An Coiste Speisialta um Fhreagra ar Covid-19
Fiontair agus an Geilleagar a Spreagadh
Iúil 2020

Special Committee on Covid-19 Response
Stimulating Enterprise and the Economy
July 2020

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Chair’s Preface

I welcome the publication today of the Special Committee’s Report on *Stimulating Enterprise and the Economy*.

Irish society has taken a huge hit as part of the State’s effort to curtail the spread of Covid-19. In March of this year, the economy was effectively shut down when all, but essential services were forced to close. The economic and social impact of this shutdown will take a long time to be overcome and, for many small businesses in particular, it may lead to permanent closure. Those enterprises that can survive will need the State to help them to stay in business until there is a return to levels of activity that were seen in the twelve-month period up to end-February 2020.

The Committee is reporting back to the Dáil on some of the key issues it has examined with recommendations that should form a central part of the package of measures that will be brought forward by the Government later this month. Our engagement with a multiplicity of stakeholders has allowed public debate on the types and extent of measures that are needed.

The primary concern of many of our witnesses relates to the need for more liquidity as that allows other payments to be made that are five or six links further on. The way cash is injected into our society will determine whether the economy gets the stimulus it wants in July and that means the cost of money must be minimised through a blend of grant aid and low interest loans. As was pointed out in evidence, the closure has had devastating impacts on businesses whose stock holding was seasonal, and those businesses will not survive if they are now saddled with debt that cannot be serviced.

The Committee was told that the State can now borrow at 0% interest rates and that should be the starting point in determining the cost to be borne by enterprise. There is a desire on the part of the Committee for the Government to be imaginative with far-reaching proposals that will keep enterprise alive in Ireland and we were glad of the opportunity to engage on this issue over the past number of weeks.

I want to thank the stakeholders who engaged with the Committee and also the Members and the Secretariat for their work.

I commend the Report to the Dáil.

____________________
Michael McNamara TD
Chairman
17 July 2020
Recommendations

1) A sector-by-sector approach to the July Stimulus Package is necessary in order to ensure that the measures are targeted in so far as is possible.

2) The interest rate for MicroFinance Ireland loans is higher than is the case with international comparators. The interest rate must be lowered significantly, in tandem with the July Stimulus Package.

3) The Restart Grant Scheme should be amended to increase the average value of the grant, and to make it available to non-rateable businesses.

4) More needs to be done to increase the uptake on the Credit Guarantee Scheme and the SBCI Working Capital Scheme.

5) The Committee also recommends examining alternative delivery mechanisms apart from the banking sector such as Credit Unions and possible instruments devised by the Revenue Commissioners.

6) There is a need to revise the eligibility criteria for the various liquidity supports, ensuring that they are not too onerous for their target sectors. The various liquidity supports should also be extended to include all business enterprise models, as the Committee heard evidence of some that had fallen through the cracks.

7) The Commercial Rates waiver should be extended to the end of the year for businesses who will continue to operate below capacity due to Covid-19 restrictions.

8) The Government must ensure that the TWSS remains available to firms (and in particular those in the arts and related sectors) who will operate below capacity due to Covid-19 and any tapering off of supports should have a significant lead in-time.

9) The July Stimulus should include an efficient balance between grant aid and repayable finance.

10) Consideration should be given to the costs and benefits of reducing the VAT rate in the tourism and hospitality sectors. Any reduction in the VAT rate should not apply to the sale of alcohol and any loopholes relating to the off-licence sales should be closed in the Finance Bill 2020.

11) The Government should increase the availability of apprenticeship schemes in order to reduce youth unemployment and increase the skills-level in the labour force.

12) The July Stimulus Package should include a commitment to putting in place structures that will facilitate more open and robust consultation between Central Government departments and the small business sector.
13) Statute law in relation to Examinership should be amended in the Autumn of 2020, to provide for an ‘Examinership-lite’ style option for struggling small businesses who are precluded due to the currently high costs involved.

14) A cross-departmental task force should address the supports required by the events, music, entertainment and culture sectors, encompassing both production and performance.

15) Local Authority funding for the arts should be ringfenced, recognising its important role in supporting the sector. This should be expanded to include a role in supporting the wider arts community, encompassing production and design.

16) The Government should examine the feasibility and benefits of a voucher scheme for all residents, to be spent supporting the domestic tourism sector.

17) The Committee recommends that the stimulus package should involve:
- increased investment in public capital projects;
- a commitment to micro businesses and the SME sector; and
- ensuring decent jobs with decent pay and conditions for workers.

18) The Committee is of the opinion that, in rebuilding the economy, we should avail of the opportunity to also green the economy through cleaner technologies, supporting significant job creation in retrofitting and meeting our carbon reduction targets. The Committee is further of the opinion that we should maximise drawdown from the European Green Deal for this purpose.

19) The Government should avail of lower long-term interest rates as available to support the economy in the short- to medium-term. This should include maximising the drawdown of EU grant aid and loan scheme initiatives.
Introduction

In recent weeks, the Special Committee on Covid-19 response has considered both the economic implications of Covid-19, and the measures that will be required to ensure business are supported and employment is maximised.

This scrutiny has been conducted through the receipt of both written and oral evidence from a wide range of Government departments, state bodies, representative groups, stakeholders and sectoral experts. This included oral evidence from the following:

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<td>Irish Small and Medium Enterprise Association</td>
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<td>Department of Business, Enterprise and Innovation</td>
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<td>16/06/2020</td>
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<td>Economic and Social Research Institute</td>
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<td>Professor Stephen Kinsella</td>
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<td>Department of Employment Affairs and Social Protection</td>
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The purpose of this report is to provide evidence from the Committee’s scrutiny to Parliament in a manner that facilitates input into the impending July Stimulus Package being announced by the Government.
Economic Implications of Covid-19

Macroeconomic implications

The written and oral evidence received is that the containment measures implemented to protect public health from the Covid-19 pandemic are having a significant detrimental impact on the Irish economy. In its evidence to the Committee, the ESRI stated that the economy is set to face its largest recession in history, and that this will have significant repercussions for the public finances in 2020. Similarly, the Department of Finance projected a reduction of 10.5% in Gross Domestic Product (GDP) this year, with the Central Bank projecting a 9% decrease.

The Committee wishes to highlight the fact that the above projections relate to the respective organisations’ central scenarios. Should a more severe scenario emerge, the Central Bank anticipates a decline of 13% in GDP, while the ESRI estimates that the contraction could be as large as 17%. The Committee also notes the uncertainty within which these projections are calculated.

Much evidence received by the Committee differentiated between the recession that followed the global financial crisis which started in 2008, and the one the world is currently experiencing. The projections outlined above are due to a ‘closing-down’ of the economy to stop the spread of Covid-19, rather than due to macro-economic imbalances as was the case in the last recession. In written evidence to the Committee, NERI referred to failures and pointed out that “estimating the scale of these failures is extremely difficult given the lack of historical precedent for an economic crisis of this nature”. However, the Committee is of the opinion that, in many respects, the economy is in a far healthier position entering this crisis than was the case over a decade ago.

