THE EFFECTS OF STRUCTURAL FUNDS ON IRELAND'S DEVELOPMENT AND LESSONS FOR TURKEY

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ABSTRACT

Even though the current "industrialization by invitation" has been in effect prior to EU membership of Ireland, the county did not do well until 1990's. For example low tax rates were announced to be effective for capital accumulation and foreign direct investment inflow. The corporate profit tax rate was cut from 45% to 10% in 1981. However until 1990 the rate of growth of Ireland is far to be called a miracle. This result helps us to raise the question; What was missing? The list of possible answer to this question is long including poor education and management system.

It is believed that the foundation of the development in Ireland has been constructed with the EU funds. In the EU, the Structural Funds were created for the regions, whose development is lagging behind, in order to reduce the differences and create a better economic and social balance within and between member States. Up to date, there have been three programming periods for the Structural Funds, 1989-93, 1994-99 and the current period 2000- 2006. The main objective of the Structural Funds is to transform and modernise the structure of the relatively poor economies in order to prepare them for competition within the Single Market and the euro zone.

The aim of this study is to investigate the development of Ireland under the topics of GDP growth, unemployment rate, FDI external trade and derive lessons for Turkey. The Structural Funds cannot, of course, be credited as the cause of the Irish development. However, alongside a number of other key factors – previous investment in the Irish education system, good macroeconomic policy, the impact of European integration on trade and investment, and a positive external environment – the Structural Funds were an important part of a virtuous economic circle.

Key Words: Ireland, Structural Funds, European Union, Development.

THE EFFECT OF STUCTURAL FUNDS ON IRELAND'S DEVELOPMENT

I. INTRODUCTION

This study is about the success story of Ireland and its economic development. Ireland was a "poor" country compared to the European Union (EU) average. However the last decade of the last century witnessed the huge jump of Ireland.

The aim of this study is to investigate the development of Ireland after becoming an EU member, the effects of the Structural Funds for the development and derive conclusions for Turkey from the Irish experience.

The development period of Ireland are divided in to comparative advantage, economic autarky, and industrialization by-invitation terms.[1] Even though the current "industrialization by invitation" has been in effect prior to EU membership of Ireland, the county did not do well until 1990's. This result helps us to raise the question; What was missing? The list of possible answer to this question is long but it is believed that the foundation of the development has been constructed with EU funds.

Industrialization Development Agency (IDA) advertised the attributes of Ireland as:

- an English language labor force,
- relatively low labor costs, at least compared to EU standards,
- ready access to EU markets which the less developed economies with lower labor costs did not have,

[1] Fred Gottheil, (2003)

- a generous industrial grant system,
- a relatively low rate of corporate profits tax, and
- the promise of unfettered repatriation of profits.

The corporate profit tax rate was cut from 45% to 10% in 1981. However until 1990 the rate of growth of Ireland is far to be called a miracle. Table 1 below presents the growth rates for selected EU members. The Irish growth is fairly below others before its membership to EU in 1973. The other table (Table 2) compares Ireland with Asian Tigers.

Table 1 Rate of Growth for some EU members

	1955-1973	1973-1990
Ireland	91.5	86.8
Greece	241.4	46.8
Portugal	199.7	57.0
Italy	168.9	61.2

Source; adapted from Gottheil, 2003

Table 2 Growth Rates of Ireland and Asian Tigers

	1970-1980	1980-1990
Ireland	4.2	3.2
Korea	8.7	9.2
Taiwan	9.7	9.0
Singapore	9.0	6.9
Hong Kong	9.5	8.9
Thailand	6.7	7.6

Source; adapted from Gottheil, 2003

Table 3 records Ireland's tiger-like economic performance 1995–2000. How did it happen? This is the reason and main motivation for this study.

Table 3 Change in GDP

	Annual Change (%)
1995-96	7.8
1996-97	10.8
1997-98	8.6
1998-99	10.8
1999-2000	11.5
Average	9.9

Source adapted from Gottheil, 2003

II. EU STRUCTURAL FUNDS

Within the European Union, cohesion within the national and regional levels is a very important topic. EU believes that excessive disparities in the level of socio-economic development between countries and regions hit not only poorer areas, but also richer ones if they are unable to take full advantage of the large and single market and this would affect the Union itself. Therefore, cohesion was recognized as one of the foundations of European integration in the Treaty of Rome and then by other treaties. In the European Constitution, cohesion is seen as a pillar of European integration.[2]

II. A. Historical Stages of Regional Policy Development

In the EU, the Structural Funds were created for the regions, whose development is lagging behind, in order to reduce the differences and create a better economic and social balance within and between member States.

The countries which signed the Treaty of Rome (1957) declared 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".

The European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF) started in 1958.

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[2] Jacek Szlachta, 2004

Creation of the idea to redistribute part of the member states' budget to the poorest regions was developed in 1975 and this created the European Regional Development Fund (ERDF).

The Single European Act (1986) forms the basis for a "genuine" cohesion policy designed to offset the burden of the single market for southern countries and other less favoured regions.

The European Council initiated the operation of the solidarity funds- referred to as the Structural Funds- and allocated ECU 68 billion to them (at 1997 prices). This was the first programming period, 1989 – 1993.

The Treaty on European Union designated cohesion as one of the main objectives. It also created the Cohesion Fund to support projects in the fields of the environment and transport in the "poor" member states (1992).

The Edinburgh European Council decided to allocate almost ECU 177 billion (at 1999 prices), which is about one third of the EU budget, to cohesion policy for the period 1994-99. Additionally, a new Financial Instrument for Fisheries Guidance (FIFG) is created.

The Treaty of Amsterdam confirmed the importance of cohesion and also included a "Title on Employment" which stresses the need to work together to reduce unemployment (1997).

Up to date, there have been three programming periods for the Structural Funds, 1989-93, 1994-99 and the current period 2000- 2006.

For the 2000-2006 period, transfers from the Structural & Cohesion Funds will account for one third of the Community budget, or 213 billion euro (1999 prices) and the division is as:

- 195 billion euro will be spent by the four Structural Funds (the European Regional Development Fund, the European Social Fund, the Financial Instrument for Fisheries Guidance and the Guidance Section of the European Agricultural Guidance and Guarantee Fund);
- 18 billion euro will be spent by the Cohesion Fund.

