of absorption, and the comparatively easy manner in which Structural Funds have been integrated into the Irish investment planning framework.

When Structural Funds cease in Ireland they will leave many traces at many levels. There will still be a future National Development Plan, involving multi-annual programming and based on existing policy priorities for economic and social investment. But one of the peculiar aspects of the next programme is that it will be totally Irish Government financed. In other words, when the EU money ceases, Ireland will be left, inter alia, with the Structural Fund programming approach, fully integrated into the domestic policy making and policy implementation system. This involves a significant strengthening of the overall policy making and policy implementation system in the areas of key economic and social development.

No other EU country has undergone this experience of “graduating” from a high degree of immersion in Structural Funds to financing its continued growth and development on its own.

When you stand back and ask: what remains, many possible answers come to mind. Some of these are:

- a more comprehensive programming of major public policy priorities for economic and social investment
- a keener focus on results and impacts of public investments
- an infinitely better developed evaluation culture and practice for public policies
- a more transparent process, based on wider consultation, in investment planning
- a more strategic, considered approach to addressing regional, local, spatial and social disparities
- a much higher consciousness of the need for environmental protection
- an infinitely greater emphasis on cross-border development.

Certainly some of these developments would have occurred, at least in part, even without structural funds, notably, a more results-oriented, evidence –based form of policy making, since this is part of a broader trend in western policy-making. Cross-border development would have developed on the back of the Peace Process, and its dynamic is now irreversible.

On the other hand, it is less likely that without EU structural funds and the policies behind them, Ireland would have gone down the road of comprehensive multi-annual investment programming. Certainly it had a long, previous history of organising its public investments as “programmes” and “schemes” but these did not necessarily correspond to a “joined-up” logic of overall national policy making: they were mainly sectoral or sub-sectoral in nature. And as for evaluation, there was almost none. Irish policy-making was certainly never subject, at national level, to the scale of ad hoc political interference as in certain Mediterranean countries, but it was not necessarily strategic either. Technical aspects to policy-making in areas such as spatial planning, urban planning and generally integrated planning were infinitely more developed in many other European countries than in Ireland. All of this has at least improved in the context of structural funds programming and planning: and while substantial problems exist, we now cannot claim we are not aware of them.

Perhaps it is best to view the success, relative to what went immediately before it. Viewed in that perspective it is difficult not to admire the rigourous, clinical organisation of the Irish public administration.

Between 1988-1996, Ireland remained in dire economic straits relative to nearly all other EU economies. By 1988 it had made the hard decisions to reform, but reform meant economic austerity, constrained public expenditure, anti-inflationary measures – all in a situation where the country already had an unemployment rate between 16% and 11% over the period. The logic of these policies would have been an embargo on new investment, even in areas directly related to economic growth and competitiveness. But it was precisely in these areas, that Government sustained relatively high levels of investment by wisely using EU funds, to support its investment priorities. It was health and broader social services that took the cuts in public investment, ie areas outside EU Structural Funds, while non-investment expenditure was aggressively minimised through public sector contraction.

Evidently this was possible only by adopting a strict law of efficiency with regard to Structural Funds, something that contrasts sharply with the rampant waste seen in certain other Cohesion countries.

In this respect it is important to note what Ireland did and what Ireland did not do to use Structural Funds
wisely.

3. Key Success Factors in the Irish Structural Funds System

1. It channeled Structural Funds to support already existing and relatively coherent investment plans: in other words it did not develop all its plans "from zero". Structural Funds Programming and the National Development Plan, created an over-arching logic and sharper prioritisation within the many pragmatic investments that were already foreseen. In other words, Structural Funds were channelled into existing programmes, at the highest possible level, not directly into thousands of small projects.

2. It used already existing beneficiaries that, relative to many other Cohesion countries, can be considered strong. These were generally "semi-state" public bodies, which act as agencies to ministries. They are staffed by public servants, with appropriate "developmental/sectoral" expertise (tourism, training/labour market, economic development, innovation, etc), usually have a stable staff, a network of offices throughout the country (ie access points) and usually have a track record in operating programmes that may involve "direct grant assistance" but also practical business support from advisors (these latter are either "staffers" or sub-contracted). Obviously with the huge expansion in investment resources occasioned by Structural Funds, then the number of such programmes sharply increased. New staff were employed, and there was some greater reliance on outside contractors. But fundamentally all the same mechanisms remained in place: qualified public officials assessed grant applications from private tourism and SME operators, their programmes acted as "SF operations" and they themselves usually had the status of "final beneficiary" termed in Ireland "Implementing Body".

