COHESION POLICY IMPLEMENTATION: A COMPARATIVE PERSPECTIVE

ADMINISTRATIVE CAPACITIES AND ABSORPTION PROBLEMS IN IRELAND AND ITALY

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Abstract

The objective of economic and social cohesion among EU member states is targeted through implementation of the structural and cohesion funds. In the light of the theoretical debate on whether convergence is being achieved while being targeted through The EU funds, this thesis analyzes the results of cohesion policy in Ireland, which is the “best pupil in the class” regarding EU utilization, and Italy, where South after two decades still lags behind the North. Although the scholars have, while researching the implementation of the policy in the new members, identified administrative capacities as one of the most important determinants, in the case of old members the importance of the administrative capacities is rather under-researched. In closing this gap, the hypothesis tested in the thesis is that Irish administrative capacities being on a consolidated level provide for a crucial factor enabling funds utilization. Moreover, the thesis identifies additional factors explaining for Irish success and the relative lack of convergence between BMW and S&E NUTS2 regions. The thesis furthermore analyzes the issues which have caused failure in funds absorption in Italy and finds multiple inappropriateness of administrative capacities, rent seeking and corruption, supremacy of quantitative over qualitative results and lack of the EU funds additionality as the most important. Finally, along with the lines of a debate on the effectiveness of cohesion policy, as being efficient in achieving cohesion, the analysis of two cases in this thesis shows that although the EU funds can bring economic growth and convergence, it is necessary to use them transparently and in the overall market and competition framework.

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List of Abbreviations

BMW	Border, Midlands and West
CSF	Community Support Framework
EAGGF	European Agricultural Guidance and Guarantee Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
EUROSTAT	EU Statistics Office
FDI	Foreign Direct Investments
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
IDA	Industrial Development Agency
IPA	Instrument for Pre-Accession Assistance
ISPA	Instrument for Structural Policies for Pre-Accession
MA	Managing Authority
NDP	National Development Plan
NDS	National Development Strategy
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Statistical Territorial Units
OP	Operational Programme
PHARE	Poland, Hungary Assistance for Economic Reconstruction
ROP	Regional Operational Programme
ROP	Regional Operational Programme
S&E	South and East
SAPARD	Special Accession Programme for Agriculture and Rural Development

SIDA	Southern Italy Development Agency
SME	Small and Medium Enterprise
SOP	Sector Operational Programme
SPD	Sectoral Plan Development

Introduction

The objective of economic and social cohesion among EU member states is targeted through a policy and the system of conditional grants known as the Structural and Cohesion funds. Especially with the last enlargement Unio has accepted mostly poorer countries which needed to be integrated in the single EU market fast and efficiently.[1] However, not even all regions from the 'old' member states have yet achieved the long desired convergence. On the other hand, some of the EU15 member states have excelled in funds use and have achieved levels of GDP per capita higher than the EU average. Particularly Italian Southern regions have been constantly lagging-behind compared to other countries and the North of Italy, while Ireland as whole country, but as well its less developed NUTS2 Border, Midland and Western region, have managed to transform from one of the poorest to one of the richest countries in the EU.[2]

This thesis aims to answer to a question why are there such significant differences in the implementation of the cohesion policy in the most and least successful old member state. Although Italy is a founding member state and beneficiary allocated with more than €70 billions during the last three programming periods from 1994-2013, South is consisted out of four NUTS2 regions eligible for money from structural funds under the

[1] European Commission, *Inforegio Panorama*, European Commission, Bruxelles, 2008
[2] *Eurostat*; Regional GDP; available at http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables, accessed on 18th May 1010

Objecitve1; Sicilia, Puglia, Calabria, Campania which have GDP per capita lower than 75% of Community average and Basilicata which is phasing out region.[3]

Ireland represents a model of fast and stabile economic development where the country was in 1980ies still fighting low rate of growth, inflation and unemployment, only to achieve, in the following two decades, a GDP growth more than double to the growth of the EU. Its less developed NUTS2 region Border, Midland and Western has already in 2004 achieved GDP per capita equal to the EU15 average, while regarding level of income per capita, Ireland is second, next to Luxembourg.[4] Analysis of two diametrically different countries regarding the results of the cohesion policy implementation may provide with characteristics of two systems, responsible for success in one, and failure in the other case.

A vast literature has analysed the convergence processes in Europe, but there is still very few sources which can be used in assessing whether and why a certain country can be considered a success and failure story.[5] Moreover, whether cohesion policy on the European level accomplishes regional convergence between poorer and richer regions,

[3] *European Commission*, The economy of Ireland: whither the Celtic Tiger?, available at http://ec.europa.eu/economy_finance/een/011/article_7086_en.htm accessed on 19th May 2010

[4] *European Commission*, The economy of Ireland: whither the Celtic Tiger?, available at http://ec.europa.eu/economy_finance/een/011/article_7086_en.htm accessed on 19th May 2010

[5] Simona Milio, "Explaining differences in regional performance: administrative capacity and political factors. The case of Structural Funds implementation in Italian Objective 1 regions." (Ph.D. diss., London School of Economics and Political Science, 2007), 27

still remains subject to an ongoing debate.[6] Macro and micro economical modelling do not offer convincing evaluations on the cohesion policy because of the lack of information on steady state level, where there would be no EU funds invested in the convergence. [7]

Considering Ireland on the basis of its economic development an exemplar of the use of the EU cohesion funds and Italy an opposite scenario, the thesis will identify the factors which have enabled such results. In Simona Milio's doctoral dissertation she explains the differences in absorption rates between two Italian regions Sicily and Basilicata, a bad and good example of cohesion policy implementation in the Italian context, on the basis of differing levels of administrative capacities. Her model defines four phases of administrative capacities development; absent, starting, developing and consolidated, and assess that Sicily fails to use cohesion funds effectively for its administrative capacities are only in the starting phase, while in the case of Basilicata public administration is consolidated which results in relatively good absorption of The EU funds and better economic development of the region.

In this thesis I will apply Milio's model using the case of Ireland and explore whether administrative capacities are the explaining factor for Irish success. In doing so, my hypothesis is that since Ireland is implementing cohesion policy effectively its administrative capacities will be one the consolidated level and provide for the most

[6] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/

[7] Peter Wostener, Sonja Šlander, "The Effectiveness of EU Cohesion Policy Revisited: Are EU Funds Really Additional?," *European Policy Research Paper*, No 69, 2009, p 2

important factor in explaining the difference between two old member states, Ireland and Italy.

In defining administrative capacities I will apply Boeckhout and Boot's definition of administrative capacities *as the ability and skill of central and local authorities to prepare suitable plans, programmes and projects in due time, to decide on programmes and projects, to arrange the co-ordination among principal partners, to cope with the administrative and reporting requirements, and to finance and supervise implementation properly, avoiding irregularities as far as possible*.[8] In assessing the administrative capacities for managing the Structural Funds in Ireland I will use Milio's model for measuring following phases of policy cycle and distinguish between management, programming, monitoring and evaluation.[9]

The core of methodology is an in-depth comparative case study supported by field work in the form of a set of interviews and a participant's observation. Within the comparative case study analysis I consider an analysis of the evaluation and monitoring reports issued by Irish and Italian governments, agencies and institutions assigned for overall implementation of the cohesion policy and academic papers written on the cases of Ireland and Italy. Data were also collected through the research part of the thesis which encompassed five semi-structured interviews conducted with civil servants from

[8] Sjaak Boeckhout, Luc Boot et al. *Key indicators for Candidate Countries to Effectively Manage the Structural Funds,* Rotterdam: NEI, 2002. available at http://www.evaluace.cz/dokumenty/hodnot_zpr_eu/souhrnna_studie.pdf, accessed on 19 May 2010

[9] Simona Milio, "Explaining differences in regional performance: administrative capacity and political factors. The case of Structural Funds implementation in Italian Objective 1 regions." (Ph.D. diss., London School of Economics and Political Science, 2007), 14.

institutions handling The EU funds in Italy and experts on the EU funds, as well as participants observation conducted during the two day seminar for public servants on monitoring and evaluation in Croatia.

The case selection is executed to encompass two contrasting performances, Ireland as the best example among the EU15 countries in the use of EU funds, while the choice of Italy is based on the fact that although one of the EU founder countries, regional disparities between the North and the South are still significant and raise doubts on the effectiveness of cohesion policy as a method of diminishing regional disparities. I research whether the administrative capacities are the key to Irish success and conclude that consolidated administrative capacities are in positive correlation with good implementation of The EU fundss. Analysis encompasses three programming periods, 1989-1993, 1994-1999 and 2000-2006. The current programming period will not be included, since only 2009 was the first year in which n+2 rule[10] could be applied, and the results of the efficiency and effectiveness in the use of the EU funds in this period are still largely not available.

However, in analysing the development of administrative capacities, the thesis defaults that administrative capacities are necessary, but certainly not single prerequisite to fully spend the allocated financial resources from the structural and cohesion funds in an utilizing way. Moreover, in Ireland, although both parts are at least at the EU average level of development, or significantly higher, the differences between Border, Midland and Western region and Southern and Eastern region exist. This has led me to research a

[10] N+2 rule requires de-commitment of any funds not spent by the end of the second year following the year to which they were allocated.

further question of what the remaining conditions are under which different levels of inner and overall Irish and Italian development have occurred.

Finally, in the light of an ongoing debate on the success of the EU funds in achieving convergence, this thesis will be exploring cases of Ireland and Italy in order to test two theoretical hypotheses. One stream of authors argues that The EU fundss have been successful and that diminishing regional disparities should be targeted through public spending, while the opposing group of authors argue that cohesion policy is not achieving regional convergence and underline that relying on the market, competition policy and transparency would bring better outcomes regarding regional development.[11]In testing these hypotheses I will be analyzing general economical development and conditions under which cohesion policy relative success or failure in chosen case studies has occured.

Since the beginning of the Central and Eastern European countries accession to the European Union, a rich case study literature on the new member states has emerged and researched the importance of the administrative capacities in funds implementation. The contribution of this thesis comes from the fact that there is a lack of literature examining degree of administrative capacities consolidation in the EU15 countries. Second investigated aspect aims at providing a complete perspective of the conditions under

[11] Irene McMaster. "Ireland." in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Palgrave Macmillan., 2008), 102
David Allen, "Cohesion and Structural Funds" in *Policy-Making in the European Union*," ed. Helen Wallace, William Wallace and Mark A. Polack(Oxford: Oxford University Press, 2005) p 234

which Ireland has transformed into exemplar EU funds absorption country, while the Italian South remained lagging part of the EU.

The thesis contains five chapters. In the first chapter I provide a historical framework and a theoretical debate on the contemporary state and future of the cohesion policy. The second and third chapter assess economic development, structures handling The EU fundss and the achieved results in Ireland and Italy. The fourth chapter researches the level of administrative capacities in Ireland on the basis of Simona Milio's model and identifies determinants of Irish funds absorption, as well as reasons for regional disparities between two Irish NUTS regions, BMW and S&E. In the fifth chapter I bring an overview of the most important absorption problems analysed in the literature and underscore issues preventing utilization of The EU fundss in Italy. The sixth chapter brings results and concludes.

Chapter 1 - Theoretical Framework: Debate on the Contemporary and Future Cohesion Policy

Cohesion Policy makes clear that everybody, wherever they are in the Union, has the opportunity to participate in and benefit from the common market. Cohesion Policy is the market's 'visible hand' which aims at balanced and sustainable development while fostering economic integration throughout the EU as a whole.[12]

Danuta Hübner, Commissioner for Regional Policy

1.1. Historical overview of the cohesion policy

The European Union has been addressing regional imbalances through a system of funds aimed at development of the regions lagging behind since the adoption of the Treaties of Rome in 1957, by declaring the need *to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions.*[13] However, only after the adoption of the Single Act in 1986 was the cohesion policy in the form existing today founded.

[12] European Commission, *Inforegio Panorama*, European Commission, Bruxelles, 2008., p 3
[13] *Preamble*, available at http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/preamble.html, accessed on 20th May 2010

The first fund was the European Social Fund (ESF) founded in 1958, followed by the European Agricultural Guidance and Guarantee Fund (EAGGF) in 1962 and finally in 1975 with the European Regional Development Fund (ERDF) that aimed at levelling the differences between poorest and richest European regions.

In 1988, Italian economist Paolo Cecchini assessed that if the project of the single market were abandoned, losses from 4.25 to 6.5% of GDP would emerge. As he outlined, the costs of the non-common market such as border controls and customs, red-tape, divergent standards and technical regulations, conflicting business laws and protectionist procurement practice would be removed and followed by a supply-side shock causing a drop in prices, increase of demand, exploit resources better and scale companies up for European and global markets. After the original shock, public deficits will be, due to open public procurements, decreased, inflation curbed and employment rate increased.[14] Overall, the single market project received green light from the economist and was set to continue.

However, already in the earlier Padoa-Schioppa report, issued in 1987, it was argued (quoted from Inforegio Panorama) that there are *"serious risks of aggravated imbalances in the course of market liberalization"* and proposed *"adequate accompanying measures to speed up adjustments in structurally weak regions and countries"*.[15] The issue argued by Tomasso Padoa-Schioppa became even more relevant once the effects of having less

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[14] Paolo Cecchini, *The European challenge, 1992 : the benefits of a single market*, Wildwood House, 1988, p 20
[15] European Commission, *Inforegio Panorama,* European Commission, Bruxelles, 2008., p 9

developed Greece, Spain and Portugal as member states started to be more and more obvious.

After providing theoretical economical background for establishment od cohesion policy I will briefly introduce how cohesion policy has evolved from the from the reform in 1989 till present time.

1.1.1. First programming period 1989-1993

In 1989 the first five-year financial perspective was established, and the European Council allocated ECU 64 billion to Structural Funds for the period between 1989 and 1993. Alongside the increase of the EU structural funds came a reform of the management of the ESF, EAGGF and ERDF, from which the money for the projects selected and introduced on national level were re-funded to member states.

Four cohesion policy principles were adopted: concentration, multi-annual planning, additionality and multilevel partnership. According to those principles, five objectives were agreed upon: development of lagging behind regions, industrial restructuring, structural unemployment, occupational integration of young people and adjustment of agricultural structures with development of rural areas.[16] Along the three funds, 16 Community Initiatives were launched to tackle the specific requirements of certain regions and sectors. One of the administrative obligations of member states was to

[16]European Commission, *Inforegio Panorama,* European Commission, Bruxelles, 2008., p 10

introduce for each objective either a specific regional developmental plan called Operational Programme (OP) or national plan while the Commission adopted Community Support Framework (CSF). The level of co-financing was established at 75% for interventions under Objective 1 and 50% for all other objectives. A complex system of rules for monitoring, assessment and reporting emerged.

Overall, the 1989-1993 programming period brought a systemic change from annual to multi-annual planning and moreover from member states selection of implemented projects to European Commission selection of feasible projects, now based on a new system of additionality and wide partnership between regions. Monitoring, management and control over the projects had to be established on each level, which has in combination with lack of previous experience caused delays in Operational Programmes adoption and implementation during the first programming period.