II. B. The Funds of Structural Funds

The ERDF, ESF, EAGGF and FIFG make up the Structural Funds. Council Regulation (EC) No. 1290/1999 lays down general provisions governing the operation of the Structural Funds for the 2000- 2006 programming period and there are specific Regulations describing the tasks and scope of each of the four Structural Funds.[3]

The European Regional Development Fund (ERDF) is responsible for helping to reduce the main regional imbalances within the EU with structural adjustment of regions whose development is lagging behind. ERDF is largely directed at productive investment to create and safeguard sustainable jobs, infrastructure investment, local and Small and Medium Enterprises (SME) development. Council Regulation (EC) No. 1783/1999 outlines the general tasks and scope of the ERDF.

[3] NDP/CSF Office of Ireland

The European Social Fund (ESF) seeks to prevent unemployment by promoting employability, the business spirit, equal opportunities and investing in human resources. ESF investment is mainly directed at education and training interventions, and the development of labour market policies. The Fund is to be used to support actions under the European Employment Strategy and National Employment Action Plans. Council Regulation (EC) No. 1784/1999 outlines the general tasks and scope of the ESF.

The European Agricultural Guidance and Guarantee Fund (EAGGF) consists of the Guarantee section and the Guidance section. The Guarantee section is used to finance payments made under the EU's Common Agricultural Policy (CAP) to support agricultural incomes. Guarantee part is also used to support some rural development measures like early retirement schemes and agri-environmental program. Guidance part is used to support other rural development measures such as the young farmers scheme and promoting the development of rural areas. Council Regulation (EC) No. 1257/1999 outlines the objectives and scope of the rural development schemes supported under the EAGGF.

The Financial Instrument for Fisheries Guidance (FIFG) is used to modernise fishing structures to ensure the future of the industry, and to invest in areas dependant on fishing. Council Regulation (EC) No. 1263/1999 outlines the general tasks and eligible measures of the FIFG.

Different Directorates-General (DGs) within the European Commission are responsible for different Funds as follows:

Table 4 Funds and Responsible Commission DG

Fund	Responsible Commission DG
ERDF	DG Regional Policy
ESF	DG Employment & Social Affairs
EAGGF Guidance	DG Agriculture
FIFG	DG Fisheries
Cohesion Fund	DG Regional Policy

Other Commission DGs also monitor the Structural Fund spending in each Member State, to ensure spending is compatible with EU policies. DG Competition which monitors the competition policy within EU, examines Structural Fund spending to ensure projects comply with EU rules on competition and state aids. DG Environment is responsible for the environmental policies, examines Structural Fund spending to ensure projects are compatible with EU policy and legislation on the environment. If necessary, investigations into individual projects are launched.

II. C. Eligibility for Structural and Cohesion Funds

Article 158 of the European Treaty seeks to address economic and social cohesion in the EU by reducing the disparities between the levels of development of EU regions. In this context the criteria for designation of eligibility for resourcing economic and social cohesion is based upon a common system of classification. "Nomenclature of Territorial Statistical Units" (NUTS) are established by Eurostat in co-operation with the national statistics authorities, in Ireland's case the Central Statistics Office.

Regions are classified for financial support depending on the economic difficulties that they encounter. There are three Objectives in order to make expenditures with the Structural Funds. Regions can fall into one of three different categories. The most significant of these is Objective 1. The explanation for those Objectives is as follows:

Objective 1 – supporting the development and structural adjustment of regions whose development is lagging behind. It is providing regions with the basic infrastructure or encouraging investments in business economic activity.

Objective 2- supporting the economic and social conversion of areas facing structural difficulties.

Objective 3 – supporting the adaptation and modernisation of policies and systems of education, training and employment. Measures financed by Objective 3 cover the whole Union except for the Objective 1 regions where measures for training and employment are included in the catching-up programmes.

70% of the Funds being allocated to regions eligible for Objective 1 and Objective 1 in transition. 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.

Regions whose GDP per capita is less than 75% of the EU average qualify for Objective 1 Status. The average annual non-returnable transfers to beneficiary countries must not exceed the ceiling of 4 percent of their GDP. Initilally all of Ireland was classified as an Objective 1 region. Given the country had good economic performance, some parts of Ireland have exceeded the eligibility criteria for Objective 1 status. For the current programming period Ireland is designated into two NUTS II regions;

- Border, Midland and Western Region (BMW)
- Southern and Eastern Region (S&E)

II. D. The Cohesion Fund

The Cohesion Fund was established to complement the Structural Funds. It was intended to help for Economic and Monetary Union in four countries Ireland, Greece, Portugal and Spain. They had Gross National Product (GNP) per capita of less than 90% of the EU average in 1992.

The Cohesion Fund mainly helps projects in the environment and transport infrastructure. It focuses on the larger projects costing more that €10 million and operates on a project by-project basis. There have been many projects in Ireland benefiting from Cohesion Funding, including – roads, ports, airports, rails, water supply and waste water treatment projects.

II. E. Access to EU Structural Funds

With the reform of the Structural Funds in 1988, the budget for Structural Fund investment has increased. A 'programing approach' to the implementation of the Funds was also introduced. This requires the member states to prepare and submit a plan setting out its investment priorities for a particular funding period in order to be able to use EU Structural Funds.

The submitted plan forms the basis of negotiations between the members and the European Commission. The result of the negotiation is an agreement known as a Community Support Framework document or a Single Programming document.

These documents provide the actions, objectives, targets, financial resources, monitoring, evaluation and control systems to be set in place to manage the funds.

III. IRELAND AND THE EU STRUCTURAL FUNDS

The plan submitted in Ireland is known as National Development Plan (NDP). Total investment under the two previous programming periods amounted to about €30 billion. The contribution of the Structural Funds and Cohesion Funds was €11.3 billion. This financial support has enabled Ireland to proceed with its planned upgrade of the roads network, education and training, and the productive sector.

Under the current programming period (2000-2006) Ireland is planned to receive €3.35 billion from the Structural Funds and €586m from the Cohesion Fund. It is planned to invest total €57 billion in projects to improve infrastructure, develop workforce, enhance competitiveness, promote social inclusion and evenly distribute the benefits of economic growth.

To make the operation of the plan easier it is divided into Operational Programmes (OP's); two Regional, three Inter-Regional (or national), and a separate PEACE Programme which operates in the Border counties and Northern Ireland.

Regional Programmes are for

- Border, Midland and Western (BMW).
- Southern and Eastern (S&E).

Inter-Regional (National) Programmes are

- Employment and Human Resource Development.
- Productive Sector.

- Economic and Social Infrastructure.

PEACE II Programme (2000-2004)

- Supports the Peace Process in Northern Ireland and the border counties of Donegal, Monaghan, Cavan, Louth, Sligo & Leitrim. Each Programme is divided into sub-programmes, which are further broken down into Measures and in some cases Sub-Measures, which outline the specific funding initiatives under each Programme.

