

# Rural Economic Development in Ireland

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Brian Leonard, David Meredith**

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## **Part I. Introduction and Context**

# Chapter 1. INTRODUCTION

Cathal O'Donoghue

## 1.1 INTRODUCTION

Rural areas in Ireland have been severely affected by the economic downturn. Unemployment increased by double the rate of cities, at about 200%, largely as a result of the collapse of the construction sector. The economic development of rural areas, therefore is a critical challenge for the state as we enter economic recovery.

Rural areas thus have been differentially affected by the Economic Crisis. This results from an over reliance on activities based on natural resources, construction, tourism and low value added manufacturing, activities that have been severely affected by the downturn. In addition to the negative impact of the Economic Crisis, rural areas also often exhibit long term structural problems in relation to poor or non-existent infrastructure; inadequate and/or inappropriate labour force skills and competitive disadvantage in terms of attractiveness for new investment due to the pull from agglomeration benefits in urban areas.

Rural economic development is, therefore, of major concern in Ireland and elsewhere in Europe. This is reflected in the importance placed on it within European policy and within recent studies by the OECD. The EU are currently reforming the Common Agricultural Policy (CAP), which has a major Rural Economic Development programme as part of its Pillar 2. Since the late 1980s, academic and policy thinking on rural economic development has shifted towards a post-productivity paradigm with contemporary policies increasingly focused on the promotion of bottom-up governance models that seek to promote diverse high value added and innovative economic activities as the basis for the economic development of rural areas (Future of Rural Society, CEC, 1988, 2006; Ray, 1999; OECD, 2006; Tovey, 2006; CORASON, 2009). This paradigmatic shift recognises that rural economic development is particularly challenging as it is multi-faceted and multi-sectoral, spanning traditional agricultural policy, enterprise, rural and regional development, environmental policy and spatial policy. Thus issues and appropriate responses are cross-cutting touching many areas of public policy.

Against this background, this book presents a case study of rural economic development in Ireland in the context of the ongoing economic depression. Ireland is an interesting case study as it had the largest fall in GDP per capita as a result of the depression since Q4 2007; approximately forty percent of its population still live in rural areas; unemployment increased by 192 per cent in rural areas compared to 114 per cent in urban areas and it was the first of the “bail-out” countries to exit an IMF-EU support programme.

Recognising these specific features, the Irish government established the Commission for the Economic Development of Rural Areas<sup>1</sup> (CEDRA) to undertake a public consultation and research exercise and to make recommendations to government for a medium term rural economic development strategy. Despite an excellent 1999 White

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<sup>1</sup> See [www.ruralireland.ie](http://www.ruralireland.ie)

Paper, construction effectively became the rural development strategy during the latter Celtic Tiger Years. However, this strategy proved to be unsustainable, particularly for rural areas who were more heavily reliant on this sector. CEDRA comprised a voluntary Commission with experts in economic development, chaired by Pat Spillane, supported by Teagasc, The Department of the Environment, Communities and Local Government and the Western Development Commission. The Commission was established in October 2012 and will delivered its final report to government in November 2013 with an expected launch of the strategy in the Spring 2014. CEDRA undertook an extensive public consultation exercise with nearly 100 meetings including regional meetings, village hall meetings, stakeholder meetings, expert focus groups and meetings with business leaders.

### *Context*

Rural Ireland is defined for this report as all areas located beyond the administrative boundaries of the five largest cities. It includes large, medium and small towns along with the open countryside. It is important to recognise the value and challenge of the diversity of the open countryside and also that all small and medium size towns are not the same and they do not have the same potential. Furthermore, the open countryside, small towns and larger urban centres are interconnected through a variety of relationships (rural-urban, urban-rural, and rural-rural) some of which extend beyond the State.

Despite a period of rapid urbanisation and several major growth spurts over the past forty years, Ireland remains a comparatively rural country with between 42% and 57% of the population living in rural areas depending upon the definition of rural (Meredith, 2007).<sup>2</sup> Rural living confers particular advantages in terms of better quality of life for individuals and communities and the emergence of rural heritage and tourism sectors along with other differentiated economic activities.

About a third of the population of Ireland live in the capital city of Dublin with the remainder spread across significantly smaller cities (the second biggest, Cork, is less than 20% of the size of the capital). Economic activity is highly concentrated in the main urban areas, even more concentrated than for population as the Gross Value Added (GVA) per capita is higher in the areas with the highest urban concentration). Table 1 describes the regional distribution of GVA per capita in relation to disposable income in 2011. As can be seen Dublin has the highest GVA and Disposable Income per capita followed by the South West, where Cork is located.

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<sup>2</sup> 98% of the land area of Ireland is classified as rural under the official classification that has remained constant since 1898, while under the OECD definition, where rural space is defined as those areas with a population density of less than 150 per km<sup>2</sup>, 96% of the land area is rural (Meredith, 2007).



**Table 1.1 Growth in Gross Value Added and Disposable Income per Capita 2011**

	Gross Value Added (GVA) per person at Basic Prices (Euro)	Indices of GVA per person at Basic Prices (State=100)	Disposable Income per Person (excluding Rent) (Euro)	Index of Disposable Income per Person (State=100)
Border	18571	58	15996	89.1
Midland	17777	55	16432	91.5
West	26933	84	16637	93.6
Dublin	47539	148	19465	111.9
Mid-West	25982	81	17336	97
South-East	22610	70	16846	94.2
South-West	42311	131	17645	99.3
Mid-East	21714	67	17719	100.2

Source: CSO – County Incomes and Regional GDP 2011.

While regions converged prior to 1979 (O’Leary, 2001), there has been a divergence in regional GVA as agglomeration forces have seen a greater concentration amongst the more productive areas (O’Leary, 2007) particularly driven by differential manufacturing productivity (O’Leary, 2002). The location of industry, dependent in part to the degree of urbanisation, is important. Boyle et al. (1999) argue that “the bulk of the significant interregional variation in output per capita can be explained in terms of persistent productivity differences across the regions... due to “within” sector effects and the inter-regional variation is dominated by the industrial and services sectors... these significant productivity differences are closely related to the degree of urbanisation in the regions and in particular to the increasingly evident preference of multinational companies (MNCs) to locate in such centres.”

This has also been recognised by Boylan (1996). Morgenroth (2007a) attributes the growing disparity in the education level of local labour markets as contributing to the divergence in output.

Table 1 indicates that income, however, is less concentrated than output. This may be due in part to the urban areas having a concentration of multinational firms who expatriate their profits (Egeraat 2006; Egeraat, C. van, and D. Jacobson. 2005, 2006) and also due to significant commuting, observed in Census data. Unfortunately, regional data is not available yet for a period during the economic downturn, so it is not possible to assess the degree to which regions have been differentially affected. Regional disparities have also been reduced via the redistributive nature of the tax and transfer system (Morgenroth, 2007b). However transfer policy can have indirect effects, so that (for example) rural development policies may not necessarily result in rural residents accruing the benefit (Tovey, 1999). These inter-regional differences in income and economic activity manifest themselves in differential spatial poverty (Nolan et al., 1999) social exclusion (Jackson and Haase, 1996; Haase, 1999), low income (Frawley et al., 2000), affordability of housing (Heanue, 1998) and differential access to public services (O’Mahoney, 1985; Storey, 1994; O’Shea, 1996; Morrissey and O’Donoghue, 2010).

However, the challenges faced by rural areas are substantial, ranging from poor or non-existent infrastructure; lack of employment opportunities and the distinctive needs of rural-based enterprises. Rural Ireland is not a homogenous area with a single shared experience nor possessed of a common economic, social or cultural character,

but rather, regions vary from those close to urban areas, which are rapidly expanding, to more disadvantaged areas in remote locations (National Development Plan, 2007). Meanwhile, other remote areas have experienced growth in tourism activity, inward-migration and the development of micro-enterprises. As agriculture has declined in importance, rural areas have become increasingly reliant on other sources of income. However, in the depression many of the sectors such as construction, retail and personal services, which had provided much needed rural employment in the recent past, have shed jobs in significant numbers. Thus the rural economic development challenge is not only to support farming and other traditional rural-based economic activity, but also to foster economic diversification and development in rural areas.

This book reports the results of CEDRA's research and public consultation exercise which aimed to:

- Examine the key actions needed to ensure that rural areas, to the maximum extent possible, will contribute to, and benefit from, economic recovery.
- Examine the ways in which rural areas can contribute to, and benefit from, national economic development strategies
- Inform the prioritisation to be made by Government and other stakeholders in implementing future actions

The objective of the book is to explore

- The Economic, Social, Policy and Environmental context of rural areas
- The differential impact of the economic depression across the country
- Opportunities for economic development in relation to rural resources, local demand and export sectors
- The support infrastructure and governance changes necessary to ensure rural economic development.

The primary contribution of our research is to present a multi-dimensional, multi-faceted approach to rural economic development in a country that has experienced a significant crisis. In doing this, the research recognises the shifts that have occurred in the economic structure of rural areas in terms of the changed relative importance of sectors, and the increased interdependency between urban and rural areas. The need for a rural economic development strategy to build upon all rural resources, (physical, cultural and human) is recognised. Thus our research aims to undertake a comprehensive assessment of barriers to economic transformation post crisis and to analyse the potential impact of a series of reform measures to achieve this potential.

## **1.2 SOURCES OF POTENTIAL ECONOMIC GROWTH**

In preparing this book and in defining the work programme of the CEDRA report, economic development was considered in three dimensions

- Economic Development based upon rural resources
- Economic Development based upon export sectors
- Economic Development based upon domestic demand

Rural resources are those physical, human and cultural resources on which industries are directly based. These include Agriculture, Marine based industries, Rural Tourism, Natural Resource and Cultural based industries. While not necessarily the

largest sectors in rural areas, they are an area of comparative advantage relative to urban areas. In chapters 3, 8 and 12 we highlight however that these industries have been declining in employment over time. The challenge therefore is to extract more value and employment from these sectors.

While many of these sectors have been in decline, there are current opportunities for growth in these sectors. The abolition of milk quotas in Agriculture which have stymied growth in the agricultural sector will be abolished in 2015. Given the natural comparative advantage in Ireland for milk production, the farm level and processor level have significant opportunities for economic growth and job creation. While the Agri-Food sector is growing rapidly, there are lots of opportunities for the Food SME's to grow. However, given their scale, they find it difficult to export.

Similarly despite national tourism growth, there remain many underexploited tourism opportunities in rural areas. There are many examples of this requiring a dedicated national rural tourism strategy and improved tourist products. There are a number of national strategies currently being implemented to facilitate the generation of economic activity in other rural resource based sectors such as the marine sector, the energy sector and the creative sector.

The largest economic sector within the rural economy is the sector servicing domestic demand, which relates to the shops and businesses that exist throughout the towns, villages and countryside in rural areas. We highlight in our research that small and medium sized rural towns have been most affected by the economic downturn. This is due to a higher reliance on construction employment during the boom which collapsed during the economic crisis. This resulted in a greater fall in employment and differentially larger impact on local expenditure. It has also resulted in the smallest towns having twice the consistent poverty rate of the cities.

The towns with the biggest hit however are those towns that are economic centres for more peripheral areas and whose economic strength is both influenced and is influenced by the economic activity in their surrounding rural hinterland. These towns have had a relatively coverage in existing national policy strategies. A key part of the CEDRA recommendations were policies such as a Rural Towns stimulus to target policy to facilitate an economic expansion of rural towns and facilitate greater domestic demand in rural areas.

The exporting sector has done relatively well over the course of the economic crisis. Increasing the economic impact of this sector in rural areas requires strategies to increase the share of rural dwellers who get jobs in these largely urban and often foreign direct investment based sectors or to make rural areas more attractive for inward investment.

Increasing employment by rural workers will require them to have the right skills and for National Skills Strategies to recognise different needs across the country. Making rural areas more attractive for inward investment requires improved infrastructure and through a higher focus placed on rural niche investment by state agencies. Broadband was raised as an issue in all public meetings. The existence of broadband is not sufficient, the quality however is important for businesses to be able to explore online opportunities.

### 1.3 STRUCTURE OF BOOK

Reflecting the potential sources of growth and institutional supports, this book is divided into 5 parts.

- Part 1 provides some initial context and justifies the structure of the book.
- Part 2 undertakes research in relation to economic potential in relation to rural resources
- Part 3 analyses economic issues relating to the domestic demand based sector
- Part 4 analyses issues in relation to targeting the export sector
- Part 5 examines entrepreneurship and the institutional supports necessary to support this sector.

#### *Part 1 Context*

Chapter 2, explores changes to rural populations and the associated implications for the future development of rural communities, this chapter assesses the evolution of settlement patterns, their demographic drivers and impacts on the structure of the labour force during 1991 and 2011. The research is grounded within the growing body of literature concerned with rural – urban linkages. The analysis highlights the substantial and spatially diverse impacts associated with population and settlement change over the 20 years in question. This period covers the entirety of Ireland's economic 'boom' and subsequent collapse. It allows for a detailed analysis of how rural areas were implicated within broader economic trends through an evaluation of the changing composition of their workforce. The changing relative importance of industrial employment is significant as it points to the decline of parts of the traditional rural economy and captures the growing importance of mainly public sector employment in the Professional Services category to rural areas. Further to this, it highlights the influence of proximity to cities and towns on the industrial structure of employment, thereby providing an indication of the general concentration of certain sectors in particular places. Finally, the analysis demonstrates that the economic collapse has not been experienced in the same way in all rural areas or by all groups in the workforce.

#### *Part 2 Capitalising Rural Resources*

The Agri-Food while historically synonymous with the national image of Ireland had a relatively lower visibility during the Celtic Tiger years has had an increased image in the public consciousness in the era since the beginning of the Great Recession. While the sector had one of the largest hits in the first years of the crisis, particularly in 2009, the sector has seen a resurgence in subsequent years, outpacing growth, particularly in exports of most sectors. In chapter 3, we attempt to describe the main characteristics of the sector, analyse recent trends, discuss recent growth strategies and evaluate the impact of recent policy reform. We describe structure of the industry and consider economic issues associated with the sector. We discuss in particular the potential for the expansion of the dairy sector after the abolition of milk quota in 2015 and also the potential for the growth of the speciality food sector. Chapter 4 describes the issues and potential for development in the speciality food sector.

The forestry sector, described in chapter 5, plays an increasingly important role in rural development, not only through the diversification of farm income but also through the provision of rurally based employment. Both of these developments

contribute to the stabilisation and viability of rural communities. Forestry has been a relatively fast growing land use in rural Ireland off a very small base of about 1 per cent at independence in 1922, rising to around 10 per cent. Despite the negative impact of the recent recession, the forestry and forest products sector exhibit strong potential for future growth. This chapter examines the history of the Irish forestry sector, the main policy drivers of the sector, the overall structure of the forestry sector and sub-sectors, potential areas for future growth and its potential economic contribution to rural economic development.

The desire to achieve an environmentally sustainable, cost-effective and secure electricity supply has motivated the deployment of renewable electricity generation technologies; the focus of chapter 6. Renewable electricity generation is cited as being environmentally sustainable as Greenhouse Gases (GHG) are not emitted during generation.. Renewable electricity is potentially cost effective as, although renewables are currently more costly than fossil fuel-based generation, a greater proportion of wind in a generation portfolio reduces electricity price vulnerability due to fossil fuel price uncertainties. Furthermore, if rising trends in international fossil fuel markets continue, renewable generation may comprise an important component of a cost-effective future generation portfolio. Finally, wind is an indigenous resource, reducing reliance on imported fossil fuels and thus aiding security of supply. It is the purpose of this chapter to outline the development of the Irish renewable energy sector as it evolves to achieve these goals. In doing so, this chapter gives a descriptive insight into the resultant economic impacts at the local, national and international level. Indicative estimates to quantify key impacts are sourced from the literature where possible. It is acknowledged that these are approximate and reference is made to future work being carried out to provide more robust estimates of these effects. This discussion will focus on onshore wind deployment as current forecasts suggest that wind will deliver 90% of Ireland's total renewable electricity requirement in 2020, with no considerable investment in fossil fuel-based capacity envisaged during this time. This chapter outlines the development of the Irish wind energy sector as it evolves to achieve energy and environmental policy targets. Both the existing and potential future levels of deployment are discussed, along with the potential for establishing wind capacity in Ireland for direct export to the UK. The literature estimating the cost of wind is reviewed to understand the potential economic impact. Input cost breakdowns are used alongside local and national supply chain information to give a descriptive insight into the degree to which aggregate impacts may be retained in the local and national Irish economy. The costs associated with wind are also discussed.

In chapter 7, the creative economy is discussed. The creative economy is the collective term for media, arts and other related sectors as 'creative industries' and are recognised for their potential impact on both the local and national economy. It is a sector that has been recognised as a potential driver of new economic development in rural areas. It forms one of the pillars of the Irish government's policy document entitled "*Building Ireland's Smart Economy*" (2008). This chapter characterises the structure of this industry in rural Ireland. It undertakes a SWOT analysis in relation to it's potential. It draws upon research to make some recommendations to facilitate the development of the sector including facilitating export growth and domestic sales, improving the access to finance, identifies infrastructure gaps, suggests enhanced support structures to improve skills and networking opportunities.

As an island nation, the marine environment is an important context for much economic activity across a variety of sectors in Ireland from fishing to tourism to oil and gas exploration, to trade and marine transport as well as associated support, service and technology sectors. In chapter 8, the structure of the Ocean and Coastal Economy is described, where the former reflects the economy that depends upon the sea and latter reflects the economic activity that occurs adjacent to the sea. The study draws upon the CEDRA consultation process outlining opportunities and obstacles to the increased economic development of these resources.

Tourism is one of the main potential drivers of rural economic development; described in chapter 9. However the sector has been in relative decline in rural Ireland over the past decade and a half. During this period, while tourism numbers doubled in Ireland, rural tourism numbers declined in absolute terms. In this chapter we consider the definition of rural tourism and the requirements of modern rural tourism offerings. We describe the economic structure of tourism in rural Ireland. We also undertake an international case study drawing upon the experience of rural tourism in a region of France and drawing lessons for a rural area in Ireland. The study draws upon the CEDRA consultation process outlining opportunities and obstacles to the increased economic development based on tourism potential.

### *Part 3 Local Economy*

Small and medium businesses contribute significantly to the Irish economy and can potentially play an important role in returning Ireland to sustainable economic growth. Chapter 11 considers the potential impact business can have on the local economy in rural areas and consider factors that can make these business a success. Drawing upon a special survey collected in relation to the local economic interactions between businesses, we describe the spatial structure of outputs and inputs of different types of businesses. This enables us to consider the relative strength in terms of the contribution of different types of industries on their local economy.

The objective of *chapter 11* is to understand the spatial variation in consumption patterns across Ireland and to examine the impact of the financial crisis on household consumption and savings patterns at local level. Specifically, the significance of the real estate bubble crash and the resulting increase in precautionary savings is considered together with an assessment of the importance of small towns as consumption centres. Spatial household consumption patterns have not been analysed in Ireland previously, thus this research provides a useful contribution to the more general domestic demand debate arising from the decline in consumption experienced in Ireland since the onset of the financial crisis in 2008. We find that nationally household savings rates increased substantially, however this effect was magnified in small towns as a result of the more volatile economic situation. This has had significant consequences on local demand and is one of the reasons for the sharp rise in unemployment in these towns.

*Chapter 12* considers social inclusion issues in relation to local economic development. The primary objective of economic policy is to improve the welfare or wellbeing of the population and that furthermore, that economic policy should strive to improve fairness and social inclusion within society, particularly in relation to lowering the rate of poverty. The national policy approach to tackling poverty and social exclusion is set out in the National Action Plan for Social Inclusion 2007-2016.

The plan sets out a comprehensive programme of actions to reduce poverty and provides a strategic framework to facilitate greater co-ordination and integration of structures across Government. This plan was developed against the context of the national economic crisis that has fundamentally reshaped Ireland's fortunes and prospects. This chapter provides an evaluation of the impact of the economic downturn on the rural population and assesses the implications for the achievement of social inclusion targets. It highlights in particular some of the spatial concentrations of poverty and social exclusion. It also highlights the concentration of jobless households in rural towns.

While there has been a significant amount of research on urban areas or rural areas, there is been a relative paucity of research on small and medium sized towns. Chapter 13 attempts to address this issue in more detail. The distinction between urban and rural is complex, with the demarcation between the two often being blurred in reality. Although a substantial proportion of the population live in small and medium sized towns, the development of these towns has had a relatively minor position within national planning and development strategies. In this chapter, we consider the characteristics of successful towns. We undertake an analysis of the demographic and economic structure of towns of different sizes and locations. We develop an index of town economic strength and analysis the characteristics of strongly and weakly performing towns. We conclude by proposing policy interventions to improve the economic situation of small and medium sized towns.

#### *Part 4 Facilitating Inward Investment*

Chapter 14 describes the structure of regional labour markets. The chapter describes the structure of sectoral employment and business size by region. It classified employment and vacancies by occupation. It undertakes a detailed spatial analysis in relation to recent labour market changes in relation to vacancies, job announcements, recruitment and potential recruitment by sector, reflecting growth and declining sectors. It also analyses labour market supply on a regional basis and active labour market interventions. It concludes by making recommendations for regionalised employment creation growth.

In a country with a small domestic market such as Ireland's, the development of exports is the key to achieving high living standards. The Irish government has relied principally on inward investment by foreign firms as the principal means of achieving this since the late 1950s. Generous capital grants, tax incentives and the availability of suitable labour have been the principal means employed to attract inward investment. Chapter 15 describes the spatial trends in foreign owned firms and considers the impact of public policy in attracting these businesses and in particular in relation to the location of these businesses. The chapter uses a Forfas survey of employment in firms which have received assistance from one of the Irish government's enterprise promotion agencies (IDA, Enterprise Ireland, Shannon Development, Údarás na Gaeltachta) to analyse spatial trends in employment in foreign firms in some detail for the period 2001-2011.

Any examination of the rural economy needs to understand the nature and extent of commuting from rural areas. The purpose of the research in chapter 16 is to provide some sense of the scale of one of the more important rural-urban linkages; that of commuting to work, based on data from the most recent Census (2011). The particular

focus here is on commuting from rural areas to work in urban areas. The analysis undertaken will help our understanding of the extent to which rural dwellers commute to and avail of employment in urban centres. Much discussion of rural-urban linkages takes place in the absence of clear definitions of what is considered urban and rural and often in the absence of a quantitative evidence base. Of course there are issues regarding what constitutes rural areas and urban areas, and there is a case for several categories within each based on the 'degree' of rurality. For example, many would regard smaller towns as rural towns, rather than urban centres and there are differences between remote rural areas and those close to urban centres. This more nuanced categorisation is evident in some of the maps included. In providing a quantitative measure of the levels of rural commuting, some definitions of rural and urban are required and spatial areas need to be demarcated.

Much of the employment nationally is located in cities, with the five principal cities accounting for 45 per cent of all job locations in the country. Recent direct employment growth supported by the state agencies has also been concentrated in the larger cities. Chapter 17 focuses on Rural Commuting and Gateways and Foreign Direct Investment. While part of the role of the gateways is to accommodate and attract foreign investment, the evidence indicates that an increasing concentration of foreign direct investment is in the very large centres especially Dublin and Cork. There is a perception in many regional and more rural areas that this source of employment creation, which is often well paid and highly skilled, is beyond reach. The policy priority is to secure inward investment for Ireland in the first instance and the need to ensure a more balanced spatial distribution is relegated as a policy objective. Other reasons offered for this concentration of investment are that the scale of the investment can only be reasonably accommodated in the largest cities, particularly because of labour supply issues and infrastructural capacity. It is not clear that agency assisted employment should be so concentrated. For example, industrial policy in the 1970s/80s involved a policy of dispersed investment with the construction of over 130 'advance' factory units in small population centres of up to 5,000 and including many centres of population of 1,500 – 5,000. Employment in foreign firms was widely dispersed. The particular focus of this chapter is on those rural dwellers who commute to work in the nine National Spatial Strategy (NSS) gateways. The extent to which rural dwellers commute to work in gateways and the profile of these workers is set out. The importance of rural dwellers to the labour supply of gateways is examined as well as the importance of gateway employment to many rural dwellers. Three case studies of rural dwellers commuting to IDA business parks in the gateways of Galway, Sligo and Waterford are presented.

### *Part 5 Supporting Enterprise Development*

In part 5, we turn our attention to supports necessary to support enterprise development.

Chapter 18 argues that the development of enterprise and the level of entrepreneurship in remote rural communities will be influenced by 'intangible' social and cultural factors as well as purely rational economic factors and the existence of conventional enterprise supports. This chapter focuses on the role of community attitudes and catalysts for change, exploitation, development and marketing of local resources, skills provision and development of networks and clusters.



Chapter 19 argues that supports for rural SME's are vital due to the unique characteristics inherent in small firms operating in rural Ireland. The characteristics present both opportunities and challenges for SME growth and these are first outlined. The chapter then presents an overview of the current support infrastructure in place for rural enterprise expansion, using case study evidence from the craft microbrewery sector as an exemplar. Based on this analysis, policy recommendations including the development of network capability, changes to current managerial training and support development initiatives, in addition to fostering a spirit of entrepreneurship are presented..

Chapter 20 reviews the research evidence on entrepreneurship and identifies how rural areas might support entrepreneurship. Drawing on data from the Global Entrepreneurship Monitor for Ireland, the chapter outlines the different levels of entrepreneurial activity in Irish regions. The recommendations derived from the analysis suggest that in some regions the focus of policy and programmes might initially be on increasing levels of entrepreneurship, while in other regions, where there is a higher level of entrepreneurship, the focus of policy and programmes might be on increasing the impact of entrepreneurship.

The starting point of chapter 21 is that there are many types of rural areas – each with their own distinctive development needs and resource potentials. Consequently, enterprise development strategies need to avoid a 'one size fits all approach,' and must take into account the differences within and between rural areas at the regional and sub-regional level. The chapter considers the optimum scale for the delivery of interventions and provides case study evidence and independent research on territorial development.

The starting point for chapter 22 is that social enterprises have been recognised both nationally and at EU level as having an important role in rural economic recovery. This chapter explores what constitutes a social enterprise and what supports currently exist for social enterprise at both EU and national level. The chapter examines the current role, size and scale of social enterprises in rural Ireland and provides some practical examples of the different types of social enterprises operating in rural locations. It concludes with some key policy recommendations to support the creation of additional social enterprises and associated employment opportunities in rural areas.

Chapter 23 focuses on barriers to enterprise growth in rural areas. An important aspect of promoting the economic development of rural areas is an examination of what barriers and obstacles face businesses currently operating there and which may militate against the location of more enterprises establishing in rural areas. Are there barriers specific to rural enterprises or are they similar to those faced by enterprises located in urban areas? What do businesses require to establish, operate and compete effectively from a rural location? This chapter examines some of the research evidence and identifies some of the obstacles faced by rural enterprises in an Irish context. First, there is a brief discussion on rural development theory which provides a framework for the rest of the chapter. The key factors of human capital, entrepreneurship, innovation and infrastructure have been identified as key drivers for growth. Barriers under each of these headings are set out along with the factors which support rural enterprise growth.

## **1.4 CROSS-CUTTING POLICY**

While much of this book focuses on micro-economic issues associated with sectors and locations or in relation to specific institutional responses, achieving rural economic development also requires an over-arching macro or coordinated response.

It is not a simple task, but a complex cross-cutting policy requiring solutions in both the public and private sectors and within government involving many public agencies. Rural economic development is multi-faceted, involving sectoral strategies such as agriculture, tourism, marine, industry and services, capacity building strategies in education and skills, as well as infrastructural strategies.

Taking the situation in relation to off-farm employment as an example, about two thirds of farm families require off-farm income sources to remain sustainable. From the mid-1990s, off-farm employment by farmers increased by about 50%, however this was wiped out in the crash. While recent gains in agriculture based incomes have had an impact on the most commercial farms, solutions to the wider income problem rest require broader solutions; relying not only on sectoral agricultural policy, but also broader skills and economic development strategies to find employment for these families. The situation for non-farm families is no different.

Existing strategic frameworks such as the National Spatial Strategy and the National Development Plan had relatively little to say about rural areas. The most substantial recent strategy for rural economic development was the 1999 White Paper, which was side-lined as construction effectively became the rural strategy during the last decade. This proved to be unsustainable, particularly for rural areas that were more heavily reliant on this sector.

A critical requirement for achieving economic growth in rural areas is the need for improved coordination and integration of public activity, where greater networked governance and partnerships will be necessary to achieve cross-cutting goals. This is particularly a challenge in an era of fewer and declining resources, where pressures are if anything moving away from collaboration with increased pressure on delivering core business and increased competition for resources between organisations.

Complexity associated with challenges like rural economic development puts pressure on traditional hierarchical forms of organisation of public service delivery. It poses problems for existing silo based governmental structures as the challenges lie outside the boundaries or capacities of individual agencies and traditional bureaucratic hierarchies. Coordinated networked governance based structures can enable organisations to achieve common goals by pooling resources and skills.

Currently however there exists no structure within Government to coordinate cross-cutting rural economic development. As a result it has been low priority for over a decade. It is necessary therefore that appropriate governmental coordination structures be put in place and in particular that a specific Government Minister have responsibility for the coordination of rural economic development.

A new department however is not a priority. While there has been a Department for Rural Affairs, its focus was on operational measures rather than the strategic coordination of mainstream economic development and infrastructure provision,

which will have more impact than specific schemes. Importantly also, a legislative underpinning would provide a future legacy for this strategy ensuring that rural economic development would remain a priority for future governments too.

However coordination and collaboration is required not only at Ministerial levels, but also at different levels of government at regional and local levels.

- At the regional level a more proactive role by enterprise agencies in attracting small scale and niche FDI to rural areas and to increase the export share of existing businesses.
- At the local level, the development of Rural Economic Development Zones (REDZs). It highlights the need for local plans to be developed to identify and specify the needs and opportunities of the zone, identify supports that both enterprise and labour require and provide evidence to support their plan.

To facilitate objectives at the local level, the establishment of a targeted rural towns stimulus package aimed at revitalising those towns that had been most affected by the downturn.

The establishment of Local Enterprise Offices (LEOs) as part of the *Putting People First* strategy, acting as a one stop shop for local enterprise development was supported by the commission. A greater role for local government in economic development was regarded as very important to the success of the strategy. However the report recognised the important role of other agencies such as the local development companies in this process.

However it was recognised that local authorities increased role in development may require some cultural change. Economic development requires more risk taking and a more proactive approach than regulatory and service provision roles; development is a proactive activity, requiring activation and capacity building. Within appropriate accountability frameworks, this added risk and proactivity needs to be supported and encouraged not only by development officers themselves, but also by their line management structures.

Specifically regulatory and administrative frameworks should be proportionate, agile and customer focused and a particular effort should be made to ensure that bodies and agencies involved in ensuring regulatory compliance are working in an integrated way in order to lessen the administrative burden on business.

In promoting rural economic development, an integrated partnership based approach requires the engagement and collaboration of all relevant agencies. Socio-economic committees envisaged by *Putting People First*, will have a role in this coordination. A challenge for all agencies concerned will be to make this work. Previous coordination structures, the County Development Board, were sometimes ineffectual.

The challenge for effective coordination will be to focus on issues of common interest to agencies. Specific action focused sub-groups may be a way of achieving this. Take for example the off-farm employment issue cited above. While Teagasc historically had socio-economic advisers in every county in the country, who could work on such issues, erosion in the numbers of knowledge transfer advisers by 40% since the recruitment embargo in 2008 has seen this role diminished. For Teagasc to be able to facilitate its 45000 clients in the area of off-farm employment, it needs more than ever

to work with partner agencies to provide access to skills and employment opportunities. Teagasc are developing a programme, called Options plus where they will partner with skills, employment and enterprise agencies to deliver necessary services to farm families. Thus tighter resources can also have the effect of encouraging cooperation as a result of necessity.

While the state can provide a positive framework for economic development, it is local businesses and communities that primarily generate economic activity. Throughout the report there is an emphasis on skills development and capacity building. These capacity gaps were highlighted in the report and are a fundamental building block for bottom up or community led development.

A challenge of any matrix management structure is the balance of influence between those who have the budgets and line responsibility in the traditional structures and those that have cross-cutting programmatic responsibility. Most of the financial consequences of the CEDRA report are primarily within the traditional pillars such as the cost of improvements in broadband, the cost of a small towns stimulus programme, skills training and development initiatives. The purpose of the cross-cutting dimension is primarily via coordination activities. The challenge of course is to give this dimension teeth; particularly in the shape of influence over spending decisions.

CEDRA in their report recommended the establishment of Rural Innovation and Development Fund with the aim of supporting small scale innovative initiatives. This is useful in testing out ideas via the capacity to run pilot programmes. However the scope is relatively limited. It was felt that larger scale cross-cutting funding programmes would mean that spending would involve transfers between voted expenditure lines; effectively the silo based funding model is hard wired into public financing rules.

However an example of a flexible and targeted funding model, is the way in which research programmes are funded in Ireland and in other countries. It is quite an agile mechanism to achieve particular outcomes, without creating long term funding streams. Priorities can be changed relatively quickly and the research sector has proven to be quite innovative in responding to different research directions. As a result many of our leading scientists are in effect project managers, bidding for and managing projects based upon hired staff and PhD students.

This model is particularly applicable to cross-cutting rural economic development. In effect this is the route through which many existing programmes are delivered through arm's length agencies like local development companies. It is a potential model that could also apply to programmes run by state agencies. However to realise this cross-cutting capacity, public sector organisations would have to be given the authorisation to take lead roles in delivering cross-cutting objectives in addition to dealing with public finance rules.

In any case, serious rural economic development has been off the agenda for the bulk of a decade. Given the scale of the impact of the economic crisis on rural areas the commission of the report by government is timely. However the challenges are significant for public agencies to change their way of working to address the gaps

identified. It will require many of our public agencies to work in partnership to show the leadership required to solve this complex problem.

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## **Chapter 2. CHANGING RURAL IRELAND**

David Meredith, Mary Gilmartin

### **2.1 INTRODUCTION**

In the period 1991 – 2011 Ireland experienced a number of interrelated social and economic developments. The number of people living in the country increased, the labour force grew as did the number of people, particularly women, in employment. All of these developments impacted, one way or another, on the evolution of rural areas. Some rural areas benefited substantially whilst others have been heavily exposed not just to the consequences of the recent economic downturn but to longer run trends that have combined to erode their viability. Whilst the changes themselves are significant, understanding the processes of change and their implications allow for better planning for future growth and development. Understanding the spatial patterns arising from these processes provides insights that lead to a different way of viewing rural areas and their communities; rather than seeing them as somehow separate and distinct from economic development processes, exploring the patterns of change over the course of the past 20 to 25 years points to the increasingly conjoint fates of rural areas, rural towns and the cities. This knowledge creates an opportunity to better draw on the local economic potential of diverse rural areas that can yield benefits for the community whilst also contributing to national economic development.

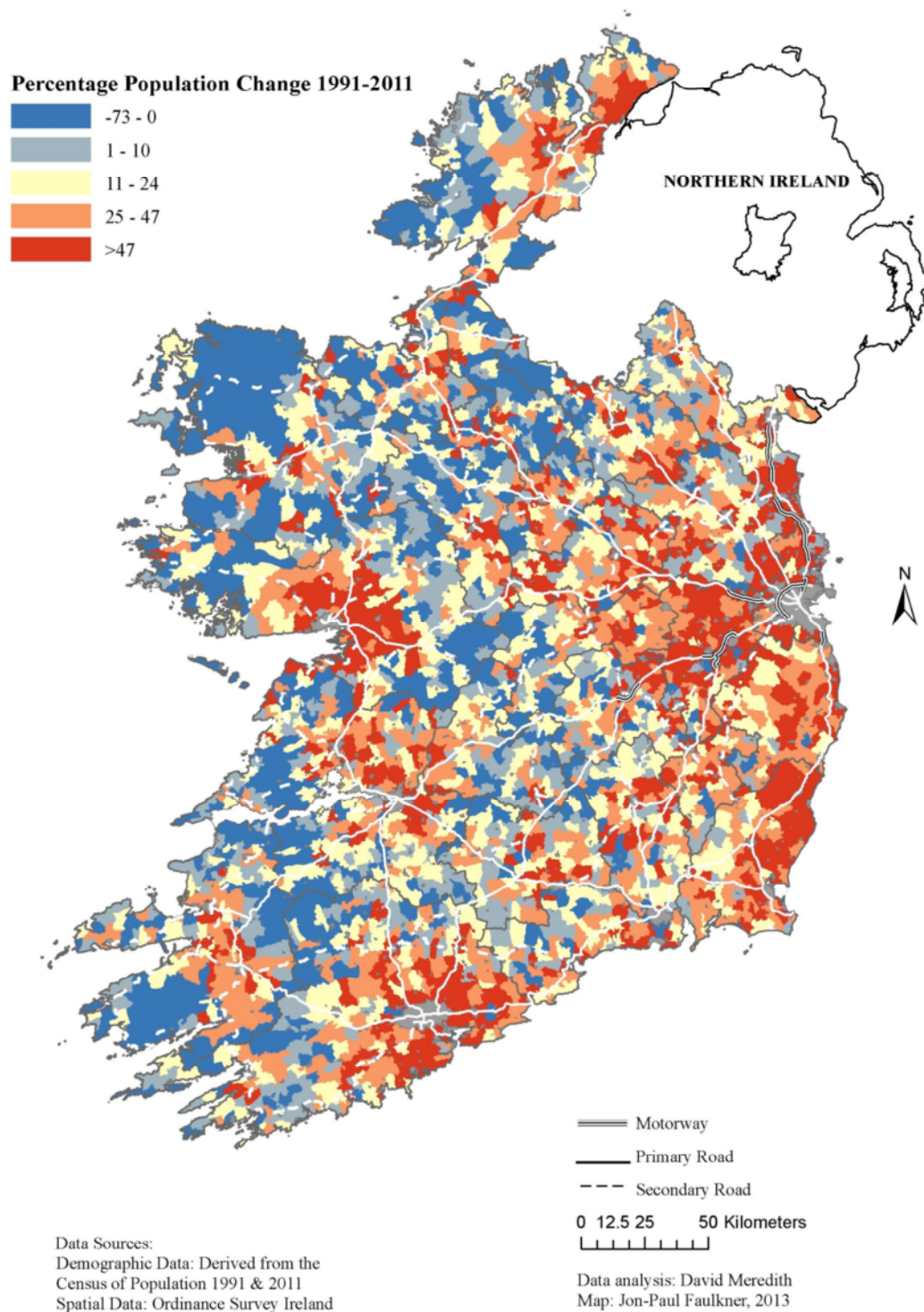
### **2.2 POPULATION CHANGE 1986 – 2011**

The population living in the countryside grew from roughly 2.34 million in 1986 to 3.36 million in 2011, an increase of 30%. The national figure for this period was 20%. As of 2011, the countryside contained 73% of the total national population; this compared to 66% in 1986.

- There was substantial spatial variation in rural population changes. Some areas experienced very large increases in population whilst others experienced declines (Map 1).
- In general, areas of the countryside close or accessible to the main cities and rural towns have experienced substantial and sustained growth in their populations. A critical finding for CEDRA is that these areas coincide with those that record high levels of educational attainment, high levels of both male and female labour force participation and high concentrations of Commerce, Professional Services, Transport and Communications related employment (Map3). All of these indicators are interrelated.
- Importantly, they also correspond to areas that have experienced lower levels of increase in unemployment between 2006 and 2011.
- In contrast to these areas are those that experienced population decline. These tend to be more remote or less accessible to rural towns and the cities. Rural Electoral Divisions that lost population account for 21% of the total land area of the State and 9% of the national population as of 2011, they also account for 30% of the total population decline in the 1991-2011 period. In marked contrast to areas experiencing high population growth, high proportions of the population are older and many living in these areas left school before the age of 18 (Map 2). This points to two issues, the migration of younger people with

higher levels of education from these areas and the inability of these rural areas to attract (younger) people with higher levels of education.

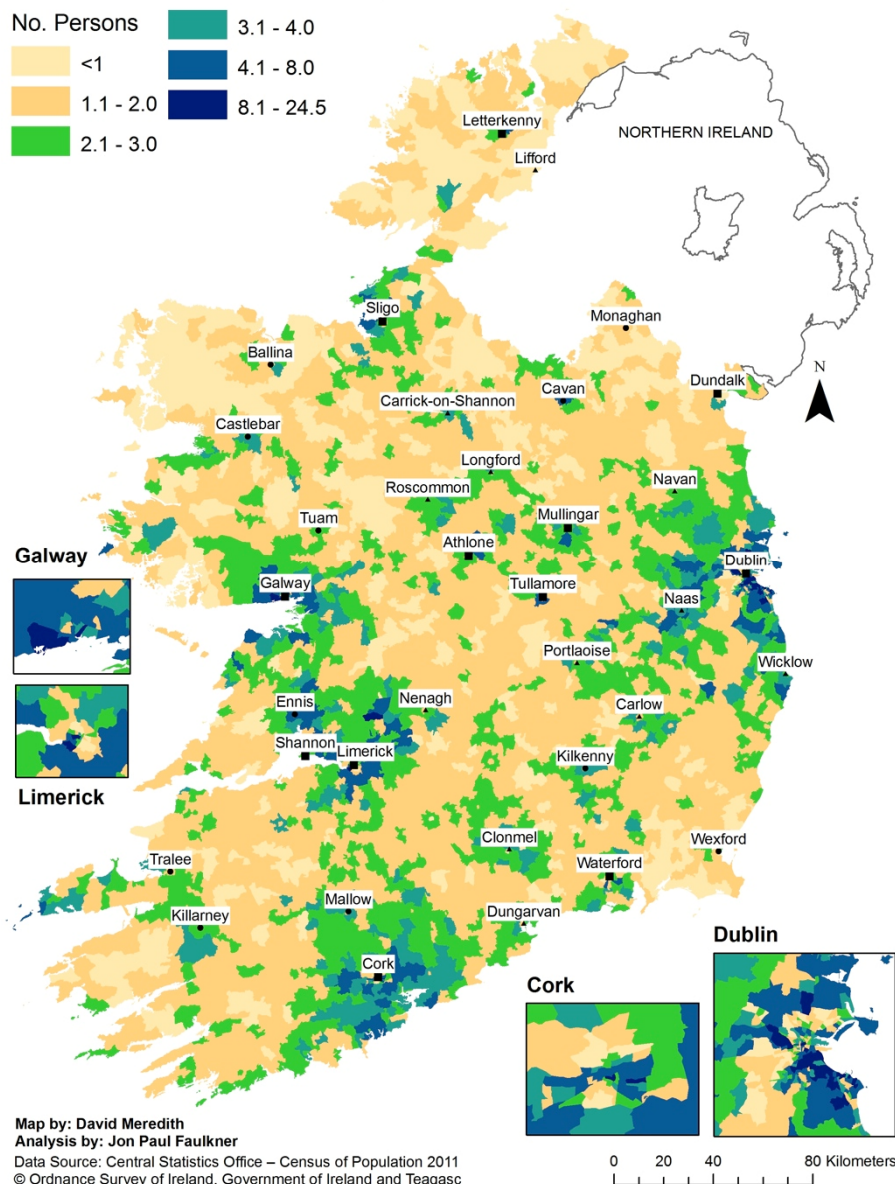
**Figure 2.1      Map 1 Population change in the Republic of Ireland 1991 – 2011**





**Figure 2.2 Distribution of populations with concentrations of persons with higher levels of education**

Ratio of population with a post secondary qualification to those whos education ceased before the age of 17 (2011)

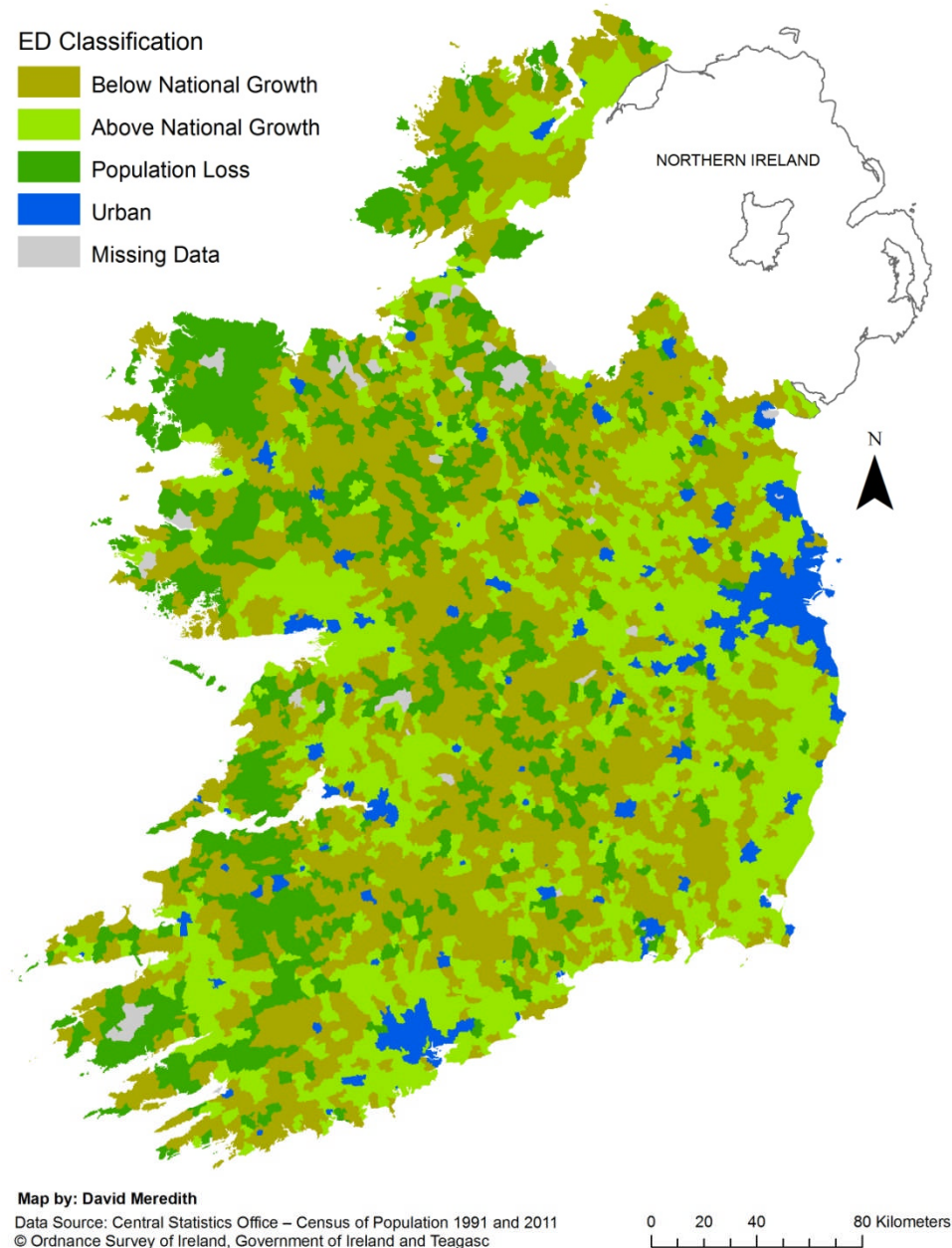


When we look at spatial variation in population change over the period from 1991 to 2011, we see an interesting picture. Contrary to the general narrative of rural decline, the number of people living in rural areas in Ireland is growing, the rate of population growth is increasing and the share of the total national population living in rural areas remains, compared to 1991, largely unchanged. The population living in the rural areas, defined here as all areas with less than 150 persons per Km<sup>2</sup>, increased by 28% (1.47 million to 1.89 million) between 1991 and 2011. The rate of population growth, roughly 1.9% per year between 2006 and 2011, in rural areas is increasing at a time when the rate, 1.4% over the same period, in urban areas is falling. The share of the population living in rural areas remains unchanged over this period at roughly 41% of the national total.

These aggregate statistics present a positive picture of rural change; they are however, misleading. When we look in greater detail (Map 2.3) we find that the changes outlined above were not evenly distributed, some places saw substantial growth whilst others experienced population decline.

**Figure 2.3 Basic typology of rural population change**

Classification of rural EDs on the basis of population change (1991 - 2011)



Areas shaded blue recorded above national average increases (30%) whilst areas shaded in green saw below average increases in population. Areas shaded yellow experienced population decline. The patterns depicted on the map suggest an association between proximity or accessibility to a town or city and substantial population growth. More remote or inaccessible areas did not experience the same level of increase and indeed many EDs recorded population losses. Areas around the

main cities and some of the larger towns, in particular, have seen substantial growth. Interestingly, some areas within these cities and towns have lost population. A detailed analysis of areas that gained or lost population highlights the extent of population changes and establishes some important facts. In particular, between 1991 and 2011, 546 rural EDs lost a total population of 21,455 persons between 1991 (a reduction of 9%: from 229,000 to 207,000 persons). Urban areas experiencing population decline recorded a loss of 184,000 persons over the same period: a drop of 21% (from 885,000 to 700,000). The scale of urban population loss is notable, and points to the hollowing out of many smaller towns and some parts of the cities.

We now want to look in more detail at the rural EDs that recorded an overall population loss in the period from 1991-2011. An evaluation of the demographic structure of this establishes that, just as in 1991, males outnumber women in most age categories, with the exception of the oldest age categories (80+). However, the level of excess of the male population over the female population has decreased considerably. In contrast to 1991, when there were many more men than women living in these rural areas, the number of men just exceeds the number of women in 2011.

We have also used Census data to trace geographic changes to groups within the population of the rural EDs that have lost population. By comparing age cohorts across time – for example, comparing 0-4 year olds in 1991 with 20-24 year olds in 2011 – we can see the extent to which population groups remain stable in place across time. In other words, if there were no deaths or in/out migration, the number of 0-4 year olds in 1991 would be the same as the number of 20-24 year olds in 2011. However, this is not what we find. Instead, there is a drop of 4,181 people across this age cohort in the 546 rural EDs under investigation. When we repeat this analysis for all population age groups, we find that the entire population under the age of 44 in 1991 (currently between 20 and 64 years of age) declined by 37,000 persons. This decline has been offset by an increase of 17,500 in the population that was over 45 in 1991 (currently over 65 years of age). The most important finding of this analysis is that rural population decline is not only driven by young people leaving but the migration of older adults also. This suggests that entire households are leaving those rural areas that recorded a population decline between 1991 and 2011.

These figures also highlight a significant change to long-established patterns of migration from rural Ireland. A further important point that is worth noting, in the past women were more likely than their male counterparts to migrate from rural areas: this has been variously explained in terms of women's higher levels of education and more limited economic opportunities, particularly in the context of an agrarian society. Caitriona Ni Laoire described this as 'the necessary spatial mobility of young women and the spatial immobility of many young men' (2001: 224), an observation that is reiterated, with caveats, in a recent study of gender, youth and migration in Donegal (Donkersloot, 2011). However, as Donkersloot points out, there was a sense that some young men were becoming more interested in out-migration, though the desire to migrate remains stronger among young women. These more general observations are challenged by our analysis of census data over the 20 year period. Most importantly, and in stark contrast to generally accepted knowledge about patterns of migration from rural Ireland, our study shows that in rural areas that lost population between 1991 and 2011, for every woman that left two men left as well.

When we compare patterns of change in the rural and urban areas that lost population, we see a different pattern, with females accounting for 52.6% of the population loss from urban areas.

A shorter term analysis of changes in the structure of the population between 2006 and 2011 identified the loss of 9,000 persons under the age of 54; this represents roughly 40% of the total population loss recorded between 1991 and 2011 occurred in the five years between 2006 and 2011.

### *Rural Towns and Population Decline*

In terms of population decline, it is rural towns that, as a group, have been disproportionately affected. The number of people living within the administrative boundaries of the rural towns fell from 409,365 to 408,355 between 1991 and 2011. In general, the countryside around these towns have seen increases in their populations. The share of the national population living within rural towns fell from 12% to 9% during this period. These general trends mask considerable variation in the performance of rural towns, some have grown substantially whilst others have seen reductions in their populations. Whilst there are notable and important exceptions, rural towns that have experienced sustained growth in population tend, regardless of their size, to be near or accessible to larger rural towns or the five cities.

## **2.3 RURAL LABOUR FORCE AND EMPLOYMENT**

Between 1991 and 2011 Ireland's labour force<sup>3</sup> grew from 1,382,827 to 2,232,180, an increase of 61%. The labour force in the countryside grew by 53%, rural towns' experienced an increase of 8% whilst the cities saw an increase of 17%. These developments are directly associated with the growth of the overall population over 15 years of age and the increase in employment, i.e. the numbers classified as "at work" grew by 33%, 17% and 72% in the cities, rural towns and the countryside respectively during this period.

Counterbalancing this positive development was an increase in the numbers of people classified as 'unemployed'. This population increased by 32% to 75,000 in the cities, 69% to 47,000 in rural towns and 134% to 268,000 in the countryside. As of 2011, 69% of all unemployed persons lived in the countryside; the equivalent figure for 1991 was 57%. In addition to highlighting the critical need to facilitate development of the rural economy these data raise important question regarding how over 250,000 people living in rural areas in 2011 found themselves to be unemployed.

