Evaluation of IDA Capital and Employment Grants 2005-2010

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Department of Jobs, Enterprise and Innovation
An Roinn Post, Fiontar agus Nuálaíochta

Strategic Policy Division

1. IDA Capital and Employment Grants 2005-2010

Programme logic model[1]

Objectives

- Support existing clients to move up the value chain into higher value products and services and into higher order functions
- Pursue high quality new FDI that is in keeping with the competitive characteristics of the evolving Irish economy
- Promote regional economic development in line with NSS and the NDP Gateway Development Strategy
- Incentivise new FDI to the BMW Region and weaker S&E Regions, 50 percent to regions outside Dublin up to 2006 (changed to outside Dublin and Cork after 2007, took effect in 2009)

Inputs

- Capital and Employment grant
- Indirect costs

Activities

- Promotion of Ireland as FDI location
- Appraisal/approval of projects

Outputs

- Number and value of project approvals
- Value of grants processed/paid
- Amount of associated private investment
- Number of projects completed

Outcomes and Impacts

- Level of new name investment in Ireland
- Level of expansion investment in Ireland
- Level of employment created in beneficiary companies
- Level of associated exports
- Level of direct expenditure in the economy
- Increased share of investment going to weaker regions

[1] Compiled from text of NDPs 2004-2006 and 2007-2013, Departmental Statements of Strategy and comments provided by IDA Ireland

Evaluation aim

The aim of this evaluation is to assess the appropriateness, efficiency and effectiveness of the IDA Capital and Employment (C&E) grants programme. This is an ex post evaluation over the six-years 2005-10 inclusive.

The evaluation was undertaken by Fitzpatrick Associates, commissioned by Forfás and informed by the Forfás Evaluation Framework.[2]

Programme background, objectives and target population

The attraction of foreign direct investment (FDI) has been a long-standing Irish Government policy. Up to the last decade, C&E grants provided by IDA were the core interventions in this area and hence the objectives of FDI policy and the objectives of C&E grants were essentially synonymous.[3] An outcome of this is that C&E grants have not been perceived as a distinct "programme", unlike newer interventions that have come on-stream in the more recent past. A further effect of this is that they have not in themselves been articulated in programming terms.

The Programme Logic Model (PLM) set out is a summary gleaned from the National Development Plans (NDP) 2000-06 and 2007-13, Departmental Strategy Statements and the IDA.[4] The NDP is a formal Government Statement from the evaluation time-period (2005-10) of objectives, and in particular of objectives specifically for C&E grants. C&E grants were Sub-Programmes under the 2000-06 NDP and corresponding Industry Operational Programmes.

The objectives of the Programme as identified in documentation relating to the 2005-10 period were to:

- Support existing clients to move up the value chain into higher value products and services and into higher order functions;
- Pursue high quality new FDI that is in keeping with the competitive characteristics of the evolving Irish economy;
- Promote regional economic development in line with NSS and the NDP Gateway Development Strategy; and to
- Incentivise new FDI to the BMW Region and weaker S&E Regions, 50 percent to regions outside Dublin up to 2006 (changed to outside Dublin and Cork after 2007, took effect in 2009. This objective relates to IDA support as a whole.

Target population

The target population for C&E grants is mobile overseas MNEs who are either new investors to Ireland or already established here, with the exception of natural resource companies which fall within the remit of Enterprise Ireland.

[2] Framework for the Evaluation of Enterprise Supports, Forfás, May 2011

[3] Support to R&D has now superseded them in scale

[4] Department of Jobs, Enterprise and Innovation (previously named Department of Enterprise, Trade and Employment)

Regional aid guidelines

Regional Aid Guidelines (RAGs) are established by the European Commission. The overall purpose of regional aid is to support investment and job creation and encourage firms to set up new establishments in Europe's most disadvantaged regions. In order to support economic development in these regions, the guidelines for regional aid introduce criteria to assess the compatibility of regional aid with the internal market.

Regional aid consists of investment aid granted to large companies and to SMEs, and operating aid (in certain limited circumstances). As a general rule, aid should be granted under a multi-sectoral aid scheme which forms an integral part of a regional development strategy.

EU RAGs form an important part of the context in which IDA C&D grants are provided. Essentially these place maximum rates for the amount of aid that can be provided at NUTS III Regional level (Table 1.1). A more generous regime applied during the earlier 2000-06 period. A transitional arrangement was in place for the BMW region with a phased introduction of rate reductions over the 2007-2013 period. In 2010 aid to the Mid-West was reinstated at 10 percent for large companies because of significant changes in the underlying economic parameters at that time.

Table 1.1: Regional aid guidelines for large and medium firms 2000-2006 and 2007-2013

Border Midlands and West Region			
	2000-2006	**2007-2010**	**2011-2013**
Large Firms	40%	30%	15%
Medium Firms	55%	40%	25%
Southern and Eastern Region			
	2000-2006	**2007-2013**	
Large Firms	17.5% - 20%	0%	
Medium Firms	27.5% - 30%	20% limited to eligible expenses up to €25m	
South East Sub Region		10% (Large) 20% (Med)	
Transitional coverage (Cork/Kerry)		**2007-2008** 10% (Large) 20% (Med)	

In practice, IDA generally would offer companies aid rates below these maxima – offering the minimum level of support needed to incentivise a company to move to that region.

The RAGs have also affected the regional dimension of policy statements and targets. In particular they are the basis of the objective of C&E grants as being to incentivise FDI to move to and expand in regions outside Dublin up to 2007, and outside Dublin and Cork after 2007 (taking effect in 2009).

Programme rationale

Traditionally, the rationale for public support to inward investment was that incentives were needed in order to overcome cost disadvantages (i.e. a corrective subsidy). These subsidies were defined as schemes designed chiefly to alter relative prices facing firms and individuals in order to correct for some externalities.

At an operational level the rationale is reflected in the IDA's emphasis on any grant support having a discernible "incentive effect", i.e. that it lead to a change in company behaviour in terms of "additional activity contributing to the development of an area which it would not have engaged in without the aid or would have only engaged in such activity in a more restricted or different manner, or in another location".

Internationally, other locations including UK regions, while retaining the concept of market failure, increasingly describe the rationale for supporting FDI in terms of information failures rather than cost disadvantages, i.e. that firms may be unaware of the advantages of investing and doing business in alternative locations globally, and that provision of support helps to overcome this and lead to a more optimal allocation of investment activity. While not having any immediate operational implications for C&E grants, evolution in the rationale underlying such supports would merit consideration in any wider examination of FDI policy as a whole.

Evaluation methodology

The evaluation methodology consisted of:

- Literature Review including a review of documents on the Programme itself, related Forfás and other policy documents. The main sources used included:
  - Irish programming documents including IDA Strategies, Departmental Strategy Statements and successive National Development Plans;
  - formal evaluations of FDI policies elsewhere, especially Scotland and England;
  - Irish academic literature on the role of FDI in the economy.
- Review and analysis of Programme Data including numbers of approvals, levels of draw-down, types of beneficiaries and annual trends.
- Counterfactual analysis focused on two counterfactuals - namely the "before and after" analysis of C&E grant recipients in the 2005-10 period, and a comparison of the cohort of C&E grant recipients with other similar IDA clients who had not received such grants during the evaluation period (2005-10), controlling for as many other influences as possible.
- Company Survey involving the 123 companies who were approved C&E grant projects and which had commenced by the date of the evaluation. This was carried out via an online survey using a questionnaire of largely closed questions. A response rate of 55 percent was achieved.
- Interviews were carried out with general stakeholders and a sample of the companies surveyed.[5]

[5] Forfás and IDA, IBEC and the American Chamber of Commerce in Ireland

With regard to the companies, in the survey companies were asked if they were interested in being interviewed, to which three responded positively, and some 40 responded that they would if necessary. A total of 25 were identified from this “long-list” as interview candidates, involving a mix of large and small grant recipients, region, sector, type of grant, location, new name/expansions, and whether the project is complete. The level of other IDA awards in the same period was also taken into account. A total of 15 company interviews took place, including five face-to-face and 10 by telephone. Survey responses were used as the basis of the interviews.

For further detail on methodology please see the Technical Annex.

Alignment with national policy

The alignment of C&E grants with national policy was considered at three levels: the relationship between FDI and national policy; the relationship between grants generally and FDI policy; and the relationship between C&E grants specifically and FDI incentives.

FDI has been a core element in Irish economic policy, including enterprise policy, employment policy, regional policy, and more recently Research, Development and Innovation (RDI) policy since the late 1950s up to the present day. Formal policy statements, including successive NDPs, Departmental Strategy Statements and the Action Plan for Jobs all acknowledge the continued role of FDI as a source of economic activity generally, including exports and employment.

