Phase One Review - Immigrant Investor Programme: Social and Economic Analysis

FINAL REPORT

Not for distribution

24 April 2020

Building a better working world

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24 April 2020

Dear Mick,

We have completed our social and economic analysis review of the Irish Naturalisation and Immigration Services' (INIS) of the Immigrant Investor Programme (IIP). Our procedures were performed in accordance with the Services Contract, dated 26 June 2019, and were limited to the procedures described therein.

Basis of our work

The information provided is intended to assist you in reviewing the IIP and identifying options for the next Phase of the Programme.

The information contained in this report has been based on information provided to us and the interviews we conducted with a range of stakeholders at a specific point in time.

While our final report is dated 24 April 2020, our fieldwork and analysis was performed between the period June to November 2019. Further dialogue was held with INIS management and with stakeholders up to December 2019. The report was drafted and finalised between the period December 2019 and April 2020. On this basis, the findings in our report do not consider all the impacts of Brexit in this period. In addition for clarity, the impacts of the recent Covid-19 crisis on the IIP Scheme and the wider global economic shock that has followed have also not been considered in our report.

Use and disclosure of this report

Our report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or in part, without our prior written consent.

This report has been prepared solely for the purpose of our engagement to provide information to INIS and to the Secretary General of the Department of Justice and Equality (the Department). Only the Department may rely on any facts stated or opinions expressed in this report.

The report should therefore not be regarded as suitable for use by any other person or for any other purpose. Should any other persons choose to rely on this report, that person does so at their own risk. Ernst & Young will accordingly accept no responsibility or liability in respect of it to any such person.

We value the opportunity to work with you and sincerely appreciate the co-operation and assistance provided to us during the course of the review.

Yours sincerely,

Ernst & Young

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1. Executive Summary

The Immigrant Investor Programme (IIP) was established in 2012 by the Irish Government. It has the objective of creating local employment in Ireland and supporting Irish economic development through Foreign Direct Investment (FDI). The IIP is designed to encourage investors and business professionals from outside of the European Union (EU) to avail of the opportunities of investing and locating their business interests in Ireland. Those applicants who are considered to be eligible for the IIP, commit to an approved investment in Ireland.

The IIP provides for a Residency by Investment (RBI) Scheme to non-EEA stakeholders. As the basis of the IIP Scheme in Ireland is that of an RBI Scheme, whereby the Irish passport is not offered 'for sale' to attract private investors. In conjunction with their families, successful applicants may acquire a temporary residency status in Ireland for two years. The duration of the residency may be subject to review and may be further extended for a further three and five years. The Programme does not provide for preferential access to citizenship. Successful applicants are eligible to apply for Irish Citizenship in the normal manner.

This report summarises our findings and conclusions reached based on our Phase One review. This review has focussed on the Social and Economic analysis of the Programme. We will also undertake a Phase Two review of the Programme, which will focus on the wider governance, risk and control matters in relation to the operation of the current Programme. This Phase will be initiated within one month of the issue of this Phase One report.

1.1. Overview of the IIP application and evaluation process

There are essentially two components to each IIP application; the person and their investment. The criteria in relation to 'the person' require the applicant to be of good character, to have a demonstrable level of net worth (accumulated independently), together with evidence of the source of the funds to be invested. The investment component relates to the nature of the proposed investment. The main aspects of the application and evaluation process are summarised in the table below:

Key process	Commentary
Application	The individual must submit an application form to INIS, in conjunction with all required supporting documentation and a non-refundable fee of €1,500.
Project Sponsors	The Project Sponsors are generally local and international investment brokers who facilitate and assist the applicant during the application process. They also act as the project sponsor and provide the business plan for the Investment. Once the applicant is approved the Project Sponsor manages the project or development on behalf of the investors for a fee. We understand that Project Sponsors could be facilitating multiple projects for approval with the IIP. These generally relate to nursing homes, social housing and hotels developments. For example, the Project Sponsor could acquire 10 IIP applicants each at €1m per investment, providing the project sponsor €10m in funding to commence a development. Some of the projects are managed by Special Purpose Vehicle (SPV) fund structures, which are subject to regulation by the Central Bank of Ireland. The IIP funding is used by the Project Sponsor firms as a source of equity for the investments.

Evaluation Committee	Completed applications are presented to an Evaluation Committee for consideration and approval. The Evaluation Committee is composed of senior officials from a number of Irish Government Departments and Irish State Agencies involved in Enterprise Development in Ireland. The Evaluation Committee meets at least four times per year to assess applications for residency under the IIP. Applications are assessed on the basis of the profile of the applicant, the commercial viability of the project, employment outcomes associated with the proposed investment and the overall benefit to the Irish State. The Evaluation Committee will make recommendations to the Minister for Justice and Equality on those applicants that it decides should be accepted and approved under the Programme.
Approval	Applicants and their families, whose applications are approved, will be issued with residence permissions from the Minister for Justice and Equality once the approved investment has been undertaken.
Right of Residence	All successful applicants and their families will be granted continuous residence in Ireland under "Stamp 4" conditions. These conditions permit foreign nationals to work, study, or start their own business in Ireland. The immigration permission is initially for a two-year period, and can be extended to a further three years, subject to the following conditions. After the initial five years the immigration permission can be extended for a further five years, provided these conditions continue to be complied with (conditions b and c only after a 5-year period): a. The designated investment is still in place b. The individual or their family have not become a financial burden on Ireland c. The individual or their family have not been investigated, indicted or convicted in relation to any criminal offence in any jurisdiction.

1.2. Growth in IIP applications in Ireland

The popularity of the IIP has increased exponentially since it started in 2012. Of particular note, is the 3.5-fold increase in the number of applications during 2016. The increase in the number of applications from China is the main driver of the Scheme's growth. There are a number of drivers for the growth in applications notably:

- Network effects: more applicants in the home country become aware of the programme, through knowing people who are IIP permit holders and have moved to Ireland or have business interests there due to the IIP
- Increased number and/or sophistication of agents: there are third parties and organising IIP applications for whom the Scheme has proven lucrative for them. This is evidenced through the 'grouping together' of several applicants for large-scale projects such as the funding of nursing homes. The marketing techniques employed by these agents may also have become substantially more effective across the past 7 years since the IIP started.
- The economic cycle in general: which has matured since 2012. In particular Ireland's economic recovery and openness to FDI has been well publicised.
- The uptake and success of other European countries' Schemes: increasing the knowledge and confidence of European RBI schemes in general

By 2018, 97% of all IIP permits were granted to Chinese applicants. Between 2012 and 2018, €331 million was registered in Ireland via the IIP. This reliance on one country is a risk in the context of reinforced capital controls and the potential for an economic slowdown in China.

We consider that this level of growth in the number of applications in Ireland may be due to various reasons, including the global economic recovery and, in particular, Ireland's headline growth. Brexit could have also played a role in making Ireland a more attractive European, English-speaking place to invest in, when compared with the UK. The IIP in Ireland competes with other Programmes and Schemes across 19 other European countries to attract FDI with this Programme. A number of other countries, including [redacted] offer a Citizenship by Investment (CBI) Scheme in order to be more attractive.

1.3. Conclusion of social and economic analysis

We consider there is merit in continuing the IIP from an economic perspective. In quantitative terms, our review has identified €223 million direct, indirect, and induced contribution to Ireland's GDP, a €61 million return for the Exchequer and 3,377 full time jobs created, which may be broadly attributable to the IIP during the 2012 to 2018 period. In particular, if the Scheme is to be steered in a way so as to effectively maximise the socioeconomic benefits, this should be done through targeting particular locations and sectors in Ireland which are in need of increased investment. This is particularly true in light of external macroeconomic threats, such as Brexit, which could see particular areas and sectors bear the consequences (including the Border region and the agri-food industry).

The socioeconomic merit of the IIP is also evident in lieu of such stipulations and labour-intensive sectors, such as construction and health & social work, as these are already the dominant recipients of IIP funds. Therefore, the potential of the IIP to both shelter Ireland's open economy from external shocks and also to contribute positively to job creation is evident. In particular, the endowment aspect of the IIP offers particular socioeconomic merit and potential. The charitable focus of this, with investors seeking no return of capital, means that it offers maximum benefit to the state with minimal cost.

When assessing the Programme's success to date as well as its potential, it is necessary to consider which objectives it seeks to fulfil. It is also necessary to consider how these contribute to the wider national and supranational long-term objectives. However, in the absence of clear objectives, data and tracking mechanism supporting the IIP, it is difficult to evaluate the overall effectiveness of the current IIP. Our report has made a number of recommendations which are designed to address the future effectiveness and direction of the programme.

One of our key recommendations is that INIS should reset the future of the IIP with a clearer strategic purpose. This consultation should consider the benefit of promoting the IIP to increase the level of foreign investment that aligns with NDP 2040 along with other potential areas of benefit to the economy and society as a whole. Departments and stakeholders who could be impacted directly and indirectly by the Programme (including the Department of Justice, the Department of Foreign Affairs and Trade, the Department of Business, Enterprise and Innovation) should form part of this consultation.

1.3.1. Summary of Key Findings and Recommendations

We have identified in this report, a number of observations and recommendations for improving the effectiveness of the IIP. These predominantly relate to the strategic direction of the Scheme, the lack of mechanisms to effectively 'track' and monitor the Scheme and the potential impact of Brexit. In relation to risks associated with the IIP Schemes, we note the findings emerging from the European Commission (EC) and the Organisation for Economic Cooperation and Development (OECD), leading to recently published reports from both bodies.[1]

The intrinsic risks which have been linked to these Programmes, including tax evasion and money laundering, have been discussed in these EC and OECD reports, resulting in a number of recommendations being raised to protect the security and integrity of the EU and the Programme.

Further risks, particularly in relation to aspects of national security, granting immigration and foreign direct investment tracking and monitoring have also been identified.

We have summarised below, the key observations and recommendations we have made in this report, together with comments received by INIS.

