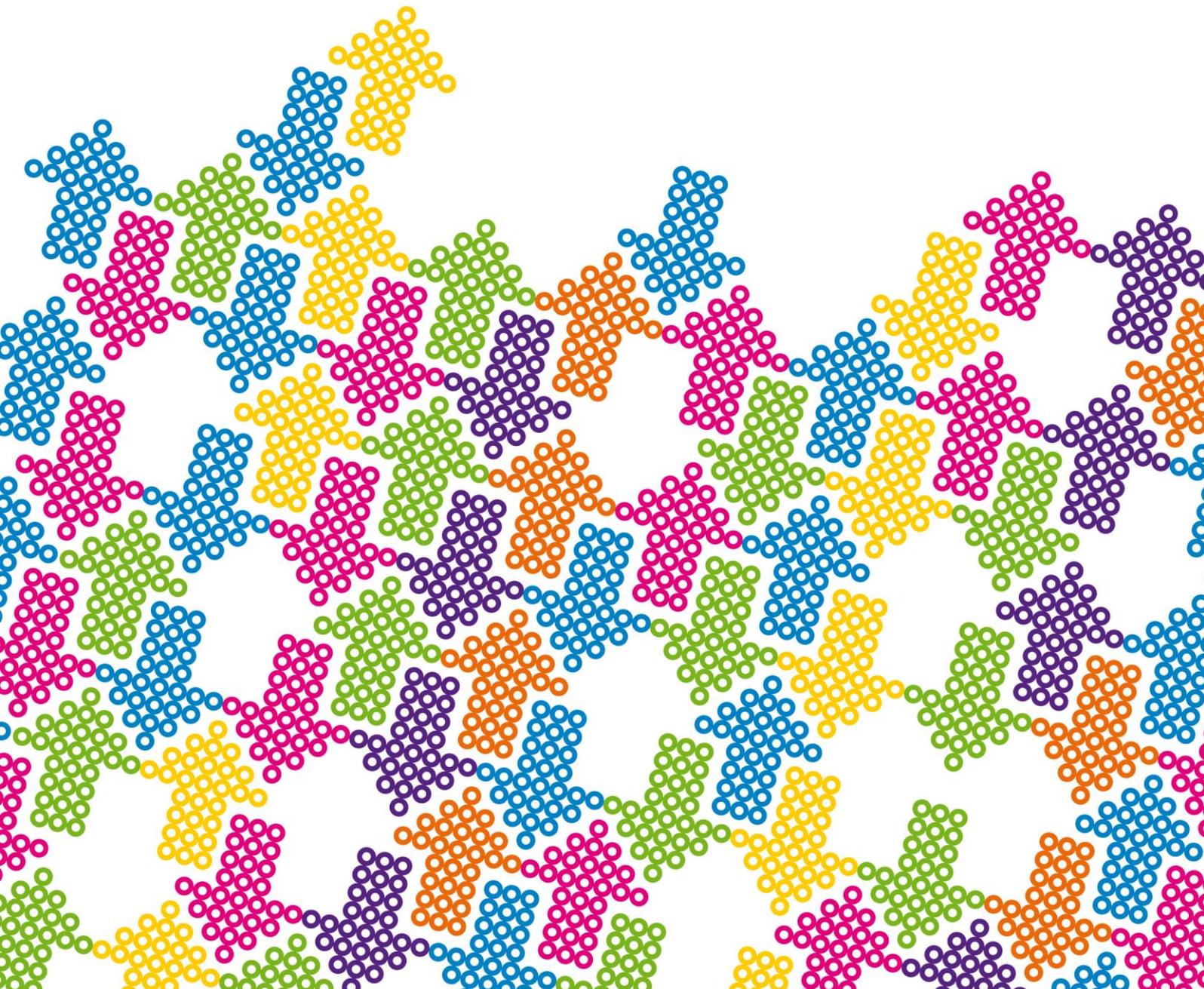




# Ireland's Competitiveness Challenge 2019

December 2019



### The National Competitiveness Council

The National Competitiveness Council (NCC) was established in 1997. It reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation, on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland's competitive position.

The European Council recommended the establishment of National Productivity Boards in each euro-area country in September 2016. In accordance with the recommendation, the Government mandated, in March 2018, the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland.

Each year the NCC publishes two annual reports:

- Ireland's Competitiveness Scorecard provides a comprehensive statistical assessment of Ireland's competitiveness performance; and,
- Ireland's Competitiveness Challenge which 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.

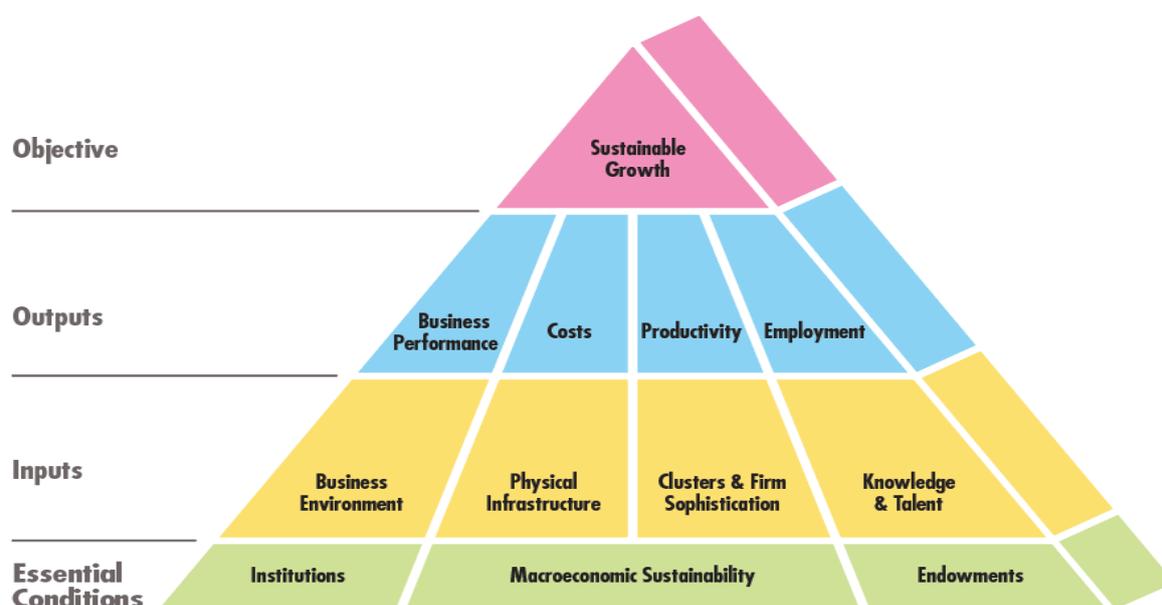
As part of its work, the NCC also publishes:

- The Costs of Doing Business report;
- A Productivity Statement; and,
- A series of competitiveness bulletins and other papers on specific competitiveness issues.

The work of the National Competitiveness Council is underpinned by research and analysis undertaken by the Enterprise Strategy, Competitiveness and Evaluation Division of the Department of Business, Enterprise and Innovation.

### The NCC's Competitiveness Framework

The Council uses an evidence-based "competitiveness pyramid" to illustrate the various factors (essential conditions, policy inputs and outputs), which combine to determine overall competitiveness and sustainable growth. Under this framework, competitiveness is not an end in itself, but a means of achieving sustainable improvements in living standards and quality of life.



### National Competitiveness Council Members

Dr Frances Ruane	Chair, National Competitiveness Council
Pat Beirne	Chief Executive Officer, Mergon Group
Ciarán Conlon	Director of Public Policy, Microsoft, Ireland
Kevin Callinan	General Secretary, Fórsa
Micheál Collins	Assistant Professor of Social Policy, University College Dublin
Isolde Goggin	Chair, Competition and Consumer Protection Commission
David Hegarty	Assistant Secretary, Department of Business, Enterprise and Innovation
Fergal O'Brien	Director of Policy and Chief Economist, Ibec
Seán O'Driscoll	President, Glen Dimplex Group
Dirk Pilat	Deputy Director for Science, Technology and Innovation, OECD
Margot Slattery	Country President, Sodexo Ireland
Martin Shanahan	Chief Executive, IDA Ireland
Julie Sinnamon	Chief Executive, Enterprise Ireland
Ian Talbot	Chief Executive, Chambers Ireland
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### Taoiseach's Foreword



Despite these uncertain times, the Irish economy continues to grow at a robust pace. More people are employed in our country today than ever before and this reflects the vital contribution that businesses make to our economy. We now have a record 2.3 million people at work, rising income levels, falling poverty and deprivation rates, and a budget surplus. However economic progress is not measured simply in economic statistics. It is seen in the difference it makes to families, to the elderly, to hard-working people, and to those struggling to make ends meet.

Unfortunately we do not need to look too far into our own past to remember a time when good economic performance led to complacency and, as a result, opportunities were lost. Now is the time for careful consideration of how we can best maintain our hard-won competitiveness, enhance our productivity and control and reduce rising costs.

As a small, highly open economy, Ireland is particularly exposed to external factors beyond our control. The global economy may be entering a new phase of slower growth, exacerbated by heightened trade tensions and wider geopolitical developments. The challenging international environment continues to provide many hurdles for the Irish economy to overcome.

The most immediate concern from an Irish perspective is the United Kingdom's planned exit from the European Union. Regardless of the form of Brexit that eventually takes place, the departure of one of Ireland's nearest trading partners will constitute a shock to the Irish economy, especially for small and medium-sized enterprises, the agri-food sector and border communities. It is one we have spent considerable time preparing for.

There are also vulnerabilities that risk eroding our competitive advantage. As the economy approaches full employment, infrastructure bottlenecks and capacity constraints have led to rising costs for households and businesses. Ireland currently performs well internationally in terms of productivity and international competitiveness, but we have seen in the past how quickly this comparative advantage can be whittled away. We need to adapt now so that our enterprises can stay competitive and our society resilient. We need to focus more on productive, quality jobs in new and evolving sectors so that we stand ready to respond to emerging challenges such as the rise of automation and artificial intelligence and the need to move to a low carbon economy. Our strategy Future Jobs Ireland shows exactly how we intend to do this.

There will be many challenges ahead and we must be prepared to face them. Thank you to the National Competitiveness Council for your important work and I am pleased to introduce Ireland's Competitiveness Challenge 2019.

This report highlights the main competitiveness challenges facing Irish businesses. In particular it recognises the importance of progressing the digital economy, developing our economic infrastructure, enhancing SME productivity and skills, and reducing the costs of doing business. The report provides the Government with advice and recommendations to help shape the policies required to meet these challenges and we will consider them carefully. Our goal in Government is to support businesses to compete both at home and abroad, so that we can improve the living standards of all our people for the future.

Leo Varadkar TD,  
Taoiseach

### Chair's Preface



At the heart of Ireland's national competitiveness is creating an environment in which Irish businesses are able to compete successfully in international markets. Two of the most important determinants of competitiveness are productivity and costs, and a competitive economy is one where the cost base is in line with productivity growth. Ireland performs well on the major global competitiveness indicators. However, as a small, highly-open and concentrated economy, we are particularly vulnerable to external shocks, as we saw clearly in 2008. Consequently, we cannot afford to be complacent about our current strong overall performance and must continuously strive for improvements, especially in domains where we are less strong, so that we remain a highly competitive economy. The increasingly challenging international environment raises the stakes even further.

This year the National Competitiveness Council (NCC) has decided to focus our annual *Competitiveness Challenge* report on a smaller number of issues than in previous years. This allows us to discuss six challenges in greater detail and to target more closely the associated recommendations for Government. Specifically we focus on three issues in relation to productivity, namely, digital engagement, infrastructural investment and skills and training. We also look at three areas where costs impact on business, and especially on SMEs, namely, the cost of credit, legal costs and insurance costs.

It is hoped that this narrower scope will allow the report to gain more traction, and I am very pleased that Government has already agreed to respond formally to each of our recommendations in this *Challenge* within two months of publication. I look forward to engaging with the relevant Government Departments and State bodies over the coming year so that we can work together to identify systematically the impediments to competitiveness and address actions that will help to ensure that Ireland remains competitive.

The National Competitiveness Council also acts as Ireland's *National Productivity Board* on foot of a European Council recommendation in 2016, and Irish Government decision in 2018. In this role the Council examines and comments on our productivity performance over time and within a European context. Policies to enhance productivity are addressed in the framework of the European Semester, and the Semester process involves consultation with the Council, through engagement and through its various outputs and reports. In my role as Chair, I hope to build on existing positive interactions with the Semester process, so that any recommendations for reforms arising from the Semester process are fully considered here in Ireland.

Starting in 2020, the NCC intends to bring the publication of the *Competitiveness Challenge* forward to an earlier point in the calendar year so that its recommendations can be better integrated into the European Semester process. Structural reforms that focus on promoting growth and employment in line with the *Europe 2020* strategy, and that increase productivity and growth potential in the member states are an integral part of addressing the economic challenges facing Ireland and the EU.

The *Competitiveness Challenge* identifies a range of recommendations that address both immediate competitiveness issues, and more medium-term challenges aimed at enhancing Ireland's competitiveness and productivity performance. It is imperative that progress is made on these recommendations by the relevant Government Departments and State bodies over the course of 2020, supporting competitiveness and sustainable economic growth so that our living standards and quality of life can continue to improve.

Dr. Frances Ruane  
Chair, National Competitiveness Council

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## National Competitiveness Council Recommendations 2019

The Competitiveness Challenge identifies a range of recommendations that address both immediate competitiveness issues, and more medium-term challenges aimed at enhancing Ireland's competitiveness and productivity performance. It is imperative that progress is made on these recommendations by the relevant Government Departments and State bodies over the course of 2020 in order to ensure that Ireland remains competitive and so that living standards and our quality of life can continue to improve. In recognition of the fact that some recommendations require the co-ordinated action of a number of bodies, the Council list all of the responsible actors. In these cases, the first mentioned actor has the overall responsibility of the recommendation.

### Chapter 1: The Digital Economy

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**Recommendation 1.1:** Finalise and publish the new National Digital Strategy to ensure that Ireland has a coherent up-to-date digital policy framework that supports productivity growth and competitiveness.

**Responsibility:** Department of the Taoiseach; Department of Business, Enterprise and Innovation; Department of Communications, Climate Action and Environment; Office of the Government Chief Information Officer

**Recommendation 1.2:** Publish the Cyber and Artificial Intelligence strategies alongside the National Digital Strategy to ensure consistency with the wider Government digital framework.

**Responsibility:** Department of the Taoiseach; Department of Business, Enterprise and Innovation; Department of Communications, Climate Action and Environment

**Recommendation 1.3:** Improve the way the Government handles personal data in line with the Data Sharing Act and establishing the Data Governance Board and ensure that the Data Governance Board considers the productivity and competitiveness impact of its decisions.

**Responsibility:** Department of Public Expenditure and Reform

**Recommendation 1.4:** Help SMEs to take advantage of digital technologies by strengthening programmes aimed at addressing the knowledge gap identified by the EIB.

**Responsibility:** Enterprise Ireland; LEOs

**Recommendation 1.5:** Provide public funding to co-finance SME investment in digitalisation, as recommended by the OECD to boost digital adoption rates among SMEs.

**Responsibility:** Department of Business, Enterprise and Innovation, Department of Finance, Enterprise Ireland, Strategic Banking Corporation of Ireland, Local Enterprise Offices

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## Chapter 2: Infrastructure and Productivity

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**Recommendation 2.1:** Become one of the EU leaders in public investment by meeting the Government's commitment to increase public investment to the point that it accounts for at least 4% of GNI\*.

**Responsibility:** Department for Public Expenditure and Reform

**Recommendation 2.2:** Expedite the publication of the Regional Spatial and Economic Strategies (RSEs) in the Northern & Western and Southern Regions as planned, and the alignment of City and County Development Plans with the RSEs and national objectives set out under the National Planning Framework.

**Responsibility:** Regional Assemblies and Local Authorities

**Recommendation 2.3:** Complete and publish new governance arrangements for major infrastructure projects to mitigate the risk of project overspend and review their effectiveness after three years. Ensure that sufficient resources are in place across Government to comply with these new governance arrangements to avoid unnecessary delays to crucial investment projects.

**Responsibility:** Department of Public Expenditure and Reform

**Recommendation 2.4:** Publish an updated version of the Investment Projects and Programmes Tracker with more granular information as soon as possible.

**Responsibility:** Department of Public Expenditure and Reform

**Recommendation 2.5:** Complete and publish the Construction Sector Productivity Assessment and Action Plan to assist in the successful delivery of Project Ireland 2040. Ensure that the annual *Build* report continues to provide a comprehensive overview of the performance of, and prospects for, the Irish construction sector, including consideration of the impact of constraints in the construction sector on Project Ireland 2040 and of mitigation measures that can be taken in the event of ongoing infrastructure project cost inflation or economic overheating.

**Responsibility:** Department of Public Expenditure and Reform

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## Chapter 3: Productivity, Skills and Education

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**Recommendation 3.1:** Develop and implement a long-term funding model that allows for increased participation and improved quality in tertiary education, that will: ensure certainty and consistency; meet national ambitions; support increased quality; enhance access and participation; and improve fairness and balance.

**Responsibility:** Department of Education and Skills

**Recommendation 3.2:** Develop an Action Plan to deliver on the 5 action areas outlined in the *Review of pathways to participation in apprenticeship*, while continuing to monitor and analyse factors that reduce uptake among underrepresented groups.

**Responsibility:** Department of Education and Skills, Solas

**Recommendation 3.3:** Undertake a feasibility analysis of the international schemes outlined in the OECD paper *Seven Questions about Apprenticeships* to incentivise employers to recruit apprentices from consortia-led apprenticeship programmes.

**Responsibility:** Department of Education and Skills, Solas

**Recommendation 3.4:** Conduct an independent review of the appropriateness of the existing suite of training programmes for reskilling individuals who are currently in employment - particularly those who are at risk of "role disruption" from automation - and address any identified shortcomings in the support structures.

**Responsibility:** Department of Education and Skills

**Recommendations 3.5:** Ensure that the education system is equipped on an ongoing basis to respond to the skill requirements of the next generation of employees - in particular those most vulnerable to the impact of digitalisation - through continuous consultation and engagement with employers across impacted sectors, with the aim of developing upskilling schemes that meet the evolving needs of enterprise.

**Responsibility:** Department of Education and Skills

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## Chapter 4: Cost of Credit

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**Recommendation 4.1:** Ensure that SMEs are aware of the financial options available to them by (i) facilitating information sharing seminars with financial experts and (ii) continuing to raise awareness about government support programmes.

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

**Recommendation 4.2:** Explore options to broaden the Strategic Banking Corporation of Ireland's on-lending partners to further finance the growth of the enterprise sector.

**Responsibility:** Strategic Banking Corporation of Ireland

**Recommendation 4.3:** Undertake and publish research on the factors causing higher SME interest rates in Ireland relative to the euro area on SME loans, and draw up a list of actions to address this issue, while ensuring financial stability.

**Responsibility:** Department of Finance

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## Chapter 5: Legal Services Costs

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**Recommendation 5.1:** Publish the Services Producer Price Index with a more detailed sector breakdown, with legal services separated out as a sector of its own.

**Responsibility:** Central Statistics Office

**Recommendation 5.2:** Ensure that the newly-established Office of the Legal Cost Adjudicator is sufficiently resourced to improve transparency of, and competition in, the legal service sector.

**Responsibility:** Department of Justice and Equality

**Recommendation 5.3:** Ensure that from the outset there are data collected on all aspects of these mediation services, while respecting confidentiality requirements, so that it will be possible to monitor and report on the impact of Mediation Act 2017 on conflict-resolution time and cost.

**Responsibility:** Department of Justice and Equality

**Recommendation 5.4:** Ensure that the Legal Services Regulatory Authority is sufficiently resourced to expedite the delivery of its work program.

**Responsibility:** Department of Justice and Equality

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## Chapter 6: General Liability Insurance

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**Recommendation 6.1:** Explore legislative options to compel insurance companies to provide claims data (broken down by settlement channel) to improve transparency in the insurance sector.

**Responsibility:** Department of Justice and Equality

**Recommendation 6.2:** Publish a report setting out key information on employer liability and public liability insurance claims as recommended by the Cost of Insurance Working Group.

**Responsibility:** Department of Finance

**Recommendation 6.3:** Ensure that sufficient resources are assigned to the Personal Injuries Guidelines Committee so that the adoption of personal injuries guidelines can be prioritised at the earliest possible date.

**Responsibility:** Department of Justice and Equality, Personal Injuries Guidelines Committee

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### Overview

The National Competitiveness Council (NCC) defines national competitiveness as the ability of enterprises to compete successfully in international markets. It is a complex concept, which is the product of many different factors. Two of the most important determinants of competitiveness are productivity (i.e. the efficiency with which factors of production, such as labour and capital, are used to produce output) and factor costs (i.e. the relative price of employing a given factor of production). A competitive economy is one where productivity is not out of line with the cost base. Ultimately, if prices in an economy were too high relative to productivity, businesses would find it more difficult to export, and internationally mobile firms would be disincentivised from locating in that economy.

As a small, highly open and concentrated economy, Ireland is particularly vulnerable to external shocks and so it is fundamentally important that the economy remain highly competitive. The increasingly challenging international environment more recently raises the stakes even further. The most immediate concern from an Irish perspective is the United Kingdom's planned exit from the European Union. Regardless of the format of Brexit that is eventually agreed, the departure of Ireland's most important trading partner from its shared EU market will constitute a significant shock to the Irish economy, especially for small- and medium-sized enterprises (SMEs), the agri-food sector, and border communities that are most exposed to a fall in demand and are vulnerable to supply chain disruptions. Further external risks to the Irish economic outlook include slower growth in the global economy, a changing international tax landscape, heightened international trade tensions and with an increasing number of disputes, and broader global efforts to tackle climate change.

### How competitive is Ireland?

The NCC's *Competitiveness Scorecard 2019*<sup>1</sup> concluded that the Irish economy is internationally competitive, performing well on the major global competitiveness indicators (the IMD, World Bank, and WEF). Ireland is ranked as a top 25 economy in each of these indicators, and performs particularly well in the IMD rankings, where it is ranked 7<sup>th</sup> (out of 63 economies). Ireland's performance in these rankings over time is also significant. In the late 2000s, Ireland began to slide down the international rankings. However, since the early 2010s, Ireland's position has improved.

Figure 0.1, which shows the evolution of Ireland's real Harmonised Competitiveness Indicator (HCI)<sup>2</sup>, reveals three broad trends. First, between 2000 and 2008, the Irish economy experienced a substantial loss of cost competitiveness, with Irish prices increasing much faster than prices in other jurisdictions. Second, during the crisis years from 2008 to 2015, the Irish economy has experienced substantial improvements in cost competitiveness. Finally, from 2015 onwards, the Irish economy has broadly maintained cost competitiveness.

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<sup>1</sup> [Ireland's Competitiveness Scorecard 2019](#)

<sup>2</sup> The HCI is a useful way of illustrating an economy's overall cost competitiveness performance. It deflates relative exchange rates by the relative change in average prices to give a sense of how cost competitive an economy is at any given moment.

