



SMALL BUSINESS FORUM

Submission from the

WESTERN DEVELOPMENT COMMISSION (WDC)

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1. Background to the WDC

The Western Development Commission (WDC) welcomes the opportunity to make a submission to the Small Business Forum.

Under the terms of the Western Development Commission Act 1998, the purpose of the WDC is to promote, foster and encourage economic and social development in the Western Region (counties Donegal, Sligo, Leitrim, Mayo, Galway, Roscommon and Clare).

The WDC works in co-operation with national, regional and local bodies involved in western development to:

- review and monitor development policy and its implementation in the Region, identify any changes and adjustments needed and make appropriate proposals to government departments and agencies;
- identify and implement development initiatives, or facilitate their implementation by other relevant organisations; and
- assist businesses, social enterprises and projects, including infrastructure provision, by managing the WDC Investment Fund amounting to €34m of exchequer finding.

In its Strategic Statement 2004-2006 the WDC outlined four strategic aims:

1. To foster and promote job creation and the transfer of skills to the Western Region.
2. To contribute to the creation of a quality economic and social environment by highlighting and supporting opportunities for improvements in the Western Region's transport, communications and energy infrastructure.
3. To stimulate the creation of a quality business and community-based enterprise environment across the Western Region.
4. To create vibrant and sustainable enterprise in the rural areas of the Western Region.

More information on the WDC and the WDC Investment Fund can be found at www.wdc.ie

Given the remit of the WDC, this submission is made within the context of the particular conditions which prevail within the Western Region. The Region is characterised by specific demographic, social, economic and infrastructural conditions which impinge upon the operation of small businesses. The particular characteristics of the Region therefore inform this submission and some will be outlined in 3 below.

2. The WDC and Small Business

The WDC has particular concerns in relation to small businesses. There are a number of reasons for this.

- The Western Region is predominantly a rural region with few large urban centres and a considerable number of smaller towns and villages. Sixty-nine percent of the population live outside of population centres of 1,500 or more, and there are only five urban centres with populations above 10,000 (Galway, Ennis, Sligo, Letterkenny and Castlebar).¹ This has resulted in a business structure that largely consists of small and micro businesses.

¹ CSO (2002), Census of Population 2002

- Small businesses play a key role in job creation within the Region.
- Operating the WDC Investment Fund has provided the WDC with an appreciation for the challenges facing small businesses across a wide range of sectors including software, medical devices, tourism and food.
- Many of the infrastructural deficits which the WDC has long been active in highlighting (international air access, telecommunications, roads, rail and energy) are particularly relevant for the competitive position of small businesses across the Region and particularly those located in small towns and rural areas.
- The WDC is directly involved, through a number of rural development initiatives, with small businesses in the organic agri-food, and rural tourism industries. The WDC considers these to be areas of significant potential and relevance for job creation in rural areas, based as they are on local natural resources.

In light of these and other factors, the WDC made a submission to the Enterprise Strategy Group in 2004 entitled *Enterprise & Employment in the Western Region: Issues, Challenges and Recommendations*.² That submission resulted from extensive in-house as well as commissioned research and also the experience gained from the operation of the WDC Investment Fund. The WDC believes that some of the issues raised in our submission to the ESG are also of relevance to the work of the Small Business Forum.

3. Characteristics of the Western Region

As noted above, the Western Region is characterised by a particular set of economic, demographic, social and infrastructural conditions, all of which impinge upon the operation of small businesses in the Region.

All of the counties of the Western Region have a lower average **disposable income** per person than the state average, with Donegal, Leitrim and Mayo less than 90% of the state average.³ These disparities were also highlighted in the recent report by the Combat Poverty Agency that found that persons living in those three counties had the highest risk of consistent poverty, with all other counties in the Region (except Galway) having a higher than average poverty risk.⁴ In addition to the obvious equity and social inclusion problem, these patterns also impact upon the local markets of small businesses operating within the Region.

The **employment profile** of the Region is also distinctive, with a higher than average proportion of people employed in agriculture, construction, hospitality and the public sectors while a lower than average proportion work in financial and business services⁵. This has an impact upon the ability of small businesses in the Region to access specialist services locally.

One of the most challenging issues for the Region is the **inability to retain and attract graduates**. People from the Western Region tend to have high levels of educational attainment, for example of the top nine counties in terms of higher education admission rates, six are located in the region with Leitrim having the highest admission rate at 75%⁶. However a significant

² A copy of this report can be downloaded at http://www.wdc.ie/publications_reports_enterprise.html

³ CSO (2005), County Incomes and Regional GDP 2002

⁴ CPA (2005), Mapping Poverty: National, Regional and County Patterns

⁵ CSO (2002), Census of Population 2002: Volume 5, Table 13

⁶ HEA (2005), A Review of Higher Education Participation in 2003

number of such graduates leave the Region in order to gain employment. In 2002 only 40% of graduates from the western counties gained their first employment in the Region. While this is still a poor figure, there is evidence of improvement as in 1998 only 34% of graduates found their first employment in the Region. The real challenge presented by these figures is the fact that once these graduates leave the Region it is very difficult to attract them back given the employment profile described above. The strengthening and expansion of small businesses in the Region will assist in both retaining and also attracting graduates and this in turn will improve the skill pool from which such businesses can draw.