No.	Key Risks and Observations	Recommendations	Management Comment
1	**There are a lack of mechanisms in place to effectively 'track' and monitor the economic benefits of IIP** • A full assessment of the economic benefits generated by the programme is difficult because of the lack of tracking mechanisms in place to track how investments have been made within the economy. The above issue is closely linked to the lack of available and useful data to effectively inform or measure the economic benefit of IIP both within Ireland and in relation to the IIP's benefits to the Europe 2020 Strategy. • We note that limited data is available on whether the IIP permit holders assume residency in Ireland or whether they bring dependents with them. Therefore, the costs to the state of the IIP may not be readily assessed. • It was not possible to assess or conclude how all accrued income has been invested in Ireland to achieve an economic benefit for the economy.	• Relevant key performance indicators, such as environmental, social, and economic data, should be identified and tracked more effectively in the future. Additional tracking mechanisms, such as spending analysis by sectors and regions, could further support the decisions of policymakers regarding the IIP. • At a minimum, other key data points and information should be gathered and monitored in relation to the IIP permit holders, whether they assume physical residency in Ireland and/or whether their dependents assume residency. • Improved reporting mechanisms should be put in place to analyse the type of applications and the type of projects financed to report on the efficiency of the INIS program to key stakeholders.	• During 2019 considerable progress has been made regarding data clean up and closing data gaps regarding applicants. • We would agree that there is an additional body of work in this space. The loss of key personnel will hinder progress in this regard. However, there is a commitment in the 2020 Business plan to address these matters.
2	**Ireland should continue to appear a welcoming location for FDI and could foster better knowledge of the IIP to help achieve this**	• We recommend that consideration be given to the future approach to be taken in relation to the marketing and publicity of the Scheme. In particular, improved marketing of the actual rights conferred	• A review of the Scheme will be undertaken. This review will include wider considerations such as the appropriate allocation of responsibilities for the marketing and publicity of the Scheme.

No.	Key Risks and Observations	Recommendations	Management Comment
	• Risks will routinely accompany RBI Schemes such as the IIP, regardless of the macro-economic backdrop in which it operates. These include risks to Ireland Inc and to INIS. • The reputational risk related to rescinding the RBI scheme is significant. Given that Ireland brands itself as an open economy, heavily reliant on international investment, any contradictory signal could damage this perception and long-term growth. This is especially relevant given the current backdrop of Brexit and the rise of protectionism. • The relationships created with Chinese investors, which may not otherwise have arisen, is a key economic asset that could benefit not only the IIP but FDI as a whole.	by the Scheme could aid progress towards the public being better informed. • INIS should consider designing and implementing a robust risk management framework to support the IIP. This framework should seek to identify, assess and monitor the key risks affecting the delivery of the IIP, including broader reputational and stakeholder risks. The associated risk appetite levels should also be formally considered. • A closer integration of the IIP with IDA Ireland International Attractiveness Strategy is needed to ensure its alignment and maximise its impact. A deeper involvement of IDA Ireland and economic stakeholders in the governance and awareness of the IIP should be considered.	• The increase in resources available to the IIP unit in recent times, has enabled a greater focus on compliance and Integrity. This work will feed into 2020 risk register. The updated code of conduct for evaluation committee members and also for the wider stakeholder communities are the first steps along this journey. • The IDA and the Enterprise Ireland have always been key members of the evaluation Committee. The IDA is currently represented [redacted] who has a legal background. The IDA therefore is integral to the IIP.
3	**The need to diversify: overreliance on Chinese applicants as the IIP's demand source** • Demand for the IIP is dependent upon global economic conditions which effectively determines the availability of investor funds. However, this is particularly true of the Chinese economy, given the dominance of Chinese investors within the IIP. We consider that there is an urgent requirement to diversify the applicants to the IIP and to seek to attract, where possible, applicants from other suitable economies.	• The Governance Model and key stakeholders supporting the IIP should be reassessed with further involvement from a range of government departments, such as the Department of Foreign Affairs and Trade and the Department of Business, Enterprise and Innovation. Ireland could also leverage the existence of the IIP to drive FDI, which is itself one of the main drivers of modern-day Irish economic growth. • The Scheme should continue to leverage the current relationship with	• Since its inception the Evaluation Committee has benefited greatly from the active contribution from various Government Departments and Agencies including: - DOF and DFAT - IDA and Enterprise Ireland. • Additionally, various Departments are consulted on a needs basis, including Agriculture, Housing, Health and DCHG. The model has worked well. That said, the IIP unit are currently reviewing Governance structures in light of an Internal Audit report, which identified the need for Independent oversight.

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	• China's economic performance is an important influence on the future uptake of the IIP, given that 97% of permits granted in 2018 were to Chinese applicants. • The supply of funds to the IIP from China may decrease in the short-run, due to worsening domestic conditions such as rising inflation and weakening GDP growth, as well as the possibility of the tightening of capital controls.	Chinese investors to drive Chinese FDI in Ireland. However, it should also seek to build relationships with other emerging economies, such as other Asian countries, to increase the benefits of the programme and, through diversification, mitigate economic risks related to a Chinese downturn.	• The IIP unit has meet with the outgoing and incoming Irish ambassadors to [redacted]. There has been a number of applications received from [redacted] in recently, however as yet none have progressed to permission. During 2020 it's likely that the first investments will take place. It would be expected that during Q1 2020, a proposal will be brought forward to the Evaluation Committee for discussion, if agreeable will then go to the Minister for approval.
4	**Potential impact of Brexit** • Dublin is the continued top choice for Brexit-related relocations of financial services firms from London. 30% of all business relocations from the UK are directed towards Dublin. • As a result, there is increasing pressures on the existing infrastructure, particularly housing, from an already struggling base: rent-to-income ratios already exceed 40% in some Dublin locations. To date, only 30% of all IIP projects relate to construction with a focus on social housing. • Brexit also presents headwinds to the Irish economy. A disorderly Brexit could mean economic consequences for Ireland. Brexit has been referred to as "*a clear and present danger to domestic living standards*", with levels of growth reduced to close to zero by 2020. • On this basis, we consider there to be an under-utilisation of the IIP as a tool. We coonsider that it could be more effectively utilised as a basis upon which to relieve	• The potential for a sustainably-designed social housing investment fund to ease market conditions should be considered. • The IIP could be used to better navigate any economic difficulties which may materialise in the wake of Brexit. A long-term strategy should be discussed with the relevant authorities and its quantitative and qualitative objectives clearly stated. It could focus on the following: - The sectors most impacted such as the agri-food sector - The sectors generating long-term socioeconomic benefits (e.g. environment, rural development, healthcare, and education) - Regional projects located outside of the Dublin area and especially the ones located in the border region that could suffer from a decrease in EU funding (e.g.	• The majority of residential investment to date has taken place in social housing. We will continue to review the investment options available under the Scheme, in conjunction with the NDA / Government priorities. • Within the Enterprise option – Social and Nursing homes are the single biggest beneficiaries of the IIP. In support of same, the IIP allows for very focused and targeted funding alinged to Governement prorities. • A proposal regarding a Brexit option will be worked on as part of the draft 2020 guidelines.

No.	Key Risks and Observations	Recommendations	Management Comment
	infrastructure pressures in Dublin and to better work towards balanced regional growth.	PEACE, INTERREG) and a more challenging economic situation - Projects supporting SMEs which are more labour-intensive and aligned with the NDP and Government Priorities.	
5	**Directing funds towards the most socioeconomically beneficial sectors** • Currently, no formal criteria or preference is expressed for investment categories. We consider that the socioeconomic benefit should be maximised. • It is promising that, in lieu of such stipulations labour-intensive sectors, such as construction and health & social work, are already the dominant recipients of IIP funds. This displays the potential of the IIP to both shelter Ireland's open economy from external shocks and also to contribute disproportionately to job creation. • If the right 'tracking' mechanisms and data analysis processes are in place, funds could be formally directed towards the sectors which generating long-term socio-economic benefits.	• Generating a strong economic return on investment is not the sole focus of investors under the IIP. Therefore, the Government should direct funding towards less financially profitable projects that may instead create a stronger added value for society. This approach could: - Give visibility to the long-term objectives pursued by the Government of Ireland, aligned with the NDP / Government Priorities - Be reassessed every two years to ensure that the programme is serving the key areas of the NDP, which specifically merit or require IIP funds - To oversee and follow up with the agents to ensure that the value-added projects to investors, including stakeholder engagement are in keeping with the NDP / Government Priorities. • INIS should clearly state that, while IIP funding could act as a top-up to specific projects, it should not be used as an anchor funding to limit the reliance on potentially volatile flows of foreign	• We agree that the sole focus of the Scheme is not solely in the generation of strong economic return. Since its inception in 2012, the IIP investment options have evolved. In the early years the initial cohorts were enterprise start-ups, evolving over time to support struggling hotels, in particular hotels along the Wild Atlantic way. In 2016, two of the investment options "mixed investment" and "bonds" were suspended – this was to ensure focus was placed on those option where employment had been created. In more recent years has shifted to Nursing homes and Social housing. The Director general of INIS set out the evolution of the IIP in some detail during a presentation to the Committee on Justice and Equality in July 2018. • The 2019 guidelines also state that "The investment should be aligned with the Government overarching policy initiatives as set out in Project Ireland 2040. Particular preference is given to investments in social infrastructure such as social housing, primary healthcare centres and nursing homes." • IIP as a "Top-up": in agreement that this has been a weakness in the IIP and will be amended.