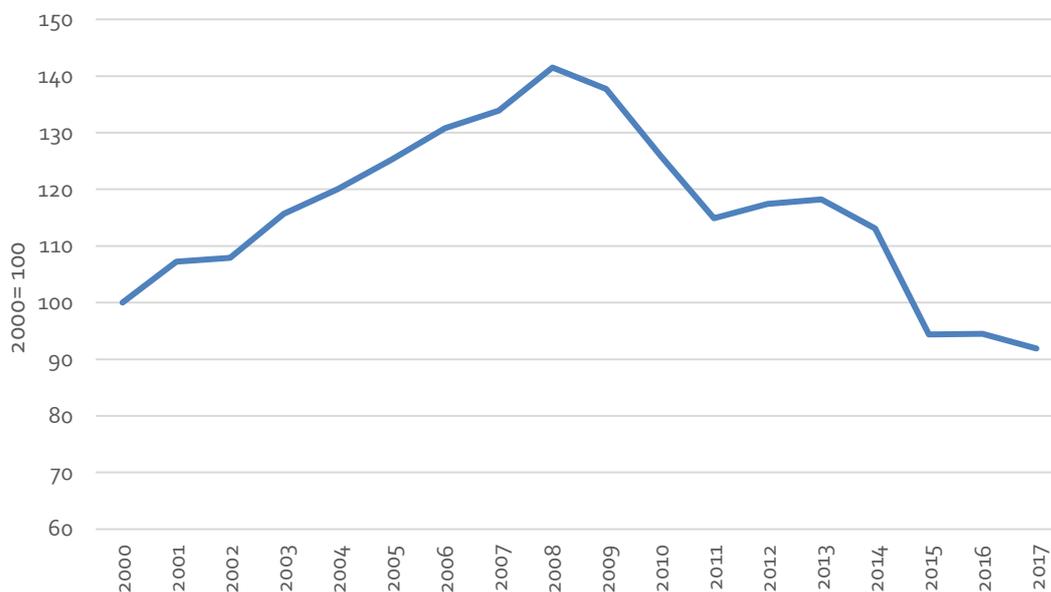
Figure o.1 Ireland's Harmonised Competitiveness Indicator (deflated by CPI), 1995- 2019



Source: Central Bank of Ireland, Harmonised Competitiveness Indicators

Central Statistics Office (CSO) data to 2017<sup>3</sup> also show that, since 2009, Ireland's nominal Unit Labour Cost (ULC)<sup>4</sup> has declined substantially, indicating increased competitiveness; see Figure o.2. The improvement in competitiveness implied by the fall in the ULC has slowed down since 2015 echoing the trend in the HCI.

Figure o.2 Ireland's Nominal Unit Labour Cost (2000 – 2017)



Source: Central Statistics Office (CSO)

<sup>3</sup> CSO (2019) 'Productivity in Ireland'

<sup>4</sup> The ULC measures employee compensation relative to real labour productivity. Growth in an economy's unit labour cost suggests that the cost of labour in the economy is rising relative to labour productivity, decreasing competitiveness. On the other hand, a decline in unit labour cost suggests that the cost of labour is declining relative to labour productivity, increasing competitiveness.

### Ireland's Competitiveness Challenge 2019

As part of *Future Jobs 2019*, the Government committed to responding formally to the NCC's priority recommendations to enhance Ireland's productivity and competitiveness. It has been agreed that the Government will respond within two months of publication of this *Competitiveness Challenge 2019* report. The NCC has always been keen to foster a dialogue with the Government and welcomes this commitment to build on the links between the Council and the Government that are already in place.

To facilitate this process, and to ensure that the NCC reports have the greatest impact, the Council decided to focus the *Competitiveness Challenge 2019* on a smaller number of issues. This has the primary advantages of allowing the Council to prioritise key issues, examine topics in greater detail, and make a smaller number of more impactful recommendations. In the *Competitiveness Challenge 2019*, the Council has focused on the six follow areas:

- (i) The Digital Economy
- (ii) Infrastructure
- (iii) Skills and Education
- (iv) The Cost of Credit
- (v) Legal Services Costs
- (vi) General Liability Insurance Costs

However, given the broad nature of the factors influencing competitiveness, the decision to focus on a smaller number of topics means that the *Competitiveness Challenge 2019* cannot cover the same breadth of issues as it has in previous years. It should not be assumed that the issues that the Council has raised previously in these areas have been addressed; indeed, there continues to be several important challenges that the Council would like to see progressed. Before turning our attention to the above listed topics, the remainder of this section touches on some of the wider competitiveness challenges that the Irish economy faces.

In previous reports, the Council has pointed out a number of threats to the **sustainability** of the Irish economy. The **concentrated nature** of the economy leaves the country highly exposed to the performance of a small number of firms, a small number of sectors, and a small number of external markets. If a particular sector, or even particular firms, underperform, it could have a wider impact on the Irish economy.

For example, in 2017, pharmaceuticals and chemicals accounted for almost 60% of goods exports, while computer services accounted for 43% of Ireland's services exports. This concentration is compounded by the fact that Ireland's goods exports are typically destined for a small number of key markets with over a quarter going to the US and 11% going to the UK.

The Council has stressed the importance of addressing this issue, as the concentrated nature of the economy exposes Ireland to sector (or even firm) specific threats. The Council made a series of recommendations in previous reports. At the most fundamental level, this included pursuing initiatives to rebalance the economy by improving the productivity of less productive sectors and firms. To this end, the Council is supportive of the Government's *Future Jobs Ireland* framework that is designed to boost SME productivity and welcomes the recently published *OECD Review of SME and Entrepreneurship Policy in Ireland*.

The Council has also noted that there are a series of other recommendations that the Government should consider to help clarify the risks associated with the concentration of the Irish economy. These include a call for: (i) more granular productivity data that would inform and improve the policy making process (which is

echoed in the NCC's *Productivity Statement 2019*<sup>5</sup>; (ii) the implementation of a plan to intensify business R&D activity to boost productivity growth; (iii) the identification of measures that inhibit investment in knowledge-based capital and ways to overcome these impediments; and (iv) policies that improve firm management, which is closely linked to firm productivity.

The Council believes that some of these measures would help to rebalance the economy, making it more resilient to economic shocks. However, even with a more balanced economy, it is impossible to completely eliminate the risk of an economic slowdown. In the event that an economy slowdown did occur, it is crucial that the Government has enough fiscal space to support the economy. The high levels of **government debt** (6<sup>th</sup> highest in the OECD) currently observed would make it difficult for the Irish Government to boost economic growth were it required. In line with the Irish Fiscal Advisory Council's (IFAC) position<sup>6</sup>, the NCC believes that the Government needs to pay down the national debt now, while at the same time reducing the reliance on corporation tax receipts to fund current spending.

**Climate change** presents a deeper, more existential, threat to Ireland that goes beyond Ireland's economy and competitive position. Climate disruption is already having diverse and wide-ranging impacts on Ireland's environment, society, and economy. In June 2019, the Government published Ireland's first *Climate Action Plan*<sup>7</sup> that identifies the nature and scale of the challenge. The Plan recognises that Ireland must significantly step up its commitments to tackle climate disruption and sets out the Government's actions in this regard. The Council welcomes the *Climate Action Plan* and supports the implementation of the policy measures it sets out.

Ensuring the sustainability of the Irish economy is certainly a challenge, but it also presents an opportunity. As consumers become more concerned with sustainability, with Government support, Irish businesses can seize the chance to become global sustainability leaders.

Alongside these overarching productivity and sustainability concerns, the Council recognises that Ireland continues to be a **high cost** economy. As one of the most significant costs that businesses face, **labour costs** are a key factor in determining competitiveness. As mentioned in the *Cost of Doing Business 2019*<sup>8</sup>, after years of moderate growth, labour costs have started to increase at a much faster rate (by 2.9% in 2018) than recently observed. The challenge for the Government is to ensure that the interaction between wages, prices and productivity levels is sustainable and enhances both competitiveness and living standards.

In the *Competitiveness Challenge 2018*<sup>9</sup>, the Council focused on three labour-force themes. Firstly, the Council proposed measures that would improve the functioning of, and participation in, the labour market. This included recommendations on identifying the issues that are driving low participation in certain cohorts of people, and on implementing the actions set out in the *Action Plan for Jobless Households*. Second, the Council recommended policy measures that are designed to build and sustain talent into the future, a theme that is revisited in the *Competitiveness Challenge 2019*. Finally, the Council discussed tax measures like the Key Employee Engagement Programme (KEEP), the Employment and Investment Incentive (EII), and the Special Assignee Relief Programme (SARP)<sup>10</sup>.

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<sup>5</sup> [NCC - Productivity Statement 2019](#)

<sup>6</sup> IFAC (2019) Pre-Budget 2020 Statement

<sup>7</sup> [Climate Action Plan 2019](#)

<sup>8</sup> [NCC - Cost of Doing Business in Ireland 2019](#)

<sup>9</sup> [NCC - Competitiveness Challenge 2018](#)

<sup>10</sup> Other business costs that the Council previously addressed are commercial property, utilities costs, and the cost of regulation.

Finally, as the Competitiveness Challenge is about ensuring the interaction between wages, prices and productivity levels is sustainable, the Council continues to take an interest in those consumer prices (including the **cost of residential housing and childcare**) that can have a substantial impact on quality of life and real wages.

Since early 2013, residential property prices and average rents have dramatically increased. Across Ireland, residential property prices are continuing to increase, but at a much more moderate rate than previously observed. This masks different trends, with residential property prices in Dublin declining slightly in 2019, while prices outside of Dublin continue to increase<sup>11</sup>. The situation in the rental market is even more stark.

In 2016, the Government launched the *Rebuilding Ireland Action Plan*<sup>12</sup>. Two of the five pillars of this Action Plan were to build more homes, and to improve the rental sector. The Government has been making progress in delivering on these actions, but there are still several actions outstanding under these two pillars. In the *Competitiveness Challenge 2018*, the Council recommended that the remaining targets in the Action Plan are implemented as soon as possible. The Council suggests that the Department for Housing, Planning and Local Government reviews the steps outlined in the plan to ensure they are sufficient to tackle the scale of the problem.

The OECD produces data on childcare costs across countries. The data show that, while childcare in Ireland is much more affordable than it is in the most expensive countries (Switzerland, the UK), it is still far more expensive than the EU average. In March 2019, the Government launched the National Childcare Scheme, a new system of financial support towards the cost of childcare. The Scheme opened to applications in October 2019. The NCC welcomes this initiative and will monitor the impact that it has on childcare costs over the coming years.

While Ireland is a relatively competitive economy, there is still considerable room for improvement. As outlined above, the Council has decided to focus on a number of specific issues this year. Chapter 1, Chapter 2 and Chapter 3 look first at productivity-related issues. We examine three areas: the digital economy, infrastructure, education and skills. While these areas play a crucial role in the productivity of Irish firms, the *Competitiveness Scorecard 2019* identified specific issues in each of these areas that could be addressed. For example, Ireland lags EU leaders on several digital indicators, and on levels of public spending on infrastructure, and demonstrates low levels of lifelong learning and high levels of skills mismatches.

Chapter 4, Chapter 5 and Chapter 6 then turn to look at cost-related issues, concentrating on three key areas: the cost of credit, the cost of legal services, and the cost of insurance. The relatively high cost of credit in Ireland was a major issue flagged in the *Competitiveness Scorecard 2019*. High levels of legal costs (and the slow pace of reform) is something that is consistently mentioned by outside observers, and high insurance costs have consistently been raised as an issue by Irish businesses. These relatively high costs may be placing businesses at a competitive disadvantage compared to other jurisdictions, so it is important to understand what is driving these higher prices, and whether there are any appropriate policy actions that could address these issues.

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<sup>11</sup> CSO, Residential Property Price Index

<sup>12</sup> Government of Ireland (2016) *Rebuilding Ireland: Action Plan for Housing and Homelessness*

## Chapter 1: The Digital Economy

### 1.1 Introduction

Digital technologies are continuing to transform the global economy. New technologies like mobile internet, the Internet of Things (IoT), cloud computing and digital platforms have exposed companies to new ideas, new business models and management techniques, and have created new ways for businesses to access markets.

There is a considerable body of economic literature that examines the link between digitalisation and productivity. The OECD<sup>13</sup> suggests that digitalisation complements the production process by opening up new markets, reducing transaction costs, and improving cost efficiencies. According to the OECD, the companies that invest in digital technologies, as well as investing in human resources and management practices, have experienced the largest productivity improvements. Other studies<sup>14,15</sup> have found that increases in ICT investment are associated with higher levels of output and productivity.

However, despite the rapid rise and adoption of digital technologies, aggregate productivity growth globally has slowed in recent years. In Ireland, the increasing digitalisation in health, education, transport and communications has transformed the economy, but the full impact of this digitalisation is not apparent in national productivity figures. Recent evidence<sup>16</sup> suggests that Irish SMEs are less productive than large firms, and that the productivity gap is larger in Ireland than in most other EU28 countries.

Increased digitalisation also presents challenges for the Irish economy. In the next 5 years, it is estimated that one in three jobs in Ireland will be at a high risk (over 70% chance) of being disrupted by the further adoption of digital technologies<sup>17</sup>. As roles are disrupted, it is important that employees have access to the training they need to adapt to these changes or to allow them take on new tasks or even new job roles. Similarly, with the growing importance of data, there will be increased demand for security tools to protect data, and ensure continuity, integrity and resilience, without stifling appropriate data sharing and analysis. Policies around internet access, ICT skills, regulations, and privacy are increasingly becoming vital to mitigate the negative impacts of disruption and harness its positive impacts, and to enable continual growth of the digital economy.

The remainder of the chapter seeks to analyse the scale of the digital economy in Ireland, outline Government's main digital policies, and identify opportunities that complement existing policy priorities. Such opportunities exist in relation to the digital knowledge gap and financing constraints faced by SMEs as identified by the European Investment Bank (EIB)<sup>18</sup> in 2019.

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<sup>13</sup> OECD (2019) Economic Outlook, Chapter Two titled *Digitalisation and productivity: A story of complementarities*

<sup>14</sup> Cardona, Kretschmar and Strobel (2013), *ICT and Productivity: Conclusions from the Empirical Literature*

<sup>15</sup> Siedschlag, Iulia & Lawless, Martina & Di Ubaldo, Mattia (2017). "[Investment in knowledge-based capital and its impact on productivity](#)," RB20170208, ESRI.

<sup>16</sup> EIB (2019), The digitalisation of small and medium enterprises in Ireland Models for financing digital projects

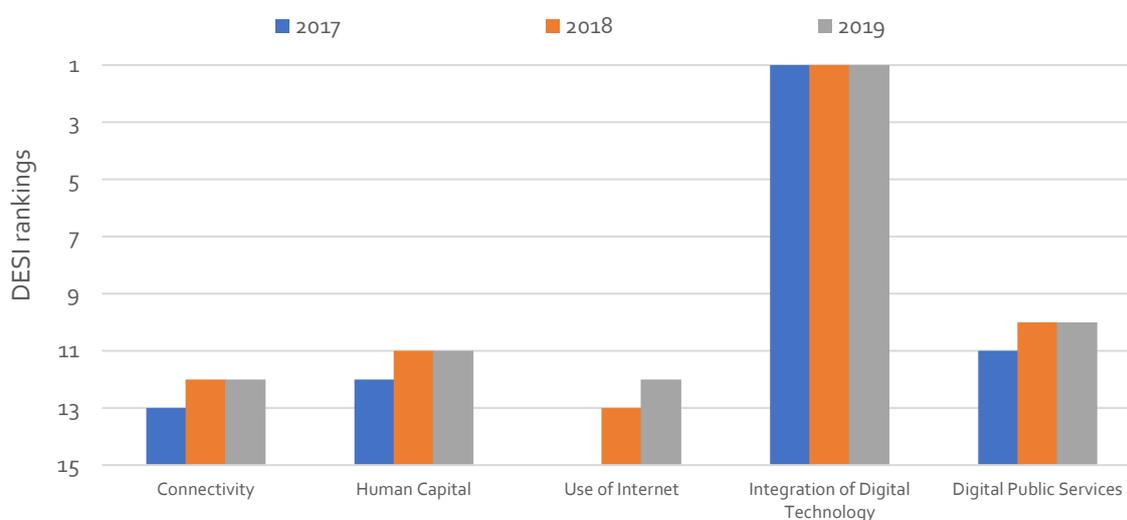
<sup>17</sup> Digital Transformation: Assessing the Impact of Digitalisation on Ireland's Workforce 2018. Available [here](#)

<sup>18</sup> EIB (2019) -The digitalisation of small and medium enterprises in Ireland Models for financing digital projects

## 1.2 Current Situation in Ireland

While digitisation is increasing globally at a rapid pace, the metrics used to measure the scale of digitalisation across countries are still evolving and remain open to different interpretations. In 2016, under the framework of the *Europe 2020 Strategy*, the European Commission introduced a performance measurement system to track the evolution of EU member states in digital competitiveness - the Digital Economy and Society Index (DESI). The DESI is a composite index, with five primary indicators<sup>19</sup>, that attempts to capture the factors that have an impact on the competitiveness of economies in the EU<sup>20</sup>. The index also analyses eGovernment as a separate category allowing measurement of the efficiency of public investment in digitalisation.

Figure 1.1 Evolution of Ireland's DESI ranking (2017 – 2019)



Source: DESI, 2019

According to the DESI, Ireland continues to be one of the EU's digital front runners. In 2019, Ireland is ranked 7<sup>th</sup> overall, and 1<sup>st</sup> in the indicator 'Integration of digital technology'. 'Digital public services' are improving – Ireland ranks 1<sup>st</sup> in the sub-component open data, and 2<sup>nd</sup> in services for business users. However, the scores for 'Connectivity' and 'Human Capital' remain low - Ireland ranks outside the top 10 in both of these dimensions. Similarly, 'Ultrafast broadband coverage' remains below the EU average. While 'High-level digital skills' in Ireland are above the EU average, the average digital skills of citizens remain low. The proportion of internet users in Ireland also remains below the EU average. Furthermore, public sector digitalisation (e-government users, prefilled forms, online service completion) is slightly above the EU average, whereas medical sector digitalisation levels are particularly low in Ireland.

<sup>19</sup> Five primary indicators of DESI: Connectivity, Human Capital, Use of Internet, Integration of digital technology, Digital public services. The overall DESI rankings are based on the aggregate score in five primary categories.

<sup>20</sup> Digital Economy and Society Index - Methodological note

Table 1.1 Evolution of Ireland's DESI ranking

	EU Score	Ireland Score	Ireland Rank
DESI	52.5	61.4	7 <sup>th</sup>
Connectivity	59.3	62.6	12 <sup>th</sup>
Human Capital	48.0	53.8	11 <sup>th</sup>
Use of Internet Services	53.4	53.1	12 <sup>th</sup>
Integration of Digital Technology	41.1	68.7	1 <sup>st</sup>
Digital Public Services	62.9	70.2	10 <sup>th</sup>

Source: DESI, 2019

DESI provides a comparable guide on the evolution of the Irish digital landscape compared to other EU countries. However, the Council believes further information on the use of AI analytical tools in businesses and in the public sector would significantly add to understanding the true scale of digitalisation in Ireland.

According to the CSO<sup>21</sup>, the level of adoption of basic digital technology in Irish enterprises<sup>22</sup> is broadly in line with, or above, the European average. In 2018, Ireland ranked joint 7<sup>th</sup> in terms of enterprises using paid advertising in the EU; some 34% of Irish enterprises reported having paid to advertise on the internet (on search engines, social media and other websites) compared to 26% in the EU. In 2018, 45% of Irish enterprises reported purchasing cloud computing services, up from 36% in 2016, and significantly above the EU average (26%). Moreover, in the same year, 20% of Irish enterprises reported that they used Big Data<sup>23</sup> with 13% using big data methods to analyse data generated from social media and 8% for analysing their enterprise's own data.

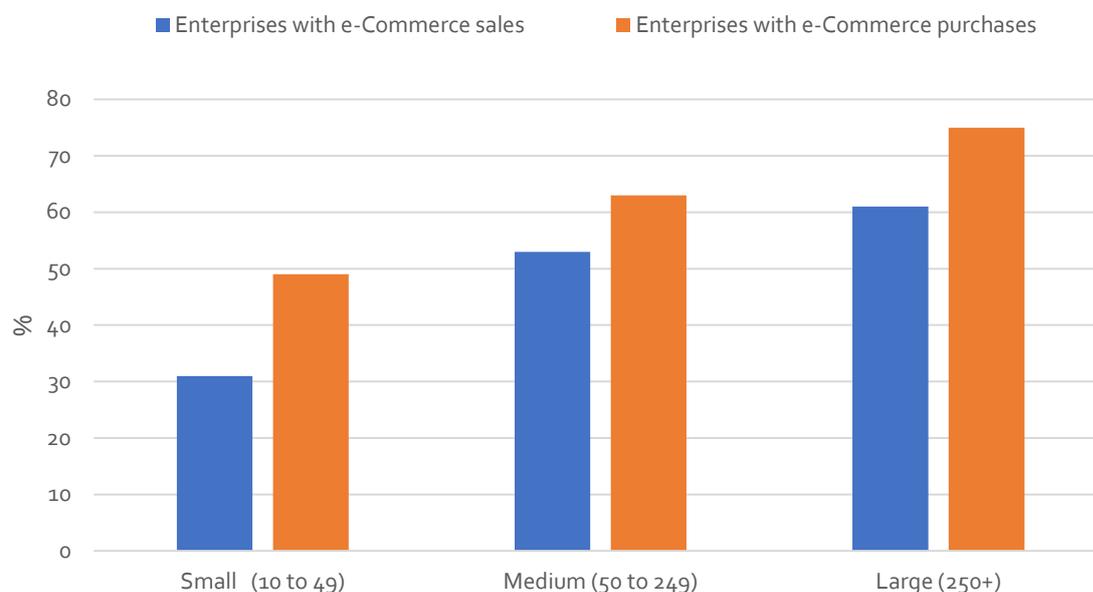
The CSO data further suggest that Irish SMEs continue to outperform the EU average when it comes to e-commerce. In Ireland, 30% of Irish SMEs sell online and 17% sell cross border, well above the EU average of 17% and 8% respectively, reflecting the highly open nature of the Irish economy. In 2018, 26% of the total turnover generated by SMEs in Ireland came from online sales, more than double the EU average (10%) (Figure 1.2).

<sup>21</sup> CSO (2018) - [Information Society Statistics - Enterprises](#)

<sup>22</sup> A sample of enterprises (both Irish- and foreign-owned) was chosen from the CSO's Business Register. The results cover enterprises with ten or more persons engaged in the manufacturing, construction and selected services sectors.

<sup>23</sup> The term Big Data refers to extremely large data sets that may be analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions.

Figure 1.2 Irish enterprises e-Commerce activities, by size category



Source: CSO

Digital technologies are increasingly part of everyday life and business in Ireland. Households are intensive users of digital services and technologies. Firms have high levels of access to the internet and a sizable proportion of firms use the internet for sales. However, the digital technologies used, and the rate of adoption, differ by industry size. Many companies still have room to improve when it comes to implementing a holistic digitalisation strategy. According to the EIB<sup>24</sup>, almost 40% of traditional (construction, retail, and manufacturing) Irish indigenous companies completely lack digital assets and Ireland lags behind leading countries in terms of e-business processes and e-business technology adoption.