Regarding the second alignment, i.e. between grants and FDI policy, many factors influence company decisions on where to locate. These include access transport, service costs, skills availability, taxation regimes, and direct financial incentives. Countries and regions with an explicit pro-FDI policy generally see grant incentives as one of a package of tools, all of which must be deployed if locations are to remain successful in the business of attracting mobile investment.

The successive tightening of permissible grant intensities under the EU RAGs, coupled with evolution of enterprise policy generally towards areas such as RDI and skills development, means that C&E grants play a lesser role than they used to. In the period under review, the share of C&E grants in IDA grant expenditure fell from 84 percent in 2005 to 31 percent in 2011 (bottoming out at 16 percent in 2009). In the company survey, respondents expressed a preference for C&E (and R&D) grants over other forms of financial assistance such as training grants and environmental aid.

Inputs

Total approvals cost

Between 2005 and 2010, there were 251 projects approved for €446.1 million in C&E grants, giving an average grant size of nearly €1.8 million. Capital grant projects accounted for 13 percent of all projects but nearly 36 percent of grants approved, with an average grant size of over €4.7 million, while Employment grant projects accounted for 83 percent of all projects but 56 percent of grants approved, with an average grant size of €1.2 million. In addition, there were also a small number of projects that received both C&E grants, which accounted for another 8 percent of grants approved and which had an average grant size of nearly €3.7 million. 136 projects (54 percent) have actually started, with the remainder classified as “yet to start” or “never started” (referred to together later as projects “not started”). The total number of companies involved in 2005-2010 approvals were equivalent to about one quarter of all IDA clients in Ireland in 2010.

Table 1.2: Project approvals by grant type 2005-2010

Grant Type	No. of Projects	%	Grant Approved (€000s)	%	Ave Grant Size (€000s)
Capital	34	13.5%	159,912	35.8%	4,703
Employment	207	82.5%	249,635	56.0%	1,206
Capital & Employment	10	4.0%	36,589	8.2%	3,659
Total	251	100%	446,137	100%	1,777
Approved *and* started	136		285,300		

Source: IDA grants data

There are 123 companies involved in the 136 projects that have started and these are the main focus of this evaluation, i.e. all IDA client companies with at least one "approved and started" project in the 2005-2010 period.[6] Of the 123 companies a small number were approved for more than one project. Projects that have started account for grant approvals of €285.3 million, or 64 percent of total grant approvals.

Most grants were approved in the earlier years of the 2005-2010 period. Taking three two-year periods involved, about 54 percent of all grants were approved during 2005 and 2006, 30 percent were approved in 2007 and 2008, and the remaining 16 percent of grant approvals occurred in 2009 and 2010. In terms of the total value of approvals, the 2005/06 years were more akin to the earlier 2000-04 level of activity than to the rest of the 2005-10 period.[7]

Projects that did not commence[8]

A feature of the approved C&E grants between 2005 and 2010 is that a significant proportion had not started at the time of the evaluation (mid 2013). These constitute 115 projects or 46 percent of all approved projects and 36 percent of the approved budget. They involve 108 IDA client companies, or 47 percent of all companies involved in grant approvals. This pattern is shared by other IDA grant approvals and was identified in parallel Programme evaluations.

The availability of grant aid, including C&E grants, forms part of the overall 'toolkit' available to IDA to negotiate with companies for investment in Ireland against competition from other locations. Therefore in some instances: the project was approved in principle as part of negotiations in an attempt to win the investment but the parent company made the decision not

[6] The total of 251 approvals in this period involved 216 companies. The balance of 93 companies not in the analysis involve 66 appear in the Annual Employment Survey leaving 27 new names yet to start, i.e. companies who presumably decided not to establish in Ireland

[7] Total Capital and Employment Grant approvals in the earlier years were: 2000 (€215.7mn); 2001 (€148.9mn); 2002 (€135.9mn); 2003 (€117.9mn), 2004 (€81.9mn)

[8] Numbers correspond to the data-set provided at the start of this evaluation

to proceed with the project. Other reasons why companies did not go ahead with a project (or did not draw down grant assistance) included employment targets not met or underachieved, the project was replaced at a later date by another project, the project was delayed or cancelled.

This "not started" group is excluded from the next section and from the impact assessment on the basis that they have had no costs and no impact. Also the one-third of projects still likely to go ahead will be captured in future evaluations.[9]

Grant payments to date

Between 2005 and 2012, C&E grants totalling €142.1 million were paid to the approved and started projects. This involves a total drawdown rate to date of about 50 percent. Drawdown rates for Capital grant projects, at 55 percent, are higher than for Employment grant projects, at 48 percent, while the drawdown rate for combined C&E grant projects is 39 percent.

Grant payment levels have varied considerably on a year-to-year basis, with a fall-off in payments especially noticeable in the early years of the recent economic crisis. About 7 percent of grant payments occurred in 2005, but this reflects low drawdown in the first year of project life. Nearly 32 percent of payments were the made between 2006 and 2007. There was a significant fall-off in payments during 2008 and 2009, before payment rates picked up again in the 2010-12 period, which accounted for 48 percent of payments made.

Table 1.3: Breakdown of grant payments by year of payment 2005-2012

Year	Grant Payments (€000s)	% of Total Payments
2005	9,827	6.9%
2006	23,836	16.8%
2007	20,889	14.7%
2008	13,831	9.7%
2009	5,294	3.7%
2010	16,315	11.5%
2011	19,959	14.0%
2012	32,156	22.6%
Total	142,106	100.0%

Source: IDA grants data

[9] A Forfás survey of IDA project executives, which obtained responses for 41 of the 115 projects not yet started, estimated that two-thirds of such projects will definitely not go ahead

Indirect costs

Costs attributable to the C&E grant programmes also include the indirect cost of IDA staff time involved, including the cost of:

- Irish-based staff involved in the promotion, management and administration of the C&E grant schemes; and
- overseas staff involved in the promotion of the C&E grant schemes.

For both Irish-based and overseas staff costs, estimates of costs have been calculated by:

- identifying the proportion of overall IDA project approvals in the 2005-2010 period that is attributable to the C&E grant schemes;
- estimating the total cost of Irish-based and overseas staff involved in all IDA project approvals in the 2005-2010 period; and
- applying the C&E grant share of all project approvals to these estimates, which gives an estimate of the indirect staff cost of these schemes.

The estimated indirect costs are €12.4 million for the full period (with circa 52 percent relating to Irish based staff) equating to an average of just over €2 million per annum. Estimated indirect costs are therefore equivalent to 2.8 percent of all grant approvals (for started and non-started projects) and 8.7 percent of all grant payments to date.

Company inputs

The survey of approved and started projects carried out for this evaluation has estimated that IDA grants account for an average of about 16 percent of total project investment, with the remaining 84 percent of investment being attributable to the companies being supported.[10] Total investment in projects that have started, therefore, is estimated to be close to €1.8 billion, including €285 million in grants and nearly €1.5 billion in matching company investment.

Survey results suggest that about 53 percent of total inputs are estimated to relate to wages and salaries, with another 26 percent attributable to machinery and equipment and 15 percent attributable to construction. Both staff and construction resources were sourced almost wholly in Ireland (between 90 percent and 95 percent), with a large proportion sourced from the project's/company's local area (between 65 percent and 80 percent). Almost 60 percent of machinery and equipment was sourced internationally.

Outputs and activities

In all cases in this section the analysis relates to the 123 approved and started projects. About 43 percent of grant approvals were attributable to "new name" projects, i.e. projects and companies that were new investors in Ireland at the time of approval. The remainder are expansion projects of foreign-owned companies that already have a presence in Ireland. Of the 123 companies with commenced projects, 56 were established pre-2005 and the remainder since.

Average grant size has previously been referred to and shows that average grant size for capital projects (€4.7 million) was significantly higher than average grant size for employment projects

[10] Based on 66 survey responses (54 percent)

(€1.2 million). Capital grants range from as low as €20,000 to as high as €15.0 million (with a median of about €1.8 million), while employment grants range from a low of €1,000 to a high of €7.2 million (with a median of about €870,000).

The largest five projects (in terms of size of grant awarded) account for nearly 25 percent of all approvals, the top 10 projects account for nearly 40 percent, the top 20 projects account for more than 50 percent and the top 50 projects account for nearly 80 percent. Similarly, about 33 percent of payments to date are attributable to only five projects, 50 percent of payments are attributable to just 10 projects, 67 percent of payments are attributable to 20 projects and 90 percent of payments are attributable to 50 projects. The role of large companies and large projects is therefore evident.

