

THE INDUSTRIAL DEVELOPMENT AUTHORITY
IN THE IRISH ECONOMY

Starting from humble beginnings thirty years ago as a promotional body within the Department of Industry and Commerce, the Industrial Development Authority (IDA) has grown into an organisation employing almost 540 people, with an annual budget of approximately £85 million in 1978 and with programmes bearing on practically every aspect of industrial activity in the Irish economy. The IDA wields more influence on the formulation of industrial policy than any other body in the state. It is a sophisticated, efficient organisation which likes to operate with a high profile. Given its scale of expenditure and pervasive influence, one would expect the IDA to constitute a target for much disaffected criticism. This, however, is not the case. The IDA arouses mostly benign vibrations in the Irish body politic, a fact which in itself lends interest to a description and evaluation of this remarkable organisation's activities.

1. Formation of the IDA

The IDA was set up in 1949 within the Department of Industry and Commerce to promote the establishment of new industrial enterprises. Shortly afterwards in 1952, An Foras Tionscal was brought into existence to administer a scheme of cash grants designed to attract industry to the 'underdeveloped' areas west of the Shannon. The Industrial Grant Act (1956) empowered the IDA to give grants for new industrial projects located outside the undeveloped regions but this authority was transferred to An Foras Tionscal within three years under the Industrial Grants Act (1959). This Act also allowed major expansions of existing plants to qualify for grants assistance.

The next major legislative development was the Industrial Development Act 1969. This act provided for an amalgamation of An Foras Tionscal (the grant-giving agency) and the IDA (the promotional agency) into a new State-sponsored body, entitled the Industrial Development Authority (IDA). Section II of the 1969 Act assigned responsibility to the IDA, acting under the Minister for Industry and Commerce, for national and regional industrial development. The IDA was authorised to provide grants and other financial facilities for industry and also to develop and administer industrial estates and advance factories.

Until recently, the IDA has been empowered to provide grants only in respect of fixed assets. The enactment of the Industrial Development Act 1977, however, relaxed these constraints and enabled the IDA to offer grants towards the working capital requirements of first-time entrepreneurs. The Act also provided for the provision of loan guarantees and interest subsidies to enterprises undertaking rationalisation projects.

Through this legislation, the Government has entrusted the IDA with the task of encouraging and assisting industrial investment in Ireland. The central aims of this mandate, as interpreted by the IDA, are to assist in the achievement of full employment, to improve living standards and to contribute to the regional and sectoral balance.

The governing board of the IDA is the Authority which consists of 4 businessmen, 3 members from government Departments, an independent chairman and the Managing Director. All are appointed by the Minister for Industry, Commerce and Energy for a period of five years.

2. Activities of the IDA

IDA activities can be grouped under three headings; (i) New Industry Programme, (ii) Enterprise and Innovation (Small Industries Programmes) and (iii) Job Rescue and Maintenance Programme.

The main job-creating activity of the IDA centers around the New Industry Programme. Under this programme, new domestic and overseas enterprises and major employment-creating expansions of existing undertakings, are promoted. Approaches are made to firms whose technology, growth prospects and financial record look promising. In negotiating a project, the IDA has power to offer non-repayable cash grants ranging from 25 per cent to 50 per cent of fixed assets depending on the characteristics of the enterprise and its proposed geographical location in Ireland. Further incentives are also offered, e.g. training grants, interest subsidies, loan guarantees and research and development grants. The IDA is also empowered to contribute to the equity of a new enterprise in cases where such financing would prove of assistance to the investing firm and is considered desirable by the Authority but so far there have been few cases of this type of equity investment. Virtually all IDA-assisted firms also benefit to some degree from the export tax relief scheme which exempts manufacturing firms from all corporation and personal income tax in respect of profits earned from exports for a twenty-year period. (This scheme is shortly to be withdrawn in response to EEC pressures, and replaced by a new system of corporation profits tax relief which would apply to all manufacturing sales and not just exports.)

Most jobs created under the new industry programme have been attributable to overseas firms establishing in Ireland for the first time. About 45 thousand people were employed in these enterprises in early 1977 and the figure is projected to rise to 67 thousand by end-1980. Thus, from accounting for one job in every four in 1977, overseas industry's share of total manufacturing employment will rise to one job in every three in 1980. Although only one-half of IDA's staff is currently employed in overseas industry promotion and research, the IDA's public image is still firmly linked to the boom in new overseas enterprises activity since the early sixties.