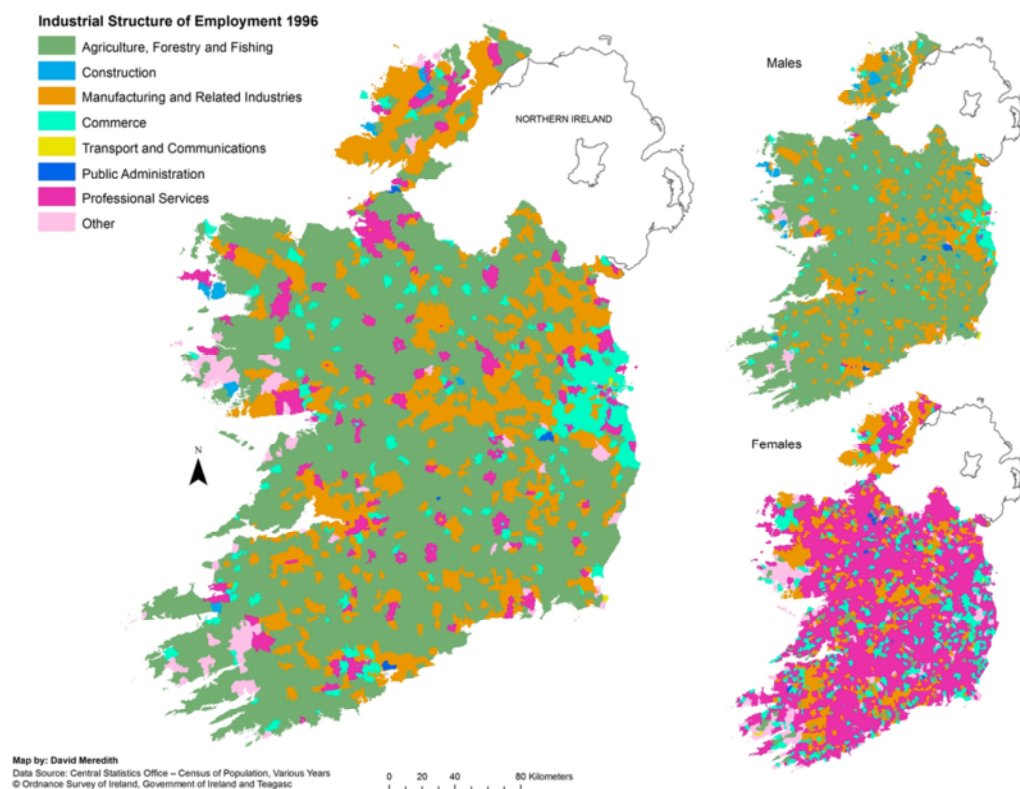
The answer to this question points to the unsustainable nature of rural economic growth during the late 1990s and, particularly, the early years of the new millennium. A sequence of maps is provided below; these depict the relative importance of employment in broad industrial groups to each ED in 1996, 2002, 2006 and 2011. The first map highlights the relative importance of agriculture and related employment and manufacturing and related employment to rural areas in 1996. This map is broadly similar to the map depicting the industrial structure of male employment whilst female employment is largely concentrated in the Professional Services,

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<sup>3</sup> The labour force comprises the total population that is in work of seeking work.

Manufacturing and Commerce sectors. By 2002, substantial changes are evident, commerce related employment predominates in the hinterlands of the main cities and many of the larger rural towns, manufacturing employment and the construction sector has emerged as the dominant male employer in some EDs. It is evident that employment in the agriculture sector is in decline. This pattern persists and is amplified in the map associated with 2006, here one sees that, for males, construction related employment has come to dominate most rural EDs. For women, the commerce and professional services sector were most important. By 2011, much of the employment in the construction sector had collapsed, commerce related employment had retreated back into the city hinterlands and professional services jobs, primarily filled by women, were dominant in many rural areas.

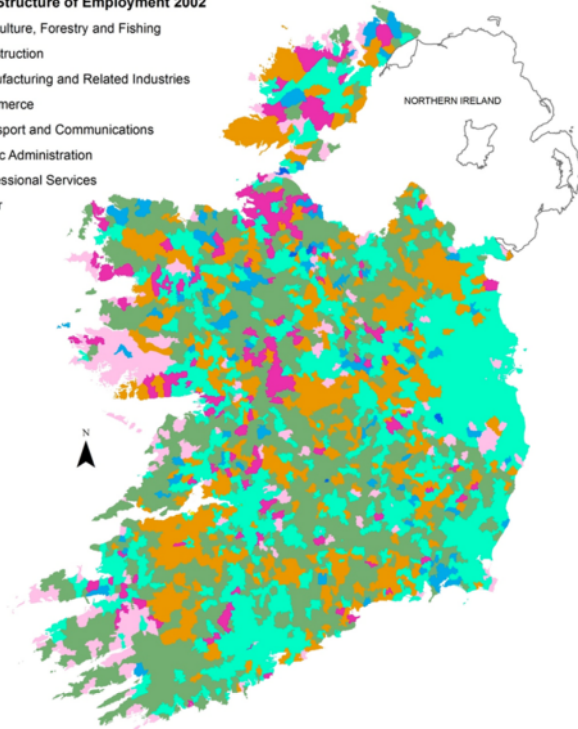
**Figure 2.4 Industrial Structure of Employment, 1996,2002,2006, 2011**





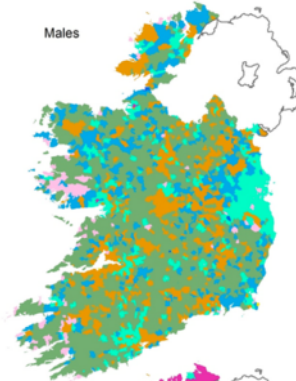
### Industrial Structure of Employment 2002

- Agriculture, Forestry and Fishing
- Construction
- Manufacturing and Related Industries
- Commerce
- Transport and Communications
- Public Administration
- Professional Services
- Other

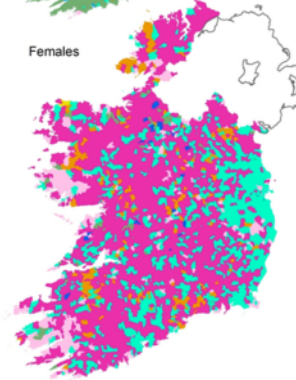


Map by: David Meredith  
 Data Source: Central Statistics Office – Census of Population, Various Years  
 © Ordnance Survey of Ireland, Government of Ireland and Teagasc

Males

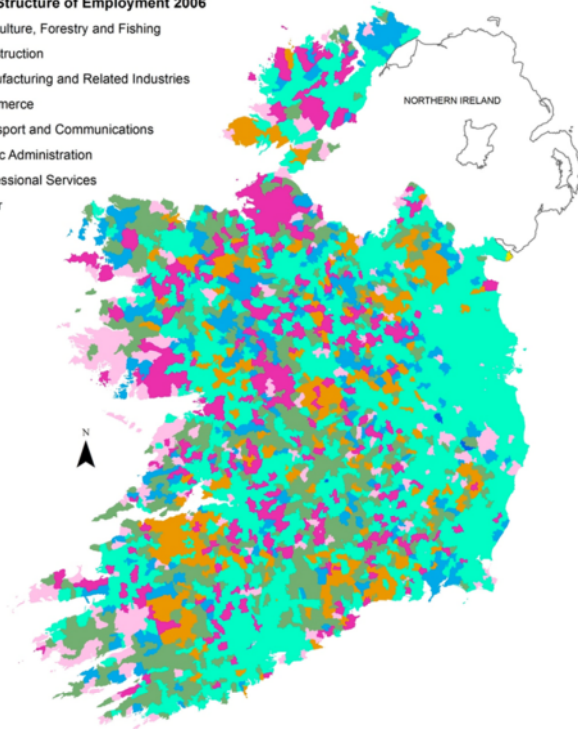


Females



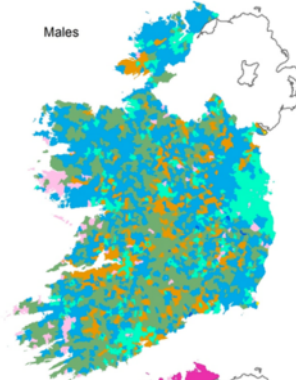
### Industrial Structure of Employment 2006

- Agriculture, Forestry and Fishing
- Construction
- Manufacturing and Related Industries
- Commerce
- Transport and Communications
- Public Administration
- Professional Services
- Other

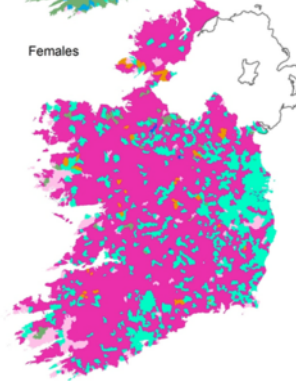


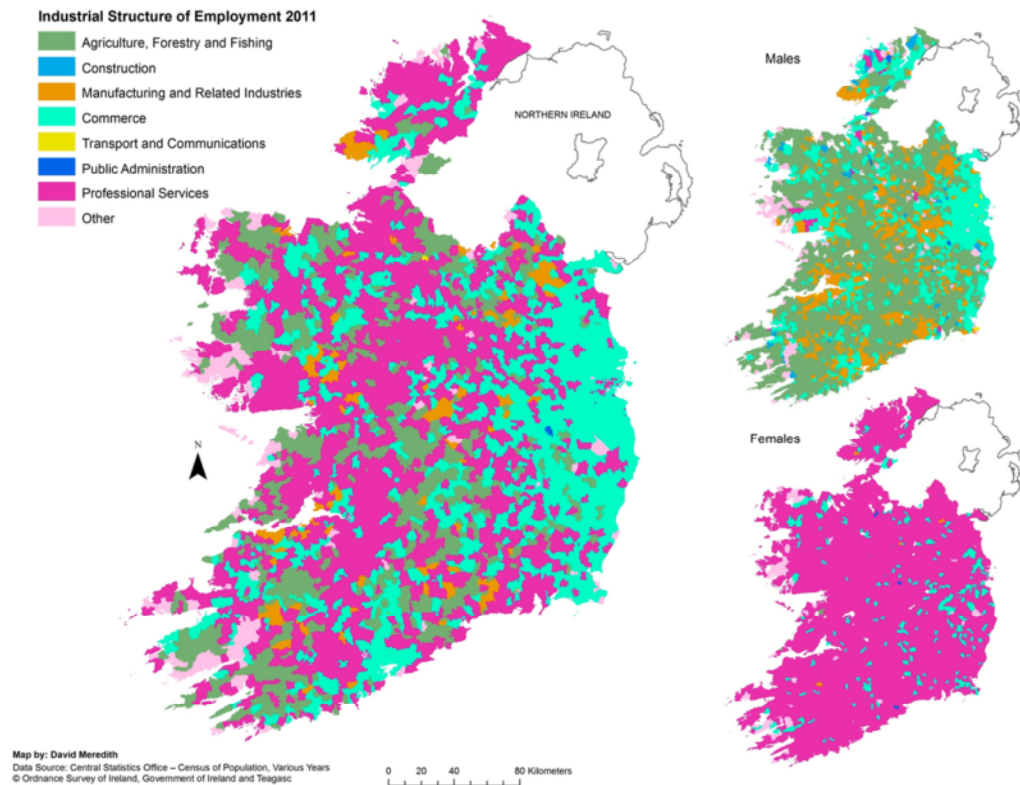
Map by: David Meredith  
 Data Source: Central Statistics Office – Census of Population, Various Years  
 © Ordnance Survey of Ireland, Government of Ireland and Teagasc

Males



Females

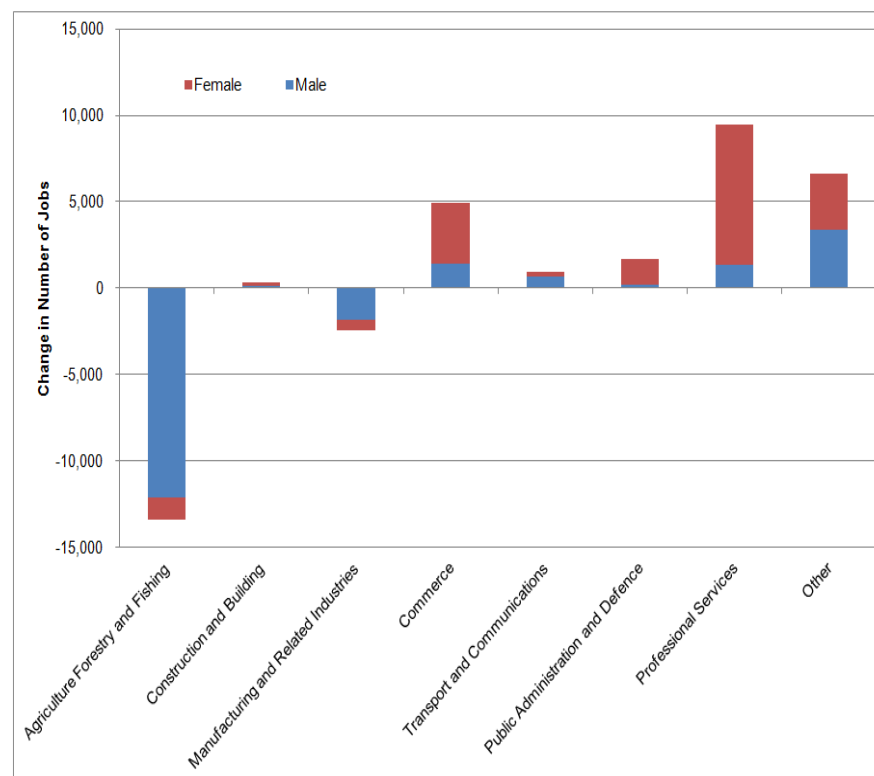




## 2.4 RURAL DECLINE AND EMPLOYMENT RESTRUCTURING

There is a clear gender divide in employment in Ireland. Male-dominated industrial sectors include manufacturing, construction, agriculture and transportation, while industrial sectors with a majority of female employees include health and social work, education, hotels and restaurants, and banking and financial services; with roughly similar numbers employed in wholesale and retail, public administration and defence. There is also a clear connection between patterns of migration and employment. In particular, the level of out-migration from Ireland increased in tandem with a rapid increase in the rate of unemployment, particularly in male-dominated industries such as construction. If we consider the out-migration of Irish nationals during the period from 2008-2013, the levels of out-migration of males initially grew rapidly, but have recently levelled off as the level of out-migration among women has increased. If we consider total out-migration from Ireland in the same period, we see that roughly similar numbers of males and females left Ireland in 2013, in contrast to previous years where more males left.

**Figure 2.5 Change in the Number of Jobs**



When we consider the employment structure of the rural EDs that experienced population decline (See Map 3) between 1991 and 2011, we can identify important changes in the type and number of jobs available. In those areas that lost population, there was an overall increase in the number of jobs from 70,000 to 78,000. This increase disguises a significant change to the industrial composition of employment and consequent changes to the structure of the workforce. Between 1991 and 2011 the Agriculture, forestry and fishing sector and Manufacturing and related industries lost 15,844 jobs in rural areas with declining population. In contrast to this, Construction, Transport and Communications, Commerce, Public Administration and Defence, Professional Services and Other industries recorded an increase of 23,918 jobs.

When we look at the breakdown of these figures in terms of changes in male and female employment we get a clearer understanding of the social impacts of changes to the rural economy. Males saw a 9% drop in total employment. This comprised the loss of 13,908 Agriculture, forestry and fishing and Manufacturing jobs and a gain of 7,084 jobs, primarily in the other industries, Professional Services and Commerce sectors. The difference between male job losses and gains was -6,824. Females experienced a similar pattern of job losses in the Agriculture, forestry and fishing and Manufacturing sectors (-1,936) and gains in all other sectors of (+16,834). However, the net change in female employment over this period was 14,498 or a 79% increase. The increase in female employment was driven by, firstly, greater participation of women in the labour force and, secondly, expansion of 'female' sectors of the economy, sectors, e.g. health care, education, and roles associated with the Commerce sector, where women traditionally are employed.



So, in rural areas that have experienced population decline, two key conclusions emerge from our analysis of available data. The first is the extent to which population decline is gendered: the level of male migration has been considerably higher than the level of female migration, which represents an important change in migration patterns from rural Ireland. The second is the extent to which population decline mirrors changes in employment structure, specifically the increasing feminisation of the labour force in Ireland, the longer term decline of employment in sectors traditionally associated with men, and the growth in employment in sectors where women are more likely to be employed.

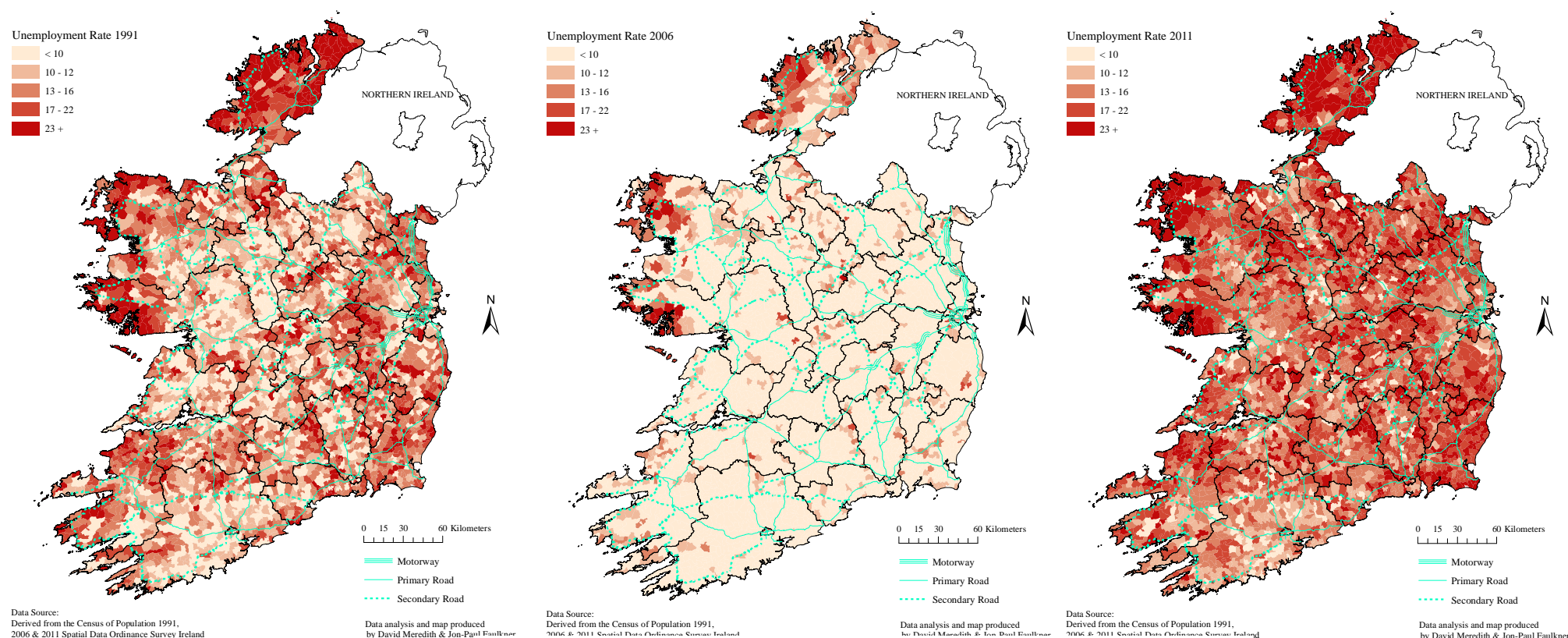
## **2.5      UNSUSTAINABLE ECONOMIC CHOICES**

These developments are significant and important as they highlight the different fortunes of male and female workers, trace the decline of parts of the traditional rural economy, e.g. certain types of manufacturing, and capture the growing importance of mainly public sector employment in the Processional Services category to rural areas. The maps also indicate that the economic collapse has not been experienced in the same way in all rural areas or by all groups in the workforce. Once again, a distinction between accessible rural areas and less accessible areas can be drawn. This point is exemplified in the sequence of maps<sup>4</sup> depicting the unemployment rate in each ED in 1991, 2006 and 2011 (Map 6).

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<sup>4</sup> The scales have been held constant for all three maps to ensure that they are directly comparable.

Figure 2.6      Unemployment Rate in the Republic of Ireland 1991, 2006 and 2011



The economic growth experienced during the 1990s and early 2000s brought increased employment and reduced unemployment to most areas of the country, though some benefited more than others. This point is demonstrated in the widespread change (decline) in unemployment between 1991 and 2006. There were, however, areas where unemployment remained high throughout the economic boom, particularly in parts of the West and North West of the country (Map 7). The research undertaken by CEDRA of the labour force highlighted the variability in the spatial distribution of unemployment between the countryside, rural towns and the cities in 2011, i.e. 30% of households in rural towns are jobless.

While unemployment decreased substantially in the period between 1991 and 2006. The progress that was made during this period proved, ultimately, to be unsustainable and unemployment had increased rapidly since the economic collapse.

## **2.6 CONCLUSIONS**

The data presented above highlights some of the changes reshaping rural Ireland and also the complex implications of these developments. This change is driven by a long run concentration process that draws people and some types of economic activity out of more remote or less accessible rural areas into *initially* urban areas. This is only part of the story. The past 20 years have seen flows of people and households out of the cities and many rural towns into the surrounding countryside, a process commonly referred to as counterurbanisation. The impacts of these processes mean that accessible rural places are increasingly areas or 'zones of growth'. Less accessible and remote rural areas have not fared as well as these zones. Decline in traditional industries combined with a general inability to retain or attract sufficient population has denuded the critical social and economic capacity of these places, particularly through the process of youth migration. It has left them with relatively weak industrial structures, exposed to consolidation of various economic sectors, e.g. farming and food processing, and high levels of persistent unemployment.

This is the overarching picture of the key processes of rural change and some of their implications. Within these two broad categories of rural areas, there are distinctive subgroups of rural areas, i.e. rural areas with strong agri-food economies, rural areas that are transitioning from an agrarian based economy to increasing dependence on the services sector etc. The central point is that neither rural areas nor the communities that live within particular types of rural area are homogenous. Past failures to adequately understand or fully appreciate the implications of this point accounts, to a large degree, for the increasing disparities between accessible, better-off rural communities and less accessible, more remote, less well-off rural areas.

## **2.7 REFERENCES**

Ni Laoire, C. (2001). A matter of life and death? Men, masculinities and staying 'behind' in rural Ireland. *Sociologia Ruralis*, 41(2), 220.

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## **Part II. Rural Resources**

## Chapter 3. THE AGRI-FOOD SECTOR

Cathal O'Donoghue and Thia Hennessy

### 3.1 INTRODUCTION

The agri-food sector while historically synonymous with the national image of Ireland had a relatively lower visibility during the Celtic Tiger years. Many agricultural stakeholders claim that interest in the sector over this period, from both the popular media and public representatives, declined.

While the sector had one of the largest hits in the first years of the crisis, particularly in 2009, the sector has seen a resurgence in subsequent years. This has stimulated a renewed interest in the agri-food sector. Unlike the trends in other sectors, agricultural output prices have continued to increase over the last 3 to 4 years and the contribution of the agri-food sector to foreign earnings and employment have grown. Whether because of the relatively poor performance of other sectors or the strong performance of the agri-food sector, government has placed great emphasis on the agri-food sector and the role it can play in the recovery of the Irish macro-economy.

In this paper we attempt to describe the main characteristics of the sector, analyse recent trends, discuss recent growth strategies and evaluate the impact of recent policy reform. In describing the structure of the sector, we note the three interacting and sometimes extreme issues in the sector

- A sector that has growth potential in some sub-sectors (Donnellan et al., 2011)
- A sector with severe income challenges in some sub-sectors (Frawley et al., 2000; Hennessy et al., 2008)
- A sector that is heavily reliant on subsidies

Thus while the positive growth story has made news headlines in recent years, the sector exhibits many challenges, particularly in relation to incomes in some sub-sectors and in relation to the pace of structural change. It is a sector with significant interaction with public policy, whether it be through the EU Common Agricultural Policy, national strategy frameworks such as the Food Harvest 2020 framework as well as environmental and food safety regulations. In this paper we try to dissect this trichotomy. Our paper begins with a summary of high level trends in the agricultural sector and its contribution to the national economy.

As befits a relatively large economic sector, with significant public policy involvement, there is a relatively large body of knowledge describing and understanding the sector (Matthews, 2001). Given the productivity challenges of a mature primary industry, a significant literature has focused on measuring and understanding productivity and efficiency (Boyle, 1987; Matthews, 2000; O'Neill and Matthews 2001; Newman and Matthews 2006, 2007; Matthews et al., 2007, Carroll et al., 2011). The impact of agricultural policy has been studied extensively (Sheehy 1980; Matthews, 1996; Hennessy and Thorne, 2005; Shrestha et al, 2007; Hennessy, and Rehman 2008; Hynes et al., 2009c; Howley et al, 2010, 2011, 2012; Erjavec et al., 2011; O'Donoghue and Howley, 2012), while as a internationally traded sector to competitiveness analyses (Dillon et al., 2008; Donnellan et al., 2009; Donnellan et al., 2011). The added value of this paper is to bring this disparate literature together with some additional data analysis to strategically address the issues identified above

## *Chapter Outline*

We undertake this analysis in a number of dimensions. Firstly, a combination of steady growing demand for food, the relatively competitive position of in Irish food production and the policy change via the abolition of Milk Quota restrictions from 2015 allow the potential for a significant positive structural change in the sector for the first time in 3 decades. We first therefore consider the potential expansionary potential. We then consider the extreme situation in relation to the issues associated with income challenges and lastly consider recent proposed policy changes and their potential impact on the first two issues. As a highly regulated sector, with farm subsidies having a very share of the farm incomes, policy is very important

### *Summary of the Sector*

The CSO Census of Agriculture indicates that there were 139,829 farms in Ireland in June 2010, which is a slight decline of 1.2% from the number recorded in June 2000, however down substantially from the 171,000 in 1991.

The most recent statistics from the CSO indicate that the agri-food sector contributed about 6% of total value added in the economy and comprised about 7.5% of employment (CSO, 2013). However, despite the relatively small size of the agri-food sector in the overall economy, the wider bio-economy sector is a major source of net export earnings (Riordan, 2012). The wider bio-economy incorporates other sectors built around natural resources and includes the beverage sector, infant milk formula sectors etc. It is related but significantly larger than the more narrowly defined agri-food sector, accounting for about 19% of exports in 2008, compared with 10% for the narrower agri-food Sector. Riordan (2012) highlighted however that the bio-economy's contribution to net foreign earnings amounted to approximately 40%. The main reasons for this disproportionately large contribution to net foreign earnings are:

- Lower import requirements per euro of exports,
- Higher receipts of EU payments
- A higher local multiplier
- A lower share of international ownership and repatriation of profits

In terms of Balance of International Payments flows, in 2008 every €100 of exports from the bio-economy generated €52 in net foreign earnings. In contrast, exports from the non-biosector, contributed only €19 in net foreign earnings for every €100 of exports. Thus the net impact on the economy of this sector is significantly higher than the share of national output would indicate.

The net value added by Agriculture comprises gross value added, which comprises Farm Output minus Intermediate Consumption minus fixed capital investment costs which was about of about €1bn per annum from 2005 to 2012, with the exception of 2009, where value added was almost completely eroded due to a demand shock that coincided with the onset of the global recession, combined with relatively high input prices (CSO, 2013). However, the period since 2009 has witnessed a rebound by the Agricultural sector.

### 3.2 EXPANSION POTENTIAL

The economic crisis, particularly in 2009 saw a major contraction in the Agri-Food sector. However improved international demand for food products and policy changes in relation to milk quota has created a potential environment for expansion.

The national development strategy for the sector, Food Harvest 2020 has generated an increased focus within the entire sector to achieve growth. It set the ambitious target of growing the output of the Irish dairy sector by 50 percent by 2020 and to increase Beef Value by 20%.

Although the dairy sector is consistently the most profitable, and is competitive internationally due to being based upon a relatively cost effective grass based system (Donnellan et al. 2011).<sup>5</sup>

The reason for the specific growth focus for dairy production is the impending change in the policy environment. Milk production in Ireland has been constrained by the EU milk quota regime since 1984, and apart from some small increases over the years, growth in this sector has not been possible. This system is now being slowly dismantled and current policy states that milk quotas will be removed by 2015. This presents Ireland with the first real opportunity to expand the dairy sector in over 25 years, and given the favourable competitive position of Irish dairy farmers it seems that Ireland will be well placed to exploit this opportunity.

While dairy production has stagnated in Ireland since milk quota was introduced in 1984, New Zealand which also uses a relatively extensive grass based dairy production system, underwent a large expansion. Prior to milk quota, both countries expanded at a similar rate, while from 1984, the EU adopted the quota system, whilst New Zealand deregulated the agricultural market place, and farmers with the capacity to move into dairy or to expand took advantage of the profit potential. In the 30 years from 1984 to the present, New Zealand dairy cow numbers nearly doubled, while Irish numbers decreased by a quarter, albeit higher productivity has seen an increase in output. The expansion in dairy cow numbers masks the fact that the productivity of cows in NZ also increased, with milk solids expanding by 37% from 1984, while the fat percentage of Irish milk increased by 8% over this period. The effective growth rate of New Zealand dairy production has been consistently around 5% per annum.

If the Food Harvest 2020 targets are to be achieved, production in Ireland will need to grow by 6% per annum from 2015 to 2020. However, this may be optimistic given the relatively short time period in which this can happen as milk quota will not be abolished until 2015 and is higher than the long term New Zealand rate of growth of 5% per annum.

Nevertheless there is some evidence of pent up capacity as witnessed by the demand for the availability of new milk quota under the Dairy New Entrant scheme which has

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<sup>5</sup> Irish dairy production has the potential for expansion primarily because of the relatively competitive position of Irish dairy production relative to competitor countries. Thorne et al. (2011) highlight that the 110 cow Irish dairy farm has amongst the lowest cash cost base of any country.

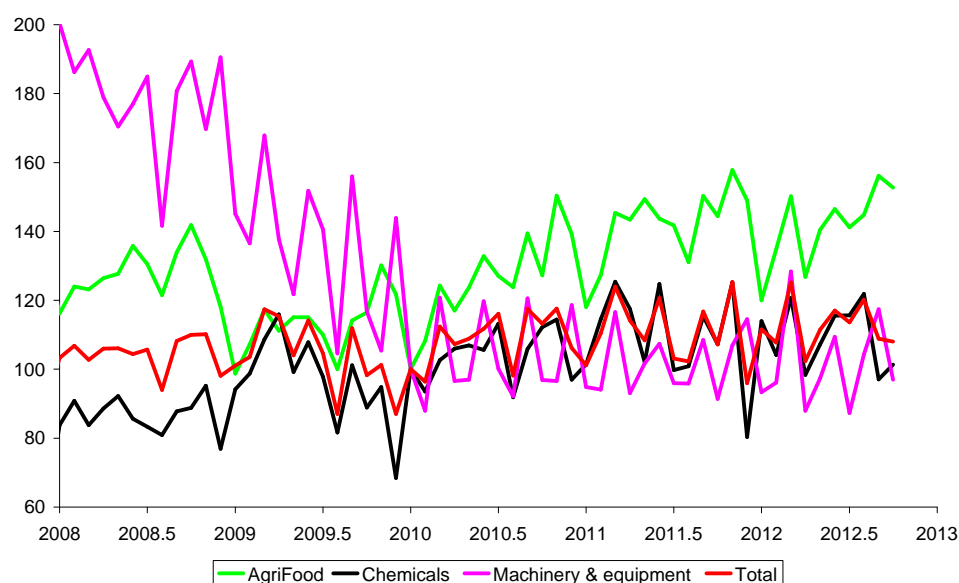


been heavily over-subscribed.<sup>6</sup> Furthermore, a survey analysis of farmers' intentions has also revealed a willingness to expand (O'Donnell et al. 2008). Animal number data on the Department's AIM system have indicated the capacity for increases in Dairy Cow numbers of 9 per cent in the period 2010-2013, with relatively small increases in milk quota, while Teagasc National Farm Survey data indicated an increase in Heifer in Calf by 24% in 2011 alone.

### *Export Trends*

The impact of the FH2020 strategy can be seen in the recent trend of agri-food exports. Figure 3.1 reports an index of exports amongst the 3 largest merchandise exporting sectors (of which it is the third largest) and across merchandise exports with a 2010 base. While the exporting sector has been one of the few success stories since the economic crash in 2008-2009, the agri-food sector has seen exports grow at a faster rate than the other large exporting sectors and faster than the growth rate in total merchandise exports. Bord Bia highlight the fact that the value of Irish agri-food exports increased by 12% in 2011, to reach an all-time high of nearly €9 billion and then grew successively, exceeding €9bn in 2012 and 2013. This growth has been driven by relatively improved commodity prices since 2009, a weaker euro, some increase in volume and a diversification of export destinations, particularly in Asia, where exports are up 75% since 2010.

**Figure 3.1 Merchandise Exports 2008-2012 (2010=100)**



Source: Central Statistics Office

Within the agri-food sector, the meat sector has the largest share of exports, consisting of about a third of all exports, followed by dairy at about 22% and food ingredients at 20%, while crops based exports account for about 15% of exports. Ireland is an important exporter, being the 10<sup>th</sup> biggest exporter of dairy, 11<sup>th</sup> in meat and 7<sup>th</sup> of

<sup>6</sup> According to Department of Agriculture, Food and the Marine statistics, DAFM stats, in 2011 there were 263 applicants but only quota allocated to 84, while in 2013 there were 175 applicants but only quota allocated to 91.

food ingredients similar to Ireland's position in other major exporting sectors. There has been a gradual change in the composition of exports over time. Since 2000, the value of low value added products such as live cattle has fallen, while meat and dairy products have increased their export share the most.

### *Wider Economic Impact of FH2020*

The gains from expanding milk production do not however benefit farmers only. In fact most of the value generated by the production of milk rests at the processing sector, via returns to capital and labour. Miller et al. (2012) estimate that for every €1 increase in farm gate milk production, there is a corresponding increase of €2.45 increase in sector wide output. This presumes a current product mix. Increasing the proportion of value added production would also increase total value added from the sector.

Employment Effects can be classified into a number of different stages

- Direct Impacts in the Primary Sector
- Direct Impacts in the wider Processing Sector
- Indirect Impacts across the Supply Chain
- Indirect Impacts on the rest of the Economy due to Income Growth

Table 1 outlines the potential jobs impact of Food Harvest 2020. Miller et al (2012) consider two scenarios for modelling employment multipliers (i) based upon applying the average jobs per €m output (column D) and (ii) based upon econometrically estimated employment elasticities (column C). We report the latter jobs multiplier as a more conservative estimate.

Miller et al. (2012) found using a multiplier analysis that 16,358 jobs could potentially be created as a result of Food Harvest 2020, with about one third outside the farm gate. Of those within the farm gate, it should be recognised that these job changes are against a generally decreasing amount of agricultural labour due to productivity gains. It therefore should be viewed against this baseline trend and thus reducing the trend in job loss rather than necessarily arising in net new jobs.

Outside the farm gate strategies are in place to develop the processing capacity required for the planned milk expansion in Lakelands, Glanbia and Dairygold (Donnellan et al., 2013). There are also some organisational restructuring within co-ops to spread the risk of expansion between processors and farmers.

**Table 3.1 Output and Jobs Impact of Food Harvest 2020**

	Output (A)	Jobs (B)	Jobs per €m (C)	Average Jobs per €m Output (D)
Primary Sector (Direct)	1678.09	11883	7.1	11.6
Processing Sector (Direct)	2240.16	3896	1.7	2.4
Wider Supply Chain (Indirect)	2507.42	266	0.1	5.5
Rest of Economy (Indirect)	374	313	0.8	8.5
Total	6799.67	16358	2.4	6.1

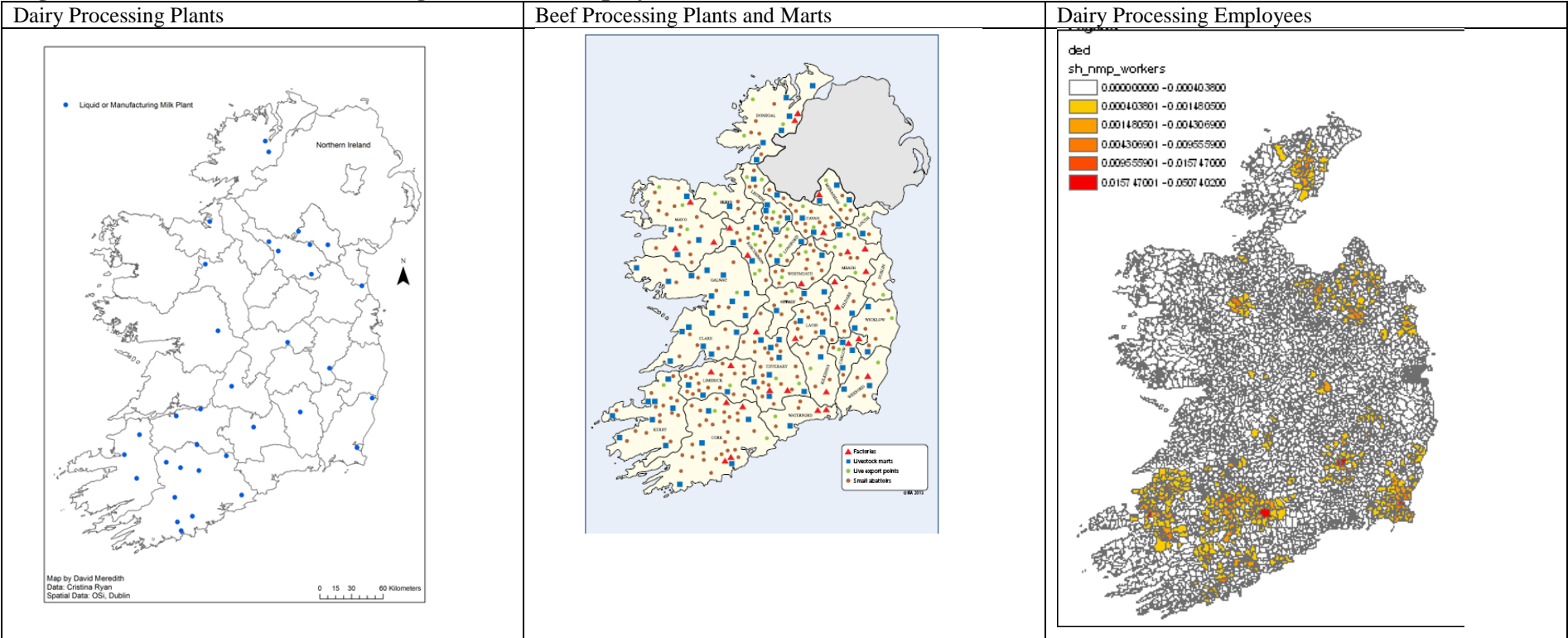
Source Miller et al. (2012)

It should be noted (See Figure 3.2) that the agribusiness sector and related supply chain is largely located in rural areas, particularly in the small and medium market towns. These typically have been the locations of the highest increase in unemployment in the economic downturn. Thus improvements in the sector not only have important national multipliers, but also have potentially large local multipliers.

In addition to the volume increases aimed for as part of the Food Harvest Strategy, there is an ongoing strategy to increase value added. Within the agri-food sector this is evident in the development in Ireland as one of the world's largest exporters of infant formula; supplying about 13% of the internationally traded Infant Formula market. In addition Ireland's world market position has resulted in the development of global agri-food firms such as Kerry, Glanbia and Greencore.

There are, however, challenges to enhanced value added creation. The Bord Bia Harvard Report (2010) highlighted the lack of coordination and cooperation across the supply chain. While the cooperative model on the dairy side provides for relatively integrated supply chain coordination, the beef supply chain is characterised by intra-supply chain competition and poor market price signals and coordination, which limits the capacity for value added creation.

**Figure 3.2      Location of Processing Plants and Employment**



Source David Meredith, Renwick (2013)

### 3.3 CHALLENGES TO EXPANSION

Given under-utilised capacity the opportunity exists to achieve FH2020, however potential to achieve is quite different to actual achievement of targets. Achieving these targets will require.

However the Food Harvest targets and in particular milk expansion has a number of challenges, including

- Land Access
- Demographic Profile
- Uptake of Technologies
- Financial strength
- Price Volatility
- Environmental constraints

#### *Land Access*

In addition to farm management skills, assets and the quality and size of farm infrastructure, farm productivity depends upon the availability of sufficient land of sufficient soil quality and of sufficient size to generate a viable income.

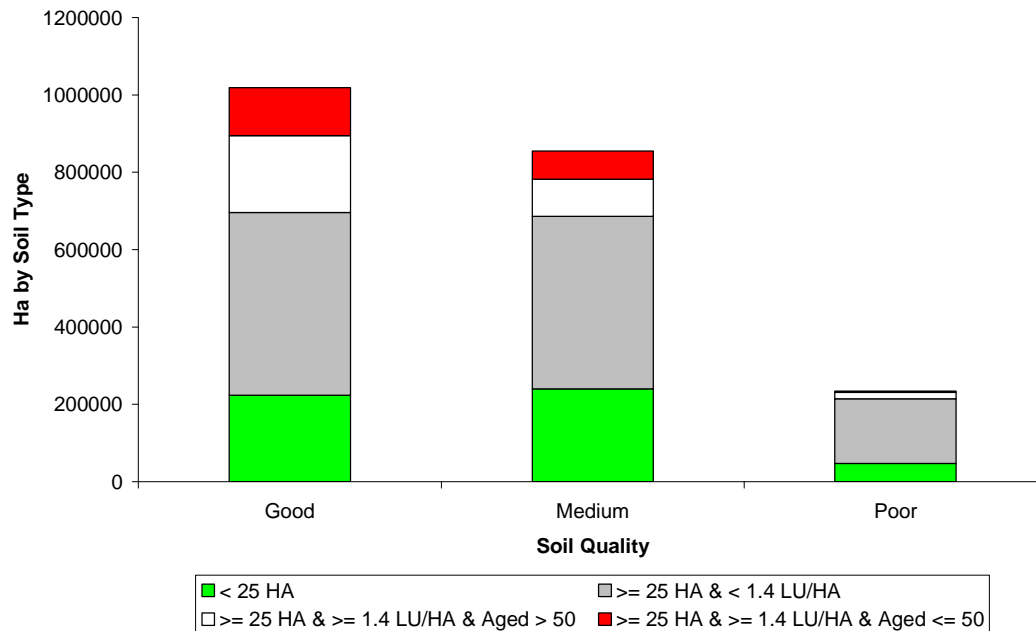
Geoghegan and O'Donoghue (2014) state that certainly the land exists for dairy expansion as there is quite significant land (12.5% of all land) within dairy farms currently being used for other purposes. Also there is a relatively high share of lower margin enterprises such as cattle and sheep farming on the better land required for dairy farming.

However dairy expansion rests not only in the availability of land, but also the structures and current uses of the land. In considering this potential for expansion, of the non-dairy land, we consider in figure 3.3 the characteristics of the farms by soil type. About one sixth of all land in the top soil types are tillage farms. While these farms have sufficient quality land and are in general large in size, they are unlikely to have facilities and/or experience for handling dairy animals and may have limited animal husbandry experience. They would thus require quite significant investment and re-skilling/and or change of management to move into dairy. Considering the top 2 soil categories, a further 6.5% of the land has sheep enterprises, which again are likely to face issues in terms of investment in addition to specific dairy management skills.

It is likely therefore that managing cattle systems is the most complementary system for moving into dairy. About half of the land on farms with the top two soil types has cattle systems. However of these about 22% of these have farms with less than 25 hectares and thus are likely to require consolidation before moving into dairy. Of the remainder, 46% of cattle farms in the top two soil types have stocking rates of less than 1.4 LU/ha and have 25 hectares or more. The stocking rate is low largely due to either age (37% aged 65+) or due to other work commitments (30% with an off-farm job). The most likely therefore who could consider moving into dairy are those with stocking rates of 1.4 or higher, which amount to 32% of cattle farmland in the soil range and amount to 15% of all farmland with these soils. However over a third have off-farm employment. Age is also likely to be an issue with 19% over 65 years of age in 2008, and only

12% of this group are under 50. With the rising age-profile this will be even lower when milk quota is eliminated.

**Figure 3.3 Land Structure on Cattle Farms**



Source: Teagasc National Farm Survey, Geoghegan and O'Donoghue (2014)

### *Demographic Change*

Age therefore is one of the factors that limits necessary structural change in Irish agriculture. Within the Teagasc National Farm Survey, the average age grew from 51 in 1997 to over 57 in 2011, a growth rate of nearly half a year per year. This was accompanied by a rising proportion of farmers aged 60 or over which was over 40% in 2011 up from about 30% in 2000, while the share of those aged 40 and older is going in the other direction, falling from 42% in 2000 to 25% in 2011 (Hennessy and Rehman, 2007).

With over a quarter of all dairy farmers over 60 years and with relatively few new entrants, the demographic structure will create challenges to the expansion of milk production. Hennessy, (2007) suggests that exits will initially accelerate following quota removal as high cost farmers feel the price cost squeeze that accompanies the milk quota expansion and exit the sector.

The sector may however be entering a demographic transition as evidenced by dramatically higher numbers attending Teagasc agricultural colleges and studying Agricultural Science in University as evidenced by higher points. There are some policy measures in CAP post 2013 to provide small incentive for younger farmers to enter farming. However the transition will to a large extent be driven by the capacity of new entrants to make an economic return from farming relative to other occupations.

### *Farm Size and Restructuring*

However Irish farm sizes are small relative to Ireland's main competitors, albeit increasing gradually; the average farm size increased by 4.1% between 2000 and 2010, rising from 31.4 hectares to 32.7 hectares in 2010 (CSO Census of Agriculture). As a result there is less land and consequent output over which to carry overheads and provide an income for a family, thereby putting pressure on farm profitability.

Land sales still remain very low and therefore there remain significant barriers to land access, particularly given the relatively small size of the land market (O'Neill, and Hanrahan, 2012). Also where farm sizes have increased, there has been an increase in fragmentation, which is a key barrier to efficient farm production, where the average number of parcels per farm is now 3.5.

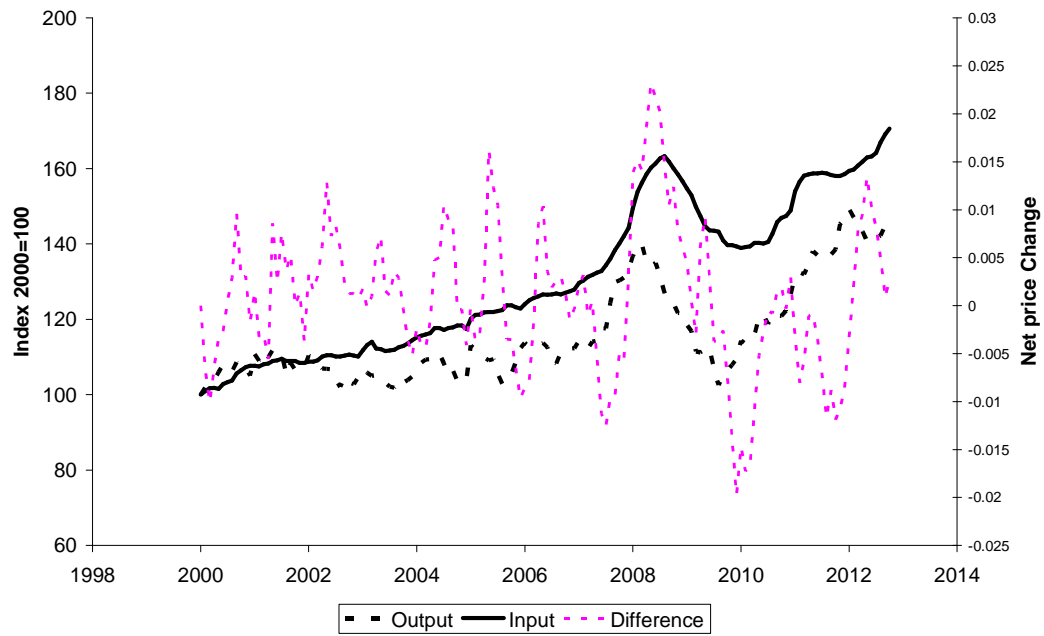
Thus although there is quite a lot of land that could be utilised for dairy expansion, even before one considers issues such as skills, access to capital, the fractured nature of agricultural plots, there are quite a number of issues associated with potential structural change. Greater leasing of land or the use of farm partnerships and collaborative arrangements could potentially facilitate this.

### *Cost Price Squeeze and Price Volatility*

A particular challenge faced by agriculture and other mature sectors is that input prices tend to grow at a faster rate than output prices. Innovation in global supply chains, even with growing global demand for food stuffs has pushed prices downwards in the long term. Thus in general output prices grow at a faster rate than input prices. This process is known as a cost price squeeze (Hynes and Hennessy, 2012). Figure 3.4 describes the trend since 2000 of the CSO Agricultural Input and Output price indices. Over time, we see that the gap gradually widened until 2010, with input prices peaking at 40% higher growth than output prices. However, since the sector started to recover from 2010, this process has reversed, with in general higher output price growth than input price growth, resulting in higher farm incomes.

A noticeable feature since 2006 has been a visible increase in both input and output price volatility (O'Connor and Keane, 2011). This is particularly visible in figure 3.4, with increasing amplitudes in price changes and an upward trend in the standard deviation of price change over time. Volatility increases uncertainty and makes decisions more difficult. Due to risk aversion, increased volatility reduces the value of income and reduces incentives to invest (Kelly et al., 2013), an issue magnified in the current economic and financial crisis (O'Toole et al, 2013) as well as relatively more conservative attitudes to the use of credit (Howley and Dillon, 2012).

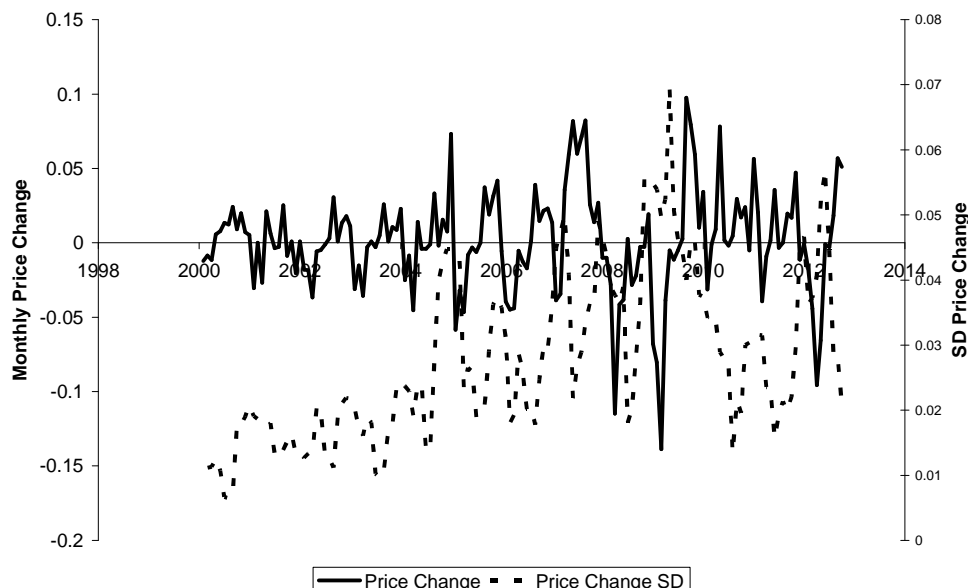
**Figure 3.4**     **Input and Output Price Indices**



Source: Central Statistics Office



**Figure 3.5 Milk Price Volatility**



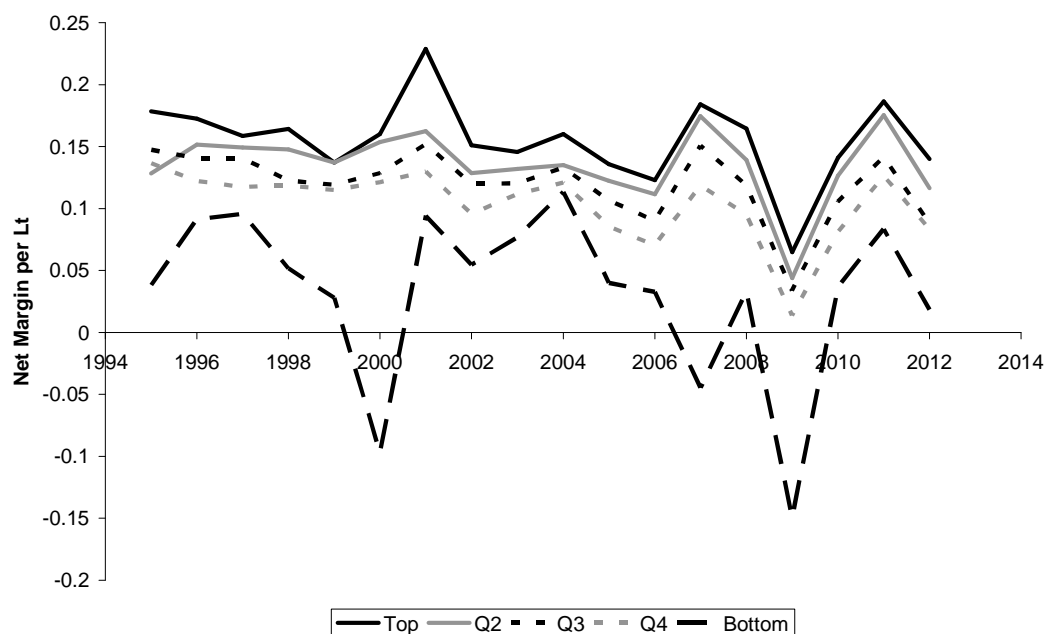
Source Central Statistics Office

### *Productivity Differentials*

Another challenge is the productivity differences across the distribution of farmers. In relation to potential dairy expansion, of particular relevance will be the capacity of farms to withstand the continued cost-price squeeze observed in figures 3.5 and 3.4. There is a substantial difference between the lowest cost farms and the highest cost farms (see Figure 3.6); the gap between the lowest cost and highest cost farms has been 100 percentage points (of the average cost) higher and has widened over time as the top 80 percent of producers have improved their efficiency relative to the bottom 20 percent. This will continue to put pressure on the highest cost producers.

This can be seen in Figure 3.6, where we report the net margin per litre relative to the national average for cost quintiles. We see the substantial spread across the quintiles, reflecting different productivity. In particular we note the income volatility of the bottom quintile relative to other groups and since 2003, the fall in net margin per litre relative to all other groups (albeit some recovery in 2010-2011). Thus there remain challenges to close the productivity gap, but also opportunities for increased income with an existing land base if productivity can be improved.

