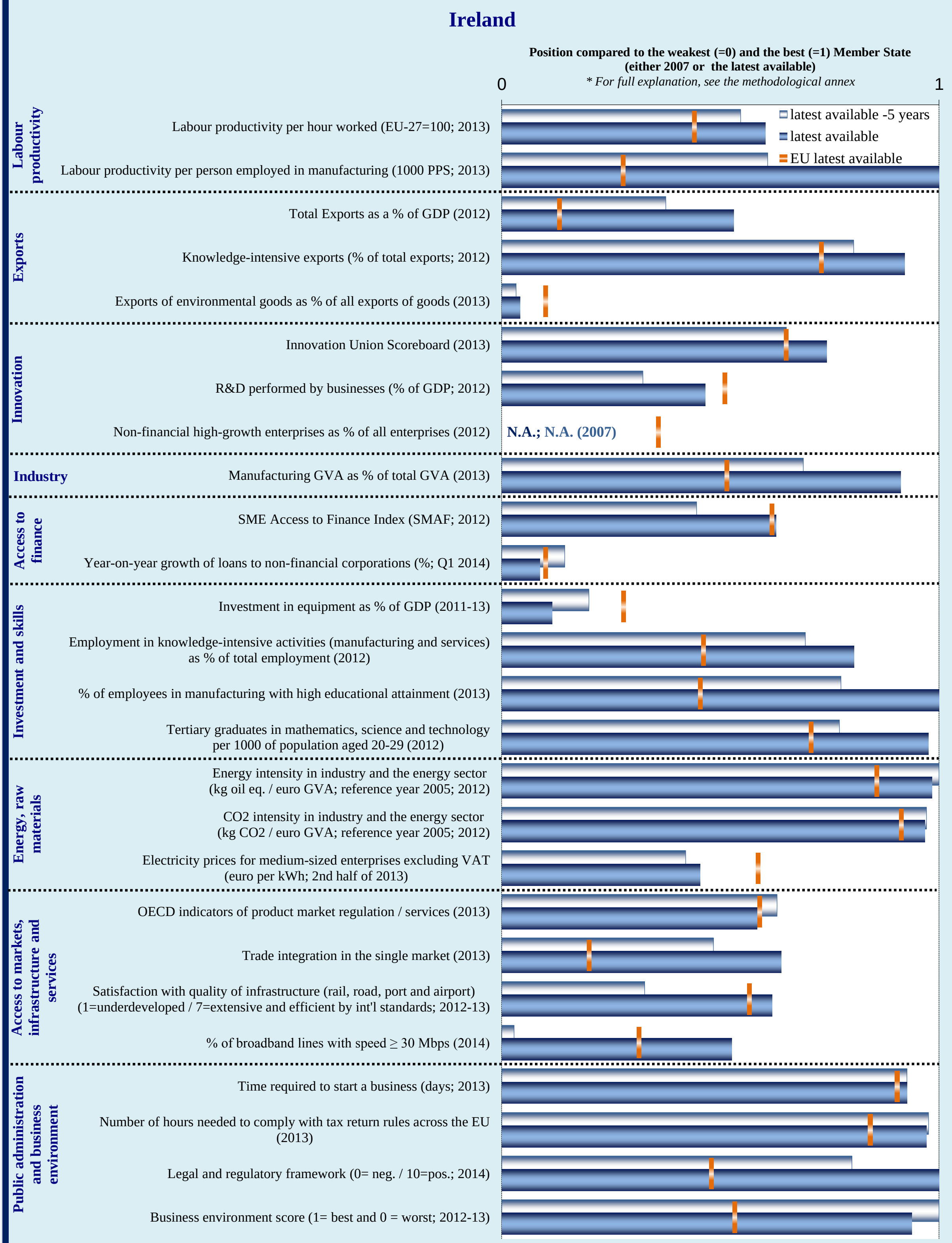
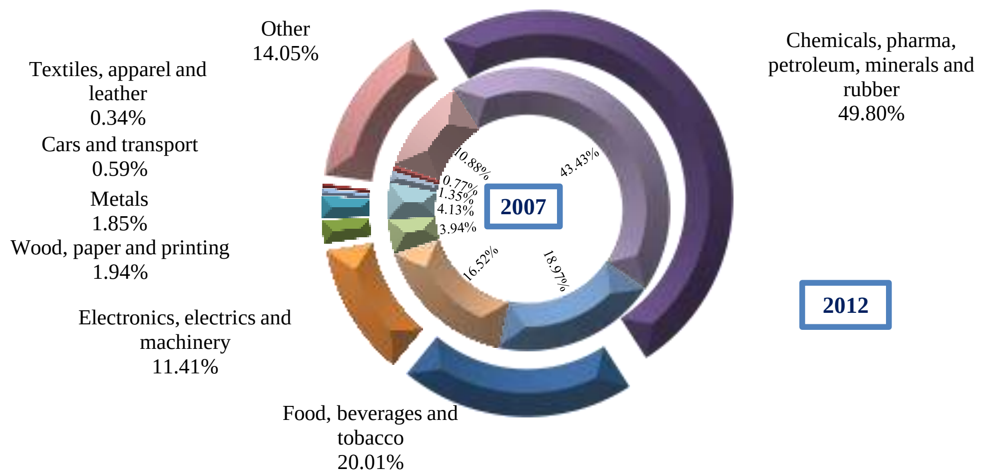
3.7 Ireland



