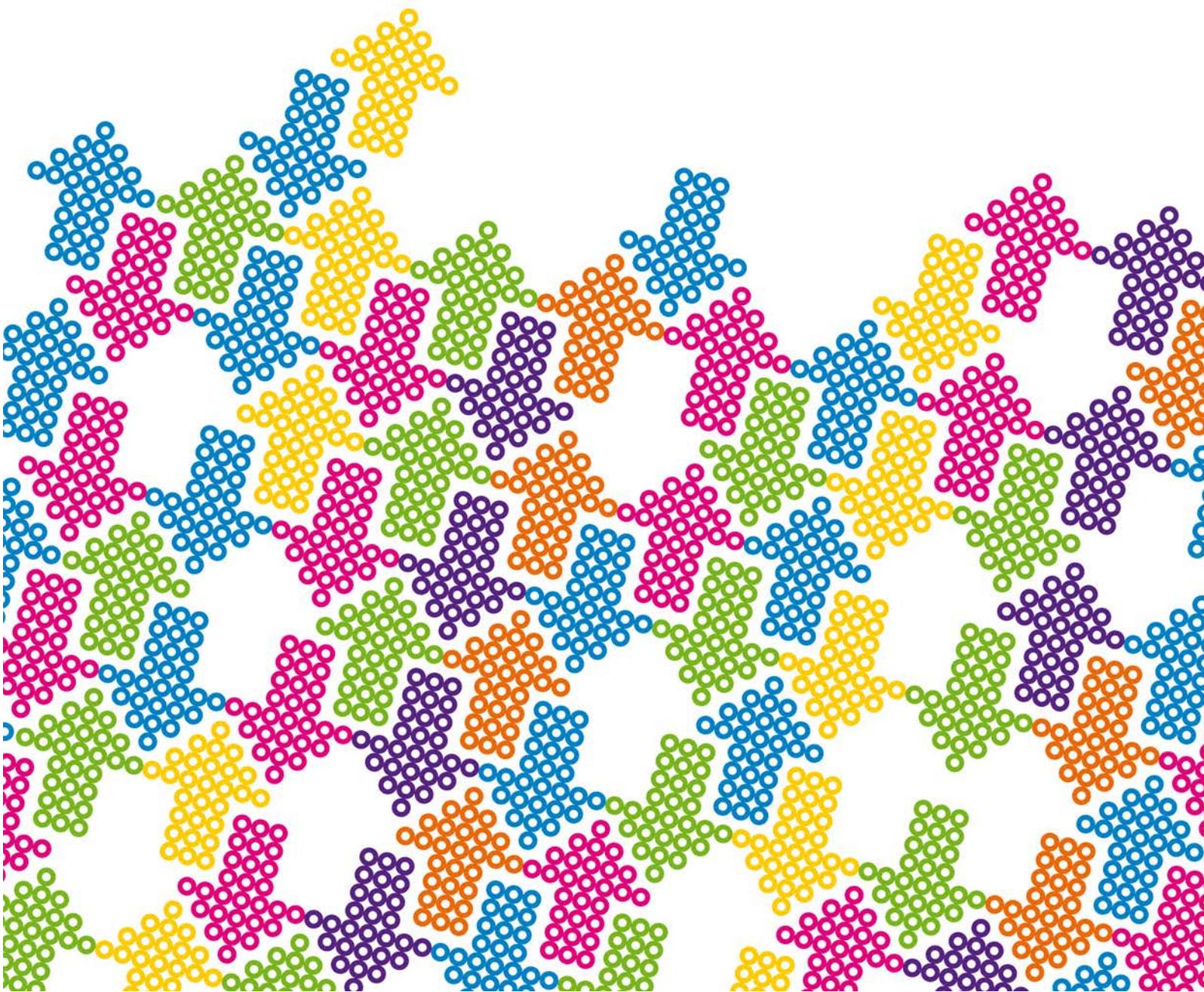




# Ireland's Competitiveness Challenge 2015

December 2015





### Introduction to the National Competitiveness Council

The National Competitiveness Council reports to the Taoiseach and the Government, through the Minister for Jobs, Enterprise and Innovation on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

Each year the NCC publishes two annual reports.

- Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance.
- Ireland's Competitiveness Challenge uses this information along with the latest research to outline the main challenges to Ireland's competitiveness and the policy responses required to meet them.

As part of its work, the NCC also makes an annual Submission to the Action Plan for Jobs and other papers and bulletins on specific competitiveness issues.

The work of the National Competitiveness Council is underpinned by research and analysis undertaken by the Strategic Policy Division of the Department of Jobs, Enterprise and Innovation.

### National Competitiveness Council Members

Professor Peter Clinch	Chair, National Competitiveness Council
Liam Casey	Chief Executive Officer, PCH International Ltd.
Kevin Callinan	Deputy General Secretary, IMPACT Trade Union
Micheál Collins	Senior Research Officer, NERI - Nevin Economic Research Institute
Isolde Goggin	Chair, Competition and Consumer Protection Commission
John Herlihy	Vice President, Managing Director Europe, Middle East and Africa, LinkedIn
Declan Hughes	Assistant Secretary, Department of Jobs, Enterprise and Innovation
Danny McCoy	Chief Executive Officer, Ibec
Jane Magnier	Joint Managing Director, Abbey Tours
Seán O'Driscoll	Chairman and Chief Executive Officer, Glen Dimplex Group
Louise Phelan	Vice President of Global Operations, Europe Middle East and Africa, PayPal
Heather Reynolds	Director, Eishtec
Dave Shanahan	Chief Executive, Adagio Ventures Commercialisation Partners
Martin Shanahan	Chief Executive, IDA Ireland
Ian Talbot	Chief Executive, Chambers Ireland
Siobhán Talbot	Group Managing Director, Glanbia

### Council Advisers

John Callinan	Department of the Taoiseach
Brid Cannon	Department of Agriculture, Food and the Marine
Maria Graham	Department of the Environment, Community and Local Government
Katherine Licken	Department of Communications, Energy and Natural Resources
John McCarthy	Department of Finance
Deirdre McDonnell	Department of Education and Skills
Conan McKenna	Department of Justice and Equality
David Moloney	Department of Public Expenditure and Reform
Ray O'Leary	Department of Transport, Tourism and Sport

### Research and Administration

Marie Bourke	Department of Jobs, Enterprise and Innovation
Conor Hand	23 Kildare Street, Dublin 2
John Maher	Tel: 01 6312121
Eoin Cuddihy	Email: <a href="mailto:info@competitiveness.ie">info@competitiveness.ie</a>
	Web: <a href="http://www.competitiveness.ie">www.competitiveness.ie</a>

## Taoiseach's Foreword



Ireland's economic recovery is well underway. We are now the fastest growing economy in the EU and are forecast to achieve healthy, sustainable growth rates over the medium-term. In the recent budget, the Government has maintained and reinforced its commitment to a strong enterprise culture, with the prioritisation of many pro-growth and pro-job policies.

Ireland is a highly open economy - our share of global trade is greater than our size might suggest. We are rightly known internationally for our dynamic and flexible approach, and our enterprises and entrepreneurs deserve huge credit for the innovation and productivity which have helped to rebuild our economy in recent years.

What was initially a recovery driven by exports, has now broadened and deepened and we are seeing domestic demand playing a bigger part, helping to drive growth, support job creation and spread the benefits more widely.

Much of the competitiveness lost during the boom years of the last decade has now been recovered. Internationally, our efforts are being recognised and we have been climbing up the various international rankings. But, as this report makes clear, we have also benefitted from stronger growth in our key trading partners, lower energy prices and exchange rate movements that have helped to make our exports more attractive. The overall picture is a good and improving one, but there can be no room for complacency.

International experience highlights not just the importance of competitiveness for economic prosperity, but also the direct correlation between highly competitive countries and those that have either withstood the global economic crisis or made a swift recovery from it. Analysis also shows that there is a close link between competitiveness and an economy's ability to nurture, attract, leverage and support talent. And while unemployment remains unacceptably high – and the Government has made clear its intention to take the country back to full employment – competition for talent is intense and likely to become even tougher in the period ahead.

We need exporting firms that can compete successfully in increasingly competitive markets around the world, and we need a domestic sector that can source the inputs it needs at competitive prices. As a country, we need to be able to grow and to attract the talent we need to continue to take us forward.

This is not a time to allow our focus on competitiveness to weaken or drift. We must continue to avail of every opportunity to assess ourselves realistically and critically – as this report does – and to remain ready to take the steps necessary to improve our performance and to up our game. We must continue to invest in our people, our infrastructure and our business environment.

Strategies such as the recently launched *Enterprise 2025*, build on our progress to date focusing our resources in order to deliver sustainable enterprise growth and jobs. Ambitious targets for competitiveness and productivity, unemployment, exports, and FDI projects form an integral part of the Strategy.

Appropriate capital expenditure in physical infrastructure is another crucial factor in enhancing our efficiency, productivity and competitiveness. The recently published Capital Plan, *Building on Recovery*, presents the Government's new €42 billion framework for infrastructure investment in Ireland over the period 2016 to 2021. It will help us to address emerging economic and social infrastructure bottlenecks that could constrain the economy, thus supporting strong and sustainable economic growth.

This Government has worked relentlessly to return stability to the labour market. The jobs rich nature of Ireland's economic recovery has been driven by reforms included in the various *Action Plan for Jobs* and *Pathways to Work*. The unemployment rate has been reduced from the peak of over 15 per cent in 2012 to below 9 per cent. Our intention is to replace all the jobs lost in the recession by 2018 and to get the unemployment rate down to 6 per cent by 2020.

We must continue to build on what has been achieved and reinforce the progress made.

As a small open economy, we need to be constantly looking to the future, to new markets, new products, and new opportunities. Maintaining and improving our competitiveness will remain vital to our success. In this context, I welcome the latest report from the National Competitiveness Council, and I would like to thank the Council members for all of their work and their timely and valuable inputs to the policy making process.

Enda Kenny, T.D.,  
Taoiseach

### Chairman's Preface



As a small open economy, Ireland's ability to achieve sustainable growth is dependent on our ability to maintain and, ideally, enhance our competitiveness. Earlier this year, the Council published Ireland's Competitiveness Scorecard 2015 which provides a comprehensive analysis of our international competitiveness performance.

That report highlighted the significant improvements in Ireland's international competitiveness that have been achieved in recent years. However, while much credit should go to the Government, business and employees, the Council's analysis also warned that much of this improvement has been a result of a benign external environment. These factors that are outside of our control are currently working in our favour. Our ability to compete in international markets has been boosted by a weak euro exchange rate against

two of our main trading partners (the UK and US), low international energy prices, and historically low interest rates. In striking a timely note of caution, the Council noted that these favourable factors could be quickly reversed, eroding the hard-earned competitiveness gains made to date.

These factors also serve to shield us from some harsh truths: Ireland's continuing competitiveness is under threat, and there are indications that pressures are already emerging which are undermining our ability to compete internationally. Further action is required to narrow the gap with the world's most competitive countries. The immediate challenge is to sustain the recovery underway by remaining competitive. While growth prospects for the Irish economy are strong, we must continue to deliver aggressively the structural reforms required to support competitiveness, productivity and growth. The Council is concerned that as growth gathers pace, there is a threat to the sustainability of Ireland's recovery.

For these reasons, this year's Competitiveness Challenge report represents essential reading for all policymakers, highlighting, as it does, a range of obstacles to continued prosperity.

Firstly, we must ensure a sound budgetary position. This requires an appropriate balancing of the need to meet our obligations under the Stability and Growth Pact and put in place a sustainable, counter-cyclical, medium-term fiscal planning process with the need to increase capital investment to enhance competitiveness and support enterprise. A significant ramping up of capital expenditure in physical and knowledge infrastructure is required, above and beyond the commitments contained in the recent Capital and Investment Plan 2016-2021. Additional investment is particularly essential in the areas of broadband and transport. However, it is not just about the resources allocated to physical infrastructure that matter; it is the speed with which such essential infrastructure is delivered. We are still waiting for high speed broadband to be delivered to all of the regions. Such services are required now to support regional jobs, growth and competitiveness. Likewise, Ireland lags our peers in terms of investment in R&D and, unless the State's capital budget is expanded, it is difficult to see how Ireland can come near meeting its target spend of 2.5 per cent of GNP by 2020.

Secondly, the enterprise sector provides the engine for economic growth. Our internationally trading firms must be able to win business in increasingly competitive international markets, while domestically we must grow a cadre of firms of sufficient scale and capability to make the leap into such markets. More productive and innovative indigenous firms acting as sub-suppliers to exporting sectors and serving the domestic market are also vital components of a balanced, vibrant and competitive economy. This too will require increased capital expenditure by the exchequer, through the supports provided to enterprise through the Development Agencies. Failure to address the resource constraints currently faced by the Development Agencies puts at risk Ireland's ability to attract new foreign direct investment, and risks damaging the domestic recovery.

Thirdly, we must protect and enhance Ireland's value proposition from an investor perspective. The attractiveness of our overall taxation system is essential in this regard. International tax competitiveness is not just about our corporate tax offering. While much good work has been undertaken in this regard, including maintaining our 12.5 per cent rate (whilst simultaneously complying with best international standards) and developing the Knowledge Development Box, more is required. If we are to continue to attract high skilled individuals and deliver upon our ambitions to further

develop an innovation driven economy, we must ensure that we provide a competitive income tax regime. The increase in income tax rates since 2008 – a necessary response to the challenges of recent years - has weakened our competitiveness in this regard. This is particularly the case in relation to the marginal tax rate for higher income earners. While the changes announced as part of Budget 2016 are welcome, it is now timely to address this issue and reduce marginal rates below 50 per cent for all earners. Such a move will not only make Ireland a more attractive location for high-skilled workers, it will also help to embed potentially mobile activities of real substance in Ireland (since such activities are explicitly dependent on the presence of an appropriate highly-skilled work force), complementing the objectives of the Knowledge Development Box.

Fourthly, and also related to the issue of attracting high skilled workers, is the availability of affordable residential property. Rapid increases in both rental costs and purchase prices feed through into increased wage demands and rising living costs. A negative house price – wage rate – cost of living spiral adversely impacts on quality of life for those already living here, and makes Ireland a less attractive location for potential migrants, especially high-skilled migrants who have their choice of destinations. In this regard, it is an absolute priority and, indeed, an absolute necessity, to increase housing supply, whether through the provision of additional social housing or through the removal of barriers currently limiting construction of private housing. The shortage of commercial office space in key urban centres is equally of concern.

Finally, the issue of skills and talent is of particular concern to the Council. Traditionally, Ireland has been well served by our strong educational track record. The ability of the education and training system to react to the demands of the enterprise sector has long represented competitiveness strength, and our flexibility to respond to an ever-changing labour market has been much lauded. The Council is concerned, however, about the emergence of a range of skills shortages. Our still high rates of youth and long-term unemployment are also concerning, as is the relatively large cohort of workers with relatively low levels of educational attainment. It is hoped the proposed new National Skills Strategy will provide the bedrock for future skills development. It is vital that this Strategy is prioritised and that the necessary urgency is brought to bear to ensure its timely delivery and implementation.

This report presents actions designed to be implemented over the medium term, but also includes the Council's submission to the Action Plan for Jobs (APJ) 2016 which, while recognising the important role the APJ has played in delivering structural change, focuses more on the short term.

The commitment to implementation inherent in the APJ process has been an important contributor to Ireland's recovery. The focus on clear actionable recommendations, time bound targets and monitored, transparent implementation provides a good practice template and we recommend that such an approach should be retained in the policymaking process, regardless of our economic circumstances or the political cycle.

I would like to thank the members and advisors of the Council for their valuable contributions in producing this report. On behalf of the Council, I would also like to acknowledge the work of the members of the Executive for their essential support and excellent research and analysis.

The recent economic crisis demonstrated how international and national authorities were watching the wrong indicators and missed significant economic threats emerging. The risk now is that, having concentrated on improving Ireland's macroeconomic indicators; people will assume the hard work is done. The same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy. Our future wage rates, our ability to pay for the health service (let alone improve it), our ability to pay for good education for our children, our ability to have a generous state pension and our ability as an economy to survive in the Eurozone, all depend on the competitiveness of the Irish economy. In terms of maintaining competitiveness, the challenge has only just begun.

Professor Peter Clinch

Chairman, National Competitiveness Council

## Table of Contents

Taoiseach's Foreword	4
Chairman's Preface	6
Table of Contents	8
Introduction to Ireland's Competitiveness Challenge	9
Chapter 1: Sustainable Fiscal Policy	11
Why Fiscal Policy Matters for Competitiveness	11
Current Context	11
Policy Challenges and Recommendations	13
Chapter 2: Capital Investment in Physical and Knowledge Infrastructure	21
Why Capital Investment Matters for Competitiveness	21
Current Context	21
Policy Challenges and Recommendations	23
Chapter 3: Improving Cost Competitiveness	32
Why Costs Matters for Competitiveness	32
Current Context	32
Policy Challenges and Recommendations	33
Chapter 4: Enhancing Talent and Skills	48
Why Talent and Skills Matters for Competitiveness	48
Current Context	48
Policy Challenges and Recommendations	51
Chapter 5: Improving Access to Finance for Enterprise	58
Why Access to Finance Matters for Competitiveness	58
Current Context	58
Policy Challenges and Recommendations	61
Chapter 6: Supporting Innovation and Productivity	65
Why Productivity and Innovation Matters for Competitiveness	65
Current Context	65
Policy Challenges and Recommendations	68
Chapter 7: Broadening the Enterprise and Export Base	73
Why Enterprise and Exports Matters for Competitiveness	73
Current Context	73
Policy Challenges and Recommendations	75
Chapter 8: Submission to the Action Plan for Jobs 2016	85
Introduction	85
The Council's Priority Actions to Support Competitiveness in 2016	85
<b>Data Issues</b>	97

## Introduction to Ireland's Competitiveness Challenge

### Background

National competitiveness is a broad concept that encompasses a diverse range of factors and policy inputs including education and training, entrepreneurship and innovation, Ireland's economic and technological infrastructure and the taxation and regulatory framework. Competitiveness is not an end in itself, but is a means of achieving sustainable improvements in living standards and quality of life. Only by ensuring that Irish based firms can compete successfully here and abroad can we create the employment, income and wealth necessary to improve the lives of all of our citizens.

### Ireland's Competitiveness Performance

Earlier this year, the Council published two key benchmarking reports. In April, the Council launched its *Costs of Doing Business in Ireland 2015* report which was undertaken as part of the Governments' *Action Plan for Jobs 2015*. The *Costs* report benchmarks key business costs across over 50 indicators and focuses on areas where Irish enterprise costs are out of line with key competitors. This was followed in July by *Ireland's Competitiveness Scorecard 2015*, which analysed Ireland's competitiveness performance vis-à-vis 18 competitors.

These benchmarking exercises provide the Council with the necessary evidence to identify those policy areas most in need of action. The main findings from these reports are presented below to provide context and rationale for the subsequent prioritisation of actions herein.

Overall, Ireland's improving competitiveness performance over the period 2011-2014 has been central to the recovery in employment and economic growth. The drivers of growth are becoming more balanced. While exports remain the key contributor, consumption, government expenditure and public and private investment are making increasing contributions to overall growth, albeit from low bases.

The exporting sectors of the economy continue to perform strongly and many of Ireland's traditional strengths (such as our attractive taxation regime, highly skilled workforce, and generally pro-enterprise regulatory regime) remain in place.

As a result, since 2011, Ireland's relative international competitiveness as measured by a range of international indices has improved. Ireland moved from 24<sup>th</sup> to 15<sup>th</sup> in 2014 in the IMD's World Competitiveness Yearbook, (but slipped back to 16<sup>th</sup> this year), and from 29<sup>th</sup> to 24<sup>th</sup> in the WEF Global Competitiveness Report. In addition, the World Bank's most recent "Doing Business" report shows Ireland is now ranked 17<sup>th</sup> out of 189 countries, an improvement of two places on an annual basis.

At present, Ireland continues to benefit from a range of external factors including a weakened euro, low international energy prices and a degree of recovery in our key markets. Such favourable factors could be quickly reversed. Indeed, a range of risks to Irish competitiveness are already clear.

Cost pressures have emerged in key areas. Although costs have fallen significantly since 2009, Ireland remains an expensive location in which to do business, relative to some of our key competitors. Ireland is also the 3<sup>rd</sup> most expensive location in the euro area for consumer goods and services. While, in relative terms, Irish cost competitiveness is improving (i.e. although costs are increasing, they are increasing at a slower rate than in many of

---

<sup>1</sup> National Competitiveness Council, *Costs of Doing Business in Ireland 2015*, April 2015

our competitors), this improvement is largely being driven by the external factors referenced above. Furthermore, a number of upward domestic cost pressures are now emerging, particularly in relation to labour, property and business services. The Council's *Costs* report also highlights the difficulty of achieving further cost reductions against a backdrop of low inflation throughout the EU, and the significant risk that recent competitiveness gains will be eroded as economic growth strengthens. Most immediately, Ireland's international competitiveness reflects our cost competitiveness vis-à-vis our competitors and trading partners. Costs, therefore, continue to be a major focus for the Council.

Infrastructure bottlenecks and skills mismatches are again immediate challenges and a series of labour market challenges (i.e. relating to long term and youth unemployment and labour force participation) persist. Increasing productivity across all sectors and occupations, particularly in the indigenous economy remains a significant issue. The export base (i.e. the range of goods we export) is narrow, increasing the risk from external shocks. The legacy of the domestic property crash, banking issues and global recession is still evident in terms of debt and credit issues.

Against such a challenging backdrop, Ireland cannot depend on benign external factors beyond the direct influence of domestic policy makers to protect our international competitiveness. As a small open economy, dependent on exports and foreign investment as major drivers of growth, any reversal of these favourable external factors resulting in loss of competitiveness will have a major negative impact upon our economic prosperity, employment and our standard of living.

The Council takes the opportunity to strongly reiterate that as growth gathers pace, we are at risk of repeating past mistakes unless decisive action is now taken. If Ireland is to take advantage of the global economic growth (which remains positive but is showing signs of slowing), policy action is required to address a number of constraints which are currently undermining our competitiveness. Based on the benchmarking analysis contained in both the *Costs* and *Scorecard* reports, the Council has identified a range of themes and policy areas requiring action in order to deliver the growth and jobs required to enhance Ireland's prosperity.

In the medium term, however, productivity improvements must be the primary driver of Irish competitiveness. The challenges in improving the quantity and quality of human and productive capital, and enhancing total factor productivity (through technological change, innovation and the application of competition policy) are significant but key to achieving sustainable competitiveness resulting in economic growth, jobs and improved living standards.

The Council has assessed all of the challenges across seven thematic areas, each of which will be examined in greater detail in the chapters which follow. These themes are:

1. Maintaining Fiscal Sustainability;
2. Investing in Physical and Knowledge Infrastructure;
3. Improving Cost Competitiveness;
4. Enhancing Talent and Skills;
5. Improving Access to Finance for Enterprise;
6. Supporting Innovation and Productivity; and
7. Broadening the Enterprise and Export Base.

In finalising this report, the Council are cognisant of the parallel development of the Action Plan for Jobs 2016, which provides further opportunity to maintain a focus on competitiveness. Bearing this in mind, the final chapter of this report highlights those actions which the Council believe should be prioritised for inclusion in APJ 2016 (i.e. actions which can commence in 2016).

## Chapter 1: Sustainable Fiscal Policy

### Why Fiscal Policy Matters for Competitiveness

Sound public finances contribute to competitiveness and encourage economic growth mainly through their impact on borrowing costs. By avoiding excessive deficits and excessive debt levels, governments can invest in productivity and welfare enhancing areas of the economy (such as education, or infrastructure), rather than spending finite resources on interest payments. Essentially, fiscal governance has three main objectives:

- Attaining sound budgetary positions in particular by containing the deficit bias, i.e. tackling the tendency to conduct unsustainable fiscal policies giving rise to high deficits and increasing debt ratios;
- Reducing the cyclical nature of fiscal policy making; and
- Improving the efficiency of public spending.

### Current Context

The lessons learned from the recent global economic, financial and sovereign debt crisis have led to successive reforms of the EU's fiscal rules. The EU introduced new monitoring and surveillance systems for budgetary and economic policies, and a new budgetary timeline for the euro area.

As well as responding to the effects of the recession, one of the key goals of recent years has been to reorient the Irish fiscal framework, to create a more predictable rules-based fiscal policy geared to restoring debt sustainability<sup>2</sup>.

More specifically, to counter weaknesses exposed during the crisis, the Stability and Growth Pact has been reformed through initiatives such as the Six Pack (a fiscal law package of 5 regulations and 1 directive)<sup>3</sup> and the Two Pack<sup>4</sup>, and the Treaty on Stability, Coordination and Governance. The new rules are grounded in the European Semester, the EU's policy-making calendar.

This integrated system ensures that there are clearer rules, better coordination of national policies throughout the year, regular follow-up and swifter sanctions for breaching the rules. This helps Member States to deliver on their budgetary and reform commitments while making the Economic and Monetary Union as a whole more robust. At a national level, the Fiscal Responsibility Act established the Irish Fiscal Advisory Council as a statutory body and legislated for the implementation of national and EU fiscal rules<sup>5</sup>.

---

<sup>2</sup> This approach encompasses a series of policy rules, procedural rules, transparency norms, and a surveillance mechanism. According to Kopits "such a framework need not be a rigid toolkit that pre-empt the conventional functions of fiscal policy, namely, stabilization, income distribution, and allocative efficiency. On the contrary, a well-designed framework facilitates such functions in the path to a sustainable level of indebtedness" See Kopits, G., Ireland's Fiscal Framework: Options for the Future, January 2014.

<sup>3</sup> Four of the six instruments in the Six Pack are used to conduct further reforms of the Stability and Growth Pact, focusing on improving compliance. These reforms do not change any of the conditions already imposed by the SGP, but aim to enforce greater budgetary discipline among the Member States of the euro area by stipulating that sanctions come into force earlier and more consistently. The remaining two pieces of legislation in the Six Pack relate to the Macroeconomic Imbalance Procedure, an early warning system and correction mechanism for excessive macroeconomic imbalances.

<sup>4</sup> The Two Pack introduced additional coordination and surveillance of budgetary processes for all euro area members. The additional regulations complement the SGP's requirement for surveillance, by enhancing the frequency of scrutiny of Member States' policymaking. The provisions of the Two-pack only apply for euro area member states.

<sup>5</sup> Further EU regulations (July 2013) resulted in the Fiscal Advisory Council being assigned the role of the independent body that would assess and endorse, as it considers appropriate, the macroeconomic forecasts produced by the Department of Finance on which Budgets and Stability Programmes are based (implemented by Ministers and Secretaries Amendment Act 2013).

Ireland completed the EU-IMF financial assistance programme in 2013 and is currently subject to post-programme surveillance and European Semester surveillance. As a result, Ireland is currently in the *corrective arm* of the Stability and Growth Pact, which has implications for how much we can spend, and for how quickly fiscal adjustment must be achieved<sup>6</sup>. Ireland is due to exit the corrective arm this year and will then be impacted by the *preventive arm* of the Stability and Growth Pact which imposes two key rules:

- Under the Medium Term Objective (MTO), Member States are expected to reach their MTOs (which for Ireland is a balanced budget in structural terms), or to be heading towards them by adjusting their structural budgetary positions by at least half a per cent of GDP annually; and
- The Expenditure Benchmark requires that government expenditure grows at or below a country's medium-term potential economic growth rate, depending on the country's position with respect to the MTO. Any spending increases beyond this rate must be matched by additional discretionary revenue measures.

In summary, the new fiscal framework imposes restrictions on the general government structural budget balance and on public indebtedness (fiscal policy rules), a medium-term stability program (procedural rule), independent macroeconomic forecasts, adherence to accounting conventions (transparency standards), and establishment of an independent fiscal council (surveillance).

### Ireland's Performance

Significant fiscal adjustments were undertaken in Ireland over the period since 2008 in response to the impact of the global economic recession, and financial and sovereign debt crisis, as well as a series of domestically-based shocks. This adjustment consisted mostly of frontloaded measures, two thirds in expenditure cuts and one third in tax increases. This process, allied to enhanced international cost competitiveness has contributed to strong economic growth, increased tax revenues and cuts in expenditure. Ireland's fiscal position has significantly improved as a result. The ongoing economic recovery is likely to result in further improvement in Ireland's fiscal position – primarily facilitated by increased tax revenues, with a smaller contribution from the lower interest bill on the national debt.

#### Department of Finance Data<sup>7</sup>

- **Improved deficit year-on-year:** End-August 2015 saw the Exchequer record a deficit of €1,291 million compared to a deficit of €6,322 million in the same period last year
- This improvement in the Exchequer balance is driven by increased tax and non-tax receipts and a number of one off transactions

<sup>6</sup> The corrective arm of the Stability and Growth Pact (SGP) ensures that Member States adopt appropriate policy responses to correct excessive deficits by implementing the Excessive Deficit Procedure (EDP). Member States can be placed in the Excessive Deficit Procedure if they have debt ratios above 60 per cent of GDP that are not being sufficiently reduced (where the excess over 60 per cent is not coming down by at least 5 per cent a year on average over three years). Member States in the Excessive Deficit Procedure must not only submit budgetary plans, but also Economic Partnership Programmes which contain detailed fiscal-structural reforms (for example, on pension systems, taxation or public healthcare) that will correct their deficits in a lasting way.

<sup>7</sup> The Exchequer balance is the domestic budgetary aggregate which measures the net surplus or deficit position (the difference between cash inflows and outflows) of central government's main treasury account, the Central Fund. The monthly Exchequer Statement presents the Exchequer balance and details cash inflows and outflows of the Central Fund. Revenue items include tax receipts, non-tax revenues and capital receipts. Expenditure is composed of Departmental voted spending and non-voted expenditures such as debt servicing costs.

The General government balance is an EU national accounting aggregate which measures the net surplus or deficit position of all arms of Government, i.e. central government, Local Authorities, and Non-commercial State sponsored bodies, as well as funds such as the Social Insurance Fund and the National Pensions Reserve Fund which are managed by Government agents. It does not reflect the performance of commercial State sponsored bodies as these agencies are classified as being outside the general government sector. The rules for the compilation of the general government Balance are set out in ESA 95 and are legally binding on EU Member States. The Primary Balance refers to net Government lending excluding interest payments on consolidated government liabilities.

- Excluding a number of one off transactions the improvement in the deficit would be €3.5 billion
- **Increased tax revenue:** Tax revenue of €27,376 million was collected to end-August 2015. This represents a year-on-year increase of €2,430 million (9.8 %) and is €1,399 million (5.4 %) above profile
- **Reduced expenditure:** Overall net voted expenditure for end-August 2015, at €27,344 million, was down €297 million (1.1%) on profile and down €130 million (0.5%) year-on-year
- For 2014, a general government deficit of 4% of GDP was recorded, which was comfortably below the Excessive Deficit Procedure (EDP) ceiling of 5.1% of GDP
- **Lower general government deficit:** For 2015, a general government deficit of 2.3% of GDP is forecast, prudently below the ceiling of 3% of GDP required under the EDP
- According to the Spring Economic Statement, a primary balance of 1.1% is expected
- Budget 2015 forecast that general government debt would decline to 108.5% of GDP in 2015, and to 104% in 2016, and 95.4% by 2018; based on more recent projections included as part of the Stability Programme Update, and recent national accounts data, it is expected that the debt-to-GDP ratio will fall below 100% by the end of this year

The series of EU fiscal rules referred to above which govern Irish fiscal policy, are concerned with both the deficit and debt levels. Under the preventive arm of the Stability and Growth Pact, the government must achieve “rapid” progress towards its medium-term objective of a balanced budget in structural terms. The Department of Finance expect that this will be achieved by 2019 under the new forecasts, a year later than previously estimated<sup>8</sup>.

As noted by the IMF, however, exiting the EDP does not imply Ireland’s fiscal position is yet healthy<sup>9</sup>. Irish gross public debt is still estimated to be approximately 110 per cent of GDP at the end of 2014. According to the Department of Finance, gross debt is forecast to fall quicker than previously expected (to 97.8 per cent of GDP in 2017 and to 93.6 per cent the following year and to 85 per cent by 2020).

It is instructive to consider the cost of servicing that debt (i.e. debt servicing costs which are a function of the size of the debt stock as well as the interest rate). Interest payments on the general government debt are expected to absorb 13 per cent of general government revenues in 2015 – this is expected to stabilize in 2016 at 14 per cent of government revenues. A historical analysis of interest costs reveals that although present debt levels are significantly higher than in the past, the burden of financing the debt is significantly lower (and is more akin to the burden in the 1990’s)<sup>10</sup>.