**Figure 3.6 Distribution of Net Margin per Litre by Cost per Lt Quintile**



Source:

Teagasc National Farm Survey

### *Innovation and the Return on Research Investment*

Critical to improving competitiveness and productivity are the use of appropriate technologies and an effective transfer of these technologies to farmers. Agricultural research and knowledge transfer can yield significant returns. Boyle et al. (2002), for example found that the internal rate of return for a number of research and knowledge transfer initiatives in Ireland, to be in the range of 40-70%, consistent with international studies of agricultural research and knowledge transfer.

However, key to achieving a return to investment in research, and improving farm incomes, is the adoption of the technologies developed and an understanding of this process (Läpple et al., 2012a; Howley et al., 2012). Challenges however remain in maximising the uptake of technologies. Table 3.2 presents data on the adoption of a number of key grassland, genetics and financial technologies developed by Teagasc. Adoption rates are higher amongst the more commercial dairy farming sector. However it varies from 15% of dairy farmers using grass budgeting relative to 93% undertaking controlled grazing (Hennessy and Heanue, 2012).

**Table 3.2 Use of Key Technologies in 2009**

Key Technology	Dairy Farmers %	All Farmers %
Grassland Management		
Grass Covers	22	4.9
Grass Budget	15	2.9
Controlled Grazing	93	21
Reseeding	64	35
Genetics		

Genomic Bulls	27	
Financial Management		
Teagasc eProfit Monitor	30	7
Cash Flow Budget	16	16

Source: Teagasc National Farm Survey

The use of improved technologies and management practices such as the use of Teagasc eProfit Monitor have been incentivised by public policy programmes such as the Dairy Efficiency Programme and the Beef Technology Adoption Programme. Bogue (2013) in collaboration with Teagasc colleagues (Läpple et al., 2012b) undertook an evaluation of dairy discussion groups.

An analysis of the 2008 Teagasc National Farm Survey (Läpple et al., 2012a) data revealed that established (pre-DEP) group members perform better financially than non-group members. Controlling for farm characteristics, such as soil type, location, farm size farmer's age and to test for potential selection bias, this analysis found that the average established (pre-DEP) group member benefited in the order €247 per hectare in gross margin terms in 2008. Table 3 reports the economic performance of established (pre-DEP) group members, new (DEP) members and non-members using the 2011 Teagasc National Farm Survey data. It shows that established members performed better financially than DEP groups and non-group members on a net margin per litre (2 to 3 cent per litre) and per hectare basis.

**Table 3.3 Economic Performance: Established, New and Non-Members**

Economic Indicator	Established Members	New (DEP) Members	Non-Members
Net Margin (cent per litre)	14.5	12.1	11.6
Costs per hectare (€)	2,260	2,327	2,150
Net Margin per hectare (€)	1,516	1,234	1,050

Source: Teagasc National Farm Survey

### *Environmental Considerations*

Farmers, together with foresters, are the main managers of the rural land resource in Ireland. Increased environmental concern and awareness has led to higher societal expectations in relation to the achievement of positive environmental outcomes, particularly in relation to water quality, greenhouse gas emissions, landscape and biodiversity. These societal objectives have been accompanied by policy mechanisms such as the EU Nitrates and Water Quality Directive, cross-compliance measures, the National Landscape and Climate Change Strategies within the CAP, the Farm Waste Management Scheme and Agri-Environmental schemes such as the Rural Environmental Protection Scheme (Howley et al., 2011b). In addition there is an increasing recognition of the capacity to provide positive externalities through, for example, the Origin Green marketing strategy of Bord Bia, through the use of the countryside for recreation (Buckley et al., 2009) and the generation of other non-market benefits (Hynes and Hanley, 2009; Hynes et al., 2008b, 2010). Delivery of improved environmental sustainability and public goods therefore depends significantly upon farmer behaviour and management (Dillon et al., 2009).

One of the biggest environmental issues in relation to agriculture is the relationship with Water Quality. Donohoe et al. (2005) highlighted a significant correlation between water quality and

Agriculture. O'Donoghue et al. (2010) and Curtis and Morgenroth (2013) have added a multivariate dimension, highlighting the impact of other factors.

**Table 3.4 Percentage of Dairy Farms Requiring Derogation in relation Organic Nitrogen per Hectare (orgN/ha > 170 kg)**

	Gross Margin per Hectare Quintile				
	1	2	3	4	5
% with Derogation					
1997	0.005	0.113	0.155	0.251	0.721
2008	0.067	0.149	0.085	0.246	0.527

Source: Teagasc National Farm Survey

There is however some evidence of improvement. From a stocking rate perspective, farmers who wish to farm above the Nitrates Directive Organic Nitrogen levels to a limit of 250 kg per hectare, subject to additional conditions being met. Table 3.4 reports the percentage of dairy farms in the National Farm Survey that are farming in the range that require a derogation; producing organic nitrogen per hectare of greater than 170 kg.. We note that in 2008, over 50% of the top quintile of dairy farms were in this range. We note a decline of 27% of those in the top quintile in the derogation range. The next quintile has half the proportion of the top and has remained relatively constant, while the lower quintiles have very low proportions, but increased slightly (due however to exits of the lowest stocked farms).

Lalor et al. (2010) also report a reduction in soils with excessively high levels of P over that period; At the national level, P fertiliser use has declined by 6 kg ha<sup>-1</sup> (55 %) for grassland and 5 kg ha<sup>-1</sup> (16-30 %) for arable crops between 2003 and 2008. The proportion of tested soils with excessive P (Index 4) has declined from 30 % to 22 % between 2007 and 2011 (Lalor et al., 2010), falling to 18% in 2012. Research on Teagasc's Agricultural Catchment Programme (ACP) has shown that on 5 catchments, between 6 and 26 % of soils had excessive P status, showing the legacy of historic P surpluses (Wall et al., 2012). Large spatial variability was found at farm and field scale, indicating scope to correct imbalances with better nutrient management.

However it may be difficult to observe the impact of the reductions in high levels of P in the period since 2007 as there are significant lags in relation to the impact of changes on farm to changes in water quality. Schulte et al. (2010) used a 'Soil P Decline' model to evaluate this expectation for 4 ACP catchments. At a field P deficit scenario of -7 kg P ha<sup>-1</sup> it was predicted that an average of between 5 and 20 years would be required for all Index 4 soils to reach index 3. Paradoxically there is a concern that more recently that P levels are sub-optimal, with increases in the proportion of land with Phosphorous Index 1 and 2 increasing from 40% in 2007 to 59% in 2012, which will lead to reduced farm level productivity (Shortle, 2013).

O'Donoghue et al. (2013) using later data now available from the 2010 Census of Agriculture, showed that the contribution to Agriculture to Water Quality has declined over time both in terms of intensity and in terms of efficiency, while the contribution in terms of intensity by septic tanks has increased, indicating that Public Policies and resulting farmer behaviour has seen a relative improvement in Water Quality outcomes; albeit it takes a long time for the direct impact of these changes to be visible.

Given the relatively high contribution of the Agri-food sector to Greenhouse Gas Emissions in Ireland (~28%), policies to achieve EU greenhouse gas emission reductions are likely to be challenging for the sector (Hynes et al, 2009b). Nevertheless emissions per unit of output are amongst the lowest internationally (Leip et al., 2010), and so that with rising global demand for food and with limited opportunities for substitution that reductions in production in more efficient countries such as Ireland may result in global increases in production. However policy announcements by the Minister for Agriculture in December 2013, indicate that Agriculture and Land Use may be classified as a third pillar recognising this paradox, where a greater emphasis will be placed upon achieving improved efficiency in production, with decisions in relation to production related emissions occurring at the EU level.

Recent Department of Environment (DECLG) proposals in 2013 for Irish Agriculture to be “Carbon Neutral” would inevitably mean an enhanced role for forestry in Ireland. However, despite relatively better economic returns from forestry relative to lower margin agricultural enterprises such as cattle production (Ryan et al., 2010; Upton et al., 2013) there are still challenges in relation to achieving national forestry planting targets (Upton et al., 2014). Factors such as the long term nature of returns of uncertainty in returns, the irreversibility of the decision and costs to the decision to invest in forestry (Wiemers and Behan, 2004), attitudinal preferences in relation to forestry versus agriculture amongst farmers and changes in land value (Howley et al., 2011; Howley, 2013); Land Use Values and Trust related issues (McDonagh et al., 2013). Duesberg et al. (2013) highlighted that profit showed that while profit goals did not significantly influence the decision-making with regard to farm afforestation, structural as well as attitudinal factors played a vital role in this process resulting in the failure of current incentive schemes to deliver planned targets.<sup>7</sup> Achievement of Carbon Neutrality through enhanced use of forestry as a land use will require alternative levers.

There have been significant policy measures introduced over time to promote environmental sustainability both in terms of regulation and subsidy. For example over €3bn has been spent on the Rural Environmental Protection Scheme (REPS) and the Agri-Environmental Options Scheme (AEOS) since 1994. In 2009 alone, 60,000 or 45% of all farmers participated in agri-environmental schemes. However, participants tended to concentrated in the drystock sectors farming less profitable farms than the average (Hynes and Garvey 2009; Murphy et al, 2011).

Finn and O’hUallachain, (2012) reported that there was an improved attitude to environmental management amongst farmers who participated in REPS and that a majority of farmers undertook biodiversity measures. Hynes et al., (2008a) highlight the resulting changes in farm chemical input usage and the production of negative externalities, as a result of participation. Finn and O’hUallachain commented that the voluntary nature of the scheme and the measures undertaken was problematical as was the lack of spatial targeting and the lack of coordinated actions. They found that the lack of a baseline and limited evaluation made it difficult to undertake an appropriate cost-benefit analysis. However, since the introduction of Agri-environmental schemes, fertiliser over-usage has reduced and greenhouse gas emissions have reduced. Other challenges in relation to the use of regulation to achieve environmental outcomes is that the cost of alternative mitigation measures varies (Hennessy et al., 2005; O’Brien et al.,

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<sup>7</sup> There has been a similar reluctance to undertake land use change for alternative enterprises such as Energy Crops (Clancy et al., 2013), due in part to economic incentives but also related to supply chain factors (Styles et al., 2008).

2013), and in addition these costs vary not only between measures but also between farmers and Chyzheuskaya et al. (forthcoming).

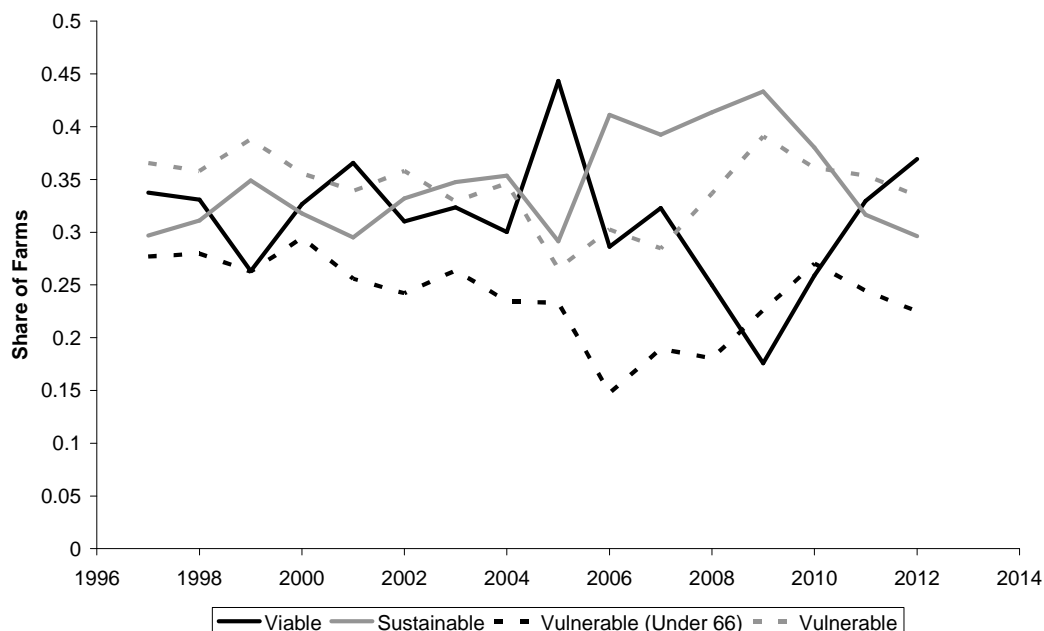
### 3.4 FARM VIABILITY

The flipside to the potential for volume expansion in the dairy sector are the income generation challenges that exist in sectors such as the dry-stock (Cattle and Sheep) sector (Table 3.5). Ensuring a fair standard of living for the agricultural community was one of the key objectives of the Treaty of Rome.

Teagasc use a measure used known as viability to assess the income return to farming (Frawley and Commins, 1996), where a farm is deemed to be viable if it generates a farm income sufficient to pay family labour at the Minimum Agricultural Wage and to provide a 5% return on non-land investments; in other words can a farm generate a return greater than the opportunity cost of labour and assets.

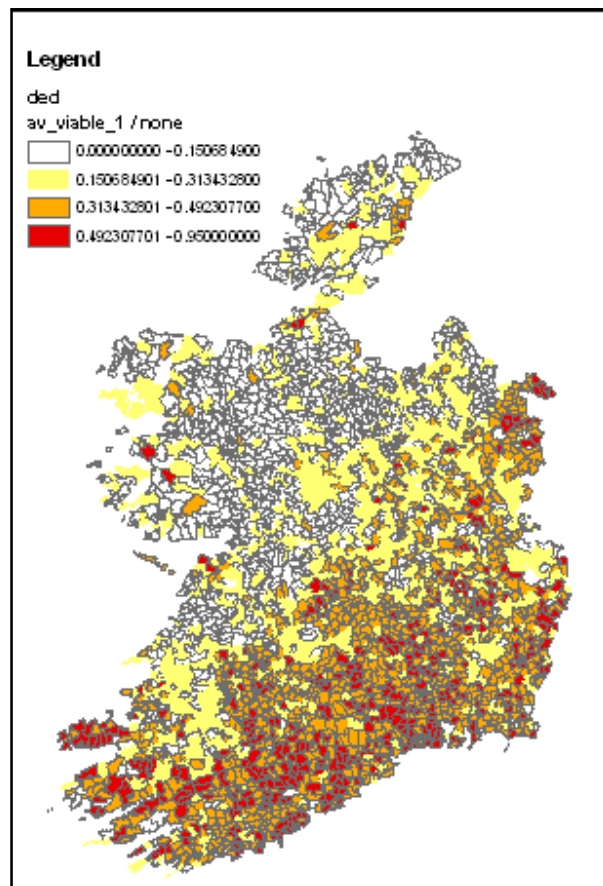
Figure 7 reports the trend in farm viability over time. We observe a gradual downward trend in farm viability until 2009, resulting from the cost-price squeeze. Innovation was not happening fast enough, nor are subsidy payments sufficient to offset the impact of market input and output prices changes. The recent recovery in agricultural markets since 2009 has been accompanied by a substantial increase in the viability rate from 18% to 37%. However, this still remains a low percentage. This rate rises to 41% amongst farmers under 66 years of age, but is less than 24% for farmers aged 66 or over in 2012. These viability pattern also has a significant regional (Hennessy, et al., 2008) and spatial dimension (O'Donoghue et al., 2013).

**Figure 3.7 Farm Viability, Sustainability and Vulnerability 1996-2011**



Source: Teagasc National Farm Survey

Figure 8 maps the spatial pattern of viability using the Teagasc Simulation model of the Irish Local Economy. The pattern of viability tracks the Commins-Frawley (1996) line from Louth to Kerry, with higher viability to the South and East and Lower to the North and West, reflecting underlying agronomic conditions in Ireland.

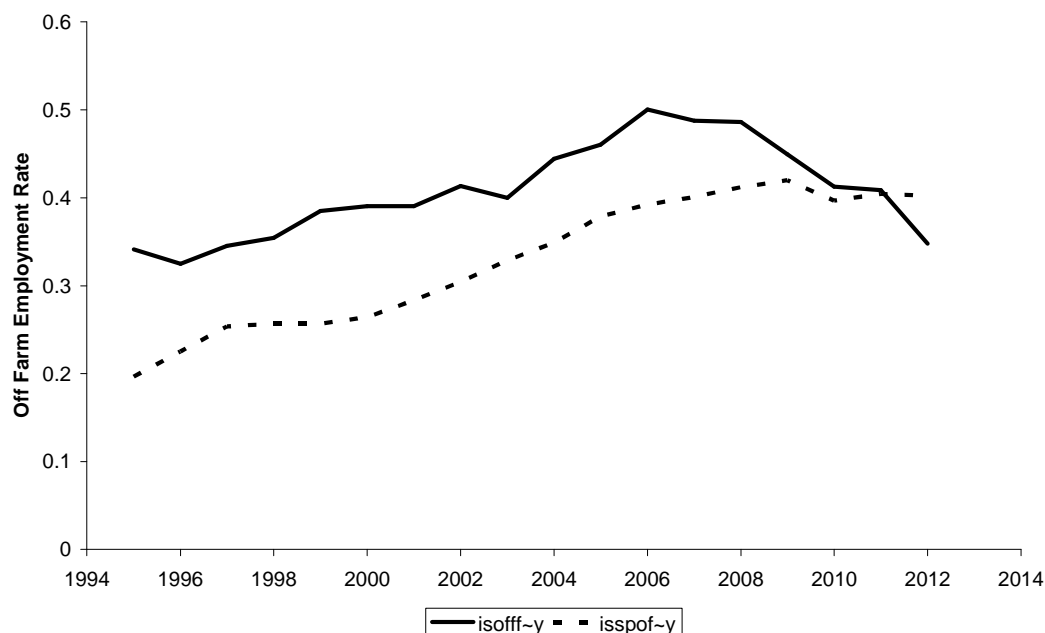


**Figure 3.8 Spatial Pattern of Viability**

Source: Teagasc Simulation Model of the Irish Local Economy

Sources of non-farm income are therefore very important for the sustainability of farm households. Improved economic conditions saw an increase in the employment rate for both farmers and their spouses over time (Figure 3.8). However the economic crisis has resulted in a collapse in the employment rate of farmers, losing all of the gains of the Celtic Tiger in just over 2 years. This is as a result of farmers working off-farm in riskier sectors such as construction. Given the white collar and public sector nature of the jobs of farm spouses, they have not been as adversely affected as their spouses.

**Figure 3.9 Off Farm Employment (All Farms where Farmer is under 66)**



Source: Teagasc National Farm Survey

Note: These number refer to all farms where the farmer is aged under 66, including farmers without a spouse

The result of this can be seen in figure 3.9, where the share of sustainable farms, (whose incomes are below the viability threshold have off farm income) has fallen and vulnerable farms (whose incomes are below the viability threshold and without off farm income) have risen since the economic crash. While growth in the sector since 2010 has increased the proportion of viable farms, it has had little impact on the rate of vulnerable farms which require other sources of income for long term sustainability.

This creates significant requirements for a public policy response to both re-skill farmers who require off-farm income sources and to undertake rural economic development programmes to increase the labour demand in rural areas.

### 3.5 THE IMPACT OF POLICY

A common narrative across this paper is the prevalence of policy as a driver of outcomes within the sector; largely determined at the European level via the Common Agriculture Policy (CAP). The Common Agricultural Policy has its origins in the food shortages that occurred in Europe during and after the Second World War (Oskam et al., 2010) and whose original objectives were to increase agricultural productivity, ensure a fair standard of living for the agricultural community, to stabilise markets, to assure the availability of supplies; and to ensure that supplies reach consumers at reasonable prices. To these, one might add four further objectives that have become implicit in subsequent policies, the objective of delivering global food security, the production of output from the land in a way that is sustainable in maintaining the productive capacity of the land for future generations and to deliver environmental public goods and services, to facilitate restructuring within the agricultural sector to enhance the delivery of the



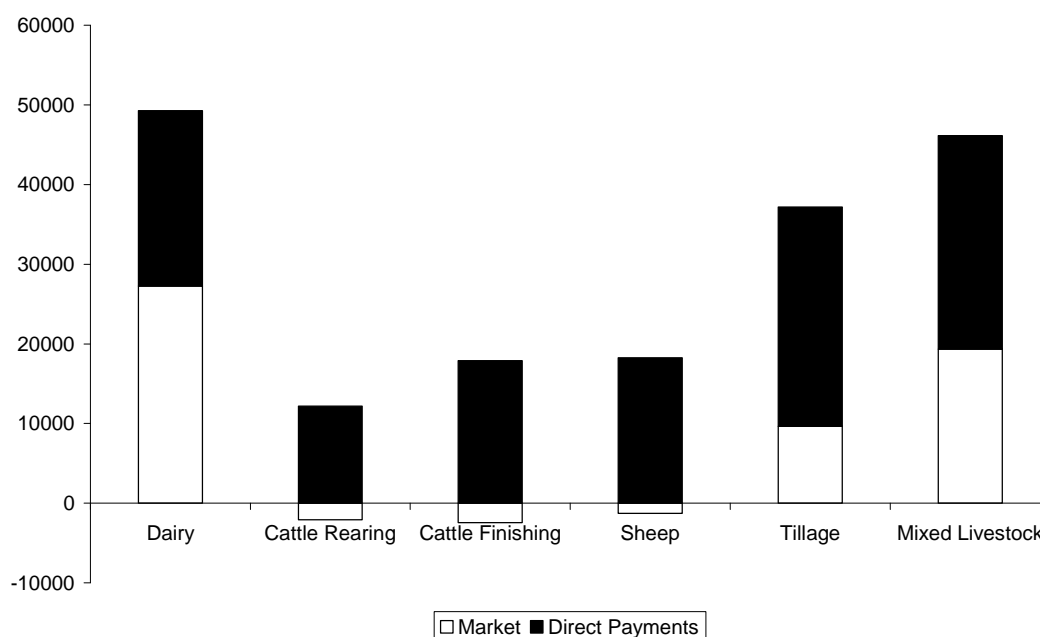
core objectives and to improve quality and hygiene aspects of food production via food safety legislation.

### *The Contribution of Subsidies*

The primary agricultural sector remains highly reliant on subsidy income. Typically according to CSO agricultural output statistics, about 65% of factor income comes in the form of subsidies, largely coming from the Common Agricultural Policy. These payments are thus very important in maintaining the viability of the primary agricultural sector on which much of the wider sectoral returns are based.

There are considerable differences in the reliance on subsidies across the various farm sectors. Of all the farming systems contained in the Teagasc National Farm Survey (NFS), the dairy farm system is the only farm system that consistently returns a market based profit. In figure 10, we report average family farm income across different farm systems for 2012.

**Figure 3.10 Family Farm Income by Sub-Sector (2012)**



Source: Teagasc National Farm Survey

### *Policy Change over time*

While there are many reasons to be optimistic about agriculture's role in Ireland's economic recovery, it is important to be realistic and to identify some potential bumps in the road ahead. First, it is important to note that agriculture continues to be a sector characterised by significant reliance on government subsidies. At an aggregate level, subsidies, mostly coming from Europe, amounted to approximately €1.7 billion in 2010 or almost 70 percent of sector income. Some sectors of agriculture are more reliant on subsidies than others; the beef sector which is mostly comprised of a large number of small farms is particularly reliant on the "cheque in the post".

While such a high reliance on subsidies is problematic in itself, the issue is further exacerbated by the ongoing review of the Common Agricultural Policy's Single Payment Scheme. Although not yet finalised, it has been agreed that the overall value of subsidies flowing to Ireland from the EU will be reduced slightly and that the method employed for distributing these subsidies among farmers will be overhauled. It remains to be seen how these policy changes will affect the competitiveness of the sector and its ability to expand in the future.

Until the MacSharry reforms in 1992, the main instruments of the CAP to achieve its objectives were market related instruments aimed to control quantities of supply and price through the use of Common Market Organisations (CMOs) for individual commodity areas with the aim to maintain a particular price.

Resulting from budgetary pressures and pressures from the GATT/WTO Uruguay round, the MacSharry reforms of 1992 introduced a set of direct payments to compensate farmers for the reduction in direct market supports. Although these instruments were mainly introduced post 1992, a number of premia payments as they were known were introduced in 1980's (Frawley et al., 2000). Incentives were introduced to protect the environment, with the introduction of the Rural Environmental Protection Scheme in Ireland in 1994. This scheme was voluntary, although initially limited to 40 acres, it was eventually expanded across 4 different versions of the programme. The Berlin Agreement or Agenda 2000 reduced support prices for agricultural beef, cereal and dairy commodities, compensated by increases in direct payments and increased milk quota.

Since the 1992 MacSharry reform, there have been reductions in intervention prices, export subsidies and import protection, as well as the abolition of most supply management measures. The Fischler reforms in 2003 focused on further increasing the market orientation of the CAP by allowing for the decoupling of distortionary farm support payments from production. This was accompanied by cross compliance measures that enhanced environmental sustainability. Ireland employed a method for calculating the level of payment that is a function of historic entitlements. The advantage of the SFP is that in theory they have no distortionary impacts as the amount of payment is independent of actual production.

However Silvis and Lapperr (2010) and Breen et al. (2005) outline a number of reasons why decoupled payments may still influence behaviour to some extent:

- Although production does not influence the payment, the payment will influence farmer's incomes and so may induce an income or wealth effect
- As many farms operate at a loss, the payments slow down restructuring by allowing farms continue to operate at a loss.
- Farmers are risk averse. The flat rate payments increase the proportion of reliable income and reduces the proportion of volatile income subject to market prices and weather risk etc.
- As to a large extent (although not exclusively) entitlement depends upon land, the availability of these payments may end up being capitalised in the value of land and thus affect property prices, which may affect the relative prices faced by farmers
- It may also enhance liquidity allowing for more investment

Nevertheless while the exit rate of low margin farms has been smaller than theoretically expected, there is some evidence of destocking amongst lower margin farms (O'Donoghue and

Howley, 2012) and of exit for farms engaged in livestock production and those that were already in the process of leaving the sector (Kazukauskas et al., 2013).

### *Impact of CAP Reform Post 2013*

As part of the EU budgetary reforms in 2013-14, further changes have been proposed to the CAP to reduce the cost of the programme, to target a number of behavioural changes such as improving the environment, incentivising young farmers, supporting small farms and those with poor agronomic conditions and reducing anomalies where payments were based upon production from more than 10 years earlier. The proposed new CAP contains seven programmes of which 3 are compulsory; Basic Payment Scheme (BPS), the Greening Payment Scheme (GPS) and the Young Farmers' Scheme (YFS).

The objective of the BPS is to converge on a national or regional average payment level by 2019. The move to per hectare payments is primarily justified on equity grounds, but also due to the fact that current payments in 2013 are based on farm activity from a decade earlier. However the objectives of this structure are less than clear as they are neither purely equity based, which would demand a per household transfer, focused on delivering environmental public goods, which would reflect the opportunity cost of lower production or food security based, which might justify a coupled dimension.

Hanrahan and Hennessy (2013) conducted an economic analysis of a number of scenarios relating to the Basic Payment Scheme, Voluntary Coupled Support Scheme and Redistributive Scheme. Five scenarios are analysed, each with the same basic convergence model (the so-called internal convergence model) but with differing levels of the Pillar I direct payments budget allocated to coupled support and redistributive payments. The details of the five CAP reform policy implementation scenarios analysed are as follows:

- MIN: assumes the minimum level of redistribution with no Voluntary Coupled Support Scheme (VCSS) and no Redistributive Payment Scheme (RPS)
- MID: half of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX: all of the allowable VCSS fund is used and paid on both suckler cows and ewes
- MAX Cows: all of the allowable VCSS fund is used but paid only on suckler cows
- REDIST: assumes no VCSS payments but the full allowable RPS fund is used and an additional payment is made on the first 32 hectares.

In general, greater numbers of farmers gain under the MID and MAX scenarios relative to the MIN scenario. However, for most farms the income changes (gains and losses) are small, i.e. less than 10 percent, of those experiencing more substantial income changes, the effect tends to be negative rather than positive. Similarly with farm output, approximately 25 percent of aggregate farm output is generated by farms that would lose 10 percent of their income or more under the MIN scenario, with the proportion increasing to 30 percent of output under the MAX scenario. This suggests that those farms that gain from the coupling of direct payments to production tend to account for a smaller proportion of output than those that lose.

The results show that, as expected, Cattle Rearing and Sheep farms benefit from coupling and would experience higher incomes under MAX relative to MID or MIN. Average Cattle Rearing farm income increases by €750 going from MIN to MAX, but the average income decreases by

€1,000 on Tillage farms, by €750 on Dairy farms and by €200 on Cattle Other farms. However, an income gain of €750 represents a larger proportion of income on Cattle Rearing farms than on Dairy farms. While coupled payments increase the profitability of suckler cow production, the effect is found to be marginal. For all farmers the net benefit of the coupled payment is less than the gross amount of the VCSS coupled payment. On Cattle Rearing farms that are currently loss making the receipt of the coupled payment is often insufficient to make them profitable.

Over 50 percent of farms would experience an increase in their income under the REDIST scenario relative to their current position and up to one-third of farmers would see their income increase by more than 10 percent. However, those farms that gain the most tend to account for a relatively small proportion of output. The one-third of farms that would experience a more than 10 percent increase in their income account for 11 percent of national output, while those losing 10 percent of their income or more account for almost 40 percent of total farm output. The negative impact of the REDIST scenario on farm output is even more pronounced in certain sectors. Less than 1 percent of Tillage farms would experience an income increase of 10 percent or more under the REDIST scenario, while 38 percent of Tillage farms would see their income falling by 10 percent or more. Furthermore, 61 percent of crop output is generated on farms losing 10 percent of their income or more.

**Table 3.5 Income Impact of CAP Reforms under Various Scenarios relative to 2010 Income Levels<sup>8</sup>**

Dairy						
	Numbers of Farms			Output		
	Min	Mid	Max	Min	Mid	Max
%gaining	21	13	8	15	11	7
change <10%	91	87	84	90	85	81
Loss	4	8	13	8	12	17
Gain	4	4	3	1	1	1
Tillage						
	Min	Mid	Max	Min	Mid	Max
%gaining	4	5	5	11	14	1
Change <10%	62	61	55	59	39	2
Loss	37	39	44	57	40	2
Gain	1	1	1	45	52	3
Sheep						
	Min	Mid	Max	Min	Mid	Max
%gaining	29	53	64	20	40	48
change <10%	58	64	59	55	60	55
Loss	26	15	12	34	25	21
Gain	16	22	29	5	7	7
Beef						
Cattle Rearing				ALL BEEF OUTPUT		
	Min	Mid	Max	Min	Mid	Max
% gaining	45	63	73	19	25	28
change<10%	45	46	41	51	51	49
Loss	27	17	14	40	37	38
Gain	28	38	46	9	12	15
Cattle Other						
	Min	Mid	Max			
%gaining	27	27	30			
change<10%	44	40	35			
Loss	44	44	49			
Gain	13	16	16			

Source: Hanrahan and Hennessy (2013)

<sup>8</sup> It should be noted that the income impacts are static and only account for the changes in income arising from the changes in the Single Farm Payment, that is no knock-on production or structural change effects are considered.

### **3.6 SUMMARY AND CONCLUSIONS**

Recent policy reforms such as milk quota abolition, CAP reform and export growth within the Agri-Food has seen a growing visibility in public debate. In this paper we assess the economic characteristics of the sector and consider prospects for expansion. Given the removal of milk quota in 2015, there remains an opportunity to expand for the first time in 30 years, particularly in the dairy sector. Nevertheless there remain challenges to expansion, including land access, elderly age profile, the uptake of technologies, the financial strength of this sector, increasing price volatility and environmental constraints. The paper also highlights income challenges in terms of low viability rates that affect particularly the drystock sectors and the severe impact that the economic down turn has had on off-farm income.

The agricultural sector is one that is highly influenced by policy, both in terms of regulation and in terms of impact of agricultural subsidies on total income levels. We consider in this paper the impact of recent policy announcements, highlighting that while most sectors had net losses, given the reduction in total expenditure, those sectors with the highest levels of output were those who lost most.

In summary, recent policy changes and rising global market demand has enabled have set the conditions for expansion in the dairy sector, while the competitive nature of Ireland's grass based systems allow for the sector to take advantage of these opportunities. While, the pent up capacity and existing build-up of livestock is likely to see an immediate expansion, medium term expansion may not be fully realised unless inherent disincentives to restructuring are reduced. Without restructuring, the continuation of large number of farms in receipt of non-viable incomes is likely to continue in parallel to the expanding dairy sector. Given the importance of policy to decision making and income generation in the sector, policy innovation is necessary to facilitate this.

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## **Chapter 4. THE SPECIALITY FOOD SECTOR**

Maeve Henchion

### **4.1 INTRODUCTION**

The food sector in Ireland is experiencing a renewed growth phase as global demand increases and capacity constraints such as milk quota are removed. National strategies such as Food Harvest 2020 strategy deal with the development of the agricultural sector and the wider food processing sector, hence we limit ourselves to a segment of the food sector relating to SME's in the food sector. However it should be noted that the success of this segment of the sector relies on the strength and products from the wider sector.

The reasons for focusing specifically on this segment include the significance of the food sector to the national economy, the relatively high number of food businesses located in rural areas, and the significant local economy multiplier effect. The presence of a high proportion of micro enterprises in the sector (with implications for design and delivery of support) and the fact that such enterprises may be less growth intensive than other sectors is also of note. Other characteristics of the sector include its relatively low entry barriers, high labour input, and attractiveness to people from all walks of life.

### **4.2 CONTEXT**

As context to the chapter, in this section, we provide some information about the wider food sector before focusing more specifically on the speciality sector.

The food sector is of significant importance in Ireland. It is the third largest merchandise export sector and since the economic crash in 2008-2009, the sector has seen exports grow at a faster rate than any of the other large exporting sectors and faster than the growth rate in total exports. It accounted for 25 % of Ireland's total increase in export revenues (CSO), reaching an all-time high of nearly €9 billion in 2012.

The wider bio-economy sector, which incorporates other sectors built around natural resources and includes the beverage sector, infant milk formula sectors etc., is a major source of net export earnings (Riordan, 2012). It accounted for about 19% of exports in 2008 (compared with 10% in food) but accounts for 40% of net foreign earnings due to lower import requirements per euro of exports, higher receipts of EU payments, a higher local multiplier, a lower share of international ownership and repatriation of profits. In terms of Balance of International Payments flows per €100 of merchandise exports, in 2008 every €100 of exports from the bio-economy generated €52 in net foreign earnings. In contrast, exports from the non-biosector, contributed only €19 in net foreign earnings for every €100 of exports. Thus the net impact on the economy of this sector is significantly higher than the share of national output would indicate. Thus a growing bio-economy and food sector can have a major impact on the national economy.

The basis of much of this industry is the structure of our family farm, grass based production systems. These ensure high quality products that are produced in a sustainable fashion and that can support a widely dispersed agricultural sector.

The Food Harvest 2020 (FH2020) strategy for Smart Green Growth within the sector, through capitalising on opportunities arising from the abolition of milk quota restrictions in 2015, has an ambition to grow milk volume output in Ireland by 50% by 2020 and cattle value by 20%, amongst other targets.

The food processing industry and wider agri-business supply chains are very important value generators across the supply chain. Much of this sector is located within rural towns, towns that have been most affected by the economic downturn. Therefore it is a sector that has significant potential to create jobs and income growth in rural areas.

### *Drivers of Growth in the Food Sector*

The Teagasc 2030 Foresight details the key drivers of change for the food sector

- Commodity price trends and policy developments;
- Climate change;
- Energy supply and security;
- Environmental sustainability;
- Social and demographic changes;
- Market and consumer trends; and
- Advances in science, technology and innovation.

The drivers are multi-faceted, reflecting the complex nature of the industry and reflecting the embeddness of the sector within the wider economy. These drivers have both advantages for the sector in terms of the general positive outlook for demand for food, but also present significant challenges and risks for the industry.

### *Speciality Food Businesses*

Speciality food<sup>9</sup> production in Ireland was valued at approx. €615 million in 2012 (Mintel, 2012) and originated from about 350 producers, employing more than 3,000. This reflects an increase in both numbers and value over time: there were approx. 60 producers in 1996<sup>10</sup> and estimated turnover of €450 million in 2004 (Taste Council, 2004). Approx. 70+ of these are believed to be artisan<sup>11</sup> food producers, accounting for some 23% of the speciality market in Ireland (Teagasc, 2010, cited in Mintel, 2012). The farmhouse cheese sector is quite a high profile group, accounting for about 50 producers. Other significant groupings are seafood, bakery (approx. 200 craft bakeries<sup>12</sup>) and chocolate. Increased consumer interest in the provenance of food, environmental concerns, health and a desire to support the local economy underpin strong future

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<sup>9</sup> Speciality food is defined according to the Bord Bia definition, i.e. micro and small firms with individual turnover levels of between €100,000 and €3.5 million per annum.

<sup>10</sup> Submission to Agri Vision 2020 by Taste Council, available at <http://www.agriculture.gov.ie/media/migration/agri-foodindustry/foodharvest2020/foodharvest2020/submissionsreceived/Taste%20Council%20amended%20submission.doc>, accessed 26/06/2013

<sup>11</sup> Artisan food is defined according to the Teagasc definition, i.e. it is unique, usually handmade with a distinctive taste and flavour, with its own 'persona'. It is also defined by the skills and beliefs of those who make the food.

<sup>12</sup> Source: FCBA – the Flour Confectioners and Bakers Association, pers comm., 10/07/2013

growth prospects (Mintel, 2012), in spite of high levels of unemployment and economic concerns.

Speciality foods are sometimes distinguished from artisan and local foods, even though they are clearly interrelated. Speciality foods are characterised as being premium products, commanding a premium price, with unique characteristics and available on a regional (and sometimes international) basis. Examples include Mileevan Honey, Butlers Chocolates, and Wicklow Fine Foods. Artisan foods are generally viewed as a sub-set of speciality foods. They pride themselves on being unique, and focus on traditional methods of production so that the craft aspect of production is emphasised. The product and producer's identity and superior taste are also strongly emphasised. They generally have a relatively higher price and more limited or exclusive distribution (Taste Council, 2004). Examples include Woodcock Smokery, Wicklow cheese, and Áine's chocolates. Local foods are foods produced within a limited region. For many Irish consumers, local means Irish (Henchion and McIntyre, 2000). In bigger markets, local is defined as being produced within a certain radius, e.g. 100 km. For simplicity this document will focus on speciality foods however where issues are pertinent to the artisan or local food sector in particular this will be highlighted.

#### *Economic Significance of the Speciality Sector*

The significance of speciality food producers to the local economy is highlighted by a UK study which shows that every £1 spent on local food in a local outlet generates £2.50 for the local economy (NEF, 2001). Assuming sales of 90% of output locally (as suggested by the Taste Council) (i.e. €450 million) this results in €1.125 billion revenue for the local economy. Increasing speciality food's share of the national food grocery and foodservice markets from 3% to 6% would result in circulation of over €2 billion in the local economy. Furthermore the Taste Council estimates that doubling market share and revenue (over a 10 year period) could increase employment by one third, creating 1,000 new job opportunities. This will require 650 new entrepreneurs. There are positive indications regarding the feasibility of achieving such numbers; interest in the sector is high as demonstrated by the level of enquiries by new food entrepreneurs received by agencies such as Teagasc, Bord Bia and Enterprise Ireland. However the challenge will be translating these enquiries into profitable, sustainable businesses.

Food Harvest 2020 has acknowledged the significance of the artisan food sector. Its contribution to the international image of Ireland as a source of high quality food and drink and as a tourism destination is also acknowledged. In addition, it is widely recognised that the speciality food sector represents a significant opportunity, particularly when compared to countries such as New Zealand or the Netherlands. For example, New Zealand has over 2,000 speciality food producers (excluding wine) (Taste Council, 2004) compared to 350 in Ireland whilst there are over 100 farmhouse cheese producers in the Netherlands compared to almost 50 in Ireland.

Teagasc identifies a range of product opportunities for those considering artisan food production, including dairy products, meat products, bakery and beverages<sup>13</sup>. However there is potential, and need, for more innovative products to achieve growth. New Zealand speciality food has a strong

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<sup>13</sup> [http://www.teagasc.ie/ruraldev/artisan\\_food/enterprise\\_options.asp](http://www.teagasc.ie/ruraldev/artisan_food/enterprise_options.asp)



international market presence (NZ\$8.75 million in 2006) and is recognised as often being first to market with new niche concepts e.g. avocado oil<sup>14</sup> ().

### *The Market*

The current market for artisan and speciality food is essentially at home, accounting for a 3% share of the local market for food grocery and food service (the total grocery and foodservice market was worth €14.5bn in 2008). Bord Bia estimate that only 10% of the output of this sector is destined for exports. However many producers have developed successful export businesses, particularly smoked salmon producers (e.g. to Europe, US and Japan) and farmhouse cheese (focus on UK but presence in markets as far away as Japan).

While consumers are increasingly price driven as a result of the current economic downturn and discounting within the food retailing sector, factors such as increased concern with ethical issues such as food miles, traceability, provenance and organic farming, are leading to increased demand for food products that fit these criteria (Mintel, 2012). The growth in in-home entertaining, fuelled by the increase in cookery classes and the recession, means that there are opportunities to provide products that allow consumers to trade-up for such meal occasions. The increased consumer trend of wanting to support local businesses is another opportunity; restaurants in particular are responding. Organisations such as the Fine Food Guild have a role here according to Mintel (2012); they could organise more events targeted at enabling artisan producers meet with chefs.

Artisan food product categories do not however perform uniformly well. According to Mintel (2012) artisan yoghurt and milk products are not performing well as they are viewed as commodity items by consumers. This contrasts with significant growth in bakery products, butchery products and other dairy products such as Irish farmhouse cheeses. Craft beers and charcuterie are also growing well (25% growth in 2011) as consumers are more aware of the distinction between these products and the mass produced alternatives in these categories (Bord Bia, 2011, cited in Mintel, 2012).

Consumers need to “connect” with artisan foods and while tradition can be a strong selling point, products should also show a degree of innovation. Furthermore, effective communication with the consumer on the unique characteristics of the product is critical. Social media is seen as a useful mechanism for consumer engagement, including feedback on current offerings and ideas for new products.

### *Marketing channels*

Consumers generally shop at the mainstream supermarkets for their grocery shopping. Expansion of retailers’ own brand ranges to highlight provenance has affected the market for

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<sup>14</sup> Submission to Agri Vision 2020 by Taste Council, available at. <http://www.agriculture.gov.ie/media/migration/agri-foodindustry/foodharvest2020/foodharvest2020/submissionsreceived/Taste%20Council%20amended%20submission.doc>, accessed 26/06/2013

artisan foods. Furthermore, the increase in the range of local produce sold by discounters resonates with consumers motivated by supporting the local economy. This is impacting on artisan food sales (Mintel, 2012). While the Taste Council argue that a major bottle neck in achieving sales in this channel is retailers' understanding of artisan and speciality foods (2004), significant work by Bord Bia, with support of the retailers, has helped to improve both parties understanding of each other. On-going training to help producers understand retailers' requirements, with significant involvement by retailers to ensure two-way interaction, would be beneficial.

Specialist retailers including butchers, greengrocers, bakeries and delicatessens are important outlets for local food. However, they have a higher percentage of lower socio-demographic groups (C2DEFs) shopping in them regularly compared to higher socio-demographic groups (ABC1s) (Toluna February, 2012, cited in Mintel, 2012). While the primary target market of speciality food producers in general is ABC1s, increased penetration of this retail channel could help reduce the perception of elitism associated with artisan foods and that artisan foods are only aimed at "foodies". The high levels of trust consumers have in butchers, along with the high level of personal interaction they have with each other suggests significant potential in this marketing channel.

Farmers' markets have grown considerably, with assistance from local enterprise boards, local authorities and LEADER companies as well as private businesses. They are now believed to have a turnover in excess of €10 million per annum. Almost 150 markets are listed on Bord Bia's farmers' markets lists<sup>15</sup> (compared to less than 100 in 2006) and 36 of these are successfully meeting the criteria of The Code of Good Practice for Farmers Markets, launched in 2009<sup>16</sup>. Farmers' markets are the primary route to market for many artisan producers (Mintel, 2012). They can be useful for start-up businesses commencing trading, allow a company to develop a loyal customer base in their local community, provide access to valuable customer feedback on their products as well as suggestions for new products; and have a role in guaranteeing regular cash flow. However the low frequency with which consumers attend farmers' markets and relatively high number who have never attended a farmers' market (31% of consumers in Ireland (Toluna, February 2012, cited in Mintel 2012)) means that it is difficult to significantly grow a business based on such outlets. The perception of targeting "foodies" restricts the customer base.

<i>Farmers' Markets: A mechanism to engage with consumers</i>
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Glenilen Farm, despite having significant sales in Tesco, Supervalu and Centra, set up a stall at Mahon Point Farmers' market in Cork in June 2011 to enable them to get "back in touch with its roots" (Mintel, 2012).
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Other direct sales routes include farm shops (20 farm shops on Bord Bia website) and on line sales.

<sup>15</sup> <http://www.bordbia.ie/aboutfood/farmersmarkets/pages/default.aspx>

<sup>16</sup> The code of good practice relates to undertaking to hold markets regularly; to stock a substantial proportion, ideally 50%, of local produce from the county or neighbouring counties; to accommodate seasonal and local garden/allotment produce, as well as compliance with food safety/labelling rules and criteria on good governance.

The catering sector, particularly fine-dining and local restaurants are important customers for specialty food producers. They have untapped potential according to Mintel (2012). Foodservice distributors such as Pallas Foods and Crossgar Foodservice are developing ranges that highlight the quality and provenance of their products, highlighting the demand for local produce. Consumer want to be able to justify their spend, so while they are still looking for value for money they are also looking for “something a bit different”, and also increasingly they want to support local businesses (Mintel, 2012). Fostering linkages between artisan producers and chefs is important in developing this channel. Organisations such as the Fine Food Guild, that champion small, independent producers, could have a role here according to Mintel. Another organisation that could be active in this space is the Craft Butchers of Ireland. Visibility and ease of sourcing products is also a challenge to further development of this sector. Mintel (2012) recommend that artisan producers improve their visibility “to make it easier to take the effort out of restaurants, pubs and hotels seeking out local produce” (p27).

The trend towards street food and pop-ups (see Glenisk pop-up [http://www.glenisk.com/press/news-and-research/pop\\_up/](http://www.glenisk.com/press/news-and-research/pop_up/)) offers an interesting channel for new food businesses and in the case of companies such as Glenisk an opportunity to meet customers face-to-face.

The increased interest in home cooking provides an opportunity for artisan producers to link with new and existing cookery schools, and in particular to show how their products can be incorporated into recipes that are not prohibitively expensive. Furthermore, to assist consumers with low levels of cookery skills, an app that has demonstrations of meals incorporating speciality ingredients would be useful (Mintel, 2012). Burren Smokehouse launched an app that provides recipes on using its products and news on special offers in December 2011 (Mintel, 2012).

Online sales give an opportunity to target the export market as well as the domestic market, e.g. O’Doherty’s black bacon has expanded sales to the UK through this channel. However Amas (2012) report that 51% of Irish SMEs do not buy online and 40% do not have a website. In addition, they believe that there is a big gap between using the internet and making it work for business. They report that Irish food producers are generally quite poor at using the internet, do not integrate it well into other marketing elements, are not taking the opportunity to “tell a story” well, and overall could do a lot more. (However they note that feedback from Irish food producers indicates that most trade customers prefer traditional ordering.)

As well as facilitating e-commerce (through a producer’s own website or a 3rd party website), the internet can be used for online marketing to build a food brand, i.e. it has a significant role to play in terms of promotions and developing a “food community” to support local/artisan foods. Social media is an important element in developing a good food website. Facebook is recommended as a medium to engage with existing and potential new customers (Mintel, 2012). It has a significant impact on sales for some producers. A producer of free-range and rare breed pork and bacon reported that 40-50% of her sales comes from Facebook and Twitter (In Business – Tasty Foodie Bytes – Q3 2011, cited in Mintel, 2012).

The Burren Smokehouse: telling the story of a brand to connect with customers.
This established premium food business, specialising in smoked salmon, trout, mackerel, and cheese, makes considerable use of the internet for online sales to countries all over the world. They established their first site in 1996 and have had five new versions since. They make extensive use of social media including Youtube, facebook, Linked In, twitter and vimeo. <a href="http://www.burrensmokehouse.ie/">http://www.burrensmokehouse.ie/</a>

Distribution and marketing has always been a challenge for small scale producers. The Taste Council (2004) recommends that such food companies should investigate cooperative/group marketing, i.e. co-opetition. The activities of the Western Organic Network supported the development of the Carrick-on-Shannon Farmers Market and Roscommon Farmers Market. Working with larger companies may also be an option, e.g. Cashel Blue is sold by the Irish Dairy Board in the US.

Co-opetition a means to creating efficiencies in the Supply Chain
In October 2010, a small group of cheese producers (Cashel Blue, Wicklow Farmhouse Cheese, Inagh Farmhouse Cheese, Milleens Cheese, Mossfield Organic Farm and Carrigbyrne Farmhouse Cheese) with complementary products got together to form Irish Cheese Direct. This is an example of collaboration between competing companies to produce and deliver an attractive wholesale and retailer business offer. The cheese makers use Oakland International to store and distribute their products to Musgraves and other retailers. The key account manager from Irish Cheese Direct, Tadhg O'Donovan, working with Oakland International is the single point of contact and enables swift order response and accurate retailer supply with no restrictions on order size and suppliers invoiced individually. This approach successfully provides a one-stop-shop for retailers to receive a large range of supplier products and allows the cheese producers to deal directly with retailers rather than through wholesalers or other third parties.

Analysis by Mintel (2012) suggests that artisan producers could take a dual-channel approach, with price-sensitive artisan products targeted towards large food retailers, thereby achieving volume sales with low margins, and a platinum range (that has export potential) with lower volume sales but higher margins offered at farmers' markets, online sales and speciality retailers, including the export market.

### *Opportunities and Challenges*

Establishment costs can be considerable for approved food premises. For example, the capital costs of building and equipping a medium-sized cheese manufacturing facility (1,250 sq ft capable of producing over 10 tonnes per annum) is approx. €100,000 excluding the cost of the site (Teagasc, pers. comm) while the equipment only costs for processing ice cream (60-80 litres per hour) is about €50,000 (Teagasc, pers. comm.). However, there are other options that food entrepreneurs could explore such as renting a food approved space, sub-contracting manufacturing<sup>17</sup> or packaging, and sharing facilities with others. A significant barrier to availing of these opportunities however is lack of awareness of the availability of such opportunities locally. The creation of a register of such opportunities, by a local agency such as the county enterprise boards (now local enterprise offices), would be helpful. Contact with agencies such as Teagasc and networking with other producers and entrepreneurs would also be helpful. Regulations relating to grant-aiding the purchase of second hand equipment are

<sup>17</sup> Cully and Sully is an example of a company that sub-contract manufacturing. Another example is of Slane Castle Whiskey. They previously sub-contracted manufacture to Cooley Distillery but announced an investment €12m in a distillery and visitor centre, creating 25 jobs in 2013.

expected to be loosened next year (where such equipment has not already been grant-aided) in an effort to further reduce costs; this is welcomed.

Key to increasing the size and impact of this sector is a more vertically integrated consumer focused supply chain. Bord Bia Pathways for Growth report identifies a number of issues for the sector generally:

- Fragmentation of the sector and a lack of trust across the supply chain
- A lack of consumer orientation with too great an emphasis on lower value added commodities and business-to-business sales rather than consumer focused sales
- Low confidence in the future

Access to funding for entrepreneurs is difficult as banks deem them high risk due to their stage of development, private investors and venture capitalists “speak another language”, and many start-up businesses do not have a nest-egg that they can tap-into. However, specific to food, barriers to accessing funding for farm-based food businesses through the Rural Development Programme created a barrier in the past. This should be avoided in the future. Equity crowdfunding may also be an attractive and innovative way to raise funds for small food businesses (e.g. [www.crowdcube.com](http://www.crowdcube.com), [www.kickstarter.com](http://www.kickstarter.com)). Crowdfunding is where many investors invest small amounts of cash in exchange for rewards and a stake in such a business. Such rewards could include discounts, personalised gift products, etc. Food is one of the best areas for crowdfunding (Nesta, 2013) as it is more accessible to people than technology for example, and people love to eat. Crowdfunding can be particularly attractive for the entrepreneur who is loathe to give control away; having lots of investors, rather than one large investor, helps to put more control into the hands of the entrepreneurs. Lack of awareness of the funding opportunities available to food businesses is another challenge and is undermining the success of entrepreneurs and government policies aimed at supporting small business growth. Increasing education and awareness of schemes, such as the Seed Capital Scheme, and removing barriers to access for these entrepreneurs is critical. Furthermore, as food entrepreneurs frequently have limited financial education, targeted marketing and accessible guidance specifically for food entrepreneurs (rather than a financial market), on existing enterprise financing initiatives would be helpful.

Innovation and new product development (NPD) will be required to support the growth of the sector without cannibalising existing businesses. It is also essential to getting buyers and consumers away from a narrow fixation on price to other product attributes. However, a lack of locally available facilities to undertake product development is a constraint. While a small number of incubation spaces exist (e.g. Teagasc, Ashtown, in Dublin, Hospital and Croom in Limerick) these are usually full, and those with vacancies may be too large. These facilities should be available locally given the time constraints on many entrepreneurs. However, alternatives could be explored, e.g. using kitchens in catering establishments during the off-peak season. A register of existing incubation facilities, as well as alternatives, would be of assistance. Innovation Vouchers available from Enterprise Ireland are very useful and allow products be developed and analysed efficiently. An additional spin-off is that they support the development of a relationship between the food manufacturer and the knowledge provider to provide a platform for further innovation. Broadening the eligibility criteria to allow private consultants to act as knowledge providers should be examined to further promote uptake.

