Ireland: Quantifying Industrial Strategy

Highlights

- Irish industrial policy expenditures are significantly lower than in the benchmark, both for financial instruments and for grants and tax expenditures.

- Regarding financial instruments, this is driven by the absence of an export finance agency and lower levels of loans provided to SMEs.

- Regarding grants and tax expenditures, this is driven by lower tax expenditures, which can be explained by the Irish tax system, characterised by lower corporate tax rates than in the benchmark.

- Ireland also has lower industrial policy spending on jobs and skills and lower spending on green industrial policy, although the new Renewable Electricity Support Scheme has the potential to significantly narrow the gap with the benchmark in the future.

IRISH INDUSTRIAL STRATEGY EXPENDITURES - 2021 NUMBERS

EUR 3.3 billion from EUR 2.8 billion in 2020 (+17.4%)

- EUR 1.5 billion Tax expenditures
- EUR 1.0 billion Grants
- EUR 0.5 billion Venture Capital
- EUR 0.4 billion Loans and loan guarantees

EUR 8.8 billion in COVID emergency support EUR 8.0 billion in 2020 (+9.5%)

EUR 0.9 billion in EU funds EUR 0.7 billion in 2020 (+25.4%)

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The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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The QuIS project

The 'Quantifying Industrial Strategies (QuIS)' project measures industrial strategies across OECD countries through harmonised data on industrial policy expenditures, their composition, their mode of delivery, and the characteristics of their beneficiaries. This allows participating countries to benchmark their industrial strategies against each other in terms of industrial policy expenditures, policy priorities, policy instruments and recipients.

The data gathered for each country were sent to the member states for additional checks and validation, also with questions regarding the detail of certain instruments as well as gaps in the available data. After countries' validation, the final cross-country data were compiled in a common database. Another relevant delivery of the QuIS project is the report ‘Quantifying industrial strategies across nine OECD countries’ published as an OECD Science, Technology and Industry Policy Paper, which consists in a cross-country analysis of the industrial strategies of the first nine countries participating in the project. Both the database and the report will be downloadable from https://www.oecd.org/industry/industrial-policy-and-strategies/.

General picture

Industrial policy expenditures are significantly lower in Ireland than in the other countries in the benchmark\(^1\), both for financial instruments and for grants and tax expenditures. For financial instruments, this is due to the lack of an export credit agency and lower lending to SMEs compared to other countries such as France or Canada. For grants and tax expenditures, this is attributable to lower tax expenditures, which can be explained by the smaller margin to provide tax incentives given the lower corporate tax rates in Ireland compared to the benchmark. Ireland's industrial policy expenditures are lower than in the benchmark, partly due to lower spending on labour cost reduction and training, and lower spending on green industrial policy, although the new Renewable Electricity Support Scheme has the potential to significantly narrow the gap with other countries.

Box 1. QuIS methodology

QuIS gathers publicly available data from many and decentralised sources on industrial policy expenditures. For the case of Ireland, the project focuses on annual industrial policy expenditures higher than EUR 6 million (0.002% of GDP in 2017). The period covered is 2019-2021 and the data track both structural policies and COVID-19 emergency support measures. Instruments targeting agricultural firms are excluded from the database and the analysis. Policy instruments are classified along four dimensions: scope, instrument type, eligibility criteria and selectiveness. The QuIS methodological paper outlines the scope and the definitions in more detail and can be found here: oe.cd/il/QuIS. Importantly, financial instruments, defined as the provision of loans, loan guarantees or equity investments, are measured through the so-called notional amounts method, which measures expenditures as the amount of financing (or guarantees) provided by public entities. This measure was chosen as it is the most widely available across countries. However, amounts obtained with this method are not directly comparable with grants, and tax expenditures, so the two types of instruments are recorded and analyzed separately.

Countries used to define the benchmark are Canada, Denmark, France, Israel, Italy, the Netherlands, Sweden, and the United Kingdom. Country notes are also available for these countries.