1.1.2. Second programming period 1994-1999

Programming period from 1994-1999 ascertained a new phase in the development of the cohesion policy. The Maastricht Treaty was adopted in 1993 and also has, besides establishing the European Union, enlarged the cohesion policy arsenal. The most important novelties were the Cohesion Fund, regulation on Financial Instruments on Fisheries Guidance (FIFG), the adoption of the principle of subsidiarity and founding the Committee of the Regions. One third of the EU budget, or ECU 168 billion were allocated to structural and cohesion funds.

Eligible projects were those worth more than ECU 10 million in countries where GNP was less than 90% of the EU average. While the key principles from the previous period, concentration, multi-annual planning, additionality and multilevel partnership remained valid, after the 1995 accession of two Scandinavian countries, Finland and Sweden, the sixth objective for investment into sparsely populated areas was constructed to meet the specific needs of the newcomers. The projects were proposed by the interested actors, governmental bodies, institution and private companies, but the decision on which projects were to be financed was made by the Commission.

The structure of administration and governance stayed mostly unchanged, with three levels of documentation, national plans, CSFs and OPs. However, national plans and OPs could now be, as part of a Single Programming Period, submitted in one document and the Commission would then reply with a single decision. Moreover, further specifications were from that period onward required in national plans, especially connected to the environmental issues.

1.1.3. Third programming period 2000-2006

Programming period 2000-2006 was a preparation and an introduction to the structure of the European Union as it is now after the enlargement, especially considering the need to develop the regions in the new member states which significantly lag behind old membes. It has also brought a simplification in the procedures and an orientation towards the ‘Agenda 2000’ issues. Maybe the greatest challenge comes from the fact that some of the previous cohesion policy net beneficiaries, such as Ireland, Spain, Portugal and Greece, with the historical enlargement, became net contributors to the EU budget.

In the programming period between 2000 and 2006, cohesion policy and the absorption of existing structural funds were reformed by introducing three objectives which substituted the previous system of six objectives. New objectives introduced are, first, help for the development of lagging behind regions, second, supporting the economic and social conversion of areas facing structural difficulties and, third, supporting the modernization of the education, training and employment system. Moreover, the cooperation between the Commission and member states was strengthened regarding financial control and discipline. Rule of n+2 regarding the period in which a proof of payment must be provided within two years from contracting and an extended system of monitoring and evaluation through ex-ante, mid-term and ex-post evaluations were adopted. The additional instrument for helping regions suffering major catastrophes was established in 2002 through an instrument of European Solidarity Fund.

With the 2004 enlargement, the EU's population grew by 20% while GDP increased only for 5%. Since the employment rates in new member states were significantly lower than in the EU-15, the Council allocated €22 billions for new member states in the period from 2004-2006. Moreover, pre-accession funds, Phare, ISPA and SAPARD, were available to the candidate states.

1.1.4. Forth programming period 2000-2006

In the current financial programme period, €347 billions are allocated to the Cohesion and Structural funds. Based on experiences from the first three programming period, a conclusion that countries have a limited capacity to absorb external investment support effectively and efficiently was brought and European Commission Regulation 1260/99 defines that the average annual non-returnable transfers to beneficiary countries must not exceed the ceiling of 4 percent of their GDP. Funding is allocated to member states according to the population, national prosperity, regional prosperity and the severity of the structural problems including the unemployment rate.

After the historical enlargement which encompassed two additional post-communist countries, Romania and Bulgaria, the differences between the most developed and lagging behind regions have became even more significant. A re-orientation towards research and innovation, environmental infrastructure and fighting climate change came as a result of Lisbon Agenda, aiming at making EU more dynamic and competitive market with more and better jobs, but with focus on social integration, environment and growth through research and innovations.

At this point, the role of cohesion policy is crucial for acquiring full effects of single market, as well as for levelling agglomeration effects and decreasing disparities between different levels of regional development. The financial weight of cohesion policy, making

35.7% of the EU budget and being the second most important item in the EU budget[17], reflects the proportion of the socio-economic differences between regions, as well as the importance of cohesion policy for the united Europe.

As can be seen from the review of historical development of the cohesion policy, from the initial focus on achieving equal economic development within the Union, the goal of the policy has evolved and strives now at development of globally more concurrent European economy. This goal is in the programming period from 2007-2013 targeted through a focus on R&D, innovations, development of the education and training system parallel to market demands, cooperation with private sector in co-financing and project programming, environmental sustainability and prevention of technological risks and catastrophes. By aiming at long term sustainable development, cohesion policy has become much more than an instrument of homogenous regional development it was at its beginnings.

In this section I have elaborated on the evolution of cohesion policy from the 1989. In the next section I provide an insight into theoretical debates which emerged and possible future developments.

[17] *European Commission*; Reforming the budget – changing Europe, http://ec.europa.eu/budget/reform/issues/article_5957_en.htm, accessed on 20th December 2009.

1.2 Theoretical debate on effectiveness of cohesion policy and future development

A vast literature has analysed the convergence processes in Europe, but it remains subject to an ongoing debate whether cohesion policy accomplishes regional convergence between poorer and richer countries and regions.[18] Large number of authors, of which Boldrin and Canova can be highlighted, have analysed the impact of regional expenditure on productivity and capacity and have concluded that there is no increase in productivity or capacity of regions to which the funds were channelled.[19] On the other hand, Cappellen et al. study represents the other stream, and argues that the policy can be deemed as successful.[20]

In the light of an ongoing debate on the success of the EU funds in achieving convergence, this thesis will by exploring cases of Ireland and Italy test two hypothesis. Since the studies fail to provide a clear conclusion on the effectiveness of the cohesion policy, a group of authors argues that diminishing regional disparities should be targeted through public investments, while the opposing group underlines that relying on the market, competition policy and transparency would bring better outcomes regarding regional development.[21]

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[18] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/

[19] Michelle Boldrin and Fabio Canova, "Inequality and convergence: Reconsidering European regional policies," *Economic Policy* 32 (2001), pp. 205–253.

[20] Aadne Cappelen et al., "The Impact of RegionalSupport on Growth and Convergence in the European Union," Journal of Common Market Studies, Volume 41. Number 4. 2003

[21] Irene McMaster. "Ireland." in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Palgrave Macmillan., 2008), 102

In 2009 the Agenda for a Reformed Cohesion Policy, tackling the issue of cohesion policy reform was drafted. The authors assess that there is great accountability on how the resources are spent, but that econometric studies still do not offer a general conclusion on the cohesion policy contributions and the system of outcome indicators and targets is of low quality, which result in lack of evidence showing impacts of cohesion policy. On the basis of these assessments, Barca suggests a five-fold comprehensive reform which would focus, first, on concentration on core priorities while relying on the already existing criteria for territorial allocation of funds. Second, in order to orientate grants to results, he recommends establishing a new European Union based Strategic Development Framework and the indicators for assessing performance, third, the report promotes mobilizing and learning oriented at local actors and impact evaluation, fourth, strengthening the Commission and finally, the recommendation encompasses reinforcement of political checks and balances through functioning of a new Council for Cohesion Policy with new responsibilities handed over to the European Parliament.

Although Barca's report provides recommendations on the basis of the European Union, it is still necessary to research, on the country level, why certain member states were more successful than the others. After providing a historical overview of cohesion policy development and the debate on future of cohesion policy, in the following two chapters I will introduce the cases of Ireland, known as highly successful, and Italy, which has failed to utilize the funds.

David Allen, "Cohesion and Structural Funds" in *Policy-Making in the European Union*," ed. Helen Wallace, William Wallace and Mark A. Polack(Oxford: Oxford University Press, 2005) p 234

Chapter 2 - Best Pupil in the Class: Ireland

Being classified in the literature as a small, centralized country, Ireland has managed to transform from the least developed country in 1973 when it joined the European Union, to the top of the league, being outperformed only by Luxembourg according to levels of income per capita in the whole Union.[22] The case of Ireland and factors which have contributed to the "Irish miracle" have been dissected and examined in minute detail in the developmental studies literature. In this thesis I identify the following three factors as key ones for Irish economic transformation; first, educated, young and English speaking workforce, second, positive conditions for business and third, a network of social partnerships and corporative management structures. Additionally, I will argue that the EU funds have as a supportive factor enabled an economic development at such a pace, by providing timely investments in the period of Irish stagnation in the end of 1980ies.[23]

This chapter is divided in three subsections. The first section will provide an introduction to the Irish development by examining the role of factors supporting the transformation of the Ireland with particular accent on The EU fundss. It outlines the economic evolution of Ireland by focusing on the role of EU accession, FDI, education reform, taxation system, public finances and social partnership agreement. The second part provides a framework in which The EU fundss have been managed since the cohesion policy reform in 1989, by analysing The EU fundss structures and objectives during three programming

[22] *European Commission, Economic and Finance Affairs – The Economy of Ireland; whither the Celtic Tiger*, available on http://ec.europa.eu/economy_finance/een/011/article_7086_en.htm, accessed on 24th May 2010

[23] *Ireland's Economic Transformation – Miracle or Model* – ECFIN – European Commission, available at http://ec.europa.eu/economy_finance/events/event12482_en.htm, accessed on 24th May 2010

periods; 1989-1993, 1994-1999 and 2000-2006, where the current period is excluded because data on its impacts are still mostly unavailable. The third part shows how the convergence on the country and regional level has progressed so far.

2.1 Irish economic transformation

Being one of the British colonies, Ireland entered the twentieth century as an economically backward country closely dependant of the United Kingdom. Until 1960 Ireland was applying protectionism, which aimed at increased employment in industry. However, since it did not produce any results and the country was continuously lagging behind the rest of the Europe in the early 1960ies it switched to outward, export orientated economy.[24] As a result of opening up of the economy free trade functioned as one of the important forces which influenced development of the economy and society. However, probably the most important force for change in the economy and domestic politics was entry into the then EEC in 1973 together with the United Kingdom and Denmark.

As Gerald shows, until Ireland joined the European Union, its external economic relations were tied with the UK, while after the accession the new multinational industry came to Ireland because of its access to the EU market. Initially foreign investments were drawn by a decreased rate of corporate tax,[25] the most important act was the Finance Act

[24] CEPR, *Irish Protectionism*, available at http://www.cepr.org/pubs/bulletin/dps/dp242.htm, accessed on 1st June 2010
[25] John Fitz Gerald, "The Irish economic Boom," *Les Etudes du CERI*, No 56, 1999, p 7

which provided for a 10% tax rate on corporations operating in "manufacturing" and "manufacturing related services," with a liberal definition of the term "manufacturing." Later the list of areas under the 10% corporative tax increased and officially started to include modern industries such as pharmaceutical or software sector.[26] Irish policy of attracting FDI has led to dual economy, where first, differences between indigenous and foreign firms in technology, export orientation, product quality and scale were immense, while the linkages between foreign sector and endogenous economy remained limited, second, even small increase in tax rate could lead to disinvestment and, third, foreign business tended to repatriate profits in the periods of less favourable macroeconomic policy and were not re-investing in Ireland.[27]

Along with favourable business conditions in 1967 a new strategy of intensive investment in education was implemented. The continuous character of educational policy ensured even an increase in levels of investment during the 1980s, when many other sectors suffered severe cut-backs.[28] Moreover, after the results of the educational reform started to emerge, important Irish advantage was also the highly educated labour force where English as native language additionally helped to attract significant amount of US investments exactly to Ireland. Foreign investments increased demand for labour, but also

[26] Julia R. Blue, "The Celtic Tiger Roars Defiantly: Corporation Tax in Ireland and Competition within the European Union," *Duke Journal of Comparative& International Law*, 2000, p 443
[27] Gabriele Tondl, "Convergence after divergence?: regional growth in Europe," Springer: Vienna, 2001, p 317
[28] John Fitz Gerald, "The Irish economic Boom," *Les Etudes du CERI*, No 56, 1999, p 9

brought new management skills[29] and access to new technologies. Traditional group of industries were also restructured, using FDI spill-over effects in the best way.

After a decade of bad public finances, in the 1980ies, Ireland was struggling with high levels of unemployment, inflation and public debt which increased to 113% of GDP by 1987. According to the European Commission data, the total government expenditures were higher than 50% of GDP and annual budget deficits have exceeded 10% of GDP in some years. Moreover, emigration peeked between 1981 and 1990 when 200 000 people left the country, creating a huge problem due to the effects of brain drain.[30] As a result, in 1986, the representatives of employers, trade unions, farming interest and the government have formed a National Economic and Social Council and developed a strategy of overcoming economy stagnation, inflation and huge government debt. *Strategy for Development* formed the basis for Program for National Recovery which entailed an agreement on wage levels in both the private and public sectors, tax reform, regulations of welfare payments and health spending, structural adjustments and Ireland's adherence to the narrow band of the ERM and the Maastricht criteria. On the macroeconomic front, all sides agreed to sustain from generating inflationary pressures. The system of social partnership has supported the recovery from early and mid 1980ies crisis and has moreover served as excellent basis for further negotiations and The EU fundss management.[31]

[29] Rebekah Berry, "U.S. Foreign Direct Investment in Ireland: Making the Most of Other People's Money," *Lehigh University Publications*, 2000, p 18
[30]European Commission, *The economy of Ireland: whither the Celtic Tiger?*, available at http://ec.europa.eu/economy_finance/een/011/article_7086_en.htm, accessed on 1st June 2010
[31]Rory O'Donnel, "Ireland's economic transformation: Industrial Policy, European Integration and Social Partnership," Centre for West European Studies, No.2., 1998

Additionally, with the cohesion policy reform in 1989, management of the funds and overall absorption greatly changed. In the case of Ireland, the end of the 1980ies was marked with attempts to escape from the crisis where The EU funds were crucial because they provided much needed investments and enabled projects for infrastructure, human resources and economic development.[32]

Explicitly shown, from 1989 and the cohesion policy reform, to 2006 when third programming period finished, Irish GDP per capita PPP rose by 289.9%. From 1988 to 1993 the GDP increased by 41.3%, between 1994 and 1999 by 65%, and in 2000-2006 period for 40.5% (Figure 1).[33] Moreover, unemployment rate decreased significantly from 1989 when it was 15% to 2006 when it was 4.4%. During the first programming period unemployment was stable, in the second it decreased from 14.7% to 4.5%, and maintained at the same rate till 2006 (Figure 2).[34]

The EU funds have, first, increased infrastructure investments, including transport and environment, second, increased productivity where the structural funds contributed directly to enterprise expansion, third, ameliorated human resources where aid supported a major investment in training, education and R&D, and fourth, although to a lesser extent, boosted local development where the CSF supported new approaches to local development issues.

