

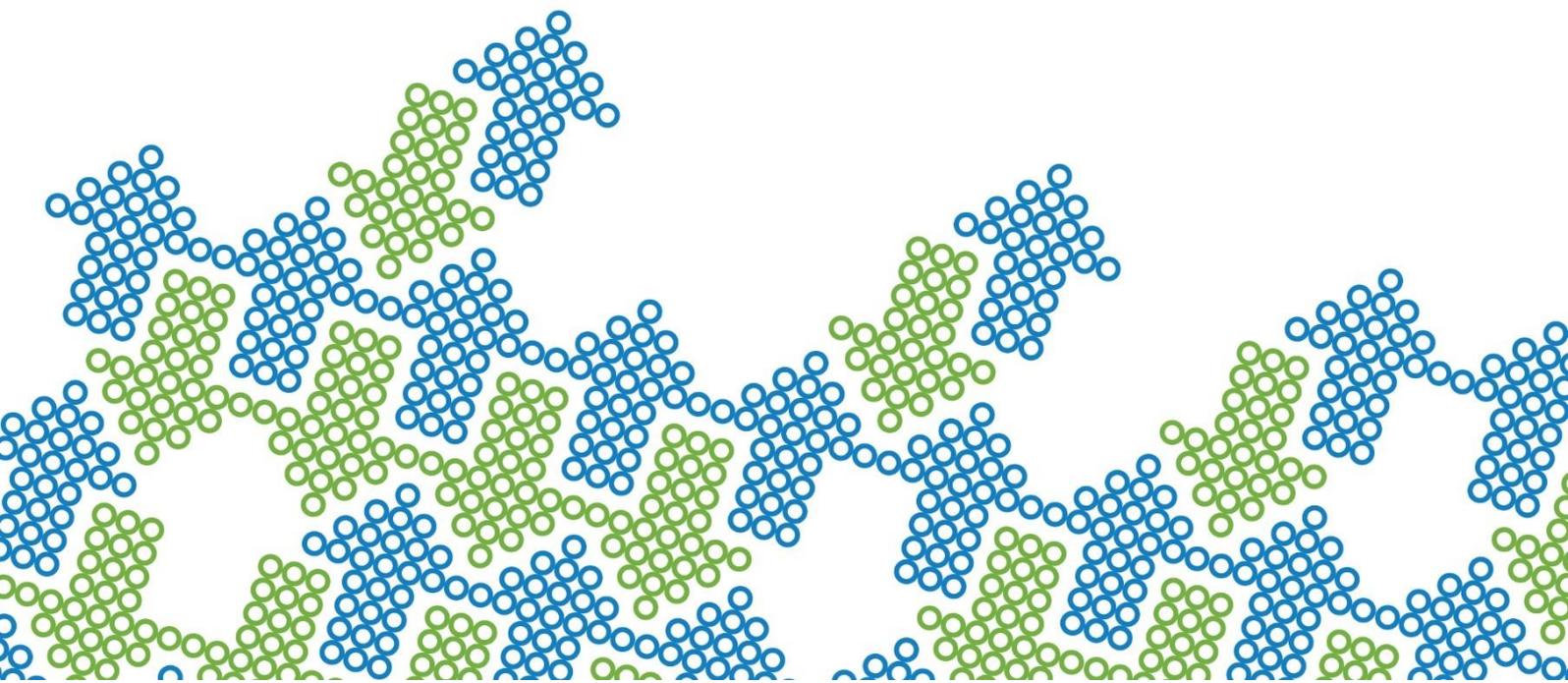
NCPC

National Competitiveness
& Productivity Council
An Chomhairle Náisiúnta
Iomaíochais agus Táirgiúlachta



Ireland's Competitiveness Challenge 2021

September 2021



Introduction to the National Competitiveness and Productivity Council

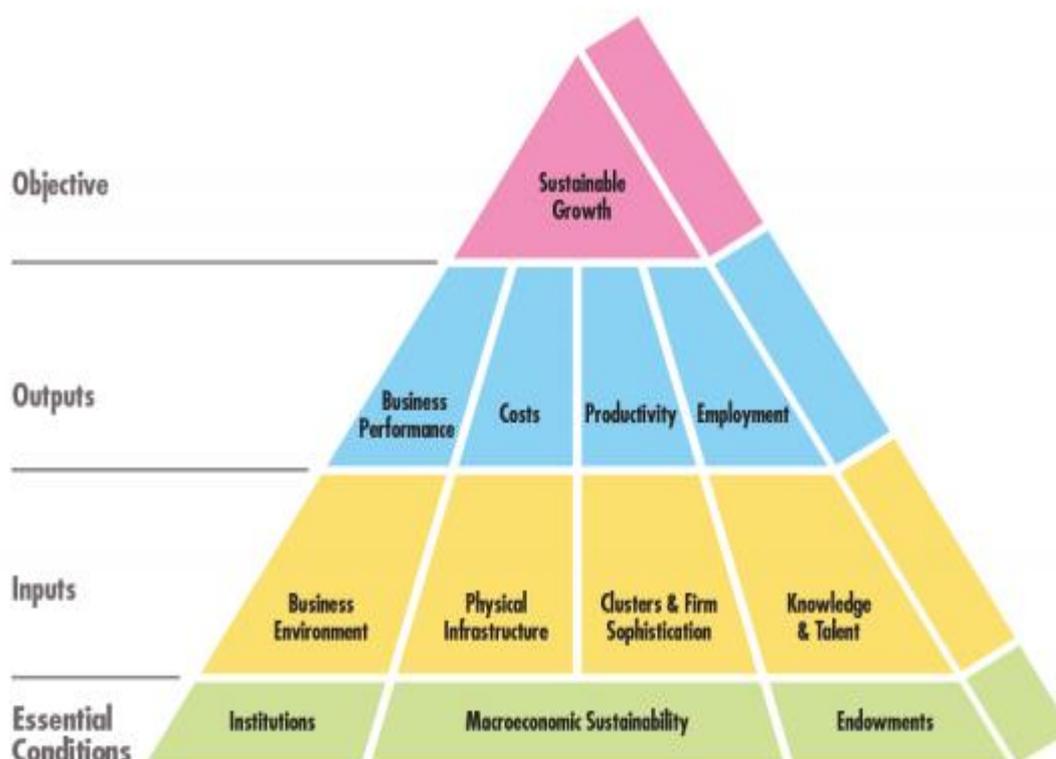
The National Competitiveness Council (NCC) was established in 1997. It reports to the Taoiseach and the Government, through the Minister for Enterprise, Trade and Employment on key competitiveness and productivity issues facing the Irish economy and offers recommendations on policy actions required to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

In accordance with the European Council recommendation of September 2016 on the establishment of National Productivity Boards by euro area countries, in March 2018, the Government mandated the National Competitiveness Council as the body responsible for analysing developments and policies in the field of productivity and competitiveness in Ireland. This expanded mandate underpins the decision to rename the Council, in November 2020, as the National Competitiveness and Productivity Council (NCPC).

Each year the Council publishes an annual report for Government on the key competitiveness and productivity challenges facing the Irish economy and suggests specific policy actions to address these challenges.

As part of its work, the NCPC also periodically publishes:

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



National Competitiveness and Productivity Council Members

Dr Frances Ruane	Chair, National Competitiveness and Productivity Council
Pat Beirne	Chief Executive Officer, Mergon Group
Kevin Callinan	General Secretary, Fórsa
Leo Clancy	Chief Executive, Enterprise Ireland
Micheál Collins	Assistant Professor of Social Policy, University College Dublin
Ciaran Conlon	Director of Public Policy, Microsoft, Ireland
Isolde Goggin	Chair, Competition and Consumer Protection Commission
David Hegarty	Assistant Secretary, Department of Enterprise, Trade and Employment
Neil McDonnell	Chief Executive, ISME
Fergal O'Brien	Director of Policy and Chief Economist, Ibec
Dirk Pilat	Deputy Director, Science, Technology and Innovation, OECD
Martin Shanahan	Chief Executive, IDA Ireland
Margot Slattery	ISS World Services, Global Head of Diversity & Inclusion
Patrick Walsh	Managing Director, Dogpatch Labs
Jim Woulfe	Chief Executive, Dairygold Co-Operative Society Limited

Council Advisors

William Beusang	Department of Further and Higher Education, Research, Innovation and Science
Paul Bolger	Department of Environment, Climate and Communications
Maria Graham	Department of Housing, Local Government and Heritage
Geraldine Hurley	Department of Social Protection
John McCarthy	Department of Finance
Sinead McPhilips	Department of Agriculture, Food and the Marine
David Moloney	Department of Public Expenditure and Reform
Andrew Munro	Department of Justice
Ray O'Leary	Department of Transport
John Shaw	Department of the Taoiseach

Research, Analysis and Secretariat

Oliver Gilvarry	Department of Enterprise, Trade and Employment
Manus O'Donnell	23 Kildare Street, Dublin 2, D02 TD30
Linda Kane	Tel: +353-1-631-2121
Patrick Condon	Email: info@competitiveness.ie
Karen Hogan	
Codie Rossi	

Table of Contents

Introduction to the National Competitiveness and Productivity Council	2
Taoiseach's Foreword	5
Tánaiste's Foreword	6
Chair's Preface	7
Overview	8
Summary of National Competitiveness and Productivity Council Recommendations 2021	14
Chapter 1: Immediate Issues Facing the Irish Economy	18
1.1 Introduction	18
1.2 Short-Term Issues	25
1.3 Remainder of the Report	34
Chapter 2: Dynamic Business Environment	36
2.1 Introduction	36
2.2 Current Situation in Ireland	36
2.3 Actions Crucial for a Dynamic Business Environment	40
2.4 Summary	44
Chapter 3: Boosting Productivity	46
3.1 Introduction	46
3.2 Current Situation in Ireland	46
3.3 Actions Crucial for Boosting Productivity	55
3.4 Summary	65
Chapter 4: Infrastructure for a New Way of Living	67
4.1 Introduction	67
4.2 Current Situation in Ireland	68
4.3 Actions Crucial for Infrastructure for a New Way of Living	72
4.4 Summary	76
Chapter 5: A Sustainable and Inclusive Economy	77
5.1 Introduction	77
5.2 Current Situation in Ireland	78
5.3 Actions Crucial for Sustainability and Inclusivity	81
5.4 Summary	85
Conclusion	86

Taoiseach's Foreword



COVID-19 has presented unprecedented challenges to our society and economy. Our people have made significant sacrifices, and nobody has been untouched by the difficult experiences of the pandemic. The vaccine rollout is continuing at pace and thanks to the large level of vaccine take-up we can see the positive impacts on our country as businesses re-open, people return to work and are able to interact again with one another in social settings.

I believe it important that we take the time to recognise that the pandemic has been a watershed experience for Ireland's economy and society. The pandemic has changed the way in which we work and the way in which we live, and there will be lasting implications which are becoming clearer as re-opening progresses.

We have an opportunity to learn from this experience, to reflect, and to take the steps to build back better. The Government is committed to recovering and renewing our economy and society, in a balanced, sustainable and inclusive manner, to the benefit of all our people and regions. This includes not only dealing with the fallout of the pandemic, but also maintaining the changes that were implemented due to the pandemic that have had a positive impact on our people and our economy. We now have an opportunity to chart the path to a positive, sustainable future by laying out a longer-term pathway to tackle the challenges we face and ensure our people can benefit from the new opportunities ahead.

The *Economic Recovery Plan 2021*, launched over the summer, outlines how we will not only support our recovery, address structural and long-term weaknesses in our economy, but also how we will prepare for the transition to a carbon neutral and digital future. In addition, it will be important that we facilitate workers in retraining and upskilling, assisting them in the transition from declining to expanding sectors. The recently announced national employment services strategy, *Pathways to Work 2021-2025*, will be critical in achieving this objective.

It is also important that we help those businesses whose business model has been irreparably disrupted as a result of the pandemic and an appropriate insolvency framework will be a key part of this process. As we move beyond Covid, we will wind down the unprecedented emergency support measures we have put in place in response to the pandemic and refocus investment towards building up the productivity capacity of our enterprise base.

As the economy continues to recover, the priority will be to support our people in getting back to work and using the available public resources to stimulate economic activity while addressing key priorities for our people in housing, health, education and climate action. The ambitious *Housing for All Strategy* will substantially increase housing supply over the coming years. Increased supply of affordable housing will in turn ease some of the broader economic and social challenges people face in their lives.

I warmly welcome the analysis and recommendations put forward by the National Competitiveness and Productivity Council in the *Competitiveness Challenge 2021*. The recommendations, covering critical issues such as supports for workers, climate change, investment, productivity, and long-standing issues such as housing and the importance of a dynamic business environment, will help to shape our policy choices. A formal Government response to the recommendations will be published. I would like to thank the Council for their work in compiling this report, and I look forward to engaging with them over the coming months as we continue to build the recovery together.

Micheál Martin, T.D.,
Taoiseach

Tánaiste's Foreword



Over the last 18 months, the COVID-19 pandemic has dealt a severe blow to our society and our economy. People have lost their lives and livelihoods, families and friends have been kept apart, and isolation and loneliness have taken their toll. Through all this, Irish society has shown strong resolve. Businesses and employees have demonstrated determination and flexibility in the face of a highly challenging situation to keep essential services running. This has led to the current positive environment where the vast majority of the adult population is vaccinated, and more people have been able to return to work as we re-open the economy.

Now we can be hopeful that the worst of the pandemic is behind us, and it is time to take stock of the changes it has ushered in. Perhaps the most profound change will be in how people can work. The successful transition to remote work in many areas has created new possibilities for certain people on how, and where, they work. The pandemic has also accelerated the pace of change in other areas and highlighted the importance of ensuring that we live in a sustainable and inclusive society.

In the short term, as Tánaiste and Minister for Enterprise, Trade and Employment, my main priority is to get people back to work, and businesses open and prospering again. However, we must also plan for the long term through increased investment in research and skills, the digital transformation, climate action and public transport.

In July, the Government launched the Economic Recovery Plan (ERP) that provides a vision of the post-pandemic economy which is export-oriented, digital, and green. An economy where people can expect better jobs with better pay, protections, pensions, and flexibility. The ERP is about creating the conditions to create such job opportunities for people and also to increase the numbers in employment to levels greater than we had before the pandemic. In many cases, old jobs will come back. Where this is not the case, new jobs in expanding sectors of the economy will replace the jobs lost. In parallel, the ERP is designed to ensure that decarbonisation and digital transformation provide opportunities for all our people. Economic growth must complement the Government's attempts to improve living standards for all.

Every year, the Government tasks the National Competitiveness and Productivity Council with the responsibility to make evidence-based policy recommendations on how to improve the competitiveness and productivity of the Irish economy in the long-term. At this crucial juncture, the Council has set out a welcome vision for a more sustainable and inclusive Ireland, where improvements in productivity and competitiveness deliver for all of society. I welcome the Council's analysis and recommendations set out in the *Competitiveness Challenge 2021*. The Government will take these recommendations into consideration in due course and will respond to the Council on the main points raised. Finally, I would like to thank the Council for their continued analysis and advice on competitiveness and productivity.

Leo Varadkar, T.D.,
Tánaiste

Chair's Preface



This year's *Competitiveness Challenge* report is the Council's second annual report prepared as we live under COVID-19 restrictions. The successful roll-out of vaccination programmes in Ireland and elsewhere is allowing a gradual rebound in economic and social activities. While confidence is returning, it is tempered by a recognition that new variants have the potential to further disrupt economies and societies around the world. Along with these potential risks for Ireland, adjustments are needed to handle other major economic issues, such as the transition to carbon neutrality by 2050, the digital transition, international tax reform and the full consequences of Brexit.

While these issues can be examined through the lens of 'challenges', it is important that policy makers focus on the opportunities they provide to evaluate how we do things, identify areas where Ireland is not operating efficiently and consequentially where reforms are required, even when difficult. COVID-19 has brought about or accelerated changes to economies and societies, such as the ways businesses operate and the potential for more flexible ways of working. Some of these new ways of working are also opening possibilities for new ways of living more sustainably and inclusively, which can in turn deliver real improvements in the lives of people based in Ireland. It is not yet clear what the long-term impact of these new ways of working will be, but they have introduced new options for both employers and employees which have the potential to enhance Ireland's competitiveness.

The Council recognises that, in the short term, policy must continue its focus on supporting workers and their families, through supplementary income measures. As the economy and society continue to re-open, additional support will be needed for a time to assist workers from vulnerable sectors to upskill and retrain for employment in other sectors. Business supports, including loan schemes, grants, vouchers, as well as training and mentoring programmes, are currently helping businesses recover from the impact of the pandemic. In the future, these schemes need to pivot to target supports towards those businesses that can demonstrate future viability but are challenged in the short term. Pivoting in this way is a critical first step to ensuring a sustainable and inclusive recovery.

At the same time, the Council is clear that these immediate challenges should not deter Ireland from addressing structural weaknesses that work against long-run competitiveness and more widespread productivity growth. These weaknesses, which result in Irish businesses facing less favourable operational environments than their competitors, require urgent policy focus and action, through reforms and carefully targeted investments, over a sustained period. These policies involve difficult choices, including what should be prioritised and targeted first, against a challenging fiscal backdrop. The Council strongly believes that a systemic policy approach is required, with careful sequencing of targeted actions that can generate the greatest impact in the immediate term and position the economy for medium to long-term sustainable growth. This will require policy makers to tackle major issues that have proven intractable in the past.

As Ireland emerges from the turbulence of the pandemic, a clear vision is needed on the type of society that we are driving towards and how that vision is to be realised. For the Council, this vision needs to be underpinned by a competitive and productive economy that delivers sustainable economic growth and benefits all of society. To this end, and in line with recent *Competitiveness Challenge* reports, the Council is limiting itself here to a number of key strategic areas and to making 20 tangible, actionable policy recommendations to the Government. Last year the Council welcomed the publication of the Government's first formal response to the *Competitiveness Challenge 2020* recommendations, and I look forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy.

Dr Frances Ruane
Chair, National Competitiveness and Productivity Council

Overview

Competitiveness against a backdrop of exceptional uncertainty

The global economic environment continues to be in a state of heightened uncertainty as COVID-19 related disruptions continue into a second year. High levels of unemployment still persist, and vulnerable businesses and sectors continue to struggle, with negative consequences for investment. International trade also remains disrupted with global value chains impacted and travel restrictions negatively impacting on the ability of investors to initiate new projects.

However, there are hopeful signs, especially evident in greater numbers returning to work. Vaccination programmes continue to roll out at differential paces across the world with some economies opening up, while others remain under restrictions as they battle new waves and variants of the virus.

Due to the very high levels of uncertainty caused by the global pandemic, international and domestic forecasting institutions have been modelling different possible scenarios since early 2020. In 2020, Ireland's economic output was expected to record negative growth, with a predicted fall of between 6.8% and 13.8%¹. However, the Irish economy defied the predictions of the modelling exercises and was the only economy in the EU to register GDP growth in 2020, expanding by 5.9% compared to 2019. This is in stark contrast to other EU states such as Spain and Italy, where GDP fell by 10.8% and 8.9% respectively².

Ireland's GDP growth in 2020 was driven by strong exports by multinational enterprises in key sectors such as pharmaceuticals, medical goods, and ICT goods and services, while imports fell. In effect the strong net export performance masked a substantial contraction of the domestic economy, with modified domestic demand³ declining by 4.9% in 2020. For 2021, the range of estimates of GDP growth lies between 4.2%⁴ and 11.1%⁵, linked to the continued strength in the traded sector, coupled with a solid rebound in domestic activity as the vaccination programme gathers pace and employment grows. The exceptionally broad forecast range for 2021 highlights the high degree of uncertainty that continues to prevail into the third quarter of 2021.

While encouraged by these projections, the Council recognises that there are also serious external risks to Ireland's competitiveness and productivity position. The Council remains concerned about the uncertain medium- and long-term consequences of the transition to a new trade relationship with the UK, and even more by the economy's needs for an agile response to the immediate complexities driven by international tax reform proposals. The OECD's Base Erosion and Profit Shifting (BEPS) process could have a large impact on corporation tax receipts (with the Department of Finance estimating that corporation tax receipts could be between €800 million and €2 billion lower by 2025 as a result of these reforms). These external risks to the Irish economy make it even more vital that the Government exercises the levers under its control to improve Ireland's competitiveness and productivity position.

¹ These figures reflect the 2020 low & high points of the scenarios ranging from mild (no return to lockdown) to severe (a return to lockdown), as predicted by; the OECD Economic Outlook, Volume 2020 Issue 1 & the Central Bank of Ireland 'Quarterly Bulletin' July 2020.

² European Commission Summer 2021 Economic Forecast.

³ Modified Domestic Demand, published by the Irish Central Statistics Office, is a measure of domestic activity that strips out some of the effects of multinationals.

⁴ OECD Economic Outlook April 2021.

⁵ ESRI Quarterly Economic Commentary.

This year's *Competitiveness Challenge* report 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. Chapter 1 lays out the current economic landscape in Ireland following 18-months of living with COVID-19 and provides a summary of the immediate issues that need to be addressed as the economy and society emerges from the pandemic. Chapter 2 details the importance of a dynamic business environment, where Irish enterprises can access the services they require, with reasonable costs and choice. The chapter sets out: (i) the evidence of higher costs in Ireland relative to comparator countries; (ii) the reasons for these cost differences; and, (iii) the policy actions needed to address these cost issues and improve the competitiveness position for Irish businesses. Chapter 3 explores productivity developments in Ireland and highlights the importance of boosting productivity growth, especially amongst indigenous SMEs. Chapter 4 examines how investing efficiently in Ireland's housing stock, and in the associated social and economic infrastructure, as well as in other critical infrastructure can help boost the economic recovery while also meeting specific long-term infrastructure needs that benefit living standards. Chapter 5 discusses how to ensure that the economic recovery is sustainable and inclusive, with consideration for social, regional and gender equality. And finally, the Conclusion section provides a summary of the NCPC's findings in this *Competitiveness Challenge* report.

Immediate Issues Facing the Irish Economy

From the outset of the pandemic, the Government, together with employee and employer groups, mobilised quickly to support workers and businesses, and mitigate the extreme economic consequences of the health measures necessary to contain the spread of the virus. In 2020, these support policies resulted in a large Government deficit, which is expected to be repeated in 2021. This spending was a necessary counter-cyclical measure to avoid an even more severe economic recession and massive economic hardship.

While the Council recognises the need for supports to remain in place in the immediate short run, it notes that in the *Summer Economic Statement*, the Government signalled its intention to continue to run large budget deficits until at least 2025. This poses two issues: (i) that Government spending may become pro-cyclical and begin to overheat the economy; and (ii) by not lowering the absolute debt levels when the economy is growing, deficits may leave the Irish economy in a vulnerable position with regard to future shocks, with less fiscal space available to cushion the impact of a negative economic shock.

As the economy and society continue to open, workers in vulnerable sectors that may not recover will need to be supported to upskill and retrain for employment in other sectors. Wide-ranging business supports, including loan schemes, grants, vouchers, as well as training and mentoring programmes, are currently playing a role in helping viable businesses get back on their feet. The Economic Recovery Plan (ERP) has outlined the Government's plan for phasing out different broad-based supports provided to businesses so that the fiscal burden of these schemes is sustainable, requiring that any future business supports be targeted at those businesses that are viable in the medium to long term but challenged in the short term.

As this process begins for withdrawing support schemes, and better targeting others, it is vital that we have the appropriate insolvency framework in place in Ireland to help struggling businesses restructure⁶. Ireland's existing rescue framework, examinership, has many merits but the commercial reality of the high costs associated with it means that small companies are not often in a position to access it.

⁶ Following the global financial crisis and the bursting of the Irish property bubble, corporate insolvencies reached a peak of more than 1,600 cases in 2012.

This potential high cost has led the Government to recently introduce a new regime that provides an alternative route for smaller businesses to restructure their liabilities and enable them to continue trading (the Small Companies Administrative Rescue Programme, SCARP). This is an important development for those businesses that are impacted due to the pandemic and are now facing the withdrawal of broad-based business supports. It is important the small businesses under financial stress are made aware of SCARP as a viable option for them (**Recommendation 1.1**).

Medium- to Long-Term Challenges

The pandemic has ushered in a new way of working for many people in certain sectors and occupations. In turn, this may open up possibilities for new ways of living, improving the lives of people based in Ireland. In the face of these changes, Ireland must have a clear vision on our collective priorities in the years ahead. Our competitiveness and productivity performance must deliver for all parts of society, and this will require concerted effort from consumers, employees, enterprises and Government. The Council recommends to Government that, over the next decade, the four key competitiveness and productivity strategic challenges should be to:

- Ensure Ireland has a **dynamic business environment** that supports entrepreneurs and enhances employment opportunities and conditions for workers. All businesses face unavoidable fixed costs to operate, and as Ireland has long been described as a high-cost economy, these high costs limit how competitive Irish firms (particularly SMEs) can be in international markets.

In previous reports, the Council has focused on three particularly important business costs (insurance costs, legal costs, and the cost of credit), and these issues are revisited in this document. The Council is concerned that many of these important issues have not received the urgent attention they require to support competitiveness and productivity.

On insurance, the Council has been strongly supportive of the cross-Government *Action Plan on Insurance Reform* and welcomes the adoption of the new Personal Injuries Guidelines. In this report, the Council calls for the impact of these Guidelines on award levels to be assessed and monitored (**Recommendation 2.2**). On legal costs, the Council is encouraged to see the Government's recent commitment to actively explore ways to bring down legal costs and calls for an assessment of the introduction of fixed legal fees to be published (**Recommendation 2.1**).

The Council is also aware that more limited competition in the banking sector could have negative consequences for market interest rates for SMEs and suggests that the Government undertake a review of banking in Ireland and this review is sufficiently resourced (**Recommendation 2.3**). Furthermore, on access to finance, the Council calls for the Government to assess one of its flagship lending policies – the Future Growth Loan Scheme – to see what works well, and what requires adjustment, so policy makers can take these lessons onboard in the design of future lending schemes (**Recommendation 2.4**).

The Council also looks at the initiatives that are currently being considered by the Government to extend further social protections to employees (pension auto enrolment and statutory sick pay). The Council is fully supportive of the extension of the welfare state in the interests of a more equitable society. Furthermore, it recognises that these social protection measures can play a role in attracting talent to

Ireland but also notes that the costs of these measures need to be balanced with the impact that they will have on businesses. The Council recommends that the Sick Leave Bill 2021 is published and enacted as soon as possible (**Recommendations 2.5**).

- Increase **productivity growth in Ireland with a focus on ensuring it is as broad-based as possible** throughout the country. In the longer term, productivity is the engine of economic growth, and as such is key to improvements in living standards, associated with growing and sustainable wage levels, good public services and improved wellbeing. Despite the global slowdown in productivity growth over the past decade, aggregate labour productivity figures for Ireland continue to show a strong performance relative to other advanced economies. However, as the CSO data shows clearly, Ireland's current productivity performance is highly concentrated rather than broad based.

To ensure that the Government puts in place the appropriate policies to boost the productivity of indigenous Irish firms, further robust and policy relevant research is needed in an Irish context (**Recommendation 3.1**). In addition, Government should continue to monitor international research that is uncovering evidence on how changed work practices, including increased digitalisation, is impacting on productivity. For example, early survey data suggests that remote working has the potential to have a positive impact on productivity in some sectors. To realise this potential, the Government needs to develop frameworks that would enable businesses to see more of their employees having flexible employment possibilities that would see them working part-time from home (**Recommendation 3.2 and 3.3**). This framework also includes the timely delivery of the necessary infrastructure (e.g, via the increased pace of delivery of the National Broadband Plan) to ensure that employees can effectively work remotely from all of Ireland's regions (**Recommendation 3.4**) and that workers are equipped with the necessary digital and management skills to navigate the post-pandemic recovery and are fully adaptable to the future world of work (**Recommendation 3.5 and 3.6**). Finally, the Council recommends that the Government publish the successor strategy to *Innovation 2020* that will articulate the steps required to make Ireland a Global Innovation Leader, while ensuring research, development and innovation activities are aligned with public policy goals (**Recommendation 3.7**).

These actions will allow Irish enterprises to seize opportunities to develop innovative new products and services to allow them to thrive and not merely survive in competitive domestic and international markets.

- Deliver **key housing and associated social and economic infrastructure, together with other critical infrastructure projects**. Housing is an essential part of any society, and housing markets which do not work well undermine sustainable and equitable growth. While it may not have a direct impact on Ireland's international competitiveness, housing affordability affects Ireland's ability to retain and attract skilled workers, with rising costs eroding real incomes for all workers and reducing standards of living.

In addition to its direct contribution to national living standards, Ireland's housing market must operate in such a way that it does not generate pinch points that could damage long-run competitiveness. The Council believes a structural shift in the approach to housing policy is urgently needed, as the piecemeal approach to planning reform in the past has failed to deliver tangible improvements in housing delivery. Following the publication of the Government's *Housing for All* strategy, it will be important that the priority actions are identified so that the appropriate sequencing of interventions can be established (**Recommendation 4.1**) and ongoing monitoring of these interventions to limit unintended market distortions (**Recommendation 4.2**). Capacity issues in the planning system will also need to be addressed and

planning authorities need to be sufficiently resourced, so these processes do not delay the delivery of crucial housing and other crucial social and economic infrastructure (**Recommendation 4.3**).

Housing is not the only vital infrastructure needed and the *Competitiveness Challenge 2020* also outlined that there are bottlenecks in other critical areas such as water and waste-water, electricity, communications and transport. These facilities will need to be delivered in tandem with new housing and will also be required to support enterprise expansion and to facilitate growth in the domestic economy and new foreign direct investment.

The pandemic has accelerated changes to how people live and work. The attractiveness of a location cannot be focused solely on it as a place to work, but also on it as a place to live. In delivering on the affordable housing objectives of the Government's *Housing for All Strategy*, it will be important to also address the availability of other essential services in Ireland. For example, it is critical that the needs of social infrastructure in the areas of childcare, health and social care and in education are not ignored.

It has long been recognised that childcare in Ireland is expensive, with parents paying some of the highest gross and net costs for Early Learning and Childcare (ELC) relative to the average national wage across a broad range of European and OECD countries. The Council has examined this issue on several occasions, most recently in *Competitiveness Challenge 2020* which called on Government to implement policies to make childcare more affordable. It will be important that the Expert Group established to develop a new Funding Model for Early Learning and Care and School Age Childcare completes its work in November as planned, and their recommendations are adopted (**Recommendation 4.4**).

- Progress **sustainability and inclusivity** policies as a matter of priority to ensure that the Irish economy is less vulnerable to economic shocks and plays its part in the global effort to avoid a climate disaster. While taking the necessary steps to transition to carbon neutrality by 2050, Ireland's competitiveness and productivity performance must deliver for all parts of society, something that was in part explored in the *Competitiveness Challenge 2020*. Failing to tackle these issues in the short- to medium- term will have dramatic consequences for Ireland's social stability, which presents a fundamental risk to the cohesion of Irish society.

