

EVALUATION OF THE PLAN SUBMITTED TO THE EUROPEAN COMMISSION, 29/10/99

1 INTRODUCTION

1.1 This report

ECOTEC Research and Consulting Ltd were commissioned by the Highlands and Islands Partnership to undertake the ex-ante assessment of the draft Area Plan for the Highlands and Islands Special transitional programme (2000-2006), which is part-funded by the European structural funds.

This assessment has entailed:

- attending all Plan Team meetings held since the beginning of June (at intervals of approximately 2-3 weeks).
- giving advice at these meetings, between meetings, and in writing on specific elements of the draft Plan as it has developed and on the process of drawing up the plan as specified by the European Commission.
- producing an evaluation of the draft Plan issued for consultation on 3rd August, and the additional material that was issued for a second round of consultation on 23rd September. (This report is attached as an Appendix.)
- producing this evaluation of the Plan as submitted to the European Commission on 29th October. The main differences from our report on the consultative draft Plan relate to the aspects of the "draft final" Plan* that had not then been completed, and additional material brought in to strengthen the coherence between the different sections within the Plan. We have not repeated advice that we provided in our assessment of the draft Plan where this has now been incorporated in the text, or has otherwise been taken into account.

As specified in the EC's Vademecum, this ex-ante evaluation is integrated within the Plan, and takes the form of a commentary explaining and justifying the analysis deriving from the current situation, the coherence of the strategy and priorities chosen, the expected impact and financial resources allocated and the implementation system foreseen.

* The version of the Plan as submitted to the European Commission is referred to in the Vademecum for Structural Funds Plans and Programming Documents as the "draft final plan". For simplicity, we have referred to this throughout the Ex Ante Evaluation as the "Plan".

The ex-ante evaluation has been arranged under the sub-headings given as the six key components in Working Paper 2, "The Ex-Ante Evaluation of the Structural Fund Interventions", produced by DG XVI of the Commission in June 1999.

Our commentary includes observations on the draft Measures that are incorporated in the Plan document, although we appreciate that the Programme Complement, as such, has not yet been completed. This will include the final version of the measures, with financial allocations, and activity, outcome and impact indicators and targets (where the latter are quantifiable).

1.2 The Process of Plan Preparation

The Plan Team was appointed by the Scottish Executive and includes representatives of Scottish Executive departments, the area's local authorities, Highlands and Islands Enterprise, the voluntary sector, the UHI project and the Further Education sector, the environmental agencies, the Highlands of Scotland Tourist Board and the Forestry Authority. The (shadow) Plan Team had its first meeting in January 1999, and as plan preparation has proceeded, a wider range of organisations has been consulted (as summarised in paragraph 14.1 of the Plan). Preparation of the Plan has respected the Partnership Principle of the Structural Funds and comments submitted have been considered by the drafting team.

In the early months, the Plan Team members were provided with relevant documentation on European Union and UK Government policies and guidance, and seminars and workshops were held to determine the main aim and key features of the strategy for the 2000-2006 programme. By the time of first attendance by the ex-ante evaluation team in June, the fundamental parameters of the Plan had already been determined.

In relation to key principles of the Plan, sustainability and equal opportunities, the following papers were presented and discussed at Plan Team meetings:

- Results of the Highlands and Islands DG XVI Sustainable Development Pilot Project.
(Melvyn Waumsley, Highlands and Islands Enterprise)
- Sustainable Development - Tools for Structural Fund Programmes
(Richard Robinson, Scottish Natural Heritage and Plan Team Member)
- Toolbox for Mainstreaming Equal Opportunities into Structural Fund Programmes in Scotland
(Rona Fitzgerald, University of Strathclyde)

Other papers considered by the Plan Team included one on capacity building for community economic development prepared by Scottish Council for Voluntary Organisations, which is relevant to the “mainstreaming” of actions that had been supported under LEADER II into the 2000-2006 structural funds programme.

As reported in Section 14 of the Plan, the strategy, objectives and detailed wording of the document reflect feedback from the consultation carried out throughout the process, the formal consultation with all potentially interested parties in August and September, comments from the Scottish Parliament European Committee, and inputs from the Scottish Executive to ensure consistency with EU regulations, national policies, and the availability of matching funding. The final document submitted to the European Commission is the responsibility of the Scottish Executive, although amendments and additions by the Scottish Executive to the version of the Plan completed by the Plan Team in mid-September are relatively few. These amendments relate mainly to adjustments to the draft financial allocations by the Minister, and are incorporated in the rationale that we have provided in Section 6 below.

This rationale is relatively general in nature as we did not receive the final version of the Plan’s financial table until the afternoon of 29th October.

In the course of Plan preparation, there have been a number of debates between Plan Team members on key issues, and we consider the following of particular interest:

- the majority view of the Plan Team is that the strategy and scope of the programme should be widely defined to meet the different needs and opportunities of the different parts of the area; to allow the programme to respond to currently unforeseeable events, trends and new opportunities that will arise between 1999 and 2006; and to maximise the number of potential applicants under the programme to help ensure that strong projects are put forward for selection by the Programme Monitoring Committee (PMC). The Area and Sectoral SWOT analyses appended to the Plan illustrate the breadth of this scope.
- the Plan Team consider that area targeting should be a stronger feature than in the current Objective 1 programme, and that relative needs between areas should be explicitly acknowledged. This has led to incorporation in the Plan of the Area Priorities table at the end of Section 5, which attempts to summarise statistically “development need” and “need for development support” by 31 sub-areas.

A minority of Plan Team representatives remain unconvinced of how the table will assist in area targeting, however; while there is general agreement that the table should guide rather than constrain project approval, that it is more applicable to

some measures and actions than to others, and that it will be essential to update the table as programme implementation proceeds to reflect changing circumstances.

- draft financial allocations by priority and measure were included in the sections of the draft Plan that were circulated in the second round of consultation in September. These were simply pro rated on the basis of the funding which has been allocated to similar activities in the current programme.

When, in the light of the response to this consultation, the Plan Team considered allocations of the structural funds between priorities, no basis could be agreed for varying the allocations that had been based on the current programme. In particular:

- the consultation response had broadly concurred with the allocations that had been indicated, with exceptions mainly reflecting vested interests.
- matching funding from UK public and other sources was considered likely to be available to the levels that would be required. In particular, it was stressed that direct support for business and business premises should continue to receive high priority for structural funding as these measures are effective in job creation and sufficient funding will be available through Highlands and Islands Enterprise; indeed a case was made for increasing the allocation to these measures within Priority 1.
- infrastructural development will need to remain at a relatively high level to complete key strategic projects, especially as the Plan is seen as providing an exit strategy for the region.
- environmental considerations are very important in the Plan, and expenditures on measures directly related to the environment should not be lower than under the latter stages of the current programme.
- the primary sector is of critical importance in many local economies, and the fragility of fishing, fish farming and agriculture, and the need for producers to improve their competitiveness, mean that EAGGF and FIFG funding will be in strong demand. Indeed, a strong argument was put that FIFG funding should be increased significantly, and a case was also made for higher levels of agricultural support to promote diversification and help areas such as Orkney that depend on efficient and high quality agricultural output.
- there has been a strong and sustained demand for ESF funding under the Objective 1 programme, and good projects would be starved of funding with any reduction in the relative share of ESF funding in the new programme.

- the Plan Team consider that the Highlands and Islands is an area where, exceptionally in the EU, there could be a degree of increase in local fishing capacity without detriment to conservation policies. The Team feels strongly that national and EU planning regimes should acknowledge this, while appreciating also the existence of many local areas in the Highlands and Islands with minimal scope to diversify into other sectors due to geography, land capability and other resources.
- Plan Team members expressed considerable concern that the 300 million Euros of structural funding originally earmarked for the transitional programme at the Berlin Summit might be used towards Objective 3, Objective 2 (for the Islands), and continuing EAGGF and FIFG national programmes in the seventh year (2006).

It was agreed by the Plan Team that measure-level indicators and targets should be set and quantified very carefully to avoid the programme being hamstrung by inappropriate or unmeasurable indicators and targets (as had been the case for the Objective 1 programme). The Plan Team are, therefore, now embarking on a detailed process of firming-up indicators by measure and quantifying measure-level targets where practicable, which will include explicit means of recording success in promoting equal opportunities, sustainability, area prioritisation etc. These indicators and targets will be incorporated in the Programme Complement and, when aggregated, will supplement the basic "global" programme targets contained in the Plan. As ex-ante assessors, we will continue to liaise with the Plan partners in the determination of indicators and targets.

1.3 Summary of our Principal General Conclusions on the Plan

Overall, the ex ante assessment has found that the Plan is technically sound and accurately reflects the strengths and weaknesses of the Highlands and Islands, together with the area's potential for development. The Plan will provide a strong enabling framework for development in the area post 1999. This is appropriate given the diversity of the Highlands and Islands. This, however, will place an onus on the detailed implementation arrangements for the programme – particularly the project selection criteria – to require project applicants to demonstrate clearly how their project fits into local development strategies. This will be essential if the goal of reducing social and economic disparities within the region is to be achieved.

It will also be important for the monitoring regime to allow for regular review - at least on an annual basis - of how actual programme delivery is meeting the objectives and priorities set in the Plan and for imbalances to be addressed.

There is a strong implicit coherence within the Plan, although relationships between need, opportunities, strategy, objectives and measures are not always explicitly expressed. External coherence is also achieved with the wider policy context and, more

importantly, there are references to complementary funding initiatives within the proposed Measures. Links to these initiatives might be developed further within the project selection criteria in order to maximise the effectiveness of the programme.

On the whole, the framework of Priorities and Measures provides a solid, if fairly traditional, basis for action. The broad nature of the Measures means that the strategic direction of the Plan will be strongly reliant on the nature of applications forthcoming to the programme, however, although strong project selection criteria, or further detail in the Programme Complement, could rectify this potential weakness.

The Plan, as a transitional programme, needs to anticipate the probability of the area as a whole having much reduced eligibility for structural funding after 2006, and should therefore be regarded in certain respects as an “exit strategy”. The most important implications of this are that:

- key infrastructural developments in all parts of the area of a scale not likely to be fundable without structural fund assistance should be completed.
- “themes” should be identified that will give “travel to work” areas realistic prospects of building specialisms that will give them a sustainable competitive advantage that would be reinforced through local capacity building and supply chain linkages within the next six years.
- sufficient (and well-targeted) investment is made in existing key sectors in local areas (eg. fishing) to leave them relatively strong to face the longer-term future.

We understand that the Plan Team is turning its attention to determining how the ramifications of the programme as an exit strategy should be pursued through the implementation phase, which should lead to the formulation of criteria that could be built into the process of project approval. In practice, this should often mean that infrastructural developments, business initiatives, and skills development in local areas would tend to relate to particular themes. Certain themes that might span all (or parts) of the Highlands and Islands (eg. ICT development) would logically be promoted through umbrella initiatives and through the development of new links, experience sharing, etc, between different parts of the region.

More radically, achieving successful implementation of a particular exit strategy element might require the Partnership to encourage applications for a key action (or to contract a service, eg. a training programme, through competitive tender).

1.4 The Framework of the Plan

Aim of the Programme

The Aim of the Plan broadly reflects the rationale for the award of a special transitional programme to the Highlands and Islands and represents a continuation of the overall goal of the 1994-1999 Objective 1 Programme, namely:

“to increase the prosperity of the Highlands and Islands through sustainable economic development and to reduce social and economic disparities within the region”.

Strategy

To achieve this broadly stated aim the Plan sets out six strategic objectives which, it is anticipated, will lead to a more prosperous Highlands and Islands and increasingly self-sustaining communities.

- To increase incomes and prosperity in the Highlands and Islands relative to the EU average (external cohesion)
- To reduce social and economic disparities within the Highlands and Islands (internal cohesion)
- To create and safeguard employment in the Highlands and Islands
- To ensure that individuals and communities can make a full contribution to the development of the Highlands and islands
- To reduce the problems caused by peripherality and insularity
- To enhance the quality of the environment of the Highlands and Islands through promotion of bio-diversity and sustainable development.

Priorities and Measures

The Plan incorporates four priorities and 21 draft measures (Box 1).

Box 1 Priorities and Draft Measures	
<p>Priority 1 – Increasing Business Competitiveness, Creating Employment and Increasing Incomes</p> <ul style="list-style-type: none"> ➤ Provide marketing, advisory and support services to existing and new businesses ➤ Stimulate private sector investment in existing and new businesses ➤ Support development of innovation and R&D, including industry-academic links ➤ Provide serviced sites and premises for businesses 	<p>Priority 2 – Creating the Conditions for Regional Competitiveness</p> <ul style="list-style-type: none"> ➤ Improvements to communication networks ➤ Improve the provision of energy networks, energy efficiency, and the sustainable exploitation of renewable energy potential ➤ Waste management, water and sewerage provision and pollution control ➤ Enhance and maintain the environment, forestry and rural heritage ➤ Community and social infrastructure
<p>Priority 3 – Human Resource Development</p> <ul style="list-style-type: none"> ➤ Active labour market policies to fight unemployment ➤ Promoting social inclusion ➤ Lifelong learning ➤ Developing adaptability and entrepreneurship ➤ Addressing gender imbalance in the labour market 	<p>Priority 4 – Support for Rural Development and Fisheries</p> <ul style="list-style-type: none"> ➤ Investments in agricultural holdings, diversification and co-operation ➤ Improving the marketing and processing of agricultural products ➤ Adjustment of the fishing effort ➤ Renewal and modernisation of the fishing fleet ➤ Aquaculture ➤ Fishing port and other on-shore facilities ➤ Processing and marketing of fish products

2 ANALYSIS OF THE EVALUATIONS OF PREVIOUS PROGRAMMES

2.1 Key Evaluations

The most relevant evaluation results relate to the current Objective 1 programme as new partnership, administrative and monitoring mechanisms were set up that will broadly be continued under the transitional programme, and as the Plan for the 2000-2006 period is similar to the current SPD in terms of measures and financial allocations.

