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Department of Public
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Spending Review 2018

Overview of Enterprise Supports and the Labour Market

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The logo for the Irish Government Economic & Evaluation Service (IGEES), consisting of the letters 'IGEES' in a bold, white, sans-serif font inside a blue square with a white border.

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Summary

- **The overall level of exchequer grants to agencies involved in enterprise supports has remained relatively constant at approximately €1 billion since 2011, while tax expenditures aimed at supporting enterprise increased significantly over the same period, reaching €750 million.** The majority of both the direct grant support and the taxation measures is aimed at promoting R&D.
- **The labour market has improved since the recession and is forecast to reach a level which could reasonably be called full employment.** Employment is mostly concentrated in the services sector. Despite the improvements in labour market conditions there are some differences across regions.
- **Approximately 20% of total employment is in agency¹ supported firms** and there is a regional and sectoral variance in the scale of employment in agency supported firms.

As such, there is a significant amount of support for enterprises being provided through expenditure and taxation measures which has increased in recent years. Enterprise supports are provided to achieve a number of different objectives including supporting export and employment growth. It is estimated that around one in every five jobs are in enterprises supported by agencies¹ while the economy overall is moving back towards full employment.

This paper raises a number of other areas for further consideration such as the link between enterprise supports and the business cycle and the implications of factors such as Brexit, regionalisation and competitiveness within the context of the various objectives of enterprise support and policy. Furthermore, additional analysis assessing the level of support provided in an international context and looking at the quality and type of job created in agency supported firms are beyond the scope of this paper but would provide further understanding of the policy area.

¹ IDA, Enterprise Ireland and Údarás na Gaeltacht

1. Introduction

The purpose of this paper is to provide a high level overview of the State’s role in supporting enterprise. As will be detailed, the State provides supports through a variety of mechanisms including expenditure and taxation measures and this analysis looks at these supports within the wider context of the economy and labour market. The primary focus of this research will be the support provided through the main enterprise agencies under the aegis of the Department of Business, Enterprise and Innovation (DBEI).

The paper builds on a number of previous papers completed by DPER in this general policy area including ‘An Assessment of the Rationale, Efficiency and Targeting of Supports in Enterprise Ireland’ completed as part of Spending Review 2017, ‘Trend Analysis of IDA Ireland Expenditure’ completed as part of the Spending Review 2018 and two papers on ‘Cross Cutting Paper: Enterprise Supports’ completed as part of the 2009 and 2011 Comprehensive Reviews of Expenditure. In addition, a large amount of related research has been undertaken elsewhere including by the DBEI, the Department of Finance and Forfás. In the context of this existing work, the paper has a number of objectives:

- Detail the scale, composition and trend in enterprise supports provided by the state through both expenditure and taxation.
- Given the links between enterprise supports and employment, detail the wider context of labour market developments in Ireland.
- Examine the links between enterprise support and the labour market through supported employment in terms of sectors, regions and employment characteristics.

The first section of this paper looks at enterprise supports including both expenditure and taxation measures. This is followed by an analysis of the labour market, and finally analysis of agency supported employment. In general the paper primarily focuses on the period prior to the onset of the recession to now.

Figure 1.1: Layout of Analysis



2. Enterprise Supports

Key Messages

- There are a variety of agencies involved in providing enterprise supports spanning a number of different sectors and since 2011 Exchequer grants to enterprise agencies has remained at a level of around €1 billion. Much of this expenditure is on grant supports.
- In addition, there are a variety of tax measures in place linked to enterprise supports with €750 million identified. The majority of support is aimed at promoting R&D.

Government supports for enterprise are provided to achieve a number of objectives and occurs through a number of different channels including in the form of grants paid to enterprises and also a number of taxation measures.

2.1 Enterprise Supports: Overview of Context, Rationale and Policy

While not considered in detail here, at the outset it is useful to briefly consider enterprise supports/enterprise policy in terms of understanding the rationale for provision, the objectives of the supports and the wider context. Enterprise supports can be seen as one element of overall enterprise policy. Previous analysis by DPER on Enterprise Ireland includes an overview of the rationale for enterprise policy and sets out how the approach in Ireland compares to typical typologies of support structures². As highlighted in that analysis, Warwick (2013) argues that a broader definition may best reflect what enterprise policy and enterprise support actually is; *'Industrial Policy is any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies or tasks that are expected to offer better prospects for economic growth or societal welfare than would have occurred in the absence of such intervention'* (Warwick, 2013).

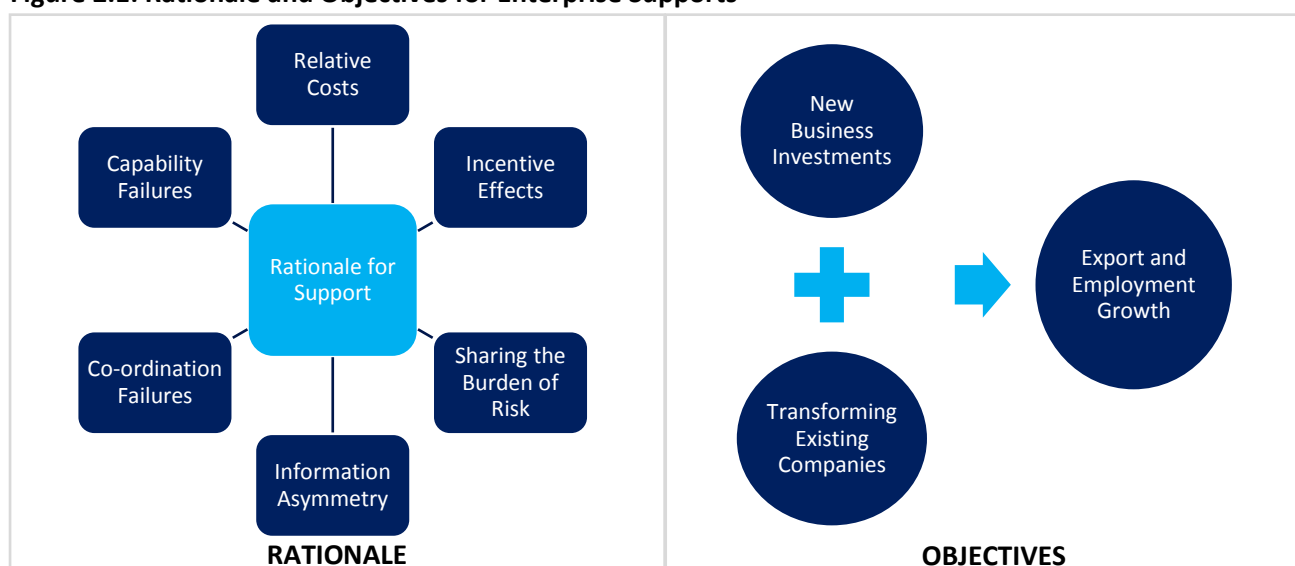
Enterprise 2025 is Ireland's national enterprise strategy and sets the strategic framework for coherence across Government departments to focus resources to develop a better future and to deliver sustainable enterprise growth and jobs. As set out in the document, Enterprise development and an active entrepreneurial ecosystem is central to enterprise policy. At a high level it is clear that enterprise supports are provided to achieve a number of objectives and are based on different elements of rationale³. This is highlighted in Figure 2.1. DBEI have highlighted the rationale for state intervention, in Ireland and in other countries, as being within a systems approach to enterprise policy. In general supports seek to address the following market failures; adjusting relative costs; acting as an incentive effect; sharing the burden of risk (particularly related to R&D);

² Reidy, P. (2017) 'An Assessment of the Rationale, Efficiency and Targeting of Supports at Enterprise Ireland'. Spending Review 2017.

³ Further details of the rationale of enterprise policy can be and how it interacts with other policy areas can be found in [Enterprise 2025](#), Ireland's long term enterprise policy and [Enterprise 2025 Renewed](#).

and overcoming information asymmetry, coordination failures and capability failures⁴. Furthermore, previous work carried out by DPER highlights the rationale for providing enterprise supports as being to maximise employment and output⁵. In terms of objectives, DBEI have previously stated that ‘broadly, the objective is that enterprise supports will stimulate additional economic activity in the form of new business investments, including expansions, start-ups and FDI (capacity building) and through the transformation of existing companies (capability building) to accelerate growth in exports and job creation’. Therefore, the provision of support is focused on supporting employment and output growth through the two mechanisms of supporting new investment and transforming existing enterprises, with the objectives of the various supports contributing to the high level objectives.