To this end, the Council would like to see research undertaken that explores the link between productivity improvements and climate action to ensure that Irish businesses can improve competitiveness while meeting sustainability targets (**Recommendation 5.1**). Moreover, Government Departments are currently co-ordinating policy actions in the Climate Action Plan that need to be met to ensure that Ireland meets its commitment to reduce emissions by 51% by 2030. The National Competitiveness and Productivity Council supports this policy process and wants to see real evidence of progress made here (**Recommendation 5.2**).

As demonstrated in Chapter 5, the Irish welfare system and Ireland's progressive income tax regime does an effective job in reducing inequality. However, it is important to re-examine Ireland's taxation and welfare model to ensure that it delivers for businesses and employees in the 21st century. In this regard, the Council welcomes the establishment of the Commission on Taxation and Welfare. When this Commission delivers its report, the Council wants to see Departments take forward these actions in a timely way (**Recommendation 5.3**).

Conclusion

Ensuring the continued competitiveness of the Irish economy and seizing opportunities to undertake vital reforms is especially important in times of heightened global uncertainty. As Ireland emerges from the turbulence of the pandemic, a vision is needed to indicate where we should be aiming at in the medium- to long-term. For the Council, this is a competitive and productive economy that delivers sustainable economic growth and benefits all of society. The Council has made 20 tangible, actionable policy recommendations to the Government. These recommendations will build towards a sustainable economy that promotes equality and inclusiveness, underpinned by a highly skilled workforce, adequate infrastructure, a dynamic business environment, and agile SMEs with strong productivity growth. It is critical that policy makers when considering the Council's recommendations remain cognisant that, in order to deliver on medium-to long-term targets, early action is required to begin the process of reform.

Summary of National Competitiveness and Productivity Council Recommendations 2021

The *Competitiveness Challenge* identifies a specific range of recommendations that address both immediate competitiveness issues, and more medium- and long-term challenges that require urgent action, aimed at enhancing Ireland's competitiveness and productivity performance. The National Competitiveness and Productivity Council has a primary focus on competitiveness and productivity, and through this lens it has singled out four broad areas where reform is needed to support a sustainable economic recovery. The Council has focused this year's analysis and recommendations on specific issues where reforms are urgently required and acknowledges that there are other areas that will also need to be addressed but are outside the scope of this year's report. The 20 tangible, actionable policy recommendations to Government are intended to lay solid foundations today for a speedy and balanced recovery in order to secure an improvement in the standard of living for all of society.

It is imperative that progress is made on these recommendations by the relevant Government Departments and state bodies over the coming year so that Ireland remains competitive, and the economy begins the recovery process on a sound footing. In recognition of the fact that some recommendations require the co-ordinated action of a number of bodies, the Council lists all of the key responsible actors. In these cases, the first mentioned actor is regarded as having overall responsibility for the recommendation. Last year the Council welcomed the publication of the Government's first formal response to the recommendations in *Competitiveness Challenge 2020* and looks forward this year to further fruitful engagement on the key competitiveness and productivity issues facing the Irish economy.

Chapter 1: Immediate Issues Facing the Irish Economy

Recommendation 1.1: Ensure that small and micro enterprises are provided with accessible information on the options available to them under the Small Companies Administrative Rescue Process so that levels of uptake are such that viable firms are not needlessly liquidated, with a consequent loss of jobs.

Responsibility: Department of Enterprise, Trade and Employment

Chapter 2: Dynamic Business Environment

Recommendation 2.1: Assess the feasibility of lowering legal costs, from the introduction of a scale of legal costs, by publishing an assessment of this option.

Responsibility: Department of Justice

Recommendation 2.2: Review the early impact of the Personal Injuries Guidelines to establish whether they are having the desired impact on award levels and publish the findings of the review.

Responsibility: Department of Justice

Recommendation 2.3: Ensure that sufficient resources are committed to the review of the Irish banking sector and that any actions identified to improve competition in the provision of SME credit are implemented as a matter of urgency.

Responsibility: Department of Finance

Recommendation 2.4: Review the Future Growth Loan Scheme by Q3 2022 and take on board findings in the design of future loan schemes as a priority.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 2.5: Improve social protections for Irish workers by publishing and enacting the Sick Leave Bill 2021 in the current Dáil term.

Responsibility: Department of Enterprise, Trade and Employment

Chapter 3: Boosting Productivity

Recommendation 3.1: Establish a research programme and collate supporting datasets to assess the driving factors behind productivity differentials amongst firms, and particularly indigenous firms, in order to build a broad evidence-base for further enterprise policy intervention.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 3.2: Expedite the drafting of new legislation on the Right to Request Remote Working in the current Dáil term that ensures that workers are treated fairly and that enterprises do not face an undue burden, so that the positive momentum of increased flexible working will continue post-pandemic.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 3.3: Ensure that working from home possibilities are enhanced by simplifying the process for claiming expenses, and clarifying the calculation of expenses (broadband/heat/etc.) that may be claimed.

Responsibility: Department of Finance

Recommendation 3.4: To increase certainty for individuals and businesses, publish a timetable that shows how the National Broadband Plan rollout is being brought back on track as a matter of priority and develop adequate contingency planning to ensure that further delays are avoided.

Responsibility: Department of the Environment, Climate and Communications; Department of Rural and Community Development

Recommendation 3.5: Ensure that the training and upskilling initiatives identified in the *Economic Recovery Plan* and the *National Recovery and Resilience Plan* are fully implemented and adequately resourced in order to ensure that workers have the appropriate skills, including digital skills, to be fully adaptable to the future world of work.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

Recommendation 3.6: Ensure that the EGFSN Implementation Group responsible for delivering the recommendations identified in *Leading the Way* carefully monitor and report on the delivery of the agreed actions, so that SME managers are equipped with the necessary skills to navigate the post-pandemic recovery and more widespread flexible working.

Responsibility: Department of Enterprise, Trade and Employment; Expert Group on Future Skills Needs

Recommendation 3.7: Publish the successor strategy to *Innovation 2020* by end-2021 that will articulate the steps required to make Ireland a Global Innovation Leader, while ensuring research, development and innovation activities are aligned with public policy goals.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

Chapter 4: Infrastructure for a New Way of Living

Recommendation 4.1: The *Housing for All* governance and reporting groups should identify the priority actions that will be targeted in the immediate term, so that the appropriate sequencing of interventions can be established and resources urgently directed to the areas where real change can be delivered.

Responsibility: Department of Housing, Local Government and Heritage

Recommendation 4.2: Establish reporting mechanisms and evaluation procedures so that the impact of housing market interventions can be closely monitored and schemes can be adjusted if market distortions arise.

Responsibility: Department of Housing, Local Government and Heritage

Recommendation 4.3: Ensure that the planning authorities are sufficiently resourced, with appropriate training and accumulation of expertise, to accommodate each stage of the new Large-Scale Residential Developments approval process, so that the approval process for housing and other critical social and physical infrastructure is not delayed.

Responsibility: Department of Housing, Local Government and Heritage; Local Authorities

Recommendation 4.4: Make childcare costs more affordable by adopting the recommendations from the Expert Group currently examining the funding model that will allow for the delivery of accessible, affordable, high-quality, sustainable ELC and SAC services following the publication of the report in Q4 2021.

Responsibility: Department of Children, Equality, Disability, Integration and Youth

Chapter 5: A Sustainable and Inclusive Economy

Recommendation 5.1: Undertake research on the interaction between competitiveness and measures to address climate change with the aim of ensuring that Ireland improves competitiveness and productivity while simultaneously achieving emission reduction targets.

Responsibility: Department of Enterprise, Trade and Employment

Recommendation 5.2: Make substantial and sustained progress on the actions set out in the *Climate Action Plan* when it is published.

Responsibility: All Government Departments

Recommendation 5.3: Ensuring the work of the Commission on Taxation and Welfare has a focus on making Ireland's tax and welfare model fit-for-purpose in the 21st century.

Responsibility: Department of Finance; Department of Social Protection

Chapter 1: Immediate Issues Facing the Irish Economy

1.1 Introduction

Economic Growth Returns in 2021, but Uncertainties Remain

COVID-19 continues to impact all economies, large and small across the world. It also continues to be a catalyst for change, accelerating many trends that were already in train prior to March 2020. It now appears, at least in the major developed economies of the world where the immediate impacts of COVID-19 are dissipating, that economic developments in 2021 and 2022 will be largely determined by how successfully vaccination programmes will subdue the pandemic and how quickly restrictions will be lifted globally.

In most countries, the initial shutdown of all non-essential business activities saw large numbers unable to work, particularly those in customer-facing sectors. The scale of the reduction in economic activity, which amounted to a massive global recession, was moderated by strong government supports for employment, the move to remote working, and an upsurge in e-commerce.

The gradual deployment of effective vaccines, and better management of COVID-19 and the measures required to suppress it, has helped improve sentiment with a resulting increase in confidence for global economic prospects. Despite this improvement in sentiment in recent months, concerns still exist due to the potential for new virus variants and the impact of the new environment individuals and businesses will have to live and operate in.

This chapter will lay out the current economic landscape in Ireland following 18-months of living with COVID-19. This will include the support measures introduced for and the impact on businesses and workers during those lockdowns, the implications from the removal of those broad-based supports and the resulting fiscal impact of those supports. Finally, this chapter considers what measures need to be taken in the short-term to help the economy adjust to the post pandemic environment.

Strong Irish GDP Growth in 2021, but Domestic Economy Slower to Recover

While the Irish economic outlook remains uncertain due to the ongoing COVID-19 related disruption and precarious international conditions, international and domestic forecasting institutions have projected strong GDP growth for the remainder of 2021 and 2022. In 2020 and the first quarter of 2021 GDP growth was driven by strong export volumes from multinational companies. However, progress in vaccinations in the second quarter has resulted in a relaxation of the restrictions paving the way for an expected pick-up in domestic demand. Ireland's GDP in 2021 is estimated to rise by between 4.2% and 11.1%⁷ with the wide variation due to the stronger rebound than expected at the start of the year in both the domestic economy and our major trading partners. This strong growth is forecast to continue in 2022 with GDP estimated to grow between 5.1% and 6.9% (see Figure 1.1.1).

⁷ Central Bank of Ireland 'Quarterly Bulletin' July 2021.

Figure 1.1.1: Forecasts for Irish GDP – percentage change

Ireland (GDP)	2021	2022
OECD ⁸	4.2%	5.1%
European Commission	7.2%	5.1%
Central Bank of Ireland	8.3%	5.4%
Department of Finance ⁹	8.8%	5.1%
ESRI	11.1%	6.9%

Source: OECD Economic Outlook, European Commission Summer Economic Forecast, CBI Quarterly Bulletin, Department of Finance Summer Economic Statement, ESRI Quarterly Economic Commentary

Overall, Ireland is forecasted to outperform global GDP across 2021 and 2022. Global GDP is forecast to grow this year by between 5.7% and 6.0% with growth of between 4.2% and 4.9% in 2022 (see Figure 1.1.2). Ireland's very strong GDP growth rate is largely due to robust exports arising in a small number of mainly foreign-owned sectors. These include pharmaceutical and ICT exports, as well as exports of goods produced abroad but under contract from Irish-resident firms.

Figure 1.1.2: Forecasts for Global GDP – percentage change

Global (GDP)	2021	2022
OECD	5.7%	4.5%
European Commission ¹⁰	5.9%	4.2%
IMF ¹¹	6.0%	4.9%

Source: OECD Economic Outlook, European Commission Summer Economic Forecast, IMF World Economic Outlook

The strong performance of the economy in GDP terms has masked a weaker underlying domestic economy, impacted particularly strongly by public health restrictions. According to the CSO, in 2020, Modified Domestic Demand (MDD) fell by 3.8% and contracted further in the first quarter of 2021 by 3.1% quarter-on-quarter. This weaker performance of the domestic economy in 2020 and in the first quarter of this year is unlikely to be repeated in coming quarters as the easing of restrictions over recent months has improved consumer and business sentiment.

Figure 1.1.3: Forecast for Ireland's Modified Domestic Demand – percentage change

Ireland (MDD)	2021	2022
Department of Finance	2.6%	7.4%
Central Bank of Ireland	3.4%	5.6%

Source: Department of Finance, Central Bank of Ireland

Due to this increased confidence as concerns over the pandemic recede, MDD is expected to grow at a more rapid pace in 2021 between 2.6% and 3.4% with a stronger rebound in 2022 of between 5.6% and 7.4% (see Figure 1.1.3). This implies that real domestic activity will rise above pre-pandemic levels during 2022. The easing of COVID-19 constraints will also allow a clearer view of the impact of the new trading relationship between the

⁸ OECD Economic Outlook September 2021.

⁹ Department of Finance Summer Economic Statement.

¹⁰ Change in World GDP (excluding the EU).

¹¹ World Economic Outlook Update, July 2021.

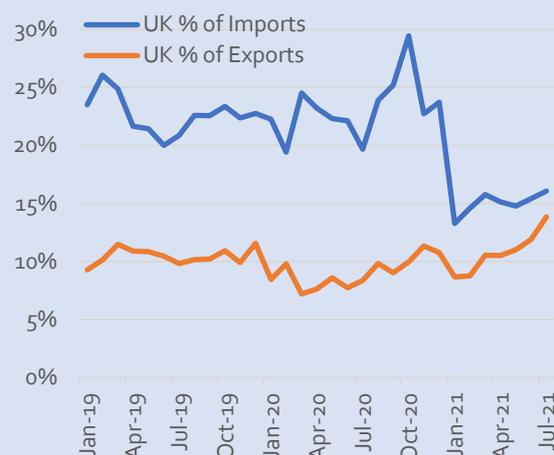
European Union and the United Kingdom on Ireland, including the impact on trade flows East-West and North-South. The data available to date on trade flows is discussed in more detail in Box A.

Box A: Brexit's Effects on Ireland's Trade

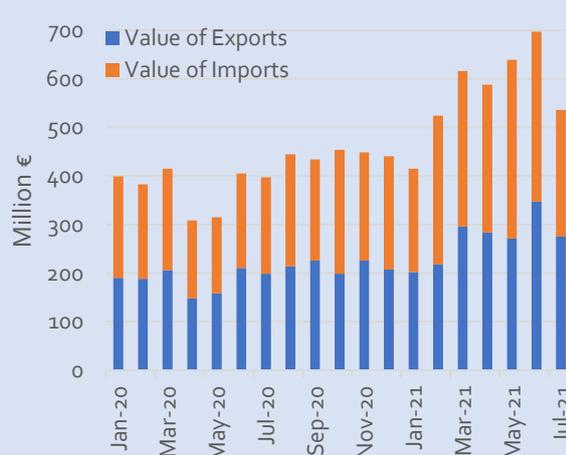
Building an accurate view of the state of Ireland's trade in 2021 is difficult due to issues of comparison caused by the impacts of COVID-19 at the start of 2020 and into 2021. However, a picture is beginning to emerge on the effects of Brexit on Ireland's bilateral trade with the UK, its effects on cross-border trade between Ireland and Northern Ireland, and a shift to EU markets by Irish businesses.

The trade data releases so far in 2021 show that Brexit is continuing to have a significant impact on bilateral trade between Ireland and the UK. Since the transition period ended in December 2020, trade between Ireland and Great Britain has been governed by the EU-UK Trade and Cooperation Agreement (TCA). This has led to increased complexity and costs to bilateral trade. Agriculture has been particularly impacted with Irish agri-food exports to the UK in the period Jan-May 2021 down by 14% compared to 2019. It is not yet clear whether the reduction in imports from the UK of €1.8bn for the first six months of the year are due to the dampening effects of COVID-19, stockpiling measures taken by Irish businesses in late 2020 or to the added complexity and costs, which will result in a lasting change to IE-UK imports.

IE-UK bilateral trade as share of total



Absolute volume of IE-NI trade



Source: Central Statistics Office

The most notable change in Ireland's trade statistics lies in cross-border trade between Ireland and Northern Ireland. The Northern Ireland protocol, intended to prevent a hard border on the island of Ireland, has meant that it stays within the EU Customs Union while simultaneously remaining part of the UK customs territory. This means checks are required on goods flowing between Northern Ireland and Great Britain, while cross-border trade between Northern Ireland and Ireland has remained frictionless. According to the Ulster Bank Northern Ireland Purchasing Managers Index survey, Northern Irish firms increased their prices in 2021 at the highest rate since the data series began in August 2002 which may be explained by increased costs due to trade barriers caused by Brexit. Currently, Brexit appears to be acting as a catalyst to increased trade on the island of Ireland, however, with continued uncertainty around the implementation of the NI protocol the recent changes in trade flows cross-border could quickly change.

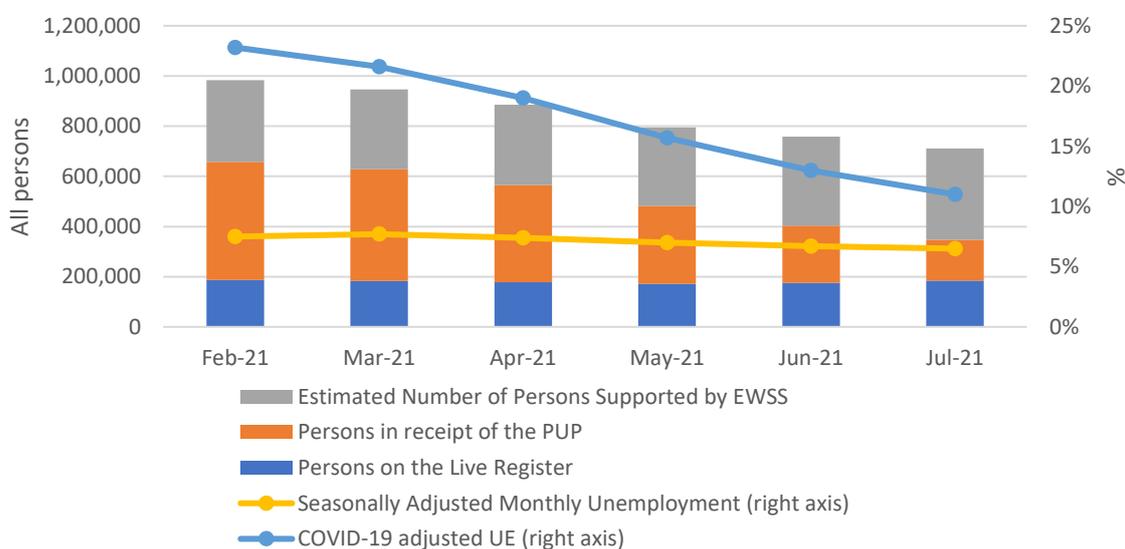
Imports from the EU have risen substantially due to Irish businesses seeking to broaden their suppliers. Prior to Brexit, most Irish trade to the EU went through the so called 'land bridge' via the UK but with checks and delays on goods passing through, many businesses have taken to shipping directly to the continent through new sea routes through Dublin and Rosslare ports. For example, the number of sea routes from Rosslare to the continent have more than quadrupled compared to 2020, and freight traffic in January 2021 on these routes had increased by 446% compared to January 2020¹².

While it may be easier and cheaper to export into the EU's Single Market compared to the UK, it will be challenging for Irish exporters to replace UK customers with continental based customers, given the different languages, tastes and cultures across Member States, in addition to managing longer delivery times. The focus needs to be on how to help Irish exporters overcome these obstacles and gain new markets.

Impact of COVID-19 on Irish Labour Market

The COVID-19 crisis caused the sharpest rise in unemployment in the nation's history and greatly accelerated the trend of remote working making it a central part of the workplace today and into the future (See Chapter 3). Prior to the pandemic, the Irish labour market was close to full employment. Over 2.36 million people were in employment, and the unemployment rate was 4.7% in the fourth quarter of 2019¹³. CSO data for August 2021 shows a non-seasonally adjusted unemployment rate of 7.1% but that rate rises to 12.4% if all claimants of the Pandemic Unemployment Payment are classified as unemployed.

Figure 1.1.4 Number of Persons on the Live Register Monthly, in receipt of the PUP or EWSS, 2021



Source: Central Statistics Office

¹² [Irish freight volumes to EU ports doubled in first month of Brexit | Reuters](#).

¹³ CSO Labour Force Survey Q4 2019.

The labour market recovery is expected to gather momentum once labour-intensive services sectors fully reopen; a trend already visible since the gradual reopening of the economy began. However, some sectors will take longer to return to their pre-COVID-19 levels of employment such as those in the tourism, arts & culture, and travel sectors. As the recovery takes hold in the second half of 2021 and into 2022, there is likely to be a slower rate of job matching as income supports are phased out. This is due to potential difficulties in finding work for those who have had prolonged periods of inactivity, the obsolescence of parts of the capital stock which cannot be redeployed to other sectors or through lower productivity. As a result, the Central Bank estimate that the unemployment rate will remain elevated at 7.7% in 2022 and 6.6% in 2023¹⁴. The scarring effect on businesses and the implications it has for the schemes that are in place to aid businesses is discussed further in Section 1.2.

While it is clear from Figure 1.1.4 that COVID-19 induced job losses are severe, and the number of people dependent on COVID-19 payments has been decreasing throughout 2021, there were still more than 600,000 people dependent on welfare and COVID-19 payments in August 2021.

Figure 1.1.5 COVID-19 Labour Market Impact - Sectoral Overview

NACE 2 Economic Sector	Employed (Q4 2019)	% of total employment (Q4 2019)	Number of people receiving PUP ¹⁵	Number of people receiving EWSS ¹⁶	% of Q4 2019 workforce on PUP	% of Q4 2019 workforce on EWSS
Wholesale & retail trade	309,300	13%	18,859	45,852	6%	15%
Accommodation & food services	179,000	8%	31,672	56,249	18%	31%
Industry ¹⁷	286,300	12%	6,905	21,282	2%	7%
Construction	147,100	6%	7,863	26,561	5%	18%
Administrative & support services	111,800	5%	13,031	16,834	12%	15%
Professional & scientific activities	141,100	6%	5,251	14,501	4%	10%
Arts & entertainment ¹⁸	NA	NA	8,279	25,144	NA	NA
Human health & social work	293,700	13%	4,292	20,589	1%	7%
Transportation & storage	108,000	4%	4,588	22,358	4%	21%
Financial & insurance	115,100	5%	4,730	8,258	4%	7%
Education	190,500	8%	4,023	11,681	2%	6%
ICT	127,400	5%	2,604	5,413	2%	4%
Agriculture	106,800	4%	1,355	1,629	1%	2%
Public administration & defence	116,600	5%	2,211	322	2%	0.3%

Source: Central Statistics Office

¹⁴ Central Bank of Ireland 'Quarterly Bulletin' July 2021.

¹⁵ PUP Data August 1st 2021.

¹⁶ EWSS Data May 30 2021.

¹⁷ The Industry sector encompasses Mining and Quarrying, Manufacturing, Electricity, Gas, Steam and Air Conditioning Supply, and Water supply and Sewerage, Waste Management and Remediation Activities. Industry is dominated by Manufacturing which employs close to 90% of the persons engaged in that sector. Further details available [here](#).

¹⁸ No standalone employment figures available for Arts & Entertainment sector. It is aggregated with four other sectors and classified as other NACE activities by the CSO.

The requirement for COVID-19 payments has been greater in sectors where activity has been most curtailed by the public health containment measures, are generally labour intensive and are not conducive to remote working. The sectoral share and breakdown in total number of people in employment and on the Pandemic Unemployment Payment (PUP) and Employee Wage Subsidy Scheme (EWSS), and their share of the Q4 2019 workforce is presented in Figure 1.1.5 highlights this point with accommodation & food services and wholesale & retail trade employees significant beneficiaries of EWSS and PUP schemes.

The Stage of Budgetary Policy as Economy Starts to Recover

In the Stability Programme Update¹⁹, published in April the Government charted a course for an orderly reduction in the fiscal deficit which has arisen due to the essential programme of spending undertaken in response to COVID-19. The overarching policy objective has been to maintain a bridge to economic recovery, shoring-up household income and keeping firms afloat while restrictions remain in place. Prudent management of the public finances in the pre-pandemic period meant that this rise in public indebtedness has been manageable thus far and the expectation is for economic growth in the coming years to reduce the debt-income ratio. Ireland compares favourably to its European peers on a debt-to-GDP basis at 60.3% estimated for 2021, lower than the euro-area average of 102% and lower than, for example, Germany (73%) and Finland (71%). However, when viewed via the lens of GNI*²⁰, the ratio moves to 112% for the same period.²¹

In the Summer Economic Statement, the Government, while acknowledging that the focus had to shift to correcting the fiscal deficit, has indicated that larger budget deficits will be run between 2022-2025 than indicated in the Stability Programme Update. These higher deficits are a function of both higher projected current expenditure and planned higher capital expenditure with current expenditure increasing by 20% between 2021 and 2025, and capital expenditure increasing by 37% over the same period.

There are significant differences between the future deficit levels outlined in April, when the Stability Programme Update was published, and in July, when the Summer Economic Statement was released.

For the coming years the Government plans to run significant deficits to fund capital expenditure, and this will be over a period where developments in international tax policy are likely start to impact on the public finances. The OECD Base Erosion and Profit Shifting has the objective of reaching agreement between 139 countries on substantial changes in tax policies to address tax challenges from digitalisation and globalisation and to improve the coherence of international tax rules. It appears this process is moving closer to an agreement on international tax reform which includes a minimum corporate tax rate of 'at least' 15% and changes to profit allocation rules for multinational companies to where customers are located.

The Parliamentary Budget Office²² has recently noted the potential risks to corporation tax revenues from these reforms, as their impact will be greatest on smaller export intensive economies such as Ireland. The Department of Finance has estimated that corporation tax receipts could be between €800 million and €2 billion lower by 2025 due to OECD reforms, and this estimate is factored into the revenue projections set out in the Summer Economic Statement.

¹⁹ [Stability Programme Update 2021](#).

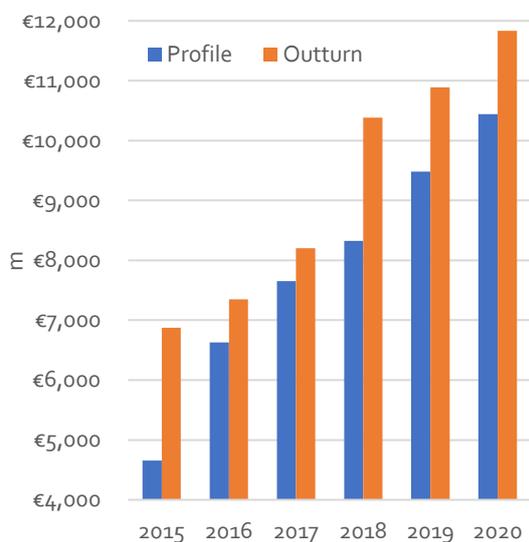
²⁰ GNI* is a supplementary measure of the level of the Irish economy designed to provide greater insight into Ireland's domestic economic activity. GNI* excludes globalisation effects related to highly mobile economic activities that disproportionately impact upon the measurement of the size of the Irish economy. For further information, see [here](#).

²¹ Summer Economic Statement 2021; European Commission Spring Forecasts.

²² [2021-07-27 an-update-on-the-oecd-beps-proposals_en.pdf \(oireachtas.ie\)](#).

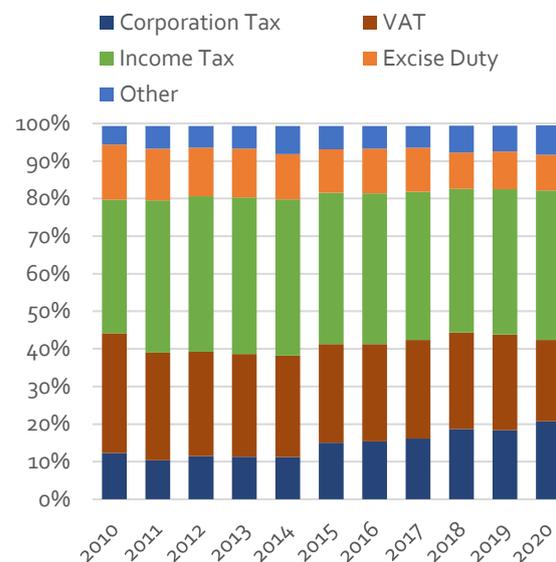
As can be seen in Figure 1.1.6, corporation tax receipts have grown significantly since 2015 by an average of €1 billion per annum, and the volatility of the tax head can be seen in the consistent differences between what was forecast and year end receipts. In addition, corporation tax receipts have become a greater part of the State's total tax take over the last ten years with 2020 corporation tax receipts of €11.8bn equal to 21% of total exchequer receipts (see Figure 1.1.7).

Figure 1.1.6 Corporation Tax Receipts



Source: Department of Finance, NCPC Calculations

Figure 1.1.7 Tax Heads as % of Total Tax Receipts



Source: Department of Finance, NCPC Calculations

As noted by the Department of Finance in the Stability Programme Update, the Government's prudent management of the public finances immediately prior to the pandemic, helped by corporation tax receipts, has allowed the increase in public indebtedness to be absorbed. The Government's future fiscal approach as set out in the Summer Economic Statement raises two points for the National Competitiveness and Productivity Council.

First, the Government is forecasting a rapid return to economic growth and in that scenario there is a risk that fiscal deficits may lead to the economy overheating (i.e., operating beyond capacity). This also raises the issue of the capacity of the economy to manage effectively and efficiently such high levels of current and particularly capital expenditure due to resource constraints which are discussed further below.

Second, not reducing Government debt in absolute terms over the next 5 years could leave the Irish economy vulnerable to future economic shocks. A combination of high debt levels, and ongoing deficits, would limit the Government's ability to act to mitigate an economic crisis as effectively as the Government has responded to the COVID-19 pandemic. Without the required fiscal room to implement counter-cyclical fiscal policies, in the face of a future economic shock, the Government could be forced into implementing significant adjustments to balance the budget while the economy is in recession.

Therefore, it will be important that the plan outlined by the Government in the Summer Economic Statement of slowly reducing and eventually halting the accumulation of debt is followed closely. To achieve this objective, it will require the Government to manage spending in line with the expenditure ceilings set out in the Summer Economic Statement. This may require difficult decisions on spending over the coming years, and it will be

important that the Government prioritises spending in areas that improve Ireland as a location to live and work, and to ensure that resources are efficiently employed in the delivery process.

1.2 Short-Term Issues

Unprecedented support for Businesses and Workers

The reported first case of COVID-19 in Ireland was reported on the 29th of February last year, and within a fortnight the economy was placed into an unprecedented lock-down. This involved wholesale business closures as public health measures were introduced to prevent the spread of the virus. The State moved quickly to provide income supports to workers and business owners whose employment and incomes were devastated by the necessary public health restrictions. The income supports were followed over the coming months by a range of supports for business to aid them with liquidity and to help cover part of their fixed costs.

This support for employees and employers, initially expected to be short term in nature, has continued through the additional waves of COVID-19, and the cost has been substantial. Total direct expenditure measures (such as Pandemic Unemployment Payment, Employee Wage Subsidy Scheme, Small Business Assistance Scheme for Covid) is currently €38bn or 18% of GNI* for 2020 and 2021.²³ The taxation measures taken such as Tax Warehousing and VAT concessions, amount to an additional €5.25bn or 2.5% of GNI*.