There is also evidence<sup>25</sup> to suggest that firms are more productive where there is a higher use of high-speed broadband or cloud computing. While 89% of Irish households had access to the internet at home in 2018, there were significant variations across regions. In 2018, internet connection among households was highest in the Dublin region at 94%, compared with the Border (85%) and Midlands (86%) regions<sup>26</sup>. In Ireland, there is scope to improve connectivity across the country, for both households and businesses, with high speed broadband. The roll out of the Government's National Broadband Plan (see Box 1.1) should ensure wider access to high-quality, affordable broadband service, although it will be several years before the plan is fully implemented.

<sup>24</sup> EIB (2019) - [The digitalisation of small and medium enterprises in Ireland: Models for financing digital projects](#)

<sup>25</sup> OECD (2019) - [Digital Dividend: Policies to Harness the Productivity Potential of Digital Technologies](#)

<sup>26</sup> CSO (2018) - [Information Society Statistics - Households](#)

### Box 1.1 the National Broadband Plan

The National Broadband Plan (NBP) is the Government's plan to deliver high speed broadband services to all businesses, farms and households across Ireland. On completion, it will position Ireland as one of the global leaders in universal access to broadband by ensuring equal access to high-speed broadband services to everyone in Ireland. Under the plan up to 146,000 km of new fibre will be deployed as part of the State intervention, delivering high speed broadband to over 1.1 million people, in approximately 540,000 premises across the country.

Following the completion of the procurement process, on 7 May 2019, a preferred bidder (Granahan McCourt) was selected to build, maintain and operate over a 25-year term a state-funded network and offer wholesale services on an open-access basis. This award is subject to contract close, including finalisation of financial and legal documents.

While the Council acknowledges the scale of the project and the subsequent due process required before it could be rolled out, it remains concerned that persistent delays in the process have the potential to undermine Ireland's digital ambitions.

High quality telecommunication infrastructure is fundamental to capturing new opportunities for entrepreneurship and improving regional growth. Access to high speed broadband is crucial for the growth of small and micro businesses, as it facilitates digitalisation, improves their online visibility and expands their export base, as highlighted by ESRI research. An online presence is vital in facilitating exports especially by Irish services firms.

Complementing the commercial investment with continued Government investment is essential to the delivery of a future-proofed network to support a high-quality, affordable broadband service across all regions.

## 1.3 Current Policy Interventions

Both the European Commission and the CSO data suggest that Irish firms are embracing digitalisation. However, there is evidence<sup>27</sup> that adoption and use of digital technologies in Ireland vary by industries, firm size and demography raising concerns about the inclusiveness of the digital transformation. In 2018, the combination of a lack of high-quality and affordable infrastructure, a lack of trust in digital technologies and activities, a shortage of the requisite skills, an inadequate regulatory environment, and security concerns were identified as the major barriers<sup>28</sup>. Government has taken a multifaceted approach to address these issues as highlighted by a growing number of digital initiatives in recent years.

### National Digital Strategy

In 2013, the Government published a National Digital Strategy (NDS), a long-term digital strategy designed to evolve as needed. It provides a coherent vision and a framework covering, *inter alia*, access and supporting infrastructure, trust, use and widespread adoption, society and well-being, enterprise and innovation, labour market and digital government.

The first phase of the NDS – "Digital Engagement", set out a vision with actions and steps to encourage and assist more citizens and small businesses to get online. It focused on Business and Enterprise, Citizen Training, and Schools and Education. In 2018, a Digital Strategy Interdepartmental Group, was established to ensure a comprehensive whole-of-Government perspective on the progression of a new National Digital

<sup>27</sup> Digital Economy and Society Index (DESI) 2019 Country Report Ireland

<sup>28</sup> [Digital Transformation](#): Assessing the Impact of Digitalisation on Ireland's Workforce 2018

Strategy that seeks to progress further and grasp the opportunities offered by digitalisation and respond to its challenges. The draft new Strategy will provide the framework for realising the potential of digitalisation. It covers a broad range of societal and economic areas including: infrastructure and security; data, privacy and regulation; education and skills; trust, wellbeing and inclusion; digital public services, innovation, the digital economy, and labour market changes<sup>29</sup>. *The Action Plan for Jobs 2018* committed to the completion of a framework for the development of a National Digital Strategy (NDS). Public consultation on the NDS was completed in November 2018 and is currently being finalised prior to publication.

Transforming Ireland into a leading digital economy requires an integrated approach across many stakeholders. In parallel with the NDS, a coherent and integrated framework of digital policy, encompassing aspects such as Cyber Strategy and AI strategy, is urgently required to transform Ireland into a digital forerunner. While the Council acknowledges the ongoing processes, it is concerned that the persistent delay in the publication of National Digital Strategy (NDS) has the potential to undermine Ireland's digital ambition and global competitiveness.

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**Recommendation 1.1:** Finalise and publish the new National Digital Strategy to ensure that Ireland has a coherent up-to-date digital policy framework that supports productivity growth and competitiveness.

**Responsibility:** Department of the Taoiseach; Department of Business, Enterprise and Innovation; Department of Communications, Climate Action and Environment; Office of the Government Chief Information Officer

**Recommendation 1.2:** Publish the Cyber and Artificial Intelligence strategies alongside the National Digital Strategy to ensure consistency with the wider Government digital framework.

**Responsibility:** Department of the Taoiseach; Department of Business, Enterprise and Innovation; Department of Communications, Climate Action and Environment

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The Data Sharing Act, which came into effect on 4 March 2019, provides for the regulation of the sharing of information, including personal data, between public bodies<sup>30</sup>. Once commenced, the oversight of these arrangements will be provided by a newly-established Data Governance Board (DGB). Consideration is currently being given to the appropriate technical and policy supports required for the DGB so as to ensure that data sharing happens in a secure and efficient manner, protecting citizens' privacy and maintaining trust. At the EU level, the agreement<sup>31</sup> on Public Sector Information / Open Data means that Member States will agree the actual data sets, the standards to be put in place and an appropriate timeline to avoid the European Commission introducing its own standards.

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**Recommendation 1.3:** Improve the way the Government handles personal data in line with the Data Sharing Act and establishing the Data Governance Board and ensure that the Data Governance Board considers the productivity and competitiveness impact of its decisions.

**Responsibility:** Department of Public Expenditure and Reform

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<sup>29</sup> <https://www.gov.ie/en/news/69baao-government-seeks-views-on-irelands-digital-strategy/>

<sup>30</sup> Arising from the Act public bodies may share personal data for certain purposes, subject to administrative and technical requirements.

<sup>31</sup> Refers to the [agreement](#) between European Parliament, the Council of the EU and the Commission on a revised directive that will facilitate the availability and re-use of public sector data.

### Technology

There are several strategies currently in place which aim to help Irish businesses improve their technological capabilities and be ready to reap the full benefit of new technologies:

#### *Disruptive Technologies Innovation Fund (DTIF)*

A €500 million competitive fund, to run over a ten-year period, has been provided for the Department of Business, Enterprise and Innovation and its agencies with the aim of:

- supporting enterprises to exploit the opportunities associated with disruptive technologies
- encouraging collaboration between enterprises and the public research system
- building on existing research in Ireland and leveraging that research for commercial impact
- preparing Irish enterprise and public bodies to engage in European and global partnerships in the deployment and development of disruptive technologies.

In addition to the domestic initiatives, as an EU member state, Ireland's digital agenda is also influenced by the European digital initiative - Digital Single Market (DSM)<sup>32</sup>. Ireland is a strong supporter of the DSM agenda and also one of the earliest signatories to the Declaration of Cooperation on Artificial Intelligence, and the Declaration on European Blockchain Partnership<sup>33</sup>. Achieving the goals of the EU DSM remains vital to enhance Ireland's digital economy, particularly removing unnecessary barriers to doing business digitally and across borders.

These Government priorities suggest that Ireland is moving in the right direction. However, further efforts are needed to focus on lifting digital 'laggards' and building national digital niches or champions. The EIB report<sup>34</sup> suggested significant market failures in Ireland in relation to digital knowledge and financing gaps. In addition, the report found that there is very limited appetite from traditional Irish SMEs for digital investment in products, processes or business models due to these knowledge and finance gaps:

- **Knowledge gap:** EIB evidence suggests companies often have difficulty in deciding when to invest, up to what level, and in which innovative field. Ultimately, not enough companies know how to translate the use of technologies into economic impact, and how to build a new incremental business. Education initiatives at the community level would help to raise awareness of the benefits of digitalisation, by providing education and training to entrepreneurs.

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**Recommendation 1.4:** Help SMEs to take advantage of digital technologies by strengthening programmes aimed at addressing the knowledge gap identified by the EIB.

**Responsibility:** Enterprise Ireland; Local Enterprise Offices

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- **Financing gap:** EIB evidence suggests SMEs are often unwilling to apply for loans given the high cost of credit in Ireland. Banks are reluctant to provide loans (often with a higher risk profile) for

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<sup>32</sup> Digital Single Market is a European Commissions' EU wide digital agenda. The DSM strategy aims to open up digital opportunities for people and business and enhance Europe's position as a world leader in the digital economy. One of the main aims of DSM is to tackle obstacles that hampers cross-border online activities - differences in contract and copyright law; regulatory obstacles such as different VAT procedures, cross border shipping costs, e-skill, connectivity and standards fragmentation.

<sup>33</sup> According to the declaration, the European Blockchain Partnership identifies cross-border digital public sector services that could be deployed through a common European Blockchain Services Infrastructure, with a shared governance model.

<sup>34</sup> EIB (2019) - [The digitalisation of small and medium enterprises in Ireland: Models for financing digital projects](#)

investments in digital technologies. Furthermore, due to information asymmetries, banks often lack the expertise to assess projects with a strong digital component. Similarly, according to the OECD<sup>35</sup>, there is a significant digital skills deficit and lack of awareness about the benefits and opportunities of digitalisation among SMEs in Ireland. Moreover, the OECD report suggests that co-financing schemes for digital technology investment could boost digital adoption rates among SMEs in Ireland.

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**Recommendation 1.5:** Provide public funding to co-finance SME investment in digitalisation, as recommended by the OECD to boost digital adoption rates among SMEs.

**Responsibility:** Department of Business, Enterprise and Innovation, Department of Finance, Enterprise Ireland, Strategic Banking Corporation of Ireland, Local Enterprise Offices

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### 1.4 What more can be done?

The digital economy presents new challenges and opportunities for the Irish economy. The Government has put in place a series of policies to ensure that digitalisation supports economic growth. While it is too early to measure their effectiveness, it is essential that they are subject to continued evaluation. Further efforts are needed to focus on lifting digital 'laggards' and building national digital niches or champions. This requires greater efforts to raise awareness among SMEs about the benefits of digitalisation and improve their access to funding for digital projects. This also requires strengthening institutional and regulatory settings that will support greater use of digital technologies. This can be achieved by designing regulatory regimes to enable innovation while controlling potential harms, and by improving the efficiency and effectiveness of government services to firms through greater use of data and digital technologies.

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<sup>35</sup> OECD (2019) - [A Road Map for SME and Entrepreneurship Policy in Ireland](#)

## Chapter 2: Infrastructure

### 2.1 Introduction

Given the role that infrastructure plays in boosting long-term economic growth<sup>36</sup> and productivity<sup>37</sup>, by reducing the cost of production and increasing competition, it is no surprise that infrastructural investment is increasingly being mentioned as a way to address stagnating global productivity. Though there is no international agreement on the definition of infrastructure (see Box 2.1). In early 2019, the G20 stressed<sup>38</sup> the importance of infrastructure as a driver of economic prosperity and the foundation for strong and sustainable economic growth. Through the Trans-European Transport Network (TEN-T), a policy designed to build an effective EU-wide transport infrastructure, the EU has recognised the importance of infrastructure investment<sup>39</sup>. This section: (i) looks at the level of infrastructure investment in Ireland; (ii) sets out the policy actions underway in this space, including Project Ireland 2040 and the National Planning Framework; and (iii) sets out the NCC's view on what more can be done to ensure that Ireland has an effective infrastructure plan to support economic growth and productivity.

#### Box 2.1 What exactly is infrastructure?

While infrastructure investment is receiving a great deal of public attention, there is still no internationally agreed definition. Notwithstanding this, it is useful to clarify our understanding of infrastructure in the context of productivity. First, all elements of economic infrastructure (roads, motorways, airports, sea ports, electricity, telecommunications, water supply, sanitation) impact on productivity, while many aspects of social infrastructure (schools, libraries, universities, clinics, hospitals, courts, museums, theatres, playgrounds, parks) also impact on the level of productivity. Second, while there is a strong correspondence between what we think of as national infrastructure and public capital, they are not exactly the same from the point of view of productivity. For example, public capital expenditure on government buildings or capital grants from Government to businesses would not be expected to constitute national infrastructure from a productivity perspective, while private capital spent on mobile phone networks, that are owned and managed by private companies, are part of the national infrastructure.

### 2.2 Current Situation in Ireland

While there are no official statistics on the stock of infrastructure in an economy, or for funds invested solely in infrastructure projects, it is possible to examine how public investment<sup>40</sup> (a proxy for infrastructure investment) has developed over time. It is also possible to compare the level of government investment (as a proportion of GDP) across countries to get a sense of the relative level of public investment in different countries.

<sup>36</sup> De Jong et al. (2017) 'The effect of public investment in Europe: a model-based assessment' ECB Working Paper 2021, February 2017

<sup>37</sup> Romp & de Hann (2007) 'Public Capital and Economic Growth: A Critical Survey'

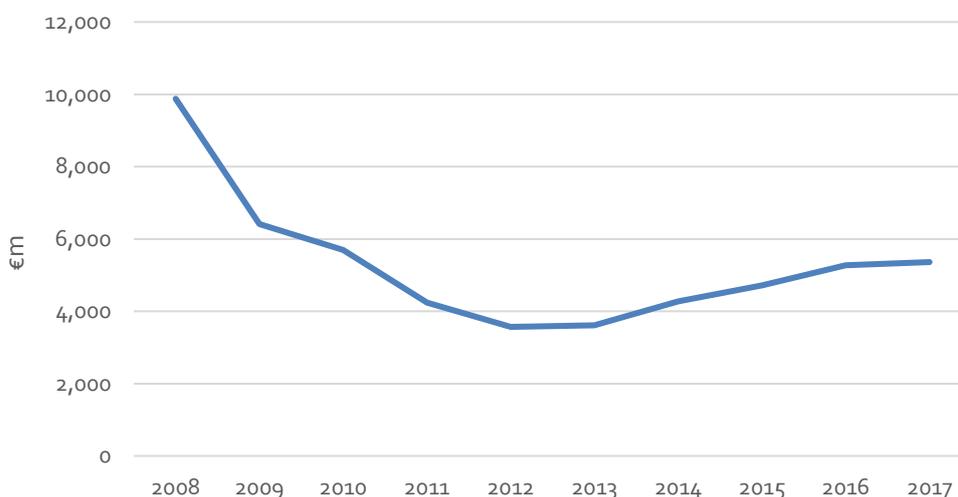
<sup>38</sup> G20 (2019) 'G20 Principles for Quality Infrastructure Investment'

<sup>39</sup> The TEN-T includes a series of policy measures including: the Connecting Europe Facility (CEF) that provides financial support for strategic investment in transport, energy and digital infrastructure; the European Fund for Strategic Investment (EFSI) that supports investment in key sectors through financial guarantees; Horizon 2020 that provides funding for research and development projects with the aim of transferring research to the market; and, European Structural and Investment Funds (ESIFs).

<sup>40</sup> General Government spending on Gross Fixed Capital Formation

As Figure 2.1 shows, public investment collapsed during the recession. In 2008, the Irish Government invested almost €10bn (or 5.3% of GDP) in the economy. In contrast, in 2012, public investment was down to €3.6bn (or just 2% of GDP). Since then, the situation has improved. The 2017 figures, which is the latest available data on public investment, show that while public investment has increased to €5.4bn, it is still far below the levels observed in 2008.

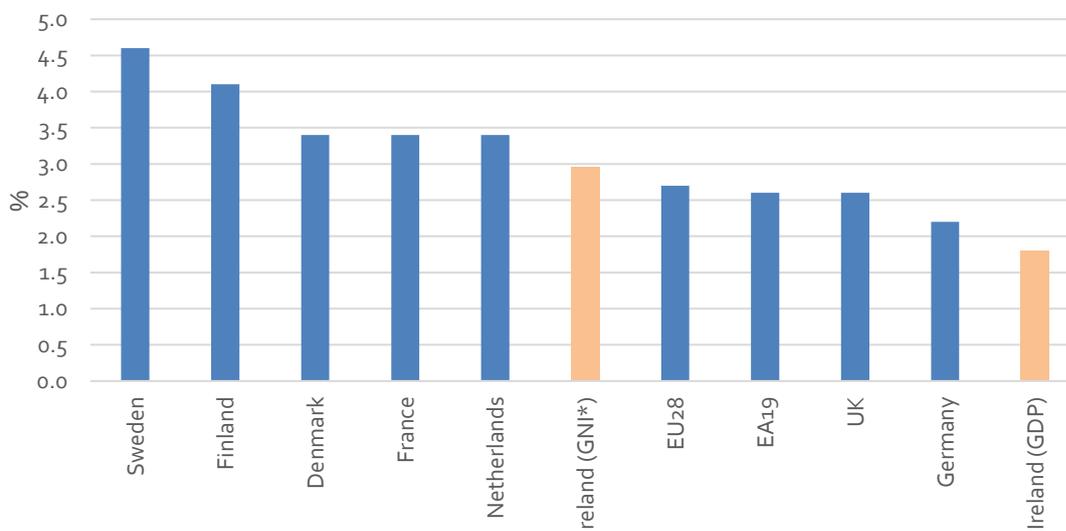
Figure 2.1 Public Investment in Ireland, 2008 - 2017



Source: General Government Expenditure by Function (COFOG), Eurostat

While a direct comparison of Ireland's public investment suggests that Ireland is the worst performer in the EU (relative to GDP), given the structure of the Irish economy, the Council consider it more appropriate to compare Ireland's public investment with other EU countries as a proportion of GNI\* (rather than GDP). This measure suggests that public investment in Ireland (3%) is broadly similar to the EU average (2.7%), but far below the top performers in the EU. For example, in Sweden, public investment accounted for 4.6% of GDP. While public investment is the best available proxy for infrastructure spending, it is imperfect. It includes things that are outside the scope of infrastructure (like investment in Government buildings) and does not include private investment in infrastructure.

Figure 2.2 Public Investment (as a proportion of GDP, and GNI\*), 2017



Source: Eurostat (own calculations for GNI\* figure)

The Government has recognised that the level of public investment in Ireland needs to increase further and has set out plans to increase public investment under *Project Ireland 2040*. As a result, it is expected that future data will show an increase in public investment in Ireland (both absolutely, and as a proportion of GNI\*).

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**Recommendation 2.1:** Become one of the EU leaders in public investment by meeting the Government's commitment to increase public investment to the point that it accounts for at least 4% of GNI\*.

**Responsibility:** Department for Public Expenditure and Reform

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Given the role that infrastructural investment can play in boosting GDP and improving productivity, this increase is clearly welcome, but appropriate governance structures need to be put in place to ensure that we maximise the benefits of public investment by ensuring that it delivers good value for money. The next section looks at the governance arrangements currently in place for managing infrastructure investment.

### 2.3 Current Policy Interventions

The OECD<sup>41</sup> has recognised that optimising infrastructure investment is mainly a governance challenge, pointing to poor governance as a major reason why infrastructure projects often fail to meet their timeframes and budget. To this end, designing a strategic vision is crucial.

*Project Ireland 2040* is the Government's overarching policy and planning framework for the social, economic and cultural development of Ireland. The National Development Plan (NDP) 2018 -2027<sup>42</sup>, part of *Project Ireland 2040*, sets out Ireland's public capital infrastructure priorities and commits €116bn for the delivery of the National Planning Framework (NPF) over the next decade. The capital spending plan envisages increasing public capital investment to 3.9% of Ireland's GNI\* in 2020 (was 3% in 2017), with sustained investment averaging 4% of GNI\* on an annual basis over the period 2022 to 2027.

As the benefits of infrastructural investment play out over the long term, the NCC is strongly supportive of the alignment of infrastructure project investment in the NDP with national planning priorities as outlined in the NPF. To ensure consistency of national planning policy across different spatial tiers of our planning system, the Planning and Development Act sets out a clear hierarchy of statutory plans. At the national level, the NPF sets out the overarching strategic context, followed by to the Regional Spatial and Economic Strategies (RSEs) adopted by the three regional assemblies operating under the NPF. Below the RSEs, at planning authority level, there are individual city and county plans, and a local area plan. This hierarchy will be supervised by an independent regulator, the Office of the Planning Regulator (OPR) that was established in April 2019 to ensure a much stronger and consistent policy framework for the consideration of development proposals and related planning applications by the local authorities and An Bord Pleanála.

The NCC also strongly supports the governance structure that has been introduced to oversee infrastructure spending<sup>43</sup>. A robust governance structure is necessary as overspending on infrastructure projects can reduce a project's value for money and may impact the ability of the Government to deliver all aspects of the infrastructural investment programme. There are several strands to the governance structure that have been

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<sup>41</sup> OECD (2017) 'Getting Infrastructure Right: The Ten Key Governance Challenges and Policy Options'

<sup>42</sup> The NDP established four new funds, with a combined allocation of €4bn to 2027. The Urban Regeneration and Development Fund (URDF) has an allocation of €2bn, primarily to support the NPF's growth enablers for the 5 cities and other large urban centres. The Department for Housing, Planning and Local Government (DHPLG) has responsibility for the implementation of the URDF.

<sup>43</sup> Department of Public Expenditure and Reform (2019) 'The First Year: Annual Report 2018'. Available [here](#).

put in place: (i) the Project Ireland 2040 Delivery Board; (ii) the Investment Projects and Programmes Tracker; (iii) the Construction Sector Group; and (iv) forthcoming measures on project selection, appraisal and procurement.

The **Project Ireland 2040 Delivery Board**, which is made up of Secretaries General from the main capital spending Departments, has been tasked with providing strategic direction and leadership to the NDP and NPF implementation process by overseeing the implementation of structures and performance across the various sectors and ensuring a co-ordinated and collaborative Government approach to the NDP and NPF delivery. The Delivery Board has been monitoring progress with the preparation of the Regional Spatial and Economic Strategies (RSES), overseeing the update of the Public Spending Code, and identifying potential challenges to successful implementation of Project Ireland 2040.

The Board is assisted in the decision-making process with the **Investment Projects and Programmes Tracker** (first published in 2017) that provides a composite update on the progress of all major investments in *Project Ireland 2040*. The Project Tracker has been extended to include more detailed information on project processes, and a new interactive online tool has been developed to provide an update on priority projects across all regions. The mapping tool and details of the pipeline of projects will provide the construction sector with the information to plan and prepare for commercial opportunities to bid for projects.

The **Construction Sector Group (CSG)** has been established to ensure regular and open dialogue between the industry and Government. The construction sector in Ireland is less productive than the EU average, and the CSG is undertaking an extensive piece of analysis on construction sector productivity and the development of actions to drive improvements.