Note: Early data for "% of broadband lines with speed ≥ 30 Mbps" refer to 2011.

Figure 3.7.1: Manufacturing sectors (GVA at basic prices) - Ireland



Source: Eurostat

3.7.1 Introduction and performance

Ireland became the first country to successfully exit its EU/IMF programme of economic and financial assistance in December 2013. It met all its targets under the programme and has returned to the international credit markets. Headline GDP growth of -0.3 % in 2013 masks an underlying recovery in the domestic economy. When the volatile effects of the foreign-owned and especially pharmaceutical sector are stripped out, GNP growth - which reflects the relative health of the domestic economy - was a robust 3.4 %. Trade in services and investment grew strongly while significant improvements in the labour market are sustaining the nascent recovery. Employment grew by 60,000 in 2013 and unemployment is down to a sub euro-area average of 11.7 % from a high of 15 % two years ago – including reductions in youth and long-term unemployment.

But further progress is required in several areas including fiscal consolidation, debt deleveraging, financial sector repair and structural reforms. In particular, with public debt at 123.7 % of GDP at end 2013, and a 2013 budget deficit of 7.2 %, significant challenges remain to consolidate and sustain growth. ([1])

Ireland has important comparative advantages in sectors such as pharmaceuticals and chemicals that account for around 50 % of manufacturing output. The other main sectors are food, beverages and tobacco at 21 %, and electronics, electrics and machinery sector at 11 %. Services account for more than two thirds of gross value added and services' exports grew by EUR 3.3 billion in 2013 with particularly strong performances by the computer and business services sector. Another key feature of the Irish economy is its extreme openness with the value of internationally traded goods and services equivalent to 191 % of GDP. ([2])

3.7.2 Access to finance and investment

Access to finance, particularly for SMEs, remains a challenge but it is critical to Ireland's growth outlook. SMEs account for over 70 % of private sector employment and lending to SMEs represents approximately 19 % of the domestic banks' aggregate loan book. ([3]) Lending to SMEs remains weak, with constraints existing on both the demand and supply sides. SMEs are also carrying a large legacy debt burden that makes it difficult for them to borrow and invest. Initiatives such as the Irish Banking Federation Protocol ([4]) on Multi-banked debt are therefore welcome and encouraged.