Figure 2.1: Rationale and Objectives for Enterprise Supports



Source: DBEI 2015, ‘Evaluations of State Supports for Enterprise: Synthesis Report and Conclusions’

In terms of the wider context for enterprise supports it is important to note a number of points. Firstly, enterprise supports are one element of overall Government policy in the area of economic development and enterprise policy. As such, the provision of supports interacts with objectives and other policy areas which support enterprise development such as skills development, labour market policy, competitiveness, spatial development and infrastructure. As such, while this paper looks at more direct supports for enterprise there are a range of other policy measures which impact the overall development of enterprise. Secondly, the provision of support for enterprises operates within State aid guidelines, set at a European and national level. As DBEI has previously stated, ‘the guiding principle is that aid should only be given where there is an incentive

⁴ DBEI (2015) ‘Evaluations of State Supports for Enterprise: Synthesis Report and Conclusions’. Note: Sets out more detail on market failures and rationale for supports.

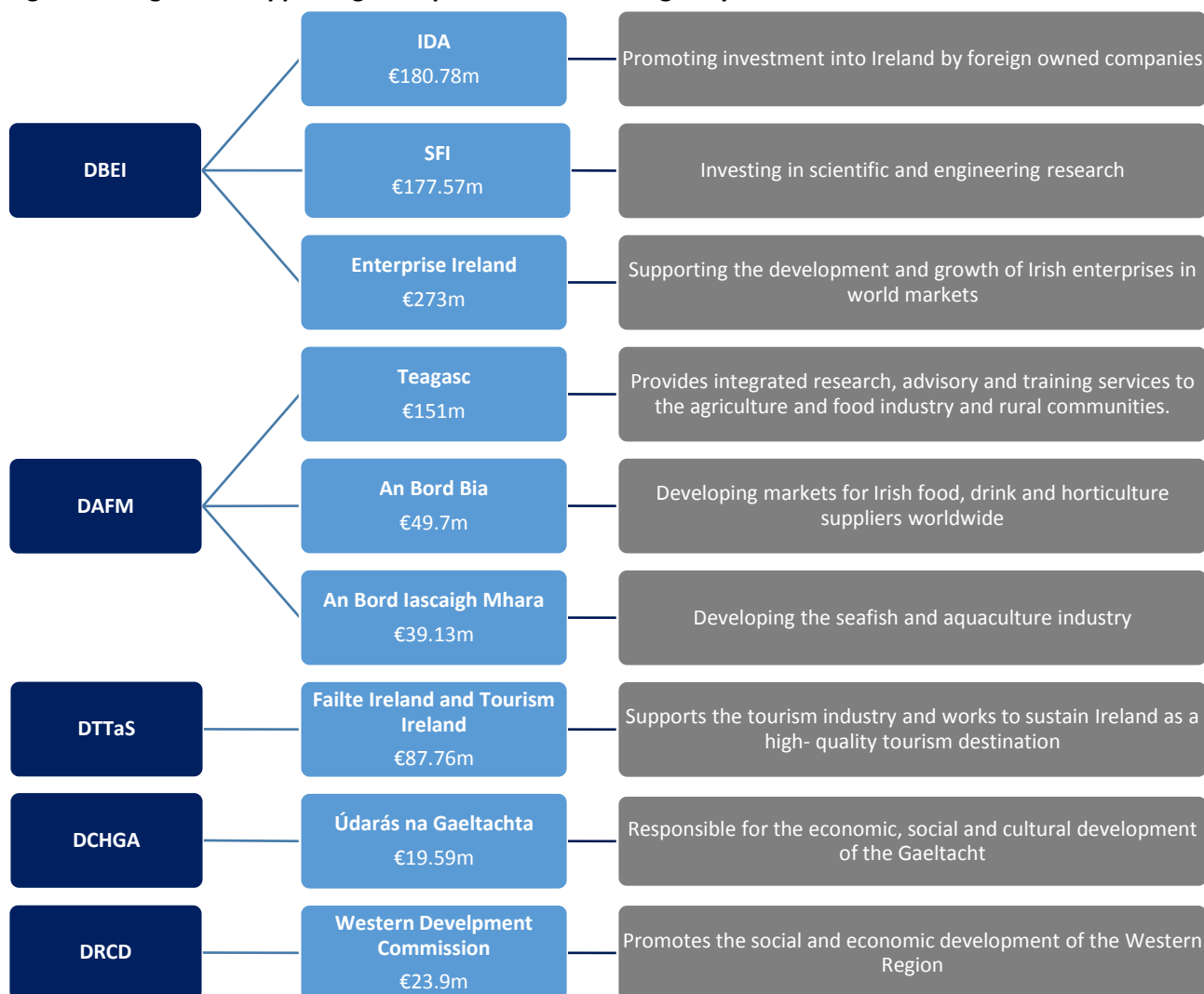
⁵ DPER (2011) ‘Cross Cutting Issues – Enterprise Supports’. 2011 Comprehensive Review of Expenditure.

effect, used only where there are identified market failures and/or to redress policy objectives such as regional disparities' (DBEI, 2015). On this basis enterprise agencies are restricted in the type of support that they can provide to enterprises based on location and sector. Finally, there are a variety of other policy issues which are also of direct relevance in the consideration and provision of enterprise supports. For example, the issue of Brexit and the potential challenges that it implies for a variety of sectors of the economy.

Thus, at a brief overview level, one can observe that enterprise supports are provided to achieve a variety of objectives as part of overall enterprise strategy and that they operate within a complex context. It is also clear that the operation of enterprise supports are linked to the labour market in so far as employment growth is one of the key overall objectives with some supports directly targeting employment growth while others contribute to employment growth indirectly.

2.2 Enterprise Supports: Expenditure

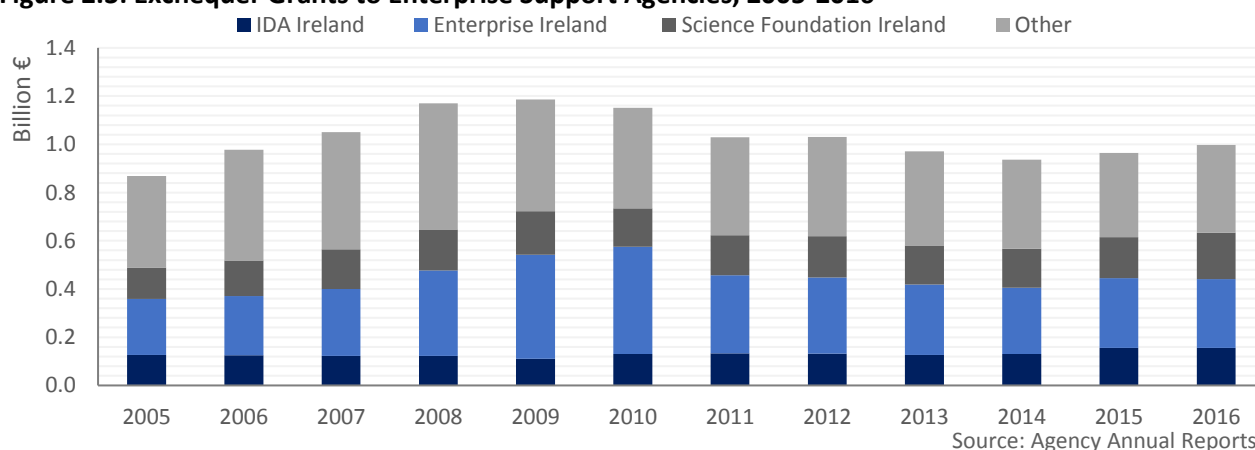
Figure 2.2: Agencies Supporting Enterprises and 2018 Budgetary Allocation



Supports for enterprise are delivered through a number of different agencies whose respective focuses are on a wide range of sectors. The various agencies involved in administering enterprise support fall under the aegis of a range of government departments. The multiplicity of agencies involved is illustrated in Figure 2.2 along with the budgetary allocation for 2018. It is important to note that the highlighted agencies perform a range of functions including research, policy development, grant administration and industry promotion etc. The analysis which follows first looks at the overall expenditure allocation for agencies over time. It then focuses on the IDA and EI (as two of the largest agencies involved in direct supports to enterprises) and then includes a brief overview summary consideration of various tax measures.