### Policy Challenges and Recommendations

Despite rapid improvement in Ireland’s situation, Ireland is still running a deficit and high levels of gross debt limit the room for fiscal policy to respond to economic shocks. There are also concerns about Ireland’s ability to stay the course without further structural reform. Indeed, the European Commission has already warned that “there appears to be a risk of a significant deviation from the required adjustment towards the medium-term objective in 2016, and further structural measures will be needed in that year. Based on its assessment of the Stability Programme and taking into

---

8 Department of Finance, Ireland’s Stability Programme Update Incorporating the Department of Finance’s Spring Forecasts, April 2015

9 Although leaving the deficit at about 3 per cent of GDP need not imply a further increase in the debt ratio if nominal GDP growth averages 3 per cent or more, the ratio would remain high, making Ireland vulnerable to shocks and limiting room for fiscal policy to cushion economic shocks. See IMF, Ireland: Country Report No.15/78, March 2015

10 Interest payments in 2014 were comparable to those in the 1990s. In 1995 General Government Debt (GGD) interest consumed 14 per cent of revenues, despite lower debt levels of 82 per cent. Nevertheless, today’s costs stand in stark contrast to those Ireland faced in 2007, with a GGD of 25 per cent - substantially below the 60 per cent limit – and interest payments of 3 per cent of GG revenues. See Nacheva, M., Ireland’s Public Debt Burden, Public Policy, June 2014

account the Commission's 2015 spring forecast, the European Council is of the opinion that there is a risk that Ireland will not comply with the provisions of the Stability and Growth Pact"<sup>11</sup>.

While the Council welcomes the new rules and procedures that have been put in place as important safeguards against pro-cyclical fiscal policy (in particular the medium-term expenditure framework), there is still a need to maintain vigilance in relation to fiscal policy. It is vital that prudent and credible fiscal policy choices are made that support economic growth, enhance competitiveness and maintain the downward trajectory of our public debt.

The Council acknowledges that many of the challenges highlighted herein, will require a degree of State intervention and these will require a level of expenditure to be paid for through the taxation system (either immediately or over time through repayment of borrowings)<sup>12</sup>.

### More Efficient Revenue Generation

In international terms Ireland is a low tax economy: total tax revenues in Ireland account for 27.3 per cent of GDP, compared with an OECD average of 33.7 per cent.

Tax reforms have contributed to the fiscal adjustment, but there is further scope to improve the efficiency of the tax system and to ensure that the tax system is as supportive of competitiveness, growth and job creation as possible, whilst having regard to wider societal objectives. Maintaining growth-friendly taxation system, while simultaneously broadening the tax base, is critical to maintaining existing levels of employment and creating new jobs in Ireland. In essence, efforts to increase Government revenue must continue to reflect the OECD tax hierarchy for growth<sup>13</sup>.

---

**Recommendation:** Continue to broaden the tax base and increase Government revenues in line with the OECD tax hierarchy for growth.

**Responsibility:** Department of Finance

---

### Property Taxation

Taxing land and property is one of the most efficient and least distorting ways for governments to raise funds and to encourage economic and social development. Sustainable and broad based property taxes, when properly structured, can enhance Ireland's fiscal stability while supporting competitiveness. In this regard, achieving an increased revenue stream from property taxes should act as part of a wider strategy to identify alternative revenue sources.

Property taxation has already been turned into a recurrent tax, but the Council believes that there is an opportunity to deliver fundamental reform of the approach taken to property taxation that would result in increased revenue for Government, whilst simultaneously increasing the supply of both residential and commercial property. A single, broad

---

<sup>11</sup> European Commission, Recommendation for a Council Recommendation on the 2015 National Reform Programme of Ireland and delivering a Council opinion the 2015 Stability Programme of Ireland, COM(2015) 258, May 2015

<sup>12</sup> The Fiscal Advisory Council has noted that "in the coming years, the state faces demands for higher expenditure in health, education, social protection and pensions as the composition of Ireland's population changes. In addition, the cost of providing the existing level of public services is likely to rise in line with the forecast general rise in prices and wages in the economy. Given the steep fall in the overall ratio of spending to GDP between 2015 and 2020 of over 5 percentage points, it appears unlikely that current [expenditure] plans make adequate provision for known future expenditure demands". See Irish Fiscal Advisory Council, Fiscal Assessment Report, June 2015

<sup>13</sup> Empirical work by the OECD suggests a tax and economic growth hierarchy with recurrent taxes on immovable property being the least distortive tax instrument in terms of reducing long-run GDP per capita, followed by consumption taxes and other property taxes as well as environmentally-related taxes, personal income taxes and corporate income taxes. As referenced in O'Connor (2013), improvements in tax structure and design can reap significant dividends in terms of increased economic efficiency and greater fairness. See O'Connor, B., The Structure of Ireland's Tax System and Options for Growth Enhancing Reform, Economic and Social Review, Vol. 44, No. 4, Winter, 2013

and national approach should be taken with respect to the taxation of commercial property *and* land which is zoned and serviced for development<sup>14</sup>.

Specifically, the Council recommends that consideration should be given to introducing a site value tax (SVT) - that is, a tax on the unimproved value of commercial property and land which is zoned and serviced for development. It is proposed that this would replace the current system of commercial rates, and the vacant site levy<sup>15</sup>. It is important, however, that an SVT works in conjunction with the planning system.

---

**Recommendation:** Introduce an annually recurring site value tax on commercial property and land which is zoned and serviced for development, levied without regard to how land is used or what is built on it, and administered on a self-assessment basis with oversight by the Revenue Commissioners. An SVT should work in conjunction with the planning system.

**Responsibility:** Department of Finance

---

### Labour Taxation

A competitive income tax regime is essential in attracting and retaining individuals in Ireland and more generally to encourage people to remain in or return to the labour market. Notwithstanding recent improvements, increases in taxes on labour (for simplicity sake, this includes income tax, PRSI<sup>16</sup> and the Universal Social Charge) over the course of the financial crisis and economic recession eroded competitiveness and incentives to work.

Higher labour taxes raise the costs of labour and replacement rates (i.e. make work less attractive vis-à-vis social welfare), reduce take home pay and domestic demand, negatively impact on the incentive to work additional hours<sup>17</sup>, and risk stimulating the informal economy.

As illustrated in Table 1, Ireland is currently very reliant on taxes on income as a source of revenue, particularly when compared with other developed economies. On the other hand, significantly less revenue is generated through social security contributions in Ireland. While Ireland is relatively competitive in terms of the difference between the employers' cost of hiring an individual and the individual's actual take-home pay, the gap has been increasing in recent years. The difference is wider for higher paid workers in Ireland<sup>18</sup>. While positive in terms of progressivity<sup>19</sup>, it is of concern as Ireland competes internationally for higher paid mobile talent<sup>20</sup> and foreign direct investment (FDI).

---

14 The Planning and Development (No 1) Bill, 2014 provides for a vacant site levy of up to 3 per cent of the market value of vacant sites which exceed 0.05 hectares. The primary objective of the levy, which will come into effect in 2019, is to act as a mechanism to incentivise the development of vacant and underutilised sites in central urban areas, thereby facilitating the most efficient use of land and sites. The Urban Regeneration and Housing Bill 2015 published on 5 June, 2015 provides that the levy will now apply to land other than that owned by a housing authority (County and City Councils are designated housing authorities; previously all land in public ownership was exempt).

15 Previous considerations of site value taxes have identified a number of difficulties in relation to implementation (e.g. difficulties in ensuring acceptance by taxpayers, such as arriving at values that are evidence based, understandable and acceptable to the public, in addition to complexities and uncertainties in the valuation effort necessary to put an SVT in place). For further details see National Competitiveness Council, The Potential of Taxation Measures to Encourage Development of Zoned and Serviced Land, Submission to the Department of Finance Public Consultation, April 2015

16 Technically, PRSI is not a tax – social insurance contributions are paid to the Social Insurance Fund to provide for the Contributory State Pension and other entitlements.

17 Although average effective tax rates are useful in understanding distributions of the tax burden, the effects of taxes on individual's decisions to work are determined by the overall marginal tax rates and the entry point to the marginal tax rate.

18 Effective tax rates increased for all classes of income earners between 2008 and 2014. According to research conducted by Ibec, the change in effective tax rates over this period for single earners was highest amongst those earning between €35,000 and €100,000 with the largest increases for those earning between €35,000 and €60,000. See Ibec, Debunking Irish Income Tax Myths: An Analysis of the Taxation of Income in Ireland, September 2014

19 According to the Irish Tax Institute, in 2013, 23 per cent of income taxpayers paid 81 per cent of total income tax. See Irish Tax Institute, Budget 2015 – The Tax Story, September 2014; O'Connor (2013) acknowledges, however, that there can be a trade-off between growth oriented tax policy and equity and progressivity concerns.

20 There may also be adverse consequences arising from a highly progressive tax system through lower labour utilisation, and lower levels of productivity (resulting from a weaker incentive to invest in higher education). See OECD, Tax Policy Reform and Economic Growth, OECD Tax Policy Studies, 2010

Table 1: Ireland's tax structure, percentage of total tax revenue<sup>21</sup>, 2012

	Ireland	OECD
Taxes on personal income	33.2	24.5
Social security	15.3	26.2
- <i>employee contributions</i>	3.9	9.7
- <i>employer contributions</i>	10.6	14.6
Taxes on corporate income	8.4	8.5
Taxes on property	7.0	5.5
Taxes on consumption	32.3	30.9

Source: OECD Revenue Statistics, 2014.

As a result of the OECD's Base Erosion and Profit Shifting (BEPS) project, it is essential that firms that locate in Ireland can demonstrate they are engaged in activities of real substance. Attracting high skilled (and usually, therefore, highly paid and internationally mobile) talent into Ireland is a key element of ensuring that such activities are generated in Ireland. In this regard, a competitive income tax regime assumes even greater importance.

One of the key issues in this regard is the level at which employed individuals start paying the higher rate of income tax (€33,800 for single individuals). This is very low relative to other countries<sup>22</sup>, and as a consequence, the higher rate of income tax impacts on individuals earning less than the average wage of €36,626 in Q4 2014<sup>23</sup>. Prior to Budget 2016, this meant that marginal rates (i.e. the income tax, universal social charge (USC) and PRSI paid on an individual's last euro of income) were in excess of 50 per cent for single employed individuals earning €33,800 per annum.

As a result of changes to be introduced from 1<sup>st</sup> January 2016, the marginal rate for those earning up to €70,043 will drop to 49.5 per cent. However, with the marginal rate of taxation remaining above 50 per cent for employees earning in excess of €70,044, the headline tax rates in Ireland still remain comparatively high by international standards.

Mirroring the OECD hierarchy of taxation, economic growth would be boosted by lowering the burden of taxation on labour – in particular, by reducing the maximum marginal rate (income tax, USC and PRSI). Over time, this could be achieved by moving the entry point to the top marginal income tax rate above the average wage, or through reductions in the marginal rate. At the same time, any changes to labour taxes must take account of the overall taxation burden on individuals and households (reflecting the importance of both direct *and* indirect taxation)<sup>24</sup>.

21 Social security (OECD classification 2000) is comprised of Employee contributions (2100), employer contributions (2200), self-employed, non-employed contributions (2300) and some "unallocable" contributions (2400). A breakdown of the first two of these categories is included in Table 1 above.

22 It should be noted that several countries use a range of different tax rates that kick in at different income thresholds. These rates, in effect, create additional step effects along the income continuum.

23 CSO Earnings and Labour Costs: Employment, Hours and Earnings by Type of Employee, Statistic, Industry Sector NACE Rev 2 and Quarter, Q4 2014

24 Collins finds that while the direct income taxation structure is progressive, Ireland's indirect taxations structure is regressive. Overall, across the income deciles the cumulative effect of household's taxation contributions displays a U-shape; contributions are highest at the bottom and top of the distribution and lowest for those in the middle deciles. See Collins, M., Total Direct and Indirect Tax Contributions of Households in Ireland: Estimates and Policy Simulations, NERI WP 2014/No 18, August 2014

---

**Recommendation:** Review income taxes (e.g., credits, thresholds, rates, etc.) to support improvements in after-tax income – enhancing the incentive to work - while protecting labour cost competitiveness. Building on the changes in Budgets 2015 and 2016, the entry point to the top marginal income tax rate should be increased and maximum marginal rates for all employees should be brought below 50 per cent.

**Responsibility:** Department of Finance

---

Regardless of tax rates applied, the design of the tax and social insurance system should create the optimal conditions for entrepreneurship, enterprise and job creation. It is important that work pays and there are no barriers (from either an employer and employee perspective) for employees to work additional hours and to increase pay where appropriate.

Currently, the PRSI system creates a disincentive to work – for example, a worker earning €18,304 does not pay PRSI, but a worker on €18,305 pays €732 - and comes out with lower take-home pay. Such “step-effects” act as a general disincentive to work, and specifically create disincentives for part-time workers to work additional hours or for full-time workers to work paid overtime (where it brings workers above these thresholds). The step effect also negatively impacts on an employers’ cost base, thus negatively impacting upon their incentive to increase hours worked or hourly wages<sup>25</sup>. The announcement in Budget 2016 to introduce a tapered relief (with a maximum level of €12 per week or €624 in annualised terms) is, therefore, welcome and will increase the incentive to work at all earnings levels.

Throughout the boom years of the early and mid-2000’s large numbers of the workforce were removed from the personal tax net. Following the onset of the financial crisis and economic recession, the need to broaden the tax base was recognised and a range of measures were introduced to achieve this. As the economy has recovered, we have already seen a resumption of policies that result in a narrowing of the tax base (e.g. through increases in PAYE and USC bands); in 2014, for example, 856,000 individuals or approximately 39 per cent of the income tax base, did not pay income tax (although some were liable for USC and/or PRSI)<sup>26</sup>. To ensure the sustainability of the public finances, it is important that the principle of maintaining a broad tax base is applied in relation to personal taxation. Other anomalies in relation to the taxation of employment should also be addressed. For instance:

- Income related taxes are composed of three separate but concurrent taxation bases (i.e. the income tax base, the USC tax base and the PRSI tax base), each of which is administered with different inclusions and exclusions of income sources<sup>27</sup>.
- The European Commission have already noted that Irish labour taxation lacks simplicity. The interaction between the Irish taxation system and the social welfare system, adds a further layer of complication.
- The piecemeal changes to and exemptions from the Universal Social Charge implemented over recent years have undermined the original purpose of its introduction<sup>28</sup>.

---

<sup>25</sup> The recent report of the Low Pay Commission also noted the impact of the step effect, whereby proposed increases in the national minimum wage would be entirely absorbed by the Exchequer through increased income tax, PRSI and USC deductions. See Low Pay Commission, Recommendations for the National Minimum Wage, LPC No.1, July 2015

<sup>26</sup> Ireland has one of the highest entry points to the core income tax system. According to the Irish Tax Institute in 2014 an estimated 856,000 individuals (or 39 per cent of the income tax base) did not pay income tax as a result of the high entry point (i.e. while these individuals are subject to income tax, their liability does not exceed their tax credits, therefore, no income tax is paid. It is also worth noting that many of these individuals are not necessarily workers – they may be pensioners, for example).

<sup>27</sup> Collins notes that, driven by incremental policy reforms, the latter two bases have become much closer and are both more comprehensive than the income tax base with continues to accommodate a myriad of credits, allowances, exemptions and tax. See Collins, M., Taxes and Income Related Taxes Since 2007, NERI WP 2015/No 25, March 2015

<sup>28</sup> When first announced, the USC offered the possibility of simplifying the Irish tax structure – replacing the income levy, the health levy, and employee PRSI with a single charge that would be levied across a wider base. Note, the USC, unlike PRSI is charged on all sources of income, not just income from employment or self-employment.

- Those in employment and the self-employed are treated differently in relation to both the USC and PAYE – with the self-employed facing significant disadvantages vis-à-vis the employed counterparts. For instance, an additional 3 per cent USC applies to self-employment income and almost all forms of non-PAYE income in excess of €100,000.
- The introduction of an earned income tax credit of €550 for the self-employed and farmers, and business owner/managers who are not eligible for a PAYE credit on their salary income was announced in Budget 2016. While this is a step in the right direction, the credit is still less than the PAYE tax credit of €1,650. Previously, a single employee could earn a minimum of €16,500 before paying 20 per cent income tax, while a single self-employed individual could earn €8,250 before paying 20 per cent income tax; this new tax credit will narrow the discrepancy.

It may now be opportune to reconsider the entire structure of personal taxation in Ireland, and to develop a roadmap towards implementing a more simplified system of taxes and charges, incorporating income tax, PRSI and the USC that better supports employment and job creation.

---

**Recommendation:** Continue to reform and simplify the current regime of taxes and charges on employment, with the specific goal of further encouraging the take-up of employment opportunities and job creation, whilst simultaneously maintaining a broad personal tax base. Anomalies in relation to PAYE and the USC should be removed to support the self-employed, job creation and entrepreneurship.

**Responsibility:** Department of Finance

---

### Targeting Current Expenditure to Support Competitiveness

The necessity of urgently addressing the fiscal crisis which enveloped Ireland saw a series of fiscal adjustment budgets introduced between 2008 and 2012. While cuts were undeniably necessary, it is of concern that the majority of cuts related to the capital budget: reductions in capital expenditure accounted for €5.5bn of the €7.8bn in cuts to gross public expenditure over the course of these budgets; as a result, capital expenditure in 2013 amounted to just 38 per cent of 2008 levels<sup>29</sup>. Acknowledging the necessity of these cuts, the Council believe that greater focus is required on the current expenditure side.

### Current Expenditure: Efficient Public Services

In order to deliver efficient and effective public services, the public sector needs to continuously monitor its performance against predefined targets and outcomes. This would ensure that Departments and agencies work towards specific goals and objectives and public sector reform encompasses a results focus. The Council believes that greater emphasis should be placed on developing output and outcome targets. Equally, improved measurement and monitoring of progress towards these targets is required, and the results should be published periodically<sup>30</sup>.

---

<sup>29</sup> Department of Public Expenditure and Reform, Expenditure Trends

<sup>30</sup> The Fiscal Advisory Council has recently published a paper examining the role of budgeting and expenditure management in relation to the Irish health budget. The paper finds that financial planning and governance structures must be improved to ensure delivery of targets, and welcomes the announcement of a new accountability framework for the HSE. IFAC recommend that a transparent system to monitor the delivery of planned policy interventions should be put in place to address existing data deficiencies. The results of such analysis, and indeed analysis of proposed health policy and cross country comparisons, should be used to guide future budgetary and expenditure review processes. See Irish Fiscal Advisory Council, Controlling the Health Budget: Annual Budget implementation in the Public Health Area, Analytical Note No. 8, August 2015

Certain areas of Government expenditure are currently subject to less scrutiny than is desirable. Periodic independent external scrutiny has been a largely absent feature of public sector reform. The OECD has previously recommended that independent five year reviews of the public sector be conducted<sup>31</sup>. The Council believes that this should be taken a step further and include an international exercise to examine whether Ireland can learn from public sectors in other countries. Independent international five year comparative reviews of the performance of government departments would greatly enhance the reform process.

---

**Recommendation:** Develop key output and outcome indicators for Government Departments and Agencies that are measured, monitored and published over time. Mandatory, independent international five year comparative reviews of the performance of government departments should be also introduced.

**Responsibility:** Department of Public Expenditure and Reform, individual Government Departments

---

### Capital Investment

On the capital side, while recent expenditure increases are welcome - capital expenditure in 2015 will total €3.5bn, an increase of €210m from 2014 – present levels of investment are insufficient to close the knowledge and economic infrastructure gap between Ireland and our key competitors which still persist. Indeed, such expenditure levels may actually be insufficient to even maintain the existing infrastructure stock.

In seeking to simultaneously invest in the economy and maintain prudent fiscal policy, a delicate balance must be struck. In order to comply with the required MTO of a balanced budget, an annual reduction in the structural budget balance of 0.5 percentage points per annum is required. To achieve this target, the rules set an "expenditure benchmark" limiting the allowable expenditure increases until the MTO is reached<sup>32</sup>. This benchmark requires that spending growth should not exceed potential economic growth thus minimising adverse pro-cyclical tendencies.

Recent methodological changes may ease some of the more restrictive aspects of the expenditure benchmark. Further flexibility may be required to better reflect Ireland's growth potential so that productivity enhancing capital investment is not unnecessarily constrained. Any changes, however, must not result in a relaxation of fiscal discipline. A reduction in the structural deficit of 0.5 per cent will still be required on an annual basis, and expenditure will still need to be prioritised and targeted in a manner that supports, competitiveness, jobs, and growth<sup>33</sup>.

The importance of increasing public (and private) capital investment and delivering the necessary infrastructural projects as soon as possible to support competitiveness is discussed in more detail in Chapter 2, where a range of recommendations are proposed.

---

<sup>31</sup> OECD, Public Management Reviews: Ireland – Towards an Integrated Public Service, 2008

<sup>32</sup> The rules are outlined in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (also referred to as the "Fiscal Compact").

<sup>33</sup> The Irish calculation was originally complicated in respect of the calculation of potential growth and the fact that the reference period for this calculation includes the crisis years. The Irish Fiscal Advisory Council drew attention to this anomaly, and subsequently, changes were agreed at an EC level which allowed for the existing Expenditure Benchmark calculation for 2016 to be updated and also introduced changes to the process of setting the Benchmark in later years. The demographic assumptions underpinning the calculation of potential GDP have also been subject to revision. See Irish Fiscal Advisory Council, The EU Expenditure Benchmark: Operational Issues for Ireland in 2016, Analytical Note No. 7, April 2015

### Long Term Planning

As well as focusing on the short and medium term, there is a need to ensure that we do not ignore longer term challenges or store up problems for the future<sup>34</sup>. Like most developed economies, Ireland will be faced with significant demographic challenges in the decades ahead. While our young population currently represents a major positive for Ireland, changes in the dependency ratio over time will require a significant increase in State spending in the form of pensions and other social costs (such as healthcare etc.). A growing economy presents an opportunity to set aside funds to deal with these future liabilities.

Previously, taxpayers paid a levy into the National Pension Reserve Fund (NPRF). This supplementary fund was to be used to cope with the anticipated additional costs of an ageing population. The NPRF's asset base had increased to over €22 billion in 2009. However, in response to the fiscal consequences of the economic and banking collapse, its assets have been diverted to respond to the crisis and to help meet the State's fiscal commitments. As a result, the size of the fund has been reduced to approximately €7.1 billion. This money, in turn, has been earmarked for use by the Strategic Investment Fund to invest in large capital and commercial projects<sup>35</sup>. While such investment is necessary, and if properly targeted is likely to boost competitiveness, this does not negate the need to put in place structures and funds to address future pension issues. Options to revive the NPRF, or alternatively, to develop a Sovereign Wealth Fund should be explored as part of a sound, long term fiscal planning process.

---

**Recommendation:** Consideration should be given to reviving a national pension reserve fund, or alternatively, to developing a Sovereign Wealth Fund, to make provision for increasing pension costs arising from Ireland's ageing population. This should take account of the assets represented by the holdings in the banks and of the return on assets that now constitute the Irish Strategic Investment Fund.

**Responsibility:** Department of Finance, National Treasury Management Agency

---

---

<sup>34</sup> The National Risk Assessment exercise aims to identify strategic risks that may arise due to potential changes in the economic, financial, geo-political and social environments, and has such a longer term focus. By its nature, it provides a high level overview of strategic risks but does not aim to replicate or displace the detailed work already undertaken by various Government Departments or the future work required to address the issues identified. See Department of the Taoiseach, Draft National Risk Assessment 2015: Overview of Strategic Risks, 2015

<sup>35</sup> As a result of the National Treasury Management Agency (Amendment) Act, 2014, on 22 December 2014 all NPRF assets governed by Irish law automatically transferred by operation of law from the NPRF Commission to the NTMA (becoming assets of the ISIF) and the NPRF's investment mandate ended. The Minister for Finance recently noted that "while the need for the State to provide for the cost of social welfare and public service pensions has not abated, the Government decided that fostering economic activity and employment through the establishment of the ISIF was the immediate priority. This support for economic activity and employment puts the State in a better position to meet its pension's obligations in the longer-term". See Written answers, PQ 28833/15, Tuesday, 14 July 2015

## Chapter 2: Capital Investment in Physical and Knowledge Infrastructure

### Why Capital Investment Matters for Competitiveness

The stock of human and physical capital, public and private, is perhaps the most tangible representation of Ireland's wealth. Ireland's economic growth and sustainable levels of employment depend on the ability of businesses to trade successfully in increasingly competitive global markets. The availability of competitively priced world-class infrastructure (e.g. energy; telecoms; transport – road, public transport, airport, seaports; waste and water) and related services is critical to support competitiveness which in turn determines the sustainability of living standards, employment, wage rates and the financing of public services.

Strong investment up to 2008 and weaker demand for infrastructural services during the recession (e.g. reduced road traffic, declines in energy demand) has to some extent mitigated the sharp reduction in capital budgets to date<sup>36</sup>. However, as the country returns to growth, further targeted investment and reform is required to address existing and likely infrastructural bottlenecks which could constrain growth in the economy by dampening productivity growth, increasing costs and limiting sectoral opportunities for foreign direct investment (FDI) and indigenous enterprise development. As the economy grows, it is vital that we increase capital investment, and agree upon the appropriate, sustainable level of investment into the medium term.

Capital expenditure, however, is not just about physical infrastructure. Capital expenditure on enterprise development, skills, and to support research, development and innovation (RD&I) activity are particular areas of interest to the Council. Investment and growth in OECD economies is increasingly driven by knowledge based capital (KBC). In some OECD countries, firms now invest as much or more in KBC as they do in physical capital such as machinery, equipment and buildings<sup>37</sup>.

In terms of the public role for supporting KBC, OECD research finds that the strongest evidence for private under-investment exists for research and development (R&D)-related spending – suggesting a continued important role for public investment. The same research also underscores the importance of traditional areas of policy, in particular relating to skills development, and the need to develop a dynamic process of firm creation and exit to facilitate resource reallocation to new sources of growth based on KBC. In this regard, capital investment in both skills and enterprise development remain crucial.

### Current Context

There was a significant reduction in public capital expenditure over the course of the recession from approximately €9bn in 2008 to €3.4bn in 2013, although weaker demand for infrastructural services (e.g. reduced road traffic, declines in energy demand), partially mitigated the impact of this reduction. Gross fixed capital formation began to recover in

---

<sup>36</sup> The propensity to which the State invests in infrastructure and the private sector invests in capital is directly related to the performance of the economy. The collapse in capital investment (public and private) has been a particularly visible trend in recent years. Irish investment levels in all assets almost halved between 2008 and 2013, falling from 22 per cent to 11.2 per cent in GDP terms. By comparison, the euro area average declined by 18 per cent over the same period, albeit from a lower starting point. In Ireland private investment has declined from 16.7 per cent of GDP to 9.4 per cent while Government spending has fallen from 5.3 per cent of GDP in 2008 to 1.8 per cent in 2013. While it is encouraging to note that there has been some growth since 2011, the recovery remains fragile.

<sup>37</sup> Three types of KBC can be distinguished: computerised information (software and databases); innovative property (patents, copyrights, designs, trademarks); and economic competencies (including brand equity, firm-specific human capital, networks joining people and institutions, and organisational know-how that increases enterprise efficiency). See OECD, *New Sources of Growth: Knowledge-Based Capital Driving Investment and Productivity in the 21st Century*, May 2012

2014<sup>38</sup>, and further growth in investment is forecast for 2015. This is likely to be driven primarily by increases in private sector investment. In GDP terms in 2014, Irish private investment (14.5%) compares relatively well with the euro area average (16.8%), while public investment (1.9%) is significantly below average (2.7%).

The Department of Public Expenditure and Reform has undertaken a review of the public capital investment needs of the State for the five year period 2016-2021. The results of this review and the capital envelope for the period 2016 to 2021 have been set out in a new capital investment plan<sup>39</sup>. In total €27 billion of exchequer funding is to be invested in capital projects across the six years of the plan, along with another €14 billion expected to come from commercial State-owned companies.

While welcoming the increase in resources, and acknowledging the constraints within which Irish fiscal policy must operate, the Council believes that there is a need to be more ambitious. Under the new plan, public capital investment will still significantly lag pre-recession investment levels; indeed, investment in 2016 (€3.8 billion) is only slightly above planned investment in 2015 (€3.6 billion). As well as additional public investment, there is a need to target such investment at those areas that can have the greatest positive impact upon Ireland's competitiveness.

There is also a vital private sector dimension to consider as many economic infrastructure areas receive little if any Exchequer funding – including energy, telecoms, waste and air and sea ports infrastructure. Investment plans with a long-term focus are in place or at an advanced stage of development – key plans include:

- **Energy:** Grid 2025, which outlines the electricity network investment plans to 2025, is currently under review and it is important that investment to address key competitiveness gaps is prioritised and the investment is efficient. Eirgrid and its French transmission system equivalent (RTE) are currently undertaking a joint feasibility study to investigate the development of an interconnector between the south of Ireland and north-west France.
- **Water:** Irish Water's 25 year water services strategic plan which is currently being finalised shortly needs to prioritise investment at least cost to address current gaps for enterprise, and to secure future enterprise investment at key sites<sup>40</sup>.
- **Telecoms:** Accelerated investment is required across the country to meet the needs of enterprise<sup>41</sup>. The supporting public investment strategy for areas where the market will not deliver needs to be finalised quickly<sup>42</sup>.

The development of the new Science Strategy – which aims to place Research Prioritisation and the focus on research relevance and impact within a broader policy context – also provides an important context for any consideration of capital investment levels and programmes<sup>43</sup>. Likewise, the development of a new National Skills Strategy is a key milestone. This strategy will consider, amongst other things, future skills requirements to ensure that Ireland continues to develop its potential as a competitive, innovation-driven, knowledge-based, participative and inclusive economy and society. Further, the Strategy will propose targets and metrics so that progress on talent and human capital development can be measured.

---

<sup>38</sup> Gross fixed capital formation (GFCF) measures the value of acquisitions of new or existing fixed assets by the business sector, governments and households less disposals of fixed assets. GFCF is a component of GDP, and illustrates how much of the new value added in the economy is invested rather than consumed.

<sup>39</sup> Department of Public Expenditure and Reform, Building on Recovery: Infrastructure and Capital Investment 2016-2021, October 2015

<sup>40</sup> Irish Water published a draft of the first integrated plan for the delivery of water services in Ireland in February 2015. The draft was developed following an initial consultation with statutory bodies and the public in mid-2014 and underwent a Strategic Environmental Assessment (SEA) and an Appropriate Assessment (AA). Irish Water invited submissions on the draft together with the SEA Environmental Report and Natura Impact Statement (AA process) in February 2015. Following this consultation, the plan is now being finalised and a statement on the Strategic Environmental Assessment is being prepared.

<sup>41</sup> Commercial operators are investing more than €2.5 billion in high speed broadband and other telecommunication services. However, some parts of the country are too remote or have too few people living in them to enable the operators to make a profit in these areas. The State plans to build this network in areas where there are no plans by commercial operators to deliver a high speed service by the end of 2016.

<sup>42</sup> A draft broadband intervention strategy has been published by the Department of Communications, Energy and Natural Resources' (DCENR) and is currently the subject of public consultation, with a view to finalising the strategy and proceeding to formal procurement by the end of 2015.

<sup>43</sup> Interdepartmental Committee on Science, Technology and Innovation, Consultation Paper For Successor to Strategy for Science, Technology and Innovation, February 2015

## Policy Challenges and Recommendations

### Increasing investment

Public investment is essential to maintain and expand Ireland's capital stock; it is also a significant driver of long term productivity growth and plays a crucial role in driving competitiveness – after all, the gains from public investment accrue not just to those undertaking the investment, but to a wide range of people and enterprises.

As the economy returns to strong growth, the Council believes that it is time to significantly increase the capital expenditure budget, beyond the increases flagged in the Infrastructure and Capital Investment 2016-2021 plan. Given the lead time it takes to deliver capital projects, the capital budget should be increased as a matter of urgency.

Table 2 illustrates the scale of Government investment across a range of developed, small economies – from this table it is clear that Ireland is investing significantly less than many of our peers and countries against whom we compete for trade and investment. This will remain the case, even allowing for the increased capital allocation outlined in the new 2016-2021 Capital plan. Capital investment (as a percentage of GDP) should at least mirror levels in competitor countries that are at a similar stage of infrastructural development.

Table 2: General government gross fixed capital formation (% GDP), 2015

	GDP (€bn)	GDP per capita (€)	General government GFCF (% GDP)
Ireland	€196.323	€42,229	2.02%
Portugal	€178.113	€17,228	2.32%
Austria	€334.650	€38,966	2.89%
Switzerland	€620.731	€75,601	3.00%
Netherlands	€663.094	€39,155	3.52%
Denmark	€264.263	€46,653	3.83%
Finland	€207.166	€37,750	4.11%
Sweden	€435.737	€44,406	4.46%

Source: European Commission, AMECO Database

As it stands, the recently published Strategic Investment Framework for Land Transport (land transport accounts for a large proportion of public investment in infrastructure) concludes that present funding levels are not sufficient to maintain the existing land transport network<sup>44</sup>. Furthermore, there is essentially no scope for investment in infrastructure improvements vital to cater for future demand growth and to support competitiveness and economic development<sup>45</sup>.