Projects by sector

The largest sectors are in medical, dental instruments and supplies (23 percent) and chemicals (22 percent). Computer-related sectors account for a further 42 percent of grant approvals (Table 1.4).

Table 1.4: Projects approved and started - by sector

Sector	€000s	% of Approvals
Chemicals	63,848	22.4%
Computer consultancy activities	32,883	11.5%
Computer facilities management activities	12,036	4.2%
Computer programming activities	19,317	6.8%
Computer, electronic, optical equipment	41,949	14.7%
Financial services	18,500	6.5%
Medical, dental instruments and supplies	64,115	22.5%
Other IT and computer service activities	13,452	4.7%
Other	19,185	6.7%
Total	285,284	100.0%

Source: IDA grants data

The analysis of grant payments shows some variation in the rate of drawdown between sectors. Drawdown rates are above the average of 50 percent for: chemicals; computer consultancy activities; computer programming activities; computer, electronic and optical equipment; other IT and computer service activities; rubber and plastics; transport equipment; and other services. Sectors with drawdown rates below the 50 percent average, on the other hand, are: computer facilities management activities; electrical equipment; financial services; food; machinery and equipment; medical, dental instruments and supplies; and non-metallic minerals.

Projects by region

Looking at trends by region, the highest level of grants was approved for the South-West Region between 2005 and 2010, at about 24 percent of all grants approved. This was followed by the West Region (19 percent of grants approved), the East Region (16 percent of grants approved) and the South-East Region (14 percent of grants approved). Projects in the Mid-West, Midlands, North-East and North-West Regions each accounted for between 5 percent and 8 percent.

The impact of the change in RAGs in 2007 is evident. Looking firstly at the 2005-2006 period, the analysis shows that regions in the more developed NUTS II Southern and Eastern Region had a higher share of approvals than over the entire 2005-10 period. [11] That is, projects in these regions accounted for nearly 80 percent of approvals over these two years, higher than their 2005- 2010 share of 63 percent. Looking at the 2007-2010 period the less developed NUTS II Border, Midland and Western Region had a higher share of approvals than over the entire 2005-10 period. [12] For example, projects in these regions accounted for over 56 percent of approvals, higher than the 2005-2010 share of 37 percent.

In terms of payments by region, drawdown rates for started projects have been above average in the East Region (at 78 percent), the Mid-West Region (at 63 percent) and the North-West Region (at 54 percent). Drawdown rates have been close to the overall average in the South-East and South-West Regions (both at 48 percent), but drawdown rates have been well below average in the West Region (at 38 percent), the North-East Region (at 21 percent) and the Midlands Region (at 20 percent).

Country of origin

Finally, looking at projects by country of origin, the US is, as with FDI into Ireland generally, the major country of origin for companies availing of C&E grants. It accounted for 103 out of 136 of projects approved, or 87 percent of grant approvals, with Japan, France, Great Britain and Israel each accounting for 2-3 percent of approvals. As would be expected, the drawdown rate for US projects/companies is also at the overall average of 50 percent. Drawdown rates for other nationality projects varies widely, but the small number of projects generally involved means no particular significance can be attached to these variations (Table 1.5).

More widely, these data highlight the challenges involved in continuing to build upon our relationship with the U.S. on the one hand, while at the same time diversifying our FDI sources on the other.[13]

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[11] East, Mid-West, South-East and South-West regions

[12] Midlands, North-East, North-West and West regions

[13] Refer also to Review of FDI Policy, Forfás (forthcoming)

Table 1.5: Projects approved and started - country of origin

Country	Approvals			Payments	
	No. of Projects	€000s	% of Approvals	€000s	Drawdown Rate (%)
US	103	248,171	87.0%	124,439	50.1%
Japan	6	7,664	2.7%	2,976	38.8%
France	4	6,754	2.4%	3,604	53.4%
GB	7	5,782	2.0%	2,220	38.4%
Switzerland	2	5,185	1.8%	1,206	23.3%
Other EUR	10	5,264	1.8%	2,552	48.5%
Other	4	6,464	2.2%	5,111	79.1%
Total	136	285,284	100.0%	142,106	49.8%

Source: IDA data

Impacts and outcomes

Methodology

The analysis used the results of the Annual Employment Survey to analyse the link between the trend in total employment in the grant recipient companies and their approval for an IDA C&E grant. The receipt of an IDA grant is defined as an approved project which has commenced. This involves the assumption that it is the approval that triggers the impact, rather than the actual grant payment which reclaimed after expenditure has occurred. The analysis is carried out at the level of the company. In a minority of cases companies had more than one project, in these cases the date of receipt of the first grant approval is regarded as the impact trigger date.

The analysis tracks the relationship between the trend in total employment in the company and the year of grant receipt, this grant year being referred to as "Year T". The analysis then involves comparison of total employment in the company in the three years prior to the year of grant approval (T-3, T-2, T-1) with the employment in the three years after approval (i.e. T+1, T+2, T+3). In the analysis "Year T" can be any year from 2005 to 2010 inclusive. The comparison is made between the average level of employment in the three years prior to and the three years after year T. The comparison is thus a "before and after" one in the case of the same company, i.e. the counterfactual is what was the level of company employment before the grant was approved.[14]

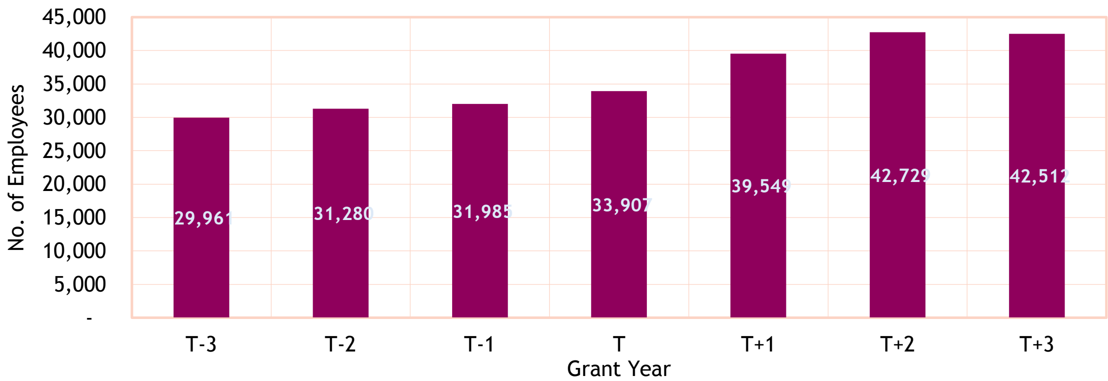
[14] In the case of 2010 approvals T+3 (2013) employment was assumed to be the same as 2012

This methodology has limitations, some of which this evaluation attempts to address in subsequent sections, for example other causal factors may be involved such as the receipt of another grant. Also, the analysis relates to total employment in the company rather than the employment directly associated with grants, and the employment in the company as a whole in Ireland is assumed to be affected by the grant.[15] T-tests were used to establish whether observed differences are statistically significant.[16]

Analysis and results

The result of the analysis of all 123 companies is shown in Figure 1.1. Total employment pre- and post- grant approval for the aggregate of all C&E grant recipients shows a distinctly positive trend. Employment rose from 29,961 in year T-3 to 42,512 in year T+3. It should be noted that the data is not time-series data - the actual years involved vary by company as between 2002 and 2012, i.e. the years 2005-10 inclusive, plus up to three years at each end. The trend after grant year is however more rapid. Year T was 14 percent higher than year T-3, while year T+3 was 25 percent higher than year T. In terms of average annual employment before and after year T, this is 33 percent higher overall. Application of a T test shows that the differences, before and after, are statistically significant.

Figure 1.1: Total employment pre and post C&E grant approval



Source: Fitzpatrick Associates/Insight Statistical consulting analysis of the Forfás Annual Employment Survey and IDA grants data

Employment increased in both “new name” and in expansion projects. However, expansions account for the bulk of the underlying employment in the 123 approved companies as by definition new name projects did not have a prior employment history. In the case of expansions employment post-approval grew faster than in pre-approval years. Employment in year T was 11 percent above year T-3. Employment in year T+3 was 14 percent higher than in year T.

