



Office of the Comptroller and Auditor General  
Report on Value for Money Examination

Department of Agriculture,  
Food and Forestry

# The LEADER Programme

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## **Report of the Comptroller and Auditor General**

### **Department of Agriculture, Food and Forestry LEADER Programme**

I have, in accordance with the provisions of Section 9 of the Comptroller and Auditor General (Amendment) Act, 1993, carried out a value for money examination of the LEADER programme operated by the Department of Agriculture, Food and Forestry.

I hereby submit my report of the above examination for presentation to Dáil Éireann pursuant to Section 11 of the said Act.

A handwritten signature in black ink, appearing to read 'John Purcell', with a large, stylized initial 'J' and a long, sweeping horizontal stroke extending to the right.

**John Purcell  
Comptroller and Auditor General**

23 December 1994

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## Glossary

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ABP	Area Based Partnerships
CAP	Common Agricultural Policy
CEB	County Enterprise Board
CSF	Community Support Framework
Department	Department of Agriculture, Food and Forestry
ECU	European Currency Unit
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
FEOGA	Fonds Européens d'Orientation et de Garantie Agricole - European Agricultural Guarantee and Guidance Fund
LEADER	Liaison entre actions de développement de l'économie rurale - Links between actions for the development of the rural economy
OPRD	Operational Programme for Rural Development
OPT	Operational Programme for Tourism
SCES	Small and Community Enterprise Scheme
SFADCo	Shannon Free Airport Development Company Ltd

## Summary of Findings

- 1 The LEADER programme was established in 1991 under the management of the Department of Agriculture, Food and Forestry. It was an innovative scheme under which individual area-based groups drew up business plans for their areas, to be funded from public and private sources.
- 2 A total of £34.7m was provided jointly by the EU and the Irish Exchequer to fund sixteen groups accepted for inclusion in the programme. Groups functioned independently in managing the implementation of their business plans, within guidelines specified by the Department.
- 3 The specific objectives of this value for money review were:
  - to examine the efficiency of the administration of the LEADER programme and
  - to examine how the effectiveness of the LEADER programme is evaluated.

### Management of the LEADER Programme

#### *The Department of Agriculture, Food and Forestry*

- 4 The Department succeeded in a relatively short period in establishing a suitable and reasonably efficient system of administration and has been economical in the use of staff and other resources in the management of the LEADER programme.
- 5 However, we found that there was inadequate inspection of some groups. Since there is almost total delegation of decision making, regular inspections are essential.  
*(Paragraphs 2.12 to 2.14)*
- 6 All the funds allocated to groups have been committed but it seems that not all the projects which received funding commitments will have been completed by the 31 December 1994 deadline. However, the Department has assured us that 90 per cent or more of the available public funding will be used by groups.  
*(Paragraphs 2.28 to 2.30)*
- 7 In our opinion, the management information systems maintained by the Department in relation to the LEADER programme were inadequate because:
  - they did not generate accurate records of outstanding project funding commitments and
  - there were delays in the compilation of monthly data for the programme as a whole.

However, the Department maintains that these deficiencies did not materially affect the management of the programme. *(Paragraphs 2.15 to 2.20)*

*Monitoring Committee*

- 8 The Monitoring Committee established to oversee the programme had a membership of over forty which made it unwieldy as a decision-making authority especially since it operated on the basis of consensus. It did, however, operate effectively as a method of communication between the groups, on the one hand, and the Department and the EU, on the other. *(Paragraphs 2.35 to 2.40)*

*Administration by Groups*

- 9 Administration at group level was reviewed, and in order to inform our review, four groups were visited. The likelihood is that the practices observed in the groups visited are also to be found among other groups. The principal matters noted were:

- Some groups were found to have assisted projects of a kind specifically excluded in Departmental guidelines e.g. development of golf courses, new tourist accommodation and retail services. To achieve this, groups invoked a flexibility clause in the guidelines which the Department maintains was not designed to allow assistance for projects of a kind specifically excluded. *(Paragraphs 2.50 to 2.52)*
- In three of the groups visited by the audit team, it was noted that some of the projects grant aided were promoted by Board members or by persons with whom they were closely connected. Where projects are both promoted and administered by the same persons, a potential conflict of interest exists. *(Paragraphs 2.47 to 2.49)*
- Many project proposals could have been better analysed by groups before commitments to funding were given. Assessments in some cases were informal and did not involve production of reports. *(Paragraphs 2.53 to 2.55)*
- Some groups appear to have had difficulty in finding suitably qualified persons to inspect projects. In a number of cases, inspection reports were informal and lacking in detail, or were not recorded on file. *(Paragraphs 2.57 to 2.59)*
- Cost overruns occurred on some projects, perhaps due to inadequate analysis at the approval stage. *(Paragraphs 2.60 and 2.61)*

### *Summary of Findings*

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- There were deficiencies in relation to vouching of expenditure on a number of projects. *(Paragraphs 2.62 and 2.63)*

#### *Overlap with Other Schemes*

- 10 The LEADER programme provides assistance for activities which may also be subvented under schemes operated by other agencies. These include industrial development agencies, tourism development agencies, FÁS, County Enterprise Boards and Area Based Partnerships. This leads to:

- risk of duplication of assistance
- actual administrative overlaps with consequent cost implications. *(Paragraphs 2.70 to 2.87)*

- 11 While some LEADER projects were found to have benefitted from public funding from other agencies, there was no evidence in the cases examined that the combined rate of assistance on any project exceeded the maximum limit under the scheme with the most favourable terms.

- 12 Overlaps with other schemes, and the administrative difficulties at group level referred to above, raise the question of whether purely technical and administrative aspects of area-based initiatives like LEADER might be administered better on an agency basis by mainline or other area-based organisations, while leaving the key roles of animation, initiation, decision-making and evaluation at local level.

#### **Evaluating the Effectiveness of LEADER**

- 13 The Department has the responsibility to evaluate the effectiveness of the LEADER programme and to put in place systems, procedures and practices to enable it to do so.

#### *Appraisal of Business Plans*

- 14 Business plans submitted by groups for inclusion in the LEADER programme were assessed by a consultant employed by the Department. While the combined thrust of the plans of groups selected for LEADER funding was consistent with the overall objectives of the programme, the consultant concluded that a number of the groups selected had plans which:

- were vague and not related to clearly defined sectoral objectives and strategies
- were without quantified targets
- had unachievable objectives. *(Paragraphs 3.13 to 3.15)*



*Targets for Achievement*

- 15 The LEADER programme had both economic and community development objectives, but no specific targets were set at the outset of the programme, either by the EU or by the Department. Furthermore, few groups specified targets or measures of impact in their business plans. The lack of clear targets for the programme, at both national and group level, makes it difficult to focus activities to achieve results.  
(Paragraphs 3.16 and 3.17)

*Monitoring of Progress*

- 16 The absence of clear targets also makes it difficult to identify the information needed to allow the effectiveness of the programme to be monitored on an on-going basis. In general, groups did not gather relevant data upon which evaluations of programme effectiveness might be based. Neither the Department nor the Monitoring Committee sought regular information from the groups on the impact of measures undertaken to meet the groups' objectives.  
(Paragraphs 3.18 and 3.19)

*Evaluation of the Programme*

- 17 An evaluation of the LEADER programme commissioned by the Department was published during 1994. The general conclusion of the evaluation was that LEADER was a valuable programme which had attained a considerable degree of success in addressing the general aims of rural development.
- 18 The evaluation sought to measure the economic impact of the programme in terms of:
- rate of return on the project investment and
  - employment levels.

The rate of return measure could not be calculated because of inadequacies in the project databases assembled by most groups.  
(Paragraphs 3.21 and 3.22)

- 19 Employment creation was used by the evaluator as the main indicator of economic achievement of the LEADER programme. The main conclusions about employment creation drawn by the evaluator were:
- Groups claimed that the number of persons employed up to 31 December 1993 attributable to LEADER projects totalled 2,558, of which almost 60 per cent were employed on a part-time or seasonal basis. It was estimated that this was equivalent to 1,445 full-time jobs.

- Internal inconsistencies and problems of definition in the job creation figures claimed by groups suggest that a more accurate level of employment attributable to LEADER would be nearer to 800 full-time jobs than the 1,445 claimed.
- Broadly equivalent results were achieved in terms of claimed employment by groups spending, on average, 51 per cent of project funding on rural tourism, compared with an average of 20 per cent spent on small enterprise projects.

*(Paragraphs 3.23 to 3.27)*

- 20 The evaluator found that there is a risk that projects assisted by LEADER groups might proceed anyway without grant aid. This raises the question of whether the aid could be better targeted and of its value as an inducement to entrepreneurs. In a limited survey, nearly 40 per cent of promoters said their projects would have gone ahead without grant assistance. *(Paragraph 3.29)*
- 21 The evaluator identified a further risk that projects assisted may displace existing viable economic activity, particularly outside the target region.

#### *Conclusions on Evaluation*

- 22 Evaluation of the LEADER programme was hampered by:
- the absence of clear targets for the programme at both national and group level and
  - failure to establish and maintain data collection systems designed to facilitate both on-going monitoring of the programme, and ex-post evaluation.

