CSF Evaluation Unit

Ex Ante Evaluation of the National Development Plan, 2000 – 2006

November, 1999

Community Support Framework (CSF) Evaluation Unit

The CSF Evaluation Unit is an independent Unit established in 1996 in partnership between the Department of Finance and the European Commission. The Unit is funded by the structural funds under the CSF Technical Assistance Operational Programme and reports to the Monitoring Committee for the Operational Programme. The Unit's central function is to advise and assist the national authorities and the European Commission on the evaluation of structural fund programmes. The Unit's work includes the co-ordination and promotion of best practice in structural funds evaluation work.

The views expressed in this report are solely the responsibility of the CSF Evaluation Unit.

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Introduction, Terms of Reference and Approach

This evaluation of the National Development Plan (the Plan) was requested by the Department of Finance as a supplement to the report commissioned from the Economic and Social Research Institute (ESRI) earlier this year on investment priorities for the period 2000-2006. The terms of reference for the evaluation are as follows:-

- Assess the rationale of the investment strategy underpinning the National Development Plan 2000-2006 and the proposed allocation of resources.
- Assess the internal coherence and complementarity of the Plan.
- Comment on the degree of consistency with Community and national policies, in particular in the areas of equal opportunities, the environment and employment.
- Review the quantification of objectives in the Plan and assess the Plan's likely impact on the socio-economic situation, the environment and equality.
- Comment on the adequacy of the proposed implementation, delivery and monitoring (including proposed indicators) arrangements.

In section 2 of the report, we set out our approach to the evaluation, drawing on a number of reports completed by this Unit as well as the work of the ESRI. We focus in particular on the rationale or market failure justification for investment. In general terms, our approach in this report is to raise concerns, ask questions and draw conclusions. In line with our terms of reference, we do not make recommendations regarding financial allocations or other matters.

Overall Assessment and Conclusion

The economic background and outlook against which the Plan is formulated is very favourable. The challenges now facing the economy are fundamentally different to those in earlier periods and require a different strategy to that adopted under previous Plans. In section 3 of the report, we consider the overall objectives and strategy of the Plan and the broad allocation of resources, taking account of the current and prospective economic situation.

In general, we feel that the broad balance of investment in the Plan is appropriate to the needs of the economy, subject to the caveat that we are not convinced that the increase in resources to the productive sector is warranted. Our overall conclusion is that the Plan has the potential to make a significant contribution to the overall objectives set down.

The Plan's overall broad-ranging objectives are to contribute to sustainable economic and employment growth, to consolidate and improve competitiveness, to foster balanced regional development and to promote social inclusion. In broad terms, the overall strategy set out links with these objectives and is informed by the ESRI Investment Priorities report and the regional development strategies for the two NUTS II regions. However, the links between the investment priorities selected and the overall Plan objectives are not always fully developed in the Plan itself.

In terms of resources, it is clear that the National Development Plan constitutes a major investment programme, with average annual expenditure amounting to about 9 per cent of current GNP levels. The Plan provides for a major increase in investment in infrastructure which accounts for 56 per cent of total planned expenditure, a small decline in real resources for the employment and human resources development area (29 per cent of total) and an increase of 30 per cent in investment in the productive sector area (14 per cent of total).

The results of the macroeconomic simulation carried out for us by the ESRI (see section 4) show that the Plan will provide a significant boost to the economy over the 2000-2006 period. It will also enhance the long-term potential of the economy with a projected GNP impact of over 1 per cent. (For reasons discussed in section 4, this may well be a significant underestimate of the true final impact.) In this sense, it can be concluded that the Plan will contribute to the objective of "sustainable national economic and employment growth".

Analysis of Plan Investment

We assess investment in the Plan under the three broad sectoral headings of Infrastructure, Employment and Human Resources Development and Productive Sector in sections 5, 6 and 7 respectively.

In relation to **Infrastructure,** there is a clear public good rationale for investment in most (though not all) areas under the Plan. This means that unless the State intervenes, the infrastructure will not be supplied. The investments proposed in this area should go a long way to addressing the infrastructural deficit facing the economy. The evidence is that investment in infrastructure has the potential to offer high rates of return. However, the achievement of the ambitious targets set out will hinge on the ability to overcome constraints in the construction sector and in the planning process generally. We raise concerns in relation to a number of specific areas of investment. The application of best practice in project appraisal will help to ensure that the benefit of the considerable resources committed to this area are maximised. Our overall conclusion is that investment in infrastructure should make an important contribution to the objectives of the Plan.

In the **Employment and Human Resources Development** area, the rationale for State investment is also generally robust. The evidence suggests that past investment in education and training has played an important role in the strong economic performance of recent years. The investment strategy set out for this area is not followed through in the structure of the Operational Programme; this is based on the four Pillars of the National Employment Action Plan, which we find somewhat confusing. There is a significant and positive focus on the needs of educationally disadvantaged and other marginalised groups, with the interventions in question offering the prospect of high socio-economic returns. However, we raise questions about the level of capacity proposed in a number of areas. This does not appear to take sufficient account of the projected decline in the numbers of labour market entrants and the reductions in both total and long-term unemployment. We also note that there is a possibility of high deadweight effects in some areas, where the returns to investment are likely to be predominantly private. There is also scope for greater efficiency through competition in delivery and the introduction of cost recovery. In overall terms, we conclude that this area of investment is likely to contribute to the overall objectives of the Plan, particularly in terms of promoting social inclusion.

In general, we feel that the rationale for investment in the **Productive Sector** area is less convincing than in other areas of the Plan. The market failures which justified investment in the sector under previous Plans are no longer valid in most cases. However, we accept that a valid regional market failure underpins some areas of investment such as the Border, Midlands and Western region component of foreign direct investment. While we note a shift in emphasis from employment creation to increased productivity, the investment instruments are similar to those employed in previous Plans. In general, we feel that the implications of the major changes in the economic environment have not been taken on board. We question the focus on job creation, given that the economy is approaching full employment. In the area of Research and Development - where a major increase in investment is planned - we stress the importance of tackling the deficiencies in the current range of schemes, if value for money is to be obtained. As mentioned above, our overall conclusion is that we are not convinced that the overall level of investment proposed for the productive sector is warranted.

Regional Aspects

There is a strong regional dimension to the Plan (see section 8). The objective of balanced regional development is one the key objectives of the Plan, representing a significant departure from previous Plans. In addition, the Plan sets out a regional development policy, which is informed by an analysis of the strengths and weaknesses of the Border, Midlands and Western (BMW) and Southern and Eastern (S&E) regions. The development of a number of additional regional urban nodes or Gateways forms a central part of this policy. Given the importance of the proposed National Spatial Strategy - both in respect of the designation of new regional Gateways and for investment decisions under the Plan generally - we feel that efforts should be made to expedite completion of this study or to complete an interim report dealing with the Gateway issue. The link between the Gateway approach and the dispersal approach to the location of new enterprises set out in the Plan is somewhat unclear. Finally, we feel that the Operational Programmes in the Plan (particularly the Economic Infrastructure OP and the two regional OPs) generally have a strong focus on the strengths and weaknesses of the BMW and S&E regions.

Co-operation with Northern Ireland

In section 9, we conclude that there is a convincing rationale for the cross-border co-operation areas identified in the Plan. These offer the potential for significant socio-economic gains for the whole island and can make an important contribution to the key objectives of the Plan.

Environmental Impact

In section 10, we comment on the analysis in the Plan of environmental impacts (including the eco-audit at appendix 4 of the plan). In general, we conclude that this analysis is reasonable. The various steps proposed to integrate environmental considerations into the implementation of the Plan are welcome. However, we feel that a more critical approach to eco-audit should be taken at OP level.

Social Inclusion/Equality

In section 11, we assess the Plan's likely impact on social inclusion and equality of opportunity between women and men. We conclude that the Plan has a strong focus on the promotion of social inclusion. We note that the impact of the Plan will depend on the appropriate targeting of the relevant measures as well as the effective resolution of issues of overlap and lack of focus generally.

The investments under the Plan will have a range of impacts on equality of opportunity between women and men. In general process terms, we feel that the Plan has a strong focus on equality of opportunity given the various undertakings in relation to the incorporation of this principle into the ongoing monitoring and implementation of the Plan.

Implementation Arrangements

We welcome a number of the proposed implementation arrangements set out in the Plan (see section 12 of this report). These include the commitments to increased competition in the delivery of measures and rationalisation in delivery arrangements, the clear direction given on project selection and appraisal generally and the extension of project selection and evaluation procedures to all areas of expenditure of the Plan.

Issues for OP formulation and design

Finally, drawing on our analysis of the Plan, we identify below a number of issues where we feel there is scope to improve the potential return on resources in the formulation and design of Operational Programmes and in the implementation of the Plan.

(i) The National Plan has set out the overall **objectives** for each of the OPs. However, in subsequent programming documents, objectives at sub-programme and measure level (and below) will have to be formulated. These should be set out as precisely as possible and quantified, where they lend themselves to quantification. This would help in the selection and quantification of indicators. Otherwise, we feel that this task will be difficult.

(ii) The **formulation of strategy** is a related aspect which could be improved in the various Operational Programmes. The OP strategies should endeavour to outline clearly how the various sub-programmes and measures will contribute to the achievement of objectives.

(iii) In the **design** of particular measures, regard should be had to the conclusions and recommendations of relevant evaluation work. In particular, the targeting of measures is an area which should be carefully considered. In current economic circumstances, the risk of deadweight is very high, particularly in the productive sector area. These effects can be minimised through appropriate targeting.

(iv) As noted above, the Plan contains a welcome commitment to greater **competition** in the delivery of services. The rationale for the Public Private Partnership (PPP) approach, which has been adopted for infrastructural investment under the Plan, is based on a recognition that the private sector may be able to deliver more efficiently than the State in certain instances. This logic is equally valid in the productive sector and human resources development areas. The commitment to increased competition should be followed through in the OPs. In particular, it is important that OP budgets are not exclusively tied to particular State delivery agencies. In addition to involving the private sector, there may be scope for competition between public sector delivery agencies in certain cases.

(v) We highlighted above the need to address issues of overlap and lack of focus in the **social inclusion** area. It is a matter of some urgency that these issues are resolved in the Operational Programmes. However, it appears from the Plan that the current review in this area is confined to arriving at a set of co-ordination arrangements at local level. While such co-ordination is obviously desirable, we feel that a rationalisation approach needs to be considered here. In this context, we again note here the (welcome) commitment in the Plan (see implementation arrangements) to rationalise the number of delivery agencies over the programming period.

Section 1: Introduction

Scope and Terms of Reference

This evaluation of the National Development Plan (the Plan or the NDP) was requested by the Department of Finance as a supplement to the report commissioned from the Economic and Social Research Institute (ESRI) earlier this year on investment priorities for the period 2000-2006[1] (which we subsequently refer to as the *Investment Priorities report*). It should be noted that some of the ex ante evaluation requirements of the EU Structural Fund Regulations (Article 41 of Council Regulation 1260/1999) are covered in the Investment Priorities report and in the Plan itself. The terms of reference for this evaluation, as set down by the Department of Finance, are as follows:-

- Assess the rationale of the investment strategy underpinning the National Development Plan 2000-2006 and the proposed allocation of resources.
- Assess the internal coherence and complementarity of the Plan.
- Comment on the degree of consistency with Community and national policies, in particular in the areas of equal opportunities, the environment and employment.
- Review the quantification of objectives in the Plan and assess the Plan's likely impact on the socio-economic situation, the environment and equality.
- Comment on the adequacy of the proposed implementation, delivery and monitoring (including proposed indicators) arrangements.

Report Structure

The structure of this report is as follows. Following this brief introductory section, we outline in section 2 the process through which this evaluation was carried out and the broad evaluation approach taken. In section 3, we comment on the analysis in the Plan of the economy's strengths and weaknesses, the key overall NDP objectives and strategy, taking account of the economic background and the projected medium-term outlook. In section 4, we present the results of a macroeconomic simulation of the impact of the Plan on the economy, carried out for us by John Fitz Gerald of the Economic and Social Research Institute. In sections 5, 6 and 7, we analyse the sectoral objectives, strategy and investments proposed in the Economic and Social Infrastructure, Employment and Human Resources Development and Productive Sector areas respectively. Expenditure under the regional operational programmes in considered under the appropriate sectoral heading. In section 8, we consider the Plan objective of balanced regional development and the regional development policy set out. We also examine the regional focus of the Operational Programmes in the Plan. In section 9, we comment on chapter 9 of the Plan, dealing with co-operation with

[1] Fitz Gerald J. et al (eds.), *National Investment Priorities for the Period 2000-2006*, ESRI Policy Research Series, No. 33, March, 1999

Northern Ireland. In sections 10 and 11, we comment on the likely impact of the Plan on the environment and social inclusion and equality of opportunity between women and men respectively. Section 12 assesses the implementation arrangements proposed for the Plan.

Section 2: Process and Approach to Evaluation

In this section, we outline the process through which this evaluation was carried out. We also set out the broad approach taken, identifying the main evaluation issues which we focus on in our analysis.

Process

This evaluation was carried out in parallel with the drafting of the Plan in the Department of Finance. This report is an assessment of the National Development Plan as published. We took the view that the Plan should contain all the necessary information for our evaluation. We did not therefore consider it necessary to consult with individual Government Departments with regard to this evaluation. In any event, this would simply not have been possible given the very tight deadlines involved.

Approach to Evaluation

In our report *Review of Ongoing Evaluation Function in the CSF* (October 1998), we set out an approach to evaluation in a CSF context. Specifically, we identified five key issues which should be addressed in evaluations[2]:

- firstly, evaluations should explore the **rationale** or market failure basis for the programme or intervention in question;
- secondly, the **continued relevance** of the programme should be assessed; to what extent do programme objectives remain valid in the light of changes in the external environment?;
- thirdly, the **effectiveness** of the programme (i.e. the extent to which its objectives have been met) should be addressed;
- fourthly, the **efficiency** of the intervention (the outputs in relation to the resources used) should be reviewed;
- finally, the **impact** or net effects should be explored; this requires consideration of potential deadweight and displacement effects.

We recognised that the emphasis in any individual evaluation would depend on the specific circumstances involved, including the point in the programme cycle at which the evaluation occurs. Because this is an ex-ante evaluation, we concentrate in particular on the rationale or market failure issue. In other words, why it is necessary for the State to intervene in the area or sector concerned? What is the distortion or market failure that will be addressed? Because of the high opportunity cost of public funds,[3] an intervention must address a market failure or distortion sufficient to justify

[2] Following consideration of this Unit's report by the CSF Monitoring Committee, this approach to evaluation was subsequently adopted through Department of Finance circular of 23 July, 1999.
[3] For discussion of the shadow or opportunity cost of public funds, see our report *Proposed Working Rules for Cost-Benefit Analysis*, June, 1999

this cost. In other words as expressed by the UK Treasury[4], "a necessary but not sufficient condition for Government intervention to improve economic efficiency is that there is some form of market failure".

We acknowledge that there are different types of market failure. In the pure sense, market failure refers to circumstances where the market will simply not provide the good or service in question. However, the market may also fail in terms of the level, time, location or distribution of provision. The level or amount of the good supplied, the speed at which the market delivers, the location of provision or its distribution may not be optimal. In the context of this Plan, a location market failure represents the underlying rationale for the objective of balanced regional development.

In addressing the rationale for investment, we sometimes refer to the ESRI's typology developed in the mid-term evaluation of the CSF[5] and also utilised in the Investment Priorities report. This identified four rationales for public intervention:-

- firstly, spending on **public goods**; a public good is one where it is not possible or convenient to exclude or charge people for use of the good in question, with the consequence that the private sector will not provide an adequate or optimal level; a lot of infrastructure falls into this category;
- the second category is **corrective subsidies** which refers to interventions designed to alter relative prices so as to correct for general ongoing externalities[6]; a lot of grants and subsidies directed at job creation come under this heading;
- thirdly, **targeted subsides** designed to overcome specific externalities such as information barriers or to alter behaviour; these would include investments in in-company training and research and development;
- finally, spending with a **redistribution** motivation; in the current Plan, social housing would be a good example.