No.	Key Risks and Observations	Recommendations	Management Comment
		investments for social projects, such as nursing homes. • Regional projects located outside of the Dublin area should be targetted, particularly those in which projects may not appear as lucrative to standard FDI investors. • Projects supporting SMEs which are more labour-intensive and aligned with the NDP and Government Priorities should be targetted, particularly those which have a clear employment link and answer gaps in the market.	• Regional targeting: in agreement that this could be looked at as part of the 2020 Guidelines, possibly linked with Brexit. • SME support: A number of small SME's have benefited from the IIP. Discussions have taken place with Enterprise Ireland to understand how the IIP could be leveraged to support start-ups and early stage enterprises. This engagement is ongoing.
6	**Limitation of a formalised strategy and purpose for the IIP impacting on guidance for INIS personnel and key stakeholders** • The current objectives of the IIP are high level and lack any real vision or guidance to support INIS in discharging its duties with respect to the operation of the Scheme. • Specifically, these objectives may lack any strategic insight into the particular sectors or regions which should be prioritised for investment and on that basis, the purpose of the IIP is not clearly understood. • The objectives do not establish a target for the number of people to attract through the IIP, nor do they stipulate how this Scheme aligns with national and European strategic visions, such as Ireland 2040. Any future Scheme should have a forward look, particularly in relation to matters such as capping and value. We note that the Scheme does not formally identify the following:	• INIS should undertake a review of the IIP, to reset the IIP with a clear strategic purpose. The overall strategy and objectives of the Programme should be clearly established and communicated, with all future investments being aligned to these objectives. This review should also consider the benefit of promoting the IIP to increase the level of foreign investment. • Departments and Stakeholders who could be impacted directly and indirectly by the Programme (including the Department of Justice, the Department of Foreign Affairs and Trade, the Department of Business, Enterprise and Innovation) could form part of this consultation. • The duration of residency granted could be reviewed, if it was felt that this minimised the administrative burden and allowed for more effective tracking of outcomes. This could allow for a	• The objectives of the programme are set out in the Government memo that established the IIP and were restated in 2016. At its core the IIP is to: - Selective Immigration of high net worth individuals - Job Creation within the state - Enable investment into the state by non EEA Nationals. That said, with the continued focus at a European level on Citizenship and Residences by investments schemes, would indicate addressing National and European Security concerns will be a priority in 2020. Brexit and the changed Economic circumstance that the Country finds itself ten years on from the great financial crisis informed the rational for commissioning the independent external review. We will undertake to review the mechanisms by which the outcomes are 'tracked' and reported in relation to the duration of residency granted.

No.	Key Risks and Observations	Recommendations	Management Comment
	- those sectors most impacted by prevailing economic conditions such as the agri-food sector due to Brexit - those sectors generating long-term socio-economic benefits (e.g. environment, rural development, healthcare, and education) - regional projects located outside of the Dublin area and, in particular, the ones located in the Border regions which could suffer from a decrease in EU funding (e.g. PEACE, INTERREG) and a more challenging economic situation and - projects supporting small and medium-sized companies which are more labour-intensive and aligned with the NDP and Government Priorities.	more secure and transparent diligence process, for example a more detailed review of business cases.	

Our Scope and Approach

The following objectives of the study were agreed with INIS in June 2019. It was agreed that the review would focus on the following: in relation to economic assessment.

- Review the current objectives of the Programme and how the Scheme has to date met these objectives in terms of employment and economic value added and overall economic impact, considering the value of immigration permissions to the recipient.

- In this regard, the approach adopted by European and other countries should be taken into consideration and bring forward options for the programme in line with overall policies and objectives.

2. Economic matters

The future demand for the IIP is dependent upon global economic conditions, as this will determine the availability of investor funds. This is particularly true of the Chinese economy, given the dominance of Chinese investors within the IIP. Secondly, Brexit also presents headwinds to the Irish economy. The IIP could be used to better navigate any economic difficulties which may materialise in the wake of Brexit.

Observations

Outlined below is a summary of the Economic related matters that we have identified. These have been grouped under a series of distinct areas and in each instance, we have sought to identify the related issues and have made recommendations into how we consider the overall management of the Scheme could be improved.

Residency and Citizenship by Investment Schemes are used extensively across Europe. Our review of a recent Transparency International report in 2018,[2] likened European residency and passports to a *'luxury good'* and claimed that these Schemes have resulted in *'Europe gaining over 6,000 new citizens and almost 100,000 residents'.* The report estimates that the resulting FDI as being circa. €25 billion over the last decade. In terms of contemporary benchmarks of best practice, the study does not pinpoint a particular nation. It refers to the four-tier due diligence system in the Maltese scheme, but states that high levels of government discretion overshadow this, including the consideration of individuals with criminal records under 'special circumstances'.

The report is particularly critical in its reference to Citizenship by Investment Schemes. The report calls on individual member States to undertake the following actions:

- Enhanced due diligence and criminal checks and proceedings on individuals and their families
- Ensure the level of wealth is proportional to its claimed source
- Publish well defined guidelines, criteria and objectives
- Ensure that processes are documented
- Carry out impact assessments
- Improve transparency by publishing statistics on success rates of applications and their names and origin countries and by sharing information with EU authorities regarding applications denied on the basis of security issues and
- Reserve the right to revoke residency or citizenship rights where afforded.

a) There is a lack of mechanisms in place to effectively 'track' and monitor the economic benefits of IIP

Our overall assessment of the economic benefits generated by the IIP was challenging due to the lack of 'tracking' mechanisms in place to assess whether or not the investments have been made. We have estimated the potential economic impact generated to be substantial, with 3,377 full-time jobs generated in Ireland and a return for the Exchequer of €61 million.

Relevant key performance indicators (environmental, social, and economic) and 'tracking' mechanisms (including spending analysis by sectors and regions) could support the decisions of policy-makers regarding the IIP. It could allow them to adapt the investment strategy and inform them as to what extent the IIP is actually contributing to Ireland and the EU's long-term priorities.

[2] 'European Getaway: Inside the murky world of golden visas' (2018) *Transparency International and Global Witness*.

We have set out in the table below, those areas where we consider there to be 'gaps' in the economic data available. In each instance, we have set out our key findings in relation to these matters:

Gaps	Findings
Compact Growth	INIS were unable to provide us with the destination of IIP-permit holders within Ireland in terms of their residential address. We understand that INIS systems retain information in relation to all persons over 16 years of age at the time of registration but not for those under 16 years of age. [redacted]. We understand that INIS are considering ways in which to improve the levels of information capture at the renewal stage of the process. In addition, we were unable to obtain information relating to the geographic destination of funds. This demonstrates the potential of the IIP to further align with the regional and compact growth objective of Ireland 2040.
Strengthened rural economies and communities	Information detailing the location of jobs created could be beneficial in assessing progress towards this objective, as well as residential addresses for the immigrants. Qualitative interviews with the immigrants, the length of their stay in Ireland, whether they renewed their residency permit and their communities' experiences of their contribution to the local area would also provide further insight.
A strong economy supported by enterprise, innovation and skills	The IIP may be stimulating SME activity in the economy by funding entrepreneurs as well as directing more investment towards labour-intensive sectors. Given the prevalence of multinational corporation in Ireland's FDI portfolio, the funding of smaller enterprises is a welcome progression towards the goals of Ireland 2040. Furthermore, the dominance of labour-intensive sectors among the IIP funding, namely Construction and Health & Social Work, will have led to relatively higher level of job creation. Between 2012 to 2018, IIP investments made in these two sectors may have led to the creation of 2,258 full time jobs, representing 69% of total jobs created. Under the enterprise category, €30 million of funding has been directed towards SMEs. However, gaps in the data available regarding the profile of funded companies, the jobs created and whether the funds reached their designated projects mean that no definitive conclusion can be reached regarding the contribution of the IIP to this strategic aim.
Enhanced amenity and heritage	In this category, it would be insightful to obtain qualitative accounts from the immigrants, their families and their local communities. As the IIP facilitates individuals obtaining the right to reside in Ireland where this may not otherwise have been open to them, it is reasonable to assert that this leads to greater multicultural understanding and shared experiences between these individuals and Irish residents. In addition, if these individuals assume residency – and/or if their dependents access Irish education – this may lead to family relatives visiting Ireland. As such, it would be useful to obtain the average length of stay, expenditure and frequency associated with each visit. Trade links will undoubtedly arise as a result of their business activities in Ireland. It is hoped that this will help to enhance Ireland's commercial reputation abroad, while

	also serving to further spread Irish culture worldwide, given the global origins of IIP applicants.
Transition to a low-carbon and climate-resilient society	There is no way of ‘tracking’ the environmental impact of projects funded by the IIP as no data is currently available. However, funds could be directed towards environmentally beneficial projects to aid Ireland’s progress towards this objective, which is likely to increase in prominence in the future.
Sustainable management of water, waste and other environmental resources	The IIP has the potential to generate disproportionately high levels of funding for projects in this area, if it is redesigned in such a way as to do so. As a result, Schemes which are socially and environmentally beneficial could attract increased levels of funding.
Access to quality childcare, education and health services	Also, limited data is available on whether the IIP permit holders assume residency in Ireland or whether they bring dependents with them. Therefore, the costs to the state of the IIP may not be readily assessed. A UK study considers whether Tier 1 visa holders use public services such as education and healthcare and concludes that there are significant costs to the state incurred by this.[3] The education discount offered to IIP participants will almost certainly result in costs to the Irish Exchequer.

Alignment with Europe 2020 indicators

The IIP aligns with, or has the potential to aid Ireland’s progress towards, the Europe 2020 Strategy, and corresponding long-term strategies which will evolve from this.[4] With these economic indicators in mind, it could be possible for the scheme administrators to direct funds and create category stipulations to accelerate Ireland’s progress towards these goals.

Gaps	Findings
Employment	The €331 million of funding drawn into the scheme in 2012 to 2018 has a potential associated full-time job creation totalling 3,377. It is of particular note that labour-intensive sectors, such as Health & Social Work and Construction, are the dominant recipients of IIP funds. The IIP therefore stands to make a disproportionately high contribution to job creation in Ireland. A potential avenue for the IIP to explore, in order to accelerate progress towards this objective, would be to specify a minimum number of jobs created per project funded in the scheme. This could also be in targeted sectors in which there are job shortages. The current economic climate of rapid gob growth in Ireland should not diminish the importance of these jobs to individuals and their communities.