If lessons are to be learned which will inform the rural development measures of the future, it is necessary to ensure that attention is given to putting in place the systems, procedures and practices which will generate the data upon which successful evaluation will ultimately depend. *(Paragraph 3.37)*

- 23 The Department's evaluation was undertaken at a time when it was too early to capture the full impact of the scheme, and this is acknowledged in the evaluation report. Nevertheless, it was a worthwhile exercise and provided an early assessment of progress on the programme. In order to get full value from expenditure on evaluations, careful consideration needs to be given to their timing. In the case of LEADER, a full economic impact evaluation might best be undertaken in early 1996 when all projects have been in operation for some time and their impacts may be

more realistically assessed. Such an evaluation would contribute to the mid-term review of the LEADER II programme. *(Paragraphs 3.6 to 3.8)*

- 24 Future evaluations should attempt to measure the success of the programme in sustaining employment in local areas, as well as the degree to which undesired effects have occurred e.g. assisting projects which would have proceeded anyway or displacing existing economic activity by grant-aided projects. *(Paragraphs 3.28 and 3.29)*
- 25 While developmental goals such as structural adjustment and empowerment may be difficult to gauge, they ought to be addressed. Otherwise, the achievement of one of the core objectives of the programme will not be assessed. Indicators of success in these areas should be agreed, and monitored on an on-going basis or by means of surveys and inventories of community development activity. *(Paragraphs 3.30 to 3.34)*
- 26 The objectives of the LEADER programme overlap with those of other area-based programmes. Consequently, assessment of development impacts of all area-based initiatives might be undertaken as a unified exercise. *(Paragraph 3.35)*

## Part 1 : Introduction

### Objectives of the LEADER Programme

- 1.1 The LEADER programme was established in response to the changing nature of agriculture in the European Union (EU) and the recognition that the Common Agricultural Policy (CAP) regime, as it was up to the mid-1980s, could not continue. Since reform of the CAP implied that agricultural prices would have to be more reliant on the market place, it was felt that wider rural development policies would be necessary if the goal of preserving the vitality of rural communities was to be achieved. The EU Commission outlined its strategy on rural development in a document called *The Future of Rural Society* in 1988. Subsequently, a Community Initiative for rural development was launched in March 1991, and this became known as LEADER (Liaison entre actions de développement de l'économie rurale - Links between actions for the development of the rural economy).
- 1.2 The objective of the LEADER programme is to establish local development action groups which are responsible for the implementation of business plans for their areas. Such plans were intended to develop local communities in accordance with their own priorities and resources. It is envisaged that successful implementation of this programme will contribute towards an overall objective of creating a self-sustaining rural community, thus ensuring its protection while allowing for its development.
- 1.3 The groups are autonomous bodies, each enjoying a substantial degree of flexibility in designing and managing the business plans which are partly funded through global grants, financed jointly by the EU and the State.
- 1.4 The Department of Agriculture, Food and Forestry (the Department) is the authority designated to administer LEADER in Ireland. In May 1991, the Department invited groups to apply for LEADER funding by submitting business plans. To appraise the business plans received, they commissioned a consultant whose brief included examining the groups under the following main headings, as required by the LEADER programme:
  - guarantee of solvency
  - administrative ability
  - local presence
  - participation of leading figures in the local community and society
  - quality of the plan and
  - know how and expertise in rural development.

The consultant ranked the applications on the basis of this examination.

- 1.5 Ultimately, 16 LEADER groups were selected jointly by the EU Commission and the Department from among the 34 applicants. (The groups selected are listed in Table

1.1, and their geographic coverage is indicated in Figure 1.1.) The selection was informed by the consultant's analysis, but also took into account factors such as the needs of certain areas and geographical spread.

1.6 Appendix A gives an overview of how the LEADER programme is administered.

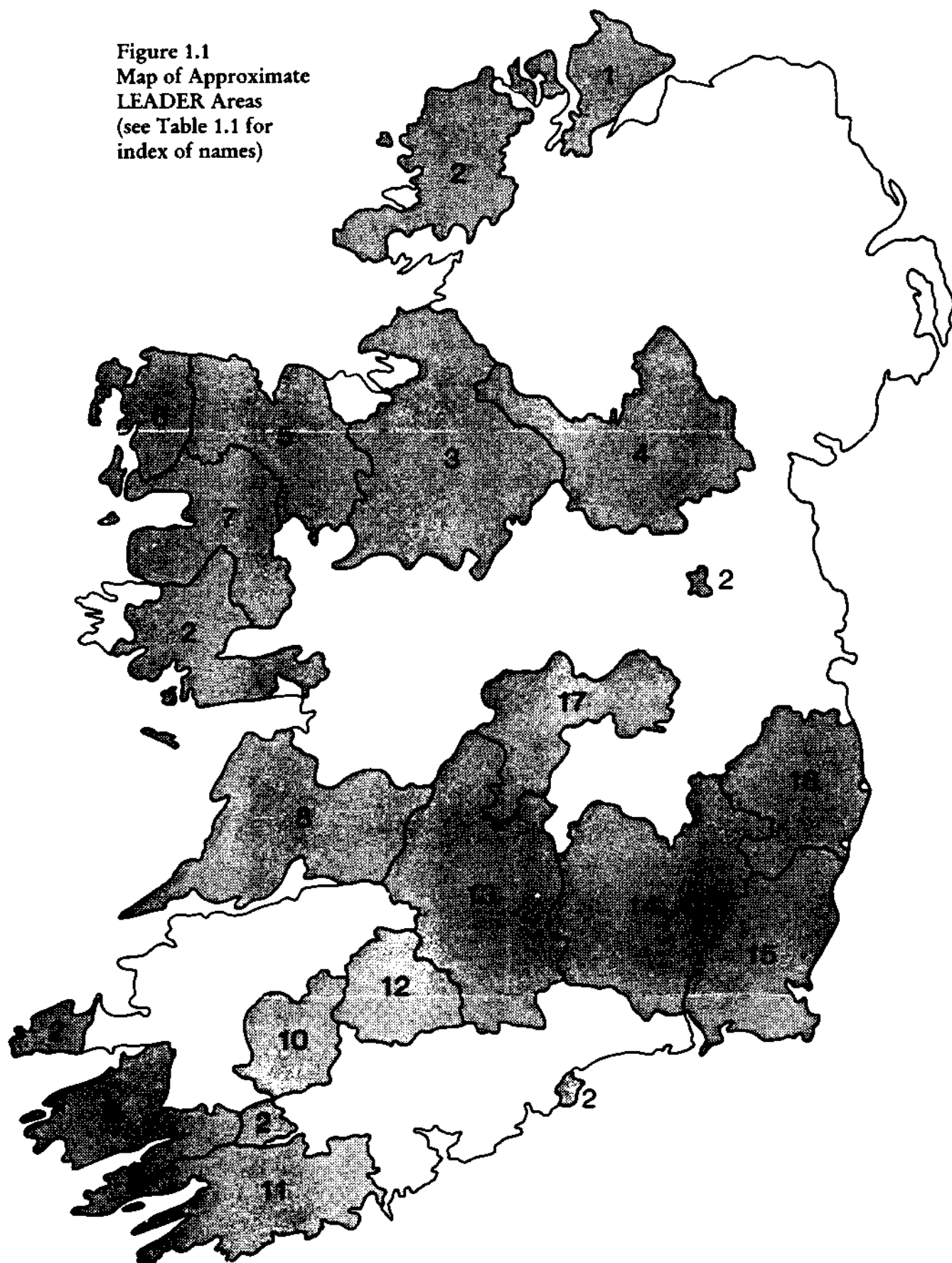
**Table 1.1**  
**LEADER Groups**

Map reference	Name of Group	Funding allocation £'000
1	Inishowen Community Development Group	1,900
2	Meitheal Forbartha na Gaeltachta Teoranta	1,650
3	Arigna Catchment Area Community Company	2,400
4	Cavan Monaghan Rural Development Co-Operative	2,500
5	Western Rural Development Company Ltd	2,500
6	Comhar Iorrais Teoranta	600
7	South West Mayo Rural Development Group	2,514
8	Rural Resource Development Ltd	2,900
9	CRESP - South West Kerry Partnership Ltd	1,900
10	IRD Duhallow <sup>a</sup>	1,290
11	West Cork LEADER Co-Operative Ltd <sup>a</sup>	1,910
12	Ballyhoura Fáilte Society Ltd	1,500
13	Tipperary Enterprise Ltd <sup>b</sup>	2,500
14	Barrow-Nore-Suir Rural Development Ltd	2,200
15	Wexford Organisation for Rural Development Ltd	2,002
16	Wicklow Rural Enterprises Ltd	2,016
17	Offaly County Development Team	2,400
All groups		34,682

<sup>a</sup> *IRD Duhallow and West Cork LEADER Co-Operative Ltd submitted separate business plans but were treated as one group for LEADER purposes.*

<sup>b</sup> *Later replaced by Tipperary LEADER Group, to which £2.03m of the funds originally allocated to Tipperary Enterprise Ltd were reallocated. For background, see Appendix B.*

Figure 1.1  
Map of Approximate  
LEADER Areas  
(see Table 1.1 for  
index of names)



Source: Kearney, Boyle and Walsh (1994).  
See footnote on page 25.

