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REPORT

on the International Fund for Ireland pursuant to Article 5 of Council Regulation (EC) No. 214/2000

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(presented by the Commission)

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1. INTRODUCTION

Since the 1960's, the regional political context of Northern Ireland has been dominated by inter-community strife and violence. In 1985, almost 13 years before the Belfast/Good Friday Agreement was signed (April 1998), the Anglo-Irish Treaty was agreed which provided for the two Governments to "*co-operate to promote the economic and social development of those areas of both parts of Ireland which have suffered most severely from the consequences of the instability of recent years*" and "*to consider the possibility of securing international support for this work*".

This gave birth to the International Fund for Ireland (IFI) which was set up the following year (1986) as an independent international organisation, in the form of a Trust or Foundation, with its own governing body.

The European Community has been contributing to the IFI since 1989. European Union support represents 34 % of annual contributions to the Fund and 38 % of cumulative contributions to date.

Council Regulation (EC) No. 214/2000 provides the current legal basis for the Community contributions in respect of the years 2000, 2001 and 2002. Article 5 of that Regulation provides for an assessment to be made of the need for further support beyond 2002 and to be submitted to the EC Budgetary Authority (European Parliament and Council of the European Union). This assessment should cover *inter alia* the following matters:

- a survey of the IFI's activities ;
- a list of projects which have received aid ;
- an assessment of the nature and impact of the intervention, in respect, in particular, of the objectives of the IFI and the criteria laid down in the first and second paragraph of Article 2 (*"priority given to projects of a cross-border or cross-community nature, in particular those with the objectives of the PEACE programme and other operations supported by the Structural Funds"* ; *"genuine additional impact on the areas concerned (...) not therefore [to] be used as a substitute for other public or private expenditure"*) and in Article 3 (*"the Commission shall ensure co-ordination between the Fund's activities and those financed by Community structural policies"* ; *"the Commission shall keep the relevant monitoring committees informed of the activities of the Fund")*
- an annex containing the results of the verifications and controls carried out by the Commission representative or its agents, particular as regards the modalities of the co-ordination of the IFI's activities with those carried out under the Community structural policies.

This report and its annexes provide that assessment. It goes further by presenting past assessments of the IFI carried out by other sources, and by addressing the question of publicity and information (Article 4).

2. SURVEY OF THE IFI'S ACTIVITIES

2.1 Overall Description of the IFI

2.1.1 Objectives and Priorities

The IFI was established by an agreement made between the British and Irish Governments in 1986 (ANNEX I). The IFI came into existence in December of that year.

The agreement sets out the IFI's **principal objectives** as being

- to promote economic and social advance, and
- to encourage contact, dialogue and reconciliation between nationalists and unionists throughout Ireland.

The IFI is required to maximise the economic and social benefits arising from the expenditure of the funds available to it, subject to a requirement that its disbursements are consistent with the relevant policies of both Governments.

The agreement sets out the following **priorities** for the IFI

- stimulation of private sector investment, in particular by means of venture capital initiatives,
- projects of benefit to people in both parts of Ireland,
- projects to improve the quality and conditions of life for people in areas facing serious economic and/or social problems, and
- projects to provide wider horizons for people from both traditions in Ireland through industrial training and work experience overseas.

The agreement also provided that approximately 75% of the IFI's resources shall be distributed in Northern Ireland.

2.1.2 Organisation and functioning

The UK and Irish governments jointly appoint a **Chairman** and a **Board** of six members, which oversee the direction, and operation of the IFI (see ANNEX II). The Board are appointed for a three-year term after which they are eligible for re-appointment; the present Board will be eligible for re-appointment on 31 January 2003. The Board is representative of the communities in both the North and the South of Ireland and meets on average five times annually. Board meetings are held alternately in North and South Ireland.

The IFI was initially empowered in 1987 with financial contributions from the Governments of the United States, Canada and New Zealand. EU contributions commenced in 1989 and Australia started its financial commitment in 1995. Representatives of the EU and of the donor countries participate in Board meetings as **Observers**.

A **Secretariat**, led by **two Joint Directors-General**, provides co-ordination and administration of the work of the IFI. It is made up of civil servants seconded from both the Irish and UK administrations and it is based in Belfast and Dublin.

The Board is also assisted by an **Advisory Committee** of officials appointed by and representative of the UK and Irish governments. The Advisory Committee meets prior to Board meetings to prepare advice for the Board on projects that have been put forward for decision and other issues. The two Joint Chairmen of the Advisory Committee or their deputies attend Board meetings.

Each of the IFI's main programmes (see following section) is administered on a day to day basis by a **joint Programme Team**, which brings together relevant expertise from Government Departments and specialist agencies, North and South (see ANNEX III). These teams act as administering agents for the IFI, within written guidelines and criteria, and under the direction of **Designated Board Members** (DBMs) (see ANNEX II).

In addition, the IFI has put in place a team of 10 locally based **Development Consultants** to provide a local interface, particularly in liasing with local communities, assist in identifying suitable projects, and where necessary, to provide assistance to the promoters of projects in the formulation of proposals (see ANNEX IV).

The Board of the IFI is the final decision-taker on all matters, including project applications. Following the Board's approval of individual projects, direct responsibility for their processing is divided between the Secretariat, consultants and government departments acting as IFI agents. The Secretariat handles the smallest number of programmes and usually those which contain a small amount of projects. In Ireland, the majority of programmes are implemented by consultants, semi-government and national agents whereas in Northern Ireland, the IFI mainly uses agents.

2.1.3 *Activities*

A list of projects which have received aid is presented in ANNEX V.