Total exchequer grants to agencies involved in enterprise supports has remained at around €1 billion since 2011, at or above pre-crisis levels. Having increased from approximately €900 million in 2005 to €1.2 billion annually between 2008 and 2010, exchequer grants to agencies involved in enterprise support reduced slightly to approximately €1.1 billion in 2011 in the context of Ireland’s fiscal consolidation. According to the most recent data the level of exchequer grants to enterprise agencies is approximately 16% below the peak in 2009. However, exchequer grants to agencies involved in enterprise supports is currently €72 million or 7% higher than its pre-crisis level in 2006. In summary, exchequer grants to enterprise agencies increased between 2005 and 2008, a period during which the economy was experiencing a boom, and a fall in exchequer funding in 2010 until 2014 followed by an increase in the level of support once again in 2015. It is worth noting that exchequer support to agencies refers to funding for direct supports to agencies and other non-grant expenditure by agencies, such as pay for example.

Figure 2.3: Exchequer Grants to Enterprise Support Agencies, 2005-2016



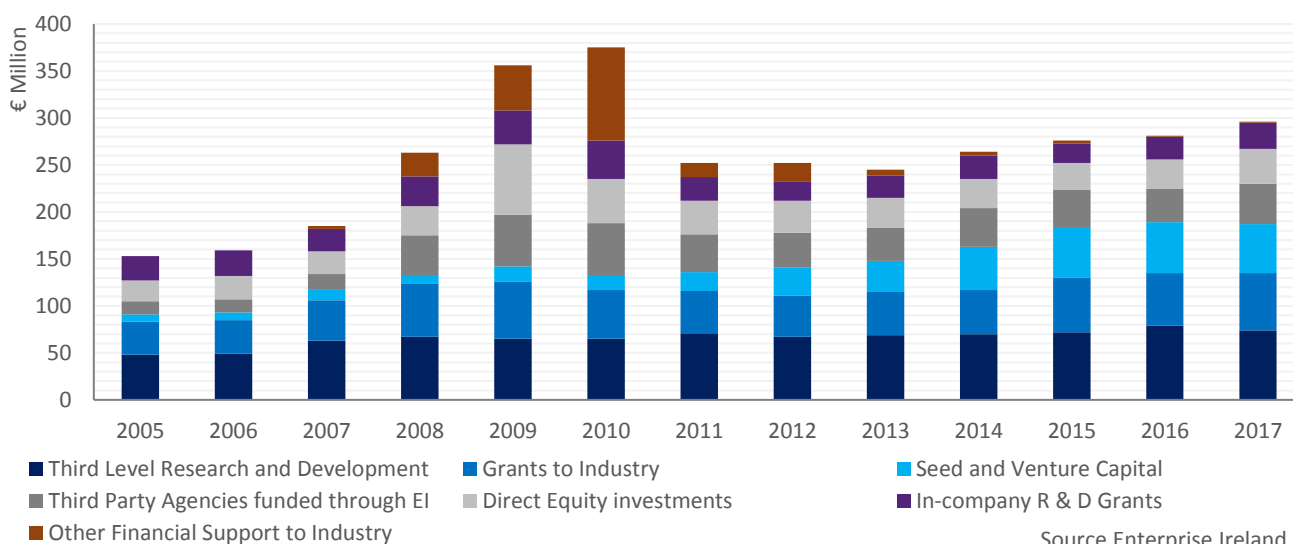
EI, SFI and IDA, the three largest agencies under the aegis of the DBEI, together received in excess of €600 million from the Exchequer in 2016. This represents approximately 60% of the total exchequer allocation to agencies involved in enterprise support. Further details of the agencies included in the ‘other’ category can be seen in Figure 1. The following is also of note from Figure 2.3;

- Exchequer funding to Enterprise Ireland increased between 2007 and 2010, reaching €445 million in 2010. In 2011 the level of expenditure fell to €323 million and experienced marginal reductions thereafter.
- Exchequer funding for IDA remained relatively constant between 2007 and 2013 with some small variations. Exchequer funding to the IDA has since been increasing.
- Similarly, exchequer funding for SFI fell in 2010, but has since increased over time reaching approximately €193million in 2016.

Given the central role of the IDA and EI in providing enterprise supports (as detailed in Figure 2.2) in the form of grant support the following analysis focuses primarily on these two agencies and their expenditure on grants. Exchequer funding to these three agencies, as reported in the Revised Estimates for Public Services 2018, has increased by around €10 million or 1.6% for 2018.

Expenditure on direct financial supports by the two agencies in 2016 was above the pre-crisis levels in 2006 by approximately €100 million as demonstrated in figures 2.4 and 2.5 below. The analysis details expenditure by the IDA and Enterprise Ireland on grants to enterprises by the type of grant issued. Enterprise Ireland’s direct financial supports to industry fall under a number of categories including; R&D (third level and in-company), grants to industry, seed and venture capital and direct equity investments. IDA grants are categorised as capital, employment, research and development, training and other.

Figure 2.4: Enterprise Ireland Expenditure on Supports to Industry, 2005-2017

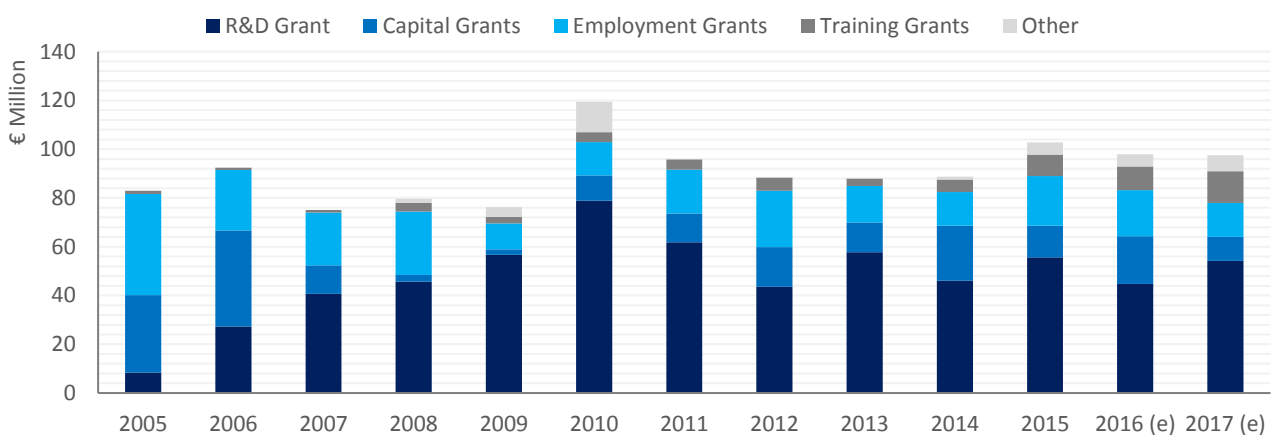


Overall Enterprise Ireland’s expenditure on direct financial supports was approximately €296 million in 2017, which is a substantial increase from the €153 million spent in 2005 as demonstrated in Figure 2.4. The largest proportion of support provided by Enterprise Ireland is for Third Level Research and Development which accounted for €74 million worth of grant expenditure in 2017, which represents 25% of total

expenditure on direct financial supports. This has increased from €48 million in 2005. A further €28 million in grant support was administered via in-company R&D grants. This reflects a growing focus on R&D within Ireland’s enterprise policy. Grants to Industry was the second highest category of grant aid paid by Enterprise Ireland with €61 million worth of expenditure in this category in 2017, which represents 20% of total the total. Seed and Venture Capital also accounts for a large proportion of Enterprise Ireland expenditure with €52 million in 2017. This has increased from approximately €8 million in 2005.

Overall expenditure on enterprise grants by IDA stood at around €100 million in 2017, this is a slight increase on the levels of expenditure between 2011 and 2014 as demonstrated in Figure 2.5. Expenditure on R&D grants amounted to €54.3 million in 2015, which accounts for approximately 56% of total grants paid. The next highest level of grant expenditure by IDA Ireland in 2015 are employment grants, with expenditure of around €14 million (14% of total), and capital grants with expenditure of around €13 million (13% of total). Further analysis of IDA expenditure is being carried out by IGEEES staff in the Department of Public Expenditure and Reform as part of this year’s Spending Review.

Figure 2.5: IDA Expenditure on Enterprise Grants, 2005-2017



Source: IDA

Given that a large proportion of enterprise supports are administered via grant funding which requires matching funding for grants to be drawn down and investment to take place there is a possibility of support of this nature becoming linked to the business cycle. In order to determine whether expenditure on enterprise supports are linked to the business cycle a longer term view of enterprise supports would be required.