## Funding of the LEADER Programme

- 1.7 The LEADER programme was a short-term pilot scheme. It was originally envisaged that the available funds would be committed to projects in the two years ending 31 December 1993 with actual expenditure of LEADER funds being completed by 30 June 1994. Both deadlines were subsequently extended by six months.
- 1.8 Funding for the LEADER programme was provided jointly by the EU and the Irish Exchequer in the ratio 60:40. The EU agreed to provide ECU27.2m (£20.8m at January 1992 exchange rates) which implied an Irish Exchequer contribution of £13.9m — a total of £34.7m. The Department approved global grants for groups which absorbed the total amount made available.
- 1.9 EU funding of LEADER is sourced from the ERDF, FEOGA and the ESF. Drawdowns against each of the Structural Funds may be made in three tranches of 40 per cent, 40 per cent and 20 per cent of the total funding due. The first and second drawdowns have been claimed against each of the three Structural Funds, a total of around £17m. (See Table 1.2.) The final drawdown of 20 per cent will not be made until after the completion of the programme in December 1994.

Table 1.2  
EU Funding for the LEADER Programme 1992 to 1994

Year	Source of Funds			
	ERDF £m	FEOGA £m	ESF £m	All £m
1992	5.07	2.55	0.67	8.29
1993	5.37	-	-	5.37
1994	-	2.64	0.69	3.33
Total <sup>a</sup>	10.44	5.19	1.36	16.99

<sup>a</sup> The final drawdown will depend on the extent to which projects are completed by the deadline of 31 December 1994 and the level of assistance from each fund for the revised mix of completed projects.

- 1.10 Devaluation of the Irish pound in early 1993 increased the Irish pound value of EU funding for LEADER. Full drawdown of the outstanding funds would result in a total of £21.26m of EU funds being available. With Irish co-funding, this would permit up to £35.4m to be spent on the LEADER programme.

- 1.11 The legal agreements between the Department and the groups express the public funding commitment (EU and national combined) in Irish pounds, with the EU contribution based on the ECU: £ exchange rate which applied at the commencement of the programme in 1992. The original allocations to the groups were not amended following the 1993 devaluation because of the increased national funding to which this would give rise. As a result, the global allocations to groups amount to 98 per cent of the estimated potential funding.
- 1.12 The EU requires that total public funding of a business plan should be matched by at least an equivalent amount from private investors. By the end of 1993, groups had identified and approved projects to a total value of £76m, which was sufficient to justify the full amount of public funding.<sup>1</sup> Thus, on the basis of planned expenditure, private investment is expected to exceed public investment in LEADER projects.

### **Expenditure Profile**

- 1.13 Disbursement of LEADER funds occurs at two levels: the Department issues advances to the LEADER groups; and the LEADER groups make payments from their available funds in respect of administration expenses and individual projects.
- 1.14 Advances of public funding for the LEADER programme made by the Department to groups in the period up to the end of November 1994 totalled £30.2m.
- 1.15 Table 1.3 sets out the expenditure by groups on projects assisted up to the end of September 1994 (the latest date for which these figures were available). The amount of matching private funds is also shown.
- 1.16 The significant features of the profile of expenditure are:
- expenditure levels in 1992 were relatively low because of the time involved in the selection and approval of projects for aid, the completion of projects and the processing of the consequential claims for grant aid
  - about £7m (23 per cent) of the public funds available for projects remains to be spent in the last three months of the programme
  - 57 per cent of the funding for projects assisted by groups up to the end of September 1994 came from private sources.

*1 Actual payment of funds committed only occurs after the approved expenditure has been incurred by project promoters.*



**Table 1.3**  
**Expenditure on LEADER Projects to 30 September 1994**

	Source of Funds		
	Public £m	Private £m	Total £m
1992	2.3	2.7	5.0
1993	10.0	12.0	22.0
1994 - January to September	11.0	16.7	27.7
Total - 1992 to September 1994	23.3	31.4	54.7

### **Levels of Grant Aid per Project**

- 1.17 Collectively, groups had committed moneys to over 2,350 projects by the end of 1993. There was a wide variation in the level of project aid, with the average committed aid per project for groups ranging from about £5,000 to about £27,000. Ten of the groups had committed an average grant level in the range £10,000 to £20,000.

### **Distribution of Expenditure by Measure**

- 1.18 Each LEADER project is categorised under one of six LEADER measures: technical support, vocational training, rural tourism, small enterprise, natural resources and a residual category, 'other'. The greatest proportion of project funding was allocated for projects under the rural tourism measure: the average expenditure on this category across all groups is 51 per cent; in two groups, the proportion was as high as 70 per cent. The next most significant areas of expenditure are on projects in the small enterprise and natural resources measures.
- 1.19 Within the rural tourism measure, the dominant type of project for the average group falls into the category self-catering/B&B accommodation (about 35 per cent of all rural tourism projects). The major types of small enterprise activity for the average group are crafts (19 per cent), timber/furniture (10 per cent) and engineering (14 per cent). Natural resource projects range across the spectrum including agriculture, horticulture, fisheries and forestry.

### **Purpose and Scope of Examination**

- 1.20 There are a number of reasons why it was appropriate to undertake an examination of the LEADER programme. These include:

- all of the public funds available for the LEADER programme had been committed by 30 June 1994
- the discovery of mismanagement and misappropriation of funds advanced to Tipperary Enterprise Ltd in 1992 (see Appendix B)
- the lessons learned from a study of this kind may be useful in the implementation of LEADER II (the programme to succeed the original LEADER programme) which is currently being developed.

1.21 The specific objectives of this review were:

- to examine the efficiency of the administration of the LEADER programme and
- to examine how the effectiveness of the LEADER programme is evaluated.

1.22 In the course of the examination, the examination team reviewed the administration of the programme by the Department, the Monitoring Committee established to oversee the programme and a sample of the groups. The examination methodology is outlined in Appendix C.

1.23 This report is confined to value for money matters. In the course of the examination, certain financial and regularity audit issues were noted which will be brought to the attention of the Accounting Officer for the Department and, depending on his response, may be referred to in the Annual Report of the Comptroller and Auditor General for the year ending 31 December 1994.



## **Part 2 : Management of the LEADER Programme**

- 2.1 Administration of the LEADER programme in Ireland occurs at three levels. The Department administers the scheme at national level, in terms of liaison with the EU, and of funding, monitoring and control of groups. A Monitoring Committee was put in place which was intended to meet twice yearly to review (and if appropriate, to revise) the programme. Finally, each of the groups is responsible for selecting projects to give effect to their respective business plans, and for the proper disbursement of the available funds.

### **The Department of Agriculture, Food and Forestry**

- 2.2 The Department succeeded in a relatively short period in establishing a suitable and reasonably efficient system of administration and has been economical in the use of staff and other resources in managing the LEADER programme.

### **Resources Used**

- 2.3 The total number of general service staff currently involved in the day-to-day administration of the LEADER programme is six. Two of the staff are also involved in other areas of work, and two are employed on a job-sharing basis. It is estimated that the total amount of general service staff resources is the equivalent of four full-time officers.
- 2.4 Five inspection staff employed by the Department are engaged in inspection of LEADER groups, but each also has responsibility for inspection of a number of other schemes. It is estimated that the total amount of inspection time devoted each year to the LEADER programme is about three-quarters of a man-year.
- 2.5 The estimated total annual cost of departmental staff currently engaged in administration of the LEADER programme, including the cost of overheads, is approximately £150,000.<sup>2</sup>

### **Selection of LEADER Groups**

- 2.6 The process by which groups were selected was outlined in paragraphs 1.4 and 1.5. The employment of a consultant to assess the business plans submitted would appear to have been an appropriate and cost-effective approach, given the nature of the documents submitted and both the numbers and qualifications of departmental staff available at the time. The cost of employing the consultant was £17,300.

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2 *This figure is based on estimates of civil service staff costs effective from 1 June 1994. The costs shown above do not include travel and subsistence, nor the further Exchequer liability for future pension payments.*

- 2.7 In negotiation with the EU Commission on the selection of groups for funding, it was decided that two groups which had submitted plans for separate and non-contiguous areas would be funded if the groups merged. The two groups concerned (IRD Duhallow and West Cork LEADER Co-Operative Ltd) agreed to form a new company to represent the combined group, but each of the existing Boards continued to function in respect of its own area. It appears that the two groups effectively operate independently.

### **Structure of the Programme**

- 2.8 Each group accepted for inclusion in the programme was obliged to enter into a formal contract with the Department which set out the terms and conditions under which it would operate, including the funding schedule and terms for payment, reporting arrangements and other general operational and administrative conditions. These conditions were elaborated on in a circular issued in May 1992. Further circulars were issued in response to problems and queries which emerged in relation to the experience of groups in implementing their business plans.
- 2.9 Many of the LEADER groups had little or no prior experience of administering the expenditure of public funds. This factor, and the innovative nature of the scheme and its objectives, meant that there was a significant learning experience for the Department which resulted in the gradual refinement and clarification of the initial administrative rules for the programme.
- 2.10 The groups submit monthly returns to the Department, listing all approved project commitments and project payments during the period. These listings are reviewed by officials in the Department to ensure that project commitments are, *prima facie*, eligible for funding under the programme guidelines.
- 2.11 Apart from giving advice and monitoring progress, the Department allows groups to operate independently, in the spirit of the programme, in implementing the agreed plans on the basis of the capacity and capability of the management of groups. The process of development in each area depended on the priorities of each group.

### **Inspection Activity**

#### *Frequency*

- 2.12 The frequency of Inspectors' visits to LEADER groups was not monitored formally by the Department. While regular visits were seen by the Department as desirable, the frequency of the visits depended on the Inspectors' time pressures, the locality and number of groups to be visited and the quality of the controls and internal procedures within the groups. However, Inspectors were consulted prior to the issue of

payments, and it was a pre-requisite to the payment of each advance to a group that it had had a recent and satisfactory inspection visit.