[3] Migration Advisory Committee, *‘Tier 1 (Investor) route: Investment thresholds and economic benefits’* February 2014.
[4] Eurostat, *‘Europe 2020 – Overview’* [online] Available at: https://ec.europa.eu/eurostat/web/europe-2020-indicators

R&D	Detailed sectoral data was not available and so analysis of the broad umbrella groups was conducted instead. However, the direction of IIP-investors' funds towards hi-tech sectors, or towards firms which are specifically undertaking certain R&D projects, could further aid Ireland's progress towards this objective.
Climate change and energy	The IIP holds the potential to draw funds towards targeted areas of investment. This could include any projects or organisations which place a focus on climate change or environmentally sustainable sectors.
Fighting poverty and social exclusion	The IIP provides significant funding for social housing across Ireland. Across 2012 to 2018, the scheme secured funding of €62 million for social housing, as well as €70 million for nursing homes. Through the endowment category, the IIP also provides funding for charitable organisations. These have included homeless organisations and suicide-prevention charities. This funding totalled €14 million from 2012 to 2018. These organisations would not otherwise have been recipients of FDI due to commercial conditions. However, no definitive conclusion can be made as to the societal benefit resulting from these endowments. This is owing to the lack of tracking mechanisms to ensure the funds reached their designated projects. Were more substantive data available, case studies could be drawn upon to highlight charitable or socioeconomic projects which are not commercially attractive but were made possible by IIP-endowments.

Recommendations: We understand that INIS is working on amendments to AISIP to 'track' this data more effectively. Relevant key performance indicators, such as environmental, social, and economic data, should be identified and tracked across time. Additional tracking mechanisms, such as spending analysis by sectors and regions, could further support the decisions of policy-makers regarding the IIP.

At a minimum, other key information should be gathered and monitored in relation to the IIP permit holders, whether they assume physical residency in Ireland and/or whether their dependents assume residency.

Data analytics reporting mechanisms could be put in place to automatically analyse the type of applications and the type of projects financed to report on the efficiency of the INIS program to key stakeholders. This is necessary in a context where human resources within INIS may be limited but the return on investment of the program for Ireland Inc. is important.

b) Ireland should continue to appear a welcoming location for FDI and could foster better knowledge of the IIP to help achieve this

Aiding progress towards National and European objectives should be weighed against the potential costs, including reputational ones, of operating and not operating an RBI scheme. The risk element of these Schemes has drawn attention from both the European Commission (EC) and the OECD, leading to recently published reports from both bodies.[5] The various risks which have been historically linked to these Schemes, including tax evasion and money laundering, were discussed in the EC's report, and recommendations were provided in order to protect the security and integrity of the EU.

In relation to possible tax evasion, the group identified that the documents issued under a number of these Schemes made it difficult for financial institutions to accurately identify the actual and legitimate

[5] European Commission, *'Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Investor Citizenship and Residence Schemes in the European Union'* January 2019.

base of tax residence. This loophole may be exploited by individuals who may seek to falsely claim residency with zero or very low tax rates. They recommended that Member States exchange information in order to combat this issue, and also follow the recommendations which have been recently published by the OECD – the '*Mandatory Disclosure Rules for Common Reporting Standard Avoidance Arrangements and Opaque Offshore Structures*'.

With regards to potential money laundering, we note that Ireland was found to have one of the best detection systems in place. The origin of funds is double-checked: firstly, through evidence submitted by the country of origin of the fund, and secondly, by the relevant services in Ireland. On the contrary, the [redacted] (which was suspended in 2017) did not place any obligation on the investor to transfer funds to the [redacted], therefore excluding the money from checks altogether. The EC also proposed a number of recommendations with regard to these programs. One example is that the examination of applications, interviews, and any other applicant screening activities should be carried out by a government authority.

Separately, the requirement to apostille documents is also taking longer than expected. We understand delays were due to dual legalisation that operates in China and that there were a number of staffing constraints which added to the delay in these matters. We further understand that short term resources were provided by INIS during 2019 to bring this issue under control.

Investors should have a reasonable expectation that their application will be processed within an agreed timeframe. The IIP Guidelines, dated February 2019 by INIS, outline that, on average, the application process should take four months in relation to a fully completed form at submission. We understand that a majority of forms are not considered to be fully completed. We also understand that the INIS has been engaging with project sponsors in advance of submission in an effort to increase the number of forms that are considered to be fully completed. The lack of certainty on approval timeframes may represent a barrier to growth of the Programme and may undermine the reputation and attractiveness of the IIP in Ireland.

Certain risks will always accompany RBI schemes such as the IIP, regardless of the macroeconomic backdrop in which it operates. These include a notable reputational risk to both Ireland Inc and to INIS itself. To support this, governance transparency is key, facilitated by a clearly documented risk management framework which should capture the IIP risks and the associated risk appetite.

However, it is also worth considering the significance of the reputational risk related to rescinding the RBI scheme. Given that Ireland brands itself as an open economy, heavily reliant on international investment, any contradictory signal could damage this perception and long-term growth.

<u>Recommendations:</u> We recommend that consideration be given to the future approach to be taken in relation to the marketing and publicity of the Scheme. In particular, improved marketing of the actual rights conferred by the Scheme could aid progress towards the public being better informed.

INIS should consider designing and implementing a robust risk management framework to support the IIP. This framework should seek to identify, assess and monitor the key risks affecting the delivery of the IIP, including broader reputational and stakeholder risks. The associated risk appetite levels should also be formally considered.

A closer integration of the IIP with IDA Ireland International Attractiveness Strategy is needed to ensure its alignment and maximise its impact. A deeper involvement of IDA Ireland and economic stakeholders in the governance of the IIP could be considered.

c) The need to diversify: overreliance on Chinese applicants as the IIP's demand source

At the time of writing, the outcome of Brexit is still uncertain, and therefore it is impossible to say what the full impact could be on the Irish economy. On one hand, if Ireland were to benefit, perhaps, for example, from large-scale relocations to Dublin, the IIP could play a role in countering Dublin's dominance by enticing funding to other regions of the country, and to rural areas, especially. On the other hand, if Brexit leads to a downturn in the Irish economy, the IIP would have a role to play in providing funding to areas and sectors which are worst affected, such as the border region and the agricultural sector.

A disorderly Brexit could mean economic consequences for Ireland. The Minister for Finance, Paschal Donohue warned that, over the long-term, 85,000 Irish jobs would be lost in a no-deal scenario, with 55,000 occurring within the first two years alone. He called Brexit *"a clear and present danger to domestic living standards",* with growth reduced to close to zero by 2020.[6]

The IIP has a role to play in mitigating the risks related to Brexit and playing a countercyclical role if an economic downturn were to happen. A long-term strategy should be discussed with the relevant authorities and its quantitative and qualitative objectives clearly stated. It could focus on:

- The sectors most impacted by prevailing economic conditions such as the agri-food sector due to Brexit
- The sectors generating long-term socioeconomic benefits (e.g. environment, rural development, healthcare, and education)
- Regional projects located outside of the Dublin area and especially the ones located in the border region that could suffer from a decrease in EU funding (e.g. PEACE, INTERREG) and a more challenging economic situation
- Projects supporting small and medium-sized companies which are more labour-intensive and aligned with the NDP.

Generating a strong economic return on investment is not the sole focus of investors under the IIP. Therefore, the Government of Ireland could leverage this knowledge by directing funding towards less financially profitable projects that may instead create a stronger benefit or added value for society. This approach could:

- Give visibility to the long-term objectives pursued by the Government of Ireland, aligned with the NDP
- Be reassessed every two years to ensure that the programme is serving the key areas of the NDP, which specifically merit or require IIP funds
- Work hand in hand with the agents — especially those of whom are Chinese - to flag value-added projects to investors, in keeping with the NDP
- Clearly state that, while IIP funding could act as a top-up to specific projects, it should not be used as an anchor funding to limit the reliance on potentially volatile flows of foreign investments for social projects such as nursing homes.

China's economic performance is an important influence on the future uptake of the IIP, given that 97% of permits granted in 2018 were to Chinese applicants. China's quarterly GDP figures grew at their lowest rate in 27 years in Q2 2019, at 6.2% (CNN, 2019). This slowdown can be significantly attributed to external factors – in particular, trade tensions with the USA – but also by weak domestic demand. Firstly, the ongoing trade war with the USA (a highly volatile situation which is difficult to predict) is placing upward pressure on inflation due to supply disruptions. Oxford Economics forecast that the consumer price index (CPI) will increase from 1.5% in 2017 to 2.7% in 2022, with food sectors expected to be particularly exposed to these inflationary conditions. This will squeeze consumers' disposable incomes and will mean that investors may have less discretionary spending. Secondly, amidst a macroeconomic downturn in the domestic economy, and capital controls may also be tightened.

This means that the supply of funds to the IIP from China may decrease in the short-run. However, it is worth noting that, given the scale of investments held and size of the Chinese economy it would still be a major source of IIP funding and may look to further build its presence in Ireland's growing economy.

<u>Recommendations</u>: The Governance Model and key stakeholders supporting the IIP should be reassessed with further involvement from a range of government departments, such as the Department of Foreign Affairs and Trade and the Department of Business, Enterprise and Innovation. Ireland could also leverage the existence of the IIP to drive FDI, which is itself one of the main drivers of modern-day Irish economic growth.