In addition to assessing the rationale for investments in the Plan, we draw attention to changes in the economic environment which may call into question the continued relevance of a particular scheme or intervention (especially where it represents continuation of a similar existing scheme). We draw on evidence from previous evaluations on the likely effectiveness, efficiency and impact of interventions. We also raise issues about the delivery of schemes (such as the need for greater competition) under the efficiency heading.

A further aspect of our approach which we wish to highlight relates to the shadow cost of labour. The shadow cost of labour is a parameter used in project appraisal and refers to the value of labour resources in their best alternative use. In our report *Proposed Working Rules for Cost-Benefit Analysis* (June, 1999), we recommended that the shadow cost of labour used in cost-benefit analysis should equate to the

[4] HM Treasury, *Policy Evaluation: A Guide for Managers*, HMSO, 1988

[5] Honohan, P., (ed.), *EU Structural Funds in Ireland, A Mid-Term Evaluation of the CSF, 1994-99*, ESRI Policy Research Series, Paper No. 3, July 1997

[6] Externalities are benefits or costs which affect third parties who are not charged for the benefit or compensated for the cost.

market wage, unless there was a clear case for a different approach. The basis for this recommendation rested, inter alia, on the pronounced tightening of the labour market in recent years. We note that the latest data show that the unemployment rate has fallen further (to 5.7 per cent of the labour force) since this report was completed. In the context of this evaluation, the recommended shadow wage assumption has implications for job creation under the productive sector area. In essence, a shadow wage of 100 per cent of the market wage implies that there is minimal benefit to the economy from State investment in job creation, unless other specific positive externalities arise.

Finally, in line with our terms of reference, we do not make recommendations regarding financial allocations or other matters in this report. Our approach is to raise concerns, ask questions and draw conclusions. In our overall conclusions, we attempt to identify a number of areas where we feel there is scope to improve the potential return on NDP resources in the design and implementation of the various Operational Programmes.

Section 3: Overview

Introduction

In this section, we review the overall objectives of the Plan, the strategy set out to achieve these and the broad allocation of resources in the Plan. These issues are considered against the background of the analysis in the Plan of the current economic situation (including overall strengths and weaknesses) and the projected medium-term economic outlook. Reflecting the focus of this section, our comments here generally refer to chapters 1 and 2 of the Plan.

Economic Context, Outlook and Implications

As documented in the Plan (see paragraphs 1.3 to 1.8), the economy has performed very strongly over recent years. GNP increased at an annual average rate of some 7.5 per cent over the 1994-1999 CSF programming period. The unemployment rate (ILO basis) declined from some 14.7 per cent of the labour force in April 1994 to 5.7 per cent for the March to May quarter, 1999. The long-term unemployment rate fell from 9 per cent to 2.5 per cent over the same period.

The analysis of medium-term economic prospects presented in the Plan is positive and corresponds closely to the outlook projected in the ESRI's recently published *Medium-Term Review, 1999-2005*. It is important to note that both sets of projections assume that the infrastructural constraints facing the economy are effectively tackled through the National Development Plan. The ESRI and the NDP analyses forecast a deceleration in the current very rapid pace of expansion to an annual average GNP growth rate of about 5 per cent over the period of the Plan. The ESRI note that, on this basis, Irish income per head will reach EU average levels by 2005. Labour supply and employment growth are projected to decelerate to about 2 per cent over the period. An average unemployment rate of less than 5 per cent is projected (5.3 per cent by the ESRI), a position characterised in the Plan and the ESRI report as "almost full employment".

We refer later in this report to some of the implications of the favourable economic environment for our analysis of NDP investments. At this stage, we would simply highlight how strikingly different the economic situation is compared to when the previous NDP was drawn up in 1993. (Some of these changes are highlighted in paragraph 1.2 of the Plan.) The economic outlook presented in the NDP for 1994-1999 projected that the economy "would be likely to grow at an average rate of upwards of 3½ per cent from 1994 to 1999". With the unemployment rate close to 16 per cent of the labour force in 1993, this issue was obviously a critical policy concern. The ex-ante evaluation of that Plan[7] set out four important symptoms of Ireland's weaknesses – the high unemployment level, slow employment growth, slow private investment and weak indigenous firms. The primary challenges which the economy

[7] Honohan, Patrick and O' Connell, Philip J., The National Development Plan in the Context of Irish Economic Problems in *Economic Perspectives for the Medium Term*, ESRI, March, 1994.

now faces - congestion problems, labour shortages, deficiencies in public infrastructure and an unbalanced pattern of spatial development - are fundamentally different and require a different policy response. As the Plan itself states "Tackling these problems – in many ways problems of success – therefore requires a different strategy to previous National Development Plans".

Objectives, Strategy and Analysis

Chapter 2 of the Plan sets out the key national objectives and the key elements of the NDP strategy for the 2000-2006 period. The objectives are:

- continuing sustainable national economic and employment growth;
- consolidating and improving Ireland's international competitiveness;
- fostering balanced regional development;
- promoting social inclusion.

The validity of the objectives themselves is not a matter we consider. The objectives are broad-ranging in nature. The objectives could have been quantified but we accept the inherent causation difficulties arising. In particular, it is clear that these objectives will be heavily influenced by policies outside the NDP framework.

The strategy proposed to achieve the objectives is:

- Continuation of the stable macroeconomic policies of recent years;
- A major investment programme in Economic and Social Infrastructure;
- A commitment to a better regional distribution of public and private investment;
- The promotion of education and employment training policies attuned to the needs of the labour market and a special focus on those most at risk of unemployment;
- A multi-faceted approach to the promotion of Social Inclusion, including targeted interventions aimed at urban and rural poverty black spots.

In broad terms, the strategy links with the objectives of the Plan. It is clear that both the Investment Priorities report and the Regional Development Strategies[8] have informed the general approach and strategy of the Plan. However, while it may seem obvious that the investment priorities selected will contribute to the achievement of the NDP objectives, these links are not always fully developed in the Plan. For example, the productive sector priority is a significant area of Plan investment but it is only indirectly covered by the strategy as stated.

[8] *Southern and Eastern Region Development Strategy 2000-2006 and Border, Midland and Western Region Development Region Development Strategy 2000-2006*, Fitzpatrick Associates, April, 1999

The Plan's analysis of the strengths and weaknesses of the Irish economy is in line with the consensus view of most commentators and is broadly consistent with the ESRI's analysis in the Investment Priorities report. However, we do have some reservations about the analysis of the human resource constraints and of the indigenous manufacturing sector, which we discuss in more detail in the sections dealing with the Employment and Human Resources Development and Productive Sector areas.

Broad Spending Balance

Expenditure under the Plan concentrates on six key priorities: economic and social infrastructure; Employment and Human Resources development; productive sector investment; rural development; social inclusion; and social capital. The investment actions under these priority areas will be delivered through four inter-regional programmes and two regional programmes. These are as follows: -

Operational Programme	Total Allocation 2000 – 2006 €million
Economic and Social Infrastructure	22,360
Employment and Human Resources Development	12,563
Productive Sector	5,725
Peace Programme	127
BMW Regional Programme	2,646
S & E Regional Programme	3,791
Total[9]	**47,212**

To put these figures in context, average annual expenditure over the period of the Plan (in 1999 prices) exceeds €6,700 million (c. IR£5,300 million), representing more than 9% of projected 1999 GNP.[10] The Plan clearly constitutes a major investment programme.

The two regional programmes contain sub-programmes which broadly correspond to each of the three main inter-regional programmes (i.e. the local infrastructure, productive investment and social inclusion sub-programmes). Including these under the relevant sectoral heading, the share of total NDP investment in infrastructure is about 56 per cent, 29 per cent in Employment and Human Resources (including social inclusion) and 14 per cent in the productive sector.

Excluding the CAP accompanying measures, the Plan provides for an average increase in investment of about 28 per cent in real terms, compared to the estimated 1999 baseline. A major increase (approximately 53 per cent in real terms) is planned under the broad infrastructure category. Planned expenditure in the employment, human resources and social inclusion area will fall slightly in real terms. Reflecting a

[9] This does not include €4,323 million in agricultural and forestry supports. These are included in the Plan totals, but are not considered here as they are not programmed under the NDP.
[10] 1999 forecast taken from *Economic Review and Outlook 1999*, Department of Finance

major increase in investment in research and development, expenditure under the productive sector over the Plan period will on average be about 30 per cent higher in real terms than in 1999. By way of comparison, the ESRI recommended an overall increase in investment of just under 7%, made up of an increase of a little over 12% in infrastructure, an increase of just under 6% in human resources and a reduction of over 12% in productive sector investments[11]. While these categories are not strictly comparable, particularly under the human resources heading, it is clear that the Plan provides for a much greater increase in infrastructure investment than that recommended by the ESRI. Conversely, the Plan proposes a substantial increased allocation to the productive sector notwithstanding the ESRI's analysis that a reduction would be appropriate. We analyse Plan investment by broad sector in sections 5, 6 and 7 of this report.

[11] We compile a productive sector category from the ESRI data by amalgamating their commercial infrastructure and research and development headings and transferring their energy and telecommunications category to economic and social infrastructure.

Section 4: Impact of NDP on the Economy

(By John Fitz Gerald, The Economic and Social Research Institute).

Introduction

The quantification provided here is necessarily very preliminary, given the limited information available and the very limited time. Normally a full analysis takes a number of months to complete. This report has been provided on the basis of a rapid analysis of the outline details for the different programmes. The results of a more extensive analysis could be rather different.

The methodology adopted here is identical to that used in the *Mid-Term Evaluation* for examining the impact of the current CSF. The same rates of return on different types of investment have been used. However, as discussed in the conclusions, there are good grounds for believing that these should be revised. In particular, the work by Lawlor and Fitz Gerald, 1997, examining the impact of the Transport OP, indicated the possibility that, because the economy has grown so rapidly, the return from transport investment may be much greater than anticipated. In addition, the consumer surplus accruing to households, especially commuters, has not been taken into account. These benefits are clearly very important in making any assessment of the impact of the plan on welfare.

Assumptions

Assumptions on the year by year timing of the planned expenditure are as shown in Table 1. The proportion of the expenditure going on infrastructure is much greater than in previous plans, with a major reduction in the proportion of the expenditure going on human resources. This is primarily due to the very large increase in real terms in the resources provided for infrastructure. When compared to the report on *National Investment Priorities* it must be recognised that the allocations exclude the vast bulk of expenditure on education which will be provided for outside the context of the NDP. The income support category includes a substantial amount of support for farm incomes as well as sundry other items including allowances to trainees.

Table 1, NDP 2000-2006

	2000	2001	2002	2003	2004	2005	2006
Infrastructure	2404	2878	2995	3092	3155	3224	3051
Human Resources	1464	1402	1408	1379	1381	1380	1380
Aids to Private Sector	477	738	824	816	818	809	784
Income Support	653	664	677	684	677	682	690
Total	4998	5682	5905	5972	6031	6096	5905
		as % of Total					
Infrastructure	48	51	51	52	52	53	52
Human Resources	29	25	24	23	23	23	23
Aids to Private Sector	10	13	14	14	14	13	13

Income Support	13	12	11	11	11	11	12

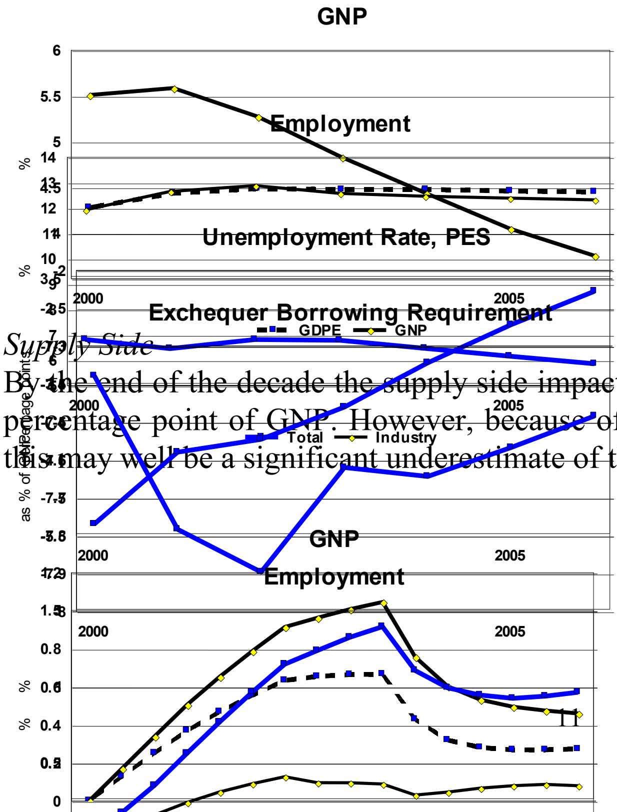
- In this analysis, the technical assumption is made that all the investment is financed by borrowing. In practice, because of the strength of the public finances, this means that the national debt is repaid more slowly than it would otherwise be – by 2010. The alternative would be to assume that the lower expenditure from not implementing the plan would be offset by lower tax rates.
- No account is taken in the public finances of EU financing for the plan though this will, of course, be important in further expanding the productive capacity of the economy.
- The plan expenditure is assumed to run out after 2006.
- The impact of the plan is measured by running the HERMES model with the plan expenditure excluded and comparing the results to the ESRI *Medium-Term Review* Central Forecast, which is assumed to include the plan.

Impact

Set out below is the initial estimate of the full impact of the plan, taking account of both the demand and the supply side impacts, firstly treated separately and then treated together. While the Table and the attached graphs show the impact changing from year to year, these individual year effects should not be taken too seriously. Instead it is more appropriate to average the figures for the 2000-2006 period to get the demand and the supply side impacts and then to average the 2007-2011 figures to get an initial measure of the long-run supply side impact.

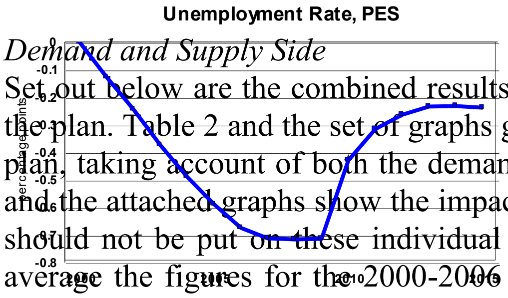
Demand Side

In this case only the demand side impact of plan is taken into account. Over the course of the planning period, the plan will have raised the level of GNP by around 5.2 per cent above the level it would have been if none of the planned investment had taken place. Total employment will be around 7 per cent higher.



Supply Side

By the end of the decade the supply side impact of the plan would rise to just under 1 percentage point of GNP. However, because of the changing nature of the economy, this may well be a significant underestimate of the true final impact.



Demand and Supply Side

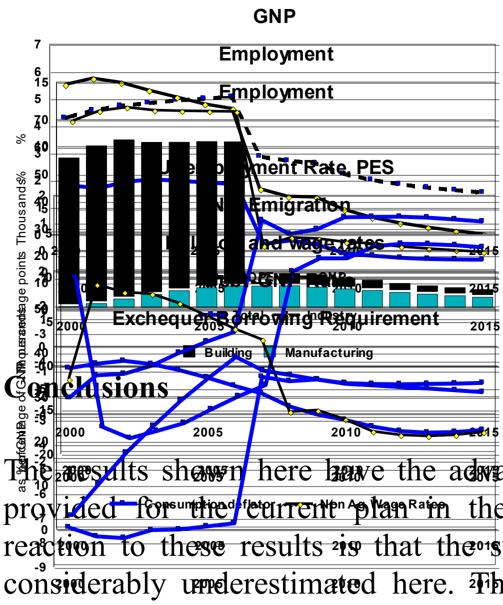
Set out below are the combined results for the demand and the supply side impact of the plan. Table 2 and the set of graphs give the initial estimate of the full impact of the plan, taking account of both the demand and the supply side effects. While the Table and the attached graphs show the impact changing from year to year, too much weight should not be put on these individual year effects. Instead it is more appropriate to average the figures for the 2000-2006 period to get the demand and the supply side impacts and then to average the 2007-2011 figures to get an initial measure of the long-run supply side impact.