The Small Industries Programme was set up in 1967 to encourage the establishment of small-scale enterprises employing 50 persons or less. It includes grant incentives and advisory services. The small industry programme now forms part of a series of programmes designed to promote enterprise and innovation in the indigenous sector. Among these, we may mention the formation of a joint venture unit in April 1973 to encourage the expansion of domestic firms through partnership arrangements with overseas companies, and the establishment of a project identification unit in 1975 to identify opportunities for supply from domestic sources of materials and components to new undertakings. Another comparatively recent development is the IDA's efforts to promote service industries (both foreign-owned and domestic) and reference has already been made to the Enterprise Development Programme (EDP). The type of person likely to qualify for assistance under the EDP includes engineers, accountants, scientists and business-school graduates, at present employed in industry, with a good individual track record in his job, who wishes to undertake his first manufacturing project and who has a good idea but virtually no risk capital. Finally, the Authority's product and process development grants scheme provides grants for R & D outlay.

None of these small industry activities is expected to create large numbers of jobs in the short period. The aim of these programmes is to create over time a greater indigenous source of industrial development which will bear fruit in the 1980's. According to the IDA Plan, only 10 thousand jobs will be created through the Enterprise and Innovation (small industries) programmes compared with 78 thousand in New Industry in the period to 1980.

Considerable effort has also been devoted to encouraging the modernisation of existing Irish industry. The adaptation grants scheme began operation in 1963, with the aim of contributing towards the cost of enlarging or adapting industrial enterprises to meet conditions of free trade. Roughly half of the £15 million adaptation grants paid during

the period 1963-68 was allocated to the food, textile and clothing sectors. This scheme was replaced by the Re-Equipment Programme in 1969. Re-equipment grants are now provided for factory improvements and the installation of modern plant and equipment at a rate of 35 per cent of fixed assets in less developed regions of the country and 25 per cent elsewhere. The re-equipment scheme, however, is now under review since most Irish firms in need of re-equipment finance have already received it. Many recent applicants have included overseas firms established only a decade or so ago which should certainly not require further financial cossetting at state expense.

3. IDA Grant Payments and Capital Expenditure

How much do all these activities cost? Administrative expenses alone came to £6.4 million in 1977. Advertising, printing and promotion expenses absorbed £1.6 million of this amount.

The cost of implementing the IDA programmes amounted to £60 million in 1977. Of this, £34 was allocated to new industry capital grants, training grants and other incentives; £11 million to the re-equipment programme; and £3 million to the small industries programme (see Table 1). Expenditure on all programmes has increased substantially in both nominal and real terms during the last four years.

An important aspect of the IDA budget is the large amount spent annually on the construction of advance factories and the accumulation of land for future industrial estates and factories. Expenditure under this heading amounted to £12 million in 1977. Part of this expenditure is recouped through rent payments or purchase when the factories are completed.

The figures referred to here relate to the cost of the industrial promotion programme from the perspective of the IDA annual budget. They do not constitute a measure of the social costs (or benefits) of the programme. Thus, no account is taken of the infrastructural costs associated with the development of new industries (housing, roads, sewage, etc.). Nor are the 'costs' of the export profits tax relief included.

Some EEC finance has been obtained to lessen the burden of IDA expenditure on the Exchequer but these amounts are as yet quite small. Grant payments from the EEC Agricultural Guarantee and Guidance Fund (FEOGA) to food processing industries, most of which are IDA sponsored, are not entered into the accounts. Also, a part of IDA expenditure on factories, land and capital grants is recouped directly by the Exchequer in the form of a transfer from the European Regional Development Fund. The IDA also receives 50 per cent reimbursement directly from the European Social Fund for training grants to firms establishing in the country for the first time and arranges for existing firms to receive training grants directly from Brussels. Some assistance from the EEC is also obtained for youth employment programmes.