In November 1997, Segal Quince Wicksteed (SQW) undertook the intermediate assessment of the Highlands and Islands Objective 1 programme (1994-1999). This assessment aimed to establish the extent to which the Programme was making progress towards achieving its aim through its stated objectives and targets. There has been no further evaluation of the Programme to date (although there should be scope for ex-post evaluation, once undertaken, to influence implementation of the 2000-2006 programme). Many of the recommendations made by the Intermediate Assessment were incorporated into revisions of the SPD for the current programme.

SQW also completed the mid-term review of the FIG Programme for the Highlands and Islands Objective 1 area, while the Highlands and Islands Objective 1 area also featured as a case study in the Thematic Evaluation of Structural Funds Impacts on SMEs, undertaken by Ernst and Young.

The evaluation studies have indicated a number of positive effects, which are referred to in the Plan, including:

- A high degree of innovation and experimentation in relation to Schemes targeted at SMEs and in the Information and Communications Technology (ICT) field
- Benefits of partnership working

There have also been a number of thematic evaluations of the structural funds undertaken by DGXVI, particularly of the partnership principle and the development of SMEs, a number of national evaluations of Community Initiatives and local evaluations of projects and activities, particularly by Local Area Groups (eg. LEADER II Local Action Groups).

2.2 Performance of the Current Objective 1 Programme

As Section 1 of the Plan demonstrates, the Objective 1 programme (1994-1999) has made good progress towards achieving the targets set out in the SPD and the commitment of funds. This is set out clearly in the most recent Annual Monitoring Report (March 1999) and summary monitoring information is included in the Plan. The figures

provide a valuable insight into the mix of activities which have been supported, demonstrating those areas where performance has been better than targeted and those areas where under-performance has occurred. These lessons have been taken into account in developing the proposed priorities and measures of the new Plan and the weight to be attached to different activities (although this is not always explicitly stated in the Plan).

2.3 Relevance of Aims and Objectives

The aims and objectives of the 1994-1999 Objective 1 programme were similar to those being proposed for the 2000-2006 Area Plan. The key textual difference is the omission of the specific aim to increase and sustain GDP growth and to reduce unemployment and underemployment¹, although these are implicit aims of the new Plan. No evidence has been found to suggest that the aims and objectives of the proposed new programme are no longer relevant. Indeed, to the extent that they reflect the basis on which additional funding has been granted to the Highlands and Islands area for the period 2000-2006, it would appear that the aim of the programme is highly relevant. This is supported by an analysis of the strengths and weaknesses of the area set out in Section 3 below.

The proposed objectives of the Plan are also similar, albeit slightly more developed, to the objectives of the 1994-1999 Objective 1 SPD (Box 2), drawing on the previous evaluation work in assessing the continued relevance of these objectives.

Box 2 Objectives of the 1994-1999 SPD
--

- | |
|---|
| <ul style="list-style-type: none">• To strengthen the region's economy• To ameliorate the problems of peripherality and insularity• To strengthen the economic and social stability of communities• To preserve existing environmental quality and ensure the environmental sensitivity of future economic development |
|---|

The ex ante assessment concurs with the aims and objectives set out in the 2000-2006 Plan, on the basis of the information available. However, the breadth of some of the objectives may make measuring progress towards their achievement difficult.

¹ Programme Aim (1994-1999): to promote the internal and external cohesion of the Highlands and Islands region over the period 1994-1999, primarily by increasing and sustaining GDP growth rates and reducing unemployment and underemployment.

2.4 Effectiveness of Policies and Instruments Employed

The SQW intermediate assessment found that the structure of Priorities was appropriate to the needs of the area but argued that there was a case for the rationalisation of the number of measures within the programme. This has been undertaken in the 2000-2006 Plan. The intermediate assessment also reviewed the performance of the individual Priorities and Measures. A summary of the key points is set out below.

- Priority One (Business development) – The emphasis on business development in the Programme was viewed as justified. Overall activity under this Priority has been high, but spend in some measures was low, leading the evaluators to conclude that much of the activity was low level, particularly under the Business Information and Research and Development Measures. Much of the R&D spend has been accounted for by the University of the Highlands and Islands project (which was not officially sanctioned by the Government when the SPD was originally agreed). The evaluators commented that the Measure might not be appropriate for the type of SME in the area and also recommended that the measure should be combined with training for businesses, which was under heavy resource pressures. An exceptional amount of business and industrial space was developed under Measure 5 in the early years of the programme, leading the evaluators to call for a strategic review of this measure.
- Priority Two (Tourism, heritage and cultural development) – the importance of this Priority was acknowledged. The evaluators recommended that the targets for the Tourism priority be reduced and that the continuing need for further investment in tourism attractions be reviewed. The evaluators argued that there was a need to increase the level of activity under tourism marketing. Significantly, the evaluators also argued that there should be a move away from funding the production of marketing material towards the acquisition of hardware or development of marketing skills which would have a longer term benefit.
- Priority Three (Preservation and enhancement of the environment) – Levels of activity were regarded as good, apart from the area of environmental research. The definition of outputs was raised as a matter of concern. Overall, however, some concern was expressed as to the links between projects funded under this Priority and other Structural Fund projects.
- Priority Four (the primary sectors and related food industries) – Progress under the Agricultural Business Improvement Scheme, Agricultural Processing and Marketing Grants and the Crofting Township Development Scheme were noted as slow. Overall progress under FIGG measures was seen as good, with over-subscription in all key measures, apart from a lack of activity under the Enclosed Seawater Areas Measure. The intermediate assessment noted a continued need for fleet modernisation and

essential safety work and the need to diversify aquaculture activity away from salmon farming.

- Priority Five (Community development) - It was noted that the structure of the rationale, objectives, scope and targets of the Priority was difficult to follow and recommendations for a substantive restructuring of this Priority were made, in order to improve its coherence and transparency. The substance of the recommendations were based on previous work by Jeremy Wyatt Associates "Evaluation on Community Development" (1996). It argued that there should be a targeting of activity on excluded groups (including ERDF projects) and that the measures should be respecified to reflect:
 - Training and work experience
 - Guidance and advice
 - Learning infrastructure
 - Area regeneration – developing people
 - Area regeneration – community and economic infrastructure
 - Developing new approaches and resources

- Priority Six (Communications and service networks) - the evaluators largely expressed concern with under-reporting of the level of activity. This is primarily a monitoring issue. The need for continued infrastructure spend was acknowledged, particularly existing deficiencies in the communications network, a backlog of worthwhile projects and the intention to complement infrastructure development with 'softer' measures afterwards. Some concern was expressed with the low level of activity under Measure 4, "sewerage and water", with a recommendation to adjust this measure.

The Jeremy Wyatt evaluation also recommended targeting ERDF fragile and regeneration areas, and ESF on the following target groups, which together constitute 15% of the region's economically active: long-term unemployed, 16-17 year olds, the under 25 unemployed, unemployed in fragile areas, single parents, disabled, homeless, and ex-offenders.

Most of the above points appear to have been taken into consideration in drafting the proposed Priorities and Measures for the new programme, and it might be constructive for the Programme Complement to reflect this, as a guide to potential project applicants.

2.5 Results and Impacts on the Geographical Areas and Sectors Concerned

Overall, the programme was judged by the intermediate assessment to be on course for meeting its job creation target. *This is endorsed by the information provided in Section 1.8 of the Plan, which uses more up-to-date data.* However, SVQ reported serious reservations on the quality of the monitoring information held.

It has not been possible to assess the impact of the programme on particular areas or sectors; that will be the role of the ex-post evaluation of the programme. However, certain general points can be made on the basis of the progress towards key targets reported in the SPD.

RESULTS FROM ANNUAL REPORT – insert Tables 33 and 34 p.50

Over-performance in the number of businesses assisted with advice, number of individuals supported through training and the number of new/improved community facilities suggests a need for a careful review of the nature of activities planned for 2000-2006 to ensure that the value of assistance is maximised. Providing more intensive help to fewer businesses and individuals might have greater overall effectiveness, whilst prioritisation in the provision of new and enhanced community facilities should be carefully considered.

The forecast deficits in the length of strategic roads improved and accommodation upgraded might also be usefully reviewed in the further development of Measures in the Programme Complement. This would also provide an opportunity for partners to reflect on the remaining priorities for harbour schemes and sewerage/waste disposal schemes, given the strong performance against target in these areas.

On balance the intermediate assessment argued that more resources should be allocated towards business development activities, some tourism activities and environmental priorities, with fewer resources allocated to physical infrastructure projects, sites and premises and visitor attractions. It argued that a more controlled approach with strategic choices should be adopted for the identification of projects to be supported. This remains a valid consideration for the future programme.

The intermediate assessment also identified area priority targeting as a principal tool to ensure that the programme meets part of its overall strategic aim of promoting the internal cohesion of the Highlands and Islands, through ensuring the concentration of resources on areas with greatest needs. The evaluators concluded that the operational style of the programme means that the area priority policy is dependent on good projects coming forward from the priority areas themselves. The results of the assessment

suggested that different areas have interests in different measures depending upon their particular development needs and opportunities.

The intermediate assessment argued that there was no need for a 'heavy-handed' pan-Highlands and Islands strategy to be developed. However, it was acknowledged that there was a need for a more prescriptive role based upon a broad strategic direction. This should be supplemented and expanded through the development of local strategies.

2.6 Implementation Issues (including evaluation and monitoring)

On the whole, implementation of the programme appears to be good. However, a need for greater rigour in project appraisal was identified by the intermediate assessors. The intermediate assessment was most critical of the existing system for monitoring progress of the programme. In particular it identified a need to distinguish between activities and outputs, to encourage the measurement of outputs and to define outputs appropriate to measures. Furthermore, monitoring processes took no account of displacement, non-additionality and supply and income multipliers (although this is not usually possible from routine monitoring data, and requires more comprehensive evaluation through additional survey-based analysis).

Overall the evaluators regarded the impact of the projects supported under the programme to be good, with only around 10% judged to have low impact. The highest proportion (42%) of low impact projects were in Priority four (Primary sector), although this was based on a sample of seven projects.

The intermediate assessment also expressed some concern as to whether the anticipated private sector contribution might be realised in an area with a population of just over 300,000. Financial contributions had been highest through the Telecommunications measure (Vodafone contribution to mobile telecommunications network and BT contributions to the ISDN network) and through tourism projects (especially Highland Mysteryworld and Aonach Mor Ski Development).

Earlier Programme Performance

The key lessons of previous programmes (1989-1993) appear to have strongly influenced the development of the current proposed programme. *Inter alia*, the main points were:

- Geographical targeting should be an element in the strategy in order to help overcome intra-regional disparities

- Expenditure on basic infrastructure should only be supported where economic or community development benefits are demonstrated, particularly in terms of the needs of businesses or communities
- Emphasis should be given to economic development measures which create jobs and are value for money
- Programmes should build on sectoral strengths, particularly tourism, the primary sector and forestry
- Involvement of the private sector should be encouraged
- Development of communities should be central
- Training measures should reflect the different levels of unemployment across the region – they should also cover the employed especially where led by business demand and of a specialised nature
- Development to be encouraged should be environmentally sustainable and should aim to protect or enhance the natural environment
- There should be quantified objectives, and
- There should be a transparent process of project selection with rigorous prior appraisal

The Ex-Post Evaluation of the 5b Programme for the Highlands and Islands carried out by Independent Northern Consultants, in partnership with the Scottish Agricultural College, emphasised:

- the need to recognise the often substantial long term benefits of infrastructural developments, especially those directly geared to economic activity (eg. fisheries harbours).
- the value of supporting agricultural development and diversification in the context of medium term plans for individual farms and crofts (as through the Agricultural Development Programme), with assistance from a suitably experienced project officer.
- the importance of resisting the pressure from a large volume of applications early in the life of a new programme in order to maximise the ratio of relatively strong projects assisted through the whole period of the programme.

Summary

Overall, the performance of previous programmes is reflected in the Plan. No significant difficulties have been experienced in implementation and this augurs well for the 2000-2006 Programme. Experience gained under past programmes will form a valuable basis for future activity, and relevant aspects might be more strongly set out in the Programme Complement to guide future applicants. The influence of past experience as a rationale for the weight attached to different measures might also be set out clearly in the Programme Complement in the interests of transparency.