The Scheme should continue to leverage the current relationship with Chinese investors to drive Chinese FDI in Ireland. However, it should also seek to build relationships with other emerging

[6] Government of Ireland, *Summer Economic Statement',* June 2019

economies, such as other Asian countries, to increase the benefits of the programme and, through diversification, mitigate economic risks related to a Chinese downturn. Other growth areas should also be cautiously considered, among these South American countries. Notably, with increased growth comes increased risk, and steps could be taken to mitigate against this somewhat. Certain measures have already been taken, such as all individuals on international watch lists being excluded from the scheme, as well as nations that do not have a double taxation agreement with Ireland.

d) Potential impact of Brexit

EY's Financial Services Brexit Relocation Tracker[7] cites Dublin as the continued top choice for relocations, with 29 of the firms tracked confirming asset/operations relocations to the capital. Labour, as well as capital, is set to be drawn to Dublin in the wake of Brexit, though with less immediacy. Think Tank New Financials identified that 30% of all business relocations from the UK will be directed towards Dublin.[8]

This increases pressure on infrastructure, particularly housing, with rent-to-income ratios already exceeding 40% in some Dublin locations.[9] There have been increased calls for medium to high-density apartment blocks as an answer to this shortage for years, but construction costs in Ireland are proving prohibitively high. Analysis by the Society of Chartered Surveyors showed that, for a city-centre medium-rise apartment project to be viable, a developer would need to sell for at least €470,000.[10]

Recommendations: The potential for a sustainably-designed social housing investment fund to ease market conditions should be considered. To date, 30% of all IIP projects relate to construction with a focus on social housing. The IIP could be used to better navigate any economic difficulties which may materialise in the wake of Brexit. A long-term strategy should be discussed with the relevant authorities and its quantitative and qualitative objectives clearly stated. It could focus on the following:

- The sectors most impacted such as the agri-food sector
- The sectors generating long-term socioeconomic benefits (e.g. environment, rural development, healthcare, and education)
- Regional projects located outside of the Dublin area and especially the ones located in the border region that could suffer from a decrease in EU funding (e.g. PEACE, INTERREG) and a more challenging economic situation
- Projects supporting SMEs which are more labour-intensive and aligned with the NDP.

e) Directing funds towards the most socioeconomically beneficial sectors

With effect from 2016, we note that residential real estate was discontinued as was "mixed investment" and "bond". On that basis, we note that the choices for investment were narrowed. At the same time management of the IIP unit engaged proactively with the bigger promotors. As a result, we note the move into labour intensive construction within the healthcare and social housing. This displays the potential of the IIP to both shelter Ireland's open economy from external shocks and also to contribute disproportionately to job creation.

Recommendations: Generating a strong economic return on investment is not the sole focus of investors under the IIP. Therefore, the Government should direct funding towards less financially profitable projects that may instead create a stronger added value for society. This approach could:

- Give visibility to the long-term objectives pursued by the Government of Ireland, aligned with the NDP / Government Priorities

[7] EY, *'EY Financial Services Brexit Tracker: Impact of Brexit on UK Financial Services nears £4 billion despite sector pausing job and asset moves'* June 2019. [online] Available at: https://www.ey.com/uk/en/newsroom/news-releases/19-06-26-ey-financial-services-brexit-tracker-impact-of-brexit-on-uk-financial-services-nears-4-billion-pounds-despite-sector-pausing-job-and-asset-moves

[8] The Irish Times, *'Billions of euro, thousands of workers: Is Dublin ready for 'Brexodus'?'* March 2019. [online] Available at: https://www.irishtimes.com/life-and-style/billions-of-euro-thousands-of-workers-is-dublin-ready-for-brexodus-1.3826007

[9] The Irish Times, *'Institutional buyers 'primary reason' apartments being built'* July 2019. [online] Available at: https://www.irishtimes.com/business/construction/institutional-buyers-primary-reason-apartments-being-built-1.3947505

[10] Society of Chartered Surveyors Ireland, *'The Real Costs of New Apartment Delivery: Analysis of affordability and viability'* October 2017.

- Be reassessed every two years to ensure that the programme is serving the key areas of the NDP, which specifically merit or require IIP funds
- To oversee and follow up with the agents to ensure that the value-added projects to investors, including stakeholder engagement are in keeping with the NDP / Government Priorities.

INIS should clearly state that, while IIP funding could act as a top-up to specific projects, it should not be used as an anchor funding to limit the reliance on potentially volatile flows of foreign investments for social projects, such as nursing homes.

Regional projects located outside of the Dublin area should be targeted, particularly those in which projects may not appear as lucrative to standard FDI investors.

Projects supporting SMEs which are more labour-intensive and aligned with the NDP should be targeted, particularly those which have a clear employment link and answer gaps in the market.

f) Limitation of a formalised strategy and purpose for the IIP impacting on guidance for INIS personnel and key stakeholders

When assessing the Programme's success to date as well as its potential, it is necessary to consider which objectives it seeks to fulfil. It is also necessary to consider how these contribute to the wider national and supranational long-term objectives. The guidance for applicants states that *'funds must be invested in a manner consistent with the Programme objectives*. However, in the absence of clear objectives supporting the IIP, it is difficult to evaluate the effectiveness of the IIP. In the absence of a clearly identified Strategy and agreed objectives, the purpose of the IIP is unclear both to INIS in its operation of the Programme, as well as to the key stakeholders interested in the Programme.

According to the INIS,[11] the key objectives of the IIP, as set out during a Government review in 2013, were and are:

- **To make a meaningful contribution to Irish economy recovery and growth**
  The sizeable increase in residence permits granted through the IIP, from 5 in 2012 to 306 in 2018, and the associated funds potentially being drawn into Ireland (€331,000,000 across 2012 to 2018) could have had both direct and indirect effects on the Irish economy. Firstly, it has funded projects which may otherwise have struggled to secure credit, as they might not be as commercially attractive (see the sectoral discussion above).

- **To attract FDI into Ireland and foster an entrepreneurial environment**
  The very nature of applying for funding and preparing business cases will have encouraged an entrepreneurial mindset. This funding directed towards SMEs will have similarly fostered an innovative attitude amongst the recipient entrepreneurs/firms.

  In the context of Brexit and the rise of protectionism, the existence of this fund highlights the fact that Ireland is an open economy, reliant upon FDI. The relationships created with Chinese investors, which may not otherwise have arisen, is a key economic asset that could benefit not only the IIP but FDI as a whole.

- **To stimulate job-creating investment**
  Although we do not currently have data to assess where investments have been made in Ireland, the economic impact assessment showed that more than 3,377 full-time jobs would have been created in Ireland between 2012 and 2018, assuming these investments were made.

These objectives are very high level and lack any real vision or guidance to support INIS in discharging its duties with respect to the operation of the Scheme. Specifically, we consider that these objectives lack any strategic insight into the particular sectors or regions which could be prioritised for investment and on that basis, the purpose of the IIP is not clearly understood. We would have anticipated that the objectives would seek to establish a target for the number of people to attract through the IIP and stipulate how this Scheme aligns with national and European strategic visions, such as Ireland 2040.

[11] Email correspondence with INIS 13/08/19

This does not mean that the IIP is not making a valid contribution to these strategies, but rather it is not well defined and could be better directed.

Due to the lack of strategy, direction and promotion of the Scheme, there is the risk that Ireland may be missing out on potential additional investment. On the basis of our review of stakeholder feedback and our recent fieldwork, the IIP does not seem to be well known and may be perceived as an inferior Scheme to comparable Programmes in established and better known IIP offerings, including the UK and USA. These countries have Schemes that have been operating for longer, are highly promoted and there is a well-developed immigration infrastructure. From an economic perspective, the positive aspects of the IIP could be further maximised if the right strategy were put in place. Stakeholders have highlighted that the reality is that investors and agents may prefer major Programmes, such as that promoted by the US and the UK. Specifically, we understand that these larger, developed economies have used residency-based investment projects.

It is worth noting that, while funds are not currently directed to particular sectors or areas, the dominant sectors which benefited from IIP funding from 2012 to 2018 were Health & Social Work and Construction, which received 30% of funding each. The former category encompasses socially beneficially charitable activities such as homeless supports, whilst two-thirds of construction was social housing. Clearly the IIP **has the potential to attract funding which leads to better societal outcomes than generic FDI**, as without direction it is already making some progress towards national and supranational policy objectives. Therefore, should Ireland miss the opportunity to capitalise on the Scheme's proven potential, this could be costly for Irish society. Failure to ensure that the IIP is managed and co-ordinated may lead to Ireland potentially losing inward investment to other counties as a result of competing countries managing their IIP's more effectively.

<u>Recommendations</u>: INIS should undertake a review of the IIP, to reset the IIP with a clear strategic purpose. The overall strategy and objectives of the Programme should be clearly established and communicated, with all future investments being aligned to these objectives. This review should also consider the benefit of promoting the IIP to increase the level of foreign investment.

A comprehensive strategic review should be undertaken. Those key Departments and Stakeholders who could be impacted directly and indirectly by the Programme (including the Department of Justice, the Department of Foreign Affairs and Trade, the Department of Business, Enterprise and Innovation) could form part of this consultation.

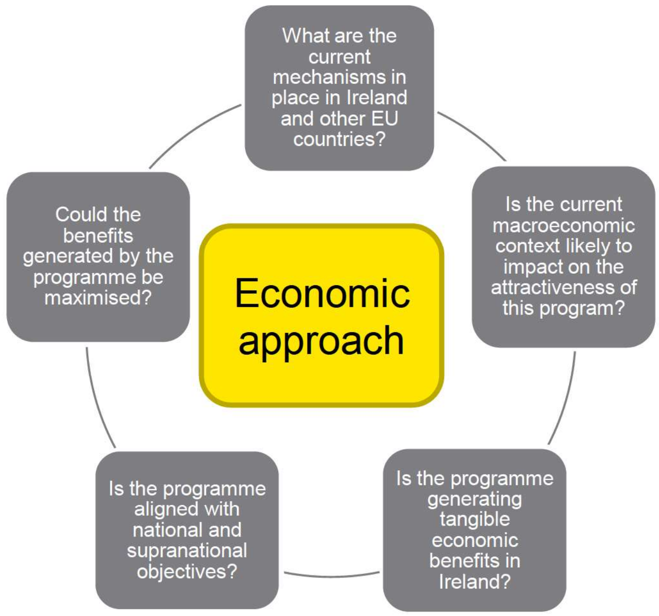
The review could seek to establish clarity on the following IIP related matters:

- Discuss and implement a long-term strategy for the IIP moving forward with a focus on the maximisation of socioeconomic benefits and the mitigation of current macroeconomic risks. This strategy could focus on the sectors (e.g. agriculture), the regions (e.g. border counties) and the companies (e.g. small and medium-sized) most impacted by Brexit and other adverse economic conditions.
- IIP investors are not only looking for return on investment (in all sectors save endowment) but also aim for their projects to be socially attractive to the government. This is an opportunity for public stakeholders to direct money towards under-funded projects, regions and sectors.
- It should be recognised that greater stipulations could potentially impact investment levels. In order to mitigate risks related to highly fluctuating foreign investments, it would be necessary to state that IIP funding would only act as a 'top up' to social projects rather than as anchor funding.
- Agree and establish formal 'tracking mechanisms' to determine whether the investments have been made and to continuously assess their socio-economic impacts at a regional and sectoral level
- Agree and put in place Key Performance Indicators (KPIs) to demonstrate the contribution of the Programme to strategic priorities of the Irish Government and the European Union with a focus on the National Development Plan (NDP) and Government Priorities
- Formally review, at an agreed frequency, the extent to which the IIP fund could contribute to address specific priorities of the (NDP) and Government Priorities to maximise socio-economic benefits.