Table 2, Impact of the NDP, Demand and Supply Side Impacts Combined

	2000	2001	2002	2003	2004	2005	2006	2000-2006
GDP (%)	4.3	4.6	4.7	4.8	4.9	5	5.1	4.8
GNP (%)	5.5	5.7	5.6	5.3	5.1	4.8	4.6	5.2
Balance of Payments as % of GNP	-5	-5.3	-5	-4.7	-4.5	-4.4	-4.3	-4.7
Exchequer Surplus as % of GNP	-7.4	-7.7	-7.8	-7.5	-7.5	-7.3	-7.2	-7.5
Debt/GNP Ratio (as % of GNP)	3.1	10.3	17.4	23.4	29.2	34.3	39.1	22.4
Consumer Prices (%)	-0.1	0	0.1	0	-0.1	-0.2	-0.4	-0.1
Wage rates (%)	-0.3	1.7	1.6	1.5	1.3	1.1	0.8	1.1
Unemployment Rate (% of Lab. Force)	-5.3	-4.5	-4.5	-4.2	-3.7	-3.3	-2.9	-4.1
Total Employment (%)	6.8	6.6	7.1	7.3	7.2	7.1	6.9	7
Labour Force (%)	1.1	1.8	2.5	3	3.3	3.6	3.9	2.8
Net Migration Abroad (thousands)	0	-17	-18.2	-17.4	-16.5	-14.9	-13.5	-13.9

	2007	2008	2009	2010	2011	2007-2011
GDP (%)	2.9	2.7	2.6	2.2	2	2.5
GNP (%)	1.7	1.4	1.4	0.9	0.6	1.2
Balance of Payments as % of GNP	-0.9	-0.9	-1	-1.2	-1.4	-1.1
Exchequer Surplus as % of GNP	-1.2	-1.4	-1.4	-1.5	-1.5	-1.4
Debt/GNP Ratio (as % of GNP)	35.9	34.9	33.9	33	32.6	34.1

Consumer Prices (%)	-0.6	-0.9	-1	-1.1	-1.3	-1
Wage rates (%)	0.6	-1	-0.9	-1.1	-1.4	-0.8
Unemployment Rate (% of Lab. Force)	1.1	0.6	0.8	1.2	1.2	1
Total Employment (%)	2.2	2.5	2.1	1.5	1.3	1.9
Labour Force (%)	3.4	3.1	2.9	2.7	2.6	2.9
Net Migration Abroad (thousands)	-12.2	0.6	2.1	2.1	3.5	-0.8



Conclusions

The results shown here have the advantage that they are consistent with the results provided for the current plan in the *Mid-Term Evaluation*. However, my initial reaction to these results is that the supply side impact of the plan is likely to be considerably underestimated here. This is due to the fact that the major capacity constraints identified in the *National Investment Priorities Report* are likely to make the returns from major infrastructural investment much higher than in the earlier planning periods. In addition, the consumer surplus arising from some of the investment (e.g. urban public transport) could be very important in considering the contribution to Irish welfare from the new plan.

However, on the demand side these simulations have assumed that the building industry has the capacity to deliver the increased output without a major impact on prices. In the absence of offsetting tax measures to take money out of the building sector, it may not be able to deliver the full increase in output, especially in the housing sector. If this were to prove to be the case, the inflationary impact would be higher than shown and the volume of investment financed by the plan would be below target. This would, of course, require a downward adjustment to the figures for growth and employment shown here.

In the *National Investment Priorities Report* a simulation was carried out which looked at a combination of excessive wage demands together with a failure to invest adequately in infrastructure. These two effects were combined so that it was not possible to separate them. However, in the light of that work, it may be necessary to substantially raise the estimates of the long-run supply side impact of some future infrastructural investment. To do this properly would require significant extra work.

Section 5: Economic and Social Infrastructure

Introduction

In this section, we consider the proposals in the Plan for investment in infrastructure under the Economic and Social Infrastructure Operational Programme (chapter 4) and the local infrastructure sub-programmes under the regional Operational Programmes (chapters 7 and 8). The following table provides a breakdown of the main areas of infrastructure expenditure in the Plan. The breakdown used in this table corresponds to the level at which we analyse investment.

Sub-Programme/ Measure	Economic and Social Infrastructure OP 2000 – 2006 € million	Regional OPs 2000 – 2006 € million	Total 2000 – 2006 € million
National Roads	5,968	-	5,968
Non-National Roads	-	2,032	2,032
Public Transport – Greater Dublin Area	2,012	-	2,012
Regional Public Transport	825	-	825
Environmental Services	3,212	1,359	4,571
Communications/Electronic Commerce	-	152	152
Energy	185	-	185
Housing	7,618	-	7,618
Health	2,540	-	2,540
Urban and Village Renewal	-	131	131
Cultural, Recreational and Sports Development	-	493	493
Seaports and Regional Airports	-	72	72
Total	22,360	4,239	26,599

Overview

As discussed in section 3 above, the Plan proposes a very significant increase in the overall level of infrastructural investment. Increases in expenditure in real terms are planned for most of the main sub-sectors, with particularly significant increases in the areas of national roads, public transport and housing. Some €2,349 million of expenditure under Public Private Partnership (PPP) arrangements is included.

Rationale

In broad terms, the rationale for State intervention in this area is robust, resting as it does on the public good nature of physical infrastructure. Because of the difficulty of excluding people from the consumption or use of many types of infrastructure, the market, left to its own devices, will tend to under-provide. This market absence is the essential justification for State intervention in this area. (The advent of PPP arrangements does not alter this logic; these arrangements require some degree of State intervention in terms of licensing, regulation etc.). However, as we discuss further below, this public good rationale does not apply to all areas of infrastructure included in the Plan. For example, housing is not a public good; the rationale for intervention here is essentially one based on redistribution considerations.

The available international economic evidence suggests that investments in infrastructure offer high rates of return and have positive effects on long-term economic growth potential. The ESRI[12] reviewed this evidence in the Investment Priorities report concluding that "On the whole there is widespread support for the view that infrastructure aids growth and reduces the costs of production".

It is also clear that the current stock and quality of public infrastructure across a range of areas including roads, public transport and environmental services imposes significant costs and represents a major constraint on the economy's growth potential. This inadequacy is reflected in symptoms such as rising congestion in the main urban centres and sharply escalating house prices. We concur with the view taken by the ESRI in the Investment Priorities report that a significant increase in resources for infrastructure is required if the economy is to realise its medium-term growth potential.

Capacity Issue

However, the question arises as to the whether the economy has the capacity to absorb the planned level of infrastructure investment, in a situation of almost full employment. The Plan provides for an additional €1,350 million expenditure per annum on infrastructure, most of which will be reflected in an increased demand for construction output. It is clear that this sector is already running into capacity constraints, particularly in respect of labour supply. Construction price inflation has averaged 10 per cent over the last two years and is projected to reach 12 per cent this year, some six times faster than the projected rate of increase in consumer prices[13]. In its recent review of the Construction Industry, the Department of the Environment and Local Government raised concerns about capacity constraints in the industry, particularly in respect of labour supply. The Central Bank has also raised doubts as to whether a large increase in infrastructural investment could be accommodated in present economic circumstances which it characterises as "near full employment"[14]. The Bank points out that increased infrastructural investment requires that either labour (and capital) resources be diverted from other uses or further net migration.

[12] Fitzgerald, 1999, op. cit.
[13] For data on construction price inflation, see the Department of the Environment and Local Government's *Construction Industry: Review 1998 Outlook 1999-2001*. CPI forecast is taken from Department of Finance *Economic Review and Outlook, 1999.*
[14]Central Bank of Ireland, *Quarterly Bulletin, Autumn 1999*

The capacity of the construction industry is also raised by John Fitz Gerald of the ESRI in his assessment of the economic impact of the Plan in the previous section of this report. We agree with these assessments and feel that the supply constraints facing the economy (and the construction sector in particular) could frustrate the implementation of the Plan, unless tackled through appropriate policies.

Analysis, Objectives and Strategy

Unlike the Employment and Human Resources Development and Productive Sector Operational Programmes, the Plan does not outline an overall set of objectives and strategy for the infrastructure priority. The articulation of objectives and strategy is set out on a sectoral basis within this priority.

Public Private Partnership (PPP)

Some €2,349 million of PPP-financed projects are included in the Plan with the objective stated as one of "maximum useage of PPPs consistent with the principles of efficiency and value for money". In broad terms, we welcome the increased use of the PPP approach and the emphasis on value for money. However, we agree with the view taken by the ESRI in the Investment Priorities report that there is no argument for PPP as a mechanism for providing finance, given the current state and prospects for the public finances. The key issue will be whether the PPP approach proves to be more efficient than traditional delivery methods. To this end, it will be important that individual PPP projects are rigorously compared with an appropriate public sector counterfactual.

Analysis of Expenditure

National Roads (€5,968 million)

The analysis presented of the national road network draws on studies such as the Roads Needs Study, which provides an objective estimate of investment requirements, based on an assumption of a minimum level of service (LOS) objective. The objectives presented in the Plan – though not quantified - are fairly clearly set out. The Plan proposes a near doubling of expenditure in real terms on national roads compared to the 1999 baseline.

We agree with the view of the ESRI and other commentators that a substantial increase in the volume of resources in this area is required. As documented in the Roads Needs study, a substantial amount of backlog work has been accumulated from the current programming period, where traffic growth has substantially exceeded expectations when the programme was drawn up. In this sense, an increase in resources is required simply to deal with current traffic volumes.

As discussed above, there is a possibility that the capacity constraints facing the construction industry could hinder the ability to effectively deliver the increase in infrastructure investment aspired to in the Plan. This constraint, together with the inherent bottlenecks in the planning process, will have to be overcome if the ambitious objectives for the national roads programme are to be attained. In this regard, we note that the Cabinet Committee on Infrastructural Development referred to in the Plan (paragraphs 4.44 to 4.48) is to focus initially on the core inter-urban road network.

The development strategy outlined in the Plan includes the completion of the roads between Dublin and the Border, Cork, Limerick, Galway and Waterford to motorway/improved dual carriageway standard. On this basis, these inter-urban routes would provide a minimum level of service C on completion through 2020. Improvements to the other primary routes are planned such that a minimum level of service D will apply to 90 per cent of these routes. While these are reasonable objectives, the question that needs to be asked here - as in other areas - is whether this represents the best use of the available resources? We note from the Roads Needs Study that, for some parts of these inter-urban routes, dual carriageway would not be required for level of service D in the year 2019.[15] It is not clear to us if the standard of road proposed in the Plan is required to reach level of service C (from time of completion of construction to 2020) on these routes. In addition, we note that the recent review of future transport investment needs by the External Evaluator to the Transport Operational Programme[16] highlighted the scope for economies in the design and planning of the national road network compared to the assumptions used in the Roads Needs Study.

Non-National Roads (€2,032 million)

The regional Operational Programmes include measures in respect of the restoration and maintenance of non-national roads. Evaluations of the existing non-national roads measure in the Transport OP have been broadly positive and international evidence shows that the approach taken of renewing the road surface offers satisfactory economic returns. We also agree with the argument in the Plan that these roads can play an important role in linking regional nodes with their rural hinterlands.

Public Transport – Greater Dublin Area (€2,012 million)

The total investment proposed of over €2,000 million represents a major increase on current expenditure levels. The case for a major increase in investment in public transport, particularly in Dublin and Cork, was supported by the ESRI. Against a background of significant and increasing congestion costs in Dublin, the unsustainable nature of current traffic patterns and the positive externalities associated with public

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[15] See Map 7.1 in National Road Needs Study. The sections Ballinasloe to Loughrea (N6), Mountrath to Nenagh (N7) and Kilcullen to Waterford (N9) are shown as either wide 2-lane or standard 2-lane with hard shoulders.

[16] DKM Economic Consultants, *Review of Transport Infrastructure Needs*, February, 1999

transport, we agree with the need for a very substantial increase in the level of resources to this area.

The Plan proposes a number of key investments in the Dublin area:-

- provision of €546 million for the construction of the surface element of the LUAS light rail network, which is expected to deliver additional peak capacity of 16,000 trips at peak hour;
- investment of €235 million in DART and suburban rail which will increase capacity by some 15,200;
- expenditure of €152 million in bus investment to provide additional capacity of 22,000;
- a contingency provision of some €635 million for the underground section of LUAS and a longer term rail development programme.

As an initial comment, we note that the proposed bus investment offers an increase in capacity in excess of the LUAS or suburban rail options for a much lower cost. We accept that too much cannot be concluded from a fairly broad comparison of this type and that a range of both rail and bus investments will be required. Nevertheless, we feel that it highlights the importance of ensuring that the costs and benefits of the various options are objectively considered and compared in an integrated manner to ensure the best use of the considerable resources involved. In the case of rail developments, the returns on such investments depend critically on their being linked with decisions on land use and residential development in the physical planning process. Assessment of the LUAS project poses a particular difficulty at the present juncture given that the likely total costs of the project (incorporating the proposed underground section) is unknown and is dependent on the outcome of various tests currently underway. In this regard, we concur with the view of the External Evaluator to the Transport OP[17] that the costs and benefits of the LUAS project should be subject to a cost-benefit analysis on a system-wide basis as soon as firm cost estimates for the proposed scheme are arrived at.

Regional Public Transport (€825 million)

The bulk of the investment under this heading is in respect of mainline rail (€635 million) with the balance made up of expenditure on suburban rail in Cork and bus development outside Dublin. While the objectives for the mainline rail component are fairly specific, we have a major concern in relation to the likely rate of return on this investment.

The rationale for mainline rail investment in the Plan mainly hinges on the positive environmental and safety benefits associated with rail transport and on the need to increase capacity to cope with increases in passenger demand. As noted in the Plan, considerable investment has taken place on the lines from Dublin to Cork/Limerick and Belfast under the current round. The decision to concentrate investment in these lines was taken on the basis of the traffic prospects of these lines and reflected the

[17] DKM, ibid

findings of the cost-benefit appraisal carried out in 1996[18]. The package of investments proposed now will therefore be concentrated on the remaining lines. The DKM review of transport investment referred to above analysed CIE's investment plans for mainline rail and found that the ratio of investment sought to revenue was almost 12 in the case of secondary lines and as high as 122.2 in the case of the branch lines (these lines correspond to those which have been not been upgraded under the current round). In the light of these data, we consider it most unlikely that the results of the appraisal carried out in 1996 would be greatly different and there is a strong likelihood of negative rates of return on projects under this heading.[19]

Environmental Services (€4,571 million)

Investment under this heading comprises expenditure of €3,212 million under the Economic and Social Infrastructure OP augmented by additional investment of €1,359 million on rural water services and waste management under the regional operational programmes. These allocations represent a significant increase in real terms compared with 1999 expenditure levels. The main areas of investment include water supply, waste water treatment, waste management and costal protection.

The analysis provided in the Plan of the state of the environmental situation is comprehensive. This analysis is linked to a reasonably clear set of objectives across the various environmental sectors, with quantified targets provided in many instances.

The rationale for investment presented in the Plan includes the need to protect the environment, to alleviate constraints on the provision of new housing and on economic growth generally and to comply with various EU directives. We accept that deficiencies in the level and quality of infrastructure in this area represent a serious constraint, particularly in terms of the provision of new housing, and agree on the need for an increase in investment.

However, in a situation where users are not charged the full economic cost of the provision of water and waste water services, there is a danger of excess demand giving rise to a sub-optimal level of provision. We note that the Investment Priorities report recommended the implementation of the Polluter Pays Principle with a gradual introduction of full cost recovery of public expenditure on environmental infrastructure. In the case of waste management infrastructure, the proposed extensive use of the Public Private Partnership approach opens up the possibility of the application of the Polluters Pays Principle in this area.

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[18] Goodbody Economic Consultants, *The Mainline Rail Investment Programme – Review and Evaluation,* April, 1996

[19] We accept that it would be irresponsible to operate an unsafe railway system.