[15] IDA Capital and Employment Grant approvals are generally associated with a commitment to create a specific level of employment. In the latter case, grant payments are conditional on these commitments being met

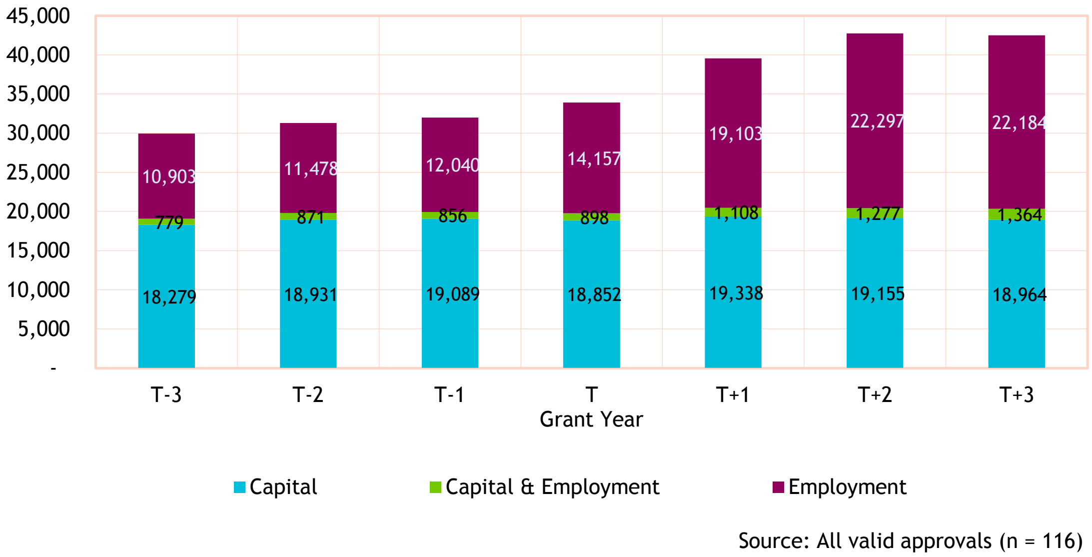
[16] T-tests assess whether the means of two groups are statistically different from each other

Employment was largest, and grew most, in companies which were approved in 2005. This reflects both the strong economy at the time, and possibly a desire for some companies to have grants approved before the change in the RAGs at end-2006. Analysis by individual year of approval is less reliable because of small cohort sizes and the importance in them of individual projects. However, it shows a lot of variation and confirms no particular pre versus post crisis pattern.

The same before-and-after results are set out below by grant type, region, IDA Department (as a proxy for Sectoral categories).

As shown in Figure 1.2, the overall rise in employment is explained primarily by the recipients of Employment grants. Total employment in companies receiving Capital grants remained more or less static. This accords with a priori expectations since new employment generation is more likely to be associated with Employment Grants. Capital Grants could be associated with productivity increases and so with static or reduced employment at individual firm level.

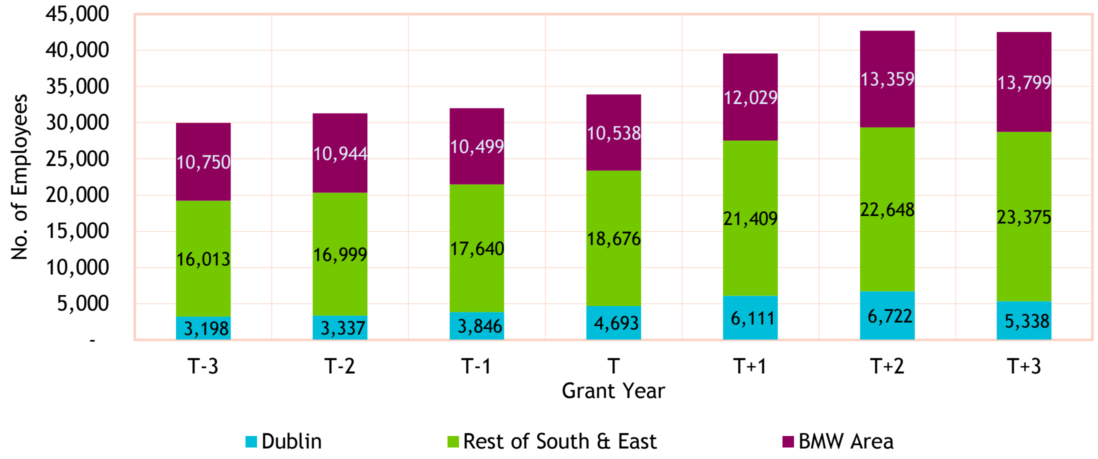
Figure 1.2: Employment by type of grant



Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

Analysis of employment by Region (Figure 1.3) shows that employment growth post grant receipt is evident in the BMW and S&E regions (excluding Dublin) and Dublin itself.

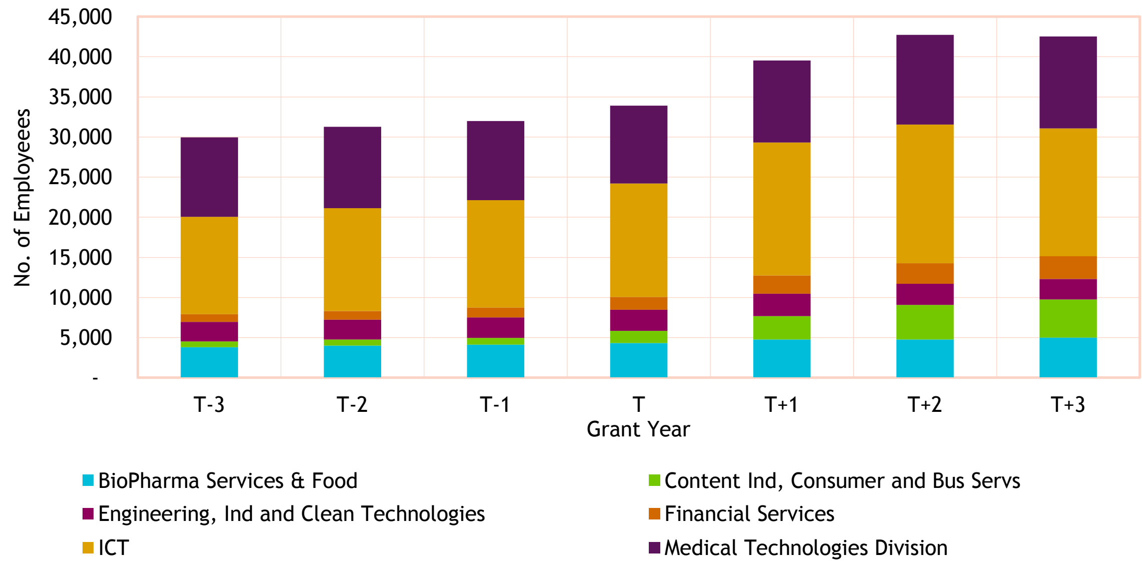
Figure 1.3: Employment by region



Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

When categorised by IDA Department (as a proxy for broad sectoral categories) employment in some of these remained largely static, e.g. medical technologies, whereas in some others employment grew rapidly including ICT, financial services, content industries, and consumer and business services (Figure 1.4).

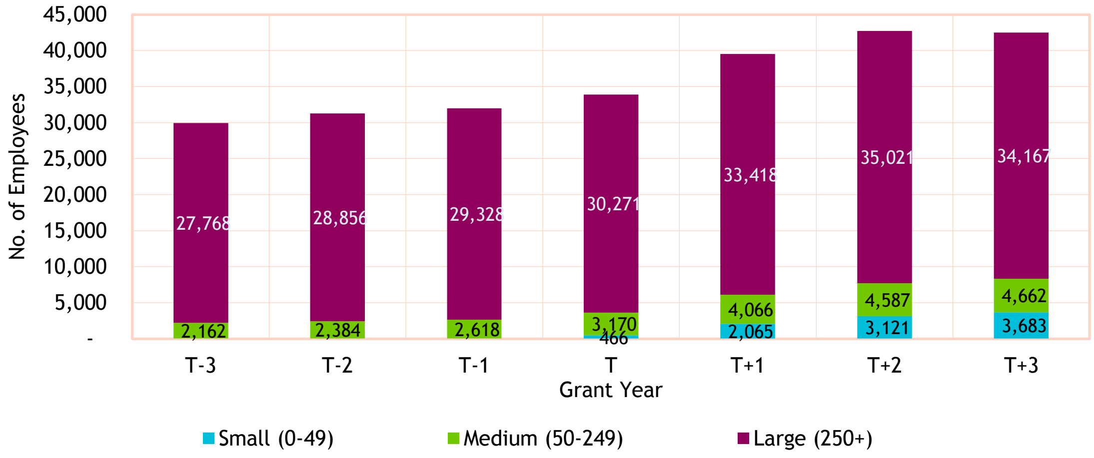
Figure 1.4: Employment by IDA Department (as a proxy for broad sectoral categories)



Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

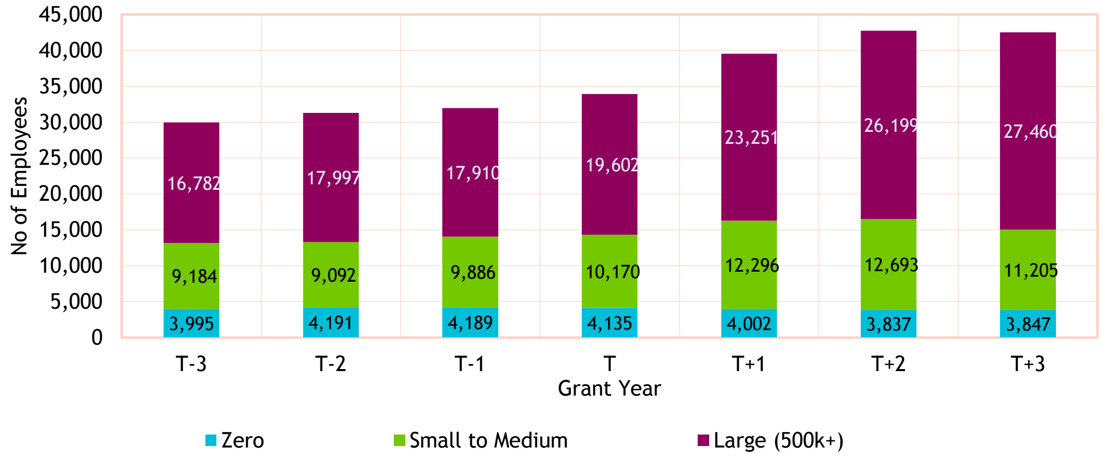
The dominance of large employers in approvals is evident as set out in Figure 1.5 below. The post grant employment is higher in all cases than pre-grant employment.

Figure 1.5: Employment by company size



Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

Figure 1.6: Employment by size of approval (paid)



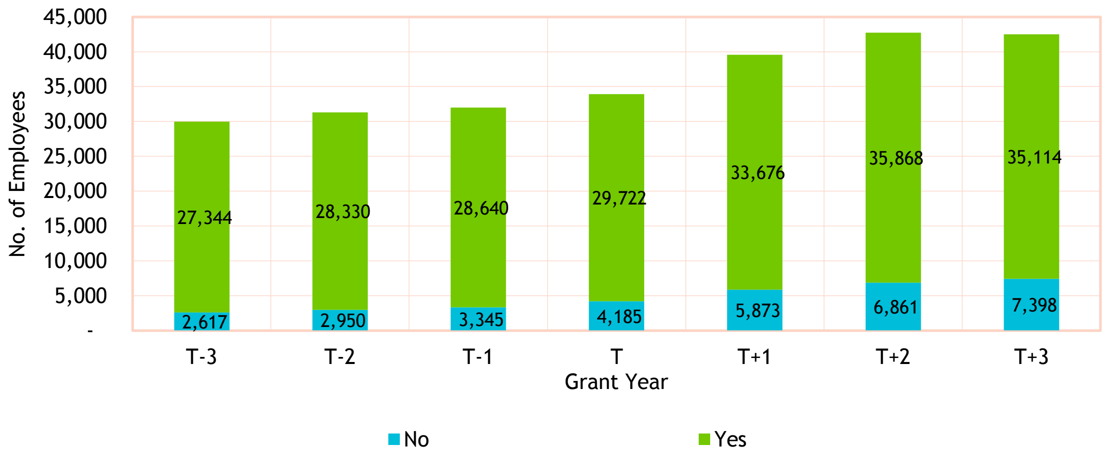
Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

Role of other grant awards

One of the limitations of the analysis of the impact of C&E grants in the previous sections is that these were not the only grant schemes under which companies were benefitting at the time. Support also being made under other schemes, notably R&D and training grants. Some 55 of the 123 companies also received approvals for grants other than C&E. Further analysis indicates that 56 percent of these 55 firms received grant approvals for between 1 and 4 projects, 14 firms obtained approvals for between 5 and 9 projects and the remaining 5 firms were approved between 11 and 14 projects.

The bulk of total employment was in companies that received other awards during the period (Figure 1.7), which creates challenges for attribution of causation. However, it is encouraging that employment increased in companies in both categories, i.e. that the increase in employment did not occur only in companies which had got other grants, and therefore it cannot be said that it was these other grants rather than C&E grants which contributed to the employment increase.

Figure 1.7: Employment by other grant approvals awarded (not C&E grants)



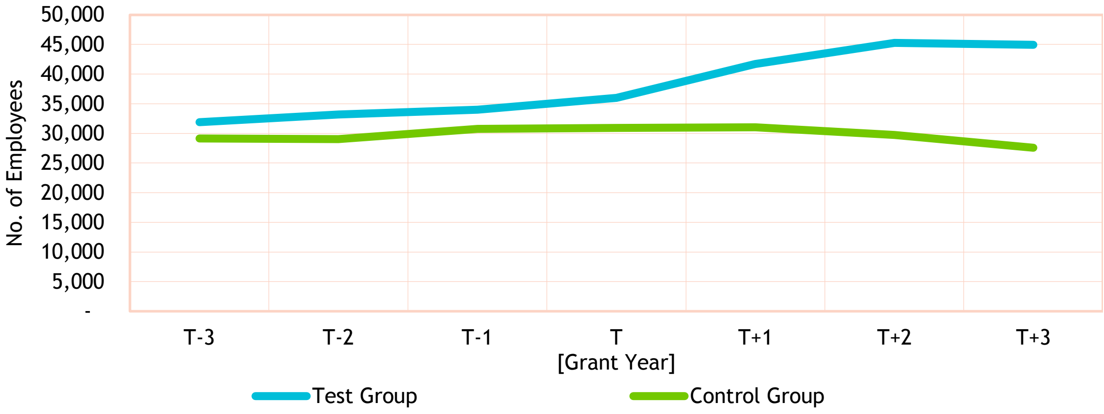
Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

Employment growth relative to matched pairs

Analysis was undertaken of a comparison of employment in the C&E Grant recipient companies before and after their grant receipt, with a series of matched companies over the same time periods. This utilises employment figures from the Forfás Annual Employment survey. Matches were found for 109 of the 123 companies who had started C&E grant projects with others which did not receive C&E supports in the 2005-2010 period. The matches were done on the basis of sector, size and regional location.

For the “test group” of C&E grant recipients the employment trend before and after grant receipt was clearly upward. The employment trend for the “control group” of matched companies which did not receive a Capital or Employment grant in the period declined (Figure 1.8)

Figure 1.8: Total employment pre/post approval - control group analysis



Source: Fitzpatrick Associates/Insight Statistical Consulting analysis of Forfás Annual Employment Survey and IDA grants data

In percentage terms, average annual employment in the sample (test group) is 33 percent higher in the three years post grant approval than in the three years pre-grant approval. In the similar set of IDA client companies (control group) it is 0.1 percent lower (Table 1.6).

Table 1.6: Annual average total employment - control group analysis

	Total Employment		
Group of IDA Client Companies	**Pre-Award**	**Post-Award**	**% Change**
Test-Group (109 companies)[17]	33,028	43,917	+33%
Control Group (109 companies)	29,649	29,453	-0.10%

Source: Fitzpatrick Associates/Insight Statistical Consulting analysis

Results of company survey

This section reports on the findings of the survey. The small number of companies which had received multiple grant awards were asked to complete the Questionnaire for each award. The total response was 66 companies, or 54 percent of the population. These represented 73 of the 136 C&E grant approvals involved. Consequently, the total survey population is the 73 project approvals, and the results below are reported in this way. Responses were not received for all projects to all questions, hence in some instances n is less than 73.

[17] Companies In receipt of C&E grants in 2005- 2010, and whose project had commenced. Excludes 14 of the 123 companies analysed as no match company found

Project aims and achievements

Companies were asked a number of questions regarding their project aims and to what extent these were achieved (allowed for multiple responses to a pre-coded question). The most frequently cited objective was the expansion of existing operations in Ireland, and the second most important was the development of a new mandate or business function in Ireland. As would be expected, "new name" projects account for the bulk of replies under establishing in Ireland (16 out of 20).