3. Economic assessment of the IIP

Despite the Economic and Governance matters identified and discussed in Section 2, our review has indicated that the Programme helps Ireland to remain an attractive place to invest for non-EEA stakeholders. In this Section, we consider the following key aspects to our economic assessment:

Our approach



In the period 2012 to 2018, a total of €331,000,000 was registered in the IIP which, in turn has facilitated the funding of a wide variety of projects. As previously discussed, the IIP is a residency by investment ('RBI') scheme, as opposed to a citizenship by investment ('CBI') one.

An RBI scheme is *'…a government programme, which allows foreign individuals to obtain citizenship or temporary or permanent residence rights in exchange for local investments or against a flat fee'*.[12] A CBI scheme offers citizenship in return for this investment.

The IIP offers investors the opportunity to invest via a number of different options,[14] which are listed in the table below. Notably, two original investment options (Mixed Investment: being an investment in a residential property of minimum value of €450,000 and a straight investment of €500,000 into the immigrant investor bond, giving a minimum investment of €950,000 and Immigrant Investor Bond: being €1million invested in the bond at 0% interest rate) have been suspended since July 2016. As these investment avenues have been suspended, we have considered other areas which could potentially benefit from IIP funding.

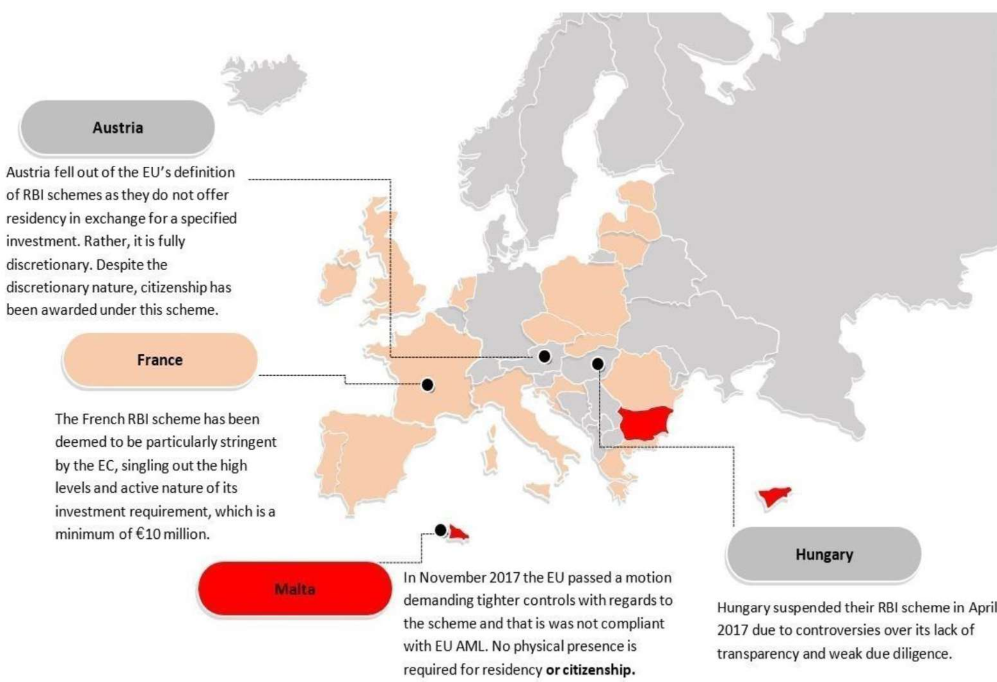
[12] OECD, '*Addressing the misuse of certain CBI/RBI schemes to circumvent the CRS.'* 2018.

Investment categories open to IIP applicants under the 2019 guidelines:

Category	Investment Option	Details
1.	Endowment	Minimum philanthropic contribution of €350,000 (bulk discount and education discount) in a project which will benefit the public in areas such as the arts, sports, health, culture or educational field
2.	Enterprise Investment	Minimum of €1,000,000 invested in a single Irish enterprise or a number of Irish enterprises for at least 3 years. May be a start-up established by the investor, or an existing enterprise in Ireland
3.	Investment Fund	Minimum of €1,000,000 invested in an INIS approved investment fund
4.	REIT	Minimum of €2,000,000 in an Irish REIT(s) which is listed on the Irish Stock Exchange, which must be held for three years

3.1 What are the current mechanisms in place in Ireland and other EU countries13

At present, there are 20 EU Member States, including Ireland, offering investor residence schemes within the European Commission ('EC') methodology, while a further 3 countries (Bulgaria, Malta and Cyprus) also offer investor citizenship schemes. These vary in all aspects, from rights afforded, routes to naturalisation, threshold investments and treatment of dependents. This is examined in further detail in the map below, which outlines the member states classified by the EC as having such schemes, as well as further reflections.



Citizenship and residency by investment scheme in place
Residency by investment scheme (only) in place

[13] European Commission, *'Investor Citizenship and Residence Schemes in the European Union*;', January 2019

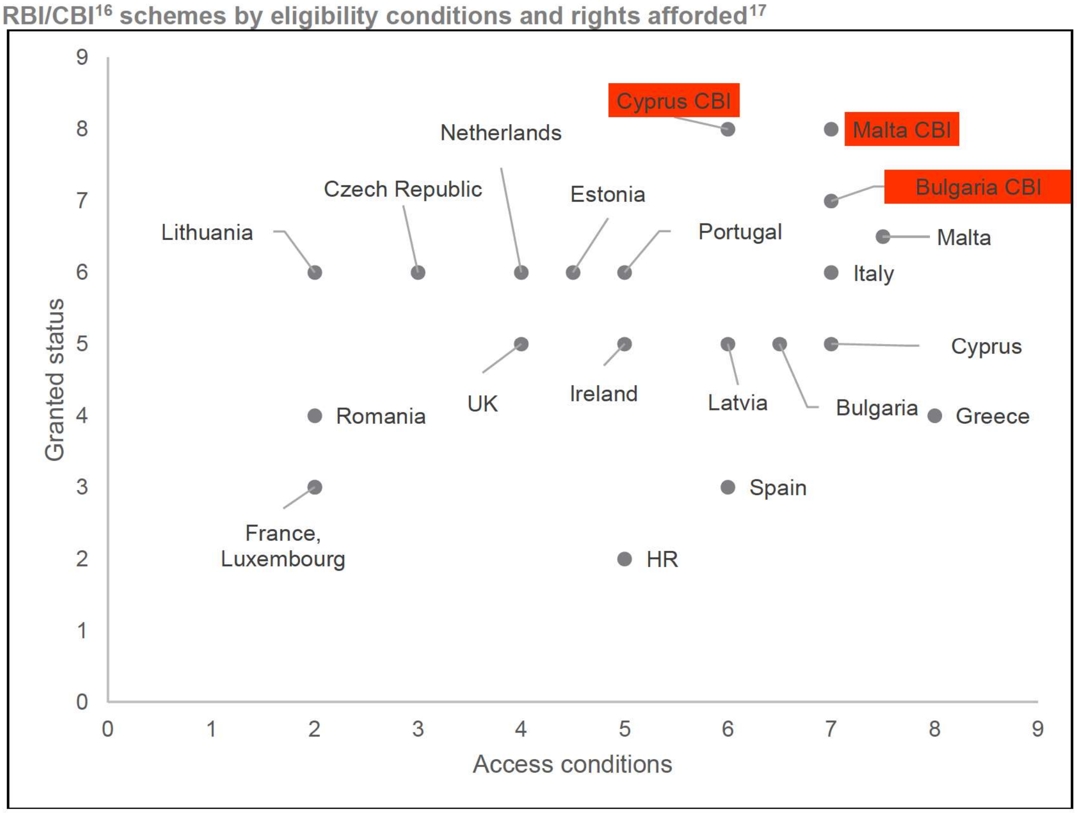
3.2 Comparing ease of access and rights granted across the European RBI and CBI schemes

In 2018, a European Parliamentary Research paper compared the ease of access and rights granted across RBI/CBI schemes in Europe.[14] A high score on access conditions indicates lower levels of investment and reduced physical presence, whereas a high score on granted status indicates mobility rights (primarily Schengen access) and access to a favourable tax regime. The Maltese schemes are both identified as being easier to access as well as granting greater rights. At the other end of the scale, the French scheme requires high investment and affords fewer rights.

Ireland is scored as 5 in both areas – this is the average score in both aspects across all European countries considered, indicating that it has a moderate approach to both access and rights. The IIP places no obligation on the applicant to reside in Ireland. The only requirement is that the applicant spend at least one day per calendar year in Ireland.