Communications/Electronic Commerce (€152 million)

Under the regional Operational Programmes, it is proposed to support the development of the information society and E- Commerce in areas where it is clear that the market will not provide. In principle, we accept the rationale put forward that there may be instances of market failure in the provision of this type of infrastructure in rural or less densely populated areas. This was also accepted by the ESRI in their Investment Priorities report. However, they recommended a total investment of just €98 million in this area and we have a doubt over the level of Plan investment proposed. This level of provision would need to be kept under review, given the speed of technological innovations in this sector. These could lead to a situation where the required level of infrastructure could be provided with a lower degree of subsidy. The ESRI emphasised the need for any subsidy scheme to be implemented in a way which promotes competition. We note that this has been a feature of the schemes operated under the current Economic Infrastructure Operational Programme. However, there is always a high danger of deadweight in rapidly expanding sectors such as this and the design of the subsidy schemes will need to be carefully thought out.

Energy (€185 million)

The rationale put forward for energy investments relates to assisting Ireland to meet its obligations under the Kyoto Protocol. There are references to "known and widespread market failures" in this area but these are not spelt out. In terms of the specific measures mentioned for support, we feel there is a good case for the information and education programmes to encourage energy efficiency and for the promotion of research and development in this area. However, we have a concern in relation to the proposal to provide assistance to encourage improvements in poorly insulated housing stock; the savings in energy costs represent a private gain. It should therefore be worthwhile for householders to undertake these investments themselves.

Housing (€7,618 million)

For the first time, housing is included in the NDP with an allocation of 16 per cent of total expenditure programmed under the Plan. The average annual allocation represents a real increase of 90 per cent on 1999 expenditure levels. The ESRI's Investment Priorities report recommended the inclusion of housing in the Plan framework. We concur with this, given the importance of linking decisions on the location of new housing with other infrastructural investments such as public transport, education infrastructure etc. The analysis of the current situation presented in the Plan provides a useful overview of key demographic influences and future housing demand.

The rationale for the provision of social housing is essentially one of redistribution – i.e. of assisting persons who would not otherwise be able to purchase housing in the market. The evidence is that there has been a rapid increase in the number of persons on local authority waiting lists. The latest data from the Department of the Environment and Local Government indicate that, as of March 1999, over 39,000 households were in need of local authority housing, compared with just under 27,500 in March 1996. The bulk of expenditure in the Plan will be on the construction of new social housing, the improvement of the existing stock and various schemes to assist eligible persons with house purchase. The total level of output envisaged amounts to some 77,500 dwellings comprising 35,500 from the local authority sector, 28,000 from the voluntary sector and 14,000 under the affordable housing and shared ownership schemes.

As set out in a number of analyses (including the ESRI Investment Priorities report), the fundamental problem in the housing market is a supply-side one. The Plan itself indicates that there will be a need to construct some 500,000 new dwellings over the next 10 years. We acknowledge that the investment proposed under the Plan in areas such as environmental services is directly aimed at alleviating supply constraints such as a lack of serviced lands etc. Even if these efforts are successful and are reflected in a stabilisation or decline in the real price of housing, it is clear that there will be a group of people who will not be able to afford to purchase their own houses. However, unless the underlying supply constraints can be resolved, there is a danger that an increase in local authority building could "crowd-out" private activity thus leading to difficulties for other groups in the market. Schemes which seek to subsidise the cost of new housing for particular groups (in current circumstances where housing demand exceeds supply) can only affect the distribution of the stock of dwellings and will inevitably be reflected in price increases for other groups.

Health (€2,540 million)

Capital investment in the health service is included in a National Development Plan framework for the first time[20]. As this is an important element of social infrastructure in a modern economy, we feel that its inclusion in the Plan framework is appropriate and opens up the possibility of co-ordination with other major infrastructural investments.

The rationale put forward for health investment is essentially a merit good[21] type justification. The rationale is also partly motivated by redistributional considerations, given the discussion in the Plan about inequalities in health between different socio-economic groups. The analysis of the current situation presented is in the nature of a review of policy developments. There is no analysis to demonstrate the need for the various improvements by reference to existing or projected capacity gaps. (For instance, presumably demographic factors are driving the proposed provision for older people?) The lack of this type of objective "needs" analysis makes it difficult to comment on the proposed level of investment envisaged. In addition, there are no overall objectives set out for the sub-programme. However, in setting out the details of areas of expenditure, there is a good discussion of the focus of investment in the BMW and S&E regions.

[20] One major health project (Tallaght Hospital) was supported under the 1994 to 1999 CSF.
[21] A merit good is a good which society believes should be available to all.

Urban and Village Renewal (€131 million)

The two regional Operational Programmes include measures in respect of urban and village renewal. The rationale put forward for this investment in the BMW region OP chapter relates to the quality of life and tourism benefits that improvements in the built environment can give rise to. We accept this case and would take the view that that there is a strong public good element to investments of this kind. The proposed investment strategy set out in each of the two regional OPs is quite specific and seems to correspond well with the different needs and characteristics of the two regions. The requirement that each local authority produce a framework action plan and the indication that the funding will not be dispersed over too many projects are also welcome.

Cultural, Recreational and Sports Development (€493 million)

The regional Operational Programmes include measures in respect of cultural, recreational and sports development. The rationale put forward for these investments is similar to that for the urban and village renewal measures covered above. This is an area of investment which was also highlighted by the ESRI in their Investment Priorities report although they recommended a considerably lower allocation (€317 million). Given that the private sector will meet a lot of needs, particularly in the sports and recreation areas, there is a danger of deadweight effects arising, unless the measures are targeted at areas of disadvantage. We also note the heavy emphasis on the development of waterways and angling in the measure descriptions. This seems unduly specific at this stage and inconsistent with the level of detail provided for other areas.

Seaports and Regional Airports (€72 million)

The regional Operational Programmes include separate measures in respect of regional ports and airports.

In the case of seaports, we would point out that ports are commercial entities and investment supports need to be considered on the same basis as aids to other private sector enterprises. Our discussion of the rationale for support to the private sector under the productive sector priority is relevant in this context. The analysis presented in the Plan fails to identify a market failure basis for the regional ports intervention. We would contend that it should be possible for the regional ports to finance desired investments through their own resources or through borrowings. In the case of the BMW region, we feel that the significance of the ports to the regional economy is somewhat exaggerated, given that these ports only account for 5 per cent of national cargo volumes. We remain to be convinced that the regional seaport investments will not give rise to displacement effects, notwithstanding the statement to this effect in the Southern and Eastern region OP.

The case made for investment in the regional airports is unconvincing. No evidence of capacity constraints at these airports is presented. The DKM review of transport infrastructure took the view that given the hinterland overlap between the various (national and regional) airports, the provision of runway capacity at the four regional airports which lack jet capacity (Donegal, Sligo, Galway and Waterford) was not a priority. They felt that the provision of these facilities would simply re-distribute rather than generate traffic.

Conclusions

As discussed above, the Plan proposes a very significant increase in investment in infrastructure. We concur with the analysis in the Plan (and in the ESRI Investment Priorities report) that the level and quality of infrastructure in a number of areas now represents a critical constraint on the economy. In addition, the evidence suggests that investment in infrastructure offers potentially high rates of return. In many instances, there is a clear public good rationale for investment in infrastructure. In general, the needs analysis presented in the Plan feeds through to a fairly specific (and quantified) set of objectives. In overall terms, we feel that the infrastructure investments proposed should contribute to the achievement of the overall key objectives of the Plan.

There remains a doubt as to whether the ambitious investment proposals can be delivered given the labour supply problems facing the construction sector. In addition, the bottlenecks in the physical planning process will need to be addressed. In this context, we note the indication given that a special Cabinet Committee is to address issues around delivery of key infrastructure projects. We also welcome the focus on value for money under the PPP approach.

While we agree with the case for a major increase in resources allocated to infrastructure in the Plan, we have raised concerns in a number of areas. In some instances, a convincing public good or other rationale is not evident (e.g. ports and airports). In other instances, such as mainline rail, we have doubts about the likely rate of return on the investments proposed. The benefits of the proposed public transport investments will depend crucially on the quality of service operation and the implementation of flanking demand management policies. Finally, we would emphasise the need for consistency and rigour in the appraisal of individual projects, particularly given the volume of resources allocated to the infrastructure area.

Section 6: Employment and Human Resources Development

Introduction

This section considers the Employment and Human Resources Development Operational Programme (outlined in Chapter 5 of the Plan) as well as the Social Inclusion sub-programmes under each of the regional operational programmes (chapters 7 and 8).

The proposed allocation of resources is summarised in the table below. The structure presented here differs from the "pillar" structure used in the Plan. We discuss this further below.

Area	HRD OP 2000 – 2006 € million	Regional OPs 2000 – 2006 € million	Total 2000 – 2006 € million
Early Education and Retention Initiatives	342	-	342
Early School Leavers	258	-	258
Training and Education for Labour Market Entrants[22]	3,948	-	3,948
Unemployed and Long-Term Unemployed	4,590	-	4,590
Training for Employees/ People at Work	378	-	378
Second Chance Education	152	-	152
Equality	378	-	378
Infrastructure	2,062	-	2,062
Other Measures	454	-	454
Social Inclusion Measures	-	1,344	1,344
Total	**12,562**	**1,344**	**13,906**

As shown above, total expenditure of almost €14,000 million is envisaged. The average annual level of investment over the Plan period represents a small decline in real terms compared to 1999 levels.

Overview

Rationale

It is generally accepted that one of the key factors driving Ireland's current period of economic success has been the accumulation of human capital through investment in

[22] The Back to Education Initiative is included here, although a part of it properly belongs in Second Chance Education.

education and training. The ESRI's Investment Priorities report cites international evidence on the positive effects of human capital accumulation on a country's ability to adopt and develop new technologies and highlights the work of Lucas[23] on the positive spillover effects associated with the accumulation of human capital. The ESRI argue that the long-run growth rate in productivity (which is the key factor determining the long-term sustainable growth rate of the economy) is determined *inter alia* by the rate of accumulation of human capital. This is essentially the rationale put forward by the Plan for investment in the education and training system (see paragraphs 5.31 and 5.32).

However, while this rationale is generally robust, it needs to be borne in mind that the return to education (and training) beyond a basic level is largely a private return. The ESRI note international and Irish evidence which shows that education is a profitable investment for an individual, especially at higher levels. The implication of this is that high deadweight effects are likely to arise from State investment beyond a certain education level.

We accept, however, that information asymmetries can give rise to market failures, whereby certain groups under-invest in education and training notwithstanding the substantial private returns. Consequently, we accept that there is a strong rationale for carefully targeted interventions (such as second chance education and active labour market measures), focused on groups such as the educationally disadvantaged and the long-term unemployed. As well as contributing to a social inclusion objective, such measures can also lead to an increase in the effective supply of labour.

Analysis and Objectives

The programme is informed by a comprehensive labour market analysis, which has a strong regional and gender dimension. A number of key objectives are set out for the OP, followed by the priorities identified in the National Employment Action Plan (NEAP) and specific objectives for the education and training sectors. These objectives are generally not quantified. We accept that these objectives are also affected by external factors. However, we note that the NEAP priorities are fairly precisely formulated in contrast to those in respect of education and training.

Strategy, OP Structure and Coverage

A threefold strategy for the programme is outlined: an NEAP strategy; sectoral strategies covering tourism, agriculture, forestry and seafood and an education and training strategy. However, this strategy is not linked to the structure of the programme which follows the four pillars of the National Employment Action Plan. In our view, this programme structure appears somewhat forced and lacks consistency and coherence. The allocation of particular measures to individual pillars also seems somewhat arbitrary. We consider that all measures aimed at a particular target group should be assessed together. For example, all measures targeted at the unemployed

[23] See section 2.2.1 of the ESRI report.

(including the long-term unemployed) will be evaluated here as a collection of related measures. Similarly, training and education measures for labour market entrants will be considered together. In contrast, the Plan includes training measures for the unemployed and those in employment under each of the four pillars. We would contend that our structure is more relevant as it allows consideration of the level of provision for a particular target group and the interaction between the various schemes proposed.

The ESRI's Investment Priorities report considered the entire State investment in education and made recommendations for the sector as a whole. However, only a small proportion of total public investment in education is included in the National Development Plan. This requires that we evaluate measures in isolation from other investments in the same sector. This is not entirely satisfactory. One result of this approach is that we cannot track the application of the so-called demographic dividend[24] within the education sector. In general terms, the approach recommended by the ESRI and other commentators is to tackle priority concerns through the use of resources freed up by declining pupil numbers, rather than the allocation of additional resources to the sector.

Analysis of Main Investment Areas

Early Education and Retention Initiatives (€342 million)

This grouping comprises a number of social inclusion measures where the stated objective is to improve the quality of the school system in order to substantially reduce the number of young people who drop out of school early. The measures include an early education initiative, a school completion initiative, the early literacy initiative, a Traveller education measure and a school guidance measure.

In terms of the rationale for these interventions, there is a wide body of evidence which suggests that early school-leavers suffer considerable disadvantage in the labour market. From a cost-benefit perspective, successful intervention to keep them within the school system represents an effective use of resources compared with the costs of unemployment payments and the broader opportunity costs to the economy. These interventions are largely redistributive in nature. The Investment Priorities report took the view that the needs of those children who "are currently being failed by the education system" should be the first priority for investment in education. The retention measures proposed under this Priority broadly correspond with the type of investment envisaged by the ESRI. However, it will be important to ensure that the measures are targeted on schools with low retention rates.

Early School-Leavers (€258 million)

[24] The ESRI estimate that the number of 5-12 year olds will decline by 5%, the number of 13-18 year olds by 10% and the number of 19-21 year olds also by 10%, by 2006. (See page 195 of the Investment Priorities report).

We have designated the Early School Leaver Progression measure as a category in its own right. The measures discussed in the previous section are aimed at reducing the number of early school-leavers and some measures discussed in the next section cater for early school-leavers as a sub-set of all school-leavers. However, this is the only measure designed solely to cater for those who have left school early. As discussed above, initiatives designed to increase the skill levels of early school-leavers to the minimum required for effective and active labour market participation have a clear social and economic benefit.

We have a concern over the level of resources and capacity (6,000 places) proposed here. The Plan states that a number of measures aim to increase to 90% the number of young people completing second-level education. Early school-leavers will therefore account for only 10% of the total, or approximately 6,000 – 7,000 people.[25] The provision of 6,000 places implies that this one measure will cater for all, or practically all, early school-leavers. The assumption that all such early school-leavers could be encouraged into further training seems optimistic. Clearly, some will secure employment, albeit low-skill, while others will simply have no interest in any further participation in the training and education systems. In addition, some other schemes cater for early school-leavers (although not as their primary market). For example, the Sectoral Entry Training measure (also discussed in the next section) is aimed explicitly at early school-leavers as well as the long-term unemployed.

Training and Education for Labour Market Entrants (€3,948 million)

Under this heading, we consider a number of measures where the primary target group is entrants to the labour market. These include the entry-level sectoral training measure targeted at both early school-leavers and the long-term unemployed, apprenticeship/traineeship, the three third-level skills needs measures and the Back to Education Initiative, which includes the post-leaving certificate courses.

In our discussion above of the rationale for education and training investment, we noted the high private returns to education and training beyond a basic level. The measures considered here are aimed at improving the skills profile of labour market entrants but the target groups are in some respects quite different. Some of the measures are targeted at the socially excluded (such as the entry level sectoral training measure and elements of the Back to Education Initiative) and as such have a robust rationale. On the other hand, this does not apply to the third-level skills measures. Of these, the risk of deadweight is most prevalent in the case of the postgraduate conversion courses measure. The participants in this measure have already attained a high standard of education and would generally be aware of the private returns to continuing education.