2.3 Enterprise Supports: Taxation

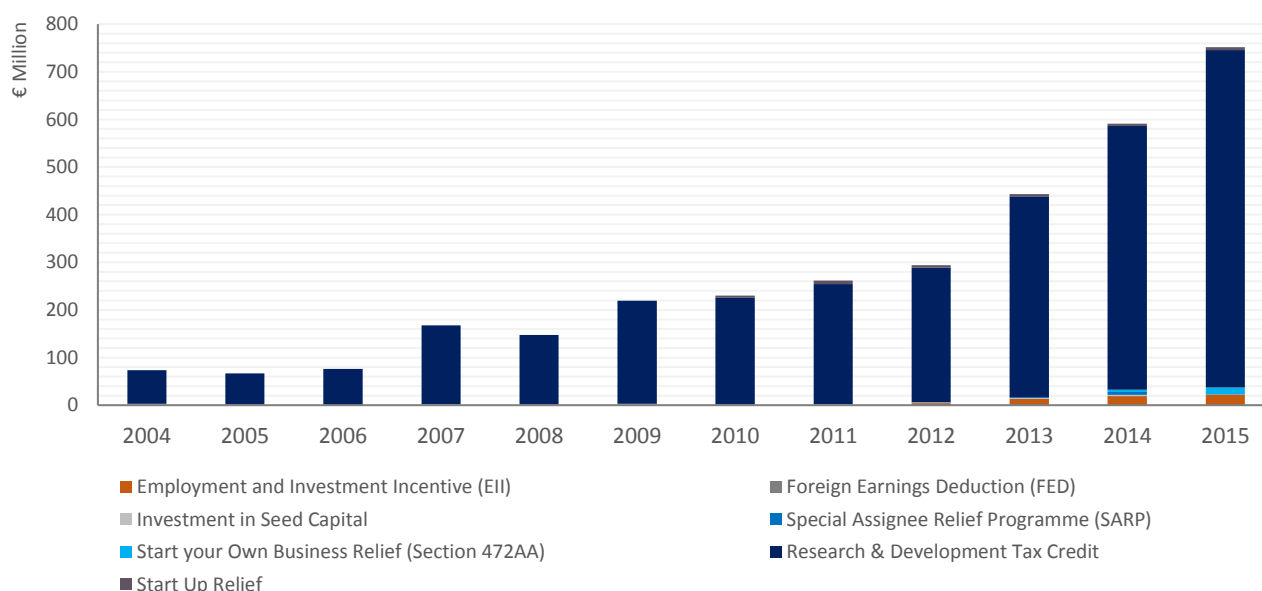
In addition to the grant payments administered through the various agencies, enterprises receive government support through a number of tax measures, particularly start-ups and firms engaged in R&D. In 2015, the accumulative cost of these tax measures was greater than €750 million of revenue forgone for the Exchequer.

Tax expenditures are transfers of public resources achieved by reducing tax obligations with respect to a benchmark tax or provisions of tax legislation that reduce or postpone revenue for a comparatively narrow population of tax payers relative to the tax base⁶.

Figure 2.6 shows the growing cost of tax expenditures with the aim of supporting enterprise to the Exchequer. As the figure shows, the R&D tax credit is by far the most costly of these measures with the cost surpassing €700 million in 2015, increasing substantially over time. The cost of the R&D tax credit in 2015 was based on 1,500 recipients, the average cost per case is therefore approximately €460,000⁷. In addition to the R&D tax credit further measures have been introduced with the aim of promoting R&D such as a tax relief on the acquisition of intangible assets (Section 291A) and the Knowledge Development Box which provides tax relief on income arising from certain intangible assets arising from R&D undertaken in Ireland.

In addition to the measures listed above there are a number of taxation measures that are aimed at supporting enterprises on a sector specific basis. For example there are a number of measures in place aimed exclusively at the agriculture sector under the following categories Income Tax, Capital Gains Tax, Stamp Duty, and Capital Acquisitions Tax. In the Agri-Taxation Review 2014 it was estimated that agri-tax measures represent a cost of around €350 million to the exchequer⁸. Other examples include Film Relief which represented a cost of almost €70 million in 2015.

Figure 2.6 Tax Expenditure related to Enterprises, 2004-2015



⁶ [Tax Expenditures Review 2017 \(Department of Finance\)](#)

⁷ Analysis of the R&D Tax Credit can be found in the Department of Finance's [Economic Evaluation of the R&D Tax Credit](#).

⁸ [Agri- Taxation Review 2014](#)

Table 2.2: Details of Tax Expenditures Related to Enterprise Supports

Tax Expenditure	Description
Research & Development Tax Credit	Provides a tax credit for expenditure on certain R&D activities.
Employment and Investment Incentive (EII) [formerly the Business Expansion Scheme (BES)]	Enhances qualifying SME companies to attract equity investment by providing private investors income tax relief on their equity investment.
Seed Capital	Provides the entrepreneur actively involved in the business a refund of their income tax previously paid on their investment in their business.
Special Assignee Relief Programme (SARP)	Assists Irish based companies to attract decision makers / highly skilled employees by providing an income tax relief for assignees (requires company to have companies overseas).
Foreign Earnings Deduction (FED)	Assists SME companies to grow exports by providing income tax relief on earnings arising from significant periods worked in designated target export markets.
Start Up Relief	Provides start-up companies with corporation tax relief for the first 3 years of trading up to €40,000 per annum.
Start your Own Business Relief (Section 472AA)	Provides start-up unincorporated business with income tax relief of up to €40,000 per year, for a maximum of 2 years.

As has been demonstrated, a significant amount of resources are committed to this area through both direct expenditure and taxation measures. Given the outlined link between supports and the labour market, in terms of the objectives of enhancing employment and export growth, the remainder of the paper provides an overview of developments within the wider labour market and employment in firms that receive agency support.

3. Irish Labour Market Developments

Key Messages

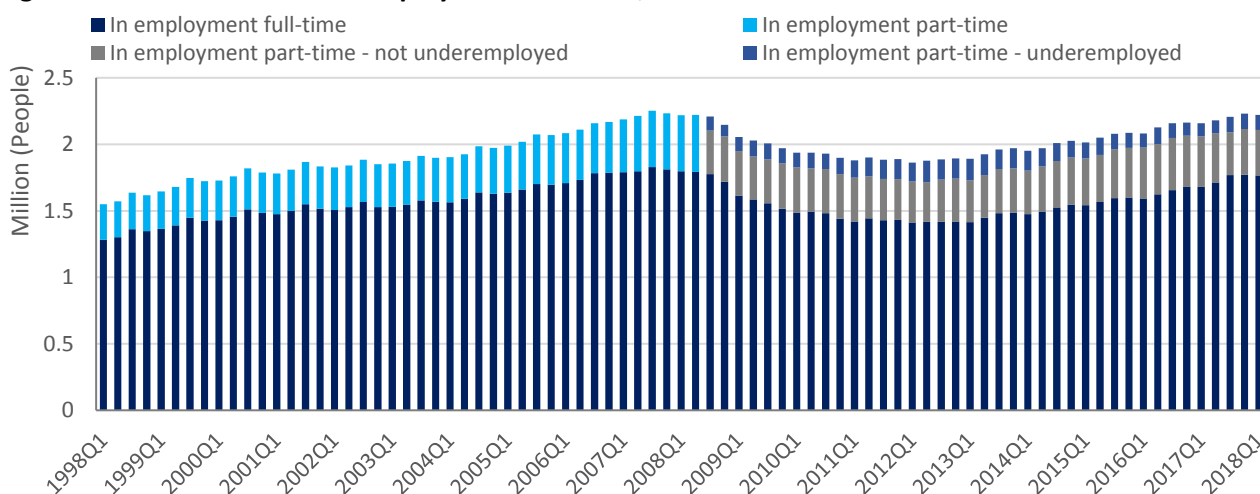
- The total number of people in employment has increased since the recession and this trend is forecast to continue with the economy expected to reach full employment. The growth in the level of employment has been strongest in the services sector.
- Despite increasing numbers in employment and the unemployment rate continuing to fall the participation rate has not improved at the same rate as the unemployment rate and remains approximately 5 percentage points below its peak in 2007.
- While there has been considerable improvements in labour market conditions overall, there is some regional variance in performance.

The purpose of this section is to look at developments in the Irish labour market over the past number of years given the outlined link between enterprise supports and employment, however it is noted that the purpose of enterprise supports is not solely related to employment creation (e.g. stimulate higher value added/output and promote research and development activities). This section examines the scale and composition of employment in Ireland prior to the recession, during the recession and into the recovery period to consider the changes that have taken place and contextualise the analysis of enterprise supports. This section is structured as follows;

- Trends in the labour market looking at the numbers in employment, unemployment and participation rates, and employment and unemployment forecasts.
- Looks at the composition of the labour market in terms of the sectors in which people are employed and the differences in labour market indicators across regions.