<sup>44</sup> The Framework aims to establish key principles and priorities to guide transport investment over the coming decades. Department of Transport, Tourism and Sport, Investing in our Transport Future: Strategic Investment Framework for Land Transport, August 2015

<sup>45</sup> While over €6 billion has been earmarked for investment in the roads network, just €1.6 billion of this is for new projects – the rest being required for road maintenance.

Boosting investment would help address competitiveness bottlenecks, and would increase potential growth in the medium term, while also increasing aggregate demand in the short term. Investment can also contribute towards unlocking the potential of the regions to grow.

Ireland's likely demographic profile also necessitates an increase in investment. Based on CSO projections, Ireland's population is expected to increase from 4.57 million in 2011 to between 4.85 and 5.31 million by 2026, and to between 5.0 and 6.7 million by 2046<sup>46</sup>. Additional infrastructure will be required to meet the demand generated by this growing population.

Given historic low interest rates, and Ireland's strong growth potential, the time is opportune to prioritise and increase investment levels. Government must also be ambitious in availing of external sources to fund infrastructure (e.g. the European Investment Bank, and institutional lenders such as pension funds).

---

**Recommendation:** Increase the level of public capital investment to deliver competitively priced world-class, productive infrastructure, whilst acknowledging the constraints within which Irish fiscal policy must operate. Such investment should be targeted at those areas that can have the greatest positive impact upon Ireland's competitiveness.

**Responsibility:** Department of Public Expenditure

---

### Leveraging private sector investment

The State has a critically important role to play in promoting private-service providers to improve infrastructure capacity and deliver more cost-effective, higher-quality services to business users.

We need to ensure the right policy framework is put in place to stimulate investor confidence in long-term projects (e.g. regulatory and planning certainty), and ensure the supply chain has the certainty and tools to deliver effectively. In the past, Ireland has successfully utilised public-private partnership (PPP) approaches to fund infrastructure delivery, and such models will continue to be an important source of funding.

While the Infrastructure and Capital Investment Plan announced the development of a new 3<sup>rd</sup> phase of the Government's PPP plan (to include about €500 million of PPP projects in addition to those already in existence), there may be scope to further expand private investment. It is important, however, to ensure that approaches such as PPPs are structured to maximise value for money in both the short term and over the longer term.

---

<sup>46</sup> The CSO has produced projections of both the total population (classified by age and sex) at five year intervals for the period 2016 to 2046 and of the total labour force (classified by age, sex and female marital status) for the years 2016, 2021 and 2026. These ranges reflect various assumptions relating to future trends in fertility, mortality, migration and labour force participation. Two sets of assumptions were chosen for fertility, one for mortality and three for migration up to the year 2046, giving six sets of results. See CSO, Population and Labour Force Projections, April 2013

---

**Recommendation:** Develop innovative approaches to encourage private sector investment to support the delivery of economic infrastructure. Options could include, for example, (i) pension funds or other vehicles to facilitate off-balance sheet funding, using Ireland's Strategic Investment Fund<sup>47</sup> to leverage maximum alternative finance participation in investment projects; (ii) greater use of charges (e.g. road tolls, water charges, etc.); and (iii) alternate funding channels such as the European Strategic Investment Fund<sup>48</sup>.

**Responsibility:** Department of Public Expenditure, National Development Finance Agency

---

### Evaluating, prioritising and targeting public capital investment

Well-targeted public capital investment can influence economic growth by boosting long run potential output; and improving productivity and competitiveness, through efficiency gains and reduced average production costs. Public capital investment must be prioritised to maximise impact - while the short-term stimulus effect of capital spending is welcome, it is critical that public capital investment decisions prioritise investment based on long-term competitiveness gains. In this regard, many of the projects identified in the new Infrastructure and Capital Investment plan are welcome.

As a principle, there must be clarity regarding the evaluation process for prioritising public capital spending. This must be evidence-based, using a sound methodology based on benefit-cost principles. The methodology, evaluation and results should be available for public scrutiny.

Targeted investment should anticipate future demands to the greatest extent possible. The proposed development of a replacement for the National Spatial Strategy (the "National Planning Framework") should also support investment prioritisation<sup>49</sup>. From the Council's perspective, the range of infrastructures to support competitiveness includes:

- *Urban Transport:* An efficient and integrated national transport system with adequate capacity and service levels is vital to move goods and people quickly, effectively and in environmentally sustainable ways – an environmentally sustainable urban transport system is of particular importance given Ireland's 2020 emissions targets. We need to enhance urban mobility in Dublin<sup>50</sup> and the other city regions by ensuring existing resources are focused on providing public transport services that best meet changing customer needs and provide high quality access within the main cities.
- *Inter-urban Transport:* The new capital plan proposes to address a number of bottlenecks in the road network. This should help to capture the full benefits of the previous investments in road and other infrastructures by improving access between and around the main regional urban centres. The inclusion of projects to enhance connectivity to the north-west gateways of Sligo and Letterkenny are welcome and are critical to support the tourism sector. A number of projects vital from a competitiveness perspective, however, must be prioritised - in particular the completion of the Cork ring roads, the N20 Croom-Mallow and the N28 Ringaskiddy-Cork upgrades, and the Galway by-pass are essential.

---

<sup>47</sup> In response to the financial crisis, the Government reconfigured the former National Pensions Reserve Fund (NPRF) and converted it into the Ireland Strategic Investment Fund (ISIF) - a domestically focused sovereign development fund with a dual mandate to achieve commercial returns on its investments and to support economic activity in Ireland.

<sup>48</sup> The European Fund for Strategic Investment (EFSI) is an initiative launched jointly by the European Investment Bank (EIB) and the European Commission to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. EFSI is a €16 billion guarantee from the EU budget, complemented by an allocation of €5 billion of the EIB's own capital.

<sup>49</sup> The Government recently approved the commencement of the preparation of a new National Planning Framework to act as a new long-term national planning and regional development framework as a successor to the 2002 National Spatial Strategy.

<sup>50</sup> Within Dublin, delivery of the actions outlined in the National Transport Authority's investment plan for the Greater Dublin Area should be prioritised to fully capture the benefits of existing infrastructure (e.g. Luas Cross City and the re-opening of the Phoenix Park Tunnel).

- *Intelligent infrastructure:* The delivery of intelligent infrastructure offers significant competitiveness benefits for the economy in terms of increased productivity, reduced costs and sub-supply opportunities<sup>51</sup>. This public capital programme should explicitly outline the potential for intelligent infrastructures to maximise the value of existing infrastructure and its potential to enhance the value of future investments (e.g. through the use of improved traffic management systems).
- *Telecommunications:* Enhancing Ireland's international and national connectivity is critically important to support the future needs of existing and new companies in ICT, digital media and other data intensive sectors. We must prioritise the investment required to deliver the Government's commitment to provide fibre based broadband services to all parts of the country. In particular, we need to accelerate through market reform and where necessary State investment the availability of competitively priced, advanced broadband services that offer significant upload capability (including widespread availability of symmetric services for enterprise), low latency and low contention ratios in all urban centres where they are not or will not be available in the short term<sup>52</sup>. The sharing of specified infrastructures (e.g. mobile phone masts) should be considered.
- *Water services:* A strategic medium to long-term approach to investment planning is required that balances the need for quality water services with the need for cost competitiveness. In the short term, it is vital that the current water services constraints in Dublin are addressed urgently to ensure that the region has sufficient resources to meet future demand. To support regional development, Ireland needs to deliver sufficient capacity to support expansion plans and new developments, especially in the large regional urban centres. In particular, providing the required water services capacity and quality levels in enterprise development agency strategic sites and business parks and strategic development zones should be prioritised. In addition, there needs to be a strong focus on reducing leakage nationally<sup>53</sup>.
- *Housing:* In the context of rapidly increasing rents and residential property prices, an expansion in the supply of housing is urgently required, particularly in Dublin. Innovative approaches to funding (including off-balance sheet funding) should be developed, and mechanisms to harness private institutional and charitable investment in social housing should be considered, in addition to enhanced direct provision. The establishment of the Housing Supply Coordination Task Force for Dublin (outlined in *Construction 2020*), with an immediate focus on addressing supply issues represents a key milestone in addressing the housing challenge.

While energy and waste infrastructure is not funded directly from public capital expenditure budgets, public policy has a critical role to play in ensuring that the private sector invests in a timely manner to ensure the current and future needs of enterprise are met.

- *Energy:* Investment is required to ensure adequate regional/local spare network capacity (i.e. anticipating demand), especially in the main urban centres. Greater interconnection is also a priority.
- *Waste management:* A range of integrated and diversified waste treatment options are required along the waste hierarchy.

---

<sup>51</sup> "Intelligent infrastructure" is the application of technology to deliver a more effective and efficient infrastructure service. See Forfás, *Intelligent Infrastructure: Delivering the Competitiveness Benefits & Enterprise Opportunities*, October 2011

<sup>52</sup> Under the Infrastructure and Capital Investment plan, an initial allocation of €275 million of Exchequer funding has been provided to the NBP as part of the first six years of an envisaged 20 year contract. While it is expected that the network will be built between 2016 and 2020, the overall funding will be spread over 20 years and this envelope represents a proportion of that funding. The full 20 year funding profile will be apparent after the competitive tender process, and estimates will not be published in advance of that process.

<sup>53</sup> Water will be privately funded in the medium term when Irish Water becomes self-funding.

**Recommendation:** Prioritise investment in a manner that enhances Ireland's competitiveness, in key economic and knowledge development infrastructures (e.g. in transport, telecommunications, water, and housing). Ensure clarity regarding the evaluation process for prioritising capital spending. This must be evidence-based, using a sound methodology based on cost-benefit principles.

**Responsibility:** Department of Public Expenditure, National Development Finance Agency

---

In terms of broadband, under the National Broadband Plan, there is a requirement for the successful bidder(s) to rollout 60 per cent of the network by 2018 and 100 per cent by 2020, and that 85 per cent of premises in Ireland have access to high speed services by 2018. The Council believe that expedited roll out of the network is required to support jobs and growth, particularly at regional level (e.g. to support home working, and other forms of flexible employment). This is essential to deliver on the employment growth targets set out in the Regional Action Plans for Jobs.

The availability of high speed symmetric services (same upload and download speeds) is becoming increasingly important for enterprise. The Council recommends, therefore, that the Department of Communications, Energy and Natural Resources (DCENR) requires bidders to deliver higher minimum download and upload speeds for business services as part of the procurement process. Further, the network built under the intervention strategy must be future proofed to effectively meet future increases in demand for significantly higher download speeds (in excess of 100Mbps) and also higher upload speeds from businesses, homeworkers and other residential users.

---

**Recommendation:** Finalise the National Broadband Plan Intervention Strategy as a matter of urgency. More ambitious roll out targets for completion of the broadband network are required to support regional competitiveness, employment and growth.

As part of the procurement process, bidders should be required to put forward specific proposals to ensure that the network is scalable and proofed to meet future demand for significantly higher download speeds (in excess of 100Mbps) and higher upload speeds.

**Responsibility:** Department of Communications Energy and Natural Resources

---

---

**Recommendation:** Develop more ambitious demand-side initiatives as part of Phase 2 of the National Digital Strategy<sup>54</sup>. This would complement and maximise the potential of the investment planned under the National Broadband Plan. Phase 2 should encourage regional stakeholders such as the local authorities, the Local Enterprise Offices (LEOs), and local community groups to work with retail service providers to maximise the use of the services that they can currently provide and to lay the groundwork for a rapid take-up of the high speed broadband services as they are rolled out across the intervention area.

**Responsibility:** Department of Communications Energy and Natural Resources, Regional Action Plan for Jobs Implementation Committees, LEOs, Local Authorities

---

---

<sup>54</sup> The National Digital Strategy (NDS) document "Phase 1 - Digital Engagement" was launched in July 2013. The main focus of the NDS is on "Doing more with Digital". The Strategy sets out a vision and a number of practical actions and steps to encourage and assist more citizens and small businesses to get on line. Phase 1 focuses on Business & Enterprise, Citizen Training and Schools and Education.

### Effective planning and urban policy for Ireland

As well as considering what we build, issues around where and how we build and where we live and work also require consideration. Our cities play an increasingly crucial role in enhancing competitiveness in modern knowledge-based economies. As people become more mobile and firms more selective about where they locate, competitive cities have emerged as magnets for talent and investment. It is critical that both national and regional policies support the development of Dublin and of our other main cities.

In the context of intensified global competition for investment and talent, Ireland needs to provide a choice of attractive city region locations. There is a strong interdependency between the planning, development and creation of an attractive environment, enterprise growth and talent attraction. Such place-making factors are also important for a vibrant and competitive tourism sector. Residential, commercial and infrastructural development must be coordinated and complimentary.

The development of a new National Planning Framework can provide an effective forward planning framework for Ireland over the longer term and needs to explicitly set out an urban policy for Ireland with progressive urban design and place-making investment priorities to facilitate both business and lifestyle opportunities. The regional spatial and economic strategies envisaged under the Local Government Reform Act 2014 will enable the right actions to be taken at a regional level addressing infrastructure gaps and other ecosystem priorities, informed by the evolving needs of enterprise and new ways of working.

More can be done to facilitate the accelerate the efficient roll-out of essential infrastructures through a joined-up approach across government departments, agencies and local authorities. For example, in relation to the rollout of high-speed broadband, the National Broadband Plan identified a number of actions to address barriers to efficient infrastructure rollout including standardised processing, licensing and charging for road openings and masts across local authorities<sup>55</sup>. Progress to date has been much slower than expected which adds to costs and the time required to rollout high speed broadband services. Accelerating progress in addressing the barriers to infrastructure rollout including efficient licensing regimes is critically important to ensure the timely and effective deployment of the network under the State-led intervention strategy.

---

**Recommendation:** Develop a National Planning Framework to replace the National Spatial Strategy. The Framework should facilitate the prioritisation of capital investment to support competitiveness, place-making and quality of life and incorporate the enterprise policy objectives and collaborative measures set out in the Regional Action Plans for Jobs.

**Responsibility:** Department of the Environment, Community and Local Government

---

---

<sup>55</sup> Department of Communications, Energy and Natural Resources, Delivering a Connected Society: A National Broadband Plan for Ireland, August 2012

---

**Recommendation:** Address planning delays and inefficiencies, which impede the delivery of necessary economic infrastructure as a matter of urgency.

This is particularly crucial in relation to the rollout of advanced broadband services. In this regard, prioritise the removal of barriers to private sector investment by harmonising costs and access conditions across local authorities; delivering the IT road management and utility licensing system; facilitating access to and the optimal use of existing State assets.

**Responsibility:** Department of Communications, Energy and Natural Resources, Department of the Environment, Community and Local Government, Department of Transport, Tourism and Sport

---

### Supporting Enterprise

Ireland's economic growth is dependent on a sustainable, competitive enterprise base encompassing both indigenous and foreign owned firms that trade internationally, those that currently serve local markets with potential to internationalise, and those that will continue to play a key role in serving local demand and sub-supply to other enterprises. To achieve sustainable economic growth and create quality jobs, therefore, we need a strong and dynamic range of MNCs, large enterprises, SMEs and a steady flow of new business startups.

A significant proportion of the capital budget is devoted to various enterprise development programmes and a range of tailored supports for enterprise of all sizes in Ireland designed to achieve this goal. Between 2016 and 2021, it is envisaged that a capital budget of over €3 billion will be allocated to the Department of Jobs, Enterprise and Innovation – over €1.1 billion of which will be dispersed through its agencies (including IDA Ireland, Enterprise Ireland, the Local Enterprise Offices, and Science Foundation Ireland)<sup>56</sup>. In 2016, approximately 13 per cent of the exchequer capital allocation announced in the recent Infrastructure and Capital Investment plan relates to enterprise; this declines to 9 per cent of total exchequer capital investment in 2021.

In addition, €1.26 billion will be made available between 2016 and 2021 through the Department of Agriculture, Food and the Marine, and a further €106 million through the State tourism bodies for enterprise support.

While these supports are examined in more detail in Chapter 7 (Broadening the Enterprise Base), from a capital expenditure perspective, sustaining investment in addressing market failures in the areas of research and innovation performance, entrepreneurship, capability development, trade and investment promotion and property solutions in the regions through the enterprise agencies is essential to underpin their ambitious growth targets. Employment in Enterprise Ireland and IDA Ireland assisted firms has increased by 40,000 since the beginning of 2012. Specifically, this investment needs to focus on:

- Enterprise Ireland continuing to invest directly, and indirectly by way of equity, to support the formation of startups and the growth of scaling and established businesses to facilitate productivity, employment and export growth in Irish enterprise;
- IDA Ireland continuing to attract sustainable high quality FDI, building on the existing base and bringing new technologies, companies and capabilities to Ireland to support job creation in existing and emerging sectors. IDA Ireland has set an ambitious target to win a cumulative €3 billion in new RD&I investment projects, including in-house and collaborative RD&I projects with companies and Higher Educational Institutions by 2019, and to encourage 120 additional companies to engage in R&D. It also needs to deliver on regional advanced technology

---

<sup>56</sup> Total permanent, full-time employment in agency-assisted companies operating in the industrial and services sectors amounted to 319,597 in 2014

building projects in specific locations where the private sector is currently unable to provide advanced property solutions; and

- Science Foundation Ireland (SFI) needs to step up investment to produce the researchers needed by the enterprise base and to generate new knowledge, leading edge technologies and competitive enterprises in the fields of science, technology, engineering and maths.

To preserve IDA Ireland's ability to support new potential FDI projects, particularly, investments by client companies in standalone or collaborative R&D activity capital budgets need to be maintained and enhanced where appropriate. Similarly, Enterprise Ireland's ability to improve the quality and quantity of startup companies and to assist existing indigenous companies to scale is dependent on their capital budget. It is essential that expenditure is targeted at those programmes offering the greatest return to the State<sup>57</sup>.

---

**Recommendation:** Maintain and enhance where appropriate the capital budgets of the Enterprise Development Agencies. Support for enhanced promotion of Ireland as an export and investment location should be accelerated where a demonstrable improvement in performance is achieved.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Department of Public Expenditure and Reform

---

**Recommendation:** Apply the lessons and implement the recommendations emerging from the evaluations of the Enterprise Development Agency programmes across all programmes. Evaluation of State expenditure on programmes should be embedded as part of the development of all programmes and used as a tool to ensure their efficiency and effectiveness. Relevant performance metrics should be monitored on an annual basis. Where evidence is found showing that certain programmes are ineffective, funding should be reallocated towards programmes offering greater returns and more impactful outcomes.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Development Agencies

---

### Supporting Research, Development and Innovation

Overall levels of investment in R&D in Ireland remain below the best performing countries such as Finland and Sweden. Based on data from Ireland's *Competitiveness Scorecard 2015* in 2012, Irish gross expenditure on R&D accounted for 1.7 per cent of GDP (2 per cent of GNP), below the OECD-32 average (2.14%).

Government has recognised the importance of investment in science, technology and innovation to Ireland's economic development and has over the last decade and more, made major investments to enhance Ireland's research capacity. As set out in this year's *Scorecard*, Government Budget Appropriations or Outlays on R&D (GBAORD) amounted to €760.4 million in 2012, but fell to €732.6 million in 2013<sup>58</sup>.

---

<sup>57</sup> In general, evaluations of a range of enterprise programmes conducted to date have found that the agency programmes are appropriate and aligned with policy, effective in meeting stated objectives and efficient. Supported firms demonstrated more resilience over the period of the recession, achieved higher growth levels in employment and exports, realised greater productivity improvements, and experienced higher survival rates. Supported companies also reported increased skills levels and management capabilities, better understanding of overseas markets, greater job satisfaction amongst employees, increased confidence and strategic ambition, and improved sustainability.

<sup>58</sup> Government Budget Appropriations or Outlays on R&D (GBAORD) measures total public investment in R&D

As a result of a decade of commitment and investment, significant changes have taken place in Ireland's national innovation system which started from a very low base by international comparisons. These include:

- An increase in the numbers of RDI performing firms in Ireland;
- An increase in total Business Expenditure on R&D (BERD);
- RDI active firms have weathered the recession well, in many cases increasing employment. RDI performers are gaining an increasing share of sales, export sales and are accounting for increasing shares of employment; and
- The majority of IDA Ireland's investment projects are now in the RD&I area.

As a result of significant increases in Higher Education Expenditure on Research and Development (HERD), in the period 2002-2008 Ireland made major progress in building a science base that is among the best in the world and feeds a technological base within enterprise. However, it is a concern that this expenditure level has decreased every year in the period since 2008.

While investment alone is no guarantee of success and the outcomes from R&D activity can sometimes be difficult to quantify, ensuring that the level and impact of R&D expenditure from both public and private sources over the coming years is maximised will remain a cornerstone of competitive advantage. In this regard the development of the new Strategy for Science, Technology & Innovation (SSTI) provides a timely opportunity to reinforce Ireland's commitment to R&D and the creation of an innovation led economy.

The failure to allocate additional funding through the 2016-2021 Capital Plan makes it difficult to see how Ireland can achieve its target of spending 2.5 per cent of GNP on R&D, even as private sector investment continues to increase. Rapid economic growth without a proportionate increase in Government funding will further compound the problem.

To maximise the resources available for investment, Ireland should make maximum use of other funding sources available, for example, through the EU<sup>59</sup>. The commercialisation agenda is also vital in regard to the development of the SSTI – it is important that Enterprise Ireland continues to support the transfer of innovations developed in Higher Education Institutes and Research Performing Organisations into industry.

---

**Recommendation:** Finalise the successor to the Strategy for Science, Technology and Innovation. This should set out ambitious but achievable targets in respect of public and private investment and outcomes in R&D (towards Ireland's Europe 2020 target of achieving 2.5 per cent of GNP). Increased exchequer capital funding and engagement with enterprise will be required if Ireland is to meet this target.

Ireland should maximise drawdown from available funding sources such as the European Framework Programme for Research and Innovation, Horizon 2020.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

<sup>59</sup> The Government has set an ambitious target for Ireland's drawdown from the European Framework Programme for Research and Innovation 2014 - 2020, Horizon 2020, of €1.25 billion. As the majority of Horizon 2020 funding is awarded on a competitive basis to international collaborations, a prerequisite for achieving this national target is a national research and innovation system with sufficient capacity in the requisite areas to be able to compete successfully both with and against their EU peers.

## Chapter 3: Improving Cost Competitiveness

### Why Costs Matter for Competitiveness

International cost competitiveness makes Ireland a more attractive location in which foreign investors can base and develop their operations, and allows Irish firms to compete more effectively in foreign and domestically traded markets. As a small open economy, dependent on exports and foreign investment as major drivers of growth, declines in cost competitiveness will have a major negative impact upon economic growth, employment and our standard of living. More broadly, a competitive cost base can help to create a virtuous circle between inflation, wage expectations and productivity.

### Current Context

Ireland's cost base has improved across a range of metrics over recent years: indeed, Irish price trends (using Harmonised Indices of Consumer Prices data) improved relative to the euro area every year between 2008 and 2014<sup>60</sup>. However, despite these improvements, Ireland remains a high cost location for a range of key business inputs and addressing Ireland's international cost competitiveness must, therefore, remain a key economic priority for Government.

Much of the recent improvement is largely being driven by external factors beyond the control of domestic policymakers. In essence, a weak euro exchange rate, low ECB interest rates, and low international fuel prices have all combined to improve Irish cost competitiveness<sup>61</sup>. Further, against a backdrop of modest recovery, cost pressures are re-emerging. Ireland cannot depend on benign currency movements or other external factors beyond the direct influence of domestic policy makers to protect our international cost competitiveness. Such gains can be erased as quickly as they are accrued. This chapter focuses on a number of areas of concern:

- In the five years to Q2 2015 overall average hourly earnings decreased by 0.5 per cent. In the year to Q2 2015, modest growth of 1.5 per cent was recorded, and average hourly earnings increased in 8 of the 13 sectors<sup>62</sup>. It is vital that further increases in labour costs are underpinned by productivity improvements. While Irish unit labour costs (ULCs) are improving in relative terms compared to euro area ULCs, any increase is a cause for concern, as it suggests that wage growth may be outstripping productivity growth.
- Following several years of significant cost reductions – in terms of both construction and rental/purchase costs, property costs are again emerging as a significant threat to sustained cost competitiveness. Increases in commercial rents are occurring alongside rapid growth in house prices and residential rents. The link between house prices and wage expectations means that developments in the residential property sector have a direct impact on international competitiveness.

---

<sup>60</sup> Irish HICP inflation had been higher than the euro area average and most euro area member states throughout the 1998 to 2008 period. Inflation rates across the euro area are low by historical standards (0.4% in 2014) and well below the European Central Bank price stability target of a HICP of below, but close to, 2 per cent over the medium term. In Ireland, the Central Bank estimates that HICP inflation will average 0.5 per cent in 2015 and 1.7 per cent in 2016. See Central Bank of Ireland, Quarterly Bulletin, Q3 2015, July 2015

<sup>61</sup> This is reflected in the evolution of Ireland's Harmonised Competitiveness Indicator which captures the impacts of both exchange rates and relative price movements. Given the importance of both the UK and US markets as destinations for Irish exports, changes in the value of the euro have a significant impact upon Irish export cost competitiveness. Between mid-2012 and early 2014, the euro appreciated in value, particularly against the dollar. Since then (and since mid-2013 in the case of sterling), continued euro weakness in 2015 has boosted Irish competitiveness. The Harmonised Competitiveness Index (HCI) data for July 2015 shows that the nominal HCI is 8 per cent lower year-on-year. HCI developments suggest that the Irish economy continues to make competitive improvements relative to our trading partners; however, the improvement is largely being driven by changes in the nominal exchange rate and less by relative price developments.

<sup>62</sup> CSO, Earnings and Labour Costs Q2 2015 August 2015

- While there have been largely positive developments in electricity and gas prices since 2008, Ireland remains a relatively expensive location for energy compared to most of our EU peers. Electricity costs are a particular issue for energy intensive sectors and many SMEs – such as Enterprise Ireland supported SMEs in the food sector. Average SME expenditure on electricity amounts to 9 per cent of total non-wage costs<sup>63</sup>.
- Finally, in terms of business service costs, there are concerns in relation to both legal services and commercial insurance. While legal service costs have fallen recently after a long period of price stickiness, there is further scope to introduce reforms that facilitate a more efficient and cost competitive legal services market. CSO inflation data shows insurance prices have increased by 23 per cent since 2011. Since September 2014, motor insurance prices have increased by 24 per cent. This is well in excess of EU price trends.

### Policy Challenges and Recommendations

Sustaining economic recovery and employment growth depends on the ability of Irish based businesses to trade successfully in global markets. The focus of policy needs to be on achieving enhanced competitiveness through a combination of cost reductions in key business inputs, effective competition policies and enhanced productivity growth.

In relation to cost competitiveness, we must focus on the controllable portion of our enterprise cost base, and continue to take action to address unnecessarily high costs (i.e. cost levels not justified by productivity) wherever they arise. In this regard, there is a role for both the public and private sectors alike to proactively manage their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations and cost competitiveness. Measures that ensure open and competitive markets are also essential. At the same time, productivity performance will assume an even more prominent role in driving Irish international competitiveness. Indeed, in the longer term, productivity growth is the preferred mechanism to improve competitiveness as it can support cost competitiveness in tandem with high and increasing income levels.

### Labour Cost Competitiveness

In general, labour costs represent the largest category of location-sensitive cost factors for all industries. For services, labour costs typically range from 75 to 90 per cent of location-sensitive costs, while for manufacturing operations the typical range is from 45 to 60 per cent of total location-sensitive costs<sup>64</sup>.

The relationship between labour costs and consumer prices is also a major determinant of Ireland's overall cost competitiveness. As real wages (nominal wages adjusted for inflation) determine living standards, the competitiveness challenge is to ensure that the interaction between wages, prices and productivity levels is sustainable and enhances both competitiveness and real living standards.

As recovery deepens policy makers must remain cognisant of the interdependency of the taxation system, social welfare and replacement rates<sup>65</sup>, and the impact that policy changes can have on labour market participation. Some of these issues are discussed in more detail in Chapter 1.

---

<sup>63</sup> This is based on CER calculations. For further information see CER, SME Electricity Market Survey Results, 2015; CSO data from the Census of industrial production suggests that electricity accounts for 1.57 per cent of total input costs for industry. See CSO, Census of Industrial Production, 2005-2009

<sup>64</sup> Data based on KPMG Competitive Alternatives 2014 publication and DJEI Calculations. See NCC, Costs of Doing Business 2015, April 2015

<sup>65</sup> The replacement rate measures the proportion of out-of-work benefits received when unemployed against take home pay if in work. In general, a replacement rate in excess of 70 per cent is considered to act as a disincentive to work. Most individuals face replacement rates of less than 70 per cent.

From a policy perspective, the State has limited direct impact on labour costs (beyond its role in relation to the national minimum wage, public sector pay and the regulation of sectoral employment agreements). As a general principle, however, wage growth in both the public and private sectors should be underpinned by productivity growth. *Ireland's Competitiveness Scorecard 2015* has previously highlighted the upward trend in Irish labour costs – it is essential that we continue to monitor wage trends, and ensure that Irish wage levels do not move in a manner that undermines enterprise competitiveness and threatens job sustainability.

### The National Minimum Wage

Statutory minimum wages are intended as a labour standard, alongside working-hours regulations and related provisions to ensure basic job-quality standards. However, such minima may also give rise to concerns that they may restrict employment and damage enterprise competitiveness. Statutory minimum wages are a government's most direct policy lever for influencing wage levels, especially for workers in a weak bargaining position. Too low a minimum may result in undesirably low wages for large numbers of workers, especially for workers without representation in the wage-setting process and others with a particularly weak bargaining position. Yet, setting minimum wages too high leaves little room for rewarding employees in line with productivity improvements, and may lead to job losses, informal work or reduced working hours for some.

Currently, 26 out of 34 OECD countries have statutory national minimum wages in place. As a percentage of average wages, Ireland has the 9<sup>th</sup> highest minimum wage (out of 21 countries). Ireland had the 5<sup>th</sup> highest minimum wage in PPS terms and 4<sup>th</sup> highest in euro terms.

The Low Pay Commission (LPC) has been tasked by the Government to advise on the appropriate rate of the minimum wage on an annual basis. In its first report<sup>66</sup>, the Commission recommended that the national minimum wage should increase by €0.50 (5.8%) to €9.15 per hour in 2016<sup>67</sup>. This increase was confirmed (to take effect from the 1<sup>st</sup> January 2016) in Budget 2016, which also addressed the PRSI Step Effect Anomaly referred to in Chapter 1 and which would have had major significance for those earning the new minimum rate<sup>68</sup>.

The wholesale and retail, hotels and restaurants, and other service sectors are the most impacted by changes in the minimum wage. While acknowledging the mixed evidence as regards the precise impact on competitiveness of increases to the national minimum, the Commission noted that increases to the minimum wage may affect broader cost competitiveness: for instance, although most exporting sectors do not have a large proportion of employees earning the minimum wage rate, they source goods and services from the domestic economy where payment at the minimum wage rate is more prevalent<sup>69</sup>.

In line with the majority of research, the LPC concluded that moderate increases in the national minimum wage are unlikely to have a significantly adverse effect on employment (once they do not impact on employers' PRSI costs), though the position is less clear in relation to hours worked.

---

66 Low Pay Commission, Recommendations of the Low Pay Commission for the National Minimum Wage, 2015

67 Since it was introduced in 2000 the hourly NMW has been adjusted eight times, with seven increases and one reduction.

68 The LPC report highlighted the implications of an anomaly in the PRSI system, known as the PRSI Step Effect in the context of the recommended NMW increase. Without policy co-ordination, increasing the NMW to €9.15 would have actually resulted in lower income for an individual earning the NMW, and would also have acted as a serious financial disincentive for employers. Prior to the changes announced in Budget 2016, employee PRSI is applied at zero per cent on earnings below €352 per week and at 4 per cent on entire earnings where earnings equal or exceed €352 per week. Employer PRSI is applied at 8.5 per cent on earnings below €356 per week and 10.75 per cent on entire earnings where earnings equal or exceed €356 per week. As the higher rates apply to all earnings, this produces step-effects.

69 The evidence on spill-over and inflation effects arising from increases to the NMW is not conclusive. Previous Forfás research estimated that wages within 1.5 times the NMW (i.e. up to €12.97) are impacted by changes in the NMW rate. This research estimated that up to 31 per cent of employees may be affected by a change in the NMW. Analysis by the Nevin Institute (and referenced by the Commission) estimated that 30.3 per cent of those at work are within 40 per cent (less than €12.20 per hour) of the NMW currently. See Forfás, Labour Market Competitiveness 2013, July 2013 and Collins, M., A Profile of Those on The Minimum Wage, NERI WP 2015/No 27, July 2015

The OECD, for example, note that “*empirical studies show that moderate minimum wage increases have typically not caused significant job losses overall and there is some evidence that it may raise worker productivity instead. But employment of disadvantaged groups, such as young people, can suffer....Job losses are more likely when minimum wages are high to start with, and when labour markets are already weak, e.g. after economic downturns*”<sup>70</sup>.