Initially, projects were financed by the IFI under six programmes. The Board of the IFI regularly reviews its priorities and programmes and introduces new initiatives to meet identified needs as appropriate. For example during 2001 a major new initiative to target community development at a number of recognised flash point areas within the most deprived areas was approved by the Board. Today's IFI activities are carried out through various **programmes and schemes** which can be clustered under three headings:

1. Regeneration of Deprived Areas

This is a series of community-led and economically driven programmes that operate exclusively in the most disadvantaged areas.

- **Community Regeneration Improvement Special Programme (CRISP)**: CRISP seeks to empower local communities on a cross-community basis to encourage the economic and physical regeneration of the most disadvantaged small towns and villages in Northern Ireland.

- **Community Economic Regeneration Scheme (CERS):** CERS targets the deprived urban areas in Northern Ireland offering support to community-led projects for the economic regeneration of areas where the private sector market has failed.

- **Border Towns and Villages (BTV):** BTV works in the Southern border counties around the development of core economic projects for towns or villages, with the aim of helping the regeneration of areas that have suffered from the instability of recent years.

- **Rural Development Programme (RDP):** RDP supports community-led projects which foster the economic and social regeneration of the deprived rural areas

- **Special Projects:** individual projects of particular merit which meet the IFI's objectives but for which there is no specific programme of support.

2. Community Capacity Building

This series of programmes seeks to build capacity within the wider community, particularly in the most disadvantaged areas.

- **Community Leadership Programme**: this programme is designed to lay the foundations for the regeneration of the most disadvantaged and underdeveloped areas. It provides training and support to groups and individuals who feel that they have something to offer their local communities, yet require some assistance to start the process of community development.

- **Communities in Action Programme**: this pilot programme funded 30 projects over a four year period which ended in 2000 and which impacted on the lives of people, particularly women and children, living in disadvantaged areas.

- **New Community Initiative**: approved by the Board in June 2001, this programme will be in continuation of the "Communities in Action" programme. It will support the creation and development of community infrastructure and help alleviate the tensions that exist in these areas by targeting community leaders and potential leaders.

- **Community Bridges Programme**: this programme aims to support organisations which promote greater dialogue and understanding and tackle issues of division between people from different cultural and religious traditions within Ireland.

- **Wider Horizons Programme**: this Programme offers disadvantaged young people, aged 16-28, from the two traditions in Northern Ireland and the South the opportunity to improve their employment prospects through the provision of training and work experience at home and abroad, while promoting mutual understanding and reconciliation between participants.

- **Interact Programme**: this provides an opportunity for young people in the 16-17 age group to improve their employability by providing enhanced pre-vocational opportunities with a major focus in the development of generic skills and personal competencies in an environment which promotes mutual understanding and reconciliation

- **Knowledge through Enterprise for Youth (KEY) Programme**: this involves the development of an enterprise skills programme over a three year period for 900 young people in the 14-16 age group from schools in disadvantaged areas in Northern Ireland and the Southern border counties from all traditions and entering in cross-community contacts.

3. Economic Development

This series of programmes is designed to encourage the development of the local economic base through community or private led initiatives providing economic opportunities and job creation in several key areas.

- **Business Enterprise and Technology Programme**: the principal aim of the Business Enterprise Programme is the creation of conditions within which enterprise and business opportunities can flourish. A major element of the Programme has been the Fund's continued contribution towards local economic development. Components of this programme are :

  – **RADIANE (Research and Development between Ireland and North America or Europe)**: RADIANE seeks to stimulate, promote and provide financial support for product and process development joint ventures which are: mutually profitable, innovative, technology based and market led between Manufacturing or Internationally Tradeable Services companies located in Northern Ireland or the six southern border counties and partner companies in the United States of America, Canada or the European Union.

  – **Ron Brown Programme**: hosted in Babson College, Boston this programme provides 12 places a year for young business men and women to receive intensive management training and experience within a US company.

  – **AMBIT (American Business Internship) Programme**: provides business internships in the US for companies from Northern Ireland and the Border Region. The Programme was expanded in 1999 to offer placements for community leaders.

- **Tourism Programme**: The Tourism Programme's overall aim is to encourage economic regeneration by stimulating private sector investment in the provision and upgrading of tourist amenities and through supporting tourism marketing initiatives and staff development.

- **Urban Development Programme**: This Programme aims to generate economic activity in the commercial centres of towns and villages by encouraging the owners of vacant and derelict properties particularly in the disadvantaged areas to bring these back into economic use.

In addition, the IFI introduced a **Flagships Programme** to support a small number of major projects of symbolic importance for the island as a whole, which have potential to make a significant contribution to social and economic regeneration.

It also helps Irish and Northern Ireland companies establish links with North America, Australia and New Zealand through various **international links** partnerships programmes.

Two **investment companies** were set up in 1987 which are based respectively in the North and South of Ireland: *Enterprise Equity* based in Belfast (Northern Ireland), and *Enterprise Equity* based in Dundalk (Ireland). These companies provide venture capital to new and expanding businesses in Northern Ireland and the Border Region of Ireland.

2.1.4 Budget

The IFI's legal status can be assimilated to that of a trust or a foundation.

Since its inception, the IFI has received approximately € 625 million (current prices). The United States has been and remains its largest contributor (64 %), while the EU contribution is approaching 2/5 of the total committed resources. The combined contributions of the United States and the EU constitute 99 % of total resources committed to the IFI, the remainder coming from Canada, Australia and New Zealand (see ANNEX VI).

At the end of 2000, the IFI budget available for allocation in 2001 was estimated at £ 32.66 million (€ 51.64 million, current prices), compared with the budget figures for 2000 and 1999 at £ 29.35 million (€ 46.41 million) and £ 29.7 million (€ 46.96 million) respectively.

For the year 2001 alone, the United States contribution amounts to 64 % (US $ 25 million), the EU contribution 36 % (€ 15 million), and the Canadian contribution 1 % (Can $ 0.333 million). There is no certainty of annual contributions from New Zealand and Australia for 2001.