3.1 Trends in the Labour Market

Figure 3.1: Full and Part Time Employment in Ireland, 1998Q1- 2018Q1

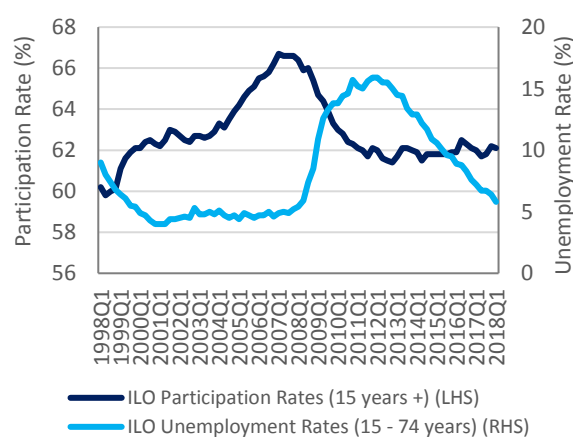


Source: CSO LFS

As has been established in detail elsewhere, the **Irish labour market has experienced positive growth following the economic downturn with unemployment levels falling significantly between 2011 and 2017**. Total employment grew steadily from 1998 to Q42007 at which point it peaked at 2.237 million on a seasonally adjusted basis, followed by a steady decline from 2008 to 2011 during the economic recession. Total employment began recovering in 2012 and stood at 2.22 million in 2018Q1. Thus, total employment, as measured on a seasonally adjusted basis, is currently around 30,000 or approximately 1.4% behind the previous peak in 2007. The decline after 2007 was primarily driven by a decline in full time employment with part time employment continuing to grow over this period as described in Figure 3.1. Of those in part time employment around 107,000 were classified as underemployed in 2008Q3 increasing to around 153,000 in 2012Q3⁹. The number of part time workers classified as underemployed fell to around 113,000 in 2018Q1.

Between 2007Q3 and 2011Q4 the unemployment rate increased from 4.9%, reaching 15.9%. The unemployment rate has since improved falling to 5.8% in 2018Q1. Over this period the labour force participation rate fell, having increased since the late 1990s. The labour force participation rate has remained at approximately 62% since 2011Q3, almost 5 percentage points below its peak in 2007. These results are illustrated in figure 3.2 which shows the unemployment rate and the labour force participation rate between 1998 and 2017. In terms of the labour force participation rate it is interesting to note the differences between age groups. While the participation rate for those aged 35 and over has been increasing over time the participation rate for those aged between 20 and 24 is approximately 20 percentage points below pre-crisis levels.

Figure 3.2: Unemployment and Participation Rates, 1998Q1- 2018Q1



As has been shown in the above analysis the Irish labour market has improved considerably following reductions in the level of employment during the recession with forecasts suggesting employment will continue to increase. Table 3.1 shows forecasts for employment and unemployment produced by the D/Finance, ESRI and the Central Bank. Each of these forecasts expect to see further increases in the number of people employed and decreases in the unemployment rate. It is thus expected that the economy will return to a position in line with full employment. Full employment refers to the utilisation of labour resources i.e. there is no voluntary unemployment, full employment thus does not mean the complete absence of

⁹ CSO Labour Force Survey defines underemployment as those in part time employment who are willing to and available to work additional hours. Note: not seasonally adjusted.

unemployment; unemployment continues to exist due to frictional and structural unemployment. Full employment is widely perceived as equating to a level of unemployment of around 5% in Ireland.

Table 3.1: Labour Market Forecasts

Employment Projections		2016	2017	2018	2019	2020	2021
Central Bank	Total Employment ('000)	2,133	2,194	2,247	2,293		
	<i>Total Change</i>		61	53	46		
D/Finance	Total Employment ('000)		2,194	2,254	2,307	2,350	2,389
	<i>Total Change</i>			60	53	43	39
ESRI	Total Employment ('000)	2,133	2,195	2,248	2,286		
	<i>Total Change</i>		62	53	38		
Unemployment Projections		2016	2017	2018	2019	2020	2021
Central Bank	Unemployment Rate (LFS)	8.4	6.7	5.6	4.8		
D/Finance	Unemployment Rate		6.7	5.8	5.3	5.3	5.4
ESRI	Unemployment Rate (ILO)	8.4	6.7	5.6	5		

Source: Author Analysis of D/Finance SES 2018, ESRI QEC Q22018, Central Bank QB 2 2018. Note: Central Bank based on LFS data

Employment targets set out in central enterprise strategy are also in line with the forecast level of employment growth. The Government's medium term strategy, Enterprise 2025 Renewed, builds on the long term strategy Enterprise 2025. Enterprise 2025 aimed to have 2.18 million people in employment by 2020, and to sustain this to 2025. Enterprise 2025 Renewed aims to see an additional 100,000 jobs by 2020 with an overall target of 2.3 million people in employment. This implies an annual increase of around 50,000 jobs to 2020 which is broadly in line with the projections set out above. It should be noted that the targets in Enterprise 2025 and Enterprise 2025 Renewed are largely consistent and the difference between the 2.18 million and the 2.3 million is affected by a change in methodology in the measurement of employment¹⁰.

3.2 Composition of Total Employment

While trends in the overall labour market have been positive in recent years, and the economy is projected to reach a point in line with perceptions of full employment in the coming years, it is of interest to analyse the composition of employment in terms of both sectoral and regional developments.

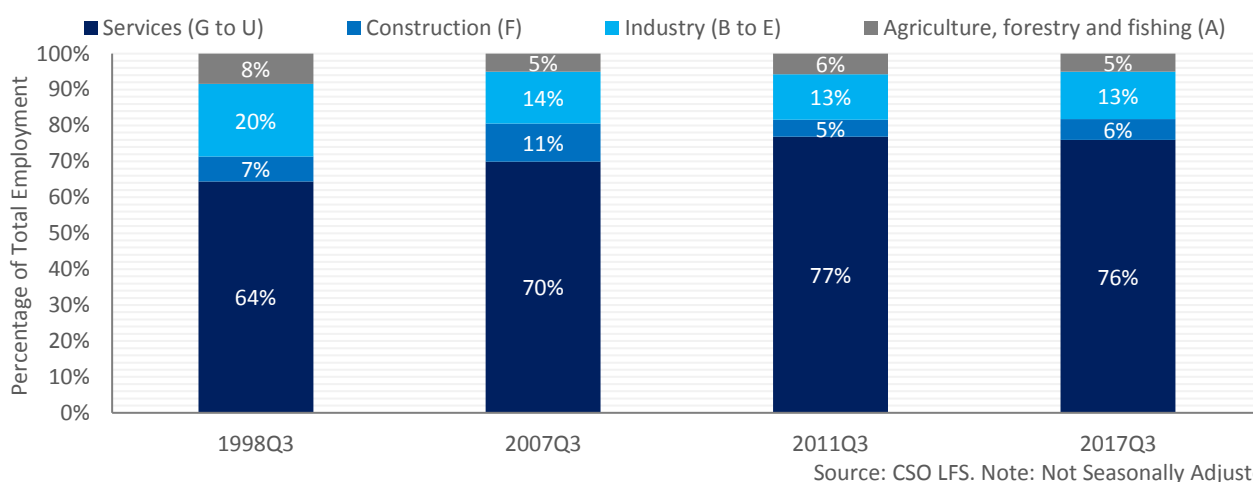
In terms of the sectoral composition of employment, it is clear that over time Ireland has moved towards a more service based economy. Between Q3 2007 and Q3 2011 employment in services fell by approximately 8% while employment in the manufacturing sector fell by approximately 26% over the same period. Employment in the services sector has returned to above the pre-crisis level while employment in manufacturing remains lower. In 1998, employment in agriculture and industry together accounted for almost 30% of total employment as demonstrated in Figure 3.3. In Q3 2007, when employment peaked, the share of

¹⁰ Original target was based on the QNHS while the revised target is based on the Labour Force Survey which has now replaced the QNHS. The LFS estimates that total employment is 2.18m in 2017Q2 while the QNHS figure for the same period is 2.06m.

employment that these two sectors held fell to less than 20% and this was a similar level in Q3 2017. Out of the four periods under consideration, employment in construction as a proportion was highest in 2007, prior to the onset of the recession which resulted in large scale job losses in the sector. The proportion of total employment that the service sector accounts for has increased over time. In 2011 when the total numbers in employment had decreased as previously discussed, the share of employment in the services sector reached 77%. In 2017Q1 this has fallen slightly to 76%, likely due to recovery in other sectors.

