



Western Development Commission Submission to Seanad Public Consultation Committee

Small and Medium Sized Businesses in Ireland

The Western Development Commission (WDC) is delighted to have been invited to make a submission to the Seanad Public Consultation Committee on the important topic of Small and Medium Sized Businesses in Ireland.

The WDC is a statutory agency which operates under the aegis of the Department of Rural and Community Development (DRCD). The WDC's aim is to foster and promote the economic and social development of the Western Region of Ireland (counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare). A number of its activities have direct relevance to the operation of Irish indigenous SMEs.

SMEs in the Western Region

The Western Region is a predominantly rural region with 65% of the population living in rural areas (outside centres of 1,500). Galway city (79,934), Ennis (25,276), Letterkenny (19,274) and Sligo (19,199) are the region's most significant urban centres, with most of the population living in small and medium-sized towns, villages and rural areas. Trends in the location of FDI investments, especially in the period of the recovery, have shown increasing concentration in Ireland's cities and their hinterlands, although this year has seen greater distribution (e.g. to Sligo) as Dublin's cost of living and housing shortages drive multinationals to seek other locations. Regardless of this however, FDI is only one element of job and enterprise growth and is not the solution for the vast majority of the Western Region. Therefore supporting the start-up, expansion and viability of Irish indigenous SMEs is at the core of both the region and Ireland's future growth.

In 2016 there were 54,410 SMEs (under 250 persons) registered in the seven-county Western Region, and only 50 larger enterprises.¹ **Between 2008 and 2016 there was a 4.3% decline in the number of active enterprise in the Western Region, compared with 3.9% growth in the Rest of State (all other counties).**² Despite the fact that recent years have seen some recovery in enterprise numbers, all counties in the Western Region have fewer enterprises now than they did in 2008. On a sectoral level, a higher share of the Western Region's enterprises operates in sectors which rely on domestic demand (construction, accommodation & food service, other services, wholesale & retail).

SMEs located in the Western Region, including those in small and medium-sized towns, villages and rural areas face some specific challenges:

¹ CSO (2018), Business Demography 2016

² CSO (2018), Business Demography 2016. Changes over time only refer to 'business economy' enterprises which excludes health, education, arts & entertainment and other services.

- Small local markets and distance from larger markets;
- Poor transport connectivity (for staff and freight) with no motorway in the Western Region north of Tuam and often poor quality local and regional roads linking to primary and secondary routes;
- Weaker broadband infrastructure (access and speed) constraining online operations;
- Poor mobile phone coverage for voice calls and data;
- Difficulties in identifying and recruiting suitably qualified staff, especially at senior managerial and technical levels;
- Lack of regional seed and early stage venture capital funders;
- Declining populations in some areas, especially in the economically active (and higher spending) age categories;
- Reduced activity and footfall in smaller town centres with the growth of online retail and improved transport access to larger urban centres offering greater retail and service choice;
- Isolation and lack of networking opportunities;
- For SMEs based around Galway city, traffic congestion can be a major constraint;
- SMEs in Border counties and throughout the Western Region currently face uncertainty regarding the implications of BREXIT. After March 2019 there may be very significant impacts on their businesses. These smaller businesses are most vulnerable, lacking staff and resources to change and develop in response to changes in their commercial relationships with the UK.

Role of the WDC in supporting SMEs

One objective of this consultation is to review the business environment, including the role and effectiveness of State Agencies. The main ways in which the WDC supports Irish SMEs in the Western Region are as follows:

WDC Investment Fund

The WDC Investment Fund provides seed and venture capital and loan finance to SMEs. It also provides low interest loan finance to community and social enterprises. It has a dedicated micro-loan fund for the Creative Industries sector and a dedicated investment fund for the Audio-Visual sector called the WRAP (Western Regional Audio-visual Producers) Fund. It also supports Accelerators focusing on the Lifescience and ICT sectors.