[32] John Fitz Gerald, "The Irish economic Boom," *Les Etudes du CERI*, No 56, 1999, p 8
[33] See in Appendices
[34] International Monetary Fund, available at http://www.imf.org/external/data.htm, accessed on 1st June 2010

In this subsection I have briefly explained factors influencing Irish economic development. In the following section I will focus specifically on cohesion policy in Ireland; how cohesion policy implementation was structurally organized, what the goals and objectives targeted through two decades of The EU fundss treatment were, whether the policy was successful and how the convergence on the national and regional level progressed so far. Although Ireland used EU assistance from 1973, in this section, I will be referring to the evolution of the EU funds use from the reform of the policy in 1989 to 2006 when the third programming period ended.

2.2 Managing structure, objectives and results from 1989 to 2006

During three first programming periods Irish CSF was allocated with €15 billions, which were embedded in NDP and co-financed with €26 billions from private investments or central budget. From 1989-1993 and 1994-1999 the country has been organized in one NUTS2 regions since it is a relatively small country with a weak tradition of regional policy governance.[35] In first programming period, from 1989 to 1993, the strategic priority of CSF was general developed on the national level.[36] The main areas in CSF/NDP, tackled through twelve OPs were, first, agriculture, fisheries, forestry, tourism

[35] Irene McMaster, "Ireland," in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Pargrave Macmillan., 2008), 96
[36] *EU support for Irish regions*, available at http://www.iro.ie/EU-structural-funds.html, accessed on 24th May 2010

and rural development, second, industry and services, third, peripherality and fourth, human resources.[37]

Regarding management, the country was from 1989-1993 very centralized; funds were administered from the central, national level while Sub-Regional Review Committees had very limited resources and no legitimacy for having more significant impact in regional policy implementation. Controlling with the measure of growth rates, Ireland has, compared to other cohesion countries, achieved a substantial economic progress; in the first programming period it has achieved a 5% growth, while the EU average was 1.7%.[38]

The second period, 1994-1999 aimed to further develop, again on a broader national basis, achievements from the previous period. The CSF was administered through nine individual Operational Programmes (OPs), covering the main sectors across four priorities: infrastructure, productive sector, human resources and local development.[39]

During the first two periods, Ireland managed to converge with the living standard of the rest of the EU, achieving in the second period 7% real GDP growth rate. Based on the macroeconomic model constructed by the Economic and Social Research Institute, the cumulative long-term structural impact of the first two CSFs has raised Ireland's GNP

[37] Joe Durkan, "Structural and Cohesion funds: Background and Some Issues," *Journal of the Statistical and Social Inquiry Society of Ireland*, vol. 26, issue 5, 1993
[38]Robert A. Pastor, *Toward a North American Community: Lessons from the Old World*, Washington DC, Institute for International Economics, 2001, p 52
[39] Fitzpatrick Associates, *Ex Post Evaluation of Objective 1, 1994-1999, National Report – Ireland*, 2003

level by about 2% above the level that it would be without them.[40] Total employment, which was falling 0.8% per year in the period between 1980 and 1986, has increased in the 1990ies 2.1% per year, while rest of the OECD had employment rate growing on average 1% and the EU on average 0.3% per year.[41] In 1994 as part of the decentralization efforts eight Regional Authorities were established in 1994 and the CSF was implemented through sectoral programmes. However, the system remained rather centralized and the real authority was still on the central, national level.

However, till the 1995 regional disparities between the southern and eastern part of the country, and especially the Greater Dublin Area, and the central, bordering and western part started becoming more expressed. Although the data show that the regions in southern and eastern part have started on a relatively more developed base, during the 1990ies they have been prospering much faster than those in the west, northwest and midlands.[42]

In third period, a new NDP encompassing over €57 billion of public, private and The EU fundss investments, has been adopted and aimed at enhancing infrastructure, human resources and flexible workforce, promoting broader social inclusion and diminishing regional disparities across the country. It specifically focused on healthcare, social

[40] *EU support for Irish regions*, available at http://www.iro.ie/EU-structural-funds.html, accessed on 24th May 2010
[41] European Commission, *The Economy of Ireland; whither the Celtic Tiger*, available on http://ec.europa.eu/economy_finance/een/011/article_7086_en.htm, accessed on 24th May 2010
[42] Irene McMaster, "Ireland," in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Palgrave Macmillan., 2008), 98

housing, education, improvement of roads and public transport, rural development, industry, water and waste services.[43]

Due to the noticed regional imbalances and the impacts it had on the sustainable development, the main objective of the 2000-2006 period was balanced regional development. The country was divided in two NUTS2 regions; the Border, Midlands and Western (BMW) region which was at the 89.4% of the average EU GDP per capita PPP in 2000, and Southern and Eastern (S&E) region which had its GDP per capita at 145.8% of EU regional average. In this way, S&E qualified for EU support but on a sliding and declining scale, while BMW was still eligible under Objective 1 criteria. Regarding infrastructure, the S&E region has been under the pressure from the upsurge in economic activity and increasing population, while smaller and rural areas continued to lag behind.[44]

The process of decentralization which aimed as more regionally balanced development was accompanied by new administrative and management arrangements, with each Regional Assembly responsible for managing its regional programme and chairing its monitoring committee. The NDP 2000-2006 provided, for the first time, regional programmes in the NDP, while structurally, it contained seven OPs, three of them being

[43] *Ireland's National Development Plan (NDP), 2007-2013 - Transforming Ireland*; available at http://www.ndp.ie/docs/NDP_Homepage/1131.htm, accessed on 17th May 2010
[44] Irene McMaster, “Ireland,” in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Palgrave Macmillan., 2008), 98

national, two ROPs, one programme to support the Peace Process and one for the NDP administration.[45]

Regarding the supply side effects, as Figure 3 shows,[46] employment rate in both regions has been relatively high; in 2000, in BMW, employment rate was 62%. At the end of the period, in 2006, it grew to 67%. In S&E region, which in significantly more developed, the employment rate at the beginning of the period was 66%, and at the end of the period, in 2006, it rose to 69%. Overall, with the end of the third period, both regions were already close to the Lisbon Agenda goal of achieving employment rate of 70%.

Unemployment rate for the same years (Figure 4) show a positive trend; in 2000 in BMW unemployment rate was 5.5% and has decreased to 4% in 2006. In S&E in 2000 unemployment rate was 4% and has slightly risen in 2006 to 4.3%. Further, on the level of the whole country (Figure 5), compared to EU27 and EU15 levels, employment rate has been higher in all three measured years. EU average employment rate was 64%, while Ireland was on 68% in 2006.

GDP per capita in PPS was in 2006 in Ireland, at 145% of the EU average, where EU15 was at the 111% of EU average (Figure 6). But, more interesting are the results which show regional characteristics; in BMW region GDP per capita in PPS was in 2000 at the level of 90% of EU average, while in S&E it was 146%. In 2006 BMW region has managed to capture EU average, while S&E GDP per capita PPS has increased to 162%

[45] IRO, *EU support for Irish Regions*, available at http://www.iro.ie/EU-NDP-2000-2006.html, accessed at 25th May 2010
[46] For all the graphs, see Appendices

of EU average. (Figure 7) This statistics imply that in 2000-2006 programming period developmental differences have stayed on the same level, which shows that both regions are growing at the same rate. Overall, analyses estimates that national GDP towards the end of the period was around 1.5% higher than it otherwise would have been without EU support.[47]

In this part I have introduced structure and the results of the three programming periods in Ireland, where in the first which were implemented through centralized system of managing and integrated CSF in NDP, the differences between S&E and BMW grew, while in the third one where more authority was transferred on the regional base and the country was divided in two NUTS2 regions both grew at the equal pace. The section has assessed the convergence within the country and the rest of the EU. This chapter has shown that the development of the Ireland is a composition of successful policies where any of the factors could not be singled out as the most important, but a combination of good policies has resulted in a successful Irish model. There were four direct causes of Irish transformation; first, development of human capital after the educational reforms in the 1960s, second, amelioration of the physical infrastructure, particularly after the 1989 as a result of the EU Structural Funds, third, openness of the economy and export orientation, combined with benefits stemming from the Single European Market, and fourth, stable macroeconomic environment.

[47] *Eurostat*, available at http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database, accessed at 25th May 2010

Moreover, all factors which I analysed have implications which interrelate and multiply effects. The argument underscores that after certain EU funds have been invested into physical infrastructure amelioration it can be argued that more firms decided to invest in Ireland than in the absence of infrastructural development. The same principle applies for the labour force; development of the human resources which started in the 1960ies, combined with 35% of total EU funds invested in each programming period for education and training, has resulted in a skilful labour force which has attracted more foreign investments than in the steady state. The educated labour force was able to use the spill-over effects from the presence of foreign business and initiate development of endogenous economy. Stable macroeconomic environment and public finance, along with the benefits of the single market have served as another reason for business development.

Chapter 3 - Cohesion Policy Laggard: Italy

The case of Italy in the literature is described as the one in which EU funds have been unsuccessful in bringing regional convergence between North and South of Italy through two decades in which cohesion policy has been implemented. Unlike Ireland, where the less developed part has achieved EU average level of GDP per capita PPP, Italian Southern regions are still fluctuating from 65% to 85% of EU average (Figure 9). However, recent contributions have pointed out that convergence at a slow pace has actually started,[48] since certain regions of the South have already lost Objective1 status under which they have been treated during last two decades.

The chapter starts with an overview of Italian economic development since the European Union was founded. In the second section I will briefly introduce the structural organization of the managing and implementing bodies in southern Italy and what the goals and the impacts of the policy from 1989 till the end of previous programming period were. Furthermore I will be analyzing to which degree the structural funds can be considered as successfully implemented. The section covers the period from first programming period 1989-1993, till the 2006 when, the third programming period elapsed. The current programming period will not be included since the data on the impacts are still largely not available.

[48] Simona Milio, "Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy," Regional Studies, 2007, vol. 4, issue 4, p 432

3.1 Italian economic development

Italy was one of the six founding members of the European Union. In 1950ies through the Vanoni Plan and the establishment of the government agency *Cassa per il Mezzogiorno*, the government was aiming at development of the southern Italy and attracting private investment to the region. Between 1951 and 1978, government spending on infrastructure in the south was $11.5 billion, while additional low-cost loans totalled $13 billion and outright grants amounted to $3.2 billion.[49]

Although certain public investments have connected the rural villages in the South to the modem world for the first time, most of the money was misallocated for political reasons. This failure to use government investments and incentives in a way which would bring further development is known as phenomenon of "Cathedrals in the desert". Industrial development of the South was not very successful; only the state-controlled firms have moved to the South. Among privately owned business in the South, most were capital, rather than labour intensive industries which were placed there because government incentives and sponsored credits made the capital cheap.[50]

In the late 1950ies and 1960ies high rate of unemployment forced almost two million people to migrate mostly to the northern part of Italy or to the bordering Switzerland and

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[49] Encyclopaedia of the Nations, *Economic Development – Italy*, available at http://www.nationsencyclopedia.com/Europe/Italy-ECONOMIC-DEVELOPMENT.html, accessed on 26th May 2010

[50] Clark N. Ellis, *The Mezzogiorno at the Millennium: The Outlook for Southern Italy in the Year 2000*, (Catholic University of America, 2003, accessed 29th May 2010); available from http://www.crvp.org/book/Series04/IV-2/chapter_iii.htm

other countries of the European Communities.[51] However, poring billions in the South had some short term benefits; during the 1950ies and 1960ies South started to converge with the Centre and North regions.

The next decade brought increased corruption and organized crime in allocation of the public investments; where the public money was used for political purposes rather than for economical development. Especially jobs in public service were prone to rent-seeking or favours exchanging, where established interest groups have opposed social change and institutional reform. The interconnected networks of clientelism, welfare dependency, corporatism and organized crime combined with the growing inefficiency of public administration resulted, as Giglio argues (quoted from Ellis), with a lack of civil society and distorted economic system. 1970ies ended with inflation, political instability and increased energy prices which jointly caused serious economic crisis at the beginning of 1980ies.[52]

The attempt to curb the recession in 1980ies included an attempt to reduce the public sector deficit, tighten controls on credit, and maintain a stable exchange rate. Although a recovery period began in 1983 and the inflation was lowered, the unemployment rate

[51] Encyclopaedia of the Nations, *Economic Development – Italy*, available at http://www.nationsencyclopedia.com/Europe/Italy-ECONOMIC-DEVELOPMENT.html, accessed on 26th May 2010
[52] Clark N. Ellis, *The Mezzogiorno at the Millennium: The Outlook for Southern Italy in the Year 2000*, (Catholic University of America, 2003, accessed 29th May 2010); available from http://www.crvp.org/book/Series04/IV-2/chapter_iii.htm

increased. The economic policy of 1987 included the reduction of the public-sector deficit and unemployment as well as liberalization policy.[53]

Relevant changes emerged after the *Mani Pulite* (Clean Hands) action which has revealed a whole series or bribery cases in the high politics. Public investments in the South of the country were afterwards significantly reduced. Since in some provinces public investments were principal source of economic activity the gap between South and North/Centre has widened. Moreover, public administration has proven to be resistant to reforms; as Ellis argues government civil servants, used to receiving bribes and exchanging favours, now lacked incentives to make decisions or take action. On the national level priorities were cutting government spending, fighting tax evasion, and privatization of state-owned enterprises. Liberalization provided an impetus for greater foreign investment and, in short-term, privatization has eased the public debt, but the economic disparities between the regions of the North the impoverished southern part persisted. [54]

Parallel with decrease of government investments in the South, the EU cohesion policy was reformed; Italy's status of net-beneficiary of the EU assistance has changed to the status of net contributor, and therefore, a new approach allowing for resources to be better used, had to be adopted.

[53] Encyclopaedia of the Nations, *Economic Development – Italy*, available at http://www.nationsencyclopedia.com/Europe/Italy-ECONOMIC-DEVELOPMENT.html, accessed on 26th May 2010

[54] Clark N. Ellis, *The Mezzogiorno at the Millennium: The Outlook for Southern Italy in the Year 2000*, (Catholic University of America, 2003, accessed 29th May 2010); available from http://www.crvp.org/book/Series04/IV-2/chapter_iii.htm

In this section I have briefly introduced main axes and characteristics of Italian economic development from 1950ies to current time. While in Ireland from 1989 there was a constant progress, in Italy, the period has been labelled with political and economical uncertainty and huge amounts of misspent investments in Italian South. In the following subsection I will explain the objectives and structures during the two decades of cohesion policy implementation.

3.2 Managing structure, objectives and results in the programming periods from 1989 to 2006

In the 1989-93 Italy was allocated with almost ECU 8 billion for the regions eligible under Objective 1. Those were southern regions, Abruzzo, Molise, Basilicata, Puglia, Campania, Calabria, Sicily and Sardinia. The CSF has represented 6.2% of the overall contributions in the Mezzogiorno region during the 1989-1993 programming period, while overall, the transfer of Community funds has accounted for approximately 1% of the GDP of the Mezzogiorno. In macroeconomic terms , the real growth was lower than expected, namely negative in all Italian Objective 1 regions, besides Basilicata, Sicily and Sardinia

Commission's report argues that from 1989 to 1993 the North-South gap in terms of GDP per capita was reduced from 40.5% to 39.8%, which represented a modest but significant reduction of the, during the 1980ies, growing divergence. However, the report focuses also on the problems with the pace of implementation of the CSF as a whole, were issues connected to the lack of administrative capacities have been identified and Commission required reform in the managing and implementation system.[55] In the first programming period from 1989-1993 Italy had a low rate of EU funds absorption because public administration on the regional level in the South were non-efficient even before the reform and had no experience with reformed funds management.