The Government has also started to reform **project selection, appraisal and procurement**. While in most sectors, projects are coming in on budget, there have been some clear examples of significant overspending, such as the National Children's Hospital.

The DPER, with support from the EU Structural Reform Support Service, is conducting a Capability Review of public sector bodies designed to learn lessons from high performing sectors and build up structures and skills to modernise the State's project delivery practices. DPER is currently updating the Public Spending Code – the set of rules and procedures designed to ensure that public spending delivers the best possible value-for-money. The Code will be further complemented by the introduction of an external review process for major projects estimated to cost more than €100m. The developed proposals will be brought to Government with the intention of coming into effect in mid-2020 with the Office of Government Procurement also advancing significant reforms to how the Government delivers major projects.

The Department of Housing, Planning and Local Government is progressing a new Planning and Development Bill dealing with revisions to the judicial review and strategic infrastructure development provisions. These proposed changes are aimed at further streamlining and improving Ireland's planning process and providing greater certainty regarding planning timelines. Given the importance of getting the governance system for infrastructural projects right, the Council welcomes the structure that the Government has put in place. Going forward, it will be important to monitor this governance structure to ensure that it delivers on the full set of objectives set out.

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**Recommendation 2.2:** Expedite the publication of the Regional Spatial and Economic Strategies (RSESs) in the Northern & Western and Southern Regions as planned, and the alignment of City and County

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Development Plans with the RSEs and national objectives set out under the National Planning Framework.

**Responsibility:** Regional Assemblies and Local Authorities

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**Recommendation 2.3:** Complete and publish new governance arrangements for major infrastructure projects to mitigate the risk of project overspend and review their effectiveness after three years. Ensure that sufficient resources are in place across Government to comply with these new governance arrangements to avoid unnecessary delays to crucial investment projects.

**Responsibility:** Department of Public Expenditure and Reform

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**Recommendation 2.4:** Publish an updated version of the Investment Projects and Programmes Tracker with more granular information as soon as possible.

**Responsibility:** Department of Public Expenditure and Reform

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### 2.4 What more can be done?

Given the important role that infrastructure can have in boosting economic growth and productivity, the NCC is strongly supportive of the Government's renewed commitment to infrastructural investment. In the past, infrastructure spending and planning has not been as aligned as it could have been, and so the NCC welcomes the governance framework that has been put in place to plan and monitor capital spending. The Council is concerned with recent project overspends – but recognises that steps have been taken to mitigate against further large overspends – this is important and now requires monitoring. The Council would like these reforms to be introduced as soon as possible, and for an independent review of their effectiveness to be carried out.

Finally, the Council is aware that infrastructural investment is taking place at a time of rapid economic growth, and significant private sector investment, which creates risks relating to capacity and productivity deficits in the construction sector, and associated project cost inflation. Given the pressing need for infrastructural improvements, the Council supports continued infrastructural investment, but notes that continued investment needs to take account of the wider macroeconomic context to ensure that overheating is avoided, and that value-for-money is secured.

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**Recommendation 2.5:** Complete and publish the Construction Sector Productivity Assessment and Action Plan to assist in the successful delivery of Project Ireland 2040. Ensure that the annual *Build* report continues to provide a comprehensive overview of the performance of, and prospects for, the Irish construction sector, including consideration of the impact of constraints in the construction sector on Project Ireland 2040 and of mitigation measures that can be taken in the event of ongoing infrastructure project cost inflation or economic overheating.

**Responsibility:** Department of Public Expenditure and Reform

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## Chapter 3: Productivity, Skills and Education in Ireland

### 3.1 Introduction

The quality of the Irish workforce is one of the factors driving productivity in Ireland, and it is a corner-stone of Ireland's competitiveness. A key component of labour is quality human capital which covers knowledge, skills, competencies and attributes in individuals that facilitate the creation of economic well-being<sup>44</sup>. For the individual, human capital is accumulated through the formal education system (primary, secondary, tertiary education, post tertiary education, the further education and training system) and through the informal education system (on-the-job training and lifelong learning) and it is often used interchangeably with the term "skills". Skills in the broadest sense refer to what a person knows, understands and is capable of doing. Skills are acquired at all stages of formal education<sup>45</sup> and training, and also through non-formal and informal learning<sup>46 47</sup>.

The importance of human capital to productivity and growth has long been recognised in economic research and recently, these theoretical implications have been supported by more granular empirical evidence. For example, De la Fuente and Doménech (2000, 2006) assessed the relationship between production and human capital and showed a positive and significant statistical correlation between proxy indicators of human capital and economic output<sup>48</sup>.

The remainder of this section: (i) examines human capital in Ireland under four headings (educational attainment, apprenticeships and training, lifelong learning, and skills mismatches); (ii) sets out the policy landscape in these areas; and (iii) sets out what the NCC believes needs to be done in this space.

### 3.2 Current Situation in Ireland

There are obvious challenges in getting accurate data on the entirety of the workforce's skills, talents, and education and whether these skills are being effectively employed. However, there are a number of factors that the National Competitiveness Council looks at as indicators of the level of human capital in Ireland. These include:

- the level of educational attainment;
- apprenticeships and training;
- participation in lifelong learning initiatives; and,
- the level of skills mismatches (which is a measure of how effectively human capital is employed in an economy, rather than the actual stock of human capital).

#### A. Higher Education in Ireland

In terms of years spent in education, Ireland's workforce is one of the most highly educated in the world. In 2018, just under half (47%) of the working age population in Ireland had a tertiary education. This was the highest proportion in the EU, and well above the EU average (36%). Correspondingly, Ireland has one of the lowest proportions of adults in the workforce with below upper secondary education (17%).

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<sup>44</sup> See, for example, OECD Insights, Human Capital, 2009

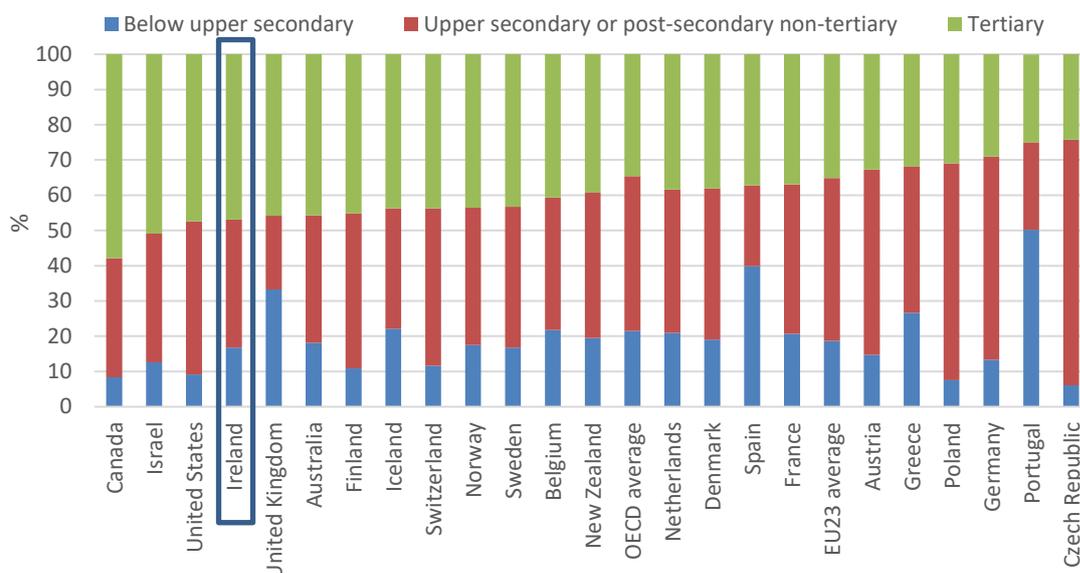
<sup>45</sup> Formal education includes the traditional primary school level to post-graduate level.

<sup>46</sup> Non-formal and informal education can include a variety of on-the-job training measures.

<sup>47</sup> Solas, 2018-2021 *Further Education and Training Policy Framework for Skills Development of People in Employment*, Background Paper

<sup>48</sup> Noted in Pelinescu, 2015, *The Impact of Human Capital on Economic Growth*, available [here](#).

Figure 3.1 Educational attainment of 25-64-year-olds, 2018



Source: OECD Education at a Glance 2019

However, it is not just the level of education attained, but also the quality of that education which is crucially important. The NCC looks at several metrics as indicators of the quality of the education that students are receiving.

The OECD's Programme for International Student Assessment (PISA) assesses the preparedness of 15-year-olds to meet the challenges they may encounter in their future lives and assesses students based on three measures: reading literacy; mathematical competency; and scientific competency<sup>49</sup>. At second level, Ireland performs well relative to international counterparts. According to the PISA surveys Ireland performs better than the OECD average in all three PISA ranked categories. Ireland ranks highly relative to OECD and non-OECD economies (as shown in table 3.1)<sup>50</sup>.

Table 3.1 PISA 2018 Scores and Rankings

Pisa Categories	Ireland Score 2018	Rank relative to OECD countries	Rank overall
Literacy	518	4th	8th
Mathematics	500	16th	21st
Science	496	17th	22nd

Source: OECD 2018

University rankings, while subject to a range of methodological limitations, can give a sense of the standing of a country's universities. In recent years, Irish universities have tended to perform rather poorly in these rankings. In the Times Higher Education World University Rankings 2020<sup>51</sup>, only one Irish university (Trinity College Dublin) ranks in the top 200 global universities, whereas in 2011, Trinity College and UCD were both

<sup>49</sup> See the [PISA 2018](#) report for more information. The national report for Ireland was prepared by the [Educational Research Centre](#).

<sup>50</sup> A total of 79 countries/regions take part in the PISA assessment, including 37 OECD members.

<sup>51</sup> [World University Rankings 2020](#)

ranked in the top 100 universities. Trinity College Dublin (ranked 117<sup>th</sup>) was the only Irish institute in the top 200 universities in the world. UCD (201-250<sup>th</sup>), the Royal College of Surgeons Ireland (201-250<sup>th</sup>) and the National University of Ireland Galway (251-300<sup>th</sup>) were ranked in the top 300 institutions in the world (see table 3.2). This also reflects a fall in the rankings since 2018 for the top 4 Irish institutions, Trinity College Dublin which was ranked 117<sup>th</sup> and National University of Ireland Galway which was ranked in between 201-250<sup>th</sup>.

Table 3.2 The World University Rankings 2018-2020

Institution	2018	2019	2020	Student-to-Staff Ratio 2020
Trinity College Dublin	117	120	164	21.9
Royal College of Surgeons in Ireland (RCSI)	201-250	201-250	201-250	21.1
University College Dublin	201-250	201-250	201-250	23.1
National University of Ireland Galway	201-250	301-350	251-300	26.6
University College Cork	351-400	301-350	301-350	18
National University of Ireland Maynooth	401-500	351-400	301-350	28.3
University of Limerick	501-600	501-600	501-600	21.7
Dublin City University	401-500	401-450	601-800	24
Technological University Dublin	-	-	800-1000	20

Source: The World University Rankings 2018-2020

For example, a proxy indicator of quality of universities is their students-to-staff ratio<sup>52</sup>. The student-to-staff ratios in Irish universities (set out above) are much higher than the OECD average (16:1). In NUI Maynooth, on average, there are 12 extra students per staff member relative to the OECD average. In addition, the amount spent on education per tertiary student in Ireland (€13,237) is below the OECD average (€15,555).

In 2017/2018, in Ireland over 44,000 students enrolled in higher education courses, with 57% of in universities (and colleges) and 43% in Institutes of Technology<sup>53</sup>.

### B. Apprenticeships

Apprenticeships are programmes of structured education and training which formally combine and alternate learning in the work place with learning in an education and training centre. In Ireland, there are two forms of apprenticeships: (i) craft apprenticeships; and (ii) consortia-led apprenticeships.

**Craft apprenticeships:** these apprenticeships are in crafts, such as construction, electrical, engineering and motor. They typically last four years and are now largely (70%) funded from the National Training Fund (NTF).

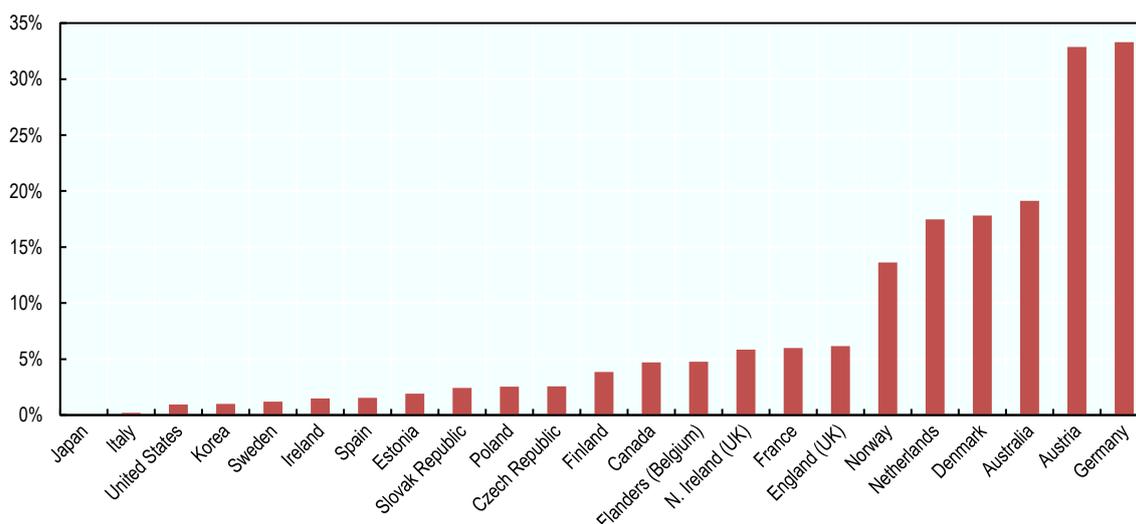
<sup>52</sup> "The World University Rankings" use a number of qualitative and quantitative indicators to assess the quality of an institution including teaching, research, citations, industry income and international outlook. For example, the research category measures research volume (quantitative), research income (quantitative) and reputation (qualitative). The student-to-staff ratio is included as a quantitative measure of teaching. For more information see: [here](#)

<sup>53</sup> Higher Education Authority, Key Facts 2017/2018, available: <https://hea.ie/assets/uploads/2019/01/Higher-Education-Authority-Key-Facts-Figures-2017-18.pdf>

**Consortia-led apprenticeships:** started in 2014, these apprenticeships are developed by industry-led consortia with education and training partners, proven to have the resources and expertise necessary to develop high quality programmes. The apprenticeships cover a wide range of areas (e.g. finance, hospitality, bio pharma, logistics). Employers offering these apprenticeships pay the wage of the apprentice for the duration of their apprenticeship, including during off-the-job training while training costs throughout employment are covered by the state. In 2018, there were a total of 5,648 apprenticeship registrations, of which, 5,058 (90%) new registrations for craft apprenticeships, and 590 (10%) new registrations for consortia-led apprenticeships.<sup>54</sup>

While there is a lack of internationally comparable data, the OECD Survey of Adult Skills Database<sup>55</sup> provides an international comparison of the current percentage of apprentices in programmes leading to upper-secondary or shorter post-secondary qualifications as a share of all students enrolled in upper-secondary and shorter post-secondary education. In Ireland, apprenticeship participation is relatively low in contrast with Germany and Denmark. This likely reflects the fact that apprenticeships in Ireland are provided at the post-secondary education stage (post Leaving Certificate), whereas in Austria, Denmark and Germany they form part of the formal school system at upper secondary level. The Irish system aims to ensure that students have at least an upper-secondary education prior to entering the apprenticeship stream<sup>56</sup>.

Figure 3.2 Participation in apprenticeships across selected countries 16-25-year-olds (2012)



Source: OECD (2016), Survey of Adult Skills (PIAAC) (Database 2012, 2015)<sup>57</sup>

### C. Lifelong Learning

Given the pace of technological change, it is increasingly important that people continue learning once in the workforce, and lifelong learning is a fundamental part of this<sup>58</sup>. To ensure that the Irish economy is equipped to deal with internationally driven changes and to drive productivity growth, people need to continue to learn and develop skills throughout their working lives.

<sup>54</sup> National Skills Council Dashboard

<sup>55</sup> Twenty-four countries participated in round 1 of the Survey of Adult Skills (PIAAC) with data collection taking place from 1 August 2011 to 31 March 2012 in most countries. Nine countries took part in the second round of the assessment with data collection taking place from April 2014 to end-March 2015.

<sup>56</sup> For more information, see [Apprenticeship Review 2013](#)

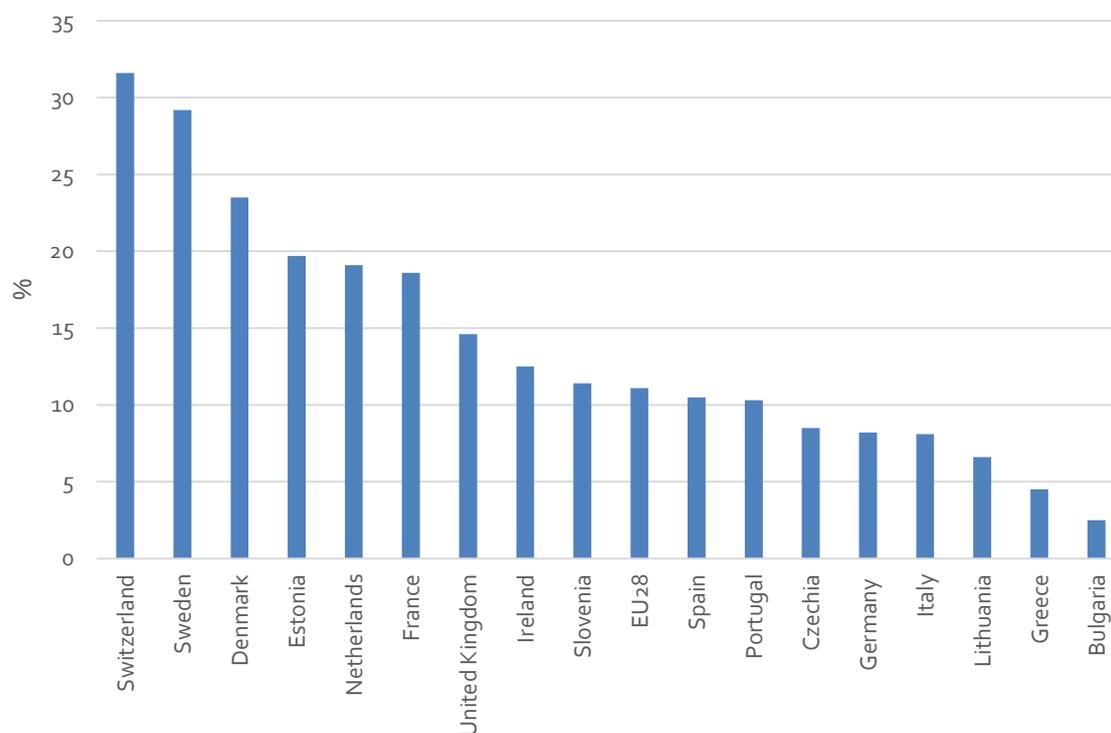
<sup>57</sup> [www.oecd.org/skills/piaac/publicdataandanalysis/](http://www.oecd.org/skills/piaac/publicdataandanalysis/)

<sup>58</sup> Lifelong learning can take the form of non-formal and formal education.

In 2018, the Expert Group of Future Skills Needs (EGFSN) noted that one in three jobs in Ireland is at high risk (a probability greater than 70%) of being disrupted by the adoption of digital technologies in the coming years. Much of the disruption will result in changes to job roles and tasks performed by individuals rather than job losses. The EGFSN observed that the potential impact of automation will be felt by those with lower levels of educational attainment. The sectors most at risk are those normally associated with manual tasks that can be replaced by automation, but the risk is not just limited to these. These high-risk sectors include Agriculture (5% of total employment), Retail, Transport, Hospitality (25% of total employment) and Manufacturing (11% of total employment)<sup>59</sup>. It is important that individuals continually upskill to ensure that the impacts of technological progress are dampened and that potential opportunities are identified and exploited.

As previously noted by the NCC, Eurostat survey data show that 13% of people in the workforce in Ireland say that they have undertaken a formal or non-formal learning activity<sup>60</sup> in the previous 4 weeks<sup>61</sup> (shown in Figure 3.3). This means that Ireland performs better than the EU average (11%) but lags far behind the European leaders. In Switzerland, nearly a third (32%) of all workers indicated that they had undertaken a learning activity in the previous month, and in Sweden the corresponding figure was 29%.

Figure 3.3 Participation rate in education and training (last 4 weeks), 2018



Source: Eurostat (trng\_lfse\_01)

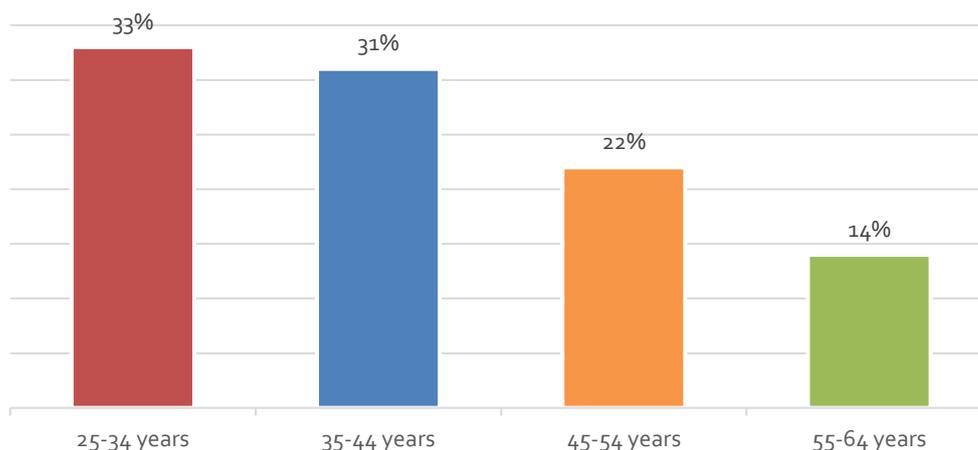
<sup>59</sup> EGFSN, 2018, Digital Transformation - Assessing the Impact of Digitalisation on Ireland's Workforce, available: <http://www.egfsn.ie/all-publications/2018/digital-transformation.pdf>

<sup>60</sup> Formal education refers to education and training in the regular system of schools, universities, colleges and other formal educational institutions. Non-formal education and training is defined as any organised and sustained educational activities that do not correspond to the definition of formal education. It may cover educational programmes to impart adult literacy, basic education for out-of-school children, life skills, work skills and general culture.