The Committee notes that Covid-19 caused an initial collapse in consumption and a decline in consumer sentiment similar to the trough of the global financial crisis. However, it also notes that household deposits have increased strongly since the implementation of the Covid-19 restrictions. Evidence from the Central Bank showed that deposits from Irish resident households increased by €3 billion in April, the largest monthly increase in household deposits since the series began.

The Committee welcomes evidence that there has been a gradual recovery as the health prevention measures have been unwound. However, due to social distancing and consumer confidence, a return
to pre-Covid-19 levels of economic activity is a distance away, with most witnesses believing it will be 2025 before we return to 2019 levels.

**Impact on business and the real economy**

As expected from the macro-economic impacts outlined above, Covid-19 has had a significant negative impact on firms and workers in the real economy. From an investment perspective, this is supported by IBEC who expect that there will be a significant reduction in investment in commercial and residential construction. Further, IBEC believe “damaged balance sheets will see firms focus on deleveraging ahead of fresh investment”\(^7\). The Committee is deeply concerned by this.

The Committee notes that since the onset of Covid-19, the labour market moved from a position of full-employment early in 2020, to a Covid-19 adjusted unemployment rate of 28% at the end of April\(^8\). The Committee welcomes that this has reduced to 22.5%, but recognises that significant action will be required on behalf of the Government to support these workers and ensure that they are able to be re-employed, either through supporting their previous employers to become economically active again, or via the creation of new jobs as the economy opens up. The Committee also notes with considerable concern that including the live register, Pandemic Unemployment Payment (PUP) and Temporary Wage Subsidy Scheme (TWSS), as of the 6\(^{th}\) of July approximately 1.04 million people were relying on state income support\(^9\).

The Committee also notes that while research by the ESRI\(^{10,11}\) includes a Baseline Scenario forecasts for average unemployment of 17 per cent for the year, with severe and benign scenarios resulting in rates of 19% and 15% respectively, it also concludes that the impact of the pandemic on employment has not been uniform, with impacts varying across sectors and demographic groups.

The Committee acknowledges that the employment impacts are reflective of the implications that Covid-19 has had for businesses. Businesses that were viable and performing strongly prior to March stopped trading in order to slow the spread of Covid-19. Now, upon reopening, social distancing and

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\(^7\) [Ibec submission](#)
\(^8\) [Committee debate 16th June 2020](#)
\(^9\) [Department of Business, Enterprise and Innovation - Update on Payments Awarded for Covid-19 Pandemic Unemployment Payment and Enhanced Illness Benefit](#)
\(^11\) [Quarterly Economic Commentary, Summer 2020 (ESRI)](#)
public hesitance means that many businesses must now trade far below capacity and will experience subdued demand.

The implications of this were summarised by Enterprise Ireland (EI) in its evidence to the Committee when it stated:

“The pandemic has placed sudden and immediate pressure on the working capital and liquidity of companies.”

This was supported by Chambers Ireland, whose own research showed that fears relating to cashflow and liquidity were the greatest concerns of micro-enterprises, with closures and staffing being a concern for larger businesses.

EI highlight that for some companies, the full impacts will not be immediate, but are likely to emerge later in the year:

“Covid-19 has reduced customer demand for products and services globally. For some companies this impact has been immediate and for others it will become apparent in quarters 3 and 4. Third, there are people, logistics and supply chain issues. The movement of people and products has placed increased challenges on companies resulting in increased operational costs.”

Other stakeholders, for example the Vintners Federation of Ireland (VFI), highlighted that, while to date the Government has been very effective in protecting workers, more is needed to support businesses.

“What actually happened in the early stages is that the Government did a very good job in looking after employees, and we commend that. What it did not do was to do anything for the employers who took the risk to create the jobs in the first place. That is why the July stimulus is very important.”

In the case of businesses who have significant numbers of staff working remotely, the Committee notes the evidence of Dublin Chamber of Commerce, which highlighted that a number of issues need
to be addressed to facilitate this\textsuperscript{16}. The Committee accepts that in addition to regular fixed costs accumulating during the lockdown period, opening up in a manner that will allow social distancing will cause businesses to incur significant costs through the provision of PPE, signage etc. Fáilte Ireland has suggested that the cost of measures could be between €20,000 and €50,000 per business\textsuperscript{17}.

**Recommendation 1:**
A sector-by-sector approach to the July Stimulus Package is necessary in order to ensure that the measures are targeted in so far as is possible.

Impact of Covid-19 on public finances

*Expenditure*
There was consensus amongst witnesses that that the policy response to Covid-19 will lead to a significant increase in public expenditure this year. This expenditure will be driven by increases in social benefits and subsidies. The ESRI estimated that the increase in expenditure would be 13 per cent in 2020, relative to 2019\textsuperscript{18}. This was based on an assumption that income support payments would end at the end of June and so the Committee anticipates that the increase will be higher.

The Committee believes that the implications that support measures will have for the public finances will depend on the composition of measures implemented. IBEC has stated that “below-the-line” policy measures such as loan guarantees or equity “create both assets and liabilities for the Exchequer balance sheet but do not immediately incur expenditure”\textsuperscript{19}. In contrast, grant aid will immediately increase expenditure, but has the potential to repay itself if it is successful in stimulating the economy.

*Revenue*
The Committee acknowledges that closing down the economy, and the reduction in employment, income and consumption that has followed, will result in a significant loss of Government revenue.

However, the Committee notes that year-to-date figures\textsuperscript{20} show that tax revenues have shown some resilience to Covid-19, particularly Corporation Tax, which is considerably higher than last year, and Income Tax. The performance of Income Tax receipts is evidence that the containment measures have had a more severe impact on lower earners. However, the Committee notes that consumption tax

\begin{flushleft}
\textsuperscript{16} Dublin Chamber of Commerce submission
\textsuperscript{17} Committee debate 30 June 2020
\textsuperscript{18} ESRI submission
\textsuperscript{19} IBEC submission
\textsuperscript{20} Department of Finance - Fiscal Monitor June 2020
\end{flushleft}
receipts have also reduced significantly, with Value Added Tax (VAT) 21% lower year-on-year. This is reflective of the magnitude of the decrease in activity throughout the economy.

The Committee notes the evidence of the ESRI\textsuperscript{21} that overall Government revenue is expected to decline by over 20 per cent this year, down to €69bn from €87bn in 2019.

The Committee also notes IBEC’s recommendation that a Commission on Taxation should be established immediately\textsuperscript{22}.

**Deficit**

The Committee notes that recent figures from the Department of Finance show that an Exchequer deficit of €5.3bn was recorded to end-June. This compares to a surplus of €260 million in the same period last year. In its evidence to the Committee, the Department of Finance estimated that there will be a general government deficit of €23 billion for this year (7.4 per cent of GDP), with the Central Bank similarly estimating a deficit of €23.3bn\textsuperscript{23}.

The Committee notes from witness evidence that this is a combination of the effects of the automatic stabilisers (falling tax revenue and higher unemployment spending in line with the economic cycle) as well as discretionary, counter-cyclical policy measures (the Central Bank estimate that 60% of the deterioration in the budget balance is due to automatic stabilisers). The Committee acknowledges the important role that these measures have played in supporting the economy. The Committee also acknowledges the uncertainty around the above estimates.