In the second programming period, form 1994-1999, Italian CSF was focusing on the competitiveness of local enterprises by aiming at development of productive activities and productivity, enhancing infrastructure and overall economic environment, development of human resources and increasing employment, and improvement of services and local infrastructures. The overall CSF has allocated €34 billion, 46% of which came from the EU funds.[56]

The programming period was influenced by EU and national developments: the EU has introduced the principle of multilevel governance and partnership principle, while at the national level, Southern Italy Development Agency was closed in 1992, shutting as well large amounts of national public investments. In the previous periods, both before the cohesion policy reform and in the 1989-1993 period, EU assistance was largely neglected because the national 'Extraordinary intervention' amounted between 0.5 and 1.1% of the GDP, which was far more than EU money.[57]

[55] European Commission, *Fifth Annual Report on the Implementation of the Reform of Structural Funds 1993*, Bruxelles, 1995
[56] Ismeri Europa, *Ex-post Evaluation of the Objective 1, 1994-1999, National Report Italy*, 2002, p 32
[57] Ibid 19

Multilevel governance encompasses collaborative networking among public and private actors at multiple levels as requirement in cohesion policy implementation. While the mechanism was satisfactory in the policy decision phase, it paralysed local bureaucracy which was still tied to an outdated organization and procedural rules in the administrative and implementation phases of the programs.[58]

After SIDA was closed, from 1992 till 1998 there was a time gap in programming; southern regions could rely only on OPs co-financed by the EU in 1994-1999, and there were resource constraints and difficulties in spending funds according to the rules and timescales imposed by the EU. This brought public works schemes and large infrastructure projects to a standstill for almost a decade. Even in 1898-1993 when significantly less resources from EU funds was allocated to Italy, the performance was poor in terms of absorption and with the 65% of increase in EU funds designated for Italian Objective 1 regions the absorption problems only grew.[59]

The new framework of the national regional policy enacted through establishment of the *Cabina di regia*, in charged with coordination of central, regional and local government included in EU funds absorption, and dismantling of the SIDA has blurred the perception on the implementation programmes which resulted in less quality strategy and programming documents which consisted only of a general review of the financial needs of all the administrations involved in development policies, but had numerous overlaps in various OPs which were uncoordinatedly aiming at same objectives.

[58] Ibid 27
[59] Ibid 29

Overall, along eight targeted areas, communications, production sector and tourism were more successfully implemented, while the human resources, agriculture and rural development and economic infrastructure, mostly due to the lack of incoherent single projects and systematic design were ineffective.

In the programming period from 2000-2006 Italy was slightly more successful than in previous years.[60] The Italian CSF invested total €51 billions, €27 of which came from EU funds and were invested in Campania, Calabria, Sicily, Puglia, Sardinia, Basilicata and Molise, while Abruzzo lost its Objective 1 and phasing-out status and was moreover, not phasing-out as in previous period.

V&V study shows that growth rate of GDP was 1.2% which is significantly bellow the targeted growth of 3.9% defined for the end of the period by the CSF. The whole CSF has amounted €51 billions which is approximately 3% of Southern Italy GDP, so the achieved growth is estimated as not satisfying. Slight improvement in employment rate, approximately 2% in seven year period has been achieved, but since the rest of the Italy had a growth of the employment rate of 6%, it can not be assessed as efficient. [61]

In this part I have introduced the structure and EU funds objectives of the three programming periods in Italy, where the first two were mostly unsuccessful and only the

[60] Ministry of Economical Development, *Priority Axes*, available on http://www.dps.tesoro.it/qcs-eng/schede_qcs/scheda_obiettivo1_ENG.asp#assi, accessed on 29th May 2010

[61]Vision&Value and LSE, *EU Structural Funds and Economic Development of Southern Italy* [study on-line] (London: LSE, 2007, accessed on 20th December 2009); available from www.visionandvalue.com/.../evaluationstructuralfundsitalynew.pdf

third one was slightly better used. Compared to Ireland, assistance has been managed from the regional level, where each region could handle funds in its own best interest. The strategy has reflected numerous overlapping between different OPs and lack of coherence between implemented projects which brought poor results. The following part analyzes success of EU funds programme implementation in Southern Italy.

3.2.1 Results of the cohesion policy implementation in Southern Italy

The fact that income in the richest region is 2.6 times higher than in the poorest[62] has inspired many academic attempts to establish whether there has been evidence of convergence. Here I will summarize the literature which argues that cohesion policy has been successful, and literature assessing it has not brought convergence. Authors generally agree that overall implementation did not reach convergence; Milio and Loddo's research bring slightly more positive results, while Aiello and Pupo and Value and Vision and LSE (V&V) study determine that cohesion policy has not been achieved in the Italian case.

Milio observes Structural Fund implementation rates in Italy and argues that although generally absorption has been certainly poor, by investigating individual convergence Objective 1 regions, which are located in the South of the country, it appears not to be the general trend. She shows that regions which had higher absorption rates have already lost Objective1 status, such as Abruzzo and Molise, or are phasing out, as Basilicata, while

[62] ibid

others, namely Puglia and Sicily remain economically underdeveloped and still have low absorption rates.[63]

Loddo's analysis is focused more on the results of sector specific convergence; she reveals that poorer regions in Italy indeed caught up with the richer regions over the period 1994-2004, but that there are differing results regarding fund specific allocations. European Regional Development Fund aid has, in the medium term, positive and significant returns, which can be interpreted as the success of investments in infrastructure, and to a less extent small business. In filling the gap between North and South, support to agriculture has short-term positive effects on growth which wane quickly. In contrast, there is no evidence of a positive impact on regional convergence in human capital and employment. Although her general conclusion is that Structural Funds are likely to produce full effects on the economy only after a larger number of years, she argues there is already significant convergence in GDP between Italian regions.[64]

Aiello and Pupo analyse the period from 1997-2007 and point out that at the end of the period, the income discrepancy between the richest region, Valley d'Aosta and the poorest, Calabria, is still immense; the income per capita in Valley d'Aosta is 2.6 times higher than in Calabria. Their key finding is that the GDP gap between North and South has been reduced and that impacts of EU support are more visible in the South than Centre-North. However, EU cohesion policy has not solved the structural conditions

[63]Simona Milio, "Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy," *Regional Studies*, Vol. 41. Issue 4,, (June 2007): pp. 430
[64] Silvia Loddo, " Structural Funds and Regional Convergence in Italy," *CRENOS*, no. 3 (2006): 18.

which determine regional development and have only slightly contributed to reduction of the economic divide in Italy.[65] Diametrically opposed results are presented by the V&V study; on the basis of GDP growth the study argues that convergence has not occurred. The growth rate of GDP of the Southern regions was, according to the aims of cohesion policy, assumed to be 3.9 per cent and in reality was 1.2 per cent, even below the European 2.0 per cent average.[66]

Additionally, cohesion policy results assessments should take into consideration that Italian economy in general has not been progressing for the last decade. Figure 8 (in the appendices) shows that the GDP was stagnating from 1997 to 2001, when it started to decrease, and was still decreasing in 2008. Therefore it can be rendered as relative success that Southern Italian regions are, with the exception of Abruzzo where GDP declines over the last decade, stagnating (Figure 9), while North and Centre regions had deteriorated in the same period. (Figure 10)

In this chapter I have shown the characteristics of Italian economic development, the structures and objectives through three programming periods and have concluded with the review of studies assessing successfulness of cohesion policy implementation. Overall, the chapter has underscored Italy as a rather bad example of EU funds handling. In the following chapter, I will analyze determinants of EU funds utilization in Ireland

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[65] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/

[66]Vision&Value and LSE, *EU Structural Funds and Economic Development of Southern Italy* [study on-line] (London: LSE, 2007, accessed on 20th December 2009); available from www.visionandvalue.com/.../evaluationstructuralfundsitalynew.pdf

where cohesion funds have been generally well used compared to Italy. I am expecting to find that administrative capacities are on a high level which enables Ireland to outperform other EU countries in funds absorption.

Chapter 4 - Determinants of success: administrative capacities in Ireland

The growing body of literature has recognized the importance of EU funds utilization and has analysed possible issues which might prevent full absorption of cohesion policy potential.[67] Various studies especially focusing on the new member states have shown that significant issues in the cohesion policy implementation emerge in the cases where administrative capacities are not on a satisfying level.[68] As defined by Boeckhout and Boot,[69] administrative capacities represent *the ability and skill of central and local authorities to prepare suitable plans, programmes and projects in due time, to decide on programmes and projects, to arrange the co-ordination among principal partners, to cope with the administrative and reporting requirements, and to finance and supervise implementation properly, avoiding irregularities as far as possible.*[70]

[67] Yves Herve and Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU—An Analysis of Absorption Problems and Evaluation of The Literature.* (Baden-Baden: NOMOS, 1998); Judith Kalman, "Possible Structural Funds Absorption Problems," in *Regionalization for Development and Accession to the European Union: A Comparative Perspective*, ed. Gerard Marcou (Budapest: Local Government and Public Reform Initiative, 2002

[68] Markéta Šumpíková, Jan Pavel, Stanislav Klazar, "EU Funds: Absorption Capacity and Effectiveness of Their Use, with Focus on Regional Level in the Czech Republic," *Grant Agency of the Czech Republic*, 2003, p 4; Andrej Horvat, Gunther Maier, "Regional development, Absorption problems and the EU Structural Funds," available at , accessed on 31st May 2010, p 8; Romanian Academic Society, "Europe: The Absorption of EU Funds," *Policy Warning Report*, issue: 01 / 2006, p 29

[69] Sjaak Boeckhout, Luc Boot et al. *Key indicators for Candidate Countries to Effectively Manage the Structural Funds*, Rotterdam: NEI, 2002. available at http://www.evaluace.cz/dokumenty/hodnot_zpr_eu/souhrnna_studie.pdf, accessed on 19 May 2010

[70] ibid

Studies have shown that in the case of many new member states, absorption rates are low due to the lack of high quality administrative capacities.[71] As there is general lack of the literature examining the importance of administrative capacities in the old member states, this thesis analyses the influence of developed administration in ensuring high expenditure rates in, an 'old' member state, Ireland on the basis of Milio's model tested on the case of two southern Italian regions, Sicily and Basilicata. Compared to laggard Italy, for which model was originally created for, Ireland serves as an example of the leader in the investigated area. As I have shown in the previous two chapters, Ireland outperforms Italy in cohesion policy implementation and this thesis aims at identifying possible reasons for Irish success and for Italian less than optimal use of the EU funds. The hypothesis I will be testing through Milio's model is that since Ireland is cohesion policy's "best pupil in the class" it will have consolidated administrative capacities on Milio's scale.

4.1 The application of Milio's model on the case of Ireland

In assessing the administrative capacities in Ireland I will be using Simona Milio's model with which she showed administrative capacities as a crucial difference between Basilicata and Sicily. The core of Milio's model is assessment of the administrative capacities development on the basis of indicators which enable sorting out in four categories. In the first category, the administrative capacities are absent in the managing phase; delineation of staff duties is unclear and there is serious lack of cooperation and

[71] Tanja Markovič Hribernik et.al, "Institutional Regulation and the Effectiveness of Absorbing EU Funds: The Experiences of Ireland, Estonia and Slovenia," Društ. Istraž. Zagreb, Vol. 17, Issue 6, 2008, p 1223

communication between and within different institutions managing EU funds. Programming phases lacks the SWOT analysis and Regional and Sectoral Operational Programmes approval is delayed for more than tow years. There is no monitoring system which responds to EU standards and financial, procedural and physical data are unavailable. Evaluation is regarded as useless, so no reports on ex-ante, ex-post, interim and midterm basis are produced.

In the second category, the capacities are staring to develop; there is some definition for the roles of the staff while the communication between staff and departments start to emerge. SWOT analysis is introduced in the programming phase, but in fact important problems are still only vaguely reported. Approval of the ROPs is delayed till two years. Monitoring system is established, but used indicators and procedures are on a very basic level and are not functioning properly. Data necessary for the monitoring are only partially available. Integration of the evaluation in the overall system is considered important, but it is perceived as too difficult to be performed regularly, so only ex-ante analysis is performed.

In the third category administrative capacities are already on the developing level where responsibilities of the civil servants are delineated and there is inter-hierarchical communication, formal and informal channels of communications are utilised. There are acceptable delay ranging to one year and SWOT analysis preceding approval of programmes, but defined intervention is not targeted clearly in the programmes. Monitoring capacities dispose with quality indicators, but the overall system still does not function perfectly and data are available with certain, though acceptable delays. Evaluation is deemed as very important and only one of three types of reports is missing.

In the last, the fourth stage, the capacities are consolidated; the role of the personnel is clearly defined and the staff is fully participating in the management. There is a free flow of information both through formal and informal channels which is periodically reviewed. SWOT analysis shows full parallel between territorial needs and available EU funds, and ROPs start within six months from contracting of the project. In the monitoring process, indicators are useful and coherent with EU and national guidelines, while data are available and supportive for policy process. Evaluation is broadly used in national systems regardless of the EU requirements and ex-ante, ex-post, and midterm evaluation reports are produced.[72]

While testing Milio's model in the Irish case, I will be using overall assessments brought in the European Commission reports, working papers and national evaluations and secondary literature.

4.1.1 Management

Management is the first phase of the policy cycle in the EU funds absorption in which responsibilities delineation among employed personnel takes place. Moreover, it ensures

[72] For exact criteria used in Milio's model check Table 1in the appendices.

coordination of actions, so the duplication of work and delays in implementation could be avoided.

Ireland has managed Structural funds through Community Support Framework (CSF) where CSF Managing Authority (MA) located in the Ministry of Finance played the key role in organizing activities across government and beyond. Each MA is led by a principal officer and one or two assistant principal officers, which are supported by several executive officers and clerical staff showing the required responsibility delineation. In the programming period from 1994-1999, 65 civil servants were employed in Managing Authorities, while in the programming period from 2000 to 2006, 42 people were employed. Being managed through a wider NDP, there is cooperation and communication between different agencies and ministries handling EU funds. [73]In Irish case, where public service is an attractive employment option, there are only negligible problems with staff fluctuations. System of awards and competitive remuneration levels are comparable to private sector and fluctuations between different Ministries are a form of a career track for civil servants. Overall, Ireland faces less than 10% outflow of civil servants which is a limited number. [74]

Based on two indicators from Simona Milio's model, delineation of responsibilities and existence of inter- and within-ministerial communication channels and mobility, Irish

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[73] Irene McMaster, "Ireland," in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Pargrave Macmillan., 2008), 100

[74] Sjaak Boeckhout, Luc Boot et al. *Key indicators for Candidate Countries to Effectively Manage the Structural Funds*, Rotterdam: NEI, 2002. available at http://www.evaluace.cz/dokumenty/hodnot_zpr_eu/souhrnna_studie.pdf, accessed on 19 May 2010 p 7

administrative capacities are, regarding managing phase of policy cycle, in the consolidated category; there are well defined roles and open communications within agencies and between various actors engaged in EU funds management. Moreover, since there is a system of awards, public servants are motivated to perform their best and in that way able to shape way in which they participate in management.