([1]) http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op181_en.htm

([2]) http://www.esri.ie/irish_economy/

([3]) http://www.centralbank.ie/publications/Documents/Macro-Financial%20Review%202013.2.pdf

([4]) http://www.ibf.ie/gns/customer-information/business-banking/IBF_Protocol_on_Multi-banked_SME_Debt.aspx

On the supply side, banks are very and some would say excessively cautious about lending to business. SME associations allege that more than one third of SMEs are seeking new credit with more than half of the requests being rejected. ([5]) Banks' balance sheets remain depressed and 46 % of domestically-owned banks' aggregate credit portfolio was non-performing or distressed (at the end of the third quarter of 2013). ([6]) To address this, the two largest domestically-owned banks that dominate SME lending have been assigned debt restructuring targets. ([7])

Supply constraints to new lending are compounded by the partial loss of the skill sets needed to properly assess the potential viability and merits of loan applications. Steps are however now being taken to improve the capacities of both borrowers and lenders to prepare and assess robust funding requests based on well-developed business plans.

Dedicated funds have been put in place to improve access to finance for SMEs. The Credit Guarantee Scheme ([8]) provides a government guarantee to the lender of 75 % on individual loans to viable businesses. The Microenterprise Loan Fund Scheme ([9]) provides loans of up to EUR 25 000 to businesses and sole traders employing up to ten people who have been refused credit by banks. In addition, three SME funds ([10]) were put in place with funds from the National Pension Reserve Fund. Meanwhile, the Credit Review Office (CRO) ([11]) mediates disputes between lenders and prospective SME borrowers who have been refused credit. Up to the first quarter of 2014, 55 % of appeals have been found in favour of borrowers.

The take-up for SME support funds has however been very low so far and external reviews of the schemes and funds are proceeding with the view to identifying factors that hamper their take-up and putting in place corrective measures if needed.

New legislation is also due to be enacted later in 2014 to establish an Ireland Strategic Investment Fund ([12]) (ISIF). Furthermore, over EUR 500 million in additional credit will be made available to Irish SMEs through the establishment of the Strategic Banking Corporation of Ireland that will be financed by the German Promotional Bank, KfW and the European Investment Bank (EIB) along with the ISIF.

Investment

Ireland relies heavily on investment by multi-national companies to generate growth, exports and jobs. This makes it more vulnerable to shifting patterns of global production and losses in competitiveness. Foreign direct investment inflows represented a massive 18.2 % of Irish GDP in 2012 compared to an OECD average of 1.3%. ([13]) FDI currently supports more than 1 150 companies employing more than 166 000 people directly and a further 116 000 indirectly. In 2013, these companies spent €21bn in the Irish economy and exported goods and services to the value of €121bn. ([14]) FDI is relatively concentrated both in terms of investor base and in terms of sectoral orientation. This implies that decisions by individual firms and developments in specific sectors can have an unusually large impact on the economy as a whole as has been seen recently with the "patent cliff" in the pharmaceutical sector. These and other issues are addressed in European Commission's Staff Working Document accompanying the 2014 Country Specific Recommendations. ([15])

([5]) http://isme.ie/wp-content/files_mf/139444541814069BankSurvey.pdf
([6]) The average NPL ratio for the main three domestic banks is almost 27% of total loans as of June 2013, and about half of the NPLs relate to residential mortgages while 25% is SME-related
([7]) For more details on banking sector developments and challenges, see the 2014 in-depth review report on Ireland published by the European Commission in March http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/op181_en.htm
([8]) http://www.djei.ie/enterprise/smes/creditguarantee.htm
([9]) http://microfinanceireland.ie/
([10]) BlueBay Ireland Corporate Credit I Ltd (EUR 450 million); Carlyle Cardinal Ireland SME Equity Fund (EUR 300-350 million); Better Capital Ireland SME Turnaround Fund (EUR 100 million)
([11]) http://www.creditreview.ie/
([12]) http://www.finance.gov.ie/sites/default/files/NTMA%20Bill%20EXP%20MEMO.pdf
([13]) http://www.oecd.org/investment/investment-policy/FDI-in-Figures-Feb-2014.pdf
([14]) http://www.idaireland.com/invest-in-ireland/impact-of-fdi-in-ireland/index.xml
([15]) http://ec.europa.eu/europe2020/europe-2020-in-your-country/ireland/country-specific-recommendations/index_en.htm

3.7.3 Innovation and skills

Innovation

According to the 2014 Innovation Union Scoreboard, ([16]) Ireland is an innovation follower, with an improved 2014 EU ranking of 9th.