- 2.13 While the Tipperary Enterprise Ltd situation (see Appendix B) heightened the Department's awareness of the importance of inspections at an early stage in the programme, the process could be strengthened by introducing more formal control over the frequency of inspection visits. The Department should maintain a register of the dates and outcomes of each group visit so that attention can be focused on areas of risk.

#### *Staffing Level*

- 2.14 It appears that this area of the programme management is under-resourced. The five inspectors have duties relating to various other Operational Programmes as well as LEADER. As pointed out in paragraph 2.4, their combined time spent inspecting LEADER groups probably does not exceed three-quarters of a man-year. Since the forthcoming LEADER II programme is planned on a greater scale than the current programme, continuing to resource the inspections at the present level would risk failure to detect unstructured or undesired activity in a timely manner.

#### **Management Information Systems**

- 2.15 Overall it is evident that the management information systems maintained by the Department in relation to the LEADER programme are inadequate.

#### *Accuracy of Records*

- 2.16 The monthly reports supplied by the groups are input to a computerised system maintained by the Department. The system was intended to produce progress reports in relation to each group and for the programme as a whole. Groups completed their monthly returns in different ways, but this was not initially apparent to the Department. As a result, the system was unable to generate accurate records of the outstanding project funding commitments. However, the Department maintain that this deficiency did not materially affect the management of the programme, and informed us that the system was capable of generating accurate information on payments by groups.
- 2.17 The Department should ensure that it identifies all its information requirements both for monitoring purposes and for evaluation of LEADER II. Groups should be made fully aware when entering into contract with the Department of the data which will be required in relation to activities at group level and at individual project level. Consideration should also be given to withholding a proportion of funding to ensure compliance with information requirements.

*Timeliness of Reporting*

- 2.18 At the time of the conclusion of our examination (end October 1994), the most recent comprehensive monthly financial reports available related to August 1994, indicating shortcomings in the efficiency of the reporting procedure.
- 2.19 The reasons for this delay are:
- reports are not received promptly after the end of each month from all LEADER groups
  - the reports submitted are quite bulky which means that considerable clerical time and effort is involved in inputting these reports to the Department's computer system.
- 2.20 The Department feels that the LEADER programme is under-resourced in the area of information systems and is currently seeking technical assistance from the EU to upgrade the present system. Their hope is that this upgrade will, if possible, involve a direct computer link between the groups and the Department to improve the efficiency and accuracy of reporting. However, the cost effectiveness of this would need to be examined carefully.

*Reporting Formats*

- 2.21 Progress reports prepared for submission to the Monitoring Committee are not uniform for all groups and as a result there are disparities in the level of detail provided.
- 2.22 The Department considers that groups give a 'fairer' presentation of progress if they are not required to adhere to a specific format. However, this approach to the collection of routine information should be reconsidered in the context of LEADER II when the number of groups will increase and to ensure that information requirements in respect of performance indicators are reported for monitoring purposes.

**Accounting for Programme Expenditure**

- 2.23 Although required to account for expenditure of EU moneys on a fund-by-fund basis, the Department does not maintain on-going records of programme spending by project, analysed according to the related EU funds i.e. ERDF, FEOGA and ESF.
- 2.24 For EU drawdown purposes, the Department uses a fixed percentage estimate to allocate sectoral expenditure which relates to more than one fund. Allocation

difficulties mainly arise in the case of rural tourism projects which are funded by both ERDF and FEOGA.

- 2.25 The Department maintains that it would be impractical to ask the groups to provide monthly reports of project expenditure by EU fund.
- 2.26 The Department has, however, assured the Commission that a full analysis of all project expenditure by source of funds will be undertaken before the end of the programme and before the final drawdown of 20 per cent is claimed.
- 2.27 In allocating global grants to groups, it was not specified what proportion of each grant was to be used for purposes appropriate to each of the funding sources. Furthermore, groups were permitted to transfer allocations between measures up to a limit of 10 per cent of their value or, with the approval of the Monitoring Committee, in excess of 10 per cent. This raises the possibility that, while keeping within the aggregate EU funding provision, expenditure may exceed or fall short of individual EU fund provisions.
- 2.28 The Department does not anticipate that there will be any difficulty arising from these local reallocations because:
- given the volume and value of outstanding project commitments and the likelihood that some projects may not mature for payment before the cut-off date, it is likely that there will be some shortfall in the amount actually being claimed from each of the EU funds
  - the potential drawdown from each fund increased due to devaluation of the Irish pound against the ECU in January 1993, but the Department did not provide for any consequential increase in global grants for groups.
- 2.29 An evaluation of the LEADER programme commissioned by the Department (see paragraph 3.3) analysed the funding status of projects as at end-December 1993. This showed that almost 60 per cent of the projects to which the groups had committed moneys had not received any payments at that time. The report points out "... the great difficulties which many groups will face in trying to spend their moneys before the December 1994 deadline. The proportion of unpaid projects probably provides the best insight into the problems which groups are confronting in ensuring that the moneys allocated will actually be dispensed."
- 2.30 By end-September 1994, about 77 per cent of the available public funding for projects had been expended by groups. The Department has assured us that by end-December 1994, in excess of 90 per cent of the available LEADER funds will have been spent.



### **Drawdown of Structural Funds**

- 2.31 The first drawdown of 40 per cent of the available Structural Funds was received automatically at the start of the programme. (See Table 1.2.) The Department was entitled to claim the second advance of 40 per cent when accumulated expenditure reached 50 per cent of the amount of the first drawdown.
- 2.32 In October 1993, the claim documentation for the second advance of ERDF funds was submitted to the Department of Finance<sup>3</sup>, relating to expenditure up to 31 July 1993.
- 2.33 According to the Department, the claim processing delay of two and a half months was due to the delays in the submission of monthly reports from the groups and the clerical time involved in updating the Department's records.
- 2.34 There would appear to be some scope for speeding up the drawdown procedures in order to ensure that the Exchequer cashflow position is optimised.

### **Monitoring Committee**

- 2.35 A Monitoring Committee for the LEADER programme in Ireland was set up in September 1992. The task of the Committee was to undertake regular reviews of progress in implementing the programme, and to propose and, where appropriate, to decide on any amendments required. The Committee was chaired by an official of the Department. Secretarial services were also supplied by the Department.
- 2.36 In general, the Monitoring Committee seems to have served a useful purpose as a method of communication between the groups, on the one hand, and the Department and EU Commission, on the other. The Committee had a membership of over forty persons, including a representative from each of the groups and from each of a number of interested departments and other bodies. As a result, the meetings effectively became an 'open forum' for airing problems by the groups in implementing their business plans and the application of the project eligibility criteria.
- 2.37 The rules of procedure for the Monitoring Committee require that it should "normally reach its decisions by consensus". Given the composition of the Committee and the effect of this rule, there was limited scope for the Committee to exercise control over the delivery of the programme and such issues as the reallocation of funding between groups.

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<sup>3</sup> *The Department of Finance co-ordinates all claims for ERDF funding at national level.*

- 2.38 In fact, the issue of reallocation of funds between groups was raised at a special meeting of the Monitoring Committee in July 1993. At that time, some groups were falling behind in commitments and serious doubts were expressed about whether all the funds could be committed by every group before the deadline for commitments at 31 December 1993. The LEADER Network, an umbrella body for the groups, was requested to assess the funding situation for the following Monitoring Committee meeting. This assessment revealed that in August 1993, about 20 per cent of the funds available had not been committed to specific projects. (See Table 2.1.)

Table 2.1  
Status of Project Funding at 31 August 1993

	£m	%
Paid out to projects by groups	5.17	18.3
Committed to projects by groups	17.30	61.4
Balance available for commitment	5.68	20.3
Total public funding for projects <sup>a</sup>	28.15	100.0

<sup>a</sup> Excludes administration costs and the funds allocated to Tipperary Enterprise Ltd.

- 2.39 The LEADER groups indicated that there were sufficient projects on hand to draw down the uncommitted expenditure and assurances were given that greater progress would be made in Autumn 1993. On the basis of these assurances, the Monitoring Committee decided at its meeting in October 1993 not to reallocate funding.<sup>4</sup>
- 2.40 Under the new LEADER II programme, it is proposed that the Monitoring Committee membership will consist of representatives from the Department of Agriculture, Food and Forestry, from other Government Departments involved in economic development, and from the EU Commission. It is also proposed that the Monitoring Committee will undertake a mid-term review of spending of the groups and whether groups are falling behind in commitments and/or expenditure.

#### Administration at Group Level

- 2.41 In order to inform our review of administration at group level, four LEADER groups were visited. (See Appendix C.) In each case, special attention was directed at the processes in place for project selection, and project monitoring and control.

<sup>4</sup> In the event, the deadline for commitments was extended, with the agreement of the EU, from 31 December 1993 to 30 June 1994.

2.42 The groups chosen for review were:

- CRESP - South West Kerry Partnership Ltd
- Wexford Organisation for Rural Development Ltd
- IRD Duhallow<sup>5</sup>
- West Cork LEADER Co-Operative Ltd.<sup>5</sup>

Together, these groups control expenditure of £7.1m, about 20 per cent of the total public funds available for the LEADER programme.

2.43 During the review, files relating to about 13 per cent of the projects to which funds were committed were examined.

2.44 Given the wide diversity which exists in all aspects of LEADER group composition and operation, the findings presented below cannot be statistically representative. However, the likelihood is that the practices observed in the groups visited are also to be found among the other groups.