4.1.2 Programming

Starting programming in time, especially regarding the preparations for the higher level plans, such as National Development Plans (NDS) and Community Support Framework (CSF), which are precondition for lower level programming, is a sign of experienced administration. Ireland shows a good example where programming for the NDP for the period from 2000-2006 started already in 1998.

A central issue for programming is the existence of the partnership principle. For successful funds absorption it is crucial to include parties important for future programme implementation. Ireland is the case in which partnership principle is part of a policy tradition; CSF MA acts as a moderator of the programming process where first a discussion is organized on higher government level and a draft copy of NDP is circulated among relevant stakeholders. After the senior level discussion OPs' are prepared by a Principal or Assistant Principal in the MA Process includes wide range of social and regional partners, private interests and NGOs, which in the end results with programmes enjoying wide support and successful implementation.

In 2008 analysis of cohesion policy implementation in Ireland McMaster shows how a system of partnership and cooperation facilitated partner engagement in programmes, strengthening the link between social partners, private enterprises and local, regional and central levels of administration. Public consultations which were held in programming the funds have enabled a dialogue with a broad network of actors. Five years programming periods and broad application of the partnership principle have made the policy approaches over time more consistent since they were less open to short term revisions by political leaders.

Development Strategy of the BMW can be taken as an example of good programming by taking into account the agreed vision for the region formed in Regional Foresight, the results of SWOT analysis and identified specific areas of needs, the strategic priorities defined in the NSRF and the National Spatial Strategy.

On the basis of the available data, it can be assessed that the developmental level of capacities regarding programming phase is in the stage of consolidated development. With right time organized programming, it is ensured that the ROPs are approved in time, while the SWOT analysis provides a basis for the construction of Regional Development Strategy, which shows that relationship between budget and needs is taken into consideration.

4.1.3 Monitoring

The organizational structure of the monitoring encompasses Monitoring Committee (MC) the highest decision-making body in each OP, SPD or CSF.[75] Due to their straightforward link with OPs, the total number of MCs for the structural funds was seven in 2000-2006 period,[76] which shows that the system is organized so the reporting requirements are not overweight. Overall system of monitoring has, due to the embedded nature of EU funds absorption in to the National Development Plan, been on a high level of development. The requirements to monitor and evaluate EU funds have initiated training of monitoring capacities and further more application of achieved monitoring standards in a wide range of policy fields.

However, some studies, where I especially focus on the Indecon on programme monitoring indicators for the Productive Sector OP, assesses quality and validity indicators as generally relevant, but there are some signs showing that system does not fully operate. Targets in the indicators were assessed not to be easily quantifiable and were coming from non-verified data, what makes the monitoring harder, while the monitoring systems at implementing agencies for data collection and reporting are not always clear.[77] Additionally, the 1994-1999 ex-post evaluation national report on Ireland Objective 1 areas argues that the most important weaknesses regarding monitoring were

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[75] Article 35, 1260/99

[76] Sjaak Boeckhout, Luc Boot et al. *Key indicators for Candidate Countries to Effectively Manage the Structural Funds*, Rotterdam: NEI, 2002. available at http://www.evaluace.cz/dokumenty/hodnot_zpr_eu/souhrnna_studie.pdf, accessed on 19 May 2010 p 9

[77] 'Programme Monitoring Indicators' in *Mid-term Evaluation of Productive Sector Operational Programme*, INDECON, 2003, 345

institutional rigidness, and gaps in monitoring data and periods when financial data were not available.[78]

On the basis of the existing literature and one mid-term one ex-post evaluation studies, it can be assessed that monitoring capacities are still on a developing level, where there is certain level of standardization of the system according to the EU and national guidelines, but the system does not seem to fully operate. Moreover, data seem to be available, but do not support entirely the policy process.

4.1.4. Evaluation

The third programming period between 2000 and 2006 in which the experiences from the previous two periods were capitalized, is the literature marked as advanced regarding the evaluation process. CSF covering €5.5 billions, was a part of wider NDP which amounted for €51 billion of public investments in the 2000-2006 period, and while EU evaluation regulations actually required only a small percentage of investments to be subject of evaluation, the Irish authorities have decided to apply the structural funds monitoring and evaluation arrangements to all NDP investment, regardless of their funding source. In this way, the CSF and NDP were covered under same evaluation implementation programmes.

[78] Fitzpatrick Associates, “Ex Post Evaluation of Objective 1, 1994-1999, National Report – Ireland,” 2003, p 143

There were four types of evaluations conducted in the 2000-2006 period; ex-ante, interim, midterm and ex-post evaluation. Ex-ante evaluation was organised in two phases, where in the first Department of Finance invites tenders for an assessment of national investment priorities on the basis of an agreed set of broad government objectives for the period. First phase was launched in 1998, along with NDP programming and parallel with the invitation for submissions from the various regional, social partner and sectoral interests. Evaluators have additionally reviewed submissions received from the involved actors and partners and have provided Government with an assessment of the investment needs of the economy. The second phase has provided a formal ex-ante evaluation of the NDP

Interim evaluation, following ex-ante and mid term evaluation in the period 2000-2006 was a continuation of a activities in 1994-1999 programming period. However, on the basis of the lessons learned, it was organised at an overall NDP/CSF level by the NDP/CSF Evaluation Unit compared to the organization on a individual OP basis which was characteristics for the previous period. Evaluation Unit was assigned with construction of the 2001 to 2003 interim evaluation for the 16 projects which were proposed on the basis of concerns or issues raised in the ex-ante evaluation. There were delays in programme start-up as well as in the process of evaluator staff recruitment to the NDP/CSF Evaluation Unit.

Seven evaluations were carried out over the period 2001 to 2003; five commissioned externally and two being carried out internally by the NDP/CSF Evaluation Unit. The main focus of these evaluations has been on programme management and implementation aspects, including issues such as project selection and appraisal, project management, indicators, targeting of measures and potential problems of overlap and duplication. A huge progress was made once the managing authorities were required to submit a formal response on each evaluation recommendation to the monitoring committee and report back to the monitoring committee at regular intervals on progress made in implementing the agreed recommendations.

In 2002 a mid-term evaluation planning group, which brings together representatives of the OP managing authorities under the chairmanship of the NDP/CSF managing authority, was established at NDP/CSF level to co-ordinate the process of midterm evaluation. The committee was assigned to create an overall timetable for the evaluation process. Moreover, a common approach at the level of the three national and two regional operational programmes was adopted where common terms of reference for the NDP/CSF mid-term evaluation complement those at OP level.

Overall, through the evolution of Irish evaluation system, it is apparent that requirements of the EU regulations regarding evaluation have supported development of evaluation capacities in Ireland. Before 1989 and reform of the cohesion policy there was very little evaluation carried out in Ireland. The Irish case shows that evaluation capacities can be developed from scratch, and moreover that good organized and well resourced evaluation system, if supported by appropriate structures, acts as a great contribution in utilization of European Union Funds. Irish evaluation system has reached a high level which enables learning from experience and improvement of EU funds use. Independent evaluators, committed stakeholders and timely adjusted evaluation really make a difference.[79]

In the assessment of the till-1999 EU funds absorption, John Fitz Gerald outlines impact which funds had on public administration and development of evaluative capacities. Özenen points out that, as in other EU countries, the Structural Funds have served in Ireland as a credit source for investments, but have also helped to promote a planning and evaluation culture and capacities which were, until the introduction of EU funds absorption, very weak.[80] McMaster outlines development of the culture of evaluation and monitoring as positive side-effects which implementation of cohesion policy has brought.[81] Mairate argues that, in Ireland, systematic evaluation of national and regional development plans are conducted, where specialised evaluation units operate within public administrations. Employment of embedded evaluation units has brought improvements in programming documents, particularly in the quantification of targets and impacts.[82]

On the basis of the assessment of the 2000-2006 period, Ireland fits into the category of extremely consolidated evaluation structures where reports on ex-ante, interim, midterm and ex-post evaluation are produced and where not only results of evaluations are used to

[79] David Hegarty, *Framework for the Evaluation of the Structural Funds in Ireland*, Budapest: *Paper prepared for Fifth European Conference on the Evaluation of the Structural Funds, 2003*,p7
[80] Cem Galip Özenen, *The effects of Structural Funds on Ireland's development and the lessons for Turkey*, Istanbul: General directorate of economic sectors and coordination, 2006
[81] Irene McMaster. "Ireland." in *EU Cohesion Policy After Enlargement*, ed Michael Baun and Dan Marek (New York: Palgrave Macmillan., 2008), 102
[82] Andea Mairate, Developing evaluation capacity in the Member States: the case of Structural Funds, IDEAS Workshop, 2006, p 3

improve policy implementation, but the evaluation is being firmly embedded in overall national system of public investments.

The analysis of Irish administrative capacities through four phases of Milio's model; management, programming, monitoring and evaluation, shows that administrative capacities in Ireland are on a consolidated level and can to be considered as one of the main reasons for the high rates of absorption and successful implementation of the cohesion policy.

4.2 Other determinants of Irish success

When considering why the implementation of the funds was such a success story in the case of Ireland, it is necessary to analyse drafting of NDP/CSF as joint development strategy which is a specific aspect of Irish cohesion policy. Since the reform of cohesion policy in 1989, domestic policy and cohesion support were managed as a part of integrated investment plan and policy framework. Being embedded into multi-annual planning programmes has helped the EU investment to be planned rationally and optimally, while at the same time duplications of effort was avoided.

From the reform of cohesion policy onwards, absorbing funds required new approach to management and programming of seven years long integrated development plans, so wider coordination across sectors, levels of government and social partners emerged as result. Moreover, EU funded projects had to satisfy financial and efficiency controls through monitoring and evaluation where Irish authorities adopted evaluation and monitoring as mandatory for all public investments, not just the ones co-financed by EU money, which helped in development of controls, measures and indicators.

4.2.1 Why BMW remained comparatively underdeveloped?

Within the country, there are significant differences between more developed Souther & Eastern regions and less developed Border, Midlands and Western regions. Partially the reasons can be seen in centralized system of governance which has not, until 2000 aimed specifically at regionally equal development, and lack of authority on the regional level which would enable regional structures in BMW to implement cohesion policy in a way which would be regionally more beneficial. Moreover, the perceived need to enhance overall national development led policy actors to focus on national issues, as opposed to regional ones. Even after eight Regional Authorities have been established in 1994, they acted primarily as "review bodies" with limited responsibilities. With beginning of 2000-20006 period, two new founded Regional Assemblies became in charged each for implementation of one OP were. Although this step was aiming at increased decentralization, it is still a limited progress if compared to continuing role of central state, but it has at least enabled BMW to catch the same pace of development as S&E. (Figure 7)

This chapter has through the application of Milio's model on the case of Ireland that administrative capacities are on a consolidated level and are crucial in utilizing the EU funds.

Chapter 5 - Determining factors of cohesion policy failure in Italy

Case of Italy, has compared to Ireland, shown to be incontestably a failure in cohesion policy implementation. In the previous chapter I have outlined determinants of Irish success, arguing that Ireland manages to utilize EU funds due to consolidated administrative capacities. In this chapter I will analyze what the factors are preventing Italy to use the EU funds more efficiently. The first subsection identifies three key issues researched in the literature on absorption problems, while in the second part I present the results of analysis on most important factors preventing cohesion policy implementation in Italy.

5.1 Common issues causing absorption problems

In the literature the most discussed absorption problem comes from the lack of institutional and administrative capacities.[83] The insufficient number of civil servants working in administering funds results in delays in contracting otherwise good quality projects, lack of skills and experience in estimating which project contributes to long term development, incomplete or overoptimistic planning, an inadequate institutional

[83]Yves Herve and Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU—An Analysis of Absorption Problems and Evaluation of The Literature.* (Baden-Baden: NOMOS, 1998), 69

framework and blurry differentiation of sectoral policies all lead to cohesion policy deficit.[84]

Second, Herve and Holzmann argue that some EU member states have institutions especially prone to rent-seeking.[85] EU financial flows involve a form of rent-seeking which lowers the percentage of the aid that finally reaches the assigned project or influences the decision-making process by financing less efficient projects due to lobbying or bribery. The lack of competition between regions concerning the proposed projects induces conditions in which regional authorities do not have any incentive to use the Structural Funds to carry out highly productive projects and hence become more prone to rent-seeking.[86] EU financial flows involve a form of rent-seeking which lowers the percentage of the aid that finally reaches an assigned project or influences the decision-making process by financing a less efficient project due to lobbying or bribery. As Boltho et al (as quoted in Herve and Holzmann)[87] argue, in regions such as the Italian Mezzogiorno where rent seeking activities appear to be part of the life style, decentralization might not be preferred. On the other hand, Bähr argues that Structural Funds are in general more effective in promoting growth when the states exhibit a higher degree of decentralization.[88]

[84] Judith Kalman, "Possible Structural Funds Absorption Problems," in *Regionalization for Development and Accession to the European Union: A Comparative Perspective,* ed. Gerard Marcou (Budapest: Local Government and Public Reform Initiative, 2002), 33.
[85] Yves Herve and Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU—An Analysis of Absorption Problems and Evaluation of The Literature.* (Baden-Baden: NOMOS, 1998), 15
[86] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/
[87] Yves Herve and Robert Holzmann, Fiscal Transfers and Economic Convergence in the EU—An Analysis of Absorption Problems and Evaluation of The Literature. (Baden-Baden: NOMOS, 1998), 77
[88] Cornelius Bähr, "How does Sub-National Autonomy Affect the Effectiveness of

The returns from EU funds might not be as high as expected because the funds are used for consumption instead of investment. Kalman points out that the amount of resources is defined in advance for seven year long periods, so countries might opt for a slower pace of development in order to receive funds longer.[89] In the context of the time issue, the gap between project design and actual implementation, which comes as a result of rigidities in the cohesion policy allocation process, also tends to create difficulties in maximization of EU funds' results.