Minimum wage increases can work as part of a broader policy mix to improve incomes only if the increases are moderate: set too high, they harm the very people they are supposed to help (by reducing demand for labour). Indeed, the LPC concluded that moderate minimum wage rates do not seem to adversely impact upon demand for labour. Based on this conclusion, it would be naive to assume that much larger increases would have the same negligible impact on employment. It is a concern that there is comparatively little up-to-date official data regarding the number of people who are paid at the national minimum wage rate. Evidence on the impact of the Irish minimum wage on employment and other labour market outcomes is also relatively scarce. Such data is essential in order to determine the impact that changes in minimum wage rates have on employment and competitiveness<sup>71</sup>. Addressing these information deficits is a priority for the LPC. This work needs to be commenced as soon as possible so that the data is available to support deliberations in 2016.

---

**Recommendation:** Undertake a comprehensive data collection exercise in relation to all aspects of the national minimum wage. Data is required on, amongst other things, the number and characteristics of employees earning the national minimum wage (or close to the minimum), the sectors where the minimum wage is most prevalent. A methodology to determine the impact of changes in the national minimum wage on employment, productivity and competitiveness should also be developed.

**Responsibility:** Low Pay Commission, Department of the Taoiseach, Central Statistics Office

---

While there is a requirement for the LPC to review the national minimum wage on an annual basis, there is a need to ensure that any recommendation of changes to the minimum wage are clearly signalled and take effect in a manner that is predictable year-to-year. This would minimise uncertainty for enterprise and would make planning and budgeting for the year ahead more feasible.

---

**Recommendation:** Clearly signal changes arising from the annual Low Pay Commission review of the minimum wage. Changes should generally take effect on the same date each year to provide certainty to employers and employees.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

### Childcare Costs and Labour Market Participation

To date, much of the dialogue in relation to childcare and the role of the State has focused on the educational benefits which accrue through early childhood and pre-primary education. From a competitiveness perspective, the impact that such interventions might have on skills development and the labour market are also important.

---

<sup>70</sup> OECD, Focus on Minimum Wages After the Crisis: Making Them Pay, May 2015

<sup>71</sup> Work has been undertaken in this area. Based on an analysis of hourly earnings data, Collins estimates the number of workers on the minimum wage and further profiles these workers by gender, by the sector they work in and by their employment status (full-time, part-time, permanent, temporary etc.). The data also allows an examination of the household/family circumstances of workers on the Minimum Wage. See Collins, M., A Profile of Those on The Minimum Wage, NERI WP 2015/No 27, July 2015

For households with children, the additional costs associated with childcare can represent the largest additional costs associated with taking up either part-time or full-time employment<sup>72</sup>. Childcare costs in Ireland are the second highest<sup>73</sup> in the OECD for couples and the highest in the OECD for lone parents, and are not offset, as in some other countries, by benefits in the form of subsidies, direct payments etc. The impact of such costs on the participation rate of potential second earners in households is, therefore of concern.

Female labour participation rates in Ireland (62.6%) remain below the EU and euro area average - Ireland has the fourth lowest female participation rate in the euro area and relative performance has declined since 2009. The cost of childcare is likely to be a major explanatory factor for this low participation rate. Recent research by the European Commission on secondary earners in Europe concluded that "*out-of-pocket childcare costs are likely to influence employment decisions as much as, if not more than, 'explicit' fiscal (dis)incentives*"<sup>74</sup>. As well as potentially increasing female participation rates, the availability of affordable, accessible, high quality childcare would also improve quality of life, and would improve Ireland's overall attractiveness in terms of attracting talent and encouraging emigrants to return. The Council welcomes the recent publication of a report by the Inter Departmental Group on Future Investment in Childcare<sup>75</sup>. The report identifies and assesses policies and future options for increasing the quality, accessibility (including supply) and affordability of early years and school-age care and education services in Ireland. It identifies three strands for action over the coming years:

- i. Incremental investment in subsidising fees through existing and reformed schemes;
- ii. Measures to make sure there is adequate supply for future demand; and
- iii. Measures to embed quality in the sector.

While childcare policy must be informed by important social, education and quality of life considerations, from a national competitiveness perspective, there is a need to strike an appropriate balance between increasing labour market participation and removing the barriers preventing participation, whilst maintaining cost competitiveness for enterprise, and ensuring fiscal sustainability for the State. The introduction of new childcare initiatives arising from the Inter Departmental Group report are likely to impose significant costs on the State and will also have an impact on enterprise. The costs and benefits to the State arising from the implementation of any such initiatives - particularly the use of subsidies or tax reliefs - should be rigorously assessed in terms of their impact on enterprise costs and on employer (and employee) behaviour. Finally, the OECD has also identified the need to achieve a greater balance between expenditure on cash benefits and childcare services<sup>76</sup>. In Ireland, these account for 3 per cent and 1 per cent of GDP respectively compared with 1.3 per cent and 1 per cent of GDP on average in the OECD. In the medium term the merits of shifting the balance of expenditure in Ireland should be examined in terms of its likely impact on labour supply.

---

72 Collins, M. et al, The Cost of Work: Insights from Minimum Income Standards, Research for Ireland, Nevin Economic Research Institute Working Paper, NERI WP 2012/No 3, May 2012

73 This is based on couples where the first earner earns 100 per cent of the average wage and the second earns 67 per cent of the average wage; the lone parent calculation refers to a person earning 67 per cent of the average wage.

74 Rastrigina, O., and Verashchagina, A., Secondary Earners and Fiscal Policies in Europe, European Commission, Directorate-General for Justice and Consumers, 2015

75 Report of the Interdepartmental Working Group on Future Investment in Early Years and School Age Care and Education Services, July 2015

76 OECD, Economic Survey of Ireland 2015, September 2015

---

**Recommendation:** Rigorously assess any new childcare initiatives in terms of their impact on enterprise costs and on labour market participation.

**Responsibility:** Department of Children and Youth Affairs

---

### Residential Property Costs

A sustainable housing market is an essential element of a functioning economy - high or rapidly increasing house prices are not good for competitiveness, notwithstanding the wealth effects for existing owners. They have an indirect impact on competitiveness through their effect on wage demands as accommodation shortages lead to increased costs and result in wage inflation. High housing and rental costs can deter immigration of skilled personnel the economy needs to sustain its current growth levels and could jeopardize the ambitious targets for returning diaspora set by the Government earlier this year<sup>77</sup>.

A range of factors are currently driving rising residential property prices in Ireland – rapid economic growth, demographic pressures, and a sluggish supply side response. The Central Bank's introduction of proportionate limits on mortgage lending in early 2015 has been effective in taking some of the heat out of the market. Going forward, the Council believe that the primary focus for policymakers should be on encouraging supply. In this regard, the Council is aligned with many others, including the Housing Agency which has noted that a substantial step-up in housing output is required over the next three years to meet increasing demand.

To deliver an adequate supply of housing, a whole-of-Government response is required. Short-term temporary fixes are not the answer and will not lead to a sustainable, attractive model; Ireland needs high quality housing delivered in the right areas to support quality of life and labour market mobility. The provision of social housing represents an essential element in the Government's response to the housing challenge. Increased supply of social housing will reduce demand in the private rental market, and will help to alleviate cost pressures across the sector. The Council welcomes the Minister for the Environment, Community and Local Government's announcement in April 2015 that over €1.5 billion will be invested in a combination of building, buying and leasing schemes by local authorities designed to accommodate 25 per cent of those currently on the housing waiting lists. This move comes as part of the Government's €3.8 billion social housing strategy, announced last year and due to run until 2020<sup>78</sup>. The Council welcomes the commitment to social housing in the Infrastructure and Capital Investment plan<sup>79</sup>. The Strategy restores to the State a central role in the provision of social housing, through a resumption of direct building on a significant scale by Local Authorities and Housing Bodies. Each local authority is being asked to bring forward housing unit targets and specific building projects out to 2017. The various schemes will include the refurbishment of vacant social housing units and local authorities will have the option of both building and acquiring housing.

---

<sup>77</sup> Department of Foreign Affairs and Trade, Global Irish: Ireland's Diaspora Policy, March 2015

<sup>78</sup> The Strategy commits to providing 35,000 new social housing units, over a 6 year period, to meet the additional social housing supply requirements as determined by the Housing Agency, and to support up to 75,000 households through an enhanced private rental sector. A multi-annual approach underpins the delivery requirements during two phases. Phase 1, building on Budget 2015, sets a target of 18,000 additional housing units and 32,000 HAP/RAS units by end 2017. Phase 2 sets a target of 17,000 additional housing units and 43,000 HAP/RAS units by end 2020. The Strategy provides for a guaranteed €1.5 billion in upfront Exchequer investment from 2015 to 2017 for social housing. It also contains commitments to develop a new €300 million Housing Public Private Partnership and to make available up to €400 million of public investment in a new housing finance entity to leverage further substantial private investment. See Department of the Environment, Community and Local Government, Social Housing Strategy 2020 – Support, Supply and Reform, 2014

<sup>79</sup> Under the Capital Plan, exchequer capital funding of €2.9 billion will be provided in support of the Social Housing Strategy 2020. This is predominantly Exchequer funded but also includes €77 million per annum of Local Authorities through own-resources.

**Recommendation:** Implement the Social Housing Strategy in full and on time as a matter of urgency. Specifically, ensure that the funding allocation outlined in the Strategy is provided in full and in a timely manner so that all of those on social housing lists are accommodated by 2020. Monitor progress by Local Authorities to ensure that each achieves a 25 per cent reduction in social housing lists by 2017.

**Responsibility:** Department of the Environment, Community and Local Government, County and City Management Association

While it takes time to ramp up supply, even in the absence of any major constraints, there remains a need to put in place a sustainable viable rental market, particularly aimed at low-income households who are in employment and are not receiving any form of State support but who need to be accommodated in the private rented sector.

**Recommendation:** Develop short to medium term measures to address pressures in the rental market – these should balance the need to provide tenants with a degree of rent certainty and security of tenancy, with the need to encourage investment and construction activity.

**Responsibility:** Department of the Environment, Community and Local Government

### Housing Supply

The primary cause of recent increases in house prices and rents over the past two years is the failure of supply to keep pace with the demand. Therefore, a large part of the solution to Ireland's housing problem must be focussed on the supply side.

In any sector of the economy, cost competitiveness is a key determinant of the sectors attractiveness to investors. In order to better understand the current reticence of developers to build large scale new housing developments, there is a need to better understand the costs which they face. Ultimately, the profitability of construction, which is partly a function of the costs of construction, will determine the supply of housing.

At present there is evidence that construction costs in Ireland for residential property are out of line with costs in other locations. If this is the case, then action to reduce these costs is required. Before jumping to action, however, we need to fully understand all of the cost components relating to residential construction. While the CSO Housebuilding Cost Index provides a useful overview of trends – the index has shown only two year-on-year decreases since the property crash – it does not provide internationally comparable data, nor does it provide sufficient data on individual cost components<sup>80</sup>. Equally, the CSO data measures a fixed basket that has not evolved over time to reflect new guidelines and regulations etc. making accurate benchmarking over time impossible.

Table 3: CSO Housebuilding Cost Index

Housebuilding Cost Index	2009	2010	2011	2012	2013	2014
Percentage annual change	-1.4%	1.1%	-2.7%	0.20%	0.60%	0.60%

<sup>80</sup> This index measures labour and material costs in the housing sector in Ireland, but excludes overheads, profit and interest rate charges.

A fresh, more in-depth approach to benchmarking construction costs is required. Such an approach, which should be conducted independently of those with responsibility for housing policy, should examine all of the various stages and inputs required to build a number of representative residential developments, and measure the cost, time, and number of procedures required to complete such a development. International comparisons should also be developed to identify where Irish costs or procedures are out of line with best international practice. This approach would be similar to the approach currently utilised by the World Bank Doing Business report to assess a range of business costs. Any benchmarking exercise should complement the work of the Housing Agency and others working in this space.

---

**Recommendation:** Undertake a rigorous benchmarking exercise to determine whether Irish residential construction costs are out of line with those of our key competitors. This should include an assessment of the input costs, time, and procedures required to complete a number of different types of residential development.

**Responsibility:** National Competitiveness Council

---

Where Irish costs are found to be out of line, urgent action should be taken to address these areas. Concerns have already been expressed in relation to the costs imposed through regulation<sup>81</sup>. In particular, the impact of regulations designed to improve the quality of housing may be having unintended consequences – while regulations to improve the quality and safety of build are important and welcome, regulations governing size of build reduce the number of units which can be constructed in a given space, thus increasing the cost per square metre.

Bringing minimum sizes in line with peer cities across Europe - without sacrificing build quality etc. - and considering the merits of increasing the permitted density / build heights could reduce costs and make development a more attractive proposition. This in turn could entice foreign investors into the residential construction market who have the capacity to undertake large scale developments, bringing with them more innovative approaches to construction, thus boosting productivity in the sector. Other reforms to the planning process to speed up decisions and reduce delays would also be welcome.

In addition, concerns have been expressed about the cost implications of the certification and compliance regime imposed through the Building Control Amendment Regulations 2013 (i.e. the requirement for Assigned Certifiers - who can be registered architects, engineers or building surveyors – to inspect building works at key stages during construction, rather than inspections being carried out by Local Authorities may be adding to costs through the imposition of additional fees, and the need for higher professional indemnity insurance; of course, there would be an additional cost to Local Authorities if they were to be tasked with these inspections).

Finally, there is a need to ensure uniformity of standards in relation to building regulations – some Local Authorities are imposing additional standards on top of existing Department of the Environment, Community and Local Government requirements. This creates uncertainty, and imposes additional compliance costs.

---

<sup>81</sup> Department of the Environment, Community and Local Government, Review of Building Control Regulations Following 12 Months of Operating under S.I. No. 9 of 2014, Report on Consultation Process, June 2015

**Recommendation:** Undertake an assessment of the impact of the various Building Control Regulations introduced since 2006 to determine their effectiveness and their impact upon construction costs, and hence the supply of residential units.

**Responsibility:** Department of the Environment, Community and Local Government

---

Elsewhere, the Housing Agency earlier this year identified a range of potential constraints which may be limiting supply<sup>82</sup>. These potential constraints included access to finance; the availability of sites ready for development; the availability of qualified construction workers; and the time taken to bring developments from planning to occupancy. Further investigation should be undertaken to determine which, if any of these factors is limiting supply.

**Recommendation:** Undertake an investigation to determine which factors are acting as constraints on the supply of residential property, and identify actions to address these constraints.

**Responsibility:** The Housing Agency

---

*Construction 2020* commits the Government to the delivery of an overall strategic, evidence-based approach to housing supply, and aims to provide local and national authorities with the tools to detect emerging imbalances in the property market and to empower them to take the steps necessary to correct such imbalances at an early stage. The Plan contains 75 commitments and represents an important milestone in developing a sustainable property market in Ireland. Implementation of the outstanding recommendations must remain a priority<sup>83</sup>.

**Recommendation:** Implement in full the *Construction 2020 Strategy*. The creation of a coherent policy response and regulatory certainty around planning and zoning to ensure delivery of an appropriate mix of commercial property is of paramount importance in this regard.

**Responsibility:** Department of the Taoiseach, Department of the Environment, Community and Local Government, other Government Departments

---

### Commercial Property Costs

Following several years of significant cost reductions – in terms of both construction and rental costs - the commercial property market is rebounding. Last year saw sustained recovery in the Irish commercial property market with Dublin leading the way.

Commercial rents for both office and retail space grew strongly in 2014/2015. Rental growth has been driven by an increase in demand, reflecting the improving economy. This in turn, has boosted capital values in all commercial sectors (e.g., office, industrial, and retail), with a particularly strong performance in the retail sector. This signifies a more sustainable, healthier market with investment performance being driven by fundamental market conditions rather than purely by investor demand.

---

<sup>82</sup> Housing Agency, National Statement of Housing Supply and Demand 2014 and outlook for 2015-17, July 2015

<sup>83</sup> *Construction 2020* contains a detailed programme of work, including 75 time-bound actions, across a range of issues including: housing; the planning process; availability of financing; monitoring and regulating the sector; and ensuring a highly skilled workforce and opportunities for construction jobseekers. See Department of the Taoiseach, *Construction 2020: A Strategy for a Renewed Construction Sector*, May 2014

Nevertheless, concerns persist about the availability of prime office space for rent in Dublin, Cork and Galway in the short term (and notwithstanding the current levels of construction activity) as the market tightens and vacancy rates decline – this could result in future rent increases and any shortage of supply of new commercial space could adversely impact our competitiveness in attracting FDI, and would also adversely impact upon indigenous startups and the expansion of existing indigenous enterprises. .

The availability of competitive property solutions along with relevant supporting infrastructure and a developed property aftercare ecosystem is a key requirement for the expansion of enterprises and winning FDI. Recent research conducted by the ESRI noted that Dublin is the only European capital where there was no office space construction between 2011 and 2013<sup>84</sup>. The same research notes the high level of demand for commercial property amongst FDI firms - 70 per cent of the take-up of such office space in Dublin thus far in 2015 was by new and existing FDI, primarily tech-based companies, indicating the importance of ensuring a predictable and sustainable supply of commercial property. The appreciation in capital values has resulted in some developers who have acquired prime development sites choosing to delay construction activity (i.e. there is little commercial incentive to engage in construction activity when the unused asset is already significantly increasing in value). The Council's recommendations in relation to a Site Value Tax are important in this regard and should mitigate against the delaying of construction activity.

The Council welcomes the Government's announcement earlier this year of a €150 million capital investment programme to help attract more multinational jobs into each region. This programme will build on the recent investment by IDA Ireland in facilities in Athlone and Waterford, and will include investments over the coming years in building advanced manufacturing and office facilities in other locations throughout the country.

---

**Recommendation:** Map current commercial developments underway in key urban centres that are due to come on-site over the medium term and highlight areas available for further development. A secure pipeline of commercial property is essential to attract investment and grow employment.

**Responsibility:** Department of the Environment, Community and Local Government, IDA Ireland

---

### Energy Costs, Sustainability and Security of Supply

A sustainable, secure, and competitively priced supply of energy is vital for enterprise and its ability to compete successfully in international markets. In recent years, there has been a sharp deterioration in energy cost competitiveness across the EU vis-à-vis the US. The Council recognises that as a small island, with limited interconnection and limited natural energy resources, Ireland is a price taker on international markets for energy and is somewhat limited in the degree to which it can influence energy costs. In addition, the significant role of EU level strategy in shaping Irish energy policy, particularly, the targets set by the EU for 2030 is acknowledged<sup>85</sup>.

Many aspects of the Irish energy market have improved in recent years (e.g. security of supply, the establishment of the all island electricity market and the opening of the energy retail business markets). The challenge remains,

---

<sup>84</sup> Duffy, D., and Dwyer, H., FDI and the Availability of Dublin Office Space, ESRI Research Note, September 2015

<sup>85</sup> Member States have agreed on a new 2030 Framework for climate and energy, including EU-wide targets over the period 2020-2030. These targets include a 40 per cent cut in greenhouse gas emissions compared to 1990 levels and at least a 27 per cent share of renewable energy consumption and at least 27 per cent energy savings compared with the business-as-usual scenario. At EU level, no agreement has yet been reached on the contribution of individual EU Member States to the EU's 2030 climate change targets. Ireland continues to work closely with the European Commission and other Member States on developing national targets that represent a technically feasible, cost effective and fair sharing of the EU efforts to combat climate change.

however, to minimise controllable costs while delivering on our security of supply and environmental sustainability objectives.

Energy cost competitiveness is an important determinant of our attractiveness for new mobile investment in energy intensive sectors such as food and drink, life sciences, ICT (data centres and sectors dependent on these facilities such as digital media, cloud computing, big data, etc.), construction materials and other manufacturing sectors. Higher energy costs also put existing businesses in these sectors under pressure to remain competitive in international markets. These firms include large regional employers, operating in low margin markets where their prices are determined globally. It is vital therefore that tackling domestically controllable energy cost components is a key pillar of national energy policy.

In Ireland, one of the aims of the energy policy framework is to reduce import dependency. However, an increasing share of Ireland's generation capacity is subsidised. This is not sustainable. It is critically important for the effective functioning of the all island electricity market that renewable generation capacity is subject to market forces to the greatest extent possible. As a mature technology, price supports for new onshore wind projects should be discontinued when REFIT 2 ends in 2017. Enterprise opportunities in emerging energy technologies should be funded by the exchequer through competitive funding mechanisms for R&D rather than by energy customers<sup>86</sup>.

---

**Recommendation:** Complete the review of supports for renewable electricity generation. Such supports should be subject to market forces to the greatest extent possible. As a mature technology, price supports for new onshore wind projects should be discontinued when REFIT 2 ends in 2017. Enterprise opportunities in emerging energy technologies should be funded by the exchequer through competitive funding mechanisms for R&D rather than by energy customers.

**Responsibility:** Department of Communications, Energy and Natural Resources

---

### Energy Policy Framework and Regulation

The Council welcomes the new Energy Policy White Paper currently being developed by the Department of Communications, Energy and Natural Resources (DCENR). This provides a timely opportunity to reassess our energy priorities. The Council considers Ireland's energy policy must prioritise cost competitiveness and set out the actions to address the cost drivers that are within the State's control, whilst also acknowledging the importance of the security of supply and sustainability pillars. Much of the potential to reduce the domestically controlled factors which influence energy costs in Ireland involves policy and regulatory decisions.

It is vital that the energy regulatory framework is reviewed to ensure that it is best placed to support the delivery of the revised priorities in the new energy policy. In particular, a hierarchy of policy/regulatory objectives should be developed which prioritises the promotion of consumer interests (business and residential). Effective mechanisms are required to rigorously assess whether policy objectives are being achieved. The revised regulatory framework also needs to ensure regulatory certainty, which is critically important for efficient investment and well-functioning markets.

Ireland is required to ensure that our electricity market conforms to the EU target model by 2017. As we are currently part of an all-island wholesale electricity market, this market redesign project is being led by the Regulators in both

---

<sup>86</sup> The initial consultation on potential future supports for renewable electricity was published in July 2015. See Department of Communications, Energy and Natural Resources, Renewable Electricity Support Scheme - Technology Review Consultation, July 2015

Northern Ireland and the Republic. The redesign is also an opportunity for the regulators to make reforms that will enable the more efficient use of interconnectors and to address the level of capacity payments. Ensuring adequately resourced independent energy regulation must continue to be a priority.

---

**Recommendation:** Review the existing energy regulatory framework to ensure that it is best placed to support the delivery of the revised priorities in the new energy policy.

**Responsibility:** Department of Communications, Energy and Natural Resources, Commission for Energy Regulation

---

**Recommendation:** Ensure the optimal functioning of the Integrated Single Electricity Market (I-SEM). It is important that the new market design sends the right investment signals to ensure that future energy needs are met at least cost (i.e. the right amount of capacity delivered, with the right characteristics in the right locations), whilst also fulfilling decarbonisation objectives.

**Responsibility:** Department of Communications, Energy and Natural Resources

---

### Energy Infrastructure

Competitiveness, sustainability and security of energy supply are critical issues for Ireland and for enterprise. Achieving an appropriate balance between these three pillars requires the availability of an adequate energy infrastructure framework. It is important that such investment is at least cost and delivered in a timely manner.

While energy infrastructure is not funded directly from public capital expenditure budgets, public policy has a critical role to play in ensuring that the private sector invests in a timely manner to ensure the current and future needs of enterprise are met. In particular, investment is required to ensure adequate regional/local spare network capacity, especially in the main urban centres. Greater interconnection is also a priority. These issues are explored in greater detail in Chapter 2.

### Energy Efficiency

One of the most effective ways for firms to reduce their energy costs is to invest in energy efficiency technologies, and thus reduce energy consumption. In 2013, the Government set up the National Energy Efficiency Fund with €35 million of seed capital for investment in energy efficiency projects<sup>87</sup>. The Government commitment was matched by private sector investment. The Fund aims to invest in projects that reduce energy consumption, recover useful energy from waste streams and distributed renewable energy generation. Following the initial funding allocation, a second round of capital funding was secured at the end of 2014, with a third round potentially due to follow in 2015/2016.

---

**Recommendation:** Evaluate the effectiveness of investments made to date through the National Energy Efficiency Fund, and determine whether another round of capital funding should be raised in 2015/2016.

**Responsibility:** Department of Communications, Energy and Natural Resources

---

---

<sup>87</sup> The Fund was established with investment from the Government, Glen Dimplex and London and Regional Properties. The Fund is regulated by the Central Bank.

Through successive National Energy Efficiency Action Plans, Ireland has maintained its commitment to achieving a 20 per cent energy savings target in 2020 and to achieving a 33 per cent reduction in public sector energy use (as compared to average energy use over the period 2001 – 2005). These remain the central pillars of our national energy efficiency policy. Continued focus on implementation is required to deliver upon these commitments (and the commitments in the associated Public Sector Energy Efficiency Action Plan)<sup>88</sup>.

---

**Recommendation:** Ensure that the energy saving commitments and targets set out in the National Energy Efficiency Action Plan (and the related Public Sector Energy Action Plan) are adhered to.

**Responsibility:** Department of Communications, Energy and Natural Resources, other Government Departments

---

### Legal Services Costs

In general legal services account for a relatively low proportion of the overall enterprise cost base – certainly compared with labour costs and property costs. Nevertheless as an input to almost every enterprise in the country, the cost competitiveness of such services has a direct impact on the competitiveness of the economy.

While there has been some improvement in costs, there is further scope for improvement – for instance, the OECD's Product Market Regulation (PMR)<sup>89</sup> for the legal profession shows Ireland ranks at the lower end of OECD countries in terms of restrictiveness of the legal profession and remains a relatively expensive location to enforce a business contract (9<sup>th</sup> most expensive in the OECD-32)<sup>90</sup>.

### Legal Services Regulation

Regulation in professional services sectors often limits the scope for competition by restricting entry, granting exclusive rights to perform particular services, and restricting advertising and business structures. The legal profession has repeatedly been subject to a range of investigative studies, all recommending immediate regulatory reform<sup>91</sup>.

When enacted, the Legal Services Regulation Bill will deliver welcome overdue reforms and address many of the issues raised in the past by the Council in relation to greater transparency in legal costs and reducing the cost burden on enterprise. The Bill seeks to achieve greater transparency and flexibility in the legal-services market, and will provide for:

- The establishment of a new, independent, Legal Services Regulatory Authority with responsibility for oversight of solicitors and barristers.
- The establishment of an independent complaints system.
- A reformed, more transparent legal costs regime.
- An Office of the Legal Costs Adjudicator to replace the Taxing-Master to deal with legal costs disputes.

---

<sup>88</sup> The Public Sector Energy Efficiency Action Plan is intended to expedite the achievement of the 33 per cent energy efficiency target for the public sector ahead of the 2020 target. As announced in APJ 2015, DCENR will spend €39 million of capital funding in 2015 on energy efficiency programmes. As part of the Public Sector Energy Efficiency Action Plan, public sector organisations with an annual energy spend of €500,000 or more are working together, to go to the market to identify solutions for the delivery of energy reduction services.

<sup>89</sup> OECD, Online Product Market Indicators (see <http://www.oecd.org/eco/growth/indicatorsofproductmarketregulationhomepage.htm#indicators>)

<sup>90</sup> The World Bank estimates that the total cost of contract enforcement in Ireland amounts to 26.9 per cent of a claim, compared with 21.2 per cent in the OECD. It also takes significant time to enforce a contract in Ireland (6th longest in the OECD). See World Bank, *Doing Business*, 2015

<sup>91</sup> For example, Trade Commission, *The Report of Study into Restrictive Practices in the Legal Profession* by the Trade Commission (1990); Legal Cost Working Group, *Report of the Legal Cost Working Group*, 2005; Competition Authority, *Competition in Professional Services- Solicitors and Barristers* by the Competition Authority, 2006; Committee of Public Accounts, *Third Interim Report on the Procurement of Legal Services by Public Bodies*, Dáil Éireann, January 2011

- A framework for Alternative Business Models such as Legal Partnerships and Multi-Disciplinary Practices.

It is vital, therefore, that the enactment of the Legal Services Bill be expedited. Further, the competition-enhancing and cost-reducing provisions of the planned regulatory framework must be incorporated into the regulations to be issued by the Legal Services Regulatory Authority. It is also important that provisions to facilitate the establishment of Limited Liability Partnerships are brought forward.

In determining whether the costs are reasonable in amount, Schedule 1 in the Legal Services Bill outlines a range of factors which should be considered by a Legal Costs Adjudicator. These factors include the complexity of the legal work concerned; the difficulty and novelty of the issues involved in the legal work; the skill or specialised knowledge which the legal practitioner has applied to the matter; and the time and labour that the legal practitioner has reasonably expended on the matter. It is important that the list of factors to consider does not become a means to levy additional charges, but rather serves as a tool to ensure that fees are appropriately related to the service provided.

---

**Recommendation:** Enact the Legal Services Bill. Incorporate the competition-enhancing and cost-reducing provisions of the planned regulatory framework into the regulations to be issued by the Legal Services Regulatory Authority.

**Responsibility:** Department of Justice and Equality

---

### Procedural Reforms to Reduce Costs

While protecting the independence and quality of the judicial system (an important competitive strength in Ireland), there is a need to widen the scope of reform to include reform of court procedures, for instance, improved case management, whereby time delays in scheduling and hearing cases are minimised, offers potentially significant cost savings.

Previously, the Legal Cost Working Group has recommended that court rules should include a specific order facilitating supervision by the court of the pace of litigation and this should also contain measures to sanction unnecessary delays. Elsewhere, the OECD<sup>92</sup> found that differences in trial length (which in turn impact upon legal costs) appear to be more a function of the structure of spending, and the structure and governance of courts rather than simply the amount of resources devoted to justice. This suggests that significant efficiencies and saving could be achieved through:

- The application of technological solutions (i.e. greater computerisation and use of electronic forms, websites and electronic registers);
- More active management of cases by courts and other governance reforms (e.g. delegation of broader managerial responsibilities to judges covering supervision of non-judge staff and administration of budgets);
- The systematic production of statistics at court level.

---

**Recommendation:** Review the outstanding procedural reforms recommended by the Legal Cost Working Group and implement those which remain relevant and feasible, making reference to the findings of the OECD.

**Responsibility:** Department of Justice and Equality

---

---

<sup>92</sup> OECD, Judicial Performance and its Determinants: A Cross Country Perspective – A Going for Growth Report, OECD Economic Papers No. 05, June 2013

### Commercial Insurance Costs

Earlier this year, the Council examined cost in the commercial insurance market in Ireland and compared it to markets elsewhere in Europe and beyond<sup>93</sup>. The findings highlighted a number of challenges in examining of the insurance market which limit such analysis. It has not been possible to provide statistics on commercial insurance prices in the Irish and broader European markets due to the lack of publicly available information in this area. Commercial insurance prices tend to be agreed on a company-by-company basis with insurers, reflect the risk profile of the companies insured and the coverage purchased (i.e. the range of commercial insurance products is wide, and the nature and type of coverage provided in commercial insurance policies is non-homogeneous<sup>94</sup>), and the final price charged is generally not publicised. International comparisons can also prove problematic as a result of differences in law, in fiscal regime, in policyholder behaviour and in the expectations of policyholders from their insurance provider.

The Council's analysis of Central Bank and Insurance Ireland data showed that the net operating ratio for the commercial insurance market was 107 per cent in 2013 (i.e. the commercial insurance market made a loss of 7 cents for every €1 of premium for underwriting insurance business). This trend continued into 2014/2015 and contrasts with a net operating ratio of 81 per cent in 2005, demonstrating the substantial drop in profitability on non-life insurance business since the beginning of the recession. While the calculation of premium rates is a commercial decision for insurance companies, competition in the market is essential to ensure insurance is competitively priced. Setting aside the data difficulties, the Council's analysis found (based on entry and exit rates into the Irish market, and data on market concentration) some support for the existence of competition in the commercial insurance market in Ireland. The data also suggests that, at present, certain parts of the Irish market is not particularly attractive to new entrants given relatively low levels of profitability.

In terms of consumer prices, CSO data shows that insurance prices have increased by 23 per cent since 2011; further, since September 2014, motor insurance prices have increased by 24 per cent. This rate of increase is well in excess of EU transport insurance price trends. The limited available disaggregated micro level price data on insurance coverage and the premiums paid by individual policyholders makes it very difficult to assess market conditions and price competitiveness, or to determine the factors driving price increases across various categories of commercial non-life insurance. In addition, concerns have been expressed about the rising cost of private health insurance – for many firms, this is an additional cost which must be either met directly by the firm, or indirectly through higher wages.