Table 1.7: Top three business objectives of the approved project

Top three business objectives	No. of Responses	%
Help the company establish in Ireland	20	29
Expand the existing operation in Ireland	55	81
Commercialisation of Research and Development	21	31
Develop new mandate/business functions in Ireland	39	57
Other, please specify:	11	16

Source: Company survey

Regarding "other" reasons a wide range of individual reasons were specified. These included creating an EMEA HQ/shared service centre, retaining and expanding a viable Irish base.

Asked to what extent the most important business objectives had been achieved, 75 percent said that these were either wholly or partially achieved. Achievement of objectives was similar for C&E grants and for both new names and expansions. In giving reasons for responses, companies citing wholly achieved objectives generally referred to a specific aim, e.g. opening a new facility, and the fact that this objective had been fully achieved. Companies referring to largely achieved results frequently cited market conditions as slowing progress down below original expectations, or some specific final step in a project not yet quite complete. Partial or still-emerging achievement again typically referred to challenging market conditions, or to some company-specific obstacles the nature of which varied by respondent. A minority (1 respondent) stated that the objectives were not achieved at all.

Companies were asked to rate the importance of IDA support in the achievement of their project objectives. For the majority of projects this assistance was seen as either vital (40 percent) or very important (41 percent), with the balance of 16 percent rating it as important. This very high rating was also evident in each grant type, for both new names and expansions, and for manufacturing and services.

The companies were asked to rank the top three effects (pre-specified) arising as a result of the C&E support. The main effects cited were increased skills and capabilities, employment, capacity and global status (Table 1.8).

Table 1.8: Ranking of top three effects arising from C&E supported project

Rank	1	2	3	Total (Count)
Increased skills and capabilities	9	16	13	38
Increased employment	18	9	10	37
Increased capacity	14	10	11	35
Increased role/status in the company globally	7	12	13	32
Increased efficiency/productivity	6	10	3	19
Increased sales/exports	6	5	7	18
Increased profits	2	1	3	6
Other (inc. unexpected consequences, please explain)	2	0	1	3

Source: Company survey

Companies were asked how their performance was/will be affected over a five-year time horizon from project approval in terms of a series of indicators. As shown in Table 1.9, companies generally indicated that performance would be much "somewhat" or "much higher" as a result of the grant received.

Table 1.9: Company performance over a 5 year time horizon

	Much lower	Somewhat lower	About the Same	Somewhat higher	Much higher	Total (Count)
Sales/exports	1	1	17	17	25	61
Employment - direct	1	1	8	23	30	63
Employment - indirect	0	1	20	23	15	59
Profits	1	0	18	34	10	63
Productivity	0	1	10	35	16	62

Source: Company survey

The companies were also asked to estimate what the cumulative effect would be on output and employment, i.e by how much did (or will) the company sales/exports and employment change as a result of the project compared to the year of approval. Their responses indicate a cumulative change of approximately 36 percent over five years and 52-60 percent over 10 years. In the case of employment these equate to growth of 7 percent and 10 percent per annum, respectively. Less optimistic scenarios were used to calculate the cost benefit analysis.

Table 1.10: Change on output and employment – survey responses

Cumulative percentage change	Mean	No
Approval plus 5 years - sales/exports	36.1	45
Approval plus 5 years - employment	35.4	51
Approval plus 10 years - sales/exports	59.7	36
Approval plus 10 years - employment	52.6	39

Source: Company survey

Deadweight

Regarding deadweight, the C&E grant recipients were asked a two-part question. Firstly, they were asked if the project had not received IDA support, would it have gone ahead in its current location in Ireland, gone ahead elsewhere in Ireland, gone ahead outside Ireland or not gone ahead at all.[18] Of the 65 responses received, 48 percent said that without grant assistance it would have gone ahead in the same location in Ireland, while 38 percent said it would have gone ahead elsewhere outside of Ireland. This response was consistent across the range of different parameters, i.e. grant type, new name, expansions, year of approval, etc. Very few respondents selected the option of "gone ahead elsewhere in Ireland", while 12 percent felt that the project would have not gone ahead at all.

Where projects would have gone ahead outside Ireland, companies were asked where they would have gone and specific locations were cited in 23 cases. These in terms of frequency (our grouping) were France/Germany/Netherlands/UK (9), USA (6), Central/Eastern Europe (5), and BRICs (3).

The second part of the deadweight question related to the projects which would have gone ahead in Ireland without grant assistance. It asked whether these would have gone ahead in the same manner, in the same manner but delayed, gone ahead on a somewhat smaller scale, or gone ahead on a much smaller scale. The predominant answer to this (47 percent) was again that it would have gone ahead in the same manner. The balance of firms generally indicated that it would have gone ahead on a smaller scale, and to a lesser extent that it would have been delayed. This result generally remained consistent across different types of firms.

Overall deadweight was calculated at 36 percent (and this figure was used in the CBA calculation). This figure is arrived at by applying 100 percent deadweight to the 23 percent of cases where projects would have gone ahead in the same manner, and 50 percent deadweight to the 26

[18] The two-stage question used follows the distinction between "full" and "partial" deadweight used by e.g. H. Lenihan, *Evaluating Irish Industrial Policy in Terms of Deadweight and Displacement: A Quantitative Methodological Approach,* Applied Economics, 36:3, PP 229-252, 2007

percent of cases that would have gone ahead delayed or on a smaller scale (i.e. 23 percent plus (0.5*26) equals 36 percent).

To explore the “theory of change” underlying the grant assistance, the companies were also asked about the way in which grant support influenced their decision-making. The most frequent effects reported were showing the parent company that Ireland is supportive, making hiring people more attractive and reducing investment cost.

Table 1.11: In what way did the support influence the company’s decision?

Rank	1	2	3	Total (Count)	%
Reduced investment cost	4	6	7	17	25
Reduced risk of investment	1	0	6	7	10
Made hiring people in Ireland more attractive	10	8	2	20	29
Showed parent company that Ireland is a supportive environment	11	8	4	23	39
Had another effect (please specify):	0	1	1	2	3

Source: Company survey

Skills availability

The companies were also asked a series of questions regarding their experience of human resource issues in Ireland in the context of the project. They were firstly asked whether availability of skills impacted positively or negatively on the progress of the project and its results. Almost 85 percent reported that skills availability in Ireland had a positive or very positive impact on the success of the project. At the same time, it is worth noting that almost 5 percent cited a negative impact.

Companies where then asked if they had difficulty recruiting new employees for the project. The majority of respondents replied “no” (77 percent). However, a significant minority of 23 percent said they did. In some cases where companies reported challenges these were usually addressed via stronger recruiting drives or in a few cases recruitment from abroad.

The companies were also asked whether additional staff training was required (or will be required) as part of the project implementation. On this 83 percent said “yes”. Asked how this was split as between in-house and out-sourced training, almost 80 percent reported use of in-house training, and 20 percent outsourced.

Cost-benefit analysis

The cost-benefit analysis (CBA) of the C&E grant programme between 2005 and 2010 was modelled closely on the methodology recommended for ex-ante project appraisal for industrial development projects.[19]

The cost-benefit framework compares the economic benefits attributable to the grant programme by way of additional wages, profits and taxes in Ireland, both direct and indirect, to both direct and indirect costs incorporating grant costs and indirect costs incurred by IDA that are apportioned to the operation and administration of the grant programme. Costs and benefits are adjusted to reflect both the shadow price of labour and shadow cost of public funds.

The estimation of benefits is based on the sales/export impacts over 5 and 10 years, as estimated by survey respondents. While the years in which grants were approved vary for different recipient firms, the benefits are projected over a 10 year time horizon assumed to begin in a shared base year. Sales levels for the cohort of firms in such a hypothetical base year are taken as the annual average sales figures for the full cohort over the period 2005-2010.

Direct benefits relate to the additional profit earned and payroll spent by the beneficiary firms over these future years, as well as the additional taxation (both payroll and corporation tax) associated with them. Indirect benefits are similar variables arising elsewhere in the economy and are measured using output multipliers for the main sectors in which the grant recipients operate.

As set out previously, absolute deadweight (where projects would have gone ahead in the same manner in Ireland in the absence of the grant) was reported in 23 percent of cases, and that partial deadweight (where projects would have proceeded in Ireland but either after a delay or on a smaller scale) was reported in 26 percent of cases. In light of this an overall deadweight adjustment of 36 percent is assumed (applying the full rate of absolute and half the rate of partial deadweight).[20]

A range of other parameters and values are utilised in the CBA, including shadow price of labour, and shadow costs of public funds and reflect Department of Public Expenditure and Reform guidance.[21]

The core CBA result is a benefit-to-cost ratio (BCR) of 3.09 to 1, that is, the economic benefits of the programme outweighed the costs by a margin of 3.09 to 1.