Moreover, in avoiding the possibility of funds cut in the case of not spending all the money designated from the Structural funds, recipients are motivated to spend all the resources, even if that means contracting projects which actually do not have higher growth promoting capability.[90] Bähr points out that Structural funds often have to be used in pre-specified projects, such as environmental protection, which do not necessary promote growth. He insists that although co-financing provisions guarantee participation of recipients in project implementation, it may redirect money from a project which would otherwise be implemented and it does not necessary result in EU funded projects bringing higher growth rate than state funded ones.[91] Aiello and Pupo also argue that instead of EU funds being spent as additional to expenditure already planned by national regional policy, the majority of co-financing concerns investment in already begun 'side-

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Structural Funds?," *KYKLOS*, Vol. 61. Issue 1, (2008): 5

[89] Judith Kalman, "Possible Structural Funds Absorption Problems," in *Regionalization for Development and Accession to the European Union: A Comparative Perspective,* ed. Gerard Marcou (Budapest: Local Government and Public Reform Initiative., 2002), 34

[90] Ibid, 34

[91] Cornelius Bähr, "How does Sub-National Autonomy Affect the Effectiveness of Structural Funds?," *KYKLOS*, Vol. 61. Issue 1, (2008): 6

projects'. Therefore, as a result of these factors EU funds are being spent on programmes far from EU funds designated means.[92]

5.2 Key factors influencing EU funds absorption in Italy

Having summarised the literature analysing the most common issues preventing optimal cohesion policy implementation, in this section I list four key absorption problems which have been critical for less than optimal results.

Several academic papers point to the importance of high quality institutional and administrative capacities. Milio argues that administrative capacities in essence explain differences in regional performance between former Objective 1 regions Abruzzo, Molise and Sardinia which are now due to progress in the quality of institutions, eligible only for Regional Competitiveness and Employment Objective.[93]

Moreover, interviewees have confirmed that the differences in the results between regions are in many cases due to the lack of administrative and technical capacities. The problems was approached through contracting Technical Assistance (TA) mostly in the form of consultant firms, but TA could not solve the problem, since it is supposed to provide useful guidance and not define how to act. Regarding indicators, all the interviewees have outlined the general attitude within Italian public administration

[92] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/
[93] Simona Milio, "Can Administrative Capacity Explain Differences in Regional Performances? Evidence from Structural Funds Implementation in Southern Italy," *Regional Studies*, Vol. 41. Issue 4,, (June 2007)

according to which indicators present merely additional work and are formed just because EU regulations require them. Failure to understand the importance of good indicators results in excessive, inappropriate and incoherent indicators which in most cases have to be later in the policy cycle substituted creating delays or pose difficulties during the measurement.

Another issue connected to the administrative capacities emerges from the partnership principle; namely there is counselling in programming phase on the regional level which also includes local communities, civil society and business sector, but the decision making process in return ends to be longer and more demanding. Problems emerge in responsibility delineation on the each level or governance in the various phases of policy cycle, which often results in disrespect of the n+2 rule.[94] Additionally, although Italian public service is numerous, interviewees have commented that the capacities managing the EU funds are rather scarce. Overall, there are not enough employees in the central coordinating body and even less in the other institutions which use the funds.

The V&V study argues that structural funds in Italy have failed to accomplish their goal because the lack of security and rent-seeking endangers economic development. The results of the study show Basilicata and Molise, which have lost Objective 1 status, are more secure than Centre-North regions in general, which leads to the conclusion that Southern Italian regions which have raised the security level are able to achieve

[94] N+2 rule requires de-commitment of any funds not spent by the end of the second year following the year to which they were allocated.

convergence criteria.[95] Widespread corruption and rent-seeking behaviour[96] have in addition degraded implementation of cohesion policy and with low level of security negatively influence the convergence.

Observations made by Aiello and Pupo indicate that the major reason for less successful implementation of cohesion policy comes from the domination of quantitative over qualitative results. In Italy, due to lack of competition in project contracting and due to the European Commission's requirements to absorb all the allocated funds, the quality of the programs is sacrificed. The authors conclude that if EU funds are not properly spent, they will bring short-term benefits and instead of accelerating the regional convergence, in the long run will reduce the free action of market forces which are the source of economic growth.[97] Aiello and Pupo bring out the issue of 'side-projects; the EU funds not being spent on EU designated purpose programs, but for programs which have already been undertaken by national regional policy.[98]

The results from the interviews with administrative personnel from institutions handing EU funds in Italy have shown that there is a lack of EU funds additionally. In order to ensure utilization of the EU funds additional national resources are needed, while in Italy, the additionality level has been insufficient and structural funds have been basically compensating the lack of money from national level. Moreover, in certain cases, more

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[95] ibid
[96] Yves Herve and Robert Holzmann, *Fiscal Transfers and Economic Convergence in the EU—An Analysis of Absorption Problems and Evaluation of The Literature.* (Baden-Baden: NOMOS, 1998), 15
[97] Francesco Aiello and Valeria Pupo, *Structural Funds and Economic Divide in Italy*[article on-line] (Münich, MPRA, 2009, accessed on 20th December 2009); available from http://mpra.ub.uni-muenchen.de/17853/
[98] ibid

national resources are invested in North and Centre, which are more developed regions, than in the South.

To conclude, this chapter has cast light on the four most important factors preventing Italy from implementing cohesion policy more efficient: insufficiently developed and lack of institutional capacities, lack of security combined with widespread corruption and rent seeking, over-emphasise of quantitative over qualitative results and lack of EU funds additionality.

Conclusion

This thesis through analysis of Ireland, which has proved to be the best pupil in the class regarding efficiency of EU funds utilization, and Italy, where cohesion policy has failed to achieve convergence within country, has revealed determining factors which have enabled different outcomes. By identifying the gap in scholarly debate, namely the reasons for relative success or failure in cohesion policy implementation in the old member state, arguing that the difference emerges from the level of administrative capacities development, the analysis provided in the thesis closes the gap by determining the most important factors which have caused or prevented cohesion policy utilization.

The Lisbon Treaty clearly defines the EU cohesion policy as its instrument in pursuit for economic, social and territorial cohesion in the European Union where enabling all the regions equal opportunities for growth is absolutely essential in reaping benefits of the single market.

Through Milio's model applied on the case of Ireland, I show that the most important determinant of effective cohesion policy implementation in Ireland is the existence of consolidated administrative capacities. Through the analysis of the managing structures and goals during the three encompassed programming periods, I further identify CSF integrated in broader NDP, adjustment to multi-annual planning and transparency requirements regarding monitoring & evaluation as factors which had significant impact on successful use of EU structural and cohesion funds in Ireland. In explaining the existence of regional differences between, in the Irish context, underdeveloped BMW and rich S&E NUTS2 regions I find national policy actors' focus on the national level boost, as opposed to specific regional needs in the first two programming periods, crucial in preventing regionally harmonized development. GDP per capita PPP shows that after addressing the issue of regional imbalances in 2000-2006 period CSF, the growth levels of both regions have equalized.

On the basis of the Italian case, I identify the lack of administrative capacities, rent-seeking and corruption, primacy of quantitative over qualitative results and lack of The EU funds additionality as main issues impacting relative failure in funds usage. My research has furthermore shown that the lack of administrative capacities emerges from underestimating the importance of indicators, insufficient personnel employed in the management of the EU funds, lack of responsibilities delineation between actors in partnership counselling and inability to benefit from TA projects.

After analyzing the cases of Ireland and Italy and having the thesis positioned between two opposing streams on the effectiveness of the EU funds, where one argues that convergence should be targeted through market, competition and transparency measures, and other that cohesion policy is the right approach in achieving convergence, I argue that convergence can, as in the case of Ireland, be achieved through support of the system of cohesion and structural funds, but only under the conditions, such as in Ireland, where transparency policy in funds handling, as well as the market and competition principles in overall terms of economical development are respected. The case of Southern Italy confirms the argument that without respecting market and competition principles and transparency, the EU funds fail to bring any long term effects or convergence and in fact impede economic development.

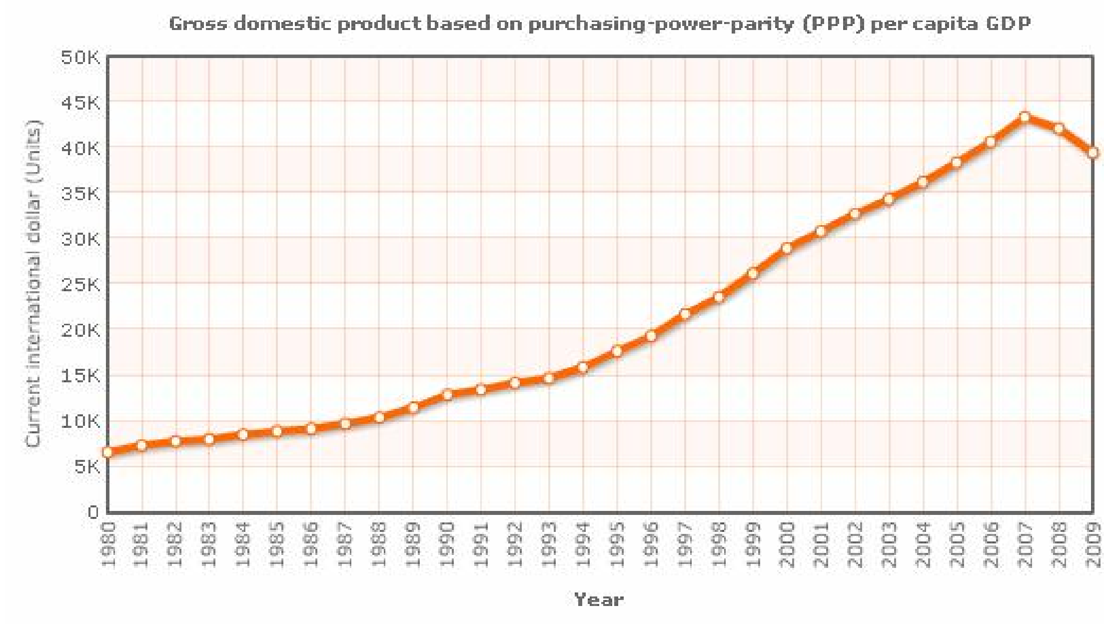
The overall contribution of the thesis is four-fold; first, it confirms the importance of developed administrative capacities for success or failure in cohesion policy implementation in old member states which have until now been unsystematically researched and neglected in the literature. Second, I have, by identifying a combination of factors which have enabled Ireland and prevented Italy to utilize the funds, closed the gap in scholarly literature on the two countries in particular by charting precisely what has led to success and what to failure. Third, in the context of announced reform of cohesion policy, which emerged because of the insecurity in the EU funds efficiency, I have shown on the cases of Ireland and Italy that in the stable conditions, but with an application of competition policy and transparency rules, The EU funds indeed support regional convergence. Fourth, thesis findings, can because of the longevity of the analyzed period when compared to analyses of new member states, also be applied in creating recommendations for the candidate countries. Namely, recommendations encompass amelioration of public administration and investment intro administrative capacities, ensuring co-financing resources for smaller regional programmes, strictly delineating actors' responsibilities while applying partnership principle and adopting evaluation and monitoring procedures as key tools in policy cycle of cohesion funds usage.

Appendices

Table 1. Indicators and progressive stage to benchmark administrative capacity from Simona Milio's model

Key components	Indicators	Absent	Starting	Developing	Consolidated
1. Management	(a) Clarity in the definition of role	Staff roles and responsibilities unclear and changeable	Staff roles and responsibilities vaguely defined	Staff roles and responsibilities are defined	Role among personnel is well defined. Staff increasingly able to shape the way in which they participate in management
	(b) Coordination and cooperation among departments	Poor intra-staff and intra-department communications. Lack of formal and informal channels	Modest amounts of staff and department communications. The emergence of formal channels for dialogue and decision-making	Communications are open and inter-hierarchical. Formal and informal channels are established and utilized	Organization periodically reviews communication flow to ensure the free flow of information through both formal and informal channels
2. Programming	(a) Program design: SWOT analysis	Absence of a SWOT analysis	Introduction of a SWOT analysis. But important territorial problems are still overlooked	SWOT analysis is supportive of the programme, although the intervention selected is still not fully targeted	SWOT analysis is thorough. It allows a full correspondence between the budget and territorial needs to be targeted
	(b) Programme approval: time laps between the beginning of the CSF and approval of the ROP	Approval of the ROP is strongly delayed (over two years)	Approval of the ROP is delayed for two years	Delay of the ROP approval is contained to one year	ROP starts within 6 months
3. Monitoring	(a) Introduction of a system of indicators and of monitoring procedures responding to national/European-agreed standards	No monitoring system	System has been introduced, but the indicators and procedure are not functioning properly	Indicators and procedure are coherent with the national/European guidelines, but still not fully operating	Indicators and procedure are coherent with the national/European guidelines and fully operating
	(b) Guaranteeing the availability of financial, physical and procedural data	No data available	Available data are partial	Data are available with not much delay	Data are available and used as support for the policy process
4. Evaluation	(a) Production of the evaluation reports	No reports are produced	*Ex-ante* report is produced but no *initinere* or *ex-post* report	One report is still not produced	Three reports are produced
	(b) Integration of the evaluation method and culture in the system	Evaluation method is considered not to be useful and is time-consuming	Although considered important, it is too difficult to be performed	Evaluation is performed as thoroughly as possible	Evaluation is considered a fundamental tool to improve policy implementation

Figure 1. Graph showing GDP per capita PPP in Ireland from 1980-2009

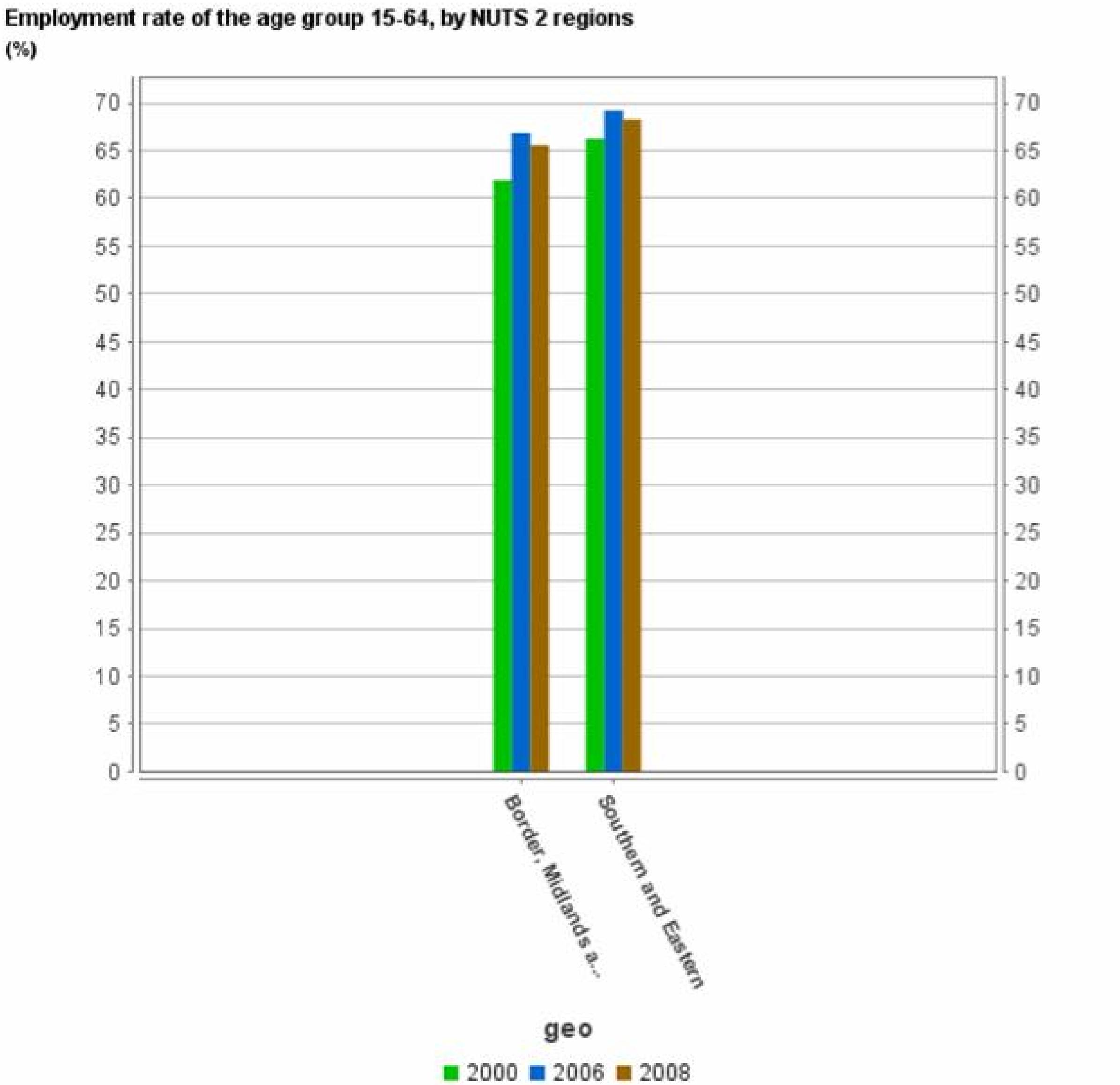


Source: International Monetary Fund, http://www.imf.org/external/ns/cs.aspx?id=28