The absence of price data makes it very difficult to assess market conditions and competitiveness in the non-life insurance market. There is a need to comprehensively benchmark insurance costs and the drivers of costs in Ireland with costs in our key competitors. Ideally, data would be collected from the industry (using standard definitions etc. of insurance classes that would facilitate analysis across countries)<sup>95</sup>.

Further, it would be particularly useful if a benchmarking exercise was conducted comparing award levels in Ireland with awards in other European jurisdictions, taking different legal, administrative and social security arrangements into consideration. In this regard it would be helpful if data collated on personal injury awards by the Courts Service was published and available at a more granular level to highlight the impact that award levels might have on insurance

---

93 National Competitiveness Council, *Costs of Doing Business in Ireland 2015*, April 2015

94 Comparisons are difficult even between policies sold within the same product class. The Employer's Liability (EL) policy sold to a major multinational will naturally differ to that sold to an SME. The policy sold to a construction and engineering company will have different coverage, exposure limits and inherent risks than a policy sold to a professional services firm.

95 The Central Bank publishes an annual summary of the Non-Life Insurance returns made to the Bank pursuant to the European Communities (Non-Life Insurance Accounts) Regulations. This shows aggregate level data for the industry and for companies in the non-life market in terms of claims incurred, premium incomes and underwriting profit/loss data. However, it is not possible to the number of policyholders, claim numbers, average premium costs, etc. from the data published by the Central Bank.

premiums, particularly as regards motor insurance claims. Such an exercise would complement a review of the Book of Quantum.

---

**Recommendation:** Undertake a comprehensive benchmarking exercise to collect improved price data for a range of the principle commercial insurance types. This exercise should facilitate price comparisons for broadly similar products in Ireland and in our key competitors (i.e. using standard definitions for products and insurance classes across countries).

**Responsibility:** Central Bank of Ireland, CSO

---

---

**Recommendation:** Publish more detailed data regarding personal injury award levels. Benchmark personal injury award levels in Ireland vis-a-vis award levels in other jurisdictions.

**Responsibility:** Department of Justice and Equality, Courts Service

---

### The Book of Quantum

The Book of Quantum is an aid to the assessment of compensation to which a person may be entitled to in Ireland. It was compiled in 2004 on behalf of the Personal Injuries Assessment Board by independent consultants. The Courts must have regard to the Book of Quantum in personal injury cases.

Upon its publication in 2004 it was indicated that the Book would be kept under review. Such reviews have not taken place thus far. While a review of the Book is required, it should be noted that the outcome of such a review could result in higher costs, and ultimately higher premiums. The guidance provided by an updated Book would be particularly useful if more granular and detailed data were compiled and published.

---

**Recommendation:** Undertake a review of the book of quantum. In particular, the revised Book should provide a greater degree of granularity in terms of the data (i.e. more specific data broken down by injury type etc.).

**Responsibility:** Personal Injuries Assessment Board

---

## Chapter 4: Enhancing Talent and Skills

### Why Talent and Skills Matters for Competitiveness

Ireland's standard of living can only be maintained and improved upon, through increasing productivity which in turn is facilitated and sustained by high levels of educational attainment. Macroeconomic performance is closely related to labour force skills: more skilled workers tend to be more productive and capable of disseminating productivity-improving technologies and processes.

At an individual level, labour force status, earnings inequality, health and wellbeing are all positively related to educational attainment, and the returns are particularly strong for higher levels of education. Qualifications alone, however, are not sufficient; the ability to effectively apply skills is what really matters in many occupations. For employers, the ability of those exiting the formal education and training system to be 'work-ready' is critical. Both domain-specific and generic and transferable skills are required. Skills which everyone will require to access the labour market are moving beyond formal qualifications and the basics of literacy, numeracy, and using technology. There is also an increasing emphasis on managerial, including people-related skills, and multi-disciplinary and conceptual/thinking and problem solving skills creativity, critical thinking and entrepreneurship.

The OECD defines talent<sup>96</sup> as the global currency of the twenty-first century. The "war for talent" is being fought at company and country level - both companies and countries are competing to cultivate skills, attract, and retain talent. The availability of qualified work ready skills and talent is becoming the leading source of competitive advantage and key to competitiveness, innovation and growth. The availability of talent will increasingly be the fundamental differentiator in Ireland's value proposition for attracting and maintaining inward investment and export market growth. From an enterprise perspective, talent is critical to productivity and succeeding in both locally traded and global markets, and in ensuring that innovative indigenous enterprises have the capacity to scale and create employment. As more Irish firms scale, specialise and internationalise the availability of quality talent for trading internationally will be a key driver of national competitiveness. Future-proofing the needs of Irish industry means anticipating and meeting skills needs and further accelerating an increase in capabilities in areas such as foreign language, STEM, ICT and entrepreneurship.

### Current Context

Globalisation and technological change present a range of labour market challenges and opportunities. Ensuring equilibrium between labour supply and demand will continue to be a major challenge as economic recovery takes root. Increasing the productive capacity of the economy, strengthening the stock of human capital, and facilitating labour market flexibility and adaptability will remain critical to competitiveness performance. The extent and range of skills and labour market challenges facing Ireland over recent years have been well rehearsed. At the broadest level there are concerns over both skills supply side and demand.

Skills supply is a function of the output from the formal education and training system; upskilling, often through in-employment training; and high skilled immigration to address skills shortages. While the number of persons attaining upper secondary and third level qualifications has increased in recent years, a large proportion of the labour force

---

<sup>96</sup> Talent is a multidimensional concept but might usefully be considered the effective development and application of knowledge and skills, covering attitude, aptitude and potential. It covers domain-specific and generic skills. A growing body of economic and HR literature argues that developing skills and talent should focus on the quality of domain specific and generic skill requirements, across all levels of education and employment rather than attainment levels and education outputs.

possesses low education attainment, and relatively poor skills levels, and are ill equipped for work involving more flexibility, continuous learning and individual initiative and judgement. In an increasingly knowledge based economy, quality employment opportunities are progressively orientated towards those with higher education and relevant work experience, leaving those with low educational attainment at risk of labour market exclusion or at risk of becoming marginalised in insecure, low paid employment. Sustained high levels of structural unemployment coupled with net emigration and reduced participation rates, can further erode the Irish skills base.

On the demand-side, skills deficits persist despite the large numbers of unemployed workers and there is a need to rebalance the output of the education and training system to ensure that learners are being equipped with skills that are aligned to labour market needs and especially the programmes and work experience on offer to reskill those that are unemployed. As the economy improves and employment increases, a number of constraints are emerging: some sectors are already experiencing difficulty meeting expansion demand, (e.g. ICT, health, pharma) while there are also concerns about attracting and retaining staff in some areas (e.g. hospitality, retail, meat processing and elder/childcare)<sup>97</sup>. Staff retention issues are also emerging for some occupations; solutions to such issues will require input from employers, and the development of clear career paths etc. to enhance the attractiveness of these occupations.

Despite a continuous increase in the supply of high-skilled workers, demand for talent (professional and associate professionals) is increasing and outstrips supply for certain key occupations across sectors, albeit that this phenomenon is not unique to Ireland. For instance, recent EGFSN reports anticipate a range of job opportunities arising from both expansion and replacement demand for a range of occupational roles including ICT, data analytics, engineering, science (biotechnology, biochemistry, product development), business and finance (risk compliance), niche specialists areas in health, sales (technical sales, multilingual customer support, online sales and marketing), and skilled trades (chefs, tool making, welding).

Within Ireland, a process of significant structural reform is being undertaken across all levels of the education and skills system. The development of a new National Skills Strategy by the Department of Education and Skills will set out the overarching policy framework to ensure Ireland continues to develop its position as a competitive, innovation-driven, knowledge-based, participative and inclusive economy and society. The strategy is essential as it will provide the framework and actions to address the evolving skills needs of society and the economy (at national and regional level), and the skills needs of individuals over the period to 2025. As part of the Action Plan for Jobs 2015, the Department of Education and Skills committed to publish this Strategy in 2015. It is essential that the new Strategy is urgently expedited.

Other core policy developments include the forthcoming Strategy for Science Technology and Innovation, the National Strategy for Higher Education to 2030, the Further Education and Training Strategy, Action Plan for Jobs, and Pathways to Work. All of these initiatives recognise the need to ensure that education outputs and labour market needs are aligned.

---

**Recommendation:** Expedite the completion and publication of the new National Skills Strategy.

**Responsibility:** Department of Education and Skills

---

---

<sup>97</sup> In many instances, shortages are confined to specialised areas and are small in magnitude. For more detail, see EGFSN, National Skills Bulletin 2015, July 2015

**Recommendation:** Consolidate and accelerate the reform agenda underway particularly in the FET and HE sectors. Performance metrics for both the FET and HE sectors should be more specific and should be aligned to meet future skills needs identified by the EGFSN. These metrics should also be reflected in the new National Skills Strategy.

**Responsibility:** Department of Education and Skills

---

### Ireland's Performance

Overall, the attainment profile of those exiting the formal Irish educational and training system has been improving steadily over recent years (and indeed decades). This reflects trends in most developed countries as they move further along the path of developing the knowledge economy. For example:

- At secondary level, student ability, as measured by the Programme for International Student Assessment (PISA) shows that Irish performance has improved since 2009 and that average test scores are above the OECD average in maths, reading and science<sup>98</sup>. The Early school leaving rate continues to decline in Ireland, from 11.7 per cent in 2009 to 6.9 per cent in 2014 and is well below the euro area average of 11.7 per cent.
- The proportion of the Irish population aged 25-64 with a tertiary level degree has also consistently increased over the past and overall, Ireland compares favourably with other EU countries: in 2013, Ireland had an above average share of third level graduates in the adult population and the second highest share of 25-34 year-olds with 3rd level qualifications. Ireland performs particularly strongly in relation to the number of maths, science and computing graduates per 1,000 of the population aged 20-29 (22.5) and has the 2<sup>nd</sup> highest proportion in the euro area.
- The graduation rate at PhD level in Ireland (2%) is above the OECD average (1.6%).

Despite these positive developments, a range of concerns persist.

- Although it is declining, the high proportion of the adult population with less than upper secondary education remains a cause for concern and is high by international standards<sup>99</sup>.
- This issue is compounded by low levels of participation in lifelong learning. In 2013, participation in lifelong learning in Ireland (7.3%) was significantly below the top performing country Denmark (31.4%) and the EU average (10.5%).
- Total net outward migration remains high at 11,600 in the year to April 2015 (net migration of Irish nationals was -23,200). Just over half (52.8%) of emigrants aged 15 and over had a third level degree or above<sup>100</sup>. The outflow of talent and skills remains a significant drag on competitiveness. In an era where talent is globally mobile, Ireland's ability to attract and retain talent is necessary to ensure sustainable competitive advantage – thus far, Ireland has also successfully attracted a large proportion of high skilled immigrants.
- There has, however, been a significant decline in PhD enrolments in recent years (from 10,800 in 2009 to 9,300 in 2014). This decline in enrolments is taking place at a time when there is growing demand within the enterprise

---

98 Irish performance still lags the leading countries – we should not be satisfied by being above the average; we should strive to attain scores comparable to leading performers.

99 Over 23 per cent of the population aged 25-64 years have attained less than upper secondary education. This figure is declining over time and younger cohorts have higher levels of educational attainment. The comparable figure for the OECD is 21 per cent. See NCC, Ireland's Competitiveness Scorecard 2015, July 2015

100 Another 5.7 per cent of emigrants had a post leaving certificate qualification. See CSO, Population and Migration Estimates, April 2015

sector for researchers qualified to PhD level. Given the lead time involved in PhD training, there is an urgent need to increase PhD enrolments in the context of a new science and innovation strategy.

### Policy Challenges and Recommendations

#### Meeting Enterprise Skills Needs

Employment growth is currently strong and becoming more balanced from a sectoral and regional perspective. Job vacancy levels are increasing, particularly in professional, associate professional and certain craft and operative categories. High level skills gaps are becoming more pronounced. The so-called 'war for talent', however, is not confined to high skilled occupations. Almost all occupations are becoming more knowledge-based, requiring an increasing breadth of basic and domain specific knowledge, complemented by continual learning. The development of appropriate skills for the workplace has implications for curricula, programme design and teaching methodologies at all levels of the education system.

Ireland must ensure that skills and labour market mismatches do not increase, and so, ongoing efforts to align education and training output with labour market needs remain critical to competitiveness. The Expert Group on Future Skills Needs (EGFSN) has a central role in ensuring that labour market needs for skilled workers are understood, anticipated and met. Its research into future skills needs of enterprise informs the selection of new targeted programmes (such as Momentum, Springboard/ ICT skills conversion programme) designed to address skills needs in particular sectors of the economy.

---

**Recommendation:** Update occupational employment projections out to 2025 in the context of the new National Skills Strategy. These projections should take account of the employment targets contained in Enterprise 2025<sup>101</sup> and other sectoral strategies.

**Responsibility:** SOLAS, Department of Education and Skills, Expert Group on Future Skills Needs

---

**Recommendation:** Accelerate measures to increase the graduate ICT skills supply to meet the projected demand from employers and ensure effective implementation by 2018 of the ICT Skills Action Plan targets.

**Responsibility:** Department of Education and Skills, Department of Jobs, Enterprise and Innovation

---

Building on the work of the EGFSN, a range of actions has already been identified to address existing skills shortages, to prevent new shortages emerging, and to meet expected future demand. Specifically:

- There is a need to continue to deliver on the ICT Action Plan. Specifically, there is a need to rollout and actively promote the ICT portal in 2016, and to ensure that the rollout annually of the planned 1,250 additional ICT NFO level 8 undergraduate places in higher education is successful, and meets the Government target of meeting 75 per cent of demand domestically by 2018.
- Also in relation to the ICT Action Plan, it is important that third level computing programmes remain focused on the core skills sought by enterprise, with sub-specialisation occurring in third and fourth year.

---

<sup>101</sup> Enterprise 2025, prepared by the Department of Jobs, Enterprise and Innovation sets the strategic framework for coherence across government departments to focus resources in order to foster a better future and to deliver sustainable enterprise growth and jobs.

- A multi-lingual workforce will be an essential element of Ireland's future workforce competitiveness as firms and sectors operate in an increasingly globalised marketplace. In this regard, the new Foreign Language in Education Strategy should be finalised and published in 2015.
- The outstanding recommendations from the EGFSN skills reports on the hospitality sector, and the freight transport, distribution and logistics sector should be implemented.

### Labour Market Activation

A key challenge in recent years has been ensuring that unemployment does not become structurally embedded in the labour market as the probability of remaining on the Live Register is strongly associated with the recent history of labour market engagement. Early intervention for the unemployed and inactive through education and training and job search assistance is expensive but effective in progressing them to employment. To be effective, activation measures should:

- Address identifiable labour market/ enterprise needs. Programmes need to be evaluated, reviewed and updated on an ongoing basis to reflect changing needs of the labour market;
- Match candidates to programmes based on their abilities, skills and learning requirements. Appropriate candidate selection and ongoing guidance and support is vital to ensure that courses are successfully completed and meet the needs and expectations of learners and employers;
- Emphasise quality assurance for providers, ensure programmes deliver the appropriate occupational standards for enterprise, and demonstrate progression pathways for learners; and
- Provide structured internships which include work experience opportunities within enterprise.

It is important that all activation programmes continue to evolve to maintain and improve their effectiveness. Programmes such as Momentum, Skillnets' Job-seekers Support Programme, Jobbridge and Springboard already place significant emphasis on evaluation, targeting, and accreditation<sup>102</sup>. Similar evaluation tools should be applied to all mainstream provision.

Lessons should be drawn from recent experience – successful labour market activation programmes are not static. Initiatives (such as Springboard) have evolved over the years, according ever-greater focus on progression to employment. Over 60 per cent of Springboard graduates are employed within two years of course completion. As well as boosting the short term labour market outcomes for the individual, facilitating a longer term ability to maintain employment and progress in terms of career is essential.

---

<sup>102</sup> Momentum funds the provision of free education and training projects to allow jobseekers (who are unemployed for 12 months or more) to gain skills and to access work opportunities in identified growing sectors; a number of Skillnets' training networks provide training and work placements through the Job-seekers Support Programme. These training courses and work placements are solely for people that are unemployed and are focused on areas where Irish companies have skill gaps/needs; JobBridge is the National Internship Scheme that provides work experience placements for interns. The aim of the scheme is to assist in breaking the cycle where jobseekers are unable to get a job without experience, either as new entrants to the labour market after education or training or as unemployed workers wishing to learn new skills. The scheme provides work experience placements in the private, public, voluntary & community sectors. Interns receive an allowance of €50 per week on top of their existing social welfare entitlement; Springboard offers a choice of free, part-time and intensive conversion courses in higher education from certificate, to degree, to post-graduate level. All courses lead to qualifications in enterprise sectors which are growing and need skilled personnel, including information and communications technology (ICT); manufacturing; international financial services; and key skills for enterprise to trade internationally. Most courses are part-time, enabling participants to retain social protection supports. A number of courses are full-time one-year ICT Skills Conversion courses.

**Recommendation:** Evaluate all labour market programmes on a regular basis, and focus funding on those programmes proven to deliver on their objectives.

Furthermore, information on progression paths (e.g. progression rates, first jobs locations, etc.) from further education and training courses should be collected, utilised (e.g. to shape future courses) and disseminated to learners to raise awareness around future employment opportunities. There is a need to enhance engagement with employers to ensure programmes meet occupational requirements.

**Responsibility:** Department of Education and Skills, Department of Social Protection, SOLAS, Enterprise

---

Of particular concern is youth unemployment - joblessness encountered early in a working life can have a negative effect, damaging employability and future earnings prospects. Youth not in employment, education or training ("NEETs") are most at risk of scarring effects. In response, the OECD have recommended that there is a need to strengthen the education system and prepare all young people for the world of work; to boost the role and effectiveness of Vocational Education and Training; to assist the transition to the world of work; and to reshape labour market policy and institutions to facilitate access to employment and tackle social exclusion.

### Further Education: Focus on PLCs

The State invests significant resources in higher and further education and training with a wide range of programmes on offer across all learning levels. Since 2008, there has been an emphasis on the delivery of programmes focusing on the unemployed, and on ensuring that education and training leads to accreditation and qualifications to enhance employability.

The Council has long highlighted the importance of increasing the level of employer engagement across the Further Education and Training system. Educational institutions achieving best practice regularly work with enterprise to shape course content, to facilitate work placements and to provide feedback. Employer input is essential in setting strategic direction, occupational standards and assessing the continuing relevance of education and training offerings. Greater partnership between the education and training system and enterprise improves programmes and employability of learners.

Post leaving certificate (PLC) courses are a key element of the State's FET provision. PLC courses are full time, market driven courses with over 30,000 available places per annum. As noted in the Further Education and Training Strategy, however, there are a number of issues around the stated objectives and outcomes from PLC provision (e.g. there are limited opportunities for PLC graduates to progress to higher education)<sup>103</sup>. The Strategy also notes that there is a particular need for, and potentially large benefits to be gained from successfully engaging employers to achieve a step increase in the quality of work experience associated with the PLC programme.

Given the importance of the occupations being targeted to local economies and domestic sectors, there is potentially a major return for the ETBs and SOLAS in prioritising the development of a more systematic and effective engagement with local employers. In that regard a key aim is to incorporate, as part of the PLC programme, more comprehensive, relevant and structured skills development opportunities in the workplace. In this regard, the ongoing review of the PLC sector being undertaken by SOLAS will play an important role in shaping future PLC provision.

---

<sup>103</sup> Department of Education and Skills / SOLAS, Further Education and Training Strategy 2014-2019, May 2014

**Recommendation:** Expedite and publish the current review of Post-Leaving Certificate courses. PLC provision should be reflective of current and future enterprise needs and tailored to provide enterprise-relevant skills (i.e. courses should be aligned to enterprise needs in areas such as sales, marketing, supply chain management, business skills, STEM disciplines, and hospitality and freight transport. Further enhancing work place experience as part of course provision is essential if learners are to enhance their practical skills.

**Responsibility:** SOLAS

---

### Regional Skills Development

The National Talent Drive's focus on strengthening employability of learners and enhancing employer engagement at all levels, using collaborative funding initiatives is an important step in ensuring skills supply meets demand to underpin competitiveness<sup>104</sup>.

The Department of Education and Skills is working on the proposals to lead to the establishment of eight regional structures for engagement between a range of providers (ETBs, Institutes of Technology, Universities, and Skillnets), employers and other stakeholders. These Regional Skills Fora have the potential to effectively and collaboratively address issues relating to skills mismatches and to serve as a key resource and enabler within regions to support economic development. The common objectives of the Fora are to:

- Foster better engagement between Department of Education and Skills providers, employers and other regional stakeholders in building the skills of their regions;
- Provide a framework to enhance and support individual education and training providers and groups of providers in establishing and maintaining connections and relationships with employers; and
- Focus on building more robust labour market intelligence and analysis of employer needs.

---

**Recommendation:** Establish as planned Regional Skills Forums in all regions to undertake a structured programme of activities to promote closer liaison between employers and the education system, and prioritise the strengthening of outreach activities by education providers in the region. This should include strengthened industry liaison functions generally and the development of structured awareness programmes highlighting the capabilities and assets available to enterprises in the region.

**Responsibility:** Department of Education and Skills, Higher Education Institutions, ETBs, Skillnets, Enterprise

---

### Apprenticeships

In the context of fostering skills acquisition and meeting labour market skills needs, apprenticeships can prove to be particularly effective. The current forecast for future apprenticeships registrations is currently strong and it is predicted that craft based apprentice registrations will continue to grow incrementally up to 2018<sup>105</sup>. While apprentice recruitment in Ireland traditionally varies with economic cycles, the Council considers apprenticeships can play a more central role in meeting the skills needs of a competitive economy. There are a number of obstacles to improving the quality of apprenticeship programmes that must be overcome. The OECD<sup>106</sup> has identified key challenges faced by

---

<sup>104</sup> The National Talent Drive is one of the key disruptive reforms included in Action Plan for Jobs 2015.

<sup>105</sup> Parliamentary Question 28969/15

<sup>106</sup> OECD, Note on "Quality Apprenticeships for the G20 Task Force on Employment, September 2012

countries: ensuring access to high-quality programmes; extending the occupational coverage of apprenticeships; and making apprenticeships more attractive to employers.

From a policy perspective, the Irish apprenticeship system must be flexible, cost effective and adaptable to changing labour market needs. The Council welcomes the proposals by the Apprenticeship Council to double the existing range of programmes on offer beyond the Craft sector to sectors such as Manufacturing and Engineering, Tourism and Sport, Financial Services, and Information Technology<sup>107</sup>.

Following a recent report from the Apprenticeship Council, the Minister for Education and Skills announced that 25 new apprenticeship proposals have been assigned Category 1 status, meaning that they are both sustainable and at an advanced stage of design, planning and industry/education collaboration. They will now enter a detailed development phase<sup>108</sup> where significant employer engagement is required to ensure they are successfully delivered. These proposals will see an expansion of the existing range of programmes offered under the Apprenticeship system, and are part of ongoing work to ensure that the system remains responsive to economic and employment needs. In some cases, where proposals from employers identified particular apprenticeships which were not advanced at this stage, consideration should be given to developing these as further apprenticeships or traineeships to meet employer requirements (i.e. Category 2 proposals).

Finally, to facilitate the commencement of the proposed new apprenticeships, it is necessary that the Apprenticeship Council is placed on a statutory footing, as per the Apprenticeship Implementation Plan<sup>109</sup>. It is envisaged that the overall governance arrangements for existing and new apprenticeships will be brought together to manage the expanded and diversified apprenticeship sector in 2016.

---

**Recommendation:** Establish the Apprenticeship Council on a statutory basis as per the timetable outlined in the Apprenticeship Implementation Plan.

**Responsibility:** Department of Education and Skills

---

**Recommendation:** Roll-out the 25 new apprenticeships programmes.

Progress some of the Category 2 apprenticeship applications as additional apprenticeship or as traineeships to meet the demand identified by employers. Build on the relationships developed with employers through apprenticeships to address other skills needs through the FET and higher education systems.

**Responsibility:** Department of Education and Skills, Apprenticeship Council, SOLAS, employers

---

---

<sup>107</sup> The Apprenticeship Council is tasked with the expansion of Apprenticeship into new sectors of the economy and mapping out the sectors where new apprenticeships can make a real difference to both employers and employees. The Council is enterprise led and has representatives from business, trade unions, further education bodies and the Department of Education and Skills. The Apprenticeship Council has already sought and received proposals on possible new apprenticeship programmes from consortia of industries, professional bodies and education and training providers. These have been evaluated against the criteria outlined in the Apprenticeship Review Group's Sustainability Test. Category 1 proposals include proposals that are deemed to be at an advanced stage of design, planning and industry/education collaboration, ready to enter a detailed development phase. Category 2 Proposals include proposals that are not as advanced in their design, planning and industry/education collaboration but are considered to be of strong merit and worthy of support and developmental funding.

<sup>108</sup> Apprenticeship Council, Report on New Apprenticeship Programme Proposals, June 2015

<sup>109</sup> Department of Education and Skills, Apprenticeship Implementation Plan, June 2014

### Lifelong Learning

Lifelong learning is important to competitiveness as it facilitates structural adjustment, productivity growth, innovation and effective career progression. The concept is broad and covers the whole lifecycle and comprising all forms of formal, nonformal, and informal learning. The Europe 2020 Strategy sets a target that an average of at least 15 per cent of adults aged 25 to 64 years should participate in lifelong learning.

In 2014 the proportion of persons in Ireland receiving some form of education or training in the four weeks preceding the labour force survey was 6.9 per cent, compared with the EU28 average of 10.6 per cent<sup>110</sup>. Further, survey data from the OECD's Programme for the International Assessment of Adult Competencies (PIAAC) shows the levels and distribution of skills among the Irish working-age population are relatively low compared with competitor countries in terms of literacy, numeracy and digital skills.

Given the evidence of skills mismatches, low levels of formal attainment and other labour market challenges discussed throughout this chapter, lifelong learning assumes even more importance as a vehicle through which labour market performance and employability can be enhanced. OECD research has shown a positive relationship exists between participation in lifelong learning and reduced skill mismatch reinforcing the importance of upskilling through both on the job-training and opportunities for lifelong education and training.

The new National Skills Strategy offers a timely opportunity to reinvigorate the lifelong learning agenda. In order to be effective, however, a range of issues should be considered, including mechanisms to:

- Increase learner choice in qualifications;
- Provide greater flexibility in course provision where feasible – for example, delivery of courses through innovative and blended channels should become more commonplace, and the current emphasis on having learners present in class should be reviewed;
- Increase recognition of non-formal and informal skills, including the creation of new routes to attaining qualifications;
- Reduce the cost of non-formal and informal learning;
- Enhance quality assurance/recognition of qualifications; and
- Optimise stakeholder involvement in curricula delivery and design.

---

**Recommendation:** Prioritise actions to increase participation in lifelong learning through the new National Skills Strategy. As well as making it easier to participate in lifelong learning, there is a need to communicate the benefits and returns which accrue through participation to potential learners.

**Responsibility:** Department of Education and Skills, Higher Education Institutes, Education and Training Boards, private education and training providers, employers

---

Incentives for employers and workers, especially the low-skilled, to invest more in on-the-job training should be also examined. In the first instance, the role and focus of the National Training Fund (NTF) should be considered. As economic growth strengthens and the labour market conditions improve, there may be an opportunity to reorient the

---

<sup>110</sup> In Ireland participation in lifelong learning is positively related to education attainment level and employment level. Participation tends to decline with age. EGFSN Lifelong Learning among Adults in Ireland Quarter 4 2014

NTF away from “for-employment training” and more towards its original purpose of “in-employment training”. Such a move would make a contribution to achieving the significant increase in lifelong learning sought above.

---

**Recommendation:** Rebalance the National Training Fund to allocate a greater proportion of funding to in-employment training to meet identified skills shortages.

**Responsibility:** Department of Education and Skills, Department of Public Expenditure and Reform

---

## Chapter 5: Improving Access to Finance for Enterprise

### Why Access to Finance Matters for Competitiveness

Access to competitively priced sources of finance is essential to facilitate enterprises establish and expand their operations, improve productivity and ultimately survive and scale. Limited or costly credit flows damage the environment for entrepreneurship, scaling and investment. While the supply and demand for credit has improved significantly since the height of the crisis, access to bank credit and associated costs continues to act as a drag on the enterprise sector, inhibiting investment and growth, particularly amongst startups and SMEs<sup>111</sup>.

### Current Context

Access to adequate finance has been a major issue for SMEs in recent times. Across the euro area the volume of credit supplied to non-financial corporations (NFCs) has been weak as a result of low economic growth, structural adjustments in the banking system and weak demand for credit.

In Ireland, the economic crisis saw significant exchequer funding invested in the Irish banking sector. In addition, the State has intervened to support the supply of credit to SMEs through a number of new initiatives such as the Microenterprise Loan Fund, Credit Guarantee Scheme and most recently the establishment of the Strategic Banking Corporation of Ireland. In addition, a wide range of significant ancillary actions continue to be progressed under the Action Plan for Jobs. These include measures to increase awareness of supports, improving prompt-payments, enhancing credit supply levels and tax incentives for investment.

The effect of these measures appears to be taking hold<sup>112</sup>. The pillar banks returned to profitability in 2014 and the Central Bank's Macro-Financial Review reports an increase in the value of new lending, with approximately €15 billion of new loans written in 2014, and a year-on-year increase of 57 per cent in the value of new lending in Q1 2015, with the majority of lending directed to the SME/corporate and mortgage markets. This positive trend is also reflected in the Central Bank's most recent SME Market Report which found that all sectors (with the notable exception of manufacturing) showed a year-on-year increase in new lending<sup>113</sup>.

The latest RedC SME credit demand survey indicates that business sentiment is positive and overall credit demand continues to increase, albeit at a modest rate and from a low base<sup>114</sup>. The survey finds that the main reason that SMEs do not apply for bank finance is they consider they do not need it or already have finance in place, rather than banks not lending or a fear of rejection. It also shows fewer companies are seeking credit in order to survive day to day financial pressures: 48 per cent of those SMEs seeking finance between October and March 2015 did so for working capital needs, compared to 61 per cent in the previous period. Improved turnover and profit have led to SMEs suggesting they fund working capital through internal funding/retained earnings (64%).

---

<sup>111</sup> As with most OECD countries, SMEs account for the majority of active enterprises. In Ireland, they account for 99.7 per cent of active enterprises, 68 per cent of employment, 50.3 per cent of turnover and 46.2 per cent of gross value added (GVA)<sup>111</sup>.

<sup>112</sup> In February 2015, the Strategic Banking Corporation of Ireland (SBCI) launched its initial product programme to provide €400 million of low-cost, long-term funding to Irish SMEs. The first phase of SBCI measures includes new, SME-friendly loan products now available through AIB and Bank of Ireland as On-Lenders of low-cost funding provided to them by the SBCI. Using existing lenders for the first phase allows the SBCI to reach the widest range of SMEs as quickly as possible. AIB launched a €200m loan fund, supported by the Strategic Banking Corporation of Ireland (SBCI) in March 2015 to help SMEs access credit at a market leading rate. Loans are available at the highly competitive rate of 4.5 per cent per annum variable, a discount of 2 per cent off the Banks' Standard Variable Business Loan rate. Since the launch in March, AIB has experienced strong demand from businesses and farmers and have approved more than €60 million in business credit to over 1,300 customers.

<sup>113</sup> The most notable increases were recorded in the Hotel/Restaurant (69%), Wholesale/Retail (59%) and Construction (40%) sectors. See Central Bank of Ireland, SME Market Report 2015 H1, July 2015

<sup>114</sup> RedC, SME Credit Demand Survey October 2014 – March 2015, Prepared for the Department of Finance, May 2015

Recent European Commission/ECB survey data also shows that access to finance appears to have become a less pressing concern for Irish SMEs than was the case previously<sup>115</sup>. In terms of credit demand, the Credit Review Office has noted that the improved performance in the economy and increased SME loan sanctioning has yet to manifest itself into strong demand for new credit<sup>116</sup>. The majority of credit requests are now fully approved with fewer conditions attached, and with lower interest rates. Where refusals have occurred, the Credit Review Office has overturned 55 per cent of the refusals that have been appealed to the Office. PTSB and Ulster Bank's agreement to participate with the CRO on a non-statutory and voluntary basis from mid- 2015 is welcome. With the economic recovery still relatively nascent and fragile, it is likely that further improvements in credit demand are dependent on business confidence and conditions improving further among SMEs.

The differential in interest rates charged to non-financial corporations between Ireland and the euro area also remains elevated and is concerning from a competitiveness perspective<sup>117</sup>. It is vital that cost competitiveness in this area does not weaken further. There is, however, considerable sectoral variation in the cost of credit: interest rates for some sectors may be impacted by risk, low levels of new lending or high levels of outstanding indebtedness<sup>118</sup>.