The Food Hub: Scaling up from kitchen to manufacturing unit
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Food Hub in Leitrim: The Leitrim Food Hub, which is a state of the art food production facility, offers a community kitchen from where companies can move to a food ready unit. They have employed a manager with food expertise to provide support to clients and training can be availed at the centre. <a href="mailto:info@thefoodhub.ie">info@thefoodhub.ie</a>
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Communicating and engaging with consumers is important for this market. This is particularly so as price is a barrier to consumers, i.e. producers need to demonstrate that their products are worth paying more for. Producers need to communicate value including for example how their sales benefit the community when selling locally. Social media represents a very cost-effective way for food businesses to communicate with the customers, to obtain feedback, develop new products, etc. It is relevant for ingredient manufacturers as well as final product manufacturers in that it can be used as a platform to drive demand as well as function as a direct selling tool. ICT also offers a potential solution to the fact that consumers sometimes have difficulty finding local foods (Mintel, 2012) – apps, location based technology linked to locally based consumption, etc. have a role to play in addressing this barrier. Training regarding social media should be made widely available to producers but also to community groups and organisers of farmers markets.

Lack of a representative body has been identified as a barrier to development in the sector. CAIS, the Irish farmhouse cheesemakers association, has been a very effective representative body for the farmhouse cheese sector for many years. This organisation facilitated easier access to the services of state agencies for technical, financial and marketing support as well as education and training, that would otherwise be inaccessible to individual producers, and improved access to national and international markets (Henchion and Sorenson, 2013). The formation of a representative body would also be of benefit to the support agencies. It would allow them to find producers more easily and to communicate more effectively with them. For example, it would facilitate bringing relevant trade issues to their attention, e.g. producers may be willing to comply with regulations but may not be fully aware of their obligations. Other sectors that could have the critical mass to have an effective representative body are the bakery and seafood sectors. While such bodies need to be formed from the bottom-up, they will need support from government agencies at the early stages.

Other benefits of collective action include improved market access (see Cheese Direct above), the development of sales channels (see Leitrim Organic Network above) and cross or joint promotions. Cross promotions with other categories would support increased sales of the artisan cheese sector (Bord Bia, 2012, Mintel, 2012). Recent success in having the Waterford Blaa registered as a PGI<sup>18</sup> is another example of the benefits of collaborative action.

Complying with hygiene and food safety regulations, and facing the same regulations for large industrial manufacturing companies, is often raised as challenge for small food businesses in terms of cost and time commitments. A recent survey by the FSAI (2012) found that 45% of small food businesses believe that food safety standards are stricter than they need to be. However, the same survey showed that 97% of small food businesses that had been inspected

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<sup>18</sup> Protected Geographical Indication - PGI: covers agricultural products and foodstuffs closely linked to the geographical area. At least one of the stages of production, processing or preparation takes place in the area.

recently for the first time understood what they needed to do. Furthermore, nearly 3 in 4 small food businesses believe that these regulations helped their business by building consumer confidence (FSAI, 2012). This is supported by Teagasc consumer research that found that farmhouse cheese producers are highly regarded by consumers for their hygiene practices (McIntyre, 2010); this status should be prized by such producers. Furthermore, this challenge is being addressed, with some success to date, by the Artisan Forum within the Food Safety Authority of Ireland (FSAI). This forum was designed to allow the artisan sector influence hygiene and food safety regulations at an early stage rather than when they are finalised. One of the successes of the Artisan Forum is that there is improved flexibility (commensurate with the risk) and consistency in interpreting the EU hygiene legislation by environmental health officers (EHOs) for the artisan sector. They have had particular success in the farmhouse cheese sector through the production of a HACCP handbook for the farmhouse cheese sector<sup>19</sup>. Another example of “common-sense regulations” is allowing the production of certain low risk food products in a home setting (e.g. preserves and bakery products) and allowing shared shelf-life testing for products. A comprehensive section on the FSAI website highlighting the regulations that food businesses need to be aware of and address also helps. While inspectors’ core role is to protect public health, they can also be an important source of advice for producers.

Skills gaps have been identified at a number of levels. More entrepreneurship training at catering colleges could support a culture of entrepreneurship by training young people to set up their own food businesses. Skills gaps in relation to innovation and new product development indicate a need to develop a course that links the culinary arts and food science. However learning can also be more informal, e.g. through mentoring (first-hand experience can be invaluable to start-ups) or networking (formally or informally) with peers. Networking also helps to build confidence.

New food businesses have numerous points of access to institutional supports so that the range of agencies involved in supporting food businesses can be confusing for new businesses. Furthermore, the lack of integration and cross referrals between agencies may not be as effective as desired. Impartial business mentors could assist in navigating through the raft of regulatory agencies and private institutions that can seem like a minefield for first-time entrepreneurs. Furthermore, assignment of one key account executive in each agency to facilitate direct inter-agency linkages and referrals would assist in integrating such supports (e.g. one named person would be allocated within Teagasc to liaise with Bord Bia, another for Enterprise Ireland, etc.).

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<sup>19</sup> The production by the FSAI of the “Village Market Handbook: a simple guide to becoming a market trader” in collaboration with Irish Village Markets, MAST and the Bank of Ireland is an example of the supportive attitude of the FSAI to small food businesses.

### 4.3 ISSUES

#### *Sector Wide Strategy*

1. Food Harvest 2020 objectives will require an increase in the volume and value of high quality products across the food supply chain.

- A number of national reports prepared by the industry, DAFM, ICOS, Teagasc and Bord Bia recommend continued improvement in efficiency, consolidation, targeting higher value added production and finding non-EU markets. This can best be done by improving vertical integration within the supply chains. This is important if efforts to increase value added for the whole supply chain are to be realised. Food Harvest 2020 recommends the development of the knowledge infrastructure based on the relevant findings of the report on “Future Skills Requirements of the Food and Beverage Sector” as well as those relating specifically to the artisan food sector, and the organic sector. This and the Taste Council recommendation for Agri Vision 2020 regarding commitment from government to prepare a cross departmental strategy for the sector covering enterprise [and jobs], education and skills, tourism, food, fisheries and agriculture and the environment is endorsed.
- Programmes such as FoodWorks, organisations such as the Artisan Forum and the Taste Council<sup>20</sup>, initiatives such as Innovation Vouchers, enterprise awards (e.g. National enterprise Awards by CEBs, JFC innovation awards) and initiatives that show case entrepreneurs should continue.

#### *Export Markets*

2. Meeting Food Harvest 2020 objectives will also require an increase in the export focus of the speciality food sector

- While currently only 10% of speciality food is exported, growth in the number of businesses will largely occur by cannibalising other businesses. This is particularly true for the artisan sector, which actually experienced a decline in sales in 2008-2011 despite growth in the overall speciality market (Mintel, 2012). Initiatives to develop export markets can help the sector expand at a faster rate.
- Evidence from New Zealand shows that export markets can be developed for speciality food through effective investment in innovation, research, marketing and distribution. Existing businesses may be reluctant to tackle the challenge of exporting so start-up programmes need to prioritise those with export potential and/or give higher levels of support to companies seeking to develop sales in export markets.
- Marketing supports for export markets are particularly important and are different to those required for the local market. Consideration should be given to expanding Bord Bia’s programmes beyond the UK retail and foodservice market entry programme. Companies need to recognise (and be advised) that success in the domestic market is not an essential prerequisite to tackling the export market.

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<sup>20</sup> An important body that ensures the interests of local, artisan, and speciality food producers are officially represented on the FSAI Artisan Food Forum and the Agri Vision Artisan Food Sub-Committee.



### *Enterprise Supports and Sectoral Strategies*

#### 3. Improved infrastructure is necessary to facilitate an expansion of the speciality food sector

- The shortage of incubation spaces (required to kick-start new businesses but also for innovation) should be addressed through identification of where the gaps are geographically. The use of alternative resources, such as catering establishments that are not being used during the off-peak season should be investigated and a register established. While many manufacturing companies have the same basic requirements there are many variable requirements depending on the process and scale of operation, e.g. companies will have different needs for segregation, e.g. due to dirty and clean requirements. Nonetheless, provision of basic premises with hand washing and utensil washing facilities provided along with appropriate floor/wall finishes would be of considerable support. Financial support is required to develop the physical infrastructure to support start-ups and innovation and NPD.

#### 4. Soft as well as hard infrastructures are required to support the expansion of the speciality food sector

- Investment in education is an important strategic objective of the Taste Council. Key to productivity growth is an increase in human capital levels which can be developed through formal training, mentoring and networking initiatives.
- While excellent food-related courses are available in the 3rd level sector, the availability of some artisan skills is limited on the ground. Continual development in artisan food skills for producers and retailers (albeit to a lower level) is required.
- A mentoring programme could be developed using successful entrepreneurs over a period of time, or mentoring could be linked to incubation spaces. There is a role for multiple agencies in developing a mentoring programme over a period of time, (say 3 years) as there would be an evolution in the nature of mentoring required over time. For example, the demand for technical advice may be high initially, and then remain low until the company seeks to expand its product range and/or scale up.
- There are successful models elsewhere where mentoring supports were linked to physical facilities, e.g. Kitchenette developed as a social enterprise in the UK ([www.wearekitchenette.com](http://www.wearekitchenette.com)) and La Cocina in San Francisco <http://www.lacocinasf.org/incubatorprogram>
- Networking could be developed using CAIS as a model. Such networks provide communities of learning: advice training and information, identifying new partners, enhanced networking and collaborative action, building bridges, sourcing new ideas.

#### 5. Strengthen food supply chains can enable greater value added production

- There are barriers across the whole food supply chain from producer through to processor and retail/foodservice outlet which limit growth in the sector. The lack of a locally available small-scale abattoir can be a barrier to development of businesses in some areas and could potentially be addressed through mobile abattoirs. At the other end of the chain, local authorities could undertake initiatives to encourage pop-ups and supper clubs through creating a local register of suitable empty commercial spaces. The undeniable importance of the retailer means that it is important to continue to foster increased understanding of retailer demands.

- Providing support to increase understanding and improve access to retailers in the UK and other export markets needs to be expanded to facilitate export growth. Direct involvement of retailers in these initiatives could be particularly important. Support for the development of direct routes to market would be useful to support start-ups. Collective action, along the lines of Cheese Direct, can act as a means to access international supply chains.
- Specific to the retail sector, the policy framework e.g. competition policy and planning, could be designed to better support retail diversity and market entry by new local food entrepreneurs. This would prevent further market concentration which could act as a barrier for small and medium sized businesses, and provide more routes to market for new businesses. It should help to reframe consumer interest in food beyond a narrow price-based approach to include consideration of community well-being and long-term sustainability.
- The development and enhancement of producer groups, in conjunction with the processing sector can help to develop both local brands, but also facilitate producers in sharing and reducing costs and in helping to improve the skill level and associated quality of product.

6. Aligning public policies, local planning and regulatory frameworks can support the development of the speciality food sector

- Models of good practice supported by local authorities in the UK highlight how local authorities could work with prospective partners such as other public bodies, local businesses and community groups to build broad-based public support for a comprehensive and strategic approach to food planning for their area.
- Central and local government and regulatory bodies could make it easier for start-ups and SMEs at various stages of development. There should be a seamless system of support available from the agencies. Better integration and a willingness to hand over “winners” from one to another would support this.
- The provision of a single Start Your Own Business brochure and business plan template from all agencies would be a clear signal of the desire to achieve integration<sup>21</sup>. In addition, there should a minimisation of red tape were possible including reducing the burden of inspections. The work of the Artisan Forum in FSAI should be continued and they should work with DAFM to bring flexibility into the implementation of EU hygiene and food safety regulations at national level where legally possible and commercially desirable. The possibility of reducing restrictions relating criteria such as age of entrepreneurs and legal status<sup>22</sup> should be examined.

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<sup>21</sup> The case study of Kates Cup Cakes is a useful illustration for entrepreneurs of the role of different agencies and programmes. Available from [http://www.bordbiavantage.ie/startingyourbusiness/businessplanning/Documents/Business\\_Start-Up\\_Case\\_Study.pdf](http://www.bordbiavantage.ie/startingyourbusiness/businessplanning/Documents/Business_Start-Up_Case_Study.pdf)

<sup>22</sup> For example Innovation Vouchers are only available to limited companies.

7. Building a brand around food produced on farms participating in Agri-Environmental Schemes could add value to food produced in an environmentally sensitive way

- Over €3bn has been spent since 1994 on Agri-Environmental schemes with a significant proportion of farmers participating. Heretofore the primary objective of these programmes has been delivering environmental public goods. Private value could also be generated by building a brand with values that resonate with consumers. This brand could be based on incorporating environmental schemes such as AEOS and REPS into Bord Bia quality assurance programmes

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## **Chapter 5. THE IRISH FORESTRY SECTOR**

Cathal Geoghegan, Cathal O'Donoghue, Mary Ryan

### **5.1 INTRODUCTION**

Forestry plays an increasingly important role in rural development, not only through the diversification of farm income but also through the provision of rurally based employment. Both of these development roles contribute to the stabilisation and viability of rural communities. Despite the negative impact of the recent recession, the forestry and forest products sector exhibit strong potential for future growth. This section examines the history of the Irish forestry sector, the main policy drivers of the sector, the overall structure of the forestry sector and sub-sectors, and potential areas for future growth.

It must be noted that the forestry industry also faces numerous challenges. Rates of forest planting (afforestation) have failed to meet government targets in recent years, threatening future domestic timber supplies and carbon sequestration targets. The decline of the Irish construction sector also severely reduced demand for timber products, impacting employment and output in the Irish timber industry. Additionally, the mobilisation of timber from private forests needs to be addressed if future timber demands are to be met.

In order to understand current forestry policy and the structure of the forestry sector, we must first look at the history of forests in Ireland and their place in rural culture and society.

### **5.2 HISTORY**

At the beginning of the 20<sup>th</sup> century, around 1% of the total land area of the island of Ireland was estimated to be under forest cover (Forest Service, 2008). Ireland was heavily forested until the mid-16<sup>th</sup> century when extensive deforestation began. Three main factors are thought to have been responsible for this deforestation. Firstly, industrialisation in areas such as iron, glass and barrel production during the 16<sup>th</sup> century required increased timber input. Secondly, the Plantations of Ireland (c.1556 – c.1690) required the clearing of large areas of forest to create pasture for livestock and tillage for crops. Finally, a four-fold rise in population occurred between 1700 and 1840 following the Plantations. This dramatic population surge greatly increased demand for food and shelter, leading to further forest clearing. As a result of these events, the large areas of forest remaining in Ireland in 1600 were virtually wiped out by 1800 leaving only 1% of land cover (c.125,000 hectares) under forests by 1900.

The national forest estate increased steadily through the 20<sup>th</sup> century with the government signing the Forestry Act in 1946 and adopting the State's first long-term afforestation plan two years later. From 1949 to 1988, 322,000 hectares were planted, leading to a national forest estate of 465,000 hectares. The vast majority of this increase was on State owned land. The 1980s saw the first substantial move to increase the afforestation of land by private landowners. The State, with financial assistance from the European Union, introduced forestry grant schemes incentivising afforestation by private landowners. Private afforestation increased rapidly, peaking in 1995, when 17,353 hectares were planted by private landowners in a single year.

In 1996, the government published “Growing for the Future”, a strategy document outlining the development of the Irish forestry sector up to 2035. The strategic plan concluded that, in order to reach a scale of timber production large enough to support a range of processing industries, the national forest estate would have to increase to 1.2 million hectares (17% of the total land area) by 2030. Afforestation levels would therefore have to increase to 25,000 hectares per annum until the year 2000 and 20,000 hectares per annum thereafter from 2001 to 2030.

However, interest in planting dropped significantly after the strategy was launched, with only 48% of the targeted land planted with trees between 1996 and 2009. Duesberg et al. (2013) identify three main reasons for the declining interest in afforestation: additional subsidies paid under the Rural Environmental Protection Scheme (REPS), increasing land values in Ireland after 2002 and a negative attitude amongst farmers toward afforestation.

The REPS subsidies provided farmers a competitive alternative to forestry that did not necessitate a change in land use. Additionally, land in REPS could be withdrawn after five years, whereas the decision to afforest was irreversible. The increase in land values during the Celtic Tiger years was also linked to a decline in planting (Breen et al. 2010). Afforestation was considered to devalue the land asset as the permanent nature of afforestation reduced future land use options (Ryan et al., forthcoming). Furthermore, farmers surveyed by Duesberg et al. (2013) generally believed that “good land” should not be planted with trees, even if it would return a higher income.

Also worth noting is the decision by the European Commission in August 1999 that Coillte was not entitled to receive annual (non-farmer) forest premiums (DAFF, 2009). In the ten years from 1990 to 1999, 30% of all afforestation took place on Coillte land. The Commission decision put Coillte at a financial disadvantage when competing in the marketplace for lands to afforest, resulting in the effective withdrawal of Coillte from the afforestation sector.

### **5.3 POLICY DRIVERS**

#### *Afforestation*

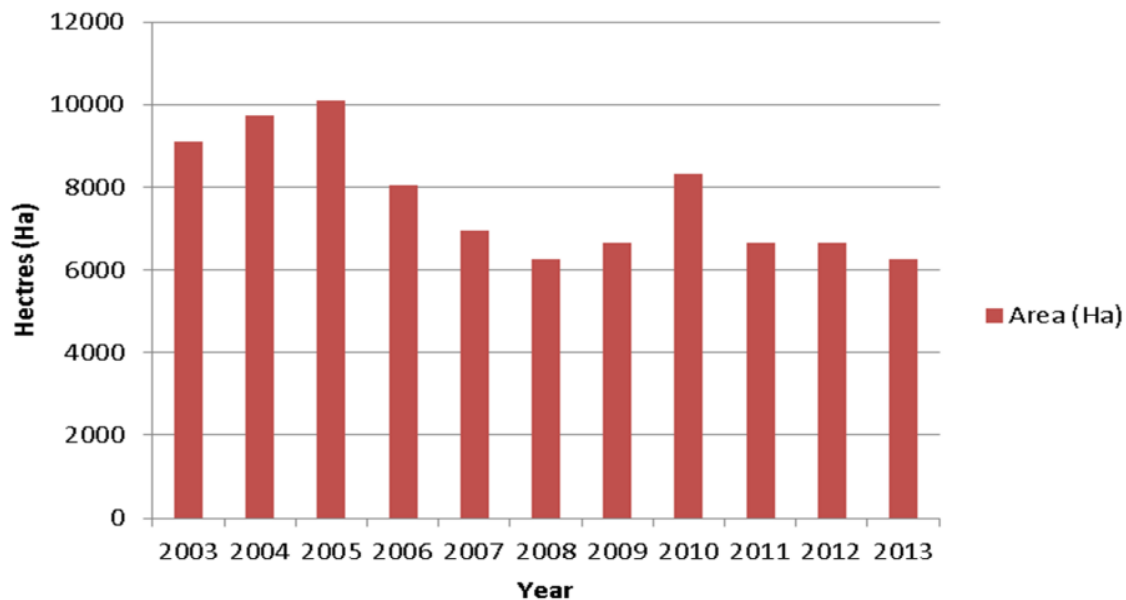
In 2012, the national forest estate covered 759,000 hectares (ha), or 11% of the country (Forest Service, 2013), of which 53% was in State ownership (398,000 ha), either through Coillte or the Irish Forest Service, with the remaining 47% (361,000 ha) under private control (see Table 1.1). Ireland is currently well below the European Union average of 42% forest cover (Eurostat, 2011). The afforestation rates detailed in “Growing for the Future” of 20,000 hectares per year from 2000 onwards were reaffirmed in the National Development Plan covering 2000 to 2006. The National Development Plan, operating between 2007 and 2013, set a more conservative target of 10,000 hectares of new forest to be planted each year. The 2011 Programme for Government envisaged an annual 14,700 hectare afforestation programme. However, current afforestation rates continue to fall below this benchmark (see Figure 1). Currently, the government has budgeted €116 million for 7,000 hectares of forest to be planted in 2013, including limited funds available for forestry support schemes such as for forest roads.

**Table 5.1 2012 forest cover levels by county**

County	Total	Private	Public	Total land area of county	% of County Planted
Carlow	6,169.68	2,360.76	3,808.92	89,635	6.88
Cavan	17,277.35	9,827.30	7,450.05	189,060	9.14
Clare	52,558.23	29,198.68	23,359.55	318,784	16.49
Cork	90,837.05	41,991.83	48,845.22	745,988	12.18
Donegal	59,177.30	22,770.67	36,406.63	483,058	12.25
Dublin	3,673.76	1,891.56	1,782.20	92,156	3.99
Galway	58,448.61	19,522.49	38,926.12	593,966	9.84
Kerry	56,411.76	37,327.22	19,084.54	470,142	12.00
Kildare	9,556.99	5,476.08	4,080.91	169,425	5.64
Kilkenny	20,867.73	10,765.71	10,102.02	206,167	10.12
Laois	25,352.75	9,382.69	15,970.06	171,954	14.74
Leitrim	25,755.23	13,155.96	12,599.27	152,476	16.89
Limerick	27,608.96	15,929.75	11,679.21	268,580	10.28
Longford	9,007.85	5,836.96	3,170.89	104,387	8.63
Louth	3,474.73	2,045.29	1,429.44	82,334	4.22
Mayo	58,336.62	23,871.20	34,465.42	539,846	10.81
Meath	7,520.97	6,017.07	1,503.90	233,587	3.22
Monaghan	6,562.95	3,406.84	3,156.11	129,093	5.08
Offaly	21,018.59	11,778.59	9,240.00	199,774	10.52
Roscommon	21,944.41	13,485.03	8,459.38	246,276	8.91
Sligo	22,214.38	9,586.29	12,628.09	179,608	12.37
Tipperary	51,433.04	23,012.79	28,420.25	425,458	12.09
Waterford	29,316.67	10,623.23	18,693.44	183,786	15.95
Westmeath	13,864.16	9,153.36	4,710.80	176,290	7.86
Wexford	16,390.55	7,755.01	8,635.54	235,143	6.97
Wicklow	43,981.23	14,661.71	29,319.52	202,483	21.72
Total	758,761.55	360,834.07	397,927.48	6,889,456	11.01

Source: Forest Service, 2013

**Figure 5.1     Annual afforestation in Ireland**



Source: Forest Service, 2013

The government supports afforestation through the provision of grants and annual compensation payments (premiums) to farmers and landowners. The two current afforestation schemes are the Afforestation Grant Scheme and the Native Woodland Scheme. An afforestation grant is available to farmers and landowners to plant and maintain a plantation for the first four years. The grant ranges from €2,400 to €5,500 per hectare, depending on the type of land and tree species to be planted and covers 100% of the cost of planting. In addition, eligible farmers can also receive an annual tax-free premium of €427 per hectare (€173 per acre) for 20 years for a typical conifer site and higher for broadleaves such as oak, ash and alder.

#### *Forest Owner Groups*

With the expansion of the private forest estate in recent years, increasing attention has been paid to how to bring the timber from these private forests to market. Many of the owners of private forests have little tradition of forest management, and even less experience of the harvesting and marketing of timber. This situation is complicated by the large number of small plantations, which are often fragmented and difficult to access. One solution to these problems has been the formation of Forest Owner Groups.

These groups encourage cooperation between forest owners in order to develop economies of scale for timber harvesting and marketing, as well as the dissemination of research and training. There are currently 26 Forest Owner Groups, consisting of more than 1,900 forest owners, operating around the country (Casey, 2013). Three of the more developed groups are the County Clare Wood Energy Project (CCWEP), the Donegal Woodland Owners Society Ltd. (DWOSL), and the Kilkenny Forestry Producer Group.

The County Clare Wood Energy Project (CCWEP) was set up by Rural Resource Development and Teagasc in 2005 in order to establish a commercially viable wood energy sector in Co. Clare, based on wood chip from local farm forest thinnings (CCWEP, 2010). The project links the supply and demand elements of the wood energy market by identifying forest farmers and connecting them with local forestry contractors and consumers of wood fuel in the vicinity.

Clusters of potential thinning sites were identified in the vicinity of large premises who were encouraged to install wood boilers with Sustainable Energy Ireland grants. Farmers can carry out thinnings and sell pulpwood for wood energy locally at a profit. Local “heat entrepreneurs” buy timbers from forest owners, process it into wood chip and sell it to local customers with wood chip boilers. In this way, a supply chain from farmer to processor to customer is established locally, providing jobs and revenues for the local community.

The Donegal Woodland Owners Society Ltd. (DWOSL) has been in operation since 2008. It aims to maximise returns to forest owners through good forest management services and to add value locally to its members’ timber, thus creating sustainable employment from their members’ forests (Teagasc, 2012). DWOSL provides a range of services for its members, including forest maintenance and administration work, timber marketing and firewood sales, field days, study trips, newsletters and farm machinery hire. DSOWL has entered the Energy Supply Contract (ESCO) market and have targeted private nursing homes and other large building owners to supply heat through the installation of wood gasification boilers (DWOSL, 2012).

The Kilkenny Forestry Producer Group was formed with facilitation from Teagasc and the local LEADER company in order to broaden forest owners’ knowledge of forest management and to make forest owners aware of existing and emerging markets for their produce. The Kilkenny group has worked with one such local market in Callan, Co. Kilkenny. Callan Renewable Energy Supply Company (CRESCO) is working with the Kilkenny Forestry group to ensure wood chip supply for boilers in Callan from local forests. In this way, benefits in terms of jobs and revenues are generated locally (McHugh, 2011).

### *Industry demand*

As previously explained, the primary motivation for the expansion of afforestation envisioned in “Growing for the Future” was to support a scale of timber production large enough to allow true competition and the operation of market forces in a range of processing industries. Although afforestation rates have not reached the desired levels, the Irish sawmilling and forest product sectors expanded aggressively during the economic boom, with the sawmilling sector investing more than €200 million to increase capacity (IFFPA, 2012). In 2011, the Programme of Competitive Forestry Research for Development (COFORD) published a forecast of the increase in demand for roundwood (unsawn timber logs) on the island as a whole for the year 2020, as shown in Table 1.2. The forecasted increase in demand (especially in the biomass sector) from the wood products sector represents both an opportunity and a challenge for Irish forest growers in terms of matching demand with supply.



**Table 5.2 Estimated roundwood demand on the island of Ireland 2011 and 2020**

Demand sources	2011	2020
	000m <sup>3</sup> OB	
Conventional	3,456	3,830
Forest-based biomass for energy production	1,589	3,084
Residues which are used to meet energy demand	-750	-876
<b>TOTAL</b>	<b>4,295</b>	<b>6,038</b>

Source: COFORD, 2011

### *Carbon emissions and renewable energy*

Under the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), Ireland's total emissions are limited to an average of 62.84 million tonnes of carbon dioxide (CO<sub>2</sub>) equivalents per annum (13 per cent above 1990 levels) in the period 2008-2012 (EPA, 2012a). Forestry contributes to meeting these targets by acting as a carbon sink, allowing the removal of carbon dioxide from the atmosphere and its storage in vegetation and soils (Byrne & Black, 2003). Carbon sequestration in this manner realises savings for the Exchequer as it reduces the number of carbon credits the State needs to purchase to meet its commitments.

Ireland is also committed to the EU Climate and Energy Package targets for the period 2013-2020. These targets, known as the "20-20-20" targets, set three key objectives for 2020:

- A 20% reduction in EU greenhouse gas emissions from 1990 levels;
- Raising the share of EU energy consumption produced from renewable resources to 20%;
- A 20% improvement in the EU's energy efficiency.

Unfortunately, emissions and removals related to land use, land use change and forestry (LULUCF) are currently not included in the EU 2020 targets. However, the European Commission has approved legislation that calls for the harmonisation of technical rules on accounting for LULUCF across the European Union and obliges member states to adopt actions plans on how they will increase removal of carbon through forests and soils. It is hoped that that these initiatives will lead to the inclusion of carbon sinks in post-2020 carbon emissions targets.

As part of the EU 2020 targets, Ireland has been set the objective of using renewable energy sources to provide 16% of final energy consumption. Forestry can contribute to this effort through the production of wood biomass, which is renewable, is considered carbon neutral and is sustainable. This biomass can come from forest thinnings (smaller trees removed periodically from forests), sawmill waste and other wood waste.

## **5.4 MARKET BENEFITS OF IRISH FORESTRY**

### *The Irish sawmilling sector*

Coillte, the State owned forestry company, is the primary producer of timber in the country. It owns and manages over half of the national forest estate, provides 90% of the annual roundwood supply and owns two wood-based panel manufacturing facilities and a sawmill (DAFF, 2009). Due to the relatively young nature of the private forest estate in Ireland, most trees are not yet

mature enough to contribute significantly to the annual roundwood supply (see Table 1.2). The crop rotation in Irish forestry is in the region of 40 years, with 75% of the national forest estate predominantly conifer and the remainder being comprised of a range of broadleaf species.

**Table 5.3 Roundwood processed in the Republic of Ireland (2008-2012)**

	2008	2009	2010	2011	2012
	000 cubic metres overbark				
Log imports less exports	106	-63	28	55	-18
Coillte harvest	2,279	2,345	2,217	2,299	2,269
Private forest	118	130	463	386	343
Roundwood available for processing	2,503	2,421	2,708	2,740	2,594
<b>Of which</b>					
Sawlog	1,619	1,602	1,603	1,580	1,622
Stakewood	80	88	118	116	131
<b>Total use of roundwood by sawmills</b>	<b>1,699</b>	<b>1,690</b>	<b>1,721</b>	<b>1,696</b>	<b>1,753</b>

Source: IFFPA, 2013

Ní Dhubháin et al. (2012) performed an input-output analysis of the forestry, wood and wood products sectors to assess the contribution of forestry to the national economy. The analysis breaks down the contribution of these sectors to the economy in terms of direct, indirect and induced contributions:

- Direct contribution – the impact of the spending by the forestry sector on goods and services;
- Indirect contribution – that which occurs when suppliers to forestry firms purchase goods and services to meet demand;
- Induced contribution – the additional consumer expenditure that takes place when the wages and salaries generated from the direct and indirect contributions of forestry are in turn spent.

The sum of the direct, indirect and induced contributions described above represents the overall contribution of forestry in terms of income and employment. Once the absolute contributors are estimated, the Type 1 and 2 multipliers are obtained. These multipliers give the ratio of direct plus indirect contributions and of direct plus indirect plus induced contributions to the direct contribution respectively.

In 2010, the forest sector, comprising the growing, harvesting and processing of forest products (but excluding sawmills, panel boards and other wood products), had a direct output of €378.1 million (see Table 1.4). When other impacts are taken into account, the overall value of forestry to the Irish economy in 2010 was €673 million. Total direct employment in the forest sector outlined was 3,125, while the total overall employment related to forest activities was estimated to be 5,531.

**Table 5.4 Output and employment impacts of forestry for the year 2010**

Output					
	Direct	Indirect	Induced	Type 1	Type 2
€ millions	378.1	102.1	192.8	420.8	673.0
Multipliers	1.00	0.27	0.51	1.27	1.78
Employment					
	Direct	Indirect	Induced	Type 1	Type 2
FTEs	3125	750	1656	3875	5531
Multipliers	1.00	0.24	0.53	1.24	1.77

Source: Ní Dhubháin et al., 2012

Timber output is classified according to size as follows (DAFF, 1996):

- pulpwood (smallest logs): 7-14cm diameter – used for stakewood and also as raw material for panel boards;
- small sawlogs: 14-20cm diameter – used in the production of pallets, crates and light construction timber;
- large sawlogs: 20cm+ diameter – mainly used in construction.

Eight companies form the core of the Irish sawmilling sector, providing the main market for timber harvested from Irish forests. (IFFPA, 2013). Timber production in 2011 totalled 2.59 million cubic metres, of which 1.62 million cubic metres was sawlog, 0.84 million cubic metres was pulpwood and the remainder stakewood used for round stake production (see Figure 2). Sawlog is used to produce sawn timber, which is primarily employed in construction/structural timber, pallet/packaging timber and fencing products. Sawn timber production in 2012 amounted to 781,000 cubic metres with 904,000 cubic metres of sawmill residues.

The vast majority of sawn timber products produced in Ireland are exported to foreign markets. In 2010, Ireland became a net exporter of sawn timber for the first time since 1961, (Knaggs & O'Driscoll, 2012). This marked the continuation of a trend apparent since 2008 with the gap between the value of exports and imports closing due to the decline of the domestic construction market and increased levels of exports, mainly to the UK. Sawn timber exports in 2011 amounted to 534, 000 cubic metres, worth €73 million.

According to Ní Dhubháin et al. (2012), the direct output of the sawmill sector in 2010 was €370.2 million, with 996 people directly employed in the sector. When other impacts are taken into account, the overall value of the sawmill sector to the Irish economy in 2010 was €629.4 million, with a total of 1,713 employed in the sector.

**Table 5.5 Output and employment impacts of sawmills for the year 2010**

Output					
	Direct	Indirect	Induced	Type 1	Type 2
€ millions	370.2	107.4	151.8	477.6	629.4
Multipliers	1.00	0.29	0.41	1.29	1.70
Employment					
	Direct	Indirect	Induced	Type 1	Type 2
FTEs	996	309	408	1305	1713
Multipliers	1.00	0.31	0.41	1.31	1.72

Source: Ní Dhubháin et al., 2012

### *The Irish panel products sector*

Sawmill residues, comprising bark, sawdust and woodchip, are combined with pulpwood and recycled wood fibre (RWF) to be used primarily in panelboard production. Three panel product mills operate in the Republic of Ireland producing wood-based panels (WBP) (see Table 6).

**Table 5.6 Wood-based panel mills in the Republic of Ireland**

Company	Established	Product(s)	Location
Masonite Ireland	1997	Thin MDF/Moulded door facings	Drumsna, Co. Leitrim
Médite-Europe	1983	Medium Density Fibreboard (MDF)	Clonmel, Co. Tipperary
SmartPly Europe	1995	Oriented Strand Board (OSB)	Slieverue, Co. Kilkenny

Source: IFFPA, 2013

In 2012, the Irish panel products sector had a combined output of 704,000 cubic metres. This represents a 7% drop from 2010 levels and a 25% drop from 2006 levels when the construction boom was at its height (see Table 7). In 2011, the estimated annual wood fibre requirement (for process use) of the panel mills operating in Ireland was 1.28 million cubic metres. The sector is strongly focused on exports (specifically to the UK) with 89% of the panel products produced in Ireland sold in overseas markets. In total, 630,000 cubic metres of panel products were exported in 2012, valued at €179 million.

**Table 5.7 Annual output of wood-based panel sector in Ireland**

	000 cubic metres						
	2006	2007	2008	2009	2010	2011	2012
Annual Output	938	918	779	709	758	736	704

Source: IFFPA, 2013

Ní Dhubháin et al. (2012) put the direct output of the wood panel products sector in 2010 at €285 million (see Table 8). When other impacts are taken into account, the overall value of the sawmill sector to the Irish economy in 2010 was €458.8 million. Direct employment in the sector in 2010 was 805, with total employment related to the wood panel products sector being 1,304 full-time equivalent jobs.

**Table 5.8 Output and employment impacts of the wood panel products sector for the year 2010**

Output					
	Direct	Indirect	Induced	Type 1	Type 2
€ millions	285.0	74.1	99.7	359.1	458.8
Multipliers	1.00	0.26	0.35	1.26	1.61
Employment					
	Direct	Indirect	Induced	Type 1	Type 2
FTEs	805	201	298	1006	1304
Multipliers	1.00	0.25	0.37	1.25	1.62

Source: Ní Dhubháin et al., 2012

Ní Dhubháin et al. (2012) also estimated the expenditure and employment impacts for the “other wood products (excluding furniture)” sector in 2010 (see Table 9). Direct expenditure in the sector was €675.7 million with 2,106 people being directly employed in the industry. When other impacts are included the total expenditure was €1.114 billion, with 3,391 total full time equivalent jobs associated with the sector. Therefore, total related expenditure in the panel boards, sawmills and “other wood products” sector was €2.20 billion.

**Table 5.9 Output and employment impacts of the other wood products sector for the year 2010**

Output					
	Direct	Indirect	Induced	Type 1	Type 2
€ millions	675.7	202.7	236.5	878.4	1114.9
Multipliers	1.00	0.30	0.35	1.30	1.65
Employment					
	Direct	Indirect	Induced	Type 1	Type 2
FTEs	2106	611	674	2717	3391
Multipliers	1.00	0.29	0.32	1.29	1.61

Source: Ní Dhubháin et al., 2012

#### *Wood biomass energy sector*

The use of wood as a source for generation of electricity has increased considerably in recent years. In 2011, 33% of the roundwood harvested in the Republic of Ireland was used for energy generation. Currently, biomass from wood waste is primarily used to produce thermal energy during the manufacture of panel products, in sawmills and at wood processing plants. Wood-biomass fuels used by these sectors are shown in Table 10.

**Table 5.10 Wood biomass fuel by sector in the Republic of Ireland**

End use		2008	2009	2010	2011	2012
000m <sup>3</sup>						
Firewood	Domestic heating	171	184	199	214	225
Wood chips	Commercial heating	63	53	39	41	30
Wood pellets & briquettes	Domestic and commercial heating	82	110	121	129	144
Charcoal	Domestic use	2	2	2	5	2
Wood biomass use for energy and forest products industry	Process drying/heating/combined heat & power	383	438	554	572	611
Short rotation coppice (SRC)	Commercial heating	1	4	1	5	5
TOTAL		703	791	916	966	1,017
Use by energy and forest products sectors (%)		55	55	60	59	60

Source: IFFPA, 2013

The main driver of policy in the renewable energy sector is the European Energy Directive, which is part of the EU Climate and Energy Package. The Directive outlines targets for 2020 on an EU-wide basis. The target for Ireland is for renewable sources to account for 16% of gross final energy consumption by 2020. In order to meet this objective, the Irish government published a National Renewable Energy Action Plan (NREAP) in 2010. This document has set a target for 12% of heat and 40% of electricity to be generated from renewable sources by 2020. The areas of NREAP which affect the wood biomass sector are renewable heat (RES-H) and renewable electricity (RES-E).

The government has set a target of 12% renewable heat by 2020. In 2011, RES-H accounted for 5% of all thermal energy (Knaggs & O'Driscoll, 2013). Industrial biomass energy use (mostly in the wood, food and cement industries) accounted for 68% of all thermal renewable energy use in Ireland in 2011. Between 1990 and 2006, industrial biomass energy use increased by 167% (6% average annual growth). However, since 2006, there has been an annual average 2% decrease in industrial RES-H. Additionally, residential biomass energy use increased by 9.5% between 1990 and 2011, with an 18% average annual growth rate between 2005 and 2010.

In 2011, the share of electricity generated from renewable energy sources (RES-E) was 17.6%. However, only 0.5% of total electricity generation came from biomass (SEAI, 2012). In late 2011, the government announced REFIT 3, which is a supporting price structure for bioenergy in electricity generation. The technologies supported, which are relevant to the forestry sector, include biomass combined heat and power (CHP) and biomass combustion incorporating provision for co-firing at three peat-powered stations. The REFIT 3 scheme intends to provide a guaranteed price for fifteen years of between 8.5 cent and 15 cent per kilowatt hour for electricity generated from renewable resources and exported into the national grid (Casey & Ryan, 2012). It is hoped that this will allow for the connection of an additional 310 MW of renewable energy to the national grid.

### *Wood fuel*

Wood fuel is also being increasingly used for commercial and domestic heating, both through traditional firewood and also wood chips, pellets and briquettes. Demand for quality firewood in Ireland is growing rapidly, as shown in Table 1.10. The Wood Fuel Quality

Assurance Scheme (WFQA) certifies organisations involved in the manufacture or supply of logs, chips, pellets and briquettes. The scheme provides a simple but reliable way for consumers to purchase quality wood fuels that are accurately described, meet the supplier's stated product specifications and are produced in compliance with EU Timber Regulations (EUTR) ensuring sustainably produced wood fuels.

#### *Firewood*

Knaggs and O'Driscoll (2012) report that between 2008 and 2011, the value of the domestic firewood market in Ireland increased from €24.83 million to €30.97 million, representing a near 20% increase in this time. Additionally, farm owners can produce firewood from their forest to replace or supplement their use of fuel oil or gas, enabling energy self-sufficiency on the farm (Kofman & Kent, 2009). Firewood is also the easiest wood fuel market for farmers to access as normal farm machinery such as tractors, trailers and chainsaws can be used.

#### *Wood chips*

Logs can also be chipped and used for heat and/or electricity production. Most wood chips used in energy production are sourced from forestry thinnings, especially first thinnings and later thinnings with a large pulpwood fraction (Teagasc, 2009). Wood chips as a fuel are best suited to medium to large installations (upwards of 30 kW) with the type of wood chip required depending on the type and size of heating system. Wood chips are also being increasingly used as bedding in out-wintering pads for cattle. Due to the bulky size and expense of transport, wood chips are best used locally.

#### *Wood pellets*

Wood pellets are usually made from dry, untreated industrial wood waste, which is compressed and pelletised. A number of pellet production plants are operational in Ireland, alongside a range of distributors delivering pellets to homes and businesses. Wood pellet central heating systems are becoming increasingly common due to their clean burning and cost efficiency compared to traditional oil-based systems (Teagasc, 2009).

### **5.5 NON-MARKET BENEFITS OF FORESTRY**

#### *Carbon sequestration*

Forestry has significant potential to sequester carbon dioxide (CO<sub>2</sub>), offsetting greenhouse gas (GHG) emissions and contributing to climate change abatement. Ireland signed the Kyoto Protocol to the UN Framework Convention on Climate Change in 1997, committing Ireland to limiting the growth of emissions to 13% above 1990 levels. The National Climate Change Strategy sets out a number of measures designed to meet Ireland's GHG emissions target over the first commitment period of the Kyoto Protocol (2008 – 2012). Forest sinks (afforestation since 1990 – the Kyoto forest) are by far the largest measure identified (Hendrick & Black, 2009). The Environmental Protection Agency has projected the average annual forest sink between 2008 and 2012 to be 2.9 million tonnes of carbon dioxide (EPA, 2012b).

Byrne and Black (2003) identify three ways forests can be used to influence GHG emissions:

- Plant new forests – new forests have the potential to take CO<sub>2</sub> from the atmosphere and store it in vegetation and soils;
- Manage existing forests for increased carbon storage – carbon stocks in existing forests can be increased by management activities such as forest fertilisation, pest management, continuous forest cover, and harvest quantity and timing;
- Substitute wood for non-wood fossil fuels and building materials – wood when burned is a “carbon neutral” energy source and can help to reduce GHG emissions by displacing fossil fuel energy sources.

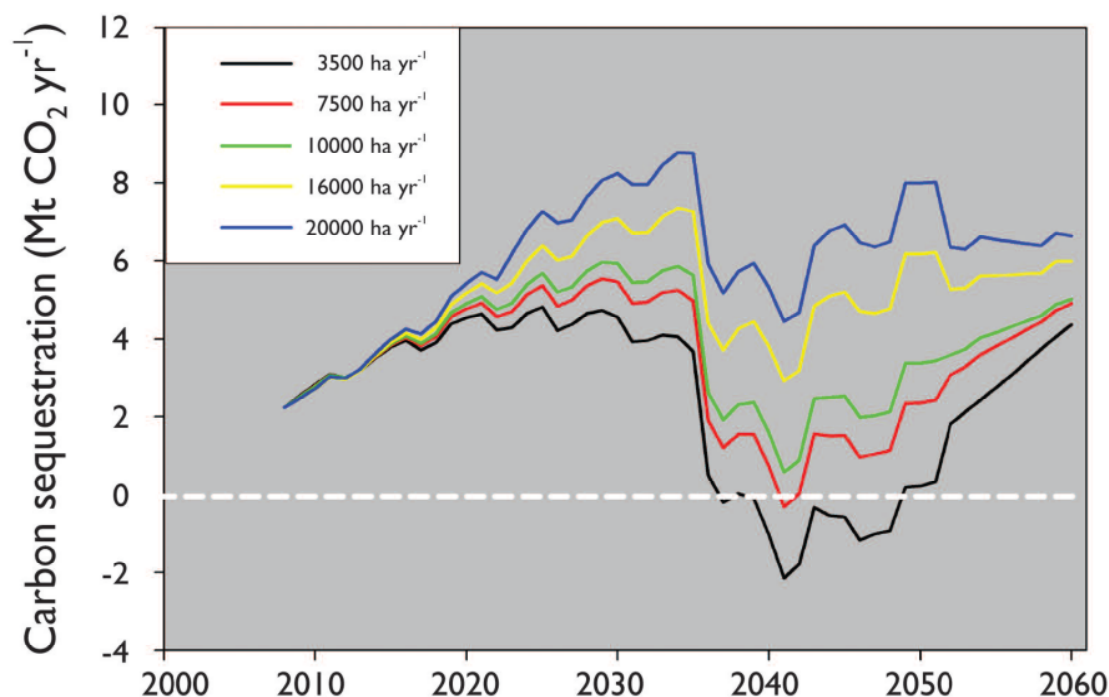
COFORD has developed a national carbon reporting and projection system (CARBWARE), based on internationally recognised formats. CARBWARE measures the five carbon pools needed for carbon reporting: above-ground biomass, below-ground biomass, deadwood, litter, and soil carbon. The gross uptake of “Kyoto” and “Non Kyoto” forests is based on net annual stock changes in the five carbon pools and GHG emissions from forest fires and fertilisers. In 2008, some 2 million tonnes of CO<sub>2</sub> were sequestered in Kyoto forests in Ireland (Hendrick & Black, 2009).

Savings to the Exchequer from carbon sequestration from forests are dependent on a number of factors. The price of carbon as part of the EU Emissions Trading Scheme (ETS) can fluctuate greatly, with prices dropping from €20 a tonne in 2011 to €3 a tonne in April 2013 (The Economist, 2013). Additionally, levels of afforestation, harvest and deforestation can greatly affect the level of savings from carbon sequestration (Hendrick & Black, 2009).

COFORD has analysed afforestation trends in Ireland and the implications it will have for the future climate change contribution of Kyoto forests. It shows that if afforestation rates fall to around 7,500 hectares per annum (the recent rate), then by around 2035 these forests will become a net source rather than a net sink of GHG emissions under current rules (see Figure 3). Sustainable carbon sequestration is heavily dependent upon having young age classes of forest to balance out harvest and other decreases in carbon stocks. Therefore, a level of afforestation closer to 10,000 hectares per annum is necessary over the next two decades to maintain forestry as a carbon sink.



**Figure 5.2 Projected sequestration of carbon dioxide by Kyoto forests to 2060, based on afforestation rate**



Source: Hendrick & Black, 2009

Carbon sequestration from forestry also forms an important part of the recently published climate policy report from the NESC (National Economic and Social Council) Secretariat to Department of Environment, Community and Local Government (DECLG). The report sets out a vision of carbon neutral agriculture as part of a sustainable, low-carbon economy by 2050. The report emphasises the importance of forestry planting rates, pointing out that an increase of afforestation rates to 20,000 hectares per annum could increase sequestration rates to 7 to 8 million tonnes of CO<sub>2</sub> by 2050. (Current rates would put sequestration at 1.8 million tonnes CO<sub>2</sub> by 2050). Biomass is also singled out for attention, with the report calling for governmental leadership on energy policy in order to grow demand for the energy source.

#### *Forest recreation*

The development of forests for recreation is seen as an important aspect of sustainable forestry due to increasing demands for access to forest-related recreational activities and developing recognition of the wide-ranging benefits they can provide to society (COFORD, 2009). While walking is the most popular activity, forest recreation includes other specialised activities including orienteering, mountain biking, horse riding, hunting and fishing. Irish forests are well served with roads, tracks, rides, and increasingly with purpose built trail and cycle tracks in selected locations.

Fitzpatrick and Associates (2005) have estimated that 18 million people visit Irish forests per annum, providing a non-market value of €97 million or €5.40 per person. The total economic activity generated through spending in the local community by domestic forest users is estimated at €268 million. In 2008, 517,000 foreign visitors participated in walking while holidaying in Ireland, spending an estimated €364 million (Fáilte Ireland, 2010). As a substantial number of trails commence or travel through forests, foreign visitors benefit significantly from the Irish forestry infrastructure. Coillte and the National Parks and Wildlife Service (NPWS) provide access to 445,000 hectares of forest and 66,000 hectares of National Parks (IFFPA, 2012).

Walking and cycling tourism have been identified as a growth market for overseas visitors to Ireland (Fáilte Ireland, 2010). In 2008, 120,000 visitors took part in cycling while visiting Ireland, spending an estimated €103 million. Walking tourism offers valuable business opportunities in remote rural areas, which attract less general traffic. COFORD also report that, per capita, Irish forest visits are lower than the European average, showing the potential for the further expansion of forest recreation over the coming years. Since 2006, €3 million in National Development Plan (NDP) tourism infrastructure funding has been invested by Fáilte Ireland and Coillte in upgrading and developing walking and cycling trails in key visitor locations around the country. The Forest Service provides a detailed guide for forest owners and managers who may be interested in opening up their forests for recreational purposes.

#### *Forests and biodiversity*

The Irish government made commitments at the United National Conference on the Environment and Development and at the Ministerial Conference on the Protection of Forests (MCPEE) to maintain and enhance biodiversity in Irish forests. These international commitments are enshrined in the Irish National Forest Standard (Forest Service, 2000a) and its associated Guidelines on Biodiversity (Forest Service, 2000b). These Guidelines describe the best way to design, plan and manage forests in order to conserve and enhance biodiversity. The Guidelines indicate that on sites greater than 10 hectares, 15% of the forest area must be treated with particular regard for biodiversity.

Biodiversity within a forest stand is influenced by stand age, species, forest management practices and the environment in which the forest stand is located (Ní Dhubháin et al., 2012). Species diversity increases over time as forest composition becomes more complex, with mixed forests supporting the greatest diversity of species, followed by broadleaves.

In terms of assigning a value to forest biodiversity, increased biodiversity can have benefits for a range of direct and indirect users, as well as benefiting the wider ecosystem. Clinch (1999) used a contingent valuation method to assign a value to the impacts of the government's afforestation programme on biodiversity. Clinch presented combined results for landscape, wildlife and recreation and indicated that the net present value of these elements was IR£129 million (5% discount rate). Ní Dhubháin et al. (2012) administered a choice experiment to nearly 1,000 people to estimate the relative benefits of different attributes of an afforestation programme. The inclusion of a cost attribute in the choice experiment allowed "willingness to pay" (WTP) values to be generated where a WTP value is the mean amount of money that an individual is willing to pay annually in additional tax to support an afforestation programme that provides that attribute.

The attribute of 15% of an afforested area being set aside for biodiversity produced WTP values of €21.07 while a 30% area produced WTP values of €32.95.

#### *Water quality and quantity*

Forestry can potentially affect the quality and amount of water available to other users in both positive and negative ways. Woodland can regulate runoff, thereby reducing down-stream flooding and preventing soil erosion. For example, the British government has made greater funding available to encourage new planting in areas contributing to flood risk management (Nisbet et al., 2011). However, forestry can also reduce the volume of water available from a river catchment area. Interception of rainfall occurs when rainfall is held on leaves and evaporated by the wind before it reaches the ground. Transpiration losses from water being drawn up through roots and evaporated from leaves also occur.

Forests can negatively impact water quality through three processes: acidification, eutrophication and sedimentation. Conifers capture airborne pollutants and can increase the risk of acidification in soft-water stream draining areas which receive heavy loads of atmospheric pollutants. In Ireland, increases in stream acidity have been found in afforested catchments in the east and west of the country. Forests can also increase the risk of contamination of waterways through the application of fertiliser and herbicide. An example of this is phosphorous release from forest harvesting in the Burrishoole catchment area in Co. Mayo (Rodgers et al., 2012). In recognition of the potential impacts of forestry on water quality, the Forest Service has published a number of environmental guidelines. Bacon and Associates (2004) conclude that the implementation of these guidelines helps to reduce the negative effects from forestry on water quality.

## **5.6 FUTURE POTENTIAL**

The forestry sector has become a large part of the rural economy, offering employment in rural communities, income diversity for farmers and a recreational amenity for the public. However, future expansion is dependent upon solving a number of problems currently facing the sector. Amongst these issues the most pressing are:

- The non-achievement of afforestation targets;
- Farmers' attitudes towards afforestation;
- Fragmented nature of growers and the disconnect between producers and buyers;
- Dependence of timber exports on a single market, the UK;
- Underutilisation of multifunctional aspects of forestry e.g. recreation.

#### *Afforestation targets*

Ever since the publication of "Growing for the Future" in 1996, planting levels have consistently failed to reach afforestation targets. This has occurred during a period of declining agricultural margins which, in combination with increases in the premium rate, has seen the relative profitability of forestry increase (Upton et al., 2013a). Many reasons have been put forward for this failure including the popularity of alternative agricultural schemes such as REPS, the increased price of agricultural land during the Celtic Tiger years and negative attitudes amongst farmers toward forest farming (Duesberg et al., 2013). In addition to these issues, the recent fiscal consolidation has seen a reduction of the budget available for afforestation with funding

available for only c.7000 hectares of new planting in 2011. This is in contrast to the 14,700 ha of annual afforestation targeted in the 2011 Programme for Government. The need to investigate new and innovative ways of increasing annual afforestation rates to sustainable levels is recognised in DAFM's Food Harvest 2020 report (2010, p.55), which states that "DAFM and Industry should explore further measures to bring about a significant increase to the annual afforestation level". The COFORD research and development advisory council has established a working group to examine land availability, as well constraints and incentives to achieving afforestation. The group will report over the course of 2013 and 2014 (DAFM, 2013).