The stability of this positive BCR has been subjected to a number of sensitivity tests, involving varying key assumptions relating to:

- the level of output growth attributed to the grants (in other words the extent of potential optimism bias from respondents/beneficiaries regarding impact) and;
- the level of grant deadweight.

The results of these sensitivity tests are shown in Table 1.12, and all maintain a positive BCR. The scenarios in which it falls most substantially is where a level of grant deadweight is assumed to be

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[19] As set out in Murphy, Anthony; Walsh, Brendan M.; and Frank Barry, The economic appraisal system for projects seeking support from the industrial development agencies, Forfás, 2003

[20] i.e. calculated as 23 percent + (0.5*26)=36 percent

[21] See Technical Annex for further details on CBA methodology

70 percent. While such a level grant deadweight may exist, it is substantially higher than that reported in the survey, which itself appears relatively high for self-reported deadweight.

Finally, the sensitivity of the results to potential optimism bias amongst respondents regarding the impact of the grants on output is also reassuring. At just half the level of reported net additional sales, the BCR remains positive (at 1.55). Only at impact levels of approximately one third or less of reported levels does the BCR enter negative territory.

Table 1.12: CBA sensitivity analysis results

		Level	Benefit Cost Ratio
Cumulative impact of grants on output over 10 years	core	60%	3.15
	higher	90%	4.63
	lower	30%	1.55
Grant deadweight	core	36%	3.09
	higher	70%	1.45
	lower	10%	4.35

Source: Fitzpatrick Associates/Insight Statistical Consulting analysis

International comparisons

It was not possible to access information on evaluations of similar programmes internationally. This section considers the international context for Ireland's overall FDI performance and selected international comparisons.

Location attractiveness factors

The survey undertaken for this evaluation asked a number of questions regarding international investment drivers and Ireland's status in this regard. Companies were asked to rank their top three factors considered when deciding where to locate globally. This was an open question. Table 1.13 summarises the replies for both the No. 1 rank and the 1-3 rank.

The No. 1 rank list is useful as the most crisp version of factors seen as key differentiators between locations. Access to suitable skilled employees and talent is by far the single most important factor, constituting 38 percent of all cases where factors were identified. Second, but well behind was cost and cost-competitiveness generally. Third was a group of factors relating to resources generally, taxation, and customer needs/proximity. Less frequently cited factors included access to markets, suitable locations, new business potential and infrastructure including logistics and ICT.

Government support, including grants, was listed once on the No. 1 priority list and six times on the combined 1-3 list. This suggests it is important, but not critically so.

Table 1.13: Critical location decision factors

Factors	Ranked 1		Ranked 1-3	
	No.	%	No.	%
Employees/skills/talent/pool	23	38	54	30
Costs/Cost competitiveness	12	20	31	17
Availability of correct resources	5	7	5	3
Tax/tax structures	4	7	13	7
Customer needs/proximity	4	7	6	3
Market access inc. EU	2	3	10	6
Suitable in-county location	2	3	2	1
New business potential	2	3	3	2
Infrastructure/logistics/ICT	1	2	14	8
Business environment/ease of day business	0	0	8	4
Government support/grants	1	2	6	3
Presence of similar firms/sectoral credibility	1	2	5	3
Travel access	0	0	4	2
Contribution to shareholders value/return	1	2	3	2
Other	2	-	15	10
	60	100%	179	100%

Source: Fitzpatrick Associates/Insight Statistical Consulting analysis

In comments on their responses, a number of companies emphasised the importance of all of the above criteria, and of the interaction between them. Two comments usefully encapsulate this perspective:

> *"We believe that if an Irish operation lacks the core capability and skills to run the business effectively, no amount of tax opportunities will win that location decision. The costs of doing business are essential considerations. If an Irish operation cannot make the business model work effectively above the line, Tax concessions won't make the bottom line decision on its own but tax does matter. It is the effective incentive to ensure that the fruits of the project's success are retained as far as possible by the enterprise, enabling further growth and re-investment".*

> *"I have been involved in a large number of green field site projects. Invariably in terms of setting up a manufacturing facility the emphasis is on cost. How much will it cost to set it up in one country versus another? Once set up what are the projected running costs versus other locations? On the skills side this is of paramount importance for high tech manufacturing facilities. Will we have enough people with the right skill set to set up, manage and run the facility efficiently with an emphasis on quality, service and cost. Will the location have the ability to grow into a multi - business site with the capability to manage additional complexity? In relation to the business environment we look at the business supports available such as grant aid etc. However, under this category the location's tax rate is a dominant feature. Ireland beat both Holland and France as start-up locations".*

The companies were asked to rate their assessment of Ireland on the pre-defined criteria. Focusing on areas where Ireland scored highly, these were access to skills, tax regimes, grant support and regulatory environment. When the "high" and "medium" scores are combined, the highest rating goes to access to skills, followed by tax regimes, grant support, regulatory environment and research and innovation.

Ireland's positive performance in relation to grant support could be interpreted two ways. On the one hand it means that Ireland performs well on this significant factor. On the other hand, it might be interpreted as a degree of over-generosity on a factor generally not seen as critical.

Factors on which Ireland performed relatively less well (although it did not perform very badly on anything) are input costs, market access and clusters and agglomerations.

Table 1.14: Ireland's rating on a number of location decision factors

Factors (ranked by # 'high' responses)	Low	Med	High	High and Medium	Total
Tax regimes	2	10	45	55	57
Access to skills	1	17	40	57	58
Grant support	3	21	33	54	57
Regulatory environment	1	26	29	55	56
Market access	7	22	27	49	56
Infrastructure	4	32	21	53	57
Research/innovation facility	1	39	15	54	55
Ireland's Rating-Local clusters/agglomerations	7	33	13	46	53
Ireland's Rating-Input costs	9	39	9	48	57
Ireland's Rating-Other (please specify):	1	1	0	1	2

Source: Company survey

Ireland’s attractiveness in international indices

There are several global indices that point to Ireland’s continued relative attractiveness as a location for FDI. UNCTAD’s Inward FDI Attraction Index, for example, ranks Ireland 5th in 2011, based on FDI flows, and it shows that Ireland has returned to a strong position on the index having previously fallen significantly in the middle of the last decade. The IBM Global Locations Trends Report ranks Ireland as the top country for quality of FDI attracted (in terms of value added) and the 4th highest country for FDI jobs per capita. The Global Competitiveness Index, prepared by the World Economic Forum (WEF), ranks Ireland as the top country for attracting new technology via FDI and the 2nd ranked country for promoting business rules that encourage FDI, while the country also has a strong ranking for the overall prevalence of foreign ownership within the economy. Lastly, the Ernst & Young European Investment Monitor ranks Ireland among the Top 10 countries in Europe both for number of FDI projects attracted and number of FDI jobs created, though its ranking would be even higher if judged on a per capita basis.

Table 1.15: Rankings of Ireland’s relative attractiveness for FDI

	2001	2003	2005	2007	2009	2011
UNCTAD Inward FDI Attraction Index						
Overall Country Ranking	5	1	182	181	31	5
WEF Global Competitiveness Index						
Prevalence of Foreign Ownership	-	-	-	1	6	15
Business Impact of Rules on FDI	-	-	-	1	2	2
FDI and Technology Transfer	-	-	-	1	1	1
IBM Global Locations Trends Report						
FDI by Quality and Value Added	-	-	-	-	-	1
FDI by Jobs per Capita	-	-	-	10	1	4
E&Y European Investment Monitor						
Number of FDI Projects	-	-	-	14	10	9
Number of FDI Jobs Created	-	-	-	13	12	7
Note: UNCTAD’S Inward FDI Attraction Index is based on the average of a country’s percentile rankings in FDI inflows and in FDI inflows as a share of GDP. In Ireland’s case, years where it ranks very low on the index correspond with years when FDI inflows were negative.						

Source: UNCTAD, World Economic Forum, IBM, Ernst and Young

The IBM Global Locations Trends Report also notes that Ireland is making progress on inward investment as a result of the country’s structural competitiveness, but other countries with fiscal problems that do not have a similarly competitive business environment – Greece, Portugal, Spain and Italy – saw significant declines. The report suggests that this highlights the importance of structural competitiveness for inward investment and job creation, and suggests that countries with current fiscal problems, while often seen as being in a similar economic predicament, are likely to face significantly different economic futures.