3 ANALYSIS OF THE STRENGTHS, WEAKNESSES AND POTENTIAL OF THE HIGHLANDS AND ISLANDS

The Highlands and Islands of Scotland are located in the northernmost part of the UK, on the periphery of the EU. The area is one of the most sparsely populated in the EU with a population density of just 9.5 persons per square kilometre and contains around 7% of the Scottish population with 372,000 residents. The Highlands and Islands has a rich environmental and cultural heritage but the fragile landscape is unsuitable for much economic activity.

The following section summarises some of the key strengths and weaknesses of the area as a basis upon which to assess the rationale for the strategy set out in the Plan. Crucially, many of the areas in which the Highlands and Islands have acknowledged strengths are facing an uncertain future and support is required if strengths are not to be turned into weaknesses.

The analysis of recent trends in the economy, development constraints, and the environmental background contained in the Plan is comprehensive and introduces the key factors on which the strategy builds, with links in Section 5 through a review of “key drivers” and a SWOT analysis, and with a short summary of independent projections of GDP for the area as a whole and for certain key sectors.

The Highlands and Islands is highly diverse, however, and all generalisations will tend to mask relative inequalities between different parts of the area. Understanding the particular needs of sub-regional areas will therefore be crucial to the successful implementation of the programme’s strategy.

3.2 Analysis of the underlying socio-economic conditions

Demographic Change

Population growth in the area between 1991 and 1997 was significantly lower than in the preceding 10 years (0.7% compared to 2.1%), owing to a reduction in counter-urbanisation trends, but was still above the Scottish average (+0.4%). Population growth has been evident throughout much of the region apart from Argyll and the Islands, Caithness and Sutherland, and the Western Isles, where significant loss of population is still occurring. This has strong implications for the overall aim of reducing social and economic disparities, particularly in the light of the different reasons for population change between areas, suggesting the need for locally appropriate solutions.

The age structure of the Highlands and Islands is skewed towards those aged 45+ with a lower proportion of the population in the prime working age group of 20-44 years.

Economic activity rates for men are slightly above UK and Scotland averages, whilst those for women are slightly below UK and Scotland averages. The potentially ageing workforce may have significant implications for the overall development of the Highlands and Islands economy over time. Activities developed through the Programme Complement will need to take account of these potential demographic changes, and population structure by local area (together with official projections by the General Register Office) should be kept under review as the Programme progresses.

Employment Change

The area is suffering from poor economic trading conditions. Between 1991 and 1996 employment in the Highlands and Islands fell by 2.1%, compared to a fall of 0.4% for Scotland as a whole. Employment decline occurred in six out of the ten Local Enterprise Company areas, as follows:

- Ross and Cromarty (-14.2%)
- Western Isles (-9.1%)
- Skye and Lochalsh (-5.2%)
- Caithness and Sutherland (-4.0%)
- Argyll and the Islands (-0.7%)
- Inverness and Nairn (-0.1%)

There has also been a trend towards part time employment which will have resulted in a higher decline in full-time equivalent jobs than in employment as a whole. Part time jobs are a significant factor in the low average wage levels in the economy, and the Programme could help to address this problem, particularly through helping to provide full-time jobs and relevant training opportunities in sectors and occupations in which part-time female jobs are prevalent.

Since 1993, unemployment in the Highlands and Islands has been falling at a similar rate to the rest of Scotland and Great Britain but remains slightly higher than the averages for these areas. In December 1998 claimant count unemployment in the Highlands and Islands stood at 5.8% compared to 5.4% across Scotland and 4.4% across GB. However, owing to the seasonal nature of the economy, there are sharp fluctuations, with unemployment out of season sometimes 1%-2% higher than the annual average.

Relatively low unemployment coupled with high economic activity rates suggest that the strategy will need to address the quality of jobs within the economy as much as the number of jobs, particularly given the trends towards part-time working referenced above. However, the need for significant new job creation in some parts of the Highlands and Islands should not be overlooked. Five of the UK's twenty travel to work areas with the highest levels of unemployment are to be found in the Highlands and

Islands. The details of how the programme intends to tackle these issues might be drawn out more fully in the Programme Complement.

Insularity, distances and limited transport links in the Highlands and Islands exacerbate the situation as these factors reduce the alternative opportunities for employment, restricting the potential area of job search, even within official Travel To Work Areas. Consequently, activities supporting the growth and development of endogenous companies, coupled with inward investment (where this can be achieved), may be key means of overcoming social and economic disparities in the area, as well as promoting overall economic growth.

The Economic Base

Over the three year period 1994-96, the GDP per head for the Highlands and Islands is officially estimated at 76.4% of that for the EU as a whole, compared to a rate of 79% in the early 1990s, reflecting difficult trading conditions in key market sectors. A report by ERM Economics for the Highlands and Islands Partnership Programme and Highlands and Islands Enterprise (July 1998), estimated that GDP per head in the Highlands and Islands was even lower than this, at around 70% of the Scottish average. Across the region, there is a wide differential in GDP: whilst a small number of areas have a relatively high level of GDP, others, such as the Western Isles, Lochaber, and Skye and Lochalsh lag considerably behind the rest of Europe.

The Highlands and Islands economy is strongly dependent on a small number of sectors, particularly distribution, hotels and restaurants, and public administration, education and health. High economic activity rates but low GDP also suggest that a critical weakness for the area is a dependency on low wage employment. High proportions of employees in low wage sectors such as hotels and catering reinforce this concern.

Relatively low levels of productivity in manufacturing will be one factor in poor wage levels and there is a general absence of higher value added sectors within the Highlands and Islands economy. Average Gross Value Added per head was almost a quarter below the Scottish average in 1996. This lends weight to the concept of sectoral targeting proposed in the Plan for business development, and suggests that boosting productivity, which can contribute to increasing wage levels as well as improving competitiveness, is a matter of some importance.

Key sectors of the economy around which a business development strategy might be developed include:

- Agriculture and fisheries: The Highlands and Islands has a deserved international reputation in the production of fish and agricultural products. In 1998 fish landings in

the Highlands and Islands totalled 48% of all Scottish landings, whilst agriculture contributes 4%-5% of the Highlands and Islands GDP (compared to 1%-2% for Scotland as a whole). However, these sectors are facing difficult trading conditions. 98% of the land area is classified as Less Favoured Area and production in most parts of the area is less efficient than elsewhere in Scotland and Europe. In recent years there has been a marked shift towards part-time activity. The Common Agricultural Policy and the Common Fisheries Policy are both creating pressures which the sector needs support to react to. The area has been adversely affected by the effects of the BSE crisis and is highly dependent on salmon farming, which has become very fragile.

- **Forestry:** The forest industry is a significant employer in the Highlands and Islands and plays an important role in supporting the transport and tourism sectors. Concerns have been raised relating to the poor road infrastructure for extraction in many areas and the need for processing facilities. Around a quarter of the total amount of forest in Scotland lies within the Highlands and Islands and the volume of harvesting is increasing as past planting matures. The added value of processing activities is also quite substantial at around £39 million.
- **Manufacturing:** The area is dominated by the food and drink industry (including whisky), which accounts for a third of gross value added and is the main exporter from the area, and the oil fabrication industry, which accounts for a quarter of gross value added. Food processing, linked to the fishing and agricultural sectors is also an important export industry. Food processors are facing strong pressures from producers located outside of the region and much local produce is exported for processing outside the Highlands and Islands. The oil industry, which has always been cyclical, is also beginning to show signs of decline. This may have implications for engineering expertise in the area (although it offers opportunities in decommissioning work) and the development of specialist services. The area contains some strong manufacturing concerns which are world leaders in their particular sectors, demonstrating that peripherality need not be a constraint on economic success.
- **ICT (Information and Communications Technology):** The establishment of call-centres in the area has been an important development in recent years and the sector now employs almost 2,000 people. This has been facilitated by the high quality of the telecommunications infrastructure. However, there are concerns that the infrastructure will fall behind that offered by more central areas, as further technological improvements become available to increase capacity and the speed and quality of data transfer, owing to the more limited local market, reducing the attraction of the area as a location for tele-services.

- Tourism: Tourism is a key driver of the Highlands and Islands economy, contributing £589m to the local economy in 1997. However, the industry is suffering a decline with a reduction in the average spending per trip reducing the value of the industry (from £606m in 1991) and a relative decline in performance compared to Scotland and the rest of the UK. The increase in trips and bednights recorded in the Highlands and Islands at the same time as the value of these trips has fallen has important implications for the industry. Overseas visitor spending has increased by some 20% between 1991 and 1997, but this has not been sufficient to offset the fall in expenditure by UK visitors. Concerns have also been expressed by the Scottish Tourist Board about the quality of some of the accommodation available in the Highlands and Islands.

Almost four fifths of businesses operating from the Highlands and Islands employ less than 100 people, with half employing less than 24. In contrast two-thirds of firms across Scotland employ more than 24 people and 44% employ more than 100 people. The small business size, together with a high level of self-employment (15% compared to 9% in Scotland as a whole and 11.5% in the UK) presents particular issues for the approach adopted for business development under the future structural fund programme.

The small average size of firms contributes to low levels of investment in production, training and innovation within the Highlands and Islands economy as small firms feel less able to release staff for training or to engage in new product development and do not have resources available to fund training or marketing initiatives, for example. Provision of such support at the sectoral level is an important element of the strategy, and external help might also assist networking between small companies. The Programme Complement could promote this, and also appropriate activities based upon the findings of the recent Regional Innovation and Technology Transfer Strategy exercise in the area. This suggested that:

- Firms which need technological input are few in number and geographically dispersed
- It is difficult for technological experts to keep up to date with the rapid pace of development
- There is a role for high calibre innovation and technology counsellors
- There is a need for networks of individuals and expertise both within and outwith the area
- Closer links should be forged between local colleges and the business community

3.3 Infrastructure

Transport in the Highlands and Islands is intrinsically difficult, due to the mountainous terrain, island and peninsular geography and dispersed population. As a result, journeys tend to be longer and more costly than in the rest of Scotland. Efforts have been made to overcome these problems by significant investment in infrastructure over the last 20 years: the region now has more trunk roads, ferry routes, railway stations and airports per head of population than any other part of the UK. However, these facilities are problematic, requiring high maintenance for relatively low throughput. Services are often unreliable and infrequent, whilst the disproportionate cost of transporting goods and people limits competitiveness. Services themselves remain infrequent and unreliable. The Plan rightly acknowledges these difficulties and places emphasis upon infrastructural improvement as a means of enhancing the overall competitiveness of the regional economy and of reducing social and economic disparities and the overall impact of peripherality. However, whilst some gaps in infrastructure provision remain to be filled, the quality of service provision also has a bearing on business competitiveness. Within the Programme Complement, partners might provide an indication of the key priorities for infrastructure improvements. This would enable a better appreciation of the likely costs and returns on infrastructural projects, and assist the development of complementary activities.

- **Road transport** - With around 90 inhabited islands within the Highlands and Islands there have been several large infrastructure projects during the last decade to connect inshore islands and the road network of the area. These infrastructure improvements have given the communities within their hinterlands greater economic leverage in difficult economic circumstances. These projects have been most notable in the west, particularly in the Western Isles where three small island communities have recently been connected to larger neighbouring islands. The most significant infrastructure improvement over the past ten years has been the Skye bridge, which was one of the first private finance initiative schemes in Scotland.

The difficulty of providing efficient public transport in a sparsely populated area has resulted in a high level of car ownership (68% of households own a car in the Highlands and Islands, compared with 57% in Scotland as a whole, despite having lower average incomes). However, there are no motorways in the region, and many roads remain single track. Fuel prices are also significantly higher than either the Scottish or the UK average, and many rural petrol stations are at risk of closure, due to low profitability. Indeed, unleaded petrol costs, on average, 12% more in the Highlands and Islands than it would in Edinburgh or Aberdeen, whilst diesel costs 16% more.

- **Rail Transport** - The Highlands and Islands has a large number of railway stations at 1 per 6,000 population, compared with 1 per 16,000 population for the rest of Scotland. However, investment in railways has not generally kept pace with that in other modes of transport. As a result, the rail network is single track in many places, whilst the service is slower, less reliable and more infrequent than in the rest of Scotland. More rail freight, new passenger trains and new rail heritage initiatives are, however, changing the face of transport in the Highlands. Much of this stems from the partnership approach of the unique Highland Rail Network Development Partnership (HRNDP) to rail development, working in partnership with operators and businesses to develop the railway. Recent developments have already turned round the almost complete demise of Highland rail freight. A large amount of timber, steel pipes and refrigerated groceries, which would have travelled by road, now moves by rail.
- **Air transport** - The Highlands and Islands has 23 airports running scheduled air services, which is the highest provision in the EU apart from some rural parts of Norway. The provision of air transport is very important for inward investment, since it links the region to the rest of Europe. It is therefore of considerable concern that the British Airways service between Inverness airport and London Heathrow has been downgraded to a British Regional Airlines service to Gatwick and that services to Stansted and Amsterdam have been discontinued. Also, air transport is very important for internal cohesion for areas such as Orkney, with links both to the Scottish Mainland and within the island group.
- **Ferries** – The quality of the vessels and the state of terminal facilities are significant to the effectiveness of ferry services. Two of the three mainland vehicle ferry links in Orkney have vessels which are due for replacement, and of the eight ferries serving the inter-island routes, three will require upgrading in the next 7 years. The quality of the ferry services between the Islands and the Mainland tends to vary between different routes. This results from the lack of national standards which means that virtually all of the ferry terminals, and indeed, ferries themselves are different. As a result, it is very difficult to transfer ferries between routes. At some of the busier harbours which act as transit points and ferry terminals there are concerns regarding capacity in relation to the expanding requirements of the various users.