3. It established a logical and in resource terms, economic system for managing and implementing the funds. Long before anyone spoke of Managing authorities, lead departments were established for each OP. And the Department of Finance, strong in the Irish system, assumed the role of "overall coordinator" of Structural Funds and overall co-ordinator of the ERDF. It also assumed the role of Paying Authority, building this function directly on top of the existing system for auditing (internally) and signing off on all expenditure.

4. This last point is essential: there is no parallel administration in Ireland due to Structural Funds. Structural Funds functions are assumed as much as possible into existing structures. As required, a "cap" is built on top of the existing structures: a structural funds department for each OP, acts as (minimal) Managing Authority, all payments to beneficiaries (public, private etc) usually continue in the same normal manner as though Irish funds alone were involved (with slight modifications for EU purposes), reporting and monitoring functions were strengthened but, at least at lower levels, within existing structures, financial control was ensured in exactly the same manner as all financial control is assured for public expenditure. This is all in total contrast to what has happened in Greece, Portugal and in all new member states. It is evident the Irish system is infinitely more coherent and cost effective, but it is possible only if there pre-exists a proper, independent and fully professional, stable public administration. This does not exist in certain old member states and most new member states.

5. Consisistent with the previous point the scale of delegation of tasks from the Managing and Paying Authorities downwards is, in sharp contrast, to the models of Greece and all new member states. Where they have developed huge edifices at these levels, involving in some cases over one hundred persons, the Irish system implies the absolute contrary: it is at the lower end of the implementation and delivery chain that in Ireland we have put people resources. Some of our Managing Authorities are skeletal: you cannot even find on an organigramme of the Ministry of Transport (contained the function of MA of the Economic Infrastructure OP, worth over 2 billion EURO) which department houses this function. By contrast the State's Training and Employment Authority (Fas) employs several hundred people, many of whom undertake training though its 20 + training centres, much of which is financed by ESF. Fas is a typical large-scale State Final Beneficiary and its large programmes are typical large scale SF "operations".

6. The Finance Ministry, from the start, applied a rule of "maximum draw down of EU funds", limiting to the maximum extent possible pressure on Irish public finances. To do this certain early decisions were made: a) as stated previously the two systems would be as seamless as possible, b) the Irish exchequer would "cashflow" the entire system, in other words it would advance monies to the beneficiaries directly and indirectly through normal domestic mechanisms and seek payment in arrears from Brussels on the basis of certified expenditure. This meant the cash-flow burden (and risk should any expenditure be non-certifiable) is borne by the Irish exchequer. In the end it is a small risk relative to the huge benefit of continued and stable financing that allows activities to go forward and renders programmes accessible, c) no expenditure that could be co-financed from EU sources was financed by Irish sources alone until around 2002 when the Irish Exchequer was sufficiently rich to undertake such investments solely on Irish funds. In other words, the kind of waste, prevalent in certain new member states, involving parallel programmes, simply did not exist: nor would our Department of Finance have allowed such waste! Government Departments proposing investments but refusing EU monies where such were available would have had their programmes axed, if they continued their refusal. The Ministry of Finance is also the Ministry for the State Budget!

7. The Irish system of government understands structural funds as sources of investment. It does not necessarily see them as "project funding". By this we mean that any investment or series of investments falling under a programme priority will be certified under the SF Programme, if possible. This may well be a road or series of roads, a training project, a waste water treatment plant: but it is more likely to be a series or set of investments undertaken in these areas, on a rolling basis. It may just as easily be the key (eligible) costs associated with designing and implementing a series of vocational education and training programmes, leading to further education certification. For such investments there is no "project" as such, no application and no final recipient in receipt of money (ie cash). By contrast there is a high-level decision that a series of courses, meeting criteria established in the relevant strategy and mirrored (in resume) in the OP and Programme Complement, will be eligible under the OP, and reporting procedures will be adapted to ensure that at some higher level an EU Unit within a Ministry of Education receives the relevant cost and activity reporting required to justify the expenditure to the MA, Paying Authority and ultimately Commission. In this manner, many millions of EURO are off-loaded in Ireland – without a single call for project proposal!