III. A. Implementation of the National Development Plan/Community Support Framework

The responsibility for the implementation of the Plan is within the Department of Finance. However each Operational Programme is administered by a Managing Authority. The authority, in turn, delegates the implementation of individual measure to an Implementing Body and this is mostly a Government Department or State Agency. Therefore to apply for grants in a relevant sector an individual, company or organization should contact the appropriate Government Department or State Agency.

A Monitoring Committee, composed of the members of the Government Department or State Agency responsible for implementing the measure, the Social Partners and the Managing Authority, monitors each Operational Programme.

The management of structural programmes has always been centralised at Government Department level in Ireland. Meanwhile the establishment of the BMW and S&E regions increases the input and influence of the regions as the NDP is developed and delivered. It represents a significant devolution of responsibility to the two Regional Assemblies by providing for the first time, for regional programmes in a National Development Plan.

III. B. Projects and Activities funded by the EU Structural Funds [4]

Border Midland and Western Region & Southern and Eastern Regional OP's:

- Local Infrastructure improvements including Non-National Road Improvements, Rural Water Schemes, Waste Management, Urban & Village Renewal and E-Commerce and Communications Infrastructure.
- Local Enterprise Development in Tourism, Micro-Enterprise, Forestry, Fishery Harbours and Aquaculture.
- Agriculture and Rural Development and Improvements.
- Childcare Facilities and Improvements, and Staffing.

Economic and Social Infrastructure OP:
- National Roads Programme and National Public Transport Services.
- Waste Water Schemes.
- Energy Conservation and Alternative/Renewable Energy.

Employment & Human Resoures Development OP:
- National Employment Service.
- School Completion, Early School Leavers, Third Level Access Initiatives, Skills Training and Traineeships.

[4] NDP/CSF Office of Ireland

- In Company Training and Life-long Learning Initiatives.
- Promotion and Monitoring of Equal Opportunities and Educational Equality.

Productive Sector OP:

- Research and Technological Development Infrastructure in Third Level Institutions and Manufacturing and internationally traded firms in Ireland.
- Sea Fisheries Development.

III. C. The Irish Case:

III. C. 1. Unfavourable Initial Conditions in the "Weak" Economies of EU

According to Barry[5], the failure of the 1950s was the restrictions on free trade with protectionist policies. The underperformance of the 1960s and 70s was a consequence of the poor education system. The 1980s were lost as the country struggled with problems bequeathed by a period of undisciplined fiscal policy.[6]

Ireland between 1950 and 1988 looks more like a failure than a success. Irish underperformance during this period has been ascribed to a mixture of poor policy choices and inefficient institutions.

Ireland has shared with the other weak EU or namely cohesion states a number of unfavourable characteristics like relatively low levels of human capital, relatively

[5] Frank Barry, 2003.

[6] Frank Barry, 2003.

poor physical infrastructure, and low research and development. These unfavourable characteristics were:

Educational Level

Table 5 provides some statistic in regard to the educational level of the population, showing that all the cohesion countries remain behind the OECD average in this respect.

Table 5 Educational Attainment population aged 25-64 (1988); OECD mean (=1.00)

	% attaintment at least upper secondary	% attaintment at least tertiary B (diploma level)	% attaintment at least tertiary A (degree level)
Ireland/OECD	0.84	1.00	0.79
Greece/OECD	0.72	0.76	0.79
Portugal/OECD	0.33	0.43	0.50
Spain/OECD	0.54	0.95	1.00

Source: Barry, 2003

Note: “At least tertiary B” includes “at least tertiary A”.

Physical Infrastructure

There was a poor infrastucture level of the cohesion county compared to the EU average.

Table 6 Relative Infrastucture Levels with respect to EU average 1985 (=100)

Ireland	67.1
Greece	56
Portugal	38.7
Spain	74.3

Source: Barry, 2003

R&D Environment

Research and Development activity indicators provide evidence for the level of development of firms and businesses in a region. Table 7 illustrates the position in regard to R&D over the course of the 1980s.

Table 7 R&D as a perentage of domestic product of industry relative to EU (1.00)

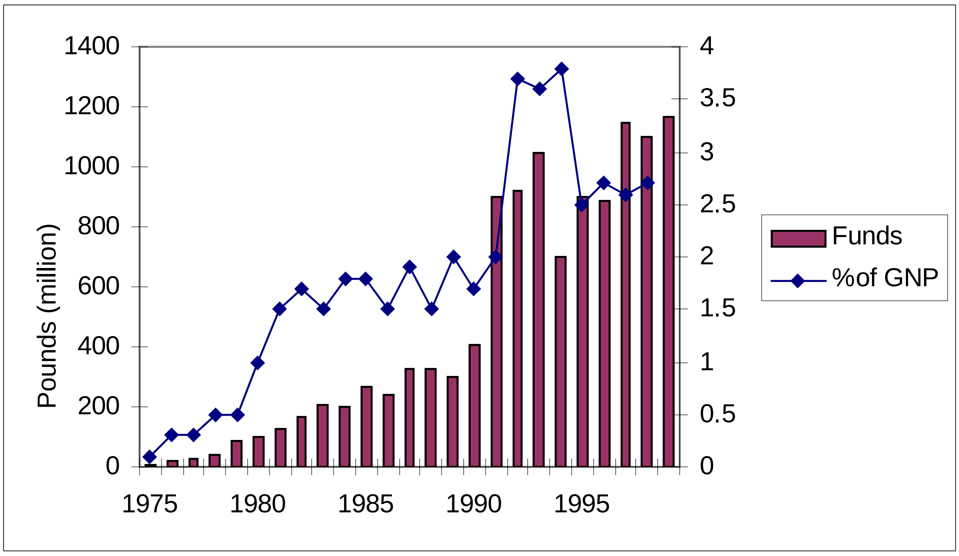
	1981	1989
Ireland/EU	0.29	0.35
Greece/EU	0.07	0.06
Portugal/EU	0.07	0.12
Spain/EU	0.14	0.29

Source: Barry, 2003

The tables above reveal that the policies in Ireland related with the development and growth were not effective for the country to jump and catch up with the average EU levels, however the picture changes after the Structural Funds of the Union.

IV. THE EFFECT OF STRUCTURAL FUNDS ON IRELAND

After the formation of Community Support Frameworks (CSF) the level of EU structural funding increased. This is presented in Figure 1.