The high cost of ferry fares for freight and passengers (in comparison with road equivalent journey lengths) is detrimental to island economies, in terms of the competitiveness of their imports, the prices of their imported inputs, and consumer prices.

Integration of the public transport system is dependent on providing dedicated and co-ordinated bus services connecting with ferry, rail and air terminals. Services in Argyll and

Bute and the Western Isles are scheduled for all major transport connections but the integration of bus services to air links is less extensive, notably at island airports.

Tele-communications services have been greatly improved with the help of structural fund support. All of the telephone networks are being upgraded from analogue to digital, whilst a project has been undertaken with Vodafone and Cellnet which will give 90% of A and B roads mobile phone coverage by Easter 2000. Furthermore, Scottish Telecom has now started to operate in the area, which has introduced an element of competition against BT. As a result, the region will soon be on a level playing field with the rest of Europe in terms of telecommunications infrastructure. The modern telecommunications network has been a strong factor in attracting new tele-services to the area and IT-based companies. However, there is some concern that upgrading of the network is required if the advantages of the area are not to be lost, which is reflected in the Plan. The Programme Complement could usefully set out the remaining priorities which need to be addressed within the area.

3.4 Skills and Education

The Highlands and Islands has a high standard of secondary education: pupils in the area achieve above average grades both at standard grade and higher level, whilst fewer pupils leave school with no qualifications than the national average. This provides a solid foundation on which to base future economic development activities and is a key advantage in the increasingly knowledge driven economy. Exploiting the knowledge based economy is crucial for the sustained development of geographically peripheral areas.

The workforce is also generally better educated than in Britain and the rest of Scotland (Table 3.1), with more people achieving advanced qualifications. The region has traditionally had a high participation rate of mature and part time students, home based study and continuing professional development activities. This culture of education and learning will be an important element in the successful development of Lifelong Learning initiatives and in realising the potential offered by the University of the Highlands and Islands project (UHI). Skills issues are identified as a key weakness of the area, raising questions about appropriate training and qualifications which the programme will need to address, while there are certain constraints on access to further and higher education that should also be tackled through the Plan.

Table 3.1 Qualified persons aged 18 years and over (Higher degree, ordinary degree, diploma etc)

Area	%
Highlands and Islands	14.7
Scotland	14
UK	13.4

The UHI project has entailed investment in facilities and remote access, with Structural Fund and Lottery Fund support, to offer higher education courses in the area. The UHI has a unique structure tailored to the Highlands and Islands area, consisting of a number of academic partners to serve each centre of population in the region. Flexible learning courses cater for the most remote parts of the Highlands and Islands offering lectures by video conference and CD ROM work programmes. Much of the investment to date has been in developing the ICT infrastructure for the University. The opportunity now exists to build upon these structures and the development of Community Learning Networks and Local Learning Centres, and this might be drawn out in the Programme Complement. The building programmes of UHI academic partners are also still to be completed, and research capability developed to the levels of established universities.

The important role of R&D is acknowledged in the Plan, and the structural funds could play an important catalytic role in developing this capability. However, in the initial stages at least, the returns from this activity in terms of additional job creation and business profitability are unlikely to be strong.

3.5 Equal Opportunities

Women continue to have limited access to opportunities in the Highlands and Islands: the economic activity rates of females in the Highlands and Islands is 48.7%, compared to a figure of 49.9% for Britain as a whole. Reasons for this are given in the Plan, and in addition, women tend to represent a higher proportion of the workforce in low value added sectors. As a result, female earnings tend to be much lower than their male equivalents. The average weekly earnings of men in the region in April 1997 was £332, whilst that of women was £249.1. As noted previously, however, averages can conceal differences within the region, and it would be useful if evidence of local differentials could be drawn out by potential applicants to the programme (where reliable evidence is available).

Opportunities in the labour market are shaped by gender. Women and men tend to work in different industries (horizontal segregation). Women are over-represented in service sector industries (Banking, Finance and Insurance, Distribution, Hotels and Restaurants, Public Administration, Education and Health and Other Services). Women

are also more likely than men to work part-time (contractual segregation). Part-time working is more common in those sectors in which women are over-represented and this is reflected in the proportion of women working part-time (28.2% compared to 7.4% of men). Occupational segregation also occurs, with men more likely to work as plant and machine operatives, for example, and women predominant in clerical and secretarial occupations.

In contrast there is less segregation occurring in the field of education and training. Women make up more than half of the Higher Education student population in the Highlands and Islands and in some areas such as Shetland more than 80% of students are women. There is also no strong difference between the proportion of women and men studying full time or part time.

The main barriers to assisting the development of equal opportunities are perceived to be:

- Geographic isolation
- Limited transport opportunities
- Access to good quality and affordable childcare
- Care of other dependent persons
- Skills development opportunities for disadvantaged groups, including women returners
- Attitudes of employers towards disadvantaged groups, including those with disabilities and the long term unemployed.

The proposed strategy will have a stronger impact upon some of these than others, particularly skills development and overcoming geographic isolation. However, to maximise the impact of the programme in promoting equal opportunities there will need to be a strong positive element to the project selection criteria discriminating in favour of projects which deliver the strongest benefits in equalising opportunities between women and men. This is particularly true of those measures designed to support business development and entrepreneurship. Overcoming discriminatory attitudes of employers should be a strong element of projects supported under Priority 1.

The strongest impact of the programme will be in the field of human resource development. The existence of a separate measure supporting gender equality will have a strong positive impact, whilst gender based actions supported under other measures within Priority 3 will also contribute to the objective of increasing equal opportunities.

3.6 Environment

Overview

The most distinctive characteristics of the Highlands and Islands stem from the geography of the area: the mountainous and inhospitable terrain, high rainfall, cool temperatures and high winds. It is these characteristics which underlie the inherent attractiveness of the area, but also give rise to acute economic problems for its residents. Much of the land in the area cannot support large centres of population, which has given rise to a scattered settlement structure. Since much of the land in the Highlands and Islands is mountainous, it can only be put to low intensity uses. Indeed, farming in the area is particularly inefficient owing to the poor quality of land available. The main land uses for the area are shown below in Table 3.2:

Table 3.2 Land Use

<i>Land Use</i>	<i>% of Total Area</i>
Unimproved Open Ground	78.1
Forest	12.9
Arable Agriculture	8.5
Built Up	0.5

Diversity of natural environment

The area boasts a very high quality of natural environment. This includes a diverse landscape, rare birds and a wide range of animal species. The region is therefore not only an attractive place in which to live, but one popular to visit, and there is potential to build further on specific natural heritage features in developing niche tourism markets (subject to sustainability of the resources). There are many Natura 2000 sites and other designations in the region, including 1 World Heritage Site, 654 Sites of Special Scientific Interest, 22 Ramsar sites and 29 National Scenic Areas. As the Plan recognises, not only is this resource valuable in its own right but it is also important for its social and economic value.

Air quality is generally good, whilst water quality is also high. The decommissioning of the former nuclear reactor site at Dounreay poses a potential threat to the environment through radioactive emissions to both the air and marine environment. However, this is being carefully controlled by the Scottish Environment Protection Agency (SEPA).

Potential for the Development of Renewable Energy

The high winds and rough seas of the Highlands and Islands offer significant potential for the development of renewable energy. Given the UK government's commitment to increase the proportion of energy requirements generated by renewable sources from 1% to 10% by 2010, there is likely to be increased interest in the region for this purpose. Already, there have been 27 site applications approved for the development of wind energy under the Scottish Renewables Obligation. These have the capacity to generate over 150MW of power. In addition, a number of hydroelectric power stations are already in operation, whilst the area offers significant potential for the development of wave and tidal power. Since the technology to exploit these resources is becoming increasingly viable, it may be possible for the area to develop a strong competence in this sector. The Plan builds this potential into the strategy for the region.

Environmental Assessment

The Plan contains a strong section describing the environmental situation of the area and existing policies and legislation. However, there is more limited assessment of the likely impact of the proposed programme on the environment of the Highlands and Islands. We set out below a broad assessment of the main implications of the Plan, as far as our resources and project Brief allow us. This follows the requirements and guidance provided in the Vademecum and Working Paper on Ex-ante assessment and the development path analysis and key environmental criteria checklist methods suggested in *Environment and Sustainable Development: A Guide for the ex-ante evaluation of the environmental impact of regional development programmes* (DGXVI May 1999). The approach adopted is based upon a development approach analysis as insufficient information is available to carry out an assessment based upon a key environmental criteria checklist.

The Environmental Situation

The environmental situation of the region and areas within the programme area is described in section 4 and supported by further baseline data in the Environmental Annexes.

The Implementation and Level of Community Environmental Policy and Directives

The information and analysis of the relevant legal and organisational framework for the programme area is contained in the Environmental Annexes.

The Environmental and Economic 'EE SWOT' analysis

The programme area's economy and natural environment went through a Strengths, Weakness, Opportunities and Threats (SWOT) analysis to understand key areas where the environment could support economic development and particular economic activity could result in environmental improvements. The resulting issues of environmental and economic integration are presented in the Environmental Annexes.

The Development Path Analysis

The environmental impact of the programme will be heavily dependent upon the nature and location of projects which are eventually supported. The criteria for their selection are not yet available and so a number of broad assumptions have had to be made as to their likely economic impact and resource intensity. Table 1 shows the results of the development path analysis and the assumptions it is based on. This indicates that the majority of the proposed type of projects and activities funded by the measures will contribute to some form of environmental sustainability development path.

Given the existing high quality environment relatively little is needed in terms of environmental clean up and infrastructure. The need for diversification related to high quality environment, ICT, and new resource efficient technology or sectors such as renewables has resulted in a substantial proportion of the resources being focused on improving resource efficiency activity and new activities using fewer environmental resources.

It is considered likely that even in areas, such as fisheries development, where job returns are low, the environmental benefits are likely to be strong as they are based upon meeting environmental obligations – such as vessel emission limits – and conserving fish stocks. Moreover, funding for waste management, water and sewerage provision and pollution control will not only improve environmental conditions but may ensure that additional economic activity promoted through the Plan does not have an adverse environmental impact in this area.

The ex-ante environmental evaluation has demonstrated that the proposed programme will operate within a well defined and understood environmental situation and legislative framework and that the opportunities to link economic growth with environmental improvement have been recognised. The development path analysis has demonstrated that a significant share of the proposed funds will not be spent on 'business as usual' activities, but developing or improving resource efficient sectors.

Table 1: Estimated Allocation of Budgets of Each Measure to Each Development Path

Measure (Ref No)	Budget (MECU)	Development Path					
		1 "Business as Usual" Contribution to Economic Growth without improving environmental performance	2 Environmental "Clean-Up"	3 Environmental Infrastructure	4 Adjustment to existing environmental standards	5 Improve resource efficiency of existing activity	6 New activities using fewer environmental resources
1. Increasing Business Competitiveness²							
1.1 Provide marketing, advisory & support services to existing & new businesses	3.8	1			1	1	0.8
1.2 Stimulate private sector investment in existing & new businesses	37.4	9.4			10	9	9
1.3 Support development of innovation & R&D, including industry-academic links	6.9	1.1				3.9	2.9
1.4 Provide serviced sites and premises for businesses	19.8	5.3	5	4.5		5	
2. Creating the Conditions for Regional Competitiveness³							
2.1 Improve the communications infrastructure	68.2	21.2				19	28
2.2 Improve the provision of energy networks, energy efficiency & sustainable exploitation of renewable energy potential	7.1	1.1				2	4
2.3 Waste management, water & sewerage provision	10.7			7.7		3	

² Assumptions: SME sectors targeted are equally split between High/Medium employment growth & Low/Medium environmental impact & resource use sectors (ICT, High Value Manufacturing, Tourism, Food & Drink) and Low growth and high impact & resource use (oil & gas activities). Business support services & R&D will incorporate compliance with environmental regulations and resource efficiency as vital part of competitiveness agenda. New or reused serviced sites will protect and enhance environment where possible

³ Assumptions: Communications improvements will be biased towards access improvement through ICT & public transport to reduce car & road freight traffic. Focus on renewable energy & energy reduction rather than expansion of supply grid. Water & sewage upgrades will take priority over waste & water reduction programmes. Improved efficiency and benefits generated from forestry activities likely to be greater than environmental improvements or clean up programmes. Community & social infrastructure will improve local access to jobs, reduction of travel & indirect promotion of tourism.