Conclusions and findings

Appropriateness

FDI has been a long-standing feature of Irish enterprise policy. The economic rationale for supporting FDI by way of direct grant aid has traditionally been seen in terms of reducing Irish costs for inward investors, and also to compete with incentives offered by other FDI locations. In more recent times in Ireland support to FDI has been articulated as being a "corrective subsidy" to overcome cost disadvantages. The rationale for public support to FDI is increasingly seen as being to overcome informational market failure, i.e. that companies internationally have sub-optimum awareness of the benefits of investing in other locations and that the provision of financial assistance helps to overcome this.

The company survey indicated that reducing investment costs remains a significant reason why FDI companies in Ireland are attracted by the availability of grants, particularly firms in lower margin sectors. Firms also reported that, while seldom doing so alone, financial support remains a critical factor in investment location decisions, i.e. C&E grants are still an important part of the mix of reasons why investment decisions are taken, and their absence could alter decisions at the margin.

Companies interviewed emphasised that Ireland is now seen as a high cost location for many activities, particularly manufacturing, and that even modest contributions to reducing investment costs can make a significant difference in investment decisions. Companies also report a preference for C&E grants (and R&D grants) over and above alternatives such as training and environmental support.

Within the EU, financial incentives for mobile FDI are the subject of ever more restrictive RAGs with which Ireland must comply. However, in the Irish context, the sheer importance of FDI as part of the economy generally, and of exports in particular, means that the attraction of new FDI, and retention of existing FDI remain a critical element in policy.

Efficiency

Efficiency has been examined from a number of perspectives. In terms of cost per job, expenditure in Ireland has been falling. Irish cost per job figures also, while comparisons are problematic, look competitive by international standards.

In terms of administrative and process efficiency, the findings suggest that there may be scope to review aspects of these. Specific aspects evident include the award of multiple separate grants to some firms, particularly to large, over and above the C&E grants being analysed here. Secondly, there is a high level of approved grants which never start, even among firms already established here. This challenge is akin to the old marketing one that "half of the budget may be wasted, but it's difficult to know in advance which half". Also, if the actual projects don't go ahead by definition the actual expenditure never occurs. However, considerable administrative effort must go into these approvals which do not bear fruit.

Synergies and overlap

The survey identified synergy between different financial instruments as an issue of some mild concern, i.e. companies were slightly less positive about it than about other features of their interaction with IDA Ireland. Probing of this issue during interviews suggests, however, that it relates mainly to R&D rather than to C&E grants, and in particular to the fact that the R&D grants and R&D tax credits do not utilise the same financial eligibility criteria.

Effectiveness

The study findings in relation to effectiveness are generally quite positive. Key features of this are:

- overall policy objectives are being largely met;
- quantitative targets that relate most directly to C&E grants have also been met;
- companies think that IDA C&E grant support is vital or very important to their investment decisions, albeit that they also declare that there is a relatively high level of deadweight involved;
- companies are also very positive about the level of the quality and professionalism of their relationship and interaction with IDA at all levels.

The CBA carried out as part of the evaluation shows a positive cost benefit ratio even with fairly pessimistic assumptions on critical factors such as deadweight and value of economic activity.

It is also likely that formal CBA does not capture important qualitative benefits that arise from C&E grants, which might broadly captured under the term of "behaviour additionality". These include for example, increased skills and capabilities, improved status and role of the subsidiary within the company globally and the fact that Irish executives often progress from a purely local role to influential global decision-making positions, their role in influencing other companies in similar sectors to invest in Ireland, and ensuring longer-term presence of the company in Ireland. [22]

The credibility of a country as a location for investors in similar sectors is something that was emphasised both in the survey responses and in the company interviews, i.e. the decisions of firms regarding where to locate is strongly influenced by the presence of peers (and in some cases business partners) in the same location. Particular example cited was the electronic sector where this has been the case over the years, and where the presence now of "third generation" ICT firms such as Google and Facebook, is a major advantage in pursuing other similar firms.

The positive impact that availability of C&E grants has on reassuring corporate headquarters that Ireland is still a supporting environment was also emphasised in the company survey and interviews. This is a kind of confidence effect, akin to the argument used in evaluations that EI support can leave leverage investment by assuring financial institutions of the credibility of a project.[23]

Challenges needing to be addressed in regard to effectiveness include:

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[22] One consultee described this as Irish people becoming "mid-Atlantic"

[23] H. Lenihan, M. Hart and S. Roper, Developing Methods to Evaluate the Impact of Enterprise Ireland Assistance: Deriving Estimates of Deadweight and Displacement in Enterprise Ireland Assisted Companies, October 2003

- if C&E grants are to remain as a separately branded types of grant, they need their own clear targets, as distinct from simply being absorbed in IDA targets as a whole;
- the dominance of expansion rather than new name investment, especially in latter parts of the period and especially in manufacturing, is another challenge evident from the evaluation. This is clearly a wider policy issue than just C&E grants;
- the dominance of US firms in both new name and expansions over the 2005-2010 period examined here, raise an issue about the effectiveness of promotion efforts in other parts of the world, i.e. either that the latter need to be beefed up or else there should be a conscious decision to concentrate resources on the US.

Note: Forfás is undertaking a review of Ireland's FDI policy (May 2014) which includes consideration of these challenges.

The economic crisis and effectiveness

The impact of the Irish economic crisis, which arrived mid-way through the 2005-10 evaluation period, on effectiveness of the Programme is a complex and multi-faceted topic. In the case of FDI the crisis affected the volumes of FDI available globally. It affected particularly FDI directed at the developed world. It also affected the markets into which FDI companies sell, and it affected their costs.

In the specific context of this evaluation, the earlier years of the 2005-2010 period grants involved decisions taken towards the end of the Irish boom, and the later period decisions were taken in the context of the Irish crisis. So a priori if the crisis has a systematic impact this would be expected to be evident in a contrast between the 2005-07 and the 2008-2010 sub-periods. A number of pertinent findings from the study are:

- the level of approvals was much higher in 2005-2006 (but not 2007). However, this might be the result of many factors, not only the economic climate but also prospective changes in the RAGs at end-2006 and the availability of grant assistance;
- there is no clear evidence that uptake of approved grant assistance changed as between the two periods, or over the six years as a whole;
- there is very little evidence in the survey responses that the crisis particularly affects opinions and perceptions on deadweight or other issues raised (with a caveat that many breakdowns of the survey results tends to involve relatively small numbers of observations);
- the "before and after" employment differential seems higher for the earlier period which would be consistent with the fact that it was probably easier for companies in the pre-crisis period to capitalise on their investment than in the crisis period.

Company consultations also confirmed a complex picture from a number of perspectives. Firstly, some companies regard themselves as relatively isolated from the Irish crisis and much more affected by events internationally. Developments in the European market would be of particular relevance which, while negative, were less dramatic than events in Ireland. Secondly, the crisis could have caused some delay in completion of investment projects. Thirdly, in the case of some foreign owned firms also selling on the domestic market, the cutbacks in public expenditure were perceived as a negative factor. However, after some initial reputational damage, the crisis also had positive dimensions such as making Ireland relatively more attractive again in terms of costs.

Recommendations

- **Programme Logic Model:** a formal programmatic description of IDA C&E grants should be prepared with clear dedicated objectives, goals, targets and instruments. While this is implicitly present in a lot of other documentation, for historical reasons it has never been prepared for the C&E grants as a programme per se;
- **Management Information System:** based on interaction regarding information for this evaluation there would appear to be a number of aspects of the system which need to be addressed:
  - that projects that "never start" should have a lifespan after which they are eliminated from the system, rather than continuing to be treated as live approvals;
  - information on the status of projects which have "not started" should be better maintained regarding their exact status;
  - the definition of project completion needs to be sharper, and should not just be when the final payment is made;
- **RAGs:** given the continued importance attached to financial supports, every effort should be made within the confines of EU RAGs to provide as supportive a system as possible. There is a perception among some companies at least that other EU Member States are more imaginative in this regard than Ireland is;
- **Multiple approvals:** IDA should consider whether the system of so many individual approvals for the same (usually large) companies is optimum from a process efficiency perspective or whether there is potential to rationalise these somewhat.

Strategic issues

- **FDI diversification:** the evaluation highlights the continued, and even increased, dominance of the US as the main origin of Irish FDI. There is the need to consider whether or not the nature of the Irish FDI offer to other parts of the world should be re-examined, in terms of its relevance, effectiveness and efficiency.
- **Whole of company approach:** from both an evaluation perspective, there may be a case for adopting a more "whole of company" approach in dealing with major FDI companies.

Notes