Source; Barry et. al. 1997

Figure 1. Structural Funds and the percentage in the Ireland GDP

Including the 4 per cent performance reserve, the total structural funds allocation to Ireland under the CSF 2000 to 2006 amounts to €3.2 billion (equivalent, on an annual basis, to about 0.4 per cent of 2001 GDP). [7]

[7] David Hegarty, 2003

IV. A. Priorities for the CSFs;

- First Period (1989-93)

The two key objectives of the 1989-93 Community Support Framework (CSF) were to promote economic development in Ireland and to make a significant contribution for economic convergence with the European Union. Key priority areas were identified accordingly and the related investment as:

- Agriculture, fisheries, forestry, tourism and rural development
- Industry and services
- Measures to offset the effects of peripherality (road, port, rail and airport infrastructure and facilities)
- Investment in environmental infrastructure
- Human resources measures

These priorities were determined with the fact that the Ireland had both a low GDP and low employment with budgetary constraints and poor infrastructure.

- Second Period (1994-1999)

The two key objectives set for the 1994-1999 program period were:

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

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

Based on the objectives in the National Development Plan, priority investment areas were:

- Strengthening of the productive capacity
- Improving the competitiveness level with investment in economic infrastructure
- Development of work force skills
- Harnessing of local development potential in overall terms over the course of the CSF.

Taking account of both 1989-1993 and 1994-1999 terms one can conculde that the CSF Investment Funding Programs serve three main functions;[8]

- to develop the economy's stock of physical infrastructure
- to assist private sector development in areas such as investment, marketing and innovation
- to contribute to the development of the human resources of the economy through professional and technical training and through job training.

Thus Table 8 presents the allocation of the funds between the sectors for each previous programing.

[8] Barry F., Bradley J., Hannan A., 1997

Table 8 Allocation of the Funds

	Allocation of CSF Funds, 1989-1993 (%)	Allocation of CSF Funds, 1994-1999 (%)
Physical Infrastructure	29	19.8
Human Resources	30.3	30.8
Production/Investment Aid		
Industry and Services	22.9	26.4
Agriculture, Forestry, Fisheries	17.7	18.2

Source; Barry et al. 1997

During the CSF's main portion of the expenditures are done for the transport infrastructures in order to decrase the transport costs. They decrease the competitiveness of Ireland. The other expenditures are for telecom and energy investments to raise the productivity and efficiency in the private sector by reducing the transport, energy and other costs.

Expenditures on the human resources aimed not only increase the number of educated and trained people but also to attract the externalities like Foreign Direct Investment inflows. FDI would rise if the attractiveness of the economy develops with more skilled labor.

Production or investment aids are mainly devoted to the sectors which are infant and are not competetive in the world markets due to the late developing economy.

IV. B. What is the value added by the Structural Funds?

The main objective of the Structural Funds is to transform and modernise the structure of the relatively poor economies in order to prepare them for competition within the Single Market and the euro zone.[9] This part of the paper is devoted to investigate the effects of Structural Funds in Ireland.

Two aspects of Structural Fund policies should be distinguished for the Irish case. First, the design of a National Development Plan (NDP). NDP was a prerequisite in order to use the EU funds and it helped the investment to be planned rationally and optimally. Second, the ex-ante evaluation of the likely impacts of these policies, as well as a rolling evaluation of impacts as the policies were progressively implemented. Ireland was very active and sucessful in the evaluation process of its NDP.

The effects of Structural Funds are categorised in terms of demand and supply effects. Demand effects are short term effects. In an infrastucture construction the income will rise due to the expenditures and labor demand will increase. Supply effects are long term effects like enhanced productivity of the workers and increased profits in businesses due to the increased education and efficiency. Thus the short- and long-term effects of the use of the funds need to be distinguished. The short-term ones include:

- investment;
- increased demand, better economic climate, higher employment;
- increased earnings of employees and consumer demand.

[9] John Bradley, 2005.

Meanwhile the long-term effects of structural funds are as follows:

- human capital improvement;
- better infrastructure;
- increased efficiency of economic units.

Demand side effects are easy to calculate with increases in the salaries and employment however the problem is to evaluate the supply side effects. Thus there have been a number of studies for this topic. Those studies reveal similar results. There is not a single way or method to evaluate a project economically. It is necessary to examine the impact of Structural Finds with macro feedbacks and interactions, with the addition of the spillover effects and externalities.

The long-run impact of the first two CSFs was estimated by the Economic and Social Resarch Institute of Ireland (ESRI) to be such as to raise the level of economic activity by about 2% above the level it would have been without them. More recent work undertaken by the ESRI would suggest that the long-term effects may in fact be higher than these earlier estimates.[10]

Another study, Barry (1997) report the results in the form of high, low and no externalities. Table 9 presents the study estimates of the impact of the CSF on the real GDP. The study assumes that the funding would stop in 1999.

[10] Barry F., Bradley J., Hannan A., 1997

Table 9 Effects of CSF on real GDP

	1995	1999	2000	2010
High Extrenalities	2.7	3.5	1.4	0.9
Low Extrenalities	2.2	2.7	N.A	N.A
No Extrenalities	1.7	1.9	0	0

Source; Barry et al. 1997

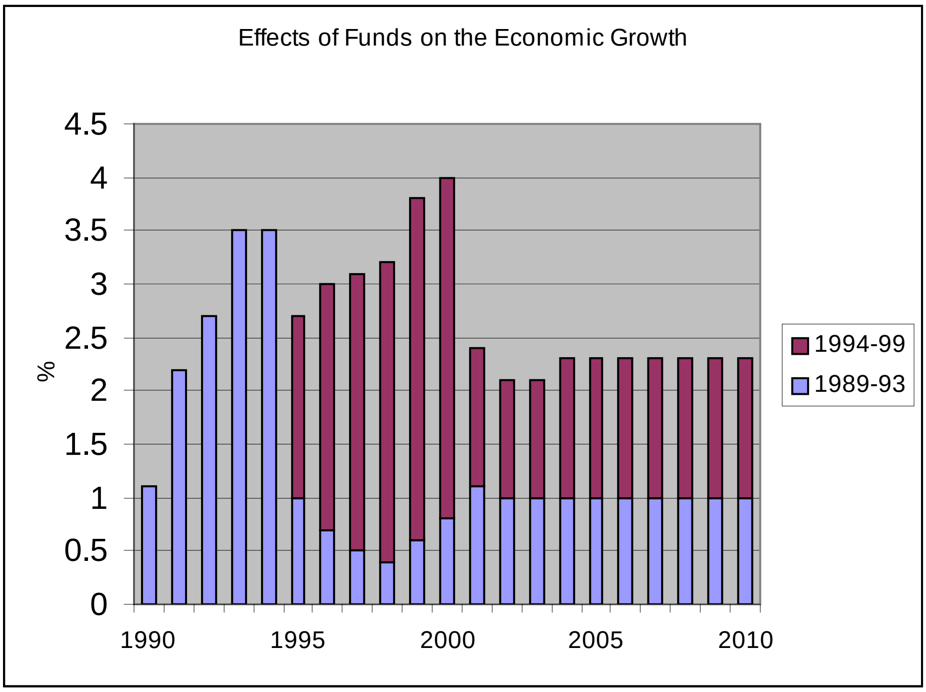
An other study by Honohan which investigated the impact of the second package only, included the effect of funds on the employment.