\textsuperscript{21} ESRI submission
\textsuperscript{22} IBEC submission
\textsuperscript{23} Central Bank – 2020 Q3 Quarterly Bulletins
Figure 1: Year-on-year changes in general government activity 2018 – 2021 (2020 – 2021 projected)

Source: Committee Secretariat analysis of SPU 2018 – SPU 2020
Evidence on existing support measures

During its engagement with stakeholders the Committee discussed existing supports available to businesses and heard direct feedback from representative bodies. While the Committee acknowledges the work that has been done by Government to implement a wide range of supports in a very short timeframe, feedback suggest that there are a number of potential improvements that could be made in order to make it more applicable or accessible to a wider number of businesses.

MicroFinance Ireland

With regard to the Microfinance Ireland (MFI) loan scheme, numerous witnesses reported that the interest rate of 4.5% to 5.5% is too high, with ISME stating that it is “totally inappropriate at this moment in time”. While the Committee supports the principles of MFI, the interest rate is considerably higher than is the case for micro finance in comparator countries.

Recommendation 2:

The interest rate for MicroFinance Ireland loans is higher than is the case with international comparators. The interest rate must be lowered significantly, in tandem with the July Stimulus Package.

Restart grant

The Restart Grant Scheme has a fund of €250 million, and the Department of Business, Enterprise and Innovation (DBEI) anticipated that 100,000 businesses would avail of it. While the Committee welcomes the Restart Grant, a number of issues in relation to it have been raised in evidence.

The Committee is concerned that the construction of the restart grant, making it available only to businesses in rateable premises, means that a significant number of enterprises are precluded from being eligible. This was highlighted by ISME who stated that excluded businesses include:

“Many services such as man and van type businesses, which would typically be called blue-collar services, are essential services in plumbing, electrical and carpentry.”

24 Committee debate 09 June 2020
25 Committee debate 09 June 2020
26 Committee debate 09 June 2020
The Committee notes with concern evidence from SMERI, that the average received by each small business is €3,000 and questions how useful this is given the scale of the challenges faced by small businesses\textsuperscript{27}. However, the Committee acknowledges, as highlighted by IBEC, that using the rates base was a channel through which supports could be gotten to businesses quickly\textsuperscript{28}.

Further, witness evidence was also critical of linking the size of the grant to the amount of rates paid, pointing out that the rates bill will not relate to the liquidity required. SMERI proposed that the size of the grant could be tied to profitability:

“\textit{If it is to be tied to anything, it should probably be tied to the profitability of firms because that is a quick and easy way to work out which firms were trading last year and making money.}”\textsuperscript{29}

However, SMERI also pointed out that this would omit start-up businesses.

Further, the €10,000 limit was also criticised, with the Irish Hotels Federation (IHF) stating:

“\textit{The €10,000 limit equates to a hotel or guesthouse with 7.5 bedrooms. It is completely irrelevant to most of our industry. We have asked for that to be lifted. It does not look after the small and medium-sized business sector.}”\textsuperscript{30}

Recommendation 3:
The Restart Grant Scheme should be amended to increase the average value of the grant, and to make it available to non-rateable businesses.

Credit Guarantee Scheme
The Committee also engaged on the Credit Guarantee Scheme (CGS). From the evidence received, it is clear to the Committee that, in its current guise, the scheme is not fulfilling the needs of SMEs at this moment in time.

The Committee notes the evidence of Professor Stephen Kinsella with regard to the international evidence:

\textsuperscript{27} Committee debate 30 June 2020
\textsuperscript{28} Committee debate 09 June 2020
\textsuperscript{29} Committee debate 30 June 2020
\textsuperscript{30} Committee debate 30 June 2020
“Germany is a good example in this area but there have been many credit guarantees and credit injection programmes across the OECD, some very extensive. We could benefit from looking at those examples but with the proviso that firms do not know what September, October and November are going to bring regarding their turnover. Firms, therefore, are going to be very unlikely to want to take out loans, unless they are, in some sense, guaranteed by the State.”  

The Committee also acknowledges that the Vintners Federation of Ireland (VFI) does not believe that the CGS, with approximately a 4% rate of interest, reflects “what is needed in the SME sector.”

IBEC’s submission to the Committee, elaborated on in oral evidence, proposed a €15 billion stimulus package, which included an enhancement of the CGS:

“They will provide a stimulus for consumer confidence and in particular will address the constraints on the credit guarantee scheme by increasing the guarantee to 100% and removing the portfolio cap to ensure it is actually effective.”

SMERI also believed that the scheme was not working, stating that the amount guaranteed is “not significant”, also pointing out that restricting the delivery mechanism to banks excludes a cohort of businesses as many firms no longer have banking relationships and called for new delivery mechanisms to be developed.

DBEI stated in oral evidence to the Committee that it is examining the potential role that Credit Unions could play in this regard considering the relationships they have with the enterprise sector. The Committee welcomes this.

The Committee also believes that some businesses may not have the confidence to engage with the scheme in the current environment.

A number of witnesses advocated for providing a 100% guarantee with 0% interest rates, particularly for firms that could demonstrate a Covid-19 related loss. However, the Committee could not reach a consensus with regard to how risk should be borne as between the State and the banks.
SBCI Covid-19 Working Capital Scheme

The Strategic Banking Corporation of Ireland (SBCI) Covid-19 Working Capital Scheme (WCS) is providing short-term liquidity to businesses to facilitate day-to-day operations. Despite the significant cash-flow problems reported to the Committee in evidence, take up of the scheme has been low, with the Restaurant Association of Ireland (RAI) highlighting in evidence that only 3.5% of SMEs have applied for the WCS36.

In discussing the reasons behind this low take up with witnesses, much evidence pointed to a reluctance by small businesses to take on additional debt. For many sectors, lost sales cannot be made up, and according to ISME, asking businesses to take on debt to pay mounting expenses “is not the clever way to go.”37

ISME also believes that the WCS, like other similar schemes, is not targeted at typical SMEs, but rather is directed at internationally trading firms.

This is supported by Fáilte Ireland in respect to the tourism sector:

“The interest rate for a loan scheme specific to the sector will need to be as close to zero as possible to be sustainable.”38

The Committee welcomes that DBEI has relaxed criteria requiring firms to be undertaking research and innovation to qualify for the Scheme, but nonetheless has concerns regarding the eligibility criteria.

| Recommendation 4: |
| More needs to be done to increase uptake of the Credit Guarantee Scheme and the SBCI Working Capital Scheme. |

| Recommendation 5: |
| The Committee also recommends examining alternative delivery mechanisms apart from the banking sector such as Credit Unions and possible instruments devised by the Revenue Commissioners. |

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36 Committee debate 30 June 2020  
37 Committee debate 09 June 2020  
38 Committee debate 02 July 2020
The Committee also heard evidence of the burden that commercial rates have on businesses, and that the holiday on the payment of Commercial Rates was welcomed by businesses and their representatives. VFI, the Event Production Industry Covid-19 Working Group (EPIC) and the National Campaign for the Arts (NCA) are forsaking that this holiday be continued, especially while social distancing is necessary.

The Committee notes that longer holidays on commercial rates payments have been introduced in other jurisdictions. However, the Committee believes that Local Authorities have played and will continue to play an important role in the re-opening of the country and stresses the importance of protecting their budgets.