This lack of physical presence is mirrored across many benchmark schemes. The Maltese scheme requires no presence at all. Bulgaria's citizenship route demands at least six months of physical presence prior to application. The UK scores 4 on access conditions and 5 on rights granted, indicating that its investment threshold is higher than Ireland's (for a Tier 1 visa a minimum investment of £2 million is required, compared with €500,000 in Ireland) but that similar rights are granted.[15]

RBI/CBI[16] schemes by eligibility conditions and rights afforded[17]



3.3 Profile of wider FDI funds

The benefits and limitations of FDI in Ireland are widely accepted. 210,000 workers are directly employed by multinational companies (MNCs), with the Exchequer benefiting also: 2018 saw a €2.2

[14] European Parliamentary Research Service, *'Citizenship by Investment (CBI) and Residency by Investment (RBI) schemes in the EU: State of play, issues and impacts.'* October 2018

[15] gov.uk, *'Investor visa (Tier 1)*, 2019 [online] Available at: https://www.gov.uk/tier-1-investor

[16] CBI schemes are highlighted in red. All other points on the graph denote RBI schemes

[17] NB where one or more iterations of a scheme is scored, e.g. two RBIs for Malta, average scores were taken. See appendix 1 for further detail.

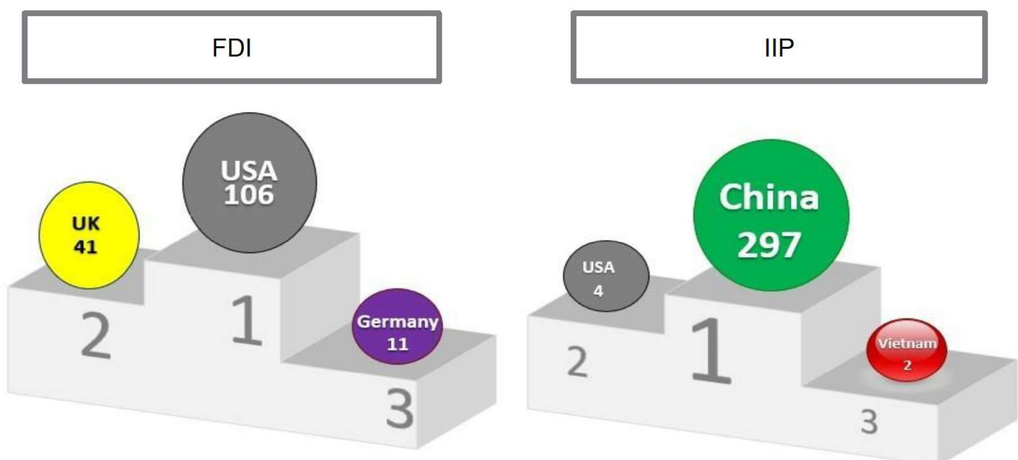
billion increase in corporation tax receipts.[18] In this year, foreign-owned MNCs paid 77% of corporation tax, whilst Irish-owned ones paid only 4%.[19]

General FDI and funds generated through the IIP differ in two key ways: the profile of the investor and the sectoral mix. To compare the benefits of the IIP and wider FDI, we compare EY's European Investment Monitor data on FDI projects and data received from INIS on the programme to date.

3.4 Origin of funds

In wider FDI, 205 new projects were announced in 2018, representing a year-on-year increase of 52%. The podium chart below displays the most predominant origin countries investing funds in Ireland in 2018. It has been an enduring pattern that the United States ranks first, followed by the United Kingdom. Notably, four of the top ten donor countries are within the EU, and thus, these nations' investors would have no incentive to partake in the IIP. China has ranked in the top 10 countries in all years save 2012 but is still behind non-European countries such as the USA and Australia. In contrast, China is the overwhelming source of demand for IIP residency permits with 297 applications against only 4 for the USA in 2018. Tracking applicant data from 2012 to 2018 shows that, in every year, China is the top origin country. The dominance of China among RBI permit holders is replicated in many European benchmarks, among those the UK, Spain, Latvia, Hungary and Greece.[20]

Top 3 origin countries of funds, 2018



3.5 Sectoral composition of funds

There is a mismatch between incentives driving FDI-funding and those driving IIP participation. In the former, investors are acting on commercial motivations, seeking a return on their investment. In the IIP, something (residency) is given in return for the investment, with certain options offering no financial return such as the endowment.

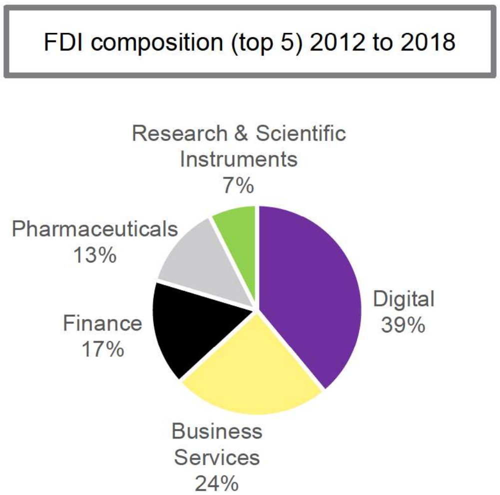
Therefore, a positive interpretation would be that the IIP harbours the potential to tailor investment in a positive way, drawing funds towards socially beneficial ones as well as traditionally underfunded sectors. A negative interpretation would be that investors are targeting specific sectors in order to increase their chances of seeing their residency permit accepted without having any intention to invest in those sectors, particularly if they are offering a lower return on investment.

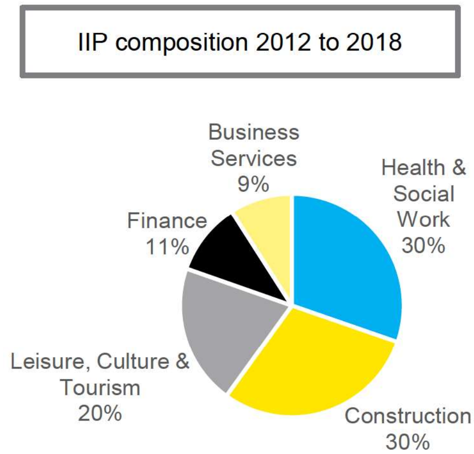
[18] Independent.ie, *'€2.2bn rise in corporation tax take shows dominance of multinationals'* September 2019. [online] Available at: https://www.independent.ie/business/irish/2-2bn-rise-in-corporation-tax-take-shows-dominance-of-multinationals-38097523.html
[19] Irish Revenue Statistics & Economic Research Branch, *'Corporation Tax 2018 Payments and 2017 Returns'*, May 2019.
[20] European Getaway: Inside the murky world of golden visas' (2018) *Transparency International and Global Witness*.

The Digital sector has topped the rankings for attracting FDI funds in recent years, attracting a third of all projects in 2018. This dominance is unsurprising, with EY analysis showing that new FDI projects in Europe's digital sector reached a record high of 1,227 in 2018.[21] Also prominent across the 2012 to 2018 period examined were Business Services, Finance and Pharmaceuticals. Together, these four sectors comprised 71% of all FDI projects in Ireland in 2018, and 80% in 2017. This depicts the direction of funds in the free market, towards the most lucrative or high-potential sectors offering the highest returns for investors.

Conversely, the most popular sector to attract IIP funds throughout the 2012 to 2018 period was Health & Social Work. This includes the endowment category, the majority of which comprises charitable activities such as homeless support, suicide awareness and medical-related organisations.[22] Construction, around two-thirds of which encompasses social housing, is the second most prominent sector in the IIP, commanding 30% of all funds.

Top five sectors attracting funds in Ireland, general FDI and IIP, 2012 to 2018





Source: EY analysis

3.6 The programme has the potential to generate a significant economic impact for Ireland Inc.

The sectoral mix of IIP funds may offer greater societal benefit than that of general FDI attained through the open market. The potential economic impact per sector — as opposed to the realised impact — is considered in this section of the report. This is because insufficient tracking measures are in place to determine whether the approved investment (referred to as ''made investments' by INIS) reaches its designated projects, rather than just an Irish bank account.

Time series data, divided into broad investment categories, spanning 2012 to 2018 was obtained from the Irish Naturalisation and Immigration Service (INIS). These were then apportioned into corresponding sectors, using the following assumptions:[23]

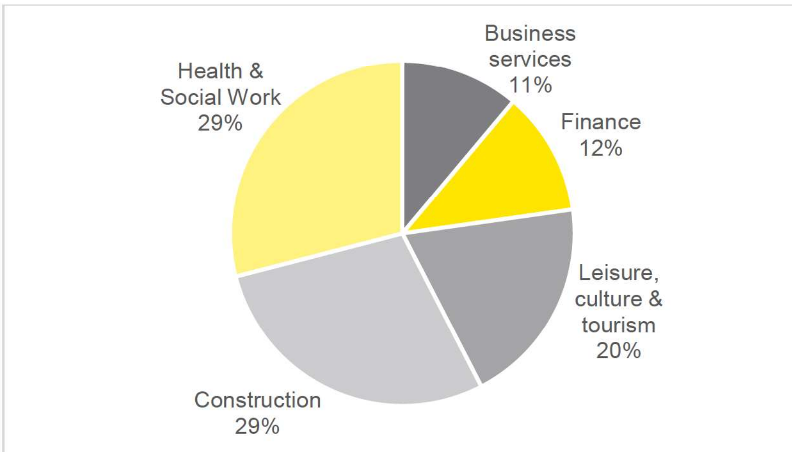
- The 'bond' and 'fund' categories were placed under the finance umbrella.
- Endowment was placed under health & social work, as the INIS detailed that the majority of these funds have been directed towards charitable activities such as homeless support, suicide awareness and medical-related charitable organisations.
- The data received from the INIS was categorised into investments made and not made. 52.4% of all funds were classified under investment made (€331 million out of €632 million). Following correspondence with the Department, 'investment made' was used in conducting our economic

[21] EY, *'How can Europe sustain its digital drive?'* May 2019. [online] Available at: https://www.ey.com/en_gl/attractiveness/19/europe-bolster-digital-attractiveness
[22] This information was obtained directly from INIS
[23] Following email correspondence with INIS 26/08/2019

impact assessment. The methodology underpinning this is the 'investment made' is from individuals who have registered their permission to reside, implying that an investment has in fact been made. In the event an investment was referred to as ''not made'', it could mean that the money had not yet reached Ireland and, as such, was not included in the assessment.