Table 10 Effect of CSF II

	1995	1999	2000	2005
GDP	1.8	2.7	1.2	0.7
Employment (000)	20.4	32.7	6.1	1.3

Source; Honohan 1997

The Figure 2 represents the combined effects of the funds in Honohan study.



Source; Barry et al. 1997

Figure 2 Combined Effects of Structural Funds Periods

There are some possible arguments about the results of the effects of the funds on GDP. It is usually considered that the extrenalities are taken rather conservative way and "if there are externalities to be exploited policymakers should persue them aggresively and not worry overmuch about getting the instruments just right" (Barry et al)

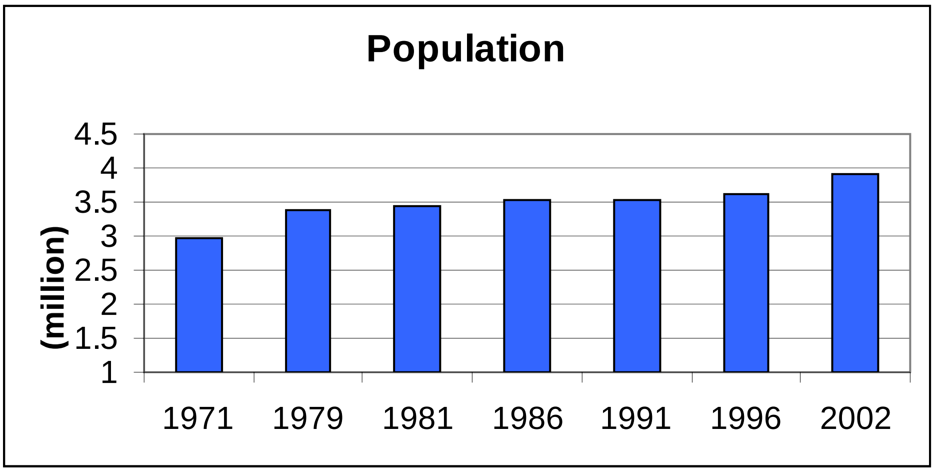
The other reason for the underestimation of the CSF effects is that expenditures can have non linear effects whereas the studies used to be highly linear. For example studies assumed that an expenditure of 30 million euro will have 3 times the effect of a 10 milion euro expenditure. This is not a totally realistic approach since a larger expenditure can complete a very important project which is very efective to reduce the costs and increase the efficiency and its effect become higher than what it is to be considered linearly.

The other reason that would result the underestimation is the interaction between various policy changes and the synergy between them. The example for this is the FDI flow to Ireland after the development in the infrastructure. It is clear that much FDI probably wouldn't flow in the absence of the infrastructural development.

Even if there is no clear consensus about the correct amount or percentage of contribution of the funds on the GDP, a very important aspect with the Structural Funds is that they increase the level of GDP. While the Structural Fund investment expenditures are made the growth rate of GDP increases. At the end of the period when those investments end, the economy is at its new and higher value. That is even the growth rate returns to its previous value, the level of GDP is at a higher value. Thus, the important result of the Structural Funds in the economy become higher level of GDP and not a permanent rise in the growth rate.

It is better to turn our attention to the changes in population, output (GDP), GDP per capita, unemployment and trade data for the Ireland.

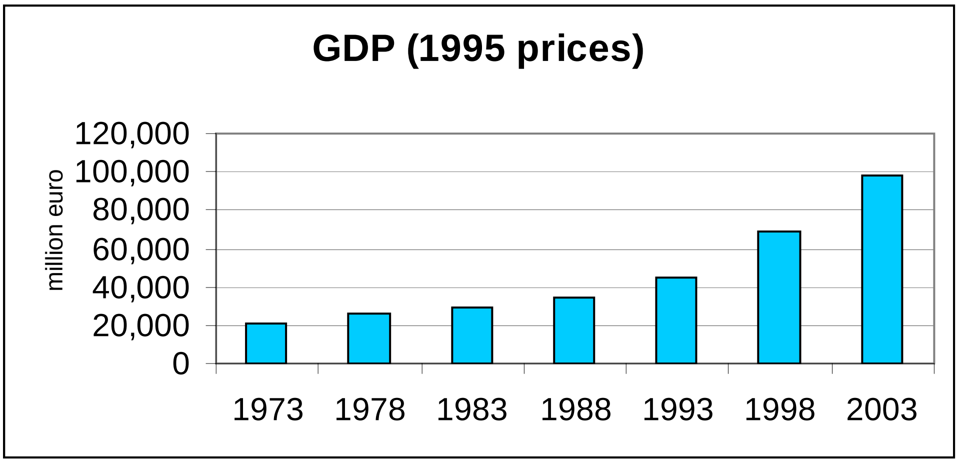
The population of Ireland has increased by almost one million in the thirty years since 1973. In the period 1971 to 2002 the population of Ireland has grown by almost one-third to reach nearly 4 million. The majority of this increase took place in the 1970s when the population grew by 390,000 and the period from 1996 to 2002 when the population increased by almost 300,000. Average life expectancy has increased significantly since 1973. In 2002 the average life expectancy of females was 80.3 years.