2.45 In a number of the following sections, comments relating to administration by all groups are also presented.

#### **Development of Business Plans**

2.46 Analyses to inform their business plans were undertaken by consultants on behalf of two of the groups visited by the audit team. The other two groups relied on their own resources in developing their business plans.

#### **Project Selection**

2.47 The Department's guidelines encouraged groups to consult and co-ordinate with relevant state agencies in selecting projects for inclusion in each of the sectoral areas. Relevant agencies were, in general, represented on Boards or on sectoral sub-committees, or were consulted at the project selection stage.

2.48 The process of project initiation varied from group to group. In one of the groups visited by the examination team, the group had developed sectoral strategies and invited community groups and individual project promoters to propose projects for funding in the context of those strategies. In other groups, a less 'bottom-up' approach was adopted, with groups developing some of the projects and in some cases driving projects directly.

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<sup>5</sup> Officially, these comprise one group, but in all material ways they operated separately.

- 2.49 In three of the groups visited by the examination team, it was noted that some of the projects grant aided were promoted by Board members or by persons with whom they were closely connected. In one group, three of the four projects which received highest levels of funding involved Board members as project promoters. These three projects together accounted for about 24 per cent of the public funds made available to the group, and it is understood that Board members were also involved as promoters of other smaller projects funded by this group. While there is nothing inherently wrong with this approach, it does give rise to a possible conflict of interest.

#### **Flexibility Clause**

- 2.50 A circular letter issued to groups by the Department in May 1992 set out the kinds of projects which were eligible for LEADER funding, and also specified a number of categories of project which were not to be funded. The latter include new tourist accommodation, golf courses and conventional retail services. However, the circular went on to allow for 'flexibility' for groups to invest in projects "... not normally eligible for aid under existing programmes, measures and schemes" up to a limit of £50,000 per project.
- 2.51 The Department has informed us that it did not intend the flexibility clause to be used to fund projects of the kind specifically excluded by the circular. The examination team discovered in one of the groups visited that provision of new accommodation had been funded, and that a grant had been given for development of a retail delicatessen business. In two of the other groups visited, LEADER assistance was given for development of golf courses. All these projects had been accepted under the flexibility clause.
- 2.52 The phrasing of the flexibility clause is ambiguous and may have led to confusion among the groups. However, the circular required that "in cases of doubt about possible LEADER investment ... the Department ... must be consulted."

#### **Assessment of Proposed Projects**

- 2.53 In general, the project files examined by the examination team suggest that projects which received commitments of grant aid could have been better analysed. In a number of cases, there was no clear record of:
- the elements of the project
  - the likely outputs of the project
  - the cost components.

- 2.54 Assessment of projects was undertaken generally by staff employed by the groups, or else by sectoral sub-committees of the Board. Assessments in some cases were informal and did not involve production of reports.
- 2.55 It is possible that the assessment procedures generally used brought sufficient specialist and local knowledge to bear on funding decisions. However, where appraisals have not been recorded, it is impossible to validate the thoroughness and regularity of the process of assessment, and there is a consequent lack of criteria against which the progress of projects can be monitored.

### **Approval of Projects**

- 2.56 In general, decisions to aid projects are taken at Board level. In two groups, Executive Committees (sub-committees of the Board) are permitted to decide on commitments to projects, up to specified limits (£5,000 per project in one case, £10,000 per project in the other). In one of the groups, funding decisions made by the Executive Committee are subsequently placed before Board meetings for approval. In the other case, Board members are notified of Executive Committee decisions and any member may halt an approval within five days of such notification.

### **Project Inspection**

- 2.57 Periodic inspections are necessary to ensure that expenditure by project promoters relates to the projects as approved, and that the costs are reasonable. However, the absence of detailed records of project appraisals militates against adequate inspections. In addition, there appears to be a general difficulty for groups in finding suitably qualified persons to act as inspectors of projects. In some cases, staff employed by groups who had no apparent relevant expertise were obliged to conduct inspections.
- 2.58 A particular difficulty arises in cases where persons representing groups are involved as facilitators in project identification and development, and who subsequently also have to inspect and control projects. Segregation of such duties is preferable, where possible.
- 2.59 In a significant number of cases, inspection reports were informal and did not specify the elements of the project examined or the basis for a recommendation. In other cases, no record of a project inspection existed, although management were satisfied that inspections had taken place.

### **Project Cost Overruns**

- 2.60 In general, payments to project promoters broadly coincide with the funding commitments given. However, in a small number of cases examined, project

promoters who incurred significant cost overruns on projects sought and received increased LEADER funding. In one case, the original commitment given was to provide a grant of £69,000; a total of £173,000 was eventually paid. In another case, the original commitment was to pay £60,000; this was later increased to £71,000; and it is understood that further assistance of £16,000 was subsequently committed by the County Enterprise Board for the same project. (In the latter case, the combined public funding commitments do not exceed the maximum permitted level.)

- 2.61 The basic reason for the cost overruns appears to be inadequate analysis, whether by the promoter or by the group. The general response to a cost-overrun situation appears to be to 'top-up' the grant to keep the project going.

#### **Vouching of Expenditure**

- 2.62 A number of problems were noted in relation to vouching of expenditure:
- project documentation in some cases was not clear about what individual expenditure elements should be vouched for, due to inadequate identification at approval stage of the project components being subsidised
  - details on a number of invoices were insufficient to match the expenditure forming the basis of claims against approved work
  - some invoices were presented after payment had issued (in one case, a payment of £56,000 was made before invoices were received).
- 2.63 In a significant number of cases, the files did not indicate whether all the necessary tax clearance certificates had been received.

#### **Post-Project Evaluation**

- 2.64 The groups visited by the examination team did not, at the outset, establish post-project evaluation procedures. In two cases, systems are now being developed involving the use of questionnaires and interviewing of project promoters. While data generated by such means will give an indication of achievement, it would be preferable to have available a set of project targets against which to assess project outturns.
- 2.65 None of the groups visited intended to have a post-project inspection system, even where funding had been used to acquire movable assets.

### **Administration Costs**

- 2.66 It is estimated that all the LEADER groups together employed 76 people mostly on a fixed period contract basis.
- 2.67 Not more than 80 per cent of the expenditure by groups on administration may be met from public funding. The balance must be found from private funds. In the groups visited, the private component of funding came from:
- business sponsorship (in cash or in kind) and
  - handling fees charged to promoters of grant-aided projects.

The Department also permits groups to apply interest accrued on the balance of LEADER fund advances held on deposit as part of the matching funding for administration.

- 2.68 Under the initial financial plan for LEADER, it was envisaged that a total of £3.2m of LEADER funds would be spent on administration. In November 1993, the financial plan was revised. Under the amended plan, the expected level of expenditure on administration of LEADER funds was £4.4m, an increase of 37 per cent over the initial planned level.
- 2.69 The Department's latest estimate is that £4.5m of the public funding available for LEADER will be spent on administration up to the end of 1994. Assuming that this represents 80 per cent of total administration expenditure, up to £5.6m may be spent by groups on administration. This represents 7.4 per cent of the total expected value of the combined business plans. (LEADER programme regulations require that total expenditure on administration should not exceed 10 per cent of the estimated cost of the business plans.)

### **Overlap with Other Schemes**

- 2.70 The LEADER programme is one of a number of schemes and agencies which may be targeted at development of local areas. Some of these focus exclusively on rural communities, while others cover both urban and rural areas. The large number of bodies empowered to provide assistance similar to that made available under the programme leads to:
- risk of duplication of assistance and
  - actual administrative overlaps with consequent cost implications.

### **Industrial Development Agencies**

- 2.71 LEADER is intended to aid small scale projects, including small industrial enterprises. Three agencies - Forbairt, SFADCo and Údarás na Gaeltachta - provide industrial development assistance and services in separate geographic areas. Each LEADER group operates in a geographic area covered by one of the main industrial development agencies, so there is potential overlap in the small business sector between LEADER and those agencies.

### **FÁS**

- 2.72 There is potential for duplication in the delivery of services between LEADER groups and FÁS, the national training authority, in the areas of employment grants and training grants:
- Projects targeted at the long-term unemployed may benefit from both LEADER and FÁS assistance.
  - Training grants for businesses are provided through Forbairt and SFADCo following consultation with FÁS which must agree the training programme. Grants of up to 100 per cent of eligible costs are available through the development agencies to 'start-up' cases, while LEADER groups can provide a maximum of 75 per cent in similar cases. This may partly explain why the degree of involvement in training by LEADER groups has not been extensive.

### **Tourism Development Organisations**

- 2.73 While the LEADER programme was under way, Bord Fáilte, SFADCo and the Regional Tourism Organisations were involved in the development and marketing of tourism, and in the case of Bord Fáilte, in the establishment and maintenance of standards for tourism accommodation. Since it was clear from the outset that LEADER groups' business plans would focus particularly on the rural tourism measure, the Department specified that LEADER tourism projects should fit in with overall Bord Fáilte/SFADCo tourism strategy. This was designed to reduce potential competition between LEADER and the other organisations.
- 2.74 As in the case of industrial projects, LEADER projects in the tourism area were intended to be on a small scale. However, during the review of LEADER groups, a number of rural tourism projects were identified which do not fit into the small project category, including two projects each of which received more than £160,000 of grant assistance.