These and other factors which impact upon the operation of small businesses within the Western Region informed the recommendations in the WDCs submission to the ESG and now this current submission to the Small Business Forum. Some of the issues which the WDC consider to be central to the development of small businesses within the Region are outlined in the next sections.

4. Competitiveness Challenges for Small Business in the Western Region

Ireland's continued economic growth will be driven by our ability to compete internationally in the knowledge economy and deliver increased employment in high skill, high value manufacturing and services. The existence of wide disparities between regions, some of which were highlighted above, is not conducive to achieving such competitiveness. This presents particular challenges for small businesses in the Western Region.

Ensuring a more even spread of economic activity across the country requires that regions, including the Western Region, are in a position to grow indigenous enterprises, as well as attract inward investment (both foreign and Irish). The WDC would like to particularly highlight two elements of competitiveness which face small businesses in the Region: Innovation; and Infrastructure provision.

4.1 Innovation and Knowledge in Small Business in the Western Region

Competitiveness in the new or knowledge economy is based upon innovation and knowledge. This incorporates not only research and development but also other means of knowledge acquisition (e.g. licensing, purchase of software etc.) and innovation. Small businesses face particular challenges in relation to innovation, especially in the area of R&D. Small businesses in the Western Region face additional specific challenges.

The research capacity of the Western Region is linked to its economic structure and its higher education infrastructure. These two are strongly interlinked, as there is a concentration of more research intensive hi-tech industries in the Galway/Clare area which is also the catchment of the Region's only university, NUI Galway, as well as benefiting from proximity to Limerick University. The north of the Region above Galway tends to be more rural in nature and also has a higher dependence on more traditional areas of manufacturing e.g. food processing, textiles, engineering etc., which tend to be less actively involved in research. This has contributed towards the creation of a distinct spatial pattern in the knowledge base of the Region, with knowledge generation primarily concentrated in the south, while the northern part is predominantly a knowledge taker, with of course a number of notable exceptions.

Small businesses operating in the north of the Region do not therefore have access to the same innovation and research environment as those in the south. For any small business, particularly

those involved in the knowledge economy, interlinkages with networks of other businesses within the sector play a key role in fueling innovation. Small businesses can therefore be disadvantaged in terms of innovation due to their location. Support agencies should provide specific additional supports to facilitate businesses in such a situation.

Methods of innovation and knowledge acquisition other than in-house R&D (e.g. licensing, purchase of machinery, software etc.) can prove particularly useful for small businesses. In a Region with relatively limited research capacity and experience, as well as a higher proportion of more traditional type industries, such methods are of particular relevance. Conducting research, including the employment of research staff, may not be a viable or indeed advisable approach for many small firms. The WDCs suggestions in relation to innovation and knowledge are presented in our recommendations in 6 below.

4.2 Infrastructure Provision and Small Business in the Western Region

Given the changed cost structure operating within Ireland, access to infrastructural facilities that are at least on a par with competitors is a key factor in the competitiveness of small firms. Infrastructural weaknesses within the Western Region in air, telecommunications, road, rail and energy, can act as major inhibitors to the establishment and growth of small businesses. The WDC has been very active in highlighting the infrastructural needs of the Region⁷ and while significant progress in addressing some of the infrastructure deficits has been made in recent years, in particular in the area of roads and telecommunications, there are still major gaps especially in direct international air access.

Small businesses operating within the context of relatively poor infrastructure are hampered in achieving competitiveness, particularly internationally. Specific infrastructural improvements which the WDC considers would greatly improve the competitive position of small businesses in the Region are outlined in our recommendations in 6.

5. Financing Small Business in the Western Region – The WDC Investment Fund

Access to finance and specifically venture capital is considered one of the key drivers of enterprise development. Firms in the Western Region, particularly small businesses, have limited access to venture capital funds. There is a significant equity gap in the seed and early development stage funding of new ventures.

The WDC Investment Fund was established by government to address this equity gap, and became fully operational in 2001. Since then, the WDC Investment Fund has been providing seed and venture capital to start-up and expanding businesses in the Western Region on a commercial basis. The WDC is unique in that it is the only Irish state agency that has received European Commission risk capital approval under State aid guidelines. This approval was based on the identifiable market failure within the Region.