Although the financial outcome of planting may only be one of the primary factors in decision making by farmers it does still play an important role. Ryan et al. (2013a) report that in a survey of farmers who had planted forests, financial factors were the most important motivators of their planting decision. Most financial analysis of forestry assumes that farmers are unlikely to plant land which gives a higher return when utilised in another farm enterprise. In addition the length of the forestry rotation must also be taken into consideration as farmers who plant are essentially making an inter-temporal choice by electing to have their land and capital tied up for perhaps a forty year period, versus achieving an agricultural return on an annual basis. Most commonly, researchers generate net present values (NPV) over a standard rotation when conducting financial analysis of commercial forestry and in comparisons between land uses.

Recent research conducted by Teagasc involved examining the relative profitability of forestry across different agricultural systems and six soil quality categories for the period 1995 to 2009 (Upton et al. 2013a; Ryan et al. 2013b). The gross margin of the agricultural system was included as an annual opportunity cost in generating net present value (NPV) figures. Additionally in this research, the influence of soil quality was incorporated into the analysis by using the average Gross Margin (GM) per soil category from National Farm Survey (NFS) data. Using the General Soil Map classification, Farrelly (2011) generated forest productivity (yield class) estimates for Sitka spruce in Ireland across a range of soil types. These estimates were then assigned to each farm soil category as detailed in Table 11.

**Table 5.11 Forest yield class estimates for NFS soil types**

Soil Class		Soil type	SS Yield class
1	Wide	No limitations	24
2	Moderately wide	Minor limitations	24
3	Somewhat limited	Higher elevations, heavier, poorer structure	20
4	Limited	Poor drainage	20
5	Very limited	Agricultural potential greatly restricted	18
6	Extremely limited	Mountainous, steep slopes, shallow soil	14

Source: Ryan et al., 2013

The Teagasc Forest Investment and Valuation Estimator (FIVE) was used to generate the net present value of the planting decision for farmers in six different farm systems and on six different soil types. Future cost and revenue streams were generated and discounted back to present day values. This information enabled the calculation of net present values for the afforestation of previous agricultural land, while taking into account both the financial and physical productivity of the former land use as an opportunity cost. In financial terms, a project is deemed to be worthwhile if it generates a positive NPV at the proposed hurdle discount rate. For all soil categories, the NPV of changing from dairy to forestry is negative and that the

magnitude of the negative NPV increases as soil type improves. The NPV of a change in land use from dairy other and tillage is also negative for the better soil categories, but becomes positive at yield class 18 for dairy other farm systems and yield class 20 for tillage. The largest returns arise where forestry replaces cattle systems on land that is limited for agriculture due to poor drainage (forestry replaces cattle on yield class 18 sites) and where sheep systems are replaced on land that is very limited from an agricultural perspective but is productive under forestry (forestry replaces sheep on yield class 14 sites). The general trend across all systems is for the competitiveness of forestry to improve on land which is marginal for agriculture.

One possible way to encourage afforestation is through the domestic offsetting of greenhouse gas emissions in Ireland (Teagasc, 2010; O’Keefe et al., 2011). Domestic offsetting is identified in the National Climate Change Strategy (NCCS) 2007-2012 as an area for further consideration. As generally conceived, credits would be issued by the government in return for verified emissions reductions (DEHLG, 2007). These credits could then be sold to those who have failed to reduce emissions to a sufficient level. In such a scenario, sectors that contribute to the reduction of emissions, such as the forestry sector, would benefit from income generated from credits. However, such a scheme would probably have to act in conjunction with premium payments, rather than as a replacement in order to increase afforestation demand.

Such a scheme would also help to cut emissions in sectors that are not covered by the EU Emissions Trading Scheme (ETS) such as agriculture, transport and waste. Ireland has agreed to cut emissions in the non-ETS sectors by 20% of 2005 levels by 2020. These sectors have traditionally been seen as “hard-to-reach” due to the diffuse nature of their emissions and the lack of cost-effective abatement options (O’Keefe et al., 2011). Therefore, a domestic offsetting scheme could prove beneficial both in environmental terms and in increasing afforestation rates.

A pertinent example of a domestic offsetting scheme is the New Zealand Permanent Forest Sink Initiative (PFSI) which was instituted in New Zealand in 2007 (Miller, 2007). Landowners who establish forests under the PFSI are able to earn carbon credits which can be traded in Kyoto compliant markets. Since the initiative started, about 14,000 hectares have been registered with the scheme, with another 5,000 hectares in the pipeline. If the most ecologically problematic land types, amounting to ten percent of New Zealand’s farmland, were afforested for carbon over the next few decades, the resulting sequestration could exceed 2 Gt CO<sub>2</sub> within 50 years. This could serve to offset the entirety of the agriculture sector’s intractable emissions over this period (Belton, 2012).

#### *Farmers’ attitudes towards afforestation*

A frequent theme in research related to Irish forestry has been that financial outcomes play a relatively minor role in decision making by farmers (Ní Dhubháin & Gardiner, 1994; Gillmor, 1998; Frawley and Leavy, 2001). In the qualitative literature, farmers frequently identify lifestyle factors as being important in their decision not to plant (Duesburg et al., 2013). In addition, approaches to modelling afforestation rates have varied and have tended to find that the relative returns from forestry have not had a significant effect on planting in Ireland (McCarthy et al., 2003). For this reason much of the Irish research related to forestry has focused on the attitudes of farmers towards planting. A number of authors note a negative view towards forestry amongst some farmers and link it to specific regions and issues related to land ownership and competition

amongst land owners (Ní Dhubháin & Gardiner, 1994; O’Leary et al., 2000, Flécharde et al., 2007). A more common view amongst farmers is that forestry is only suitable for the worst quality land, that it is not financially attractive and that their primary interest is agriculture (i.e. that they want to keep farming or that they don’t have enough land to give over to a fundamentally different land use).

Forestry differs from other commercial land-uses in Ireland as it involves essentially a permanent change in enterprise, a factor which increases the potential financial and psychological cost significantly. As part of the NFS summer survey in 2006, over 1000 farmers were surveyed about whether they would plant forests in the future and what they saw as the main barriers to planting (McDonagh et al., 2010). Of the survey participants, just 107 farmers (10%), stated that they had planted forestry on their farms. In response to a question on possible plans to plant forestry, only 4.5% of farmers stated that they were considering planting some land in the near future. When asked about the barriers to planting, farmers saw the need to hold onto their land for agriculture as the main barrier and the permanent nature of the decision to afforest as the second largest barrier.

In a larger household survey of farmers conducted by Teagasc in 2012 respondents were asked their level of agreement with statements about not planting forestry. Factors related to land quality and agriculture were generally most important but profitability of forestry and the levels of premium payments were recognised as important factors.

Each year since 2005, the Teagasc National Farm Survey repeats the question regarding farmer’s intentions to afforest within the next three years. Consistently each year, less than 4 per cent of farmers state that they intend to plant. However, in a follow up analysis of farmers over a three year period, those who had originally stated that they had no intention to enter forestry had established almost as much forestry as those who had previously stated an intention to plant (Ryan et al., 2008).

The research conducted to date around farmer motivations would suggest that these motivating factors are many and complex. The fact that many farmers have a productivist mindset has been suggested as one of the main barriers to farmers entering forestry (McDonagh et al., 2010). In a broader context Breen et al. (2005) conducted an economic assessment of the impact of decoupling on farming in Ireland which revealed another picture. This model projected the number of farmers that would financially benefit from disengaging from production and compared this with the results of a survey of farmers’ production intentions. The comparison showed that even though there were significant changes in profitability arising from decoupling, 7 out of 10 farmers surveyed fully intended to continue as before and were unlikely to change their production patterns. This is highly significant in understanding farmers’ attitude to planting forestry. In an examination of farm forestry in Ireland, Duesberg et al., (2013) carried out in-depth interviews with farmers who were motivated by many reasons other than financial factors in their land-use decisions. Those farmers primarily motivated by profit maximisation when it comes to afforesting land were in a minority. These farmers would plant if the financial incentives for forestry were more attractive, e.g. if the premiums available for afforestation were higher or if the outlook for agricultural profits was not as good as anticipated. Duesberg et al. (2013) also report that when presented with the option to afforest some land, the most commonly

expressed reason for not planting trees was that “the farm afforestation scheme wasn’t attractive enough financially.”

Of particular importance to understanding attitudes towards forestry in Ireland is the lack of a history of commercial forest management in the country as a whole and in specific regions in particular. This has been suggested as a factor in understanding differences in landowners across Europe with a particular division between western Atlantic countries and Central and Eastern European ones, which possess long and established forest histories (Elands et al., 2004). Specifically in an Irish context O’Leary et al. (2000) observed distinct attitudes amongst respondents from Wicklow, which possesses a history of forestry, and Leitrim, which saw extensive and rapid afforestation in the early 1990s. Flécharde et al. (2007) also make that distinction and suggest that negative views towards afforestation in Counties such as Leitrim and Roscommon were intensified by the fact that much of the planting was conducted by non-farmers from outside the region. More recent research by Teagasc (Ryan et al., 2013a) has suggested that most farmers who have planted are happy with their decision to plant.

Understanding the factors that motivate farmers is essential to understanding their land use decisions. Attitudes towards forestry are strongly linked with land quality and possible alternative land uses. Research suggests that only a minority of farmers are primarily motivated by profit. This group may plant forests if the effect on farm income is positive. However, for the majority of farmers maximising profit is just one of a diverse range of motivators. Forestry is likely to be viewed as fundamentally different from agriculture in that the lack of labour input, long production cycles and change in production away from food may not be appealing to individuals who want to remain in farming. Alternatively for some farmers, a reduction in work may act as a driver to entering forestry. For many farmers however, the longer time frame of forest rotations and the irreversibility of afforestation have a negative influence.

#### *Fragmented nature of growers and disconnect between producers and buyers*

“Factors Affecting Afforestation in Recent Years”, better known as The Malone Report (2008), points out the fragmented character of the Irish forestry sector: “There is a strong inter-dependence which does not seem to be recognised or to work in practice. There is very little linkage between the grower and the market, which is contrary to the strategy for any productive sector (p. 14).” One reason for this disconnect is that forest farmers, usually with small plantations (average size of private plantation is 11 hectares), can be quite isolated from each other. Attempts are being made to counteract this problem through the establishment of forestry producer groups. These groups can facilitate cooperation between forest owners to develop economies of scale in order to harvest and market their timber and can make enterprises such as first thinnings and the building of forest roads economically viable, thereby maximising economic returns for the farmer.

There are also significant issues related to the mobilisation of the timber resource from these small forest farms. Firstly, forest roads need to be built so that harvesting equipment can be brought to the site and timber removed. However, many forest sites are in difficult-to-access areas and/or planted on marginal land, meaning that the building of forest roads is sometimes not cost-effective. Secondly, connecting a forest road to a public road now requires approval from the relevant Planning Authority, which further slows the process of infrastructure creation for

timber harvesting. Thirdly, there is resistance to the transport of harvested timber on public roads on the part of some Local Authorities, further constraining the mobilisation of resources (Forest Policy Review Group, 2013). The Forest Policy Review Group also concludes that funding for the Roads Scheme is insufficient to access all the private forests that currently need to be thinned. Another working group established by the COFORD research and development advisory council is currently examining ways to improve the mobilisation of wood supply.

The isolation of forest farmers speaks to the lack of a strong forest management culture in Ireland, where farmers see afforestation as a scheme rather than an investment (Malone, 2008). This is borne out by Ní Dhubháin et al. (2010) who found that only 11% of forest farmers they surveyed viewed their forest as an investment. The same survey also found that while 72% of respondents planned to thin their forest, only half of these forests were suitable for thinning. This shows the clear need for forest farmers to cooperate in terms of knowledge dissemination, up-skilling and cost-sharing so the best economic return from the asset is realised at maturity. The need to provide training for new forest owners was acknowledged in Government policy (DAFF, 1996) and hence training courses are available to forests owners. These are funded by the Government and are generally provided by Teagasc (The Agricultural and Food Advisory Service) and recently focus on aspects of preparing owners to thin their stands and market their timber. There are also courses to help forest owners to manage broadleaf stands.

However, the expanding number of Forest Owner Groups shows that these problems are in the process of being tackled. The Donegal Woodland Owners Society Ltd. (DWOSL) provides a good example of how local stakeholders can work together to connect forest farmers with timber processors and ultimately customers. The project shows how jobs can be created and revenue generated at a local level via coordination and support. Previously fragmented farmers are brought together into clusters, from which economies of scale can be developed to reduce the costs of thinning, harvesting, equipment and infrastructure. Knowledge and experience is also shared, which can be passed onto new farmers joining the scheme. Other forestry groups, such as the Limerick and Tipperary Woodland Owners and the Wexford Forestry Owners Association provide an organic, bottom-up model by which forestry owners can coordinate their actions.

#### *Dependence of exports on a single market*

The sharp decline in the Irish construction industry from 2008 onwards caused a large drop in domestic demand for Irish sawn timber and panel products. In large part, sawmills and panel products manufacturers reoriented themselves towards the export of their products, especially to the UK. Irish sawn timber exports to the UK grew from €51.47 million in 2008 to €63.25 million in 2010. Irish panel products exports to the UK grew from €106.88 million in 2008 to €114.07 million in 2010. These numbers show the ability of Irish processors to grow export markets, which is especially important considering the weakness of the domestic timber market. However, the export timber market is heavily dependent on a single territory. This leaves the Irish timber industry open to things such as currency volatility against sterling and uncertainty over the UK's political future in the EU. Therefore, growth in other export markets is desirable. This process is already beginning with new softwood timber markets having been entered in France and panel products markets in the Benelux countries (IFFPA, 2012). However, more can be done to gain a foothold in other foreign markets. For example, certification is an issue in terms of timber exports. Currently, the vast majority of exported timber comes from Coillte forests which are



certified by the Forest Stewardship Council (FSC). Certification demonstrates that forests are well managed in accordance with strict environmental, social and economic criteria. However, most private growers are not certified and would therefore find it difficult to export their timber. More work is required in order to make it easier for forest owners and forest owner groups to achieve certification through the FSC or the Programme for the Endorsement of Forest Certification (PEFC).

#### *Underutilisation of multifunctional aspects of forestry e.g. recreation.*

Landscape is a key motivator for overseas visitors coming to Ireland with almost half of the visitors questioned about landscape associating Ireland with forests and woodland (Fáilte Ireland, 2010). The management, conservation and accessibility of forests are essential to Irish tourism, both as a recreational asset for visitors as well as providing an opportunity to experience the uniqueness of Ireland's diversity. Given the importance of tourism to the rural economy, it is vital that forests are available to be utilised as much as possible as destinations for visitors. In this context, the provision of amenities such as paths, signposts and parking places are necessary in order to increase usability and access for tourists. The further development of forest parks and recreation sites through the continued cooperation between Coillte and Fáilte Ireland, as well as the continued upgrading and maintenance of looped and linear long distance trails is essential.

Another pastime that could potentially increase visitors to Irish forests is game hunting. The most widely hunted game in Irish forests are deer (woodcock are also hunted but there is little data on its value to the economy). Ní Dhubáin et al. (2012) estimate the value of game hunting in forests at €1.83 million per year, though this is a rough number. This figure includes the leasing of land for hunting, whereby hunters are charged a fee for permission to hunt deer in a forest property. In 2009, it was estimated that Coillte was paid €500,000 for leasing land for hunting. No figures are available for deer lettings on private property. Hunting licences are free but they do also require a suitable firearms licence, which carries a fee. The majority of overseas hunters come from other European countries such as Sweden and Denmark. Further research is needed to fully estimate the value of deer and other types of hunting to the Irish economy.

## **5.7 CONCLUSION**

Much work has been done to establish forestry as a viable sector in the Irish economy. However, the task of maintaining forestry as a sustainable and growing sector in Ireland is far from complete. Despite the number of challenges currently facing the forestry sector, there is still huge scope for forestry to contribute to the rural economy. The aggressive expansion and modernisation of the sawmilling and forest products sectors during the economic boom leaves the industry in a good position to take advantage of export opportunities to access new markets and add value to their products. However, the current level of afforestation is inadequate for meeting our future needs in terms of carbon sequestration and timber production

Additionally, there is a need to address the issue of mobilisation of timber from private forests so that supply chains can be improved and timber supply increased. The problem of timber supply is strongly related to the fragmented nature of the private forest estate. There is a need for forest farmers to cooperate in order to overcome skills and knowledge deficits arising from a lack of forestry tradition amongst growers. The development of Forest Owner Groups in recent years has

been a welcome development, enabling knowledge dissemination, upskilling and cost-sharing amongst forest farmers. All the necessary support should be provided so that these groups can develop to their full extent with the development of economies of scale in harvesting and marketing of their timber. Additionally, concerns around infrastructure need to be addressed so that raw material can get from farmers to buyers. The building of forest roads is vital to the facilitation of first thinnings and maximising the return from private forests.

There is also a need to think about alternative uses for forests, other than just the supply of timber. In the context of rural development, increased forest recreation opportunities can enhance the capacity for conventional tourism and eco-tourism in rural areas. Increased emphasis on forest recreation should also recognise issues in relation to access to private land and the provision of services and recreational facilities. The role of forests regarding carbon sequestration should also be noted. A domestic offsetting scheme could encourage afforestation, as well as contributing to the reduction of carbon emissions. Funding schemes could be more flexible in order to recognise multifunctionality. In the past, schemes were available for the provision of recreational facilities in forests and for forests that were designed in an environmentally friendly fashion. More work may also be required to educate the general public on the multifunctional benefits of forestry.

In this report, four possible areas emerge for consideration for further research. In terms of wood products, increased attention could be paid to the development of value-added wood products. Regarding carbon sequestration and renewable energy, short-term rotation crops could be assessed for use as fuel/fibre in addition to timber. In terms of mobilising the private sector, more work is required in relation to aiding the progress of forest owner groups and the development of forest infrastructure. Finally, from the point of view of multifunctionality, the continued development of rural tourism through areas such as forest recreation and eco-tourism is of great importance.

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## **Chapter 6. WIND ENERGY IN IRELAND**

Niall Farrell

### **6.1 INTRODUCTION**

The desire to achieve an environmentally sustainable, cost-effective and secure electricity supply has motivated the deployment of renewable electricity generation technologies (EC, 2007). Renewable electricity generation is cited as being environmentally sustainable as Greenhouse Gases (GHG) are not emitted during generation (IPCC, 2007), believed to be a contributory factor to global climate change (UNFCCC, 2012). Renewable electricity is potentially cost effective as, although renewables are currently more costly than fossil fuel-based generation (DECC, 2011a; Allan et al., 2011b), a greater proportion of wind in a generation portfolio reduces electricity price exposure to fossil fuel price uncertainties (Doherty et al., 2006; Allan et al., 2011a). Should fossil fuel prices show a future trend of growth, renewable generation may comprise an important component of a cost-effective future generation portfolio (Lund, 2011). Finally, wind is an indigenous resource, reducing reliance on imported fossil fuels and thus aiding security of supply (Helm, 2002; Bazilian et al., 2004).

It is the purpose of this chapter to outline the development of the Irish renewable energy sector as it evolves to achieve these goals. In doing so, this chapter gives a descriptive insight into the resultant economic impacts at the local, national and international level. Indicative estimates to quantify key impacts are sourced from the literature where possible. It is acknowledged that these are approximate and reference is made to future work being carried out to provide more robust estimates of these effects. As such, quantified impacts are for guideline purposes only. This discussion will focus on onshore wind deployment as current forecasts suggest that wind will deliver 90% of Ireland's total renewable electricity requirement in 2020, with no considerable investment in fossil fuel-based capacity envisaged during this time (Eirgrid Group, 2012).

This chapter proceeds as follows. Section 6.2 gives an overview of current policy measures, whereby the international motivation for wind energy deployment is outlined and translated into Irish policy targets. Section 6.3 discusses both the existing and potential future levels of deployment in order to meet these targets. The potential for establishing wind capacity in Ireland for direct export to the UK is also discussed. Section 6.4 reviews the literature estimating the cost of wind in order to give insight into the potential economic impact required to meet stated targets. Input cost breakdowns are used alongside local and national supply chain information to give a descriptive insight into the degree to which aggregate impacts may be retained in the local and national Irish economy. Section 6.5 carries out a similar review in relation to employment impacts.

The deployment of wind energy is not without cost and this is discussed in Section 6.6. Such costs include public subsidisation costs and non-market environmental costs. Other ancillary impacts are also discussed in Section 6.6. Section 6.7 offers some concluding comments.

## 6.2 POLICY MOTIVATION

### *International Policy*

The deployment of renewables in Ireland is ultimately driven by international policy agreements. Environmental commitments have been determined by the United Nations Framework Convention on Climate change (UNFCCC), an international treaty established at the United Nations Conference of Environment and Development in 1992 (UNFCCC, 2012). Although this treaty did not place binding environmental commitments with respect to global climate change, it provided the framework through which updates or ‘protocols’ have been established. These protocols have incorporated mandatory emission limits and it is through this convention that the international mechanisms of the Kyoto Protocol (Kyoto Protocol, 1997) and the Copenhagen Accord (Copenhagen Accord, 2009) have been implemented.

The Kyoto Protocol comprised the first binding international environmental agreement to reduce global GHG emissions. Under this programme, the EU-15 were obliged to reduce GHG emissions to 8% below 1990 levels by 2012, with a burden sharing mechanism within the EU’s commitment requiring Ireland to reduce GHG emissions to no more than 13% above 1990 levels (Kyoto Protocol, 1997; EC, 2002). Having expired in 2012, the current successor to the Kyoto protocol is the Copenhagen Accord. The Copenhagen Accord has failed to produce a legally binding agreement to extend the mandate of the Kyoto Protocol but suggests that developed countries reduce their GHG emissions by 12-19% less than 1990 levels by 2020. Under this framework the EU have pledged to reduce GHG emissions to 20% less than 1990 levels by 2020, whilst the US have pledged a reduction of 4% (Copenhagen Accord, 2009). This is considerably less than the 25-40% reduction suggested by scientists to limit climate change to the recommended 2 degree increase (Gupta et al., 2007; Christoff, 2010). Subsequent to Copenhagen, progress on ratifying a legally binding agreement was made at the Durban Climate Change convention of November/December 2011, where it has been stated that a legally binding successor to the Kyoto protocol should be in place by 2015 at the latest (UNFCCC, 2011).

It is based on these environmental commitments that binding renewable energy targets have been put in place through devolved European and domestic Irish policy. Ireland is bound to comply with the EU’s consolidated energy and environmental policy known as the ‘Climate Action and Renewable Energy Package’ (Council of the European Union, 2009). Current European targets stipulate that 20% of consumed energy be sourced from renewables by 2020, with Ireland bound to a 16% commitment for that period (European Parliament and Council, 2009). It should be noted that the directive sets gross mandatory emission targets for each member state, but sectoral shares amongst heat, transport and electricity are left for individual Member States to determine, along with the policy instruments employed.

### *Irish Policy*

Under the obligations as set out by the 2009 European Parliament and Council directive on renewable energy (European Parliament and Council, 2009), Ireland has outlined a National Renewable Energy Action Plan (NREAP) to divide EU-level renewable energy targets to constituent targets for electricity, heat and transport (DCENR, 2010). This document states that 40% of electricity consumption should come from renewable sources by 2020, motivated by the



abundant wind resource and the ability of the Irish grid to accommodate this capacity, subject to infrastructural upgrade (Doherty, 2008). Supplementary policy information was introduced in 2012 with a 'Strategy for Renewable Energy 2012-2020' (DCENR, 2012c) and a document on the 'strategic importance of transmission and other energy infrastructure' (DCENR, 2012d). These documents reinforced commitments to deliver renewable electricity targets and the requirement to build the necessary grid and operational infrastructure to support these renewables.

In order to meet these renewable electricity generation commitments, a number of schemes have been put in place to facilitate deployment. These include a price support mechanism to facilitate investment in renewable capacity (DCENR, 2012a); capital grants to facilitate research and development (SEAI, 2012a); and an infrastructural upgrade to accommodate this additional renewable capacity (Eirgrid & SONI, 2008). Each of these mechanisms will now be briefly outlined.

### *Price Support Mechanisms*

Renewable technologies such as wind currently generate electricity at a cost that is greater than conventional fossil fuel-based sources and market prices are thus insufficient to yield a viable investment. Price support mechanisms facilitate deployment of uncompetitive renewable technologies by mitigating much of the additional cost and risk incurred in deployment and operation. Current Irish price support mechanisms have evolved from the Alternative Energy Requirement Scheme (AER), which had been responsible for the majority of Ireland's renewable electricity capacity installed from 1995 to 2005 (Huber et al., 2007; SEI, 2004). Operating before the liberalisation of the electricity market, and thus under the monopoly of the Electricity Supply Board (ESB), electricity generated via the AER project was supplied to consumers through the ESB under a compensated Power Purchase Agreement (PPA) of up to 15 years duration. This scheme operated by means of competitive subsidy, whereby winning bids were those who tendered the lowest required price per unit electricity and/or capital grant by means of a first-price sealed-bid auction.

This scheme progressed through 6 phases with the mechanism of tender evolving with each successive phase. The success of this initiative was less than optimal, with a high proportion of unrealised projects. It is believed that the first-price bidding tender incentivised strategic bidding, whereby winning bids were of unsustainably low prices in order to obtain funding and/or in anticipation of unrealised future cost reductions (Wiser, 2002). Further problems were experienced with regard to poor spatial planning, access to planning permission and access to finance due to the novelty of the technology (and/or unsustainable rates of return due to strategic bidding) (McLean, et al., 2007). Subsequent phases of the scheme attempted to remove the incentive to offer an unsustainably low bid by ensuring that planning permission and connection agreements had been obtained before a bid was placed (McLean, et al., 2007).

The Renewable Energy Feed-in Tariff (REFIT) scheme replaced the AER scheme in May 2006 (DCENR, 2012a). REFIT provides a guaranteed price floor for each unit of electricity generated by renewable sources over a fifteen year period. This mechanism replaces a competitive process with a fixed guaranteed price per unit generated thus removing the potential for strategic bidding. For onshore renewables, updated REFIT legislation was put in place in 2012 (DCENR, 2012a)

and is known as REFIT II. The price offered by REFIT II may be increased in proportion to any positive inflation determined by the consumer price index. To deal with issues of planning, both a grid connection agreement and planning permission are preconditions for securing a contract (DCENR, 2012a).

### *Infrastructural Upgrade*

Emphasised in the 2012 document on the Strategic importance of Transmission and Other Energy infrastructure (DCENR, 2012d), a €4bn investment is underway to upgrade Ireland's transmission and distribution network as part of Eirgrid's 'GRID25' scheme. This is necessary to accommodate the envisaged 40% renewable energy penetration (Doherty, 2008; DCENR, 2010; Eirgrid & SONI, 2008). Alongside this, a 500MW Interconnector to connect the Irish grid became operational in the fourth quarter of 2012 (Eirgrid, 2012). This facilitates trading of electricity with the UK, increasing the available market for renewable generation in Ireland. Increased interconnection may also reduce the requirement to curtail wind output when a large amount of wind energy is on the system. This may be required for system security purposes (see McGarrigle et al., 2013 for a full discussion of curtailment). Both of these factors assist in making large-scale renewable deployment more attractive.

### *Research and Development*

The Sustainable Energy Authority of Ireland (SEAI) offers financial support for the research, development and demonstration (RD&D) of renewable energy technologies, much of which is aimed towards novel technologies. Full information as to currently available funding is available on the SEAI website (SEAI, 2012a).

## **6.3 DEPLOYMENT ROADMAP**

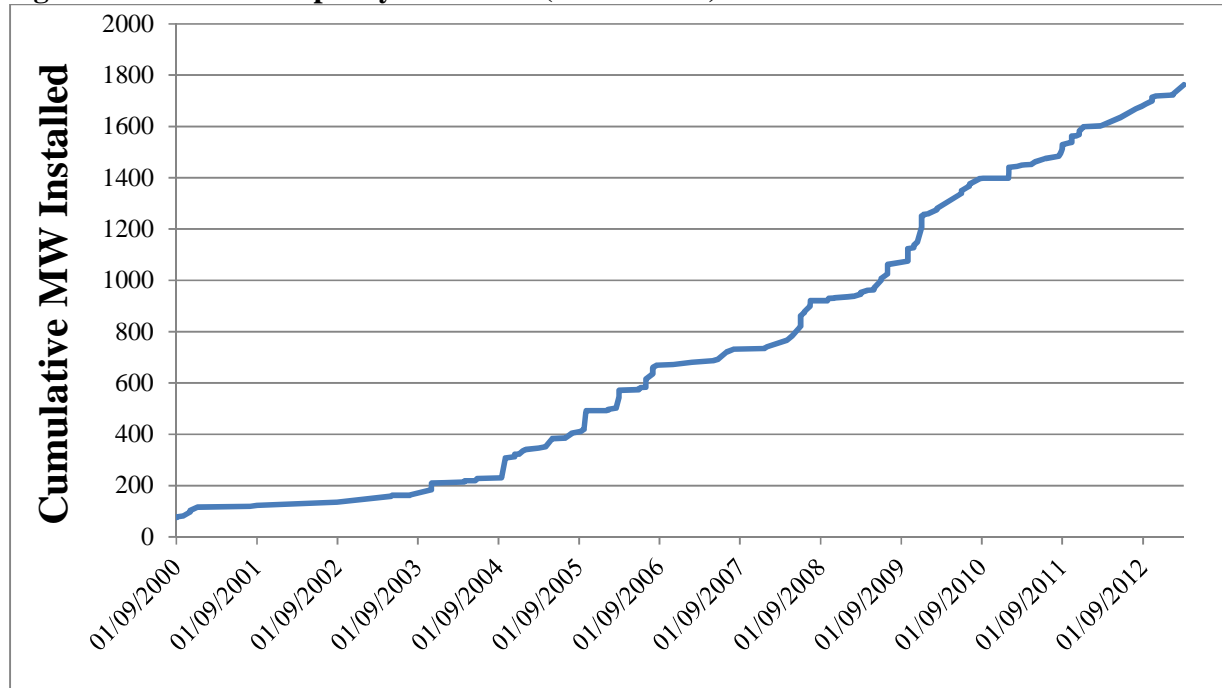
### *Wind Energy to meet Irish Policy Targets*

The deployment of wind has progressed at considerable pace to meet the targets outlined in Section 2. In 2005, 5% of total Irish electricity demand was served by renewable sources, with this contribution growing to 18% at the end of 2011. At the end of September 2012, 1,695MW of wind capacity, 237MW of hydro power and 68MW of smaller renewable sources were installed in Ireland. At particular time intervals, wind has produced enough power to meet 50% of electricity demand, and has reached a high of 38% of total daily electricity demand (Eirgrid Group, 2012). Translating a 40% target into a physical quantity of installed capacity is dependent on the level of electricity demand and due to reduced economic activity of recent years, recent estimations for 2020 have been revised downwards. As of September 2012, Eirgrid have estimated that an installed capacity of between 3500MW and 4000MW would be required by 2020 to meet 40% target in the Irish Republic (Eirgrid and SONI, 2012).

Figure 1 illustrates cumulative levels of wind installed from 2000 to mid-2013 in the Irish republic, according to estimated connection time and Maximum Export Capacity (MEC) reported by ESB Networks (ESBN) (2013) and Eirgrid (2013b). SONI and Eirgrid (2012) have assessed future deployment for the 10-year period from 2012-2022, finding that c.2,144MW may be required during this time to meet 2020 targets. This schedule of deployment is illustrated in

Table 1, where this capacity is assumed sufficient to deliver 90% of the total renewable electricity requirement in the Irish republic in 2020 (Eirgrid Group, 2012).

**Figure 6.1 Wind Capacity in Ireland (1992 – 2013)**



Source: ESBN (2013) and Eirgrid (2013b)

The extent to which renewables may be deployed beyond 2020 is unknown. SEAI have stated that, given favourable developments in policy and infrastructure, it is possible for Ireland to achieve deployment of between 11GW - 16GW of onshore wind and 30GW of offshore wind by 2050 (SEAI, 2011).

**Table 6.1 Estimated Cumulative Wind Capacity Installed in Republic of Ireland (MW)**

Year end	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Wind-Onshore	1617	1913	2113	2388	2662	2937	3212	3486	3761	4035	4310
Wind-Offshore	25	25	25	25	25	25	25	25	25	25	25
Capacity addition		296	200	275	274	275	275	274	275	274	275
Cumulative Capacity	1642	1938	2138	2413	2687	2962	3237	3511	3786	4060	4335

Source: SONI and Eirgrid (2012)

Potential capacity to serve this deployment is processed under the Group Processing Approach (GPA). The GPA processes connection applications by the System Operators (EirGrid and ESB Networks) in groups or batches known as ‘Gates’. As of May 2013, there were 188 Gate 3 projects, totalling just over 5,400MW (Eirgrid, 2013). A generator that has received a connection offer is committed to exporting electricity to the distribution and/or transmission system at a future date. Most projects in Gate 3 have not received a connection offer yet. The Maximum

Export Capacity (MEC) associated with generators that have signed a connection agreement with the System Operator comes to 1,632MW (ESBN, 2013; Eirgrid, 2013b), with a portion of this coming from Gate 3.

Although this suggests that there is sufficient potential capacity to meet current targets and a healthy immediate pipeline, the rate of deployment to date may be some cause for concern. Since 2004, capacity additions, according to published connection dates (ESBN, 2013; Eirgrid, 2013b) have been in the region of c.61-300MW, averaging at c.167MW per annum (ESBN, 2013; Eirgrid, 2013b; Figure 1). In order to install an additional 2,144MW during 2013-2020, Table 1 shows that SONI and Eirgrid have estimated that an additional 200-275MW will be required per annum, averaging at 268MW per annum. Although deployment of this magnitude has been observed during a number of years, it has not been consistent. As such, this rate of growth is greater than the average observed to date and thus represents a challenge that must be overcome to meet current targets.

### *Wind Energy for Export*

Alongside meeting Ireland's own policy targets, there currently exists a plan to deploy onshore wind in the Irish midlands for direct export to the UK market (Greenwire, 2013a; Mainstream Renewable Power, 2013). The rationale behind these proposals is predicated on the fact that the UK faces a considerable challenge in deploying sufficient capacity to meet 2020 targets. The UK is bound to source 15% of consumed energy (electricity, heat and transport) from renewable sources by 2020 (DECC, 2011a), with a target of 30% renewable electricity penetration by this time (DECC, 2012). However, renewables accounted for only 11% of UK generation at the end of 2012 (DECC, 2012). To further put this requirement into context, IWEA (2012) have estimated that the UK needs to deploy 18,000MW of wind energy capacity before 2020, whilst 8,445MW was estimated to have been installed by the end of 2012 (GWEC, 2012). As a result, concerns regarding the timeline of deployment, similar to those outlined in an Irish context, exist in the UK. Indeed, the UK renewable energy roadmap (DECC, 2011a) has expressed concern as to whether all proposed projects will be consented/commissioned or whether they will progress quickly enough to meet existing targets. IWEA have also stated that the delivery of onshore projects is particularly challenging in the UK (IWEA, 2012), which may also affect the deployment timeline. Due to these concerns, the UK's 'Overarching National Policy Statement for Energy' (DECC, 2011b) states that there is an urgent need for new large scale renewable energy projects to come forward to ensure that 2020 targets and wider decarbonisation ambitions are met.

Offshore wind and other marine energy sources play a considerable role in UK policy, with the UK renewable energy roadmap stating that in 2011, offshore wind may comprise 6GW of a proposed total of 16GW wind capacity (DECC, 2011). Indeed, a number of planned offshore projects are further offshore than the distance between Wales and Ireland (IWEA, 2012). As such, the economic rationale behind these plans is predicated on the expectation that onshore wind transported directly from Ireland will be cheaper than offshore wind in UK waters.

It is against this backdrop that on the 24th of January 2013 a memorandum of understanding was signed between the Irish Minister for Communications Energy & Natural Resources, Pat Rabbitte TD, and the UK Secretary for Energy and Climate Change, Edward Davey, to facilitate

the siting of wind turbines in Ireland for direct export to Great Britain. Element Power and Mainstream Renewable Power plan to deploy 3000MW and 1200MW of onshore capacity respectively under their 'Greenwire' and 'Energy Bridge' schemes (Greenwire, 2013c; Mainstream Renewable Power, 2013). Mainstream Renewable Power also propose to install 3,800MW of offshore capacity (Mainstream Renewable Power, 2013). Although negotiations between Irish and UK officials surrounding this project failed to reach an agreement, it is interesting to note the likely impact of such policy should a similar export project re-emerge in the future.

To meet their 3,000MW export project, Element Power stated that turbines of 4MW capacity would be installed. They suggested the installation of 700 turbines across 40 sites of 10-25 turbines per site (Greenwire, 2013c). Such turbine capacities are larger than those traditionally deployed in Ireland (Greenwire, 2013d), with the wind climate in these midland areas not as strong as sites elsewhere in the country (Met Éireann, 2013).

Electricity generated by such a project would be directly exported via bespoke cabling to the British (BETTA<sup>23</sup>) market and not connected to the Irish grid. As such, the Irish grid would not incur balancing costs, etc. to facilitate delivery of this electricity (Greenwire, 2013a). To understand this arrangement, it is useful to think of these installations as an offshore portion of the British BETTA Market located in Ireland. Furthermore, deployment would not be funded by Irish policy but would receive British policy supports and contribute towards British renewable energy targets (IWEA, 2012).

Meath, Westmeath, Kildare, Laois and Offaly, along with parts of Tipperary and Kilkenny had been cited as potential locations for the Greenwire project (O'Toole, 2013). Landowners consulted included farmers (O'Toole, 2013) and Coillte (Greenwire, 2013b) with further literature suggesting that development of such an export project may take place on spent peat land (Greenwire, 2013c).

## **6.4 POTENTIAL ECONOMIC IMPACT**

Wind energy deployment requires the manufacture, installation and operation of the turbines themselves and associated infrastructure. Quantification of the economic impact of wind energy deployment is difficult as national accounts do not separate the wind energy sector when reporting economic output. Alternate methodologies are thus required and this section will review the literature to date to approximate gross expenditures associated with deployment. A descriptive analysis of the constituent costs of a typical wind project is used in conjunction with information outlining the potential Irish supply chain to examine the propensity for expenditures to be located in Ireland and the potential distribution amongst urban and rural areas. It should be noted that this approach is limited to analysing the direct economic impact of wind energy and its constituent activities. Further knock-on indirect and induced economic activity cannot be analysed in this manner. Furthermore, it should be noted that estimated impacts are primarily descriptive and approximate. As such, they are best interpreted as giving an indicative measure as to the magnitude of impacts and insight into the relative impact of each constituent activity.

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<sup>23</sup>The electricity market on mainland Britain is known as the British Electricity Trading and Transmission Arrangement (BETTA).

### *Approximate Gross Expenditure: National and International*

The first step of this analysis is to identify the total cost for a typical wind energy project. Harte (2010) provides an estimation of capital costs from a 2008/2009 survey of Irish Wind Energy Association (IWEA) members. The survey found that the average cost per MW installed came to €1.76m, with a standard deviation of €0.28m. This figure of €1.76m/MW has been employed in a number of subsequent studies (Doherty and O'Malley, 2011; IWEA, 2012). Furthermore, this range roughly corresponds with that quoted by alternate studies, with IEA Wind (2011) stating that Irish costs may range from €1.6m-€2m/MW. In the absence of further data this represents the best approximation of Irish project cost currently available.

Using the average cost value quoted by Harte (2010), the gross expenditure required to install the 2,144MW capacity required to meet Irish targets may be in the region of €3,773.4m (see Table 6.2). As noted by the findings of Harte (2010), such an estimation is approximate, but does give an insight into the magnitude of the capital expenditure required.

**Table 6.1      Approximation of Total Capital Expenditure required to meet Irish Wind Deployment Targets**

Parameter	Value	Source
Average Cost per MW	€1.76m	Harte (2010)
Estimated MW Installed	2,144	Eirgrid (2012)
<i>Total</i>	<i>€3,773.4m</i>	

Harte (2010) finds that average annual operating and maintenance (O&M) costs are €50,000/MW per annum, with studies suggesting values range between 2-3% (€35,200-52,800/MW) of total capital expenditure (Harte, 2010; Doherty and O'Malley, 2011). Assuming an installation of 2,144MW, total annual operating expenditure may approximate €75.4m-€113.2m.

A similar methodology may be used to calculate the total capital expenditure required to install wind energy for export. It should be noted that these projects may use turbine designs that are larger than those traditionally employed in Irish installations (Greenwire, 2013a) and the €1.76m/MW benchmark may be subject to greater error. In the absence of more reliable data, an indicative measure as to the value of Capital Expenditure associated with a 4,200MW export project may be calculated using the €1.76/MW benchmark, giving a value of €7,392m. Similarly, an approximate benchmark on total annual undiscounted operating expenditures may be in the region of €147.8m-€221.76m per annum.

These calculations approximate the total expenditure on both domestic and imported goods and services. Capital expenditure will be concentrated over the initial years of construction and development for each project, whilst operation expenditures will be ongoing throughout the lifetime of each project. IWEA (2009, 2012) and EWEA (2009) note that much of this expenditure will be on imported goods and services. To understand this fully, the following section describes each constituent input to give insight into the relative magnitude of total expenditure retained in the domestic economy. Furthermore, the local, national and international distribution of these expenditures is also discussed.

### *National and Local Expenditures*

Although the costs derived in the previous section are approximate, they give insight into the potential magnitude of total expenditure required to bring quoted wind energy capacities to market. This section will breakdown a typical onshore wind project by constituent process to identify the activities involved and propensity for this to be retained in the Irish economy. This will allow for a descriptive insight into the magnitude of expenditures for each activity, the extent to which each activity may be retained in the Irish domestic economy and the industrial and spatial profile of where this may take place.

Table 3 gives a breakdown of aggregate capital expenditure on wind energy deployment in Ireland by constituent process, using values quoted by IEA Wind (2011). One can see that the primary constituent processes comprise the turbine itself, connection to the grid, onsite electrical works, onsite civil engineering, project development and management, and legal and financing services. These costs are generally incurred over the initial years of a project's life. Once a turbine is operational, operation and maintenance costs are incurred over the 15-20 year operating life of the installation (Hau, 2013, Doherty and O'Malley, 2011). Finally, turbines are either decommissioned or 'repowered' after their operating life (Hau, 2013). Each constituent process will now be discussed in greater detail.

**Table 6.2      Approximate Capital Cost (CapEx) Breakdown**

Component	% of Total Cost
Turbines	65%
Project Development	4%
Legal/Financing	3%
Civil Engineering	8%
Onsite Electrical	8%
Grid Connection	12%

Source: IEA Wind (2011)

### *Turbine Manufacture*

Turbine manufacture comprises the production of the nacelle (turbine and associated gearbox, drive train, brakes, etc.), blades, tower, foundation, transformer and other components. Also included in this category is transportation to the site and installation (Blanco and Rodrigues, 2009). The manufacture of components such as the foundation, tower, nacelle and rotor is generally carried out at a bespoke manufacturing plant. EWEA (2006) have surveyed activities in Europe and found that four of the ten largest wind turbine manufacturers are from Denmark (Vestas), Germany (Enercon, Siemens) and Spain (Gamesa) with others based outside of Europe. Manufacturing activity is centred around the home countries of these manufacturers, with further plant distributed across mainland Europe and the UK (EWEA, 2006). As such, there is currently no Irish manufacturing plant for large commercial wind turbines, with turbines usually imported as part of a turnkey installation contract with an international supplier (IWEA, 2009). Expenditure and employment associated with the manufacture of wind turbines is thus imported at present. As IWEA (2009) note, international turbine companies provide installation by their own internal teams and turbine installation is thus likely to be imported also.

The potential to site manufacturing activity in Ireland has primarily been limited due to the relative scale of activity (IWEA, 2012). It has been suggested that an export project may increase the scale of activity to an extent that an extended Irish supply chain may begin to become economically attractive (IWEA, 2012). Meetings have taken place with respect to the possibility of locating a manufacturing hub in Co. Offaly (Silicon Republic, 2013), indicating that such a development is being considered. Should such a hub be created, this may result in a portion of the 65% of total CapEx being retained in the domestic economy.

Despite these reported discussions, the likelihood of an Irish manufacturing hub is subject to a high degree of uncertainty. IWEA (2012) state that, as Ireland will not have first mover advantage, manufacturing is less likely for full assembly line production of components such as nacelles, even with high levels of deployment over a number of years. It is stated that some potential may exist for larger, heavier components that are difficult to transport such as towers, blades and brakes, but express concern as to the extent to which this may occur in reality and state that interaction between industry and government agencies is imperative to facilitate such development (IWEA, 2012).

As turbines for a UK export projects are to be larger than those which have been deployed to date (Greenwire, 2013d), there may be potential for the use of concrete-based turbines. Research has found that the structural composition of concrete is particularly suited to larger turbine designs (Tricklebank et al., 2013). As Ireland has a history of manufacturing concrete-based products this is a potential opportunity for expansion of the indigenous portion of the supply chain, whereby established concrete industry may be expanded or a bespoke plant established which takes advantage of Irish expertise in this area. Such a bespoke plant may be located close to the export projects in the midlands. It has been suggested that a tower may comprise roughly 20% of total ex-works turbine costs (Hau, 2012), and thus 13% of total CapEx. Although this may be greater for larger turbines and is subject to change depending on materials employed, this value gives an approximate benchmark as to the potential impact should such manufacturing activity be carried out locally.

#### *Project Development, Financing and Legal Services.*

As EWEA (2009) point out, the wind industry in Ireland is dominated by project developers. Project developers co-ordinate the installation project, prospect for suitable sites, carry out resource assessments and negotiate contractual agreements with property owners. Developers may also engage with the local community to ensure that locals are fully informed as to the impact of turbines in the locality. Applications for planning permission and the appropriate connection agreements are also carried out by developers (EWEA, 2009).

Before work can take place, developers are obliged to commission an Environmental Impact Assessment (EIA), which assesses a wide range of environmental, ornithological, geological, cultural and social impacts. Such an assessment is co-ordinated by an engineering or environmental consultancy. The EIA procedure involves constituent processes of outlining the project; describing all environmental impacts; describing social impacts on population, employment, tourism, land use, health and safety; describing the impact on flora, fauna and fisheries; describing the impact on soils, geology, water, air quality, noise, landscape, shadow flicker and electromagnetic impact; describing the impact on material assets such as forestry,



agriculture, infrastructure, air navigation and house prices; outlining the cultural impact; and any interactions of the foregoing (Jennings O'Donovan & Partners, 2011). Alongside development and EIA activities, further administrative activities are also carried out, with IWEA (2009) highlighting the requirement by developers for financial advice; lender/financier involvement and legal advice.

Cross-referencing these activities with the SEAI and Enterprise Ireland supply chain survey for offshore renewables<sup>24</sup> (O'Neill et al., 2012) and an online 'Irish Consultancy' database (Irish Consultants, 2013), one can see that Ireland has a 'strong and immediate' capability to serve development, EIA and administrative activities (O'Neill et al., 2012). Considering the spatial distribution of these activities, developer personnel, resource/environmental assessments and legal/financial consultancy are not limited to the wind farm location and have potential to be distributed across the national economy, according to the consultancy and developer involved in a given project. To obtain an insight into the potential location of such consultancies, the databases of O'Neill et al. (2012) and Irish Consultants (2013) find that a majority of such consultancy services are located in the cities of Dublin, Cork and Galway with further capacity in more rural locations throughout the country. When one observes the locations for developers in already established wind farms (SEAI, 2013), one can see that larger developers in charge of multiple sites are headquartered in Dublin, with smaller developers in more rural locations around the country, potentially local to the wind farm site. As such, potential exists for development remuneration to benefit rural economies, perhaps local to the installation, but this is predicated on the developer and EIA consultants involved in each project.

#### *Civil construction, onsite electrical work and grid connection*

Civil construction work includes foundation installation, construction of access roads and ground preparation. As Hau (2012) reviews, foundations comprise the main civil construction process, along with the development of appropriate access roads and ground stabilisation for heavy building equipment such as cranes. As IWEA (2009) and O'Neill et al. (2012) outline, there is considerable civil engineering capacity in Ireland and given the requirement to carry out such activities on-site, there is potential for this activity to benefit the economies local to the deployment site. When analysing onsite electrical work, an example of an electrical 'balance of plant' contract may incorporate the design and construction of an on-site power substation, inter-wind farm array cabling and fibre-optic cabling to all turbines (Premier Construction, 2012). Direct expenditure on grid connection is received by the relevant system operator (ESB Networks) for distribution network-connected generation. This may also be the case for transmission connections (typically generation schemes with a MEC greater than 20 MW), but the developer has the option to take responsibility for the construction of the connection assets in such installations (SEAI, 2008). This may involve the hiring of an engineering firm. As Smith et al. (2010) note, the applicant pays for the least-cost, technically acceptable connection arrangement that connects them to their assigned node (shallow connection costs). Applicants do not bear the cost of any transmission 'deep' network reinforcement that their connection may cause but if upstream 'deep' re-enforcements of the distribution network are required, these are charged to the applicant.

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<sup>24</sup> Although this study is primarily concerned with supply chain services relative to offshore renewables, the technical requirements are similar and thus the industry profile is indicative of the capabilities for onshore renewables.

IWEA (2009) state that civil engineering, electrical engineering, labouring, health & safety, turbine transport and crane activities are carried out in Ireland with O'Neill et al. (2012) finding that there is good experience and a large number of engineering firms available in Ireland to deliver projects in this area. When interpreting expenditure in all areas, it should be noted that although the labour for these activities may be located in Ireland, it may be the case that some of the constituent materials are imported. This is of particular relevance for onsite electrical and grid connection operations as cabling represents a large component of total cost and may be imported.

*Operation, Maintenance, Land Rental, Community Benefit Schemes.*

Operation and Maintenance costs include regular maintenance, repairs, insurance, spare parts and administration (EWEA, 2009). Hau (2012) outline the activities involved in general operation of modern wind turbines, whereby a central monitoring system is often installed in an operations building which also contains equipment for wind turbine maintenance and facilities for maintenance staff. Alongside this, a remote data transmission facility may also be installed. Overall, it is estimated that operations and maintenance activities are 2-3% of total installed capital cost per operating year. This is broken down into routine maintenance, post-warranty repairs, insurance, land rental, tax (and associated local authority rates) and monitoring/admin (Hau, 2012)

Pre-warranty repairs are covered by the manufacturer and will have no impact on the local or national economy (Hau, 2012). Land rental will be paid to the landowner/farmer who owns the turbine site. Rates and taxes will go to the relevant local/national authorities. Monitoring, administration, maintenance and operations will be carried out by a local O&M team. It has been estimated that 2 people are employed for every 20-30 turbines (Hau, 2012). Insurance costs may be retained in the national economy, but this will not necessarily be local to the deployment site. Hau (2012) break down annual O&M costs as a percentage of ex-works turbine costs, using a stylised international example. These figures are quoted as an approximate proportion of total O&M cost in Table 5.

**Table 6.3 Breakdown of Operation and Maintenance Costs**

Activity	Share
Routine Maintenance	23%
Repairs after warranty	29%
Insurance	14%
Land Lease	14%
Operation and Admin.	20%
Total	100%

Source: Hau (2012)

Alongside these costs, community benefit schemes are annual payments offered by a number of wind energy generators to community projects local to the siting of their wind farms. Such payments take the form of donations to community groups, infrastructure, public facilities, amenities and other such beneficiaries. Airtricity, for example, offer an annual financial contribution to communities in the vicinity of each of its 25 wind farms. To illustrate the scale of

such funding, a 2012 donation of €127,000 was shared amongst 18 community projects near 3 wind farms in Limerick (Airtricity, 2013).

### *Total Economic Impact*

In 2011, IEA Wind (IEA Wind, 2011) found that up to 80% of expenditure in wind energy deployment in Ireland to date was spent on imported equipment, including the turbine and associated electrical equipment. The total value to the local and national economy was estimated to be worth approximately €50 to €60 million per annum. The value of civil and construction works to local economies was estimated to be approximately €30 million per annum. In total, IEA Wind (2011) state that the design, development, construction, equipping, and connection of wind farm facilities in Ireland is estimated to have been worth €250-€300 million per annum over the three years preceding the 2011 publication of their report. These calculations were based on the capacity connected and scheduled to be connected in the short-term surrounding the date of publication.

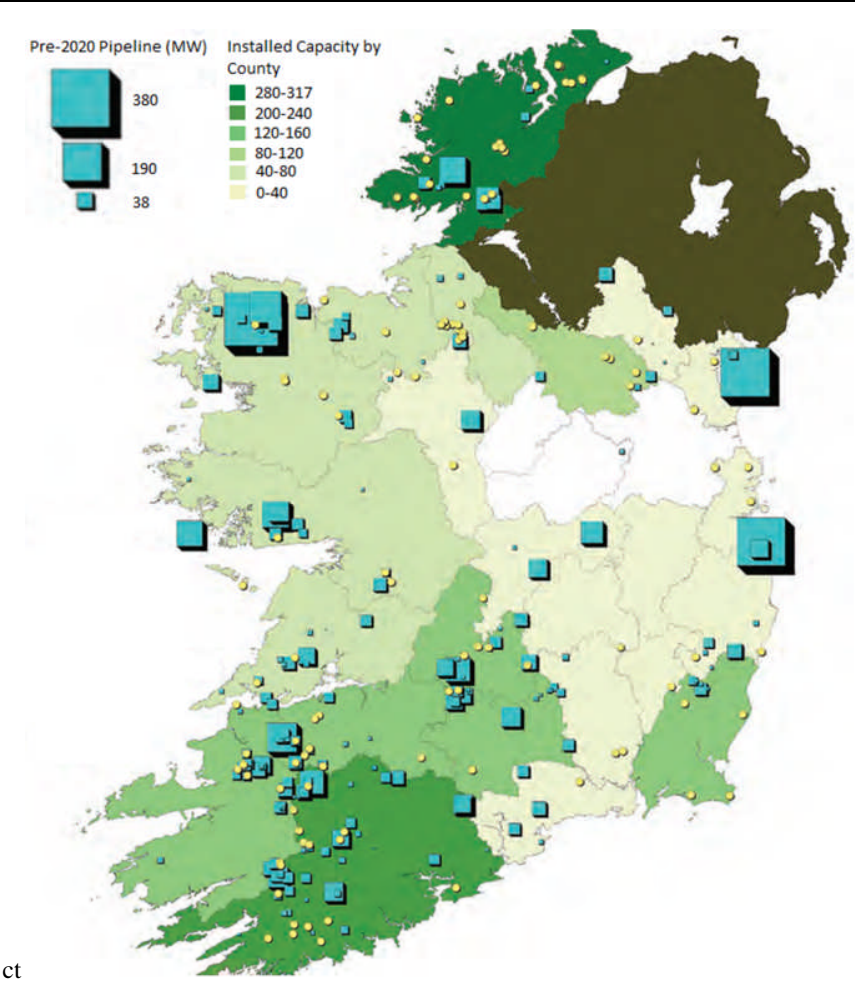
The extent to which local economies at a national and sub-national level may benefit from renewables deployment depends on the local involvement in each step of the supply chain. This section has outlined the approximate total economic impact and has described the propensity to which each step of the supply chain may contribute towards national and local economic growth.