The income supports, PUP and EWSS, have been the highest proportion of the expenditure and have cost €8.2bn and €6.5bn respectively to date.²⁴ The latter has played an important role in ensuring the maintenance of the link between employee and employer. The direct expenditure supports for businesses have been lower and their availability has been broad based, subject to certain criteria, with the objective of keeping businesses alive during the imposition of public health restrictions.

The unpredictability of the virus and the requirements for the State to re-impose public health restrictions along with the cost of the different support schemes resulted in the COVID-19 Contingency Fund Reserve of €5.5bn that was set aside in Budget 2021 being fully utilised by the end of June.

Compared to the situation the country faced last December when the rise of the Alpha variant of COVID-19 required a third lockdown, there is now a more optimistic outlook for the economy due to the vaccination programme and its effectiveness on current COVID-19 variants. The successful rollout of the vaccination programme with 89% of the adult population now fully vaccinated²⁵, means we are now close to a position to live alongside the virus and thus allow the re-opening of the vast majority of businesses, although in a 'new normal' environment. The Government's *Reframing the Challenge*²⁶ sets out the steps for the lifting of public health restrictions over the coming months and how the focus will move to public health advice and personal judgement and personal protective behaviours in order for us to live alongside Covid-19.

The impact of the pandemic on businesses has been uneven as can be seen in the large level of claimants from the accommodation & food services and retail sectors compared to ICT or manufacturing (see Figure 1.1.5). Research by the Central Bank of Ireland and the ESRI²⁷, based on survey data for the period March to October

²³ Summer Economic Statement.

²⁴ As at the beginning of May, and EWSS number includes the cost of TWSS.

²⁵ [Covid-19 Update \(rte.ie\)](https://www.rte.ie/news/covid-19/2021/05/20/covid-19-update/)

²⁶ <https://assets.gov.ie/197018/ee93451c-2c67-4ea4-ad2b-ba5fb38bfce2.pdf>.

²⁷ New survey evidence on COVID-19 and Irish SMEs: Measuring the impact and policy response, ESRI Working Paper No. 608, April 2021.

2020, shows that over 70% of firms experienced some level of turnover decline, with the average fall 25%. As with the PUP numbers, the hardest impacted were those businesses operating in the accommodation & food services sector.

These findings were supported by the CSO Business Impact of COVID-19 on SMEs in 2020 Survey²⁸ on a forward-looking basis, where more than 50% of respondents to the survey were confident they had sufficient financial resources to survive for more than 6 months throughout the pandemic. Arts & Entertainment and Construction were less confident compared to other sectors, with fewer than 40% of respondents from those sectors confident they had the resources to survive more than six-months. The responses from the Arts & Entertainment sector are expected due to the fact that the sector has for the most part been closed since March 2020. The responses from the Construction sector are somewhat surprising as it has faced much shorter periods of closure and has been fully reopened since May 2021, and significant parts of the sector were open prior to that.

It is unsurprising that public health restrictions which restricted people's movements and their ability to access public areas and face to face services has had a negative impact on businesses. The provision of broad-based supports to almost every business in the country in such circumstances was clearly the appropriate fiscal policy response.

Easier to Close than to Re-open – Implications of Phasing Out Supports

As the current levels of vaccination rise and public health restrictions are eased, consideration must now turn to the phasing out of broad-based supports for businesses, and to determining what, if any, targeted supports need to replace them. The Economic Recovery Plan (ERP) has outlined the Government's plan for phasing out different supports provided to businesses, requiring that any future business supports be targeted at those businesses that are viable in the medium term but challenged in the short term. This will require moving away from the broad-based supports provided to all businesses in recent months, identifying those businesses/sectors that will continue to need support but who have the ability to grow in the future, and designing appropriate support mechanisms for them.

To consider this issue Council see it as useful to examine existing businesses under three headings.

Business as Usual	Viable but Vulnerable
These are businesses that have managed the impact of the Pandemic well and have seen increased levels of turnover in 2020, or only suffered limited declines, while remaining profitable. It would also include businesses that were started during the Pandemic, taking advantage of the changing demand and tastes of consumers. With the easing of restrictions, they will see a recovery in their turnover and profits, exceeding levels in 2019.	This category of businesses have suffered significant declines in turnover and profitability in 2020. These declines have been a result of the public health restrictions, but even with the relaxing of restrictions they will still require further time before they return to turnover and profitability levels experienced prior to March 2020.
Scarred	
These businesses have experienced significant declines in profitability and turnover over the course of 2020 and 2021. The impact of the Pandemic on these firms has been to accelerate changes that were negatively impacting their business model before March 2020. Even with the full removal of public health restrictions these businesses will not return to pre-March 2020 turnover and profitability levels.	

²⁸ [Introduction - CSO - Central Statistics Office.](#)

Based on these three broad categories, the firms/sectors that fall into Business as Usual are benefiting from the reopening of the economy and are exiting or have received little from the different business support schemes, and those under schemes such as COVID-19 Restrictions Support Scheme (CRSS) are receiving re-opening bonus payments as they exit them.

The challenge will be for the remaining two categories as we move past September when Employee Wage Subsidy Scheme (EWSS) payments will decline, and more significantly from end of December 2021 when both schemes are due to expire.

Central Bank/ESRI research and recent data from the CSO highlight that a cohort of firms have struggled during the pandemic. The CSO survey²⁹ conducted in 2020 showed a 1/3 of respondents were not confident of having the financial resources to survive longer than 6-months under COVID-19 restrictions. The Central Bank/ESRI analysis highlights that in 2019, 24.4% of SMEs were loss making or only breaking even.

The disruption caused to society and the economy as a result of the pandemic would not have improved the financial position of these firms. The OECD have highlighted the growing concern³⁰ that large financial supports and regulatory interventions, which have kept many businesses operating that otherwise would have contracted or closed, may negatively affect resource allocation and productivity growth in the long term if unviable businesses are kept afloat. The continuation of broad-based business supports or their replacement with untargeted schemes will only result in unviable businesses failing to close or downsize for longer. Such an outcome will have negative impacts on the productivity of the economy, as it will prevent capital and labour to be channelled towards new business opportunities.

Therefore, it will be important that the extensions of any supports post the end of this year are designed to ensure, as much as is possible, the aid goes to businesses in the Viable but Vulnerable category. It will be difficult to achieve this through a sector-based approach as not all businesses will fit neatly into a specific sector and will have activities that overlap with other sectors.

The design of any support schemes would require a focus on pre-pandemic financial performance and viability of business model. This would be a move away from the blunter tools of declines in turnover and limitations imposed on businesses due to Public Health Regulations as has been used during the pandemic for schemes such as Small Business Assistance Scheme for Covid (SBASC) and CRSS.

In addition to SBASC and CRSS over the last year we saw the introduction of a number of sectoral schemes aimed at helping businesses with their fixed costs. The speedy introduction of these schemes provided welcome support for businesses with their fixed costs while closed or significantly restricted in their activities due to COVID-19. The speed at which schemes had to be designed, rolled-out and at times quickly amended to aid businesses meant certain shortcomings arose.

These sectoral schemes along with CRSS and SBASC resulted in at least eight separate schemes in place to aid businesses with their fixed costs.³¹ They had different payment rates, with some paying a fixed amount when

²⁹ Business Impact of COVID-19 on SMEs 2020.

³⁰ OECD (2021), "Business dynamism during the COVID-19 pandemic: Which policies for an inclusive recovery?", OECD Policy Responses to Coronavirus (COVID-19), OECD Publishing, Paris.

³¹ CRSS, SBASC, Fáilte Ireland Business Continuity Scheme Phase 1, Fáilte Ireland Strategic Tourism Transport Business Support Scheme, MEBAS, EBCSS, MEAF & Coach Tourism Business Continuity Scheme.

others made payments to businesses based on turnover levels, with slightly different eligibility requirements. In addition, they were paid by different agencies or departments.

The planned Business Resumption Support Scheme (BRSS) is a positive step of moving away from multiple sectoral schemes as it is focused on businesses that are struggling still as the economy re-opens and is not as restrictive as CRSS. The introduction of so many schemes over the last year, with the same or very similar objectives raises the need for a timely assessment by the relevant departments of their effectiveness, the data collected from firms applying for the different schemes and importantly what lessons can be learned to help improve the design of future support schemes.

The experience of having multiple schemes in place with similar objectives highlights the importance that in the event of any extension of supports is co-ordinated centrally. Ideally supports would be administered as a single scheme by a single public body that would have the ability to provide the resources and capability to examine financial performance and business plan viability. This would reduce the cost of providing the scheme, reduce complexity for businesses and enable the application of the lessons learned from the departments and agencies that quickly put in place previous support schemes.

Not all Businesses will Recover

The targeting of supports to viable, but vulnerable businesses does not mean the plight of those businesses that fall into the Scarred category should be ignored. These businesses in some cases will be able to continue in operation if they can reduce in size, which will likely mean restructuring of liabilities and reducing workforce.

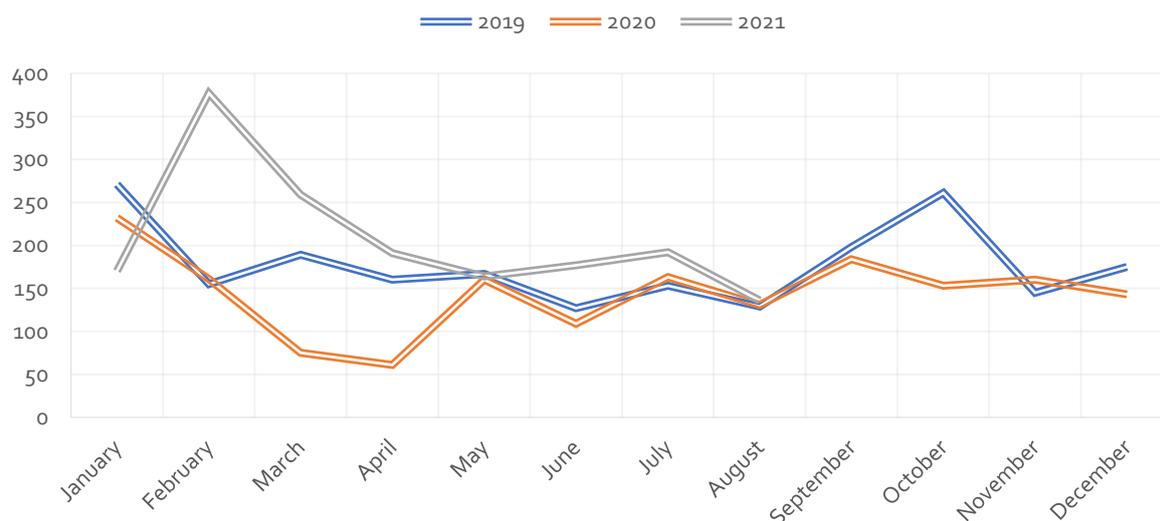
The need for an examinership framework for SMEs that is cost effective will be important to help achieve in the restructuring of liabilities. It will also be important that changes to our statutory redundancy regime are also in place quickly once the employee redundancy rights are reinstated on the 30 September to ensure businesses that are struggling can pay statutory redundancy to workers, without those payments jeopardizing the continued viability of the businesses. The COVID-19 Debt Deferral arrangement will be based upon the existing framework that exists to support businesses unable to pay statutory redundancy and is currently being developed by the Department of Enterprise, Trade & Employment and the Department of Social Protection.

With the reinstatement of redundancy rights for employees it will also be important that workers are not disadvantaged due a period of layoff as a result of the pandemic, which could arise in relation to levels of redundancy lump sum payment. There should be consideration given to the introduction of a COVID-19 related payment to prevent such an outcome for employees that were laid-off due to the impact of public health measures.

The impact of the financial strains imposed or exacerbated by the pandemic did not become apparent over the course of 2020 when examining insolvent liquidations numbers (see Figure 1.2.1). The number of insolvent liquidations in 2020 remained lower than in 2019. In the early stages of the pandemic, the insolvent liquidation rate unexpectedly fell due to the temporary inability of company directors to convene creditors' meetings safely. This trend then reversed in the second half of 2020 as insolvent liquidations returned to pre-pandemic trends, but there was no evidence of an increase in insolvencies above previous trends despite the continuing difficult economic circumstances.

This trend is even more surprising given that the Central Bank/ESRI research has identified almost 25% of businesses were only breaking-even or loss making in 2019. The additional financial strain of the pandemic would imply these businesses would have failed in 2020, but it appears the cumulative effect of Government wage supports, deferred tax liabilities, loan payment breaks, forbearance from other creditors, highly accommodative monetary policy and pre-existing financial buffers held down the insolvent liquidation rate. In the first quarter of 2021, the average level of insolvent liquidations were higher than in the same period in 2019, but these levels have fallen back again in more recent months.

Figure 1.2.1: Enterprise Insolvent Liquidations



Source: Company Registrations Office

The surprising lower levels of insolvent liquidation than expected over the course of 2020 and 2021 in Ireland is not unique. The OECD³² have surveyed 12 OECD countries³³ which showed monthly bankruptcies have dropped by more than 30% on average year-on-year since March 2020 and no significant rebound was seen up to the end of November last year.

Historically, economic activity together with forward-looking default indicators from equity markets help predict business bankruptcies in advanced economies. However, analysis by the Bank of International Settlements³⁴ (BIS) shows a diverging default outlook between these two indicators due to the highly unusual nature of the COVID-19 shock and the unprecedented policy support for the enterprise sector across the globe.

The BIS analysis suggests that the cumulative predicted increase in the number of business bankruptcies in the 2020-21 period ranges from almost 5% to more than 30% across their sample of advanced economies. While Ireland is not included in the BIS sample, the analysis provides a useful indicator of the range of potential insolvencies. By end-2021, the BIS estimates business bankruptcies will rise by an average of about 20%, this compares to a circa 45% average increase in business bankruptcies observed between the years 2007 and 2009.

³² OECD (2021), "Business dynamism during the COVID-19 pandemic: Which policies for an inclusive recovery?", OECD Policy Responses to Coronavirus (COVID-19), OECD Publishing, Paris.

³³ Belgium, Canada, Denmark, Finland, France, Germany, Netherlands, New Zealand, Norway, South Africa, Spain and UK.

³⁴ <https://www.bis.org/publ/bisbull30.pdf>.

A Central Bank of Ireland *Economic Letter*³⁵, published in October 2020, highlighted the historical link between the insolvent liquidation rate and current labour market conditions in Ireland. Since 2001, the insolvent liquidation rate has generally tracked monthly unemployment and the insolvent liquidation rate rose steadily in late-2007 and early-2008, in line with a rising unemployment rate. This relationship broke down in 2020 but could signal a future sharp rise in insolvencies when policy supports are eventually withdrawn.

While Government financial supports and amendments made to insolvency law³⁶ proved successful in mitigating the immediate impacts of COVID-19 on companies, as supports are tapered back, the pre-existing financial weaknesses across small companies are likely to be amplified and it may become clearer that the business models of some firms are no longer viable. Thus, the levels of insolvent liquidation are likely to rise above pre-pandemic levels. It will be important to have an efficient insolvency regime in place then that can facilitate the reallocation of productive resources across the economy.

The uncertainty surrounding the level and timing of insolvent liquidations raises a difficult trade-off for policy makers. If the scope and size of business supports in place is the explanation for low levels of insolvency, any extension of these schemes could result in firms in the Scarred category holding on for longer resulting in a significant fiscal burden and dampening productivity of the wider economy. The offsetting risk is the rapid removal of these supports too quickly before the recovery is embedded which will run the risk that those firms that are viable, but vulnerable will face a sudden stop in essential liquidity support that could result in an increase in insolvencies. The eventual tapering and final withdrawal of such supports must be carefully balanced to meet the enterprise sector's requirements for recovery, while being cognisant of the limited resources of the State and the need to efficiently allocate them.

As this process begins for withdrawing support schemes, it is equally important that we have the appropriate insolvency framework in place in Ireland to help businesses restructure. Ireland's existing rescue framework, examinership, is internationally recognised and successful in its own right. The commercial reality of the costs associated with it, however, means this important tool was often too expensive for small companies to access.

There have been previous attempts made to reduce the cost of examinership by amending the Companies Act 2014 to allow small and micro companies to initiate examinership in the Circuit Court rather than the High Court. However, this amendment did not result in a corresponding increase in the use of examinership by smaller companies. Business representatives had advocated for a bespoke rescue process for small and micro enterprises to assist them as they transition from Government financial supports to normal operations.

In reaction to the calls from industry and the need to help those businesses that fall into the Scarred category because of the pandemic, the Government brought forward the Companies (Rescue Process for Small and Micro Companies) Act 2021, which was signed into law on the 22nd of July. The Act provides for the Small Companies Administrative Rescue Process (SCARP) and will assist viable small companies to remain in business as the economy is re-opened and pandemic related supports are phased out. By mirroring elements of examinership in an administrative context (thereby reducing court oversight), the process is more cost efficient and capable of conclusion within a shorter period of time.

³⁵ [https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2020-no-13-irish-company-births-and-insolvent-liquidations-during-the-covid-19-shock-\(mcgeever-sarchi-and-woods\).pdf](https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2020-no-13-irish-company-births-and-insolvent-liquidations-during-the-covid-19-shock-(mcgeever-sarchi-and-woods).pdf).

³⁶ The Companies (Miscellaneous Provisions) (Covid-19) Act 2020 made temporary amendments to substantive insolvency law to support companies to trade during the COVID-19 crisis. It increased the period of protection afforded by examinership to 150 days and increased the threshold at which a company may be wound up.

The introduction of this new regime provides an alternative route for smaller businesses to restructure their liabilities and enable them to continue trading. This is an important development for those businesses that are scarred due to the pandemic and are now facing the withdrawal of broad-based business supports. It also allows the Government to withdraw those broad-based business supports and focus limited fiscal resources to those firms falling into the viable, but vulnerable category.

It is crucial that SCARP and its benefits to small companies is broadly advertised, to ensure that the limited use by small firms of the examinership process following previous changes does not reoccur. To avoid such a situation, it will be important that smaller businesses are made aware of their options when looking to restructure their liabilities to save their firm and increasing the awareness of SCARP will play a key part in achieving this outcome.

Recommendation 1.1: Ensure that small and micro enterprises are provided with accessible information on the options available to them under the Small Companies Administrative Rescue Process so that levels of uptake are such that viable firms are not needlessly liquidated, with consequent loss of jobs.

Responsibility: Department of Enterprise, Trade and Employment

Support for Workers to Re-Train and Re-enter Labour Force also Key to Recovery

It is important that employees that have either been out of work and in receipt of PUP, or who will lose their jobs in those businesses that will close or restructure in the coming weeks and months, continue to be supported.

During the pandemic the State provided significant financial resources to ensure people's incomes were protected and to help maintain the link between employee and employer. This was achieved through the Pandemic Unemployment Payment (PUP) and the Employee Wage Subsidy Scheme (EWSS). The level of aid provided by the State can be seen by the fact that at its peak, 52% of the workforce or 1.2 million workers was in receipt of some level of income receipt from the State.

Figure 1.2.2 PUP and EWSS Claimants



Source: Central Statistics Office and Department of Social Protection

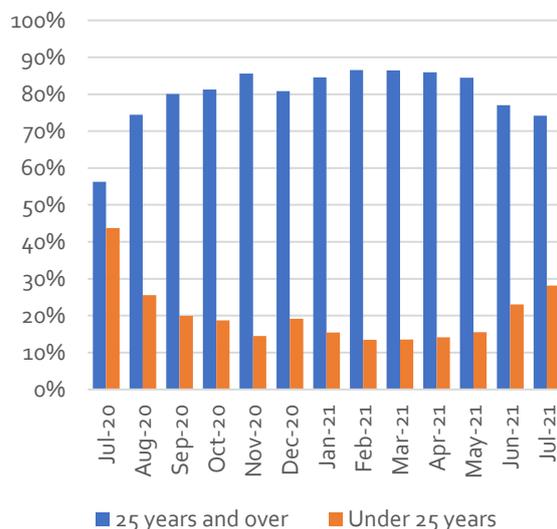
The gradual lifting of restrictions has seen the level of claimants on PUP decline significantly with EWSS increasing as the economy re-opened. When examined in more detail, the under 25's make a higher proportion of the EWSS claimants compared to PUP and has increased significantly in certain recent months.³⁷

Figure 1.2.3 PUP Claimants by age



Source: CSO and Department of Social Protection

Figure 1.2.4 EWSS Claimants by age



Source: CSO and Department of Social Protection

The high proportion of the workforce still in receipt of PUP or EWSS increases the risk of long-term unemployment and scarring of the workforce.

The Economic Recovery Plan has, as one of its four pillars, one focused on helping people back to work. The objective to have 2.5 million back at work by 2024 is welcome, but it is critical that the required actions are undertaken quickly, and the focus is on those aged under 25.

As the economy re-opens, the changes to the way businesses operate and how we consume goods and services that have been accelerated as a result of the pandemic will come more and more apparent. Alongside the reduced and ultimate withdrawal of State schemes that have supplemented incomes and provided liquidity to companies, this will result in re-allocation of resources.

To successfully manage this process, the Government will need to allocate its resources, both fiscal and administrative, to aid workers impacted by the pandemic, alongside and in line with the supports for businesses. This will include the ability for firms to access help to pay mandatory redundancy so that workers are not disadvantaged from having a break in service due to PUP when their mandatory redundancy is being calculated. For those workers who have lost their jobs or will lose them in the coming months, the appropriate framework needs to be put in place quickly to enable them to re-enter the labour force and minimise the number that enter long-term unemployment.

³⁷ It should be noted that the CSO estimate circa 8% of PUP recipients are in full time education and it is likely they will fall out of the PUP numbers in the September as they are excluded from the scheme as they return to full time education.

From a competitiveness perspective, it will be important that labour is redistributed to those areas of the economy that are benefiting from the changes being brought about as a result of the pandemic.³⁸ *The Competitiveness Challenge 2020* outlined the importance of Government action to ensure unemployment did not become entrenched and that the skills base in enterprises continues to be strengthened.

As sectors struggle to recover from the COVID-19 pandemic, some roles will become obsolete, and demand for a wide range of skills, including digital skills and managerial skills, is expected to increase across the economy in the coming years. In addition, the new methods of working induced by COVID-19 are giving rise to additional skills needs as businesses adapt to the new reality. The Council was clear in the need for businesses to prepare their workforce for the roles that are predicted to grow in the coming years.

As part of the ERP, the new *Pathways to Work 2021-2025* has as its objective to help those people whose jobs have been permanently lost as a result of COVID-19. It is focusing on preventing long-term unemployment and younger workers who have lost jobs. The strategy is based around five strands of action with 83 commitments.

Under *Pathways to Work*, Intreo³⁹ will be provided with increased resources to act as a one stop shop for jobseekers, the introduction of a new paid work placement experience programme, an increase in the number of apprenticeships and further education training places available, and improved access to further education and self-employment opportunities. The strategy also focuses on making it easier to recruit workers including the payment of recruitment subsidies of between €7,500 - €10,000 under JobsPlus.

The Council welcomes the specific focus on younger workers. This includes ringfencing roles for younger workers on Workplace Experience Programmes, promoting apprenticeships and incentives for employers when recruiting younger workers. The focus on apprenticeship as a core skills development option for employers across all sectors of the economy, and for workers across all sections of society, is one that can make a significant contribution to addressing Ireland's skills needs, as it seeks to recover from the impact of the COVID-19 pandemic.

In particular, apprenticeships can provide a reskilling route to rapid re-employment for those impacted by structural changes to the economy and labour market and support the digital and green transitions. To achieve the objective of increasing apprenticeship registrations to 10,000 a year by 2025 the use of financial and non-financial supports to increase employer engagement with the programme will be key. The lack of focus on such measures in previous action plans on apprenticeships has been a barrier in reaching targets in the past.

Importantly the *Pathways to Work* calls for the social welfare system to support people in making the transition to work. This includes commitments that the Department of Social Protection will, when making changes to the welfare system of supports, draw on the experiences gained during the pandemic, including the design of any pay-related short-duration jobseeker payment. There is also a commitment to explore the introduction of a new short-time work support scheme, building on the experience of EWSS which has played an important role in helping employers hold onto staff with State support. These proposals would be an important aid to both employees or employers to offset the shock on income or revenues.

³⁸ The supply of labour of course can be supplemented by net migration, but in Ireland's case has historically been volatile with periods of net outflows. The ESRI have estimated net migration from 2021 to be 12,500 per annum, but the impact of the pandemic and the restrictions on people travelling freely across borders will likely impact on that number ([Prospects for Irish regions and counties: Scenarios and implications \(esri.ie\)](#)).

³⁹ Intreo, the Public Employment Services, is a single point of contact for all employment and income supports. Designed to provide a more streamlined approach, Intreo offers practical, tailored employment services and supports for jobseekers and employers alike.

The Programme for Government commitment to introduce a pay-related, social insurance based, short-term jobseeker payment should be progressed over the coming months and ideally should be in place prior to the ending of PUP, in February 2022. The commitment to explore introducing a short-time work support scheme should be prioritised over the course of 2022. With both schemes in place, it will provide a more stable working environment for employees and help keep them closer to their employer in times of short-term stress for a company.

An important foundation to allow the possibility for these income support schemes to be even considered is the PAYE Modernisation by the Revenue Commissioners along with the modernisation of the Department of Social Welfare systems allowing the sharing of information. This should be considered further to see what other efficiencies can be achieved in the delivery of State services, not only those related to Revenue and Social Welfare.

The sharing of information between the taxation and social welfare systems also has the opportunity to enable the State to design a basic form of income guarantee that will ensure individuals, whether in employment, on welfare or a mixture of both, be assured of a basic income as committed to within *Pathways to Work*.

1.3 Remainder of the Report

This Chapter has provided a summary of the immediate issues that need to be addressed as the economy comes out of COVID-19. At the same time, there is a need to deal with outstanding issues which pre-dated COVID-19 and which now require urgent attention. These policy issues, which include digitalisation and SME productivity, housing, and climate action, require focused consideration now as the responses required are multi-faceted and progress must be built upon in a stepwise fashion. Many of these actions and reforms will be challenging to implement and take time to deliver their desired result, so it is vital that a whole of Government policy focus, similar to the approach taken to tackle the COVID-19 crisis, is established to tackle these difficult issues and initiate the first crucial steps with a sense of urgency.

The scale of medium and long-term challenges currently facing the Irish economy should not be underestimated and vital reforms are needed to enhance long-run competitiveness and ensure widespread productivity growth. These reforms will involve difficult choices around which areas should be prioritised and targeted first, while acknowledging the fiscal realities of an already stretched general government balance sheet. The Council believes a systemic approach is required, with careful sequencing of targeted actions that can generate the greatest impact in the immediate term. It will also be important to identify reforms that do not require an increase in public expenditure, but instead can be achieved by streamlining existing processes and procedures and achieving efficiency gains.

Individuals and enterprises will all play their part in the economic recovery and a number of Government Strategies and Action Plans are already in train to support Ireland's long-run development. It is essential that the actions outlined by Government can be delivered in a coherent manner with a view to creating an inclusive and sustainable economy. The Council's role is to make recommendations to Government on the best ways to improve competitiveness and productivity in the Irish economy and this report lays out these recommendations in the following chapters. Chapter 2 details the importance of a dynamic business environment, where Irish enterprises can access the services they require, with reasonable costs and choice. This dynamic environment is essential if Irish businesses are to compete successfully in a globalised world. Chapter 3 explores productivity

developments in Ireland and highlights the importance of boosting productivity growth, especially amongst indigenous SMEs. Chapter 4 examines how investing efficiently in Ireland's housing stock and other critical infrastructure can help boost the economic recovery while also meeting specific long-term infrastructure needs that benefit living standards. Chapter 5 discusses how to ensure that the economic recovery is sustainable and inclusive, with consideration for social, regional and gender equality. And finally, the Conclusion section provides a summary of the NCPC's findings in this *Competitiveness Challenge* report.

Chapter 2: Dynamic Business Environment

2.1 Introduction

The OECD⁴⁰ have noted that an effective and transparent business environment is key for entrepreneurship at all stages of the business life cycle, including entry, investment and expansion, transfer and exit. Reducing the regulatory burden on SMEs can improve productivity and competitiveness. All businesses face unavoidable fixed costs. As Ireland is a high-cost jurisdiction, it is not surprising that the cost of some essential services is higher relative to other economies. However, large cost differences between similar jurisdictions can be a signal that there may be factors in the underlying market that are driving these cost divergences.

In some instances, market failures may lead to inefficient markets driving costs higher. However, in other cases, markets may operate efficiently, but still may not deliver outcomes that best support the competitiveness of the economy as costs reflect structural policy settings underpinning these markets (for example, all else being equal, a common law legal system is likely to be more expensive to operate than a civil law legal system). Where this is the case, the Council's role is to highlight the explicit, or implicit, policy decisions that are driving higher costs and propose solutions that would address any competitiveness issues, while at the same time serving the Council's wider objective of supporting a sustainable economy that delivers for everyone.

In recent years, the Council has highlighted the impact that three key business costs (insurance costs; legal costs; and the cost of credit) have on the competitiveness of Irish businesses (especially Irish SMEs). The Government has begun to take action in these areas, with further action planned. Given the importance of these areas to underpinning Ireland's business environment, especially in the current context, the Council has chosen to re-visit these issues in this report. The Council has also decided to examine the impact that certain social policies (such as mandated sick leave and pension auto enrolment) can have on Irish businesses (and SMEs specifically). The Council is supportive of ensuring that Ireland is not just a good place to work, but also a great place to live, and these social policies certainly have a role to play in this regard (See Box C on socio-economic issues). However, the cumulative impact of these policies may impose an undue burden on businesses, which could damage competitiveness. In this chapter, the Council sets out: (i) the evidence of higher costs in Ireland relative to comparator countries; (ii) the key reasons for these cost differences; and (iii) the policy actions needed to address these cost issues and improve the competitiveness position for Irish businesses.

2.2 Current Situation in Ireland

Business environment is a very broad term that is designed to capture the whole spectrum of factors that businesses encounter over their lifecycle (beginning with the ease of starting a new business). It is essential that Irish enterprises have access to other business services at reasonable costs. Specifically, the vast majority of businesses will need affordable access to: (i) the legal system; (ii) liability insurance; and (iii) credit for investment. On top of these costs, there are also areas where Government is expecting business to get on board and contribute to initiatives such as pension auto-enrolment and mandated sick leave. These socio-economic policies are designed to create an attractive workplace environment for current and future workers in Ireland, which will only become more important in a world where certain types of work can be done from anywhere (see

⁴⁰ [2018-SME-Ministerial-Conference-Parallel-Session-1.pdf \(oecd.org\)](#)

Box C). However, the implementation of these measures must not unduly burden Irish businesses, especially SMEs).

The Legal System

There are numerous points where businesses need to engage with the legal system. Consequently, the cost of legal services is fundamental to the competitiveness of Irish businesses, especially Irish SMEs, where the cost of legal services cannot be spread over large revenues.

High legal costs affect the ability of companies to compete and prosper, but higher direct costs of doing business are just one aspect of the problems that high legal costs create. Litigation also imposes indirect costs that stem from the uncertainty created by litigation, which may deter investment and affect the ability of companies to borrow⁴¹.