Within the services sector the composition has remained relatively constant over time with the main changes between 1998 and 2017 being a decrease in wholesale and retail trade as a share of services (four percentage points lower at 18% of services employment) and an increase in the proportion that is human health and social work activities (five percentage points higher at 17%). In terms of the occupational composition of the labour force, the number of people engaged in elementary occupations has been falling over time while the numbers engaged in associate professional and technical roles and professional jobs has been increasing.

Figure 3.3: Employment by NACE 2 Sector as proportion of Total Employment



While there have been significant improvements in labour market conditions overall, there are some differences in labour market conditions across various regions. Table 3.3 outlines some important labour market indicators by region allowing us to compare performance on a regional basis.

- The lowest participation rate is found in the South- East. The South East also has the second highest rate of unemployment.
- The Midlands has the highest rate of unemployment.
- The highest participation rate is in Dublin which has an unemployment rate below the national rate.
- While the Border region has the lowest unemployment rate the region is amongst the lowest in terms of labour force participation.

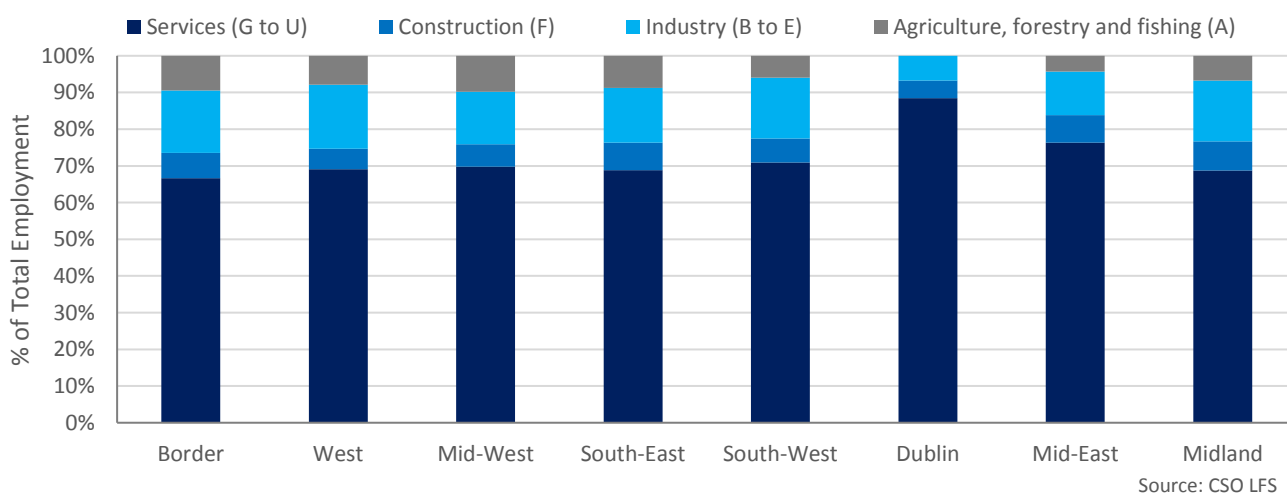
Table 3.3: Characteristics of Regional Labour Markets

	UE Rate % Q1 2018	Participation Rate Q1 2018	Indices of Income (State=100), 2016
Border	4.4	58.9	82.4
Dublin	5.3	65.6	119.8
Mid-East	5.4	61.7	102.5
Midlands	8	58.3	84.6
Mid- West	5.2	58.5	97.9
South- East	7.2	58	92.4
South- West	6.2	60.7	96.2
West	5.6	61.1	86.5
State	5.7	61.5	100

Source: CSO LFS for Unemployment/Participation Rate (not seasonally adjusted), CSO County Incomes and Regional GDP for Income

As has been detailed, there is regional variation evident in terms of the performance of the labour market. It is also of interest from the perspective of enterprise policy to consider the sectoral trends in employment across regions. From the analysis presented in Figure 3.4 it is clear that the reliance on the service sector for employment below is most pronounced in Dublin with almost 90% of employment concentrated in the services sector. For the rest of the regions the trend is more in line with the overall trend shown in figure 3.2 with around 70% of employment concentrated in the services sector.

Figure 3.4: Sectoral Composition of Employment by Region, 2018Q1



While trends in employment can be shown to vary significantly by region, it is also the case that the nature of industry varies as well. For example, based on 2014 CSO data, 30% of the GVA of Manufacturing, Building and Construction takes place in Dublin, despite this sector representing less than 20% of total employment in the region. Although the numbers employed in Manufacturing is higher in Dublin than in the rest of the country the share of total employment is important to note as it speaks to the importance of the sector to the region. GVA in Market and Non Market Services is also highly concentrated in Dublin. The share of the GVA taking

place in the Midlands, the region with the highest unemployment rate, is relatively low across each of the three sectors.

Table 3.4: Share of GVA by Region 2014

	Manufacturing, Building and Construction	Agriculture, Forestry and Fishing	Market and Non Market Services
Border	4.9%	14.8%	5.4%
Dublin	27.7%	2.3%	52.5%
Mid-East	9.6%	11.5%	7.7%
Midland	3.0%	7.2%	3.2%
Mid-West	7.3%	10.3%	5.8%
South-East	6.3%	18.3%	7.4%
South-West	31.0%	25.9%	12.3%
West	10.3%	9.7%	5.6%
State	100%	100%	100%

Source: CSO

4. Agency Support and Employment

Key Messages

- Approximately 20% of total employment is in agency supported firms (IDA, EI and Údarás na Gaeltacht) and there is a regional and sectoral variance in the scale of employment.
- Employment in agency supported firms increased earlier and at a faster rate than employment in the wider economy.

This paper has shown the level of government support provided to enterprises in Ireland and that there have been significant improvements in labour market conditions since 2011, though participation remains below its peak and some regions lag behind others. This final section looks at the link between the level of support provided and the number of jobs which are supported. Specifically, it analyses the scale and composition of employment in agency supported firms and considers whether employment in firms in receipt of support follows a similar trend to the wider economy. This section provides analysis of employment in agency supported firms. This section is structured as follows;

- The overall level of employment in agency supported firms
- Composition of employment in agency supported firms (e.g. region, sector)
- Characteristics of employment in agency supported firms

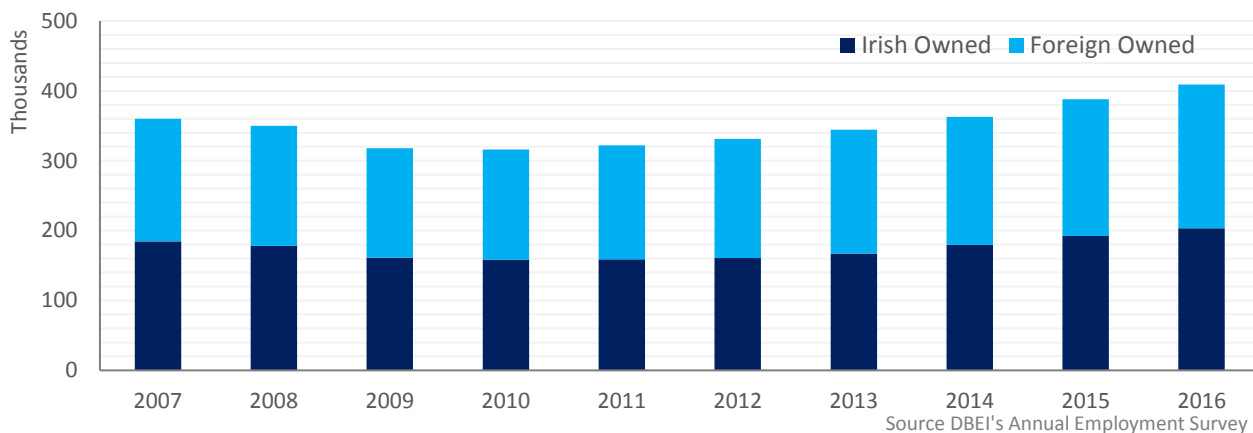
The data on agency supported employment included in this section is from DBEI's Annual Employment Survey. The Annual Employment Survey details the employment in firms supported by the IDA, EI and/or Údarás na Gaeltacht in the industrial and services sector. Employment is captured as at 31st October, therefore when comparison is made with the wider economy data from quarter four of the corresponding year is used. The survey defines full time employees as those employees working full time hours and have contracts of nine months or longer or will be on a contract of nine months or longer as of the 31st October. Part time and temporary employees are those employees on part-time, temporary, short-term contracts and agency workers employed on a temporary or part time basis or employed on contracts of less than nine months. All live companies receiving support from the development agencies now or in the past are included. It is important to note that the survey relates to total employment at enterprises that have been supported by agencies rather than jobs that have been supported by a specific grant or support.