Although the deployment scenario presented in this chapter suggests that total capital expenditure may be in the region of €11,165m, the breakdown offered in this section illustrates current skill sets and industrial capacity is sufficient to facilitate civil (12%), onsite electrical (8%), grid connection (12%), development (4%) and legal/financing (3%) works. It is found that civil work is most likely to benefit rural areas local to deployment sites, with the spatial distribution of firms to service development activities, grid connection and onsite electrical work suggesting this activity is likely to benefit either rural or urban areas, depending on the particular project. Given the spatial distribution of such services, legal/financing expenditures are most likely to benefit urban areas. Although these activities in total represent 35% of total capital outlay, it should be noted that certain constituent inputs to these processes, such as cabling for grid connection, may be imported. The potential for locating manufacturing activity such as tower construction in Ireland has been discussed. It has been stated, however, that the likelihood of such a development is subject to considerable uncertainty (IWEA, 2009).

In order to obtain a more complete understanding of the distribution of these impacts, Figure 6.2(a) outlines the spatial distribution of connected and proposed wind farms in Ireland, giving insight into the spatial distribution of the impacts discussed. This is obtained from IEA Wind (2011). One can see that the majority of development is located in the West, Northwest and South of the country. Figure 6.2(b) highlights the counties for which the midlands export sites are likely to impact. Those highlighted in black are those counties cited as being most affected, with those in grey cited as being potentially or partially affected.

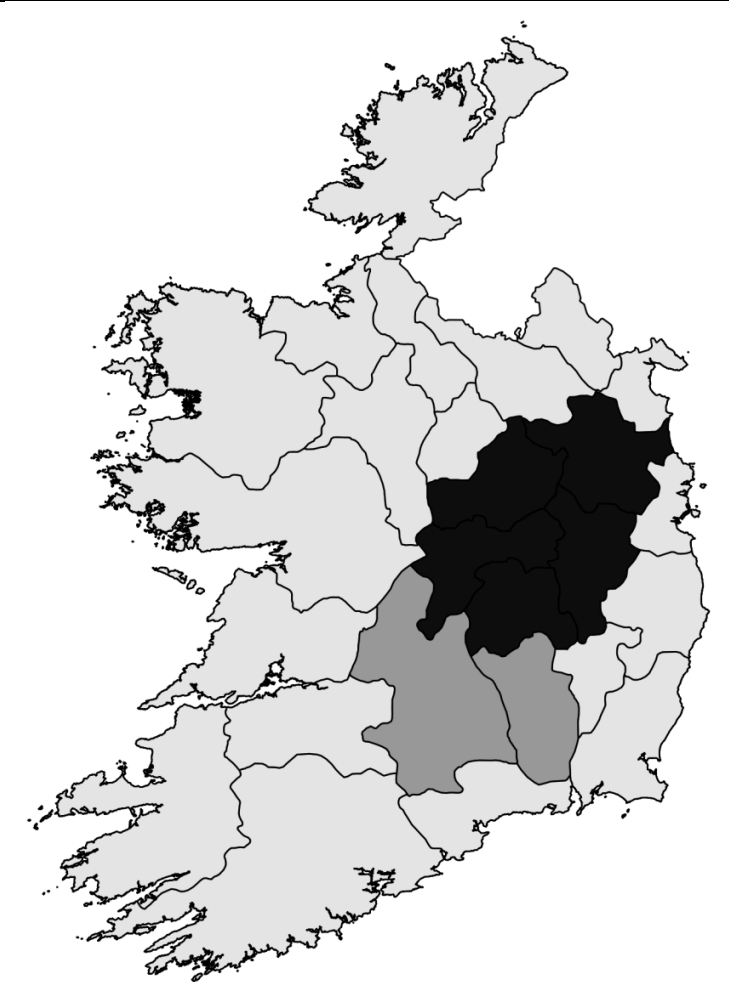
**Figure 6.2    Spatial Distribution of onshore wind deployment**

Figure 7.2(a): Current and Future Deployment (Irish Policy Targets)



Note: Map taken from IEA Wind (2011)

Figure 7.2(b): Areas Potentially Affected by Midlands Export Projects



Note: Areas potentially most affected (black) and partially affected (dark grey) by midlands export project

## 6.5 TRANSLATING ECONOMIC ACTIVITY INTO EMPLOYMENT IMPACTS

### *Quantifying Employment Impacts*

Dalton and Lewis (2011) provide an overview of methodologies used to translate economic activities associated with wind energy deployment into employment opportunities, with the most intuitive and widely reported measure being the 'Jobs per MW' metric. This quantifies the persons directly employed in the deployment of a wind energy project, according to Full-Time Equivalent (FTE) employment<sup>25</sup>. Dalton and Lewis (2011) and Blanco and Rodrigues (2009) have cautioned that jobs per MW metrics are subject to error. Thus, values quoted in this chapter should be interpreted as indicative benchmarks.

Using the Jobs per MW methodology, EWEA (2009) found that approximately 15 jobs are created in the EU for every MW installed and 0.4 jobs are created per MW of cumulative capacity in operations and maintenance and other ongoing activities. The total number of jobs created per MW installed at an EU level is broken down by constituent process in Table 5.

**Table 6.4 Jobs / MW Installed for Capital Cost Components (EWEA Estimate)**

Component	Jobs/Annual MW	Jobs/Cumulative MW
Turbine Manufacturing (Direct)	7.5	
Turbine Manufacturing (Indirect)	5.0	
Installation	1.2	
Operations and Maintenance		0.33
Other Direct (utility, consultants, universities, financial, other)	1.3	0.07
<i>Total</i>	<i>15.0</i>	<i>0.40</i>

Source: EWEA (2009)

As the review of Section 3 has demonstrated, Irish participation in this supply chain is quite limited. In total, EWEA (2009) found that 1,500 people were directly employed by wind energy companies in Ireland in 2007. IWEA (2009) carried out a similar survey to calculate employment impact per MW installed in an Irish context and found that approximately 1.5 direct FTE jobs are created per MW installed. IWEA (2009) find that employment involved in planning, financing, construction and maintenance of wind farms provides 1.37 jobs per MW, whilst development support services such as administration, payroll and marketing/communications provides 0.13 jobs per MW installed. As one would expect, this finding emphasises the fact that no jobs in manufacturing are located in Ireland.

The information provided by IWEA (2009) and EWEA (2009) is used to approximate the potential direct employment impact of 3 supply chain scenarios and 2 deployment scenarios. Following IWEA (2009), it is assumed that 1.5 Jobs per MW represents a baseline number of jobs created in Ireland per MW installed. In order to consider a pessimistic scenario, a 'low baseline' scenario of 1 job/MW is taken as a lower bound.

As Section 4 has explained, it is unlikely that a complete manufacturing supply chain may occur in Ireland (IWEA, 2009). To test the potential impact of locating a portion of this manufacturing activity in Ireland, IWEA (2012) examine a scenario where an additional 1.5

<sup>25</sup> full-time equivalent measures the number of working hours created relative to the equivalent number of persons working full-time for one year

manufacturing jobs/MW are located in Ireland. In the absence of data detailing the actual impact of locating such activity in Ireland, this scenario is taken as an ‘optimistic’ upper bound. Alongside these supply chain scenarios, 2 deployment scenarios are considered, where deployment consists of (1) meeting Ireland’s National Renewable Energy Action Plan (NREAP) target alone (2,144 MW) and (2) meeting Ireland’s NREAP target and the UK export target (6,344 MW). The resulting FTE jobs created using these calculations are displayed in Table 6 below.

**Table 6.5      Gross Direct FTE Employment**

Supply Chain Scenario	Deployment Scenario	
	2,144 MW	6,344 MW
Low Baseline (1 FTE/MW)	2,144	6,344
Baseline (1.5 FTE/MW)	3,216	9,516
Baseline & Manufacturing portion (3 FTE/MW)	6,432	19,032

Jobs/MW Data Sources: IWEA (2009, 2012) and EWEA (2009)

From Table 6, one can see that the deployment of the UK export project may lead to a considerable increase in the number of FTE employment in Ireland under the assumed scenarios, relative to achieving Irish targets alone. One can see that the export (6,344MW) scenario leads to an additional 4,200-12,600 FTE, with much of this potentially located in the midlands region highlighted in Figure 2(b). It should be noted that the baseline figures are considerably less than those quoted by IWEA (2009), who differ in their assumptions regarding installed capacity<sup>26</sup>. Furthermore, these findings are approximate. As such, it is recommended that these impacts be interpreted as an approximate guideline only.

If capacity were built in manufacturing, this employment would be comprised of the relevant industry and skills profile, such as engineering and associated administrative requirements. The industry profile of the ‘baseline’ employment is approximated by IWEA (2009) and is illustrated in Figure 3. One can see that the service sectors comprise a small share of total employment created, relative to the proportion of expenditure quoted in Section 4. This reflects the low labour intensity of the work involved. One can see that activities surrounding planning, development, construction and O&M comprise a large share of captured employment. As the review of Section 4 outlined, it is these activities that have the greatest propensity to be retained in rural economies. Should manufacturing activity be established local to the deployment of export projects in the midlands, this employment may be concentrated in a labour-intensive industry, potentially located in a rural area.

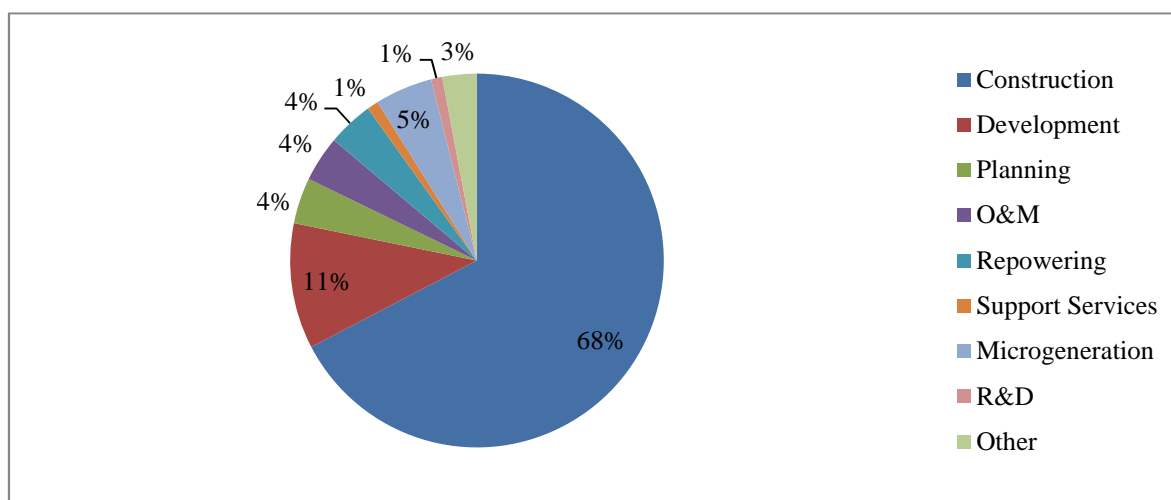
FTE represents the additional hours of employment generated, but one should note the distribution of this FTE employment across both time and individuals. The economic processes outlined will not continue in perpetuity. Capital expenditures are likely to be concentrated in the initial years of each project’s lifespan, with operating expenditures spread out over the 15-20 year expected project lifespan. As such, employment generated by wind deployment in Ireland is likely to be distributed amongst a greater number of working hours during a concentrated time period. Similarly, one should consider the distribution of the additional FTE quoted amongst individuals. Should this employment be carried out by existing companies, the entire complement of additional FTE hours generated may not be completely distributed amongst additional individuals employed, as companies may have

<sup>26</sup> IWEA (2009) estimate that a total capacity of 5,500MW will be required to meet 2020 targets, considerably greater than the 3,500-4,000MW figure cited by Eirgrid Group (2012) that is used in this study.

excess capacity which may first be used before additional individuals are employed to fill these roles.

It is also important to note that these quoted employment impacts are gross impacts. The potential displacement of employment in conventional generation is not considered. Furthermore, the macro-economic impact of wind deployment, and potential costs associated with this, may result in increased cost of electricity. This may affect economic performance of Irish industry and thus prevailing levels of employment. These effects are discussed in greater detail in Section 6.

**Figure 6.3 Categorical Breakdown of FTE employment potentially located in Ireland under the Baseline Scenario**



Source: IWEA (2009)

## 6.6 SUBSIDISATION COST AND EXTERNAL IMPACTS

Thus far, this chapter has discussed the direct economic impact surrounding the installation and operation of wind generation in Ireland. However, wind energy deployment brings with it a number of ancillary costs and benefits which must also be considered in a comprehensive analysis of deployment. Although these have not been quantified in an Irish context, this section will give an outline of each and discuss how they should be considered when assessing the economic impact of wind energy deployment.

### *Subsidisation Cost*

Wind is free and thus the electricity generated does not require expenditure on fuel. Despite this, the levelised cost, that is the total discounted lifecycle cost per unit of electricity generated, is greater for wind than for conventional generation sources (DECC, 2011a; Allan et al. 2011b). As such, AER and REFIT mechanisms of financial support have been introduced in Ireland to incentivise deployment (see Section 1). These schemes are financed by an electricity consumer-funded public service obligation levy (PSO). This additional levy is an additional cost on the consumption of electricity.

When considering this cost, it should be noted that wind also imposes a depressing effect on wholesale prices. Wholesale market prices are determined by the marginal cost of the most

expensive generator dispatched during a given time period. As wind is free, wind generation has no marginal cost and the dispatch of wind may replace the dispatch of an expensive unit. The marginal cost of generation may fall when this occurs, resulting in a fall in electricity price. This is known as the ‘merit order’ effect (Clifford and Clancy, 2011; O’Mahoney et al., 2011; Sensfuß et al. 2008).

The net cost of wind is also sensitive to change in fossil fuel prices. As Foley et al. (2013) discuss, increasing wind penetration levels will lead to an increase in the total PSO levy. Should future wholesale market prices be low (due to low fossil fuel prices), a greater PSO levy may be required to enforce the minimum price guarantee of the REFIT scheme. As prevailing prices are higher, the dampening effect of wind will be reduced. Should future fossil fuel prices be high, the zero marginal cost of may dampen any increase in wholesale market prices that may result (Devitt and Malaguzzi Valeri, 2011; Farrell and Lyons, 2014), whilst a high market price may reduce the need for PSO subsidy. As such, wind capacity may provide a hedge against future high fossil fuel prices but at the risk of increasing the cost of electricity should future prices be low. Devitt and Malaguzzi Valeri (2011) have carried out a comprehensive analysis to estimate the potential cost of REFIT under a number of deployment and fuel price scenarios.

The net impact of these counteracting effects is unclear. To date, it has been shown that the PSO cost and the merit order effect cancel each other out (Clifford and Clancy, 2011). As the previous paragraph suggests, this is subject to change, largely determined by future fossil fuel prices. Furthermore, the distribution of these costs and benefits amongst households may differ as the PSO is charged on a flat-rate basis whilst electricity usage is charged on a per-unit basis. Thus, the incidence of electricity cost may shift and, as Farrell and Lyons (2014) point out, this shifts the burden to poorer households.

It should be noted that the proposed UK export projects would be supported by UK renewable energy policy and thus would not impose any of these impacts on the Irish consumer. As such, the subsidisation cost of renewables should be considered in the context of Irish policy targets alone when evaluating the welfare effects of renewables deployment.

### *External Impacts*

There are a number of further external impacts which must also be considered for a comprehensive economic analysis. This section will give an overview of those potential impacts, although many of these have not been quantified in an Irish context. Bergmann and Hanley (2012) and Moran and Sherrington (2007) give a comprehensive review of the external environmental benefits and costs associated with wind energy deployment. Wind energy deployment may bring with it some ancillary benefits alongside CO<sub>2</sub> mitigation: reduced emission of particulates may reduce the incidence of certain chest and heart problems whilst reduced SO<sub>x</sub> and NO<sub>x</sub> emission may reduce their negative impact on water quality, historic buildings and crops (Bergmann and Hanley, 2012). Wind turbine deployment may also have negative environmental impacts. These include disamenity associated with the visual impact and sound of the turbines themselves and any potential network infrastructure, along with potential disturbance of animal and bird habitats. Bergmann and Hanley (2012) discuss techniques of non-market valuation that may be employed to value these effects in order to incorporate their impact in a comprehensive assessment. Although not quantified to date, these impacts should be considered in a comprehensive net economic assessment.

A number of external impacts particular to the proposed export projects may also be noted. First, locating a portion of UK wind generation in Ireland may result in greater coupling of



BETTA and SEM wind output, affecting the export potential of SEM-connected wind generation. However, the presence of additional interconnection may aid SEM-connected generation should provisions be made for such capacity to avail of this infrastructure. Although not quantified to date, these impacts should be incorporated in a comprehensive net economic assessment.

One suggested location for these projects is on spent peat land (Greenwire, 2013). Although undisturbed peat land acts as a carbon sink and contributes towards biodiversity, peat harvesting activity has disturbed much of these services (Strack, 2008; Collier and Scott, 2008). Post-harvesting, certain biodiversity services provided by these sites may be regenerated (Chapman et al., 2003; Kimmel and Mander, 2010), or they may be set aside to provide after-use biodiversity services (Collier and Scott, 2008). Such uses are not possible if these sites are used for wind farm development. A comprehensive economic analysis should incorporate the value of these potential uses, relative to alternative uses for non-peat land-based deployment sites. Irish evidence to value the environmental impact of either outcome does not exist but these potential impacts are also important considerations for comprehensive analysis.

## **6.7 CONCLUSION**

International environmental commitments have resulted in a continuously developing international renewable energy industry. This chapter has outlined the wind energy sector in Ireland. It has been shown that onshore capacity additions in the region of 2,144MW may be deployed in the Irish republic to meet current targets. The deployment of an additional 4,200MW of capacity for direct export to the UK has also been discussed. Should Irish rates of deployment accelerate to accommodate these targets, approximate gross capital expenditures in the region of €11,165m may be required, with annual operating expenditures of €75.4m-€113.2m and €147.8m-€221.76m for national and export scenarios respectively.

These impacts are gross expenditures, much of which may be spent on imports. As such, the extent to which the Irish economy benefits from these impacts is predicated on the extent to which indigenous industry contributes towards supply chain activities. The existence of established supply chains elsewhere in Europe for the manufacture of turbines and primary infrastructural components has resulted in the majority of economic value added to date being imported from abroad. By reviewing the literature, it has been found that c.20-35% of gross capital expenditure may be retained in the Irish economy (IEA Wind, 2011; IWEA, 2009).

The rural/urban distribution of impacts is predicated on the distribution of the employed firms. One cannot conclusively say whether this will be retained in rural areas, but analysing the distribution of potential firms can give insight into the propensity of each to be served in rural areas local to deployment. The discussion of Section 4 found that civil construction (8% of total capital expenditure), grid connection (12%), and onsite electrical work (8%) must be carried out local to the deployment site. As such, potential exists for this remuneration, net of any imported intermediate expenditure, to be retained by companies and utilities local to deployment. Operating expenses of post-warranty O&M, land rental/rates and community benefit schemes are also site-specific and thus likely to accrue to economies local to deployment. Although potential exists for developer remuneration, EIA costs and legal/financing services to remain in economies local to the deployment sites, there is a greater propensity for these to be retained in major urban centres. However, the eventual spatial distribution of these impacts is dependent on the particular firms involved.

The potential for locating manufacturing activity in Ireland has been explored in this chapter, with appropriate interaction between industry and government bodies cited as instrumental in the success of such a proposition. Using a scenario analysis, it is shown that a moderate contribution to total manufacturing activity may lead to a considerable increase in Ireland's share of total employment. The likelihood of such an eventuality has been discussed, with the literature suggesting that established supply chains elsewhere may make such a development difficult to accomplish.

This chapter has also outlined the costs and ancillary impacts of deployment which must be considered in a comprehensive analysis. Indeed, this is especially important when considering the macro-economic impacts, as such costs, if present, may impose a depressing effect on economic activity and any potential economic benefits must be considered net of these costs. Failure to do so may overstate the potential economic benefits of renewables deployment as the potential cost imposed on consumers is overlooked. Furthermore, there are environmental impacts that must also be incorporated, along with potential displacement of employment in conventional generation.

This chapter has reviewed the literature analysing the economic impact of wind energy deployment in Ireland. It should be noted that the findings contained within are of an illustrative nature, with studies to comprehensively quantify these impacts forthcoming.

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## Chapter 7. CREATIVE INDUSTRIES – GLOBAL POTENTIAL LOCAL TALENT

Ian Brannigan, Laura McManus

### 7.1 OVERVIEW

*The Creative economy is globally significant and important to Ireland's growth*

Developments around the globe are re-defining media, arts and other related sectors as 'creative industries' which are being recognised for their potential impact on local and national economies.

In the ten years up to 2005, the creative economy grew at twice the annual rate of the service industries and four times the rate of manufacturing in OECD countries. In Europe, the growth of the cultural and creative sector was 12.3% higher than the growth of the overall economy from 1999 to 2003. From an economic perspective, international trade is a key component, from 2000 – 2005, trade in creative-industry products grew on average by 8.7% annually.

In the EU, 27 creative industries offer 6.1 million jobs and represent 2.7% of GDP (2007)

The EU has also begun to quantify and measure the creative industries in a green paper titled *Unlocking the potential of cultural and creative industries (2010)*. In the report the EU identified the creative industries through their ability to imagine, create and innovate as being one of the key sectors to help Europe remain competitive in the changing global market driving economic growth and job creation. It looked at the dual role of cultural and creative industries in using its local resources, knowledge and creative talent to spur innovation.

Recognition of this sector was set out in Irish government's policy document entitled "*Building Ireland's Smart Economy*" (2008), which called for a framework for sustainable economic development over the 2009-2014 period based on five action areas. '*Creating the Innovation Island*': involves leveraging the Arts, Culture and Creative Sectors as a world class business sector. This recognizes the arts, cultural and creative industries as key and primary economic contributors, and acknowledges that the challenges for creative industries differ from those in traditional export sectors. The action area identifies intellectual property protection and commercialisation as top priorities, and advocates a policy supporting research and development (R&D), and investment in human and creative capital.

"Ireland today survives and prospers by the talent and ability of its people. Today's goods and services require high value added input. Some of it comes from technology or financial capital but more of it comes from people's ability to innovate, to adapt, to be creative. In economic terms, the cultural and creative sector is globally one of the fastest growing. Estimates value the sector at 7% of the world's GDP and forecast 10% growth per year. Creative industries are also a key driver of the digital and knowledge economy.

Consumer demand for creative content is driving new sales in computers, broadband, cell phones, and ecommerce". (*Building Ireland's Smart Economy*, 2008, p.80)

*The Creative economy is a strength and competitive advantage for Irelands Rural regions*

Traditional economic theory predicts that people follow jobs, however for regions and rural areas in one key sector it has been observed that a new dynamic is at play whereby jobs often

in effect “follow” people<sup>27</sup>. Such a dynamic may be seen in the **creative industries sector**, whereby the ability of a region or rural area to attract creative talent in turn leads to enhanced enterprise and employment opportunities for that locality both directly and indeed throughout the wider economy in effect. Research shows that regions not nations compete for creative talent<sup>28</sup> thus allowing homogenous cultural areas (regions) a distinct advantage in nurturing and attracting creative capital.

Emerging work on the nature of the creative industry sector<sup>29</sup> in the West of Ireland, a predominantly rural region, also shows that the nature of the creative industries sector in regions demonstrate unique aspects which frequently differ from their urban counterparts and are potentially more firmly locked to the land from which they evolve. Examples of this include the unique fashion cluster of the Donegal and North West, and the craft clusters in Connemara.

Consideration needs also to be given to the longevity and job density characteristics of the creative industries sector in rural regions. Analysis has shown that often businesses in these sectors demonstrate significantly long average lifetimes (over 13 years in the Western Region<sup>30</sup> of Ireland), probably due to their nature and cost structures. Also the average GVA figures can appear low in certain sub segments and high in others (€56,000 in creative technology for example), whilst it is reasonable to observe that the sometimes low sectoral GVA values do reflect a sector which has a large proportion of part-time, seasonal and lifestyle employees. Who nevertheless are regular economic contributors rooted in their communities. So this combination of characteristics provides a unique opportunity for the rural regions of Ireland to focus on providing the conditions to accelerate the enterprise and employment development of the creative industries sector as these regions have shown an ability to both grow and attract the necessary talent that the sector needs.

Undoubtedly this is due in no small part to the unique location, heritage and life quality of these rural regions, conditions which are immutable and indelibly linked to the “place” and hence difficult to replicate elsewhere. However they are also complimented the improving access to global markets and talent available to these regions.

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<sup>27</sup> Robert Huggins – University of Cardiff

<sup>28</sup> David A Wolfe – Centre for international studies University of Toronto

<sup>29</sup> NUIG/WDC – “*creative growth trajectories*” 2011 (TBC)

<sup>30</sup> Western Development Commission – “*The Creative West*” (2009)

### **Case study 1 – Development of regional creative economy – West of Ireland**

*In 2009 the Western Development Commission (WDC), published the conclusion of a landmark piece of analysis into the shape, composition and relative importance of the creative economy within the western region of Ireland. The findings outlined in the Creative West document showed for the very first time the breadth and depth of a critical part of our socio-economic fabric, heretofore thought of mainly as important only in the cultural context. The research showed that with almost five thousand businesses, eleven thousand direct employees and revenues estimated at over half a billion per annum, our creative economy represented not only some of the best of what we are, but also offered a valid answer to what we could aspire to be in terms of a sustainable growth sector offering opportunities in employment, business and indeed quality of life improvements. The study asked almost three hundred and fifty creative businesses and organisations what exactly it should do to practically realise this creative potential. These inputs formed the basis of key growth recommendations. In 2010 further studies engaged with creative businesses to determine the economic impact assessment (EIA) of applying the key recommendations*

*And in the area of enabling existing creative goods and services access global markets, real lasting growth was deemed possible and potentially significant in growing both the region's creative and indeed mainstream economy. The analysis pointed out how values such as prestige, options and education are key spill over effects from direct growth of our creative economy, which taken with potential impacts on wider innovation and quality of life improvements indicate how potentially significant developmental efforts in this sector may be. In summary, the region's creativity is in effect a natural asset, it is immutable and both attracts and retains world class creative people here in the West of Ireland. Directly it pays its way and more, indirectly it is a seed from which inspiration, innovation and achievement grow fruitfully.*

## **7.2 THE CREATIVE ECONOMY OUTLINE**

### *Definition of the Creative Industry*

Oxford Economics define the creative sector as

“Occupations and industries centred on creativity, for the production and distribution of original goods and services.”

Creative industries can be defined as the cycle of creation, production and commercialisation of products and services that use knowledge and intellectual capital as primary inputs. They deal with the interplay of various subsectors ranging from traditional crafts, books, and visual and performing arts, to more technology-intensive and service orientated fields such as music and film industries, television and radio broadcasting, new media and design. Today, creative industries are among the most dynamics sectors in world trade.

### *Classification of the Creative industry*

Classification of 12 creative industries into three broad categories:

1. Creative Application – industries which develop products or services primarily based upon meeting a market demand. This category includes products such as signature designer pieces, books, blueprints or advertisements, and services such as private art galleries. Six creative industries fall within this category:

- Art/Antiques trade (private art galleries, antique shops)
- Architecture
- Fashion
- Publishing

- Advertising
- Crafts

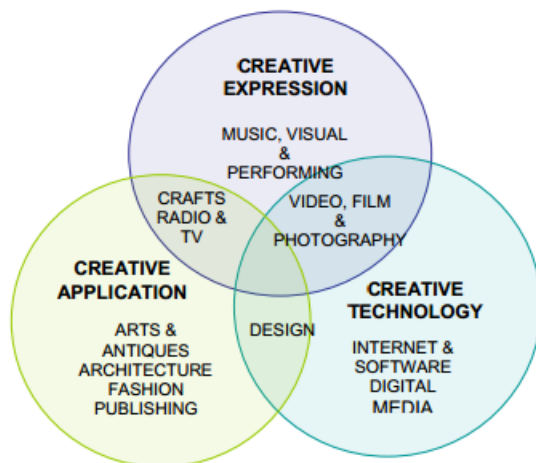
2. Creative Expression – industries where products or services are developed for audiences with an expressive story in mind. There is a relatively high level of public funding involved within this category and it includes the arts sector. Three creative industries fall within this category:

- Music, visual and performing arts (musicians, artists, theatre groups)
- Video, film and photography
- Radio and TV broadcasting

3. Creative Technology – industries which rely most on technology and digital media, particularly for their core functions. Three creative industries are in this category:

- Internet and software
- Digital media (gaming, animation)
- Design (graphic design, web design)

**Figure 7.1 Three main categorisations of Creative Industries in Ireland :**



#### *The creative industry characteristics in Regional Ireland*

According to the 2009 report, '*Creative West: The Creative Sector in the Western Region*' commissioned by the Western Development Commission (WDC), the economic contribution of the creative sector to the Western Region's economy estimated that, there are 4,779 creative businesses in the Western Region which directly employ 11,000 people, equal to 3% of total employment in the region. The creative sector generates annual turnover of €534m and directly contributes €270m to the Gross Value Added of the region.

In addition to its direct contribution, the creative sector indirectly supports the employment of 3,800 persons mainly through its purchases of business services, personal services, retail and distribution services. This indirect contribution generates €300m in GVA.

It is estimated that the productivity of the total creative sector in the western region (measured as GVA per employed worker) is €25,000. This varies considerably across the creative categories with average productivity of €56,000 per person employed in the creative technology category, compared with just €17,000 per person employed for creative expression.

The productivity figures for the creative sector in the Western Region are relatively low compared with average productivity figures for the economy

Low productivity in the creative sector is closely related to the low level of capital inputs employed by the creative sector compared with other, highly capital-intensive industries such as pharmaceuticals or computer equipment. Many creative businesses are small scale, have low levels of export activity and many creative persons operate on a part-time or hobby basis and are not primarily commercially focused.

In relation to export activity of creative sector businesses, it is estimated that 66% of creative businesses in the Western Region receive less than 5% of their total turnover from exports. Most creative businesses in the region export little or no goods or services.

Of the three broad categories, creative application has the highest average turnover at €509,000 per annum per business, followed by creative expression at €360,000 per annum and creative technology at €261,000 per annum

In terms of the size of businesses, the creative sector in the Western Region is largely made up of self-employed individuals or micro businesses comprising fewer than 10 employees.

#### *Potential of the creative sector*

The creative sector and especially the creative industries are potentially in strong position to drive growth and stimulate job creation. This potential for growth is due to the sectors links with innovation, new product development, original or unique ventures and ties to cultural and artistic fields.

There are direct linkages with suppliers and customers, but the creative sector also has important spill over impacts on sectors such as tourism by encouraging more international tourists to visit and can increase productivity/ performance in sectors such as manufacturing, financial services, engineering and scientific research which purchase innovative creative services and products. Some specific examples of linkages would include tourists visiting an area to attend a music event and then purchasing goods and services from the retail and hospitality sectors.

According to the ‘*Creative West*’ report, in addition to its direct contribution, the creative sector indirectly supports the employment of 3,800 persons mainly through its purchases of business services, personal services, retail and distribution services. This indirect contribution generates €300m in GVA. The induced contribution, which results from the spending of those employed either directly or indirectly by the creative sector, supports an additional 3,600 jobs in retail, personal services and hotels and restaurants. This induced contribution generates €190m in GVA. Both the indirect and induced contributions are not exclusive to the Western Region as purchases may be made from outside of the region, including spending on imports.

Creative industries are becoming a priority economic sector worldwide and are not only linked to urban areas. Creativity and innovation have a strong and distinctive and regional dimension.

The creative industry sector offers:

- Significant, indigenous sector
- Strong growth potential

- High quality employment
- Stimulates innovation in wider economy – strong linkages
- Important social role attractiveness of area
- Promotes rural and regional development

### *Key issues*

The key issues for the creative sector can be categorised under three headings:

- Creative people: related to the level of skills and creativity within a region's population, provision of local training courses and the activities of educational institutions, as well as the level of diversity.
- Creative place: related to the attractiveness of a region including its landscape, heritage, built environment, infrastructure, social network and quality of life.
- Creative supports: related to the facilitating policies and programmes available to the creative sector, such as funding, networking opportunities and marketing capabilities.

**Table 7.1 SWOT Analysis of the Creative Industries**

	Strengths	Weaknesses
Creative People	<p>High level and diverse mix of skills across counties</p> <ul style="list-style-type: none"> <li>• Current structure of both new and established businesses – mainly indigenous</li> <li>• Diverse education institutions offering courses relevant to the creative sector</li> <li>• Growing diversity of the population – multicultural society</li> </ul>	<p>Untapped potential of a high number of businesses/skilled people</p> <ul style="list-style-type: none"> <li>• Shortage of certain creative skills</li> <li>• Lack of basic business skills amongst those working in the sector and new entrants</li> <li>• Low levels of research and development limiting innovation in the sector</li> </ul>
Creative Place	<p>Landscapes, lighting, natural settings, uniqueness</p> <ul style="list-style-type: none"> <li>• Good range of urban and rural settings, from city to remote rural areas</li> <li>• Work/life balance, quality of life</li> <li>• Cost of living</li> <li>• Advantage of small communities</li> <li>• Irish language and heritage, and other cultural resources</li> <li>• Two international airports and three regional airports</li> </ul>	<p>Lack of suitable low cost workspaces</p> <ul style="list-style-type: none"> <li>• Surface connectivity between regions, i.e. road network</li> <li>• Insufficient broadband capacity and connectivity</li> <li>• New built developments not always sensitive to rural uniqueness</li> </ul>
Creative Supports	<p>Existing critical mass in certain areas of the region e.g. Galway, Sligo, Leitrim</p> <ul style="list-style-type: none"> <li>• Support from community based organisations</li> <li>• Social networks for creative people in certain local areas</li> <li>• Strong festival culture in some regions</li> <li>• Availability of funding sources</li> </ul>	<p>Poor networking between creative businesses across counties</p> <ul style="list-style-type: none"> <li>• Low level of alliances/joint projects, particularly among smaller businesses</li> <li>• Lack of information surrounding funding opportunities</li> <li>• Lack of showcasing of local talent by tourism sector</li> <li>• Lack of awareness of role of creative industries in innovation within non-creative sectors such as manufacturing, financial services and tourism</li> <li>• Distance from primarily Dublin-based trade associations</li> </ul>

	Opportunities	Threats
Creative People	<p>Tapping into the hidden skills currently operating</p> <ul style="list-style-type: none"> <li>• Connecting skills within regions</li> <li>• Utilising the experience of individuals and longevity of businesses within regions</li> <li>• Technological hubs or clusters to enhance business development</li> <li>• Tapping into digital revolution, including investment in research</li> <li>• Increased flows of talent between creative and non-creative businesses</li> <li>• Stimulating a greater culture of creativity</li> </ul>	<p>Losing current creative talent from the region</p> <ul style="list-style-type: none"> <li>• Reduced diversity in some regions due to lower in-migration as a result of economic factors</li> <li>• Focus of policy on attracting new skills rather than sustaining and encouraging established skills</li> </ul>
Creative Place	<p>Attraction of new businesses</p> <ul style="list-style-type: none"> <li>• Relatively unspoiled landscapes</li> <li>• Enhancement of the quality of the built environment</li> <li>• Widespread recognition of the importance of the creative sector to a region</li> <li>• Potential of the character of a region to stimulate creative growth</li> </ul>	<p>Lack of appropriate creative infrastructure e.g. studios, theatres</p> <ul style="list-style-type: none"> <li>• Risk of over-development or over urban-centred development plans spoiling the area's character</li> <li>• Insufficient supply of good, stable employment opportunities for current and new creative workers</li> </ul>
Creative Supports	<p>Increased access to export markets</p> <ul style="list-style-type: none"> <li>• Marketing creative uniqueness</li> <li>• Creating an integrated regional approach, through facilitated networking</li> <li>• Funding tailored to the needs of each of the creative industries to help businesses develop</li> <li>• Creativity becoming a key input into the development of non-creative sector businesses – cross-sectoral linkages</li> </ul>	<p>Lack of sustainability criteria leading to a drying up of funding</p> <ul style="list-style-type: none"> <li>• Lack of appropriately tailored funding opportunities for creative businesses</li> <li>• Narrow county-based development rather than collaborative regional approach</li> <li>• Public procurement policies – tendering criteria</li> </ul>

### *Creative policy in Ireland*

A tax exemption on Artists income was the primary policy support for the Irish Arts sector. Internationally in recent years the potential economic and social benefits of creativity was beginning to gain currency.

The publication of Richard Florida's '*The Rise of the Creative Class*' built on previous work by Charles Landry and explicitly stated the importance of culture and creativity to the social and economic development of places. Both authors cite the positive feedback loop behind investment in culture and creative industries which in turn makes a city/region more attractive to the creative classes which in turn boost the creative sectors within those cities and regions.

Ireland suffers from the lack of a coherent national policy or strategy for the creative sector.

Policies exist for many of the individual creative industries which make up the creative sector, but a coherent voice for the sector itself is lacking. As a result there is a lack of clarity

that sees different creative enterprises falling under the remit of a number of Government Departments and State Agencies with little integration. No single Department has overarching responsibility for the sector, enterprises work under a combination of departments from Enterprise, Trade and Innovation, Communications, Energy and Natural Resources to the Department of Tourism, Culture and Sport.

### **7.3 RECOMMENDATIONS TO GROW EMPLOYMENT AND ENTERPRISES IN CREATIVE INDUSTRIES SECTOR**

*Facilitate export growth and domestic sales by effectively promoting the creative industries within a region:*

Develop a targeted approach to growing exports from Creative industries . Research<sup>31</sup> has shown that almost 66% of creative industries may not be exporting. The value of these exports is also low. So as these goods and services exist a priority should be made to provide access to global markets through practical, sectoral and regionally based export growth initiatives. An example of this involving hundreds of creative businesses is demonstrated in the case study below – “*Mycreative edge*”.

Devise a marketing strategy and campaign to promote awareness of creativity within regions. This would focus on raising awareness of the current creative sector in the regions, highlighting the attractiveness of a region for creative people/businesses and profiling the creativity of a region. For example the WDC’s ‘Creative West’ strategy for the Western Region.

Create a strong brand where necessary and identified by consultation with the sector, for use in the marketing campaign. The brand should contain a simple core message which signifies the creativity of a region. An example would be the IDA campaign ‘Knowledge is in our nature’ ([www.idaireland.com](http://www.idaireland.com)). The actual act of branding the campaign may also be used as a public relations element of the campaign.

The marketing campaign may incorporate showcasing events, a creative conference and /or a regional creative awards scheme to profile local talent. Such events would be an element of the networking activities outlined.

Encourage the public sector to take a leading role in purchasing creative products and services as they have previously done with fair trade products and renewable energy.

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<sup>31</sup> Western Development Commission – “*The Creative West*” (2009)



Access to Finance: ensuring that Regional creative businesses have clear access and information on the funding sources available and that funding schemes meet the needs of the sector:

#### Case Study – My Creative Edge – Platform to export regional/rural creative goods and services

##### MyCreativeEdge – The Creative Showcase for Europe’s Northern Edge - new website to promote the West of Ireland’s creative sector

The creative sector in the West of Ireland has the potential to generate an estimated €338 million in sales by 2020. Employing around 11,000 people, job numbers have the potential to grow substantially if small creative businesses are supported to increase exports of their creative products and services. So the Western Development Commission (WDC) has just launched ‘MyCreativeEdge – The Creative Showcase for Europe’s Northern Edge’. The new website [www.mycreativeedge.eu](http://www.mycreativeedge.eu) showcases the creative work of businesses, freelancers and jobseekers from the West of Ireland, Northern Ireland, Sweden and Finland.

‘On MyCreativeEdge people working or looking for work in the creative sector in the West of Ireland can showcase their creativity in a highly visual way,’ said Paddy McGuinness, WDC Chairperson. ‘They can create their own profile page which has a slideshow of images and videos of their creative work at its heart. And there’s no cost involved.’

‘Marketing and sales budgets can be very tight for small businesses at the moment. Members of MyCreativeEdge will benefit from an international digital marketing campaign being run by the WDC and targeting potential customers in Ireland, the US, the UK and across Europe. Individuals or businesses wanting to contract a creative service like graphic design, photography, architecture or audio-visual services or to purchase creative products like crafts, jewellery or art will find MyCreativeEdge a great resource. The diaspora are a key target market,’ according to Ian Brannigan, Head of Regional Development with the WDC.

‘MyCreativeEdge will help increase exports from creative businesses which will help sustain and create jobs across the region’ he added. ‘Creative sector jobseekers can also create a profile on MyCreativeEdge to showcase their portfolio to potential employers.’

Among those who’ve joined already is Sligo-based audio services company All Points West, Donegal-based textile artist koko designs, Roscommon-based multimedia company Black Hole Studio, Clare-based trans-disciplinary artist Maria Kerin, Mayo-based Cox Power Architects, Galway-based photographer Reg Gordon and Leitrim-based graphic designer Reverb Studios

Analysis has shown that access to working capital for creative industry businesses remains extremely difficult and an inhibitor to growth in general and export growth in particular.

### Case Study – Creative Industries Micro loan fund

The **WDC Micro-Loan Fund: Creative Industries** is a pilot initiative of the WDC, allocating €1,000,000 over a three year period from the Western Investment Revolved Fund to the creative industries sector. This was launched in June 2012

The Micro-Loan Fund operates on a competitive ‘Call for Applications’ basis. Calls to the Micro-Loan Fund will be quarterly..

The funding is provided on the basis of repayable loan finance. Repayments will be on a monthly amortised basis by direct debit. The funding will be used to grow and develop the business in accordance with the promoter’s business plan with a focus on exports. WDC research has identified access to funding as an issue for creative industries and an impediment to the growth of the sector. The majority of businesses in this sector are sole traders or micro enterprises who face particular difficulties accessing finance. This access to funding issue has been exacerbated by the current financial crisis.

In the first tranche of loan capital allocated over 60 jobs were either retained or forecasted to be created within the loan term.

Steps must be taken to practically address this until regular access to finance facilities return to the market in general and the sector in specific. As rural/regional businesses are often more geographically dispersed this can contribute to difficulties in accessing the necessary working capital. (see case study below).

Avoid duplication of funding effort by identifying where overlap exists within the creative sector policy environment and rationalising funding provision. This might result in overarching responsibility for creative industries being placed within a single body to improve lines of communication and reduce overlap.

Review current national enterprise support criteria to assess their appropriateness for the needs of creative businesses. This should help to identify bureaucratic and technical obstacles to acquiring funding and may help to inform revisions or modifications to existing schemes.

Consider funding to link Creativity to innovation practice to further accelerate the pace of growth .For example Northern Ireland launched a £5m Creative Industries Innovation Fund in October 2008 ([www.artscouncil-ni.org/award/innovation.html](http://www.artscouncil-ni.org/award/innovation.html))

*Expand creative sectors ability to support wider industry base:*

Analysis has shown that the creative sector in regional/rural areas has the potential to contribute to the development of the wider rural/regional economy. This both increases the potential market for often class leading creative talent, both directly and through new product development ( a new “mix”), and also through potentially upgrading the wider industry recipient.

Thus the recommendation is to build on existing pilot regional and local authority enterprise stimulus programs which seek innovative ways to grow both the creative and wider industry sectors through enabling meaningful value focussed interactions – e.g. the five North West Local Authorities program led by Sligo coco 4CNW (see case study below<sup>32</sup>)

*Establish a national policy for the creative sector as a whole to provide a coherent structure for developing the sector*

- Develop a coherent national policy structure for the creative sector. This may take the form of a Green Paper on the Creative Sector followed by public consultation and then a White Paper.
- Currently different aspects of the creative sector are subject to a wide range of policies. A coherent approach would facilitate development of this high-growth sector.
- Other government policies can also support the development of the creative sector, particularly in the weighting given to creativity and design in public procurement decisions.
- Develop a ‘map’ of the range of stakeholders in the creative space from national government to local councils, voluntary bodies, educational providers and already funded centres/incubation parks.
- Establish a forum of regional stakeholders in the creative sector.
- Accelerate growth of creative businesses through enhanced broadband capacity (particularly the high productivity creative technology sector)
- The WDC report suggests using the northern part of the Western Region as a demonstration area for Next Generation broadband. It could be a show case for the potential of NGNs for rural areas, allowing the area to ‘leap frog’ in its broadband development and providing a unique selling point for locating in the area.
- Roll-out a number of regional pilots to provide high capacity broadband at a competitive cost to businesses. This issue is not exclusive to creative sector businesses and these could be cross-sectoral initiatives.
- Enable more effective production and development of creative goods and services through establishing networks of practice
- Organise a series of events for business people from the creative sector to have an opportunity to interact with each other and establish networks of practice. Such events would need to provide a very clear benefit to encourage participation, such as the information attendees will receive or the business connections they will make. Events may take the form of workshops on particular topics, a design challenge event, a public showcase event, a conference, an international visit to witness a best practice model etc.
- Establish a creative website for regions. This could be targeted at three audiences: creative sector; non-creative businesses; and the public. The website should include examples of existing practice, contact lists of who’s who in the sector, guides to funding and links to application forms.

Possible content for the website could be:

- A contacts database of operators in the sector (including links to enterprises’ own websites to facilitate their online sales).
- A guide to funding sources for the creative sector with links to the relevant funding agencies and application forms.
- A recruitment facility to post vacancies within the creative sector in the region.

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<sup>32</sup> Analysis of Economic Templates Report to the County and City Managers’ Association Enterprise Strategy Steering Group (CCMA 2012)

- Case studies/portfolios of work by creative people in the region, publicising award-winners.
- News about upcoming events, training, etc.
- Examples of international best practice.
- Links to the websites of all relevant stakeholders – national, regional and local.

*Develop creative connectors and hubs in the region to facilitate businesses and operators to work in suitable cost effective environments*

High specification facilities should be provided to ensure cost effectiveness and access to such facilities for smaller operations. Shared resources including hot-desking, videoconferencing, shared administration, advice and services such as marketing, legal requirements, HR functions and accountancy could be provided. The facilities which are already available in existing innovation centres, incubation facilities and public buildings could be audited to assess their appropriateness for creative enterprises.

Establish meeting hubs where opportunities are created for individuals from the creative sector to interact with each other and with business people from outside of the creative sector. Such hubs could also establish connections with hubs outside of the region and even internationally e.g. the Digital Hub. This may require a professional ‘connector’ to be employed to stimulate such interactions. A number of these meeting hubs could be established across the region and may utilise current space. Some useful examples include the Digital Hub ([www.thedigitalhub.ie](http://www.thedigitalhub.ie)) and the Leitrim Sculpture Centre ([www.leitrimsculpturecentre.ie](http://www.leitrimsculpturecentre.ie))

Support collaborative measures to bring creative goods and services to market. This could involve: Part funding a team of people to provide a sales function on a pooled basis. This team could identify new routes to market for the sector.

*Education and training provision: sustaining and enhancing the pool of creative talent in the Region through specific skills initiatives*

Enhance the role of creativity within the primary school curriculum. Establish a national ‘Creative Flag’ initiative similar to the Green Flag ([www.greenschoolsireland.org](http://www.greenschoolsireland.org)) used to raise environmental awareness in primary schools.

Review existing national educational provision for the creative sector in terms of courses, dissertations, work placements and careers advice.

Conduct a skills needs assessment for the sector to determine its requirements. Then examine the match between provisions and needs in order to identify gaps. This may involve reviews for individual creative industries (e.g. arts and crafts, TV and media etc).

Establish a scheme to take creative businesses’ business skills beyond start-up requirements to deal with the issues of growth/expansion in the creative sector. This could be run by members of the existing educational/training system, business support agencies and local workers in the sector (thus providing extra resource) and could focus on specific issues for the sector. It could also cover aspects of support and awareness of funding, new legal directives, training in marketing and staff recruitment.

Enhance the role of research and development (R&D) in the creative sector. Creativity is fundamental to innovation; therefore creativity can assist research undertaken in the science

and technology fields to become commercially viable by applying a creative approach to ‘real world’ research and development problems. R&D funding should facilitate creative approaches.

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## Chapter 8. THE COASTAL AND OCEAN ECONOMY

Amaya Vega, Rebecca Corless, Stephen Hynes, Jenny O’Leary

### 8.1 OVERVIEW

Up until very recently, in any discussions on the Irish economy one would rarely hear mention of how the ocean might be harnessed to create jobs or add value to local economies. This continuous failure in Ireland to recognize the fact that we are predominantly a marine nation having sovereign rights over a marine resource that covers some 900,000km<sup>2</sup> of seabed (which is an area 10 times the size of the land area of Ireland) has meant lost opportunities in terms of the development of rural coastal communities and the creation of additional sea based tourism products. This attitude is changing however and we now have, for the first time ever, an Integrated Marine Plan for Ireland, prepared by a high level Marine Co-Ordination Group, led by Minister Simon Coveney.

Trying to put a figure on the value added by the marine sector to the Irish economy is a difficult task. There is little consensus on how one should define a coastal community let alone estimate the income generated therein from the use of marine resources. Also how does one calculate the proportion of turnover in a restaurant in Salthill or Dún Laoghaire that is generated due to the establishments proximately to the sea? In this chapter we present a short analysis of the value of the coastal and ocean economies of Ireland. The figures presented are based on the research by the Socio-Economic Marine Research Unit (SEMRU) in the National Unit of Ireland, Galway<sup>33</sup>. SEMU define the Ocean Economy as the economic activity, which indirectly or directly uses the ocean as an input – sea specific activities – as well as any economic activity that produces an input or uses an output from a sea specific activity in their production process. The Coastal Economy is defined as all economic activity which takes place in a specified coastal region.

Ireland’s ocean economy was valued at €3.4bn (turnover) in 2010 - generating approximately 1.2% of GDP (€1.2bn direct Gross-Value Added). The ocean economy supports about 1% of the total workforce, employing approximately 16,300 FTEs<sup>34</sup>. (Global marine economic activity is estimated to contribute 2% of the world’s GDP and the European Commission estimates that between 3% and 5% of Europe’s GDP was generated from sea-related industries and services.)

- Marine Services (ports and maritime transport, cruise tourism, marine and coastal tourism and leisure, high-tech services, maritime commerce and other offshore services) provide 66% of the GVA and 53% of direct employment.
- Marine Resources (sea fisheries, aquaculture, seafood processing, seaweed, offshore oil and gas and marine renewables) provide 26% of the GVA and 38% of direct employment.

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<sup>33</sup> Ireland’s Ocean Economy Report, 2010. SEMRU, NUI Galway [http://www.nuigalway.ie/semru/documents/irelands\\_ocean\\_economy\\_report\\_series\\_no2.pdf](http://www.nuigalway.ie/semru/documents/irelands_ocean_economy_report_series_no2.pdf) and Hynes, S. and Farrelly, N. (2012). Defining standard statistical coastal regions for Ireland, Marine Policy 36: 393–404.

<sup>34</sup> Ireland’s Ocean Economy Report, 2010. SEMRU, NUI Galway [http://www.nuigalway.ie/semru/documents/irelands\\_ocean\\_economy\\_report\\_series\\_no2.pdf](http://www.nuigalway.ie/semru/documents/irelands_ocean_economy_report_series_no2.pdf)

- Marine Manufacturing provides 8% of the GVA and 9% of direct employment. Ireland's ocean economy comprises a multitude of small, medium and large enterprises operating across a spectrum of sectors at varying levels of maturity.
- 95% of turnover of these enterprises are in established ocean industries (e.g. shipping & maritime transport, water-based tourism and leisure, seafood processing, fisheries, aquaculture, marine manufacturing, marine services and oil and gas) with shipping and tourism representing 60% of this.

