

Enterprise Ireland Inputs – Draft National Risk Assessment 2016

From an Enterprise Ireland perspective we view the assessment of risk mainly from the standpoint of our client companies. Enterprise Ireland welcomes the opportunity to input to the 2016 National Risk Assessment and are particularly interested in the impacts that may be experienced, particularly on the potential to create jobs, should certain risks arise.

On a broad level the draft risks identified are in line with those considered by the EI Executive as part of internal risk management process. The following sections provide some additional context for a number of the risk identified from the perspective of the Enterprise Ireland client base.

1. Weak Global Economic Growth and Debt Sustainability

- Weaker growth globally or in our key trading partners presents a real risk to the speed of Ireland's growth at a macro level. While Ireland is particularly dependent on external demand given the openness of the economy Enterprise Ireland's clients, who for the most part operate in specific sectors and niches, are somewhat less impacted by overall levels of GDP growth in the export markets they sell to. This can be seen through our clients export performance in 2015 when despite a deterioration in global growth, they reported a 10 percent increase in export sales.
- Given the continued high level of private debt amongst many SMEs, Enterprise Ireland's client base would be vulnerable to increases in interest rates in the medium-term. Enterprise Ireland works closely with actors across the financial sector in Ireland, from the Banks to the Seed & Venture Capital sector to ensure that our clients have access to sustainable funding to support their growth plans.

2. Loss of Competitiveness

- As outlined in the draft overview of risks, a loss of competitiveness is a risk which is multifaceted, and there is not one policy prescription which can seek to maintain or enhance Ireland's competitiveness. Taking a holistic approach, working cross-government, and with all the stakeholders, is a necessary part of implementing measures to preserve competitiveness

Two areas, which are not directly covered in the draft identification of risks, but are very much components of our competitiveness offering, particularly from the enterprise perspective are skills availability and innovation. Enhancing Ireland's comparative advantage in these areas will go a long way towards insulating the economy against the risks it might face from other aspects of competitiveness challenges.

- a. As recovery gathers pace it is clearly right to focus our efforts to drive towards a full employment benchmark within the economy. While job creation in the economy is very much the priority, and significant progress has been made, in the medium term, skills availability is increasingly becoming a key differentiator in Ireland's relative competitiveness. One of the medium term risks that has the potential to arise, is the challenge of maintaining Ireland's relatively excellent standing in relation to labour force quality and availability, across a range of our key sectors.
- b. It is Enterprise Ireland's view that competitiveness should be built less on reducing costs, and more by enhancing productivity. Innovation is essential to improving productivity levels across the economy and it is important that innovation is at the centre of SMEs' growth plans.

3. Importance of multinational corporations to Irish economy and risk of unfavourable international tax changes

- The Government's focus on developing Irish enterprise is crucially important to mitigating this risk. At present the employment contribution and Irish economy expenditures of exporting companies that Enterprise Ireland works with, are directly comparable in scale to those of the multinational companies supported by IDA Ireland. It is essential that both parts of the enterprise base to perform strongly and that we continue to succeed in attracting FDI to Ireland and also in building Irish companies of scale that can compete and win business on global markets.

In terms of international tax policy, it is important to firstly acknowledge that Ireland's corporation tax position is strong. Budget 2016 set out a number of initiatives to support enterprise development. These included the introduction of the Knowledge Development Box which provides for a lower corporation tax rate to profits resulting from qualifying R&D activity. The KDB plays a key part of Ireland's overall suite of offerings to stimulate investment in RD&I and Intellectual Property creation and exploitation.

In addition, positive steps were introduced to provide a targeted Capital Gains Tax rate for entrepreneurs, and to introduce an earned tax credit for the self-employed. Building on these initiatives will help to ensure that Ireland's tax regime is competitive. From an Enterprise Ireland perspective, if we are to succeed in growing more companies of scale, we as a country, need a comprehensive approach to incentivising company scale. This needs to be competitive with other jurisdictions, encompassing appropriate incentives for company founders, key employees and investors, which will aid the building of more and bigger businesses, including the objective of seeing new Irish companies on public markets. In doing this we will secure greater levels of investment and re-investment of entrepreneurial capital.

4. Vulnerabilities in the banking system

- Enterprise Ireland engages with the main Irish banks to assist our client companies in maintaining and securing the funding which is essential to their ability to grow and scale. Opportunities exist within the banking system which can complement our work with exporting companies. Specifically, Enterprise Ireland is keen to see the banking system respond to three areas of opportunity
 - New Sectors (such as software and technology driven start-ups),
 - New Products (particularly around working capital for exporters)
 - New Markets (broadening the reach and coverage of the banking system to support companies' push into high growth markets).
- From the risk mitigation standpoint, the presence of the Ireland Strategic Investment Fund and the Strategic Banking Corporation of Ireland within the Irish funding ecosystem are significant in terms of improving the mix and availability of funding available to our client companies, and deepening the competition within the sector.

5. Brexit/Uncertainty over UK's relationship with EU

- The UK's vote to leave the EU will present significant new challenges for Irish companies exporting to the UK. In June Enterprise Ireland reported that its client companies saw an increase of 10% in exports in 2015 amounting to an all-time high of €20.6bn. The export figure is now almost double what it was 10 years ago (€10.73bn in 2005). Exports to the UK increased by 12% last year to reach €7.5bn. Significantly, UK exports as a percentage of total exports have reduced from 45% to 37% over the same period 2005 to 2015 as our clients have diversified their export base.

Despite the continued diversification of the Enterprise Ireland export base we will work with our clients, encouraging them to broaden their export base and their client base so that they are addressing the risk factors and becoming more sustainable in the UK. Enterprise Ireland has already commenced plans to support clients exporting to the UK, including steps to help companies maintain their UK presence while also diversifying into other international markets.

- The prospect of a weak pound and a strong dollar are of particular relevance to Ireland, given the importance of the UK and US as two of our most significant trading and investment partners. While a strong dollar will enhance the competitiveness of Irish clients selling in the US, any significant weakening of the pound could make it increasingly difficult for Irish companies to compete and win sales in our largest market.

In mitigating against these risks Enterprise Ireland is working with Irish exporters to ensure that their businesses are targeting growth opportunities in overseas markets based on compelling value propositions, and by offering innovative solutions for their customers. By being lean and efficient, and by diversifying their customer bases across the Eurozone, and to High Growth Markets such as in the Gulf, Asia, and South America, Irish companies can achieve sustainable positions which are less impacted in the short term by exchange rates or cyclical changes in demand.