**Recommendation 6:**
There is a need to revise the eligibility criteria for the various liquidity supports, ensuring that they are not too onerous for their target sectors. The various liquidity supports should also be extended to include all business enterprise models, as the Committee heard evidence of some that had fallen through the cracks.

**Commercial rates holiday**

**Recommendation 7:**
The Commercial Rates waiver should be extended to the end of the year for businesses who will continue to operate below capacity due to Covid-19 restrictions.
Temporary Wage Subsidy Scheme

Over the course of its work to date, the Committee has comprehensively discussed the TWSS.

The Committee notes the evidence from the ESRI that, prior to introduction of the lower rate of PUP, the exchequer cost of the TWSS was potentially lower than the cost of the PUP as many workers were entitled to less than €350 per week\(^39\).

The Committee recognises the important role that the TWSS has played in ensuring that linkages between employees and employers are not broken, while also providing a significant support to firms’ cashflow.

The Committee also notes the view of the Department of Employment Affairs Social Protection that the cost of the scheme is significant, but that it has been crucial in ensuring businesses remain viable while pandemic containment measures are in place. This was supported by NERI who stated that:

\[\text{“the TWSS should not be viewed as a cost to the State and rather that it is a one-off investment in maintaining the productive capacity of the economy, which if rescinded will likely cost Irish society much more in the long-term.”}\]\(^40\)

This was also supported by the Irish National Organisation for the Unemployed who nevertheless expressed the view that it will be important over time to ascertain the effectiveness of the scheme\(^41\).

From a business perspective, the Committee heard evidence from IBEC that the TWSS has played an important role in getting cashflow into firms, while Enterprise Ireland highlighted its importance in allowing companies to retain their workforces\(^42\).

However, the Committee is concerned that employers are precluded from using the TWSS when hiring new employees. This, RAI and the Irish Hotels Federation (IHF), has been a particular issue for firms in seasonal sectors that would not have been open before March, but would hope to open during the tourist season. According to the IHF:

\[\text{“To take the temporary Covid-19 wage subsidy scheme issue first, if a worker was not employed on 29 February 2020, he or she will not qualify for the scheme. That means that businesses that were open on 29 February are now directly competing with}\]

\(^{39}\) ESRI submission  
\(^{40}\) NERI submission  
\(^{41}\) INOU submission  
\(^{42}\) Committee debate 09 June 2020
businesses that were closed for the winter period and have only managed to start now. We now have a temporary Covid-19 wage subsidy scheme that is manifestly unfair. It is anti-competitive and it is leaving these people behind.”

This was also highlighted as an issue for the events sector by the Event Industry Association of Ireland (EIAI) and EPIC.

There was almost uniform consensus across stakeholders and sectors that the TWSS scheme should be extended. Numerous witnesses highlighted the importance of the TWSS in ensuring viability in sectors where social distancing means reduced capacity. Further, its extension will be important to ensure that skilled workers are not lost from certain sectors. According to EPIC:

“If the payment does not extend until we are back to something like capacity, we will not have a long-term recovery because the people and the skillsets that we keep talking about will leave this industry.”

Further, a number of stakeholders have highlighted that social distancing will likely mean that indoor events relying on audience attendance will be curtailed for some time. As a result, the recovery time in the arts and performance sector will be longer than will be the case for many other sectors. The Committee believes that in order to address this specific vulnerability, the availability of the TWSS and PUP may be a lifeline that the sector will continue to require after it has been tapered for other industries.

The Committee notes the evidence of witnesses such as ICTU and the Dublin Chamber of Commerce with regard to the importance of liquidity supports, including but not limited to the TWSS, being withdrawn in a tapered or gradual manner to allow for financial planning by both firms and employees.

**Recommendation 8:**
The Government must ensure that the TWSS remains available to firms (and in particular those in the arts and related sectors) who will operate below capacity due to Covid-19 and any tapering off of supports should have a significant lead-in time.
Public Service Procurement

Each year, the public service purchases a large quantum of supplies and services from the private sector. The Committee recognises that public service procurement can play an important role in supplying liquidity to small businesses, and therefore it is critical that tendering by the public service is conducted in a manner that allows small businesses to compete equally.
Additional stimulus measures and supports for business

Liquidity

Notwithstanding the demonstrable benefits arising from investment in capital projects, the Committee acknowledges that there is an urgent need to ensure businesses have sufficient liquidity support. As highlighted by numerous witnesses, including EI, one of the first impacts of the public health measures was to a “sudden and immediate pressure on the working capital and liquidity of companies”\(^ {47}\). The urgency of this was emphasised by ISME:

“The average small business owes €\(78,000\) in trade credit to other small businesses. Without a workable liquidity solution, large amounts of this inter-company debt will go bad, with terrible implications for business and personal insolvencies.”\(^ {48}\)

The potential for contagion, and the importance of liquidity support, was also emphasised by SMERI:

“Bills are piling up and need to be paid. A bill that is not paid by one firm impacts on another firm’s revenue and creates a problem. The issue does not disappear as a result of a firm hiding from the bill. SMEs will not take on debt at 5% or 6% which involves filling in lengthy application forms.”\(^ {49}\)

Further, SMERI also highlighted how liquidity concerns might encourage companies to hoard cash, with detrimental knock on effects in the supply chain.

“This is why liquidity is so important. If I stop paying my bills to a creditor, the creditor is in trouble. What I really need is a quick injection of cash so I can pay my bill… Otherwise there is contagion; every bill across the system stops and everybody runs into trouble. A small amount of liquidity at the beginning of that chain releases the problem five or six links along it.”\(^ {50}\)

Evidence from Chambers Ireland’s own research supports this. As documented in their written evidence, 68% of businesses are awaiting payments, with a median total value of €\(40,000\)\(^ {51}\).

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\(^{47}\) Committee debate 02 July 2020  
\(^{48}\) Committee debate 09 June 2020  
\(^{49}\) Committee debate 30 June 2020  
\(^{50}\) Committee debate 30 June 2020  
\(^{51}\) Chambers Ireland submission
The Committee also notes that how liquidity supports are channelled to business is important in encouraging take up. Numerous stakeholders made a distinction between liquidity provided as grant aid, and liquidity provided as debt. Numerous witnesses, including RAI and SMERI stated that grant aid is much more preferable than loans, regardless of the interest rates. However, many of these witnesses would also welcome non-interest loans to complement grant aid measures.

The Committee notes the analysis of SMERI as to how grant aid and low interest loans can be used in tandem to recapitalise businesses and build a firm’s capacity for growth:

“We want to have cash in the system. Interest-free loans are still loans and they have to be paid back. There are some things that firms need money for, such as investment in innovation, where interest-free or low-cost loans are absolutely the right answer. For the stock … which will no longer be sold other than in a liquidation sale, an interest-free loan would not help. We need to recognise that it is a loss and compensate the firm for the loss so that it can buy stock for the next season.”

The Committee notes the evidence of ISME that Germany has “announced €50 billion in grant supports for small businesses. Proportionally, this would be €3 billion in Ireland.”

The Irish Farmers Association (IFA) has also highlighted the liquidity challenges facing the agricultural sector and proposed the introduction of a Government-backed 80% guarantee low-cost interest (max 2.5%) loan scheme with a 12-month moratorium on capital repayments. The IFA also recommend that the state covers interest payments for the first year.