4. Modus Operandi of the IDA

Part of the IDA's work is reactive. When a firm closes down, particularly if it is a large firm in a relatively undeveloped region, procedures are set in motion to obtain a replacement project. Moreover, even before liquidation firms which are in difficulties might approach the IDA for assistance. The discovery of mineral ores, natural gas and the possibility of oil finds has also resulted in pressure being placed on the IDA to initiate schemes for the development of refineries and other industrial undertakings of a forward-linkage type. Thus, the IDA has been actively involved in recent years in a proposed smelter designed to process the minerals extracted from the Navan mine.

The bulk of the IDA's work, however, involves seeking out opportunities on its own initiative.

Overseas firms are approached by IDA staff with suggested projects. The IDA does not wait for these firms to approach it. (If it did the Authority would, I gather, have little work on hand.) The IDA seeks to attract firms with good growth prospects and high profitability which would be capable of providing secure jobs for an extended period of time to an Irish subsidiary. Its policy is to try to attract a reasonable 'mix' of industries with respect to size of plant, product, and type of labour employed (male, female: skilled, unskilled). To carry out the difficult task of approaching overseas companies, the IDA has a network of 14 overseas offices (5 in North America, 7 in Europe, and 2 in the Far East) supported by a large overseas division at Head Office. Competition for overseas projects is intense - not only from Northern Ireland, Scotland and the English regions, but also from the less developed regions of continental Europe and the United States. In the absence of a professional approach to this type of investor, a country as small and peripheral as Ireland would have little chance of success. It seems to be generally agreed that the IDA has developed considerable sophistication in its marketing activities over the years.

Roughly half of the total number of jobs created with IDA assistance are now generated in the 'domestic' sector. This sector includes major expansions of overseas industries and new projects and major expansions of Irish firms. Although this market is necessarily rather more captive than that for first-time overseas industry, the IDA does not hesitate to take the initiative and approach firms directly if it identifies a market opportunity which private enterprise has left unexploited. A number of small import-substitution activities have been established through this type of IDA assistance, particularly in the metals and engineering field. Backward and forward linkages with large overseas projects are also encouraged directly. A believer in the power of market signals would, of course, argue that linkages and import substitution activities would occur autonomously without official intervention. Research has shown, however, that IDA prompting has proved to be helpful, in some cases even essential, in securing an early response to market opportunities from indigenous enterprises.

The IDA incentive system contains a considerable degree of flexibility (up to a fixed maximum). The amount of grant-aid will vary according to the location, stability and growth-potential of each project. Responsibility for the amount of grant to offer rests with the Authority for sums up to £850,000. Approval of both the Authority and the Government is required for grant-aid in excess of this amount. This means that the IDA can make quick decisions on all small projects. It also implies that, whereas the Government can block a large project, it cannot force it on an unwilling Authority. Hence the IDA possesses a considerable degree of autonomy and, while by no means insensitive to the political implications of its activities, it works independently of government and political pressures. Relationship between the IDA, the Department of Industry, Commerce and Energy and the Government run smoothly most of the time.

5. Evaluation of the IDA

It is comparatively easy to describe how the IDA is organised, what its staff does and how much it spends. To evaluate the effectiveness, in terms of the net social benefit, of such activity is a much more intimidating task. Although cost-benefit analysis can be applied quite readily to individual projects (and the IDA's Planning and Development division performs such analysis regularly on large projects), no attempt has yet been made to carry out a similar exercise for IDA activities in toto. All that can be offered, therefore, are a few impressionistic assessments of the IDA itself and Irish industrial policy.

First, industrial growth in the Republic has been extremely rapid. Volume of manufacturing output rose by an annual average 4.2 per cent in 1953-63, 6.3 per cent in 1963-73 and 4 per cent 1973-77. This is a respectable growth rate by any standards. Although cause and effect are hard to establish in these matters, the association of the expansion of the manufacturing sector with the expansion of IDA activities has been the latter's major bulwark against hostile scrutiny.

Second, IDA-sponsored enterprises have played a key role in spearheading this growth. During the sixties, overseas firms exercised a dominant influence both in terms of exports, productivity and employment-creation. According to the author's calculations, these firms were responsible for practically all of the employment increase in manufacturing which occurred during the sixties.

Third, intensive research into the characteristics of these firms has resulted in their receiving a clean bill of health. They proved stable during the recession; even in the longer term, their closure rates are low; their backward and forward linkages with the domestic economy have tended to increase over time; they have expanded rapidly since their establishment in terms of output and employment; their record in hiring Irish managers is satisfactory and their industrial disputes performance is not markedly different from their indigenous counterparts.