The expense of general administration, organisational costs and the provision of the Secretariat is met by the UK and Irish Governments.

2.2 EU Involvement in the IFI

The IFI being an independent international organisation, like a Trust or Foundation, with its own governing body, one should bear in mind that it is different in nature from EU Structural Funds' forms of assistance. The status of the EU within the IFI is therefore similar to that of the other donor countries.

Since the European Community first contributed financially to the IFI (1989), the European Commission has been involved in its Board meetings with observer status. Until May 2000, the Commission was represented by its Secretary-General or his representative. Since May 2000, the Commission's Directorate-General for Regional Policy has been directly responsible for the IFI within the Commission and its Director General or his representative have attended all Board meetings.

In Berlin, March 1999, the European Council recognised the particular situation in Northern Ireland and the Border Counties as justification of exceptional support, and

– continued the PEACE Programme for a further 5 years, from 2000 to 2004, with a financial allocation of € 500 million (of which € 100 million was allocated to Ireland), and

– renewed the EU contribution to the IFI for a further 3 years, from 2000 to 2002, at the level of € 15 million per year.

Through annual commitment and payments, the EU financial contributions to IFI have been as follows :

- 1989-1994 : € 15 million annually
- 1995-1997 : € 20 million annually[1]
- 1998-1999 : € 17 million annually[2]
- 2000-2002 : € 15 million annually[3]

Over recent years, various high level EU representatives have also visited or launched IFI projects, including the former President of the European Parliament, José María Gil-Robles, European Commissioners Flynn and Kinnock, and a delegation of Members of the European Parliament led by Antoni Gutiérrez Díaz, former Vice-President of the European Parliament. Most recently, during his visit to Northern Ireland (March 2001) Michel Barnier, European Commissioner responsible for the IFI, visited a cross-community project funded by the IFI and PEACE I in an interface area between Protestant and Catholic communities in West Belfast. Similar visits and inauguration of IFI-funded projects have been made by the Director General for Regional Policy or his representatives on the occasion of their participation to Board meetings. In addition, the Commission’s Offices in Belfast and

[1] Council Regulation (EC) N° 2687/1994.
[2] Council Regulation (EC) N° 2614/1997.
[3] Council Regulation (EC) N° 214/2000.

Dublin maintain regular contacts with the IFI and its operations ; they also participate in launches of IFI-funded projects.

3. PAST ASSESSMENTS OF THE IFI ACTIVITIES

The IFI is regularly audited by its own accountants (PriceWaterhouse Coopers) and the results are presented in the annual report, which is approved by the Board. However, it is also audited by public audit bodies of the UK and Irish governments and is subject to audits by the European Commission services[4] and the European Court of Auditors, and other auditors acting on behalf of the Governments of the other donors.

3.1 KPMG impact assessments commissioned by the IFI

At regular intervals, the IFI commissions evaluation studies of its impacts, conducted by external consultants: KPMG completed a study in 1995 which was followed in 1998 by a similar evaluation carried out by a consortium of consultants[5] led by KPMG. A further study has been assigned to the same consortium in 2001 whose preliminary findings will be presented to the Board in September 2001.

The **1998 KPMG Study** concluded that almost 90 % of IFI commitments had benefited the IFI's Designated Disadvantages Areas. Cumulatively, up to end September 1997, 8,274 persons had been estimated to be engaged in IFI supported cross-community or cross-border projects, while 1,494 companies had participated in cross-border business development programmes.

The IFI’s impact on employment was estimated at a total of 31,629 full time equivalent jobs inclusive of direct, indirect and temporary jobs. The study further estimated that participants involved in cross-community groups totalled over 7,600, whereas participants in cross-border structures totalled over 4,700.

The overall conclusion of the study was that the IFI’s impact had been substantial; its impact had been assisted by the integration of its economic and reconciliation objectives and the businesses-orientated and flexible approach of its Board. The clustering of Programmes under 3 headings was a decision of the Board, taken in 1999 on consideration of the findings of the 1998 KPMG Report.

Preliminary results from the **2001 KPMG Report** show similar performance in the three years following the previous study: between September 1997 and September 2000, over 782 new projects have been approved by the Board and new commitment have amounted to £80 million. 89 % have been committed to the IFI designated "Disadvantaged Areas". Additional jobs created by IFI co-funded projects are estimated 540. It is further estimated that participants involved in cross-community groups have increased by 3,530in the same period.

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4 Previously the responsibility of the Directorate-General for Financial Control ; after decentralisation of the ex-post audits functions, responsibility of the audit services of Directorate-General for Regional Policy.

5 KPMG, Colin Stutt Consulting, NIERC.

3.2 The 1999 Commission report to the EC Budget Authority

Pursuant to Council Regulation (EC) N° 2614/1997, the Commission submitted to the EC Budgetary Authority a report assessing the need for further EC contribution6. The conclusions of this report may be summarised as follows:

- The IFI has progressively increased priority and emphasis on Disadvantaged Areas.

- Constant effort is made to ensure complementarity between IFI funding and Community support.

- The IFI's principle objectives were stated alongside three areas of priority: creating economic opportunities; addressing disadvantage and deprivation; and promoting contact dialogue and reconciliation. The Report states that individual projects under any of these priorities are designed to have a positive impact on all the priorities and that in this regard, the IFI tends to give value for money.

- The Report found a '*close correspondence in objectives and aims between the IFI and PEACE*' and that the two initiatives have '*defined ways to ensure that they complement each other*'. Moreover, it reported close co-operation with the other Structural Fund Programmes.

- Overall, the Report conveys the message that the Commission and the IFI were aware of the need to ensure complementarity and that in practical terms, efforts were being made to preclude problems relating to double funding, additional impact and complementarity.