Recommendation 9:

The July Stimulus should include an efficient balance between grant aid and repayable finance.

VAT

A recurring issue throughout the Committee’s engagement with business representative groups, was the issue of reducing the VAT rate applying in certain sectors, most prominently in tourism, hospitality, food services and events.

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52 Committee debate 30 June 2020
53 Committee debate 30 June 2020
54 Committee debate 09 June 2020
55 IFA submission
There were differing views amongst witnesses as to what the VAT rate should be reduced to. The IHF has called for a reduction in the VAT rate to 5% until the end of 2021, followed by a permanent restoration to 9%, while the RAI stated that the 13.5% rate is unviable for their members and also supported a reduction to 5%. A rate of 5% is also proposed by EPIC in relation to the events industry.\textsuperscript{56}

The Committee notes the evidence of the VFI that “new interpretations of EU VAT laws that have been put in place in Spain, Italy, Cyprus and other countries, that one can have a different rate of VAT for alcohol sold in the on-trade and the off-trade.”\textsuperscript{57}

In evidence to the Committee Jim Power suggested that the Government should reduce the VAT rate [for the tourism sector] to 0%:

“It is essential that a 0% VAT rate is one of the measures put in place, probably until the end of 2021. A 9% VAT rate should then become a permanent feature for businesses in the industry.”\textsuperscript{58}

However, the Committee also notes that, as stated by IBEC, the issue around VAT reduction may be more nuanced than at first thought:

“(what) we are observing at the moment is unlikely to be demand suppression. We know Irish households had €110 billion in deposits in the banking system. We have seen during the last phase that Irish households have experienced a €3 billion increase during the pandemic. It is unlikely that demand stimulation will be required. People will require the confidence to go back out there in terms of the health dimension.”\textsuperscript{59}

A similar observation was also made by the ESRI:

“If there are many businesses which cannot engage in economic activity because of public health measures or because they are affected like that, those businesses will not benefit from a VAT cut.”\textsuperscript{60}

\textsuperscript{56} Committee debate 30 June 2020  
\textsuperscript{57} Committee debate 30 June 2020  
\textsuperscript{58} Committee debate 30 June 2020  
\textsuperscript{59} Committee debate 09 June 2020  
\textsuperscript{60} Committee debate 16 June 2020
The Committee believes that consideration should be given to the benefits of reducing the VAT rate, and also that further examination should be given to the legality of reducing VAT to 0%.

**Recommendation 10:**
Consideration should be given to the costs and benefits of reducing the VAT rate in the tourism and hospitality sectors. Any reduction in the VAT rate should not apply to the sale of alcohol and any loopholes relating to the off-licence sales should be closed in the Finance Bill 2020.

**Apprenticeships**

The Committee discussed the potential for apprenticeships to stimulate job growth as the economy re-opens. In particular, witnesses highlighted the scarring effects that can arise from high youth unemployment, and that apprenticeships could be effective for this cohort. This point was made by Ibec:

> "Apprenticeships and internships will form part of addressing that issue because this is a critical time for young people to get that kind of experience during their development. We know from previous crises that unemployment is a scarring on their lifetime incomes."  

The use of apprenticeships was also supported by the RAI, but with conditions. The RAI stated that their industry would be hesitant about taking on apprenticeships during an economic crisis if they are to be required to pay the apprentice while they are off-site. This is in contrast to other traditional trades which are subsidised by the State. This should be reviewed.

The Committee welcomes the fact that DBEI are working with the Department of Education and Skills in this area and see it as a “particular focus for young people”.

**Recommendation 11:**
The Government should increase the availability of apprenticeship schemes in order to reduce youth unemployment and increase the skills-level in the labour force.

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61 Committee debate 09 June 2020  
62 Committee debate 30 June 2020  
63 Committee debate 09 June 2020
Communication between small business and policy makers

Of particular interest to the Committee has been the level of dialogue between Government Departments and representatives of the small business sector. In this regard, the evidence has been mixed, and the Committee is concerned by the evidence provided by ISME that:

“Many of the missteps with the pandemic unemployment payment, the wage subsidy scheme, the trading online voucher scheme and the Return to Work Safely Protocol could all have been avoided if there had been formal liaison between the Government and small businesses.”

In the specific case of the tourism and hospitality sectors, this is expanded upon later in this report.

**Recommendation 12:**

The July Stimulus Package should include a commitment to putting in place structures that will facilitate more open and robust consultation between Central Government departments and the small business sector.

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64 Committee debate 09 June 2020
Other issues arising

Examinership

The issue of examinership, and the cost of entering it in Ireland, was a recurring theme in evidence received by the Committee. This was highlighted by ISME:

“As for the cost of examinership here, we have a great, internationally admired regime, but it is so expensive that only about 2,000 or 3,000 businesses out of 270,000-odd can afford it.”

Examinership was also cited by Jim Power as an issue that had to be addressed in order to increase the survival chances for businesses:

“There are issues that are not being addressed. If they are not addressed, it is inevitable that many of the businesses that manage to reopen will not survive the next 18 months.”

Supporting the above points, SMERI also advocated for improved access to examinership, citing steps being taken in the United Kingdom:

“The UK Government, as we understand it at the moment, is rushing through a new Bill on corporate insolvency to ensure that the balance of power between large banks and large landlords, on the one hand, and smaller firms, on the other, is in a different place. It is very similar to what we introduced the last time around in the context of personal insolvency. While there are improvements to be made, it is all about ensuring that firms will have more negotiating power and will not have to pay a fortune to lawyers and others to do that.”

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65 Committee debate 09 June 2020
66 Committee debate 30 June 2020
67 Committee debate 30 June 2020
The Committee notes that that work in this area is ongoing, and acknowledges, as highlighted by DBEI, that the interests of a number of parties are involved, “be they customers, creditors, suppliers or employees.”

**Recommendation 13:**
Statute law in relation to Examinership should be amended in the Autumn of 2020, to provide for an ‘Examinership-lite’ style option for struggling small businesses who are precluded due to the currently high costs involved.

**Commercial rents and insurance**

The Committee notes the difficulties that businesses are experiencing in relation to commercial rents and insurance. As noted earlier, despite business turnover being reduced to nil in many cases, fixed costs are accumulating and there has been little forbearance in this regard.

The issue of rents is particularly acute, and especially so in the restaurant sector according to the RAI:

“In the restaurant industry, 90% of businesses are rented and landlords have definitely not stepped up to the plate to take their fair share of the pain that all businesses are currently suffering. If turnover is down by 50% to 75%, landlords across the country must realise that rents cannot be paid at pre-Covid levels. Currently, they are seeking 100% of the rent upfront or continued with no haircut or reduction.”

The Committee notes with interest the evidence of SMERI who highlighted practices that have been put in place internationally:

“governments have brought together some of the major landlords to agree what the fair resolution of that would be.”