Ireland has a national R&D intensity target for 2020 of 2.5 % of GNP (2.0% of GDP). In 2012, Ireland had an R&D intensity of 1.7 %. Over the period 2007-2012, R&D intensity in Ireland grew at an average annual growth rate of 6.1 %. Ireland has a relatively low level of direct government support for R&D, while the share financed from abroad at 20.4 % is more than double the EU average and reflects the policy of attracting foreign direct investment with a large R&D component.

The key areas of focus include the food sector, agriculture and fisheries, ICT, medical technologies and nano and bio-technologies. Structural Funds are an important source of funding for research and innovation activities. Fiscal measures and especially tax credits also play an important role. In excess of 1400 companies are benefiting from the tax credit scheme which has supported a EUR 1 962 billion business spend on research and innovation. Policy emphasis is being placed on accelerating the economic impacts from public investment in science, technology and innovation. This includes increasing the innovation potential of indigenous firms and improving links between industry and higher education institutions. Ireland is the third best performer in the EU in terms of the innovation output indicator ([17]) and is ranked second in the EU in terms of both share of total employment in knowledge-intensive activities (20.6 %) and share of knowledge-intensive services exports in total exports (71.4 %). Ireland also has a number of challenges in research and innovation, in particular the relatively low number of patent applications as well as a decline in the number of innovative SMEs. However, the level of patent applications should be seen in the context of the weight of ICT in the Irish economy and the fact that software is not patentable.

([16]) http://ec.europa.eu/enterprise/policies/innovation/files/ius/ius-2014_en.pdf

([17]) http://ec.europa.eu/research/press/2013/pdf/indicator_of_innovation_output.pdf

Skills

One of Ireland's strengths has always been its well-educated, productive and flexible workforce. It has the highest percentage of employees in the manufacturing sector with high education attainment levels and it has the highest tertiary education attainment rate in the EU at 51.1%. On the other hand, Ireland still has a significant cohort of early school leavers and low-skilled workers. Re-skilling and up-skilling of job seekers is consequently one of the main challenges for education and training in Ireland. There is evidence of rising skills mismatches, with skills shortages likely to become more apparent as the labour market continues to recover.

In this context, the Irish government has introduced initiatives such as the ICT skills conversion programme ([18]) and Springboard ([19]) to ensure that the curricula and offer of higher education institutions are better geared towards the evolving needs of industry and jobseekers. Furthermore, the Momentum ([20]) programme is providing training for up to 6500 long-term unemployed on topics where job vacancies/skills shortages have been identified, including ICT.

Ireland's slack ratio ([21]) is around 30 % for low education levels but it is only 8 % for higher education levels. It is also noteworthy that Ireland has the highest proportion of people living in households with low work intensity in the EU. ([22]) This surged from 14.3 % in 2007 to 24.2 % in 2011 - almost 9 % higher than the country with the next highest rate.

The further education and training system is being reformed with e.g. the creation of 16 Education and Training Boards and the new further education and training authority SOLAS. ([23]) Ireland is investing more than €800 million in further education and training in 2014 and the first ever strategy for the further education and training sector in Ireland was launched in May 2014. ([24])

([18]) http://www.hea.ie/en/policy/engagement/ict-skills

([19]) http://www.springboardcourses.ie/

([20]) http://www.momentumskills.ie/

([21]) Number of Jobseekers divided by the number of employed people at a given level of skills

([22]) Ratio of actual v potential months worked. A household is in low work intensity when the ratio is below 0.20