Liability Insurance

Public liability (PL) and employer's liability (EL) insurance allow organisations to undertake a broader range of activities by reducing the risk that they face by transferring the risk to specialist risk management organisations. Without affordable insurance, businesses (particularly SMEs) may face too great a risk if they expand and consequently miss out on opportunities to grow.

In February 2021, the Council issued a bulletin on insurance costs⁴², which set out the latest available evidence on the cost of liability insurance in Ireland. In the bulletin, the NCPC noted that there were no price indices (either in Ireland or internationally) that track the cost of PL and EL insurance. However, the findings of the Cost of Insurance Working Group, business organisations, and the Competition and Consumer Protection Commission (CCPC) study on public liability insurance, all indicated that there had been a slow, but steady, rate of increase in public liability premiums in Ireland over recent years. These findings were consistent with anecdotal evidence from the sectors most affected by the cost of insurance to suggest that, before COVID-19, the price of insurance had been increasing and that it had become more difficult to secure insurance for certain types of business.

The bulletin also noted that the Central Bank of Ireland intended to expand the National Claims Information Database (NCID) in 2021. On 14 July 2021, the Central Bank published the first of this newly expanded NCID, which provides detailed information on claims and premiums in relation to EL, PL and commercial property. It also provides information that tracks premium trends by industry type.

The Central Bank report demonstrated that the vast majority (94%) of businesses bundled insurance policies⁴³ had premiums of less than €5,000, and almost two third of businesses had premiums of less than €1,000. These average figures need to be treated with caution as liability insurance spans a broad range of business sectors and activities, so the average may not reflect the reality of a specific sector or the size of its insured business.

⁴¹ McKnight and Hinton (2014) 'International Comparisons of Litigation Costs'.

⁴² National Competitiveness and Productivity Council 21-1 (2021) Insurance Costs.

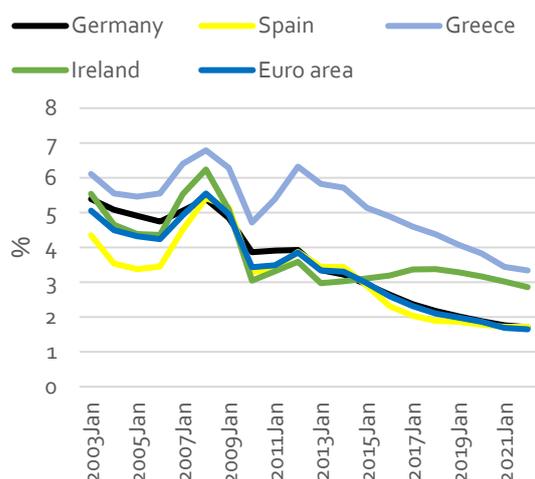
⁴³ The Central Bank report found that a material amount of liability business is purchased as part of a package including non-liability coverages, most notably, Commercial Property. A package policy can include any combination of two or three of EL, PL and Commercial Property insurance covers under a single policy.

The report also showed that overall average premiums increased by 4% between 2009 and 2019. However, there were two clear trends over this period. From 2009 to 2013, the average premium for package policies decreased by 16%, which was followed by an increase of 24% and from 2013 to 2019⁴⁴. For particular sectors, the increase in premiums was even more stark. For example, from 2009 to 2019, insurance premiums for the Arts, Entertainment and Recreation Sector experienced an increase of approximately 105%.

Credit

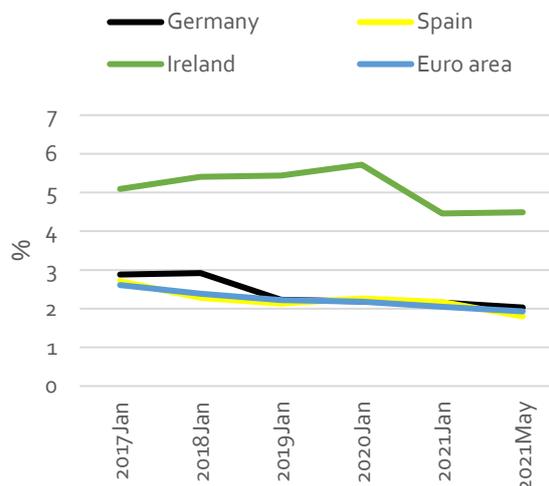
In normal times, SMEs need financing to fund investment in property and equipment, to build inventories, to hire and train new employees, and to develop and launch new products and services. In a post-COVID world, businesses need affordable access to credit to ensure that they can adapt their services in a changing world. If credit costs are too high, these investment decisions may not make business sense with implications for SME productivity. As shown below, Irish businesses face higher interest rates to finance investment and working capital than their euro area counterparts, which holds regardless of the size or duration of the loan period.

Figure 2.2.1: Average interest rates for non-financial companies, all loan values



Source: ECB

Figure 2.2.2 Average interest rates for non-financial companies, loans up to €250,000



Source: ECB

Irish SMEs have traditionally held a preference for using bank borrowing to fund working capital and investment activity⁴⁵. The latest ECB/EC *Survey on Access to Finance of Enterprises* (SAFE) (published November 2020), include responses from 467 Irish SMEs and showed that 67% of respondents identified credit lines, including bank overdrafts and credit cards, as a source of financing relevant to their enterprise. Bank loans were also popular amongst Irish SMEs with 57% of respondents identifying this form of financing as relevant to their enterprise. However, the requirements by many banks for clients to provide personal guarantees may discourage some SMEs from opting for this form of financing. By comparison equity capital and debt securities were much less popular, with just 14% and 8% of respondents, respectively, reporting these sources of financing as relevant to their enterprises.

The SAFE survey results also allow funding patterns for SMEs in Ireland to be compared to their European counterparts. Irish SMEs were third highest amongst EU member states to identify credit lines as a popular

⁴⁴ A business's insurance cost may mechanically increase simply as a result of the business expanding, for example taking on new staff members. The period between 2015 and 2019 was one of economic growth and this could be a factor in the rising insurance premiums.

⁴⁵ ESRI (2013) *The Importance of Banks in SME Financing: Ireland in a European Context*.

form of financing, with 67% of respondents, compared to 50% of EU respondents. In terms of bank loans, Irish SMEs were fifth highest in identifying this source of financing with 57% of respondents, compared to an average of 48% in the EU.

As noted, when Irish SMEs traditionally borrowed, they preferred borrowing from banks and consequently bank finance remains important for Irish SMEs. However, as mentioned in *Competitiveness Challenge 2020*, better financial awareness among business managers could encourage more diverse – and potentially lower cost – forms of borrowing (such as equity financing).

Social Policies to Support Employees

Social protection policies that promote employee wellbeing can benefit both businesses and employees by helping to manage the risks that individuals, and businesses, face. Moreover, by enabling employees to feel more in control of their working lives, such policies can lower absenteeism and increase productivity. The Council is supportive of these policies, noting that they can have a positive impact on Ireland's competitiveness by making Ireland a more attractive place to live (see Box C on socio-economic aspects of competitiveness). However, it is important to recognise the impact that these policies can have on business costs and ensure that they are implemented in a way that does not disproportionately impact the competitiveness of Irish SMEs. Two key policies in this area, that are currently at important points in the policy making process, that the Council has chosen to examine are: (i) sick pay; and (ii) pension auto-enrolment.

Sick Pay: Currently, employers are not obliged to pay employees for periods of absence due to illness, though many employers do provide sick pay without a statutory obligation to do so. However, under certain conditions, employees may be entitled to illness benefit - a short-term Government payment to those who are unable to work due to illness – which is paid after 3 'waiting days'.

The pandemic brought issues with the sick pay system in Ireland into sharp focus. In the absence of a sick pay scheme, and because of the 'waiting days' associated with illness benefit, employees could have faced a monetary penalty from complying with the health measures required to contain the pandemic (e.g., the self-isolation requirements). To support people in isolation, the Government temporarily enhanced the illness benefit scheme by removing the 'waiting days' requirement, so that the payment could be made from the first day of the illness.

In May 2021, the Department of Enterprise, Trade and Employment published a Regulatory Impact Assessment (RIA)⁴⁶ that set out the intention that statutory entitlement to sick pay will be rolled out as part of a 4-year plan and will initially be for 3 days per annum in 2022, bridging the gap in coverage caused by the 'waiting days' for illness benefit. The RIA also outlines that – while the 70% rate of gross pay is set to ensure excessive costs are not placed on employers – the potential cost to businesses could be significant at higher income levels. Consequently, the Department applied a daily earning threshold figure of €110. The statutory entitlement to sick pay will be rolled out as part of a 4-year plan and will initially be for 3 days per annum, rising incrementally to 10 days in 2025.

Pension Auto-enrolment: Ireland, like many developed countries, is facing a demographic challenge on pensions. In the long term, the ratio of people of working age to pensioners presents a significant challenge for the sustainability of the pension system.

⁴⁶ [Microsoft Word - RIA Sick Leave Bill 2021 25-05-21 \(enterprise.gov.ie\)](#).

In 2018, it was estimated that Ireland's supplementary pension coverage rate⁴⁷, which includes both occupational and personal pensions, has remained relatively static over the last 20 years at approximately 50% of those in employment. When considering the private sector only, this reduces further to just 35%. Without reform, many individuals may not accumulate sufficient savings to adequately replace their pre-retirement income level. As a consequence, many retirees may suffer an unwanted reduction in living standards and increasingly rely solely, or mainly, on State supports.

One of the crucial actions to address this challenge is the introduction of automatic enrolment (AE) system – where employees will be signed up to a pension scheme by default; rather than having to 'opt-in' to a scheme if they want it, people will have to opt-out if they do not wish to participate. This approach has been discussed for many years, and the Council is fully supportive, as it facilitates people who would like to begin saving for retirement but have not done so yet for a variety of reasons. AE will apply minimum contribution obligations across all employers, with employees and Government also contributing, and will result in many employees in the private sector without individual retirement savings making contributions into personal accounts.

2.3 Actions Crucial for a Dynamic Business Environment

Given these are areas where there have been long-standing issues and where the Government already have outlined policy actions, so the purpose of this section is to assess whether these policies are sufficient to address the issues of higher costs faced by businesses and especially SMEs. While progress in these areas has always been important for Ireland's competitiveness, substantive action is even more pressing now as businesses emerge from the pandemic.

The Legal System

Following on from the Legal Services Regulation Act (2015), there has been several measures designed to address legal costs. In October 2019, the Office of the Legal Cost Adjudicator (OLCA) was established, replacing the previous system with the Taxing Master. The OLCA is responsible for the independent, impartial, and objective resolution of legal costs disputes⁴⁸.

More recently and following the publication of the *Report on the Administration of Civil Justice*, which was overseen by the then President of the High Court, Mr. Justice Peter Kelly, the Department of Justice⁴⁹ has committed to commence work to introduce new scales of legal costs that would be independently drawn up, to reduce legal costs and provide greater certainty to the users of legal services in relation to costs. As part of this, the Department has committed to complete a detailed examination of the recommendations contained within the Report on the Administration of Civil Justice, and to carry out a detailed economic and legal evaluation of these policies.

The Government has also recently approved the General Scheme of the Courts and Civil Law (Miscellaneous Provisions) Bill 2021. The Bill provides for an amendment to the Legal Services Regulation Act 2015, which will allow for the introduction of solicitor-barrister legal partnerships. The Competition and Consumer Protection

⁴⁷ A Strawman Public Consultation Process for an Automatic Enrolment Retirement Saving System for Ireland, Department of Employment Affairs and Social Protection [here](#).

⁴⁸ Annual Report of the Office of the Legal Cost Adjudicator gov.ie - [Minister McEntee welcomes first report and strategic plan of the Office of the Legal Costs Adjudicators \(www.gov.ie\)](#).

⁴⁹ Justice Plan 2021 [Department of Justice Action Plan 2021.pdf](#).

Commission (CCPC) has suggested that this development has the potential to introduce greater competition and lower costs in the market for legal services⁵⁰.

The CCPC, in a submission to a consultation run by the Legal Services Regulatory Authority⁵¹, have also highlighted potential competition issues that may affect the market for legal services. In particular, the CCPC note that national and international research shows that young barristers and solicitors face many barriers when beginning their careers, and that these market frictions impact the inclusivity and diversity of the sector.

Based on the analysis presented in the *Report on the Administration of Civil Justice*, the Council believes that the introduction of new scales of legal costs is the most effective way to address high legal costs and that this should be accelerated.

Recommendation 2.1: Assess the feasibility of lowering legal costs, from the introduction of a scale of legal costs, by publishing an assessment of this option.

Responsibility: Department of Justice

Insurance

Over the last 5 years, there have been several policies designed to reduce the cost of insurance. In February, the NCPC stressed the role of measures that would reduce settlement costs (i.e., the cost that insurers must pay to settle a claim against them) in bringing down insurance costs. The two major components of settlement costs for EL and PL insurance are: compensation (the award paid to the claimant to compensate them), and legal costs. Under the auspices of the Action Plan for Insurance Reform action is underway to tackle both issues.

New Personal Injuries Guidelines have been adopted that have changed the level of general damages to be awarded by the Courts and the Personal Injuries Assessment Board (PIAB). The Guidelines apply to all cases yet to be assessed since they were adopted (24 April), and for a significant number of injuries the new levels are substantially lower than previous levels, while they are higher in a small number of categories. Consequently, these Guidelines should reduce the overall levels of awards in Ireland and bring them into line with awards in other countries.

The Council is fully supportive of the Government's Action Plan on Insurance Reform and is encouraged by the progress that has already been made (as set out in the Action Plan Implementation Report). The Council's insurance bulletin set out that measures to control settlement costs was the priority action to control insurance costs, and the Council welcome the fact that these Guidelines were adopted earlier than expected. It will be key to review the impact of the Personal Injuries Guidelines on award levels, and subsequently, on the cost of insurance. The *Action Plan on Insurance Reform* sets out that the Department of Justice is to report on the implementation and early impact of the Guidelines and examine relevant policy responses by the end of the year (December 2021).

⁵⁰ <https://www.ccpc.ie/business/business/research/submissions/formation-of-legal-partnerships/>

⁵¹ <https://www.ccpc.ie/business/business/research/submissions/barriers-for-early-career-legal-professionals/>

Recommendation 2.2: Review the early impact of the Personal Injuries Guidelines to establish whether they are having the desired impact on award levels and publish the findings of the review.

Responsibility: Department of Justice

While these Guidelines should also help bring about greater consistency across personal injury awards (which should in itself encourage people to use the PIAB service), further action is also underway that should impact legal costs associated with settling personal injury cases.

The National Claims Information Database shows that the average legal costs associated with settling an EL or PL claim varies greatly depending on where the claim is settled. For employers' liability insurance, average legal costs are: €2,790 when the claim is settled directly; €902 when the claim is settled in PIAB; and, €35,268 when the claim is settled through litigation. For public liability insurance, average legal costs are: €2,706 when settled directly; €1,734 when settled at PIAB; and, €24,421 when settled through litigation.

As noted in the Council's insurance bulletin, the Department of Enterprise, Trade and Employment (DETE) is undertaking a review of PIAB with a focus on ensuring that more cases are being settled in PIAB (where costs are lower) rather than proceeding to litigation. The Council welcomes this development and is hopeful that appropriate reforms can be identified, and implemented, quickly.

Credit

As set out in *Competitiveness Challenge 2020*, the higher cost of bank credit reflects several factors, including higher risk weighted asset requirements, as banks are required to treat loans to Irish businesses as riskier (and consequently hold more capital against these loans) because of higher historic default rates. Recent research also points to reduced competitive pressures in the Irish market as a possible factor in higher costs^{52,53}. The limited competition within the domestic banking sector following the exit of several international players in the aftermath of the global financial crisis (Bank of Scotland, Danske Bank and Rabobank) is likely to be further exacerbated by the withdrawal of Ulster Bank and KBC⁵⁴ from the Irish market resulting in a greater concentration of the Irish SME lending sector.

Low levels of market competition limit SME funding options and can also lead to higher interest rates on borrowing as a small number of players dominate the market. This is an issue that needs to be considered as a matter of urgency. The Council welcomes the comments of the Minister of Finance⁵⁵ when it was outlined that it is necessary to examine the Irish banking sector and consider how it can best support society and economic activity. The Council welcomes the commitment that the Department of Finance has made to undertake a review of the banking sector, and the fact that this review will assess the availability of credit to SMEs from both banks and non-banks. Due to the recent announcements by NatWest on the sale of parts of the Ulster Bank loan portfolio which are due to complete by the end of this year, it will be important that this review is adequately resourced and completes its work quickly. The resulting recommendations, especially those on improving competition in the provision of SME credit in Ireland, must also be actioned quickly.

⁵² James Carroll and Fergal McCann (2018) 'Observations and Residuals: Exploring Cross-Border Differences in SME Borrowing Costs'.

⁵³ James Carroll and Fergal McCann (2016) 'Understanding SME interest rate variation across Europe' Quarterly Bulletin Articles, Central Bank of Ireland pg. 60- 76.

⁵⁴ While primarily a retail bank, the exit of KBC could cause an issue for SMEs, who may use personal overdrafts or personal loans as an initial source of credit.

⁵⁵ [Opening statement on the Future of Banking in Ireland.](#)

Recommendation 2.3: Ensure that sufficient resources are committed to the review of the Irish banking sector and that any actions identified to improve competition in the provision of SME credit are implemented as a matter of urgency.

Responsibility: Department of Finance

The Government has also adopted policies that are designed to improve the flow of bank credit to SMEs. In 2014, the Strategic Banking Corporation of Ireland (SBCI) was set up to ensure that SMEs in Ireland have access to stable, lower cost, long-term funding options. As a state-owned promotional institution, the SBCI provides wholesale finance and guarantees to SMEs through its on-lender partners, ensuring that the benefit of its support is delivered to the ultimate SME borrower and not to its on-lending partner.

The SBCI currently utilises two primary offerings to deliver benefits to the SME market, namely: loan and risk sharing schemes. The SBCI sources low-cost financing using an Irish Government Guarantee and makes this low-cost funding available to on-lenders in the Irish market. The SBCI also provides guarantees to on-lenders to underwrite a significant portion of the SME debt thus de-risking the loan for the on-lender.

Figure 2.3.1 Future Growth Loan Scheme

	Total Amount Allocated to Scheme	Value of Approvals Made
Future Growth Loan Scheme	€800 million	€706.91 million

Source: Department of Enterprise, Trade and Employment (as of 25 June 2021)

One of the key schemes offered by the SBCI is the Future Growth Loan Scheme (FGLS), which plays an important role in providing access to finance for Irish businesses, and it is important to evaluate the effectiveness of these schemes. The Council supports the Department of Enterprise, Trade and Employment undertaking a review of the FGLS.

Recommendation 2.4: Review the Future Growth Loan Scheme by Q3 2022 and take on board findings in the design of future loan schemes as a priority.

Responsibility: Department of Enterprise, Trade and Employment

Another aspect of the Government's approach on the issue of SME access to finance is to stimulate the development of non-bank sources of SME finance. For SMEs and small midcaps, equity financing options can be explored via the Halo Business Angel network, the European Angel Fund, Enterprise Ireland's Seed and Venture Capital Scheme and Development Capital Scheme, and the Irish Strategic Investment Fund. For micro enterprises, local enterprise office grants are available for start-ups and for business expansion.

However, equity financing remains limited among SMEs, with 14% only of respondents to the SAFE survey identifying this form of financing as relevant to their enterprise. In *Competitiveness Challenge 2020*, the Council recommended that SMEs were made aware of all the financing options available to them by progressing the launch of the Business Finance Advisory Hub that would signpost learning options for SMEs to improve financial knowledge. The National SME and Entrepreneurship Growth Plan recommended an evaluation of the

effectiveness of existing tax incentive schemes aimed at increasing equity investment, such as the Employment Investment Incentive Scheme (EIS), the Key Employee Engagement Programme (KEEP) and the Start-up Relief for Entrepreneurs (SURE) to ensure that equity financing is being fully supported and utilized as an alternative to debt financing.

Social Policies

The Council welcomes the expansion of measures designed to help workers manage risks. These measures make Ireland an attractive place to work and are an important part of our overall competitiveness offering for companies considering locating in Ireland (see Box C on Socio-Economic factors and competitiveness). Over the last five years, several measures have been introduced to improve social protections for workers, including paternity benefit, parental leave benefit, and the extension of social insurance benefits to the self-employed and those in the gig economy.

As noted in the previous section, the Government is continuing to expand risk-sharing social protection measures with the introduction of a statutory sick pay scheme and pension auto-enrolment. The incremental approach as outlined in the RIA on statutory sick pay, and the daily earning threshold, demonstrate the efforts to ensure that the scheme delivers for employees and does not put excessive costs on employers (in relation to employees who are on high salaries). These are welcome additions, but their introduction should not overly burden Irish businesses (in particular, SMEs).

Recommendation 2.5: Improve social protections for Irish workers by publishing and enacting the Sick Leave Bill 2021 in the current Dáil term.

Responsibility: Department of Enterprise, Trade and Employment

2.4 Summary

All businesses face unavoidable fixed operational costs for necessary services such as legal advice, insurance cover and financing for investment. In these areas, high costs can curtail the ability of Irish firms, especially Irish SMEs, to operate successfully domestically and internationally. As demonstrated above, in some cases, the Council believes that high costs may reflect underlying structural factors (for example, high insurance costs reflect historically higher levels of compensation for personal injury claims). To bring costs down to a more reasonable level for Irish businesses, these structural factors need to first be identified and then need to be addressed.

On the insurance issues, the Government has implemented several policy initiatives that first identified the issues in the insurance market, and subsequently tackled the most likely causes of higher insurance premiums. The process of addressing higher legal costs is moving somewhat more slowly. Through the *Review of the Administration of Civil Justice* report, a similar process of identifying the reasons underpinning high legal costs in Ireland and potential measures to address these costs have been identified and the Department of Justice has committed to act to address legal costs on the back of this report.

Regarding access to finance and the cost of credit, the Department of Finance will shortly undertake a review of the Irish banking sector that will result in a report that the Council hopes will set out the best way forward to tackle credit issues for SMEs. The Department of Enterprise, Trade and Employment will review how one of the

Government's major loan schemes – the Future Growth Loan Scheme – operates, with the intention of applying the learnings in this area to the design of future loan schemes.

The other set of costs mentioned in this chapter relate to the non-wage costs associated with employing staff that are part of the welfare state (see Chapter 5 on inclusivity). The Council strongly supports these measures to improve the quality of life of employees and recognises that these measures can play an important role in Ireland's competitiveness (see Box C on the socio-economic factors of competitiveness).

Chapter 3: Boosting Productivity

3.1 Introduction

Across all advanced economies, there has been a growing focus on productivity in the past decade, as the pace of productivity growth has slowed considerably despite technological advancements. Ultimately productivity is the engine of economic growth in the longer term, and as such is key to improvements in living standards, associated with growing and sustainable wage levels, good public services and improved wellbeing. As Ireland's National Productivity Board⁵⁶, the National Competitiveness and Productivity Council is responsible for analysing developments and policies in the field of competitiveness and productivity in Ireland.

The Council has acknowledged in previous publications⁵⁷ the need to design policies to enhance Irish productivity growth that are comprehensive and tackle the many related elements within enterprises (e.g. digitalisation, upskilling, innovation and knowledge-based capital), between enterprises (e.g. knowledge diffusion, resource allocation) and across industries (e.g. infrastructure, diversification) to ensure more widespread and sustained growth of productivity in Ireland.

Impact of COVID-19

The COVID-19 pandemic has caused significant disruption to societies and economies across the globe and could potentially scar long-run productivity growth through multiple channels, including lower investment, erosion of human capital because of unemployment and loss of schooling, and a possible retreat from global trade and supply linkages⁵⁸. However, there is also potential to seize productivity-enhancing opportunities in the wake of COVID-19 disruptions. A sustained shift toward more flexible working (including remote and blended working), the incorporation of digital technologies in manufacturing, finance, health, and education or the onshoring of production (with greater capital intensity) of certain essential products, could be direct outcomes of the COVID-19 recession, with important consequences for productivity and welfare⁵⁹.

Strategic investment, by the public and private sector, in digital skills and technology as well as organisational changes and process innovations, will enable Irish firms to seize opportunities offered by future blended working arrangements. Investment in management skills will also be vital to enhancing the productivity of Irish firms as they adapt to the new market conditions and navigate the dual climate and digital transitions. Investing in research and development is also essential for Irish enterprises in order to foster innovative new products and services to allow them to survive and thrive in competitive domestic and international markets.

3.2 Current Situation in Ireland

Despite the global slowdown in productivity growth over the past decade, aggregate labour productivity figures for Ireland continue to show a strong performance relative to other advanced economies. This finding holds (though to a lesser extent) even when globalisation activities are excluded from the calculations; this is done by using the CSO's adjusted Gross National Income (GNI*) rather than Gross Domestic Product (GDP) to measure

⁵⁶ NPBs across EU countries are independent institutions responsible for providing their governments with recommendations on how to achieve more sustainable economic growth and improved societal wellbeing. The Boards are required to be objective and neutral, and to publish findings and recommendations, based on high-quality economic and statistical analysis of national and international evidence.

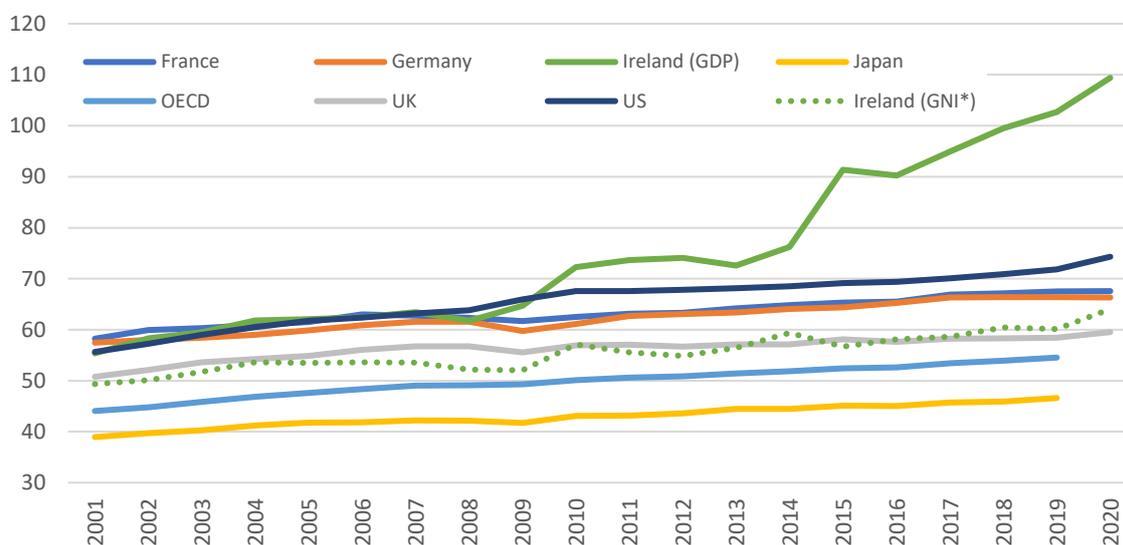
⁵⁷ NCPC (2020): [Bulletin 2020-1 Productivity](#).

⁵⁸ <https://thedocs.worldbank.org/en/doc/723561593465321031-0050022020/original/GlobalProductivityIntroduction.pdf>

⁵⁹ Dieppe, A. and Ayhan Kose M. (2020) [The global productivity slump: What policies to rekindle? \(brookings.edu\)](#).

economic activity. According to the latest OECD⁶⁰ and CSO data available, Ireland's GDP per hour worked in 2020 was significantly above the OECD average and some of the world's most advanced economies (Figure 3.2.1). On a GNI* basis, Irish labour productivity remains above the OECD average and above the UK, but below the USA, France, and Germany.

Figure 3.2.1: Labour Productivity, GDP and GNI* Per Hour Worked (USD 2010 PPP)



Source: OECD, Central Statistics Office and NCPD Calculations

CSO Productivity in Ireland 2019

On 25 June 2021, the Central Statistics Office (CSO) published its latest productivity report: '*Productivity in Ireland 2019*'⁶¹. This is the CSO's fourth productivity report, and it provides a valuable in-depth analysis of productivity developments in the Irish economy. The report presents a wide variety of productivity statistics, ranging from basic labour productivity to productivity measures based on experimental but comprehensive KLEMS (Capital, Labour, Energy, Materials and Services) and QALI (Quality Adjusted Labour Input) related output. The new report also includes additional analysis on innovation in Ireland looking at expenditure on Research and Development. The Council welcomes the CSO's commitment to expanding the publication of essential productivity statistics which contribute to the analysis of productivity issues in the Irish economy.

The CSO report also confirms that Ireland's strong productivity performance can, for the most part, be attributed to the operations of a small number of large enterprises in specific sectors⁶². This finding was also highlighted in previous NCPD publications⁶³. The latest CSO data show that the manufacturing sector made by far the largest contribution to overall labour productivity growth over the period 2000-2019. This was followed by Information and Communication; Professional, Scientific, Administration and Support services; and Wholesale and Retail activities (Figure 3.2.2).

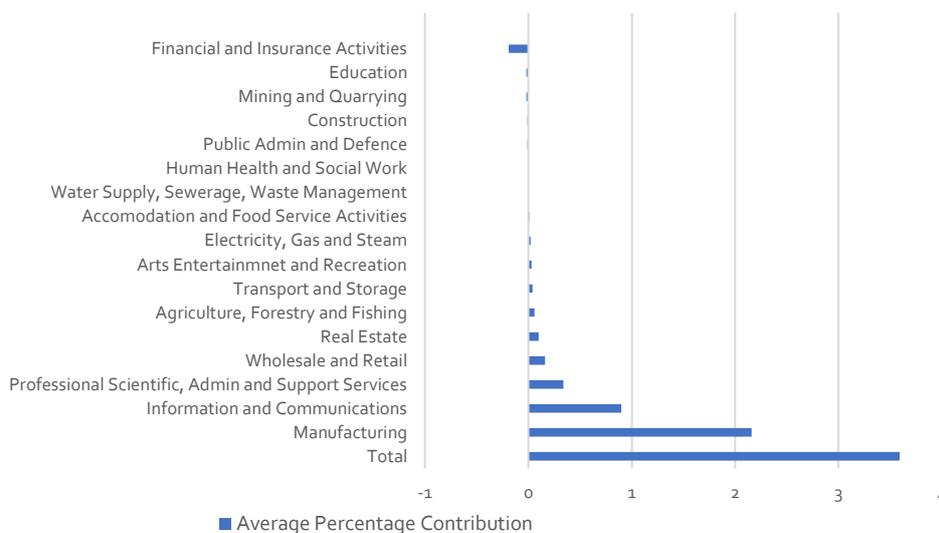
⁶⁰ OECD (2020) GDP per hour worked. doi: 10.1787/1439e590-en.

⁶¹ CSO (2021) [Productivity in Ireland 2019](#).

⁶² Papa et al (2018) [Patterns of Firm Level Productivity in Ireland](#).

⁶³ NCC (2019) [Productivity Statement 2019](#); NCPD (2020) [Bulletin 2020-1 Productivity](#).