Fourth, the IDA is a well run organisation. It is, by comparison with industrial promotion bodies elsewhere, an exceptionally open one too. The IDA annual report is a goldmine of information. Details of grant-aid are listed by firm and policy issues are discussed frankly. Nothing is more indicative of its high morale and sense of achievement than its readiness to expose such information to public scrutiny. At the same time, the IDA has been criticised for providing insufficient information on jobs actually created as a result of its activities as opposed to jobs approved.

Fifth, the IDA has been greatly helped by government policy which has adhered consistently to an open-door approach towards foreign investment. Also, the IDA has benefited from good relations with successive governments. It would be difficult to overemphasise the importance of these two factors. As long as industrial growth continues its present course, there is little reason to expect any change in that relationship.

Finally, although seldom subjected to intense or prolonged criticism, it must be said that the IDA has shown itself to be sensitive to such critical comment as has been forthcoming. In the short run, this sensitivity reflects itself in a tendency to overreact to outside questioning and a somewhat excessive concern over its 'image'. In the longer run, the organisation has shown flair and flexibility in responding to the changing economic environment. For example, its programme is now much more oriented towards the development of indigenous industry than was the case a decade ago. In response to anxiety over the employment and financial implications of the reequipment grant scheme, the IDA has undertaken a major review of this issue which will be published later this year. The Authority is not afraid to invite independent economists to undertake and publish analyses of its activities. The present author has been commissioned to study the new industry programme; Professor Kieran Kennedy of the Economic and Social Research Institute has been asked to perform a similar exercise on the small industry schemes; and Dr P O'Farrell of UWIST has written a number of papers on the regional impact of IDA enterprises and is currently at work on a major study of linkages between these enterprises and the rest of the economy. Further studies are in the pipeline.

The Authority, as we have already seen, has been given the task of developing Ireland's industrial sector. Progress towards this end, however, depends on many factors outside its control. Thus, the IDA wields little influence when it comes to determining the rate of pay increase in the economy, nor can it do much (in the short run) about Irish planning law which many feel unduly favours minority protests in its present form. A number of overseas projects have been lost as a result of planning delays or refusals on grounds which appear, to the outsider, as flimsy and partisan. Taxation policy also has a bearing on industrial growth and the IDA obviously cannot dictate the direction of changes in this sphere either. The continued effectiveness of the IDA, therefore, will depend on government policy continuing to promote the objective of industrial growth. At present, the prognosis for this condition being satisfied is highly favourable.

TABLE 1 : IDA GRANT PAYMENTS AND OTHER EXPENDITURE 1974-77
(£000 current)

	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>NEW INDUSTRY</u> (i)				
Capital Grants	10,063	13,161	26,421	22,320
Training Grants	1,175	1,742	3,273	3,841
Other	251	929	3,580	8,128
Total	<u>11,489</u>	<u>20,832</u>	<u>33,274</u>	<u>34,289</u>
<u>RE-EQUIPMENT</u> (ii)				
Capital Grants	4,982	8,666	9,501	9,664
Training Grants	36	125	382	489
Other	96	257	337	830
Total	<u>5,114</u>	<u>9,048</u>	<u>10,220</u>	<u>10,983</u>
<u>SMALL INDUSTRIES</u>				
Capital Grants	1,157	1,423	1,502	2,299
Training Grants	38	41	247	199
Other	9	1	230	44
Total	<u>1,204</u>	<u>1,465</u>	<u>1,979</u>	<u>2,542</u>
<u>OTHER</u>				
Expenditure on Factories and Buildings	10,031	8,858	7,403	12,183
Equity Participation	67	2,065	391	-
R & D Grants	80	344	380	417
Rent Subsidies	36	73	80	-
Total	<u>10,214</u>	<u>11,345</u>	<u>8,254</u>	<u>12,600</u>
<u>GRAND TOTAL</u> (iii)	<u>28,019</u>	<u>42,690</u>	<u>53,727</u>	<u>60,421</u>

Source: IDA Annual Report

Notes: (i) including Joint Ventures and Services
(ii) includes adaptation grants
(iii) totals may not add due to rounding