3.3 The 2000 USAID Audit

As part of the audit requirements set out in the USAID Grant Letter of Credit of 1997, the IFI commissioned PriceWaterhouse Coopers an audit for the period from 1st October 1996 to 30 September 2000. The audit covered projects with an IFI contribution of £ 375,000 or above. The report presented to the Board in February 2001 concluded that there were no control weaknesses or non-compliance exceptions.

3.4 The European Court of Auditors Special Report No 7/2000

In 1997, the European Court of Auditors (ECA) carried out an audit of both the IFI and the PEACE I Community Initiative programme [7]. Its report acknowledged the fact that the IFI had pioneered the joint management and delivery of programmes between Ireland and Northern Ireland and was innovative in giving priority to disadvantaged areas for funding. The ECA also praised the IFI's role as "first funder" of projects, which enables grant recipients to gain access to other sources of funding.

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6 Letter from the Secretary General of the European Commission, 20 September 1999, DG(99)D/210849 (English version).

7 European Court of Auditors : Special Report No 7/2000, OJ. C146/1, 25.05.2000.

The ECA advised that the IFI should consider setting out staffing arrangements and delegations of power in writing, which was done in December 2000. Moreover, the Court deemed that the evaluation of project applications and the post-grant monitoring of IFI-funded projects should be improved to ensure sound financial management in all cases. Similar weaknesses in monitoring and evaluation were described in the Commission 1998 Audit report. In response, in September 2000, the IFI Board decided to commission a study by its auditors (PriceWaterhouse Coopers) to review its systems and procedures, starting with the functioning of its secretariat's offices, whose results were presented in draft form at the June 2001 Board meeting (see below).

The ECA also criticised the Commission's system of advance payment of grant aid (in application of the governing Council Regulation), due to the fact that it did not ensure "the most efficient use of EU funding" and allowed the IFI to carry over very large cash balances every year. In response, the IFI asserted that the Court of Auditors had "failed to recognise that the EU support is not going to a private body for a specific project nor a Government Department or Agency in a Structural Fund context". The Commission confirmed that the IFI needs to be sure of donor contributions well in advance of final disbursement to projects therefore bank balances held by the IFI do not represent 'unused monies'. However, in order to address the ECA observations, the European Commission and the IFI agreed in November 2000 that EC advance payments would be issued in two instalments of 40 % each rather than one advance payment. Since 2000, the annual financial statement agreed by the IFI allows the Commission to reclaim any unused funding after 12 months. Further changes - such as the establishment of a budget for payment - would require a modification of the IFI internal accounting system and of the Council Regulation (See audit mission report and reply by the IFI in ANNEXES VII and VIII).

The ECA also pointed out that in the case of multifunded actions (funded by both IFI and the Structural Funds) the Commission services should regularly assess proposed activities in order to ensure synergy and to avoid overspending and bureaucracy.

Finally, the ECA noted that the absence of Commission audits and on-the-spot checks needed to be addressed urgently. This aspect is addressed in the following section.

3.5 Audits by the European Commission services

The European Commission services have carried out various audits and on-the-spot checks of the IFI since the time the ECA investigations took place (1997).

One audit was carried out by the Commission services (Directorate-General for Financial Control) in October 1998. The results of this audit and on-the-spot checks were reported in the previous report to the Budget Authority (see section 3.2).

Another audit was carried out in December 2000 by the Commission services (Directorate-General for Regional Policy). The findings, conclusions and recommendations resulting from this audit are presented in ANNEX VII.

The objectives of this audit was to review IFI expenditure in the annual accounts for 1999 and 2000, to evaluate IFI management and control procedures, and to evaluate co-ordination of funding between IFI and the Structural Funds. The audit resulted in the following main recommendations each relating to one of the objectives of the audit:

– The Commission is concerned about the large cash balances held by the IFI. The IFI budget is solely based on a commitment budget. Due to the lack of monitoring, failure to apply fixed eligibility periods, and lack of up-dated information about the situation for individual projects from implementing agents the IFI is currently not in a position to forecast actual payment needs in a given year. Sound financial management requires accurate information on cash needs for an aid granting body. In addition to the current commitment budget, it is therefore recommended that the IFI draws up an annual budget for payments. It could then be considered to pay EC contributions on the basis of the cash needs without this leading to any reduction in the overall contribution made (see points 1.3, 1.4 and 4.1 of the attached report).

– Management and control procedures of the IFI should be improved, in particular to ensure proper monitoring of the implementing agents and to extend the current inadequate database (see points 2 and 4.2 of the attached report).

– As regards co-ordination between IFI and the Structural Funds, it should be considered to codify the established practice of a 75 % ceiling for EC funding to any given project in a future Regulation on Community contributions to the IFI. The IFI should also draw up guidelines as to the application of this rule (see points 3.3, 3.4 and 4.3 of the attached report).

The IFI reply to the findings, conclusions and recommendations are presented in ANNEX VIII.

3.6 The 2001 NISRA impact Study in Northern Ireland

In 1996 and 2001, the Northern Ireland Statistics and Research Agency (NISRA) was commissioned to carry out a detailed analysis of the IFI geographical distribution of commitments in Northern Ireland in terms of economic and social deprivation and community background.

The 2001 figures show that the IFI continues to target the most disadvantaged areas (70 % of its commitments); the correlation between the IFI's commitments and deprivation at District Council level remains high; and the commitments between the Protestant and Catholic communities overall is well balanced in the designated areas, although a significant imbalance remains within the non-deprived areas.

The IFI decided that it will shortly review its list of designated deprived areas to make it match with the most up-to-date index of deprivation in Northern Ireland published in July 2001 ("Noble index").

3.7 The PriceWaterhouse Coopers draft audit report

Commissioned by the IFI Board in September 2000 in response to the ECA report, a draft audit mission report by PriceWaterhouse Coopers (PWC) has been presented to the Board in June 2001.