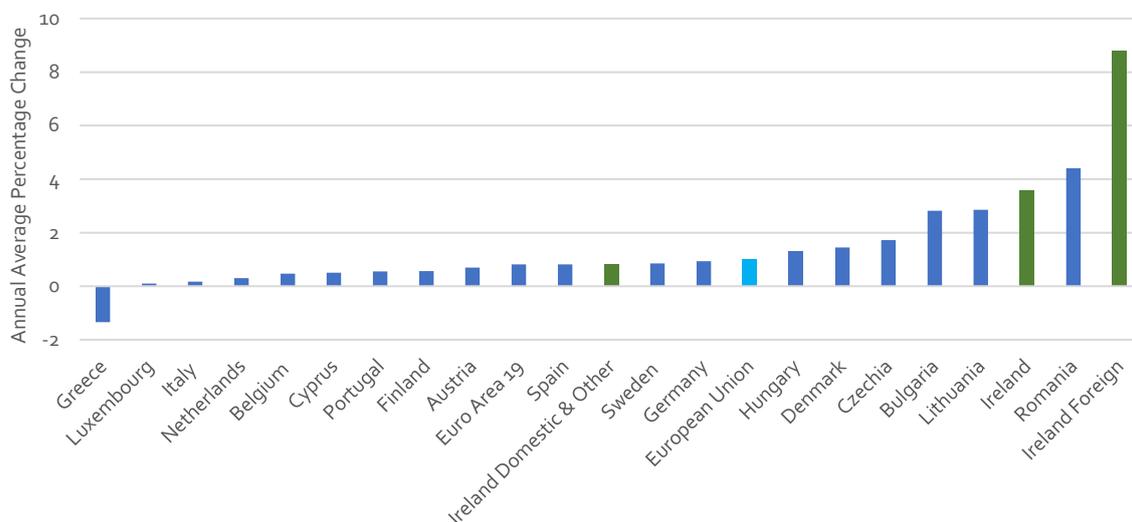
Figure 3.2.2: Sectoral Contribution (avg percentage) to Labour Productivity Growth: 2000-2019



Source: Central Statistics Office

A key feature of the Irish economy is its internationalisation. This is reflected in the ownership of production. The CSO data on labour productivity are presented for two ownership sectors: the 'Foreign MNE-dominated' sector and the 'Domestic and Other' sector⁶⁴. The labour productivity growth rate of the Foreign MNE-dominated sector was on average 8.8% per year between 2000 and 2019, significantly above the European Union average of 1.0% per year. However, the labour productivity growth rate of 0.8% per year during the same period for the Domestic and Other sector was just below the EU average (Figure 3.2.3).

Figure 3.2.3: Labour productivity annual growth rate, 2000-2019, foreign and domestic sectors



Source: Central Statistics Office

⁶⁴ Foreign-owned Multinational Enterprise (MNE) dominated NACE sectors occur where MNE turnover on average exceeds 85% of the sector total. These sectors are Chemicals and chemical products (NACE 20), Software and Communications sectors (NACE 58-63) and Reproduction of recorded media, Basic pharmaceutical products and pharmaceutical preparations, Computer, electronic and optical products, Electrical equipment, Medical and dental instruments and supplies. The domestic and other category includes all sectors excluding those listed as part of the Foreign-owned Multinational Enterprise (MNE) dominated sectors. These include the Wholesale and Retail sector including the sale and repair of motor vehicles; Administrative and support service activities; Construction; Accommodation and food services; and the Manufacture of Food, beverages and tobacco.

The Foreign or Domestic and Other sectoral classification used by the CSO entails some simplifications in terms of the actual divide between foreign-owned and domestic-owned entities operating in the Irish economy⁶⁵. Nevertheless, the CSO's approach delivers a mechanism whereby the productivity performance of these two ownership groups can be compared. When the CSO undertook detailed micro analysis in the compilation of the Institutional Sector Accounts⁶⁶, a key finding was that, for a number of critical economic indicators, the performance of these foreign-dominated sectors was highly correlated to the performance of all foreign-owned entities operating in Ireland. This finding supports the use of the foreign dominated groupings as proxies for all foreign owned activity in the economy.

However, it should be noted that the productivity performance of the Domestic and Other sector is also likely to be influenced by a number of traditionally domestic industries (e.g. Food & Beverages) which over time have shown an increasing share of foreign value added or turnover, according to the CSO Structural Business Statistics⁶⁷. Since these foreign-owned enterprises have relatively higher productivity than the Irish-owned enterprises in this broad sector, the productivity growth of Irish-owned enterprises in the 'Domestic and other' sector could be even lower.

A new chapter in the CSO's *Productivity in Ireland* publication this year highlights the importance of innovation in explaining productivity growth. Innovation is a multi-stage process whereby organizations transform ideas into new or improved products, services or processes, in order to advance, compete and differentiate themselves successfully in their marketplace⁶⁸. This transformation of new ideas into products, services or processes can be achieved through various activities, such as research and development, acquisition of external knowledge or through acquiring additional machinery and equipment (see *Investment in Innovation* on page 62 for further discussion). The CSO used data from their Business Statistics publications⁶⁹ to explore the linkage between research and development and innovation and how these activities are related to productivity results in certain sectors over the last few years.

Total innovation spending in the Irish economy in 2018 stood at €5.5 billion, with the largest expenditures arising in the Manufacturing sector and ICT sector, which spent €2.3 billion and €1.6 billion, respectively⁷⁰. The Electricity, Other Utilities and Construction sector spent the least on innovation in 2018 with expenditure reaching just €45 million, while Agriculture, Forestry, Fishing, Mining and Quarrying reported the second lowest level of expenditure of €82 million. Unsurprisingly, the sectors devoting the largest resources to innovation expenditure have been the main drivers of productivity growth in Ireland over the past two decades while the sectors with more limited expenditure have not contributed meaningfully to productivity growth over the same period (see Figure 3.2.2 above).

Indigenous SMEs

While there is no doubt that aggregate productivity in Ireland is strong (compared to other advanced economies) and that its strength primarily derives from a highly concentrated group of high-productivity MNEs, there is less known about the productivity performance of the increasingly diverse domestic sector, where both

⁶⁵ Foreign-owned Multinational Enterprise dominated NACE sectors occur where MNE turnover on average exceeds 85% of the sector total.

⁶⁶ CSO (April 2020) [Institutional Sector Accounts](#).

⁶⁷ CSO (September 2020) [Structural Business Statistics 2018](#).

⁶⁸ Baregheh, A., Rowley, J. and Sambrook, S. (2009) [Towards a multidisciplinary definition of innovation | Emerald Insight](#).

⁶⁹ CSO (April 2020) [Innovation in Irish Enterprises 2016-2018](#) and CSO (March 2021): [Business Expenditure on R&D 2019-2020](#).

⁷⁰ Innovation spending in the Manufacturing sector amounted to 42% of total spending, while the sector accounted for 35% of Gross Value Added in 2018. Innovation spending in the ICT sector accounted for 30% of total innovation spending, much higher than the 13% of Gross Value added that the sector contributed in 2018.

high- and low-productivity performing Irish SMEs co-exist⁷¹. Further research and analysis is needed to understand more fully how policies can be designed to enhance productivity growth in all sectors of the Irish economy. Supporting closer economic links between MNEs and SMEs across and within industries (via trade linkages, labour mobility and innovation cooperation) could help raise productivity levels in SMEs. Stronger links between research institutions and SMEs could also enhance productivity growth, and lessons can be learned from past experience with interventions such as the Regional Technology Cluster Fund⁷². The Disruptive Technologies Innovation Fund⁷³ and Science Foundation Ireland's Challenge Funding⁷⁴ are further examples of how collaboration between enterprises and researchers can be cultivated.

Recommendation 3.1: Establish a research programme and collate supporting datasets to assess the driving factors behind productivity differentials amongst firms, and particularly indigenous firms, in order to build a broad evidence-base for further enterprise policy intervention.

Responsibility: Department of Enterprise, Trade and Employment

The NCPC is committed to supporting research on the drivers of productivity in Irish enterprises, so that we have solid evidence on which to base recommended actions to improve enterprise productivity. By providing increased access to data, the CSO will continue to support research which can provide further evidence for policy development in this area.

Impact of Remote Working on Productivity

The COVID-19 pandemic has forced enterprises and employers, in both the private and public sector, to adapt their operations at record speed, and in many cases transition to online working platforms and more flexible service delivery. While the abrupt move to new ways of working came with many technical and organisational challenges, there were also opportunities to adopt new work practices and methods of providing services to consumers in innovative and efficient ways, which have the potential to boost productivity in some sectors. Many enterprises were able to adapt to COVID-19 related social distancing measures through wholesale remote working, allowing them to continue operating throughout the pandemic. However, other industries and occupations were unable to make this adjustment as the nature of the job itself was unsuitable for remote working⁷⁵.

According to OECD research⁷⁶ published in September 2020, remote working can improve or hamper firm performance, with its overall effect depending on two main channels (see Figure 3.2.4). The first direct channel can affect firm performance through changing the efficiency, motivation, and knowledge creation of the workforce. The second indirect channel is for remote working to facilitate cost reductions that free up resources for productivity-enhancing innovation and reorganisation.

⁷¹ OECD (2019) [SME and Entrepreneurship Policy in Ireland](#).

⁷² The [Regional Technology Cluster Fund](#) was administered by Enterprise Ireland with an ambition to build sectoral clusters of SMEs at regional level. It involved connectivity with, and engagement between, enterprise and regionally based knowledge providers, such as the IoTs / TUs, to drive productivity and competitiveness in and across regions.

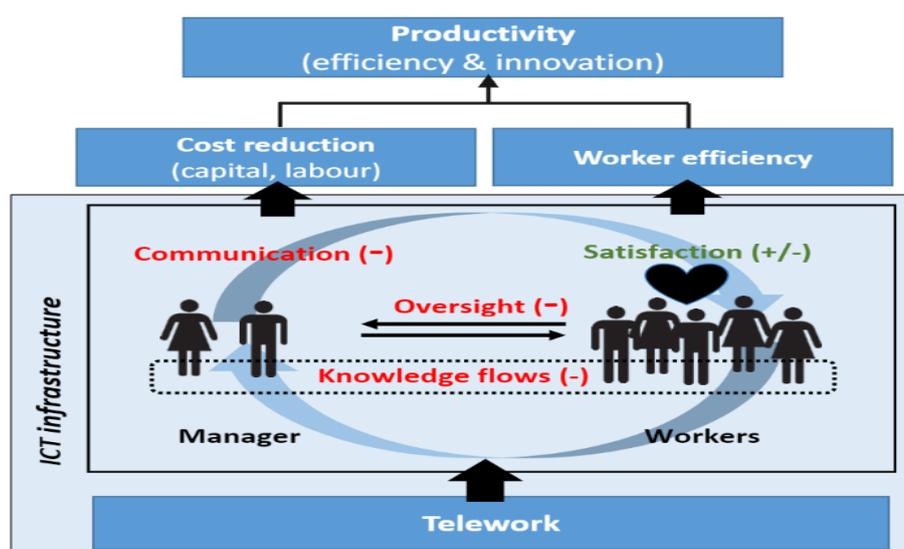
⁷³ The [Disruptive Technologies Innovation Fund](#) is a €500 million fund established under Project Ireland 2040 and is run by the Department of Enterprise, Trade and Employment with administrative support from Enterprise Ireland. The purpose of the DTIF is to drive collaboration between Ireland's world-class research base and industry as well as facilitating enterprises to compete directly for funding in support of the development and deployment of disruptive and innovative technologies on a commercial basis.

⁷⁴ [Challenges | Science Foundation Ireland](#) - Challenge funding sets out a specific issue to be addressed at the outset – the challenge – and focuses on delivering solutions. The funding supports close collaboration between researchers and solution beneficiaries so that relevant, meaningful and important challenges can be identified and validated.

⁷⁵ OECD (2021) [Measuring telework in the COVID-19 pandemic](#).

⁷⁶ OECD (2020) [Productivity gains from teleworking in the post COVID-19 era: How can public policies make it happen?](#)

Figure 3.2.4: Telework and Productivity: The Main Channels



Source: OECD

The NCPC has previously explored the implications of increased remote working on the productivity of Irish firms and the competitiveness of the Irish economy⁷⁷. It is important to note that changes to work practices can take time to manifest in measurable impacts on productivity at the individual or firm level and can depend on multiple interrelated factors. Furthermore, since official statistical measures of productivity are typically published with a time lag, objective measures of the impact of the shift to remote working on aggregate productivity in Ireland over the past year will not be available for some time.

There is, however, some existing evidence from academic papers and firm specific case studies that have analysed the impact of remote working on individual and firm level productivity prior to the pandemic. A landmark study by Bloom et al. (2013)⁷⁸ found that home working for a sample of call centre employees led to a 13% performance increase, and that home workers reported improved work satisfaction and the firm experienced less employee turnover compared to the control sample. On the other hand, the promotion rate of home workers, conditional on performance, fell. Following the success of the experiment, the option to work from home was rolled-out to the whole firm and the employees involved in the original trial were allowed to re-select between the home or office. Over half of these employees switched, which led to the gains from working from home almost doubling to 22%. This highlights the benefits of learning and selection effects, so that individual preferences can be accommodated, and business practices can be adapted to maximise the gains of alternative working arrangements.

Research published in October 2020, commissioned by Microsoft with Boston Consulting Group and KRC Research⁷⁹, polled 9,000 managers and employees in large firms in 15 European countries. The study found that 82% of senior executives reported productivity levels either held steady or increased as people shifted to remote work during the pandemic. Many senior executives also viewed hybrid working as a way to boost employee engagement, with over half saying it will be a powerful way to retain top talent. However, business leaders also reported a decrease in innovation around core products and services. Likely factors identified as leading to a decline in innovation included less close-knit teams, workers feeling more distant from company

⁷⁷ NCPC (2021) [Bulletin 2021-3 - Remote Working: Implications for Competitiveness and Productivity](#).

⁷⁸ Bloom et al. (2013) [Does Working from Home Work? Evidence from a Chinese Experiment](#) | NBER.

⁷⁹ Microsoft News Centre [Flexible ways of working are here to stay](#).

culture and less collaboration. By looking at companies that maintained both productivity and innovation throughout the move to more hybrid ways of working, the study found that more innovation was found in firms that empowered individuals and teams to make meaningful decisions about how they structure their work and encouraged employees to proactively offer solutions for addressing challenges. The study also found that training and coaching opportunities were crucial to middle managers supporting their remote and hybrid teams in feeling connected and collaborative. This further highlights the importance of investing in relevant management skills in order to maximise the productivity of teams while working remotely.

In Ireland, survey evidence to date is promising. The *National Remote Working Survey*⁸⁰ published in April 2021, reported that 54% of respondent employees agreed/strongly agreed that working remotely made their job easier, and 65% of respondents agreed/strongly agreed that remote work enables them to accomplish their tasks more quickly. In total, 68% of respondents agreed/strongly agreed that working remotely increased their self-reported productivity. A March 2021 CIPD (Ireland) survey⁸¹ found that nearly three-quarters of HR managers said productivity either increased or remained steady once remote working became the norm.

Meanwhile, the Government continues to develop its policy response, building on a *Guidance for Working Remotely*⁸² advice portal, launched in July 2020. In January 2021, the Government published its *National Remote Working Strategy – Making Remote Work*⁸³ which outlines a vision for the future of remote working in Ireland. An Inter-Departmental Group continues to work on the steps required to implement the Strategy. The Government is committed to ensuring that remote work is a permanent feature in the Irish workplace into the future when public health considerations are no longer the driving force.

The *National Remote Working Strategy* also committed the Government to drafting legislation to provide employees with the right to request remote work. Introducing the right to request remote working will provide a clear framework around which requesting, approving, or refusing remote work can be based and will also provide legal clarity to employers on their obligations for dealing with such requests. A public consultation⁸⁴ was held in the second quarter of 2021 and a total of 175 submissions were received from a diverse range of stakeholders including trade unions, employer representative bodies, individual employers and employees and political parties. It is recognised that not all occupations, or particular roles within an enterprise, will be suitable for remote working and the Government has committed to taking a balanced approach with the new legislation. In order to build on the momentum of increased remote and blended working over the past 18 months, it is important that this legislation is introduced without delay.

Recommendation 3.2: Expedite the drafting of new legislation on the Right to Request Remote Working in the current Dáil term that ensures that workers are treated fairly and that enterprises do not face an undue burden, so that the positive momentum of increased flexible working will continue post-pandemic.

Responsibility: Department of Enterprise, Trade and Employment

In a public consultation⁸⁵ to inform the delivery of guidance on remote working for both employers and employees, hosted by the Department of Enterprise, Trade and Employment in the third quarter of 2020, the

⁸⁰ NUI Galway & the Western Development Commission: [Remote Working in Ireland - Whitaker Institute for Innovation and Societal Change | NUI Galway](#).

⁸¹ CIPD (2021) [Businesses plan a future with remote working](#).

⁸² [Guidance for Working Remotely - DETE](#).

⁸³ [Making Remote Work - National Remote Work Strategy](#).

⁸⁴ [Report on the submissions received from the Consultation on Right to Request Remote Working - DETE \(enterprise.gov.ie\)](#).

⁸⁵ [Public Consultation on Guidance for Remote Working - DETE](#).

topic most commonly mentioned was the inadequacy of the tax system to deal with the costs and expenses incurred by employees in the course of their 'working from home' experience. Most proposals centred around easing the claiming process and the inadequacy of the current reliefs. If remote and blended working are to remain widespread when public health advice no longer specifies this requirement, then it will be important that cost factors for employees do not create a barrier.

Recommendation 3.3: Ensure that working from home possibilities are enhanced by simplifying the process for claiming expenses and clarifying the calculation of expenses (broadband/ heat/etc.) that may be claimed.

Responsibility: Department of Finance

The Government is also committed to developing models of flexible working within the public service to ensure the public sector continues to be an employer of choice while delivering quality public services. Fórsa, the largest public sector trade union, have called for a consistent approach across the public service, and a commitment to transparency and fairness on access to remote working, as the issue of equal access had emerged as the number one issue for public servants in a large opinion survey conducted by Fórsa in 2020. In July 2021, the Civil Service Management Board published an overall policy statement to guide individual organisations in the civil service in the development of tailored policies that are appropriate to them and their employees.

New opportunities for more flexible working have the potential to convey economic, social, and environmental benefits and could offer a better quality of life to those living and working in Ireland (see Chapter 5 for further discussion). New ways of working can deliver improvements in work/life balance and increase social inclusivity in the labour market, while also reducing environmental costs by lowering commuting times and transport-related carbon emissions and air pollution (see Box B). Remote and blended working also has the potential to boost regional development and alleviate pressures in large urban areas for accommodation, schools, and other constrained infrastructure.

Box B: Remote Working: Implications for Equality and Inclusivity

Remote working has the potential to further promote equality in the workplace by providing flexibility to people with caring responsibilities, in particular women, to participate in the workforce, by empowering people with disabilities to take up employment, and by helping older workers to stay in employment longer. In terms of regional equality, flexible working needs to be reflected in future spatial planning, in particular with regard to the sustainable development of our regional towns and cities.

On a cautionary note, concerns have been raised around the potential impact of reduced visibility of remote workers on equality in the workplace, with remote workers potentially missing out on career development, training and promotion opportunities⁸⁶. While the widespread adoption of online communications platforms and video conferencing software has facilitated the interaction of teams regardless of geographic location, there are concerns that employees attending onsite may have an advantage by being physically visible on a day-to-day basis.

⁸⁶ [Working from home: From invisibility to decent work – International Labour Organization \(2021\)](#).

Remote work practices and procedures must be designed in a way to promote equality of treatment among workers, and an employee working remotely must have equal access to learning and development opportunities as those working on-site. Employers and people managers will also need to be supported as they learn to assess an individual's contribution to their team using new measures of productivity.

For those with caring responsibilities, be it parents or individuals caring for elderly or ill family members, remote working can have a positive benefit, allowing them greater flexibility in their work to accommodate both their personal and professional lives. Remote working can facilitate access to the workplace for people who would otherwise struggle to manage caring responsibilities with a lengthy commute time or physically working outside the home. In particular, remote working can make it easier for women with families to stay in, or re-join, the workforce.

It is well documented that low employment rates among people with a disability are linked to the many barriers to employment they face, including payment disincentives, as well as transport and physical access challenges. Currently Ireland has the lowest rate of employment amongst persons with disabilities of all European countries (32.3%) and the highest employment gap between people with disabilities and the general population (42%)⁸⁷. Widespread adoption of flexible working provides new opportunities for people with a disability or chronic illness to join the workforce and develop successful careers. For older workers, remote working arrangements have the potential to act as a way of easing employees into retirement and could encourage longer working. Access to adequate training in new digital work platforms is important for all workers, and additional supports for older workers should be made available where needed.

Remote work could help achieve some of our spatial planning targets by encouraging more individuals and enterprises to operate outside of the traditional urban areas, supporting balanced regional development. The extent to which remote working becomes part of future work practices will have a long-term impact on Irish cities and the way workers and residents utilise urban areas, which could have a considerable knock-on impact on the small and medium size enterprises located in city centres that service commuters.

Remote working provides the opportunity to relieve accommodation pressures in cities where demand has caused rent and house prices to increase significantly above the national average⁸⁸, and could help to revitalise villages and towns across Ireland where the cost of living, and in particular, the cost of housing, is lower. The widespread availability of high-speed broadband across all regions will be essential to facilitate regional remote working (see Digital Infrastructure section on page 56). There is significant social and economic value in regional towns and cities being supported to become vibrant places in which to live and do business, where development occurs in town centres, avoiding the replication of patterns of urban sprawl in the major cities. Under the Government's new rural development policy, *Our Rural Future*⁸⁹, published in April 2021, €75 million in funding has been allocated to 24 regeneration projects of vacant town centre buildings to be repurposed as remote working and hot-desking facilities.

Remote working has the potential to improve work/life balance through improving child and family wellbeing, reducing the amount of time spent commuting, and reducing transport-related carbon emissions and air pollution. However, remote working is also linked to negative effects on mental health, with workers

⁸⁷ European Disability Forum (2020): Poverty and Social Exclusion of Persons with Disabilities – European Human Rights Report– Issue 4.

⁸⁸ [Daft-Rental-Price-Report-Q2-2021.pdf](#) and [2021-Q2-houseprice-daftreport.pdf](#).

⁸⁹ [gov.ie - Our Rural Future \(www.gov.ie\)](#).

experiencing feelings of isolation, loneliness, and stress⁹⁰. Furthermore, employees experience difficulty switching off and keeping regular working hours⁹¹. Previous research in 2007 on the impact of flexible working arrangements in Ireland on work-life conflict and work pressure found that while part-time work and flexi-time tend to reduce work pressure and work-life conflict, working from home is associated with greater levels of both work pressure and work-life conflict⁹².

OECD Viewpoint

To help maximise the potential productivity gains from effective remote working, while protecting workers from negative side effects and assuring innovation in the long run, the OECD⁹³ has highlighted a number of areas where cooperation between policy makers and social partners will be crucial. These guiding principles aim to ensure that policies introduced in the area of remote working are efficiently designed so that the economic benefits of remote working can be enjoyed by employers, employees, and the economy as a whole.

The OECD analysis suggests governments should focus on policies that can assist employees and employers adjust to the likely more widespread use of remote working into the future and should include:

- Policies to boost training for those with poor digital skills, especially for socially or regionally disadvantaged groups,
- Policies to ensure that remote working remains a choice so that individuals, firms, and sectors can find the optimal level of remote working for their specific circumstances,
- Support arrangements that provide workers with an appropriate remote working environment, including investments in home office equipment,
- Promotion of managerial best practices through information campaigns and stimulating investment in management training, and
- Policies to support the provision of fast, reliable, and secure ICT Infrastructure for firms and workers across regions.

According to the OECD, by focusing attention on these areas, policy makers can help to maximise the gains for productivity and innovation of more widespread remote working, while minimizing the risks of decreasing worker wellbeing. This also points to the need for new data to monitor impacts on productivity in a timely manner. Elements of the OECD framework have been addressed earlier in this Chapter and work is underway to ensure that remote working remains a choice⁹⁴. Building on this OECD framework, the following section explores the role of digital infrastructure, digital skills, and management skills in supporting the widespread adoption of remote and blended working post-pandemic.

3.3 Actions Crucial for Boosting Productivity

As highlighted in the proceeding sections, boosting productivity is key to ensuring the competitiveness of Irish enterprises. By supporting investment, by the public and private sector, in digital skills and technology as well as organisational changes and process innovations, enterprises can seize opportunities offered by future

⁹⁰ [NUI Galway Whitaker Institute & Western Development Commission \(2020\) - Remote Working during COVID-19: Ireland's National Survey - Phase II Report.](#)

⁹¹ [Consultation on Remote Working Guidance 2020: Summary and analysis of submissions received - DETE \(enterprise.gov.ie\).](#)

⁹² [The Impact of Flexible Working Arrangements on Work-Life Conflict and Work Pressure in Ireland \(researchgate.net\).](#)

⁹³ [OECD \(2020\) Productivity gains from teleworking in the post COVID-19 era: How can public policies make it happen?](#)

⁹⁴ [Tánaiste publishes views on right to request remote work - DETE \(enterprise.gov.ie\).](#)

flexible working arrangements. Investment in management skills will also be vital to enhancing the productivity of Irish firms as they adapt to the new market conditions and navigate the dual climate and digital transitions.

Of course, digital and managerial skills are not the only essential skills required by Irish SMEs. The Irish SME Association (ISME) believes at least some of the productivity gap among indigenous enterprises could be bridged by providing all business owners with a basic grounding in employment law, health and safety, financial management, marketing, and digital skills. ISME has proposed the introduction of a certification process to professionalise the SME sector, the 'Blue Cert' qualification, which aims to increase the SME sector's resilience and equip it to drive productivity in the Irish economy. The Small Firms Association (SFA) also recognises the importance of having the right skills, tools, and competencies to enable SME owners and managers to successfully develop Irish businesses. The SFA's MentorsWork⁹⁵ programme provides mentorship and training across four learning pillars: People, Finance & Growth, Digitalisation & Automation, and Business Processes. By increasing the participation of SME staff and managers in relevant training, the productivity of indigenous SMEs can be enhanced.

Investing in research and development is also essential for Irish enterprises in order to develop innovative new products and services to allow them to survive and thrive in competitive domestic and international markets. The remainder of this section will explore the areas where gaps have been identified in infrastructure and skills and where progress is needed in order to boost productivity in Ireland.

Digital Infrastructure

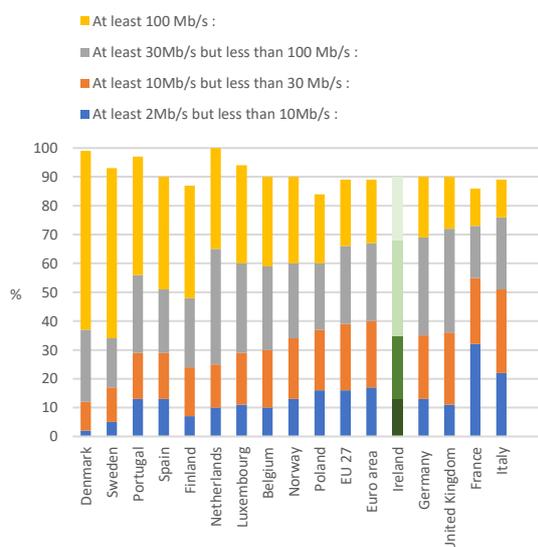
In order to effectively harness the potential productivity gains from more flexible ways of working, and in particular remote working, further investment in digital infrastructure and digital skills will be needed. In last year's *Competitiveness Challenge* report, the Council highlighted the shortcomings in Ireland's digital infrastructure compared to the top performing economies globally. While some progress has been made in the past year, the gap remains sizeable in a number of areas. In 2020, 22% of enterprises in Ireland with fixed internet access had access to high-speed internet, while 90% had speeds of at least 2 megabytes per second. These figures are broadly in line with the EU average but are significantly below the top performers (see Figure 3.3.1). Ireland also has one of the lowest proportions of fibre broadband connections in the OECD (see Figure 3.3.2).

The rapid shift to remote working by a significant proportion of the labour force following the onset of COVID-19 and the proposed future of more flexible working, including blended working, has highlighted the need for quality, high speed broadband across the country, as we have seen the challenges for individuals and businesses working in areas where the quality of connectivity is low. The National Broadband Plan (NBP) has been designed to address the shortcomings in Ireland's digital infrastructure and the digital divide between urban and rural areas and previous Council reports have identified the continued roll out of this plan as being important for competitiveness. In November 2019, the Government signed the contract for delivering the NBP with National Broadband Ireland (NBI) and work commenced in early 2020. Nearly 300 Broadband Connection Points (BCP)⁹⁶ were due to be rolled out in 2020, providing high-speed wireless connectivity in local communities, with the potential for digital work hubs in every county.

⁹⁵ [MentorsWork - Your Pathway to Business Success](#).

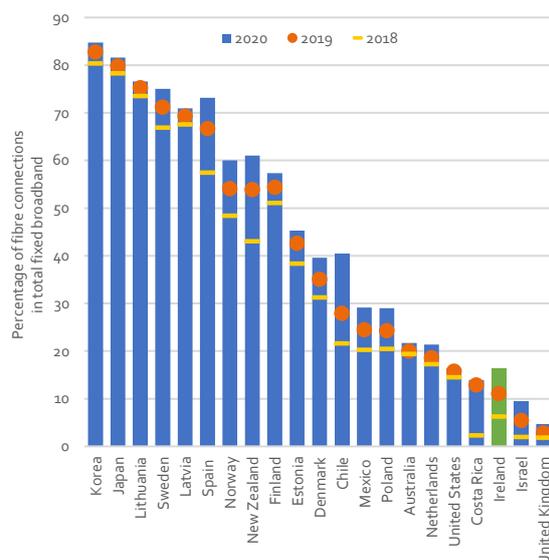
⁹⁶ Broadband Connection Points (or BCPs) are public locations which have been selected to receive high-speed connectivity in the first year of the National Broadband Plan. The locations of the BCPs have been selected by the Department of Rural and Community Development and include public areas such as community halls, libraries, GAA facilities, enterprise hubs, tourist locations and other public spaces.

Figure 3.3.1 Enterprises⁹⁷ with broadband access by maximum contracted download speed of fixed internet connection, 2020



Source: Eurostat

Figure 3.3.2 Percentage of fibre connections in total fixed broadband, 2020



Source: OECD Broadband Statistics

The COVID-19 pandemic has had a significant negative impact on the delivery of the NBP fibre network over the course of 2020 and 2021, resulting in delays on delivery of aspects of the programme. Challenges with mobilisation of key contractors when public health restrictions were in operation, supply chain and logistic delays (both nationally and internationally), as well as delays in the recruitment of key personnel as NBI and its contractors scaled up (including challenges associated with on-boarding and training new staff), all contributed to the missed targets. The 2021 target of reaching 115,000 premises has been almost halved, while the rollout of BCPs has also been affected, with 363 locations connected by August 2021, against a target of 512 by end-January 2022.

The Department of the Environment, Climate and Communications is also engaging with NBI to explore the feasibility of accelerating the roll out of the NBP, as committed to in the Programme for Government. This work will investigate the possibility of bringing forward premises which are currently scheduled in years 6 and 7 of the current plan to an earlier date. Exploring the potential to accelerate the network rollout is being undertaken in parallel with the measures required to mitigate delays arising as a result of COVID-19.