\(^1\) Denmark, Canada, Ireland, Israel, Italy, the Netherlands, Sweden and the United Kingdom.
A. Industrial policy support is significantly lower in Ireland than in the benchmark

**Figure 2. Domestic industrial policy expenditures in 2021, % of GDP (diamonds – in 2019)**

Irish support is lower than the benchmark in both grants/tax expenditures (0.58% vs 1.47% of GDP) and financial instruments (0.21% vs 1.70% of GDP) in 2021 (Figure 2). In absolute terms, Ireland spent EUR 2.46 billion on grants and tax expenditures and provided EUR 880 million on financial instrument support. As for grants and tax expenditures, this difference comes from the fact that Ireland spends significantly less than other countries on industrial policies focused on SMEs and young firms, jobs and skills and the green transition. As for financial instruments, this difference can be explained by the lack of an export credit agency in Ireland and
by lower guarantees provided to SMEs. If the Modified Gross National Income (GNI\textsuperscript{*} 2) were used instead of GDP to replicate the values of Figure 2 for Ireland and the benchmark, respectively; the gap between them would narrow, but Irish industrial policy support would still be below the benchmark. For example, grants and tax expenditures would increase from 0.58% of GDP to 1.05% of GNI\textsuperscript{*} (still below the 1.50% of GNI in the benchmark). The values for the benchmark do not change significantly since the difference between GDP and GNI is relatively low in the rest of the sample (e.g., GNI being around 99% or 98% of GDP).

**Figure 3. EU industrial policy support in 2021, % of GDP (diamonds – in 2019)**

In 2021, Ireland benefited less from EU industrial policy grants than the EU benchmark (0.03% vs. 0.08% of GDP), representing EUR 117 million (Figure 3, left). This difference is driven by instruments such as the 'European Regional Development Fund (ERDF)' (0.01% of GDP). In addition, Ireland received fewer EU financial instrument support (0.17% of GDP) compared to the EU benchmark (0.29% of GDP, Figure 3, right), representing EUR 733 million. This difference is primarily due to the higher amount of loans provided by the European Investment Bank to countries such as Italy and Sweden (0.37% and 0.24% of GDP, respectively, compared to 0.10% of GDP in Ireland in 2021). However, the support of EU financial instruments as a percentage of Irish GDP more than doubled over the period, reflecting an increase in loans granted by the European Investment Bank. This is partly due to the higher liquidity needs resulting from the COVID crisis, which is reflected in the sharp increase in EU financial instruments for both Ireland and the EU benchmark between 2019 and 2021 (183% vs. 21% increase).

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2 The Modified GNI (GNI\textsuperscript{*}) is an indicator that was adopted by Ireland’s Central Statistics Office by recommendation of the Economic Statistics Review Group and is designed to exclude globalisation effects that disproportionately impact the measurement of Irish GDP. GNI\textsuperscript{*} corresponds to GNI adjusted by factor income of Redomiciled Companies, depreciation on R&D Service Imports and Trade in Intellectual Property (IP), and depreciation on Aircraft Leasing.

3 The traditional GNI indicator was used for the benchmark since GNI\textsuperscript{*} is only available for Ireland.
Summary Figure. Irish industrial policy expenditures by instrument type in 2021, % of GDP

<table>
<thead>
<tr>
<th></th>
<th>Ireland</th>
<th>Benchmark</th>
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<tbody>
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<td>Grants and Tax expenditures</td>
<td>0.5%</td>
<td>2.0%</td>
</tr>
<tr>
<td>EU - Grants</td>
<td>0.2%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Export finance</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Other financial instruments</td>
<td>0.1%</td>
<td>0.3%</td>
</tr>
<tr>
<td>EU - Other financial instruments</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Note: Includes EU support.
Source: OECD calculations based on the QuIS database.

Figure 4. Industrial policy grants and tax expenditures by eligibility criteria in 2021, % of GDP

Note: Structural domestic and EU policies (i.e., excluding COVID). Categories are not mutually exclusive, as policies can be tagged in several categories. Additionally, some policies do not fulfill any of these eligibility criteria (see left panel).
Source: OECD calculations based on the QuIS database

Regarding grants and tax expenditures, Ireland’s industrial strategy differs structurally from the OECD benchmark (Figure 4). In particular, Ireland spends less as a percentage of GDP on each eligibility criteria with the only exception being support to digitalisation.