The evidence of DBEI alluded to work being done by the Department to address issues around commercial rates, which the Committee welcomes.
With regard to insurance, two significant issues emerged in evidence to the Committee. The first relates to the increase of insurance premiums, although evidence heard in relation to this focused on the restaurant sector. According to the RAI, premiums are currently being negotiated, with a significant increase in cost to firms in the sector:

“We can see that, on average, premiums have increased by between 15% and 20%.”72

However, VFI also highlighted a lack of forbearance in relation to the payment of insurance bills while businesses were closed and without revenue:

“Insurance is a major issue. The non-payment of insurance due to business being interrupted has been well documented in the press. There are serious issues in that regard, as well as around forbearance when businesses are closed. There has been a very mixed bag in the context of businesses having been closed for 13 or 14 weeks. In some instances, insurance companies have stated they will discuss the matter when the business renews its policy at the end of the insurance year. Of course, that means the business cannot shop around for options because it is tied to that insurer. The insurance companies have behaved abysmally on this issue.”73

Frustration with regard to this was also communicated by IHF, while written evidence from the Alliance for Insurance Reform stated that 60% of forbearance claims have “not yet been granted or granted in any meaningful way.”74

The Committee notes with considerable concern the evidence it has heard, from numerous stakeholders across sectors, about the implications of non-payment of business interruption claims by insurance providers. Again, the Alliance for Insurance Reform75 stated that 96% of business interruption claims made have not been successful (63% were outright refusals with 33% awaiting a decision). This was supported by RAI, EPIC and ISME.

While the Committee acknowledges that these issues are likely to be outside the direct remit of a fiscal stimulus package, the case for statutory interventions in these areas has to be considered as a

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72 Committee debate 30 June 2020
73 Committee debate 30 June 2020
74 Committee debate 30 June 2020
75 Alliance for Insurance Reform submission
priority. Issues relating to the insurance industry have recurred throughout a wide range of evidence and the Committee believes that this justifies the need to bring forward immediate insurance reform.

Support for business by banking sector

The Committee is concerned with regard to evidence it has received in relation to the banking sector, and the support is has shown to the SME sector since the Covid-19 containment measures were implemented.

The Committee notes the important role that banks should play in ensuring there is liquidity in the SME sector. However, evidence to the Committee suggests that this is not happening to a satisfactory level. According to Jim Power, the banks are hesitant to lend to SME’s:

“banks are loath to lend to or support SMEs at this time when business risks are significantly higher.”

A similar message was conveyed by EPIC:

“SMEs have no idea how long they have to budget for. They are approaching their banks and are not getting much help.”

In particular, the Committee was also struck at the interaction between the restaurant sector and banks, as reported by the RAI:

“There have been no loans written off. There has been no assurance by the banks for our sector in particular, where people tend to have personal guarantees for loans on commercial property or enterprises. The banks have stated there will be no action on personal guarantees.”

Repayment holidays

The Committee is also concerned about the implications of an end to breaks on loan repayments while businesses are still operating at reduced capacity. The implications of this were illustrated well by the EPIC in relation to the events sector:

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76 Committee debate 30 June 2020
77 Committee debate 30 June 2020
78 Committee debate 30 June 2020
“An SME might have borrowed €1 million to buy equipment such as a public address system. Those SMEs are now being told that they will have to make those repayments in 2021. In 2021, those SMEs will have to pay 18 months’ worth of payments instead of 12, in a year when they will most likely not have any money until the end of the summer season, assuming we get one.”

Branch closures
Of further concern to the Committee is any potential closures of bank branches, particularly in rural Ireland. The Committee is firmly of the belief that local bank branches will be central to the economic recovery and supporting jobs in the regions.

79 Committee debate 30 June 2020
Sector-specific issues

Arts

The Committee acknowledges that, within the Arts sector, there are different challenges facing different parts of the industry. The funded arts sector has traditionally received significant State support in order to make it viable, with the cultural benefits arising from this support far outweighing its costs. However, the live events industry had been performing strongly up to March and has not been reliant on State support previously. Many of the issues threatening viability have been accounted for above.

At the onset of the Covid-19 pandemic, the arts were worth €1.16 billion to and supported 55,000 jobs throughout the economy. Some 10,000 jobs are directly sustained by core arts activities\textsuperscript{80}. The Committee is extremely concerned that the sector could contract by 42% in 2020 and that the Arts Council believes that it could take up to 2025 for the arts industry to return to pre-Covid-19 levels of activity if the risks involved in the industry are not mitigated\textsuperscript{81}.

The Committee welcomes the additional €25 million allocation provided to the sector by the Department of Culture, Heritage and the Gaeltacht. However, it is also noted evidence by the Department that:

\begin{quote}
“Even with re-opening, measures to ensure public safety and audience confidence represent a profound challenge, particularly for theatres and venues, both nationally and regionally, and for the performing arts\textsuperscript{82}.”
\end{quote}

Considering this, it is likely that the sector’s recovery is likely to lag significantly behind the rest of the economy. The Committee notes the Arts’ Council recommendation that this longer recovery time is a “core reason that these supports should be extended by the sector\textsuperscript{83}”.

The Committee acknowledges the important role of local authority discretionary funding supports for the arts sector and recognises the importance that these supports are maintained.

Evidence to the Committee stressed that both the funded performing arts and live events sectors operate on a year-long planning horizon. The Abbey Theatre further explained that many projects can

\begin{flushleft} \textsuperscript{80} Arts’ Council and EY - Impact Assessment of Covid-19 on the Arts Sector in Ireland \textsuperscript{81} Arts’ Council submission \textsuperscript{82} Department of Culture, Heritage and the Gaeltacht submission \textsuperscript{83} Arts’ Council submission \end{flushleft}
be in development for several years before they are scheduled into the programme. The investment in such projects has now been lost. Likewise, the Events Industry Association of Ireland signalled similar issues:

“a year-long planning cycle meaning that the majority of work for festivals and events that are now cancelled has already been completed and paid for with no way to recoup the money spent through tickets sales.”

With regard to the live events sector, the Committee is concerned by the evidence of Events Industry Ireland that “more than 50% of the 1,000 businesses it represents indicated that they may not survive 2020” and that of EPIC which states that the sector has lost an “entire year’s turnover”. The Committee also notes the requirement for additional wage support for staff in the sector if capacity is reduced into the medium term.

Recommendation 14:
A cross-departmental task force should address the supports required by the events, music, entertainment and culture sectors, encompassing both production and performance.

Recommendation 15:
Local Authority funding for the arts should be ringfenced, recognising its important role in supporting the sector. This should be expanded to include a role in supporting the wider arts community, encompassing production and design.

Hospitality and tourism
The Committee acknowledges the important role that the hospitality and tourism sector, as a labour-intensive industry that promotes balanced regional development, played in the national economic recovery after the last global financial crisis. The Committee also recognises that it continues to be an important driver of economic activity, accounting for one-in-five jobs in certain counties along the

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84 Abbey Theatre submission
85 Committee debate 30 June 2020
86 Events Industry Ireland submission
87 Committee debate 30 June 2020
Wild Atlantic Way (oral evidence of Fáilte Ireland). However, 70% of the tourism economy and revenue is made up of overseas visitors.

The Committee also notes the concern of the industry that social distancing will have significant implications for capacity, and by extension viability, in hospitality and tourism into the future.

The Committee acknowledges that Fáilte Ireland has provided significant support to the tourism sector. However, evidence from the RAI estimates that without further Government support, 100,000 jobs would be lost, costing “€2 billion on social protection expenditure, €500 million in lost payroll taxes, €240 million in lost VAT receipts and €52 million in lost commercial rates.”