Measure (Ref No)	Budget (MECU)	Development Path					
		1 "Business as Usual" Contribution to Economic Growth without improving environmental performance	2 Environmental "Clean-Up"	3 Environmental Infrastructure	4 Adjustment to existing environmental standards	5 Improve resource efficiency of existing activity	6 New activities using fewer environmental resources
& pollution control							
2.4 Enhance & maintain the environment, forestry & rural heritage	16.8		6.8			10	
2.5 Community & social infrastructure	18.6	8.6				5	5
3. Human Resource Development⁴							
3.1 Active labour market policies to fight unemployment	21.8	14.8	1			2	3
3.2 Promoting social inclusion	8.6	5.6	1			1	1
3.3 Lifelong learning	5.2	3.2				2	
3.4 Developing adaptability and entrepreneurship	18.9	11.9			2	2	3
3.5 Addressing gender imbalance in the labour market	2.8	2.6				0.2	
4. Consolidation of a competitive, self-sustaining, seafood primary production sector⁵							
Agricultural Development Measures	24	18		2		2	2

⁴ Assumptions: Around 25% of funds will be targeted at developing skills & training for growth of new resource efficient sectors such as tourism, arts/media, heritage/culture, renewable energy, resource reduction programmes, local businesses & ICT to reduce need to travel, also small amount of funding being related to New Deal environmental task force.

⁵ Assumption: Fisheries and aquaculture are medium employment growth and high environmental impact and resource use activities, but are vital to this area due to high economic reliance on this activity. Environmental management & resource use measures make up a vital part of funding measures to ensure a sustainable employment activity.

TOTAL	297.6	117.8	17.8	14.2	17.5	71.6	58.7
Funding share of measures by development path (% rounded up)	100%	39.6%	6%	4.8%	5.9%	24.1%	19.7%

3.7 Structural Weaknesses

The major threats identified in the Plan are all based upon significant structural weaknesses and provide a strong basis for concerted action. In particular, the decline of key industrial sectors as markets mature and external competition increases are a cause for concern in the oil industry, textiles sector, primary sector and tourism sector.

The nature of the business base also has adverse implications for the development of the Highlands and Islands' economy. Over-dependence on small and micro-businesses and the dominance of low value sectors means that extensive support is required if the area is to achieve a competitive position and increased GDP.

3.8 External Developments

A number of external developments are posing threats which the Highlands and Islands needs to respond to. The area's economy is dependent on a limited number of export-orientated sectors. The Russian economic crisis, for example, has adversely affected demand for sheep skins, whilst the area bears the repercussions of trade sanctions imposed on the EU by the US in negotiations over the EU's banana regime. Movements in oil prices have substantial impacts on the viability of the oil sector. Trends in global tourism towards more exotic foreign destinations, coupled with short-break domestic trips, will also tend to adversely impact on the Highlands and Islands.

EU policies, including the Common Agricultural Policy and the Common Fisheries Policy, also have substantial effects on local economies which are highly dependent upon these sectors. Scottish land reform proposals currently being discussed will have far-reaching effects in the Highlands and Islands. National policies, particularly in relation to sustainable transport, such as higher taxes on fuel, are also having a detrimental impact on the development of local businesses owing to the greater distances over which goods have to be transported. These policies are having a disproportionately adverse affect on the more remote parts of the area.

In contrast some national and international developments offer strong opportunities for the Highlands and Islands. The development of new communications technologies and the growth of the 'knowledge-economy' is reducing the importance of distance and increasing the value of quality of life as a location factor. The Highlands and Islands can benefit from this trend. Equally, the area is rich in renewable resources and can benefit from trends towards the development of renewable energy sources.

3.9 Summary of the Situation

The key strengths, weaknesses and potential of the area are summarised below, as a basis for the assessment of the rationale for the strategy in Section 4.

Strengths

- The quality of life in the area
- The high quality natural environment and strong cultural heritage
- A well-educated and adaptable workforce
- A modern telecommunications infrastructure
- A leading reputation in the global oil fabrication industry
- The presence of high quality manufacturing businesses
- Developing potential as a tele-service centre and for IT-based activities
- A long established tourism sector
- A reputation for the production of high quality primary products
- A relatively well developed social economy sector

Weaknesses

- Scattered island and remote mainland communities
- Sparsity of population
- Low incomes and a relatively high dependence on seasonal employment
- High cost transport links and infrastructure gaps
- Fragile local economies
- A lack of productive land
- Key industries facing structural change
- Dependent on a small number of industrial sectors,
- Dominated by small companies,
- Disproportionately reliant on low-paid jobs
- Dependent on low value added sectors.

Potential

- ICT developments
- University of the Highlands and Islands
- De-commissioning of installations (oil and nuclear)
- Renewable energy
- Marine resources
- Added value processing
- Forestry products
- Higher value tourism
- Development of cultural projects and services
- Further development of the social economy

Analysing the situation against the four pillars of the European Employment Strategy gives the following.

Improving employability. Declining employment levels and higher than average unemployment in many parts of the area reflect weak employment opportunities and are, partly, a feature of isolated and insular labour markets which are dependent on a small number of industrial sectors. However, the well-educated work force offers strong opportunities as recent success in attracting new forms of employment, such as call centres, demonstrates. In stronger parts of the region the challenge is to assist entry into higher-paid full-time jobs.

Developing entrepreneurship. The area has a strong tradition of self-employment with a higher than average number of business start-ups. Death rates for firms are also higher than average, however. A key challenge is to encourage the growth of small firms so that they may become significant local employers. Core skills development for existing and potential managers will therefore be important.

Encouraging adaptability in businesses and their employees. Adaptability will be important for the future development of the economy of the area, enabling both the employed and the self-employed to respond to the changing needs of business. High levels of skills in the population and a culture of education, tend to mean greater flexibility, with a greater propensity to retrain. However, the isolated and localised nature of many labour markets reduces labour mobility and constrains adaptability.

Strengthening policies for equal opportunities. The rising importance of women in the labour market, coupled with the decline of traditional male-dominated occupations is having an impact on the balance of employment opportunities in the area. However, opportunities are still shaped by gender, for a variety of reasons.

4 ASSESSMENT OF THE RATIONALE AND THE OVERALL CONSISTENCY OF THE STRATEGY

The rationale for the overall aims and objectives of the Plan are very strong. The Plan demonstrates a strong element of continuity with previous European programmes supported in the area and relates closely to the reasons for the award of a transitional programme for the period 2000-2006.

The six strategic objectives are, on the whole, clearly related to the overall aim and are sufficiently broad to equate to the identified needs and opportunities in the area. The consultation exercise which was undertaken has demonstrated a strong level of agreement with the strategic aim of the programme and the proposed objectives.

The Plan is founded on five key principles, achievement of which would satisfy the guiding principles of the Structural Funds, namely:

- Sustainability
- Equal opportunities
- Partnership
- Additionality
- Programming

The Plan is intended to support actions which are economically, socially and environmentally sustainable over the long term, placing a strong responsibility on the appraisal of projects prior to approval and on subsequent monitoring. Information from project sponsors on how the benefits of the project will continue following the end of grant support should be included in the project selection process, together with assessment of its impacts in all three realms. A matrix demonstrating the link between sustainable development objectives and the strategic objectives of the programme is included as an appendix to the Plan.

Equal Opportunities is positively considered at a number of levels in the Plan and a matrix demonstrating the basis for addressing inequality between men and women is included as an appendix. This matrix is highly relevant to Priority 4, where arguably the greatest inequalities currently occur. Its provisions should be carried through into the relevant Measure level fiches to send a clear message to potential project applicants. The strategy also promotes equal opportunities regardless of ethnic origin or disability.

Partnership has been a strong principle in the development of the programme and we are confident that this will be carried through into the implementation of the programme. As in the current programme, additionality will be a cornerstone project selection criterion, and should generally be applied at the Programme area level (although there may be some projects that will require, and justify, extra assistance to become established in high priority areas).

The framework of Priorities and Measures closely reflects the structure set out in the EC Communication (published 1 July 1999) entitled, "Guidelines for Programmes in the Period 2000-2006". The proposed Priorities for Action are largely self-explanatory (Box 4.1) and can be seen to flow from the strategic objectives (as illustrated in the matrix provided within the Strategy Section of the Plan that shows links between the draft measures and the six strategic objectives).

Box 4.1 The Priorities for Action

1. Increasing business competitiveness, creating employment and increasing incomes
2. Creating the conditions for regional competitiveness
3. Human resource development
4. Support for the primary sector

The Strategy also sets out the Priority Areas which will be a consideration in the selection of projects to be supported under the different Measures. As noted in Section 1 above, this has been the subject of much discussion, and we support the intention to undertake regular review of the area priorities. The exercise should not be seen as ring-fencing allocations of funds to these areas but rather as acknowledging that identified Priority Areas require greater support in the interests of overcoming internal disparities. Progress towards this objective will need careful monitoring, and areas which are failing to draw-down the funding to help their development should be identified and the reasons for this assessed. Solutions might be to provide capacity building assistance to promote the development of suitable high-quality applications

Taken together, the Priorities provide a strong enabling framework within which to tackle the acknowledged weaknesses of the area's economy and to build upon the identified strengths and potential of the area. They will allow partners in the area to undertake a wide range of development activities to tackle the multi-faceted problems of the Highlands and Islands economy, and represent a broad continuation of the activities supported under the 1994-1999 Objective 1 programme. The concentration of support into a smaller range of more broadly drawn Priorities and Measures will provide project partners greater flexibility in meeting the needs of the area. Owing to the diverse nature of the region such an enabling approach is particularly relevant. However, the emphasis is then placed on partners to ensure that future projects are set within a strong local strategic framework as part of the project selection process. This may also help to limit the number of potential applicants.

Whilst the area's strengths are reflected in the strategy, there will be considerable potential through the programme to build on the identified opportunities further, eg. forest products, marine resources, nuclear decommissioning and health care products. This will require strategic views to be taken on the development of these sectors and associated activities, their infrastructural needs, training implications, etc,

if the Programme Monitoring Committee is to respond in the best interests of the area's economy to applications for programme support. Equally, views will need to be taken, based on expert advice and analysis, on whether to provide support to help sectors in difficulties or whether decline is considered inevitable - in which case diversification will often be more appropriate.

In assessing the rationale and overall consistency of the strategy, each Priority in turn is considered below.

The focus of **Priority 1** is on the establishment and expansion of small and medium sized enterprises and supporting employment creation and retention. The promotion of equal opportunities and sustainable development are both central elements of the activities proposed. The Priority recognises the constraints which local businesses face, including, inter alia, a lack of own resources and limited access to commercial funding, a lack of industrial premises to rent and a weak network of professional and business support services, and seeks to overcome these. The extent of these deficiencies will be important to assess in allocating resources between Measures and between actions within Measures.

Priority 1 will emphasise support for SMEs operating in five sectors, which reflect the key sectors identified in the needs analysis, namely:

- Light manufacturing
- Food and drink products
- Tourism
- ICT-based activities
- Oil and gas activities

Each of these industries faces different development paths, which might be elaborated further in the Programme Complement as a mechanism for prioritising the effective use of resources and to reflect the sectoral SWOT analysis contained in the Plan. Detailed approaches will rest with project applicants and the effective use of project selection criteria.

The draft measures offer a fairly standard package of business development support which is likely to have a beneficial impact upon the economy of the Highlands and Islands and the profitability of assisted companies. In considering the further development of the Measures in the Programme Complement, the partners may wish to bear in mind some of the following points, which are based on past experience:

Measure 1.1 Provide marketing, advisory and support services to existing and new businesses

The interim assessment expressed concern that ERDF support was largely being used for low value contact activities, which is reflected in the high number of assisted companies. It would be beneficial for this Measure to prioritise higher value activities,

which provide more intensive assistance to fewer firms, which should prove a more effective means of stimulating sustained economic development within the economy.

Measure 1.2 Stimulate private sector investment in existing and new businesses

This would assist SMEs, not for profit organisations and larger enterprises to access finance for expansion or start-up. To the extent that schemes, or individual companies, financed under this potentially wide-ranging measure should be related to the identified priority sectors, this measure may be seen to have a strategic focus. Links between this Measure and other activities supported under the programme should be maximised, and project applicants encouraged to consider, in particular, human resource development implications.

Measure 1.3 Support development of Innovation and R&D, including industry academic links

The measure supports access of SME's to R&D and to pursue product innovation and would provide grants to UHI and research institutions for R&D products. Previous work in the region has identified significant constraints on the ability of companies to engage in technological innovation and argued for support for technology counsellors and establishing networks of firms. The development of this Measure in the Programme Complement might consider the conclusions of the RITTS exercise in promoting innovation amongst companies within the area. These priorities should also be reflected in the project selection criteria to be developed.

Measure 1.4 Provide serviced sites and premises for businesses

This would increase the quantity and quality of sites available to businesses. This reflects experience gained under the 1994-1999 Objective 1 programme when a similar measure was significantly over-subscribed, although it is anticipated that offices will constitute a higher proportion of assisted projects vis-à-vis industrial property compared with the current programme. Targeting is to be based upon the priority areas identified by the SPD, together with the need for applicants to demonstrate local need. Within the project selection criteria it might be valuable to develop links to Measure 1.1 in order to support the development of SMEs locating within developed space.

Priority 2 focuses on creating the conditions for regional competitiveness, identified as transport and communications networks, energy, waste management, water and sewerage provision and community and social infrastructure. Throughout this measure, the emphasis for support is to be on those priority areas identified by the SPD.