A concern with skill shortages in the economy is the main rationale presented for the third level skills and apprenticeship/traineeship measures. However, we would point

[25] The ESRI use a 1996 figure of 68,500 (Table 1, Page B1, *The Economic Status of School-Leavers, 1994-1996*, ESRI, 1997). The ESRI also estimate that the total number of second-level students will fall by 10% over the period of the Plan (See footnote 3). The number of school-leavers will fall, therefore, by up to 10%. An estimate of between 6,000 and 7,000 early school-leavers is therefore reasonable.

out that there are skills shortages throughout the economy and at all different skill levels. This is evident from the recent ESRI survey of vacancies[26] which showed that vacancies exist in all sectors. The overall vacancy rate of firms surveyed was 6 per cent. While the vacancy rate was highest for occupational categories such as Computer and Engineering Professionals, the occupations with the highest absolute number of vacancies included the Production Operatives, Sales and Clerical and Secretarial categories. Given this evidence, it is clear that the economy is suffering more from a labour shortage (as mentioned in paragraph 1.2 of the Plan) than a skills shortage. A pro-active, interventionist approach to meet emerging skill needs is likely to prove very expensive and may not be entirely effective. (One short-term effect will be to exacerbate the skills problem at lower skills levels). In a similar vein, the ESRI[27] comment that "While there is a general shortage of skilled labour, the answer lies in better management of the economy through fiscal policy than through hasty interventions in the third level system".

A further issue which arises concerns the overall level of provision for labour market entrants across the range of education and training interventions considered here. This does not seem to be informed by an analysis of demand or need, as determined by, *inter alia*, the number of school-leavers. The Investment Priorities report considered that due to the declining number of teenagers over the period of the Plan, any increase in the number in education would probably lead to a fall in the numbers undergoing training.[28] However, while the programme provides for an expansion in areas such as traineeship numbers (from 1,600 at end 1999 to 7,000 by the end of the Plan period), there is no evidence of corresponding reductions in capacity elsewhere for this broad target group.

We also have a concern about the method of delivery. There is potential for the private sector to compete for delivery for some of these schemes. Private colleges, for example, already compete for students with the publicly funded PLC and third-level sector. The implementation of a system of competitive tendering would allay any concerns about the efficiency of the measures[29].

Unemployed and Long-Term Unemployed (€4,590 million)

There are five measures whose target group is primarily the unemployed, including the long-term unemployed. These include the Action Programme for the Unemployed measure, the related National Employment Service measure, the Active Measures for the Long-Term Unemployed and Socially Excluded, the Employment Support Services measure and Skills Training for the Unemployed and Redundant Workers. (Sectoral training for school-leavers and the long-term unemployed was addressed in the previous section.) In considering these measures and the allocation of resources and capacity envisaged, the recent substantial declines in both total and long-term

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[26] Williams, J. and Hughes, G. *National Survey of Vacancies in the Private Non-Agricultural Sector 1998,* ESRI
[27] Fitzgerald, op. cit.
[28] Fitzgerald, ibid, page 199
[29] We note that the ESF Evaluation Unit have commissioned a study on the issue of promoting greater competition in the delivery of human resource interventions.

unemployment must be considered (from respectively 8.5% and 4.5% in first quarter 1998 to 5.7% and 2.5% in second quarter 1999).

In general, these types of active labour market measures would be expected to contribute to an overall objective of increasing labour supply. The rationale for such measures appears strong in the context of the ESRI's analysis that "[E]mpirical research shows that active labour market strategies with strong linkages to the labour market do improve labour market prospects… …high priority areas identified in relation to the disadvantaged relate to Early School Leavers and the Long-Term Unemployed"[30] As the Plan notes, the action programme for the unemployed has been successful to date with 79% of those referred to FAS in the final quarter of 1998 leaving the Live Register by mid 1999. We consider that the approach involved of engaging with the unemployed and attempting to prevent a drift into long-term unemployment is sensible.

Under a related measure, FAS will provide a National Employment Service to meet the needs of employers, job seekers and job-changers over the period of the Plan. In their survey of vacancies the ESRI[31] comment that the increase in vacancies in recent years highlights the importance of an efficient public job placement service. Research cited in this report from other countries shows that improvements in job matching by the public Employment Service can significantly reduce the duration of vacancies.

There are two schemes which are aimed specifically at the long-term unemployed. The Community Employment Scheme, under the Active Measures for the Long-Term Unemployed and Socially Excluded heading, has an annual allocation of 40,000 places, to be reduced to 28,000 by 2003. The second measure is the Employment Support Services measure which will cater for 33,000 participants annually. The Action Programme referred to above will target 50,000 people who are at risk of becoming long-term unemployed. As we noted above, the effect of this latter measure should be to reduce sharply the inflows to long-term unemployment implying a much reduced need for the other schemes. We feel that the level of provision for both of these schemes should be very carefully monitored.

More generally, we have concerns about the extent of reliance on the Community Employment Scheme. This scheme was created in a different labour market environment where long-term unemployment was much higher. The Plan itself notes that "given current and projected labour market conditions, programmes of education and training, and supports to return to 'normal' employment can be preferable [to Community Employment] in many cases". Various evaluations[32] have concluded that because of the poor labour market linkages of schemes such as Community Employment, the subsequent labour market performance of participants does not markedly improve. Given the reintegration focus of the National Employment Action Plan, we would question whether the level of provision here represents an optimal use of resources.

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[30] Fitzgerald, op. cit., page 202
[31] Williams, J. and Hughes, G. op. cit. 1988
[32] See for example O' Connell, Philip J. and McGinnity, F., *Working Schemes? Active Labour Market Policy in Ireland*, 1997

Training for Employees/People at Work (€378 million)

Under this heading we consider the training for business measure (which will provide training for employees and owners, with a particular emphasis on SMEs) and ongoing sectoral training measure in respect of the tourism, culture, agriculture and food, forestry and fisheries sectors. This latter measure is separate to the sectoral entry-level training measure considered above and would appear to be targeted at people already working in the various industries. The proposed increased recourse to competitive tendering for delivery of the sectoral training programmes is welcome.

In both cases, the measures are likely to involve a high degree of private benefit, given the focus on the provision of training for individuals who are already employed or who run or wish to run their own business. However, we acknowledge the possible existence of a free-rider problem here. (This refers to the risk that employees who receive training from their employers may be "poached" by other employers.) On the other hand, the increased profitability or wages that may be expected to arise as a result of the training will accrue directly either to the business or to the employee. The rationale for State intervention is not outlined in the Plan and there is a clear risk of significant deadweight effects arising. One way of addressing the difficulties involved would be to operate the schemes on a cost-recovery basis.

Second Chance Education (€152 million)[33]

There are four measures which are targeted to a substantial degree at providing second chance education. The first is the National Adult Literacy Strategy which targets a minimum of 110,000 people. The second measure is the Back to Education Initiative which proposes a "merging and continuation of the existing levels of provision under Youthreach, Senior Traveller Training Centres, the Vocational Training Opportunity Scheme and Post Leaving Certificate courses, allied to new forms of provision of the courses". The PLC element of this initiative was considered under the training and education for labour market entrants heading above. The third measure is the Further Education Support Services measure. The General Training measure is presented as a lifelong learning measure and for that reason it is considered here.

There is a clear social inclusion and/or redistributive rationale for second chance education interventions. In addition, these measures can contribute to increasing the supply of labour through the provision of a certain minimum skills level.

We have some questions over the Back to Education Initiative. The proposal to merge the different schemes, which have different target groups, is not developed. The Initiative proposes to cater for 320,000 people over the period of the plan, representing almost 14% of the 15-64 age group.[34] The average cost per participant at almost £3,200 is high in comparison to an ESRI estimate of £2,120 a year per pupil

[33] The total shown here excludes the Back to Education Initiative measure.

[34] Based on a population in the 15-64 age group of 2.353m people in 1996, Table N, page 27 in *Population and Labour Force Projections 2001-2031*, CSO, 1999.

for second level students[35], particularly in view of the stated intention to target part-time options which would give an expectation of lower costs.

Equality (€378 million)

There are five measures in the OP where the rationale is motivated by equality or redistribution considerations. These include the Third Level Access measure, the aim of which is the promotion of participation at third-level of students with disabilities, those from disadvantaged backgrounds and mature students. The Equal Opportunities Promotion and Monitoring measure will be used to promote equal access to training and educational institutions. The Educational Disadvantage measure is aimed at bringing about long-term change in the further education opportunities for educationally disadvantaged women and men. The other measures are the Refugee Language Support Unit and the Vocational Training and Pathways to Employment for People with Disabilities measure.

These measures are essentially redistributive. The objective is the provision of opportunities to those who might otherwise have less chance of participation. The Third Level Access measure has a specific target of assisting approximately 10,000 grant holders. While we note that this fund is intended to provide financial support to disadvantaged students additional to the existing maintenance grants scheme, the precise interaction between the two schemes is not outlined.

Education and Training Infrastructure (€2,062 million)

This measure covers investment in primary, second level and third level institutions in the education sector as well as FAS capital stock. This investment will include buildings, new machinery and equipment and the use of information technology. The provision of modern machinery and equipment as well as a safe and healthy environment are obviously an integral part of ensuring quality in the education and training system.

Given the projected substantial fall in the numbers of school-going age, the need for this level of investment must be queried. The Investment Priorities report established that some continuing investment in school buildings would be required to meet the rapid growth in the major urban areas in the country. This investment would be additional to the ongoing replacement and maintenance of existing buildings and necessary even in the context of declining pupil numbers. Investment in modern machinery and equipment will also be required although some cutbacks ought to be possible in the context of declining pupil numbers. A more detailed exposition of the proposed investment strategy would assist in evaluating the level of need here.

Miscellaneous Measures (€454 million)

There are a number of other measures that do not fit into the structure adopted for this evaluation. This arises from the inclusion of certain education measures within the Plan, while other elements of education investment are excluded and funded through

[35] Fitzgerald, op. cit, page 188

the normal budgetary process. The (European) Languages measure is one such example.

The Quality Assurance and Training of Trainers measures are included here as these measures cover a range of all target groups. In general, there is a clear and understood rationale for ensuring that investment in education and training results in a high quality output. These measures will complement the other investments.

The final measure considered here is the Social Economy measure. Its objectives relate to the economic and social development of disadvantaged communities. This is not particularly appropriate to the Employment and Human Resources Development programme. The measure proposes to spend £213m over the period of the Plan creating 2,500 jobs per annum. This is an average cost of over £12,000 per job, which is in excess of the levels of grant aid given by the IDA Ireland or Enterprise Ireland[36]. We also note that the proposed measure is sparse on detail, particularly considering the amounts involved. It is not even clear what target group (e.g. the long-term unemployed) this measure is aimed at.

Social Inclusion (€1,344 million)

In section 11 of this report, we consider the overall social inclusion focus of the Plan. In this sub-section we look specifically at the social inclusion sub-programmes in the regional Operational Programmes. These comprise measures in respect of Childcare, Equality, Community Development/Family Support, Crime Prevention, Youth Services and Services to the Unemployed.

The rationale for these measures is essentially redistributive. However, there are no overall objectives set out for these sub-programmes. The broad focus is set out in chapter 10 where it is stated that "these will finance a broad range of measures designed to alleviate the problems of people of all ages from disadvantaged groups". In most cases, objectives are not set out at measure level which makes it difficult to comment on whether the level of resources allocated is appropriate.

The inclusion of these measures in the regional OPs obscures to some extent the overlap with the Employment and Human Resources Development Programme. The interaction between the early intervention element of the Youth Services measure and the retention measures in the inter-regional programme is not outlined. Similarly, under the Services for the Unemployed measure, initiatives will be implemented which appear similar to those under the inter-regional programme.

In terms of the other measures, there is not much detail provided on the areas to be funded under the proposed Childcare measure. We note, however, that there is to be a particular focus on disadvantage. This intervention should also contribute to increasing the supply of labour. On the other hand, the Community Development and Family Support measure appears simply as a list of areas of proposed expenditure. There is also a danger of overlap in the provision of physical infrastructure in deprived

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[36] According to the Forfas Annual Report 1998, the cost per job created *and sustained over a seven-year period* (emphasis added) for IDA Ireland and Enterprise Ireland backed companies is £10,900.

areas under this measure with the Cultural, Recreational and Sports measure under the productive investment sub-programmes of the regional OPs. In contrast, the crime prevention measure is clearly targeted, has public good elements and does not appear to overlap with other measures.

Conclusions

The rationale for investment in education and training is generally robust, with the evidence both for Ireland and other countries showing that the accumulation of human capital makes an important contribution to an economy's long-run growth performance. However, this needs to be tempered by an appreciation that, in many cases, the returns to investment in education or training are private, implying that State intervention or provision can give rise to deadweight effects.

Accepting the inherent difficulties arising, we note that the education and training objectives presented are somewhat imprecise. The strategy presented for the Operational Programme is not followed through in the structure of the programme, which is based on the four Pillars of the National Employment Action Plan. Indeed, we feel that the "pillar" structure of the programme does not work and serves to obscure the linkages between interventions aimed at particular target groups. While it is clear that the programme is consistent with the approach of the National Employment Action Plan, we feel that this consistency is rather forced.

There is a significant focus on the needs of educationally disadvantaged and other marginalised groups. The early education and retention initiatives and the various second chance education measures are clearly targeted and offer the prospect of high social returns. We also consider that there is a strong case for the measures aimed at the prevention of long-term unemployment and the matching of vacancies with job seekers. Both these sets of measures can contribute to the tacking of social inclusion and/or increasing the effective supply of labour. However, in relation to the specific social inclusion elements of the regional Operational Programmes, we have some concerns in relation to the lack of focus and at the risk of overlap with other measures in the inter-regional Operational Programme.

We have raised questions about the level of capacity proposed in a number of areas, especially the long-term unemployed, early school leavers, labour market entrants and infrastructure. In general, we are not convinced that the programme takes sufficient account of the projected decline in numbers in school and the sharp reductions in total and long-term unemployment. The fact that much of the education sector is not included in the Plan exacerbates this problem. The level of provision in the areas mentioned will need to be kept under careful review over the period of the Plan.

In a number of areas, we note that the return to investment is likely to be predominantly private in nature. These include measures aimed at addressing skill needs in the economy and training for people in employment. The skills shortages in the economy are now so widespread that the problem is better understood as a labour shortage. In some areas, there is scope for greater efficiency through the introduction of competition in delivery and/or cost recovery.

Section 7: Productive Sector

Introduction

In this section, we examine planned investment in the productive sector, comprising expenditure under the Productive Sector Operational Programme (Chapter 6 of the Plan) and the productive investment sub-programmes under the regional OPs. The following table provides a breakdown of expenditure areas in both the productive sector and regional OPs which are analysed here.

Sub-Programme/ Measure	Productive Sector OP 2000 – 2006 € million	Regional OPs 2000 – 2006 € million	Total 2000 – 2006 € million
Research, technological development and innovation	2,471	-	2,471
Indigenous Industry	1,235	-	1,235
Foreign Direct Investment	1,181	-	1,181
Marketing	428	-	428
Agricultural and rural development, forestry	353	320	673
Tourism Product Development	-	170	170
Fisheries	57	175	232
Microenterprises	-	190	190
Total	**5,725**	**855**	**6,580**

As shown above, total investment (excluding expenditure on agriculture and forestry supports under the FEOGA Guarantee Fund) of over €6,500 million is envisaged under this heading, equivalent to €940 million per annum. This represents a real increase of over 30 per cent on corresponding 1999 expenditure levels. While there are modest decreases in expenditure in areas such as Foreign Direct Investment and Indigenous Industry, these are offset by substantial increases in Research and Development and Marketing.

Overview

Rationale

The objective underpinning State aid to the productive sector under the two previous CSFs and in earlier periods has essentially been one of employment creation. Against a background of high unemployment, it was clear that the benefits to the economy and to society generally of additional employment were positive. With this job creation objective in mind, a wide variety of strategies were employed, including the attraction of foreign-owned industry, the development of the indigenous industrial sector and other sectors such as agriculture, tourism and fisheries. The strategy was implemented through a wide array of support measures including capital and employment grants and assistance with marketing, training and research and development. In the case of the domestic, indigenous sectors, the rationale underpinning these interventions rested on a view that due to various market failures and a generally unfavourable trading environment, the private sector would under invest in the absence of State intervention. The market failures included inefficiencies in the capital markets (i.e. financial institutions would not support "risky" ventures), distortions arising from the taxation system and information barriers (e.g. firms might be unaware of the benefits of training and research and development).