The COVID-19 pandemic has highlighted the importance of good reliable broadband to ensure that citizens and businesses across Ireland can avail of remote working, education, and other essential online facilities. It is vital that the NBP be brought back on track and safeguarding measures put in place to ensure further delays are avoided. The BCPs are particularly crucial to support more flexible working at digital hubs across the regions and are an example of critical infrastructure that must be delivered throughout the regions in conjunction with housing (see Chapter 4).

⁹⁷ All enterprises, excluding financial sector (10 or more persons employed).

Recommendation 3.4: To increase certainty for individuals and businesses, publish a timetable that shows how the National Broadband Plan rollout is being brought back on track as a matter of priority and develop adequate contingency planning to ensure that further delays are avoided.

Responsibility: Department of the Environment, Climate and Communications; Department of Rural and Community Development

In last year's *Competitiveness Challenge* report, the Council recommended a comprehensive mapping exercise of the types and capacity of remote working facilities be undertaken and a single classification, website and central directory created to inform individuals and enterprises of the facilities available in their locality. In May 2021, a €5 million Connected Hubs Fund⁹⁸ was launched to support the development of Ireland's first National Hub Network. The Fund will expand existing hub facilities, providing additional hot desks, office spaces and meeting rooms for remote working. The Fund can also be used to install electric car charging points, upgrade disability access and improve IT facilities located within hubs or BCPs and to assist in making hubs more compliant with social distancing guidelines.

An online booking and payment portal – ConnectedHubs.ie – has been launched and is managed by the Western Development Commission in conjunction with the Department of Rural and Community Development. The Council welcomes the timely progress made in this area over the past year and acknowledges that the connectivity and services provided by these hubs have the potential to deliver a wide range of transformative impacts. By supporting individuals and businesses working in remote areas, these facilities can significantly reduce commuting times, traffic congestion and the associated carbon and air pollution, as well as acting as key economic assets for towns and villages across Ireland.

Digital and Managerial Skills

Last year, in the *Competitiveness Challenge 2020* report, the Council highlighted a number of emerging skills gaps brought about by rapid changes in the nature of work, the adoption of new technologies, and Brexit. Demand for a wide range of skills, including digital skills and managerial skills, is expected to increase across the economy in the coming years as the digital economy grows in importance and automation and artificial intelligence change the world of work. In addition, the new methods of working induced by COVID-19 are giving rise to additional managerial skills needs as businesses adapt to the new reality and seek to meet the challenges of an evolving labour market. In order to ensure robust productivity growth across Irish enterprises, it is essential that workers and managers avail of relevant training and development opportunities⁹⁹.

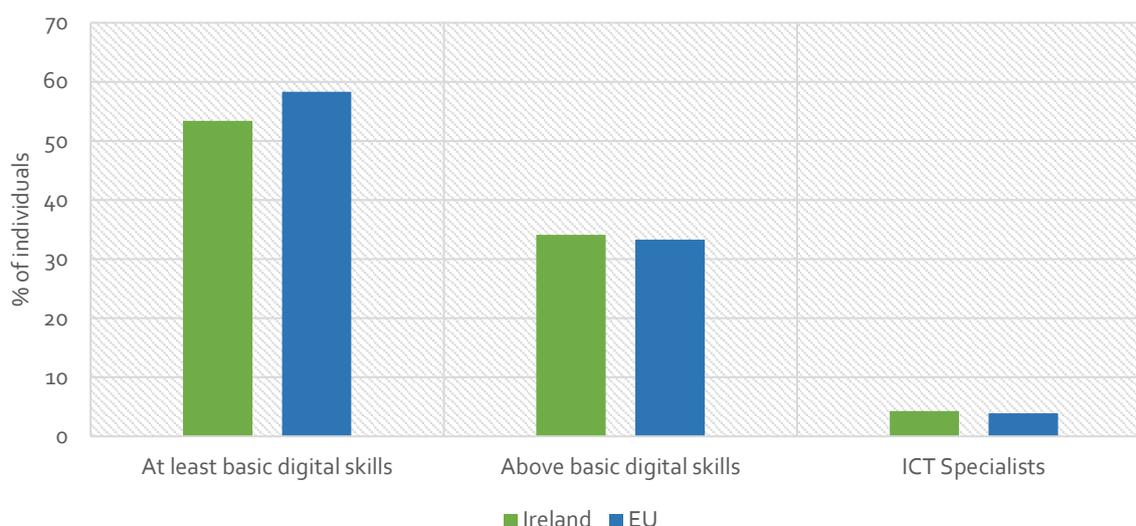
The need to expand the digital skills of workers is especially important as our ways of working have evolved in light of COVID-19 and there is scope for improvement in Ireland in this area. According to the EU Digital Economy and Society Index (DESI)¹⁰⁰ – which monitors the performance of Member States in digital connectivity, digital skills, online activity, and digital public services – Ireland has consistently remained just ahead of the EU average in terms of the proportion of the overall workforce with ICT Specialist skills over the past five years, with 4.3% of Irish workers having these skills in 2020 compared with 3.9% of EU workers (see Figure 3.3.3).

⁹⁸ gov.ie - Connected Hubs Fund (www.gov.ie).

⁹⁹ [The Human Side of Productivity - Organisation for Economic Co-operation and Development \(oecd.org\)](https://www.oecd.org/).

¹⁰⁰ European Commission (2020) [Digital Economy and Society Index \(DESI\)](https://ec.europa.eu/economy_finance/).

Figure 3.3.3 Human Capital Dimensions, DESI, Ireland, EU



Source: Digital Economy and Society Index 2020, European Commission

In terms of 'above basic digital skills', Ireland has improved steadily in the last five years, growing from 25.0% of workers in 2016 to 34.1% in 2020, slightly above the EU average of 33.3%. However, the gap between Ireland and the EU average is greatest in the category of 'at least basic digital skills' among the work force. While progress has been made in this category in recent years, reflecting the prioritisation of the key skills issues within the education and training system, the proportion of people in Ireland with 'basic digital skills' was 53.4%, below the EU average of 58.3%.

As part of the *Economic Recovery Plan*¹⁰¹ and the *National Recovery and Resilience Plan*¹⁰², the Government has committed to addressing the digital divide and enhance digital skills, by developing a new 10-year *Adult Literacy, Numeracy and Digital Literacy Strategy*¹⁰³ (launched September 2021) and a new Digital Strategy for Schools. The *Skills to Compete* initiative is the Further Education and Training activation and skills response for those who have been impacted by the COVID-19 pandemic, and this initiative also includes a digital skills component and recognises these skills as being key to improving participants' employability in the modern workplace. To keep pace with future change and to ensure people return to sustainable jobs, a higher and further education model centred on apprenticeships, transferrable skills and flexible education responding to evolving skills needs, and lifelong learning is required.

Recommendation 3.5: Ensure that the training and upskilling initiatives identified in the *Economic Recovery Plan* and the *National Recovery and Resilience Plan* are fully implemented and adequately resourced in order to ensure that workers have the appropriate skills, including digital skills, to be fully adaptable to the future world of work.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

¹⁰¹ [gov.ie](https://www.gov.ie) - Overview of Economic Recovery Plan 2021 (www.gov.ie) June 2021.

¹⁰² [gov.ie](https://www.gov.ie) - Ireland's National Recovery and Resilience Plan 2021 (www.gov.ie) June 2021

¹⁰³ [Home | Adult Literacy for Life Strategy](#) September 2021

Phase III of the *National Remote Working Survey*, published in May 2021, included a new section assessing the views of survey respondents with people management responsibilities. The report found that 44% of people managers said it was more difficult to manage their team remotely compared to being onsite, 47% said there was no difference and 9% said it is less difficult. The top three challenges identified by survey respondents of managing a team remotely were the onboarding of new team members, difficulty 'reading the room' on a certain topic and trying to navigate more complex issues. With regards to remote team management training, 45% indicated that they did not believe their organisation had provided them with the required training, while 36% indicated that they received basic training. This survey evidence highlights the challenges currently being faced by people managers and the appetite for further specialised training. As the economy gradually re-opens and a more widespread return to offices begins, a new set of issues will emerge for people managers as they navigate new blended working arrangements.

Recommendations in *Competitiveness Challenge 2020* in the area of digital and managerial skills are currently being actioned by a number of government Departments and agencies¹⁰⁴. The Council welcomes the publication in January 2021 of the *Report of the SME Growth Taskforce: SME and Entrepreneurship Growth Plan*¹⁰⁵ which sets out a wide range of recommendations with long-term strategic relevance for SMEs and entrepreneurs, including measures to assist companies to start up, scale up, enhance their digital capabilities, and increase export activity. Another positive development in the area of SME upskilling was the publication in October 2020 of the Expert Group on Future Skills Needs (EGFSN) report on management skills in SMEs entitled 'Leading the Way'¹⁰⁶. This report contains six recommendations designed to improve the management skills and practices of SME managers. The Council fully supports the EGFSN recommendations and urges the Implementation Group that has been established to drive coordination and cooperation between the key organisations relevant to the delivery of the agreed actions.

Recommendation 3.6: Ensure that the EGFSN Implementation Group responsible for delivering the recommendations identified in *Leading the Way* carefully monitor and report on the delivery of the agreed actions, so that SME managers are equipped with the necessary skills to navigate the post-pandemic recovery and more widespread flexible working.

Responsibility: Department of Enterprise, Trade and Employment, Expert Group on Future Skills Needs

Digitalisation Policy

While further investment in digital infrastructure and digital skills are crucial as the digital economy grows in importance and advanced digital technologies (such as artificial intelligence, robotics, and big data and analytics) continue to have a growing impact on Ireland's economy, it is also important that the surrounding digital ecosystem is supportive.

Ireland currently performs well in international metrics of digitalisation. The Digital Economy and Society Index (DESI) 2020¹⁰⁷ shows that Ireland is ranked as the 6th most advanced digital economy in the EU. The DESI shows that Ireland continues to rank number one in the Integration of Digital Technology by Businesses category and

¹⁰⁴ Numerous programmes are coordinated by SOLAS and Skillnet Ireland, under the Department of Further and Higher Education, Research, Innovation and Science. The Department of Enterprise, Trade and Employment, the Education and Training Boards, Higher Education Authority, Enterprise Ireland and Local Enterprise Offices are also involved in delivering training initiatives.

¹⁰⁵ [gov.ie](http://www.gov.ie) - Report of the SME Taskforce: National SME and Entrepreneurship Growth Plan (www.gov.ie).

¹⁰⁶ [gov.ie](http://www.gov.ie) - Leading the Way (www.gov.ie).

¹⁰⁷ [DESI | Shaping Europe's digital future \(europa.eu\)](https://ec.europa.eu/digital-single-market/en/desi).

has maintained a leading position in the use of eCommerce by SMEs. Overall Ireland's performance has steadily improved since the DESI's inception in 2014.

However, Ireland's strong performance in the aggregate DESI score masks areas of weakness in the sub-indicators, such as Connectivity, where Ireland ranks 23rd. The National Broadband Plan (NBP) (see page 56) aims to rectify some of Ireland's connectivity issues and is the largest infrastructure project in rural Ireland since rural electrification, encompassing 96% of Ireland's land mass with the goal of providing high speed broadband services to all premises in Ireland.

The European Union has set out key objectives and targets in the 2030 *Digital Compass*¹⁰⁸ to achieve the EU's vision for the digital future. It uses the four points of the compass to identify the main goals to reach over the next decade: (i) a digitally skilled population and highly skilled digital professionals; (ii) secure and substantial digital infrastructures; (iii) digital transformation of businesses; and (iv) digitisation of public sectors. Key policy areas to ensure these goals are met include cloud computing, artificial intelligence, digital identities, data, and connectivity.

The EU's commitment to the digital agenda has been further reinforced by ringfencing grants under the Recovery and Resilience Facility¹⁰⁹ for reforms that support the digital transition. In July 2021, the Commission's assessment¹¹⁰ of Ireland's *Recovery and Resilience Plan* finds that it devotes 32% of its total allocation to measures that support the digital transition. This includes measures enhancing connectivity, supporting the digitalisation of the public administration and of enterprises, and contributing to up-skilling in the educational system. The recent changes brought by the COVID-19 pandemic to the way we work, learn, do business and interact with each other have increased the risk of widening the digital divide¹¹¹ and leaving those without the necessary digital skills at a disadvantage.

The European Commission has highlighted the need for Member States and the EU as a whole to increase its strategic autonomy in tech in order to engage at a strategic level with global developments and reduce dependency on other players. At the same time the European Commission has also focused on the need to develop new rules and technologies to protect citizens from counterfeit products, cybertheft, and disinformation. It is also important that more is done to address the digital divide, both within Ireland and across the EU, so that the economic recovery and digital transition over the coming decade is inclusive and sustainable.

Digital issues are relevant to many areas of Government, leading to responsibilities spread across many Government Departments and there is currently no overall strategic policy coordination across Government Departments and agencies to ensure a holistic and coherent approach to digitalisation. International best practice shows that highly digitalised countries base their success on a national and well-coordinated strategy¹¹². In order to maximise cost competitiveness and productivity so that Ireland remains an attractive location to live and do business, it is important that Government's digital programmes and policies are coordinated.

¹⁰⁸ [The Digital Compass | Shaping Europe's digital future \(europa.eu\)](#).

¹⁰⁹ [NextGenerationEU: Questions and answers on the RRF \(europa.eu\)](#).

¹¹⁰ [Commission endorses Ireland's plan \(europa.eu\)](#).

¹¹¹ The digital divide refers to the gap between demographic groups and geographical regions that have access to modern information and communications technology and those that don't have access.

¹¹² [The digitalisation of small and medium enterprises in Ireland - Models for financing digital projects - Executive Summary](#).

The COVID-19 pandemic has increased digital dependency for people around the world. It has also drawn attention to the need to address a new digital divide emerging from the rapid adoption of digital technologies in the delivery of many services, with some people less equipped in terms of skills, equipment or connectivity to use these technologies. Companies are accelerating their digital transformation and are facing a greater exposure to cyber risk and ransomware. The increasing centrality of network connected devices to the operations of businesses and critical infrastructure in turn means that the consequences of cyber enabled attacks are far more serious than in the past. In May 2021, a cyber attack on the Health Service Executive (HSE) resulted in the theft of confidential personal and medical information and a ransom demand from the hackers for its return. The ransomware attack resulted in severe disruption to HSE computer systems and patient services and highlighted the vulnerability of large organisations, in both the public and private sectors, to attacks by sophisticated criminal hackers.

The National Cyber Security Strategy¹¹³ was published in December 2019 with a vision to allow Ireland to continue to safely enjoy the benefits of the digital revolution and to play a full part in shaping the future of the Internet. The forthcoming National Security Strategy (that will have a broader focus including terrorism, cyber, and hybrid threats) is being compiled by the National Security Analysis Centre (NSAC)¹¹⁴ and will further build on the National Cyber Security Strategy. These developments are crucial to sustaining our competitiveness and productivity, and to the safe use of data in the provision of services.

The multifaceted nature of digitalisation and the need for widespread protections against cyber threats further highlights the need for a whole of government approach that brings together key Government Departments, agencies, and stakeholders. The first phase of the *National Digital Strategy* was launched in July 2013¹¹⁵. This strategy focused on digital engagement and how Ireland can benefit from a digitally engaged society. It set out a clear vision and a number of practical actions to help increase the number of citizens and businesses engaging online through industry and enterprise, citizen training, schools, and education. However, the fast-moving digital landscape, more recent technological changes and the rising importance of digital in light of the COVID-19 pandemic, and the range of opportunities and challenges this presents to Irish society, has made the 8-year-old strategy obsolete. In order to build successfully on Phase 1, the new National Digital Strategy, needs to ensure a holistic and coherent approach to digitalisation and cyber security across all of Government, and the Council urges the publication of the updated strategy without delay.

Investment in Innovation

There is a rich international academic literature examining the role of innovation in explaining aggregate economic performance¹¹⁶ and firm level productivity¹¹⁷. Commonly used measures of innovation are expenditures on research and development or patent counts. While both are useful as crude measures, they are limited insofar as research and development is a simple measure of inputs and takes no account of the productivity and effectiveness of effort, while patents are a crude measure of outputs, capturing only some sorts of invention, and being of very differing values¹¹⁸. As noted by the CSO analysis earlier in this chapter,

¹¹³ [gov.ie - National Cyber Security Strategy \(www.gov.ie\)](http://www.gov.ie)

¹¹⁴ The National Security Analysis Centre sits with the Department of An Taoiseach with staff seconded from relevant departments — Foreign Affairs, Justice, Defence and Communications, Climate Action and Environment, An Garda Síochána, and the Defence Forces.

¹¹⁵ [gov.ie - National Digital Strategy \(www.gov.ie\)](http://www.gov.ie).

¹¹⁶ Lucas (1988) On the Mechanics of Economic Growth. *Journal of Monetary Economics* 22: 3- 42; Romer (1990) Endogenous Technological Change. *Journal of Political Economy* 98: 71-102; Schumpeter (1962) *The Theory of Economic Development*, Berlin: Springer.

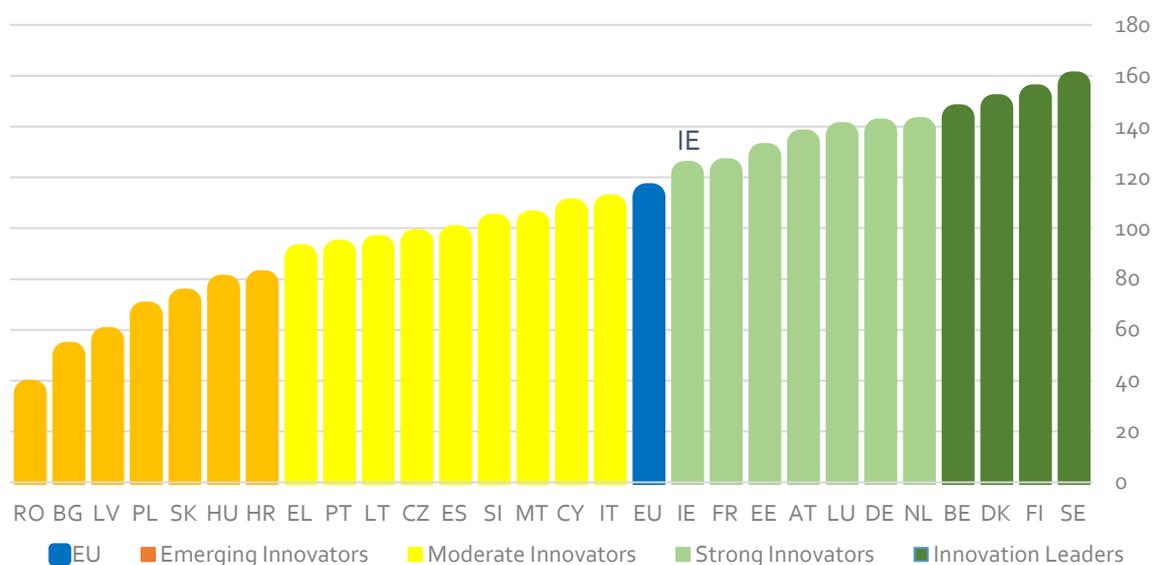
¹¹⁷ Griliches (1979) Issues in assessing the contribution of R&D to productivity growth. *Bell Journal of Economics* 10; Griliches (1986) Productivity, R&D, and basic research at the firm level in the 1970s. *American Economic Review* 76; Crepon, Duguet & Mairesse (1998) Research, Innovation and Productivity: An Econometric Analysis at the Firm Level. *Economics of Innovation & New Technology* 7: 115-158.

¹¹⁸ Griffith et al. (2006) [Innovation and Productivity Across Four European Countries](#).

there is evidence that the sectors devoting the largest resources to innovation expenditure have been the main drivers of productivity growth in Ireland over the past two decades while the sectors with more limited expenditure have not contributed meaningfully to productivity growth over the same period. The domestic academic literature¹¹⁹ indicates that innovation is positively linked to productivity at the firm level.

The EU Innovation Scoreboard¹²⁰ shows Ireland¹²¹ is considered a strong innovator, now ranked eleventh in the EU, reflecting a fall of two places from 2020 (see Figure 3.3.4). Over the last three years, performance relative to the EU has decreased, Ireland has lost its place as EU leader in both employment impacts of innovation and sales impacts of innovations. Ireland performs well in Linkages, Human Resources and Attractive research systems, having achieved overall scores above 125% of the EU average in each of these categories.

Figure 3.3.4 EU Innovation Scorecard



Source: Eurostat

The returns from public investment in innovation can be difficult to assess and take time to measure. However, public investment is crucial to stimulate private investment and to facilitate enterprise-led innovation creation and the diffusion of innovations. Data on gross R&D expenditure expressed as a proportion of GNI*, a measure which excludes the distorting effects of globalisation on Ireland's economic data, confirms that the overall R&D intensity has fallen from 2.08% of GNI* in 2013 to 1.93% in 2018. In the same time period, Government budget allocations for R&D (GBARD) have fallen from 0.53% of GNI* to 0.39% (see Figure 3.3.5).

For a globally comparative picture, it is necessary to look in terms of GDP. In 2018, Irish expenditure on R&D as a percentage of GDP (1.14%) was below the EU average (2.18%) and the UK (1.73%). Business expenditure on R&D (BERD) was 0.85% of GDP. In 2018, Gross expenditure on R&D (GERD) increased to €3,716 million and is at its highest level in the period 2008-2018. Estimated as a share of government budget outlays on R&D, expenditure in Ireland was 0.91% in 2016, behind the UK (1.33%) and the EU average (1.43%).

¹¹⁹ Di Ubaldo M. and Siedschlag I (2017) [The impact of investment in innovation on productivity: firm-level evidence from Ireland | ESRI](#); Crowley F. and McCann P. (2015) Innovation and Productivity in Irish Firms. Spatial Economic Analysis, Vol 10, Issue 2.

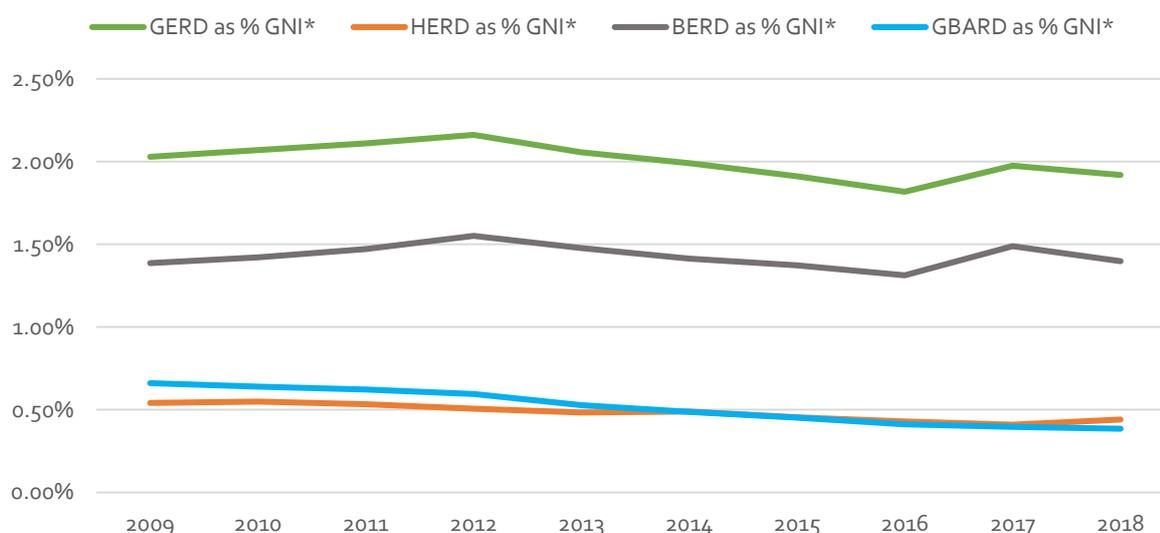
¹²⁰ [European innovation scoreboard | Internal Market, Industry, Entrepreneurship and SMEs \(europa.eu\)](#).

¹²¹ A degree of caution is warranted when interpreting Ireland's relative position in international indices due to the distortionary impact of using Gross Domestic Product as a measure of economic activity.

Higher education spending on R&D (HERD) saw an increase reaching €876.1 million in 2018, an increase of 17% since the last survey in 2016. However, Ireland's position relative to other OECD countries has been deteriorating in the last decade, although it improved somewhat in 2018. HERD as a percentage of GNI* has fallen from 0.48% in 2013 to 0.44% today. Ireland now ranks 23rd for HERD as a percentage of GDP (GNP for Ireland). Improving our performance in the public and private R&D expenditure represents a significant challenge for Ireland.

Despite the increase in the overall levels of investment in R&D in recent years (Government expenditure on R&D increased from €736 million in 2015 to €802 million in 2019), GNP*/GDP levels have increased at a faster rate. Innovation 2020 set out a commitment to increase combined public and private investment levels of R&D to 2.5% of GNP by 2020. The levels of Government R&D expenditure as a percentage of all Government expenditure have remained around 1% since 2011. In 2019, 0.92% of total General Government Expenditure was spent on R&D. However, it is expected to fall to 0.82% in 2020 due to the increased public spending in response to the COVID-19 pandemic. The decline in research intensity as a proportion of GNI* and GDP poses a threat that R&D investment may be insufficient to support future productivity growth. Currently the Department of Further and Higher Education, Research, Innovation and Science, in conjunction with other departments, are in the process of undertaking a national engagement on research and science in order to develop a renewed national strategy to succeed *Innovation 2020*.

Figure 3.3.5 Expenditure on Research and Development and Innovation



Source: Central Statistics Office and OECD

Private investment continues to be the main source of investment in R&D. The CSO biannual survey Business Expenditure on Research and Development (BERD) 2019 - 2020 shows that €3.25 billion was spent on R&D activities by enterprises in Ireland in 2019, an increase from €2.23 billion in 2015. The research expenditure of the indigenous business sector is small relative to the foreign owned sector but growing. Irish owned enterprises reported an increase in R&D spend from €810 million in 2015 to €962 million in 2019. Ireland's BERD expenditure continues to be dominated by a small proportion of multinationals, although their share in the BERD spend is decreasing. Foreign owned enterprises accounted for 70.4% of all R&D expenditure. The largest 100 enterprises in terms of R&D spend accounted for almost €2.7 billion, or 81.8%, of the total R&D expenditure in 2019. Irish companies are undoubtedly benefiting from the presence of foreign owned MNE's in Ireland, in

terms of the spillover of skills from the foreign firms to domestic enterprises and the sub-contracting opportunities that have arisen for Irish firms.

As well as expenditure on Research and Development being dominated by large, foreign owned enterprises it is also dominated by a few sectors. Total innovation spending in the Irish economy in 2018 stood at €5.5bn. Of the total innovation spending in the Irish Economy more than half comes from the Foreign controlled enterprises in the Manufacturing and ICT sectors. The Foreign Manufacturing sector spent €1.6bn, while the Foreign ICT sector was the next largest, spending €1.2bn on innovation in 2018.¹²²

Recommendation 3.7: Publish the successor strategy to *Innovation 2020* by end-2021 that will articulate the steps required to make Ireland a Global Innovation Leader, while ensuring research, development and innovation activities are aligned with public policy goals.

Responsibility: Department of Further and Higher Education, Research, Innovation and Science

The *Innovation 2020* strategy also acknowledges that higher levels of investment are not always enough and attention must be paid to the whole innovation ecosystem to ensure results benefit enterprise, society and the economy as a whole. The strategy envisages a coherent joined-up innovation ecosystem, responsive to emerging opportunities, delivering enhanced impact through the creation and application of knowledge. This ecosystem, when properly supported, will sustain a strong innovative and internationally competitive enterprise base, growing employment, sales, and exports. The new national research and innovation strategy will be launched later in 2021 and the strategy will build upon the key research and innovation priorities outlined in the *Economic Recovery Plan* and the *National Development Plan*.

3.4 Summary

Boosting productivity is key to ensuring the long-run competitiveness of Irish enterprises and is especially important as Ireland seeks to reinvigorate the domestic economy in the wake of the COVID-19 related shock. The pandemic has resulted in unprecedented disruption to the global economy, with the potential for investment, labour market, and trade channel scarring effects to negatively impact on long-run productivity growth. However, times of great upheaval also present opportunities to evaluate the status quo and find innovative solutions which could help re-invigorate global productivity growth.

By supporting public and private sector investment in digital skills and technology, management and financial skills, research and development and innovation, Irish enterprises can seize opportunities to develop innovative new products and services to allow them to survive and thrive in competitive domestic and international markets. More widespread and sustained productivity growth is key to improvements in living standards. The Council acknowledges the importance of further research and analysis to more fully understand how policies can be designed to enhance productivity growth, especially amongst the increasingly diverse domestic sector, where both high- and low-productivity performing Irish SMEs co-exist.

One direct outcome of the COVID-19 related public health measures is the more widespread shift toward more flexible ways of working. Looking forward, new opportunities for more widespread blended working have the potential to convey economic, social, and environmental benefits and could offer a better quality of life to those living and working in Ireland. New ways of working can deliver improvements in work/life balance and increase

¹²² [Chapter 6 Innovation - CSO - Central Statistics Office.](#)

social inclusivity in the labour market, reduce environmental costs and potentially boost regional development. The Council believes that policy actions to support investment in key areas such as skills, IT equipment and digital infrastructure have the potential to maximise the gains for productivity and innovation of more widespread remote and blended working.

Chapter 4: Infrastructure for a New Way of Living

4.1 Introduction

Housing is an essential infrastructure in any society, but also one that has been the source of economic vulnerabilities and crises in many countries, and notably in Ireland in the past two decades. At present, the primary challenge is to deliver housing supply sufficient to meet demand at a price level that is affordable and sustainable. While housing does not impact on competitiveness directly, affordability of housing is a key component of competitiveness, given its share of household expenditure. It impacts directly on the attractiveness of Ireland as a location for both mobile skilled manpower and investment. It also directly impacts enterprise costs through wage effects, which are important factors in determining the price of Irish goods and services. Housing affordability directly impacts Ireland's workers, with rising costs eroding real incomes and reducing standards of living. In addition, the cost of housing contributes to an economy's ability to adjust to adverse shocks.

In effect, a well-functioning housing and construction sector is critical to the overall health of society and the economy. In *Competitiveness Challenge 2020*, Chapter 4 on *Invest Strategically in Ireland's Physical Infrastructure* discussed the importance of investment in high-quality, productive infrastructure for sustainable economic and social development. That Chapter also discussed the housing market, but the Council believes that the urgency of the current housing crisis warrants further consideration of housing in this year's *Competitiveness Challenge*.

Ireland's housing market has experienced exceptional volatility in the past two decades¹²³, with new housing supply ranging from more than 100,000 units in 2006¹²⁴ to virtually zero between 2012 and 2014. The construction sector was particularly hard hit following the global financial crisis and the bursting of Ireland's property bubble, with house prices plummeting and activity in housing construction grinding to a halt. As house prices stabilised a tentative recovery began, but housing completions increased only very gradually and fell far short of the estimated demand for 33,000 additional units per annum to accommodate a growing population and household formation preferences¹²⁵.