The PWC draft findings/recommendations conclude that processes of controls and procedures in place at the IFI are broadly adequate to ensure completeness and accuracy of disbursement of grant funding and that no fundamental weaknesses in controls over the grants' cycles were identified. Improvements could nevertheless be made to avoid variations in procedures established by the IFI agencies and deficiency of documentation held on some project files with regard to appraisal process and project monitoring. The absence of consistent post project evaluation and formal closure procedures was also stressed.

The IFI intends to use this report to develop an *instructions manual* with the aim of standardising procedures across all the IFI's operations. This will also address some of the points raised by the recent Commission audit (see ANNEX VII), particularly those referring to the IFI monitoring and control procedures and the setting of eligibility periods and improved accounting procedures (see ANNEX VIII).

3.8 Conclusion

The European Court of Auditors report and other recent audit reports and impact studies have unanimously recognised the very positive contribution of the IFI's activities and its innovative approach in fulfilling its objectives, *i.e.* to promote economic and social advance, and to encourage contact, dialogue and reconciliation between nationalists and unionists throughout Ireland.

Critical observations - such as aspects of technical management and control procedures - are currently being improved, but some remain yet to be implemented within the operations of the IFI. Among the issues raised by the latest Commission audit, the question of the establishment of an IFI payment budget and the modalities for codifying the existing practice of limiting all EU contribution to 75 % of a co-funded project will need to be addressed.

Above all, the new round of Structural Funds (2000-2006) set a new background for the IFI. It is therefore essential to assess issues such as complementarity with EU Structural operations and co-ordination with their bodies in this light.

4. IFI ACTIVITIES AND THE NEW ROUND OF STRUCTURAL FUNDS

The Council Regulation governing the EU contribution to the IFI states that "*it is vital to ensure proper co-ordination between the Fund's activities and those financed under Community structural policies*". An assessment of the nature and impact of the IFI intervention should therefore ensure that funding provided by the IFI complements the *Community Support Frameworks* for Northern Ireland and Ireland (2000 – 2006), in particular the *EU Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland* ("PEACE II Programme"), and other Structural Funds' Operational Programmes or Community Initiatives in the region (e.g. INTERREG III-A). This should further take into account that the EU

Programmes have indeed developed a more focused targeting and extensive monitoring frameworks.

Complementarity between the IFI and EU Programmes, can be sought on two levels:

- on the level of specific objectives and synergy of priorities;
- through close cooperation and coordination between the IFI and EU Programmes' procedures and structures.

4.1 IFI and EU Programmes : Complementarity of Objectives

In accordance with Article 2 of Council Regulation N° 214/2000, the EC contribution to the IFI should be used:

– "in accordance with the Agreement under which the IFI was established[8],

– in priority for projects of a cross-border or cross-community nature, in particular those consistent with the objectives of the PEACE programme and other operations supported by the Structural funds".

Past assessments of the IFI (see previous section) have shown that it has performed well in fulfilling the objectives and priorities drawn by the Agreement on which it was established. This section analyses how the IFI contributes to projects that complement the objectives and priorities of Structural Funds interventions in Northern Ireland and Ireland.

4.1.1 Synergies of Priorities

There is a clear similarity between the objectives of the IFI and those of the **PEACE Programme** [9]. The strategic aim of PEACE is *'to reinforce progress towards a peaceful and stable society and to promote reconciliation'*. In this new round of Structural Funds, the PEACE II specific objectives are to address the legacy of 30 years of conflict in the region and to take the opportunities arising from the return of peace. Furthermore, it aims at paving the way to reconciliation, by encouraging appropriate levels of cross-community contacts and participation.

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8 See ANNEX I.

9 The PEACE II Programme is classified as an objective 1 Operational Programme in the period between 2000 and 2004, for a total amount of € 531 million (80 % : Northern Ireland; 20 % : Border Region of Ireland).

In practical terms, both initiatives have defined a limited number of priority areas on which to focus their assistance, with various levels of assistance:

PEACE II [10]	**IFI** [11]
1. Economic Renewal (32.1 %)	1. Economic Development (41.5 %)
2. Social Integration, Inclusion and Reconciliation (24.8 %)	2. Community Capacity Building (20.5 %)
3. Locally-based Regeneration and Development Strategies (19.4 %)	3. Regeneration of Deprived Areas (35.2 %)
4. Outward and Forward Looking Region (5.2 %)	
5. Cross-border Co-operation (15.0 %)	

Broad similarities to PEACE II priorities may be identified in all areas of the IFI's three groups of programmes. For example, under the heading "Economic Development", the IFI contributes to the strengthening of private investor confidence, technology support and tourism, very much like the PEACE Programme does in its "Economic Renewal" Priority. Under "Community Capacity Building", the IFI promotes training and supports groups and individuals, with a key emphasis on young people and women, in the same way that the PEACE Programme does under its priority 2.

Similar conclusions may be found in comparing other Structural Funds Programmes in the region, albeit the latter do not have as an explicit goal the enhancement of peace and reconciliation. For instance, the "**Building Sustainable Prosperity"** Programme[12] also displays a similar set of priorities, namely "economic growth and competitiveness", "employment", "urban and social revitalisation", "agriculture, rural development, forestry and fisheries", and "the environment". Once adopted, the **INTERREG III-A, URBAN II** and **LEADER +** Community Initiative Programmes will also display common features with IFI activities in the fields of cross-border co-operation, urban development and rural development respectively.

10 Financial tables approved for 2000-2004 in the Commission decision C(2001)638 of 22 March 2001.

11 IFI Indicative Budget allocation for 2001, December 2000.

12 Transitional objective 1 Operational Programme for Northern Ireland (2000-2006), for a total amount of € 890.5 million.