<sup>61</sup> For more information regarding the participation rate of adults in learning in the last four weeks – see [https://ec.europa.eu/eurostat/statistics-explained/index.php/Adult\\_learning\\_statistics#Participation\\_rate\\_of\\_adults\\_in\\_learning\\_in\\_the\\_last\\_four\\_weeks](https://ec.europa.eu/eurostat/statistics-explained/index.php/Adult_learning_statistics#Participation_rate_of_adults_in_learning_in_the_last_four_weeks)

According to the CSO's Adult Education Survey<sup>62</sup>, over half of adults (53.9%) in Ireland in 2017 reported participating in lifelong learning (formal and/or non-formal education). Those who were unemployed were over three times more likely to participate in formal education than those in employment (28.2% versus 7.6%). Almost half of adults aged 25-64 (49.7%) received non-formal education. Employed persons were more likely to have participated in non-formal education than those who were unemployed (59.3% versus 38.3%)<sup>63</sup>. Data from Solas indicate that younger persons are more likely to participate in lifelong learning than older persons (see Figure 3.4).

Figure 3.4 Lifelong learning by age group, Q4 2017



Source: SOLAS Lifelong Learning Report 2018

Of the sectors identified as the most vulnerable to automation disruption, employees in the retail sector have the lowest levels of lifelong learning, with only 9% of total workforce in that sector participating in lifelong learning in the previous 4 weeks. Those in hospitality had 10% participation in lifelong learning. This compares with the highest performing sectors, education (22% participated in lifelong learning in the past 4 weeks) and the professional services sectors (19%)<sup>64</sup>.

Finally, there is a tendency for different occupations to engage with lifelong learning at different rates. Of those employed that have engaged with lifelong learning, professionals were most likely to have participated in lifelong learning with 81% engaging in formal and/or non-formal education in the preceding 12 months. In contrast, those in the skilled trades were the least likely to participate in lifelong learning, with only 41% participating in lifelong learning activities<sup>65</sup>.

### D. Skill mismatches

Knowledge, training and education are often specific to one role or job. Productivity improvements are expected when highly-trained individuals are employed in an area that allows them to leverage their knowledge and expertise. Evidence suggests that there are substantial numbers of skills mismatches in the

<sup>62</sup> The CSO Adult Education survey, last completed in 2017, asks individuals if they have undertaken learning in the previous 12 weeks as an indicator of last participation in lifelong learning

<sup>63</sup> CSO Adult Education Survey, available:

<https://www.cso.ie/en/releasesandpublications/er/aes/adulteducationsurvey2017/>

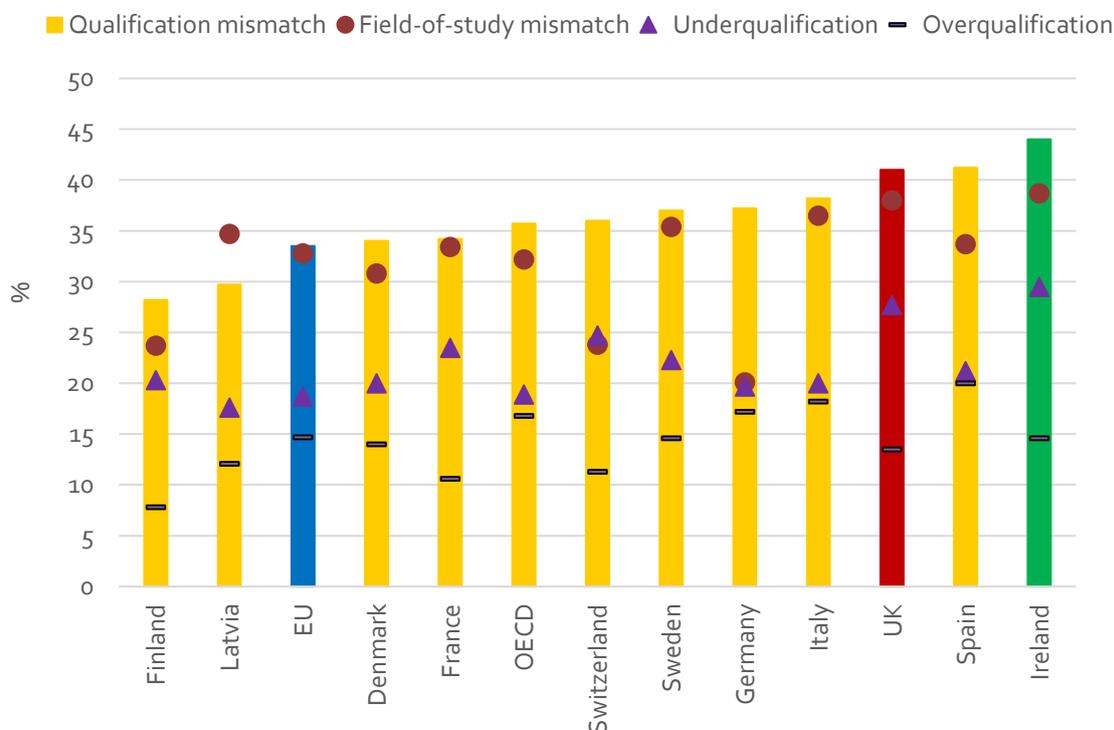
<sup>64</sup> Solas, Lifelong Learning report, 2019, available: <http://www.solas.ie/SolasPdfLibrary/LifelongLearning2019.pdf>

<sup>65</sup> CSO Adult Education Survey, available:

<https://www.cso.ie/en/releasesandpublications/er/aes/adulteducationsurvey2017/>

Irish economy. OECD survey results (see Figure 3.5) suggest that 44% of Irish workers have skills mismatches, which is much higher than the EU average (33.5%) and the OECD average (35.7%)<sup>66 67</sup>.

Figure 3.5 Proportion of workers with skills mismatches, 2016



Source: OECD, Labour Market, Skills for Jobs, Mismatch-National Statistics

Ireland has the highest level of overall skill mismatch, at 44%, the highest level of “field of study” mismatch, at 38.7%, and underqualification, at 29.5%, than all other nations outlined in Figure 3.5. Ireland only marginally scores lower in “over-qualification”, at 14.6%. These indicators of skills mismatches suggest that significant numbers of workers in Ireland are not using their skills and qualifications in the most appropriate or relevant areas. Overqualification tends to be associated with low wages, poor working conditions and high levels of job insecurity, job dissatisfaction and the willingness to change job. In contrast, underqualified workers are more likely to be satisfied with their jobs and less likely to seek alternative employment than those who are matched to jobs in terms of qualifications; if this mismatch persists, it can cause long-term issues for worker productivity and economic productivity as workers are not adequately qualified to effectively carry out their role<sup>68</sup>.

<sup>66</sup> The level of mismatch in an occupation does not include soft more intangible skills.

<sup>67</sup> OECD Source: <https://stats.oecd.org/Index.aspx?DataSetCode=MISMATCH>

<sup>68</sup> International Labour Office (2018) ‘Measurement of qualifications and skills mismatches of persons in employment’ see [here](#).

### 3.3 Current Policy Interventions

The importance of education, training and skills has always been recognised by policymakers, and has been supported by successive Governments. The series of initiatives in place in the education and training sector targeted at addressing these skills mismatch issues are discussed below.

#### A. Higher Education

The current system of funding for undergraduates in higher education consists of a significant state contribution, and an individual contribution (registration charge) of €3,000. This fee is uniform across the universities and does not bear any relation to the costs of delivering the courses or differences in potential earnings associated with different degree programmes. A number of students are eligible for Student Universal Support Ireland (SUSI) grants which cover the costs of the student registration charge outlined above, which is completing its 8<sup>th</sup> year in operation. There were 80,000 students awarded SUSI grants for the 2018/2019 academic year which is down since 2015 from 85,000 students<sup>69</sup>. In 2016, the Higher Education Authority (HEA), the statutory agency responsible for the effective governance and regulation of higher education institutions and the higher education system, published a report<sup>70</sup> that examined options for future funding policy for higher education. Its central recommendation was that 'Ireland needs to substantially increase the level of investment in higher education to ensure that the system is able to deliver fully on its role in supporting [Ireland's] national economic and social development'.

This report highlighted the funding needs of the Irish tertiary education system and recommended that the Minister for Education and Skills consider the following three possible ways of achieving this necessary increase in funding:

- **Option 1:** A predominately state-funded system (abolition of undergraduate fees), i.e. more state funding than currently provided;
- **Option 2:** Increased state funding with continuing student fees; and,
- **Option 3:** Increased state funding with deferred payment of fees through income contingent loans.

The Government has yet to decide on the approach it intends to adopt and whether it will consider implementing a longer-term payment structure such as an income contingent loan scheme. In the meantime, the Department of Education and Skills has requested that the European Commission undertake a review of these options, which is expected to be completed in Q2 2020. However, it is important that the issue of a sustainable funding model for the higher education system is addressed as early as possible to avoid long term negative impacts on the supply of skilled human capital or on Ireland's reputation for higher education, as referenced in its university rankings.

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**Recommendation 3.1:** Develop and implement a long-term funding model that allows for increased participation and improved quality in tertiary education, that will: ensure certainty and consistency; meet national ambitions; support increased quality; enhance access and participation; and improve fairness and balance.

**Responsibility:** Department of Education and Skills

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<sup>69</sup> See Student Universal Support Ireland webpage, available @: <https://susi.ie/media-room/susi-press-releases/>

<sup>70</sup> See the Cassells Report, <https://www.education.ie/en/Publications/Policy-Reports/Investing-in-National-Ambition-A-Strategy-for-Funding-Higher-Education.pdf>

### B. Apprenticeships

The popular image of an apprentice is often of working in a skilled trade or craft, such as construction or manufacturing. In recent decades, many countries have sought to diversify the sectoral coverage of apprenticeships in recognition of the potential of apprenticeships as a pathway to a wider range of skilled jobs. In the UK and Ireland, apprenticeships historically were mostly in traditional trade fields, but service sector apprenticeships have grown strongly in the UK since the 1990s (Lanning, 2011), and Ireland introduced programmes in service and business areas following the economic crisis (Condon and McNaboe, 2016)<sup>71</sup>.

Responding to the needs of upskilling and reskilling the workforce, the *Action Plan to Expand Traineeships and Apprenticeships 2016-2020* aims to enhance the apprenticeship system over five years. The framework complements other initiatives to help realise the benefits of digitalisation and mitigate the negative impacts of automation. The Action Plan sets a target of 7,384 apprentice registrations in 2019, comprising 5,087 registrations on craft-based apprenticeships and 2,297 registrations on apprenticeships introduced since 2016. A target of 35 new apprenticeship programmes was also set for the end of 2019.

The development of apprenticeships can provide a number of opportunities for Ireland. It has the potential to: provide an avenue into employment for more diverse groups; address labour shortages increasingly experienced by many Irish SMEs<sup>72</sup>; and, can provide a clearer path for students into a diverse range of sectors with skills that are defined by enterprise.

In Ireland, smaller enterprises are not likely to engage in apprenticeships or related blended learning models if there is a high chance of its personnel being poached after training costs have been incurred<sup>73</sup>. As rapid development of technology means that employers are identifying new skill needs on an ongoing basis, it is crucial that the apprenticeship system is fit to respond promptly to these needs. Industry participation is vital when addressing issues in the apprenticeship system. This may ensure that labour is adequately trained and qualified to gain, and maintain, meaningful employment and may address skills gaps before they have long-term productivity implications.

The OECD recently explored the possibility of developing financial and non-financial incentives that improve the cost-benefit balance and encourage more employers to engage with the apprenticeship system. The OECD notes that the international evidence showed little use of financial incentives but did uncover other ways of making apprenticeships more appealing to employers. These included design features of apprenticeship schemes which could be adjusted so that they work better for employers. Others included capacity-building measures which aim to support employers and get the best out of apprentices<sup>74</sup>.

A review undertaken by SOLAS *Review of pathways to participation in apprenticeship* in 2018 developed five areas of action which are aimed at growing apprenticeship numbers among underrepresented groups.<sup>75</sup> These are aimed at supporting the national policy objective of establishing apprenticeship as a major route to skills development in Ireland. These five identified areas are as follows:

1. Increase participation in apprenticeship by diverse groups
2. Launch an online apprenticeship 'jobs market' to increase visibility of opportunities for potential apprentices
3. Create new pathways via pre-apprenticeship courses around the country

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<sup>71</sup> OECD, 2018, 7 Questions and Answers on Apprenticeships.

<sup>72</sup> OECD Review of Ireland SME Productivity

<sup>73</sup> OECD SME review 2018

<sup>74</sup> OECD, 2018, Seven Questions and Answers on Apprenticeships.

<sup>75</sup> SOLAS, 2018, [Review of Pathways to Participation in Apprenticeships](#)

4. Promote the bursary incentive with employers
5. Promote diverse pathways to participation in apprenticeship in the 2018-2020 *Generation Apprenticeship* campaign.

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**Recommendation 3.2:** Develop an Action Plan to deliver on the 5 action areas outlined in the *Review of pathways to participation in apprenticeship*, while continuing to monitor and analyse factors that reduce uptake among underrepresented groups.

**Recommendation 3.3:** Undertake a feasibility analysis of the international schemes outlined in the OECD paper *Seven Questions about Apprenticeships* to incentivise employers to recruit apprentices from consortia-led apprenticeship programmes.

**Responsibility:** Department of Education and Skills, Solas

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### C. Lifelong Learning

This section examines some of the policy initiatives in place designed to promote lifelong learning in Ireland, including the National Training Fund (NTF), the work of SOLAS and the Education Training Boards (ETBs), and the institutional role of the Expert Group on Future Skills Needs (EGFSN).

First, in 2000, the Government established the NTF as a dedicated fund to support the training of those in employment, and those seeking employment. The NTF is financed by a levy on employers of 0.8% of employee earnings (rising to 1% by 2020) and in 2019, the NTF is expected to generate €744m. In 2019, 41% of the NTF's total projected expenditure is on training for those in employment. This represents a considerable shift in spending towards those in employment (in 2013 only 17% of the NTF was spent on those in employment) driven largely by the increasing number of people in employment.

In July 2018, the Government launched *Skills to Advance* with funding coming from the NTF. This is a further education and training policy framework for skills development for people in employment. It provides guidance, in supporting the upskilling of those in employment; supports SMEs that need assistance in developing the skill set of their workforce; and, increases participation in lifelong learning of those in 'vulnerable' occupations<sup>76</sup>.

Second, the training for employment activity under SOLAS/Education Training Boards (ETBs) now mainly concentrates on strongly labour-market focused programmes. There are several programmes available for adults undertaking formal or informal lifelong learning. These include:

- The EXPLORE programme which is a regional skills initiative, developed to help address the issue of Ireland's low level of participation in lifelong learning. It particularly targets persons over 35 years of age in manufacturing employment.
- The Springboard+ upskilling initiative in higher education offers free courses at certificate, degree and masters level leading to qualifications in areas where there are employment opportunities in the economy. Springboard+ is co-funded by the Government of Ireland and the European Social Fund as part of the ESF programme for employability, inclusion and learning 2014-2020.

Finally, the EGFSN, which is responsible for advising the Government on future skills requirements and associated labour market issues, has assessed the impact of digitalisation on future skills needs. It notes the importance of public bodies working with employers to identify where job losses are likely to happen in the

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<sup>76</sup> Older workers, those with low educational attainment, and those working in low skilled jobs.

first instance. Thereafter, public bodies will need to work with those employees to help them retrain and reskill for employment in other environments. The requirement for all workers to have digital skills has been recognised and is being addressed through *Future Jobs Ireland*. Steps have been taken to address the challenges through the development of a number of strategies and frameworks. However, for those individuals who may be unable to upskill, the support structures must be responsive to those most affected at an individual level in order to avoid negative impacts on individual productivity which in turn can have longer term negative implications on economic productivity

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**Recommendation 3.4:** Conduct an independent review of the appropriateness of the existing suite of training programmes for reskilling individuals who are currently in employment - particularly those who are at risk of "role disruption" from automation - and address any identified shortcomings in the support structures.

**Responsibility:** Department of Education and Skills

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**Recommendations 3.5:** Ensure that the education system is equipped on an ongoing basis to respond to the skill requirements of the next generation of employees - in particular those most vulnerable to the impact of digitalisation - through continuous consultation and engagement with employers across impacted sectors, with the aim of developing upskilling schemes that meet the evolving needs of enterprise.

**Responsibility:** Department of Education and Skills

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### D. Skills Mismatches

The *National Skills Strategy 2025* outlines actions that are aimed at addressing skills mismatches among graduates in Ireland. It suggests ensuring all full-time students at levels 6 to 8 on the NQF have access to work placements and internships, providing for lecturer placement in industry and engagement of lecturers with recent experience of the world of work. It also highlights the importance of promoting greater collaboration between employers and the education system. The strategy observed that in terms of routes into the labour market, higher education work placements (with the potential to develop into permanent posts) and higher education job placement assistance had very substantial impacts in reducing the incidence of graduate mismatch<sup>77</sup>.

Tools that enable employers and employees to match skillsets to occupation requirements could also reduce skills mismatch in the long term in Ireland. A new JobsIreland service was rolled out in 2016<sup>78</sup>. Educational institutions also have an option to publicise student work experience opportunities, for employers to offer work experience opportunities and for students to apply for such opportunities<sup>79</sup>.

Engagement between industry and educational institutions can provide enterprises with a stream of talent. Lifelong Learning should also be promoted to upskill and reskill individuals.

As part of Budget 2019, the Human Capital Initiative, announced by the Department of Education and Skills, has been established within the National Training Fund. Pillar 1 of this initiative has been allocated €300m over the period 2020-2024 (€60m per annum) from NTF surplus funding. It aims to develop labour market

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<sup>77</sup> ESRI (2015) [Recruitment Methods & Educational Provision Effects on Graduate Over-Education and Over-Skilling](#)

<sup>78</sup> This includes a new website enabling both employers and jobseekers to search for each other using competencies and skillsets as well as the traditional job type classifications. It also attempts to match candidate CVs to the posted employer job specifications and notify both candidates and the employer when a match is found.

<sup>79</sup> National Skills Strategy 2025, available [here](#).

skills through the provision of additional funding at NQF levels 6-8 in higher education. This investment increased the number of full-time conversion courses in key sectors available in the higher education sector to meet the priority skill needs of enterprise, to drive regional jobs growth and development, and support key economic sectors in responding to the challenges of Brexit.

Pillar 2 of the Human Capital Initiative was launched on 14th October. This pillar provides for additional places on existing full-time undergraduate provision, in identified key areas of enterprise skills needs such as Science, Engineering, ICT, and Professional Construction qualifications.

### **3.4 What more can be done?**

The current Higher Education System requires significant additional state funding to deliver on national objectives. Increased demand for education needs to be matched with increased investment to avoid negative impacts on productivity and human capital supply, and to ensure Ireland's national reputation for high quality education is maintained. Apprenticeships in Ireland are moving away from the traditional construction and manufacturing apprenticeships to a more diversified range of apprenticeships as a pathway to a wider range of skilled jobs. The Council sees value in regular reviews of the factors affecting the demand for apprenticeships and feasibility studies of schemes to incentivise employers to take on apprenticeships. There are significant skills mismatches, both underqualified and overqualified, in the Irish economy and low levels of lifelong learning relative to our EU counterparts.

## Chapter 4: Cost of Credit

### 4.1 Introduction

In the euro area, the most common reasons businesses gave for borrowing in 2018 were as follows:

- to invest in fixed assets (62%),
- to build up inventory or working capital (46%),
- to hire and train employees (22%), and
- to develop and launch a new product or service (29%)<sup>80</sup>.

The data for Irish SMEs paint a similar picture, with businesses most commonly borrowing to build up working capital, to grow or expand, to purchase new equipment, and to restructure previous loans<sup>81</sup>.

Access to competitively-priced sources of finance facilitates investment and development of businesses. A higher interest rate means a higher cost of borrowing, impacting on the competitiveness of businesses that need to borrow for a variety of reasons.

The evidence presented in this section suggests that Irish businesses face higher interest rates to finance these activities than their euro area counterparts. While the Council acknowledges that determinants of the cost of credit are complex and generally reflect the lender's assessment of the riskiness of the creditor, facing higher interest rates compared to their counterparts, for broadly similar classes of loans in other euro area countries, puts Irish businesses at a competitive disadvantage in terms of growth and innovation funding.

The Council acknowledges that beyond the cost of credit, an important consideration is the 'Cost of Capital'. This includes all the types of capital required during each point of the lifecycle of a scaling business including both debt and equity. However, measuring the cost of equity and other forms of capital is more complex and the Council aims to explore these issues in next year's challenge report.

The remainder of this section outlines the interest rate differential between Irish and euro area businesses, examines some of the factors that may be causing this difference, and sets out the Government's policies in this area, and what more can be done to address the issue.

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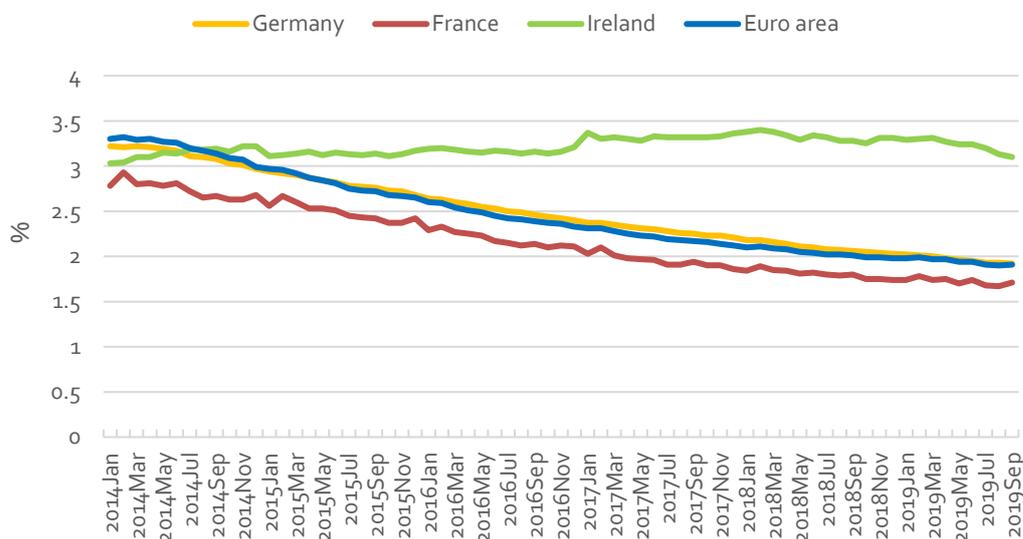
<sup>80</sup> ECB, Survey on Access to Finance -2018. Figures presented are for large firms.

<sup>81</sup> Department of Finance, Credit Demand Survey-2018. Figures presented are for medium-sized firms.

## 4.2 Current Situation in Ireland

As mentioned above, interest rates in Ireland continue to be higher compared to those in the euro area. This holds true regardless of the size or duration of the loan period.