([23]) http://www.solas.ie/

([24]) http://www.education.ie/en/Publications/Policy-Reports/Further-Education-and-Training-Strategy-2014-2019.pdf

Better bridging the gap between training and employment in Ireland is also being addressed in the government's "Action Plan for Jobs". ([25]) This is a joined-up "whole of government" multi-annual initiative to support job creation. The 2014 iteration contains 385 actions to be implemented by all 16 government departments and 46 Agencies. Furthermore the "Pathways to Work" ([26]) initiative is putting in place a modern activation system through the establishment of *Intreo ([27])* "one stop shops" to offer practical, tailored employment services and supports to both jobseekers and employers. Ireland has also undertaken the first steps to implement the Youth Guarantee (YG) and plans to roll it out by 2015. A wide-ranging review of apprenticeships ([28]) in Ireland has also been carried out. Progressing and delivering on these initiatives will be critical to maintain the positive momentum on job creation and to improve competitiveness.

3.7.4 Energy, raw materials and sustainability

Ireland is the best performer in the EU for both energy intensity and CO2 intensity thanks largely to the importance of services and high value-added manufacturing. An energy inefficient building stock, fossil fuel-based electricity generation, greenhouse gas emissions and a culture of car dependency remain the principle challenges facing Ireland. ([29]) The government policy document *"Delivering Our Green Potential"* provides the framework for developing the green economy and a progress report on its implementation was issued in December 2013. ([30]) Nearly 20 000 people are estimated to be employed in six key sub-sectors of the green economy and the value of sales of low-carbon environmental goods and services is estimated at approximately 4 % of GDP.

([25]) http://www.djei.ie/publications/2014APJ.pdf
([26]) http://www.welfare.ie/en/downloads/Pathways-to-Work-2013.pdf
([27]) http://www.welfare.ie/en/Pages/Intreo.aspx
([28]) http://www.education.ie/en/Publications/Policy-Reports/Review-of-Apprenticeship-Training-in-Ireland.pdf
([29]) http://www.eco-innovation.eu/index.php?option=com_content&view=article&id=474&Itemid=62
([30]) http://www.djei.ie/publications/enterprise/2013/Green_Economy_Progress_Report_2013.pdf

A number of targeted initiatives in the fields of waste management, resource exchange e.g. SMILE ([31]) are helping to turn environmental challenges into business opportunities and promote industrial symbiosis while public support measures for resource efficiency run by the Environment Protection Agency ([32]) are extensive and varied.

Significant work is also ongoing in the field of sustainable construction and buildings and 23 % of the housing stock is now covered by the Building Energy Rating (BER) System.