Under such conditions, it is therefore frequent that the same projects are being funded under both IFI and EU programmes (ANNEX V). In such cases, although the IFI often offers a smaller financial contribution than the EU Programmes' share[13] it also processes applications quickly and through streamlined selection procedures. This explains the reputation of the IFI to be considered "first money on the table". This pump-priming role is therefore very useful for projects' sponsors who then seek complementary funding from EU Programmes and could be further developed by formal co-ordination mechanisms.

The IFI and the EU Programmes differ most in terms of methods for allocating financial amounts to their respective priorities. Indeed, EU Programmes plan their spending over the entire programming period (2000-2004 for PEACE, 2000-2006 for all other Programmes) while incorporating the flexibility necessary for the Managing Authorities and their Monitoring Committees to make changes at any time during this period. Conversely, the IFI Board decides, once a year, the following year's budget (adjustments are also made at mid-year) which is based on the known donors' contributions (mainly US and EU) on the one hand, and on project bids broken down by programme and by scheme on the other hand. This sets a largely "demand sensitive" and short-term approach to funding which makes the IFI more flexible to respond to emerging needs and opportunities, while EU Programmes develop a more forward-planning approach. Open and thorough debates at Board meetings and at EU Programmes' Monitoring Committees – particularly the PEACE Programme's - on reprioritisation of their respective activities in the light of evolving needs would be mutually beneficial.

4.1.2 Targeting of resources and selection criteria

At the operational level, comparisons on targeting resources and the selection criteria are an essential element in assessing the complementary actions of IFI and other EU Programmes. This is particularly important in relation with PEACE, as this Programme has developed a very innovative methodology.

The most obvious level for targeting is the **overall geographical focus** : both IFI and PEACE operate mainly in Northern Ireland and in the Border Region of Ireland. While this area is the only eligible one for PEACE (as well as for INTERREG III-A), the IFI may fund projects in any part of the Irish territory, but it has progressively concentrated its action so much so that 67 % IFI funded projects are currently in Northern Ireland and 33 % in the Border Region (between 01.06.1999 and 30.06.2001).

In accordance with the aim of the Agreement establishing the IFI "*to [fund] projects to improve the quality and conditions of life for people in areas facing serious economic and/or social problems*", the IFI also developed since its inception a policy consisting of targeting disadvantaged areas. In 1988, the Board formally adopted a list of **"Designated Disadvantaged Areas"** which was revised in 1995. The six border Counties of Ireland were confirmed as priority area under this initiative. In Northern Ireland, the definition of what constitutes such an area been based on

13 See ANNEX IX on maximum rates of intervention.

indicators of economic and social deprivation (partial use of the "Robson Index") in local government wards across Northern Ireland on the basis of the 1991 Census data. However, the IFI has widened the definition of disadvantaged areas to include several pockets of significant disadvantage in local government wards which would not be classified as disadvantaged on an overall basis. It now covers some 222 wards, representing 37 % of Northern Ireland wards and 36 % of its population. In the South, the Border Region is classified as disadvantaged as a whole – reflecting the fact that that region is the most disadvantaged in the Republic and it is also classified as an Objective 1 region for this round.

The IFI has thus progressively increased the emphasis which it gives to Designated Disadvantaged Areas, not only under the programmes of the "Regeneration of deprived areas" theme, but also through projects financed within its other programmes. It is now estimated that 90.5 % IFI funding goes to Designated Disadvantage Areas.

This approach to targeting has proved useful but, as the negotiations on the new PEACE Programme have shown, it now faces two challenges :

– adapting this index to economic and social evolution in Northern Ireland and the Border Region in recent years ;

– complementing this approach with criteria which are more directly linked to the source of the conflict in Northern Ireland (which are not economic and social in nature);

The first challenge is being addressed both by the IFI and EU Programmes. The Board decided in June 2001 to commission a review of its designated disadvantaged areas to take account of the new index of economic and social deprivation ("Noble index") in Northern Ireland which is part of the UK Government's "New Targeting Social Needs" policy and will be complemented by the results of the 2001 census as they become available. In the Border region, the "Combating Poverty" index will be used in the PEACE Programme. It is likely that the IFI will continue to designate the entire Border region as "disadvantaged".

The second challenge had been addressed by the new PEACE Programme which explicitly targets potential beneficiaries as those belonging to areas, sectors, groups or communities that have been '*most affected by the conflict'* and which do not necessarily correspond to those areas, groups or sectors which have been most deprived in economic and social terms. Among others, PEACE II will therefore target areas that are interfaces between Protestant and Catholic communities or which have been affected by high levels of violence, or affected by border closures or high levels of displaced persons ; groups such as victims of violence and their relatives or ex-prisoners ; sectors such as tourism, security, arts or sports. Through its programmes and schemes, the IFI often funds projects which benefit the same categories of people (with the exception of arts and sports, as the Board has taken the decision *not* to support these sectors). However, it does not consider these categories as overall selection criteria, nor does it monitor the impact of its activities on such groups.

Finally, the Council Regulation insists that the EC contribution to the IFI should be used *"in priority for projects of a cross-border or cross-community dimension"*. The IFI has funded 384 cross-community projects and/or 176 cross-border projects, representing an average of 63 % and 29 % of IFI funded projects between 01.06.1999 and 30.06.2001, respectively.

Gathering this type of information from the IFI requires *ad hoc* compilation of data since it is not available online from a central database. In the new PEACE Programme, the **cross-border dimension** is addressed by a specific priority representing 15 % of the overall Programme financial allocation. It is expected that, overall, all projects with a North-South dimension will represent € 100 and € 400 million respectively in the Northern Ireland and the Ireland CSFs. This data will be collected in a central database as projects are being approved for funding.