We would contend that much of this rationale no longer applies. Firstly, the very rapid reduction in unemployment calls into question the need to subsidise job creation. As discussed in section 2 above, the shadow cost of labour is close to 100 per cent implying that the value to society of an additional job is minimal[37]. Secondly, many of the market failures outlined above have largely been addressed. There have been steady reductions in the tax burden, with marginal tax rates on labour on a declining trend. Financial markets have been liberalised leading to increased competition and the availability of a more sophisticated range of financial instruments. In relation to information barriers, we would contend that either these have been overcome, or if not, the effectiveness of the interventions employed to address them must be called into question at this stage. Furthermore, the environment facing the productive sector is now distinctly more favourable than that prevailing in earlier programming periods. As the Plan itself acknowledges, the productive sector has performed very strongly over recent years. Membership of EMU has brought benefits in terms of the elimination of exchange rate risk in trade with most of the EU and sharp reductions in the cost of capital. The Government has committed itself to the introduction of a single rate of corporation profits tax by 2003, which will provide a windfall gain to parts of the sector. In addition, the distinction between the productive or tradeable sector of the economy and the non-traded sector is becoming increasingly obsolete. Prima facie, this analysis raises serious doubts about the need to continue to provide a high level of aid to the productive sector. This was the position taken in the ESRI's Investment Priorities report, which recommended a significant reduction in assistance to the sector.

These considerations require that the precise market failure(s) arising need to be clearly established. As the Plan itself comments "The Government … ….recognises that support for tradeable sector in the economy should be limited to measures designed to overcome identified market failures …". In this context, we acknowledge that a location or regional market failure rationale partly underpins some investment areas under the Productive Sector. For example, the analysis presented in the Plan highlights the concentration of high-tech manufacturing in the Southern and Eastern region and the uneven spatial distribution of tourism. These disparities then inform the relevant sectoral strategies. Under the foreign direct investment sub-programme, a strong effort is to be made to attract new projects to the BMW region.

[37] In some locations, the value of an additional job may actually be negative as additional employment may give rise to negative congestion externalities, imposing costs on others. This is likely to be the case in Dublin at present.

The tourism measures under the regional OPs will also aim to develop the potential of areas which are currently underdeveloped from a tourism perspective.

Analysis, Objectives and Strategy

The key overall objective in relation to the programme is stated to be "increasing productivity throughout the sector in an environmentally sustainable way". We note that the emphasis on productivity reflects a shift away from the employment focus of previous Plans. However, neither this objective nor the subsidiary ones are quantified and in some cases these are rather imprecisely formulated. We accept the difficulties inherent in setting a quantified objective in respect of productivity. Unlike the Employment and Human Resources Development OP, no overall strategy (i.e. covering the entire sector) is articulated following from these objectives. The approach taken is similar to that for the Economic and Social Infrastructure OP, with a range of sectoral strategies set out in respect of the main investment areas.

Analysis of Main Investment Areas

Research, Technological Development and Innovation (€2,471 million)

A major expansion is planned in this area, with annual average expenditure over the Plan period amounting to a near trebling in real terms of estimated 1999 expenditure levels.

The rationale put forward in the Plan for investment in Research, Technological Development and Innovation (RTDI) relates to the "strong link between investment in the research and innovation base of economies and sustained economic growth". While we accept, as did the ESRI, that there is evidence of such a link, this does not amount to an adequate rationale for State intervention. Firstly, as noted by the ESRI, the openness of the Irish economy to trade and foreign investment (and the associated technological spin-offs) might well imply a limited role for a proactive research and development policy. More fundamentally, even if research and development is "good for growth", the key question remains whether there is a market failure justification for Government investment. We accept that some research and development (such as pure or basic research carried out in academic institutions) is of a public good nature in that the product of the research (i.e. knowledge) is open to all. However, subsidies to firms to encourage them to carry out research and development are more in the nature of a corrective or targeted subsidy. The benefits of in-company research accrue to the firm itself.

The level of resources proposed for this area is somewhat higher than recommended by the ESRI. If this level of resources is to be utilised to best effect, it is essential that the deficiencies which have been identified in the current range of R&D interventions are addressed. In relation to in-company research and development, evaluations by the

Industry Evaluation Unit[38] have identified high levels of deadweight (circa 50%). We note that one of the stated aims in the Plan is "to embed an R&D culture into firms which already have a technological capability". We would contend that the risk of substantial deadweight effects is very high here. (We acknowledge that it is also proposed to target companies who do not perform R&D at present). The Industry Evaluation Unit's work has also highlighted a number of other deficiencies with the current range of R&D schemes (including concerns around targeting, displacement effects and cost-effectiveness generally)[39]. Unless these are tackled, it is hard to be confident about the likely return on the substantial resources involved. The plan proposes a substantial allocation of resources (€711 million) to a Technology Foresight Fund. However, the limited information provided in the Plan does not enable us to judge whether this is necessarily the best use of available resources.

There is a welcome commitment to introduce a competitive process for the overall RTDI budget. This needs to be elaborated on in the next stage of programming process if the benefit of the considerable resources involved is to be maximised. In this regard, the indicative sectoral allocations set out in the Plan should not be seen as representing a firm commitment to the sectors and/or agencies concerned.

Indigenous Industry (€1,235 million)

This heading also includes expenditure in the food and fish processing sectors and in the Gaeltacht. The budget allocated represents a small decrease in real terms on estimated 1999 expenditure levels.

The analysis of manufacturing industry in the Plan (presented in both chapters 2 and 5) identifies a number of disparities within the sector which are to be addressed in the context of the NDP. These include the smaller average size of indigenous firms (relative to foreign-owned plants), lower productivity levels and a greater reliance for sales on the domestic and UK markets. The strategy outlined for the sector essentially aims at addressing dimensions of these. We feel that a comparison between indigenous and foreign-owned firms is not entirely relevant. A more relevant comparison is between indigenous firms and their competitors (i.e. the manufacturing sector in other countries). We note that a recent analysis indicates that the performance of the indigenous sector as measured by trends in employment, output and exports has been stronger than that of industrial countries generally[40]. More fundamentally, however, the disparities identified do not, of themselves, constitute a market failure. It will always be in a firm's interest to increase value-added and productivity. In our view, this analysis does not provide an adequate justification for substantial State intervention in the sector.

In many respects, the measures proposed under this heading essentially represent a continuation of existing support schemes. In the overview section above, we

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[38] For a summary of the Unit's evaluation work in the R&D area, see *Meta Evaluation of R&D policy and Interventions,* Industry Evaluation Unit et al, March, 1999

[39] For a summary, see page 44 and appendix C of report cited above.

[40] Eoin O' Malley, The Revival of Irish Indigenous Industry 1987-1997, *Quarterly Economic Commentary,* ESRI, April, 1998

questioned the continued validity of the rationale for these types of supports. For example, the Production and Operations measure provides, inter alia, for capital and employment grants (which will also be funded under the food and fish processing headings). Our discussion above refers here; given the tightness of the labour market, it is hard to rationalise any generalised job creation type intervention in current circumstances. With a shadow cost of labour at or close to 100 per cent, it is difficult to see individual projects providing a satisfactory cost-benefit return. In relation to the human resource measure, we would point out (see also discussion in previous section regarding the Employment and Human Resources area) that any benefits from such training are private. They accrue either to the employees and/or firms concerned and should be reflected in increased wages or profits. This intervention is best understood as a targeted intervention, which as such is aimed at changing firms behaviour and is operated over a limited lifespan. This type of measure has featured under previous CSFs. At some stage - such as at present when the economic environment facing the sector is favourable and profitability is very high - the State can withdraw from this type of activity. The finance measure envisages continued support for Seed and Venture Capital alongside the continuation of capital and employment grants. In summary, we would question the level of resources allocated to this area, given the much improved external environment facing the indigenous sector and the absence of a convincing market failure basis for the investments proposed.

Foreign Direct Investment (€1,181 million)

The Plan allocation represents a decrease of about 8 per cent in real terms on 1999 expenditure levels compared with a reduction of 30 per cent recommended by the ESRI. The strategy proposed will largely be one of subsidising job creation, although we note that a greater effort is to be made to locate new jobs in the BMW region. Some 44 per cent of the total allocation will be directed to the BMW region with the aim of delivering "more than half of all new jobs from future green field projects in to the BMW region". As discussed earlier, we recognise that there is a location or regional market failure rationale partly underpinning this strategy. There is evidence that the regional distribution of foreign direct investment has become quite unbalanced. For example, employment in foreign-owned State assisted companies increased by almost 45 per cent in the S&E region between 1993 and 1998, compared to an increase of under 22 per cent in the BMW region. However, we note that 56 per cent of total investment under this heading will still be devoted to the Southern and Eastern region.

We would also question the effectiveness of grants in influencing the location of new plants. In their Investment Priorities report the ESRI concluded that "This means that, in the future, grants and incentives for individual firms to locate in particular regions will be less and less effective as instruments of regional policy". As discussed above, we also feel that the implications of near full employment conditions in the economy have not been adequately taken into account. We would point out that these considerations also largely apply to the BMW region. The latest data (March to May 1999) show that the unemployment rate in this region was 6.9 per cent, just 1.5 percentage points higher than in the S&E region. Of course, we accept that the negative externalities (such as congestion effects) arising from job creation in Dublin would not occur in the BMW region or in areas outside the main urban centres in the S&E region.

We note the statement that a special focus under this heading will be on gateway towns. However, we are unclear as to what this might imply given the statement in chapter three on regional development that the development agencies will use the available incentives to "spread the location of enterprises across a very wide spread of locations in both Regions".

Marketing (€428 million)

The level of marketing investment represents a more than doubling in real terms on 1999 expenditure levels, with some €191 million of the total budget earmarked for tourism.

While marketing expenditure may have characteristics of a public good nature, this would not apply in the case of company specific measures or in the case of marketing efforts targeted at particular market segments. In these circumstances, the benefits are almost entirely private and, as such, should arguably be paid for by the firms or sectors in question. It is clear that much of the expenditure envisaged in the Plan under the industry and food headings will fall into this category. We note also the lack of any commitment to the introduction of an element of competition to the delivery of these interventions by State agencies or to the provision of these services on a cost-recovery basis. These issues were raised by the ESRI in their Investment Priorities report.

In relation to tourism marketing, it appears that the industry will be asked to contribute to the proposed marketing fund, which will "incorporate an enhanced public/private partnership arrangement". We also note the all-Ireland dimension to the tourism marketing strategy. However, the level of State investment (€191 million) appears very high, representing a near doubling of average annual (public and EU) expenditure under the current OP. This is proposed in circumstances where (in the Republic) the existing level of visitor numbers is clearly giving rise to congestion effects in some popular destinations and where the sector faces a severe labour supply problem.

Agricultural Development, Rural Development and Forestry (€673 million)

Under this heading, we cover expenditure proposed under the agricultural development sub-programme in the productive sector OP and investment under the regional Operational Programmes on rural development and forestry measures. In addition to these, there is a very substantial volume of agriculture and forestry expenditure under the FEOGA Guarantee fund not covered here. We note that the agricultural development strategy is largely determined at EU level and that the measures to be pursued are essentially obligatory under the EU Council Regulation on Support for Rural Development.

We accept the argument made by the ESRI that there is a case for maintaining some support for on-farm investment, provided that this support is targeted exclusively at small-scale producers. However, we note that the Plan is silent on the targeting of the various support schemes, which is a cause for concern. This is something which needs to be addressed in subsequent programming documents. If the various support schemes are open to all, substantial deadweight effects are likely to arise.

The Plan seeks to improve agriculture structures at farm level by encouraging young entrants into farming through the Installation Aid and Early Retirement schemes. However, the evaluation of these schemes carried out by the Analysis and Evaluation Unit[41] found evidence of very significant deadweight effects in these schemes and concluded that the Installation scheme "does not make a significant contribution to earlier transfer of farms which is the main objective set out in the OPARDF for the scheme". Given these findings, we would question the allocation of resources to the installation scheme. In relation to the measures under the "Improving Product Quality" heading, we would argue that most of the benefits of the various supports should, in principle, accrue to farmers through higher prices for the various products concerned. There should be scope for greater cost recovery here. The advisory services measure is envisaged as a support measure for other development measures. The ESRI argued that these services should be targeted at small-scale producers and for the introduction of a competitive element to the provision of these services. Again, this should be addressed in the Operational Programme.

The rural development measures under the regional OPs mainly relate to various supports to encourage diversification into non-surplus products, the development of rural tourism and enterprise support. The "rural development" heading is something of a misnomer given the heavy emphasis in the text on farm structures and agriculture generally. The forestry measures proposed basically represent a continuation of the present supports under the current Agriculture OP. Given the positive environmental externalities associated with forestry, there is probably a case for some State support here although it is clear that the return on some of the investment areas listed in the regional OPs would be private in nature (e.g. forest roads and harvesting).

Tourism Product Development (€170 million)

Tourism investment in the two regional Operational Programmes is rationalised on the basis that tourism can contribute to the development of rural areas and to regional development more broadly. The investment package proposed in each region is essentially the same, comprising measures to develop major attractors, special interest products and an environmental measure. In our discussion of tourism marketing above, we drew attention to the existence of tourist congestion effects and the labour supply difficulties facing the sector. We would acknowledge that the strategy presented under the regional OPs does appear to be focused on the development of currently underdeveloped tourist areas. However, in some instances, the problems facing these areas may be one of access, which will be tackled elsewhere under the

[41] Sharon Murphy, Analysis and Evaluation Unit, *Evaluation of the Scheme of Installation Aid for Young Farmers*, February, 1999

Plan. Moreover, we note that a report by the External Evaluator to the current Tourism OP[42] cautioned against balancing the spatial spread of tourism by stimulating under-developed tourist areas on several grounds, including that of efficiency.

More broadly, we are not entirely convinced of the need for a specific tourism product measure given the significant volume of investment proposed in the regional OPs on urban and village renewal and cultural, recreational and sports infrastructure. It is unclear from the Plan as to what types of projects will be funded under the proposed "major attractors" element of the tourism measure and how these differ from projects under the other measures cited above. This is an area where greater clarity and differentiation between the measures is required in the Operational Programmes. As argued by the ESRI, the focus should be on public good type investments which address the recreational needs of the population as a whole and not just tourists. Indeed, the Plan itself highlights the potential tourism benefits of investment in the cultural, recreational and sports development area.

Fisheries (€232 million)

A considerable volume of resources is being allocated to the Fisheries sector in the Plan. Under the productive sector OP, €32 million is being allocated to the fish processing sector, €64 million for marine R.&D.[43], €8 million for marketing and €57 on fleet renewal and modernisation. (We note that fleet adjustment measures are obligatory under EU regulations.) Under the regional OPs, some €108 million is being provided under the "Fisheries, Harbours and Aquaculture" measures. In addition, an indicative allocation of €13 million is included for fisheries training under the Human Resources Priority. The total volume of resources to be invested in the sector amounts therefore to around €280 million. This is almost three times higher than total co-financed expenditure under the Fisheries OP in the current round. We feel this is a fair comparison, given that the current OP comprises measures corresponding closely to the expenditure areas included in the Plan. We note that the ESRI recommended a reduction in the level of support to the fishing sector in the Investment Priorities report.

In essence, the rationale for investment in the sector put forward under both regional OPs is one of redistribution, with the disadvantages facing remote costal communities which are dependent on fishing highlighted. The Plan argues that the difficulties facing these communities can be alleviated through the development and/or restructuring of the sector beyond primary production. However, in our view the increase in resources to the sector is not adequately supported. The fishing sector is fundamentally constrained by EU catch quotas and restrictions on fleet size. This means that the possibilities for expansion – at least from the sea-fishing sector- are inherently limited.