Source; CSO

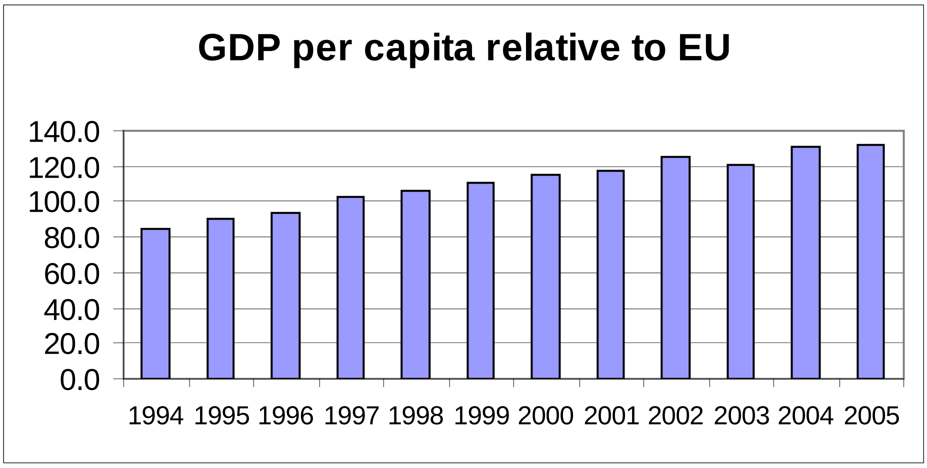
Figure 3 Population of Ireland

Over the period of the second CSF 1994 to 1999 GDP of Ireland grew at an average rate of 9 %. The target was just 4%. Unemployment rate fell from just under 15 % in 1994 to under 6% by 1999. Figures below present the performance of Ireland. Figures presents the GDP/capita values with respect to EU=100 for different time period and the decline in the unemplyment rate.



Source; Eurostat, CSO

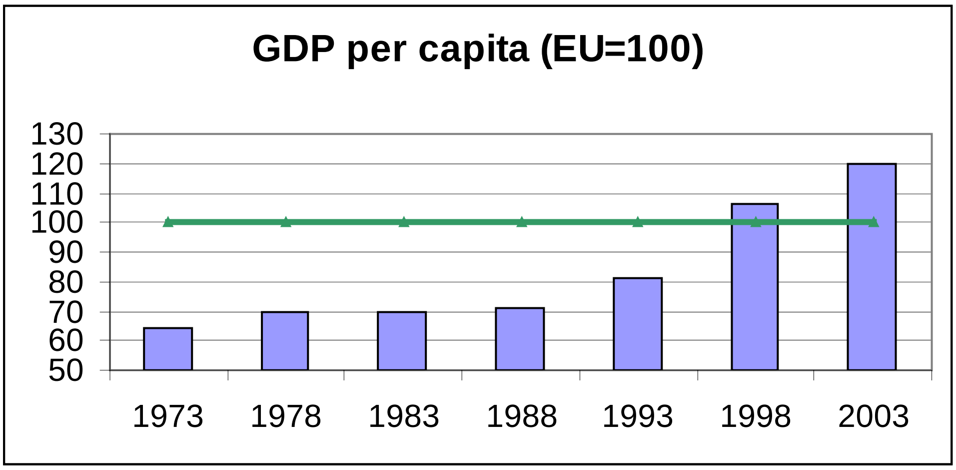
Figure 4 GDP of Ireland 1973-2003



Source; Eurostat

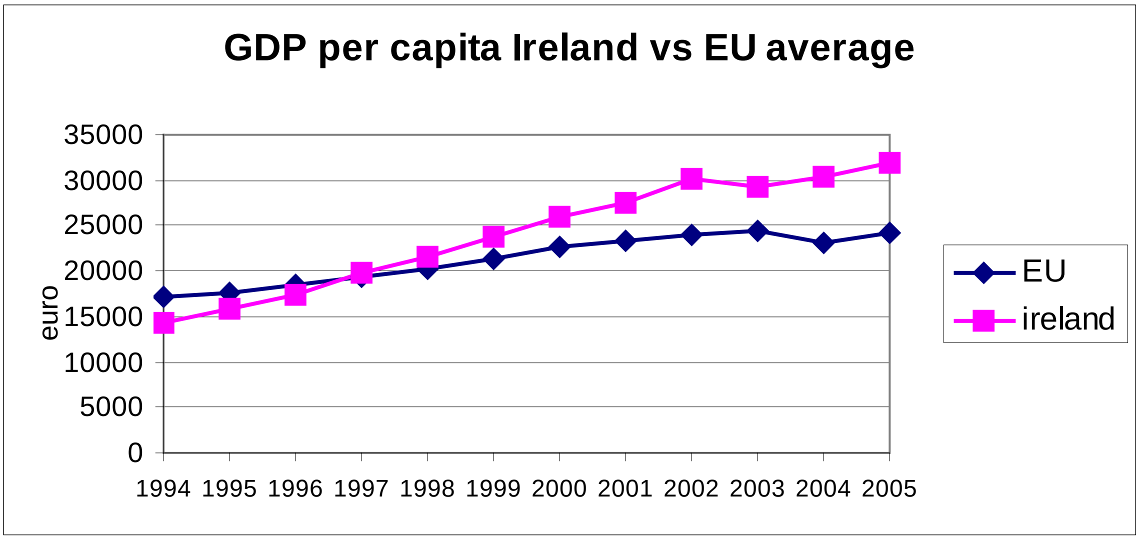
Figure 5 GDP per capita (PPS terms) in Ireland, EU-15=100

(Source: EUROSTAT)



Source; Eurostat, CSO

Figure 6 GDP per capita in Ireland with respect to EU-15



Source; Eurostat

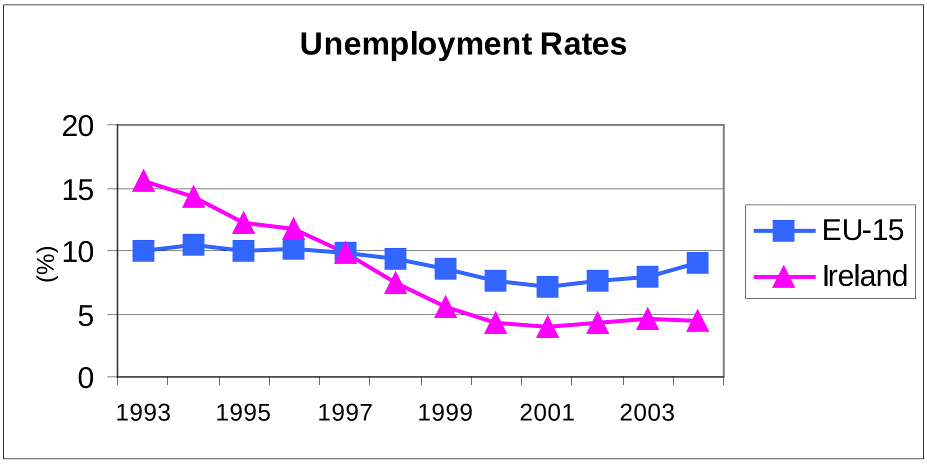
Figure 7 GDP per capita, Ireland vs EU

The employees have increased by 70% to reach 1.8 million with most of the increase as a result of increased female participation in the labour market. By 2003, almost two thirds of those in employment worked in the services sector.