Measure 2.1 Improvements to communications networks

Improvements to communications networks have been identified as an area of need in the Plan. However, certain choices remain to be made. For example, a strategic decision on the weight to be attached to the different modes of transport has to be taken in order to derive targets and indicators for this measure. The Programme Complement would usefully include an assessment of what remains to be achieved following the fairly substantial levels of investment under the 1994-1999 Objective 1 Programme. Such an assessment should help to support the emphasis placed upon priority geographical areas identified by the Plan. Strong criteria for supporting telecommunications improvements are set out in the Plan, and this should be reflected in project selection criteria.

Measure 2.2 Improve the provision of energy networks, energy efficiency and the sustainable exploitation of renewable energy potential

This is clearly an important area for developing regional competitiveness through promoting access to cheaper fuel sources, the development of a commercial renewable resource and the support for more energy efficient businesses. The potential for renewable energy exploitation within the area is clearly extensive, although whether viable technologies can be developed to exploit this potential remains speculative in some respects. In considering the deliverability of this measure reference might be made to the local planning context for the development of renewable energy infrastructure. Exploiting local renewable energy schemes might be one mechanism by which the provision of energy networks might be supported. In promoting the objective to support energy efficiency schemes in business and the community, links to Priority 1 might be encouraged.

Measure 2.3: Waste management, water and sewerage provision and pollution control

The Plan acknowledges that remote and island areas experience particular difficulties in waste management. The Measure will not be able to support statutory obligations and so the added benefits of improved provision on regional competitiveness – such as business development and tourism - should be clearly spelt out by applicants. The measure may also contribute to the pursuit of sustainable development objectives and the UK's and the EU's respective waste strategies. In order to avoid adverse environmental impact, there might be cases where a project under this measure will be carried out in tandem with a major business development (while observing the principle that "the polluter pays").

Measure 2.4 Enhancing and maintaining the environment, forest and rural heritage

The activities for which funding would be available loosely support the objectives of this Measure and the links might be strengthened in the Programme Complement. This, by necessity, is a very comprehensive measure, ranging from environmental enhancement strategies, through to the commercial exploitation of forest resources. Strong project selection criteria will be required to ensure the balanced development

of the diverse aspects of this measure, the justification for which could be developed in the Programme Complement.

Measure 2.5 Community and Social Infrastructure

This measure brings together a wide range of objectives associated with creating the conditions for regional competitiveness through supporting the aim of increasing social cohesion and helping to maintain viable communities. The measure aims to build on the successful elements of the LEADER II Community Initiative and will assist the delivery of Local Action Plans. The Measure is to be targeted on areas which suffer from insularity or peripherality and high levels of unemployment, with an emphasis on the priority areas identified by the SPD. It would be valuable for the potential links between training infrastructure provision and learning networks supported under this measure and Priority 3, Human Resource Development, to be maximised in programme implementation. The Programme Complement might also include an assessment of the priority to be attached to different elements of the measure, and the lessons taken from the existing programme.

Priority 3 focuses on human resource development. The general strategy for training and learning activities is to extend learning opportunities to areas which would not otherwise be catered for, thus providing value added to core provision. Through improved Labour Market Information the Partnership could help training providers to identify emerging priority areas for skills development, thus improving the quality and strategic relevance of applications. There is a strong lifelong learning theme running through the Priority. The development of the UHI, focused on flexible learning and ICT networks, is clearly an important opportunity for the area which the Priority can build upon. There will be an emphasis on assisting those in employment to upgrade their skills.

The Plan gives examples of excluded groups that will be particularly recognised through the Priority, and it will be important in project selection and monitoring to ensure that each of these groups is relatively well served.

The Priority has three specified objectives, although it is also of critical importance in achieving the first four of the six overall objectives of the programme as a whole:

- Increasing equality of opportunity and increasing employment possibilities
- Creating a vibrant and sustainable environment within which communities can flourish
- Enabling the empowerment, and instilling confidence in local communities through support of locally targeted and tailored services, including community learning networks

The draft Measures are clearly related to the five pillars of the European Employment Strategy, and it might be useful to reflect this more closely in the title of some of the Measures. This would not merely be cosmetic as the Measure titles do not currently reflect the activities that would be supported. Strong reference is also made to the role which national strategic initiatives will play in ensuring that the needs of employers and individuals are matched with relevant, flexible learning opportunities. Equality of access to training opportunities will be assisted by the development of Community Learning Networks across the Highlands and Islands.

Measure 3.1 Active Labour Market Policies to Fight Unemployment

All of the region is eligible, and the measure is comprehensive in its coverage of a broad target population, supporting those who are unemployed and long-term unemployed, and those in work but in need of training. It will also encourage training in tourism, heritage, culture and arts-based enterprises as well as supporting the hospitality sector. Given the emphasis of this Measure on those in employment as well as the unemployed, a title which reflected Active Labour Market Policies to Promote Employment might be more appropriate. Demand for projects under this measure is likely to be strong and a strategic approach will need to be set out clearly in the Programme Complement.

Measure 3.2 Promoting Social Inclusion

This measure has a strong emphasis on returners to the labour market, specialised training provision for excluded and vulnerable groups and support for those in isolated communities. The Measure has six wide-ranging objectives which are to be achieved through a series of activities, some of which are very similar to those offered under Measure 3.1. Again demand under this Measure may be strong and good project selection criteria will be required if the activities supported are to assist the achievement of the overall aims and objectives of the programme as a whole.

Measure 3.3 Lifelong Learning

This measure focuses on research and development to inform future training strategies, flexible learning provision linked to Scottish University for industry activities, and guidance and counselling. The focus of the measure appears to be more on developing appropriate structures to support lifelong learning than supporting lifelong learning activities themselves. The title of the measure might be altered to reflect this. Overall, the activities supported should provide a valuable element of the human resource development strategy for the region and will assist the adoption of lifelong learning.

Measure 3.4 Developing Adaptability and Entrepreneurship

This measure will provide support in three principal areas: adaptability, business enterprise and rural development. The links between this Measure and Priority 1 and

Priority 4 are potentially very strong. The Measure is comprehensive in its coverage but appears to focus on supporting employers who commit themselves to providing high quality training for employees, assisting the design and management of business plans for the self-employed and owners of small businesses and supporting training in the primary industries and indigenous craft industry. Whether the Measure could also support social entrepreneurs and those working for charitable or community-based organisations merits further examination. Reference is made of the need for projects to support identified domestic initiatives, such as Individual Learning Accounts, which will maximise the effectiveness of the activities undertaken when reflected in the project selection criteria. The scope of the measure includes assisting companies to expand by offering financial incentives. If this refers to the type of employment grant scheme that has operated under previous programmes, we believe that it should be restricted to groups such as new graduates where additionality can be demonstrated.

Measure 3.5 Addressing Gender Imbalance in the Labour Market

The support available under this Measure appears similar to elements of support available under Measures 3.1 and 3.2 and a greater distinction might be drawn between these within the Programme Complement. The objectives of the Measure are to improve awareness of employment opportunities dominated by either men or women; to develop confidence and assertiveness to pursue opportunities in occupations traditionally dominated by either men or women, and to improve access to high quality equal opportunities training provision. Local project applicants should be strongly encouraged to demonstrate where these opportunities lie. The emphasis on encouraging equality for men and women is laudable and in line with the National Employment Action Plan, although meeting the positive action for women encouraged under the European Employment Strategy would be assisted by a stronger statement of the anticipated proportion of beneficiaries, or in which sectors support is to be targeted.

Priority 4 covers support for rural development, agriculture and fisheries, including value added processing of primary agricultural and fisheries production, and diversification of farms and crofts that might be non-agricultural. In general, there is quite a strong consistency in themes between Priority 4 and Priority 1.

There are two agricultural measures, that would be supported by EAGGF, and five fisheries measures, that would be supported by FIGF.

The two agricultural measures, and measure 4 under Priority 2, are based on the provisions of the Rural Development Regulation (RDR). Action under the Plan's RDR measures will need to be consistent with the pan-Scotland RDR, which is under preparation. It is already clear, however, that the priorities for agricultural development and diversification identified through the analysis in the Plan match very well the developing strategy for agricultural holdings in Scotland. This will entail concentration of support on activities that will improve returns to primary producers,

helping to put the sector onto a more viable footing, and assisting in restructuring and diversifying agricultural activities throughout rural Scotland.

This fits with the Plan's strategic objective to increase incomes and prosperity in the region, and would also promote internal cohesion if assistance is focused on crofting and marginal farming areas that tend to be located in the fragile areas.

The seafood industry in the Highlands and Islands faces very serious threats, and diversification opportunities for primary producers and processors in this industry, and for communities highly dependent on fishing and / or aquaculture, are extremely limited - in many cases through remoteness, sparsity of population and land of negligible economic value.

Investment and marketing support will need to be very carefully targeted and assessed if efforts to help remove weaknesses, stave off threats, and give the industry a sustainable future are to succeed.

The area's strategy for fishing development is founded in the prolific fishing grounds off its shores, the scope to at least maintain the proportion of fish landed in the area that is caught by local boats and increase the proportion processed locally, the need to reduce the relative dependency on salmon in aquaculture, and increasing attention to environmental impacts in both aquaculture and sea fishing. Support for R&D across the industry should help promote long term sustainability.

The intermediate assessment of the Objective 1 programme argued that there was a continued need for support for the fishing and aquaculture sectors, and the needs analysis of the area reaffirms this view. The overall aim of the fisheries measures is to promote the consolidation of a competitive, self-sustaining seafood primary production sector, and the proposed measures relate strongly to the recognised problems of the sector. In all cases, priority is to be given to fisheries dependent areas, of which 13 of Scotland's 23 areas identified in 1992 are in the Highlands and Islands.

Measure 4.1 Investments in Agricultural Holdings, Diversification and Co-operation

Support will be available for investments clearly related to business restructuring, re-orientation of production, new co-operative and collaborative ventures, and diversification to provide alternative sources of income to farmers, crofters and their families. Assistance towards training, feasibility studies, market research, business advice, marketing and promotion will be available, as well as towards capital expenditure. Also, support staffing will be provided to help crofting townships to prepare development plans, and for development incentives to eligible applicants.

This a wide-ranging measure that could contribute towards all of the programme's strategic objectives. Most schemes are likely to be small scale, however, and care will need to be taken to ensure that farmers and crofters do not develop or diversify in

ways that create high displacement in local areas or across the region (eg. in tourist accommodation); although sharing of good experience should be promoted.

It would be desirable to support viable organic farming practice, which would reinforce the area's "green" image and help to reduce the UK's dependency on imported organic food.

Many of the activities that could be supported under this measure could also be assisted under Priority 1, 2 or 3 measures were applicants not farmers or crofters; and there will need to be clear demarcation guidelines.

Measure 4.2 Improving the Marketing and Processing of Agricultural Products

The rationale for this measure is to improve quality, increase processing activity and strengthen linkages in the food chain in the Highlands and Islands to add value to local primary produce, improve returns to primary producers, and create employment in local communities. *Inter alia*, the measure will target innovation by SME's to widen their product range and market penetration, and niche markets (rather than mainstream commodity markets).

Increased employment in processing and other value added activity will help to compensate for inevitable employment reduction in primary agricultural activity, and it will therefore be important to focus this value added work in farming and crofting communities wherever possible.

The measure would promote the strategic aim of internal cohesion if the intention anticipated in the Plan to give priority to areas identified as "fragile" and "regeneration" is pursued.

Strategic initiatives, eg. to fill gaps in the supply chain, are envisaged, and the appraisal of applications should therefore be set in the context of a good understanding of the structure and development path of the sector.

Measure 4.3 Adjustment of the Fishing Effort

This measure relates to the objectives of the multi-annual guidance programmes (MAGP), with targets set at the UK level. It would not otherwise have been a Plan objective to reduce fishing activity in the Highlands and Islands as there is a concentration in fisheries dependent and fragile areas of shellfishing and pelagic fishing, the two categories of fishing relevant to the Highlands and Islands with over-capacity at the UK level.

Relatively little adjustment is expected to be required in the Highlands and Islands, however, and there could be some re-assignment of fishing vessels (eg. into tourism, as training facilities or for scientific assessment - all of which would support other aspects of the programme).

Measure 4.4 Renewal and Modernisation of Fishing Fleet

This measure will provide assistance to businesses towards the costs of constructing fishing vessels, also for modernisation investments to improve catch quality and handling, efficiency and safety of fishing operations, technical conservation measures, or relating to the environmental or biological impacts of fishing operations. Also, assistance will be provided for modifications for species diversification where research shows the effort can be conducted without adversely affecting the natural environment.

Objectives include improving business opportunities for local fishermen, assisting young fishermen to take their first steps in vessel ownership, supporting low environmental impact fisheries, and achieving sustainable inshore fisheries. These are consistent with the overall objectives and strategy of the Plan and help to address market failure and problems associated with remoteness and peripherality, while helping in the long term sustainability of fishing dependent communities.

Measure 4.5 Aquaculture

This measure is geared towards enabling the aquaculture industry to diversify production from farmed Atlantic Salmon, and developing alternative species, as well as encouraging market led salmonoid-related investments, eg. in organic production.

The primary focus will be the efficient production of quality marine fish and shellfish species, but support will extend to market and environment driven investments in farmed fish and shellfish, extending to stock health initiatives and waste treatment.