First, Ireland allocates a lower share of GDP to sectoral support, with 0.23% of GDP spent on sectoral policies compared to 0.47% of GDP in the benchmark. However, Ireland devotes a higher share of total grants and tax expenditures to sectoral support than the benchmark (38% vs 28%). In absolute terms, sectoral grants and tax expenditures represent EUR 995 million. The largest sectoral instruments are two domestic programmes.
supporting electricity and the transport sector: the 'Irish Capacity Mechanism' (0.08% of GDP) and the 'Jet Kerosene Exemption' (0.06% of GDP). Other instruments also support the energy and transport sectors.

Second, the magnitude of R&D grants and tax expenditures is lower than for the benchmark (0.19% vs 0.26% of GDP), driven by the 'Research and Development Tax Credit' (0.16% of GDP). R&D grants and tax expenditures amount to EUR 814 million in absolute terms.

Third, Ireland spends less than the benchmark on policies that do not fulfil any of the eligibility criteria used in this project (0.10% vs 0.38% of GDP), representing EUR 423 million. This difference comes from the high spending on this type of schemes in other countries, such as Denmark, which provides instruments like the business-oriented electricity tax deduction ('Fradrag for elafgift', 0.65% of GDP), while Ireland did not have such instruments during the period 2019-2021.

Fourth, Ireland spends less on industrial policies targeting the labour force compared with the benchmark (0.002% vs. 0.25% of GDP), representing EUR 102 million. This difference is driven by countries like France and Sweden, which spend 0.8% and 0.3% of GDP on jobs/skills industrial policies, respectively. These countries focus on grants to reduce labour costs such as the French competitiveness and employment tax credit ('Crédit d'Impôt Compétitivité et Emploi', 0.28% of GDP) and the Swedish 'Nystartsjöbb' grant to reduce the cost of hiring those who have been away from the workforce for a significant period (0.06% of GDP). In contrast, there are no comparable structural instruments in Ireland, which mainly relies on training and employment grants for small businesses. However, an important part of Irish COVID emergency support was granted through labour industrial policies such as the tax expenditure 'PRSI foregone' (0.16% of GDP in 2021) and the 'Employment Wage Grant Scheme (EWSS)' (1.07 % of GDP in 2021).

Similarly, the amount allocated to SME-focused industrial policies in Ireland is much lower than in the benchmark (0.02% vs. 0.25% of GDP), e.g., in the Netherlands, where 0.51% of GDP is allocated to SME-focused industrial policies. In monetary terms, Ireland spent EUR 97 million in these types of schemes. For instance, the Dutch SME-focused industrial policy provides large instruments supporting the self-employed, such as the self-employed tax deduction ('Zelfstandigenaf trek', 0.62% of GDP). In contrast, there is no similar support for the self-employed in Ireland as in the Netherlands, as the largest tax expenditure for SMEs in Ireland is the 'Corporation Tax Relief for start-up Relief companies' providing just 0.002% of GDP.

Finally, green industrial policy expenditures, although lower than in the benchmark in 2021 (0.002% vs 0.28% of GDP, or EUR 9 million in monetary terms), might significantly increase in upcoming years due to the new 'Renewable Electricity Support Scheme (RESS)', which provides a price-premium to renewable electricity producers if the strike price settled in auctions is consistently higher than the market price, and generates an obligation to pay if the opposite holds. This instrument has the potential for becoming key in the Irish green transition, given the high amount of support budgeted (0.5% of GDP equivalent to 83% of grants and tax expenditures).

**With respect to financial instruments**, the lower support of Ireland with respect to the benchmark can be explained by the lack of an export credit agency in Ireland and by lower guarantees provided to SMEs.

Export finance represents a large share of financial instruments in benchmark countries that rely on them. For instance, in Canada export insurance amounts to 3.6% of GDP and in Sweden export guarantees represent 1.4% of GDP, both in 2021.