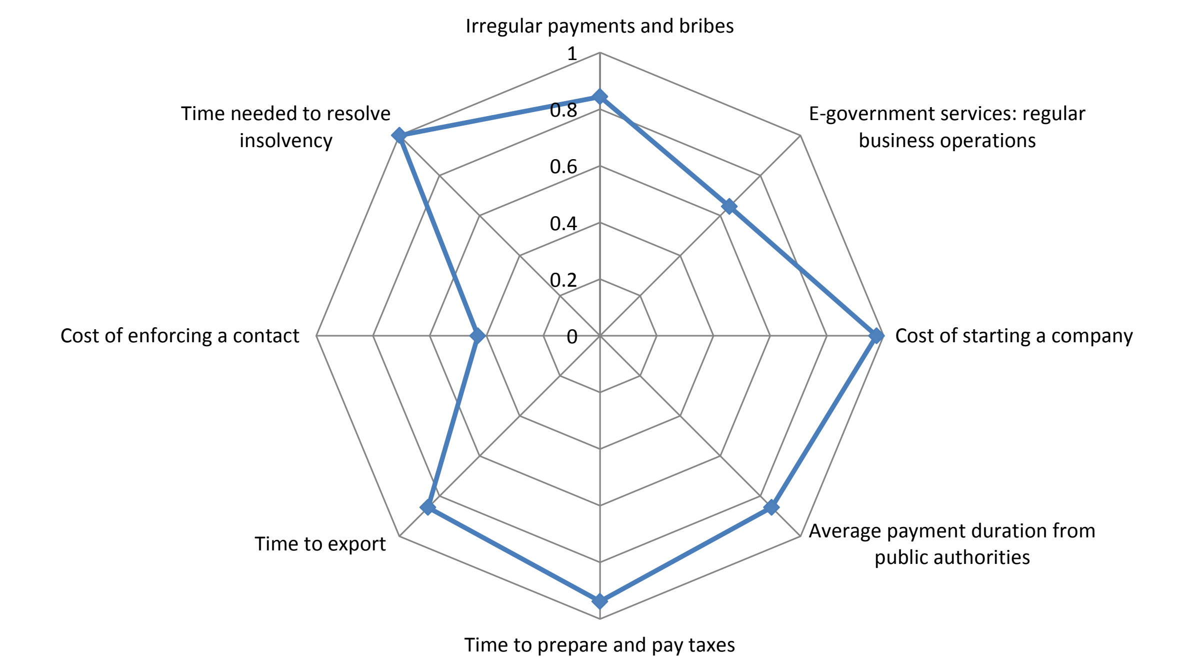
Raw materials policies are particularly important for Ireland not only from the security of supply perspective but also because Ireland has significant mineral resources including two of the richest zinc mines in the world (in terms of ore grade), which account for 32% of EU Zinc concentrate production. The largest Bauxite processing plant (Alumina) in the EU is also located in Ireland.

The Sustainable Energy Authority of Ireland ([33]) is working to exploit the country's significant advantages in sustainable (particularly wind) energy. The Authority estimates that sustainable energy could support at least 30 000 Irish jobs by 2020 and reduce Ireland's energy costs by over EUR 2 billion per annum and it is delivering bespoke energy solutions to many of the larger Irish companies. Detailed measures to improve energy efficiency are outlined in the National Energy Efficiency Action Plan 2014. ([34])

Ireland's binding renewable energy target is to reach a 16 % share of renewable energy in total gross energy consumption in 2020 and the policy, market and budgetary framework to facilitate this requires ongoing attention. Ireland is not on track to reach its greenhouse gas emissions target for 2020 with particular challenges in the non-ETS sectors given the size of the Irish agriculture sector, as well as issues in the transport sector that need to be addressed.

([31]) http://www.smileexchange.ie/
([32]) http://www.BeGreen.ie
([33]) http://www.seai.ie/
([34]) http://ec.europa.eu/energy/efficiency/eed/doc/neep/2014_neeap_ireland_en.pdf

Figure 3.7.2: Overall profile of public administration – Ireland



Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doinb Business; Intrum Justitia; OECD; World Economic Forum; European Commission;

3.7.5 Access to markets, infrastructure and services

Ireland is now the most globalised economy in the western world. ([35]) Market access and appropriate infrastructure for export-oriented and technology-driven sectors are consequently vital to Ireland's economic success. Ireland has made great improvements to its transport infrastructure in recent years but significant challenges remain not least with regard to broadband penetration that is only half the EU average. In this context, the recent update to the National Broadband Plan ([36]) and allocation of up to EUR 500 million for a fibre powered network is welcome; as is the 2013 National Ports Policy ([37]) that addresses issues concerning port infrastructure and competition. Needed infrastructure investments and access improvements are e.g. foreseen for Dublin port (EUR 150 million) and Rosslare and Waterford harbours; while issues with regard to leasing and licensing arrangements for some terminal operators and stevedoring services ([38]) need to be addressed.

High-technology services, such as computer services, and knowledge-intensive services, such as financial services, insurance and other business services are an increasingly important part of the economy.