- 2.75 The Department of Tourism and Trade has informed us that the Operational Programme for Tourism (OPT) 1994-1999 sets a minimum of £50,000 for grant applications. It is intended that LEADER and other community-based programmes will consider smaller tourism projects. In addition, the Department of Tourism and Trade is currently engaged in discussion with other Departments, including the Department of Agriculture, Food and Forestry, with a view to ensuring complementarity and consistency between the OPT and programmes administered by those other Departments which assist tourism projects.

#### **County Enterprise Boards**

- 2.76 County Enterprise Boards (CEBs) were established throughout the state in 1993 to assist the development of small scale economic projects. Each LEADER area therefore falls within the administrative area of one, or more, CEBs, and aims to support the same scale and kind of project.

#### **Area Based Partnerships**

- 2.77 Area Based Partnerships (ABPs) were established in 1991 in twelve areas to encourage enterprise, to develop the employment potential of long-term unemployed people and to support small local enterprise. The Department of the Taoiseach has informed us that possible overlap between LEADER and ABPs was addressed in the administrative rules for ABPs. Where an ABP proposal overlaps with a LEADER plan, the ABP company should:

- take account of the resources being allocated under LEADER to ensure that the ABP contribution complemented those resources and avoided duplication of funding for individual projects
- take steps to ensure that the administration of the different activities concerned avoided competition between local development bodies operating in the same area and
- determine whether proposals selected for co-financing under the ABP programme had been considered for funding under other Community or nationally funded initiatives or programmes and where this was the case, take account of the outcome of such consideration when determining what level of resources, if any, should be allocated to the proposals.

- 2.78 There are four geographic areas where there appears to be a duplication of effort since they are serviced by both ABPs and LEADER groups. However, in one of these areas, the ABP and the LEADER group are managed by a joint Board, and share administrative overheads. This combined structure should help to avoid the wasteful

effects of overlap in this case, but plans to increase the numbers of both LEADER groups and of ABPs are likely to result in an increase in the extent of duplication.

#### **Operational Programme for Rural Development**

- 2.79 The Operational Programme for Rural Development (OPRD) was established under the 1989-1993 Community Support Framework (CSF). It has objectives similar to LEADER, but was directed centrally i.e. 'top-down'.
- 2.80 The OPRD included a sub-programme for Small and Community Enterprises (SCES) to assist small businesses which may also have been eligible for LEADER funding. There will not be a similar sub-programme under the Operational Programme for Agriculture, Rural Development and Forestry 1994-1999 because of the availability of other local and rural development measures like LEADER II, CEBs and ABPs.

#### **Operational Programme for Forestry**

- 2.81 Forestry was identified under the CSF 1989-1993 as having the potential to make a contribution to regional and economic development. There was a potential overlap between the operational programme and the natural resources measure under LEADER.

#### **Effects of Overlap**

- 2.82 The existence and operation of overlapping agencies and schemes may result in waste of public resources. The effects of such overlaps may be:
- access by clients to different agencies and schemes for funding in respect of the same project
  - competition between agencies and
  - administrative duplication, where two organisations or schemes serving the same client base each has its own administrative structure, or where a potential economy of scale may be lost.
- 2.83 The expressed strategy under LEADER to avoid such competition and duplication of delivery of service is the encouragement of co-ordination and consultation between LEADER groups and the other relevant agencies and scheme administrations.
- 2.84 No evidence was found of multiple funding of the same elements of projects by different sources of public funds. While the examination team found that a number of LEADER projects had also benefitted from public funding from other agencies,

there was no evidence that the combined rate of assistance on any project exceeded either the limits set for individual schemes or, in combination, the maximum limit under the scheme with the most favourable terms.

- 2.85 The extent of participation by representatives of other agencies on LEADER Boards and sub-committees was generally satisfactory and may have been a key factor in avoidance of multiple funding of projects. However, this may in itself lead to administrative duplication because successful co-ordination of schemes requires that a considerable amount of administrative/managerial time be absorbed in cross-participation in meetings and other contacts. There may also be a danger of competition where the primary concern of co-ordinating Board members may be to guard the interests of the agencies they represent.
- 2.86 The potential for duplication with other schemes, and the shortcomings in administration at group level which were outlined above, raise the question of whether purely technical and administrative aspects of project management might be administered better on an agency basis by mainline or other area-based organisations, so as to bring a measure of control and co-ordination to the process, while leaving the key roles of animation, initiation, decision making and evaluation at local level.

#### **Inter-Departmental Policy Committee on Local Development**

- 2.87 The Department of the Taoiseach has informed us that the Government have established an Inter-Departmental Policy Committee on Local Development, chaired by a representative of the Department of the Taoiseach, to address the need for co-ordination and proper management of local development schemes. The Committee is responsible for monitoring the operation of local development policies and structures. In addition, the Operational Programme for Local, Urban and Rural Development 1994-1999 recognises the need to ensure co-ordination between the structures for local development (including LEADER) and the need to avoid any unnecessary duplication. Under the programme, there will be County Strategy Groups bringing together the chairpersons of LEADER groups, ABPs and CEBs, with representatives of local authorities if not otherwise involved.

## Part 3 : Evaluating the Effectiveness of LEADER

- 3.1 Both EU and Exchequer funding for the LEADER programme are voted to the Department. Consequently, it has the responsibility of:
- evaluating the effectiveness of the LEADER programme and
  - putting in place the systems, procedures and practices to enable it to do so.
- 3.2 We have reviewed the adequacy of the evaluation process put in place by the Department bearing in mind that the programme is innovative in terms of its overall objectives and organisational structure.

### The Department's Evaluation

- 3.3 The LEADER programme has been the subject of an evaluation commissioned by the Department. The evaluation was carried out by Kearney, Boyle and Walsh and the final report (the Kearney report) was issued in June 1994.<sup>6</sup> Bearing in mind the pilot nature of the programme, the evaluation was a comprehensive examination of the progress to date of the LEADER programme.
- 3.4 The cost to the Department of the evaluation was £48,400.
- 3.5 The general conclusions of the evaluation were that LEADER was a valuable programme and had been successful in addressing the main aims of rural development. However, as noted below, the evaluator experienced difficulty in establishing the impact of the programme due to the lack of recorded information and the early stage of its operation.

### Timing of the Evaluation

- 3.6 Evaluation of project impacts is best carried out when sufficient time has elapsed to allow the benefits of the projects to flow. In the case of LEADER projects, primary benefits (such as value-added and employment) may take some time to become apparent as the project is phased in, or alternatively, may diminish from an initial high level as commercial realities impinge on the project's success. Secondary benefits (such as structural effects) may take even longer to appear.
- 3.7 Major elements of the Kearney report were based on data related to projects supported by the LEADER groups up to 31 December 1993. At that time, 59 per cent of the projects had not received payments and only 32 per cent of total LEADER expenditure had been paid out. The evaluation was therefore undertaken at a time

6 B. Kearney, G.E. Boyle and J.A. Walsh (1994)  
*EU LEADER I Initiative in Ireland*  
Dublin: The Department of Agriculture, Food and Forestry

when many of the projects were apparently not yet in place. In this context, even primary economic benefits could not be fully assessed. The Department has informed us that one of the factors in determining the timing of the evaluation was the perceived need to have a report available for the guidance of the Department and of applicant groups in preparing for LEADER II.

- 3.8 Evaluation of the effects of the initial phase of the LEADER programme might best be undertaken in early 1996 when projects have been in operation for some time. Such an evaluation would, in addition, contribute to the mid-term review of LEADER II.

### **Degree of Local Involvement**

- 3.9 Local development under LEADER is intended to adopt a 'bottom up' approach. This implies that local community groups and interested parties should be involved in the preparation and implementation of the business plan. However, the degree of involvement at this level varied from area to area. (In one case, a business plan was proposed by the County Development Team.) The Kearney report recommends that groups should be based on a tripartite structure involving representatives of local communities, the private sector and statutory/local authorities, including other local development agencies. The report also suggested that sub-board structures might be used to ensure wider participation in the activities of LEADER.

### **Quality Of Business Plans**

- 3.10 The business plans developed by groups are a key element in the overall strategy for the LEADER programme. The quality of plans submitted was one of the key considerations used in selecting groups for participation in the programme. More importantly, the plans potentially provided a mechanism for analysis of the existing economic and social circumstances of the target communities and for articulating a suitable strategy and objectives for development.
- 3.11 An important building block in any such plan is an assessment of local needs and information on local resources. At the business plan development stage, a number of groups engaged consultants to undertake research while others relied on their own knowledge of local resources and needs. However, in general there was a lack of adequate information available to the groups about their local areas. Many groups were also weak in their presentation of clear sectoral strategies. The Kearney report recommended that, when business plans are being formulated, comprehensive resource audits and development of sectoral strategies should be undertaken.

- 3.12 All of the business plans of groups accepted for inclusion in the programme were subsequently amended to take account of the LEADER funding allocations received. Changes were also made because some of the projects proposed in the original plans did not fit within the guidelines. Furthermore, the Kearney report noted that most groups departed from these amended plans because some promoters were unprepared or could not raise necessary matching funds.