Even after excluding export finance, support through financial instruments in Ireland remains much lower than in the benchmark due to lower SME-focused guarantees compared with other countries (0.004% of GDP in Ireland vs 0.88% and 0.26% in France and Canada, respectively in 2021), which represents EUR 19 million in Ireland. The most important financial instrument in Ireland is not a guarantee programme, but the equity fund 'Investments (Priority Themes & other non-Covid interventions)' provided by the Ireland Strategic Investment Fund (0.09% of GDP in 2021).
B. Ireland provided less COVID emergency support in the form of financial instruments than the benchmark

Figure 5. COVID emergency support through financial instruments (right) and grants/tax expenditures (left), % of GDP

Looking at COVID emergency support (Figure 5), Ireland relied mainly on grants and tax expenditures. Nevertheless, when looking at the whole period 2020-2021, resources from grants and tax expenditures are below the benchmark and are concentrated on supporting jobs. Ireland relied more on COVID emergency grants for jobs and skills such as the 'Temporary COVID-19 Wage Grant Scheme (TWSS)' (0.76% of GDP in 2020) and its replacement, the 'Employment Wage Grant Scheme (EWSS)' (1% of GDP in 2021). Other countries such as Italy and France, relied more on tax expenditures.

In addition, Ireland used significantly less COVID support through financial instruments than the benchmark both in 2020 and 2021. For example, COVID-related financial support in Ireland amounted to 0.54% of GDP in 2020 (compared to 7.25% for the benchmark). The Irish 'Debt Warehousing' loan (0.41% of GDP) was the main instrument. Other countries issued more on government-provided loans, such as Denmark through the 'Udskydelse af betalingsfrister for indkomstskatter, moms- og lønsumsafgift og andre afgifter' loan (6.65% of GDP), Italy through the 'Assicurazione del credito breve termine' loan (1.52% of GDP) and France through tax deferrals ('Reports de charge ccelé et cceleration de remboursements d’import' and 'Reports de cotisations sociales', 1.39% of GDP in total) and direct loans ('Prêts garantis par l’état', 5.5% of GDP).

Source: OECD calculations based on the QuIS database.
Deep dive on Irish industrial strategy

A. At a more disaggregated level, the lower support through grants and tax expenditures is driven by lower amounts of tax expenditures

**Figure 6. Distribution of industrial policy grants and tax expenditures by instrument type in 2021, % of GDP**

Source: OECD calculations based on the QuIS database.

Ireland spends significantly less on tax expenditures than the benchmark (0.35% vs 1.03% of GDP), while it spends almost as much on grants (0.25% vs 0.51% of GDP, Figure 6). The low-spending on-tax expenditures are coherent with the Irish tax system. In particular, Ireland has less leeway than other countries to provide tax incentives given the already low Irish corporate income tax (Box 2). An exception to this pattern, however, is Ireland’s support for R&D, which relies more heavily on tax expenditures (‘Irish R&D tax credit’) than the benchmark (81% vs 70% of total expenditures for R&D support, equivalent to 0.16% and 0.19% of GDP, respectively).

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**Box 2. Interaction of industrial policy tax expenditures and the baseline tax system in Ireland**

Tax expenditures are defined as provisions of tax law, regulation or practices that reduce or postpone taxation for a comparatively narrow population of taxpayers relative to a benchmark tax (e.g., tax allowances, tax exemptions, tax reliefs and tax credits) (OECD, 2010[1]). QuIS’ scope includes tax expenditures geared towards enhancing competitiveness, investment or economic development by providing direct support to firms. Hence, differences in corporate taxes across countries are not reflected in industrial policy expenditures but may determine the extent to which countries resort to tax expenditures for industrial policy purposes.