The **cross-community dimension** is addressed in PEACE II as an instrument to help "pave the way to reconciliation". All projects seeking assistance from PEACE II will thus need to demonstrate how effectively they intend to develop reconciliation and mutual understanding and respect between and within communities and traditions, in Northern Ireland and between North and South. This new focus on a cross-community dimension at an appropriate level (which does not exclude, under certain conditions, so-called "single identity projects") has therefore been defined as a horizontal requirement applicable to *all* PEACE priorities. By comparison, the cross-community dimension is only explicitly required for some IFI programmes (such as the "community Bridges", the Wider horizon, the KEY, the "Interact" and the "CRISP" programmes), while it is not a selection criterion for some of the most substantial IFI programmes, e.g. all "Economic development" programmes and most "Regeneration of deprived areas" programmes.

4.1.3 Conclusion

In conclusion, although the methods and financial scale with which they are implemented remain distinct, the priorities set by both IFI and EU Programmes activities complement each other and show high potential for synergies.

In terms of targeting, the IFI emphasis remains on economically Disadvantaged Areas, while the PEACE II Programme has evolved considerably by addressing explicitly issues such as areas, groups and sectors "most affected by the conflict" and the cross-community and/or cross-border dimension(s) in making them selection criteria for all projects seeking funding.

Enhancing complementarity between IFI and EU activities will not only involve harnessing the synergies between objectives, priorities, and targeting methods, but it will also depend on establishing operational means. The following section therefore addresses the issue of co-ordination between IFI and EU Programmes structures and bodies on the level of management and procedures.

4.2 Organising Co-ordination

The governing Council Regulation (EC) n° 214/2000 states in its Article 3 that the Commission '*shall ensure co-ordination between the Fund's activities and those financed by Community structural policies. The Commission shall keep the relevant monitoring committees informed of the activities of the Fund"*.

Article 2 of the same Regulation states that the EC contribution should be used in such a way that there is a *"genuine additional impact on the areas concerned and should not therefore be used as a substitute for other public and private expenditure"*

4.2.1 *Current Co-ordination arrangements*

Representatives of the European Commission attend all **IFI Board meetings**. The IFI and the Commission agreed in 1994 that in addition to receiving the relevant papers for the Board meeting, the Commission also receives the papers of the IFI **Advisory Committee meetings**[14] (although presently the Commission does not receive *all* papers, but only those on projects for decision).

Concerning the information on the **EU Programmes Monitoring Committees**, a simple solution has been agreed, in the course of the discussions on the new round of Structural Funds (based on a practice established for INTERREG in the last round of Structural Funds), by which representatives of the IFI secretariats attend, in an observer capacity, the Monitoring Committees most relevant to its activities, namely :

- Community Support Framework for Northern Ireland ;
- PEACE II Operational Programme ;
- Building Sustainable Development Operational Programme ;
- INTERREG III-A for Northern Ireland and Ireland Community Initiative ;

Representation of the IFI's Secretariat at key Monitoring Committees provides a useful level of knowledge sharing, as does the participation of representatives from the European Commission Directorate-General for Regional Policy in IFI Board meetings.

At an operational level, co-ordination is also established to address the issue of the **additional impact of IFI intervention** : this is naturally the case when the same Government Department acts as *Agent* under the IFI, and simultaneously, for instance, as *Implementing Body* under the PEACE Programme.

When a given project is funded both by the IFI and an EU Programme, there is indeed a potential risk of reaching the maximum ceiling of 75 % of the total eligible cost allowed for Structural Funds intervention[15]. Although the IFI is not *per se* subject to Structural Funds regulations, there are arguments for more consistent management of co-funding by some IFI programmes (see rates of intervention ANNEX IX) with EU programmes within a given project, in order to avoid exceeding the 75% ceiling.

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14 Exchange of letters IFI/Commission : Letter to C. Trojan, 28 June 1994.

15 Article 29 of Regulation (EC) 1260/1999.

This problem has long been recognised; as early as 1994, the IFI and the Commission agreed that "*the IFI's Joint Directors-Generals [would] be invited (...) at least once a year to exchange views and discuss programmes and levels of assistance. Such regular review [would] help prevent duplication and ensure that the level and mix of grant assistance in co-financing arrangements [is] prudent and appropriate*."[16]

The attached Audit Report acknowledges that, for the audited Government Departments acting as agents for the IFI that were audited in Northern Ireland, '*it appears that [they] do take account of all funding sources and that there was a system established for co-ordination of payment requests*' (see point 3.1 in the ANNEX VII). However, there is no clear internal procedure within the IFI for systematic exchanges of information with other Programmes bodies to guarantee that this ceiling is not reached. Furthermore, as regards Ireland the audit report established that it was '*not clear how different funding sources are taken into account*'.

4.2.2 Improving co-ordination :

Within the provisions of the Belfast / Good Friday Agreement which set up the peace process in Northern Ireland, a North/South **Special EU Programme Body** (SEUPB) has been established. The SEUPB is now the Managing Authority for the PEACE and INTERREG Programme. Regular contacts and working relations between the SEUPB and the IFI Secretariats would undoubtedly benefit both organisations. Contact with the *ad hoc co-ordination group* set up under the NI CSF would certainly go in the same direction. One point worth exploring would indeed be to identify all co-ordination points at all levels which may readily be used to enhance their co-ordination.

Another point for improvement is on **database exchanges**. The attached audit report (see ANNEX VII) stressed the need for more wide-reaching input of data into the IFI database to include sources of funding other than those of the IFI (in particular by identifying Structural Funds programmes as separate sources of funding), which would allow for greater visibility and co-ordination. EU Programmes databases would in turn need to be adapted in a similar way for their mutual interests.