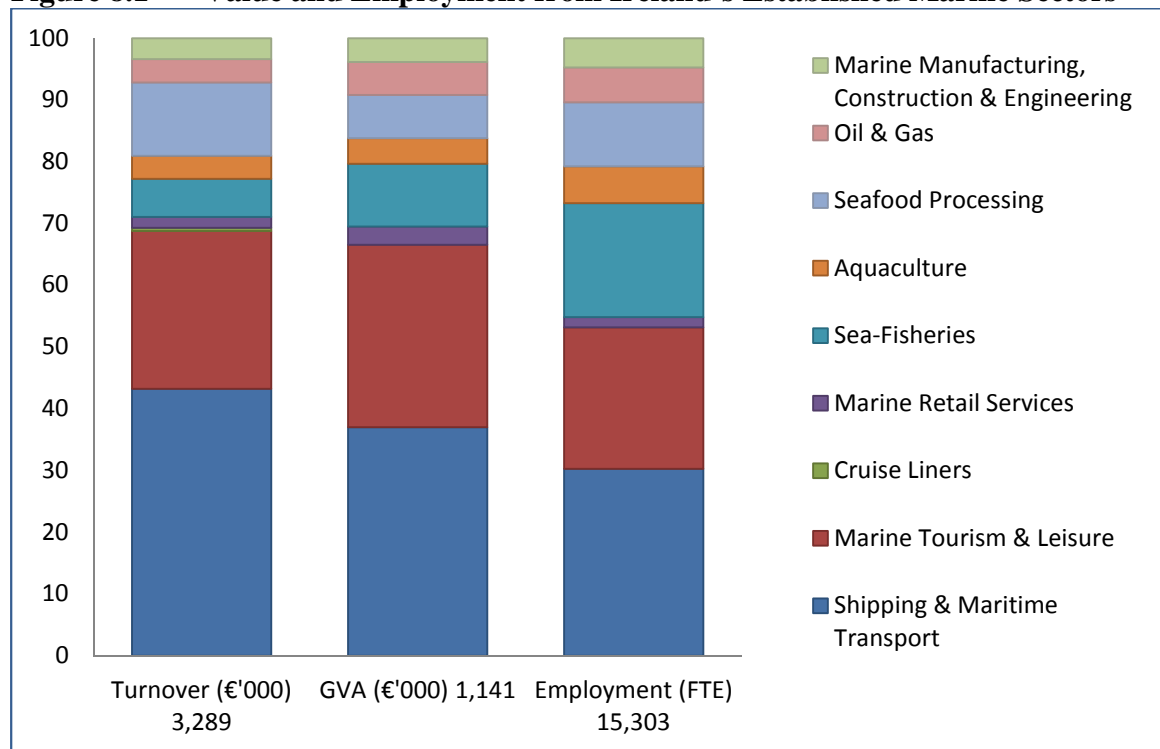
New and emerging ocean industries (e.g. Renewable Ocean Energy, Maritime Commerce, High-Tech Services and Marine Biotechnology) represent 6% of turnover.

Turnover in the traditional, established marine industries fell from €4.4 billion to €3.3 billion in the three year period from 2007 to 2010 (a 26% decrease). Employment in the established industries category fell from 19,767 in 2007 to 15,303 in 2010, a decrease of 22.6%.

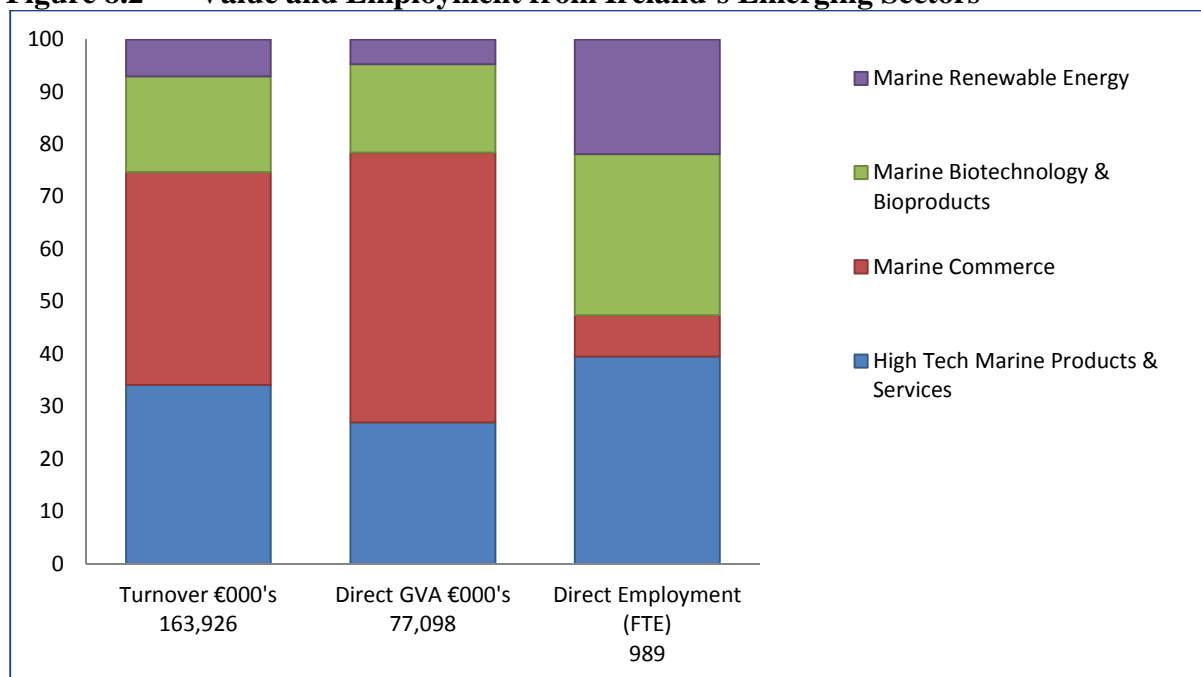
Turnover of firms in the emerging marine industries also decreased by 7.8%. Employment in the emerging industries category experienced an increase of 20.6%, while GVA decreased by 16.1%.

According to global market forecasts, the emerging sectors, combined with more established sectors, offer significant potential for sustainable economic growth.

**Figure 8.1 Value and Employment from Ireland's Established Marine Sectors**



**Figure 8.2 Value and Employment from Ireland's Emerging Sectors**



## 8.2 THE MARINE SECTOR IN IRELAND: TRENDS IN BUSINESS DEMOGRAPHY AND EMPLOYMENT

Table 1 describes the number of active enterprises in Ireland, classified by marine sub-sector, between 2006 and 2010. While the Offshore Oil and Gas Exploration and Production sector has increased steadily in the number of active enterprises since 2006, other marine sectors have experienced declining trend, in particular in the 2008-2009 period. The largest drop is in Marine Manufacturing, which includes all activities related to building of ships and floating structures, pleasure and sporting boats, the repair and maintenance of ships and boats and the construction of water projects.

Shipping and maritime transport and other marine services – retail sale of fish in specialised stores – experienced a drop in active enterprises in 2009, but the levels are still higher than those in 2006.

Finally, the last row of Table 1 shows an estimation of the number of tourism enterprises. Coastal tourism enterprises are estimated to account for 30% of all tourism enterprises in the country (2010 Ocean Economy Report, SEMRU).



**Table 8.1 Number of Active Enterprises 2006 - 2010**

Marine Sub-Sectors	2006	2007	2008	2009	2010
Offshore Oil & Gas Exploration & Production	25	27	32	35	34
Seafood Processing	95	99	99	98	95
Marine Manufacturing	153	153	159	147	140
Other Marine Services	110	118	118	107	113
Shipping & Maritime Transport	670	687	700	693	690
Tourism & Recreation	4885	4837	4988	4974	4890

Source: CSO Business Demography Statistics

Table 8.2 shows the number of persons engaged in active marine enterprises. There is a significant drop in numbers for the offshore oil and gas sector, in particular between 2009 and 2010. The seafood processing sector shows the opposite trend with an increase in persons engaged since 2008. The same trend can be observed for retail sale of fish in specialized stores. Shipping and maritime transport has suffered 20% decline in the number of people engaged since 2008.

**Table 8.2 Person's Engaged in Active Enterprises 2006 - 2010**

Marine Sub-Sectors	2006	2007	2008	2009	2010
Offshore Oil & Gas Exploration & Production	96	102	106	85	26
Seafood Processing	1878	1882	1766	1904	2005
Marine Manufacturing	537	525	527	436	437
Other Marine Services	290	312	308	332	388
Shipping & Marine Transport	7612	7506	7572	6675	5907

### 8.3 SPATIAL DISTRIBUTION OF IRELAND OCEAN ECONOMY

The regional distribution of Ireland's ocean economy shows a high intensity of employment in the North-West, South-West and West of the country. In counties such as Donegal, where there is a lower average income per capita compared to the rest of the country, there is a strong fisheries, aquaculture and seafood processing sector.

#### *The Seafood Sector*

The Irish seafood sector is a complex and fragmented traditional indigenous industry that makes a significant contribution to the national economy in terms of output, employment and exports. In 2012, the total output for the Irish seafood sector was €822 million, with over 11,000 people employed mostly along peripheral coastal areas (Irish Sea Fisheries Board, 2012).

The seafood sector consists of a commercial fishing sector, an aquaculture sector and seafood processing sector. The sector presents a high spatial concentration of economic activity in Ireland and in particular across

Western coast rural areas. Figures 1.4 and 1.5 illustrate the hot-spot analyses for fishing/aquaculture and seafood processing respectively. The Getis-Ord Gi\* statistic is used

for the calculations. The areas marked in the map show those electoral districts in which the concentration of activity for these two sectors is statistically significant, which means that there is not only a high value of activity in that particular area, but that it also surrounded by other areas with high values as well.

A significant proportion of the Irish seafood sector is concentrated in relatively small, peripheral rural communities across the Western coast. There is a spatial correspondence between the two maps – Figures 1.4 and 1.5 - as areas with a significantly high concentration of fishing and aquaculture activity coincide in space with those with a high concentration of seafood processing activity.

The commercial fishing sector involves pelagic, demersal and shellfish fisheries with 2,188 registered fishing vessels and a combined gross tonnage of 63 thousand GT in 2012. There are six primary landing ports in Ireland – Killybegs, Castletownbere, Rossaveal, Howth, Dunmore East and An Daingean – and over one hundred secondary ports, piers and landing places. The total employment for the commercial fishing sector in Ireland was 4,087 in 2012.

The aquaculture sector includes finfish and shellfish farming enterprises distributed across 2,000 sites. Aquaculture production in 2012 was 36,600 Tonnes with an overall value of € 132 million. The number of people employed in the Irish aquaculture in 2012 sector was 2,058 persons (BIM report 2012). Aquaculture production accounted for 20% of total Irish fish production in 2009 with an expected growth of 7.5% per annum from 2012 (STECF report, 2012).

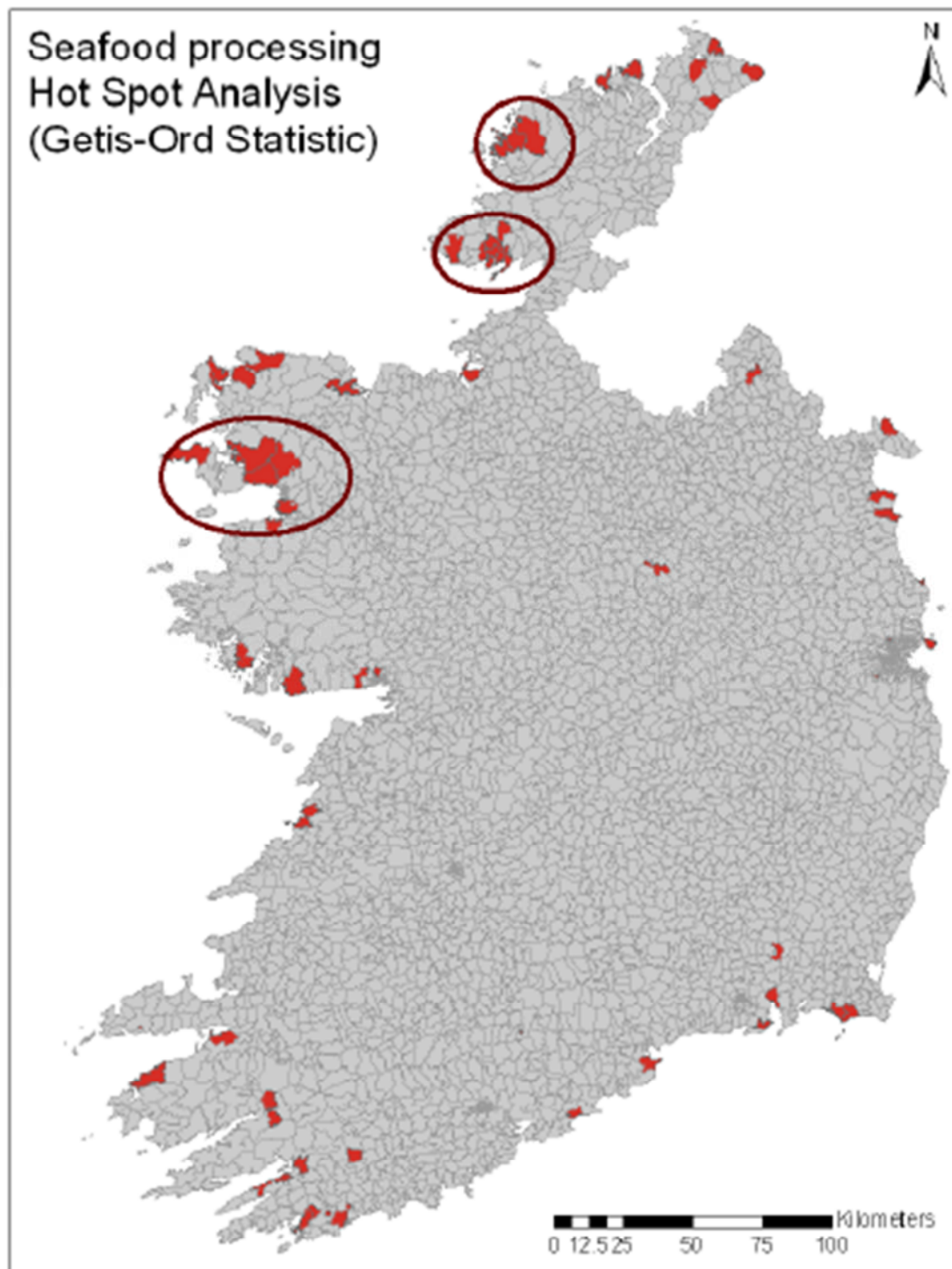
The Irish seafood processing sector is comprised of approximately 200 seafood processing companies. These are mostly small enterprises – less than 10 employees – and they are primarily located in coastal communities, which greatly depend on this industry for employment (STECF, 2012). The total employment for the seafood processing sector in Ireland was 2,867 in 2012 (BIM, Fish facts, 2012). While the economic downturn has had an impact on employment, the value of exports has increased in the recent years with a total market value of €517 millions in 2012, which represents an increase of over 20% with respect to 2011 (BIM, Fish facts 2011- 2012). The primary export market for Ireland is France with a market share of 22% in 2012 followed by Great Britain and Spain, with market shares of 15% and 10% respectively.

**Figure 8.3** Spatial concentrations of fishing and aquaculture activity in Ireland, 2012



Source: 2010 Ocean Economy Report, SEMRU

**Figure 8.4** Spatial concentrations of seafood processing activity in Ireland, 2012



Source: 2010 Ocean Economy Report, SEMRU

## 8.4 IRELAND'S COASTAL ECONOMY

### *Overview*

The Coastal Economy is defined by Hynes and Farrelly (2012) as all economic activity which takes place in a specified coastal region. Those regions are classified as:

- European Coastal Regions are standard Eurostat NUTS3 level statistical regions where at least half of the population is within 50km of the shoreline. Seven of the 8 NUTS3 regions in Ireland fall under the definition; the Border, the West, Dublin, the Mid-East, the Mid-West, the South East and the South West. Only the four counties of the Midlands NUT 3 region are excluded from this definition.
- Coastal Counties include any county that has a shoreline of any length adjacent to an ocean or sea, including estuaries and bays. In Ireland, 15 of the 26 counties in the Republic can be defined using this definition.
- Shoreline Electoral Districts (EDs) include EDs immediately adjacent to the ocean or sea, including estuaries and bays. There are 3400 EDs in Ireland, of which 630 are coastal.

The coastal economy can have both direct and indirect impacts on the ocean economy. Commercial activities in the coastal economy (e.g. agriculture, public sewage works, major infrastructures, etc) can have an impact or influence in the ocean economy. However, as many activities related to the ocean economy can occur in non-coastal zones (service provision for example), the ocean economy is not necessarily a subset of the coastal economy. As a sectoral entity the ocean economy is likely to be much smaller (in value) than is the coastal economy.

The population density in coastal regions of Ireland is low in comparison with other European countries. This density changes however depending on what definition of the Irish coast one uses (see table 1.4). From the Census of Population 2011, the EU coast (NUTS 3) level of aggregation the population density is 69 inhabitants per km<sup>2</sup>. At the coastal county definition it is 76 inhabitants per km<sup>2</sup> while at the shoreline ED level it is 94 inhabitants per km<sup>2</sup>. The density of the population increases the more confined the regional definition is to the coastline. Also, as can be seen from Table 2, the EU coastal area in Ireland, the coastal counties and the shoreline EDs account for 94%, 78% and 27% of the national population, respectively.

**Table 8.3 Irish Coast: Main facts**

	Unit	Ireland
Total Area (NUTS3)	Km <sup>2</sup>	68,466
% of EU Coastal Area	% of EU Coast	4
Length Of Coastline	km	7,711
Population Statistics (2011 figures)		
Shoreline ED Population	1000 inhabitants	1,217
Coastal County Population	1000 inhabitants	3,589
EU Coast Population (NUTS 3)	1000 inhabitants	4,306
Shoreline ED - % of total population	%	27
Coastal County -% of total population	%	78
EU Coast (NUTS 3) -% of total population	%	94

Source: CSO Census of Population 2011

### *Characteristics of Ireland's Rural Coastal Communities*

The total number of coastal ED's is 630. Of those 459 are at shoreline rural ED level and 179 at shoreline urban ED level. The unemployment rates displayed in table 1.5 are based on the individuals own assessment of his or her principle economic status. This self assessed rate is higher than the annual unemployment rates calculated by the CSO which are based on the Labour Force Survey (LFS) or the unemployment rates which are based on the number of people who have signed up as unemployed on the Live Register. Comparing unemployment rate at urban and rural shoreline EDs in table 1.5 we can see it is higher for males (23.47%) and females (14.44%) in rural shoreline EDs. These rates are also higher than the nation average rates of unemployment shown in the last column of table 1.5. The change in unemployment rate is also significant between the years 2006 and 2011 with a 119.12% increase for males and 200.12% increase for females at the Shoreline ED level. This increase is even higher, for both males and females, when we examine rural Shoreline EDs. For Shoreline EDs in Urban areas: the male unemployment rate has changed 103.51% which is approximately a 16% lower rate of growth than Shoreline ED on average. The female unemployment rate in Urban shoreline EDs has increased 133.79% which is approximately a 68% lower rate of growth than Shoreline ED on average.

Looking at table 1.5 that a higher percentage of people in rural shoreline EDs (20.84%) have 3rd level education compared to urban areas (13.31%). Rural shoreline EDs also have a higher percentage of semi and unskilled manual workers. It is also worth noting the higher age dependency ratio in rural shoreline EDs compared to the national average and urban shoreline EDs.

The population change between 2006 and 2011, at a national level was 7.79%. If we look at population change at an urban and rural shoreline ED level we can see they experienced a slightly lower increase of 6.99% and 4.49% respectively.

Finally, an affluence index has been developed by Haase and Pratschke, which assigns a score to EDs in Ireland in relation to their relative level of deprivation. The Haase and Pratschke Index uses three dimensions of affluence/disadvantage to comprise their index.

These are ‘Demographic Profile’, ‘Social Class Composition’ and ‘Labour Market Situation’, each of which uses several census based indicators such as age, educational level attained, skill or social class of the head of the household, the average number of persons per room, and male and female unemployment rates and others, from which an Index Score is derived. The score of -2.21 for rural coastal EDs demonstrates that rural coastal communities are worse off compared to their coastal urban counterparts but only slightly worse off than the average ED nationally. While the average national ED standardised score fell marginally from 2006 to 2011 the score actually increased slightly for shoreline EDs.

**Table 8.4 Socio-Economic characteristics of Irish Coastal Communities**

	Shoreline ED	Shoreline ED Rural	Shoreline Urban	National Average
Male Unemployment Rate (%)	22.47	23.47	19.90	21.71
Females Unemployment Rate (%)	14.28	14.44	13.89	13.86
Male Employment Rate (% change 2006 to 2011)	119.12	125.37	103.51	130.00
Females Unemployment Rate (% change 2006 to 2011)	200.12	225.95	133.79	266.67
% 3rd Level Education	18.73	20.84	13.31	18.84
% Higher & Lower Professionals	29.77	26.22	38.87	25.88
Semi and unskilled Manual Workers	17.94	19.07	15.04	18.26
Population Change (% change 2006 to 2011)	6.29	6.99	4.49	7.79
Age Depending Ratio	35.05	36.13	32.28	34.94
Lone Parent Ratio	17.73	15.47	23.52	16.28
Affluence index score	-0.59	-2.21	3.57	-1.46
Affluence index score (% change 2006 to 2011)	0.75	0.45	1.54	-0.11
Number of Eds	638	459	179	3406

Source figures based on CSO Census, 2011 Statistics ([www.cso.ie](http://www.cso.ie))

### *Economic activity in Ireland’s Coastal Regions*

The information available on the income generated at the alternative coastal definitions is less readily available than the census based statistics reviewed above. Information on household earnings is available at the Coastal EU tier and Coastal County tier but not at the Shoreline ED level. Data on GDP at basic, factor and market prices is only available at the Coastal EU (NUTS 3) regional level. However, following Hynes and Farrelly (2012) one can still produce estimates of coastal GDP at the lower spatial scales based on the population size at the alternative tiers and the GDP per head figures for the NUTS 3 region that the coastal county or Shoreline ED is based in.

Based on the population size at the alternative tiers and the GDP per head figures for the NUTS3 region that the coastal county is based in, the value of the Coastal County economy is estimated to be approximately €130.8 billion. While the coastal counties makeup 69% of land area of Ireland, they accounted for an estimated 84% of the economic activity in the state in 2010. This is largely due to the large economic centre of Dublin being part of this group. The equivalent shoreline ED estimate for contribution to national GDP is approximately €44.5 billion.

In terms of economic activity in Irish coastal areas, agriculture, fishing and tourism are obviously key components especially outside the main urban centres in the coastal zone.

The importance of primary agriculture to the Irish economy has reduced in recent years, in line with the trend in all industrialised countries. Nonetheless, it remains important, with data from the Central Statistics Office indicating that the agri-food sector (including agriculture, food, drinks and tobacco) accounted for approximately 7% of GDP and primary agriculture

accounting for approximately 2.5% of GDP in 2010. There are approximately 139,800 family farms in Ireland with an average size of 32.7 hectares per holding according to the Agricultural census of 2010. The National Farm Survey (NFS) conducted by Teagasc indicates that the average family farm income in 2010 is estimated at €17,771, although this varies depending on farm size and system of farming (Teagasc).

**Table 8.5 Agriculture in Coastal Regions, 2010**

2010		Shoreline	Coastal county	EU coast	State
Total number of farms	Farm units	25,053	95,010	127,026	139,860
Farms as a % of national total	%	18	68	91	100
Utilised agricultural area	Hectares	723,494	3,438,204	4,539,166	4,991,353

Source: Census of Agriculture 2010

In Ireland, the NUTS3 coastal region contains 90% of all farm holdings in the State. The average income per farm varies considerably by region. In 2012, the Border region had the lowest average farm income at just over €14,000 per farm and the lowest income per hectare. The West region had the smallest farms on average, while the South East had the most profitable farms with an average farm income of just over €37,000 (NFS, 2012). As shown in table 1.6, there are 25,000 farm holdings represented in Shoreline EDs.

The Irish coastal economy is driven by the provision of services. As mentioned previously shipping and marine transport are one of the most important services provided. In recent years, since the downturn in the economy, the shipping and maritime transport sector has seen a significant decrease in activity and value. In 2010, according to 'Ireland Ocean Economy Report – Reference Year 2010', the turnover generated by this sector in Ireland was €1.4 billion, of which exports accounted for €244 million. This sector employed approximately 5,000 full time equivalents.

Tourism is another key industry in coastal Ireland. In order to get an idea of how important tourism is in the coastal regions of Ireland we examine information on accommodation that is available from Fáilte Ireland at the Coastal County level (TAMS March 2012 & TSA May 2012). This data demonstrates how the 15 coastal counties account for 85%, 87% and 86% of the total number of hotels, guesthouses and B&B's in the country, respectively in 2012. At the NUTS3 level, over 90% of all these categories of accommodation are to be found in the Irish EU coastal regions. Also, according to figures from the An Post Geo Directory, across all types of available accommodation, 46% of the national total number of units is to be found at the Shoreline ED level, 82% at the coastal county level and 95% at the Coastal EU region level. The huge share of accommodation units at the Shoreline ED level demonstrates how important the sea and the coastal shore are in Ireland from a tourism perspective.

Although the share of hotels, guesthouses and B&Bs at the EU coastal level in Ireland account for over 95% of all accommodations of this type in the entire country, the distribution of this accommodation is not evenly spread across the coastal regions. Counties Kerry and Cork in the South West region make up a disproportionately large share compared to other regions with approximately 18% of all hotel units in the state, 30% of all guest houses and 27% of all B&Bs in 2012. The Mid-East region coastal counties on the other



hand, which comprises coastal counties Wicklow and Meath, only accounts for 5%, 4.5% and 4.7% of the accommodation types, respectively.

## 8.5 POLICY CONTEXT

Similar to other sectors, the marine sector in Ireland is shaped by a number of national and EU policies, plans and regulations. Due to a number of competing agendas among different user groups of our marine resources including competition among sectors and divergent policy objectives among government bodies that share jurisdiction over the marine space, it is acknowledged that the integration of these policies is vital for the effective governance of our marine resources. In Ireland, responsibility for marine matters is spread across a number of government departments and agencies. In 2009, in recognition of the needs for better coordination, the Government established the Inter-Departmental Marine Coordination Group (MCG), convened by Department of the Taoiseach and chaired by the Minister for Agriculture, Food & the Marine<sup>35</sup>.

In July 2012, the MCG published *Harnessing Our Ocean Wealth – An Integrated Marine Plan for Ireland*, setting out the Government’s Vision, High-level Goals and the Key Actions it will take to put in place the appropriate policy, governance and business climate to enable our vast and diverse marine potential to be realised. To support the vision, goals and targets set out in the Plan, eight enablers, key to creating the conditions for growth and investment, were identified. In total, 39 actions are outlined under these eight enablers.

Harnessing our Ocean Wealth seeks to coordinate and where appropriate integrate, not replace, policies, plans, initiatives (existing or emerging) on specific maritime sectors e.g.:

**Table 8.6 Maritime Sectors**

Seafood:	EU CFP, Food Harvest 2020 (DAFM), Pathways for Growth (Bord Bia), Seafood Operational Development Programmes 2007-2013 & 2014-2020 (under development), BIM 2013-2017 Strategy <i>Capturing Ireland’s Share of the Global Seafood Opportunity</i> , and <i>Fisheries Local Action Group Plans</i> (BIM, under development).
Ports	2013 National Ports Policy (DTTAS)
Marine Renewables	Offshore Renewable Energy Development Plan (due to be published Q4 2013)
Offshore Oil & Gas	Petroleum Affairs Division of the DCENR 2011 Atlantic Margin Licensing Round. Irish Offshore Strategic Environmental Assessments
Marine & Coastal Tourism	Fáilte Ireland Tourism Product Development Strategy 2007-2013
Marine ICT	Marine Institute SmartOcean (ICT for the Sea) Strategy
Environment/ biodiversity	Ireland’s National Biodiversity Plan – Actions for Biodiversity 2011-2016 (DAHG)
Economic	Government Action Plan for Jobs (DT)
Sustainable Development	Our Sustainable Future – Framework for Sustainable Development in Ireland (DECLG)
Green Economy	Delivering Our Green Potential (DJEI)

As part of the implementation of *Harnessing Our Ocean Wealth*, a dedicated ‘Bureau’ has been established by the MCG. Two Task Forces have also been established in 2012/2013 to address a number of priority actions outlined in the Plan – *An Enabler’s Task Force on*

<sup>35</sup> The MCG meets monthly, bringing together representatives across nine Departments, the Marine Institute and the Office of the Attorney General.

*Marine Spatial Planning and A Development Task Force*<sup>36</sup> focusing on an integrated enterprise strategy and further progressing the jobs and growth targets outlined in the Plan. Updates on Progress can be found at <http://www.ouroceanwealth.ie/Pages/Update-on-Progress.aspx>.

The main targets set out in Harnessing Our Ocean Wealth/related national strategies include doubling the value of Ireland's ocean economy to 2.4% of GDP by 2030 and increasing the turnover of Ireland's ocean economy to €6.4bn by 2020.

**Table 8.7      Harnessing Our Ocean Wealth 2020 Growth scenarios:**

Seafood (Fisheries, Aquaculture, Seafood Processing) as set out in FH2020	€1,000m, 1,200 jobs
Maritime Commerce & Ship Leasing	€2,600m
Marine & Coastal Tourism & Recreation	€1,200m
Marine ICT and Biotechnology	>€61m
Ports & Maritime Transport, Maritime Manufacturing & Engineering, Offshore Energy, other Marine Industries	>€1,200m

Although there has not been an analysis of the impact of these scenarios on rural communities, it is important to note that the majority of marine/marine-related activities take place outside of the five main cities (with the exception of the Maritime Commerce & Ship Leasing Sector which is primarily Dublin-based).

Within Harnessing Our Ocean Wealth, a significant number of the 39 actions directly or indirectly impact on rural areas. Annex 1 profile a number of relevant actions and associated initiatives already underway.

Harnessing Our Ocean Wealth was developed as EU and Member States are collectively engaging in the EU Integrated Maritime Policy as a driver of economic recovery and growth - putting in place integrated actions in all relevant policy areas related to the seas, including transport, environment, renewable ocean energy; enterprise, employment and research; fisheries and external relations, covering cross-cutting issues such as maritime spatial planning; and blue growth (economic growth based on different maritime sectors). In May 2013 the Commission adopted an Action Plan to revitalise the marine and maritime economy in the Atlantic Ocean Area<sup>37</sup>. The aim of the Action Plan is to help create sustainable growth in coastal regions and drive forward the "Blue Economy", which, according to the Commission, has the potential to increase employment from 5 million to 7 million across Europe by 2020. The Action Plan contains four overarching priorities: 1. Promote entrepreneurship and innovation; 2. Protect, secure and enhance the marine and coastal environment; 3. Improve accessibility and connectivity; and 4. Create a socially inclusive and sustainable model of regional development.

#### *National Seafood Operational Programme 2014-2020*<sup>38</sup>

In 2011, the European Commission presented its proposals for the reform of the EU common fisheries policy and proposed a new fund for the EU's maritime and fisheries policies for the period 2014-2020: the European maritime and fisheries fund (EMFF). In line with the reform of the common fisheries policy, the Fund will help fishermen in the transition to sustainable

<sup>36</sup> Due to convene in September 2013

<sup>37</sup> [http://ec.europa.eu/maritimeaffairs/policy/sea\\_basins/atlantic\\_ocean/](http://ec.europa.eu/maritimeaffairs/policy/sea_basins/atlantic_ocean/)

<sup>38</sup> <http://www.agriculture.gov.ie/fisheries/marineagenciesprogrammesdivision/futureseafooddevelopmentinireland2014-2020/>

fishing, and support coastal communities in diversifying their economies. It will finance projects that create new jobs and improve quality of life along European coasts. Red tape will be cut, making it easier to access financing.

### *Fisheries Local Action Groups*

The precursor to the EMFF fund, the European fisheries fund (EFF), continues to provide funding to the fishing/seafood industry and coastal communities to help them adapt to changing conditions in the sector and become economically resilient and ecologically sustainable. Axis 4 of the EMF, Sustainable development of fisheries areas, is based on local development strategies, reflecting a bottom-up approach. Axis 4 is similar to the Leader 'area-based approach' to development in rural areas. Currently, six Irish FLAGs have been launched. Each FLAG consists of a mix of representatives from State organisations and fishing, marine and community groups. It is anticipated that the strategies (under development) will inform the work of the FLAG for successive programmes up to 2021. The strategies are being guided by socio-economic analysis and SWOT of the area; and community consultation and participation process. Strategic priorities set out in the draft strategies prepared to-date include: Enhancing the market value of shellfish; Artisanal seafood development; Enhancing marine tourism potential e.g. Small-scale infrastructure improvements, 'The Blue Way'<sup>39</sup>, development of marine tourism apps; training, upskilling and diversification; projects integrating seafood & tourism; and clusters/marine incubation centre.

These programmes complement / add value to initiatives funded under the LEADER programme. Systems are being put in place to ensure the two Programmes are complementary to each other and avoid duplication.

## **8.6 OPPORTUNITIES AND ISSUES: FEEDBACK FROM THE CONSULTATION**

A key element of CEDRA's task was to capture the feedback from the public and stakeholders on opportunities and barriers to job creation in rural Ireland. As part of this consultation the marine sector was highlighted by many as having existing and potential opportunities for rural communities. In parallel, a number of barriers to growth were identified. It should be noted that the feedback received is in line with the views expressed by the public and stakeholders in the development of Harnessing Our Ocean Wealth – An Integrated marine Plan for Ireland<sup>40</sup>.

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The Blue Way concept follows on from the road-based Wild Atlantic Way linking piers, festivals, regattas, and cruising routes covering the coasts of Clare and Galway.

<sup>40</sup> <http://www.ouroceanwealth.ie/Pages/Your-Views.aspx>

**Table 8.8 Feedback from Public Consultation**

Opportunities Highlighted	Issues Highlighted
<p>Marine &amp; coastal Tourism &amp; Recreation: clustering, range of activity-based products, diving, angling, festivals, diversification for fishing vessels, eco-tourism, cruiser / sailing, cruise tourism national &amp; regional ports/harbours) Link with seafood and maritime culture Opportunities to build clusters around marinas Wider water-based tourism &amp; recreation products Landscape auditing by LAs</p>	<p>Co-ordination, Leadership and ownership (policy and development) Finance Infrastructure (including adequate berthing facilities) Foreshore licensing Regulation in relation to diversification of fishing vessels and dual functionality Integrated approach for rural recreation and marine leisure / integrating marine tourism and recreation. Lack of statistics</p>
<p>Seafood (including aquaculture, seaweed, inshore fisheries) and the associated global market demand Local-led initiatives/local ownership &amp; management Artisan/speciality foods/local produce – clustering of marketing at local levels Further scope for labelling Development of new inshore fisheries including potential opportunities linked to small-scale artisan fishing Aquaculture (shellfish &amp; finfish) –organic products Potential role of LAs Importance of BIM, UnG, LEADER and LEBs to the further development of the aquaculture sector Linking tourism and seafood</p>	<p>Resource Supply (seed &amp; raw material) Regulatory and management frameworks including licensing and impact of nature conservation designations Co-ordination and interaction Institutional framework Financing (related to aquaculture and Natura sites) Labelling and traceability Seaweed – regulatory framework Difficulty with landing and selling fish on islands Quotas for new entrants to fishing</p>
<p>Offshore renewables (offshore wind, wave and tidal) and associated offshore services (e.g. Operations and Maintenance).</p>	<p>Leadership and policy Legal, planning, consenting framework Infrastructure Training and upskilling in new technology Finance Lack of information</p>
Opportunities related to other sectors /cross-cutting issues:	
<p>Marine ICT Ports More integrated governance of the marine sectors Continued and early public consultation and participation. Effective planning and licensing systems – “One Stop Shop” Investment in local and regional infrastructure Promote Ireland as a location for marine products &amp; services, focused on good environmental standards Use of social and economic impacts assessments of exiting / proposed policies /plans Role of communities as shareholders. Further use of cooperatives Early and ongoing consultation in relation to conservation designation Establishing a “Marine Alliance” Establishing MSP and developing coastal strategies as part of regional and local development plans Immobile entrepreneurs and need for national frameworks. Linking LAs with Enterprise Ireland. Potential shared-house at county level.</p>	

**Table 8.9      Annex 1: Harnessing Our Ocean Wealth – Specific Actions related to Rural Communities**

Enabler	Rural/rural coastal communities: Specific Actions	Rural/rural coastal communities: Existing & Potential initiatives
Governance	<p>Actions include:</p> <p>Implementing development policies (e.g. Food Harvest 2020, Ports Policy, Offshore Renewable Energy Development Plan),</p> <p>New integrated development strategy</p> <p>Establishing Marine Spatial Planning,</p> <p>Streamlining foreshore consent process</p>	<p>Food Harvest 2020: strong impact on the seafood sector = strong impact on rural coastal communities. Ambitious targets for jobs and growth. Plans cover: Expanding the raw material base (aquaculture, increase in foreign landings, developing new species e.g. boarfish); Maximise the value of the raw material (innovation/new products, branding, eco-certification); Develop scale in the sector (collaborations, investment, competitiveness &amp; route to market). Branding &amp; Marketing (DAFM/BIM/Bord Bia).</p> <p>National Ports Policy (2013): Ports of National Significance (Tier 1: Shannon-Foynes, Cork, Dublin, Tier 2: Waterford &amp; Rosslare, Transfer ‘Ports of Regional Significance’ to local authorities, Regional Harbours): Policy since 2005: transfer to local authority ownership – ensuring harbours achieve their potential. DTTAS, Port Authorities, LA’s</p> <p>Offshore Renewable Energy Development Plan – to be published this year. Facilitate the development of the sector (DCENR &amp; SEAI). Marine Area development Bill – agreed by Government in July – See Box 1 (DECLG)</p> <p>Marine Spatial Planning: under development. Best practice shows importance of stakeholder participation in plan-making (potential use of ‘coastal forums’) plus providing certainty for developers (Enablers Task Force/MCG). Streamlining/co-ordinating/integration of licensing &amp; consents system (DECLG &amp; DAFM)</p> <p>Foreshore Licensing: Marine Areas Development Bill / reform of the Foreshore: DECLG ( role of the LAs – PfG + Reform of local government)</p>

<p>Clean-Green-Marine</p> <p>Business Development, Marketing, Promotion</p>	<p>Actions include: branding (clean green brand), targeting emerging business development opportunities, establishing development task force – integrated enterprise strategy</p> <p>Specifically Action 19: Encourage and facilitate coastal communities to avail of existing and future marine enterprise opportunities e.g. through: Training Programmes, Business supports and provision of specialist marketing and investment advice, market intelligence and consumer research</p>	<p>Reform of the EU Common Fisheries Policy and associated financial instrument European Maritime &amp; Fisheries Fund (DAFM, BIM)</p> <p>Funding &amp; investment (€5m) for the seafood industry for a range of environmental &amp; conservation initiatives, quality schemes as well as local employment and coastal community support programmes (BIM)</p> <p>Introduction of the Origin Green sustainability programme. Full members include Errigal Seafood &amp; Marine Harvest (Bord Bia)</p> <p>Fisheries Local Action Groups set up by BIM as part of the Axis IV European Fisheries Fund for the sustainable development of fisheries areas producing local development strategies. Fáilte Ireland and LEADER membership also.</p> <p>BIM training programmes &amp; coastal units. Support provided to island &amp; Gaeltacht coastal communities (UnaG)</p> <p>A number of CEBs encourage &amp; facilitate coastal communities e.g. Kerry CEB: Taste Kerry Initiative, Wicklow: Irish Sea Maritime Cluster, Sligo: Celtic Sea Baths</p>
<p>Research, Technology, Innovation Capacity, Education, Training, Awareness Infrastructure</p>	<p>Actions include: future skills analysis, building research capacity, international marine training destination, outreach programmes, key strategic infrastructure to support job creation and growth (e.g. Ports and grid).</p> <p>Specifically Action 34: Carry out national, regional and local initiatives aimed at tapping into the potential of new and existing coastal infrastructure. This would encourage investment along the coast (number of tourism-related sub-actions provided incl. marinas, cruise tourism)</p>	<p>Funding &amp; investment (€4.5m in 2013) for the development of ‘Fishery Harbour Centres’ at Killybegs, Ros an Mhil, Dingle, Castletownbere, Dunmore East and Howth. Additional funding (€2.9m) provided for other harbours and LA owned piers and harbours. Establishment of ‘Harbour User Forums’ at Fishery Harbour Centres (DAFM)</p> <p>New Ports Policy – ports of national and regional significance. Cruise Tourism: plans by Ports to development their facilities to avail of growing markets (DTTAS &amp; Ports companies).</p> <p>Marine &amp; coastal tourism &amp; recreation: Mapping of marine tourism assets, review of marina &amp; berthing facilities. Marine tourism industry forum to be held. Wild Atlantic Way: participation of stakeholders, LAs, Leader companies, link with ‘Food Champions’ Programme. Tourism potential of lighthouses in association with CIL (DTTAS, FI).</p>
<p>International &amp; North-South Cooperation</p>	<p>Actions include: establishing key trade links, enabling infrastructure, maximising relevant funding opportunities</p>	<p>EU IMP/ Blue Growth/ Atlantic Action Plan: Projects: Promoting entrepreneurship &amp; innovation, improve accessibility &amp; connectivity, create a socially inclusive and sustainable model of regional development. Funding through EU funds, EIB and private sector (2014-2020). Active participation by MCG and DFA.</p> <p>Pathway for Growth: Supporting Irish seafood companies to export to markets e.g. in the Middle East, Russia, Asia &amp; the US. Successes in shellfish and salmon sectors. Dedicated trade shows (e.g. China fishery show). Markets for new species being explored e.g. Boarfish. Bord Bia</p>

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## **Chapter 9. RURAL TOURISM**

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### **9.1 INTRODUCTION**

This paper will investigate rural tourism and issues surrounding rural tourism in Ireland, the rural tourism product, the potential for tourism in rural areas and how this potential can be achieved.

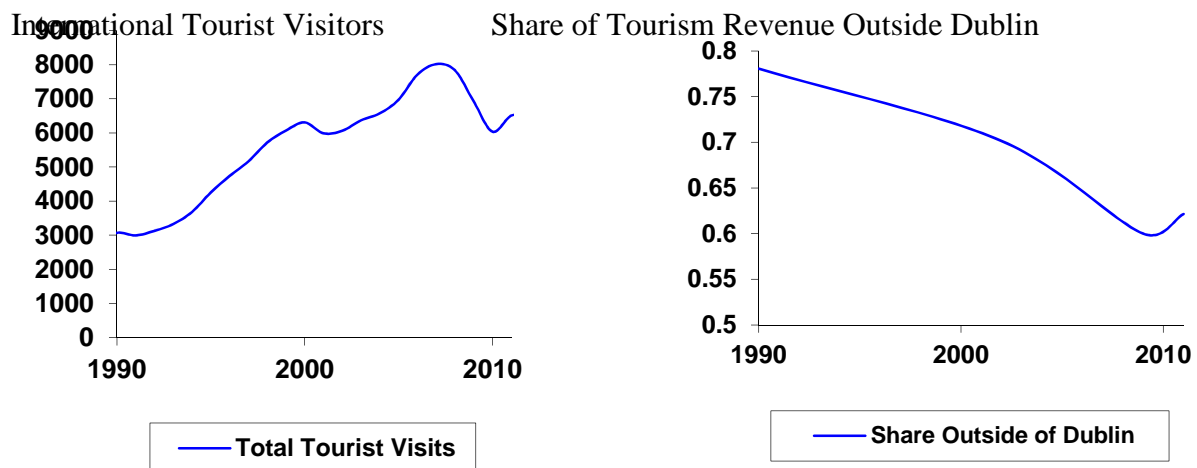
When discussing tourism within an Irish context, it is widely agreed among experts that the food and tourism industries play a pivotal role in the Irish economy, particularly in rural and regional economic activity. It is also apparent that most of the earnings from both industries stay within Ireland, filtering through the economy. In total, the food and tourism industries employ more than 400,000 people throughout the country. Therefore, it can be argued that the tourism industry is of vital importance to the Irish economy. Latest figures state the industry is valued at approximately €5 billion, generating €1.3 billion in tax revenue for the Exchequer in recent years. Despite the economic downturn that Ireland has experienced, the tourism and hospitality sector continues to be one of Ireland's primary sources of employment. According to expert opinion, tourism is a sustainable industry, capable of providing jobs at every skill level, in every corner of the country (CSO, 2012).

According to the Central Statistics Office, the number of tourists visiting Ireland rose 7.9 per cent in 2011. A total of 6.6 million visits to Ireland by overseas residents were recorded in 2011, an increase of 500,000 on the previous year. The number of nights spent in Ireland by foreign travellers also rose by 6.1 per cent, from 48 million in 2010 to 50.9 million in 2011. Hotel bed nights were up 13 per cent, while nights spent with friends and relatives were down. Despite a rise in the number of nights spent by foreign visitors in Ireland, revenue generated by tourism from overseas last year was just 0.7 per cent more than in 2010, at €3.58 billion. Excluding fares, the total is €2.95 billion.

It is important to note though that although many regions have had a considerable mass tourism growth, others have seen little growth. Over the period 1990 to 2010, the number of international tourist visitors to Ireland doubled; yet the share of tourism revenue outside of Dublin fell by 22 % over the same period. When looked at in conjunction with falling rural incomes and the increase in economic vulnerability amongst farmers, these figures highlight the need to capitalise on the potential to increase and develop tourism in rural areas.



**Figure 9.1 Tourist Visitors**



## 9.2 DEFINING RURAL TOURISM

This section of the paper will investigate what is meant by rural tourism and will also contribute in contextualising this research. It is important to note that while the definitions of rural areas are varied, this paper will consider expert, academic and the public's holistic view of rural tourism.

It is important that for this paper on the tourism element of the rural economy, that there is a clear and shared understanding of what is meant by the term 'rural tourism'. In addressing rural tourism (meaning tourism in rural areas) within the context of tourism in Ireland in general, it is argued that rural tourism is considered for the most part and outside of the major urban areas and that the tourism proposition in Ireland is mainly rural in nature. It is important to acknowledge the relational nature of economic and social development and the interconnections between rural and urban areas regarding tourism.

The concept of rural tourism in the EU context is defined as "typically providing between 10 and 20% of rural income and employment, twice tourism's income and employment levels averaged across Europe" (EU 2013: 9). The EU definition also describes rural tourism as a concept that creates place attachment, encourages visitor loyalty and, therefore, repeat visits. Rural tourism has a good record in product development and innovation, and in drawing in new capital and entrepreneurs from cities, other regions and countries, often driven by particular lifestyle choices. However, standards of service quality, marketing, product development and economic success vary considerably regionally and nationally" (ibid).

Alternatively within the context of this paper tourism refers to outside of the cities and larger towns in Ireland for example Galway, Cork, Dublin, Limerick and Waterford. The rural tourism experience for visitors, however, is not necessarily one where they do not engage with urban areas. According to experts, in practically all parts of Ireland there has always been a symbiotic relationship between small urban centres and their rural hinterland. In tourism terms, it is very difficult to disentangle these small towns and villages from the rural areas surrounding them in terms of the Irish rural economy. Rural tourism is probably best defined as tourism that happens in rural areas, and includes a wide range of sectors such as cultural tourism, marine tourism, adventure /activity tourism, and nature-based tourism. It is important, therefore, that rural areas do not pit themselves against towns and villages, but

rather work together to maximise the opportunities presented by tourism for the wider destination.

According to a submission given to CEDRA, it is suggested that tourism in rural areas is considered the backbone of Irish tourism. This is due to the fact that the main tourism assets in Ireland are its landscapes; its history and rural Irish culture. It was suggested that all holiday makers, be they from Ireland or overseas, are motivated by the need to explore and connect with the destination and its people. Indeed Irish tourism does not display the hallmarks of mass tourism. Unlike many other countries such as Spain, Portugal, etc. where city or resort tourism forms the most significant part of the tourism offering, this is not the case in Ireland outside of the main urban areas such as Dublin, Cork, Galway and Limerick.

### *Rural Tourism Issues and Responses*

Now we discuss problematic issues associated with rural tourism and the merits attached to rural tourism as a resource use and source of income. A response is also given to these problematic issues.

Drawing from both expert and public submissions sent to CEDRA, it is suggested that some of the contributions of tourism in the countryside can be measured, where revenue accrues (for accommodation and entry fees). In many instances, however, it is difficult to demonstrate the real contribution of tourism in the countryside to the national exchequer and that contribution is therefore not fully recognised economically. This lack of recognition is sometimes viewed as a reason for the absence of a national rural tourism policy. However, particular product types are promoted, e.g., outdoor activities of various kinds. The main reason that has been forwarded for lack of a rural tourism policy in promotion and marketing relates to the need to promote Ireland as a single destination in a highly competitive environment. Small scale rural providers have difficulty in accepting this argument.

Another problematic aspect relating to rural tourism, from the viewpoint of the owners of rural resources, is the difficulty in capturing an economic 'rent' from the use of some of those resources for tourism purposes in the area where tourism occurs. The beneficiary may be a person or company located in a large city in Ireland or overseas i.e. the owners of the mountain land may not benefit from the visitors viewing the landscape, although the car hire company or coach company may. This issue is partly at the root of the reluctance of some landowners to make their land available free for walking when the benefits may be gained by a tour operator or an accommodation provider. It is, however, a reason why landowners should become involved in providing hiking related tourism experiences in order to capture more of the potential revenue from such activities.

It is also evident that there is an issue regarding Small and Medium Enterprises (SMEs) in general. It is evident that SMEs report bureaucratic complexity in developing, operating and expanding their businesses; because of the number of organisations and agencies with which they may need to consult for a range of purposes. This applies also to small tourism businesses. Compliance with regulatory provisions is always more of a burden for smaller than for larger businesses, because the associated time and labour are usually borne by the entrepreneur. (Cawley and Gillmor, 2008a).

It is argued that tourism businesses in Ireland are, after a number of challenging years, now poised to move from a recent period marked by concerns of survival and cautious consolidation, to one marked by recovery and growth. However, this recovery and growth

will be hard won and will depend in particular on developing and maintaining a clear focus on the interests of the international visitor and on strengthening the appeal of Ireland in international markets. Policy for support of small Irish tourism SMEs in developing the capacity to sell directly into international markets is critical in moving forward according to submissions.

- A Tourism Policy Review Group was established in 2002 to set the objective to underpin the strategy for national tourism from 2003 to 2012. It is that Ireland will be a destination of choice for discerning international and domestic tourists which:
- Provides a tourism experience that exceeds customer expectations in terms of friendliness, quality of environment, diversity and depth of culture;
- Has a range of high quality, world-class, competitive products and services widely distributed throughout all the regions of the country;
- Is a vibrant source of foreign and regional earnings throughout the year;
- Respects the natural and built environments and supports their conservation and enhancement;
- Provides attractive career opportunities in tourism for people with a range of skills and employment needs;
- Provides the opportunity for people working in tourism to enhance their skills through experience, training and life-long learning;
- Respects and supports Irish culture in all its diversity;
- Provides a positive international profile of Ireland.

Irish tourism policy is that of a dynamic, innovative, sustainable industry?, that offers to overseas and domestic customers an experience of Ireland which is positive, memorable and beyond their expectations. The objectives are to see customers of the tourism experience in Ireland repeat that experience and to communicate it positively to friends and acquaintances. In meeting these objectives Irish tourism should be seen as a major source and opportunity for profitable enterprise and as a powerful tool of social and economic development at national and regional levels. In this new vision for Irish tourism policy, it is important to mention that rural Ireland is not mentioned once throughout this policy. It is argued that rural Ireland is context dependent and case specific that requires specific policy for rural tourism.

In reality, rural tourism in Ireland is sometimes described as having two parts. There is “daytime tourism” (8.00am to 8.00pm), and then “evening tourism” (8.00pm to 8.am). Ireland has considerable strengths in the latter but there is certainly room for further development in the former – in the things to see and do during the day. This could represent a particular and immediate area of engagement for rural tourism that tourism policy context in Ireland does not take into account.

Focusing on analysis of this issue of tourism policy context, it is suggested that Ireland has three principal tourism assets to work off which are not mentioned throughout rural tourism policy. These include Natural Heritage (of which our marine resource is clearly an important part), Built heritage, and Cultural Heritage. According to submissions from the public consultation visitors to Ireland want a unique and authentic Irish experience and want to engage fully with what Ireland has to offer, understand it and enjoy it. Increasingly, research undertaken from visitors tell us that they want a fully immersive experience so that they leave the country feeling that they have fully accessed and enjoyed a unique experience that only Ireland can offer. Accordingly, the developmental focus is shifting from product development to experience development. Again the rural resource is integral to the delivery of these experiences. Research has be done on this area and confirms that:

“...rural tourism is usually distinguished from urban tourism by a number of features including the type of experience anticipated by the visitor, the scale of infrastructural development, the use of local natural resources, and the involvement of local people. To some extent it may be more appropriate to refer to tourism and recreation that take place in the countryside while recognizing that the countryside may include small towns and villages, as well as cultivated, uncultivated, and forested landscapes and areas of water” (Cawley, 2009, p.313).

Regarding the issue of a rural tourism product and the rural experience, it is also suggested by experts that knowing the depth and breadth of a tourism product is not enough in ensuring we maximise the potential for rural areas from tourism. It is argued that a clear understanding of what it is the visitor wants is needed. Frédéric Pierret, Executive Director, UNWTO, recently stated that *“international trends suggest that rural tourism is becoming an increasingly broader concept and that the needs and expectations of domestic and international demand are becoming ever more sophisticated”*. Ensuring that tourism successfully contributes to the diversification and sustainable growth of rural economies will, therefore, only happen if rural Ireland first knows what it is the key source markets want, and secondly if rural Ireland has the ability to harness its core tourism assets in a way that creates the compelling and memorable experiences that they are looking for.

It is argued throughout CEDRA tourism submissions that one of the means of unlocking these visitor experiences is through the delivery of high quality authentic adventure tourism. At present, adventure tourism in Ireland contributes significantly to the tourism economy. Like tourism in general however, it has the potential to contribute even further.

However, even though there are clear problematic issues regarding rural tourism, there are many examples of successful rural tourism destinations and initiatives in Ireland; these examples display many common characteristics of success which highlights responses to issues regarding policy and context.

*Destination approach-* Destinations can be regarded as the *raison d’être* for tourism, providing the basic elements of the tourism product: attractions, services, facilities, activities and infrastructure. A destination is a geographical area which is most relevant to the mind-set of the potential consumer, and which best allows the delivery of core tourism services. A cooperative approach to destination development is required to achieve success. Visitors are much more likely to visit an area if they have a clear image of that area and its identity, and if businesses in the area fit with this identity and promote their product accordingly. This approach will help achieve standout for the destination.