In the below charts, the potential economic impact is detailed. This includes direct, indirect and induced Gross Value Added ('GVA') generated in Ireland from 2012 to 2018. Across the 7 years examined, a total economic benefit of €223 million is generated, along with €61 million in Exchequer revenues. A total of 3,377 full-time-equivalent jobs were potentially created. These figures are in annual cash terms and are not adjusted.

Potential GVA impact per broad industry sector, € millions, 2012 to 2018



Source: EY analysis

The above chart, which divides the economic impact of the IIP into its broad contributing sectors, shows that the scheme's main economic impact stems from Health & Social Work, Construction, and Leisure, Culture & Tourism. There may be a role for the IIP to play in more formally directing funds towards these areas of need which have traditionally been underfunded in Ireland, or are of particular economic, social, cultural or environmental focus at a given time.

A time series analysis shows the growing economic success of the scheme over time. This is true for all components, including GVA generated, exchequer revenue, and jobs created. While a longer time series would shine a light on how the scheme would respond to cyclical events such as recessions, this is not possible due to its relatively recent introduction to Ireland.

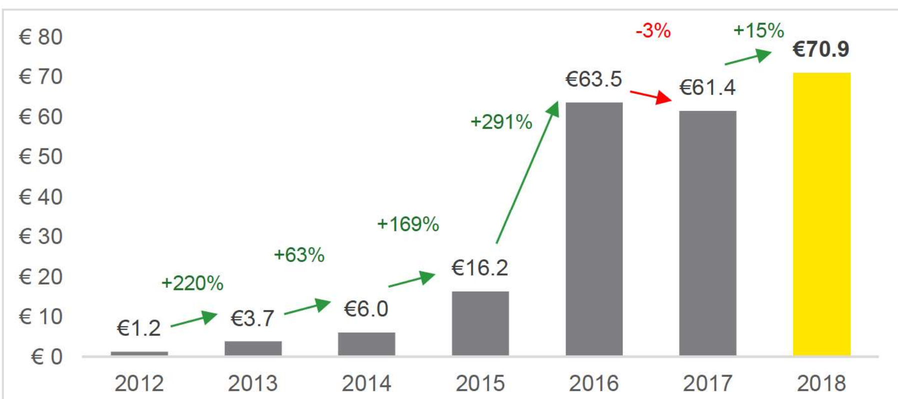
However, it is worth noting that 'negative' figures would not materialise from the IIP even during a recession, as investments are committed for a certain minimum period in order for residency grants to be issued. Furthermore, endowments are one-off payments which can never be rescinded from Ireland. Therefore, it is worth considering the IIP as a tool with which Ireland can weather its economic shocks, as well as one with which it can target funds and investment during a boom time in order to better capitalise on and control this.

Investments potentially made from 2012 to 2018 in million euros		**GVA in million euros**	**Exchequer Revenues in € millions**	**FTE (Full Time Employment)**	**Main sectors potentially benefiting from the IIP**
Business services	€30	€25	€4	166	Activities auxiliary to financial services and insurance activities
Construction	€98	€64	€19	1,117	Construction
Finance	€35	€26	€5	185	Financial service activities, except insurance and pension funding
Health & Social Work	€100	€65	€19	1,141	Construction
Leisure, Culture & Tourism	€68	€44	€13	768	Construction
TOTAL	**€331**	**€223**	**€61**	**3,377**	

Potential economic impact per broad industry sector, € millions, 2012 to 2018[24]

Source: EY analysis

Economic impact per year,[25] € millions, 2012 to 2018

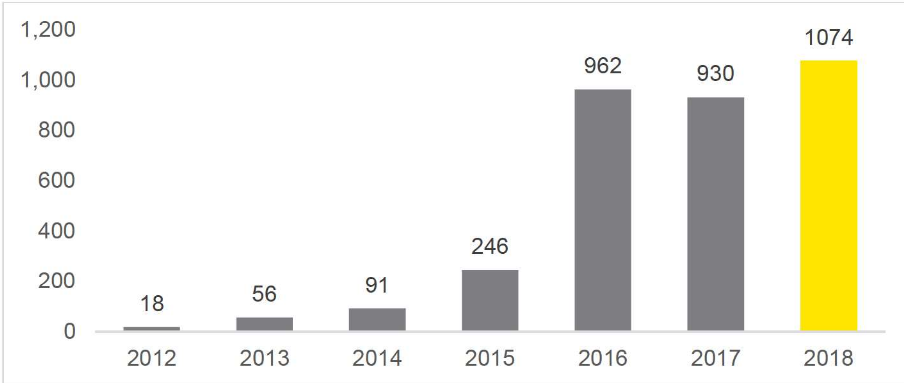


Source: EY analysis

[24] EY analysis, EY Input-Output Model, 2019

[25] The economic impact was apportioned per year according to the share of total permissions granted across this period calculated from data obtained from INIS.

Full time equivalent jobs generated per year, 2012 to 2018



Source: EY analysis

3.7 Why has take-up of the scheme increased in recent years?

The popularity of the IIP has increased exponentially since it started; of particular note was the 3.5-fold increase in the number of applications in 2016. The increase in the number of applications from China is the main driver of the scheme's growth. By 2018, 97% of all IIP permits were granted to Chinese applicants. This growth is due to various reasons, including the global economic recovery and, in particular, Ireland's headline growth. Brexit could have also played a role in making Ireland a more attractive European, English-speaking place to invest in, when compared with the UK.

Network effects will also have improved the awareness of the scheme abroad, as well as the increased numbers of agents, and possibly more sophisticated tactics and/or marketing on their part. The 'grouping' option for funds to be directed to one project from several applicants is further evidence of economies of scale and sophistication of agents' operations – in 2018, 27 permits were grants to Chinese applicants who were all investing in a single nursing home.[26]

3.8 Possible costs to Ireland of operating the IIP

The factors motivating investor immigrants in the IIP versus those of benchmark countries may fundamentally differ due to Ireland not being a member of the Schengen Area. The Schengen Area is the largest visa-free zone in the world, composing of 26 countries who have abolished their internal borders.[27] Schengen membership features prominently in marketing materials for most EU RBI/CBI schemes. As Ireland cannot offer this, its RBI investors may instead be drawn by its high-quality public services, such as healthcare and education. Ireland actively encourages this, offering a discount on the required investment to candidates who wish to educate themselves or their children in an Irish University or Institute of Technology.[28] The maximum discount allowable is €50,000.

Information on the costs to Ireland of IIP-registrants' use of public services was not available. We note that the accessing of social welfare payments may impact on the renewal of the permission. We note that reports written on the costs to the UK, which also falls outside of the Schengen Area, of the Tier 1 visa scheme may assist in offering some insight into the areas in which Ireland might be incurring such costs.

A Migration Advisory Committee report shows that most of UK Tier 1 applicants are motivated by availing of the UK's education sector, spending circa. £25,000 per annum.[29] It may be concluded that IIP-registrants are similarly motivated by the high quality of Ireland's education sector. Regarding the use of public healthcare, a Mishcon de Reya survey indicated that 63% of Tier 1 clients have private

[26] Based on data received from INIS
[27] Schengen visa info, *'Schengen Area – The World's Largest Visa Free Zone'* 2019. [online] Available at: https://www.schengenvisainfo.com/schengen-visa-countries-list/
[28] Irish Naturalisation and Immigration Service, *'Immigrant Investor Programme: Guidelines for Applicants'* February 2019.
[29] Migration Advisory Committee, *'Tier 1 (Investor) route: Investment thresholds and economic benefits'* February 2014.

healthcare insurance. This figure implies that a significant percentage of Tier 1 immigrants do, in fact, avail of NHS services.

When considering the costs to the state of operating the IIP, it is worth again highlighting the distinction between RBI and CBI schemes. The former is the much more common offering across European benchmarks: whereas 18 nations are identified by the European Commission as offering residency permits in return for a specified investment, only three offer citizenship schemes. Residency is a temporary privilege which can be rescinded following intermittent reviews; citizenship is a more permanent right which is difficult to revoke and comes with increase reputational risks to the state. The IIP has the advantage of being easily reviewed and the rights it affords rescinded or altered, meaning that it can adapt to the economic cycle and Ireland's needs.

3.9 Best practice identified to generate a strong and balanced economic impact

Portugal

The Portuguese Golden Visa scheme offers some interesting approaches to targeted geographical investment. The €500,000 minimum funds required for property investment is lowered to €350,000 if the property is over 30 years old, or €280,000 if it is also located in an area of lower population density.

United States

As well as targeting less developed geographical areas, other benchmarks provide support for targeting certain sectors, such as in the United States' Green Card for Immigrant Investors (EB – 5 Visa). From 21st November 2019, in order to qualify for this type of Green Card, a foreign investor is required to invest at least $1.8 million, or $900,000 in a Targeted Employment Area (TEA), that will benefit the US economy and create at least 10 full-time jobs. A TEA will have an average unemployment rate of at least 150% of the national average unemployment rate and be located in a rural area. This has been updated to include cities or towns with a population of 20,000 or more outside of the metropolitan statistical areas. The EB–5 investor must provide proof that the employment generated is within a designated TEA, which may be in the form of a letter from the state government.

Appendix 1: Supplement to RBI/CBI map[30]

Countries	Access conditions*[31]	Granted status
Bulgaria (RBI)	6.5	5
Bulgaria (CBI)	7	7
Croatia	5	2
Cyprus (RBI)	7	5
Cyprus (CBI)	6	8
Czech Republic	3	6
Estonia	4.5	6
France	2	3
Greece	8	4
Ireland	5	5
Italy	7	6
Latvia	6	5
Lithuania	2	6
Luxembourg	2	3
Malta (RBI)	7.5	6.5
Malta (CBI)	7	8
Netherlands	4	6
Portugal	5	6
Romania	2	4
Spain	6	3
UK	4	5

[30] European Parliamentary Research Service, *'Citizenship by Investment (CBI) and Residency by Investment (RBI) schemes in the EU: State of play, issues and impacts.'* October 2018
[31] NB: where one or more iterations of a scheme is scored, e.g. two RBIs for Malta, average scores were taken.