Figure 2. Graph showing unemployment rate in Ireland from 1980-2009

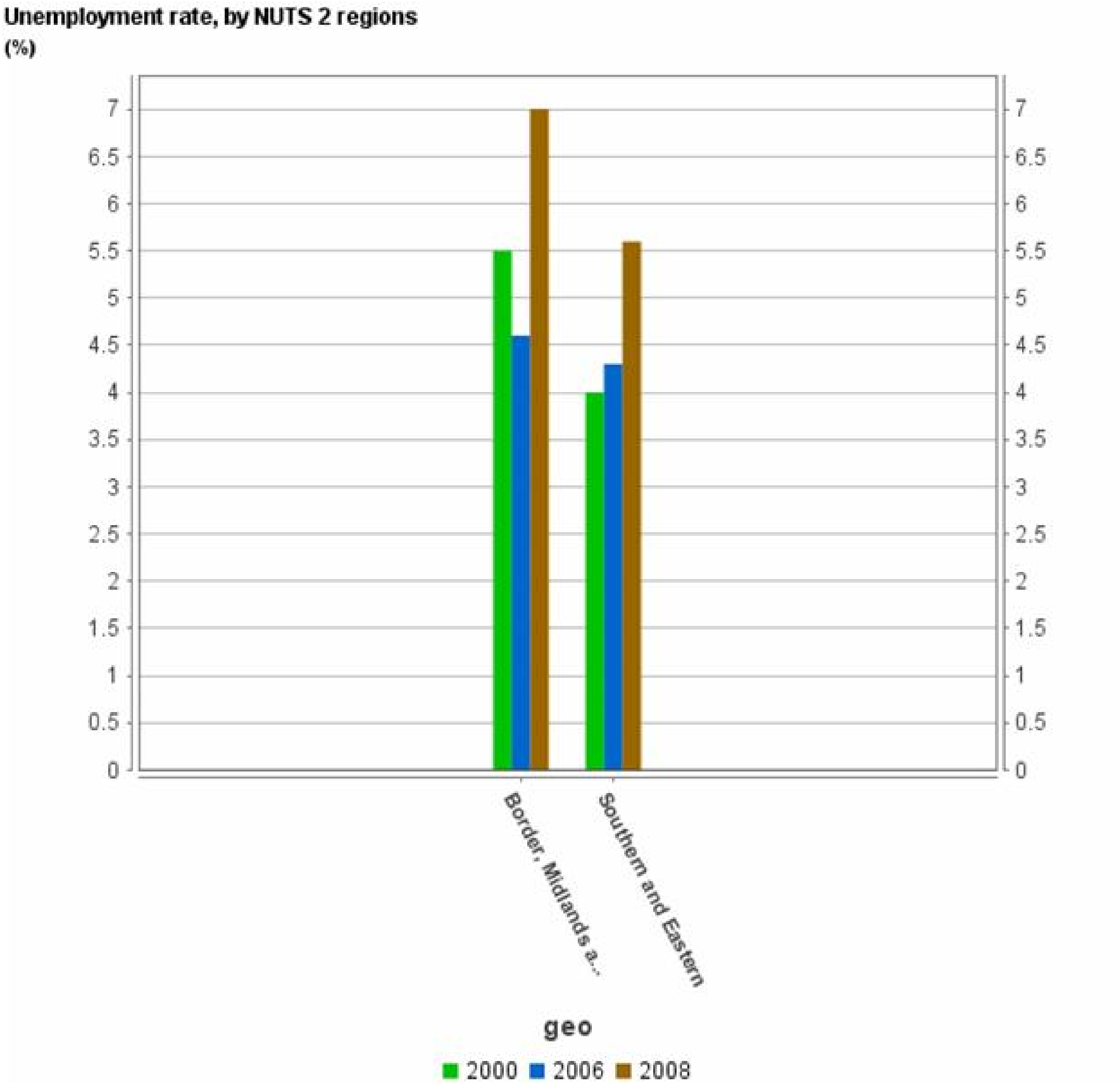
Source: International Monetary Fund, http://www.imf.org/external/ns/cs.aspx?id=28

Figure 3. Graph showing employment rate in BMW and S&E NUTS2 regions, 2000, 2006, 2008.



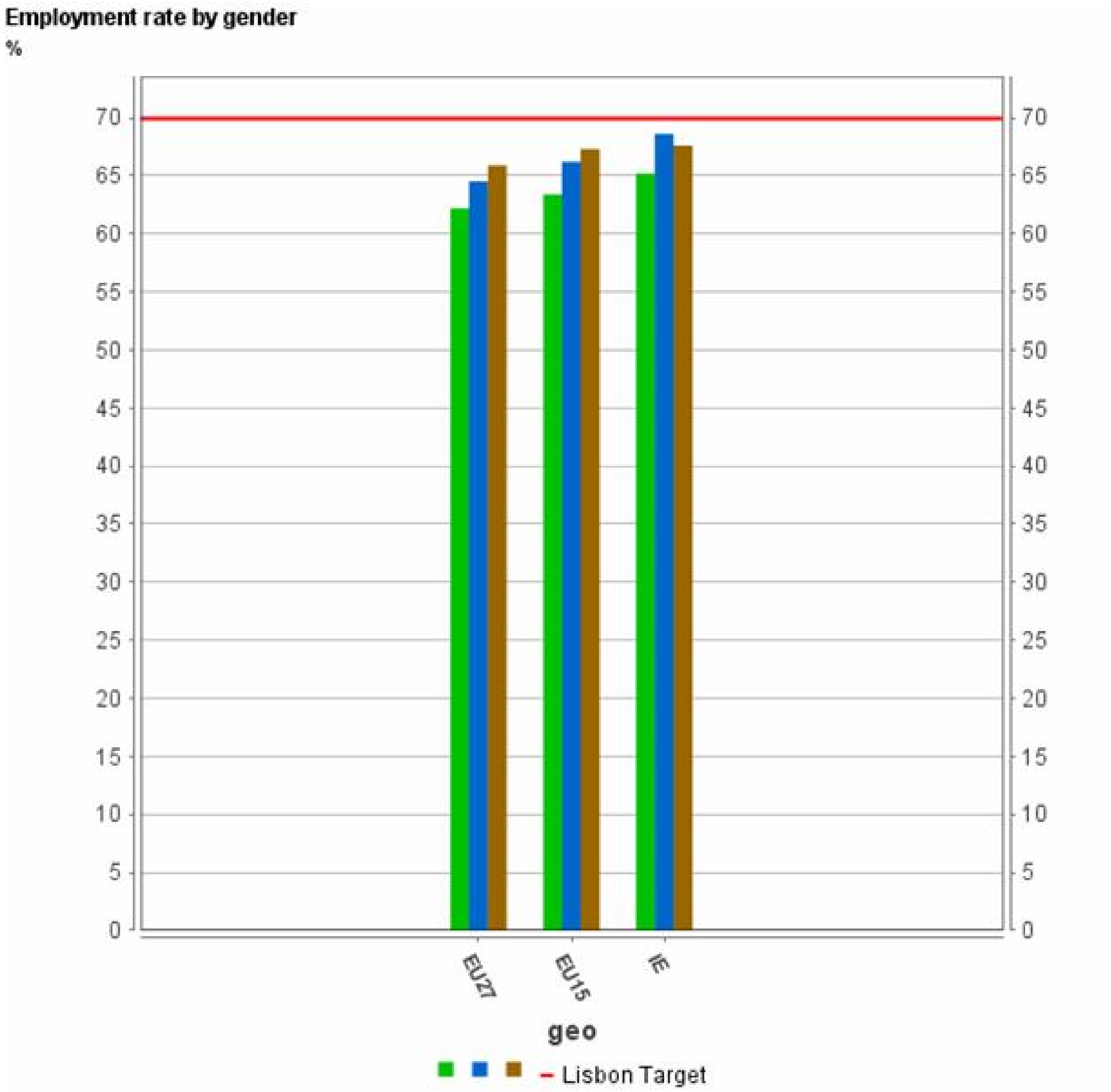
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 4. Graph showing unemployment rate in BMW and S&E NUTS2 regions, 2000, 2006, 2008.



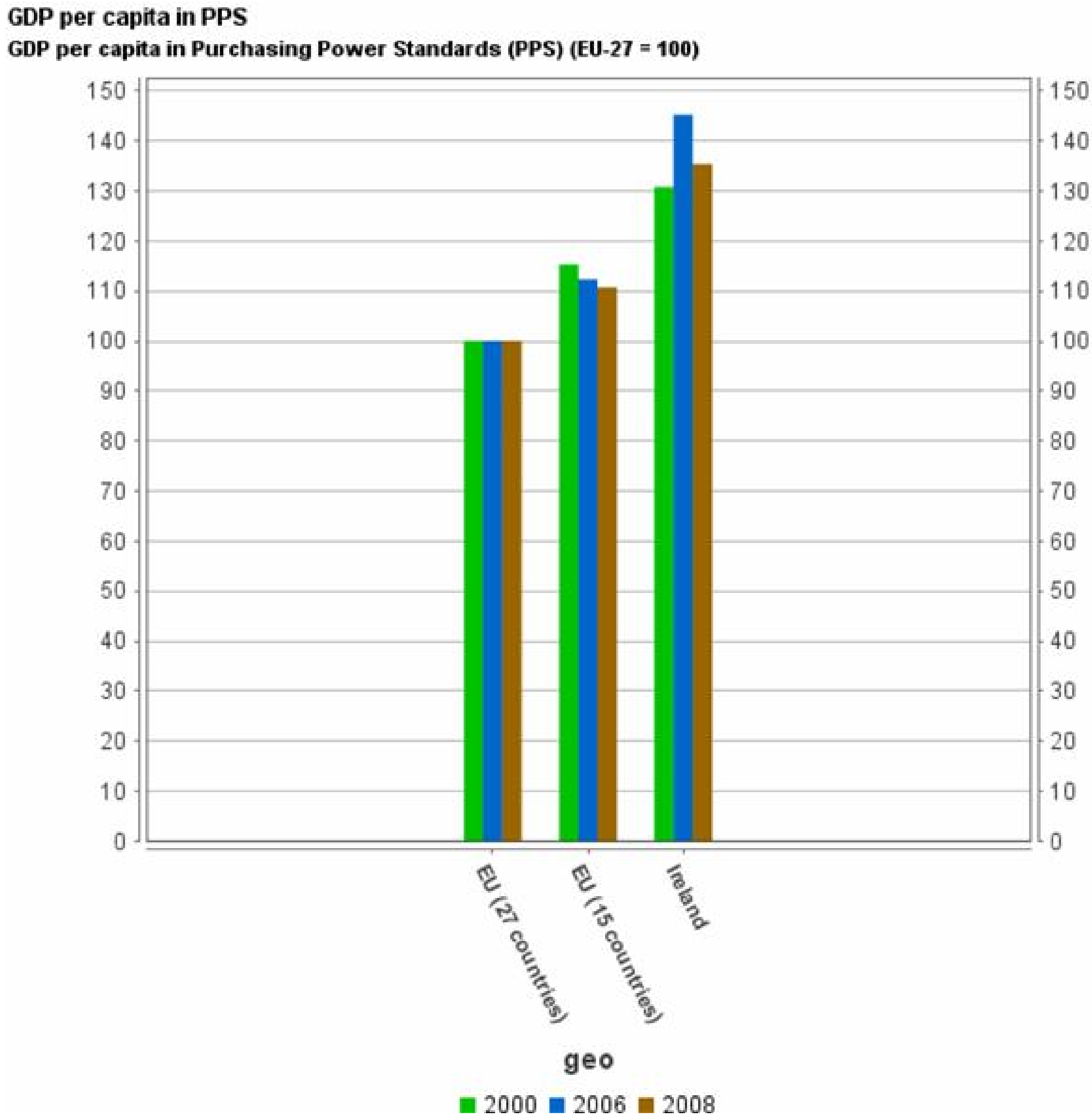
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 5. Graph showing employment rate in Ireland, EU15 and EU 27 in 2000, 2006, 2008.