Similarly, the Committee heard from the IHF that Covid-19 has eliminated €5 billion in tourism revenue and has put 180,000 jobs at risk in the industry. However, it also notes that the IHF believes that:

“With the right Government supports, we project that annual revenues and employment can recover to 2019 levels over a five-year period up to 2025. This would mean €7.7 billion in revenue and the employment of 270,000 people. Without appropriate supports, we see 2025 tourism revenue at €5.4 billion and employment returning to just 190,000 people, which is 30% fewer than in 2019. Over a five-year period, this would represent a cumulative additional loss of approximately €7 billion to the economy and additional cumulative unemployment costs of €3.3 billion.”

Considering this, the Committee believes that the case for supporting the sector is strong and can repay itself to the Exchequer in the coming years.

Many of the issues raised by these sectors in evidence to the Committee – commercial rents, insurance, wage subsidies, rates – have been raised almost uniformly across all industries. Nonetheless, the Committee acknowledges that due to its aforementioned labour intensiveness and the viability challenges arising from social distancing, some of these issues are more amplified in hospitality and tourism.

The Committee therefore believes that the case for sector-specific VAT reductions, in particular for the hospitality and tourism sector, is strong. Most stakeholders agree that a reduction to 5% or even 0% is necessary in the short term, before increasing to 9% over the medium term.

The Committee also notes evidence received from stakeholders in these sectors that recommends a reduction in the rate of excise duties on alcohol. The VFI recommended a reduction to 15% in the
excise rate and highlights the fact that the rate of excise on alcohol in Ireland is the second highest in the European Union\textsuperscript{88}.

The Committee also notes from the evidence of Mandate that pubs not serving food are likely to be adversely affected for a longer period than those who do serve food. These pubs are likely to be smaller but are estimated by Mandate to employ over 20,000 staff\textsuperscript{89}.

The Committee heard evidence relating to the importance of the TWSS in the sector, with witnesses strongly advocating for its extension. Given the labour intensity of businesses in hospitality and tourism, the Committee believes there is merit in this.

The Committee also notes that the RAI feels that its sector has been forgotten about by the DBEI:

\textit{“When it comes to business supports, the Department [of Business, Enterprise and Innovation] is the Department whose role is to help all small businesses. It seems that hospitality and tourism have been excluded in respect of much of the grant aid and discussions on support services and getting things done. Therefore, we need a joined-up approach and to get things done faster to support struggling businesses\textsuperscript{90}.”}

The Committee recognises the support that the sector has received from the Department of Transport, Tourism and Sport, but believes that a clearer, more joined-up approach is needed between both Departments. While the Committee has not examined this in any detail, it does recommend that a structured engagement between the whole of government and small business sector, in a model not dissimilar to the National Economic Dialogue.

**Recommendation 16:**

The Government should examine the feasibility and benefits of a voucher scheme for all residents, to be spent supporting the domestic tourism sector.

\textsuperscript{88}Committee debate 30 June 2020  
\textsuperscript{89}Mandate Trade Union submission  
\textsuperscript{90}Committee debate 30 June 2020
Principal features of an effective stimulus

The Committee notes, from evidence received, the importance of an effective stimulus in generating activity in an economy that is operating below its capacity. The Committee also recognises that there are key principles to an effective stimulus: that it should be temporary (allowing it to be unwound as the economy recovers), must be quickly delivered and must be targeted at specific sectors.

The Committee is of the opinion that economic recovery from the COVID-19 crisis must involve a commitment to our micro businesses, our SME sector, our family businesses, as well as a steadfast commitment to workers’ rights embedded in legislation, and the creation of decent jobs with decent pay and conditions.

The Committee is also of the opinion that many of our microbusinesses, our SME sector, our family businesses have come through debt and difficulty during the last recession, and many are unwilling to take on debt through loans again. Therefore, a focus on grants and measures which will inject liquidity into microbusinesses, our SME sector, and family business should be a priority of the July Stimulus.

The Committee believes that public investment in capital projects, delivering quality education, accessible healthcare and sustainable transport, is essential in stimulating Ireland’s economic recovery.

Recommendation 17:
The Committee recommends that the stimulus package should involve:
- increased investment in public capital projects;
- a commitment to micro businesses and the SME sector; and
- ensuring decent jobs with decent pay and conditions for workers.

Importance of an effective stimulus

It is recognised that a stimulus will play an important role in sustaining and growing employment, and the overall recovery of the economy. The Central Bank, Nevin Economic Research Institute (NERI)91 and the Irish Fiscal Advisory Council (IFAC) all highlight that any stimulus package implemented to support the economy will lead to a further deterioration in the budget balance. However, if efficiently

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91 NERI submission
targeted, the elements of a stimulus package will have significant long-term benefits, as pointed out by NERI:

“If properly targeted and designed they will also buttress the economy’s potential output and pay for themselves in the long-run”.

The Irish Small and Medium Enterprise Association (ISME) [appeared to] concur with this, stating that “the only way to stop the fiscal deficit rising is through re-igniting growth”, while IBEC stress the importance of returning to a balanced budget at an “appropriate pace”.

IBEC’s submission suggested that the Government should:

“run a deficit which matches the loss in economic output. We expect GDP to fall by around 11% or €37 billion in 2020. Our Government response should be of the same scale as the crisis. As part of this, a further €15 billion in stimulus measures will be necessary in 2020 and 2021.”

With regards to the type of stimulus, many stakeholders have highlighted the need for immediate liquidity supports, and the extension of existing schemes such as the TWSS. However, Professor Stephen Kinsella was amongst the witnesses who highlighted the difference between benefits arising from current expenditure and investment in capital projects:

“Government (current) spending is impactful in the short run, with every €1 yielding benefits of €1.20, but far less so in the medium term. Government investment is highly positive at all time scales (benefits of €2.50 and €2.30 in short and longer terms respectively for every €1 spent)”.

This is also reiterated by IFAC:

“public investment has a great multiplier effect economically. There are forms of such investment, including constructing and retrofitting housing, that are very labour intensive.”

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92 NERI submission
93 IBEC submission
94 Committee debate 16 June 2020
95 Committee debate 16 June 2020
The Committee also notes the advice of IFAC that any stimulus package should be temporary, rather than increasing permanent current expenditure:

“That means once the crisis has passed, one can bring it back down and the public finances can be rebalanced and restabilised.”

Evidence to this effect was also provided by the Central Bank.

Evidence from the Economic and Social Research Institute (ESRI) highlighted the potential for a stimulus to simultaneously support the economy and address long-term national policy challenges, including investing in the area of climate action activity:

“That funds should be spread across things such as infrastructural investment, particularly with green and housing components.”

The Committee believes there is considerable merit in this advice.

**Recommendation 18:**

The Committee is of the opinion that, in rebuilding the economy, we should avail of the opportunity to also green the economy through cleaner technologies, supporting significant job creation in retrofitting and meeting our carbon reduction targets. The Committee is further of the opinion that we should maximise drawdown from the European Green Deal for this purpose.