For instance, as underlined in the audit report, the IFI's **project selection procedures** appear extensive, thorough and satisfactory. For example, applicants are required to provide business plans or equivalent and procedures involve both an evaluation of the viability of the project and of the necessity for the IFI to fund it. This type of information would certainly be very valuable – whether the project is eventually approved for funding or not – if the same project sponsor decides to subsequently apply to an EU Programme. This transmission of data would accelerate the selection procedure for the benefit of all.

[16] Exchange of letters IFI/Commission, Letter to C. Trojan, 28 June 1994.

Conversely, the audit report identifies some systematic weaknesses in respect of management and control procedures related to the **monitoring of projects** once they have been approved by the Board for funding. This aspect is particularly well developed in the current round of Structural Funds, where extensive sets of physical and financial monitoring indicators are being set up for all interventions. In the case of projects funded both by the IFI and an EU Programme, the IFI would therefore certainly benefit from a regular access to these monitoring data.

Finally, a further argument for integrating the monitoring systems of the IFI and the main EU Programmes in the region is the **risk of double counting their impact**, which would undermine any attempt to carry out thorough evaluation studies.

4.2.3 Conclusion

In view of the preceding observations, the co-ordination mechanisms so far established need more synchronised procedural approaches between IFI and EU Programmes structures (particularly PEACE), e.g. by making full use of available communication and database technology.

This will enhance the additional impact of the IFI, in a more visible, organised and controlled way, and will definitely prevent the risks related to multi-funding.

5. PUBLICITY AND INFORMATION

Article 4 of Council Regulation (EC) 214/2000 states that '*The Commission shall, in co-operation with the board of the Fund, determine appropriate publicity and information procedures in order to publicise the Community's participation in the projects financed by the Fund*'. One objective of these publicity and information procedures may be found in recital (17) of the same Regulation, which states that *"this support will contribute to reinforcing the solidarity between the Member States and between their peoples"*.

The IFI acknowledges support of all its donors (regardless of their level of contribution or the regularity of their payments) by means of standard references in press releases, published literature (Annual Report, information brochures, and published reports) and on its website. Reference to donors is also made in speeches made by the Chairman or Board members and in briefings given to visitors to IFI projects. Finally, the Commission representation offices in Belfast and Dublin are invited to all IFI project launches.

Nevertheless, the IFI image as perceived by the general public is predominantly that of a US supported organisation, despite the fact that the EU contribution amounts to 38 % of all contributions.

Solutions to improve publicity given to Community participation in projects financed by the IFI will therefore have to be found. A first step was taken by Commissioner Barnier who undertook to systematically include visits of IFI-funded projects when travelling to the island of Ireland. He also wrote to Mrs Fontaine, President of the European Parliament, inviting Members of Parliament to do the same[17].

The Commission will therefore, in the near future, submit further proposals destined to better profile EU presence in the IFI's activities (e.g. organising media coverage and information of beneficiaries), particularly in cases where co-financing by the EU and IFI occurs.

6. CONCLUSION AND PROPOSALS

The European Union's long standing support to a peace process in Northern Ireland has been best exemplified by its commitment to the IFI since 1989 and the PEACE Programme since 1995. The Berlin European Council in March 1999 confirmed the necessity for continuing special support beyond 2000. In doing so, it recognised the long-term nature of the peace process's objectives, which have been widely supported over the years by the European Parliament, the Council and the Commission.

Today's threats to the future of Northern Ireland's institutions and political settlements, and the continuing levels of violence and division in the region, suggest that efforts need to be sustained. As reinforcing the solidarity between the Member States and between their peoples is a core objective of the EU, this is an opportunity for the EU to act. Moreover, the IFI is supported by the international community who, by doing so, demonstrates its involvement in the peace process in the area. It is therefore important for the EU to be seen as being equally committed to these objectives.

In this context, this report, like others before, acknowledges that the IFI makes a very valuable and positive contribution to peace and reconciliation in Northern Ireland and the Border Region of Ireland and thereby fulfils its objectives, namely to promote economic and social advance, and to encourage contact, dialogue and reconciliation between nationalists and unionists throughout Ireland. Some aspects of technical management and control procedures are currently being improved, but some remain yet to be implemented within the operations of the IFI or discussed with the Commission (establishment of a payment budget, clear rules on the application of the 75 % ceiling of EU support to projects, etc.).

The new round of EU Structural Funds Programmes (in particular the new PEACE II Programme), which are the major instruments to promote economic and social progress in the region, also present new challenges for the IFI.

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17 Letter from Michel Barnier to Nicole Fontaine, 27.07.2000, n°7271.

First, the priorities set by both IFI and EU Programmes complement each other and this high potential for synergies needs to be harnessed. In particular, while the IFI targets mainly economically disadvantaged areas, the PEACE II Programme has evolved considerably by also targeting a list of areas, groups and sectors identified as "most affected by the conflict"; similarly, the cross-community and/or cross-border dimension(s) could become explicit selection criteria for all IFI programmes, as they now are for all PEACE priorities.

Second, in terms of operational means, the co-ordination mechanisms so far established need more synchronised procedural approaches between IFI and EU Programmes structures (particularly PEACE), e.g. by making full use of available communication and database technology. This will enhance the additional impact of the IFI, in a more visible, organised and controlled way, and will definitely prevent the risks related to multi-funding.

Finally, as concerns the publicity given to the IFI's activities, the Commission will submit practical proposals destined to give greater visibility to EU presence in the region, particularly in cases where co-financing by the EU and IFI occurs.

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The possible continuation of the annual EC contribution to the IFI after 2002 should be appraised on the basis of the observations made in this report and in particular, of the synergy and complementarities of the IFI with the PEACE II Programme which will be ending at the end of 2004.

A Commission proposal for a Council Regulation on the EC contribution to the IFI or the definition of other appropriate means for cooperation between the Commission and the IFI should take into account the observations made in this report.

ANNEX : SEC(2001)1579