While the proportion of non-performing loans remains high, it is positive that the stock of non-performing loans continues to decline<sup>119</sup>. Dealing pro-actively with these legacy debt issues remains essential to facilitate economic growth. From the perspective of the company, effective loan restructuring is necessary to strengthen company balance sheets, and facilitate investment.

## Policy Challenges and Recommendations

### Cost of Credit

Recent data highlights the divergence in new business SME interest rates between Ireland and the euro area, with Irish rates almost two percentage points above that of the average<sup>120</sup>. Despite the high level of convergence that has taken place in euro area money markets and government bond markets since the start of EMU, ECB research<sup>121</sup> has shown that retail interest rates vary considerably across euro area countries. While bank lending rates on loans to NFCs have been highly heterogeneous across countries since the start of the financial crisis, the interest rate in Ireland on new NFC business loans up to €1 million and up to 1-year fixation (often used as a proxy for lending to SMEs) was 4.54 per cent at end-July 2015 (a reduction from a peak of 5.2 per cent in October 2014). The equivalent rate for the euro area was 2.83 per cent. Furthermore, large deviations in rates and rate volatility exist across economic sectors. It is notable that:

- SME loans for the service-related purposes attracted lower rates while the converse was true for construction and transport/storage related loan drawdowns;

---

115 According to the latest SAFE survey, 15 per cent of SMEs in Ireland cited access to finance as the most important problem (down from 23 per cent in the period October 2013 to March 2014). However, this figure is still high compared with SMEs in Germany (7%) and Austria (7%). See European Central Bank, Survey on the Access to Finance of Enterprises in the euro area October 2014 to March 2015, June 2015

116 Credit Review Office, Fifteenth Report, 2015

117 There are a number of issues driving this including the higher level of concentration in the business banking market (i.e. there is less competition due to the reduction in the number of banks operating in the market), and there is also a simultaneous onus on the banks to rebuild their profitability.

118 Central Bank of Ireland, Quarterly Bulletin, Q3 2015, July 2015

119 Non-performing loans account for 25.3 per cent of gross loans in Ireland compared to an OECD-32 average of 5.9 per cent.

120 Central Bank of Ireland, Quarterly Bulletin, Q3 2015, July 2015

121 European Central Bank, Differences in MFI Interest Rates Across Euro Area Countries, September 2006

- The largest differential between new rates and those on outstanding stock at end-2015 (of almost 2.6 percentage points) was recorded for construction-related loans. These loans currently carry the highest average interest rates for new SME loans;
- SMEs in the primary industries sector (mainly agriculture), which have accounted for the majority of new drawdowns in recent quarters, attracted above average interest rates of 5.5 per cent during Q1 2015. This was unchanged from Q4 2014 but almost a percentage point above historical rates.

The Council recognises that many factors contribute to variations in the interest rate-setting behaviour of banks across the euro area. Significant differences exist across countries in terms of market structure firm size, the composition of loans, and differences in the economic cycle. A better understanding of the determinants and dynamics of bank lending rates on loans to NFCs in Ireland and their impact on lending growth would help inform access to finance policy<sup>122</sup>.

---

**Recommendation:** Undertake research into the persistent divergence in SME interest rates between Ireland and the euro area, and identify the factors explaining the differential. In addition examine the factors causing the volatility in Irish SME interest rates.

**Responsibility:** Department of Finance, SME State Bodies Group, Central Bank of Ireland

---

### Competition

Effective competition to provide SMEs with high-quality and responsive banking services, at the lowest possible cost, is critical. Competitive pressures appear to be returning to the SME lending market in the euro area. The ECB has reported a net easing of credit standards on loans to enterprises in the second quarter of 2015, with increased competitive pressures identified as one of the main factors driving the easing of credit standards on loans to enterprises<sup>123</sup>. Banks have also continued to ease the terms and conditions imposed on new loans across all categories. Banks account for approximately 93-94 per cent of SME finance in Ireland<sup>124</sup>. The Joint Oireachtas Committee on Jobs, Enterprise and Innovation expressed concern in 2014 about insufficient competition between banks for customers in Ireland, and the Central Bank has found that increased bank market power is associated with lower levels of SME investment, and exacerbates SME financing constraints<sup>125</sup>. It should be noted, however, that the current structure of the Irish banking system is a reflection of the “two pillar bank” strategy pursued in reaction to the financial crisis. Providing liquid market financing alternatives to bank credit can help reduce the negative financing effects of bank market power. The Central Bank, however, has recently stated that the ECB’s programme of quantitative easing is likely to have a higher impact in countries with previously tight financing conditions (i.e. relatively low capital buffers and high levels of non-performing loans may reduce the positive impact of quantitative easing on bank credit).

---

<sup>122</sup> Reasons for disparity in mortgage lending have previously been issued by the Central Bank: First, the pricing of loans needs to reflect credit risks. In Ireland these risks are elevated due to high levels of non-performing loans and the lengthy and uncertain process around collateral recovery. Second, competition is weak. This is not unrelated to credit risks since high credit risk deters new players from entering the market. Third, bank profitability is still constrained by legacy issues.

<sup>123</sup> European Central Bank, The euro area Bank Lending Survey, Second Quarter of 2015, July 2015

<sup>124</sup> With only three lenders active in the SME market the concentration rate for these banks (CR3) - a measure of the total output produced in an industry by a given number of firms - is 100 per cent. The CR4 for business loans in England, Wales, Scotland and Northern Ireland is 80-85 per cent.

<sup>125</sup> Central Bank, Does Bank Market Power Affect SME Financing Constraints?, 2014

Combined, these factors re-affirm the need to enhance competition in the SME lending market in Ireland - additional choice and competition in the SME banking market should have a positive impact on cost and credit availability<sup>126</sup>.

As part of the recapitalisation of the banking system, a range of commitments were imposed on the pillar banks in relation to the services to be provided to customers. Many of these commitments were intended to support SMEs, and to facilitate competition in the banking sector by facilitating the entry and expansion of competitors. It would be timely to revisit this issue and to evaluate the measures taken in this regard.

---

**Recommendation:** Maintain efforts to bring new banks into the Irish market to boost competition among SME lenders.

**Responsibility:** Strategic Banking Corporation of Ireland, Department of Finance, SME State Bodies Group

---

### Alternative Sources of Finance

As well as addressing current issues, there is a need to take a longer term view about the likely future shape of the banking and financing system, and likely future enterprise requirements. Across Europe, small and fledgling firms have more difficulty than established firms in obtaining bank credit, even when their financial performance is the same<sup>127</sup>. While bank financing will continue to be crucial for the SME sector, broadening the finance options available and accessible to SMEs is a key medium term/long term challenge for policy makers. The crisis has shown that a high dependence on bank lending makes the enterprise economy, particularly SMEs more exposed when traditional bank finance tightens. The development of a well-functioning capital markets and alternative forms of finance would supplement and be complementary to bank financing. It represents a long-term challenge to improving the SMEs' capital structure and investment capacity, and reducing their over-reliance – and vulnerability – to the traditional lending channels.

Since 2011 two new credit schemes were introduced, the Microenterprise Loan Fund (managed by Micro Finance Ireland) and the Credit Guarantee Scheme to support viable enterprises, from all sectors, which have been refused bank credit. Both schemes have been the subject of review and appropriate improvements to both schemes are in train. The publication of the Credit Guarantee (Amendment) Bill 2015 to improve the take up by SMEs of opportunities for financing under its schemes is welcome and early enactment of the Bill is essential to ensure Irish SMEs are competitive relative to trading competitors who often avail of loan guarantees in their own country to support trade and investment.

The Council considers it important we continue to look at the availability of access to finance through the lens of national competitiveness to ensure Irish companies can compete on an equal footing with their international competitors. Under the Action Plan for Jobs 2015 the Department of Finance and the Department of Jobs, Enterprise and Innovation will roll-out an integrated export finance strategy in 2015 with financing products and platforms being developed by the SBCI and the Ireland Strategic Investment Fund (ISIF) in conjunction with Enterprise Ireland. It is critical that this strategy is implemented.

Within Europe and Ireland, a range of financial instruments which can be utilised by SMEs are accessible under the current Financial Regulation of the EU Budget. With the establishment of SBCI it is vital that Ireland continues to

---

<sup>126</sup> The Strategic Banking Corporation of Ireland (SBCI) will support smaller, existing bank and non-bank funding providers and will bring in new participants to the Irish market to act as On-Lenders. This will enable them to compete and grow. The SBCI product range will also expand further to include more targeted funding solutions.

<sup>127</sup> European Commission, Access to External Finance: Background Study for the European Competitiveness Report 2014

engage with the appropriate EU institutions and relevant elements of the Multiannual Financial Framework to utilise and access all potential sources of EU funding for SMEs. In this context, the announcement of the European Commission's "Capital Markets Union," – designed to help businesses raise cheaper capital, improve the venture capital environment and develop the European securitisation market – is welcome.

Alternative financing activities such as peer to peer business lending, invoice trading, and crowdfunding can be valuable sources of funding to micro and small businesses, either as a complement to traditional bank funding or as an alternative to traditional bank intermediation where bank credit has either been refused or not sought in the first place. The experience of the UK in the development and roll-out of alternative sources of finance, such as crowdfunding, suggests it is important that appropriate regulation of these activities is carried out<sup>128</sup>. The SME State Bodies Group is due to issue recommendations to further support the development of alternative SME financing instruments in Q4 2015 and it is important that best international practice is reflected in the Group's output.

---

**Recommendation:** Continue to develop and support credible and transparent alternative sources of non-bank finance.

**Responsibility:** Department of Finance, Department of Jobs, Enterprise and Innovation, SME State Bodies Group, Strategic Banking Corporation of Ireland

---

'Trade finance' is a crucial component of SME finance. Approximately 70 per cent of SMEs are estimated to use trade credit<sup>129</sup> to fund working capital and/or investment<sup>130</sup>. While trade finance was not among the triggers of the crisis, its fall has undoubtedly contributed to magnify the impact of the liquidity squeeze on trade and growth. Government Departments and their agencies have been working on the wider trade finance/working capital export agenda for a period. It is important that Ireland continues to monitor international developments particularly the establishment and strengthening of the role of development banks in Spain and Portugal and the establishment, albeit in a different form, of the UK Business Bank. In a significant number of countries SMEs have access to Government sponsored interventions and supports placing Irish SMEs at a distinct competitive disadvantage. The Central Bank has also identified the extent to which SMEs in a wide range of EU countries benefit from such Government interventions. In terms of Exporting Finance the Central Bank highlighted the role of Export Credit Agencies (ECA's) in other countries. In general these institutions provide products that fall under the following four categories, Export Credit Insurance, Financial Intermediation/Loan Guarantees, Direct Lending and Bonds. Of the nineteen countries surveyed for this research only Ireland and Chile had no Export Finance supports. The ownership structures of ECA's vary between jurisdictions however where they are private the government is providing the underlying guarantees. In the Europe Union Ireland stands with Cypress and Malta in not having an ECA.

---

**Recommendation:** Examine the coherence and effectiveness of existing trade finance structures and facilities to ensure that the needs of enterprise are being met.

**Responsibility:** SME State Bodies Group, Department of Finance

---

---

<sup>128</sup> Financial Conduct Authority, A Review of the Regulatory Regime for Crowdfunding and the Promotion of Non-Readily Realisable Securities by Other Media, February 2015

<sup>129</sup> Auboin, M., Response to the Crisis: A Convening Power to Boost the Availability of Trade Finance, Chapter 17 in "Trade Finance During the Great Trade Collapse, World Trade Organization, June 2011

<sup>130</sup> Trade credit, refers to the purchase of goods on credit from suppliers and/or the purchase of goods on advances from customers.

For SMEs, late payments in commercial transactions have a particularly adverse effect on business, constraining cash flow, and adding significant financial costs in terms of forgone payments. In 2015, 51 per cent of Irish companies reported that late payments constituted a threat to their survival<sup>131</sup>. Since 2009, the Department of Jobs, Enterprise and Innovation has introduced a number of initiatives to promote improved payment practices, particularly in the public sector. Increasing prompt payment levels is essential to stimulating a sustainable trade credit market in Ireland. The Department should continue to work towards further embedding the prompt payment culture across the public and private sector.

As part of moves to broaden the financing mix for SMEs, there is a need to encourage firms away from their current high level of reliance on debt financing towards a greater use of equity to fund investment. The Government, through Enterprise Ireland has made €175 million available as part of the Seed & Venture Capital Scheme (2013 – 2018) to stimulate job creation and support the funding requirements of young innovative companies. Ensuring the availability of venture capital, particularly for investment in early stage companies, remains critical to fostering startups and scaling.

The Council welcomes the re-launch and rebranding of the Seed Capital Scheme - now known as the Startup Refunds for Entrepreneurs (SURE)<sup>132</sup>. SURE has the potential to play a key role in assisting entrepreneurs to raise the capital required to set-up their new business, and addresses a recognised market failure - many of the entrepreneurs will not otherwise be in a position to raise the capital required for the set-up of their new business.

---

**Recommendation:** Review the impact of the Startup Refunds for Entrepreneurs (SURE Scheme) to ensure that it delivers on its objectives to support the funding needs of growing businesses. If take-up levels remain low, alternative options to incentivise entrepreneurs to invest their own capital in their business should be considered.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Department of Finance

---

The Employment and Investment Incentive (EII) provides an income tax incentive to private investors to encourage equity investment in SMEs to create and retain jobs in firms that would otherwise find it difficult to raise funds. The EII targets recognised market failures in the risk capital environment which have been exacerbated by the recent economic and financial crisis. As with the SURE scheme is important this scheme is kept under continual review to ensure it remains competitive and effective.

---

**Recommendation:** Consider ways of increasing the usage and appeal of the Employment and Investment Incentive scheme to encourage the growth of equity investment in SMEs and ensure that the scheme remains competitive relative to international offerings.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Department of Finance

---

---

<sup>131</sup> Intrum Justitia, European Payment Report 2015

<sup>132</sup> SURE allows an individual leaving employment to set-up their own business to reclaim income tax on the capital invested in the new business. The capital must be invested as shares in the company. The income tax refund can be claimed in respect of up to €600,000 of income in the previous six years, subject to an annual income cap of €100,000 in each of the six years.

In spite of their growing importance for financiers and SMEs, evidence on the use of these non-debt financing tools by SMEs, and how they respond to their needs, is not comprehensive across the economy. The lack of hard data on non-debt financing instruments represents an important limitation for the design, implementation and assessment of policies in this area.

---

**Recommendation:** Identify and collate appropriate data on the take up of alternative sources of finance with a view to improving the take up of options such as non-debt financing amongst SMEs.

**Responsibility:** SME State Bodies Group, Department of Finance, Department of Jobs, Enterprise and Innovation, Strategic Banking Corporation of Ireland, Central Bank of Ireland

---

The State needs to continue to work to ensure that the banking system is aligned with the strategic economic growth targets of the economy. In this regard, a move towards a banking system with a deeper understanding of innovative sectors (e.g. software, telecoms, digital content, med-tech and life sciences) and a pro-active overseas banking network is required in the medium term. More immediately, there needs to be a focus on supporting internationally trading businesses in terms of both the provision of credit and the bank facilities/products (e.g., international invoice discounting, performance bonds and specialised leasing, etc.). A continuing focus on upgrading skills within the banks and financial skills in the wider business sector is important. The most recent Credit Review Office Report considers that the financial management capability of SMEs, particularly micro/small businesses needs to improve and suggests a role for business representative organisations and financial advisors in upskilling and supporting SMEs.

---

**Recommendation:** Continue to develop a banking system with a deeper understanding of innovative sectors (e.g. software, telecoms, digital content, med-tech and life sciences) and a pro-active overseas banking network is required. Focus on supporting internationally trading businesses in terms of both the provision of credit and the bank facilities/products (e.g., international invoice discounting, performance bonds and specialised leasing, etc.). Continue to upgrade skills within the banks and promote improved financial skills in the wider business sector.

**Responsibility:** Banks, SME State Bodies Group, SME representative bodies

---

## Chapter 6: Supporting Innovation and Productivity

### Why Productivity and Innovation Matters for Competitiveness

Productivity growth is the primary determinant of long term competitiveness and prosperity. More productive societies not only grow faster and create more jobs; they also enjoy higher living standards. Essentially, labour productivity (or the value of output per hour worked) is a measure of the efficiency with which goods and services are produced. Productivity, however, does not mean expecting people to work harder or longer; it is about working smarter and more efficiently. Productivity is a multi-dimensional concept; it reflects our ability to produce more output by better combining inputs, thanks to new ideas, technological innovations and new business models. The challenges in improving the quantity and quality of human and productive capital, and enhancing total factor productivity (through technological change, innovation and the application of competition policy) are complex and significant but key to achieving sustainable competitiveness resulting in economic growth, jobs and improved living standards.

It is difficult for policymakers to directly target macro level productivity performance through single policy measures. Factors that matter for competitiveness considered throughout this report ultimately impact upon productivity levels. For example, capital investment provides the infrastructure necessary for enterprise to conduct their operations in a more efficient manner; education and training programmes produce more highly skilled workers who can adapt to the changing needs of employers; and measures to improve credit flows and access to finance ensure that firms have the resources necessary to make investments in technologies to improve their processes, products and services.

Innovation is at the heart of the productivity agenda. Innovative economies tend to be more productive, more adaptable and better able to support higher living standards<sup>133</sup>. High levels of innovation require investment in research and development (R&D), by both the public and private sector; the presence of high-quality scientific research personnel and institutions; collaboration between universities and industry; and the application of advanced business processes and practices by enterprise<sup>134</sup>.

Competition policy also has a role in driving efficiencies, boosting productivity<sup>135</sup> and stimulating innovation. Recognising that firms do not just compete on price, competition fosters innovation in the form of new products and services and supports economic growth as firms realise they must offer new and improved products and services to stay ahead of their competitors. As a result, competition benefits consumers, businesses and the economy as a whole.

### Current Context

Overall global trends suggest that productivity growth is slowing<sup>136</sup>, both in terms of labour productivity and total factor productivity<sup>137</sup>. Closer to home, average euro area productivity levels are significantly lower than levels in the

---

<sup>133</sup> OECD, Innovation Strategy 2015: An Agenda for Policy Action, Meeting of the OECD Council at Ministerial Level Paris, 3-4 June 2015

<sup>134</sup> I.e. the absorptive capacity of firms, including their ability to adopt and adapt innovations developed elsewhere.

<sup>135</sup> Competition ensures that more productive firms increase their market share at the expense of the less productive. These low productivity firms may then exit the market, to be replaced by higher productivity firms.

<sup>136</sup> Weak global productivity performance in 2014 reflects a dramatic weakening of productivity growth in the US and Japan, and a longer-term productivity slowdown in China.

<sup>137</sup> Total factor productivity (TFP) measures the effects in total output not accounted for by either inputs of labour or capital. TFP can be taken as a measure of an economy's long-term technological change or technological dynamism.

US, and further, the gap between the euro area and US has widened since the mid-1990's<sup>138</sup>. The poor EU performance appears to be mostly related to a slower pace of technology adoption and innovation than is the case in the US<sup>139</sup>.

In terms of productivity growth rates, when measured as output per hour worked, euro area productivity growth dropped from 0.6 per cent in 2013 to 0.2 per cent in 2014 because of a faster increase in total hours worked compared to employment. Within the euro area, there is large variation in productivity growth rates between economies, reflecting the different states of the economic cycle, macroeconomic structure, labour market and the intensity of structural reform. A greater challenge appears to be in increasing total factor productivity (TFP), which measures the productivity of labour and capital together. Global TFP has stagnated. It has registered almost no improvement since 2012. This is striking as the average growth rate was more than 1 per cent from 1999-2006 and 0.5 per cent from 2007-2012. The challenge on TFP growth is very widespread across the globe. Most mature economies including the United States and the Euro Area show near zero or even negative TFP growth. This suggests improvements in the efficiency by which labour and capital are used have stalled and may also be indicative of weak demand and challenges that prevent businesses from maximising their potential through investments in technology and innovation.

Just as productivity performance differs between countries, so too it differs between firms. Indeed, divergent firm level productivity performance directly impacts upon aggregate national performance. According to the OECD, firms can be classified into three cohorts based on their productivity performance: the globally most productive firms (i.e. global frontier firms); the most advanced firms nationally; and laggard firms. The interaction between these three cohorts combines to determine overall productivity performance. While productivity growth rates amongst the global leaders remains strong, the gap between high productivity firms and the rest has increased. Analysing this development, the OECD concludes that *"the main source of the productivity slowdown is not so much a slowing of innovation by the most globally advanced firms, but rather a slowing of the pace at which innovations spread throughout the economy: a breakdown of the diffusion machine"*<sup>140</sup>.

In response, the OECD has identified a series of conditions necessary to improve productivity diffusion levels globally;

- i. Extend global connectedness, via trade, FDI, participation in Global Value Chains (GVCs) and talent mobility;
- ii. Enable firms - particularly new entrants - to experiment with new technologies and business models;
- iii. Ensure that markets are competitive and facilitate more effective utilisation of resources by enabling labour, capital and skills to flow to the most productive firms; and
- iv. Invest in innovation, skills (including digital skills), and organisational capabilities.

In terms of stimulating innovation performance, the OECD suggests that effective innovation strategies require the following elements<sup>141</sup>:

- A skilled, adaptable and innovative workforce that can generate, implement and trade new ideas and technologies;

---

<sup>138</sup> Despite the slowdown in productivity growth in the US, its level of output per hour remains among the highest in the world. According to the Conference Board, productivity levels in the euro area (measured as output per hour in US dollars, and adjusted for differences in relative price levels using purchasing power parities), was just 84 per cent of the US level in 2014. See The Conference Board, Productivity Brief 2015: Global Productivity Growth Stuck in the Slow Lane with No Signs of Recovery in Sight, 2015

<sup>139</sup> A recent European Commission study suggests that the EU-US productivity gap can likely be explained by more cumbersome regulations and lower investments in information and communications technology (ICT) and other intangible assets, such as R&D or human capital. See European Commission, European Competitiveness Report 2013: Towards Knowledge-Driven Reindustrialisation, 2013

<sup>140</sup> OECD, The Future of Productivity—Preliminary Version, 2015

<sup>141</sup> OECD, Innovation Strategy 2015: An Agenda for Policy Action, Meeting of the OECD Council at Ministerial Level Paris, 3-4 June 2015

- An enterprise environment that encourages entrepreneurship and investment in knowledge-based capital, and that facilitates new business model and scaling, and rewards innovation;
- A system for knowledge creation and diffusion that invests in the systematic pursuit of fundamental knowledge, and diffuses this knowledge throughout society through a range of mechanisms, including human resources and technology transfer; and a strong focus on governance and implementation with embedded policy evaluation.

### Ireland's Current Performance

Starting from a low base, economy wide productivity levels now exceed those of many of our peers and competitors:

- According to the Conference Board Total Economy Database, productivity per person employed (measured in terms of GDP in Purchasing Power Standards (PPS)) in Ireland was 53 per cent higher than the EU28 average in 2014 (45.7% higher in GNP terms);
- Ireland had the second highest productivity level per person employed amongst the EU28 in 2014 after Luxembourg, when measured in GDP terms;
- Irish productivity per hour worked is somewhat lower (reflecting longer working hours in Ireland compared with many other countries) but is still 37.4 per cent above the EU28 average and 28.9 per cent above the euro area-19 average. This was the 3<sup>rd</sup> highest in the EU28, after Luxembourg and Belgium.
- CSO data shows that in 2011 Ireland (€76,100) recorded the second highest figure in the then EU27 in terms of Gross Value Added (GVA) per person engaged, exceeded only by Luxembourg (€77,500)<sup>142</sup>. When foreign-owned enterprises were excluded from the Irish data, however, GVA per person engaged fell to €40,900<sup>143</sup>.

Despite the generally positive trends in productivity performance, the Council has previously highlighted a number of caveats about the Irish data. In particular, much of Ireland's recent performance is a result of compositional effects arising from changes in the labour market: the decline in relatively low productivity construction sector employment throughout the recession actually resulted in an improvement in overall average productivity levels. Further, Ireland's strong overall productivity performance is impacted by and dependent upon Ireland's large base of high productivity multinationals (as shown in the CSO data above)<sup>144</sup>. Considering the impact of foreign owned companies on overall productivity levels, previous NCC research suggested that labour productivity levels in Ireland are high relative to many competitor countries but continue to lag leading performers<sup>145</sup>.

Looking at Ireland's innovation performance, the European Commissions' Innovation Scoreboard<sup>146</sup> shows that Ireland's overall innovation ranking continues to improve; in 2015 Ireland scored above the EU average and was ranked 8<sup>th</sup> in the EU. While the Irish innovation system has developed significantly in a relatively short period of time, it remains behind those member states with more established track records in innovation. While Ireland is classed by the Commission as an "Innovation Follower", Denmark, Finland, Germany and Sweden are considered "Innovation leaders". Based on the Innovation Scoreboard, Ireland enjoys relative innovation strengths in relation to license and patent revenues from abroad, international scientific co-publications, employment and exports in knowledge-

---

<sup>142</sup> CSO, Business in Ireland 2012, December 2014

<sup>143</sup> A similar exercise has not been completed for the other countries. Therefore, comparing indigenous Irish enterprises to all enterprises in other countries is not a like for like comparison.

<sup>144</sup> Foreign-owned firms are generally characterised by significantly higher productivity levels than indigenous firms. See Department of Finance, Economic Impact of the Foreign-Owned Sector in Ireland: Part of the Economic Impact Assessment of Ireland's Corporation Tax Policy, October 2014

<sup>145</sup> NCC, Ireland's Productivity Performance 1980-2011, May 2012

<sup>146</sup> European Commission, Innovation Union Scoreboard 2015

intensive services, in-house SME innovation, and the proportion of the population having attained tertiary education. On the other hand, Irish performance is weakest in relation to community designs, non-R&D innovation expenditures and public sector expenditure on R&D.

### Policy Challenges and Recommendations

#### Supporting Productivity Performance

The narrow base of companies and sectors driving overall productivity performance leaves Ireland vulnerable to external shocks but also serves to highlight the scope for reform. The OECD's research suggests that a key factor affecting an economy's ability to sustain long term productivity will be participation in global trade and international investment. It has long been recognised that trade can be a spur to productivity growth and there is a vast literature documenting the positive effects of trade on productivity performance. Firms which are more heavily exposed to international competition benefit from a larger market and will have a stronger incentive to innovate and find efficiency improvements than businesses which are more sheltered in domestic markets. Issues relating to trade and the broadening of the export base are considered in the next chapter.

As noted previously, it is difficult for policy makers to directly impact productivity performance. Instead, policy must focus attention on various levers which can, over time, enhance the capability of firms and individuals to effect change and boost productivity. Nevertheless, some important tools are available.

In the first instance, recognising the importance that productivity plays as the key driver of longer term competitiveness and prosperity is essential. In this regard, the prominence accorded to productivity performance in Enterprise 2025 (EP2025) is to be welcomed.

EP2025 sets out a target for Ireland to achieve 2.5 per cent growth in productivity per annum over the next ten years. Taking a whole of enterprise approach, EP2025 sets out a range of actions to improve the operating environment for enterprise, which will facilitate improved productivity performance. A range of actions aimed at improving collaboration amongst firms and sectors, boosting internationalisation, fostering emerging sectors, and stimulating innovation are all set out.

---

**Recommendation:** Implement the actions to support productivity set out in Enterprise 2025. As well as tracking implementation, monitor the impact of the actions on key metrics including productivity performance.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Ireland, IDA Ireland, Local Enterprise Offices

---

While EP2025 sets out a defined productivity growth rate target, any analysis of Ireland's performance is limited by the absence of comprehensive, sectoral level and firm level data. Further, limited up-to-date international comparisons are available. Evidenced based policy making relies on the availability of data to identify issues, devise responses and assess progress. The potential to develop and publish a comprehensive productivity dataset should be explored by the CSO. Such an exercise should consider measures of labour (both overall and on a per hour worked basis), capital and total factor productivity. Data is required for both productivity levels and growth rates, and data should be disaggregated to the degree possible to identify sectoral trends<sup>147</sup>. Such a dataset should draw on existing CSO data

---

<sup>147</sup> There are limitations to cross-sector productivity comparisons, as the scale and mix of factors (in particular the level and type of capital used) differ across industries.

sets and should not, therefore, impose an additional administrative burden on firms. Where possible, approaches that facilitate international comparisons should be pursued.

More challenging issues such as the measurement of productivity in the public sector should also be addressed. This is a particularly important issue to given the size of the public sector relative to other sectors, and the ongoing public sector reform agenda. The Office of National Statistics in the UK has already undertaken significant work in this regard and could represent a useful starting point<sup>148</sup>.

---

**Recommendation:** Develop a comprehensive dataset measuring aggregate and sectoral labour, capital and total factor productivity growth rates and levels.

**Responsibility:** Central Statistics Office

---

Once this data is available, a comprehensive assessment of Ireland productivity performance is required. This exercise should analyse the drivers of Irish productivity and identify actions to improve performance. There may be merit in focusing on particular sectors which are, for example, large employers or experiencing relatively low rates of productivity growth – such as manufacturing, construction, domestically traded services (e.g. retail and hospitality) and the public sector. There should also be an international dimension – there are many examples of Productivity Commissions around the world with explicit mandates to identify barriers to productivity growth, advocate reforms, and engage in a dialogue with stakeholders regarding the appropriate design of micro-economic and industry regulation measures.

---

**Recommendation:** Building on the development of the productivity dataset, undertake a comprehensive assessment of Irish productivity performance. This should analyse the main drivers of productivity, identify the challenges and barriers to improved performance, and set out actions to enhance productivity growth rates, in support of the Enterprise 2025 productivity targets.

**Responsibility:** National Competitiveness Council

---

### Management Development to Support Firm Level Productivity

Management skill levels are an essential element in driving improved productivity performance. At a global level, the available research shows that there is a strong relationship between management practice and business performance. The OECD has found a positive relationship between management development, management practice and the bottom line performance of a firm<sup>149</sup>. Management capability has a direct impact on the innovation performance of firms also.

Recent assessments of management skills in Ireland present some cause for concern: according to the IMD Executive Opinion Survey<sup>150</sup>, the perceived ability of Irish companies to adapt to market change has declined, and Ireland's

---

<sup>148</sup> In developing their measures for public sector productivity, the ONS note that "while these productivity estimates provide a measure of the amount of output which is produced for each unit of input, they do not measure value for money or wider government performance. They do not say, for example, whether the inputs have been purchased at the lowest cost, or whether the desired outcomes are achieved through the output provided". See Office for National Statistics, Public Service Productivity Estimates: Total Public Services 2012, February 2015

<sup>149</sup> OECD, Management Training in SMEs, 2003

<sup>150</sup> IMD, World Competitiveness Yearbook 2015, May 2015

ranking has fallen from 3<sup>rd</sup> to 14<sup>th</sup>; our ranking in terms of the effectiveness of corporate boards has fallen from 9<sup>th</sup> to 24<sup>th</sup>; and our ranking in relation to the entrepreneurship of managers has declined from 11<sup>th</sup> to 24<sup>th</sup>.

The Council endorses the EP2025 target of delivering a demonstrable uplift in business leadership skills to drive innovation and internationalisation across a broader cohort of enterprises, and in management capability across the enterprise base, so that all firms have the potential to achieve a one-step-up to higher business performance and growth.

There are already many successful management development programmes – for example Enterprise Ireland runs a range of mentoring, Lean, Six Sigma and transformational change programmes; client companies that participate in these programmes exhibit stronger employment growth than companies that do not participate. Skillnets, through Management Works offers a successful suite of subsidised management development programmes to help business owners, managers and management teams achieve better results.

To effect this change, and to address the slippage in performance outlined above, there is an urgent need to broaden the reach of programmes catering to management development. Not all elements of the existing programmes, however, are relevant to all of the firms currently not engaging in management development. For many locally trading firms in the hospitality, retail or construction sectors for example, programmes designed to boost the management capability of an exporting firm may not be directly applicable. Such firms may benefit more from greater exposure to mentoring, and/or peer-to-peer networking, and to modules related to managing sales/revenue growth. There is a need to increase the take up of management development amongst firms, and to identify whether elements of existing management development programmes could be tailored to meet the needs of different cohorts of firms. Thereafter, mechanisms to engage with firms (particularly locally trading SMEs) that do not currently participate in management development are required to disseminate relevant modules.

---

**Recommendation:** Increase the awareness about and take up of management development initiatives by enterprise. Develop mechanisms to facilitate the tailoring and extension of relevant programme modules to cohorts of firms currently not engaging in such programmes.

**Responsibility:** Local Enterprise Offices, Skillnets, Enterprise Ireland

---

## Innovation

### Embedding R&D Activity to Increase Innovation

Given the global connectedness and openness of the Irish economy, the role of Irish firms in global value chains, the relatively high educational attainment levels of the labour force and the key role of the FDI sector in driving productivity improvements, Ireland should be well placed to capitalise on the diffusion of productivity enhancing innovations.