To understand the low amount of industrial policy tax expenditures used in Ireland (as a percentage of GDP and relative to the benchmark), it is useful to compare them with the Irish Combined Corporate Income Tax Rate. This indicator represents the headline tax faced by corporations and can be used to compare the standard tax rate on corporations across jurisdictions and over time.4 As a statutory tax rate, this indicator measures the marginal tax that would be paid on an additional unit of income, in the absence of other provisions in the tax code.5 This measure is chosen since it excludes tax expenditures (included in the QuIS scope). Therefore, it allows to perform comparative analysis of tax expenditures and the corporate tax system.

While Ireland, as a percentage of GDP, spends significantly less on tax expenditures compared to the benchmark (0.35% of GDP vs 1.0% of GDP), it also has a Combined Corporate Income Tax Rate that is almost

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5 Specifically, this indicator is measured as the basic combined central and sub-central (statutory) corporate income tax rate given by the central government rate (less deductions for sub-national taxes) plus the sub-central rate.
B. The lower level of support through non-export financial instruments is due to a lower level of SME-related guarantees

Figure 8. Distribution of non-export financial instruments by SME focus and instrument type in 2021, % of GDP

Source: OECD calculations based on the QuIS database.

The lower support in the form of non-export financial instruments in Ireland is mainly driven by its low SME-focused guarantees (Figure 8). Specifically, in 2021, they represented 0.2% of GDP in the benchmark and 0.004% of GDP in Ireland. For instance, countries providing important amounts of support through those instruments are Italy with the ‘SMEs Guarantee Fund’ (3.8% of GDP); and France with the ‘Bpifrance - Garanties’ (0.25% of GDP). In 2021, the only SME-focused guarantee scheme in Ireland was the EU instrument ‘EIF-COSME: Loan Guarantee Facility’ representing 0.004% of GDP. The previously existing SME-focused ‘Credit Guarantee Scheme (CGS)’ was re-converted into a COVID emergency support scheme in 2020 (which is however small, representing 0.03% of GDP).

In addition to SME financing, non-SME loans account for the difference in long-term financial instruments between Ireland and the benchmark. In 2021, they represented 1.9% of GDP in the benchmark and 0.54% of...
GDP in Ireland. Countries like Canada and France provide important support through these schemes, for instance, through the sectoral ‘Farm Credit Canada - Loans’ (0.06% of GDP in 2021), and the horizontal ‘Bpifrance - Court terme et Mobilisation de créances’ (0.28% of GDP in 2021). In contrast, the only Irish non-SME loan scheme in 2021 was provided by the European Investment Bank representing 0.1% of GDP.

C. Irish sectoral grants and tax expenditures are mostly targeted to energy and transport

Figure 9. Sectoral support by sector – Grants and tax expenditures as % of GDP, 2021

Reading example: In Ireland, the amount of support, in the form of grants and tax expenditures, specifically directed to the energy sector represented 0.09% of total GDP, whereas it represents 0.22% in the benchmark.

Note: Includes EU support.
Source: OECD calculations based on the QuIS database.

An industry-level perspective reveals that sectoral industrial policy in Ireland is primarily focused on three sectors (Figure 9), namely energy (0.09% vs 0.22% of GDP in the benchmark), transport (0.07% vs 0.10% of GDP in the benchmark), and to a lesser extent information (0.03% vs 0.05% of GDP in the benchmark). Only mining receives more support than the benchmark. This pattern described in this paragraph does not change when comparing support rates (i.e., support as a percentage of sectoral value added).

It is important to note that Ireland’s relatively low focus on green instruments is primarily due to lower support for the energy sector relative to the benchmark. However, this pattern is likely to reverse with the new ‘Renewable Electricity Support Scheme (RESS)’. This instrument has the potential to become the largest industrial policy instrument in Ireland, with a budget of EUR 2 billion per year (the first RESS projects were approved in 2020). However, in 2021, RESS payments were negative (companies had to pay the Public Service Obligation (PSO) fund) because the market price for energy in 2021 was higher than the projects’ strike price. If the RESS instrument had provided the expected amount of EUR 2 billion per year (0.47% of GDP in 2021), green spending would have been up to 32% of total grants and tax expenditures, while 0.56% of GDP would have been spent on the energy sector in 2021 (now 0.09% in 2021).
References