4.1 Overall Employment at Agency Supported Firms

According to DBEI's Annual Employment Survey 2016 there were 409,000 people employed in agency supported firms in 2016. Total employment in agency supported firms is currently higher than it was in 2007, despite having fallen between 2007 and 2010. **In 2016 employment in agency supported firms represented**

approximately 20% of total employment in the country, having increased from 16% in 2007. This is divided relatively equally between foreign and Irish owned agency supported firms.

Figure 4.1: Total Employment in Agency Supported Firms, 2007- 2016



The numbers employed in firms supported by agencies follows a broadly similar trend to the wider economy, however employment in these firms began to increase earlier and at a faster rate than the economy as a whole. Figure 4.2 below illustrates this trend, showing reductions in the numbers employed in agency supported firms between 2007 and 2011 followed by increases until 2016. However, it is evident that agency supported firms of both foreign and Irish ownership increased their employment at a faster rate than the economy as a whole. Employment in agency supported firms has increased by 4.9% (Irish owned) and 5.3% (non-Irish owned) on average per year since 2011 while total employment has increased by an average of approximately 2%. There are likely a number of factors driving this trend including the sectoral and regional

Figure 4.2: Total Employment, 2007-2016



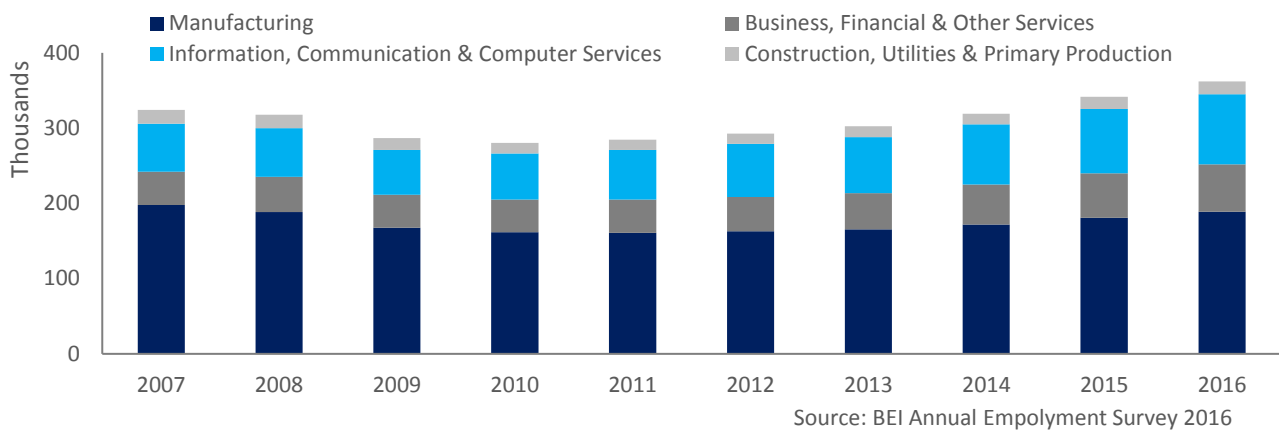
composition of supported firms and because the majority of these firms compete in the global market. The composition of employment in agency supported firms will be explored further in the next section. While the Annual Employment Survey 2017 has not yet been published Enterprise Ireland's end of year statement for 2017 report an additional 19,000 jobs created which amounts to an increase of 5% employment growth overall. IDA's end of year statement reports the creation of just under 19,000 jobs in 2017.

4.2 Composition of Employment in Agency Supported Firms

While it has been established that the total level of supported employment has increased in recent years, it is important to also consider the composition of this employment in terms of regional and sectoral dimensions.

Figure 4.3 shows the level of employment in agency client companies by sector between 2007 and 2016. **The majority of employment in supported firms is concentrated in the manufacturing sector, though the numbers employed in agency supported firms in Information, Communication & Computer services is increasing at a faster rate.** More than 50% of employment across all agency supported firms is concentrated in Manufacturing, this proportion has declined from approximately 65% in 2007. Employment in Information, Communication and Computer Services in receipt of support from agencies has increased from 20% in 2007 to 25% in 2016.

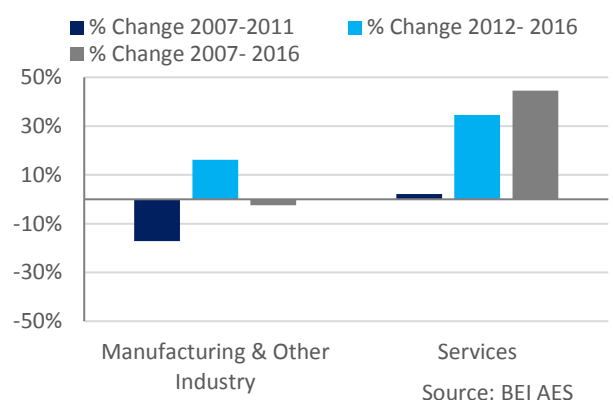
Figure 4.3: Employment in Agency Supported Firms by Sector



Employment in agency supported firms in the services sector increased by 44.5% between 2007 and 2016 while employment in agency supported firms in manufacturing fell by 2.8%. Figure 4.4 below shows the percentage change in employment in agency supported firms. The following results are of note from this figure;

- Employment in agency supported firms engaged in manufacturing fell by 17% between 2007 and 2011, while employment in agency supported firms in the services sector increased by approximately 2%. Between 2011 and 2016, when the economy was in recovery, employment increased in each of these sectors. Agency supported firms engaged in the services sector increased their employment by 41% over this period, while manufacturing firms receiving agency support increased their employment by 17%.
- The increase in the level of employment in agency supported firms in the services sector resulted in an increase in the level of employment of 45% over the whole period.

Figure 4.4: % Change in Employment in Agency Supported Firms by Sector



- Much of the reduction in employment that occurred in Manufacturing and Other Industries between 2007 and 2011 was offset between 2012 and 2016. However the 2016 level of employment in agency supported Manufacturing and Other Industry firms remains 2.8% below the 2017 level.

Comparing employment in agency supported firms to total employment in the economy by sector is challenging due to differences in the definitions of sectors. In comparing the broad sectoral grouping provided in the BEI Employment Survey with the relevant sectoral grouping in the CSO Labour Force Survey we can observe some indicative trends. It is estimated that **approximately 75% of total employment in industry (excluding employment in construction) is in agency supported firms.** This proportion has been increasing over time. The proportion of total employment in the services sector is estimated to have remained relatively constant between 2007 and 2011. Between 2011 and 2016 this figure began to increase reaching an **estimated 11% of total employment in the services sector in 2016.** However, this result should be seen within the context that the services sector is very broad and the enterprise agencies can only support firms with international trading potential. Internationally traded services represent only a relatively small proportion of total employment in the services sector.

In terms of the regional composition of agency supported employment Dublin has the highest number of people employed in agency supported firms, which is to be expected as Dublin has the largest population and economy. The South West has the second largest number of people employed in agency supported firms, while the Midlands, the region with the highest unemployment rate, also has the lowest level of agency supported employment. It is important to note that according to Regional Aid Guidelines there are some restrictions surrounding the grants that can be administered to the firms in Dublin City and County, Cork City and County and the Mid- East (with some exceptions)¹¹.