In addition to our overall concern about the volume of resources allocated to the sector, there are questions around some of the individual measures proposed. The fish

[42] *Spatial Spread of Tourism*, Report No. 18, Fitzpatrick Associates, January, 1999
[43] This includes an unspecified element in respect of forestry research.

processing, marketing and research and development elements are covered in our comments in the relevant sub-sections above. In the case of fisheries harbours and the provision of related on-shore facilities (regional OPs), we would argue that the cost of improvement of the proposed facilities should, at least partly, be borne by the sector itself. In relation to the fleet improvement measure (productive sector priority), the benefits of increased efficiency will accrue to the owners of the vessels concerned.

Microenterprises (€190 million)

Under the regional Operational Programmes, €190 million is being allocated to the City and County Enterprise Boards to support the development of the micro-enterprise sector.

As with other areas under the productive priority, we are not convinced as to the market failure basis for direct financial assistance to the firms in question. The mid-term evaluation[44] of the current Operational Programme for Local, Urban and Rural Development indicated a very high level of deadweight (50%+) in respect of Enterprise Board grants and a displacement rate of 11 per cent. A recent report by the Industry Evaluation Unit[45] indicated deadweight of up to 45 per cent in micro enterprise supports across a range of agencies as well as problems of overlap between the various providers. These findings are hardly surprising given the nature of the enterprises funded by the Boards. We note the intention to move away from direct financial assistance to repayable grants and equity. However, unless there is a market failure, there is no basis for an intervention of this nature (be it through grants, repayable grants or equity) and the problems of high deadweight and displacement effects remain. Moreover, the administrative costs of repayable supports and the difficulty of realising small equity investments need to be borne in mind. We accept that there is a useful advisory and enterprise promotion role to be played by the Boards.

Conclusions

As will be evident from our discussion above, we are not convinced that the overall level of investment proposed for the productive sector under the Plan is warranted. The Plan provides for an increase in resources of over 30 per cent in real terms to the sector, compared to the reduction of about 12 per cent recommended by the ESRI. This increase in resources has not, in our view, been adequately justified.

Notwithstanding a shift in overall objectives to a focus on productivity (and away from employment), the strategy as set out appears to largely constitute a continuation of existing supports to the productive sector. The implications of the major improvements in the economic environment facing the productive sector have not been taken on board. In particular, a job creation emphasis still underpins the strategy

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[44] *Mid-Term Evaluation of the Local, Urban and Rural Development Operational Programme*, Goodbody Economic Consultants, January, 1997

[45] Industry Evaluation Unit, *Evaluation of Micro Enterprise Supports Across National and Local Development Agencies*, August, 1999

(as evidenced by the continuation of employment grants) despite the fact that the economy is experiencing labour supply problems. The market failure justification for many of the proposed investments is no longer valid. However, we accept that a valid regional or location market failure rationale partly underpins some areas of investment such as the BMW region component of the foreign direct investment sub-programme.

A major concern arises from the limited evidence that deficiencies highlighted in various evaluations regarding the delivery, targeting and general cost-effectiveness of many productive sector aid schemes have been addressed. This is a significant problem in the case of R&D, where a major increase in investment is proposed. In our view, it is essential that these issues are addressed in the Operational Programmes. Otherwise, there is little prospect of getting value for money from the considerable resources involved.

Section 8: Regional Aspects

Introduction

In this section of the evaluation, we focus on the key Plan objective of "balanced regional development" and on the regional development policy set out in the Plan (Chapter 3). We also consider the regional focus of the investment strategies set out in both the inter-regional and regional Operational Programmes.

Analysis and Objectives

As outlined in section 3, the fostering of balanced regional development is one of the four key objectives of the Plan. In itself, this represents a significant departure from previous National Development Plans, which had a somewhat looser commitment to balanced regional development[46]. The regional policy objective is more comprehensively stated in chapter 3 of the Plan where the objective is set out as "to achieve balanced regional development in order to reduce the disparities between and within the two regions…". Our interpretation of this objective (as it relates to the NUTS II regions) is that it refers to convergence between the BMW and S&E regions (i.e. the economy of the weaker BMW region grows faster than that of the S&E region). This is implicit from the designation of the BMW region as an objective 1 region for EU Structural Fund purposes.

In chapter three, the Plan identifies some key challenges facing the Border, Midlands and Western (BMW) and Southern and Eastern (S&E) regions. These challenges are expressed in terms of a strategy for each region. (In fact, these are actually presented as the objectives for each of the regions in the regional Operational Programme chapters.) These challenges are in line with the analysis in the two regional development strategies[47] prepared earlier this year.

Regional Development Policy

The Plan highlights the role of large urban centres or "Gateways" as a key driver of economic growth. The key component of the regional development policy in the Plan is the further development of existing major Gateways or urban centres (the cities of Dublin, Cork, Limerick/Shannon, Galway and Waterford) and the development of a limited tier of new regional Gateways. These Gateways or centres will be ones which already display the potential to drive economic growth in their hinterlands. The basis of the strategy is that these Gateways will then spread economic growth more widely across regions.

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[46] For example, the National Development Plan for the 1993 to 1999 supported the concept of balanced regional development (Chapter 13).

[47] *Southern and Eastern and Border, Midland and Western Region Development Region Development Strategies*, Fitzpatrick Associates, April, 1999

The Plan indicates that a national spatial strategy will be prepared with the purpose of providing a detailed blueprint for future spatial development. This strategy is to take full account of the policy framework set out in the Plan "especially the pivotal role of regional Gateways". In terms of the Plan, the outcome of the National Spatial Strategy is to be a key focus of the mid-term review in 2003.

The Plan's recognition of the role of large urban centres or Gateways in regional policy essentially concurs with the nodal approach recommended in the ESRI's Investment Priorities report and the development strategies submitted by the regional authorities. The approach adopted in the Plan of referring the determination of the new Gateways to a National Spatial Strategy is in line with the ESRI view that that the designation of the new urban nodes should be the subject of further study. However, the downside of this is that it will be several years before the nodal approach can be integrated into the implementation of the Plan.

Given the central importance of the regional gateways to the Plan's regional development policy and the importance of a National Spatial strategy to investment decisions across a wide range of areas in the Plan, serious consideration should be given to expediting preparation of the National Spatial Strategy. Alternatively, it should be possible to produce an interim report dealing specifically with the designation of the Gateways. In our view, the application of the principles and criteria set out in the Plan (see paragraphs 3.15 to 3.18) would readily select the Gateways; arguably they select themselves. We note that the development strategies submitted in respect of the two NUTS II regions proposed, on the basis of their analysis, Sligo and Athlone as "Regional Growth Centres" and Castlebar, Letterkenny (BMW region) and Tralee (S&E region) as "Smaller Growth Centres".

The Plan also addresses the role of medium and smaller towns, villages and rural areas in regional development policy. It indicates that the development agencies will endeavour to spread the location of enterprise "across a wide spread of locations in both Regions". We are unclear as to how this "dispersal" approach to location of enterprise ties in with the proposed Gateway approach. In this context, we note that under the foreign direct investment sub-programme in the Productive Sector OP, it is indicated that "there will be a special focus on *gateway* towns which will be catalysts for overall regional growth" (emphasis added). We would point out that the rationale for a Gateway approach rests on the notion of some degree of concentration of resources and economic activity (see paragraph 3.21 of Plan) thereby giving rise to agglomeration economies[48]. (These Gateways or large urban centres can also give rise to "clusters" of firms in particular sectors)

Regional Dimension to Investment Strategy

The bulk of investment in each of the BMW and S&E regions in the Plan is under the three national or inter-regional Operational Programmes, supplemented by expenditure under the two regional Operational Programmes (see table). In many

[48] For discussion, see article by Bradley, J. and Morgenroth E., "Celtic Cubs? Regional Manufacturing in Ireland" in *ESRI Medium-Term Review 1999-2005*, October, 1999

areas of investment, a national approach to planning and provision is the most sensible and indeed only practicable approach (e.g. in the area of national roads). However, given that balanced regional development is one of the key objectives of the Plan, it is important that both the national and regional Operational Programmes have an appropriate regional focus. In other words, to what extent will provision under the proposed investment programmes address the specific needs and characteristics of the two NUTS II regions?

Table: Regional Distribution of Plan Investment

Programme/Sub-Programme	Southern and Eastern Region € million	BMW Region € million	Total € million
Inter-Regional OPs Infrastructure OP	16,402	5,959	22,361
Employment etc. OP	8,967	3,595	12,562
Productive Sector OP	3,626	2,100	5,726
Peace Programme	-	127	127
Regional OPs Local Infrastructure	2,301	1,936	4,237
Productive Investment	427	429	856
Social Inclusion	1,063	281	1,344
Total	**32,786**	**14,427**	**47,213**

There is a strong regional focus to the Economic and Social Infrastructure OP. In many respects, a programme of this nature, which will fund large location-specific projects, lends itself to a good degree of regional specificity. The Employment and Human Resources Development OP contains a comprehensive regional labour market analysis. However, the description of the various sub-programmes and measures lacks regional focus, although estimates of participation by region are provided in all cases. The analysis material presented in the Productive Sector OP again has a good regional focus. As discussed earlier, there is a strong emphasis on the BMW region under the foreign direct investment sub-programme. However, the focus in other sub-programmes is less pronounced.

The presentation of the regional Operational Programmes concentrates heavily on outlining the details of the three sub-programmes and supporting measures. The analysis of the socio-economic situation of these regions is mostly addressed in the regional development chapter. The investment areas included in the regional Operational Programmes are generally those where a local or area-based approach to delivery is appropriate.

As would be expected, there is a much greater degree of regional specificity to the sub-programmes and measures included in the regional operational programmes than in the case of the inter-regional programmes discussed above. In general, the measures appear well focused on the strengths and weaknesses of each region. In addition, the emphasis in terms of the budget share allocated to the two regions reflects the underlying development strategy for each region. However, the allocation to the tourism measure in the S&E regions is higher than that to the BMW region. This is somewhat surprising given the concentration of tourism activity in the S&E region and the role which the Plan envisages for tourism in the development of the BMW region.

Conclusion

There is a strong regional dimension to the Plan. The objective of balanced regional development is one the key objectives of the Plan, representing a significant departure from previous Plans. In addition, the Plan sets out a regional development policy, which is informed by an analysis of the strengths and weaknesses of the BMW and S&E regions. The nodal or Gateway approach forms a central part of this policy. Given the importance of the proposed National Spatial Strategy - both in respect of the designation of new regional Gateways and for investment decisions under the Plan generally - we feel that efforts should be made to expedite completion of this study or to complete an interim report dealing with the Gateway issue. The link between the Gateway approach and the dispersal approach to the location of new enterprises set out in the Plan is somewhat unclear. Finally, we feel that the Operational Programmes in the Plan (particularly the Economic Infrastructure OP and the two regional OPs) generally have a strong focus on the strengths and weaknesses of the BMW and S&E regions.

Section 9: Co-operation with Northern Ireland

Introduction

In this short section, we review chapter 9 of the Plan (Co-operation with Northern Ireland). This chapter is common to the Plan and the equivalent planning document in Northern Ireland.

Commentary

The Plan indicates that the chapter is intended to set out a strategic framework for cross-border co-operation. Some nine specific areas for future co-operation are identified. These are Energy, Communications and Electronic Commerce, Human Resource Development, Agriculture, Tourism, Transport, Environment, Education and Health. The rationale put forward for co-operation in these areas is clearly set out. The Plan notes that there is considerable scope for realising efficiencies in the cost of service provision in some areas (e.g. energy and health). In other areas, the benefits of investment on either side of the border can be increased through co-ordinated planning (e.g. transport). In the case of the environment, there is a clear transnational public good rationale for investment. We feel that the case made for co-operation in the areas concerned is robust. In addition, the fact that a designated body (the Special EU Programmes Implementation Body) will oversee the implementation of the chapter should ensure a clear focus on the opportunities for co-operation.

The areas identified by the ESRI in the Investment Priorities report as suitable candidates for co-operation have been generally taken on board. These included transport, tourism marketing, education and energy. The ESRI report also argued that the promotion of balanced regional development was an important area where North-South co-operation could enhance performance. In particular, they highlighted the possibilities of linking the development of Letterkenny and Derry. This is an area that could be examined in the proposed National Spatial Strategy (see chapter three of Plan).

Conclusion

There is a convincing rationale for the cross-border co-operation areas identified. These offer the potential for significant socio-economic gains for the whole island and can make an important contribution to the key objectives of the Plan.

Section 10: Impact on Environment

Introduction

Our terms of reference require that we consider the Plan's environmental impact. The approach we adopt is to comment on the analysis contained in the Plan. Each of the Operational Programme chapters in the Plan contains an analysis of the environmental impacts of the proposed investments. Chapter 13 includes an analysis of the current environmental situation, the challenges arising and considers the Plan's overall effect on sustainable development. Appendix 4 of the Plan contains an eco-audit of the Plan.

Analysis of environmental situation

The analysis of the current environmental situation is comprehensive. The presentation of the analysis (chapter 13) follows to some extent the "Driving Force-State-Response" framework[49]. There is a clear link between the identification of the environmental pressures of economic growth (driving force) and the challenges arising (state). Specific concerns arising from these challenges are also detailed. As indicated in the Plan, the response to these challenges is a matter not only for the NDP but also for other policies.

Infrastructure

The analysis of the environmental impacts of the infrastructure priority (chapter 4) envisages a generally positive environmental impact. While it is acknowledged that road construction can have adverse environmental effects, it is contended that the road investments proposed will have positive environmental effects by reducing emissions, removing traffic from unsuitable areas and improving safety. We concur with the analysis that the public transport investments will have positive environmental benefits, particularly in the Greater Dublin Area. As regards environmental services, it is probably fair to conclude that these will give rise to positive environmental effects. However, an approach where users are faced with the full costs of service provision would be preferable from a sustainable development perspective. The arguments put for the environmental benefits of housing and health capital are somewhat tenuous although the intention to co-ordinate housing and public transport investment is positive from an environmental perspective.

Employment and Human Resources Development

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[49] European Commission, *Evaluating Socio-Economic Programmes: Transversal Evaluation of Impacts on the Environment, Employment and other Intervention Priorities*, MEANS Collection (Volume 5), Office for Official Publications of the European Communities, 1999, pages 32 to 35.

The Plan argues that the Employment and Human Resources development programme will have positive environmental effects on the basis of a number of considerations. Although some of the analysis is rather tenuous, we consider that this sector is likely to have a very limited impact on the environment.

Productive Sector

The productive sector priority recognises the potential detrimental environmental effects of increased activity in the sector. There is a commitment that manufacturing industry support will be linked to firms' commitments to environmentally friendly production and adequate waste management practices. We note that a similar commitment is not given for the agriculture sector. While the proposed farm waste management scheme should have positive environmental effects, the underlying approach is again questionable from a sustainable development perspective. However, we accept that farmers with smallholdings in particular may not be able to meet the costs of meeting the relevant regulations and some element of subsidy may be necessary. We agree with the analysis that a well-managed forestry sector can make a contribution to environmental quality.

Eco-Audit

The eco-audit is reproduced in Appendix 4 of the Plan. The Plan indicates that the eco-auditing process involves the establishment of a formal procedure for identifying the environmental impacts of sectoral policies and programmes and for mitigating/eliminating their adverse impacts.

One of the core functions of the eco-audit is the identification of adverse impacts so that action to mitigate or eliminate these effects can be taken. While we would accept that many of the Plan measures highlighted in the eco-audit (paragraph 4.12) address environmental dimensions of sustainable development, the eco-audit simply refers to the "possible emergence of unsustainable patterns of development within the framework of the Plan". It does not actually identify any adverse environmental effects which require to be addressed. The eco-audit also endorses some aspects of the Plan's approach to environmental problems which we have characterised as second-best in nature. Nevertheless, we accept the point that given the broad, strategic nature of the Plan, a lot of the detailed information which would be needed to identify possible adverse impacts is not provided at this stage. For this reason, we agree with the suggestion that the individual Operational Programmes should be subject to eco-audit. A more critical approach can and should be taken at that stage.