### **Objectives of LEADER Groups**

- 3.13 Overall, the approved LEADER groups established objectives based on local area needs. The guidelines set down at the business plan stage helped to ensure that the individual groups were focused on the needs of the local communities within their areas and that a strategy was developed which would meet those needs.
- 3.14 All the business plans set the objective of stimulating and promoting local development through the exploitation of local resources and enterprise. In addition, the plans as implemented are multi-sectoral in nature. The combined thrust of all the plans would therefore appear to have been consistent with the overall objective of the LEADER programme and congruent with the aims of the CSF.
- 3.15 However, based on our review of the objectives of the approved business plans and the comments contained in the report of the consultant commissioned by the Department to review the plans (see paragraph 1.4), it appears that in a minority of cases the objectives were vague and were not related to clearly defined sectoral objectives and strategies. The following statements of objectives are taken from three of the plans accepted for inclusion in the programme:

"The principal objective ... is to organise, co-ordinate and promote local development initiative."

"The business plan proposes ... to form an 'economic community' that will be capable of being pro-active and responsive to local economic initiatives."

"The overriding objective ... is to promote an economic diversification policy reflecting local needs and initiatives, so as to generate investment, employment and income in the region."

In each case, the general statements of objectives were not adequately supported by specific objectives to address the needs of the regions.

### **Targets, Output Measures and Indicators**

- 3.16 Few groups specified any targets or measures of impact in their business plans which could be used to assess the achievement of their objectives. Because of this, and the absence of targets specified at the outset by the EU or by the Department, there are also no overall target objectives for the LEADER programme itself. The economic development objectives set by groups in their business plans could be monitored and evaluated in terms of, say:
- number and type of jobs created in LEADER assisted projects
  - increase in income levels in the region due to implementation of the business plan.
- 3.17 A number of the objectives of area-based initiatives such as the LEADER programme are not amenable to quantification in terms of impacts e.g. community development or animation. For these objectives, the more limited exercise of quantification of outputs might have been possible e.g. number of persons trained in community development.

### **Progress Monitoring**

- 3.18 The LEADER groups are required to report monthly to the Department on progress in implementing their business plans. These reports contain details of project commitments and project expenditure against the approved financial plans.
- 3.19 Since quantified measures or indicators were largely absent from the business plans and were not set for the overall programme, neither the Department nor the Monitoring Committee sought information from the groups on the impact of measures undertaken to meet their objectives.

### **Evaluation Findings**

- 3.20 The evaluation commissioned by the Department concluded that the overall contribution of LEADER was favourable, and indicated that the LEADER programme in Ireland had attained a considerable degree of success in addressing the general aims of rural development. However, the evaluation was less conclusive about the impact of the programme.
- 3.21 The evaluation report attempted to measure the economic impact of the programme in terms of:

- rate of return on the total investment and
- employment levels (full-time equivalents).

### **Return on Investment**

- 3.22 The rate of return measure could not be calculated because of the inadequacies of the project databases assembled by most groups. The evaluator pointed out that this inadequacy is an issue which needs to be addressed for the future in order to permit a streamlined on-going evaluation of LEADER.

### **Employment**

- 3.23 Because information on employment in the projects was more readily available than data on rates of return, employment creation was used by the evaluator as the main economic indicator.
- 3.24 Groups claimed that the number of persons employed up to 31 December 1993 on LEADER projects totalled 2,558. The evaluator reported that almost 60 per cent of these were employed on a part-time or seasonal basis, and estimated that the claimed additional employment was equivalent to about 1,445 full-time jobs.
- 3.25 The Kearney report argued that the level of employment claimed for LEADER projects was too high, and that an estimate of about 800 full-time jobs attributable to LEADER projects would be more realistic. The main reasons given in the report for this reduction in the level of employment attributable to LEADER are:
- It is unlikely that the initial employment effects will be sustained.
  - Internal inconsistencies were found in the data supplied by some groups. For example, some groups reported total employment in grant-aided businesses and not the extra employment which would be attributable to LEADER. Inconsistencies were also discovered in some of the groups' estimates of the duration of part-time and seasonal employment.
  - Some projects may have gone ahead anyway in the absence of LEADER funding.
  - There is a potential problem of local development achieving results by displacing existing viable economic activity, especially outside the local LEADER area.
- 3.26 According to the evaluation report, "... one of the most surprising and positive features of the employment information supplied by the groups is the relatively large number of full-time employed persons attributed to LEADER which were previously either unemployed or underemployed". The groups claim that on average 39 per cent



of full-time employed persons were previously unemployed and that 21 per cent were considered to be previously underemployed.

*Efficiency of Measures*

- 3.27 The analysis by the Department's evaluator of claimed employment suggests that small enterprise projects are more cost-effective than rural tourism projects in delivering jobs. While groups had, on average, allocated 51 per cent of public expenditure to rural tourism projects and only 20 per cent to small enterprises, the corresponding shares of total claimed employment of 1,445 are 34 per cent and 32 per cent respectively. However, as indicated above, not all of the jobs claimed can properly be attributed to the LEADER programme and it is likely that the small enterprise jobs may be more susceptible to problems such as:

- displacing existing employment and
- not being directly attributable to the project since some would proceed in any event.

*Measuring Employment Creation*

- 3.28 It is recommended that measurement of employment effects in future evaluations should be based on a structured data collection process designed to suit the requirements of an ex-post evaluation. This process should extend to surveying a sample of project promoters and employees whose jobs are attributable to the LEADER projects, and take into account the following:

- Project promoters should be asked what their level of employment would have been in the absence of any LEADER input, compared to the employment arising after LEADER support is in place. This is especially important when LEADER is used to support an existing business because of the danger that project promoters will otherwise mistakenly ascribe to LEADER either their total employment, or alternatively the changes in employment resulting from other causes. Failure to adopt this approach will usually lead to an upward bias in employment measurement while in other cases, jobs sustained by LEADER assistance may be overlooked.
- The definition of what constitutes employment should be addressed. In particular, it needs to be clearly established to what extent casual and part-time labour and the contributions of family members and of owner/proprietors should be included in estimates of employment creation.

- A focus on employment in projects may result in directly associated employment effects being overlooked. For instance, a person who is employed part-time on a LEADER project may, as a result, be sustained in another part-time employment (e.g. on a farm) which might otherwise disappear. This is a particularly important consideration in the context of rural development.

3.29 The extent to which projects would have gone ahead without LEADER assistance needs to be assessed comprehensively in future evaluations. In a limited survey of project promoters, the evaluator asked the question "would the project have been undertaken without LEADER assistance?" He found that 40 per cent of the respondents answered "yes". What is not clear is the extent to which the LEADER assistance in these cases may have:

- caused the project to commence sooner than it otherwise would have done or
- increased the scale or improved the quality of a project which would have gone ahead in a more limited form.

#### **Development of Communities**

3.30 LEADER differs from other schemes in that it has as its objective the development and empowerment of local communities. Review of the extent to which this objective was met needs to extend to some quantitative assessment of its achievement, at least to the extent of quantifying the outputs of the process.

3.31 Assessment of the success of LEADER on this criterion might be tackled under LEADER II by:

- establishing appropriate output and impact indicators and
- monitoring their progress over the duration of the programme.

#### *Measures of Development Output*

3.32 Output indicators appropriate to the rural development process relate to the 'products' which the groups deliver in the process of animation and capacity building. These include:

- public meetings held
- press releases issued
- media interviews given
- workshops/courses held
- number of persons trained.

It is recommended that groups should be required to maintain a quantitative record of output measures such as these over the duration of LEADER II.

*Indicators of Development Impact*

- 3.33 Establishing impact indicators is more difficult. Rural development measures will impact on the level of entrepreneurial activity of the local population either collectively or individually, and this will ultimately affect local economic structures. One way of measuring impacts on collective entrepreneurial activity would be for groups to establish an inventory of community development associations in their areas, identifying the number of such associations, their membership and the nature and level of their activities. An initial inventory could be compared with similar inventories at the middle and at the end of the programme.
- 3.34 Impact on entrepreneurial activity and ultimate structural effects could be assessed by means of a sample survey in the local area. An initial survey would need to be undertaken, with a follow-up after the end of the programme. This would establish:
- the entrepreneurial awareness, attitudes and activity of a sample of the population and
  - their socio-economic attributes with particular reference to their income levels, employment status and occupations.
- 3.35 The sample surveys described would be expensive to undertake. Given the scale of LEADER funding, they might not be justified on this basis alone. However, it will inevitably be very difficult to separate the impacts of LEADER from those of other local development schemes, like the Small and Community Enterprise Scheme of the Operational Programme for Rural Development and County Enterprise Board activities. Consequently, assessment of development impacts of all area-based initiatives should probably be undertaken as a unified exercise. The costs and benefits of the surveys necessary for such a study should be assessed in that context.

**Evaluation Proposals**

- 3.36 The approach to future evaluations has not been determined at this stage. While the Department has proposed the setting up of an evaluation unit under its control to examine the implementation of LEADER II and other programmes, the EU Commission has expressed a preference for evaluation to be undertaken by outside consultants.
- 3.37 Whatever approach is taken to periodic evaluation of the LEADER II programme, it can only be effective if procedures necessary to underpin that activity are put in

place by the Department when the programme is being set up. The minimum requirements in this regard are:

- relevant and reliable measures and indicators and
- a structured data collection process designed to suit the requirements of an ex-post evaluation.

## Appendices

## Appendix A

### Administration of the LEADER Programme

The Department of Agriculture, Food and Forestry is the authority designated to administer LEADER in Ireland. It issued an invitation to groups interested in participating in the programme on 7 May 1991 together with information on the purpose and nature of LEADER and guidelines for the presentation of business plans. The guidelines were issued originally by the EU Commission.