3.7.6 Public administration and business environment

Ireland is ranked 15th overall in the World Bank's Doing Business Report, has one of the most favourable business and entrepreneurial environments in Europe. ([39])

Public administration has a crucial impact on the business environment and while Ireland scores well on most indicators it has some important issues to address. A new Public Service Reform plan for the period 2014-2016 was published in January. ([40]) A

([35]) http://www.ey.com/IE/en/Newsroom/News-releases/Press-release-2013---Globalisation-report

([36]) http://www.dcenr.gov.ie/Communications/Communications+Development/Next+Generation+Broadband/

([37]) http://www.dttas.ie/sites/default/files/node/add/content-publication/National%20Ports%20Policy%202013.PDF

([38]) http://www.tca.ie/images/uploaded/documents/Ports%20Study%202013.pdf

([39]) http://doingbusiness.org/

([40]) http://reformplan.per.gov.ie/exec_summary/exec_summary.html total of 220 actions are contained in the new plan including for instance, increasing recourse to shared services and centralised public procurement. Actions are being taken forward to improve e-government delivery and cloud computing services with new technologies facilitating more and better online services.

The Regulatory Impact Assessment process in Ireland includes competitiveness proofing and respects the 2009 guidelines but there is scope for enhancing this process and applying guidelines more systematically. In comparison to other EU Member States, Ireland is above average in the level of consultation of SME stakeholders on regulatory and policy matters. Business stakeholders and two consultative groups are regularly consulted on SME matters, but this is not a systematic process. Ireland should take steps towards putting in place a fully-fledged SME test.

There are concerns that the more widespread use of centralized public procurement is adversely affecting SME participation. With a view to making tendering easier for SMEs, the government introduced new guidelines for purchasing authorities in April 2014, covering matters such as division of contracts into lots and the possibility allow consortia of SMEs to submit tenders.

Ireland ranks best in the EU and 6th in the world for ease of paying taxes. ([41]) Improvements continue to be made to the system with increased provision of e-services and on-line service platforms. Micro and small enterprises will be allowed to make only one VAT return per year and tax return forms will be significantly simplified and increasingly pre-populated. E-filing and payment by direct debit will be increasingly the rule. While for income tax, tax return forms will be reduced from 26 to 6 pages for microenterprises. 91 % of income tax declarations are currently filed online.

Enforcing contracts in Ireland remains relatively lengthy and expensive ([42]) and Ireland has a very poor world ranking of 63rd on this issue. These high legal costs have an impact on the economy as a whole and they affect the cost structure of all businesses, particularly SMEs.

([41]) http://doingbusiness.org/data/exploreeconomies/ireland/#paying-taxes

([42]) at 650 days with 21 procedures at a cost of 26.9% of the claim according to the WB Doing Business Report 2013

To address the high cost of civil litigation, the Legal Services Regulation Bill was published in October 2011. It completed Committee Stage in the Parliament in April and is due to be enacted later in 2014. It will establish independent regulation of the legal professions, improve access and competition, and bring greater transparency to legal costs and reduce their burden on consumers and enterprises. The Bill also provides for the establishment of multi-disciplinary practices bringing together barristers, solicitors and accountants.

Additional provisions are currently being worked on for incorporation in the Bill which would provide for the prescribing of pre-action protocols and facilitate electronic filing of civil cases with a view to expediating the process.

Judicial and court administrative resources to implement active pre-trial case management are however very limited and this may be contributing to delays. ([43])

3.7.7 Conclusions

Ireland's domestic economy is growing and creating jobs again. ([44]) Business – crucially including SMEs - and consumer confidence is returning. Ireland is successfully competing internationally and it has an excellent business environment.

However, the very large public and private sector debt burden remains a severe drag on growth and key challenges remain in areas such as restoring credit channels for SMEs; strengthening activation mechanisms; tackling skills mismatches; reducing business (including legal) costs and increasing competition.

([43]) Ireland has the lowest number of professional judges and support staff in relation to population in the EU, with 3.2 judges and 22.4 support staff per 100,000 inhabitants, compared with an EU average of 21.5 and 68 respectively

([44]) http://www.cso.ie/indicators/Maintable.aspx