Figure 4.1 Average annual interest rates (selected countries and the euro area)

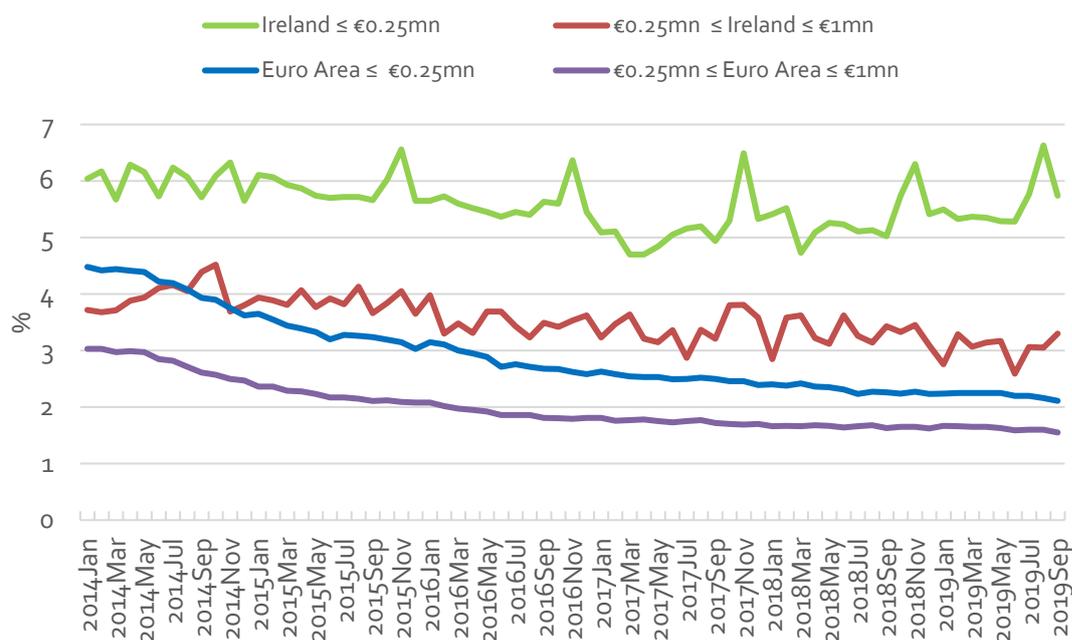


Source: ECB<sup>82</sup>

However, this was not always the case, even in the relatively recent past. In 2014, Irish companies faced a broadly similar interest rate (3.03%) compared to their German (3.22%) and French (2.78%) counterparts. Since then, Irish interest rates have increased (to 3.1% in September 2019), while rates in the euro area have declined dramatically (to 1.91% in September 2019). As a result, Irish businesses are – on average – facing interest rates that are 62% higher than their euro area counterparts.

<sup>82</sup> Bank interest rates - loans to non -financial corporations S.11 sector (outstanding amounts- loan stocks). See the [ECB Statistical Data Warehouse](#).

Figure 4.2 Loan Size and Interest Rate (Ireland and the euro area)



Source: ECB <sup>83</sup>

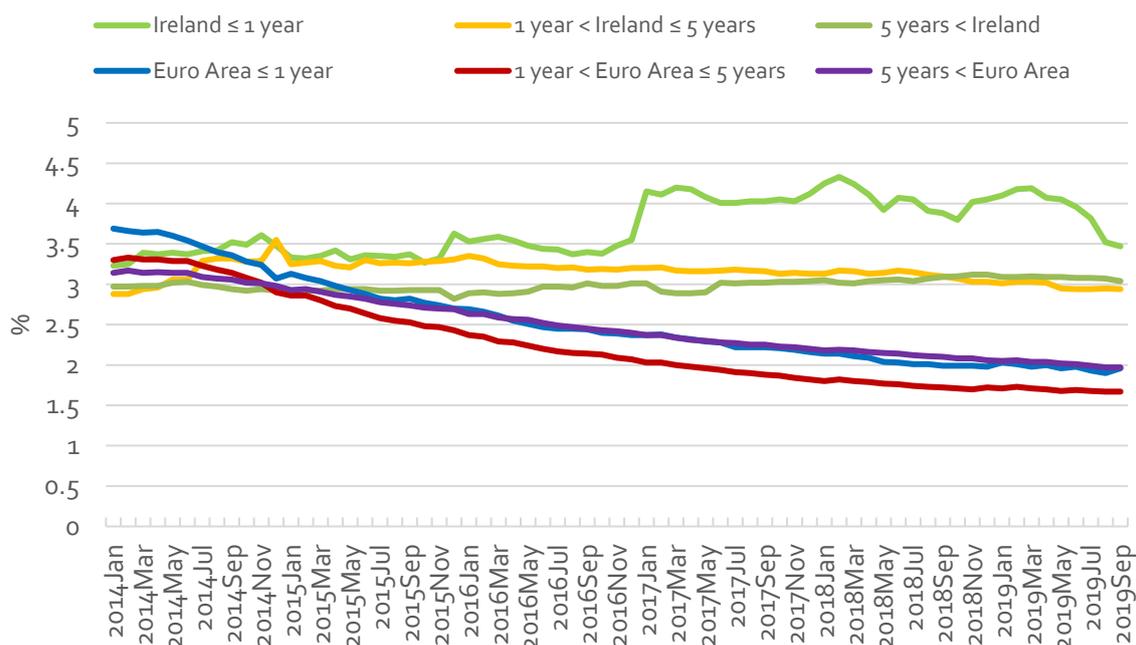
As shown in Figure 4.2, the interest rate Irish businesses face is higher regardless of whether the loan size is below €250,000 or between €250,000 and €1m. In fact, the interest rate differential for loans under €250,000 (a proxy for SME lending)<sup>84</sup> is higher than the interest rate differential for larger loans above €250,000 to €1m. In September 2019, the interest rate on smaller loans in Ireland was, on average, 3.63 percentage points higher than loans in the euro area, whereas the cost of credit for a larger loan in Ireland (3.3%) was 1.75 percentage points higher compared to their counterparts in the euro area (1.55%).

Aside from the average euro area rate (which could be disproportionately affected by big countries as they have more lenders), evidence suggests rates in Ireland are also significantly higher compared to countries, such as, Estonia, Latvia and Malta. In September 2019, the interest rate on smaller loans in Ireland was 5.74% compared to 4.58% in Estonia, 3.87% in Latvia and 2.72% in Malta. In contrast, the rates for larger loans were 3.55%, 3.45% and 4.15% in those three countries respectively compared to 3.3% in Ireland.

<sup>83</sup> Refers to Loans other than revolving loans and overdrafts, convenience and extended credit card debt. See the [ECB Statistical Data Warehouse](#).

<sup>84</sup> Central Bank of Ireland classification - SME market report 2019

Figure 4.3 Maturity and Interest Rates



Source: ECB

The cost of credit is also higher in Ireland for loans of varying maturity compared to the euro area average (see Figure 4.3). While in the years leading up to 2014, interest rates in Ireland on outstanding amounts were lower compared to the euro area<sup>85</sup>, since 2016, rates for all durations have been higher in Ireland. In September 2019, for short term loans (those with a maturity of up to a year) Irish businesses faced an average interest rate of 3.47%. In contrast, the average euro area interest rate for this type of loan was 1.96%. Similarly, for loans with a maturity between 1 to 5 years, and over 5 years, the rates in Ireland were 2.94% and 3.04% respectively, while the corresponding rates in the euro area were 1.67% and 1.97%. The evidence is clear. Irish businesses face, on average, a higher cost of credit compared to their counterparts in the euro area. The next section looks at some potential explanations for this difference.

### Why are interest rates higher in Ireland?

Interest rates can differ across countries for a number of reasons<sup>86</sup>. At the most fundamental level, if firms in one country are inherently riskier than firms in another country (i.e. if there are compositional differences in the underlying population of borrowing firms), it makes sense that average interest rates would be higher in that country<sup>87</sup>. Furthermore, it is also possible that firms in a particular country are riskier (higher risk weighted by the lenders) leading to higher interest rates as suggested by research produced by the Department of Finance (DoF). Findings from the Central Bank of Ireland (CBI)<sup>88</sup> and the DoF<sup>89</sup> study suggest that factors such as higher capital requirement, competition in the banking sector, collateral practice, and SME default rates may be driving the interest rate differential between countries. However, it is important to

<sup>85</sup> In December 2013- interest rate in Ireland across three maturity date were: 3.3%, 2.81%, and 2.97%. In the euro area they were 3.63%, 3.3%, and 3.15% (ECB, MIR).

<sup>86</sup> Department of Finance - Risk Weighted Assets in Ireland 2019

<sup>87</sup> For example, because large firms are typically charged a lower interest rate than smaller firms, if small firms make up a greater proportion of borrowing in one economy, the tendency would be for this country to have a higher interest rate.

<sup>88</sup> Carroll and McCann (2018) - Observables and Residuals; Exploring Cross-Border Differences in SME Borrowing Costs

<sup>89</sup> <https://assets.gov.ie/6836/664f5174ebd34f7e938aea654bed6757.pdf>

acknowledge the scope of these studies. The CBI study is limited to the analysis of interest rate differentials between the UK and Ireland using amortised loans from three Irish banks operating in both jurisdictions and the DoF study is focused on the impact of banks' balance sheet stress on the risk assessment mechanism in the Irish mortgage market.

The remainder of this section looks in more detail at some of the further explanatory factors that the CBI, DoF and others have considered in the context of the interest rate differential. These include capital requirements, institutional factors relating to the recoverability of collateral, existing and predicted default rates on SME lending, and competition.

### **Capital Requirement**

Evidence produced by the DoF suggests that there is a very strong link between the risk/capital requirement associated with a loan and the price that a bank charges for the loan<sup>90</sup>. While the overall health of Irish banks has improved markedly since the recession, elevated levels of non-performing loans on Irish banks' balance sheets means they still have some distance to travel to overcome the legacies of the crisis. The DoF research further suggests that Irish banks' record-breaking loss experience during the financial crash has led to the higher risk weight for loans and subsequent higher capital requirements and pricing. According to the DoF, the risk attached to any mortgage is typically double or triple what it is for a similar bank elsewhere in Europe. This means that the amount of capital required to be held against that mortgage in Ireland is also a multiple of what would be required in, for example, the Netherlands or Germany. While it is important to acknowledge that the DoF findings relate to the mortgage interest rate differential between Ireland and the euro zone countries, the Council believes there is scope for further research in relation to identifying the impact of increased capital requirements specifically on the pricing of SMEs loans.

### **Institutional Factors Relating to the Recoverability of Collateral**

Collateral tends to make borrowing cheaper because it gives the lender a level of protection against the risk that the borrower may default<sup>91</sup>. The legal structures surrounding the recoverability of collateral are important because they determine how easy it is for the borrower to take control of the collateral. In the extreme case, where it is impossible for lenders to seize control of collateral given to secure a defaulting loan, it effectively means that the loan is not actually collateralised. In this situation, interest rates would be higher because lenders are unable to ensure that they get the security they need to protect against default.

There is some evidence to suggest that there are institutional factors that may make it more difficult for Irish lenders to recover collateral when borrowers default. The World Bank<sup>92</sup> collects data on the timescale for enforcing contracts. Its latest report indicated that it took much longer to enforce a contract (650 days) in Ireland, compared with Netherlands (514 days), Germany (499 days) and France (395 days) – Figure 4.4. In the mortgage market, the DoF<sup>93</sup> research finds that recovery of collateral takes considerably longer in Ireland (more than 5 years) compared to the UK (one year).

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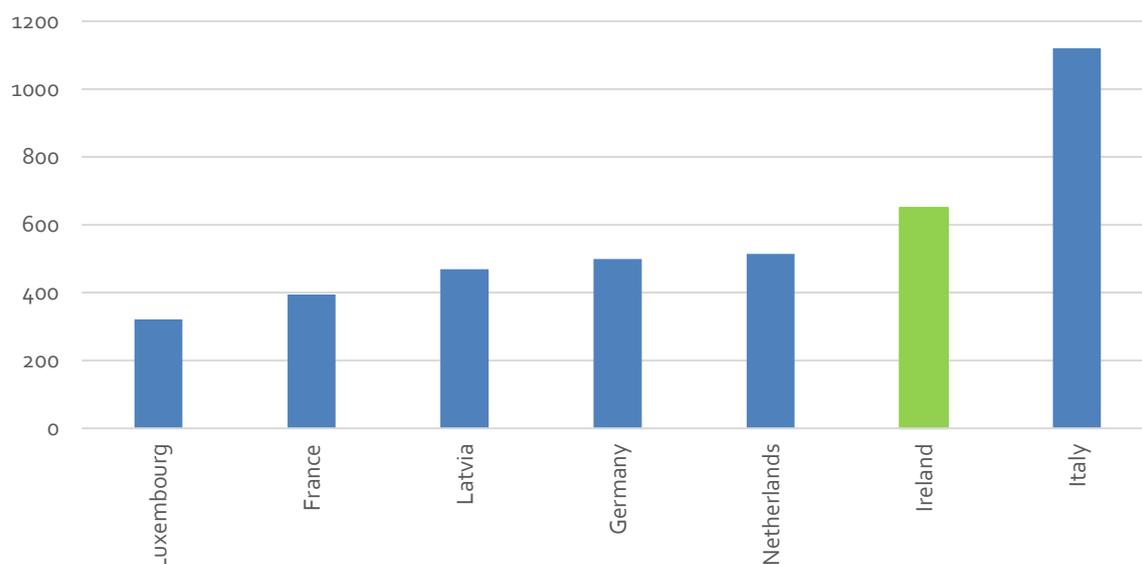
<sup>90</sup> Department of Finance - Risk Weighted Assets in Ireland 2019

<sup>91</sup> In the event that a borrower defaults, the lender can seize the collateral and resell it to recoup the losses.

<sup>92</sup> World Bank Doing Business 2019

<sup>93</sup> Department of Finance - Risk Weighted Assets in Ireland 2019

Figure 4.4 Number of Days to Enforce a Contract (selected countries)



Source: World Bank (2019)

In contrast to this, CBI research in 2016<sup>94</sup> found little evidence of a relationship between the 'creditor-friendliness' of a country's institutional framework and lower interest rates. Furthermore, a recent CBI study<sup>95</sup> on the SME interest rate gap between the UK and Ireland attributes the interest rate gap to broader market conditions, such as bank competition, banks' perception of risk and banks' exchange rate expectations.

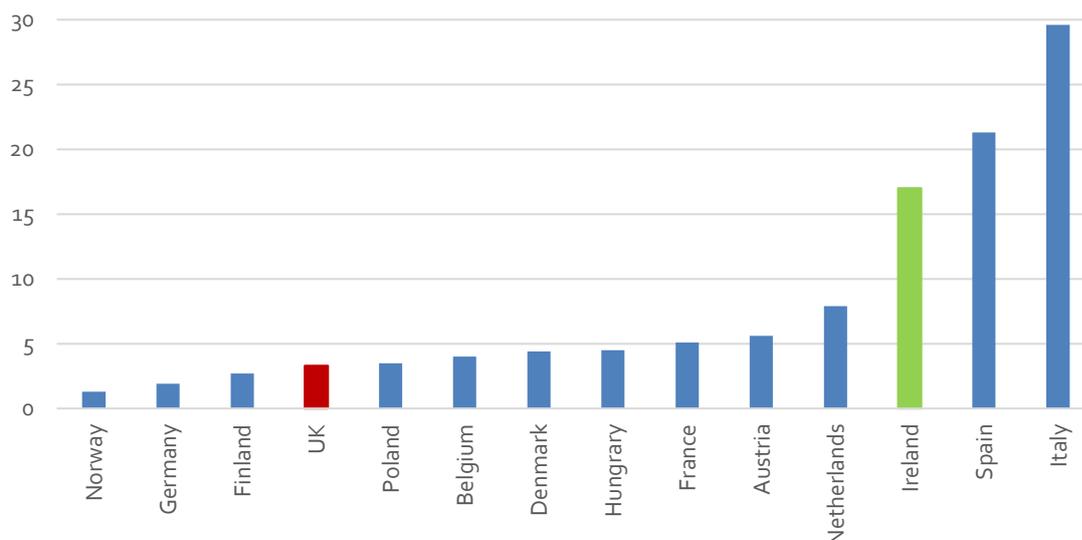
#### Existing and Predicted Default rates on SME lending

The ECB and the CBI have also considered the impact that higher default risk has on interest rates across the euro area. If Irish SMEs are more likely to default, then it makes sense that lenders demand higher interest rates to compensate them for this risk. The CBI's SME report suggests that, while the percentage of SMEs defaulting on their loans has decreased significantly since 2013 (48%), Irish SMEs still remain more susceptible to default on their loans than their counterparts in Europe. In 2017, the Irish SME lending portfolio default rate (17%) was the third highest compared to selected European countries, Italy being the highest (29.6%) – figure 4.5. While there is evidence to suggest that these higher default rates are related to higher interest rates, evidence from Italy and Spain suggest that it is not definitive. Figure 4.5 shows that, while the SME default rates in Italy (29.6%) and Spain (21.3%) are considerably higher than Ireland, both countries' SMEs faced lower borrowing rates than SMEs in Ireland. In May 2019, the rates for small loans in Spain and Italy were 2.04% and 2.43% respectively, with the corresponding rates for larger loans at 1.53% and 1.48% respectively.

<sup>94</sup> James Carroll and Fergal McCann (2016) - Understanding SME interest rate variation across Europe (Quarterly Bulletin Articles, Central Bank of Ireland, pages 60-76)

<sup>95</sup> James Carroll and Fergal McCann (2018)-Observables and Residuals; Exploring Cross-Border Differences in SME Borrowing Costs

Figure 4.5 SME Default Rates (%)



Source: Central Bank of Ireland (2019)

### Competition

The lack of competition in the lending market has been identified as one of the major reasons for high mortgage interest rates in Ireland compared to the EU<sup>96</sup>. As in most markets, competition tends to be good for consumers – the greater the competition, the lower the possibility for firms to be able to manipulate the price of a product. Consequently, the lack of competition in the Irish banking sector may help to explain the interest rate differential set out above.

In Ireland, the three largest banks (AIB, Ulster Bank, and Bank of Ireland) have significant market power. In Q4 2018, they accounted for over 90% of total SME lending in Ireland. Therefore, it is plausible to suggest that the existence of lender market power is the reason for high SME interest rates in Ireland, as suggested by the ECB report. When the Central Bank tested this, it found that the more concentrated (or less competitive) banking sector in Ireland is one of the factors driving high SME interest rates in Ireland compared to the UK<sup>97</sup>.

It is evident that there are multiple factors that may have contributed to higher interest rates in Ireland. The Government's strategy has largely focused on increasing the financing options available to businesses, especially SMEs with the development of various credit schemes. The next section looks at some of these credit schemes.

### 4.3 Current Policy Interventions

There are limitations to financial provisions offered in the market even when it is a very efficient market, supported by a strong contractual and information infrastructure. Recognising this, and the impact of the financial crisis on SMEs, the Government has sought to offer a wide range of supports for SMEs to ensure that there are other sources of funding when considering borrowing. These measures, often involve the banking sector and alternative finance providers, include the following debt support initiatives:

<sup>96</sup> President of the ECB, Mario Draghi, at the Oireachtas Finance Committee on November 8, 2018

<sup>97</sup> Carroll and McCann (2018) - Observables and Residuals; Exploring Cross-Border Differences in SME Borrowing Costs

### Debt Finance Support schemes

- Administered by the Strategic Banking Corporation of Ireland (SBCI) since October 2016, the **Credit Guarantee Scheme (CGS)**<sup>98</sup> provides loans from €10,000 up to €1m to SMEs in Ireland. Under the scheme, the Government provides a partial guarantee (currently 80%) to banks against losses on qualifying loans. The scheme has supported 587 SMEs with loans totalling €93.4m and has helped to support 3,666 jobs (as of 30th June 2018) since its inception in October 2012.
- Delivered by the SBCI through commercial lenders (Bank of Ireland, Ulster Bank and AIB), the **Brexit Loan Scheme (BLS)** provides affordable working capital to eligible businesses with up to 499 employees that are or will be impacted by Brexit and which meet the scheme criteria. This €300m scheme is available to eligible businesses at an interest rate of 4% (market rate 5.74% for loans up to €0.25m and 3.3% for loans up to €1m, September 2019). Loans range from €25,000 to €1.5m per eligible business, with unsecured loans up to €500,000 and terms range from one to three years. As of October 2018, the total upfront Exchequer cost of the BLS loan scheme was €23m<sup>99</sup>.

#### Box 4.1 Strategic Banking Corporation of Ireland (SBCI)

Established in September 2014, SBCI is a state-owned strategic SME funding company that aims to ensure access to flexible funding for Irish SMEs. This is facilitated by the provision of: flexible products with longer-maturity and capital-repayment flexibility; lower cost funding to financial institutions so that these institutions pass on these funds to SMEs at lower rates; and creating competition in the SME lending market by providing market access for new lenders. SBCI does not lend directly to SMEs, rather it channels low cost financing from funders, including the European Investment Bank (EIB) and German promotional bank Kreditanstalt für Wiederaufbau (KfW), through lending partners known as on-lenders. The SBCI currently has seven on-lending partners, three banks (AIB, BOI, and ULSTER) and three non-banks (Bibby Financial Services, Fexco Asset Finance, and Finance Ireland). SMEs can avail of the SBCI funding through both bank and non-bank specialist on-lenders.

At the end of 2018, SBCI supported lending stood at €1,052m (up 14% on 2017), it supported 26,061 SMEs (up 13% on 2017) to generate or sustain almost 142,000 jobs. In the same period, 21,783 SMEs had availed of the SBCI funded loans totalling €900m (excluding the Agriculture Cashflow Support Loan Scheme and Brexit Loan Scheme). The average loan size was €41,342 and the average interest rate was 4.5% compared to a market average rate of 5.41% (December 2018).

- Delivered by SBCI, the **Future Growth Loan Scheme** provides long-term debt financing for strategic investments to eligible Irish businesses, including those in the primary agriculture and seafood sectors. This scheme provides up to €300m funding support to businesses with loans up to €500,000 unsecured. Businesses can obtain long-term loans for a period of 8 to 10 years with an interest rate of up to 4.5% (upper limit) for loans up to €249,000 and 3.5% and less for loans greater than or equal to €250,000. The fixed rates offered by the schemes provide more certainty to businesses compared to the rate available in the market. In May 2019, the market rate for the short-term loans (under 1 year) was 4.05% but the rate on loans for amounts less than €250,000 was 5.29%.

<sup>98</sup>The SME Credit Guarantee Scheme was revised in 2018 which replaced the previous 2012 & 2015 schemes.

<sup>99</sup> <http://www.budget.gov.ie/Budgets/2019/Documents/State%20Supported%20Loan%20Schemes%20-%20A%20Preliminary%20Analysis.pdf>

- Established in 2014, the **Credit Review Office (CRO)** helps SMEs or Farm borrowers with a viable business proposition who have had an application for credit of up to €3m declined or reduced by participating banks having undertaken the bank's internal appeals process. Over 90% of CRO supported appeals received credit in 2018<sup>100</sup>.

### Microfinance Ireland (MFI)<sup>101</sup> administered Fund

- The **Microenterprise Loan Fund**, administered by **MFI**, provides loans of €2,000 up to €25,000 to Micro-enterprises (less than 10 employees and /or turnover <€2m) at different stages of their development across all industry sectors. Since the end of March 2019, €29.6m of loans were approved under the scheme with a total of €25.4m drawn down. 2,065 microenterprises had availed of this scheme by the end of March 2019 with an average loan amount of €14,000. In the six years since its inception the fund has directly supported 5,028 jobs.

### The European Investment Bank (EIB) Direct Loan

- **The EIB Direct Loans** provide reasonably-priced and structured direct loans to businesses for R&D investments costing over €20m, including large loans to large cap corporations, and loans of between €10m to €50m to midcap corporates with up to 3,000 employees.