#### Selection of Leader Groups

Business plans were required to be multi-sectoral and integrated, covering investment in projects under the following broad categories:

- technical support
- vocational training and assistance
- rural tourism
- small firms, craft enterprises and local services
- exploitation and marketing of local agricultural, forestry and fishery products and
- other measures.

The Department received 34 business plans which were then evaluated and ranked by an independent firm of consultants in September 1991. All the business plans were sent forward to the EU Commission for consideration, along with the report of the consultant. Sixteen groups<sup>1</sup> were selected jointly by the EU Commission and the Department.

#### Project Approval Procedure

Under the LEADER programme, decision making on the individual projects to be aided under the business plans is delegated to the LEADER groups themselves. Project applications are appraised (typically by employees of the groups or by group sub-committees) and then formally approved for funding at Board level.

The groups submit monthly returns to the Department, listing all project commitments approved and project payments made during the period. These listings are reviewed by officials in the Department.

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<sup>1</sup> Two groups (IRD Duhallow and West Cork LEADER Co-Operative Ltd) submitted separate plans, but were treated as one in the selection of groups for inclusion in the programme.

### **Grant Claim Process**

An agreement with the Department was entered into by each LEADER group. This set out the terms and conditions under which the group was to operate, including the procedure for claiming funds.

One of the agreed conditions was that each group must provide the Minister for Agriculture, Food and Forestry with a bank guarantee or bond to ensure that moneys advanced to it would be used only for the purpose for which they are provided. The value of the insurance bond is approximately one eighth of the total amount of public funds allocated to the group i.e. the estimated quarterly expenditure by the group over the planned two-year life of the programme.

The first advance of funds was an amount equivalent to the value of the bond, and was issued after the bond was received by the Department.

When a further request for funds is made by a group, the Department first ensures that its financial and administrative affairs are in order by consulting the relevant Departmental Inspector. The amount payable takes into account any unspent funds on hand at group level and is designed to top up those funds to the level of the bond.

### **Inspections**

The Agricultural Inspectorate of the Department undertakes a routine inspection with respect to the administration and expenditure of the groups and a monitoring of the projects on a sample basis. Normally a group is visited four to five times a year and five or six projects are inspected on each occasion.

The administrative inspection covers:

- examination of file documentation
- tax affairs of the group
- compliance with the business plan
- conformity of expenditure with financial plan and
- extent of matching funding for administration.

The inspection of projects covers:

- their relevance to the business plan
- the evaluation and approval procedures
- actual expenditure and cost profiles

- the matching fund situation and
- payment procedures.

The inspection procedure requires that a written report on each project examined be submitted by the Inspector to the Department following the visit. The Department subsequently issues instructions to the groups to follow up the Inspector's recommendations, if any.

### **Monitoring Committee**

A Monitoring Committee for the LEADER programme in Ireland was established in September 1992. The task of the Committee was to undertake a regular review of progress in implementing the programme and to propose and, where appropriate, to decide on any amendments required.

The specific duties of the Monitoring Committee, as set out in its Terms of Reference, include:

- being generally responsible for ensuring that the global grant is correctly focused in order to achieve the objectives laid down and that legal requirements, including those governing the eligibility of operations and projects, are complied with
- taking a view, on the basis of information concerning the selection of projects already approved and implemented, on amendment to the selection criteria laid down in the agreement between the EU Commission and the Department
- proposing any measure required to speed up implementation of the global grant where delay has occurred and
- deciding amendments to the financial plan (in agreement with the EU Commission and the Department) providing that the total amount of the global grant is not exceeded and the objectives of the programme remain unaltered.

The Committee membership comprises representatives of the following bodies:

- the EU Commission
- the Department of Agriculture, Food and Forestry
- other interested Departments
- each of the approved LEADER groups
- a number of voluntary and rural organisations
- the Chambers of Commerce in Ireland
- the Irish Congress of Trade Unions.



The Monitoring Committee was intended to meet twice a year. The first meeting was held in September 1992 and three further meetings were held in the period to October 1993. It is expected that a final meeting will be held in January 1995.

In advance of each Monitoring Committee meeting, the LEADER groups submit a narrative progress report on the implementation of their business plans. Supporting financial tables are supplied to the Monitoring Committee by the Department. These progress reports are the basis of the Monitoring Committee reviews.

## Appendix B

### Tipperary Enterprise Ltd<sup>1</sup>

Tipperary Enterprise Ltd was selected as a LEADER group and was allocated a global grant of £2.5m. It received two advances of funding, in May and October 1992, to a total of £741,000. (See Table B.1.)

An Inspector from the Department of Agriculture, Food and Forestry visited the company in August 1992. He made an oral report following the visit, but his written report was not submitted until 27 November 1992. The report was critical of the company's assessment procedures for projects seeking aid and of the company's filing systems, and referred to the Inspector's inability to verify the correctness of the expenditure.

Following complaints to the Minister for Agriculture, Food and Forestry about the operations of the company, the Department's Rural Development Division and its Internal Auditor carried out an investigation which revealed serious mismanagement of the programme. As a result, the Department sought repayment of the unexpended balance of funds and asked for a detailed account of the company's activities. £306,437 was repaid in December 1992.

Arising from the concern of the Department, the Board of Tipperary Enterprise Ltd decided in December 1992 to engage a consultant to carry out an in-depth study of the company's operation. He reported in January 1993 and concluded that:

- there had been total mismanagement of the scheme by Tipperary Enterprise Ltd
- public funds advanced to Tipperary Enterprise Ltd for the programme had been misappropriated
- administrative procedures had been totally inadequate
- the agreement with the Department had been blatantly and widely breached and
- there was widespread dissatisfaction from individuals and community groups in the county, some of whom threatened legal action.

The Department has now concluded that £181,259 expended by Tipperary Enterprise Ltd was properly spent under the LEADER programme. Claims were lodged against the company's insurers for recovery of a total of £253,304 regarded as not having been spent properly.

<sup>1</sup> See 1992 Annual Report of the Comptroller and Auditor General, pages 56 to 58.

The Department's Accounting Officer was asked why the second instalment was paid to the company in October, despite the unsatisfactory findings of the Departmental Inspector in August and why there had been a delay of three months in the submission of the Inspector's written report.

The Accounting Officer replied that the Inspector reported orally to the Rural Development Division on his findings following his brief introductory visit to Tipperary Enterprise Ltd in August 1992. In the absence of the Chief Executive, he had made a number of recommendations to the Project Manager and his intention was to pay a return visit and meet the Chief Executive to ensure that the administration of the company had improved before furnishing a full and detailed written report. The concerns reported by the Inspector related to the internal management arrangements of the company in dealing with the selection and funding of LEADER projects rather than to the irregularities which were subsequently discovered relating to the wider operations of the company.

The company was pressing for additional funding at the end of August 1992 to enable it to continue to implement the LEADER programme. At that time, the Inspector's concerns were not considered as sufficient grounds for withholding the second payment. This was made by the Department in good faith on the basis of a written request which subsequently proved to be inaccurate and misleading. The Accounting Officer emphasised that the central feature of the LEADER programme is that global grants are paid by way of advances to groups and the decisions on the uses of the funds are matters for the groups themselves, subject to the eligible categories of LEADER expenditure. In these circumstances, the Department cannot sanction in advance all expenditure made by the groups.

The insurers have paid a total of £213,304 to the Department in respect of the amount to be recovered. The insurers are unwilling to pay the balance of £40,000, which represents an amount retained by the company's bankers against its overdraft when the refund of £306,437 was being made. The advice of the Attorney General's Office is that the Department should seek to recover this money from the bank and the Chief State Solicitor has been asked to initiate legal proceedings to do so.

**Table B.1**  
**Funding of Tipperary Enterprise Ltd**

	£	£
Advances to group		
— May 1992	375,000	
— October 1992	366,000	
<b>Total advances</b>		741,000
<i>Less</i>		
Amount duly spent		181,259
<b>Amount to be recovered</b>		559,741
Repayments to the Department		
— by Tipperary Enterprise Ltd	306,437	
— by insurers	213,304	
<b>Total repaid to-date</b>		519,741
<b>Amount outstanding</b>		40,000

## Appendix C

### Audit Methodology

The examination was conducted partly by staff of the Office of the Comptroller and Auditor General and partly by consultants (Coopers and Lybrand, and Goodbody Economic Consultants).

In the course of the examination, the audit team reviewed the administration of the programme by the Department and the groups. The fieldwork consisted of interviews of relevant administrative personnel and examination of Departmental and group records. The audit also examined the following:

- Minutes of Monitoring Committee meetings
- Monitoring Committee Progress Reports
- EU Commission Decisions (December 1991 and March 1992)
- EU Commission Guidelines for Global Grants (March 1991)
- EU Commission Guidelines for Presentation of Proposals
- Department of Agriculture, Food and Forestry invitation for application from LEADER groups
- Evaluation of Business Plans (September 1991)
- Circular letters issued to LEADER groups
- Interim Evaluation of EU LEADER I Initiative (October 1993)
- Final Evaluation of EU LEADER I Initiative (June 1994) and
- Annual Report of the Initiative 1992.

In total, six LEADER groups were visited during the course of this examination. Two groups (Barrow-Nore-Suir Rural Development Ltd and Wicklow Rural Enterprises Ltd) were visited first on a pilot basis. The report on these visits assisted in the design of checklists which were used during subsequent visits to the following four groups:

- CRESP - South West Kerry Partnership Ltd
- Wexford Organisation for Rural Development Ltd
- IRD Duhallow
- West Cork LEADER Co-Operative Ltd.