Table 11 Unemployment Rates of Ireland and EU-15

	EU-15	Ireland
1993	10	15.6
1994	10.4	14.3
1995	10	12.3
1996	10.1	11.7
1997	9.8	9.9
1998	9.3	7.5
1999	8.5	5.6
2000	7.6	4.3
2001	7.2	3.9
2002	7.6	4.3
2003	8	4.6
2004	9	4.5

Source; Eurostat



Source; Eurostat

Figure 8 Unemployment rate in Ireland

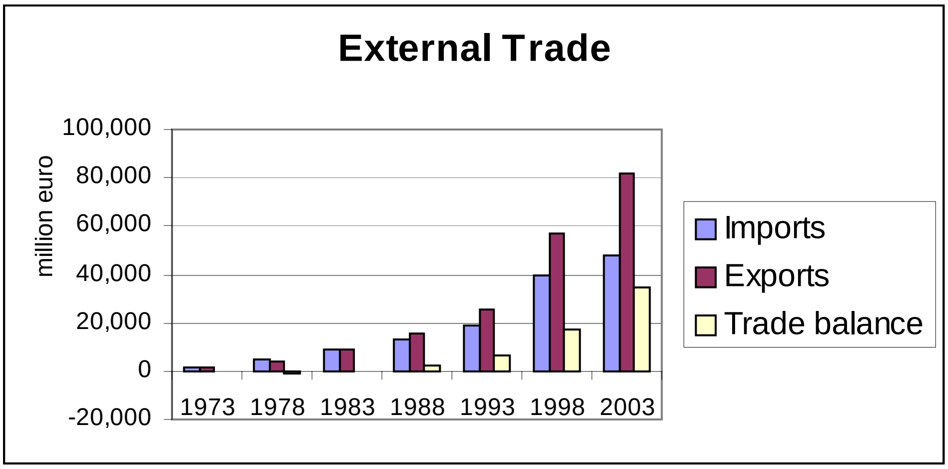
Trade also changed in many aspects. Ireland's dependence on the UK as its main trading partner has been replaced by increasing trade with other EU countries, the US and the rest of the world. In 1973 Ireland imported more merchandise than it exported. By 2003 the value of exports from Ireland was 73% higher than the value of imports, giving a positive trade balance of €34.7 billion. The value of exports increased by a factor of 74 while the value of imports increased only by a factor of 33. One of the main features of its membership of the European Union has been free and open access to a large European market. This access has also been one of the main reasons for attracting foreign direct investment. Prior to 1973 Ireland was largely dependent on its nearest neighbour, the UK, as its main trading partner. Since then this dependence has declined. In 1973 almost 55% of the total value of exports went to Great Britain or Northern Ireland, followed by other EU (21%), rest of world (14%) and the US (10%). By 2003 the percentage of exports to the UK had declined to 18%, while the value of exports to the other EU countries increased to 43% or €35.5 billion. The United States which now takes over 20% of exports has overtaken the UK in terms of importance as a trading partner. (CSO)

Table 12 External Trade of Ireland

milion euro

	Imports	Exports	Trade balance
1973	1,444	1,104	-340
1978	4,715	3,763	-952
1983	9,354	8,817	-537
1988	12,970	15,624	2,654
1993	18,900	25,179	6,279
1998	39,715	57,322	17,607
2003	47,525	82,176	34,651

Source; CSO



Source; CSO

Figure 9 External Trade and Trade Balance

The profile of exports has changed over the period with chemicals and computers now representing over 70% of exports.

IV. C. Indirect Effects of Structural Funding

Besides helping the Ireland to catch up with the EU in most of the economic activity areas, the Structural Funds also had some indirect and positive effects. They are mainly considered to be fiscal consolidation, developments in the labor market, Foreign Direct Investment and management capability.

IV. C. 1 Fiscal Consolidation

The Irish governments throughout the 1980s aimed to overcome the debt crisis which had resulted from inappropriate pro-cyclical fiscal expansion at the end of the previous decade. The attempt to close the deficit with the high taxation policy did not work due to the fact that it was by necessity pro-cyclical and workers responded to the tax hikes by raising wage demands.

A new approach was tried in the late 1980s, when government expenditure was consolidated as an alternative to increasing taxes. It is argued that this consolidation proved successful because it was counter-cyclical, and it was supported by the development of the "social partnership approach" which promoted wage moderation with the promise of future reductions in income taxes.

Government postponed important investments due to budget constraints. In this respect the increase in Structural Fund aid in 1989 was fortunate for Ireland because it allowed to begin infrastructural projects which had been postponed as part of the necessary fiscal contraction.

If those infrastructural developments had not begin it would have been more difficult to attract the levels of FDI achieved since then.

IV. C. 2 Labour Market Developments

The social partnership agreements begun in 1987 with new policies and brought competitiveness and peace to the industry. This concerns the effect of the labour-market environment on the macroeconomic impacts of Structural Fund. Decrease in unemployment rate proves the success of the policy.

IV. C. 3 FDI Inflows

Ireland had a number of characteristics that made it attractive as an export platform for foreign direct investment mostly from US, multinational companies. EU membership of course was crucial.

The country also represented an English-language environment, which may have been important for US companies.

Ireland's FDI-oriented strategy was very succesful however if extra Structural Fund financed infrastructure not been in place it is unlikely that as much FDI could have been attracted to the economy.

Besides the level of FDI inflows, the Structural Fund would also have impacted the type of FDI that Ireland was able to attract. Over recent decades foreign industry in Ireland has become increasingly high-tech, probably in conjunction with increasing human capital stock of the labour force.

It is also argued that the tax rates in Ireland helped the country to attract more FDI compared to other EU members. The table below presents the corporate tax levels for numerous members and the advantage Ireland is obvious.

Table 13 Corporate Tax rates for some EU members (1997)

Ireland	10.0
Germany	37.5
UK	33.0
Italy	36.0
Netherlands	35.0
Belgium	39.0
Denmark	34.0
France	33.3
Spain	35.0

Source; adapted from Gottheil, 2003

The result of right policy about FDI is presented in the table and figure below.