### Grant and Equity Finance Supports

**Local Enterprise Office (LEO) Grants**<sup>102</sup> are financial supports which assist the establishment and growth of micro enterprise. LEO Financial support schemes include:

- The **LEO Feasibility Study Grants** assist businesses in researching market demand for a product or service and examining its sustainability. The grant aids with innovation, hiring of expertise from third level colleges, private specialists, design and prototype development. The maximum amount available is 50% to 60% of the investment depending on the region, or €15,000 whichever is the lesser.
- Targeted at Start-Ups, **LEO Priming Grants** are available to micro enterprises within the first 18 months of start-up. The maximum grant available is 50% of the investment or €150,000, whichever is the lesser.
- **LEO Business Expansion Grants** aim to assist a business in its growth phase after the initial 18 months start-up period. The maximum grant available is limited to 50% of the investment or €150,000, whichever is the lesser.
- **LEO Technical Assistance for Micro Exporters Grants** is a support to enable clients to take the first steps in new product service development or in developing and exploring new market opportunities.

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<sup>100</sup> [www.creditreview.ie](http://www.creditreview.ie)

<sup>101</sup> Microfinance Ireland (MFI), is a not-for-profit lender, established in 2012 to deliver the Government's Microenterprise Loan Fund. MFI works very closely with the Local Enterprise Offices (LEOs), providing loans to small businesses.

<sup>102</sup> Local Enterprise Offices (LEOs) provide a range of financial supports designed to assist with the establishment and/or growth of enterprises (limited company, individuals/sole trader, cooperatives and partnerships) employing up to 10 people. The LEO schemes are funded through the European Regional Development Fund.

**Enterprise Ireland (EI)** provides funding and supports for companies - from entrepreneurs with business propositions for a high potential start-up through SMEs, to large companies expanding their activities, improving efficiency and growing international sales. Its key supports include the following:

- **Competitive Start Fund** which is a €50,000 equity investment to accelerate the development of high potential start-ups by supporting them in international market opportunities or building a prototype. The fund opens for applications several times each year.
- **Innovative HPSU Equity Fund** allows EI to offer equity investment to HPSU clients, on a co-funded basis to support the implementation of a company's business plans. First time and follow-on equity investments in HPSUs are supported under this offer.
- The Government, through Enterprise Ireland, has made €175m available as part of the **Seed & Venture Capital Scheme (2019 – 2024)** to stimulate job creation and support the funding requirements of young innovative Irish companies. Under the first Call of the new Scheme, up to €100m was available for commercially focused Venture Capital funds.

Alongside the above schemes, another financing option includes the *European Angel Fund*<sup>103</sup>.

Businesses require access to appropriate sources of financing for their creation, survival and growth. This requirement extends throughout their business lifecycle to enable them to start up, develop and grow, and subsequently make contributions to employment, economic growth and social inclusion. However, it can be difficult for businesses, especially small start-ups and those with an inadequate credit history, to get the finance they need. In that respect, the flexible design of recent loan schemes provides significant alternative funding options for businesses at all stages of their development. However, it is also important that businesses are aware of all the funding options available to them<sup>104</sup>.

The Council believes that interventions are required to support SMEs at this time, and that it is important that information on these supports is effectively distributed.

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**Recommendation 4.1:** Ensure that SMEs are aware of the financial options available to them by (i) facilitating information sharing seminars with financial experts and (ii) continuing to raise awareness about government support programmes.

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

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**Recommendation 4.2:** Explore options to broaden the Strategic Banking Corporation of Ireland's on-lending partners to further finance the growth of the enterprise sector.

**Responsibility:** Strategic Banking Corporation of Ireland

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<sup>103</sup> A joint initiative between the Irish Government and the European Investment Fund (EIF) designed to enhance the capacity of Business Angels to provide equity financing for innovative companies in the form of co-investments (€40m fund).

<sup>104</sup> Department of Finance survey (April 2018 – September 2018) shows that the 86% of SMEs were aware of Enterprise Ireland support scheme - 77 % of Local Enterprise Offices initiatives - 41 % of the Credit Guarantee Scheme. Of those companies that have not applied for Government financial support, 7% said they had no knowledge of such sources of funding.

### 4.4 What more can be done?

There has been a number of studies looking into the reasons why credit is more expensive in Ireland relative to the rest of the euro area. While the findings identify a number of factors – the CBI study<sup>105</sup> suggests a significant positive relationship between interest rates and bank competition and SME loan defaults rates in Ireland, whereas the DoF report<sup>106</sup> infers that it may be due to the high capital reserve requirements for Irish banks. However, given the narrow scope of these studies - the CBI research is focused solely on the SME interest rate gap between the UK and Ireland whereas DoF findings relates to the mortgage market- the reasons behind the widening business loans interest rate gap between Ireland and the euro area remain unclear. The Government's current policy has focused on ensuring that SMEs have access to credit. While, it is important that SMEs continue to have a variety of funding options, the Council believes that there is a scope for further research– the focus of this research should be to analyse the factors (identified in the chapter) that affect business loan interest rates in the euro area and the impact these have on the lending market. Complementing the existing literature in the area, the Council believes that new research will help us to better understand the true impact of the factors identified by CBI and DoF on business loans interest rate (if these factors have disproportionate effect in Ireland) and assist policy makers to formulate appropriate policy response.

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**Recommendation 4.3:** Undertake and publish research on the factors causing higher SME interest rates in Ireland relative to the euro area on SME loans, and draw up a list of actions to address this issue, while ensuring financial stability.

**Responsibility:** Department of Finance

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<sup>105</sup> Carroll and McCann (2018)

<sup>106</sup> Department of Finance - Risk Weighted Assets in Ireland 2019

## Chapter 5: Legal Services Costs

### 5.1 Introduction

A properly functioning legal system is essential to economic activity. At a fundamental level, the legal system should ensure that contract and property rights are sufficiently clear and predictable to encourage businesses and consumers to invest. It should give people the confidence that they will be able to reap the rewards of their investments. Laws govern the major decisions businesses make from managing employees to enforcing contracts, but as the legal system cuts across the whole economy, it also indirectly impacts on businesses. The legal system impacts the cost of borrowing (which is discussed in the previous section) and affects the amount businesses are charged for insurance (which is discussed in the next section). Because of this, if it is too expensive for businesses to engage legal services, it can have far reaching consequences for the economy. High legal costs effectively limit the access that businesses operating on tight margins, especially SMEs, have to the judicial system. A number of domestic and international observers have raised this issue of higher legal costs on a number of occasions, most prominently by the Troika in the context of Ireland's Economic Adjustment Programme, and a range of policy solutions have been recommended.

The remainder of this chapter: (i) examines the available evidence in relation to legal costs; (ii) sets out previous recommendations in this space and the actions that have been taken to address these recommendations; and (iii) explores the possibility that more needs to be done in this area.

### 5.2 Current Situation in Ireland

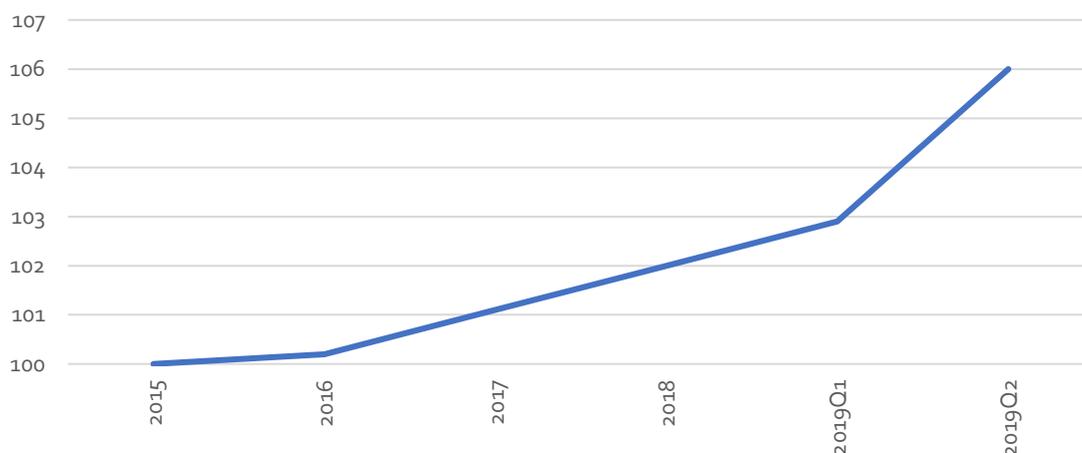
As a consequence of substantial data limitations regarding legal costs, defining and measuring legal costs is challenging. The two primary sources of quantitative data on the cost of legal services are the CSO's *Services Producer Price Index* (SPPI), and the World Bank *Doing Business* report, and both are subject to certain limitations.

Since 2015, the CSO has published the SPPI, which is an experimental data series that measures changes in the price Irish service providers in certain sectors charge when selling their services to other businesses. There are two main issues with using this data as an indicator of the price of legal services. First, the data is presented as an index, so only gives information about price changes, and does not give a sense of absolute prices in Ireland (or prices compared to other EU countries). Second, the most granular SPPI sectoral data that is published on legal services is in a group with accounting, PR and consultancy costs. This means that changes in this sub-sector can be driven by price changes in any one of these areas. Bearing these limitations in mind, Figure 5.1 presents the SPPI data at the most granular level available, which shows that prices for legal, accounting, PR and consultancy services<sup>107</sup> have trended upward in Ireland in recent years with sharp increases recorded since the beginning of 2019.

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<sup>107</sup> Includes Accountancy, Public Relation and Business Management Consultancy costs

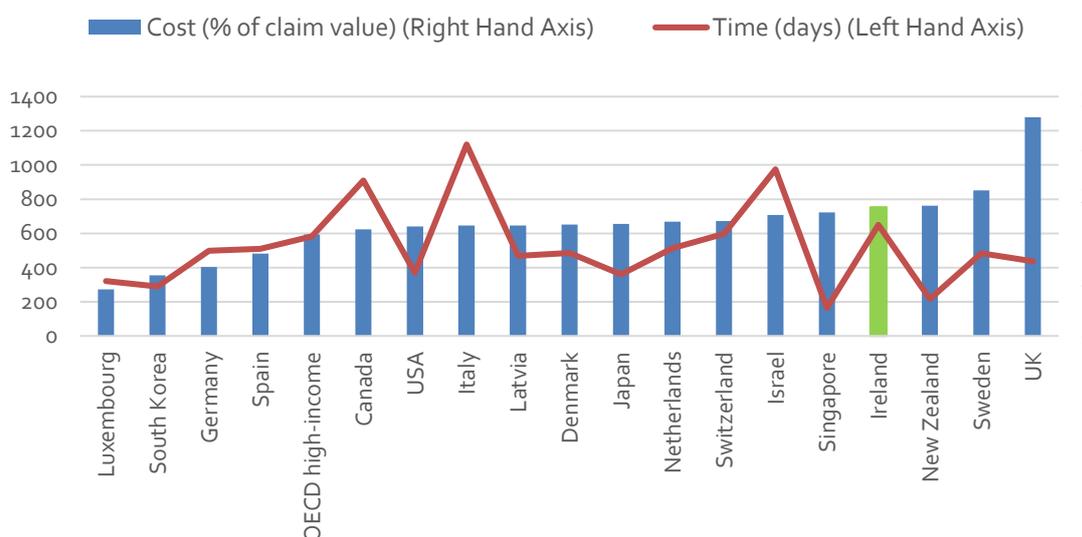
Figure 5.1 Legal, Accounting, Public Relations and Business Management Consultancy Prices (2015 = 100)



Source: CSO

The World Bank's *Doing Business* report<sup>108</sup> provides the second source of data on legal costs in Ireland. Every year, the World Bank conducts a series of surveys with experts to estimate the time, and cost, of enforcing contracts. This data suggests that Ireland is an expensive, and slow, jurisdiction in which to enforce a commercial contract (see Figure 5.2 and 5.3). In the latest report, the total cost involved in enforcing a commercial contract in Ireland is equivalent to 27% of the value of the claim, while the OECD average was 21%). In addition, it suggested that it takes 650 calendar days to resolve a dispute in Ireland, significantly longer than the OECD average (582.4 days)<sup>109</sup>.

Figure 5.2 Enforcing a Contract, cost and time



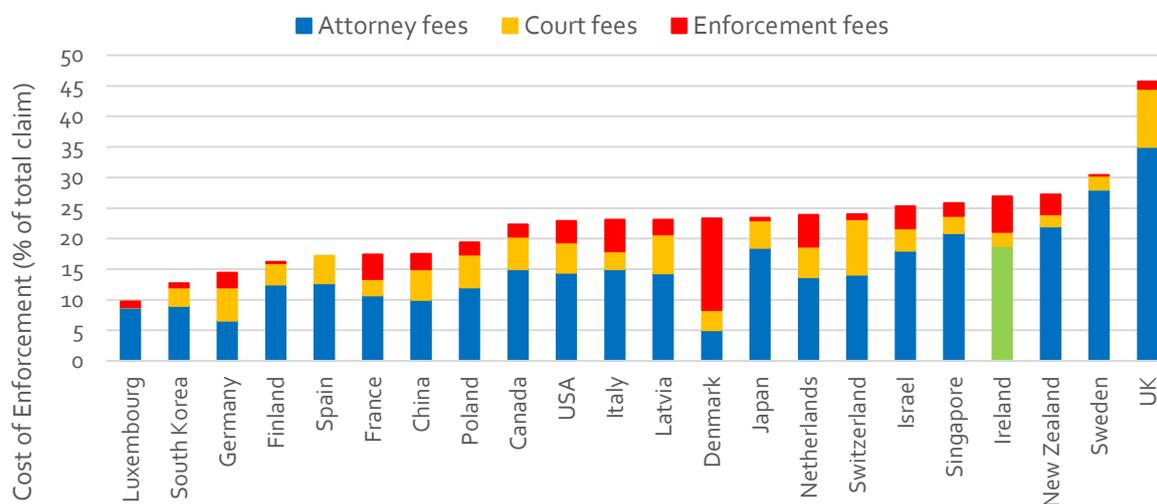
Source: World Bank Doing Business 2019

<sup>108</sup> The World Bank (2019) 'Doing Business 2020'

<sup>109</sup> These figures include the cost in court fees, attorney fees (where the use of attorneys is mandatory or common) and enforcement fees expressed as a percentage of the claim value. The time to resolve a dispute, counted from the moment the plaintiff decides to file the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods in between.

The World Bank breakdown of the costs of enforcing a contract by attorney fees, court fees and enforcement fees. In Ireland, attorney fees accounted for 19% of the award, significantly higher than Germany (6.6%), France (10.7%), and Spain (12.7%) but lower than in the UK (35%).

Figure 5.3 Cost of enforcing a contract



Source: World Bank Doing Business 2019

Bearing in mind the important caveats mentioned above, the available evidence suggests that the cost of legal services in Ireland is high and is continuing to rise<sup>110</sup>. The Council believes that further evidence is needed in relation to data sources, data collection methods, and transparency to reduce the scope of misinterpretation and to truly identify the legal services' costs faced by businesses in Ireland. To maximise the value of any statistics in this area a further breakdown of the figures by area of litigation and type of legal services is needed. Data on the legal costs of adjudicators and courts could be augmented with wider data from several sources.

**Recommendation 5.1:** Publish the Services Producer Price Index with a more detailed sector breakdown, with legal services separated out as a sector of its own.

**Responsibility:** Central Statistics Office

### 5.3 Current Policy Interventions

There are two major strands to current policy interventions in this area. The first process has targeted the way in which legal services professions (barristers and solicitors) are regulated. The second process is a review of the way civil justice in Ireland is administered and is designed (among other things) to remove obsolete, unnecessary and over-complex rules of procedures, and examine the possibility of introducing new technologies.

<sup>110</sup> The World Bank report [Doing Business in the European Union 2020](#) found that Irish cities show variations in the time and cost required to resolve a commercial contract dispute.

### Regulatory reform for legal services professionals

One of the major structural reforms included in the Troika's Economic Adjustment Programme<sup>111</sup>, which drew on the prior work of the Competition Authority<sup>112</sup> and the work of the Legal Costs Working Group<sup>113</sup>, was to introduce a new regulatory body that would oversee the implementation of a range reforms to the legal services profession.

In December 2015, after a series of delays, the Legal Services Regulation Act provided for the establishment of this new regulatory body, and in October 2016, the Legal Services Regulatory Authority (LSRA) was established. Under the LSRA *Strategic Plan 2018-2020*, new business models for the delivery of legal services have been highlighted which will cover Legal Partnerships and Limited Liability Partnerships. In October 2019, work commenced on complaints and disciplinary hearings in respect of legal practitioners, which includes the establishment of the Complaints Committee, and of the Legal Practitioners Disciplinary Tribunal, by the LSRA.

The Legal Services Regulation Act (Part 10) also makes extensive provision for a new and enhanced legal costs regime that should bring greater transparency to how legal costs are charged, along with a better balance between the interests of legal practitioners and those of their clients. As part of this, the existing Office of the Taxing Master - an office of the High Court - has become the Office of the Legal Costs Adjudicator (OLCA). The changeover to the new office will enable the introduction of key structural reforms for dealing with disputed legal costs. The OLCA will maintain a public register of all adjudication costs arising from cases before the courts. This should provide additional data on the value of legal costs that come for determination and the reasons for their allowance or disallowance. The new transparency measures should empower clients further, including business clients, and should create some positive disincentive to increased legal costs.

It is intended that these initiatives will greatly increase competition and transparency in the sector, and it is vital that the remaining competition-enhancing and cost-reducing provisions in the Act are implemented in an orderly and timely manner to make the Irish legal system efficient and cost competitive.

### Court Reform and the administration of justice

In the last 30 years, there have been a number of significant developments within the Irish judiciary system. The number of judges has increased, the Court of Appeal<sup>114</sup> has been created, changes in court rules and procedures have been introduced in the Commercial Court and in the new Court of Appeal (e.g. for strategic infrastructure) with the aim of streamlining the filing, service, trial, judgement, enforcement and appeal aspects of the enforcement of a contract for businesses.

Further enhancements under a suite of e-courts measures are in the pipeline, including supporting legislative amendments to ameliorate the cost burden on business of legal and court proceedings. In addition, the Judicial Council is due to be established before the end of 2019 and will have a key role to play in promoting and maintaining excellence in the exercise by judges of their judicial functions and high standards of conduct among judges.

Initiatives are being undertaken to reform court processes and to enable the courts system to respond to the demands on courts-related services that are anticipated to rise over the next decade. A Review of the

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<sup>111</sup> European Commission (2011) 'The Economic Adjustment Programme for Ireland' ([here](#))

<sup>112</sup> Competition Authority (2006) 'Competition in Professional Services: solicitors and barristers' ([here](#))

<sup>113</sup> Department of Justice (2005) 'Report of the Legal Costs Working Group' ([here](#))

<sup>114</sup> As of September 2019

Administration of Civil Justice is currently underway, which is examining how to achieve greater efficiencies and to reduce delays in the administration of civil justice generally. The Courts Service has agreed a Long-Term Strategic Vision for the period to 2030 which sets as one of its objectives that reforms will be introduced to ensure timely administration of justice. Reforms are also planned to strengthen the Courts Service's digital capacity.

While the Council acknowledges that enhancing access to justice is a particular focus for the Department of Justice and Equality, it considers that there should be a strong focus on the needs of business users and enterprise in initiatives to improve their access to justice. In a world of rapid change and of global competition, delays in access to law or in the timeliness of legal cases can prove fatal to business, especially to SMEs.

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**Recommendation 5.2:** Ensure that the newly-established Office of the Legal Cost Adjudicator is sufficiently resourced to improve transparency of, and competition in, the legal service sector.

**Responsibility:** Department of Justice and Equality

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The Mediation Act, in effect since 1 January 2018, aims to alleviate the strain on the courts system by encouraging mediation (a collaborative process which offers the opportunity to resolve disputes by way of negotiation and agreement rather than by way of an adversarial litigation process culminating in a trial). The successful implementation of the Act, together with the Arbitration Act (a streamlined arbitral system that presents a genuine alternative to litigation) should help reduce the courts' work load and reduce the dispute resolution time frame in Ireland.

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**Recommendation 5.3:** Ensure that from the outset there are data collected on all aspects of these mediation services, while respecting confidentiality requirements, so that it will be possible to monitor and report on the impact of Mediation Act 2017 on conflict-resolution time and cost.

**Responsibility:** Department of Justice and Equality

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### 5.4 What more can be done?

The Council supports the reform process undertaken by the Legal Services Regulatory Authority (LSRA). However, it is concerned about the pace of these reforms and believes that the introduction of the frameworks, which will increase competition, drive down costs and benefit consumers, needs to be expedited. The Council would like the Government to ensure that the LSRA has both the financial and legislative resources it requires to expedite its work program. Furthermore, the Council welcomes the Government's effort to reduce the conflict resolution timeframe within the Mediation Act. However, if this does not bring the conflict resolution in Ireland in line with the OECD average, Government must be ready to do more.

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**Recommendation 5.4:** Ensure that the Legal Services Regulatory Authority is sufficiently resourced to expedite the delivery of its work program.

**Responsibility:** Department of Justice and Equality

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## Chapter 6: General Liability Insurance Costs

### 6.1 Introduction

General Liability insurance cover, which includes Employers Liability (EL) and Public Liability (PL), is an operational necessity for every business. It is a critical financial service that protects businesses in respect of their legal liability to third parties for bodily injury and for any loss or damage to material property in connection with the business of the insured. If insurance costs in Ireland, a key component of overall business costs, are out-of-line with other jurisdictions, it increases the cost of doing business and in extreme cases it can deter a business from ever being established and can lead to the closure of existing businesses.

Submissions received both by the Cost of Insurance Working Group (CIWG)<sup>115</sup> and by the Department of Finance have highlighted the increasing cost of employer liability and public liability insurance as well as the growing difficulty in getting cover in certain business sectors. However, unlike motor insurance<sup>116</sup>, the absence of quality information, including official statistics, means there is scant empirical evidence on the reasons behind this higher cost.

Evidence suggests that both the PL and EL insurance market has been very volatile in recent years with the small profits recorded driven exclusively by investment income. In 2017, Insurance Ireland data<sup>117,118</sup> shows that net profits in the PL class were €3m<sup>119</sup>. These small profits mask a larger story, as they were driven by profits in investment income (€15.7m) that made up for large net underwriting losses of €12.6m<sup>120</sup>. In 2015, the situation appeared quite different with businesses recording underwriting profit in the PL market of €21.7m (Fig 6.1).

In relation to EL insurance, in 2017, there was a net underwriting loss of €34.3m, net investment income of €6.7m and the aggregate loss of €27.6m. During the period 2013-2017, EL insurance class net underwriting losses increased from from -€7.8m to -€34.3m (Fig 6.2).

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<sup>115</sup> Established in July 2016 by the Government, the Cost of Insurance Working Group (CIWG) is a cross-departmental group tasked with carrying out a comprehensive analysis of the insurance market, measure the factors contributing to the increasing cost of insurance, and to identify measures to reduce this cost. The Working Group met fifteen times during 2017 and undertook an extensive consultation process involving a range of stakeholders. The Working Group operated by way of two sub-groups and broadly looked at market related issues and legal issues. Chairs were appointed to these sub-groups and work commenced at sub-group level in July 2017. The sub-groups met on a weekly basis thereafter.