Enhancing Ireland's innovative capacity requires cost effective sustained investment over time. As well as direct investment in R&D, a suite of supporting architecture encompassing R&D tax incentives, supportive corporate taxation and a competitive intellectual property regime is essential.

In some OECD countries, firms now invest as much or more in knowledge based capital as they do in physical capital such as machinery, equipment and buildings. Europe is closing its innovation gap with the United States and Japan but differences in performance between EU Member States are still high and diminishing only slowly. The economic crisis negatively affected business innovation and R&D in all OECD countries. The impact on business innovation has differed widely, depending on their situation at the eve of the crisis and on the policies implemented. Many OECD countries (northern Europe, Japan and the United States) have recovered somewhat. Future prospects for competitiveness will greatly depend on effective investment in innovation. Prior to the onset of the recession, Ireland

was making significant progress towards achieving its national research and development intensity target (i.e. spending 2.5 per cent of GNP on R&D per annum by 2020<sup>151</sup>). As a result of the recession, however, expenditure fell by from a peak of €930 million in 2008 to €727 million in 2014.

As set out in the *Scorecard*, overall investment in R&D in Ireland remains below the OECD<sup>32</sup> average: Irish gross expenditure on R&D (GERD) accounted for 1.54 per cent of GDP in 2013 (1.81% of GNP). In terms of Government-funded R&D activity, GBAORD has fallen from 0.63 per cent of GNP in 2009 to an estimated 0.45 per cent in 2014. This is below the EU28 (0.63% in 2013, the latest data available) and OECD (0.54% in 2014) averages, and is well below small country innovation leaders such as Denmark (1.01%).

Chapter 2 has already noted the fiscal constraints within which Government must operate – nevertheless, the successor to the Strategy for Science, Technology and Innovation should set out ambitious but achievable targets in respect of public and private investment and outcomes in R&D, towards Ireland's Europe 2020 target of achieving 2.5 per cent of GNP. Increased exchequer capital funding would be required if Ireland is to meet such a target.

However, it is not the quantity of resources dedicated to R&D investment that matters for long-term growth; the quality and effectiveness of investment is equally significant. Since 2011, policy focus has sought to enhance the capacity and capability in both academia and enterprise through the acquisition and transfer of knowledge from basic to applied research, and to facilitate greater commercialisation of research. To maximise the impact of public investment in science, technology and innovation, the new SSTI needs to strike an appropriate balance between applied and basic research funding, with a focus on supporting research in areas of strategic enterprise opportunity (reflecting the outcome of the Research Prioritisation exercise).

### Business Expenditure on R&D

While further exchequer funding is likely to be required to meet our SSTI target, private investment will continue to be a primary source of investment. In terms of business expenditure on R&D (BERD), Ireland's performance has improved over the last decade, and expenditure amounting to 1.2 per cent GDP is close to the EU average. At present, the foreign owned sector accounts for 70 per cent of BERD. A number of policies are noteworthy here.

- The State's R&D Tax Credit scheme is a key element of Ireland's strategy to increase BERD and to deepen the research capabilities of firms based in Ireland. Accordingly, it is important that Ireland's R&D tax credit remains internationally competitive and evolves to meet the needs of the enterprise sector – particularly emerging sectors.
- The Knowledge Development Box (KDB) will add a further dimension to Ireland's corporation tax offering for companies considering undertaking R&D and hosting their Intellectual Property (IP) in Ireland, and is, therefore, a key element of Ireland's FDI offering<sup>152</sup>.

---

<sup>151</sup> The Europe 2020 strategy sets a gross expenditure on research and development (GERD) target of 3 per cent of GDP for Europe as a whole and 2.5 per cent of GNP for Ireland.

<sup>152</sup> The undertaking of R&D builds knowledge and capability in Ireland, which is highly difficult to replicate elsewhere. It also makes it more likely that companies will commercialise their R&D in Ireland leading to more investment and jobs. The Irish KDB is the first fully compliant KDB under the OECD's BEPS (Base Erosion and Profit Shifting) initiative, and will provide long-term certainty to many international businesses investing in Ireland, and those re-evaluating their structures and investment choices in other locations to compete and succeed in a post-BEPS world. The Knowledge Development Box will provide a corporate tax rate of 6.25 per cent for future income received from certain intellectual property assets. This will encourage companies to develop intellectual property in Ireland and thereby engage in substantive operations that have a high 'value-add' and long-term benefit for the Irish economy. Any sector that codifies its research through patent or copyright will be able to avail of this relief. This is of particular significance to the life sciences sector, such as Pharma, Bio Pharma and Medical Technologies.

**Recommendation:** Continue to develop our range of policies to further embed R&D activity in Ireland and to incentivise increased business expenditure on R&D (e.g. R&D supports<sup>153</sup>, the R&D tax credit, relief on investment in intangible assets, and the Knowledge Development Box). Ensure that these incentives remain internationally competitive and relevant to evolving enterprise needs.

**Responsibility:** Department of Finance

---

### Firm Level Innovation

As well as maintaining and increasing the level of R&D activities by high productivity enterprises in the FDI and globally trading indigenous sectors, to effect a real step-change in innovation performance there is a need to increase innovation activity amongst firms in sectors where such activity is currently less intensive (e.g. the domestically traded sector). Enterprise 2025 accords significant attention to enhancing innovation, and aims to:

- Increase the number of innovation performers in the foreign owned sector;
- Broaden and deepen RD&I activity in Irish owned enterprises; and
- Strengthen collaborative links between enterprises and between enterprises and the higher education sector.

---

**Recommendation:** The new Strategy for Science, Technology and Innovation should reflect the ambitions set out in Enterprise 2025 to significantly boost innovative activity amongst firms based in Ireland, and develop practical actions to realise these ambitions. Specific actions should be developed to:

- Better utilise public procurement to stimulate innovation, for example through the roll out of further Small Business Innovation research (SBIR) initiatives<sup>154</sup>.
- Ensure that Ireland's Intellectual Property (IP) framework remains fit for purpose.
- Ensure that there is a sufficient supply of researchers and human capital to underpin an innovative enterprise sector.
- Encourage market-oriented innovation (i.e. oriented away from pure science and technology to a greater focus on consumers and entrepreneurs needs)
- Promote greater collaboration between enterprise and Higher Education Institutions.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

---

<sup>153</sup> The Department of Jobs, Enterprise and Innovation funds, in whole or in part, a number of R&D programmes which are delivered through the Development Agencies.

<sup>154</sup> SBIR uses the power of government procurement to drive innovation. It provides opportunities for innovative companies to engage with the public sector to solve specific problems and enables the public sector to engage with industry during the early stages of development, supporting projects through the stages of feasibility and prototyping.

## Chapter 7: Broadening the Enterprise and Export Base

### Why Enterprise and Exports Matters for Competitiveness

Sustainable growth and jobs is reliant on our ability to trade internationally and maintain export competitiveness. As the size of the domestic market is relatively small, Irish enterprises tend to internationalise at an earlier stage of their development relative to enterprises in other countries. Trade and investment improves competitiveness through two channels: first, by increasing the size of the market available to domestic firms; and second, by driving productivity and innovation by exposing firms to international competition, expertise, and technology.

In Ireland and across the OECD, exporting startups are dynamos of competitiveness. A continuous flow of new business startups that can survive and thrive in international markets strengthens the enterprise base not only through the creation of new businesses, products and services but also by stimulating improved performance in existing businesses. Competitiveness also matters to those indigenous entrepreneurs who focus exclusively on the domestic market and remain small by choice, particularly in terms of costs, competition, utilisation of ICT and productivity. The base of FDI enterprises is also a key stimulator and driver of Irish competitiveness performance.

While the trade performance of an economy such as Ireland's will always be conditional on the ebb and flow of global markets, a more diverse export base can reduce exposure to external demand shocks, exchange rate fluctuations instability in export earnings, upgrade value-added, and enhance growth and jobs. The Council considers Irish based exporters must scale and diversify sustainably and strategically to reduce exposure to external economic shocks. To increase competitiveness, economic growth and sustainable jobs, we need a strong and dynamic range of FDI, Irish owned businesses that export, an increased level of startups with the potential to scale and internationalise supported by an administrative and regulatory framework that facilitates enterprise and exports.

### Current Context

As the Council cautioned in this year's *Competitiveness Scorecard*, our current trading patterns leave us vulnerable to external demand shocks, particularly changes in the value of the euro.

As set out in the *Scorecard*, much of our recent performance is dependent on a relatively small number of sectors selling a narrow range of products into a narrow range of markets. In recent years the composition of Irish enterprise and exports has become increasingly oriented towards the services sector. Our export base has become more concentrated. Chemicals and pharmaceutical products<sup>155</sup> are now the key driver of export growth and their share of total exports has been growing steadily since 2000; chemicals now account for 60 per cent of the value of goods exported from Ireland. These exports are dominated by a small number of foreign owned enterprises. Research indicates that the high level of import content and the relatively high returns to capital means the sector's contribution to Gross National Income is much lower than its export size<sup>155</sup>.

The European Commission forecasts that over the next decade 90 per cent of new global demand will be generated outside Europe, which makes trade, exports and the internationalisation of SMEs an indispensable element of competitiveness strategies at both national and European levels. It is therefore vital that competitiveness at European level is promoted through comprehensive free trade agreements that, on top of removing tariffs, also open up markets. Internationalisation of SMEs and access to markets is also a factor in the functioning of the internal market

---

<sup>155</sup> Central Bank of Ireland, Quarterly Bulletin Q2 2015, April 2015

and effective regulation is a key element of Irish and European competitiveness. Ireland must also continue to look to the single market, and work with Member States to ensure that Europe develops the most supportive environment possible to facilitate cross border trade, enterprise and entrepreneurship.

A high proportion of Irish SMEs trade in international markets, primarily, the UK, EU and USA. Eurostat/OECD TEC data for 2012 shows that at 88 per cent the share of exporting Irish SMEs to total exporting enterprises (an increase of 9 per cent on 2011) is above the European average 84 per cent. Ireland has a higher share of SME exports in total export value than the EU average and a lower share of exporting SMEs in the total number of exporting firms. However there is scope for increased exports to these markets and those outside the US and EU, particularly through increased participation in Global Value Chains (GVCs). An open trade policy allows firms to fully benefit from international production networks. Economies that are more connected with the global frontier via trade are more integrated in GVCs. A key issue for the future of the enterprise sector is how to best capitalise on the benefits of GVC participation.

Over 70 per cent of global trade is now in intermediate goods and services and in capital goods. The growth of GVCs has increased the interconnectedness of economies and led to a growing specialisation in specific activities and stages in value chains, rather than in entire industries. Participation in GVCs is, therefore, a critical component of a country's ability to trade and compete internationally. OECD data suggests that FDI in Ireland is largely responsible for Ireland's high participation rates in GVCs. Supporting greater linkages across the FDI and indigenous enterprise sectors offers potential to deepen indigenous firms' links in GVCs. Given the prevalence of FDI in Ireland, the importance of trade in intermediate goods and services has risen. While IDA Ireland has an impressive track record in attracting and maintaining investment from established markets, deepening and broadening the FDI base (both in terms of sectors and markets) and maintaining Ireland's competitive advantage for new and existing inward investment represents a major challenge.

### Ireland's Performance

Between 2009 and 2014 net exports were the primary driver of Irish growth and accounted for an increasing percentage of national income. While this robust performance is welcome, increasing export levels is a significant challenge. Services exports, driven by computer sales have increased strongly and since 2013 account for a larger share of exports than goods. This is evident in Ireland's increasing share in world services trade (2.7%) and declining share of merchandise trade (0.6%). CSO data shows the EU and US accounted for 57 per cent and 21 per cent of total merchandise exports in 2013, relatively unchanged year on year. This leaves our enterprise base vulnerable to external shocks, particularly changes in the value of the euro. In recent years growth has been strongest in Asia and emerging economies underlining the importance of policies to help Irish enterprises (particularly SMEs) to broaden and diversify their export market focus.

Export performance in value terms was very impressive in 2014 with exports from Enterprise Ireland (EI) supported companies increasing by approximately 10 per cent to €18.6billion. Year on year, exports by EI supported companies grew across all sectors and international markets. EI supported companies account for 12.2 per cent of total development agency client exports. In export market share terms, "food and drink", "traditional manufacturing" and "business services" account for the majority of exports by EI clients. Irish exports remain very dependent on strong trading activity with the euro area. The top-five export destinations for EI supported companies are the UK, US, France, Germany and the Netherland. These countries accounted for 61 per cent of EI export sales in 2014. Trade with the UK is and will remain particularly important. In value terms, 37 per cent of EI companies' exports are to the UK. Sustaining the enterprise base will require the development of new products, sectors and markets.

It is therefore encouraging that EI supported companies' exports to Growth Markets continued to increase in 2014, with exports to Latin America and Asia Pacific increasing by 42 per cent and 25 per cent, respectively. Sustaining the enterprise base will require the development of new products, new sectors and new markets.

CSO Business in Ireland data shows the number of active enterprises, persons engaged and value-added remains below pre-crisis levels. Supporting entrepreneurship is the key to increasing enterprise activity and employment. It is estimated that 67 per cent of all new job-creation comes from businesses in the first five years of existence. SMEs account for 99.7 per cent of active enterprises in Ireland, 68 per cent of persons engaged, 50.3 per cent of turnover and 46.2 per cent of gross value added (GVA)<sup>156</sup>. Some 91 per cent of enterprises in the Irish business economy are micro-enterprises. Micro and small firms are involved in a broad spectrum of sectors and activities; including: software, medical technologies, food production, digital content, tourism, retail and wholesale, business, professional and personal services – many of which while low in terms of export and value added components are strong generators of employment.

The economic crisis severely impeded the level of entrepreneurship and startup activity in Ireland. Data for 2012 shows more businesses closed than were created with gains in the ICT and financial services sectors offset by construction sector losses. A relatively supportive environment for entrepreneurship exists in Ireland as benchmarked against many of our euro area competitors. In the World Bank's latest Doing Business report, Ireland is ranked 17th in the world for the ease of doing business, but only 25th for starting a business, out of 189 economies. The Global Entrepreneurship Monitor Report for Ireland for 2014 also indicates Ireland is a mid-table performer with scope for improvement as only 6.5 per cent of the adult population are active in early stage entrepreneurial activity compared with estimated rates of 8.6 per cent and 13.8 per cent in the UK and US respectively. In digital trade, Ireland is one of the best performing countries in the EU (albeit from a low benchmark) with 24 per cent of enterprises selling goods and services online in 2014 compared with 14 per cent in the euro area. The Council believes that there is clear potential to increase the number of Irish SMEs trading digitally.

Despite intensified international competition for globally mobile investment, Ireland performed very strongly in 2014 in terms of FDI investment and employment. Ireland's stock of inward investment, at 173 per cent of GDP, remains amongst the highest in the OECD, illustrating the significant underpinning provided by FDI to the Irish economy. The Irish corporation tax rate remains competitive though as set out in the *Scorecard*, the gap between Ireland and OECD countries is narrowing.

### Policy Challenges and Recommendations

While exports by indigenous enterprise can and must become a stronger source for growth, realising this ambition requires an increasing emphasis on scaling companies of all sizes and supporting entrepreneurship. Enterprise Ireland has performed strongly in recent years across the range of its activities particularly driving early-stage growth, developing capability and scale and targeted export growth strategies. While continuing to maximise export opportunities from established markets, the potential from High Growth Markets must be realised by Irish exporters. Developing new sources of comparative advantage in new opportunity areas must be vigorously pursued by Enterprise Ireland.

The State's enterprise development Agencies, Enterprise Ireland, Local Enterprise Offices, IDA Ireland and Science Foundation Ireland, provide a range of development programmes, that deliver financial, technical and experiential support to help companies become more innovative and grow. This environment is conducive not only to indigenous startups, but to attracting overseas entrepreneurs to come and start their business here. The National Policy

---

<sup>156</sup> CSO, Doing Business in Ireland 2012, 2014

Statement on Entrepreneurship has set targets to increase the number of startups by 25 per cent, the survival rate in the first five years by 25 per cent and the capacity of startups to grow to scale by 25 per cent. These targets are welcome and the Policy Statement must become the implementation platform for improving the environment for startups, scaling and survival in Ireland.

The Council welcomes Enterprise Policy 2025 (EP2025) which sets out a ten year whole of Government strategy to support enterprise, strengthening comparative advantage in key sectors, increasing productivity and innovation capacity and addressing structural issues. In particular, the Council welcomes the target led export ambitions set out in EP2025 to:

- Achieve the potential for growth in Irish owned exports by between 6 and 8 per cent annually to 2020;
- Realise increased export intensity of Irish owned firms to between 55 and 60 per cent;
- Support geographic market diversification (including to high growth emerging markets) amongst Irish owned firms so that exports to non-UK markets increase by 50-60 per cent to between €15 and €16 billion.

---

**Recommendation:** Ensure policies are oriented to immediately facilitate the achievement of the export targets set out in Enterprise 2025.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

### Internationalisation and Market Diversification

Shifting global growth patterns and new trade dynamics are opening up opportunities for SMEs in international markets but sustainable internationalisation is a significant challenge. Entering new and emerging markets presents Irish enterprises with challenges in terms of their institutional environment, language, and distance related overheads such as transport. Further company-led expansion into new markets and a deepening of trade links with the world's leading emerging economies is required. Enterprise Ireland offers a range of financial and non-financial supports to assist client companies diversify and internationalise.

While Irish exporters are heterogeneous, there are a number of common internal and endogenous factors affecting their ability to export. Internal obstacles can include the lack of managerial skills and qualified/experienced staff; access to finance constraints and limited presence in foreign markets. Endogenous factors include language barriers, tariffs and quotas, rules of origin, IP enforcement and exposure to exchange rate fluctuations. Non-tariff measures such as standards compliance, licensing procedures may also affect SMEs disproportionately due to fixed compliance costs and the inability of small companies, particularly start-ups to absorb costs. SME exporters may also suffer from relatively higher costs and challenges than larger exporters due to economies of scale. The costs of entering high-growth markets may in the majority of cases exceed the fixed costs of entry into established markets.

It should be noted that OECD research on productivity suggests that only a few SMEs with high productivity can start and sustain international business. Well targeted interventions are therefore necessary. In generating new market penetration and export opportunities it is also vital that the focus on new markets by policymakers is company driven and not dictated from the top-down. In this regard, the role of Enterprise Ireland is critical. EI provides significant financial, informational, contact and in-market support to overcome barriers to SME internationalisation. Support programmes show an increase in exports of about 34 per cent with the estimated additional value of exports attributable at €2,702 million between 2007 and 2012. Enterprises that internationalise experience positive gains in productivity and innovation, and benefit from economies of scale. Internationalisation can also reduce the financial pressure on companies since it provides potential additional revenue sources.

Independent evaluations of Enterprise Ireland supports have found that the agency programmes are appropriate and aligned with policy, effective in meeting stated objectives and efficient with participating companies achieving higher

growth levels in employment and exports, realised greater productivity improvements, and experienced higher survival rates. Supported companies also reported increased skills levels and management capabilities, better understanding of overseas markets, greater job satisfaction amongst employees, increased confidence and strategic ambition, and improved sustainability. The evaluations demonstrate that value for money is being achieved in supporting internationalisation and market diversification and further supporting targeted, independently evaluated investment in the enterprise agencies is essential to developing a sustainable export base.

---

**Recommendation:** Increase the number of market-ready firms internationalising and work with targeted client companies to increase their internationalising capabilities.

**Responsibility:** Enterprise Ireland

---

### Digital Trade

The application of digital technologies can facilitate increases in productivity, trade and growth across all economic sectors. However, the potential for digitalisation to increase national competitiveness is under-exploited in Europe and Ireland compared with the US. The digital economy is estimated to account for up to 8 per cent of GDP in G-20 economies<sup>157</sup>.

It is estimated that the value of Ireland's internet economy in 2014 will be €8.4 billion or 5 per cent of GDP, potentially rising to 10 per cent or €21.1 billion by 2020<sup>158</sup>. The largest single contributor to the digital economy now and in the future is online consumer spending at a current figure of nearly €6 billion annually in Ireland. The continuing digitisation of the economy in Ireland will be dependent on the take up and diffusion of new technologies, infrastructure development, skills and working at European level to develop a digital single market for SMEs.

As set out in the *Scorecard*, Ireland is one of the best performing countries in Europe in terms of SME businesses trading on line, with 24 per cent of enterprises selling goods and services online in 2014 compared with a euro area average of 14 per cent. 49 per cent of large enterprises had eCommerce sales, which accounted for 44 per cent of total sales of large enterprises.

The National Digital Strategy set a target to get 10,000 Irish businesses online for the first time and to achieve a further 2,000 small Irish businesses trading online over a period of two years. The Trading Online Voucher Scheme assists small businesses to trade online by developing their ecommerce capability. A 2015 evaluation of the scheme shows that the scheme appears to be having a tangible benefit leading to an average number of 1.4 new jobs per business and a 40 per cent increase in customer interest from new markets. Despite being a comparatively strong performer, growth in online sales is coming from a very low base. The Council believes that Irish enterprise has considerable scope for more rapid growth in digital trade, particularly amongst SME and micro enterprises.

---

**Recommendation:** Review how best to accelerate the roll out of the Trading Online Voucher scheme and set ambitious targets to increase the number of enterprises trading online.

**Responsibility:** Department of Communications, Energy and Natural Resources,

---

---

<sup>157</sup> Dean, D. et al, The Connected World: The Internet Economy in the G-20 – The \$4.2 Trillion Growth Opportunity, Boston Consulting Group, March 2012  
<sup>158</sup> Amárach Research for UPC, The Second UPC Report on Ireland's Digital Future: Accelerating Economic Recovery, 2014

### Export Diversification

The composition and range of goods exports from Ireland has changed considerably over the last decade. In contrast to global trends, goods exports in Ireland are increasingly concentrated in a relatively narrow base of sectors. Since 2000, exports of office machinery and electrical goods decreased from one third of all goods exported to less than 10 per cent of goods exports in 2014. Chemicals and pharmaceutical products are now the key driver of export growth and their share of total exports has been growing steadily since 2000; accounting for 60 per cent of the value of goods exported from Ireland, compared with approximately 11 per cent of total global exports.

Export diversification strategies can help economies militate against economic shocks. The World Bank defines export diversification as the change in the composition of a country's existing export product mix or export destination or as the spread of production over many sectors. Economic complexity research proposes that countries grow by expanding their knowledge and capability base, enabling them to diversify into new products, industries and economic activities. The theory suggests that it is not the volume of products which a country exports that is the key, it is the type or sophistication of those products. Highly developed countries export products that are more complex: those requiring rare capabilities and inputs processed by only a handful of economies. The World Bank state that:

*"Addressing constraints behind borders means addressing supply side constraints (Infrastructure, Institutions (trade related), policy constraints (including adequate business regulatory framework, and investment policy regime), competitiveness constraints (standards, packaging, quality, and delivery in time), and needed support incentives (fiscal incentives and credit incentives). Addressing constraints beyond the borders implies addressing market access barriers to export growth"<sup>159</sup>.*

In recent years the range of manufactured products that Ireland has exported competitively (i.e. the number of products exported with a Revealed Competitive Advantage-RCA) has been shrinking. Since 1995, Ireland has specialised, exporting fewer and fewer products with RCA. It has fallen from over 200 to under 130. Increasing the range of exported goods and services by developing competence in new and emerging sectors would reduce Ireland's exposure to demand led external shocks. However, the Council acknowledges that realising the potential of new sources of export growth is complex and takes time to realise. As set out in Enterprise 2025, Ireland's export base can only be broadened by developing comparative advantage through a coordinated approach to sectoral ecosystem development, trade, strengthened clustering initiatives, enhanced agency collaboration, RD&I, and cross-sectoral/convergence initiatives.

The Action Plan for Jobs has identified a variety of initiatives focused on broadening the export base in emerging sectors such as Robotics, Big Data, Design, 3D printing, precision engineering and manufacturing in specific sectors such as food and life sciences, the Internet of Things, and the Green Economy. Demographic factors, technology and changing consumption behaviours are likely to drive demand in existing sectors and growth in a range of sub-sectors and niche markets. A wide range of State supports are now in place, many of which are specifically adapted to the manufacturing industry<sup>160</sup> including client transformation supports, training and reskilling initiatives, export and research support. It is vital that these evolve to provide a comprehensive and internationally competitive offering to facilitate the development of new and emerging manufacturing sectors.

---

<sup>159</sup> Samen, S., A Primer on Export Diversification: Key Concepts, Theoretical Underpinnings and Empirical Evidence, Growth and Crisis Unit, World Bank Institute May 2010

<sup>160</sup> Department of Jobs, Enterprise and Innovation, Manufacturing Guide: An Overview of Government Supports for Manufacturing in Ireland, September 2015

---

**Recommendation:** Ensure the range of enabling manufacturing supports evolve to effectively address the needs of enterprise and are internationally competitive

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Development Agencies

---

### Entrepreneurship: Start-ups of Scale

If history is any indication, many of today's economic heavyweights will ultimately decline as new businesses take their place. It is striking that 60 per cent of the 1995 Fortune 500 firms no longer remain on the list in 2015. A continuous flow of new business start-ups that can survive, scale and thrive in international markets strengthens competitiveness not only through the creation of new businesses, products and services but also by stimulating improved performance in existing businesses.

In Ireland, and across the euro area, the number of new company formations remains below pre-crisis levels. Yet, simply measuring the number of individual entrepreneurs is insufficient. Policies that fail to consider the quality of entrepreneurial activity are not likely to succeed. To be effective, investment by the State in entrepreneurs must continue to be well targeted, avoid deadweight loss and evaluate the potential quality of entrepreneurial activity, particularly potential to scale and export. While no single policy intervention can be expected to generate critical impact on increasing entrepreneurship levels, various coordinated interventions taken together can combine to create an environment that facilitates the creation of startups of scale. The Council welcomes a number of recent actions to boost entrepreneurship such as the Regional Action Plans and tax reforms announced as part of Budget 2016 which are designed to facilitate startups.

The 2014 National Policy Statement on Entrepreneurship is a particularly welcome step as it sets out the Government's holistic approach to improving the Irish entrepreneurship ecosystem. The immediate policy obstacles to achieving the Statement's objectives of a 25 per cent uplift in the number of startups and increasing the survival rate of startups should be addressed as a matter of urgency. Benchmarking the framework conditions that support enterprise formation and the level of entrepreneurship in a country is a complex task as there are many variables involved. Internationally comparable data on enterprise formation and the factors which affect the entrepreneurship ecosystem is collated by a wide variety of sources. These include the World Bank, GEM, GEDI and the OECD. However, at present there is little data available on the employment, scaling and survival performance of Irish enterprise, particularly start-ups relative to our international competitors. More timely and granular data that is internationally comparable would facilitate more effective policy evaluation on the key enabling components for entrepreneurship, survival and scaling. The Department of Jobs, Enterprise and Innovation in the context of the National Policy Statement on Entrepreneurship should consider engaging with the CSO, Companies Registration Office and Enterprise Ireland regarding the development of business demography indicators which monitor the level of quality of enterprise formation, scaling and survival and which are robust and can be measured over time.

---

**Recommendation:** Address the immediate policy obstacles to achieving the objectives of the National Policy Statement on Entrepreneurship

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

---

**Recommendation:** Develop business demography indicators which monitor the level of enterprise formation and survival to facilitate international benchmarking of performance.

**Responsibility:** Department of Jobs, Enterprise and Innovation, CSO, Companies Registration Office, Enterprise Ireland

---

### Female Entrepreneurship

Across the OECD<sup>161</sup>, two and a half times as many males are self-employed with paid employees compared to females. Ireland has a relatively low level of female entrepreneurs with many of the issues affecting the gender gap in Irish entrepreneurship prevailing internationally. These include access to finance, networks and mentoring and culture. A key challenge is to deepen and broaden the cohort of female startups with the potential to scale internationally. Since 2011, the Government through Enterprise Ireland has placed an overdue emphasis on increasing the level of tailored supports designed to increase female entrepreneurship levels. These include female-specific financial supports such as a Competitive Start Fund and Going for Growth and an increased emphasis on network based peer learning programmes.

The increased policy focus on addressing under-representation of women in the startup ecosystem and across the business community appears to be having an impact and must continue to be prioritised by Enterprise Ireland. Enterprise Ireland reports a significant increase (albeit from a low base) in the number of female-led high-potential start-ups over the period 2011-2014. Improved performance is also observed in Ireland increasing its rank from 16<sup>th</sup> in the world in 2014 to 11<sup>th</sup> in 2015 as measured by the GEDI Female Entrepreneurship Index<sup>162</sup> which assesses national ecosystems for high potential female entrepreneurship development.

---

**Recommendation:** Evaluate the range of tailored supports for females to ensure they are effective in increasing entrepreneurship levels and examine the potential to increase the frequency and the level of funding allocated to the Competitive Start Fund for Women.

**Responsibility:** Enterprise Ireland, Department of Jobs, Enterprise and Innovation

---

### Scaling

Micro and small firms, i.e. enterprises with less than 10 and between 10 and 50 employees respectively, are responsible for a limited share of total exports. CSO data shows the majority of enterprises in the business economy at 90.7 per cent are micro-enterprises. A further 7.7 per cent are other small enterprises, while 1.3 per cent are classified as medium sized enterprises. The contribution of new firms to the creation of new jobs may be expressed as a combination of four different elements: the startup rate; the average size of firms at entry; the survival rate; and the average growth rate of survivors.

Of the new enterprises formed in 2007 (86%) survived one year in business; (63%) survived three years and (48 per cent) survived at least five years in business. The employment effect of new enterprises is strongest in the first year but firms birthed in 2007 and survived five years had increased the numbers employed by 22 per cent in 2012. Over the period 2007 to 2012, the Services sector had the highest number of enterprise formed each year. The proportion of new formations accounted for by Services also consistently increased over this period from 46 per cent of new formations in 2007 to 54 per cent in 2012. This underlines the importance of policies which support start up activity being accompanied by complementary approaches which facilitate new firms surviving and scaling.

---

<sup>161</sup> OECD, Entrepreneurship at a Glance 2015, August 2015

<sup>162</sup> Terjesen, S., and Lloyd, A., The Female Entrepreneurship Index: An Analysis of the Conditions that Foster High-Potential Female Entrepreneurship, Produced at the Global Entrepreneurship and Development Institute, 20115

The 2015 APJ set out the ambition to build an indigenous engine of growth that drives up the export market share of Irish companies. Analysis of Enterprise Ireland's client base indicates a shift underway in the number and proportion of companies scaling over the period 2010-2013. There has been a 35 per cent relative increase in the number of firms at turnover levels of €10m to €20m. In addition, the number of firms at the €20m-€50m turnover band has increased by 22 per cent. Overall, the numbers of firms at the bands of €10m-€20m, €20m-€50m and greater than €50m are at historic highs over a 10 year period.

The analysis indicates that there are challenges in bringing companies to the initial point at which they have good scaling potential at around €5m (or €10m for Food companies). There are particular challenges in relation to building scale, in areas such as leadership capabilities, strategic focus, acquisitions strategy and company structure. Scaling interventions may require a variety of different supports at appropriate stages of development. Policy must continue to assist indigenous firms to grow to scale and capture new market opportunities, which will increase their contribution to growth and exports.

---

**Recommendation:** Address the main obstacles outlined above in relation to building scale to ensure a 25 per cent increase in the scaling and sustainability of new enterprises.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Ireland

---

### Regulatory/Administrative Burdens

European Commission research suggests that relative to many EU countries, Ireland has comparatively simple administrative procedures, a low burden of regulation, a straightforward licensing system and an enterprise environment conducive to startup. The only area where Ireland trails the EU-average is the cost of enforcing contracts. The World Bank's annual Doing Business report sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations. The most recent data shows Ireland has achieved an ease of doing business ranking of 17th out of 189 economies.

While overall Ireland is ranked 17th, within the euro area we are ranked 4<sup>th</sup> (behind Finland, Germany and Estonia, but ahead of many comparators including Austria, the Netherlands and Belgium), and 7<sup>th</sup> in the EU, this year's report emphasises the significant progress that is required if we are to improve our global ranking. At a time when demands on Government finances are intense, investment to stimulate enterprise competitiveness must be prioritised. Improving the administrative environment, increasing the efficiency of the public administration and pursuing an ambitious external trade agenda, are cost-effective means to stimulate enterprise competitiveness.

Since 2011 a range of structural reforms have been introduced to improve the ease of doing business. However, the World Bank report highlights a number of areas in which there is continued room for improvement, particularly, in relation to the UK, which is ranked 6<sup>th</sup> globally.