The prolonged undersupply of new housing has led to chronic shortages of properties in both the rental and home ownership markets, resulting in house price increases, rental market pressures and increased homelessness, as households are priced out of local markets. The dysfunction in the housing market has spill-over effects on private enterprises as firms struggle to recruit skilled labour, and face wage pressures as employees demand higher compensation packages in order to afford the cost of living, particularly in urban areas.

The Council acknowledges that housing is not the only area where further investment in infrastructure is needed. For the Government's *Housing for All* strategy to succeed, the Government must simultaneously invest in Ireland's social infrastructure, such as the healthcare system, education, and childcare. The Phase 1 report on the Review of the National Development Plan (NDP) recognises the importance of these social infrastructures, noting '*access to quality primary education, health services and childcare ... is a defining characteristic of attractive, successful and competitive places*'. These public services have always been crucial to delivering a high

¹²³ McQuinn K. (2017) Irish house prices: Déjà vu all over again? QEC Special Article, ESRI.

¹²⁴ Poor planning practices & a distortionary tax system resulted in the wrong types of dwellings being constructed in the wrong locations, with insufficient local demand. Gurrán N. and Bramley G. (2017): [Planning Practice, Housing Oversupply & Ireland's Housing Boom & Bust](#).

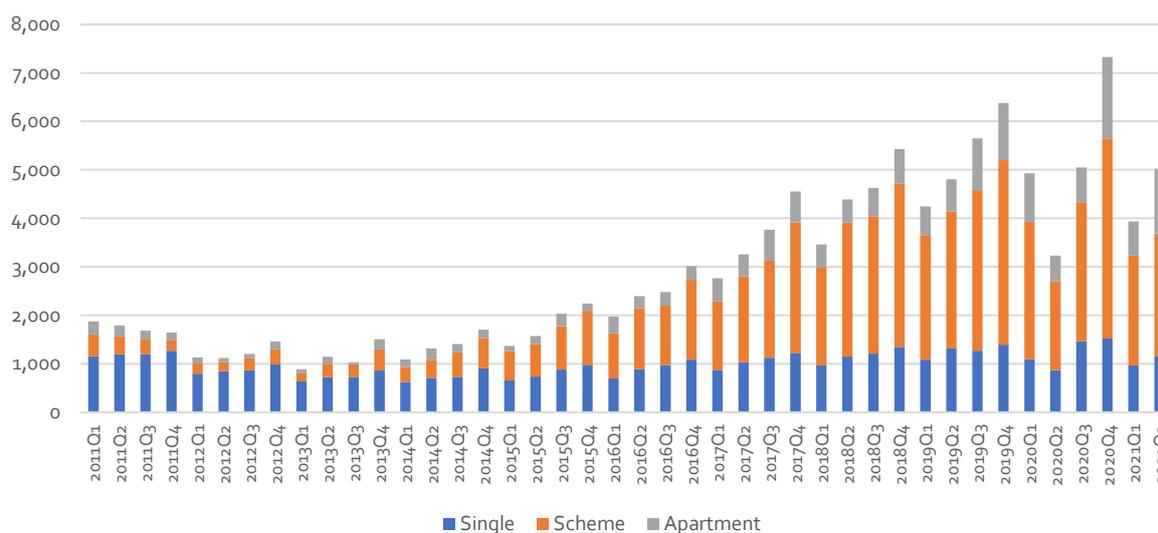
¹²⁵ [Regional demographics and structural housing demand at a county level \(esri.ie\)](#).

quality of life for Irish workers, and they will need to be adequately resourced to meet the evolving demands of Irish workers. Moreover, there are currently bottlenecks in critical associated areas, such as water and wastewater, electricity, communications and transport. It is essential that productive public investments continue to be made at a robust pace in order to address these bottlenecks, provide capacity for future needs, and boost competitiveness. The Council will explore these broader infrastructure bottlenecks in greater detail in future publications.

4.2 Current Situation in Ireland

The COVID-19 related disruptions negatively impacted on activity in the construction sector, with new dwelling completions falling sharply in the middle of 2020 (see Figure 4.2.1). Although the construction sector was one of the first sectors to resume activity as pandemic-related restrictions were eased, ongoing social distancing requirements hampered the delivery of additional housing stock last year, although the fourth quarter did perform above expectations. Further public health related restrictions in early 2021 once again disrupted construction sector activity, curtailing the completion of new dwellings and delaying the commencement of new projects, which is likely to impact on output over the remainder of the year.

Figure 4.2.1 New Dwelling Completions 2011Q1-2021Q2



Source: Central Statistics Office

The interim review of the *National Development Plan*, published in April 2021, acknowledged that delivering the right kind of housing in the right locations is critical to the successful delivery of *Project Ireland 2040*¹²⁶. The disruption to the construction sector and hampered supply due to COVID-19 in 2020 and 2021 is adversely impacting on the availability and the cost of housing, both for purchase¹²⁷ and to rent¹²⁸. House prices and rents have been increasing across the majority of OECD economies¹²⁹, driven by low interest rates and additional savings accumulated during the pandemic. For Ireland to remain competitive compared to other countries and

¹²⁶ [Phase 1 Report - Review of the National Development Plan](#).

¹²⁷ Residential property prices (houses and apartments) increased by 6.9% nationally in the year to June 2021. [RPP Index June 2021 - CSO](#)

¹²⁸ Rents grew by 4.5% nationally in Q1 2021 compared to the same period last year. In Dublin, in Q1 2021, the standardised average rent stood at €1,820 per month, a 2.0% increase year-on-year. <https://www.rtb.ie/research/ar>.

¹²⁹ [House Prices 2020 \(oecd.org\)](#).

to be an attractive base for mobile skilled workers and investing multinational enterprises, it is critical that housing supply is increased over the coming years.

Spatial Planning and Apartment Delivery

Furthermore, to avoid urban sprawl and the pressure that it puts on both the environment and infrastructure demands, increased residential densities are required in our urban areas¹³⁰. However, there are concerns about the viability and affordability of apartment delivery. The Society of Chartered Surveyors Ireland's *Cost of Apartment Delivery Report*¹³¹, published in January 2021, provides figures on the costs of delivering various categories of apartments to market. The report features a breakdown of costs, affordability and viability analyses, and recommendations for the future. The total construction costs (i.e., bricks and mortar) and the total development costs (i.e., bricks and mortar including site, levies, finance, infrastructure costs, VAT, etc.) are generally similar for a build-to-sell or a build-to-rent apartment schemes, except for the addition of private amenity space.

The report finds that hard construction costs of apartment schemes have increased over the past three years, driven by general wage and tender price inflation, as well as further changes to standards around nearly zero energy buildings (NZEBS). However, the report also noted that policy changes implemented in 2018 in relation to less onerous design regulations, which increased the maximum number of apartments per core, reduced the number of car parking spaces needed in certain locations, and also changed dual-aspect ratios, have helped to reduce overall construction costs. Because of the expensive nature of apartment development, it is often difficult to ensure the viability of new units for the private sales market. This has led to build-to-rent models being adopted to allow investors and developers reap a long-term yield from the development in order to increase the viability of the investment.

In terms of affordability, the SCSi report examines multiple affordability scenarios to take account of the wide variety of household incomes and assess their capability of purchasing an apartment in Dublin. The analysis found that affordability of apartments to purchase in Dublin remains challenging, with a joint income of more than €110,000 required for a lower-range, medium rise, suburban apartment, which remains out of reach for many couples and young families.

National Economic and Social Council Analysis

Housing infrastructure can be delivered by both the private and public sector and addressing supply bottlenecks is crucial to ensuring a well-functioning housing market. As part of the National Development Plan Review, the secretariat of the National Economic and Social Council (NESC) was invited to examine and recommend policy options to facilitate the delivery of public and private housing in line with the compact growth targets set out in the National Planning Framework and related policies in the new Programme for Government. Drawing on significant previous research and analysis in this area, undertaken by numerous researchers in Ireland, the report, *Housing Policy: Actions to Deliver Change*¹³², reaffirmed NESC's view that Ireland must bring about a fundamental change in its system of urban development, land management and housing provision and evolve from a speculative and highly cyclical system to a permanently affordable, stable and more sustainable system of housing.

¹³⁰ [Project-Ireland-2040-NPF.pdf](#)

¹³¹ [Real Cost of New Apartment Delivery Report | Society of Chartered Surveyors Ireland \(scsi.ie\)](#)

¹³² [Housing Policy: Actions to Deliver Change | The National Economic and Social Council - Ireland \(nesc.ie\)](#)

The NESC report acknowledges that housing must be approached as a system, with interrelated and connected parts, where change is complex and takes time. Reform will require a coordinated, action-orientated approach to bring about a structural shift in the approach to housing policy rather than isolated actions. The Council agrees with NESC's analysis and acknowledges that isolated policies have to date failed to materially improve the delivery of sustainable housing. Due to the multi-faceted and complex reforms needed to address the challenges in the housing market, the Council believes it is essential that the first steps of these reforms are undertaken with an immediate sense of urgency as it will take time to see results in terms of increased housing supply from these policy actions.

The NESC report focuses on two related issues: first, bridging the supply gap by actively managing land and locational value for public good; second, bridging the affordability gap by engineering-in permanent affordability. By bridging these inter-related gaps, an affordable, sustainable, and socially equitable housing system can be developed. The NESC report details the steps necessary to bridge these two gaps under three broad headings: (i) institutional adjustments; (ii) more effective use of existing policy instruments; and (iii) innovation to enhance the policy options available to the State.

Capacity and Capability

A functioning and sustainable housing system needs a construction sector with the capability and capacity to deliver the required supply. The *Build 2020: Construction Sector Performance and Capacity* report¹³³, published in July 2020, assessed the construction industry's current and potential future capacity, as well as highlighting possible constraints, risks and opportunities. The report found that potential risks and constraints were present in the construction sector in the form of cost inflation, limited sources of additional labour supply and stagnant productivity growth. In order to mitigate these risks, a number of Government actions have been put in train, including communicating for industry confidence, securing the skills pipeline, and driving innovation and productivity improvements. Specific actions were further outlined in the *Phase 1 Report*¹³⁴ as part of the *Review of the National Development Plan* and included a new apprenticeship action plan, recommendations from the Expert Group on Future Skills Needs (EGFSN), the funding and establishment of the Build Digital Project to drive digital adoption across the built environment sector and work by Enterprise Ireland to assess the potential for a Construction Technology Centre.

It is also important to consider capacity issues in the public sector. The *Summer Economic Statement*, published July 2021, set out the Government's revised overall capital expenditure ceilings for the period 2021-2025, with gross voted capital investment increasing to €13.6 billion, almost 5% of GNI*, by 2025. This represents the largest projected capital expenditure in the State's history, and it is imperative that this investment achieves value for money and delivers for citizens. A key focus of the ongoing review of the NDP is on the capability and capacity of the public service to support the delivery of the ambitious targets for investment that are set out in the plan. Building on recent reforms such as the update of the *Public Spending Code*, including the provision of resource packs and templates as recommended by the Council in 2020¹³⁵, the NDP Review will set out a suite of reforms to strengthen the assurance arrangements and public sector capability to deliver *Project Ireland 2040*. These will include a new *External Assurance Process* for projects in excess of €100 million in Exchequer

¹³³ [gov.ie](http://www.gov.ie) - *Build 2020: Construction Sector Performance and Capacity* (www.gov.ie).

¹³⁴ [gov.ie](http://www.gov.ie) - *Minister McGrath publishes Phase 1 Report - Review of the National Development Plan* (www.gov.ie).

¹³⁵ *Ireland's Competitiveness Challenge 2020* – Recommendation 4.1: Provide supports such as resource packs and templates to complement the updated Public Spending Code and support public bodies in meeting their requirements in evaluating, planning and managing public investments.

funding, strengthening of the *Project Ireland 2040* Delivery Board to include more external membership and setting out a 'backbone' of future reforms to improve public sector delivery capacity and capability through the Supporting Excellence Action Team.

While the construction sector has been re-opened in Ireland since April 2021, COVID-19 related disruptions are still impacting on activity and prices in the sector. The Ulster Bank Construction PMI for July 2021¹³⁶ reported that input cost inflation had hit a record high for the third consecutive month, with survey respondents citing lengthening lead times, driven by significant demand for inputs, global shortages of materials and some transportation delays caused by Brexit (see also Box A). Copper, plastics and steel were singled out as sources of cost pressure. While some of these disruptions are likely to be temporary and their effects will fade as global supply chains come back online, the high level of planned construction activity over the coming years is likely to result in high demand for inputs and subsequent cost pressures. More broadly, global inflation has picked up in recent months, mostly reflecting unusual pandemic-related developments and transitory supply-demand mismatches¹³⁷. While global inflation is expected to return to its pre-pandemic ranges in most countries in 2022, uncertainty remains high and there is a risk that transitory pressures could become more persistent.

Social Infrastructure

Providing adequate places for people to live is about more than physical buildings. For new houses to improve the quality of life for Irish people, they must be located close to a host of ancillary social infrastructures, including childcare facilities, healthcare services, schools, and transport links. These are crucial services that contribute greatly to quality of life, and the productivity of the Irish workforce (in particular in relation to educational services).

As highlighted in the *Competitiveness Challenge 2020*, Ireland has the highest average monthly fees for early learning and care and school-aged childcare (ELC and SAC). This observation was validated by subsequent research undertaken by Frontier Economics (which is providing research support to an Expert Group convened by the Department of Children, Equality, Disability, Integration and Youth (DCEDIY) to develop a new funding model for ELC and SAC). Frontier Economics note that '*the evidence indicates that parents in Ireland pay some of the highest gross and net ELC costs relative to the average national wage across a broad range of European and OECD countries.*'

The COVID-19 pandemic has placed extraordinary strain on the public health system over the past 18 months, with health care workers and front-line staff working tirelessly to deliver essential care under difficult circumstances. The pandemic has demonstrated weaknesses within the healthcare system, in particular with regard to a lack of real-time information and data, and a lack of modern acute and community care infrastructure. It is imperative that these weaknesses are addressed so that the healthcare system can be made more resilient to future shocks. It is also vital that the learnings and innovations from the response to COVID-19, in areas such as e-health, telemedicine, vaccinations and enhanced communication with the public about key health messages, are incorporated into future phases of *Sláintecare*¹³⁸ reform.

¹³⁶ [Ireland Ulster Bank Construction PMI | 2013-2021 Data | 2022-2023 Forecast | Calendar \(tradingeconomics.com\)](#).

¹³⁷ [World Economic Outlook Update, July 2021: Fault Lines Widen in the Global Recovery \(imf.org\)](#).

¹³⁸ In 2017 the Oireachtas Committee on the Future of Healthcare set out, in the *Sláintecare* Oireachtas Report, their vision to deliver safe, quality health and social care services that meets the needs of our growing population, and attracts and retains the very best healthcare clinicians, managers, and staff.

Expanding primary and community care is at the heart of *Sláintecare*, with a vision of making the vast majority of healthcare services available in the home or close to home, rather than in hospital settings. The Programme for Government committed to expanding community-based care by developing Community Healthcare Networks to support the expansion of services, based on the need and size of local populations. It is vital that these community-based facilities are delivered in parallel to new housing to improve the health and well-being of local populations.

4.3 Actions Crucial for Infrastructure for a New Way of Living

Housing for All Strategy

In August 2021, the Government launched a new housing strategy, *Housing for All*¹³⁹, which set out ambitious plans for the housing sector over the next ten years. This strategy encompasses a whole-of-Government approach, delivered in partnership and collaboration with other State bodies, industry and the community and voluntary sector to tackle the complex issue of housing delivery. *Housing for All* is organised across four pathways: increasing new housing supply; supporting home ownership and increasing affordability; addressing homelessness, protecting tenants and supporting inclusion; and tackling vacancy and under-use of existing stock. The strategy also acknowledges that housing cannot and should not be delivered in isolation without the supporting critical infrastructure, including transport, communication services, and utility connections.

The Council welcomes the scale and ambition of the *Housing for All* strategy and fully agrees that an overarching and joined-up whole of Government approach to housing reform is warranted. Quarterly progress reports will be submitted to the Cabinet Committee on Housing, providing political oversight and will be supported by a cross-Department Secretary General Delivery Group and a Programme Delivery Office within the Department of Housing, Local Government and Heritage. The strategy proposes that the commitments identified will all be initiated, and in many cases they are proposed to be completed, within the first 12 months of the plan. However, the Council has concerns that the Housing Policy Objectives (HPOs) and the large number of related actions identified in the strategy will be challenging to deliver in the timescales outlined. Difficult, and sometimes unpopular, decisions will need to be made and resources directed to areas where they can have the greatest impact.

Recommendation 4.1: The *Housing for All* governance and reporting groups should identify the priority actions that will be targeted in the immediate term, so that the appropriate sequencing of interventions can be established and resources urgently directed to the areas where real change can be delivered.

Responsibility: Department of Housing, Local Government and Heritage

The Council also has concerns about the sequencing and timing of the rollout of demand side measures before supply side reforms have time to deliver results, with likely adverse consequences for house price inflation. The Council urges the Department of Housing, Local Government and Heritage to conduct a comprehensive assessment of the proposed demand-side housing policy initiatives to determine the appropriate scheduling of their rollout taking into account the length of time required for supply side measures to take effect.

¹³⁹ [gov.ie - Housing for All - a New Housing Plan for Ireland \(www.gov.ie\)](https://www.gov.ie/en/publications-and-resources/publication/housing-for-all-a-new-housing-plan-for-ireland/)

Recommendation 4.2: Establish reporting mechanisms and evaluation procedures so that the impact of housing market interventions can be closely monitored and schemes can be adjusted if market distortions arise.

Responsibility: Department of Housing, Local Government and Heritage

As part of the Government's housing reforms, changes have been made to the planning process over recent months. The changes have focused on the judicial review process and a review of planning legislation to ensure that it appropriately reflects a planning system which is principles led, with greater public acceptance and a replacement for the strategic housing development (SHD) process. This new arrangement for Large-Scale Residential Developments (LSRD) will apply to applications for 100 housing units or more, or student accommodation bed spaces of 200 or more, and will comprise three pillars:

- Pre-application consultation stage- planning authorities will be required to complete the final consultation meeting aspect of the pre-application consultation stage - including the provision of an opinion as to whether the proposals constitute a reasonable basis for moving to the next phase and submitting a planning application - within 8 weeks of receipt of such meeting request from the developer/ project promoter.
- Planning application stage - planning authorities to determine LSRD planning applications within 8 weeks of receipt, with limited scope for "further information requests" in the light of the pre-application consultation phase.
- Appeal stage - An Bord Pleanála will be required to determine LSRD appeals within 16 weeks of receipt, again with similar limited scope for "further information requests".

These streamlined LSRD arrangements, involving mandatory timelines, have the potential to be almost as time efficient as the SHD arrangements they are replacing, while also returning the primary decision-making function to the local level, with the associated gains in terms of public participation. It will be vital that local planning offices are adequately resourced in order to make achieving these ambitious targets realistic in the medium term.

While it is hoped that these new arrangements will help to speed up planning applications for new housing and reduce the likelihood of judicial review and lengthy delays by involving the public at the initial stage, the Council is concerned that the explicit prioritisation of housing over other forms of social infrastructure, such as the healthcare system, education, and childcare and other critical physical infrastructure, such as water and wastewater, communications, electricity and transport, could result in delays in granting planning permission for these other vital structures.

Recommendation 4.3: Ensure that the planning authorities are sufficiently resourced, with appropriate training and accumulation of expertise, to accommodate each stage of the new Large-Scale Residential Developments approval process, so that the approval process for housing and other critical social and physical infrastructure is not delayed.

Responsibility: Department of Housing, Local Government and Heritage; Local Authorities

Further Construction Demands

Of course, new housing and infrastructure are not the only areas of the construction sector that will face demand pressures and skills bottlenecks over the coming years. As part of the Climate Action Plan¹⁴⁰, Ireland has committed to retrofitting approximately 500,000 existing homes to upgrade to B2 Building Energy Rating (BER) or cost optimal or carbon equivalent and to install 400,000 heat pumps by 2030. In September 2020, the Expert Group on Future Skills Needs (EGFSN) published its analysis of the *Skills Needs of the Built Environment Sector*¹⁴¹, encompassing construction, engineering and architecture. The report identifies the skills required by the Built Environment sector over the next decade to deliver on ambitions around housing, infrastructural development and climate change mitigation. In the coming months, the forecasts in this report will be revised to reflect additional analysis commissioned by the EGFSN in 2021. The forthcoming *Labour Demand Estimates for Ireland's National Housing Targets, 2021-2030 Report* estimates that total labour demand from housing construction will need to rise from approximately 40,000 full-time equivalent workers at present, to 67,500 workers by the middle of the decade, to achieve an annual average of 33,000 homes over the decade. As the backlog of housing output has built up, a further increase, possibly up to 80,000 workers may be necessary. The second forthcoming report on the *Skills to Enable the Low Carbon Economy to 2030* estimates a further 17,500 workers will be required in relation to the *Climate Action Plan's* retrofit targets. There will further demand for construction skills in the construction of renewable energy projects and the retrofitting of commercial and public sector buildings. The high level of forecast demand for labour in the construction and built environment sector over the coming decade has the potential to lead to wage pressures as the supply of this labour is limited.

In order to address the skills demand issues identified in their analysis, the EGFSN recommends nine priority actions, which are for the consideration of built environment stakeholders across industry, education and training providers, and Government. These recommendations encompass campaigns to promote careers in the built environment sector, reforms to education, training and qualifications (including apprenticeships), and further skills development to help the sector adapt to new technologies, climate change and managerial challenges. The Council welcomes the publication of these recommendations and encourages the cooperation of all stakeholders, from both the public and private sector, in order to deliver on the EGFSN recommendations to ensure the skills required are delivered over the coming decade and bottlenecks are avoided.

Social Infrastructure

As noted, the pandemic has underscored the importance of social infrastructure to our collective quality of life. The National Development Plan (NDP) sets out the Government's overarching strategy for infrastructure spending, and a Review of the NDP is expected shortly to update the Government's approach to infrastructure spending. However, there are also policy processes in place that address issues with specific social infrastructures.

For early learning and care (ELC), and school-aged care (SAC), the two main State funding schemes that help reduce the cost burden of childcare on parents are: the Early Childhood Care and Education (ECCE) programme and, the National Childcare Scheme (NCS)¹⁴². The budget allocation for ELC and SAC in 2021 is €638m. This includes €289.3m under the ECCE programme and €205.5 under the NCS.

¹⁴⁰ [Climate Action Plan 2019](#). Climate Action Plan 2021 is being prepared for publication in the second half of 2021.

¹⁴¹ [Building Future Skills - The Demand for Skills in Ireland's Built Environment Sector to 2030](#).

¹⁴² The National Childcare Scheme will begin to replace existing targeted programmes (e.g., the Community Childcare Subvention Plus programme and the Training and Education Childcare programme)

Through the ECCE programme, the State fully funds 15 hours weekly of pre-school education for all children in the relevant age category for the two years prior to starting primary school. In November 2019, the NCS, the first statutory entitlement to financial support for ELC and SAC was introduced. The NCS provides both universal and income-assessed subsidies to offset the fees of ELC and SAC to parents. The highest level of subsidy is for families on the lowest incomes, with the level of subsidy tapering down as income rises. Parents who are working, studying or who meet other conditions qualify for up to 45 -hours of subsidy per week. Parents not in work or study qualify for up to 20 hours of subsidy per week. Parents are required to cover the cost of ELC and SAC that arises over and above these subsidies, and there are currently limited restrictions on the fees that providers can charge.

In September 2019, an Expert Group was established to review the current funding model for ELC and SAC and make recommendations for a new funding model that should (operating alongside the above-mentioned schemes) deliver accessible, affordable, high-quality and sustainable ELC and SAC services. This Expert Group will provide the Minister for Children, Equality, Disability and Integration and Youth its report in the fourth quarter of 2021, and it will be crucial that the Government act swiftly to implement the recommendations for a new funding model to ensure that ELC and SAC becomes more affordable for Irish parents.

Recommendation 4.5: Make childcare costs more affordable by adopting the recommendations from the Expert Group currently examining the funding model that will allow for the delivery of accessible, affordable, high-quality, sustainable ELC and SAC services following the publication of the report in Q4 2021.

Responsibility: Department of Children, Equality, Disability, Integration and Youth

For healthcare, in May 2021, the new *Sláintecare Implementation Strategy and Action Plan 2021-2023*²⁴³ was published which sets out the priorities and actions for the next phase of the *Sláintecare* reform programme, which aims to deliver a universal health service that offers the right care, in the right place, at the right time, at low or no cost. The Action Plan contains an Enhanced Community Care (ECC) workstream which aims to improve the experience of patients by avoiding hospital admission as far as possible through initiatives that will see care delivered within the community, at or near a person's home where safely possible and appropriate. Over the next three years, the workstream will focus on the nationwide implementation of capacity for enhanced community care through building health and social care services at a community level to meet the identified health needs of local populations, by establishing 96 new Community Healthcare Networks that will provide the foundation and organisational structures that will enable integrated care with primary and acute care partners, and by recruiting up to 7,000 community-based healthcare staff. The Council welcomes the Government's ongoing commitment to healthcare reform as it is a key element of social infrastructure that bolsters the health and overall wellbeing of local communities, contributes to a high standard of living, and increases the resilience of society to deal with unexpected health events.

Finally, as part of the wider review of the NDP, the Government is examining infrastructure spending in Higher Education. While part of this infrastructure spending must be focused on policies to improve skills developments, as discussed previously in Chapter 3, investment in physical infrastructure is crucial. The Council believe that the revised NDP must recognise: (i) the new educational delivery systems that have shown their worth over the course of the pandemic; and (ii) the role that Ireland's physical infrastructure (i.e., the bricks and mortar of Ireland's university campuses) will continue to play in educating Ireland's future workforce.

²⁴³ gov.ie - *Sláintecare Implementation Strategy and Action Plan 2021-2023* (www.gov.ie)

4.4 Summary

The affordability of housing is an important component of competitiveness and can indirectly impact on enterprises' costs and influence the competitiveness of Irish goods and services, the quality of life of people living in Ireland, and potentially could impact on the attractiveness of Ireland as a location for investment. Adequate housing can facilitate labour mobility within an economy and help economies adjust to adverse shocks, which is especially important as Ireland recovers from the COVID-19 related disruption.

The Council believes a structural shift in the approach to housing policy is urgently needed, as the piecemeal approaches to planning reform in the past has failed to deliver tangible improvements in housing delivery. Investing in sustainable housing is essential to ensure Ireland's long-term competitiveness, and it will important that the *Housing for all* strategy has the appropriate prioritisation and sequencing of actions so that results can be achieved in the immediate term.

The Council also recognises the potential for Government policy, including the *Housing for All* strategy, to truly deliver a new way of living for Irish people in a post-pandemic world. However, this new way of living must be about more than simply bricks and mortar. To improve quality of life for all, housing must be delivered within a broader context of investment in Ireland's social infrastructure. Ireland needs: an affordable childcare system that empowers parents; social and health care systems that delivers the right care, in the right place, and at the right time; and, finally, an education system that equips the next generation with the skills necessary to be productive in the 21st century economy.

There are other vital infrastructures needed and that there are currently bottlenecks in critical areas such as water and waste-water, electricity and transport. These facilities will need to be delivered in tandem with new housing and will also be required to support enterprise expansion and to facilitate new foreign direct investment. It is essential that productive public investments continue to be made at a robust pace in order to address these bottlenecks, provide capacity for future needs, and boost competitiveness. The Council will revisit these broader physical infrastructure bottlenecks in greater detail in future publications.

Chapter 5: A Sustainable and Inclusive Economy

5.1 Introduction

As articulated in the Government's *Economic Recovery Plan*, sustainability and inclusivity will be at the core of Ireland's post-COVID future. This consensus is consistent with what is seen widely across Europe¹⁴⁴, as countries recognise the need to engage seriously with the climate agenda and to ensure that social cohesion is maintained by economic and social policies which promote inclusivity. In the *Competitiveness Challenge 2020*, the Council explored the enterprise sector's role in tackling carbon emissions and made a series of recommendations designed to reduce emissions while maintaining competitiveness. This year, the Council's focus is on ensuring that the necessary steps to transition to carbon neutrality by 2050, are taken (including those recommended by the Council previously) and that competitiveness and productivity improvements benefit all parts of society. These issues are made all the more pressing in an evolving world where increasing numbers of people will have greater flexibility to choose where they work. This concept is discussed in greater detail in Box C below that examines the role of socio-economic issues in making Ireland an attractive place to live and work. Tackling carbon emissions, while promoting equality, is also a huge challenge.

The recent report of Intergovernmental Panel on Climate Change¹⁴⁵ (IPCC) has noted that it is unequivocal that human influence has warmed the atmosphere and that human-induced climate change is already affecting weather and climate extremes in every region across the globe. The report notes that limiting human-induced global warming to a specific level requires limiting cumulative carbon emissions, reaching net zero carbon emissions, along with strong reductions in other greenhouse gas emissions. Concerted policy actions are needed to reverse the impact of greenhouse gas emissions on climate disruption. To date, despite efforts to tackle environmental changes, Ireland has had a relatively poor record with respect to addressing greenhouse gas emissions, a fact that has been highlighted by the Council previously¹⁴⁶. On a per capita basis, Ireland is the second largest greenhouse gas emitter in the EU and has had less success in reducing emissions compared to other EU countries.

A fundamentally important factor in this transition is to be aware that moving to a carbon neutral society will have a differential impact on different sectors and regions of the economy. Some businesses that would be profitable in a carbon neutral future may be unable to make the required transition without Government intervention, while other businesses (that are currently profitable) may not be viable when the necessary actions needed to address climate change have been put in place. Businesses will also face competitive pressures to adopt more sustainable production processes to remain relevant and adapt to changing consumer tastes. In this way, there is a compelling argument that by adopting measure that make production processes more sustainable, businesses may also improve Ireland's competitiveness.

Inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all. In Ireland, levels of market inequality and poverty are relatively high. On some measures, Ireland is the most unequal society in the EU (e.g., Ireland's GINI co-efficient before taxes and transfers). However, Ireland has a progressive income tax and broad social welfare system that, as demonstrated below, does an effective job at reducing these high levels of market inequality. When the combined impact of Ireland's tax and social welfare system is considered, Ireland looks like a much more equal economy, and performs at, or better than, the EU

¹⁴⁴ [A European Green Deal | European Commission \(europa.eu\)](#).

¹⁴⁵ [IPCC — Intergovernmental Panel on Climate Change](#).

¹⁴⁶ See Ireland's Competitiveness Challenge 2020 [here](#).

average, which is encouraging. However, to ensure that Ireland builds an increasingly inclusive economy, the social welfare system must continue to evolve, and Ireland needs to re-examine the tax and benefit system to see how it could be updated to adapt to the broad social changes we are currently observing.

The remainder of this chapter: (i) provides an analysis of the sustainability and inclusivity of the Irish economy; and (ii) a discussion of the actions necessary to ensure that Ireland's competitiveness and productivity performance will deliver sustainable and inclusive economic growth that benefits everyone.