Table 14 FDI Stock per capita (USD)[11]

	Ireland	UK	Spain	France	EU-15
1980	1102	1119	137	415	546
1985	1313	1130	233	594	688
1990	1569	3542	1696	1720	2113
1995	3251	3408	3331	3119	3029
2000	15623	8079	3567	4401	6271

Source; Barry 2004

[11] Frank Barry, 2004

IV. C. 4 Management and Implementation

Ireland enjoyed many benefits thank to EU funds. Irish administration and project implemantation process improved through the well established, experienced, and effective public administration system. Operational Programs were delivered via sectorally-based departments and implementing agencies. This helped to solve the "technical" problems at the first point.[12]

However, there were also some problems in the management and implemantation. The 'vertical' nature of these departments and agencies led to some inflexibility and resistance to change and re-programming. Also, the generally 'light' nature of Ireland's regional administration was reflected in a weak regional dimension to CSF planning and delivery.

IV. D. Progress in terms of Strategic Target Areas

In the pages above the level of Ireland and other "poor" contries with respect to OECD/EU average was presented. After the development the picture changed in educational level, infrastructure and competitiveness.

Educational Level

By the end of the 1990s, with the aid of the Structural Funds, the relative position of the EU cohesion countries has improved. Comparing these numbers with those for the whole population it is observed that in each case the periphery has converged on the OECD average in terms of educational attainment.

[12] Ex Post Evaluation of Objective 1, 1994-1999, National Report - Ireland

Table 15 Educational attainment 1998

	% attaintment at least upper secondary	% attaintment at least tertiary B (diploma level)	% attaintment at least tertiary A (degree level)
Ireland/OECD	0.93	1.16	1.00
Greece/OECD	0.92	0.88	0.94
Portugal/OECD	0.40	0.44	0.50
Spain/OECD	0.74	1.28	1.31

Source: Barry, 2003

To focus on Ireland it is observed that while the country continues to lag behind the OECD average in terms upper secondary education, it has converged on the OECD average in terms of those attaining at least a university degree or equivalent, and has actually gone ahead in terms of those attaining a diploma or equivalent.

Physical Infrastructure

There is not exact data or work to represent the progress in terms of relative postions of the cohesion countries that while improvements in transport infrastructure have been very substantial, it is not clear whether these have allowed the periphery to converge along this dimension. But it is very clear that lack of infrastucture would impede the FDI flow.

Industrial Competitiveness

R&D indicators are used to illustrate the industrial competitiveness. Again it is observed that Ireland has continued to converge on core EU countries along this dimension, although the other countries have not.

Table 16 R&D percentage of domestic product of industry, relative to EU average

	1991	1997
Ireland/EU	0.50	0.87
Greece/EU	0.13	0.13
Portugal/EU	0.13	0.13
Spain/EU	0.38	0.33

Source: Barry, 2003

IV. E. Lessons from the Irish Case

The develoment of the Ireland is composition of succesful policies.[13] It is not appropriate to search for a single item for the success. It is even more than a group of items and it would be better to call it a recipe composed of implications which are interrelated. Those implications are mainly named as;[14]

i. Build-up of human capital after the educational reforms in the 1960s;

ii. Major improvements in physical infrastructure, particularly since 1989 as a result of the EU Structural Funds;

iii. Extreme openness of the economy, its export orientation to fast growing markets and products, together with benefits stemming from the completion of the Single European Market and from massive FDI inflows;

iv. Changing demographic structure and the role of inward migration in preventing skill shortages; and

v. Domestic macroeconomic environment.

[13] *John Bradley 2002*

[14] Frank Barry 1999

Particularly important contributions of the Structural Funds in Ireland can be summarized as:

- Increased infrastructure investments, including transport and environment.

- Increased productivity where the structural funds contributed directly to enterprise expansion and investment in new areas such as R&D;

- Human resources where assistance supported a major national training effort and expansion in the labour force;

- Local development where the CSF supported new approaches to local development issues.

All these "institutions" resulted in increased output of the economy, decreased unemplyment and increase in productivity and FDI.

Turkey is a candidate country to the EU and is fairly "poor" in terms of GDP EU average. It is considered that "integration" and "decreasing the gap" between the countries will be a prior topic in EU, then Turkey needs to take lessons from the Irish experience to get the most benefit from the EU contributions.

At the initial point of the funding there should be an increased focus on value-for-money from all public investments and increased attention should be given to project selection, assessment, design and delivery methods. Project priority is essential and there should be clear objectives with directly related indicators.

The Irish experience reveal that the nature and timing of Ex-Ante evaluation is crucial. In order to implement the determined policies the strength of member state institutions is an important factor. Central resource should be provided to assist Implementing Bodies.

The allocation of planned resources to delivery agencies for the entire period of a program can contribute to inflexibility. Options to increase flexibility include: shorter programming periods, division between high level strategy and detailed spending programs, avoiding allocating expenditure to agencies as distinct from activities.

The Structural Funds can not, of course, be credited as the cause of the Irish development. However, alongside a number of other key factors – previous investment in the Irish education system, good macroeconomic policy, the impact of European integration on trade and investment, and a positive external environment – the Structural Funds were an important part of a virtuous economic circle.

The financial support has enabled Ireland to proceed with planned upgrade of roads, education & training support and the investment in the productive sector. In the 'macroeconomic' terms investment on the scale achieved could not have occurred from purely national resources. Besides in 'policy' terms, EU involvement influenced prioritisation of a number of policy themes which might not have occurred to the same extent otherwise. These themes include gender and equality, the environment, innovation, and North-South co-operation within Ireland. For the expenditure 'programing' terms, the requirements of the CSF contributed to the development and expansion of multi-annual programming, adoption of a partnership approach, and formal monitoring and evaluation of programs. This also improved the management abilities of the agencies. Ireland had benefits due to the reassurance of a major multi-annual public investment program in key areas of the economy and supported by EU. Signalling is an important aspect is economics and business and EU funds and partnership provided an important signal to businesses and Irish commitment to taking advantage of the opportunity on offer.

V. CONCLUSION

This paper tried to evaluate the effects of Structural Funds on the development of Ireland and derive lessons for Turkey. Ireland is an interesting case because it experienced a "miracle" and jumped over the EU average in many aspects. Even there was little prior tradition of "planning" and formal evaluation of public expenditure programs in Ireland it has an extensive experience with the implementation of Structural Funds. It is clear that the Structural Funds not only helped to provide capital for investments but also, with the requirements of the EU regulations helped promote a planning and evaluation culture and capacity and in broad term enhanced the "institutions" in Ireland. Since every country has its own and unique conditions "direct adaptations" will not work, however it is beneficial to derive conclusions from every nation's experience. Clear and objective priorities, well organised evaluation system with trained and appropriate institutions are important instruments in maximising the benefits of the Structural Funds and Turkey needs to benefit from the lessons of the Irish experience.

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