8. Local authorities (of which there are 32 in the Republic, ie 26 counties and 6 major urban local authorities) are not renowned for innovation in Ireland: but at least they possess teams of technical staff capable of designing, under supervision of key Government Departments, relatively significant infrastructures. With internal teams, they have often been able to undertake certain works directly, without tendering and thus move more quickly. They have also procurement teams in each major area of competence, well experienced in designing and managing out-sourced contracts. Above all local authorities have always been used to obtaining funding for capital projects from the Ministry of Environment and Local Government. Such projects are designed in function of well established (national) strategies for waste water, national roads, environmental protection or whatever, and local authorities are continually developing such projects (indeed due to past austerity, they have all a long pipe-line of projects that may require up-dating but are certainly relatively mature). These same funding mechanisms are simply subsumed into EU programmes: expenditure channeled through these programmes from ministries to local authorities, will be claimed later against the EU programme. If by chance, certain expenditure is deemed to be ineligible, then the relevant ministry will simply take the “hit”.

Conclusions

The above key points indicate the following:

- Structural Funds is all about the EU reinforcing national (and regional/local) investment priorities in key areas, consistent with EU priorities (which over 20 years have changed little)

- It is national (and regional/local) investment priorities that must lie at the base of the system: in other words, countries need to have in place appropriate policies, strategies and the corresponding capacity to implement and deliver these if they want to be able to use Structural Funds.

- The issue is NOT ESSENTIALLY about EU rules and regulations: it is about Government leading a major public investment programme for economic and social development. The sad fact is that in many countries, Government appears not see this as its role, understand the implications of this role or have a public administration capable of carrying out this role.

4. Key Weaknesses in the Irish System

The above describes the strengths of the Irish system. But there are however some key weaknesses. These relate normally to specific practices, often of a quasi-technical nature, where the Irish system is much too ad hoc and informal, and where there is a traditional reliance on a politically strong, but often strategically and operationally weak system of local government.

Specifically these are the following.

1. Planning: specifically entire process of identifying and designing large (and sometimes less large) infrastructure projects. Planning to build in Ireland is subject to a complex and partly overlapping process involving a) local authorities who retain fundamental powers in this area (and whose politicians have often abused the power (note this is the single most important area for corruption in Ireland) and b) a second tier permission from the National Planning Board which is more "objective, independent" and acts within specific guidelines (which however often change). The single largest problem with this system is that it takes far too long, in fact many years in certain instances and decisions are subject to endless, litigation. This had held major projects back for many years, especially with regard to the National Roads Programme.

2. Investment Appraisal: the Irish system of project appraisal, and overall public expenditure appraisal is less rigourous and systematic than that practiced in the UK (and in N. Ireland). Because the system is fundamentally "programme" rather than "project-based" (national roads programme, environnmental protection programme, community employment programme, social employment programme etc – all constituting one or several "operations" in the sense of the Structural Funds legislation), there is probably a lack of rigour in method and process related to classical project appraisal. For example: major road investments are determined on the basis of pre-feasibility studies within the context of the overall national roads strategy. The precise option chosen (this route or that route) is determined on the basis of a cost benefit analysis (since these are large

projects). But there is always some negotiation such that there is no final CBA carried out on the final option chosen. This has resulted in certain problems: in some cases the further design work has changed the original concept (and hence costs and benefits). More importantly slippages in starting time (compounded by planning problems mentioned above), have meant that costs have spiralled. In the absence of a final cost benefit, the work goes ahead, but the end result is far more costly and proportionately less beneficial than orginally foreseen. This has been a common problem. At the level of smaller projects, (eg a 10 million EUR tourism attraction) appraisal has been carried out by in-house economists, using various techniques of economic and financial appraisal and comparison against the overall strategy and specific measure. Tests for Value for Money and comparisons with less costly options, common in UK project appraisals, have often not been done or done in a very superficial manner. While the right project is usually chosen, the price has often not been right!

3. Deadweight: The programme has not always ensured against displacement: ie that the same effects would not have been obtained without the intervention of with a less costly intervention. The fact that the State has at its disposal large beneficiaries capable of implementing large programmes (and they have been doing this for many years), tends to lead to a situation where such programmes. Like the structures that implement them, become permanent, and on occasion beyond need. This certainly has been a problem with certain ESF interventions and certain business support programmes.

Conclusions

Nevertheless, when one views the strengths and weaknesses of the Irish system, especially relative to other countries, there is no doubt on why and how it has been significantly more successful than other models.