5.2 Current Situation in Ireland

Environmental sustainability, and inclusive growth, interact with the Council's mandate in several important ways. In the first instance, the reason for seeking to improve Ireland's competitiveness and productivity is to deliver sustainable economic growth, higher living standards, and a better quality of life for all in a more effective way. In this regard, the Council endeavours to ensure that recommendations to improve competitiveness and productivity strike the appropriate balance with this ultimate objective. However, the Council believes that there is a further link between competitiveness, and sustainability and inclusive growth. Regarding inclusive growth, there is an established literature^{147,148} that notes that the global slowdown in productivity growth has coincided with rising inequality, suggesting that these two trends may be driven by the same factors. One potential explanation is the superstar firm hypothesis, which suggests that the fall of labour's share of GDP is driven by the rise of 'superstar firms', which have high markups and a low labour share of value added¹⁴⁹.

With regard to sustainability, while there is a clear relationship between productivity (i.e., the efficient use of resources) and the reduction of waste, the Council believes that further work needs to be done to fully understand the link between environmental sustainability and competitiveness and productivity before making recommendations to the Government on specific actions be taken.

Recommendation 5.1: Undertake research on the interaction between competitiveness and measures to address climate change with the aim of ensuring that Ireland improves competitiveness and productivity while simultaneously achieving emission reduction targets.

Responsibility: Department of Enterprise, Trade and Employment

Environmental Sustainability

To date Ireland has had a poor record on tackling greenhouse gas emissions. In 2019, Irish greenhouse gas emissions per capita were 12.8 tonnes of CO₂ equivalent, which was the 2nd highest in the EU and well above the EU average of 8.4 tonnes of CO₂ equivalent per capita (see Figure 5.2.1). While this represents a marginal fall in Ireland relative to 2010 (when the equivalent figure was 14.1) with emissions falling by 9% per capita (see Figure 5.2.2), it also highlights the fact that other EU Member States have been more successful at addressing their carbon emissions (where emissions per capita have fallen by 13%, with several countries recording declines in per capita emissions of over 30%¹⁵⁰).

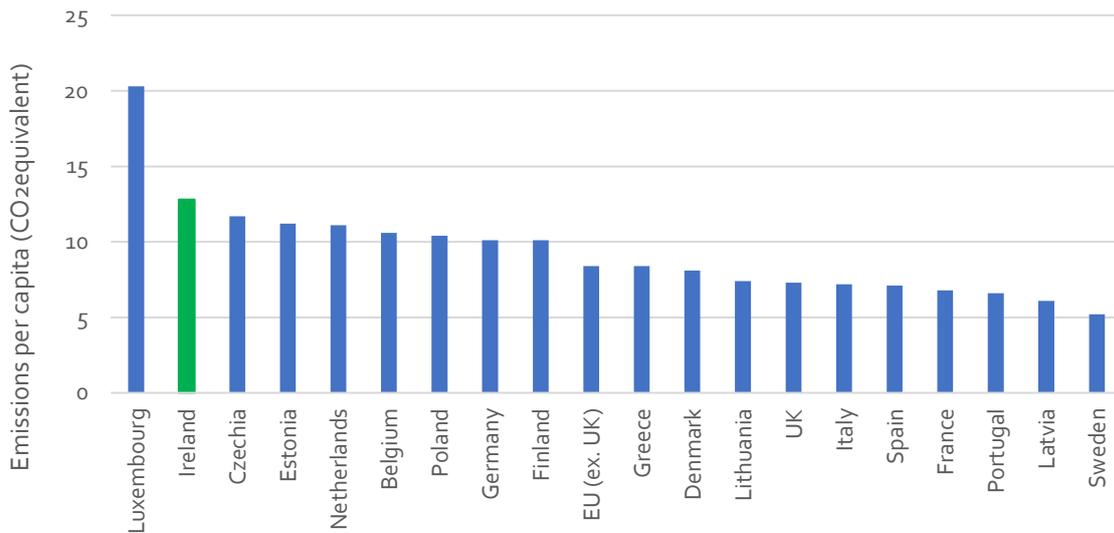
¹⁴⁷ OECD Economic Outlook, Volume 2016 Issue 1, Chapter 2 'Promoting Productivity and Equality: A Twin Challenge'.

¹⁴⁸ 'Workforce composition, productivity & pay: the role of firms in wage inequality', OECD Economics Dept Working Paper No. 1603.

¹⁴⁹ Autor et al. (2020) 'The Fall of the labor share and the rise of superstar firms' Quarterly Journal of Economics.

¹⁵⁰ Malta, Denmark, Austria, and Cyprus.

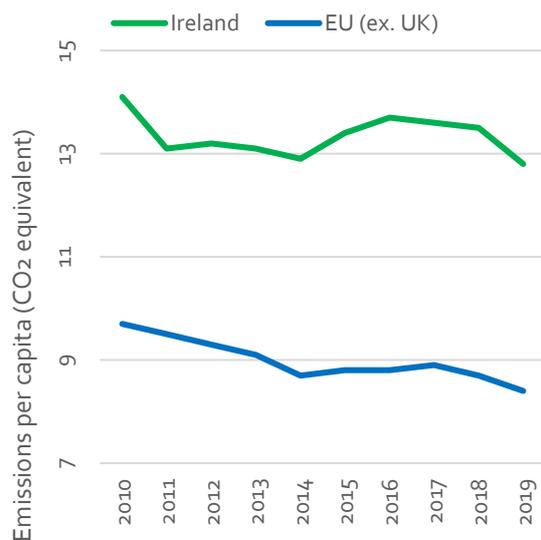
Figure 5.2.1: Greenhouse Gas Emissions (per capita), selected countries, 2019



Source: Eurostat

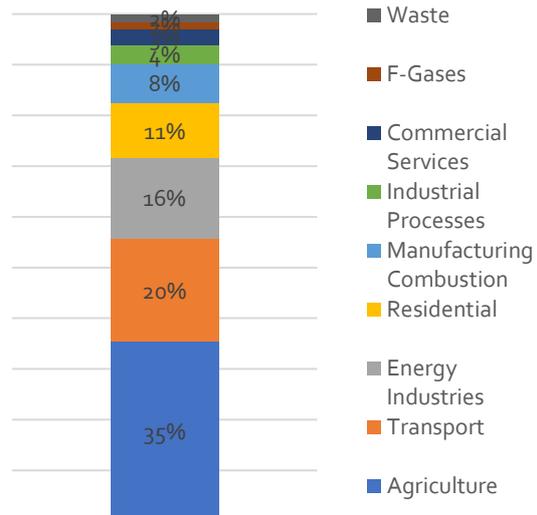
Responsibility for decarbonisation falls across all of society and the economy, and not just on the sectors where it most directly impacts. Given Ireland's poor performance reducing greenhouse gas emissions, the current commitment to an average 7% per annum reduction in greenhouse gas emissions from 2021 to 2030 and to achieving net zero emissions by 2050 will require major effort across all sectors. To put the 7% annual reduction target in context, Ireland has only managed to reduce carbon emissions by this amount twice, in 2009 and 2011, when the economy was either shrinking or growing very slowly. There is also an important sectoral breakdown of carbon emissions. Taken together, agriculture and transport account for over half of Ireland's total emissions, with agriculture accounting for 35% of total greenhouse gas emissions (see Figure 5.2.3).

Figure 5.2.2: Greenhouse Gas Emissions (per capita), 2010- 2019



Source: Eurostat

Figure 5.2.3: Greenhouse Gas Emissions Share by Sector, 2019



Source: EPA

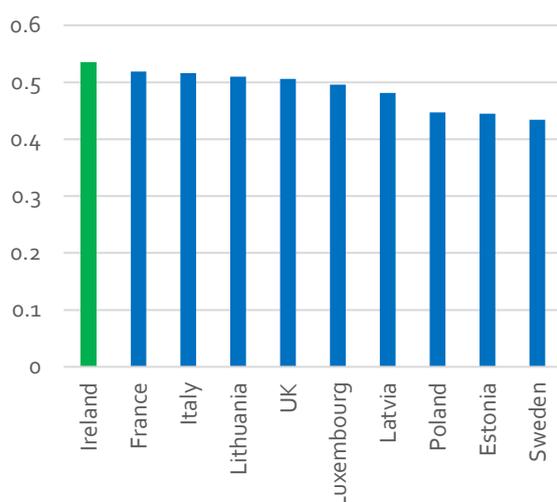
Inclusivity

In Ireland's post-COVID future, the fruits of economic growth must be distributed fairly across society and create greater opportunities for all. Due to the challenging nature of quantifying inclusive growth, and progress towards a more inclusive society, economists have tended to rely on readily available data to give an indication of inclusive growth, including output measures like GDP per capita.

While these standard measures of economic performance are useful in the right context, they are inadequate measures of well-being (or quality of life)¹⁵¹. One of the major issues with GDP per capita, or average wages, as a measure of progress is that they fail to capture the distribution of income across society (and cannot distinguish between a society where economic gains are spread equally, and one where economic gains are very concentrated, with the majority of people living in poverty).

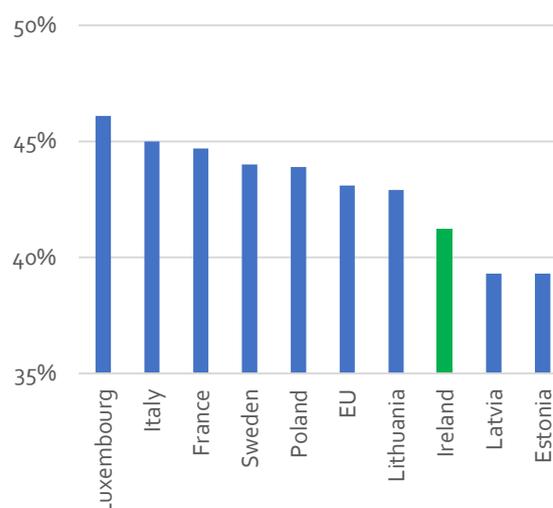
Before taxes and transfers are considered, Ireland is the most unequal society in the OECD – meaning that there is a very high dispersion of wages in the country (see Figure 5.2.4 and Figure 5.2.5). However, when taxes and transfers are considered, the situation becomes much less stark, and Ireland looks like a much more equal society in an EU context see Figure 5.2.6 and Figure 5.2.7).

Figure 5.2.4: Income Inequality (Before Taxes and Transfers)



Source: OECD

Figure 5.2.5: At-risk-of-poverty rate (Before Transfers)



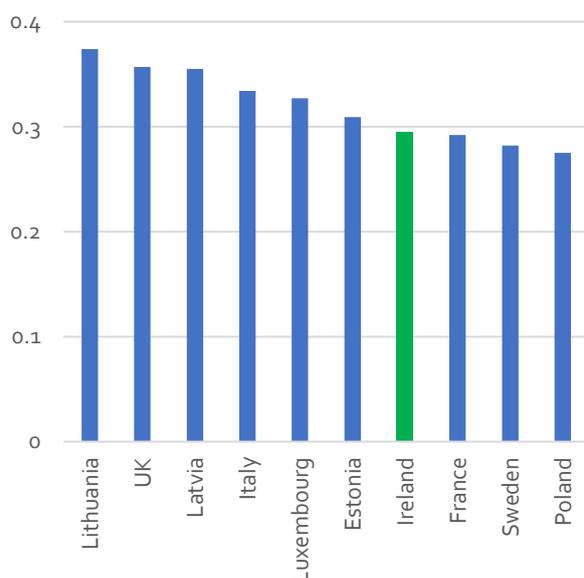
Source: Eurostat

Ireland's social welfare system, alongside a progressive income tax regime, has been designed to address inequality and poverty. Social welfare benefits and allowances include, but are not limited to:

- Social insurance payments, entitlement to which is based on social insurance contribution histories (which include the contributory State Pension, Jobseeker Benefit, Paternity and Maternity Benefit, Illness Benefit and Carer's Benefit),
- A parallel set of targeted social assistance payments generally governed by means-testing and funded from general taxation (including Jobseeker's Allowance, the non-Contributory State Pension, Disability Allowance, and the Student Grant Scheme),
- Universal benefits (which include State funded education, and the Affordable Childcare Scheme).

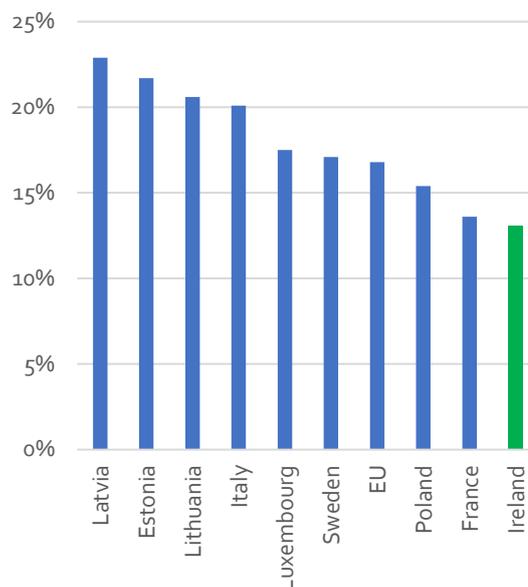
¹⁵¹ Harvard Business Review, GDP is not a Measure of Human Well-Being, [GDP Is Not a Measure of Human Well-Being \(hbr.org\)](https://hbr.org/2015/01/gdp-is-not-a-measure-of-human-well-being/).

Figure 5.2.6: Income inequality (After Taxes and Transfers)



Source: OECD

Figure 5.2.7: At-risk-of-poverty, after transfers



Source: Eurostat

5.3 Actions Crucial for Sustainability and Inclusivity

Environmental Sustainability

In the *Competitiveness Challenge 2020*, the Council focused on enterprise's contribution to climate action and how businesses could reduce their carbon footprint. For businesses, decarbonisation – which will increasingly become a competitiveness imperative - will have a significant impact on operations, affecting logistics, premises, materials used, and products supplied. In many sectors, it will mean significant changes to operations, and for certain enterprises, it will require new business models. The challenge identified by the Council in last year's report was to establish how to decarbonise in the most efficient manner, while at the same time putting Irish enterprises in a position to take advantage of opportunities arising from climate action.

In July 2021, the Climate Action and Low Carbon Development (CALCD) Act was passed. This Act recognises the need for pressing action to put Ireland on a sustainable footing and the Government has committed to reduce greenhouse gas emissions by 51% by 2030 (reductions of an average of 7% per annum) and achieve net zero emissions by 2050.

This CALCD also provides for the establishment of a legally binding framework with clear targets and commitments set in law and should ensure that the necessary structures and processes are embedded on a statutory basis to ensure that Ireland achieves our national, EU and international climate goals and obligations in the near and long term.

Moreover, the process of carbon budgeting has now been embedded into law, and the Climate Change Advisory Council (CCAC) has been tasked with proposing economy-wide carbon budgets to the Minister for the Environment, Climate and Communications. This will require the Government to adopt a series of economy-

wide five-year carbon budgets, including sectoral targets for each relevant sector, on a rolling 15-year basis, starting in 2021. The first two five-year carbon budgets should equate to a total reduction of 51% emissions over the period to 2030.

Concrete policy actions to achieve substantive carbon reductions in specific sectors will be set out in the Government's Climate Action Plan, which will be updated annually. The Climate Action plan must be published as a matter of urgency, and progress towards the actions set out in the Action Plan must be tracked to ensure that Ireland makes real progress to de-carbonising the economy.

Recommendation 5.2: Make substantial and sustained progress on the actions set out in the *Climate Action Plan* when it is published.

Responsibility: All Government Departments

In the *Competitiveness Challenge 2020*, the Council recommended that further actions were taken forward to facilitate carbon reductions, while maintaining business competitiveness, including: the identification of new technologies and emission abatement opportunities; an assessment of carbon mitigation incentives and supports available to enterprises; and the establishment of a one-stop-shop environmental hub and website that would allow businesses to assess their carbon footprint. The Council welcomes the fact that progress has been made on these recommendations.

Inclusivity

As demonstrated earlier, the Irish tax and social welfare system does well at reducing income inequality and poverty in Ireland. However, the National Economic and Social Council (NESC) have noted that as the Irish system is a hybrid or mixed welfare state, this has resulted in tensions in the system. NESC goes on to say that a key issue for Ireland is whether, and to what extent, it should converge towards a more fully European model predicated on social insurance and comprehensive service provision.

The need for a new social contract between the State and citizens was recognised in the *Programme for Government*, which set out the ambition of the Government to provide each citizen with accessible and affordable health care, housing, education, childcare (see Box C) and disability services, as well as a living wage, upskilling, and a dignified retirement. In terms of social protection, the *Programme for Government* noted that every citizen has a stake in a strong, responsive social protection system that assists in the costs of raising children, helps those in need or who have fallen onto hard times and provides for old age.

Box C: The Role of Socio-Economic Factors on Competitiveness

Impact of an increasing mobility of labour on Competitiveness

For Ireland to be able to compete successfully into the future, we need to adapt to the changing world and update our competitiveness offering by building on the core of Ireland's competitiveness and productivity. In the 21st century, where capital and labour are internationally mobile, the ability to attract high-skilled workers is vital for a productive workforce. With the need to re-locate countries now less relevant for people due to the rise of remote working (see Chapter 3 for further discussion) in the new post COVID-19 environment, mobility is now even more important for labour, especially in higher skilled areas. It is therefore

crucial for Ireland's competitiveness and sustainability that it remains an attractive destination for people, both to live and to work.

There are many socio-economic factors which affect the attractiveness of a place to live and work, including those which impact the cost of living, such as housing (see Chapter 4), utilities and childcare, and those which impact individual wellbeing, such as healthcare, gender equality and a country's leisure offering (the Experience Economy). This box focuses on two of these factors, Childcare and Experience Economy, as these have a large impact on the cost of living and individual well-being for people living and working in Ireland. Therefore, these must be part of Ireland's competitiveness strategy if we are to attract and retain a well-educated, highly productive labour force into the future.

Cost of Childcare

The cost of childcare is a key comparative factor for most workers in their decision on where to live and work. The attractiveness of a location is not only how much you earn, but what quality of life you can afford on that salary. The relatively high cost of childcare raises the cost of living for workers with children in Ireland, thus negatively impacting its competitive position internationally. Frontier Economics¹⁵² have found that parents in Ireland pay some of the highest gross and net costs for Early Learning and Childcare (ELC) relative to the average national wage across a broad range of European and OECD countries. However, the absence of comparative statistics means that it is not possible to precisely determine the extent to which higher costs for parents in Ireland are driven by higher delivery costs of childcare providers or by lower levels of public support in the form of fee controls (regulations which determine the amount that childcare providers can charge parents for its services) and supply-side subsidies (amounts paid directly to providers from the state).

Further research in this area is vital in order to identify and understand the driving factors behind these high costs. As part of the First 5 Strategy to improve outcomes for children in Ireland from birth to age five, a commitment has been made by the Government to at least double public spending on Early Learning and Childcare (ELC) and School-Age Childcare (SAC) in Ireland by 2028. An Expert Group was tasked to deliver a report containing proposals for a new funding model which will help ensure that this additional funding can be used in the best way to deliver safe, high quality, affordable and accessible ELC and SAC. This report is due in the fourth quarter of this year. This future research is crucial if Ireland is to tackle this high-cost issue in childcare, which remains a threat to Ireland's competitiveness and sustainability by negatively impacting its attractiveness to many workers for whom childcare is a key determining factor of where to live and work.

Positive Impact of Experience Economy

A higher level of labour mobility could translate into workers not needing a permanent base in the country where their office is located. They potentially can work anywhere in the world, only requiring short-term visits to their office. In such a working environment, the competitive offering of a country includes what it can provide workers with, in terms of leisure time options. This means the Experience Economy will become a more important part of Ireland's competitive offering, as it will play an important role in creating a vibrant, culturally-rich and enjoyable living environment; characteristics which are contributing elements towards ensuring a positive well-being for all inhabitants. The Experience Economy encompasses hospitality, retail, travel, food, drink, tourism, entertainment, technology, events and organisations in the arts, cultural, sporting and heritage sectors¹⁵³.

¹⁵² Frontier Economics Research Paper 1: International Comparisons of Fees, Staff Wages and Public Investment in Early Learning and Care. [Publications – Funding Model \(first5fundingmodel.gov.ie\)](https://www.frontier-economics.com/publications/funding-model/).

¹⁵³ Spending in the Experience Economy accounts for more than one euro in every three euro spent by an Irish household, in comparison to the one euro in every four euro in the EU as a whole ([Ibec Quarterly Economic Outlook Q2 2020](https://www.ibec.ie/quarterly-economic-outlook-q2-2020/)).

The businesses that form the backbone of the Experience Economy are those that have been most heavily impacted by COVID-19, and many will be some of the last to re-open in full. Ibec has set out a range of policy measures to support businesses in this area, which aim at curbing financial pressures on firms, addressing skill and labour shortages, investing in tourism promotion and marketing, and upgrading attractions and infrastructure¹⁵⁴. A recent report from The Arts Council's illustrates the huge negative impact of COVID-19 on the arts, with major current challenges highlighted as ongoing demand for funding, and the professional and financial impact of the pandemic on artists. The Arts Council experienced a 90% increase in the number of applications for funding in 2020 over 2019, and approved funding for 129% more applicants than in 2019¹⁵⁵. The Event Industry Association of Ireland (EIAI) have also highlighted an urgent need for continued financial supports, ongoing and meaningful cross-departmental engagement, and a roadmap for the safe return of event activity. The EIAI submitted their *Event industry Recovery Plan* to the Government in August 2021, with the intention of contributing industry specific knowledge and expertise regarding next steps and a roadmap to recovery¹⁵⁶. The Government's recently launched *Event Sector Covid Support Scheme* has been designed to help companies in this sector with their fixed costs by providing up to €50,000 for SMEs involved in concerts, sport, cultural events, conferences or trade shows. Measures like this which are aimed at supporting the recovery of businesses in the Experience Economy have a role to play in attracting higher-skilled workers and maintain a productive labour force, a vital ingredient for Ireland's competitive and sustainable future.

The role of socio-economic factors is now more important than ever because of the increased mobility of labour in a post COVID-19 world. Ensuring that Ireland has a competitive offering in these factors, particularly including in the areas of childcare and the Experience Economy, will be critical in attracting workers to base themselves in the country and in turn will help lower the cost of living and increase the wellbeing of workers. This is key if Ireland, and its regions, is to attract a well-educated and highly productive workforce into the future, an essential ingredient of Ireland's competitiveness and productivity strategy.

In April 2021, the Government established the *Commission on Taxation and Welfare*, to independently consider how best the taxation and welfare systems can support economic activity and promote increased employment and prosperity, and simultaneously ensure that there are sufficient resources available to meet the costs of public services and supports in the medium and longer term.

It has been argued that, particularly for lower income workers, the complexity of our tax and welfare system has resulted in disincentives for people to take on employment or increase their hours worked, especially if these hours are of an uncertain nature. With lower paid workers having suffered the brunt of the job losses in the pandemic, there is a need to consider how best to reform the interaction between the tax and welfare systems so that workers benefit from taking employment or working additional hours. The *Pathways to Work 2021-2025* includes the objective that the system of welfare payments supports people to make the transition to work.

To that end, the Council hopes that the Commission will take into account elements in the current system that create these employment and poverty traps, such as the thresholds for access to social housing, medical cards, childcare and local authority rent levels. These are important matters that require a whole of Government

¹⁵⁴ [Experience Economy - IBEC](#).

¹⁵⁵ [Our Covid Response \(July 2021\).pdf \(artscouncil.ie\)](#).

¹⁵⁶ [EIAI Press Release – 20/08/2021 – EIAI](#).

approach and should be well within the remit of the Commission on Taxation & Welfare. Previous Commissions on taxation have faced resistance so it will be important that any recommendations from the Commission in this area are prioritised by the relevant department with a high focus on implementation.

Recommendation 5.3: Ensuring the work of the Commission on Taxation and Welfare has a focus on making Ireland's tax and welfare model fit-for-purpose in the 21st century.

Responsibility: Department of Finance; Department of Social Protection

5.4 Summary

Ireland, like countries everywhere, has suffered greatly because of the COVID-19 pandemic. With the continued rollout of vaccines, there is hopefully light at the end of the tunnel. As we progress, it is clear that the pandemic has thrown up questions about the nature of the society we wish to live in, especially in countries, like Ireland, where COVID-19 has pointed to inadequate attention having been paid to key areas of social policy, such as health and social care, and conditions for employees with uncertain income (e.g., zero hours contracts). From the Council's perspective, competitiveness and productivity need to support a sustainable and inclusive economy that respects the environment and delivers for everyone. The Council believes that the best way to achieve these goals is by taking bold action and deliver the commitments set out in the Government's Climate Action Plan, and reviewing (and updating, where necessary) Ireland's social welfare system – which has been very successful in reducing inequality in Ireland.

Conclusion

As outlined at the beginning of this report, this year's *Ireland's Competitiveness Challenge* report is the second annual report from the Council that has been prepared under COVID-19 restrictions. Despite the positive signs from vaccine rollouts and increasing numbers returning to work, a high level of uncertainty remains as new variants and breakthrough infections continue to cause disruptions in economies and societies across the world. There is also a need for continued adjustments in relation to the ongoing transition to carbon neutrality by 2050, to the digital transition, to international tax reform and to the implications arising from Brexit.

While the Council recognises these challenges, it also draws attention to the potential opportunities in the form of a new way of working, such as remote working. These opportunities can open up possibilities for new ways of living, and potentially deliver real improvements in the lives of people based in Ireland, with sustainability and inclusivity at the core.

In this year's *Competitiveness Challenge* report, the Council has identified 20 tangible, actionable policy recommendations. These address the competitiveness issues necessitating immediate action, such as the focus on supporting workers and their families through income support measures, as well as the medium and long-term challenges aimed at enhancing Ireland's competitiveness and productivity performance, such as consequences of the transition to a new trade relationship with the UK, and the even more immediate complexities driven by international tax reform proposals.

Along with the immediate issues facing the Irish economy, the recommendations in relation to medium- to long-term challenges have been grouped under four themes: a dynamic business environment, boosting productivity, infrastructure for a new way of living, and a sustainable and inclusive economy.

Immediate Issues facing the Irish Economy

The new regime introduced by the Government provides an alternative route for smaller businesses to restructure their liabilities and enable them to continue trading (the Small Companies Administrative Rescue Programme, SCARP). The Council recognises this as an important development for those businesses that are negatively impacted due to the pandemic and are now facing the withdrawal of broad-based business supports. The council stresses that the small businesses under financial stress are made aware of SCARP as a viable option for them (**Recommendation 1.1**).

Medium- to Long-Term Challenges

The Council has been strongly supportive of the cross-Government *Action Plan on Insurance Reform* and welcomes the adoption of the new Personal Injuries Guidelines. In this report, the Council calls for the impact of these Guidelines on award levels to be assessed and monitored (**Recommendation 2.2**). On legal costs, the Council is encouraged to see the Government's recent commitment to actively explore ways to bring down legal costs and calls for an assessment of the introduction of fixed legal fees to be published (**Recommendation 2.1**).

The Council is also aware that more limited competition in the banking sector could have negative consequences for market interest rates for SMEs and suggests that the Government undertake a review of banking in Ireland (**Recommendation 2.3**). Furthermore, on access to finance, the Council calls for the

Government to assess one of its flagship lending policies – the Future Growth Loan Scheme – to see what works well, and what requires adjustment, so policy makers can take on these lessons on board in the design of future lending schemes (**Recommendation 2.4**). The Council recognises that social protection measures can play a role in attracting talent to Ireland but also notes that the costs of these measures need to be balanced with the impact that they will have on businesses. The Council recommends that legislation on statutory sick pay is published and enacted as soon as possible (**Recommendation 2.5**).

To ensure that the Government puts in place the appropriate policies to boost the productivity of indigenous Irish firms, further robust and policy relevant research is needed in an Irish context (**Recommendation 3.1**). In addition, Government should continue to monitor international research that is uncovering evidence on how changed work practices, including increased digitalisation, is impacting productivity. For example, early survey data suggests that remote working has the potential to have a significant positive impact on productivity in some sectors. To realise this potential, the Government needs to develop frameworks that would enable businesses to see more of their employees having flexible employment possibilities that would see them working part-time from home (**Recommendation 3.2 and 3.3**). This framework also includes the timely delivery of the necessary infrastructure (e.g., via the increased pace of delivery of the National Broadband Plan) to ensure that employees can effectively work remotely (**Recommendation 3.4**) from all of Ireland's regions, and that workers are equipped with the necessary digital and management skills to navigate the post-pandemic recovery and are fully adaptable to the future world of work (**Recommendation 3.5 and 3.6**). Finally, the Council recommends that the Government publish the successor strategy to *Innovation 2020* that will articulate the steps required to make Ireland a Global Innovation Leader, while ensuring research, development and innovation activities are aligned with public policy goals (**Recommendation 3.7**).

In addition to its direct contribution to national living standards, Ireland's housing market must operate in such a way that it does not generate pinch points that could damage long-run competitiveness. The Council believes a structural shift in the approach to housing policy is urgently needed, as the piecemeal approach to planning reform in the past has failed to deliver tangible improvements in housing delivery. Following the publication of the Government's *Housing for All* strategy, it will be important that the priority actions are identified so that the appropriate sequencing of interventions can be established (**Recommendation 4.1**) and ongoing monitoring of these interventions to limit unintended market distortions (**Recommendation 4.2**). Capacity issues in the planning system will also need to be addressed and planning authorities need to be sufficiently resourced, so these processes do not delay the delivery of crucial housing and other critical social and economic infrastructure (**Recommendation 4.3**). It is also important that social infrastructure in the areas of childcare (**Recommendation 4.4**), health and social care, and in education are delivered in tandem with housing.

The Council would like to see research undertaken that explores the link between productivity improvements and climate action to ensure that Irish businesses can improve competitiveness while meeting sustainability targets (**Recommendation 5.1**). Moreover, the Government currently has policy processes in place to address climate action and inclusivity. Government Departments are currently co-ordinating policy actions in the *Climate Action Plan* that need to be met to ensure that Ireland meets its commitment to reduce emissions by 51% by 2030. The National Competitiveness and Productivity Council supports this policy process and wants to see real evidence of progress made here (**Recommendation 5.2**).

As demonstrated in Chapter 5, the Irish welfare system and Ireland's progressive income tax regime does an effective job in reducing inequality. However, it is important to re-examine Ireland's taxation and welfare model to ensure that it delivers for businesses and employees in the 21st century. In this regard, the Council welcomes

the establishment of the Commission on Taxation and Welfare. When this Commission delivers its report, the Council wants to see Departments take forward these actions (**Recommendation 5.3**).

The Council has outlined these policy actions with the aim of working towards a competitive and productive economy that delivers sustainable economic growth and benefits all of society. Taken together, these can help foster a sustainable economy that promotes equality and inclusiveness, underpinned by a highly skilled workforce, adequate infrastructure, a dynamic business environment, and agile SMEs with strong productivity growth.

National Competitiveness and Productivity Council
c/o Department of Enterprise, Trade and Employment
23 Kildare Street,
Dublin 2, D02 TD30
Tel: 01 6312121
Email: info@competitiveness.ie
Web: www.competitiveness.ie