This risk capital approval means that the WDC can provide small and medium sized businesses with equity investment for working capital purposes. Working capital is the lifeblood of any business and it is especially critical for start-up businesses and knowledge-based small enterprises

⁷ WDC (2001), State of the West; WDC (2002), Update on Telecommunications in the Western Region; WDC (2003), Jobs for Towns; Western Rail Corridor Conference (2005)

which are unable to secure bank funding as they do not have any assets or track record to offer as security. Some of the benefits for small businesses are that risk capital

- Improves the financial strength and balance sheet
- Increases customers and suppliers confidence in the business
- Increases bankers and other funders confidence in the business
- Assists in leveraging other sources of finance
- Shares risk/reward with the entrepreneur

By sharing the investment risk with business promoters the WDC also encourages a positive culture and attitude towards entrepreneurship within the Western Region. The availability of the Fund facilitates and encourages entrepreneurs to establish new enterprises and to move away from lifestyle businesses to progressive, growth orientated businesses. With only 13 percent of new start-ups in the country established in the BMW region⁸ public intervention is required to aggressively promote entrepreneurship in the region.

There is a strong association between access to finance and innovation. The results of a survey of small and medium sized enterprises⁹ in the BMW region show that they view finance as the primary enabler or stimulator of company innovation. At the same time a major barrier to innovation was the shortage of money and/or lack of funding. Without access to a dedicated risk capital funding mechanism, such as the WDC Investment Fund, a significant number of small businesses would have their start-up or development plans curtailed or prevented.

Further information on the WDC Investment Fund can be obtained on our website www.wdc.ie Specific recommendations in relation to the financing environment for small businesses in the Western Region are presented in 6 below.

6. Recommendations

General

While small businesses across Ireland face a common set of challenges, there are also particularities related to their location. The economic and infrastructural characteristics of a region will create some specific issues for small businesses such as access to: broadband, direct international air services, venture capital, business services and local markets. For this reason, the WDC urges that the Small Business Forum consider **regional differences** during their deliberations and when making their recommendations. The most appropriate support mechanisms for small businesses in the Dublin Region for example may not necessarily be equally appropriate for those in rural areas of the Western Region.

Specific

The WDC makes the following recommendations to the Small Business Forum:

1. Innovation within small businesses is dependent upon access to third level institutes, supportive state development agencies and facilitative technological networks. Small

⁸ The Circa Group Europe, 2004, 'Audit of Innovation in the BMW Region' BMW Regional Assembly.

⁹ The Circa Group Europe, 2004, 'Audit of Innovation in the BMW Region' BMW Regional Assembly.

businesses in the North West of Ireland face particular challenges in this regard. Therefore the development of a technologically-based knowledge network in the North West should be facilitated and supported. This would enhance the area's research capacity and would be based on the existing higher education system, primarily the Institutes of Technology (ITs), and would establish strong links with surrounding enterprises, particularly small businesses. Enhancing the innovative capacity of small businesses in the Western Region north of Galway will be strongly influenced by the development of the ITs in the area and the establishment of strong industry-education linkages.

2. Development agency supports for innovation need to be sufficiently flexible to allow firms to utilise means other than in-house R&D to acquire knowledge. An undue bias in favour of a firm conducting its own R&D can be particularly constraining for small businesses. Supports in this area must be able to facilitate a firm using the most appropriate means of gaining the knowledge required for innovation e.g. licensing, purchasing software etc
3. The following infrastructure improvements would greatly enhance the competitive position of small businesses operating in the Western Region. The new National Development Plan provides an excellent opportunity for investment commitments to overcome the existing infrastructure deficits in the Region.
 - Investment in enhanced direct international air access to and from the Region. Knock International Airport is particularly well located to serve the needs of the northern half of the Region, with Shannon serving the more southern areas. The continued development of both airports should be promoted.
 - Completion of the Major Inter Urban routes serving the region by 2010 and increased service levels on other major radial routes serving the region (e.g. N4/N5). Also increased service levels on cross-radial road routes linking regional locations which will facilitate small businesses in networking with suppliers, customers, third level institutes and other services within the Region.
 - Increased investment/ service on the main rail lines serving the Region e.g. Dublin-Sligo, Dublin- Westport/Ballina, Dublin-Galway, Dublin-Ennis and the reopening of the Western Rail Corridor from Ennis to Sligo. This will ease networking for small businesses and also provide an alternative commuting option for staff.
 - The universal rollout of high quality broadband telecommunications infrastructure.
 - Expansion of electricity supply/transmission capacity within the Region as well as expansion of the gas network to provide a choice of energy supply.
4. There should be continued exchequer support for the WDC Investment Fund to ensure that small businesses in the Western Region have access to seed and venture capital and that the market failure in funding availability to small businesses in the Region continues to be addressed.
5. Ensure that the maximum allowable levels of State Aid are provided to small businesses in the BMW region for the remaining period of its Objective 1 status. This has not been the case

under many support schemes to date and full advantage should be taken of Objective 1 status for the remainder of the period to end 2006.

6. The various tax relief schemes that are available including the Seed Capital Scheme and BES should be more vigorously promoted to small businesses.

The WDC is happy to provide further information or examples in relation to this submission, should they be required. We are also prepared to meet with the Small Business Forum to discuss any of these points in more detail.

*Western Development Commission
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