**Efficiency**

Given the evidence heard in relation to the potential scale of the general government deficit, the Committee considers it important that supports are targeted, in so far as is possible, at the sectors within which they are needed the most. There was much support for this approach, notably from IFAC and the Department of Public Expenditure and Reform (DPER).

However, the Committee accepts the advice that some degree of “deadweight loss” will be inevitable due to the speed at which support is required, a point made by Professor Stephen Kinsella:

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96 Committee debate 16 June 2020
97 Committee debate 16 June 2020
“The second point is that we need to understand the balance sheet of a firm, which is the composition of a firm’s assets and liabilities. In that situation, given we are not going to have those data any time soon, it behoves us to think about direct grants to firms and accepting the inevitable deadweight loss.”

The Committee welcomes some of the proposals brought forward by SME Recovery Ireland (SMERI) with regard to how liquidity can be put into the system immediately, while allowing the State to ensure that it only covers Covid-19 related losses:

“If we imagine that everybody got €25,000 as a loan today and in phase 2, which comes relatively rapidly afterwards, we work out the losses of those firms, the firm that has €7,000 of losses would not have to repay €7,000 of the €25,000 loan.”

The Committee also notes the advice of the Irish Congress of Trade Unions (ICTU) that supports to businesses should be “transparent and subject to a value for money spending review process.”
Financing the stimulus package

The Committee acknowledges that implementing the above measures, and providing support and stimulus to the economy, will not be without significant budgetary cost. While the Committee is confident such initiatives will repay themselves in the long run, they will need to be funded in the short to medium term.

Evidence received by the Committee by witnesses including IFAC, the Central Bank, DPER and the ESRI is that strong economic growth has meant that considerable progress has been made in reducing Ireland’s debt as a percentage of GDP/GNI*. This was emphasised by the NTMA in oral evidence to the Committee:

“The State is in a strong position to meet its borrowing requirements. The most important fundamentals for investors, in deciding whether to lend to Ireland and on what terms, have not changed: these are the country’s growth potential and its fiscal policy over the long term.”

The Committee believes that this is the case despite the reversal in the downward trend in Ireland’s debt ratios.

Figure 2: Ireland’s debt/GNI* ratio 2009 – 2025 (2020 – 2025 projected)

Source: Committee secretariat analysis of CSO and IFAC FAR data

101 Committee debate 07 July 2020
While it is recognised that high debt ratios can have negative implications for a country’s capacity to borrow (via higher interest rates on the bond markets), stakeholders are generally positive about the monetary environment at the moment. This is largely due to the bond buying activity (quantitative easing) of the European Central Bank. The Central Bank points this out in its submission:

“The impact of this can be seen in the historically low levels of Irish yields and in the relatively stable yield differentials to core euro area sovereign markets.”

The Committee recognises the significant impact that bond purchasing activity by the European Central Bank is having in ensuring that bond yields remain low.

The Committee believes, that given the low interest rates available on Ireland’s sovereign debt, the Government should borrow to provide support for the economy. It notes the advice of IBEC that Ireland’s potential for growth is a key determinant of interest rates and that “there is far more risk to that growth potential in doing too little to combat the impact of the crisis than in doing too much.”

**Recommendation 19:**

The Government should avail of lower long-term interest rates as available to support the economy in the short- to medium-term. This should include maximising the drawdown of EU grant aid and loan scheme initiatives.

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102 Central Bank of Ireland submission
103 IBEC submission
Appendix 1

List of Committee Members

Special Committee on Covid-19 Response (1)
Coiste Speisialta um Fhreagra ar Covid-19

Colm Brophy
Fine Gael

Colm Burke
Fine Gael

Mary Butler
Fianna Fáil

Jennifer Carroll MacNeill
Fine Gael

Matt Carthy
Sinn Féin

Michael Collins
Rural Independent Group

David Cullinane
Sinn Féin

Pearse Doherty
Sinn Féin

Stephen Donnelly
Fianna Fáil
Special Committee on Covid-19 Response
Coiste Speisialta um Fhreagra ar Covid-19

Norma Foley
Fianna Fáil

John McGuinness
Fianna Fáil

Michael McNamara
Independent Group
(Chair) (2)

Fergus O’Dowd
Fine Gael

Louise O’Reilly
Sinn Féin

Matt Shanahan
Regional Group

Róisín Shortall
Social Democrats

Brid Smith
Solidarity-People Before Profit

Duncan Smith
Labour
1. Deputies appointed by Order of the Dáil of 7 May 2020
2. Chairman elected at Committee meeting of 12 May 2020
## Appendix 2

### Submissions Received

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<th>Reference Number</th>
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<td>Abbey Theatre</td>
<td>SCC19R-R-0367</td>
<td>Rebooting the Economy: The Arts and Entertainment Sector</td>
</tr>
<tr>
<td>Alliance for Insurance Reform</td>
<td>SCC19R-R-0331</td>
<td>SMEs and the hospitality sector</td>
</tr>
<tr>
<td>Arts Council</td>
<td>SCC19R-R-0352</td>
<td>The Arts Council Submission to the Special Committee on Covid-19 Response</td>
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<td>Chambers Ireland</td>
<td>SCC19R-R-0055</td>
<td>Chambers Ireland and the economic impact of COVID-19</td>
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<td>Construction Industry Federation</td>
<td>SCC19R-R-0142</td>
<td>Reopening the economy - the State’s response and support for businesses</td>
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<td>Department of Culture, Heritage and the Gaeltacht</td>
<td>SCC19R-R-0372</td>
<td>The impact of COVID-19 on the arts and entertainment sector</td>
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<td>Department of Finance</td>
<td>SCC19R-R-0188</td>
<td>Oireachtas Committee on Covid-19 – Submission by the Department of Finance</td>
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<td>Dublin Chamber of Commerce</td>
<td>SCC19R-R-0330</td>
<td>Dublin Chamber of Commerce Submission to the Special Committee on Covid-19 Response</td>
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<td>ESRI</td>
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<td>Submission to the Oireachtas Covid-19 Committee on Expenditure and Budgetary Position, Social Protection Expenditure and Childcare</td>
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<td>Events Industry Ireland</td>
<td>SCC19R-R-0357</td>
<td>COVID-19 Events Industry Impact Report Summary</td>
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<td>Ibec</td>
<td>SCC19R-R-0182</td>
<td>Ibec submission to Special Committee on Covid-19 Response on Fiscal Developments</td>
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<td>ICTU</td>
<td>SCC19R-R-0154</td>
<td>Reopening the Economy – The State’s Response and Support for Business</td>
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<td>SSC19R-R-0184</td>
<td>INOU Submission to the Special Committee on Covid-19 Response</td>
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<td>Mandate Trade Union</td>
<td>0512-SCC19R-R</td>
<td>Submission from Mandate Trade Union to the Covid Committee Concerning the Hospitality Sector, in particular the Licensed Bar Sector</td>
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<td>Nevin Economic Research Institute (NERI)</td>
<td>SCC19R-R-0183</td>
<td>Nevin Economic Research Unit Submission on the State's budgetary position and social protection to the Special Committee on Covid-19 Response</td>
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<td>The Irish Farmers’ Association</td>
<td>SCC19R-R-0168</td>
<td>Re-opening the Economy – the State’s Response and Support for Businesses</td>
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