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Western Investment Fund
An innovative model for enterprise development in a rural region

Introduction

This presentation will demonstrate how a problem that was impeding enterprise development in the Western Region of Ireland was addressed through a bold and innovative approach - the Western Investment Fund (WIF). This is a model that other rural regions can adopt to encourage and support enterprise development, especially in the knowledge economy. I hope to give you an insight into how we developed this model and its significant achievements to date.

But first I would like to give you a little background into my organisation and the region we operate in.

Western Development Commission

The Western Development Commission is a statutory body charged with fostering and promoting the social and economic development of the Western Region of Ireland.

With a core staff of 15 people we work in four areas:

1. **Policy analysis and formulation** in order to influence national policy for the benefit of the Western Region.
2. **Lookwest promotional campaign** which highlights the benefits of our region in order to attract people and enterprises.
3. Innovative **rural development projects** in the areas of eco-tourism, organic agri-food production, renewable energy and the creative economy, all of which are rooted in the sustainable use of the region's natural resources.
4. **Provision of Risk Capital¹** to support the establishment and development of Small and Medium Sized Enterprises (SMEs) and Social Enterprises (SEs).

In essence we try to harness the natural resources and intellectual capital of the region for the benefit of its inhabitants.

Western Region of Ireland

The Western Region has historically been the poorest part of Ireland, suffering very significant population decline over many generations. The population of the region fell from 2 million or 30% of the national population in 1841, to 700,000 or 18% by 2002. Recently the region has benefited from the country's overall strong population

¹ The terms risk capital and seed and venture capital are used interchangeably.

growth. After a long history of emigration the region is now experiencing substantial in-migration, both from overseas and from other parts of the island.

Economically the region has benefited from the phenomenon known as the Celtic Tiger². However it has performed poorly relative to other parts of Ireland, retaining its Objective 1 status until very recently and continuing to lag behind in productivity terms. In 2004, the most recent year for which figures are available, our region had a Gross Value Added (GVA) of less 74% of the national average. There are a number of factors contributing to this situation including a higher reliance on agriculture, traditional manufacturing and construction within the Western Region.

The Western Region also has a relatively weak urban structure and is predominantly rural with a population density of 23.8 people per km². 80% live outside population centres of 10,000 and our largest population centre, Galway City, has a population of only 72,000. This presents the region with significant challenges to achieving critical mass.

Breaking New Ground

As I mentioned at the outset a problem existed in the Western Region that was impeding enterprise development. This problem was the existence of an “equity gap”. Enterprises had difficulty accessing investment capital to establish or develop their business ideas. The Western Investment Fund (WIF) was established to fill this equity gap by way of seed and venture capital. At that time the WIF was proposed, the late 1990s, seed and venture capital was almost unknown in Ireland and certainly in the Western Region. In fact it was an industry in its infancy in many countries across Europe.

To operate this fund the WDC needed to secure EU State aid approval. This presented the WDC with quite a challenge as the European Commission did not have any guidelines on this type of funding at the time. We had to obtain approval for the WIF under the Regional Aid Guidelines. We were subsequently informed that the experience of approving the WIF helped the Commission in its drafting of the State Aid and Risk Capital Guidelines (SARC) published in 2001 under which the WIF is now approved.

The concept of a public sector regional development agency providing repayable funds was quite unique at the time.

Another unique element of the WIF is that the money it invests is for a company’s working capital needs. It is not tied to specific spends rather its focus is to fund the business so that the promoters can develop it in accordance with the business plan. We work with promoters to commercialise products, often becoming a Non Executive Director on the board of the company.

Twin Objectives

Our fund seeks to achieve a financial return on its investment as well as a social dividend for the region. This social dividend can include sustaining and creating

² The annual percentage change in GDP at constant market prices between 1995-2006 was 7.3%.

employment, provision of social infrastructure and services such as social housing, childcare and elder care facilities, sports and recreation facilities and enterprise space.

Since 2001 the fund has invested €27 million in 75 SMEs and social enterprises. 72% of these enterprises are based outside the major urban centres.

The projects supported have created or sustained over 1,500 jobs, many of them at a graduate level. We expect this to increase as the companies grow. Several of our investee companies have secured strategic alliances or won customers among world leaders such as Boston Scientific, Johnson & Johnson, Bombardier and HP.

Mitigating Risk

While this is a high risk fund we mitigate the risk by operating in line with international best practice. To this end we have engaged investment staff from the private sector; we have put in place a Fund Advisory Panel which is made up predominantly of entrepreneurs and business people; and we apply the investment and valuation guidelines of the European Venture Capital Association of which we are members.

Knowledge Economy

The WDC has invested in a very broad range of sectors, everything from aquaculture to tourism. However a key objective of the WIF is to support the development of companies in the knowledge economy to become world class global players from a West of Ireland base. 80% of the funds invested are in the knowledge economy with ICT (information and communication technologies) and life sciences featuring very heavily.

Leverage effect

The WDC has as a central element of its investment policy to use the WIF to leverage additional investment into our region. We have been very successful in this, achieving a leverage effect of 1:3, for every €1 invested by the WDC another €3 is leveraged into the region from angel investors, private venture capitalists, the banks and other public sector bodies. To date this has meant an additional €100 million has been attracted to the Western Region.

Social Enterprises Support

The provision of loan finance to Social Enterprises is an important aspect of the fund. These enterprises play a very important role in the socio-economic life of communities, providing services that add greatly to their quality of life as well as strengthening social capital and offering employment opportunities, often to people from marginalised groups. In many cases these communities, often in small rural areas, are addressing both public and private sector market failure in the provision of services.

In the vast majority of cases these projects are able to access public sector grant aid. However no grant programme offers 100% funding so communities are left in a position of having to raise matching funding. The commercial banks were very often reluctant to lend to these types of enterprises for a variety of reasons. For example little or no security on offer, a lack of commercial track record, the voluntary nature

of the organisations and the banks' lack of insight into how these organisations operate.

The WDC takes a very different approach. We have an intuitive understanding of this sector. Because there is little or no security on offer we look very closely at the project's viability. It is in no one's interest to support an unviable project. We take the voluntary nature of the organisations as a strength; we understand that no community activist wants a project to fail "on their watch". We also understand that these volunteers bring a range of expertise and experience to bear on the project. We work closely with the organisations to devise a deal structure that suits the needs of the project while ensuring that our loan is repaid.

Our experience to date of funding social enterprises in rural areas has been 100% success. We have no bad or doubtful debts. This has demonstrated the commercial viability of lending to social enterprises. Anecdotally we have seen a change in attitude by the banks towards Social Enterprises. They are much more open to funding these projects than in the past.

Achievements to date

The WIF has had a number of significant achievements to date:

- A diverse portfolio of investments
- Support of the Knowledge Economy
- Over 1,500 jobs created/sustained
- Provision of social and economic infrastructure
- Demonstrate the commercial viability of lending to social enterprises
- Leveraging €100 million into the region
- Reinvestment of revolving funds

Conclusion

I hope that in this presentation I have shown you how an innovative approach to the use of public finances can support the development of commercial and social enterprises in a rural region and commend this model of service delivery to you.