The WDC Investment Fund is an Evergreen Risk Capital Fund established by Government to address market failure in access to finance for enterprises in the Western Region. It is a much needed incentive to encourage entrepreneurship in a region which has historically had a low level of business start-ups. Its local knowledge and extensive network allows it to add value and commercialise investments.

Originally funded by the Exchequer – totalling €32m between 2001 and 2009 – it has been self-funded since 2010 with the returns on investment being reinvested back into new enterprises in the region. **This commercial investment focus and self-funded model is unique among public agencies across Europe.** It works very closely with private sector investors, co-investing with VCs, business angels and business angels’ syndicates and **has invested more than €50 million and funded 150 enterprises** with the following socio-economic impacts:

- Over 5,000 jobs supported
- €63 million paid in salaries and wages annually
- €18 million paid to Exchequer in payroll taxes annually
- 73% of turnover is exported supporting the export led recovery
- €24 million spent on R&D annually
- It has helped leverage over €250 million investment from other investors for enterprises in the region since its inception.

Sectoral EU co-funded projects

Since 2009, the WDC has been actively involved in winning and delivering a number of transnational EU co-funded projects within the Western Region, directly engaging with and supporting hundreds of micro-enterprises and SMEs in sectors of regional advantage. This has included six projects in renewable energy (wood heat, biomass, activated charcoal, innovation, community energy); two projects in creative industries; and four newly approved projects in tourism, blue economy, aquaculture and business mentoring.

Policy Analysis

The WDC undertakes analysis of a range of socio-economic and infrastructure issues of direct relevance to SMEs operating in the Western Region e.g. broadband, energy, enterprise, labour markets. This work involves submissions to national policy consultations and publication of outputs outlining policy proposals.

LookWest.ie

The WDC's LookWest.ie campaign is proactive in highlighting the advantages of a Western location for establishing or expanding a business. LookWest.ie incorporates a Skills Register where people interested in moving to the region can register their skills, information which can be hugely beneficial for SMEs considering locating or expanding in the region but concerned about staff availability. The WDC is currently working with stakeholders to develop an enhanced 'Talent Tool' (see below).

Key Issues for SMEs & Policy Recommendations

1. Access to finance

While the WDC Investment Fund has been a huge success in addressing the funding needs of enterprises in the Western Region, it must co-invest with private sector investors. There is a **lack of regional seed and early stage venture capital funds** which is curtailing the creation and development of the SME sector in the Western Region. If this is not addressed the region will lose projects to Dublin where there is a proliferation of funders.

Similarly the **incentives to encourage private investment into SMEs** must be looked at, as other jurisdictions, in particular the UK, are becoming much more attractive locations for companies looking for investment. The **tax regime in general must be structured to as to incentivise and reward risk taking by investors and entrepreneurs.**

The **WDC Investment Fund** has secured significant revolved funding for reinvestment. It is however curtailed in deploying these funds due to lack of staff and **urgently needs additional investment staff** to fully realise the potential of the Fund for SMEs in the Western Region. The WDC has made

an application to its parent Department for increased staffing resources. It would be invaluable if the Seanad Committee's national strategy proposal document supported this need.

2. Recruitment and retention of suitably qualified staff

Through consultation with employers, recruitment agencies and stakeholders, the WDC has identified an **information gap in data on skills availability** in the region. While there are official statistics on skills/education levels in the region, these do not capture 'potential' talent interested in relocating to the region (including returning emigrants) if suitable job opportunities existed. Official statistics also do not capture a person's mix of skills and competencies that are the key attributes of interest to employers. The WDC has carried out a Market Needs Analysis for the development of a Skills/Talent Register for the region to address this gap. The main findings were:

- **Talent availability is the #1 priority for indigenous/FDI companies** in site location/expansion.
- Employers are struggling to fill higher level management roles and more skilled technical positions (as opposed to entry level).
- Investor companies need robust evidence that suitably qualified staff will be available in the region/area they choose to locate in. This data is not easily available, with no single source providing talent data in sufficient quantities to be useful.
- Companies need confidence in the volume and reliability of the talent data as they will compare different site locations based on availability of talent for their needs.