Table 4.1: Employment in Agency Supported Firms by Region, 2016

Total	Midlands	Border	West	Dublin	Mid-East	Mid-West	South East	South West
409,041	16,143	35,296	38,892	152,211	33,422	31,118	34,836	67,123

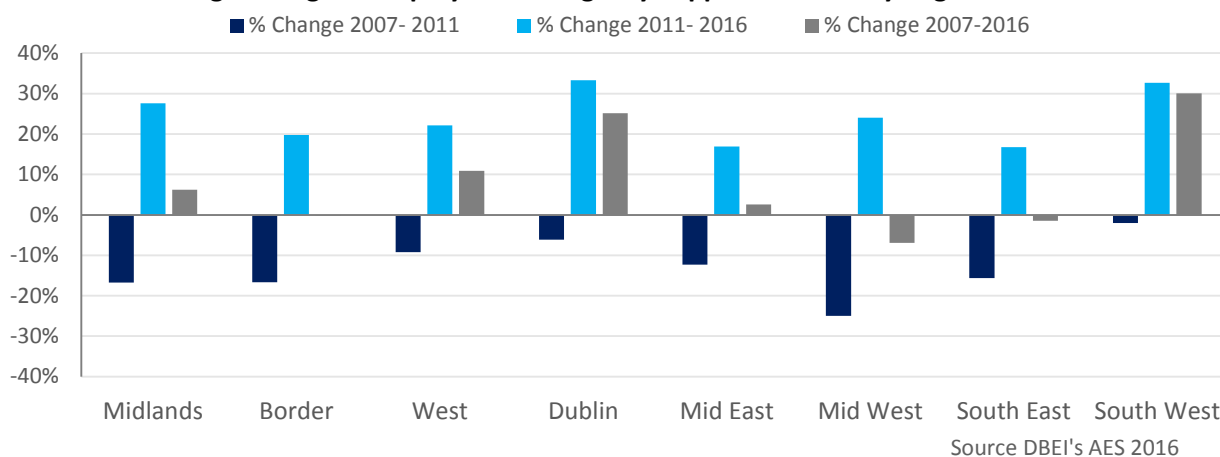
Source DBEI's AES 2016

Employment in agency supported firms fell by varying amounts in each of the regions between 2007 and 2011, increasing again between 2011 and 2016. These increases offset the reductions in employment in all regions except the Mid- West and South- East which experienced a net reduction in agency supported employment over the period. The specific changes in employment at agency supported firms between 2007 and 2016 is illustrated in figure 4.6

¹¹ [State Aid Regional Aid Guidelines](#)

- Reductions in the levels of employment in agency supported firms was most pronounced in the Mid-West, falling by 25% between 2007 and 2011. While there was an increase in the numbers employed in agency supported firms in this region between 2011 and 2016 this increase did not fully offset the reduction in numbers employed, with the Mid- West therefore experiencing a net reduction in the numbers employed in agency supported firms.
- Dublin and the South West each experienced the smallest reduction in the numbers employed in agency supported firms between 2007 and 2011, followed by increases of more than 30% each between 2011 and 2016 resulting in a net increase in the numbers employed in supported firms in the region.

Figure 4.5: Percentage Change in Employment in Agency Supported Firms by Region



Similar to the sectoral analysis it is not possible to definitively assess the proportion of total employment within each region that is within agency supported firms. For instance, data from the CSO's Labour Force Survey is based on household (i.e. where a person lives) while the agency employment data would be based on where they are employed. Given that people do not necessarily live in the region in which they are employed it is difficult to accurately estimate the proportion of regional employment in agency supported firms. However it is useful to consider employment in the client company of enterprise agencies in these terms as it gives us an idea of the scale of employment relative to the size of the labour market in each region. In general indicative analysis indicates that agency supported employment is increasing across each of the regions in comparison to total employment. For example, total agency supported employment is around 24% of the total employment estimate in Dublin, and this has increased from 20% in 2007. Total employment in agency supported firms in the South-West has the second highest proportion at 23.1% of total employment. Meanwhile, total employment in agency supported companies in the Midlands and the Mid-East are lower as a proportion of total employment at approximately 13%.

Further detail on the sub sectors that agency supported employment is concentrated in is laid out in table 4.2 below. The majority of Irish owned agency supported employment is found in Food manufacturing. This

accounts for 36% of Irish owned agency supported employment in the manufacturing sector. The three largest sub sectors amongst Irish owned manufacturing listed in the table above account for 56% of employment in Irish owned manufacturing employment. Amongst foreign owned agency supported firms the largest share of employment is in Medical and Dental Instruments and Supplies. Together the three largest sub sectors in terms of employment in foreign owned manufacturing cohort account for close to 74% of the employment in the foreign owned manufacturing firms in receipt of agency support.

Table 4.2: Total Employment in Agency Supported Manufacturing Firms, 2016 (Top Three Sub-Sectors)

Irish Owned		Foreign Owned	
Food	44,200	Medical and dental instruments and supplies	27,844
Construction, Energy, Water and Waste	13,300	Chemicals	26,324
Basic and Fabricated Metal Products	11,100	Computer, Electronic and Optical Equipment	20,267
Total	122,403	Total	102,838

Source: DBEI's AES 2016

Turning to the agency supported employment in the services sector further information on the sectors in which employment is concentrated is outlined in table 4.3 below. The largest share of Irish owned agency supported employment engaged in the services sector is in business services, which is twice as large as the next biggest sub sector in terms of employment. Foreign owned agency supported service firms seem to be largely concentrated in ICT services and financial services.

Table 4.3: Employment in Agency Firms in the Services Sector, 2016 (Top Four Sub-Sectors)

Irish Owned		Foreign Owned	
Business Services	28,547	Computer programming activities	29,524
Computer consultancy activities	14,069	Financial Services	23,905
Other Services	13,424	Computer consultancy activities	19,565
Other Information and Communication	9,933	Computer facilities management activities	12,674
Total	76,697	Total	102,638

Source: DBEI's AES 2016

In addition to the total numbers in employment in agency supported firms it is useful to note some other features that inform our understanding of agency supported firms in relation to their contribution to the labour market. These characteristics highlight some of the differences between Irish owned and foreign owned agency supported firms. The following points are of note;

- The payroll costs per person amongst foreign owned agency supported firms has been increasing at a greater rate than the Irish owned cohort (Annual Business Survey of Economic Impact 2016).

- Total value added¹² per person is far higher in non-Irish owned agency supported firms, at approximately €376,000 in 2016, than in Irish owned agency supported firms, which was approximately €90,000 in 2016 (ABSEI 2016). This compares with a GVA per person of approximately €31,000 for the economy as a whole.
- The services sector in Ireland tends to have a higher value added than the manufacturing sector. However foreign owned agency supported firms engaged in manufacturing tend to have a high value added.

5. Conclusion and Next Steps

The foregoing analysis has looked at the level of government support for enterprise in the form of both direct financial supports and taxation measures and considered the role that enterprise agencies play in the context of the Irish labour market.

The overall level of exchequer grants to agencies involved in supporting enterprises has remained relatively constant at approximately €1 billion since 2011, while tax expenditures aimed at supporting enterprise increased significantly over the same period, reaching €750 million. The majority of both the direct grant support and the taxation measures is aimed at promoting R&D. In light of these findings, and the trends observed in terms of the level of grants administered by the EI and IDA it would be useful to conduct further research looking as to what extent, if any, enterprise supports are linked to the business cycle. Furthermore an international comparison of the level of resources other countries dedicate to supporting enterprise would further enhance our understanding of this area.

The labour market has improved since the recession and is forecast to reach a level which would generally be perceived as full employment. Despite the improvements in labour market conditions some differences exist across regions, for example as highlighted previously the Midlands has the highest unemployment rate and is amongst the lowest in terms of labour market participation. It would be useful to consider what implications the significant labour market improvements and the differences observed have for enterprise policy in the context of the variety of objectives that supports are in place to achieve and other policy considerations such as Brexit, competitiveness, innovation and regionalisation.

It is estimated that around 20% of total employment is in agency¹³ supported firms and there is a regional and sectoral variance in the scale of employment in agency supported firms. This employment is concentrated in manufacturing and internationally traded services. Given that a high proportion of the labour

¹² ABSEI measures total value added as total sales less the total cost of materials and services.

¹³ IDA, EI and Údarás na Gaeltacht

force is engaged in agency client firms and the high GVA per person observed in these firms it would be useful to further consider the nature of this employment in terms of type, quality and value added of these jobs compared to employment in the wider economy. Further consideration of the quality of jobs in agency supported firms would enable a greater understanding of the contribution of these firms to the wider economy.

As such, this paper has had a relatively limited scope in setting out analysis of the composition and scale of enterprise supports in the context of labour market developments and there are a variety of areas for further consideration as set out above given the range of objectives and rationale of enterprise policy and supports.

Quality assurance process

To ensure accuracy and methodological rigour, the author engaged in the following quality assurance process.

- Internal/Departmental
 - Line management
 - Spending Review Steering group
 - Other divisions/sections
 - Peer review (IGEES network, seminars, conferences etc.)

- External
 - Other Government Department
 - Steering group
 - Quality Assurance Group (QAG)
 - Peer review (IGEES network, seminars, conferences etc.)
 - External expert(s)

- Other (relevant details)