Assistance will promote sustainability, efficiency, cost effectiveness and quality improvement in an industry which is very highly concentrated in remote rural areas with few (with any) alternative employment opportunities.

A study of the economic impact of Scottish salmon farming carried out for The Scottish Office and Highlands and Islands Enterprise estimated that the sector had an overall impact in the Highlands and Islands of 4,595 full-time equivalent jobs in 1997 (including indirect and induced jobs through the multiplier).

Continuing support for sustainable production and marketing initiatives is further justified by the fact that the UK's salmon farming industry is located in the Highlands and Islands, a peripheral area which needs to compete in international markets. The rationale for this Measure is well-developed and very strong with good links made to improving environmental quality.

Measure 4.6 Fishing Port and Other On-shore Facilities

This measure will support the upgrading of facilities where necessary to complement direct investment in fishing and aquaculture, especially to maintain quality, and improve hygiene and safety standards - including reducing possible contamination and pollution and minimising disease risks.

Also, support will be provided to encourage innovation and diversification, to help ensure the future development of the industry, through R&D, pilot projects and surveys, experiments and other non-commercial or co-operative activities. Relevant training could be assisted.

Port-related projects will complement non-fishing related harbour improvements funded under Priority 2 through ERDF.

The anticipated focus on the use of IT, quality control and monitoring will help the industry to compete internationally, and this should increase returns, hence increasing incomes, especially in high priority areas. The focus on sustainability and environmental concerns fits the Plan's sixth objective.

Strong project selection criteria will be required if the Measure is not to appear as simply a 'catch-all' together with clearer priorities in the Programme Complement. This is particularly important given the financial implications of support for improving facilities at ports.

It will also be important to ensure that experience from pilot and other experimental projects is disseminated across the region, and applicants might be encouraged, where appropriate, to link up with people with similar concerns in other parts of the Highlands and Islands.

Measure 4.7 Processing and Marketing of Fish Products

This measure will help the area to capitalise on the 48% of Scottish fish which is landed in the Highlands and Islands. Most of these landings are currently processed outside of the Highlands and Islands.

The measure will help to ensure that the area's processing industry has modern hygienic premises designed to minimise waste output, and encourage product development and the introduction of new technology.

Fish processing tends to be highly effective in job creation (often in fragile areas), and increased competitiveness and diversification, backed up by effective international marketing, will help to limit the cyclical and seasonal swings that can characterise fish processing.

Within the Programme Complement, the potential links with Priority 1 might be set out more clearly.

5 QUANTIFICATION OF OBJECTIVES

Establishing quantified objectives is a very important aspect of the preparation of Plans for the use of structural funds. In the case of the 2000-2006 Plan for the Highlands and Islands, this task is particularly difficult because of the flexibility inherent in the Plan and the wide range of different Measures that will address particular issues, eg. equal opportunities.

The approach taken by the Plan Team at this stage has been to restrict target setting, at the level of the programme as a whole, to employment creation and retention. Once measures with budget allocations have been finalised, targets for more detailed outputs and impacts will be devised, which could then be aggregated over the programme as a whole.

The full set of targets should relate as far as possible to the key objectives of the programme, including reducing disparities, reducing problems caused by peripherality and insularity, etc; although care would need to be taken in interim and ex-post appraisals to isolate the effects of the programme from other factors that will possibly have had more influence in certain areas (especially negative influences, such as major employment rundowns).

An all Scotland Core Indicators Design Team has recommended macro level indicators that would, in some cases, be appropriate to apply to the Programme, although consideration would need to be given to:

- the extent to which the Programme will influence the indicators, vis-à-vis other factors (as emphasised above).
- the need for additional work to derive baselines for the Highlands and Islands (and perhaps its constituent areas).
- the availability/practicality of compiling annual (or mid-term) monitoring data.

Any targets for specific environmental objectives and for aspects of social inclusion will require particularly careful consideration if practical and meaningful indicators are to be devised

We would caution against setting unrealistic targets (eg. for GDP growth) in relation to the resources to be deployed through the Programme. This can lead to:

- setting excessive targets for individual measures, which in turn will encourage applicants to exaggerate their projects' impacts.
- discrimination in the application approval process in favour of projects that appear to create immediate jobs, against projects that may in practice have longer term and more sustainable benefits (eg. social infrastructure).

These reservations would be less important if ex-ante independent appraisals were to be undertaken on certain categories of project at application stage to assess net benefits (including allowances for displacement, additionality and multiplier effects).

Quantification at the level of the Programme as a whole will be possible for certain categories of outputs/impacts through aggregating these across measures (eg. number of completed training courses) or where an output is addressed by only one measure.

The degree of success in geographical targeting over the Programme as a whole should be measured/monitored both through inputs and results. As relative need between areas is complex, a reasonably comprehensive baseline analysis incorporating a range of relevant factors is recommended prior to the start of the Programme.

For all priorities, progress towards targets should be monitored annually, and other quantifiable measure level indicators should be aggregated and reviewed annually (initially on the basis of application forms, but moving on to actual actions, outputs and impacts through monitoring information provided by successful applicants with their grant claims).

6 EVALUATION OF EXPECTED SOCIO-ECONOMIC IMPACTS AND JUSTIFICATION OF THE POLICY AND FINANCIAL RESOURCES ALLOCATION

The Plan includes employment impact targets for the programme as a whole, and this should be the prime focus of the programme. Research and analysis over the past thirty years in the Highlands and Islands has consistently shown that employment opportunities are the key variable in population retention and growth throughout the region, especially in the important objective of stemming out-migration of young economically active people from the area.

The employment targets in the Plan by Priority are repeated below:

		Target for job creation / retention
Priority 1	Increasing Business Competitiveness, Creating Employment and Increasing Incomes	5,180
Priority 2	Creating The Conditions for Regional Competitiveness	1,461
Priority 3	Human Resource Development	1,528
Priority 4	Support for Rural Development and Fisheries	1,105
		9,274

These targets were based on the experience of the current Objective 1 programme, taking into account changes between this and the 2000-2006 programme, and on "cost per job" norms. This analysis was informed by the "Highlands and Islands Objective 1 Programme Indicator Study" carried out by EKOS (October 1998).

The targets are net of displacement and adjusted for any additionality, and it will therefore be necessary to adjust gross job projections and monitoring data as the programme progresses to appraise outcomes against these targets.

The target figure of 9,274 jobs created or retained appears to us to be achievable by the end of the programme period and to be appropriate in addressing the disparities, as quantified in the Plan, in unemployment and female activity rates - taking into account the job retention element in the above target and the need to compensate for jobs that will inevitably be lost between 1999 and 2006. It will also be important, however, to increase business profitability and upgrade the skills of staff through programme actions if disparities in average earnings and the area's GDP are also to be reduced.

It should be appreciated that the targets above for infrastructural and training measures relate only to quantifiable job creation or retention over the period of the programme. Longer term benefits from this investment in physical and human capital should exceed these short term benefits.

Annual monitoring of the overall employment target above should include a male : female disaggregation wherever possible, to aid the programme's progress towards

its equal opportunities objectives, including reducing the disparity in the female activity rate between the Highlands and Islands and the UK as a whole. Indirect job creation would not be possible to quantify precisely by gender, but average male : female ratios for the sectors benefiting from indirect impacts might be used as a proxy.

Working Paper 3 from DGXVI on "Indicators for Monitoring and Evaluation : An indicative methodology for the 2000-2006 interventions" advises that: "*a distinction should be made between men and women to provide information on the effects of equality of opportunity objectives*".

Categories of indicator for the different draft Measures have been put forward in the Plan, although targets and outputs (where given) can only be indicative prior to allocations of Programme funds between Measures. In the Programme Complement, clarity would be improved if targets for the four Priorities were set out consistently. At present, there are different formats for Priorities 1, 3 and 2/4.

The format used for the Priority 1 measures is considered the most appropriate, although disaggregation of Measures 1.1, 1.2 and 1.3 into actions (as for Priorities 2 and 4) would help in assessing the achievability of the outputs and impacts put forward. It should not be necessary to attempt to go beyond "intermediate outputs" to "impact targets" for certain actions where ultimate impacts could not realistically be estimated and/or quantified through ex-post appraisal.

Except where comment is made below, the targets that have been suggested in the Plan for the Measures under Priorities 1 and 3 appear to us to be broadly appropriate. Targets have yet to be inserted for Priorities 2 and 4 Measures.

Priority 1 : Increasing Business Competitiveness

General Points

- It is unclear whether impacts in terms of net job creation and increases in GDP would apply annually once they have been achieved (eg. premises occupancy) or might just apply in the year in which they are first achieved (eg. as a result of business advice). A revolving fund might continue to create new jobs beyond 2006.
- It is difficult to appraise the targets without more information than currently available on what actions are likely to be taken under the measures (except for 1.4).
- We acknowledge that targets have been based to an extent on previous studies (eg. on the impacts from business advisory services) or norms (eg. typical employee per square metre of industrial floorspace statistics). Appraisal of the targets would be helped if explicit references were made to such evidence.

- Reference to Working Paper 3 (see above) would provide more detailed intermediate outputs and impacts for the Measures under this Priority (eg. Business Advisory Services : Number of SME's becoming new exporters).

Specific Points

Measure 1 Marketing, advisory and support services

- The private sector leverage appears high(unless management time is costed). Typically SME's are unable (or unwilling) to pay much for advice.
- Job impacts appear low, although it is appreciated that quantifying detectable job impact from advice and information is extremely difficult (and this will often be a fraction of a full-time equivalent job).
- If generic marketing for a sector is supported under Measure 1 (eg. for tourism by the Scottish Tourist Board), indirect jobs created/safeguarded could be higher than the average shown.

Measure 2 Stimulating private sector investment

- The private sector leverage is high if the SME's assisted are in fragile areas, undertaking innovative and risky ventures, or are highly dependent on public funding in their investment decisions.

Measure 3 Innovation and Research and Development

- There does not seem to be an allowance for schemes that might provide small but valuable assistance to SME's for small scale product or service developments.
- Job creation might be much higher beyond the timescale of the Programme from R&D of an exploratory nature (especially where undertaken towards the end of the Programme period).

Measure 4 Serviced sites and premises

- If this is targeted on fragile areas to any significant extent, the occupancy rate of 90% might be too high. Also, the activity targets might not be achievable in fragile areas with relatively high site servicing and building costs.

Priority 2: Creating the conditions for regional competitiveness

General Points

- Working Paper 3 (see above) appears to have been referred to in selecting the intermediate output and impact indicators.
- Targets have not yet been set. This will be extremely difficult without making assumptions about the distribution of assistance within the Measures (which, to an extent, would risk losing the flexibility to respond to needs which is a key feature of the Plan).
- Many of the targets appear unrealistic to measure in practice (eg. environmental impacts), and these objectives might be explicitly stated as principles, and be covered by approvals criteria rather than by targets as such.

Measure 2.1 Improvements to communications networks

Sea Transport and Harbour Facilities

- Retention of existing outputs (eg. no. of containers handled) may apply in some cases rather than (or in addition to) increases.
- Freight traffic on the road could increase through taking goods to and from the ferries.

Airport Facilities

- Impacts such as "freight traffic withdrawn from road" could not be quantified ex-ante without knowing precisely what projects are to be assisted.

Roads

- Increase in number of containers carried will not always be a relevant indicator, and will tend to conflict with decrease in environmental impact.
- Improvement in public transport services that leads to a reduction in private car usage could increase rather than reduce journey times. It is unlikely that freight would be withdrawn from the road through improving public road transport services.

ICT

- Number of potential ISDN subscriptions might be more valid than actual ISDN subscriptions as a measurable target - also a user can benefit from improved (eg. digital) telecoms without subscribing specifically to ISDN.
- Local telecentres/business centres providing IT assistance might become increasingly valuable as the use of IT and the Internet grows. There might be a target for such provision.
- The “number of services created via Internet” could run into many thousands, depending on the definition of a service, and might be only loosely related to ICT investment during the Programme period.

Measure 2.2 Energy

- Energy projects that improve resource utilisation might not create identifiable jobs but be well worthwhile.
- Some assisted renewable energy projects might be on a major scale, and be more important than a number of smaller projects taken together.

Measure 2.3 Waste management, water, etc.

- Under Pollution Control, “no of sensitive areas better protected” would be open to wide interpretation.

Measure 2.4 Environment, forestry, rural heritage, etc.

- Better environmental management could justifiably reduce employment in some circumstances.
- “Increase In rural population” is likely to be too indirect to relate to the development of enterprises based on the natural environment (alternatively, this indicator might be used more extensively as an impact from assisting SME's, etc).
- “Area covered” is a blunt instrument for measuring the impact of strategic planning for the natural environment (which could relate to relatively small zones of high sensitivity).
- Increased native woodland cover can be beneficial environmentally without necessarily adding quantifiable economic value.

Measure 2.5 Community and social infrastructure

- Employment created or safeguarded might be tangential to or a longer term impact from community capacity building.
- Capacity building initiatives could have wider or different impacts from those shown.
- Number of people using assisted facilities might be a better measure of impact than increase in number of community facilities.
- There will often be more important impacts from cultural initiatives than identifiable employment.