The eco-audit endorses the various arrangements proposed to integrate environmental considerations into the implementation of the Plan (e.g. development of indicators, use of environmental criteria in project selection, representation of environmental interests). In general, we concur with the eco-audit in this respect. In particular, we agree that the reports cited will be of assistance in the development of indicators.

Conclusion

In general, the analysis of environmental impacts of investment under the NDP is reasonable. The various steps proposed to integrate environmental considerations into the implementation of the NDP are welcome. We feel that a more critical approach to eco-audit should be taken at OP level.

Section 11: Social Inclusion and Equality of Opportunity

Introduction

In this section, we assess the likely contribution of the Plan to the promotion of social inclusion. The Plan notes that the commitment to social inclusion is closely aligned to the Government's commitment to promote equality. In this context, we also examine the likely impact of the Plan on equality of opportunity between women and men.

Social Inclusion

The promotion of social inclusion is a specific objective of the Plan. The definition used is the Partnership 2000 definition, which defines social exclusion as cumulative marginalisation from production (unemployment), from consumption (poverty), from social networks (community, family and neighbours), from decision making and from an adequate quality of life. Given this definition, we would make the point that there are clear limits as to what can be achieved in terms of social inclusion in the context of the Plan. The main potential contribution would be in relation to the production (unemployment) dimension with the possibility of marginal contributions on some of the other dimensions, such as quality of life. The promotion of social inclusion is heavily influenced by policies and interventions outside the framework of the NDP (e.g. tax and social welfare policies).

Chapter 10 provides an overview of the provision for social inclusion in the Plan. We have already discussed the individual spending measures in the earlier sections of this report. In this section, we comment on the material presented in chapter 10.

The Plan estimates that in excess of €19,000 million of total Plan investment (amounting to approximately 40% of programmed expenditure) will promote social inclusion. This is based on an analysis of the role of investments under each of the Operational Programmes.

In terms of the Economic and Social Infrastructure Priority, all of the planned investment in housing and health capital is included in the overall social inclusion total. In general, we would accept that these investments can make a contribution to social inclusion. The inclusion of all health investment is questionable, although we note that the priorities outlined for expenditure in this area (chapter 4) include the provision of facilities for persons with an intellectual disability, the elderly, the mentally and physically disabled and children.

As discussed in section 6 of this report, we feel that the Employment and Human Resources Development OP has a good focus of the needs of educationally disadvantaged groups particularly in terms of provision for early education and retention initiatives, early school leavers, second chance education and equality. However, we feel that the Plan overstates somewhat the social inclusion focus of this programme. Some of the measures instanced are not particularly focused on the socially excluded. These include the Back to Education Initiative and the National Employment Service measures (both of which have very broad target groups). All of the measures aimed at the unemployed and the long-term unemployed are also counted as part of the total social inclusion provision. We have raised concerns about the likely effectiveness of some of these measures (particularly Community Employment) earlier as well as concerns about the interaction of the various measures and schemes catering for the long-term unemployed. In general, though, we agree that this programme has a strong focus on social inclusion.

As regards the regional Operational Programmes, we feel that the impact of the social inclusion sub-programmes (which are, in principle, aimed at the promotion of social inclusion) hinges crucially on the targeting of the various measures and schemes on socially excluded individuals and communities. In this regard, we commented earlier on the lack of a clear statement of objectives for these sub-programmes as a whole and for most of the component measures. We also drew attention to the problems of overlap with measures in the Employment and Human Resources Development OP. These co-ordination issues (which are under examination at present) need to be resolved as a matter of some urgency. Otherwise there is a risk that the overall effort will be dissipated and will not effectively promote social inclusion.

Conclusion

In conclusion, we feel that the Plan has a strong focus on the promotion of social inclusion although the total provision is somewhat overstated. The impact of the Plan will depend on the appropriate targeting of the relevant measures as well as the effective resolution of issues of overlap and lack of focus generally.

Equality of Opportunity

Introduction and Approach

In this sub-section, we assess the likely contribution of the Plan to equality of opportunity between women and men. In the main, we comment on the assessments in the Plan (at the end of each of each of the relevant chapters) of the expected impact of the various OPs. We also draw on the work of the EU Commission's MEANS[50] programme, which suggests that evaluations should consider the following issues: -

- whether the announced objectives take into account the interests and specific needs of women;
- whether groups of women and/or authorities responsible for equal opportunities at national and regional level have been involved in the programming;
- whether the strategy and choice of the modes of intervention have relied upon a prior assessment of women's needs and potentialities;
- that the resources allocated to promoting equal opportunities are coherent with stated objectives;

[50] MEANS, ibid, pages 107-118.

- the proportion of interventions programmed that are able to facilitate the achievement of priority objectives concerning equal opportunities;
- whether the programming documents provide qualitative and quantitative criteria and precise indicators for assessing the consideration given to equal opportunities;
- whether some measures are likely to run counter to the principle of equal opportunities, risking the worsening of the existing imbalance between men and women;
- whether the programming documents are consistent with national and regional equal opportunities policies;
- the proportion of women in decision-making bodies.

Potential Impact of Plan

The Plan notes that the investment in economic and social infrastructure will have considerable benefits for both women and men. It is generally accepted that infrastructure does not have a direct impact on gender equality.[51] The Plan considers that investments in public transport, housing and health will have positive impacts on women. In the case of public transport, the data support the view that a greater proportion of women than men use public transport to travel to work. A report completed by DKM Economic Consultants[52] indicates that in 1996 almost 14 per cent of women used public transport to travel to work compared to 7 per cent for men. In the case of housing, we note that the recently published results of local authority assessments of housing needs[53] showed that the number of homeless adult men (2,593) exceeded that of homeless adult women (1,399). However, gender breakdowns of the other (larger) categories of need do not appear to be available. The assessment that the other investments under the infrastructure OP are gender neutral seems reasonable.

While each of the other programmes in the Plan contains a specific section which comments on the gender impacts of the proposed investments, the Employment and Human Resources Development OP does not. This is somewhat surprising considering that this element of the Plan is the most directly related to potential positive action for women. This OP does contain a Pillar which deals exclusively with equality and which is allocated in excess of €250 million. This Pillar caters for a number of different equality dimensions including, in particular, the disabled. In fact only about 10-15% of the money allocated under the Equality Pillar is targeted at gender equality. As we discussed earlier, we do not believe that the structuring of this OP on a pillar basis works. There are measures under the other pillars which could have a significant impact on gender equality. For example, efforts to promote participation in relevant education and training schemes can assist in reducing the occupational segregation of women while the early-school leaving interventions may have a relatively more positive impact on men[54].

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[51] See for example MEANS, ibid, p109.

[52] DKM Economic Consultants, *An Analysis of Commuting Patterns from each Census of Population since 1981*, External Evaluator (to the Operational Programme for Transport) Report No. 33.

[53] See Department of the Environment and Local Government Press Statement of 5 October, 1999

[54] Approximately 60% of early school-leavers are male. See ESRI, *The Economic Status of School Leavers, 1994-1996*, December 1997, page 18

Under the productive sector OP, investment is targeted mainly at the agriculture, forestry and fishing, manufacturing and tourism sectors. According to the most recent labour force survey results, females accounted for just 31 per cent of employment in the productive sector[55], compared to a female share in total employment of just over 40 per cent. On this basis, one could argue that investment in this priority is unlikely to improve the relative position of women.[56] On the other hand, female employment in this sector has increased faster than male employment in recent years, rising by almost 15 per cent in the two years to March-May 1999, compared to just over 5 per cent for males. These trends provide some support to the argument in the Plan that continued economic growth is linked to greater female participation in the productive sector. Finally, the Plan includes a commitment that in the implementation of the various support measures, particular attention will be paid to ensuring that women are given the opportunity to compete for support. We would comment that this commitment is rather weak and imprecise. It appears to amount to a lesser commitment than one to equality of opportunity.

The regional Operational Programmes contain two measures (Childcare and Equality) which are specifically aimed at promoting equality of opportunity between women and men. As with many of the social inclusion measures, its impact (for example, on participation by disadvantaged women in education and training opportunities and employment generally) will depend on the targeting of the measure. The equality measure is aimed at the promotion of greater sharing of family responsibilities, gender proofing of personnel practices, upskilling of women and facilitating entrepreneurship and career development among women.

Process Issues

Under this heading, we look at a number of process issues, drawing to some extent on the MEANS approach outlined above. In terms of the prior assessment and the programming process generally, the needs of women were not explicitly considered in the ESRI's Investment Priorities report and the ESRI did not recommend any particular investments to achieve gender equality. However, many of the social inclusion investments in the Plan were recommended by the ESRI. The Development Strategies submitted by the regional authorities in respect of the BMW and S&E regions[57] made a number of recommendations in relation to equality proofing, gender representation on the boards of bodies implementing Structural fund programmes and other matters (These recommendations also encompassed the needs of people with disabilities and Travellers).

Appendix 1 of the Plan outlines the consultation process undertaken in the preparation of the Plan. We note from this that the Community and Voluntary Sector Pillar submission recommended, *inter alia*, that gender proofing should be transparent

[55] Employment in the hotels and restaurants sector is taken as a proxy for tourism employment.
[56] We recognise that tourism is an exception where the female share of total employment is 52%. (See page 93 of the Plan).
[57] *Fitzpatrick Associates*, April 1999, op cit

across all programmes, that funding should be set aside for childcare measures in particular and that the Plan should provide for an equitable participation by women and equality organisations across all structures with responsibilities in relation to the management of the 2000 – 2006 round of Structural Funds. These issues seem to have been addressed in the Plan. We note that impact on equality of opportunity, particularly gender equality, is to be a project selection criterion in all cases. Monitoring committees are to include a representative of each of the four Social Partner pillars and a member to represent equal opportunity interests. The Plan also indicates that gender balance will be promoted on all Monitoring Committees. As noted earlier, resources have been specifically devoted to a childcare measure.

The Plan also indicates that indicators will be developed to assess impact on "horizontal" principles (one of which is equality of opportunity) and that these issues will feature in all evaluations undertaken under the Plan. The Plan also refers to the monitoring Units to be set up in the Departments of Justice, Equality and Law Reform and Education and Science. An Equal Opportunities and Social Inclusion co-ordinating committee is to be established.

Conclusion

The investments under the National Development Plan will have a range of impacts on equality of opportunity between women and men. We have discussed these on a sectoral basis above. In some areas, particularly infrastructure, the impact is most likely to be neutral, although there is some evidence that public transport investment could have a relatively positive impact on women. The Employment and Human Resources Development area has the potential to improve the relative position of women in the labour market. In the case of productive sector investments, the limited evidence makes it difficult to reach conclusions even on the direction of impact. The two specific measures aimed at equality of opportunity under the social inclusion sub-programmes in the regional OPs should have a positive impact. In terms of process issues, we feel that the NDP has a strong focus on equality of opportunity, given the various undertakings in relation to the incorporation of this principle into the ongoing monitoring and implementation of the Plan.

Section 12: Implementation Arrangements

Introduction

In this section, we review the implementation arrangements proposed in chapter 12 of the Plan.

Operational Programme Structure

The Plan proposes to implement the CSF through three inter-regional or national OPs and two regional OPs, together with a separate programme for Peace and Reconciliation. This amounts to a significant rationalisation compared to the current CSF and represents a more logical structure, not least from an evaluation perspective. We would, however, draw attention to the implications of the size of individual OPs. For example, the total allocation to the Economic and Social Infrastructure OP is some €22,360 million, which is substantially higher than expenditure under the entire CSF for this round. The allocation to the smallest OP (BMW region) exceeds expenditure under the largest OP (Human Resources Development) in the current round. In some cases, the sub-programme and measure structure of the Operational Programmes will be quite complex (e.g. in the case of the Employment and Human Resources). The task of the monitoring committees will therefore be quite difficult. In the case of the regional programmes, we would draw attention to the implications of the likely size of the monitoring committees. The diversity of measures under these OPs will presumably require the attendance of a large number of implementing agencies at meetings. In addition, each NUTS III regional authority will be entitled to representation. The numbers involved may lead to an unwieldy monitoring process.

Implementation

In our analysis of the main investment areas, we have drawn attention to the need for greater recourse to competitive tendering in the interests of efficiency. In the absence of competition, we simply cannot tell whether existing providers are efficient. In this context, the commitment to increased competition in the delivery of measures in chapter 12 is welcome. In our view, this commitment needs to be further developed in subsequent programming documents.

We also welcome the proposal in the Plan to rationalise the number of agencies involved in implementing and delivering schemes. Again, this needs to be followed through in the next stage of the programming process. In this context, we also note the statement in chapter 7 of the Plan on the current examination by an Inter-Departmental Working Group of co-ordination of social inclusion measures under the regional OPs. The Plan indicates that the County and City Development Boards will have a key role in this co-ordination function. While this is obviously desirable, the creation of co-ordination mechanisms is a second-best solution to a rationalisation approach.

Project Appraisal

In general, we welcome the Plan's proposals in the area of project selection and appraisal. The Plan outlines a number of specific project selection criteria to be used by implementing bodies. This approach should promote consistency and transparency. The criteria reflect the objectives of the NDP and incorporate value for money considerations. Some of the criteria, such as impact on rural development, may be difficult to quantify/apply or may simply not be relevant in some cases. In this regard, we support the Plan's statement that a degree of flexibility may be required in the translation of the criteria into individual programme contexts.

The proposal to extend project selection criteria to non co-funded projects is also a positive step. We have argued elsewhere[58] that given the fungibility of money, the distinction between EU and Exchequer funds has no economic significance at the margin. Consequently, there is no basis for treating co-funded and non co-funded schemes differently.

The Plan also proposes that a much greater degree of competition be introduced into project selection under the Plan. In terms of provision of grant-aid to the private sector, queue based grant approval systems are to be replaced by competitive processes, except where this is clearly inappropriate. This is in line with the recommendations of the report by Fitzpatrick Associates on project selection procedures in the current CSF.[59]

Finally, we welcome the requirement that cost-benefit analyses are to be carried out in accordance with the approach and parameters set out in our report, *Proposed Working Rules for Cost-Benefit Analysis*. Taken together with the stipulation that cost-benefit studies for once-off projects should be commissioned independently, this should promote a consistency of approach and enhance the credibility of applications of the cost-benefit technique.

Indicators and Evaluation

The Plan proposes to structure the indicator system in line with the schema drawn up by this Unit in our paper *CSF Performance Indicators: Proposals for 2000-2006 Programming Period*, which we obviously welcome. As we point out in that paper, indicator selection is heavily dependent on the clarity and precision of the formulation of objectives.

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[58] *Proposed Working Rules for Cost-Benefit Analysis*, CSF Evaluation Unit, June 1999
[59] *Review of Project Selection Procedures and Appraisal Techniques in the CSF*, Fitzpatrick Associates, May 1999.

We welcome the proposal that the evaluation arrangements will apply to all expenditures under the Plan, regardless of funding source. As outlined above, the fungibility of money means that there is no basis for differing treatments of co-funded and non co-funded expenditure. Given our role, we feel it would be inappropriate for us to comment on the proposed institutional arrangements for evaluation in the next round. We have previously set out our views and recommendations on the evaluation process and structures in our report *Review of Ongoing Evaluation Function in the CSF for Ireland, 1994-1999* (October, 1998). However, we would make the point that there is little evidence at this stage that evaluation output under the current round has had much of an impact on the planning and design of sectoral investment proposals included in the Plan. We have illustrated this point in a number of cases in our analysis of investment proposals above. We feel this highlights the need to urgently address the weaknesses in evaluation outputs and structures which we identified in our review.

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Annex

List of Reports and Papers completed by the CSF Evaluation Unit

Cost-Benefit Analysis in the CSF: A Critical Review (June 1997)

Review of CSF Indicators (May, 1998)

Review of Ongoing Evaluation Function in the CSF (November, 1998)

Proposed Working Rules for Cost-Benefit Analysis (June, 1999)

Database of Regional Socio-Economic Indicators (April, 1998 and July, 1999)

CSF Performance Indicators: Proposals for 2000-2006 Programming Period (October, 1999)