The overwhelming response from those interviewed was the **need for a tool that could capture the availability of talent in the region and, most importantly, the 'potential' additional talent that could be attracted to the region**. The WDC is currently developing the 'Talent Tool', due for completion by end October 2018. It may be valuable for the Seanad Committee's strategy proposal document to identify this as a useful best practice model in helping SMEs, especially in more peripheral regions and smaller urban centres, to address their recruitment issues.

3. Infrastructure

SMEs in the Western Region can face significant infrastructural deficits which impact on their costs or capacity to run their businesses. The opportunity cost of poor infrastructure is hard to estimate but undoubtedly it can have a significant negative effect on SMEs.

Fast broadband and good quality mobile phone coverage are essential for those in business. In the Government's National Digital Strategy, it is estimated that 70% of online spending leaks out of Ireland. The most recent survey on Digital Health³, noted improvement in that 17% of SMEs are now 'offline', down from 25%. Irish consumers spend over €6.5 billion online but **only 29% of SME websites can take sales orders online and only 25% can process payments online**. Meanwhile 3 in 4 consumers say that they are more likely to purchase from a business that has an online presence.

One of the key constraints is poor internet access and **27% of SMEs without a website say it is because they do not have a good internet connection**. At a regional level the same survey found that 14% of Irish SMEs rate their internet connection as 'poor' or 'very poor' and this figure rises to 25% in Connacht and Ulster.

³ <https://www.iedr.ie/uploads/2014/04/dot-ie-Digital-Health-Index-Q2-2016.pdf>

SMEs located in rural and remote areas will benefit most from the **National Broadband Plan (NBP)** state investment, by enabling them to sustain businesses in rural locations and providing them with the infrastructure to enable or enhance their online sales and other activities. It will be important that **the NBP fibre rollout is as extensive and far reaching as possible** given the long-term implications of the build.

Metropolitan Area Networks (MANs) are a key component of the state's telecommunications assets, funded by the State, to be available on an open access basis. However some providers in regional and rural locations found the cost of accessing MAN infrastructure prohibitive. **The regulation of MANs as State funded and owned infrastructure needs to ensure all providers can access this infrastructure, especially those serving SMEs in rural and regional areas with limited competition.** The DCCA is undertaking a review of the regulation of the MANs.

For many SMEs **poor mobile phone coverage** is a major constraint and a daily challenge in terms of dropped and missed calls. Low data speeds are also a problem, especially in the absence of a better broadband service, as data and 3/4/5G may be seen as a (temporary) solution to rural broadband. **Specific objectives are needed to improve mobile phone coverage in rural areas and the planning requirements to support infrastructural investment need to be developed.** The Mobile Phone and Broadband Coverage Taskforce is examining this and its critical importance should be stressed in the Committee's proposals.

Transport infrastructure is also essential. Many of our towns and villages have suffered from a lack of investment in the infrastructure which connects them locally. Such infrastructure could improve their capacity to support and enhance opportunities for SMEs. In many cases it is road infrastructure that is a priority. **Good quality roads between urban centres** (motorways, dual carriageways or quality national roads) are important, with the focus on linking urban centres, not just on access to the capital city. **Road infrastructure is also essential at a regional and local level**, for delivery and supply, as well as for staff access to the workplace and to other transport hubs. **Rail and quality bus links** are important for staff travel, while **air access** in the regions is essential to international business.

Similarly, energy is a crucial infrastructure, with many SMEs, particularly in manufacturing, requiring reliable **quality energy infrastructure** (both electricity and natural gas). Cost of energy is important, previous work by the WDC⁴ has found that businesses with access to natural gas have significantly lower energy costs than those relying on other energy sources. The Western Region currently has very limited natural gas infrastructure.

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⁴ <https://www.wdc.ie/wp-content/uploads/WDC-PolicyBrief-005-Nat-Gas-Sep11-Final1.pdf> (1.3MB)