<sup>116</sup> The cost of motor insurance in Ireland has stabilised in recent years. CSO data show that following the annual increase of over 36% recorded in the year to July 2016, the insurance cost has fallen by 13%, 6.2% and 6.2% respectively in the subsequent three years. Recent reforms as recommended by the CIWG, such as, the establishment of a National Claims Information Database (NCIS) in the Central Bank (the CBI regulation came into effect on April 2019), reforms to the Personal Injuries Assessment Board should further help increase transparency within the motor insurance sector.

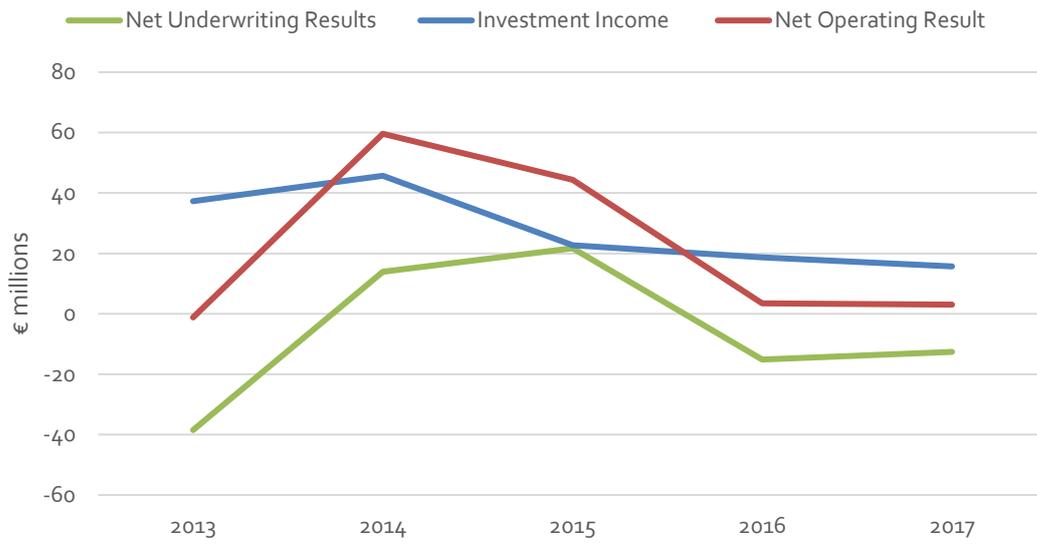
<sup>117</sup> Insurance Ireland Factfile 2017

<sup>118</sup> According to the Cost of Insurance Working Group report, in 2015, the domestic non-life insurance market was concentrated across eight firms, six of which are regulated by the Central Bank of Ireland and two of which operate on a Freedom of Establishment basis.

<sup>119</sup> Insurance Ireland represented 135 companies providing insurance domestically in Ireland and internationally from Ireland in 2017.

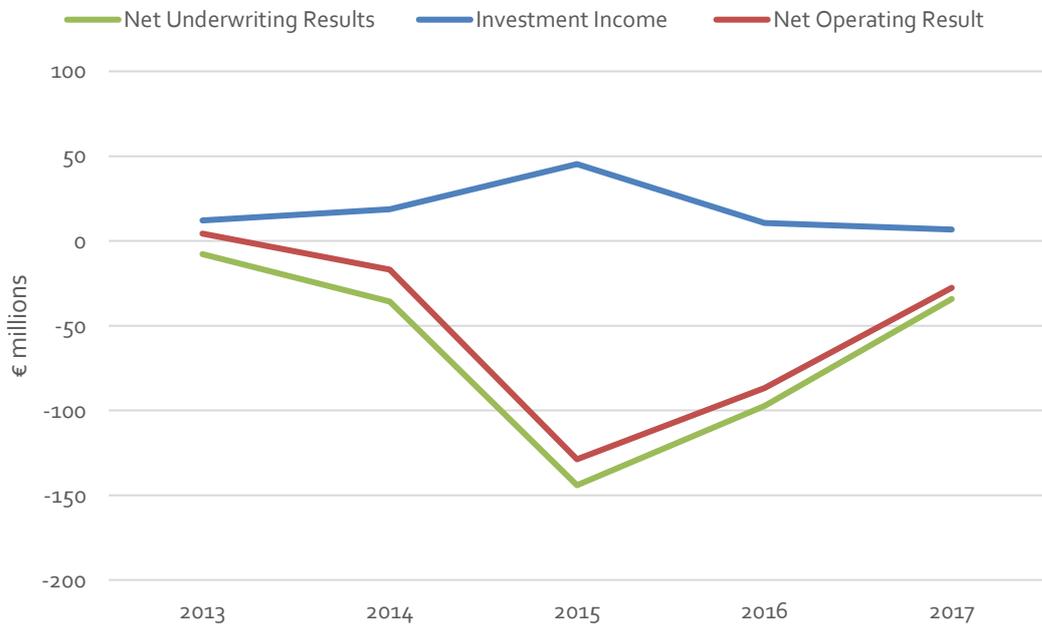
<sup>120</sup> Insurance underwriting result refers to the profit or loss made after the cost of incurred claims, management expenses, commissions to intermediary and other operating costs are deducted from earned premium income.

Figure 6.1 Public Liability Insurance (Ireland)



Source: Insurance Ireland Factfile

Figure 6.2 Employer's Liability Insurance (Ireland)



Source: Insurance Ireland Factfile

## 6.2 Current Situation in Ireland

While there are no hard data on the cost of public liability, and employer liability, insurance, there is compelling anecdotal evidence from the sectors affected by it that the price of such insurance has dramatically increased and has also become increasingly unavailable for many types of business.

In July 2016, the Government established the Cost of Insurance Working Group (CIWG), a cross-departmental group, whose objective is to identify immediate and longer-term measures that can address increasing costs, while bearing in mind the need to maintain a stable insurance sector<sup>121</sup>.

The Cost of Insurance Working Group (CIWG) has identified the lack of hard data as one of the main constraints on examining insurance costs. Its report finds that while many organisations, including the Central Bank of Ireland, the Central Statistics Office, the State Claims Agency, the Personal Injuries Assessment Board, the Courts Service, Insurance Ireland and the Society of Actuaries in Ireland collect insurance data covering liability insurance, it is still difficult to determine the causes of the underlying trends in the employer and public liability markets. It goes on to say that *'the absence of price data specifically makes it very difficult to assess market conditions, price competitiveness and the rationale for price increases across various categories of commercial non-life insurance.'*

The CIWG recommended that the CSO consider the feasibility of collecting relevant data related to the cost of general liability insurance for businesses in the State, and report to the Minister for Finance on this by mid-2018, with a view to commencing collection of this data if it is deemed feasible.

In January 2019, the CSO published a feasibility study<sup>122</sup> on collecting data on the cost of insurance to businesses. In this report, the CSO noted that there was a lack of international precedent for a price index for business insurance, with only the US Bureau of Labour Statistics (BLS) producing price indices on business insurance. The Canadian Statistics Office attempted to produce a price index for business insurance, but discontinued this work, due to concerns about data quality and the burden on respondents. Notwithstanding these difficulties, the CSO considered seven options for collecting business insurance data. The only option that the CSO considered technically feasible was to use technology to automatically price a high volume of representative profiles, i.e. profiling the customer for liability insurance, such as, an office-based company with 20 employees, good safety standards and no claims history; a retail unit with specified turnover and number of employees and tracking their price quotations over time to estimate the overall change in premia. The other options were either technically unfeasible or would place too high a burden on businesses.

The CSO advised that it will continue the research into this approach in the short-term and will provide the CIWG and the Department of Finance with a final determination by the first half of 2020.

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<sup>121</sup> NCC published a bulletin in January 2016 highlighting the adverse impact of high insurance costs on competitiveness. The Bulletin considered a range of structural and procedural reforms to improve cost competitiveness in the sector. Available at: [Competitiveness Bulletin 16-2](#)

<sup>122</sup> CSO Report on the Feasibility of Collecting Price Information on the Cost of Insurance to Businesses, CSO, January 2019

### What explains higher insurance costs?

Given the lack of publicly available information on the cost of insurance, it is difficult to assess the market conditions, price competitiveness and the rationale for higher premia in the area of PL insurance. The insurance bodies have highlighted a number of factors, such as:

- I. Increasing award levels and cost of settling claims
- II. Regulation - Solvency II<sup>123</sup> requirements
- III. Competition

### Increasing award levels and the cost of settling PL claims

There is growing evidence to suggest that the cost of settling a claim in Ireland is: (i) more expensive than in comparable jurisdictions; and, (ii) has increased dramatically over the last number of years. These changes reflect both increases in the amounts awarded and the number of claims made.

For example, the Personal Injuries Commission's report<sup>124</sup> in 2018 revealed that the award level of general damages for soft-tissue (whiplash) injuries in Ireland was 4.4<sup>125</sup> times higher than award levels in England and Wales. According to the report, the average soft tissue claims cost in Ireland is €19,862, whereas it is in the range of €3,589 and €3,254 in the UK.

Personal Injuries Assessment Board (PIAB) data<sup>126</sup> show that, in the last decade, there have been significant increases in both the total award volume and total award value for all insurance claims through PIAB<sup>127</sup>. Between 2010 and 2018, the total award volume has increased by over 44% from €8,380 to €12,112. In the same period, the total award value has increased by almost 60%. In 2010, €187m was awarded, while in 2019, €299m was awarded. The highest award amount has also increased by 135% and is now €908,749.

Looking exclusively at PL awards, between 2010 and 2017, the number of claim awards increased year-on-year before falling slightly in 2018. In 2018, there were 2,188 claim awards, a fall of approximately 5% from 2017, but an increase of over 70% since 2010. In terms of claim award amounts, the data suggest that it has been much more volatile with the average claim award amount falling significantly from €28,176 in 2010 to €24,677 in 2014 before increasing to €28,372 in 2018. The volatility in the claim award amount may be a factor in increasing premia, resulting in extra administrative and legal costs for insurance providers, who in turn may seek to recover these through increasing premia. However, as the claim award amounts are based on the nature of the claim, the Council believes further analysis (based on individual claims data) is required to identify their association.

Some businesses have indicated that the cost of bringing a case to trial is part of the reason that insurance pay-outs are more expensive. However, in the absence of relevant datasets, it is difficult to determine the impact of legal costs on insurance premia.

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<sup>123</sup> Solvency II introduces increased regulatory reporting requirements and public disclosure requirements. The new requirements are intended to reduce the likelihood of an insurer failing and should also provide policyholders with increased protection.

<sup>124</sup> [Second and Final Report of the Personal Injuries Commission](#)

<sup>125</sup> Claims data capped at €50,000. Irish figure is based on claims paid in 2015, 2016. UK fig based on 2012-2015

<sup>126</sup> <https://www.piab.ie/eng/about-piab/statistics/>

<sup>127</sup> Cases settled through PIAB process – which only makes up a portion of claims across the whole system (i.e. PIAB, courts, private settlement)

### Box 6.1 Book of Quantum

The Book of Quantum, which will be replaced by the personal injuries guidelines when adopted, is a guide to prevailing levels of damages for various types of injuries in Ireland. It reflects what has actually been paid out in the Courts, direct settlements, cases settled by the State Claims Agency, and cases awarded by PIAB. It was revised in 2016 to reflect the prevailing compensation rates in the market. For example, the level of compensation in the case of head injury claims ranges from €11,000 (minor) to €80,200 (major) depending on the severity of the injury. Similarly, the compensation level ranges from €15,700 to €77,00 for neck injury, €14,800 to €92,000 for back injury, and €32,500 to €139,00 for spinal injuries<sup>1</sup>.

## Regulation

In 2016, Solvency II, the EU's new harmonised prudential framework for insurance firms was introduced. It sets out higher requirements around capital, governance and risk management for all EU insurance companies, and is designed to reduce the likelihood of an insurer failing. One aspect of this is to require insurance companies to hold more capital, which makes it more expensive to provide insurance services. However, these measures are designed to keep the financial system safe in the long term. As this is an EU-wide framework, it should not impact on Ireland's competitiveness within the EU, as all EU insurance firms are required to comply with the same standards. However, the Council is concerned that the unpredictability of the claim award level in Ireland may result in higher capital retention by the insurance companies here, resulting in higher premia.

## Competition

In August 2019, the Minister for Business, Enterprise and Innovation requested that the Competition and Consumer Protection Commission (CCPC) undertake a study into the public liability insurance market. In addition, the CBI is also considering expanding the feasibility of the National Claims Insurance database (NCID) covering EL/PL claims. The Council welcomes these developments which should bring greater transparency to the market. However, it also acknowledges that these studies will take some time to conclude.

## 6.3 Current Policy Interventions

The rising cost of PL insurance premiums has been repeatedly highlighted as one of the major concerns by Irish businesses in recent years, increasingly so in 2019, as being linked to business closures in certain sectors e.g. leisure, hospitality. The Government has been active in attempting to identify and address the underlying issues causing price increases.

### Cost of Insurance Working Group

In January 2018, the CIWG published its second (and final) report – *The Report on the Cost of Employer and Public Liability Insurance*. The report included 15 recommendations, and 29 associated actions to be carried out in an agreed timeframe. The Report's recommendations, covering three main themes, included actions and timelines for implementation. The three main action areas outlined in the report are to: (i) increase transparency; (ii) review the level of damages in personal injury cases; and, (iii) improve the personal injuries litigation framework.

### (i) Increase Transparency

The lack of quality insurance data makes it difficult for policymakers to properly diagnose the problem and determine what interventions might be considered. The CIWG made a number of recommendations to enhance the levels of transparency and improve data collection and sharing processes. Actions have been taken to progress these recommendations:

- The CBI established a National Claims Information Database and will produce an annual analysis of movements in private motor insurance claims. The first of these reports which is expected in Q4 2019. In relation to EL/PL data, the CBI is exploring the feasibility of collecting claims data by settlement channels;
- The Court Service has committed to publishing the results of personal injury cases in a more granular way. These figures will first be published in the Court Services 2019 Annual Report, expected in July 2020.

The Council acknowledges that good progress has been made on the implementation of the CIWG recommendations in relation to its liability insurance report. The CIWG report<sup>128</sup>, published in July 2019 reported that, 12 out of total 15 recommendations had so far been completed, 2 were ongoing and 1 was delayed. In terms of the 29 actions associated with the 15 recommendations, the report stated that 18 were completed, 9 were ongoing and 2 were delayed. The timely implementation of all the CIWG recommendations is vital to make significant improvements to data quality and transparency in the insurance sector in Ireland. However, the Council also believes that there is still much work to be done to ensure a sustainable reduction in insurance costs in Ireland. In particular, bringing the levels of personal injury damages awarded in this country more in line with those awarded in other jurisdictions remains a significant challenge.

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**Recommendation 6.1:** Explore legislative options to compel insurance companies to provide claims data (broken down by settlement channel) to improve transparency in the insurance sector.

**Responsibility:** Department of Finance; Department of Justice and Equality

**Recommendation 6.2:** Publish a report setting out key information on employer liability and public liability insurance claims as recommended by the Cost of Insurance Working Group.

**Responsibility:** Department of Finance

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### (ii) Review the level of damages in personal injury cases<sup>129</sup>

The CIWG report recommends that the Law Reform Commission (LRC) undertake a detailed analysis of the possibility of developing constitutionally sound legislation to delimit or cap the amount of damages which a court may award in respect of some or all categories of personal injuries. A number of actions have been taken, or will take place, in this regard.

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<sup>128</sup> CIWG Ninth Progress Update Q2 2019 (<https://www.gov.ie/en/publication/54bb3b-cost-of-insurance-working-group-ninth-progress-update-q2-2019/>)

<sup>129</sup> The Personal Injuries Commission's report in 2018 revealed that the award level of general damages for soft-tissue (whiplash) injuries in Ireland was 4.4 times higher than award levels in England and Wales. According to the report, the average soft tissue claims cost in Ireland is €19,862, whereas it is in the range of 3,589 and €3,254 in the UK.

- On 5 June 2019, the Law Reform Commission published the Fifth Programme of Law Reform. One of the projects under that programme will consider whether it would be constitutionally permissible and, if so, whether it would be desirable to legislate for statutory caps on general damages (damages for pain and suffering) in personal injury cases.
- The Law Reform Commission (LRC) will publish a draft report for consultation by the end of the year before considering a recommendation in relation to whether it is possible for legislature to cap personal injury claims.

The CIWG report also recommended the establishment of a Personal Injuries Commission which, in turn, recommended that the Judicial Council should, when established, be tasked with the compilation of guidelines for appropriate general damages for various types of personal injury. Responding to that recommendation, provision was made in the Judicial Council Act 2019 for the establishment of a Personal Injuries Guidelines Committee which will be responsible for drawing up the necessary guidelines for adoption by the Council. The Personal Injuries Guidelines Committee is to be established no later than 3 months after the first meeting of the Council and is to submit the first draft of personal injuries guidelines no later than 6 months from its establishment. In carrying out its functions, the Committee will have access to a wide range of data and will be empowered to conduct research on the level of damages awarded not just by courts in the State but also by courts outside this jurisdiction. The Act also provides that courts, in assessing damages in a personal injuries action, are to have regard to the guidelines which are adopted and, where departing from those guidelines, must state the reasons for so departing. This reflects the policy objective of ensuring that there is consistency across the courts when it comes to awarding damages in personal injuries actions.

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**Recommendation 6.3:** Ensure that sufficient resources are assigned to the Personal Injuries Guidelines Committee, when established, so that the adoption of personal injuries guidelines can be prioritised at the earliest possible date.

**Responsibility:** Department of Justice and Equality, Personal Injuries Guidelines Committee

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### (iii) Improve the personal injuries litigation framework

The Government's key policies to improve the personal injuries litigation framework are to:

- ensure potential defendants are notified in sufficient time that an incident has occurred in relation to which a claim is going to be made against their policy
- tackle fraudulent or exaggerated claims
- ensure suitable training and information supports are available to the judiciary to assist in the fair and consistent assessment and awarding of damages in personal injury cases

The Council acknowledges that a number of measures have already been taken to improve the personal injuries litigation framework in Ireland (See box 6.2). Aside from the *Report on the Cost of Employer and Public Liability Insurance*, in January 2017, the CIWG published a report that focused on the cost of motor insurance. The report analysed the Motor Insurance sector in Ireland covering six main themes<sup>130</sup> and made 33 recommendations with 71 associated actions to be carried out in an agreed timeframe. The Working Group has continued to provide quarterly updates on the progress of its recommendations. According to the group's ninth progress report 23 out of the 33 recommendations were completed, 8 were ongoing and 2 were delayed.

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<sup>130</sup> Protecting the consumer, improving data availability, Improving the personal injuries claims environment, reducing the costs in the claims process, reducing insurance fraud and uninsured driving, promoting road safety and reducing collisions.

The Council acknowledges that the achievements of CIWG recommendations will take time to bear results, and it is important that their impact on the cost of liability insurance for businesses in Ireland is continuously monitored by all relevant bodies.

### Box 6.2 Some of the developments following the CIWG

- The establishment of the Personal Injuries Commission (Feb 2017) and the publication of its two reports in December 2017 and September 2018
- The Judicial Council Act, 2019 - establishment of The Judicial Council.
- The establishment of the National Claims Information Database (Central Bank -National Claims Information Database- Act 2018)
- Personal Injuries Assessment Board (Amendment) Act 2019 to strengthen the powers of PIAB around compliance with its procedures;
- Garda National Economic Crime Bureau (GNECB) to investigate insurance-related criminality

## 6.4 What more can be done?

The Council supports the work of the CIWG. The Council acknowledges that change cannot occur overnight and supports the full implementation of its recommendations. In that respect, it is vital that the CIWG continue to monitor the progress of its recommendations - it has done so far through quarterly progress reports - and highlight any delays or inactions. In relation to insurance data collection, while recognising the CSO's concern in relation to the burden of insurance data collection, the NCC views good insurance data as being important and would like to see the publication of the CSO's final recommendation on the ongoing feasibility study. In addition, the NCC would like the publication of guidelines for personal injury claims to be expedited. The NCC also welcomes the Competition and Consumer Protection Commission (CCPC) upcoming study<sup>131</sup> on the public liability insurance market in Ireland. Once completed, the findings of the report should be published and acted upon without delay. For example, if the CCPC finds that there is a lack of competition in the market, increased competition needs to be supported. The Council believes that the Government's main priority for the time being should be the continued implementation of the CIWG findings and monitoring the results. However, if this does not have a sufficient impact, the Government must consider further action.

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<sup>131</sup> Building upon the work of Cost of Insurance Working Group and the Personal Injuries Commission, the CCPC's study aims to carry out a detailed assessment of the functioning of the liability insurance market in Ireland and make evidence-based recommendations to the Government to address issues around the cost, volatility and supply of Public Liability Insurance. As of early November 2019, work on the study is well underway and it is expected that it will be completed by the middle of 2020.

### Conclusion

At the heart of our policy focus on national competitiveness is ensuring the ability of Irish businesses to compete successfully in international markets. Two of the most important determinants of competitiveness are productivity and costs, and a competitive economy is one where productivity is not out of line with the cost base. This year the National Competitiveness Council (NCC) decided to focus the *Competitiveness Challenge* on a smaller number of issues so that the six key areas in the previous chapters could be examined in more detail. It is hoped that by narrowing the scope of the report to a number of key issues, that the associated recommendations for Government can be more targeted and gain more traction.

In March 2018, the NCC was mandated by Government to act as the National Productivity Board<sup>132</sup> for Ireland. This followed a European Commission recommendation that euro area countries establish national bodies responsible for analysing developments and policies in the field of productivity and competitiveness. These national boards contribute to the enhancement of ownership of the necessary policies and reforms at the country level. The European Commission has launched a network for the productivity boards in order to facilitate the sharing of views, practices and experiences and to help the national institutions better take into account the broader euro area and European Union (EU) dimension. Policies to enhance productivity are addressed in the framework of the European Semester, and the Semester process involves consultation with the National Productivity Boards of the euro area countries.

As part of the EU's economic governance framework, the European Semester is a cycle of economic and fiscal policy coordination. The European Semester was introduced in 2011 following the ratification of the so-called *six-pack* legislative reforms<sup>133</sup>. During the European Semester the member states align their budgetary and economic policies with the objectives and rules agreed at the EU level. The European Semester covers three areas of economic policy coordination – structural reforms, fiscal policies and macroeconomic imbalances.

Looking to the future, the NCC intends to move the publication of the *Competitiveness Challenge* to an earlier point in the calendar year so that the recommendations can be better integrated into the European Semester process. Structural reforms that focus on promoting growth and employment in line with the *Europe 2020* strategy<sup>134</sup>, and that increase productivity and growth potential in the member states are an integral part of addressing the economic challenges facing Ireland and the EU.

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<sup>132</sup> European Commission: [National Productivity Boards](#)

<sup>133</sup> European Commission: [EU Economic governance - Six-Pack](#)

<sup>134</sup> European Commission: [Europe 2020 Indicators](#)

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