Priority 3: Human resource development

General Points

- Providing relevant statistics in the Plan from human resource development activities under the current Programme would help underpin the targets for the new Programme.
- Worthwhile courses for relatively small numbers of people (eg. in fragile areas or related to innovative initiatives) might produce much lower activity statistics per £ spent than (for example) certain College courses. Pressure on achieving targets should not unduly discriminate against such courses.

Measure 3.1 Active labour market policies to fight unemployment

- A degree of disaggregation of “people receiving training to nationally recognised standards” would aid appraisal of the extent to which achieving the overall target would meet the different objectives under the Measure’s stated scope.

Measure 3.2 Social inclusion

- 20 new locally based actions appears modest as a target over the whole life of the Programme.

Measure 3.3 Lifelong learning

- 12,000 people given a one-to-one interview and individual action plan might be disaggregated (eg. by gender, by age-group) to relate to the Plan’s “lifelong learning” and equal opportunities objectives.

Measure 3.4 Adaptability and Entrepreneurship

- 10 new management training courses seems low (especially in relation to growth in the UHI’s activities).

- It is not clear how the targets relate to “entrepreneurship”, especially as entrepreneurship programmes (as distinct from management and competency-based training) are thin in the area at present.
- 1,600 new business start-ups seems a high target (unless this is focused on relatively modest wage subsidies for people becoming self-employed). More ambitious entrepreneurship development programmes might generate relatively few new starts, but a higher proportion of these might subsequently generate fast-growing SME’s in new activities.

Measure 3.5 Addressing Gender Imbalance

- It is not clear whether the 300 “people entering employment” are additional to the 500 “people entering employment in sectors traditionally dominated by the opposite sex”. A lot of men could go into tourism and other service sector jobs without prior training - ongoing career development training will often be more relevant.

Priority 4: Support for Rural Development and Fisheries

General Points

- Leverage of private sector investment is perhaps better regarded as an intermediate output rather than an activity.
- Change in Highlands and Islands GDP will tend to be difficult to estimate project-by-project (especially taking account of displacement, fish processing benefits, etc).
- In the case of the two agricultural measures, the outputs given would be better regarded as activities, while the impact indicators will generally be very difficult to assess other than by local survey-based ex post appraisal.
- Tonnage outputs for fisheries actions might be used as indicators as well as financial outputs.

Measure 4.1 Investments in Agricultural Holdings, Diversification and Co-operation

- All employment outputs and impacts will be important to measure.

Measure 4.2 Improving the Marketing and Processing of Agricultural Products

- All employment outputs and impacts will be important to measure.
- Number of market-led initiatives might be added as an activity (perhaps split export: domestic).

Measure 4.4 Renewal and Modernisation of the Fishing Fleet

- Activity indicators would benefit from disaggregation by type of fishing pursued.

Measure 4.5 Aquaculture

- Sustainability/environmental improvements should be covered in the impacts.
- Recovery of wild salmon/salmonid population will be difficult to relate explicitly to specific activity in the aquaculture industry.

Measure 4.6 Fishing Port and Other Onshore Facilities

- The scale of port facilities projects could vary widely.
- Increase in turnover of businesses using new port facilities or services might better be regarded as an impact rather than an intermediate output (number of users of new services might be more appropriate as an intermediate output).
- As use of IT and quality control and monitoring services are objectives, targets relating to these might be set.

Measure 4.7 Processing and Marketing of Fish Products

- Number of market-led initiatives might be added as an activity (perhaps split export: domestic).

Rationale for the Allocation of Structural Funds between Priorities

Such are the needs of the Highlands and Islands, it would have been possible to spend substantially more on each of the Priorities up to 2006 than it has been possible to allocate. This is essentially due to the Highlands and Islands comprising a large number of local economies, each with distinctive needs and opportunities. Even beyond the 31 sub areas identified in the Plan, there are many small islands, for example, that will barely (if at all) benefit from relatively major development on the mainland or nearest neighbouring island.

Although financial allocations are shown in the Plan, and below, under Priorities, there will be a number of themes which will absorb substantial funding across Priorities. ICT development and applications, for example, will often feature in direct support to business, in infrastructural projects, in training courses, and in the formation of networks in sectors such as agriculture and fisheries.

The criteria guiding the allocations of the four structural funds between Priorities can be summarised as follows:

- (i) Implementation of the strategic objectives of the Programme.
- (ii) Experience from the current Objective 1 programme (including adjustments made following the interim evaluation).
- (iii) Achieving a balance between infrastructural development, capital investment by businesses, investment in human capital, and advice, marketing, etc. This needs to take into account the existing availability of support in the area, including provision by statutory authorities, grant and other assistance to businesses through Highlands and Islands Enterprise, etc.
- (iv) Completion of major projects that it would not be possible to fund with reduced structural funding after 2006.
- (v) The likely availability of matching funding (public sector and private sector).
- (vi) Feedback through the consultation carried out as part of Plan preparation on sectoral and area needs and priorities.
- (vii) Known sources of high demand for support funding (eg. UHI).

The ex-ante assessment broadly confirms the allocations of the structural funds given in the Plan on the basis of the above criteria.

The principal rationale behind the specific allocations between Priorities can be summarised as follows (although this rationale is relatively general in nature as we did not receive the final version of the Plan's financial table until the afternoon of 29th October).

Priority 1 Increasing Business Competitiveness, Creating Employment and Increasing Incomes

67.9 Meuro (ERDF)

This is the main priority through which direct jobs would be created, and 22.6% of the structural fund total has been allocated to this priority. On the basis of the net job creation / retention target given earlier, the cost per full-time equivalent job would be 13,108 euro in terms of ERDF.

The total allocated to this measure reflects the continuing need to provide premises for new and expanded activity throughout the area, to provide critical advice on marketing and other functions to the area's large number of SME's and micro businesses, and to boost R&D in the area, to complement direct support for private sector investment (which would be the principal measure in terms of expenditure).

It will also be necessary to invest in financial engineering schemes to ensure continuity of assistance after 2006.

The experience of the HIE Network, in particular, allows demand from the business community for support under this priority to be anticipated with reasonable accuracy. From this experience, however, it ought to be possible to increase the private sector contribution to the programme under Priority 1 shown in the financial table of the Plan.

Priority 2 Creating the Conditions for Regional Competitiveness

104.6 Meuro (ERDF)

16.8 Meuro (EAGGF)

As noted in the introduction above, each of the area's local economies requires enhanced economic and community infrastructure, and careful prioritisation, both between areas and within areas, will be essential to ration the above financial allocation, targeting in order to deliver projects that will provide high impact and value for money. Matching funding will be an important consideration, however, especially for Local Authorities with limited capital expenditure budgets, and major projects will often require partnership funding from a number of sources (as in the current programme).

Sectors and activities of regional importance are present in all local economies (as demonstrated in the Plan's Area SWOTS), and support infrastructure through this Priority will thus promote both internal and external cohesion. 34.9% of the overall structural funding for the programme allocated to the ERDF component of this Priority is thus considered appropriate.

As previously emphasised, completing key infrastructural projects will be an essential aspect of the programme's exit strategy, and these will require to be identified and phased through structured liaison between the PMC and local development committees or groups. The requirement to reduce annual expenditure through the life of the programme adds urgency to this prioritisation.

Depending upon how technologies develop, renewable energy projects (eg. wave power installations) could exert strong demand on available funding through this Priority within the life of the Programme.

The measure to enhance and maintain the environment, forestry and rural heritage will receive 5.6% of the overall structural funds allocation. This reflects its contribution to the sustainability of the area's rural economy and of its communities. Many of these communities require improved or additional social facilities to help in population retention (especially of young people), and these will be assisted through ERDF under this Priority.

Priority 3 Human Resource Development

57.3 Meuro (ESF)

This Priority has been allocated 19.1% of the total structural funding available to the programme, and this is considered appropriate to support the strategy's economic and social objectives. In particular, individuals' skills levels are increasingly influencing value added, incomes, and the overall level of employment in all areas in the modern economy.

There is particular potential through this Priority to realise the programme's commitment to equal opportunities through a degree of prioritisation towards courses suitable for participation by women; to promote entrepreneurship through causes that should lead to innovative business starts and development; and to spread the benefits of the UHI throughout the region through flexible learning. Overall, demand for funding through this Priority is certain to be sufficiently high that only projects able to demonstrate clear and strong benefits should be assisted.

It is important that actions taken under this Priority are forward looking, and this will require improved qualitative and quantitative labour market information and mechanisms for dissemination of this information and intelligence.

Priority 4 Support for Rural Development and Fisheries

24.0 Meuro (EAGGF)

27.0 Meuro (FIFG)

Structural Funding geared to development by agricultural and crofting holdings and of agricultural marketing and processing represents 8.0% of the overall structural fund budget of the programme. This relates to the 4-5% that agriculture represents of the GDP of the Highlands and Islands (excluding processing), and to the 23,000 people directly employed in the sector (approx. 15% of the area's workforce, although the majority are part-time). Agriculture and crofting are of particular importance in many of the most peripheral parts of the Highlands and Islands, and development and diversification of farms and crofts will thus play an important part in promoting internal cohesion.

Agriculture has been highly volatile in recent years, with the BSE crisis, token lamb prices earlier this year, and falling farm profits. Funding to help regain markets will be particularly important, and high demand for diversification across a broad front is anticipated.

The 9.0% of the structural funds allocated to FIFG measures corresponds to the 7% of the region's population working offshore and onshore in the seafood industry.

As emphasised in the Plan, there is a high concentration in particular areas, and these include some of the most fragile parts of the Highlands and Islands. This, coupled with the current fragility of the industry, explains the increase in FIFG from the current programme. Some restructuring will be required over the next seven years, in

tandem with the need to invest in processing capacity and marketing to exploit potential domestic and export markets.

A significant proportion of the investment in this industry will be geared towards environmental improvements and actions to promote sustainability, eg. through diversification in aquaculture.

The remaining 2.4 Meuro from the 300 Meuro total structural fund contribution towards the programme relates to technical assistance. This allocation has been based on experience from the current Objective 1 programme.

7 QUALITY OF THE IMPLEMENTATION AND MONITORING ARRANGEMENTS

Implementation will be a key consideration in the successful delivery of a coherent strategy for the Highlands and Islands. The strategic approach adopted places a strong reliance on the programme partners to develop and deliver a coherent set of actions, which respect the diversity of the Highlands and Islands. The project selection process therefore assumes great importance. Demonstration of how projects meet local strategic needs, preferably set within a strong local strategy, should be an important consideration. In this respect the valuable and worthwhile experience of the LEADER model could be drawn upon.

The arrangements for project selection under the current Objective 1 programme appear to be robust. Partners may wish to consider the benefits of staggered application rounds for different Priorities in order to ease timetable pressures on the Secretariat and project applicants who may wish to develop complementary bids under different Measures.

7.1 Clarity of management and implementation responsibilities and consultation procedures

A standard management arrangement has been adopted, similar to that which has operated for the Objective 1 Programme (1994-1999). The Managing Authority is identified as the Scottish Executive. The respective responsibilities of the Managing Authority and the Monitoring Committee are clearly identified.

The membership of the Monitoring Committee remains to be determined, although it will comprise regional partners, including social and economic partners, together with the Scottish Executive and, in an advisory capacity, the European Commission. It is not clear whether the voluntary sector organisations or NGOs (such as equal opportunities or environmental bodies) are to be included in the Monitoring Committee. Consultation arrangements for bodies outside of the formal partnership have not been identified.

A permanent Programme Executive will assist the Monitoring Committee. The responsibilities of the Executive are broadly stated. It is not clear that lessons from the operation of the present Objective 1 Programme have been taken into consideration. In particular, there is no reflection on the structures which might assist the development of high quality applications by potential project sponsors or means of reducing the overall volume of applications (which has been an administrative problem).

The implementation arrangements make no reference to wider partnership arrangements beyond the formal management structure. In particular, the likely use of informal advisory groups to support the Monitoring Committee and broaden the range of interests involved in the Programme might be referred to.

7.2 Quality of control mechanisms

Financial control mechanisms have been clearly identified and are in accordance with national procedures.

7.3 Arrangements for mid-term and ex-post evaluations

Arrangements for the mid-term evaluation of the programme are broadly set out. There is no corresponding statement of the arrangements for the ex-post evaluation of the programme.

7.4 Project selection procedures

No details are yet available on proposed project selection procedures. If current arrangements are continued, a competitive bidding system will be used based on scoring, weighting, and a ranking process using measure-level scoring criteria that have yet to be devised. The details of project selection procedures are to be incorporated into the Programme Complement.

The Project selection procedures should respect the desire to achieve an effective and efficient programme which provides value for money.

7.5 Legislative base

The domestic legislation underpinning the programme is already in place and conforms with Community rules. The administrative system should be sufficient for ensuring compatibility with Community policies, assuming that the current system is maintained.

7.6 Respect for the Partnership principle

The programme planning process broadly respects the principle of partnership. Representatives of a wide range of public sector organisations have been involved in preparing the Plan. Representatives of environmental bodies have been included in this process. There has been no direct involvement by representatives of equal opportunity bodies and limited involvement by representatives of the private sector, however.

Drafts of the Plan have been circulated widely on two occasions. The views expressed were discussed by the Plan Team as a whole, and substantive comments and drafting points were incorporated in a revised draft.