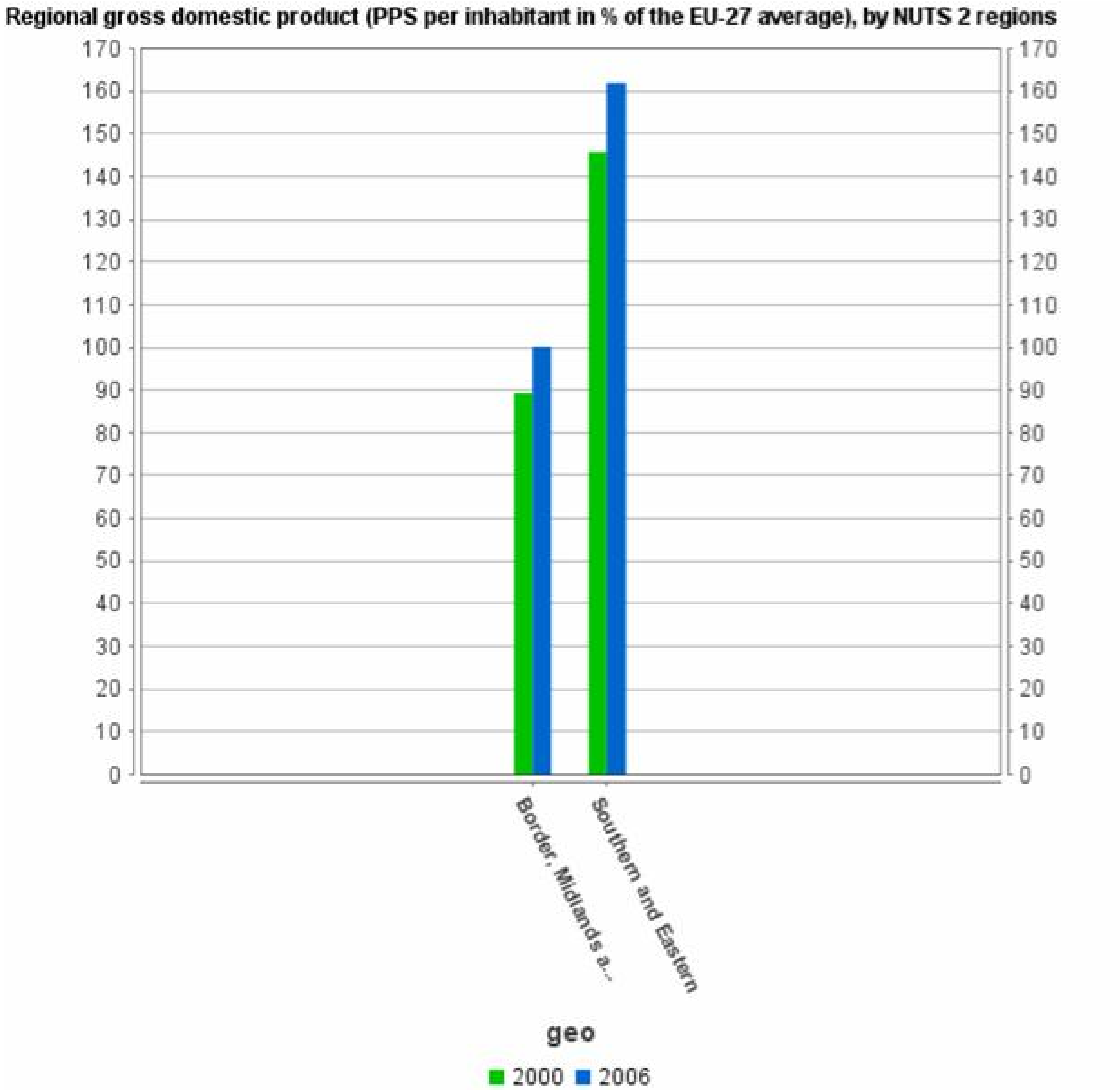
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 6. Graph showing GDP per capita PPP in Ireland, 2000, 2006, 2008



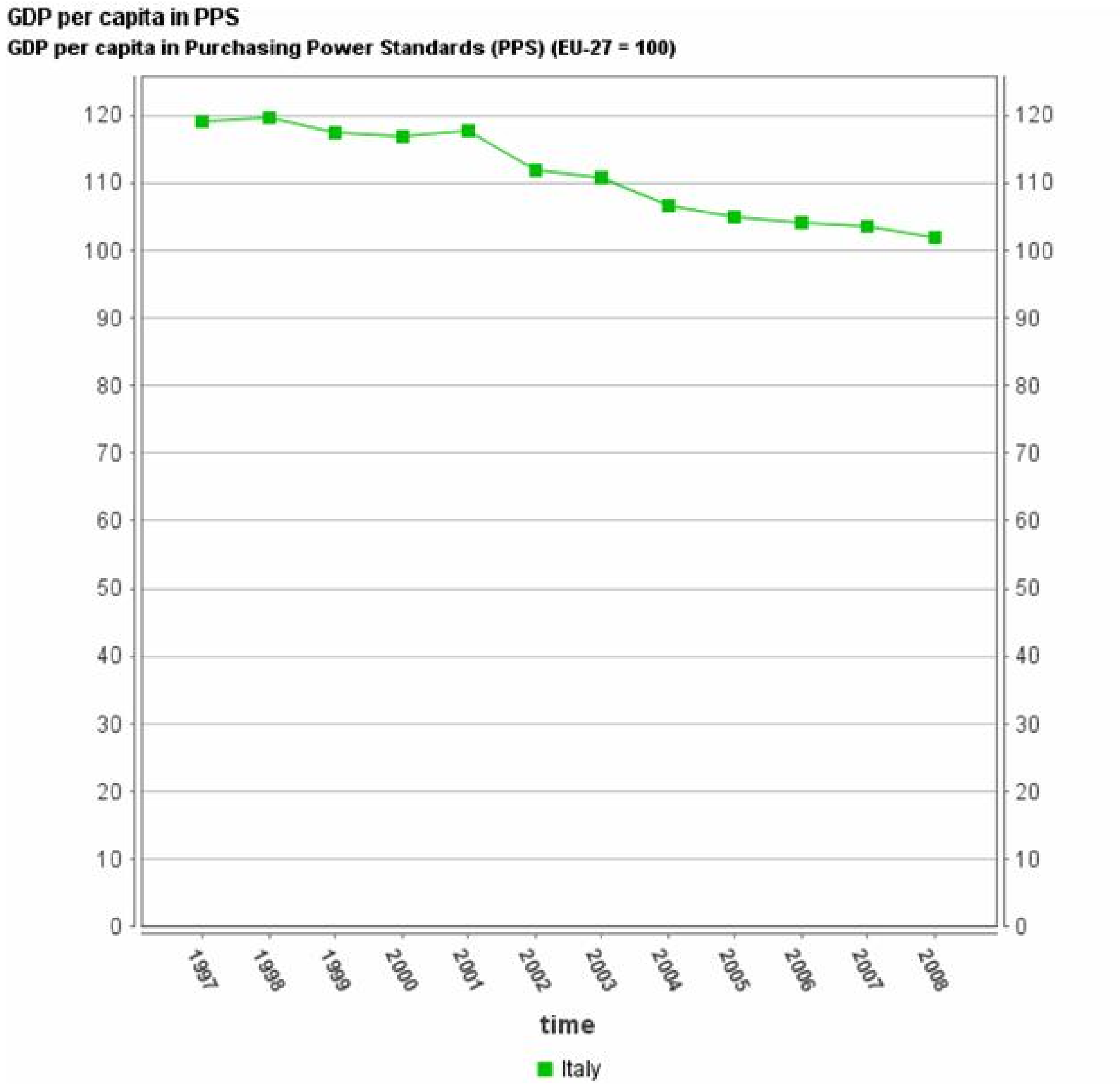
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 7. Graph showing GDP per capita PPP in S&E and BMW NUTS2 regions, 2000, 2006, 2008



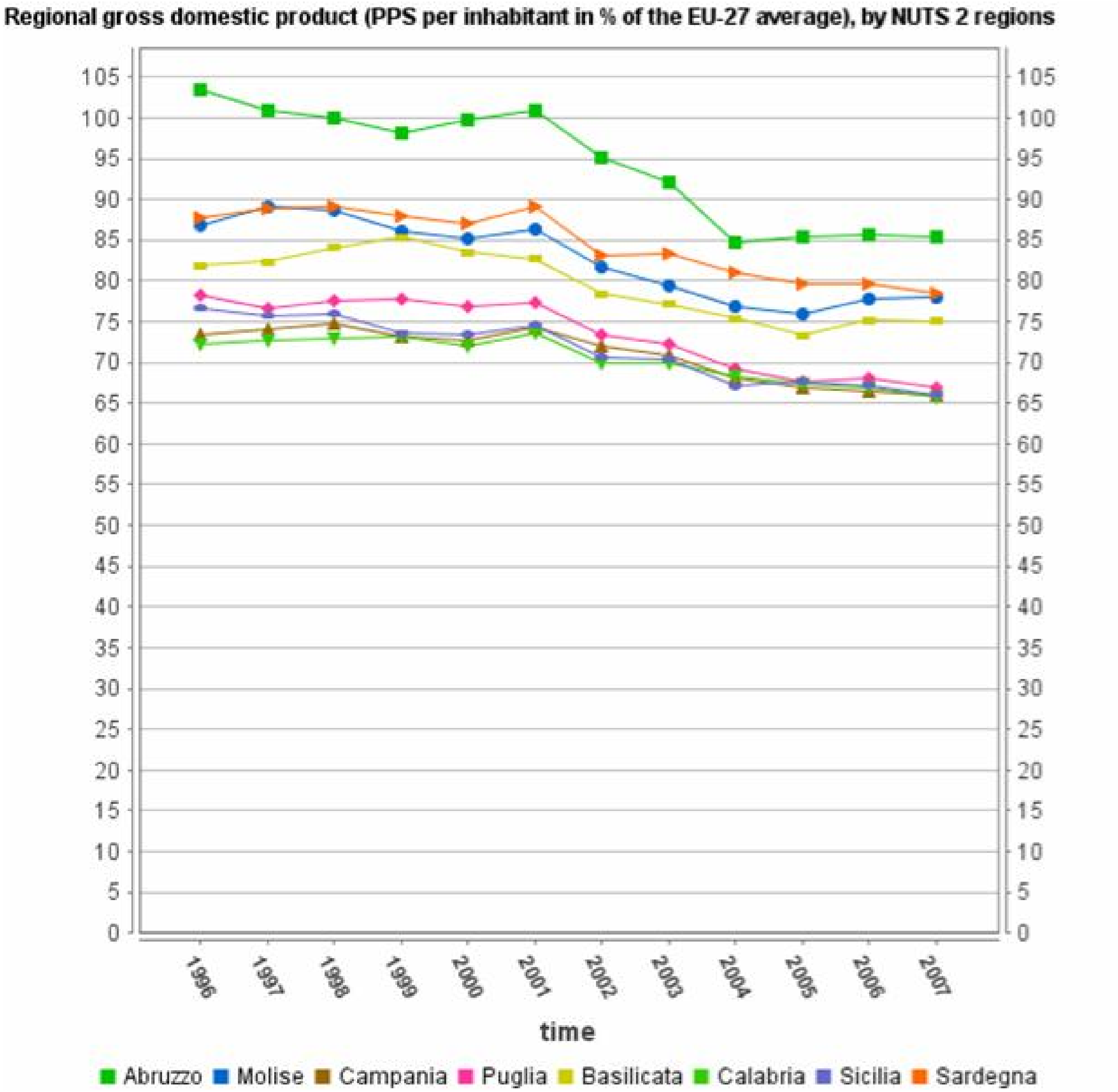
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 8. Graph showing GDP per capita PPP in Italy from 1997- 2008



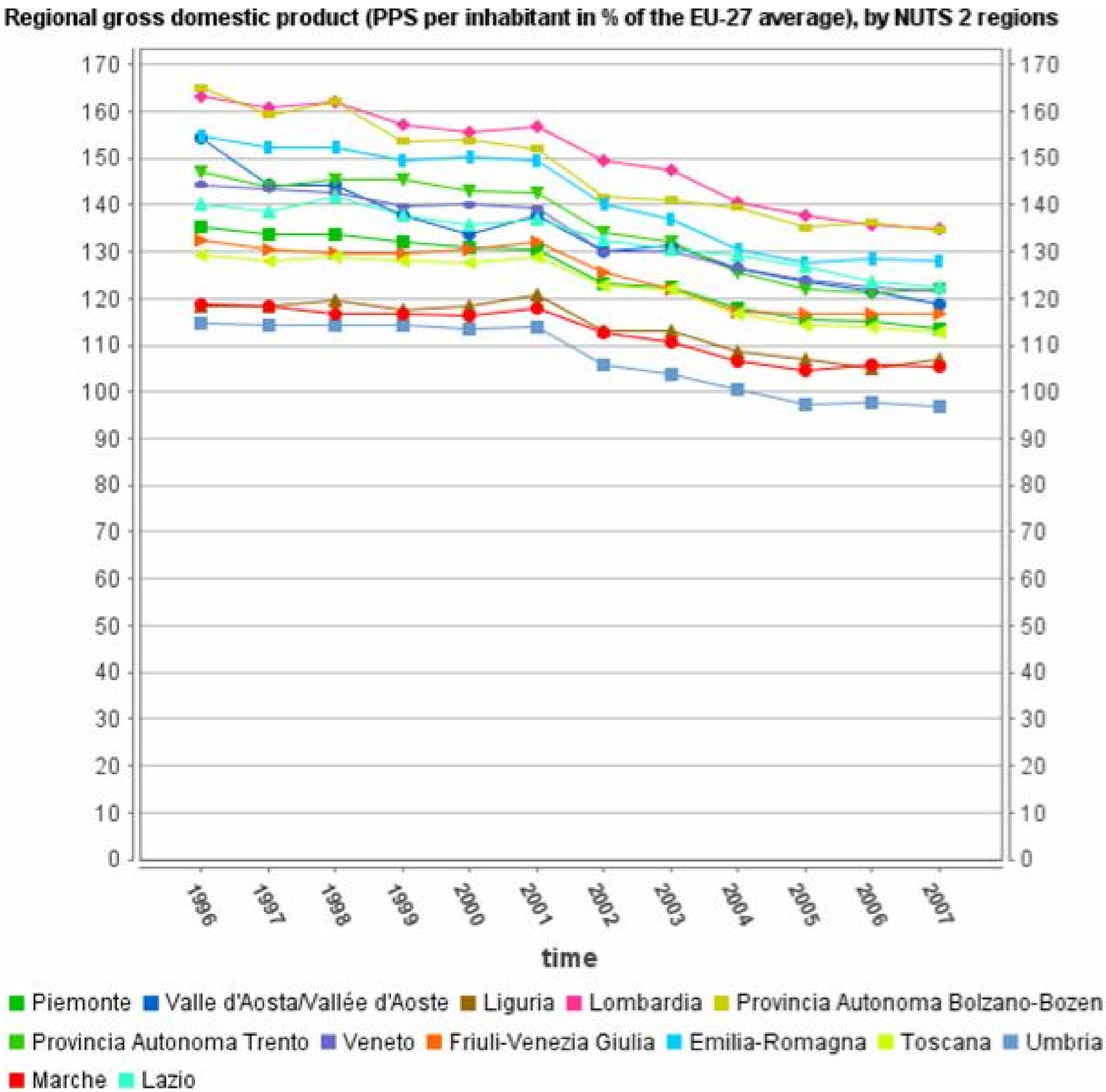
Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 9. Graph showing GDP per capita PPP in Southern Italy NUTS2 from 1996- 2007



Source: author's adaptation of Eurostat,
http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

Figure 10. Graph showing GDP per capita PPP in North and Centre Italy NUTS2 regions from 1996- 2007



Source: author's adaptation of Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/region_cities/regional_statistics/data/main_tables

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