Table 4: Ease of Doing Business in Ireland-Global Ranking by Topic

Ireland	2015	2016
Ease of Doing Business Rank	19	17
Starting a Business	19	25
Dealing with Construction Permits	51	43
Registering Property	37	39
Getting Electricity	29	30
Getting Credit	24	28
Protecting Minority Investors	12	8
Paying Taxes	6	6
Trading Across Borders	47	48
Enforcing Contracts	93	93
Resolving Insolvency	17	20

Source: World Bank

Easing the administrative burden that regulations create can improve the business environment by reducing costs, minimising the time businesses spend fulfilling regulatory requirements and increasing productivity. Ensuring that the State does not place undue administrative burdens and costs on entrepreneurs and business owners is therefore critical. While recent structural reforms (e.g. the Companies Act and the roll out of the Integrated Licensing Applications Service) will help to support entrepreneurship, other elements of Ireland's environment for ease of doing business are relatively poor in an international competitiveness context. The Council's analysis of the ease of doing business indicators suggests particular scope for improvement in relation to:

- Reducing the time and costs involved in registering property through the reform and modernisation of Irish land and conveyancing law;
- Reducing the time and costs it takes to enforce a legal contract; and
- Ensuring that the planning application process is more "responsive and customer orientated" to reduce time delays and costs related to construction permits.

---

**Recommendation:** Improve the ease of doing business in Ireland (and Ireland's World Bank ranking) by reviewing the administrative and regulatory procedures associated with registering property, enforcing legal contracts and dealing with construction permits.

**Responsibility:** Department of Finance and relevant Government Departments/Agencies

---

### Deepening and Broadening the FDI Base

Despite increasing competition and changing FDI composition, Ireland remains highly competitive as a location for new and existing FDI. The challenge of sustaining investments from established investors, while at the same time

diversifying Ireland's FDI portfolio by tapping into new and emerging growth opportunities, is well recognised by IDA Ireland in its new strategy statement<sup>163</sup>.

As a small, peripheral, island economy, it is critical that Ireland's firm level offerings and suite of tax offerings for FDI remains competitive and best in class. Despite intense international competition for globally mobile investment, the Irish corporation tax regime remains competitive and stable. However, the gap between Ireland and OECD countries is narrowing. While Ireland's corporate rate has remained consistent over time, many countries have reduced their rates, notably the UK, Japan and Finland. As set out in the Scorecard, many countries also have separate corporate rates for small businesses. Further, effective rates are often significantly lower than headline rates.

The Department of Finance's Road Map for Ireland's Tax Competitiveness outlines a comprehensive package of competitive tax measures which provides the basis for Ireland to remain competitive for FDI. Implementation of the actions set out in the road map must be continued. Long term certainty, transparency and predictability with regard to the corporate tax regime is critical in informing the long term investment plans of inward investors in Ireland. The confirmation in Budget 2016 of continued certainty around the maintenance of the 12.5 per cent corporation tax rate on trading income is welcome.

The Council also welcomes Ireland's active engagement in the OECD Base Erosion and Profit Shifting ('BEPS') project. The introduction of a new "best in class" knowledge development box and a broadening of the R&D tax credit is designed to improve Ireland's FDI tax offering and facilitate investment in R&D by Irish based enterprises. This new measure will provide a 6.25 per cent rate of corporation tax to apply to the profits arising from certain patented inventions and copyrighted software, resulting from qualifying R&D activity carried out in Ireland.

---

**Recommendation:** Continue to develop our suite of tax offerings to ensure it is internationally competitive for enterprise and attuned to evolving sectors and activities in the context of continued engagement with the OECD's Base Erosion and Profit Shifting project.

**Responsibility:** Department of Finance

---

While cost competitiveness, tax, and firm level financial supports remain core offerings clear trends have emerged as regards the factors which determine competitiveness for FDI. These include the optimisation of regions of scale, particularly urban centres, adequacy and availability of talent, international connectivity, R&D capabilities and sub-supplier and services infrastructure. The Council welcomes the IDA's 2015 Strategy Statement 'Winning' which also emphasises repositioning Ireland's offering in terms of Talent, Quality of Place, Connected World Leading Research and Competitive Clusters. The increased emphasis on bringing first time investors to Ireland from new markets, particularly Asia Pacific, is also an important development.

Ireland has over many decades developed a national competence in FDI and the IDA Ireland has become a world leader in attracting inward investment. New and established multinationals continue to invest and re-invest in Ireland in a number of established locations with leading global companies in Life Sciences, ICT, Engineering, Services, Digital Media, and Consumer Brands. A key challenge is how Ireland becomes a global leader in a finite number of areas. We must continue to build on our strengths in sectors and activities that are contributing to the economy through Greenfield investments, reinvestments and transformation of the existing base as well as scan the horizon for new

---

<sup>163</sup> IDA Ireland, Winning: Foreign Direct Investment 2015-2019

## Ireland's Competitiveness Challenge 2015

opportunities. In terms of new investment opportunities it is vital that IDA Ireland actively examines the potential of new sectors to widen the flow of investment into Ireland as the FDI sector changes, expands and develops over the medium term.

---

**Recommendation:** Exploit the potential for future FDI opportunities in sectors such as: Marine Economy, Investments linked to Infrastructure, Property FDI, Arts and Culture and Energy Services.

**Responsibility:** IDA Ireland

---

In recent years, the global market for FDI has undergone significant changes, with emerging market multinational enterprises increasingly important. While the North American and European markets continue to be vitally important to Ireland from an FDI perspective, growth markets in Brazil, Russia, India and China, (BRIC countries) and Asia Pacific in particular have become central sources of and destinations for global FDI flows. The Council welcomes the IDA's increased focus on these important markets.

IDA has put additional resources into these markets over the past five years and the results are encouraging with 'New Name' investments rising from 4 per cent in 2010 to 20 per cent in 2014 and on average accounting for 10 per cent of total investment. The Council welcomes the focus on developing markets beyond Ireland's traditional trading partners including doubling the number of trade missions, and placing extra staff in overseas markets. Consistent, sustained in-market presence by the IDA is needed to take advantage of emerging growth opportunities.

---

**Recommendation:** Further diversify Ireland's FDI portfolio tapping into sectoral opportunities arising from high-growth, emerging and exploratory markets based on the Winning Strategy

**Responsibility:** IDA Ireland

---

The development of greater linkages between indigenous and foreign owned firms offers Ireland a potential competitive advantage in terms of attracting FDI and developing Ireland's indigenous enterprise base and should be progressed as a priority. The Council welcomes the ongoing partnership of IDA Ireland with Enterprise Ireland and its indigenous base of companies in identifying synergies, enhancing clusters and participation in site visits. The Enterprise Ireland / IDA Ireland Global Sourcing initiative provides procurement teams of multinational companies, not only in Ireland but also internationally, with access to innovative Irish companies in all sectors.

As part the Action Plan for Jobs 2015, Enterprise Ireland and IDA Ireland are now working together to roll out a strategy for an increase in the level of engagement between Global Companies based in Ireland and Irish companies. Enterprise Ireland works with Irish companies to help them to grow and internationalise more quickly. The Council welcomes new initiatives such as the Trade Mission to Ireland programme. The enterprise agencies should continue to work towards deepening the partnership by Irish companies of the multinational sector in Ireland – sales, technology partnerships, investment or other collaborative engagements.

---

**Recommendation:** Intensify collaboration between IDA Ireland and Enterprise Ireland and its client companies to identify synergies, enhance clusters to maximise benefits for indigenous and FDI enterprises

**Responsibility:** Department of Jobs, Enterprise and Innovation, IDA Ireland, Enterprise Ireland

---

## Chapter 8: Submission to the Action Plan for Jobs 2016

### Introduction

The Action Plan for Jobs represents an ambitious multi-year process that aims to deliver on the Taoiseach's commitment to make Ireland the best small country in the world in which to do business and is a key element of the Government's policy approach to rebuilding the economy and getting people back to work. Of particular note, is the commitment to implementation inherent in the APJ process. This is based on a structured monitoring regime which reports on a quarterly basis the actions that have, or have not, been delivered for that particular quarter.

The Action Plan for Jobs recognises the fundamental link between competitiveness and job creation, and is a key mechanism to drive competitiveness in all areas of economic activity. Previous Action Plans have provided a sharp focus on specific aspects of the competitiveness agenda, particularly in the area of costs, achieving a top-five international competitiveness ranking, and making Ireland the best small country in which to do business. A number of NCC members (industry partners) also play an active role in promoting the implementation of key reforms.

The Council believes that the APJ process has been valuable from a competitiveness perspective and has been successful in driving coordinated actions to improve job creation, broaden the export and enterprise base, and enhance competitiveness. The APJ process should continue to evolve. The move towards a robust assessment framework with targets linked to specific actions and outcome-based performance indicators, as recommended by the OECD, should continue. In the medium term, it is important that a target-driven, whole-of-Government, quarterly monitoring and reporting framework is maintained.

The development of the APJ 2016 provides further opportunity to maintain this focus on competitiveness. Whereas the bulk of the Challenge report focuses on medium term actions, the Action Plan for Jobs focuses primarily on shorter-term, tangible actions (i.e. actions that can commence, or be delivered upon, over the next 12 months). The Council has, therefore, built on the analysis in the earlier chapters of this report to identify a range of prioritised short-term actions, which can build the foundations for our longer-term international competitiveness.

### A Renewed Focus on Competitiveness

As shown in *Ireland's Competitiveness Scorecard*, Ireland's international competitiveness has improved over recent years. While some of this reflects the significant policy reforms delivered through the series of Action Plans, and a range of other initiatives, external factors – low energy prices and the weak euro - are currently boosting Ireland's international cost competitiveness. While these factors are currently working in our favour, they can be quickly reversed, eroding the gains made to date. They also serve to shield us from some harsh truths: Ireland's continuing competitiveness is under threat, and there are indications that pressures are already emerging which are undermining our ability to compete internationally.

The Council is particularly concerned that as growth gathers pace, we are at risk of repeating past mistakes which would threaten the sustainability of Ireland's recovery. In this regard, there is an urgent need for both the public and private sectors alike to manage proactively their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations, productivity and cost competitiveness.

The recent economic crisis demonstrated how international and national authorities were watching the wrong indicators and missed significant economic threats emerging. The risk now is that, having concentrated on improving Ireland's macroeconomic indicators; people will assume the hard work is done. The Council believes that competitiveness is part of the DNA of sustainable jobs. If people want to grow jobs, grow the economy but ensure that it is sustainable, we must keep our eye on competitiveness.

## Ireland's Competitiveness Challenge 2015

Indeed, the same urgency and commitment that went into bringing down the government deficit, stabilising debt levels and securing the banking system must now go into maintaining and improving the competitiveness of the Irish economy. Our future wage rates, our ability to pay for the health service - let alone improve it - our ability to pay for good education for our children, our ability to have a generous state pension and our ability as an economy to survive in the Eurozone all depend on the competitiveness of the Irish economy. The challenge isn't over. In terms of maintaining competitiveness, it has only just begun.

At present, the Cabinet Committee on Economic Recovery and Jobs, and other Cabinet Committees as appropriate, are tasked with monitoring progress on competitiveness issues identified by the National Competitiveness Council and others and are also required to consider additional actions to improve Ireland's international competitiveness. This valuable function should be retained.

---

**Recommendation:** On an ongoing basis, there is a need to ensure that a process is in place to identify actions to enhance Ireland's international competitiveness and to drive implementation of those actions. Such a process should mirror the Action Plan for Jobs process by clearly identifying actions, actors, and timelines.

**Responsibility:** Department of the Taoiseach, Department of Jobs, Enterprise and Innovation, other relevant Government Departments

---

## The Council's Priority Actions to Support Competitiveness in 2016

Based on the previous *Challenge* chapters, the Council has identified a number of actions which should commence in 2016. These are summarized below and reflect the seven broad thematic areas used throughout this report.

### Maintaining Fiscal Sustainability

Sound public finances are a prerequisite for competitiveness and for sustainable economic growth. The creation of a more predictable rules-based fiscal policy geared to restoring debt sustainability should also ensure that there is scope to use fiscal policy to support competitiveness.

---

**Recommendation:** Introduce an annually recurring site value tax (SVT) on commercial property and land which is zoned and serviced for development, and which works in conjunction with the planning system to encourage more efficient use of land.

**Responsibility:** Department of Finance

---

---

**Recommendation:** Review income taxes (e.g., credits, thresholds, rates, etc.) to support improvements in after-tax income and enhance the incentive to work, while protecting labour cost competitiveness.

**Responsibility:** Department of Finance

---

---

**Recommendation:** Increase the entry point to the top marginal income tax rate and reduce maximum marginal rates for all employees below 50 per cent.

**Responsibility:** Department of Finance

---

---

**Recommendation:** Continue to reform and simplify the current regime of taxes and charges on employment, with the specific goal of further encouraging the take-up of employment opportunities and job creation, whilst simultaneously maintaining a broad personal tax base. Anomalies in relation to PAYE and the USC should be removed to support the self-employed, job creation and entrepreneurship.

**Responsibility:** Department of Finance

---

**Recommendation:** Develop key output and outcome indicators for Government Departments and Agencies that are measured, monitored and published over time to improve public sector productivity and performance.

**Responsibility:** Department of Public Expenditure and Reform, individual Government Departments

---

**Recommendation:** Consideration should be given to reviving a national pension reserve fund, or alternatively, to developing a Sovereign Wealth Fund, to make provision for increasing pension costs arising from Ireland's ageing population, and taking account of the assets represented by the holdings in the banks and of the return on assets that now constitute the Irish Strategic Investment Fund.

**Responsibility:** Department of Finance, National Treasury Management Agency

---

### Capital Investment in Physical and Knowledge Infrastructure

The availability of competitively priced world-class infrastructure (e.g., energy; telecoms; transport – road, public transport, airport, seaports; waste and water) and related services is critical to support competitiveness which in turn determines the sustainability of living standards, employment, wage rates and the financing of public services.

Capital expenditure, however, is not just about physical infrastructure. Capital expenditure on enterprise development, skills, and to support research, development and innovation activity are particular areas of interest to the Council.

---

**Recommendation:** Prioritise investment in a manner that enhances Ireland's competitiveness, in key economic and knowledge development infrastructures (e.g. in transport, telecommunications, water, and housing). Ensure clarity regarding the evaluation process for prioritising capital spending. This must be evidence-based, using a sound methodology based on cost-benefit principles.

**Responsibility:** Department of Public Expenditure / National Development Finance Agency

---

**Recommendation:** Finalise the Broadband Intervention Strategy as a matter of urgency.

**Responsibility:** Department of Communications Energy and Natural Resources

---

**Recommendation:** More ambitious roll out targets than are currently set out in the draft Broadband Intervention Strategy for completion of the broadband network are required to support regional competitiveness, employment and growth. The network should be scalable and future-proofed to meet future demand for significantly higher download speeds (in excess of 100Mbps) and also higher upload speeds.

**Responsibility:** Department of Communications Energy and Natural Resources

---

**Recommendation:** Address planning delays and inefficiencies identified in the National Broadband Plan which impede the delivery of advanced broadband services as a matter of urgency.

**Responsibility:** Department of Communications, Energy and Natural Resources, , Department of the Environment, Community and Local Government, Department of Transport, Tourism and Sport

---

**Recommendation:** Develop more ambitious demand-side initiatives as part of Phase 2 of the National Digital Strategy to lay the groundwork for a rapid take-up of the high speed broadband services as they are rolled out across the intervention area.

**Responsibility:** Department of Communications Energy and Natural Resources, Local Enterprise Offices, Regional Action Plan for Jobs Implementation Committees

---

**Recommendation:** Commence work on a National Planning Framework to replace the National Spatial Strategy.

**Responsibility:** Department of the Environment, Community and Local Government

---

**Recommendation:** Apply the lessons and recommendations emerging from the evaluations of the Enterprise Development Agency programmes across all programmes. Funding should be reallocated towards programmes offering greater returns and more impactful outcomes.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Development Agencies

---

**Recommendation:** Finalise the successor to the Strategy for Science, Technology and Innovation and set out ambitious but achievable targets in respect of in respect of public and private investment and outcomes in R&D. Increased exchequer capital funding and engagement with enterprise will be required if Ireland is to meet its Europe 2020 targets.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

### Improving Cost Competitiveness

As a small, export oriented economy, maintaining cost competitiveness remains vital to our employment and growth prospects. Any loss of cost competitiveness will have a major negative impact upon both our economic prosperity, employment and our standard of living. Already, a range of upward cost pressures are evident, and as growth gathers pace, we are at risk of repeating past mistakes. In this regard, there is an urgent need for both the public and private sectors alike to manage proactively their cost base and drive efficiency, thus creating a virtuous circle between the costs of living, wage expectations, productivity and cost competitiveness. The recommendations below focus on labour, property, energy and legal costs.

#### National Minimum Wage (NMW)

---

**Recommendation:** Undertake a comprehensive data collection exercise in relation to all aspects of the national minimum wage. Data is required on, amongst other things, the number and characteristics of employees earning the NMW (or close to the NMW), the sectors where the NMW is most prevalent. A methodology to determine the impact of changes in the NMW on employment, productivity and competitiveness should also be developed.

**Responsibility:** Low Pay Commission, Department of the Taoiseach, Central Statistics Office

---

---

**Recommendation:** Clearly signal changes arising from the annual Low Pay Commission review of the minimum wage. Changes should generally take effect on the same date each year to provide certainty to employers and employees.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

#### Property Costs

---

**Recommendation:** Implement the Social Housing Strategy in full and on time as a matter of urgency.

**Responsibility:** Department of the Environment, Community and Local Government, County and City Management Association

---

---

**Recommendation:** Monitor progress by Local Authorities to ensure that each achieves a 25 per cent reduction in social housing lists by 2017.

**Responsibility:** Department of the Environment, Community and Local Government, County and City Management Association

---

---

**Recommendation:** Develop short to medium term measures to address pressures in the rental market – these should balance the need to provide tenants with a degree of rent certainty and security of tenancy, with the need to encourage investment and construction activity.

**Responsibility:** Department of the Environment, Community and Local Government

---

---

**Recommendation:** Undertake a rigorous benchmarking exercise to determine whether Irish residential construction costs are out of line with those of our key competitors. This should include an assessment of the input costs, time, and procedures required to complete a number of different types of residential development.

**Responsibility:** National Competitiveness Council

---

---

**Recommendation:** Undertake an assessment of the impact of the various Building Control Regulations introduced since 2006 to determine their effectiveness and their impact upon construction costs, and hence the supply of residential units.

**Responsibility:** Department of the Environment, Community and Local Government

---

---

**Recommendation:** Undertake an investigation to determine which factors are acting as constraints on the supply of residential property, and identify actions to address these constraints.

**Responsibility:** The Housing Agency

---

---

**Recommendation:** Implement in full the Construction 2020 Strategy.

**Responsibility:** Department of the Taoiseach, Department of the Environment, Community and Local Government, Other Government Departments

---

**Recommendation:** Map current commercial developments underway in key urban centres and that are due to come on-site over the medium term and highlight areas available for further development. A secure pipeline of commercial property is essential to attract investment and grow employment.

**Responsibility:** Department of the Environment, Community and Local Government, IDA Ireland

---

### Energy Costs

---

**Recommendation:** Complete the review of supports for renewable electricity generation. Such supports should be subject to market forces to the greatest extent possible. As a mature technology, price supports for new onshore wind projects should be discontinued when REFIT 2 ends in 2017. Enterprise opportunities in emerging energy technologies should be funded by the exchequer through competitive funding mechanisms for R&D rather than by energy customers.

**Responsibility:** Department of Communications, Energy and Natural Resources

---

**Recommendation:** Review and the existing energy regulatory framework to ensure that it is best placed to support the delivery of the revised priorities in the new energy policy.

**Responsibility:** Department of Communications, Energy and Natural Resources, Commission for Energy Regulation

---

**Recommendation:** Ensure the optimal functioning of the Integrated Single Electricity Market (I-SEM). It is important that the new market design sends the right investment signals to ensure that future energy needs are met at least cost (i.e. the right amount of capacity delivered, with the right characteristics in the right locations).

**Responsibility:** Department of Communications, Energy and Natural Resources

---

**Recommendation:** Evaluate the effectiveness of investments made to date through the National Energy Efficiency Fund, and determine whether another round of capital funding should be raised in 2015/2016.

**Responsibility:** Department of Communications, Energy and Natural Resources

---

**Recommendation:** Ensure that the commitments and targets set out in the National Energy Efficiency Action Plan (and the related Public Sector Energy Action Plan) are adhered to.

**Responsibility:** Department of Communications, Energy and Natural Resources, other Government Departments

---

### Legal Services Costs

---

**Recommendation:** Enact the Legal Services Bill. Incorporate the competition-enhancing and cost-reducing provisions of the planned regulatory framework into the regulations to be issued by the Legal Services Regulatory Authority.

**Responsibility:** Department of Justice and Equality

---

**Recommendation:** Review the outstanding procedural reforms recommended by the Legal Cost Working Group and implement those which remain relevant and feasible, making reference to the findings of the OECD.

**Responsibility:** Department of Justice and Equality

---

### Insurance Costs

---

**Recommendation:** Undertake a comprehensive benchmarking exercise to collect improved price data for a range of the principle commercial insurance types. This exercise should facilitate price comparisons for broadly similar products in Ireland and in our key competitors (i.e. using standard definitions for products and insurance classes across countries).

**Responsibility:** Central Bank of Ireland, CSO

---

**Recommendation:** Publish more detailed data regarding personal injury award levels. Benchmark personal injury award levels in Ireland vis-a-vis award levels in other jurisdictions.

**Responsibility:** Department of Justice and Equality, Courts Service

---

**Recommendation:** Undertake a review of the book of quantum. In particular, the revised Book should provide a greater degree of granularity in terms of the data (i.e. more specific data broken down by injury type etc.).

**Responsibility:** Personal Injuries Assessment Board

---

### Enhancing Talent and Skills

Ireland's standard of living can only be maintained and improved upon, through high productivity and innovation which in turn is sustained by high levels of educational attainment. Macroeconomic performance is closely related to labour force skills: more skilled workers tend to be more productive and capable of disseminating productivity-improving technologies and processes.

The war for talent is being fought at company and country level - both companies and countries are competing to cultivate skills, attract, and retain talent. The availability of qualified work ready skills and talent is becoming the leading source of competitive advantage and key to competitiveness, innovation and growth.

---

**Recommendation:** Expedite the completion and publication of the new National Skills Strategy.

**Responsibility:** Department of Education and Skills

---

**Recommendation:** Consolidate and accelerate the reform agenda underway particularly in the FET and HE sectors. Performance metrics for both the FET and HE sectors should be more specific and should be aligned to meet future skills needs identified by the EGFSN.

**Responsibility:** Department of Education and Skills

---

**Recommendation:** Update occupational employment projections out to 2025 in the context of the new National Skills Strategy. These projections should take account of the employment targets contained in Enterprise 2025 and other sectoral strategies.

**Responsibility:** SOLAS, Department of Education and Skills, Expert Group on Future Skills Needs

---

---

**Recommendation:** Accelerate measures to increase ICT skills supply and ensure effective implementation of the ICT Skills Action Plan.

**Responsibility:** Department of Education and Skills, Department of Jobs, Enterprise and Innovation

---

**Recommendation:** Evaluate all labour market programmes on a regular basis, and focus resources on those programmes proven to deliver on their objectives. Enhanced engagement with employers is required to ensure programmes meet occupational requirements.

**Responsibility:** Department of Education and Skills, Department of Social Protection, SOLAS, Enterprise

---

**Recommendation:** Expedite and publish the current review of Post-Leaving Certificate courses.

**Responsibility:** SOLAS

---

**Recommendation:** Establish as planned Regional Skills Forums to undertake a structured programme of activities to promote closer liaison between employers and the education system, and prioritise the strengthening of outreach activities by education providers in the region.

**Responsibility:** Department of Education and Skills

---

**Recommendation:** Establish the Apprenticeship Council on a statutory basis.

**Responsibility:** Department of Education and Skills

---

**Recommendation:** Roll-out the 25 new apprenticeship programmes.

**Responsibility:** Department of Education and Skills, Apprenticeship Council, employers

---

**Recommendation:** Progress some of the tier 2 applications as further apprenticeship offerings or as new traineeships developed in conjunction with enterprise.

**Responsibility:** Department of Education and Skills, Apprenticeship Council

---

**Recommendation:** Prioritise actions to increase participation in lifelong learning through the new National Skills Strategy.

**Responsibility:** Department of Education and Skills, Department of Education and Skills, Higher Education Institutes, Education and Training Boards, private education and training providers, employers

---

**Recommendation:** Rebalance the National Training Fund to allocate a greater proportion of funding to in-employment training to meet identified skills shortages.

**Responsibility:** Department of Education and Skills, Department of Public Expenditure and Reform

---

### Improving Access to Finance for Enterprise

Access to competitively priced sources of finance for investment is essential to facilitate enterprises establish and expand their operations, improve productivity and ultimately survive and scale. Limited or costly credit flows damage the environment for entrepreneurship. While the supply and demand for credit has improved significantly since the height of the crisis, access to bank credit and associated costs continues to act as a drag on the enterprise sector, inhibiting investment and growth, particularly amongst startups and SMEs.

---

**Recommendation:** Undertake research into the persistent divergence in SME interest rates between Ireland and the euro area, and identify the factors explaining the differential. In addition examine the factors causing the volatility in Irish SME interest rates.

**Responsibility:** Department of Finance, SME State Bodies Group, Central Bank of Ireland

---

**Recommendation:** Continue to develop and support credible and transparent alternative sources of non-bank finance.

**Responsibility:** Department of Finance, Department of Jobs, Enterprise and Innovation, SME State Bodies Group, Strategic Banking Corporation of Ireland

---

**Recommendation:** Examine the coherence and effectiveness of existing trade finance structures and facilitates to ensure that the needs of enterprise are being met.

**Responsibility:** SME State Bodies Group, Department of Finance

---

**Recommendation:** Review the impact of the Startup Refunds for Entrepreneurs (SURE Scheme) in early 2016 to ensure that it delivers on its objectives to support the funding needs of growing businesses.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Local Enterprise Offices

---

**Recommendation:** Consider methods to increase the usage and appeal of the Employment and Investment Incentive to encourage the growth of equity investment in SMEs.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Department of Finance

---

**Recommendation:** Identify and collate appropriate data on the take up of alternative sources of finance with a view to improving the take up of options such as non-debt financing amongst SMEs.

**Responsibility:** SME State Bodies Group, Department of Finance, Department of Jobs, Enterprise and Innovation, Strategic Banking Corporation of Ireland, Central Bank of Ireland

---

### Supporting Innovation and Productivity

Increasing productivity levels across all sectors and occupations remains a significant challenge. To enhance productivity levels, improved innovation performance is vital. This requires investment in R&D, particularly by the private sector; the presence of high-quality scientific research institutions; extensive collaboration in research between universities and industry; and sophisticated business practices. While Ireland's overall innovation performance has improved in recent years, performance lags innovation leaders such as Denmark, Finland, Germany and Sweden.

The forthcoming Science Strategy must focus on creating an environment which supports excellent scientific research that impacts positively on Ireland's economy, enterprise base, and society.

---

**Recommendation:** Implement the actions to support productivity set out in Enterprise 2025. As well as tracking implementation, monitor the impact of the actions on key metrics including productivity performance.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Ireland, IDA Ireland, Local Enterprise Offices

---

**Recommendation:** Develop a comprehensive dataset measuring aggregate and sectoral labour, capital and total factor productivity growth rates and levels.

**Responsibility:** Central Statistics Office

---

**Recommendation:** Examine the productivity performance of the Irish economy, identify challenges, establish priorities and develop a productivity strategy which specifies necessary actions to transition to a more innovative and productive enterprise economy.

**Responsibility:** National Competitiveness Council

---

**Recommendation:** Building on the development of the productivity dataset, undertake a comprehensive assessment of Irish productivity performance. This should analyse the main drivers of productivity, identify the challenges and barriers to improved performance, and set out actions to enhance productivity growth rates, in support of the Enterprise 2025 productivity targets.

**Responsibility:** National Competitiveness Council

---

**Recommendation:** Increase the awareness about and take up of management development initiatives by enterprise. Develop mechanisms to facilitate the tailoring and extension of relevant programme modules to cohorts of firms currently not engaging in such programmes.

**Responsibility:** Local Enterprise Offices, Skillnets, Enterprise Ireland

---

**Recommendation:** Continue to develop our range of policies to further embed R&D activity in Ireland and to incentivise increased business expenditure on R&D (e.g. R&D supports, the R&D tax credit, relief on investment in intangible assets, and the Knowledge Development Box). Ensure that these incentives remain internationally competitive and relevant to evolving enterprise needs.

**Responsibility:** Department of Finance

---

**Recommendation:** The new Strategy for Science, Technology and Innovation should reflect the ambitions set out in Enterprise 2025 to significantly boost innovative activity amongst firms based in Ireland, and develop practical actions to realise these ambitions. Specific actions should be developed to:

- Better utilise public procurement to stimulate innovation, for example through the roll out of further Small Business Innovation research (SBIR) initiatives.
- Ensure that Ireland's Intellectual Property (IP) framework remains fit for purpose.
- Ensure that there is a sufficient supply of researchers and human capital to underpin an innovative enterprise sector.
- Encourage market-oriented innovation (i.e. oriented away from pure science and technology to a greater focus on consumers and entrepreneurs needs)
- Promote greater collaboration between enterprise and Higher Education Institutions.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

### Broadening the Enterprise and Export Base

Both FDI and indigenous enterprise performance in 2014 was exceptionally strong in terms of export growth, jobs created and new investment. It is concerning, however, that our export base (i.e. the range of goods we export) remains narrow, and that much of our recent competitiveness improvement is related to external factors (such as favourable exchange rates with key trading partners such as the UK).

To minimise the impact of an exchange rate reversal or other potential external shocks, Irish enterprise must evolve into new products, markets and sectors, whilst maintaining the competitive advantages we enjoy in existing ones. We must also look beyond the single European market, and ensure that we develop the most supportive environment possible to support entrepreneurship and enterprise development.

---

**Recommendation:** Ensure policies are oriented to immediately facilitate the achievement of the export targets set out in Enterprise 2025.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

---

**Recommendation:** Increase the number of market-ready firms internationalising and work with targeted client companies to increase their internationalising capabilities.

**Responsibility:** Enterprise Ireland

---

---

**Recommendation:** Review how best to accelerate the roll out of the Trading Online Voucher scheme and set ambitious targets to increase the number of enterprises trading online.

**Responsibility:** Department of Communications, Energy and Natural Resources,

---

---

**Recommendation:** Address the immediate policy obstacles to achieving the objectives of the National Policy Statement on Entrepreneurship.

**Responsibility:** Department of Jobs, Enterprise and Innovation

---

**Recommendation:** Develop business demography indicators which monitor the level of enterprise formation and survival to facilitate international benchmarking of performance.

**Responsibility:** Department of Jobs, Enterprise and Innovation, CSO, Companies Registration Office, Enterprise Ireland

---

**Recommendation:** Evaluate the range of tailored supports for females to ensure they are effective in increasing entrepreneurship levels and examine the potential to increase the frequency and the level of funding allocated to the Competitive Start Fund for Women calls.

**Responsibility:** Enterprise Ireland, Department of Jobs, Enterprise and Innovation

---

**Recommendation:** Address the main obstacles in relation to building scale to ensure a 25 per cent increase in the scaling and sustainability of new enterprises.

**Responsibility:** Department of Jobs, Enterprise and Innovation, Enterprise Ireland

---

**Recommendation:** Improve the ease of doing business in Ireland (and Ireland's World Bank ranking) by reviewing the administrative and regulatory procedures associated with registering property, enforcing legal contracts and dealing with construction permits.

**Responsibility:** Department of Finance and relevant Government Departments/Agencies

---

**Recommendation:** Continue to develop our suite of tax offerings to ensure it is internationally competitive for enterprise and attuned to evolving sectors and activities in the context of continued engagement with the OECD's Base Erosion and Profit Shifting project.

**Responsibility:** Department of Finance

---

### Data Issues

Like any organisation undertaking research, the National Competitiveness Council depends on the availability of good, timely and relevant data to develop an evidence base, conduct analysis, and formulate policy recommendations. Throughout the process of drafting this report, a number of data issues have emerged. These are highlighted and summarised below.

- 
- Data is required on the cost of residential construction in Ireland vis-à-vis the cost in other locations
  - Internationally comparable cost data on a range of commercial insurance products is required
  - Irish award levels in personal injury cases in Ireland should be benchmarked against levels in other jurisdictions for similar injuries
  - More detailed data on who is earning the National Minimum Wage and the sectors in which the NMW is most prevalent is urgently needed to support the work of the Low Pay Commission
  - In depth, up-to-date and comprehensive sectoral productivity data, measuring labour productivity at a sufficiently disaggregated level is essential to develop measures to deliver upon Enterprise 2025's productivity targets
  - Identify and collate appropriate data on the take up of alternative sources of finance with a view to improving the take up of options such as non-debt financing amongst SMEs.
  - Develop business demography indicators which monitor the level of enterprise formation and survival
-