*Urban link-* There seems to be a perception in Ireland that tourism in rural areas should exclude towns and villages, which are often the main service centres for visitors, and this should not be the case. Rather than an either/or situation this should be considered a symbiotic relationship. Rural areas should not pit themselves against towns – both depend on one another and need to work together as part of a wider destination.

*Clusters of trade/ networking-* Tourism businesses and providers in any rural destination must see themselves as collaborators competing against the next destination, rather than competing against one another within the destination. This necessitates individual businesses and providers seeking to forge relationships with others for the greater good of the wider destination.

*Entrepreneurship/ local champions-* Great initiatives are very often driven by individuals who then need to be supported by the rest of the tourism business community. The businesses and providers in a destination need to have collective and agreed understanding of what it is that gives their destination a 'stand-out' quality, which is the single motivating reason why a visitor might want to visit that particular area. This 'USP' might be a particular, scenic view, an attraction or it might even be a single business that offers a fantastic experience that is highly desired. Whatever it is, other businesses and providers need to get behind that unique selling point and support it.

Regarding the merits of the issues mentioned previously, it is argued that from a rural development perspective, where alternative sources of employment are required to compensate for decline in agriculture and more traditional activities in the countryside, tourism possesses certain merits. Examples include recreational activities, entry costs, and food/drink sales.

Recreational activities provide a potential alternative source of income through use of underutilised natural resources. Examples include areas of lakes, rivers and the sea; land formerly used for agricultural purposes that can be used for hiking (with permission); and protected areas that may be assigned to new uses in sustainable ways (e.g., Special Areas of Conservation, where land use is restricted but where bird watching may take place) highlighting the issues of access and claiming resource income.

Another merit of rural tourism would be the perceived lower entry cost when compared to other start-up businesses in sectors such as manufacturing. For example, starting a bed and breakfast in a farm house would require less investment with the exception of minor alterations to the building to ensure it meets required standards.

It is important to mention that rural tourism may only be a seasonal source of employment in many cases but can be a welcome income supplement in areas where few alternatives are available (Mitchell and Hall, 2005).

The role of tourism as a supplementary income source for younger farm women diminished during the economic boom from the late 1990s to the early 2000s, when off-farm work was more readily available. It was highlighted that there is an opportunity for a new generation of entrepreneurs (men as well as women), farmers and non-farmers, to become involved in tourism as a year round business (e.g. examples of ecotourism businesses established by returning migrants with specialised skills [Conway, 2013]). A common theme raised in the CEDRA public consultation is the need for training in business skills in specialised forms of tourism (e.g. qualifications in outdoor activities such as surfing) and hospitality.

The OECD (2012) has recently referred to recognition by some governments internationally of the role that rural tourism may play in rural economies.

“... the ability of tourism to sustain rural populations and communities in sometimes non-traditional tourism regions is also more widely appreciated, and is attracting the attention of policy makers who can recognise, for example, that direct support for tourism initiatives in rural communities can have concrete benefits” (OECD 2012: 116).

### *A Rural Tourism Product*

After establishing issues and merits surrounding rural tourism, it is important to investigate the concept of a rural tourism product. A rural tourism product could be segmented to include such product components as “rural attractions, rural adventure tours, nature based tours, ecotourism tours, country towns, rural resorts and country-style accommodation, and farm holidays, together with festivals, events and agricultural education” (Department of Tourism, 1994:4).

According to an agency submission, the Irish product is seen as essentially rural; its strengths are the quality of the landscape and the warmth and friendliness of the people. Strangers have been welcomed and they have felt part of the community. This has been a key strength:

*"The Irish product is a rural tourism product...that is what Ireland offers."*(CEDRA Submission, 2013)

The need to market this new product has been recognised and a product marketing organisation, Irish Country Holidays, has been created in addition to new 'destinations' being launched at local level. These local destinations are marketed through rural tourism "cooperatives" (in some cases companies).

In general, the tourism product offered by Ireland is seen by the travel trade as rural tourism. To date, the development of new rural tourism products has been driven mainly by the need to diversify the rural economy and provide additional income for farm families.

The market research reinforces the view that the west of Ireland has an excellent product for rural tourism. There are some issues of concern, principally poor infrastructure and the need for environmental protection, but it is clear that the basic product is in place and considered to be of a high standard. The view that rural tourism customers are seeking a specific product with extensive community immersion is true of some visitors to rural areas, but not the majority of visitors or potential visitors. Landscape, environment and friendly people are the main draws for most visitors to Ireland. They want to see and do all of the usual holiday options.

In Ireland, tourism is an important contributor to the national economy (c. 3.5% of GDP) and the rural environment, heritage and culture are key components of the tourism product. The countryside dominates imagery used in advertising Ireland overseas and many tourists visit rural areas, use their physical resources (activities based around mountains, lakes, rivers, the sea) and their social and cultural resources (meeting people, socialising in pubs, attending rural literary and music festivals and visiting historical and cultural sites) during their holiday.

Current research states that positive features of the rural tourism product include being highly diverse in its structure for example accommodation of various types on and off farm, passive and active recreational activities, natural and built heritage-related activities, culture-based activities. This diversity provides complementarity of experiences for tourists but can create complexity in management for tourism authorities; usually locally-owned which contributes to retaining income; often small in scale which helps to avoid damage to the natural environment; commonly a limited source of employment in any one business but the aggregate contribution in a frequented destination can be substantial.

Problematic features of a rural tourism product include:

- fragmentation arising from geographical dispersal and lack of a critical mass of activities to retain tourists in a particular area for a number of days or longer
- Poor collaboration because of competition for limited numbers of tourists (Cawley and Gillmor, 2008a)
- Weak promotion and marketing arising from the two features above
- Ageing among the farm tourism sector and uncertainty about continuity in some cases (O’Gorman, 2005)
- Weak integration between towns and surrounding rural areas and weak dispersal of tourists as a result (the loop touring routes off the Wild Atlantic Way are designed to help offset this weakness).

Experts collaborating with CEDRA on rural tourism argue that tourism is not equally available as a potential supplementary source of income in all rural areas. An existing reputation and capacity to attract tourists because of natural environment and cultural heritage give potentially interested entrepreneurs an advantage over their counterparts in less advantaged locations. However, potential to develop innovative niche services undoubtedly exists in areas through which tourists pass (e.g. sheep dog demonstrations near Clonbur in County Galway which attract passing trade and tourists staying in some local hotels).

#### *Rural Tourism Potential*

Competition is growing internationally and especially in Central and Eastern Europe for some of the outdoor experiences that rural Ireland offers. With this in mind, it was suggested that rural Ireland should, however, play to its strengths regarding;

- The length of our coastline and easy access to the coast and areas of water from any part of the country are major advantages for a range of water-based activities;
- A diversity of landscape types within a relatively small area is also an advantage around which touring holidays can be organised;
- There has been limited development to date of challenging adventure-type holiday experiences (for a niche market);
- The wealth of our archaeological and historical heritage could be used to develop more specialised culturally-based holiday experiences. There may be scope to involve tourists who are willing to pay to take part in archaeological digs (which takes place in other countries);
- There is scope for developing bird watching among both Irish and international ornithologists in many coastal areas as a niche activity;
- Ecotourism activities which prioritise the protection of the environment in which tourism takes place could be promoted more actively;
- Some of the experiences revived for the ‘Gathering’ (e.g., carnivals and festivals) could be reintroduced as annual events for returning emigrants and other tourists and add value locally, especially in some non-traditional tourist destinations;
- Local traditional activities could be integrated more fully with tourism as niche holidays (e.g., lace making, quilting, and building stone walls);
- Long-distance cycle paths with accommodation and food experiences along the route (e.g. recent development along the Great Western Way);

- Better integration of food and tourism internally in accommodation premises and externally in the local environment (restaurants and farmers' markets). There are specialised accommodation premises that trade on high quality food and accommodation (e.g. Blue Book and Hidden Ireland members) but rural B&Bs and guesthouses could offer higher quality local ingredients at breakfast and identify them as such (e.g. eggs from the farm, home baked bread, jams and preserves made from local produce, local bacon and sausages, fish, farmhouse cheeses);
- Improve the information available relating to towns, villages and rural areas that attract tourists (e.g. local guides where guiding could be included as a task for existing information staff in a tourism office but also make better use of the scope provided by advances in communication technologies);
- Source new markets (e.g. Japan where beautiful landscapes, culture and traditional ways of life are highly valued and whose young people are increasingly travelling to Europe).

### *Achieving Rural Tourism Potential*

In achieving the potential of tourism in rural areas, importance is placed on the need for a wide range of stakeholders to come together and collaborate. In investigating local tourism providers and tourism groups, it is apparent that stakeholders see themselves as key actors in rural tourism. Therefore, they should be involved in policy and planning in so far as is feasible.

On another note, a submission sent to CEDRA claimed that for rural tourism potential to be achieved continued investment in and promotion of marine based tourism by the relevant State Departments and agencies is required. These departments are advised to work in collaboration with the wide range of stakeholders involved in these rural tourism areas.

- In achieving rural tourism potential, it is also suggested that there is a need for continued improvement in signposting. This is important for touring, as is the development of locally-focused 'packages' along for example the Wild Atlantic Way.
- Identification of a limited number of challenging adventure type holiday experiences for investment support (e.g. white water canoeing) is also necessary for rural tourism.
- Greater linking of the outcomes of academic research with tourism in the areas of archaeology and history would also contribute to development of the rural tourism industry;
- Collaboration between Fáilte Ireland, the Irish Society for the Protection of Birds and local tourism groups in appropriate areas would also contribute to a stronger industry. Limited investment would be required for this potential;
- Stronger promotion of ecotourism activities through the creation of networks and some support with accreditation;
- Encouragement of local community groups to reflect critically about the initiatives they undertook as part of the 'Gathering' and think about how they can be continued. The RTAs could organise focus groups for this purpose;
- Local traditional activities might be conducted in collaboration with institutions like the Irish Countryside Association and Institutes of Technology and recognised specialist tradesmen, as pertinent;
- Cycle paths are prioritised for development already;
- Agencies are promoting the association of local food use with tourism already. In going one further, agencies could also promote more strongly a culture of using quality local produce in breakfasts;



- Rural tourism agencies should include rural experiences in their promotion of Ireland in Japan and identify products that appeal to the young Japanese tourists.

### 9.3 “TERROIR “AS A FOCUS FOR RURAL TOURISM STRATEGIES

#### *Territorial organization and distribution of competences in tourism*

As a source of income for local stakeholders, rural tourism is one aspect of local development and diversification. Public organisations and authorities are key-players in the implementation of local development plans and their policies towards rural tourism and tourism in general determine the tourism prospects of a region. That is why understanding the territorial organisation and the distribution of competencies is important to analyse why tourism develops in a given region. The aim of this section is to show the differences existing between France and Ireland in this field.

In France Tourism is a decentralized competence and each local authority is responsible for tourism development and promotion in its territory. The laws governing the competences in tourism are compiled in the Tourism Code which indicates the players and shares out the liabilities. Three different types of public players can be identified in the field of tourism: the State, Local Authorities and Tourism Institutions which are “tools” for local tourism development.

The State does not have any role concerning local tourism development. Its liabilities concern the supervision of the tourism sector (respect for the law, procedures, approvals, etc.), the general development prospects of French tourist offers (studies/statistics, advice services, quality policy, etc.) and the international promotion of the destination France. Several national agencies and organisations are dedicated to these missions (ODIT, Atout France, Maison de la France, etc.).

Local Authorities are in charge of tourism within their territory: not only promoting their area but also all the developments needed within the framework of a local tourism scheme. Regions and departments respectively rely on Regional and Departmental Committees of Tourism to establish and implement local plans for tourism development and strategy (including the promotion of their territory). Municipalities can create a Tourist Office to take care of visitor’s welcome, provide information concerning the town and its surroundings (visitor centre) and elaborate/put in place a tourist development programme of the town. Each Local Authority is free to decide the form of these Tourism Institutions or “tools” for local tourism development (status, funds, composition, etc.).

This strong public territorial management of tourism is well adapted to the fact that amenities and non-profit tourist attractions are essential to the attractiveness of French regions. For instance the climate, the landscape, the proximity to the sea, the cultural and historical heritage, participate significantly in making visitors willing to come in the area. These resources are common goods which require protection and developments to be used as tourist attractions and their management is the responsibility of Public Authorities. That is why the missions of the Local Authorities in terms of tourism do not only consist of promoting their area but also managing their territory to develop tourism (land settlement, urban planning, preservation of natural resources, heritage conservation and promotion, etc.). In this context, the role of Municipalities as base players of local tourism is crucial. Indeed these Local Authorities combine several competencies that allow them to optimise local tourism development. Not only is the Municipality in charge of tourism in its territory (which is the

base territorial unit) but it is also its responsibility to manage land settlement, urban planning, some natural resources, etc. This particular Local Authority is a key-player of local development.

In France, the competencies in tourism are shared out between the different Local Authorities. The advantage of such a system is that public stakeholders are free to put in place a policy adapted to their territory and the municipality is the best example as it combines several competencies required for the optimisation of local resources in terms of tourist potential. However, this complex organisation leads to a lack of co-ordination and a superimposition of responsibilities. Indeed, even if the regional tourist policy is supposed to be taken into account into the departmental development plans, the co-ordination between the different scales is often inadequate which can cause a lack of coherence on the territory and a poor optimisation of funds. Moreover, in terms of promotion, this superimposition of scales makes it difficult to provide a clear message for visitors as it multiplies the marketing policy. Finally, administrative borders do not have any significance in terms of tourist destination and yet this system is based on the existing territorial organisation. However, the recent creation of a new territorial association, “le pays”, aims to co-ordinate local development around living areas with a geographic, cultural or economic coherence. These associations put in place a development plan for the area and tourism is part of their prospects. They are also in charge of managing the LEADER funds.

Concerning the particular case of agri-tourism (farm stays, rural and agricultural activities, etc.), training and product development are provided by Chambers of Agriculture. These organisations consist of representatives of professional stakeholders in the agricultural sector and are involved in all the fields linked with agriculture (environment, food quality, rural development, etc.). On a national scale, two brands have been created by the Chambers of Agriculture to develop agri-tourism activities: “Bienvenue à la Ferme” (website: <http://www.bienvenue-a-la-ferme.com/>) which is a quality label and a network of farmers providing tourist products (farm stays, outdoors/agricultural activities, local produce, etc.) and “Marché des Producteurs de Pays” (website: <http://www.marches-producteurs.com/>) which is a quality label dedicated to farmers’ market to ensure the consumers that the producers are local and the produce typical. Chambers of Agriculture also provide training for farmers that want to diversify into tourism activities.

In Ireland, the organisation is very different. The agency in charge for tourism is Fáilte Ireland, which is managed on a national scale. While in France the players of tourism are organised from the local scale (each Municipality can decide to open a Tourist Office), in Ireland, the management comes from the top (decisions taken by a national organisation). At a local scale, Tourism projects can be supported by LEADER Groups but the other competencies required to optimise the amenities of a region are shared out between different players. Many of the competencies managed in France by Municipalities incumbent upon County Councils, at a more regional scale. This particular organisation does not optimise the implementation of interdisciplinary local development plans.

**Table 9.1 Division of roles in the field of Rural Tourism**

Competence	Authority	Scale
Tourism	Fáilte Ireland	National
Planning	County Council	County
Rural Development	Teagasc	Regional Units
Local Development	Rural Development Company	Intra-county

Another significant difference between France and Ireland is volunteering projects and the implication of inhabitants in community activities. Ireland has a significant and very active community life which plays an important part in local development.

*Volunteering and communities: an Irish distinctive feature*

In Ireland, in the field of tourism, and in particular rural tourism, a significant amount of projects are initiated by communities and volunteering groups. Local heritage conservation and promotion groups, traditional and cultural events, eco-tourism projects, etc. are often put in place and managed by volunteers who are willing to participate in the life of their town, protect its heritage and promote its potential. These initiatives are fully part of local development and represent a distinctive Irish feature. Indeed in France, even if volunteering associations are very active in some particular fields, tourism is mainly managed by public authorities who are responsible for it.

A good illustration of this difference would be the maintenance of flowers and vegetated banks in the town, which is an important element of its attractiveness. In France, the Municipality provides this service and takes care of the maintenance of streets, flowers and decorations, with the aim of providing a pleasant environment for inhabitants and visitors. In Ireland, community groups (Tidy Towns Groups) organise the plantings and take care of the maintenance of flowers, on a voluntary basis. That is why the setting of the town during the spring and summer can significantly vary depending on the activities of inhabitants. Moreover, the aim of these groups is to participate in a national competition (equivalent to the “Concours des Villes et Villages Fleuris” in France) which is different from a long-term plan to improve the general setting of the town. The same comparison can be made with Christmas lights: the Municipality takes care of that in France whereas in Ireland, most of the time, the Chamber of Commerce collects funds with local businesses to pay for putting some Christmas lights in the streets.

**Table 9.2 Advantages and disadvantages of the two “systems”: services provided by Local Authorities in France and community based in Ireland.**

	Community based	Provided by Local Authority
+	<p>A dynamic community life: community projects bound people together and are a real prime mover of local development</p> <p>Authenticity: projects managed by locals are more likely to show customs or everyday life as local populations are part of them</p> <p>Implication: getting people involved in the life of their town creates a good atmosphere with events and projects</p> <p>Originality: original ideas can emerge when the aim of the project is not attracting visitors or making profits</p>	<p>It gives a professional framework: public servants have responsibilities, an official structure supports the projects, the continuity is ensured</p> <p>Everybody contributes financially and funds are used locally: local taxes are used to improve the general setting and develop the territory of the town from which inhabitants and visitor benefit.</p>
-	<p>If the community is not active/does not work properly, nobody is responsible for doing the project so it could never exist or be abandoned: this lack of liabilities and structure can create significant differences between the regions, depending on the implication and energy of volunteers</p> <p>The objectives of the community might be different from “selling a tourism product”: some events or projects in Ireland are designed for locals and might not be optimised to attract tourists (For example: the GAA games could be very popular for visitors as it is typically Irish. But for a foreigner, it is hard to find information as to where the pitch is, when the game is, etc. Most of the time, this information is provided on local radios or by word of mouth.)</p> <p>This system can meet with problems in long-term management and sustainability: finding new volunteers, lack of structure and measures to ensure the continued existence of projects, etc.</p>	<p>The system is expensive: taxes raise the charges paid by inhabitants and visitors</p> <p>The local population may not be involved in the life of their town: for example: an event organised by the municipality could be less authentic because locals are not involved/the aim is to attract visitors</p> <p>This system can be polluted by political issues: the mayor and the municipality council are elected and can belong to a political party which could lead to plans to be elected instead of objective projects.</p>

France is a decentralized state with a complex territorial organisation. In terms of tourism development, Municipalities are key-players as they combine several responsibilities (planning, urban and resources management, land settlement) which most of the time permit to optimise the exploitation of local tourist amenities. But this organisation is complex and does not always suit an efficient development and promotion plan based on destination management. In Ireland, the distribution of responsibilities is different and more centralized. Services provided by Local Authorities are less vast but the community life and the volunteering projects play a significant role in local development.

### *The concept of “terroir” as a guiding line for Rural Tourism*

On the basis of a literature review and interviews with French stakeholders, a word that is frequently associated with Rural Tourism in France is the term: “terroir”. There is no equivalent word in English. It is a complex notion that cannot be translated or explained easily. Even in French the word has several meanings, depending on the context. “Un produit du terroir” (a “terroir” product) is a local and typical product that is part of the gastronomic culture. For wine-makers, a “terroir” is the combination of regional characteristics, grapes

and wine-making that gives a wine its identity. A “terroir” can also be all that gives a territory its identity (tradition, heritage, food, etc.). This complex concept also has an application in the field of tourism with the “tourisme de terroir” which is sometimes translated to “rural tourism”. This form of tourism is based on discovering and enjoying the typical features of a rural region such as its landscape, its gastronomy, its cultural heritage, etc. This market is well developed in France and is often used by local authorities and stakeholders as a guiding line in their rural tourism development policy. This section is dedicated to the definition of the notion of “terroir” to understand better its implications, in particular in terms of rural tourism.

Between sciences and common sense, different meanings can be found for the word “terroir”. During the 19th century, the first uses and definitions of “terroir” as a scientific concept emerged with the development of pedology. Today, in a strict agronomic context, a “terroir” corresponds to an area or a group of parcels characterised by homogeneous technical parameters (topography, soil, climate, etc.) and production potential. Several “terroirs” can be identified on a same farm. In this context, a “terroir” can be assimilated with a group of parcels run in accordance with the same technical method.

But the concept has significantly evolved, at first with the will of linking a product with its place of production and explaining its typicity by the agronomic characteristics of the area and the cultural methods used by man. This notion is particularly important in the field of wine-making. Indeed, since the culture of vine exists, there has been a strong link between the soil of the vineyard, the methods used for the culture of vines, the wine-making process and the quality of grapes and wines. The result is that wine-makers have always protected and promoted their “terroirs” as criteria of quality, in particular with the labels of quality. Following the major Phylloxera crisis that decimated the French vineyards in the 19th century, protection measures were put in place by the State to forbid the usurpations of famous names and origins caused by the high demand in good quality wines. The AOC (Appellation d’origine contrôlée / registered designation of origin) label was created in 1935, taking into account not only the region of origin but also the production methods used by the wine-makers. Today, in the field of wine-making, the term “terroir” (“terroir vitivinicole” / vitivinicultural “terroir”) has its own usual definition. In 2010, the OIV (Organisation Internationale de la Vigne et du Vin / International Organisation of Vine and Wine) published a resolution defining a vitivinicultural “terroir” as “a concept which refers to an area in which collective knowledge of the interactions between the identifiable physical and biological environment and applied vitivinicultural practices develops, providing distinctive characteristics for the products originating from this area. “Terroir” includes specific soil, topography, climate, landscape characteristics and biodiversity features.” (RESOLUTION OIV/VITI 333/2010).

Today this concept of linking place, people and product has been extended to the whole of food products with the development of a traditional, typical and quality food market : “les produits du terroir” (“terroir” produce). These produce belong to the food and gastronomic heritage of their region of production as they are the result of land particularities and craft producers’ know-how amongst others. They are part of the local culture and tradition. The actual European policy is to protect and promote local and typical quality products with labels called geographical indications, following the French system of “AOC”.

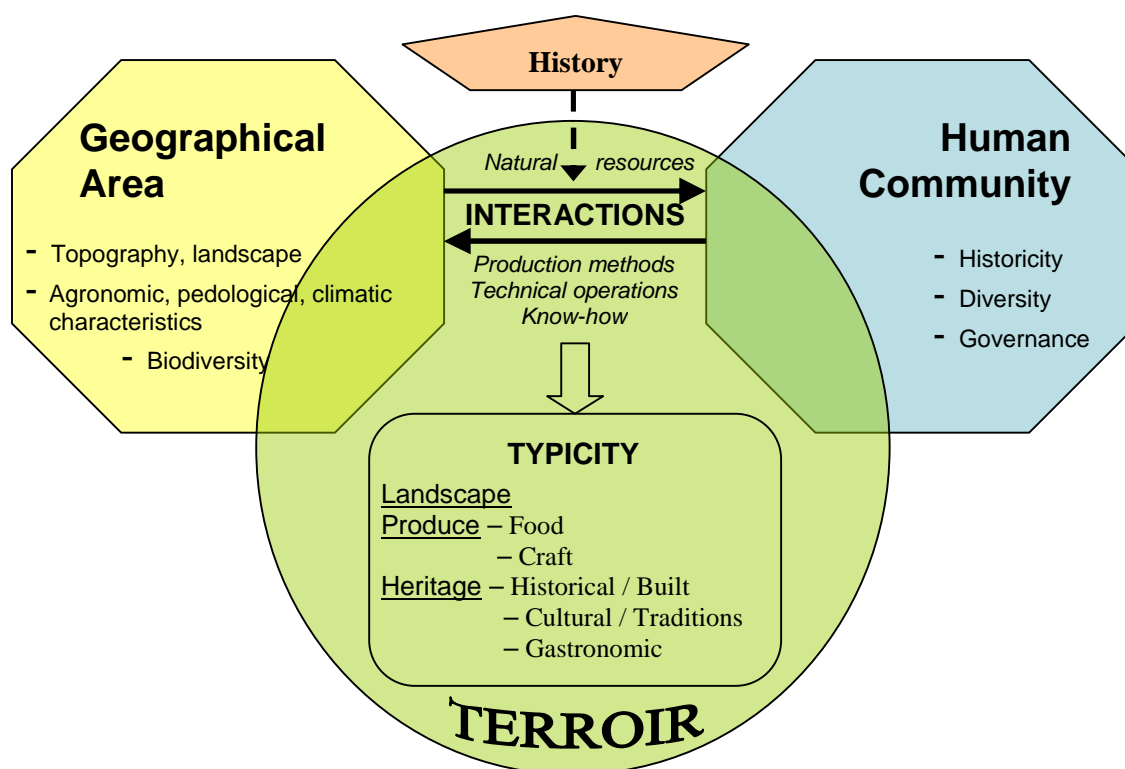
But it would not be accurate to limit the “terroir” to its food produce as you can also hear about a local accent or a typical and picturesque landscape or town. Moreover, even if a “terroir” is linked to a given territory, it is a human community that characterises it.

Following the proposition of a working group from INAO (Institut National des Appellations d'Origine / National Institute of Origin and Quality, France) and INRA (Institut National de Recherche Agronomique / Public Agricultural Research Institute, France) an international definition was adopted during the UNESCO International Meeting in 2005:

A “terroir” is a geographical limited area where a human community generates and accumulates along its history a set of cultural distinctive features, knowledge and practices based on a system of interactions between biophysical and human factors. The combination of techniques involved in production reveals originality, confers typicity and leads to a reputation for goods originating from this geographical area, and therefore for its inhabitants. The “terroirs” are living and innovative spaces that cannot be based on tradition alone.

From this definition and the works of several organisations and associations promoting the “terroirs” (see Appendix), the following diagram suggests an explanation of the concept of “terroir” in the broadest possible way.

**Figure 9.2 Definition of « terroir », a proposal for an explanatory diagram**



A “terroir” arises from interactions between a geographical area, with its physical and biological characteristics, and a human community, which develops knowledge and know-how linked with its natural resources. The result of this is a mix of typical features such as a landscape, products and heritages which participates in the emergence of the reputation of the region and its inhabitants. A “terroir” involves a territory and all that gives an identity to the region (landscape, biodiversity, gastronomy, craft industry, skills, knowledge, traditions, accent, architecture, etc.) but cannot be reduced to just one of them.

The identification of a “terroir” comes up against several stakes and geographical delimitation is one of them. Indeed, a “terroir” is based on a territory but the choice of delimitation parameters is subjective: different scales can be used; some regions can belong to several geographic entities; changes of landscape can be progressive and gradual, etc. That is why there is no clear limit of a “terroir” and if a precise geographical identification is needed, choices have to be made and human factors can be taken into account, depending on the context. For example, in the field of tourism, each administrative scale (region, department, township, etc.) is responsible for promoting its territory with its own “terroirs”. This is why you can find the expression “terroirs de Bourgogne” (“terroirs” of Burgundy) even if Burgundy is an administrative region.

The concept of “terroir” is complex and implies several notions such as links between people and their territory and typical produce and heritages. A local identity often arises from this typicity and bounds local communities together. Rural tourism development projects are generally based on the “terroirs” of the region to develop its typicity and attract visitors. However, using the produce of “terroir” as a tourist attraction and a source of income for local populations entails a sustainable territorial project with several stakes to take into account.

#### *From a “terroir” to a tourist destination*

Considering the general definition proposed previously, two intrinsic aspects of “terroir” have a major interest in the field of rural tourism: the link with the territory and the typicity. The features of a given “terroir” (landscape, skills, food, heritage, etc.) are linked to each other, often unique and cannot be relocated. That is why, to discover and enjoy a “terroir”, it is necessary to go to the given region as this mix of typical features cannot be found elsewhere.

The following box gives an example of a French region nationally famous for its strong “terroir”: L’Aubrac.

**Table 9.3 L’Aubrac Region**

#### **L’Aubrac**

The region of Aubrac is situated in the South of France and straddles three departments (Aveyron, Lozere and Cantal) and three regions (Midi-Pyrénées, Languedoc-Roussillon and Auvergne). This region is a good illustration of “terroir” as its typicity is particularly pronounced with strong links between man and their country and a living tradition.

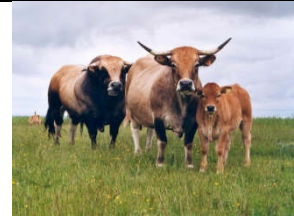


The geographic area is a volcanic and granitic plateau at high altitudes (around 1200 meters) in the southern Massif Central. The typical landscape is extensive pastures. Traditional pasture practices have permitted to preserve a diversified flora. Peat-bogs can also be found in Aubrac.





Most of the agricultural activity is extensive cattle breeding. The local breed has the same name as the region “Aubrac” and has been saved from extinction in the 70’s by local farmers that were attached to this traditional breed, which is adapted to the harsh conditions in Aubrac and capable of producing high-quality meat.



Originally, the milk of Aubrac cows was used to produce a cheese called Laguiole. The farmers were making the cheese in their “summer shelter”, called “burons”, while the cattle were in the pastures, from May to October. Today, the cheese is produced with a more industrialised method but with high-quality standards. The Laguiole obtained an AOC label in 1961 and has a European AOP label since 2008. When the “burons” were still in service, the farmers used to cook a typical dish called “aligot” from the Laguiole tome. These mashed potatoes with cheese were a festive dish for farmers during the mountain pasture season. Today, a lot of restaurants in Aubrac cook this traditional dish.



Another very typical product of the area is the Laguiole knife. The handle was originally made from Aubrac horn. Today, several workshops are making and selling Laguiole locally and across the country. These knives are very famous and are a key-component of the reputation of the region.



In terms of events and festivals, one famous and popular event is the transhumance, when the farmers take their cattle to the mountain pastures of Aubrac. The cows are decorated and walk in herds on the road to the pastures.

This example of the plateau of Aubrac shows how a “terroir” can become a source of attractiveness for tourists. People have to come and stay in Aubrac to discover the typical landscape and architecture with the burons and the typical villages (in particular by hiking thanks to several trails going all over or crossing the region). Visitor centres permit to discover how the “terroir” products are made, in particular at the factory producing the Laguiole cheese and at the main workshop making the Laguiole knives. Local restaurants cook high-quality traditional meals and local shops sell typical food and craft. It is because a “terroir” is anchored in a territory, with its particularities and its landscape, that it is not possible to relocate these activities and this typicity. The “terroir” is a source of attractiveness and reputation for a region.

But even if the “terroir” is part of the everyday life of inhabitants of the region, the development and promotion as a tourist destination needs a structured frame, judicious



governance and significant funds. Indeed, the aim is not only to attract visitors but also to make them stay and come back so the “tourisme de terroir” can become a significant source of income for local stakeholders and a sustainable prime-mover of rural development. To meet these objectives, several stakes have to be considered to go from a “terroir” to a tourist destination.

### *Identification*

The identification of what is unique and typical in the region is the first essential step. What is part of the “terroir” and should be associated with the region is an important issue that should be discussed between all the stakeholders and local communities. The identification and qualification of the “terroir” and its produce are necessary to build the identity of the territory which is the guideline for a rural tourism project and a local development in a broader sense. Not only is it important to have a common voice concerning a “terroir”, but it is also crucial that locals are able to see themselves in the qualification of their region.

The two main issues that arise are:

- What is the more judicious geographical border of a “terroir” and what parameters (geographical, human, etc.) should be taken into account?
- To what extent is it possible, relevant and/or desirable to build a local identity linked with a territory as local people’s sense of belonging is essential to manage a sustainable project of development?

The answers have to be given on a case by case basis.

### *Education*

The awareness of the value and the need for protection of the typicity of a region is a factor of success, but local populations are not always conscious of it. That is why it is essential to collect information (historical, technical, cultural, scientific, etc.) about the region and its “terroir” and set up ways to communicate and transfer the knowledge to the locals. By doing this, local communities might feel more concerned and involved in projects dealing with their “terroir” which is important in the development of a territorial identity and unity. Moreover, this knowledge transfer is also intended for visitors as informative material and events which are part of the promotion of the region (see below).

### *Sustainability*

One major stake in “terroir” economic exploitation, whether it is by selling typical and local products or developing a tourist destination, is the sustainability of the project. This sustainability entails two main stakes. First, the protection and renewal of resources (natural, human, etc.) on which the activity is based is a key-element. As seen previously, a “terroir” is based on interactions between a geographical area and a human community. If the economic exploitation compromises this balance by altering its resources, the project cannot be sustainable. This aspect highlights the very importance of identification and education: protection and renewal of local resources have to be taken into account in the identification and qualification of local products and services and have to be presented as key to locals and visitors.

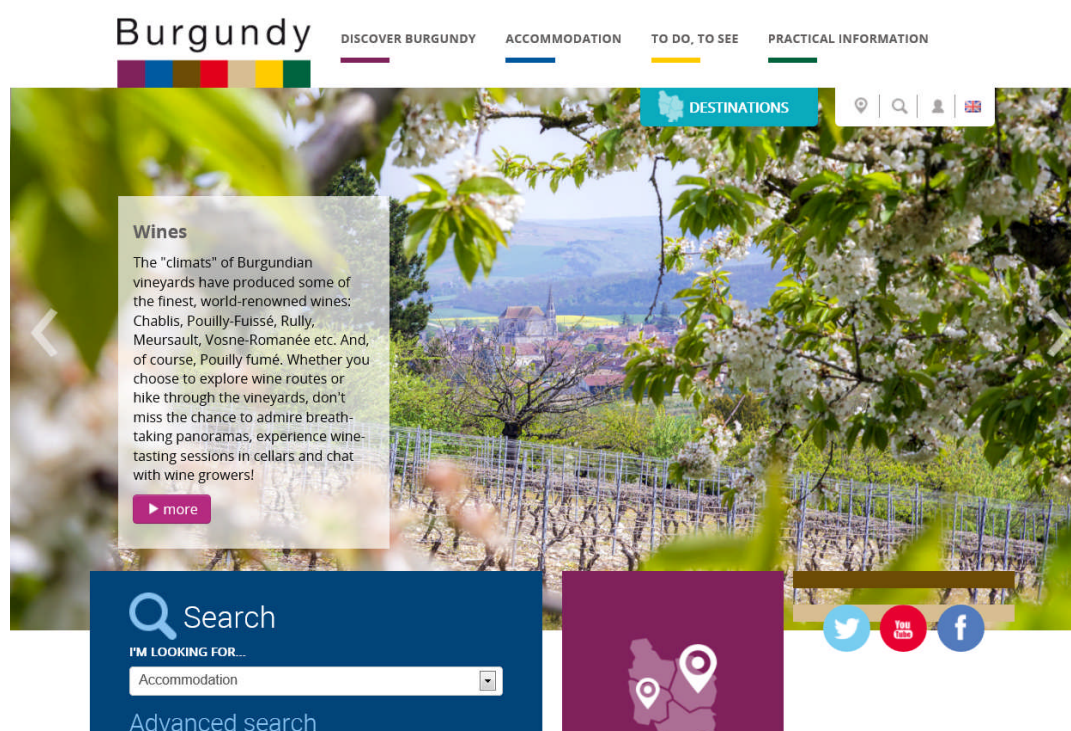
The other element that is necessary for the sustainability of a “terroir” project is that stakeholders running businesses dealing with the “terroir” have to have sufficient incomes to

cover the additional costs generated by typical, traditional or local products or services. For example, a farmer that will choose to produce a typical breed of cattle, because the meat or milk/cheese is part of the traditional gastronomy, because the animal is more adapted to local conditions, etc. has to be confident about being paid accordingly for the services that he/she is providing to the society (quality/scarcity of the product, better protection of natural resources, etc.). This is also valid for an eco-museum or a company/association offering informative walks about local history or landscape. Labels are a way to promote local products/services and guarantee their origin and/or quality to the customer and participate in the remuneration of stakeholders. Public authorities have a role to play in order to provide this legal and institutional framework to local products/services that is a step in this remuneration process. The main issue that arises is to what extent public funds are needed when the market demand alone is not sufficient. Of course education and promotion are pillars of local consumption in particular in terms of food but some “terroir activities” need public supports to assure their sustainability and accessibility to all social classes (for example: culture, educational activities, etc.).

### *Promotion*

Tourism becomes a significant source of income for local businesses and a prime mover in local development when visitors come and stay in the region. It is important to provide facilities, activities, events etc. that will permit the visitor to discover and enjoy the “terroir”. shows examples of elements that participate in the “tourist exploitation” of the “terroir”. But on a more global scale, the whole region has to be promoted with a marketing policy to give a visibility that will make its attractiveness become reality. This point is linked with the identification step as identifying what features belong to the “terroir” is necessary to build the image of the region that will be given to potential visitors through the marketing campaign. Illustration 8.1 shows a visual extract of the content of the website [www.burgundy-tourism.com](http://www.burgundy-tourism.com) which is the official website for tourism in the region of Burgundy. We can easily identify the typicalities of this region: food (wines, blackcurrant, Charolais beef, ginger bread, Dijon mustard, etc.), high-quality cuisine and restaurants, built heritage (religious sites, castles, etc.), historic sites (Gallo-Roman history), unspoiled natural sights, etc. All these features are part of the “terroirs” of Burgundy and are used to build a tourist destination which is unique and authentic.

**Illustration 8.1** Extract of the content of [www.burgundy-tourism.com](http://www.burgundy-tourism.com)



**Table 9.4** Key-elements for protection/sustainability and promotion of the different features of a terroir

	<i>Protection/sustainability</i>	<i>Promotion</i>
<u>Landscape</u>	Local planning, supporting traditional agriculture	Activities (walking, cycling, water sports, horse riding, etc.), land settlement
<u>Products: food, craft</u>	Supporting traditional and local productions, geographical indications	Farmers markets, local shops, artisan food and craft festivals, restaurants
<u>Historical / built heritage</u>	Maintenance, restoration, local planning	Access and general development (lights, flowers, cultural interest, etc.), animation and events
<u>Cultural heritage / traditions</u>	Supporting traditional events, museums	Events / festivals, animations

The typicity of a region in itself is not sufficient to make a tourist destination in order to provide a significant source of income for local stakeholders and be a sustainable prime-mover of local development. Several stakes come into play which are among others: identification of the typicity of the region, knowledge transfer to highlight the value and the need for protection, insuring the sustainability of the project and promoting the region. A project with rigorous governance, a strong implication of all stakeholders and local authorities and a long-term plan are necessary. But, most of the time, the “terroir”, its protection and promotion bound people together and give a guiding line for a territorial development plan.

#### 9.4 TWO IRISH CASES FROM THE PERSPECTIVE OF “TERROIR”

The word “terroir” is French but the concept does not have any border. This section deals with the application of the concept of “terroir” to two Irish cases. First of all, an analysis of the Burren confronts this region to the definition of “terroir” to see how the concept is applied in Ireland. Secondly, to highlight the importance of built heritage as an attractiveness factor for rural areas, a comparative study goes through the key-elements of heritage conservation and promotion in the French town of Semur-en-Auxois. The differences between two towns in France and Ireland are discussed and highlight the primordial role of municipality in heritage conservation and promotion in France.

*Is the Burren an example of an Irish “terroir”?*

The Burren is a region located in the West of Ireland, two thirds in County Clare (uplands) and one third in County Galway (lowlands). This region is unique in Ireland and even in Europe for many reasons and is characterised by a strong territorial identity and community life. The following questioning goes through the different elements that characterise a “terroir” and confronts them to the case of the Burren.

*Is the Burren linked with a particular geographical area?*

Yes, the geology, the landscape and the biodiversity are key-elements that define the Burren. The region is characterised by its limestone rock formed about 340 million years ago. The unique “karst” landscape of the Burren comes from the alterations and modifications that this rock has undergone: bare pavements, cracks, cliffs, hollows, cave systems, disappearing lakes, visible layers of limestone, etc. These geological features are essential components of the stunning landscape of the Burren. This region is also unique thanks to its biodiversity. 70 per cent of Ireland’s vegetal native species can be found in this area. The rich limestone grasslands are precious resources and are the habitat of very rare species.

*Have human communities living in the Burren developed particular skills and customs linked with the typicity of their land?*

Yes, men started farming in the Burren 6.000 years ago, and have developed unique production methods, adapted to the particularities of the region. The most famous of the practices used in the Burren is the winterage. This “reverse transhumance” consists in putting the cattle in the uplands during the winter. This practice is possible only thanks to the very specific characteristics of the soil and the biodiversity of the Burren. The karst landscape causes the forming of temporary lakes during wintertime which provide water for the cattle. The limestone rocks have the particularity of retaining the heat so the pavement stays relatively warm when the weather cools. Moreover, even if the grasslands seem poor, the grass that grows in this type of soil is very sweet and nutritive for the cattle. Finally, the cows that go to the uplands during the winter appear to have more muscles which facilitate the calving. This very typical practice participates in maintaining the very rich biodiversity that characterises the Burren. Indeed the cattle eat competitive grasses during the winter, allowing typical flowers and rare species to multiply during the spring and favouring the maintenance of a rich biodiversity.

*Is it possible to identify typical features resulting from these interactions between Men and their land?*

Yes, the typicity of the Burren goes further than a landscape and the winterage. Several features are typical of the Burren and are the results of the ancient presence of men living and farming in the region.

Farming produce are of course direct results of the ancient farming tradition of the Burren. Goat breeding used to be very common in the region and the production of goat milk and cheese was typical. Moreover, the leather of the goats was used to make Bodhráns, which are traditional Irish drums. Today, feral goats are a typical feature of the landscape of the Burren and herds can be found wandering freely in the region. Resulting from the winterage practice, the meat produced in the Burren is famous for its high quality.

Another remarkable wealth of the Burren is the numerous archaeological remains. This heritage is mostly stone buildings such as tombs, evidences of ancient settlements or ring forts. The durability and the abundance of stones as well as the soil unsuitable for “modern” farming practices such as tillage could explain this particularly well preserved heritage. But more recent expressions of the history of the Burren remain: Early Christian church, medieval tower houses and buildings related to farming across the centuries.

Finally, the Burren is a land with a strong culture: art, literature, craft, story telling or music are part of the local identity.

*Are local communities aware of their territorial identity and of the value of their land, skills and customs?*

Yes, the Burren is a region where a lot is done in the fields of long-term heritage conservation policy and sustainable development projects. Several communities, projects or charities are dedicated to understanding the issues the Burren is facing in order to succeed in developing the region while in the meantime protecting its fragile resources and heritages. Studies and surveys have been/are being carried out to understand better the needs and visions of local populations. Knowledge transfer is an important part of their missions with (amongst others) landscape reading trainings or educational walks for locals and visitors. Volunteering projects are also very important as people get directly involved in the conservation of their heritage: cleaning a beach, repairing a stone wall, participating in an archaeological research project, etc.

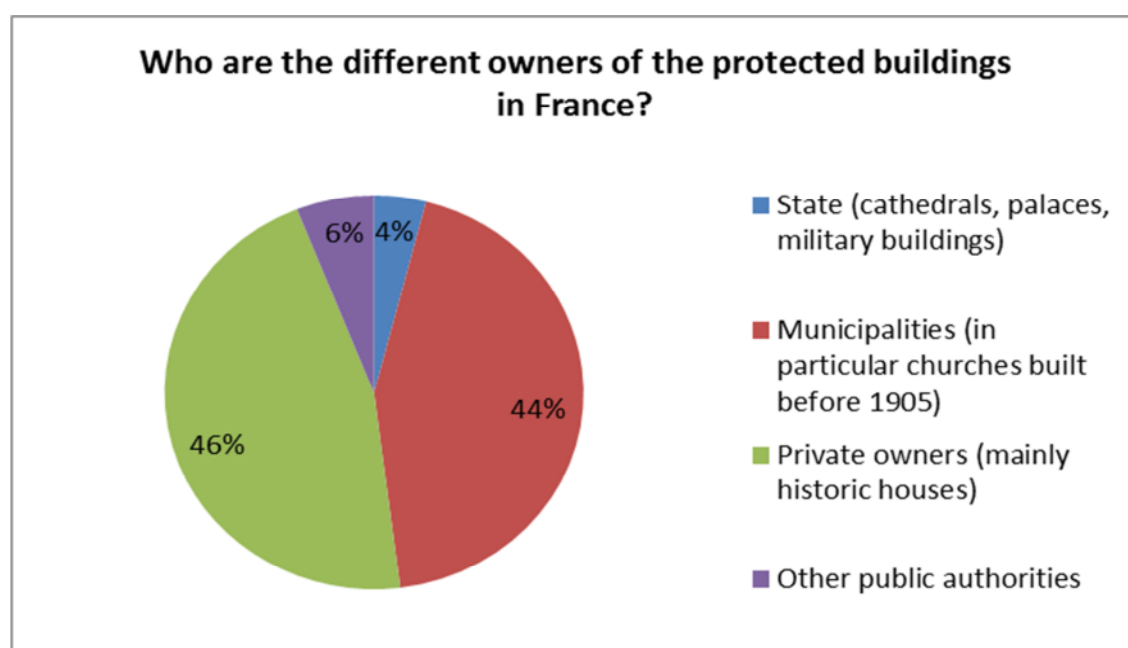
The Burren is a very good example in Ireland of a region where the interactions between a human community and a geographic area lead to the development of a very diversified and unique heritage (landscape, farming practice, built heritage, culture, etc.): the Burren is an Irish “terroir”. But it is interesting to note that the characteristic features of a “terroir” can vary from one place to another and even more from one country to another. Indeed it seems that the place of food as part of the heritage of a region is stronger in France. Indeed, the gastronomic culture in France is very important. Typical food produce are often considered as the most characteristic features of a “terroir” and so that some may restrict it to the only gastronomic field. Whereas in Ireland typical food produce are not as common and it is difficult to find a restaurant serving a typical meal from the Burren for example. The low number of EU Geographical Indications in Ireland could be taken as an illustration of this phenomenon: 4 products are registered in Ireland in 2012 against 188 in France. But another study would be required to go further and find explanations to this difference.

### *Comparative study: built heritage conservation and promotion in two medieval towns*

As we saw previously, heritage, and in particular historical buildings, can be considered as a part of the terroir of a region. It is an important element of its attractiveness: the French countryside is famous for its picturesque and well preserved historical features. Ireland, like France, has a diversified and valuable built heritage. However, significant differences exist between the ways of promoting this heritage and using it as a tourist attraction, mainly for historical and cultural reasons.

In France, built heritage conservation by the State dates back from 1789, when the Revolution, with its acts of vandalism and destruction and its massive sales of buildings belonging to the Clergy and the Nobility, highlighted the need for protection of historical buildings. A state agency was created in 1830, the “General Inspectorate of the Historic Monuments”, in charge of listing and protecting historical buildings thanks to a budget intended for maintenance and restoration. Today, about 41,000 buildings are protected by law.

**Figure 9.3** Chart presenting the different owners of protected historic buildings in France (% of the total number)



Beyond the protection of buildings, the policy of heritage conservation and protection has progressively been extended to the surroundings of protected buildings and from the 1960's conservation areas were created in order to protect scenic views around historical sites.

Municipalities are important players in built heritage conservation and promotion in France as they own a significant number of historical buildings but also because, as detailed in the first section, the municipality is responsible for land settlement/planning on its territory (since the 19th century) and is an active player of heritage management and tourism development (since the 1980's with the decentralisation law). This sharing out of competences can facilitate a good optimisation of the potential of the town in terms of built heritage, beyond

the legally protected buildings alone, and is a significant difference between France and Ireland.

To illustrate the crucial role of the municipality in terms of built heritage conservation and promotion in France, the following key-example details the case of Semur-en-Auxois, a town located in the region of Burgundy, in the East of France. This town has a rich heritage, in particular buildings that are expressions of the History of Semur-en-Auxois through the centuries.

The golden age began during the 13th century when the town became the capital of the bailiwick of the Auxois. Medieval streets, a collegiate church (restored in the 19th century), the tours of a fortified castle and the door of the town remain from this medieval period. Thanks to its important status, the town attracted an intellectual elite that influenced the development of the town until the 18th century with, among others, the building of town houses, bridges and walks. The 19th century was the beginning of the decline of Semur-en-Auxois with an economic crisis: no major building works were done during the industrial revolution and the historical streets and building were preserved. The first policy of heritage conservation began in 1837 with the election of a Mayor who stayed at the head of the township for 54 years. His will to protect the heritage was crucial for the town as all the new buildings and the modern districts were built on the East of the town, in the suburbs, protecting the historical centre. Today, the town centre is cobbled and some streets are pedestrian so the visitor can enjoy walking in the picturesque medieval streets. At the end of the 1990's, a conservation area of 190 hectares was created in order to protect the architectural, urban and landscape heritage of Semur-en-Auxois.

At the same period, the municipality decided to create a Heritage Department to promote the rich heritage of the town. Two people (1 full-time and 1 part-time) work now to collect information about the heritage and provide educational activities and events for the inhabitants and the visitors. Among others, they are responsible for the organisation of the traditional medieval festivals that take place every year in Semur-en-Auxois. €10,000 per year (except the two salaries) are dedicated by the municipality to culture and heritage promotion alone. Funds from the department, the region and the EU are also provided. Built heritage conservation and promotion is still a major priority of the municipality. The tours of the castle, the collegiate church and a walk along the ramparts have recently been restored. The historic town centre is a pedestrian zone and is cobbled and some buildings are enlightened at night. Without the implication of the municipality, in particular with its urbanism policy respectful of the historic features of the town, Semur-en-Auxois would not have been so picturesque and attractive for visitors willing to discover and enjoy this unspoiled heritage from Burgundy. In parallel with the municipality Heritage Department, three people run a tourist office to welcome the visitors and provide information about tourism in the area.

This example is not a main rule in France but it shows how a municipality can be involved in heritage conservation and promotion, in particular thanks to its role in urbanism and planning. It is interesting to do a quick comparison with the town of Athenry, in County Galway. Athenry and Semur-en-Auxois are roughly similar in terms of inhabitants (3,205 according to the 2006 census (CSO) versus 4,240 for Semur-en-Auxois in 2008 (INSEE)) and are both medieval towns with a rich history. But these two towns are significantly different in terms of heritage conservation and promotion. Athenry is one of the most preserved walled-towns in Ireland and the remaining built heritage visible in the town is unique. The street plan has not changed since the Middle Ages. The walls, a castle and a Dominican priory date back

from the 13th century and two medieval bridges have been built in the town. The castle was abandoned quite quickly after its construction and left without maintenance for about 500 years before the restoration started in 1990. The castle is now open to visitors during the summer time. Concerning the priory, several restorations and architectural changes were conducted during the centuries of its religious activity but the Cromwellian soldiers wrecked the buildings in 1652 and the site had been damaged before it was taken into state care as a national monument at the end of the 19th century. Today, the priory is in ruins with interesting architectural remains and tombs but shows evidence of deterioration. A unique market cross from the 15th century is still standing in the market square, in the middle of the town centre, and is a mark of the ancient origin of Athenry as a market town. Athenry is one of the largest walled towns in Ireland (28 hectares) and the remains of the fortification are unique: walls from the 13th century, defence tours and a gate. Among this medieval heritage, a church was built in the 19th century and is now used as a heritage centre, providing an exhibition about the history of the town and educational activities about the Middle Ages.

But recent evolutions have spoiled the picturesque medieval shape of the town with new buildings and urbanism choices that do not enhance its unique built heritage. An agricultural cooperative with several silos was built in 1979 just beside the walls, near to one of the roads that lead into the town. A GAA pitch was built within the fortifications, with a covered stand along and very close to the medieval wall. Moreover, several new buildings such as a supermarket and a gas station were built in the very town centre, spoiling the picturesque view of medieval remains.

Beyond these “aesthetic” reflections, the built heritage and the town in general are not easily accessible for visitors. The medieval streets are cluttered with car traffic (two cars cannot pass each other or with difficulty because of the narrowness of many streets). The recent road works prove that re-thinking the traffic scheme is not on the agenda. The cobbled market square is often used as a car park. Less than one fifth of the walls are within public access. Some historical sites have no or very limited interpretation available for visitors: for instance, very little on-site information is available concerning the priory (only a brief sign) and none on the site of the North Gate. Moreover, the town is quoted in the nationally famous song “The fields of Athenry” but nothing is done to use it as a tourist potential.

Fortunately several projects are in progress and participate in conserving and promoting the rich heritage of Athenry. Communities and volunteering based actions such as The Heritage Centre, festival steering committees (Lady Day Festival) and Athenry Tidy Towns among others are key-stakeholders for the improvement of the attractiveness of the town by expending their energy for the development of their town. Moreover, in 2008, following the will of the national Heritage Council to promote walled towns of Ireland, Galway County Council put in place a Management Plan for the town walls of Athenry, not only to maintain the buildings but also to provide better accessibility and a more coherent interpretation for visitors. This document shows that, contrary to some towns in France like Semur-en-Auxois, the awareness of the value and the need for protection and promotion of built heritage is recent in Athenry and it is the case in many places in Ireland. The fact that the English built or owned a significant part of the historical buildings could be an explanation of this lack of appropriation of this heritage. In Athenry, the process of exploitation of the heritage as a tourist attraction (identification, education, protection and promotion) is in progress. An action plan has been established via the County Council’s Management Plan and a lot of resources and support from local authorities are now needed to implement it. The current economic situation is not favourable for this type of project and the programme has already



been delayed. But it is a project that has to be managed on a long-term time scale and that can significantly improve the attractiveness of the region and give to Athenry the fame that its unique heritage deserves.

The concept of “terroir” is not restricted to French regions. On the contrary, applying it to Irish cases can be useful to analyse the situation of a particular area and can give an interesting point of view in the context of a rural tourism development project. The following sections deal with the region called the “lowlands of South-East Galway” or the “Gort lowlands” and aim to lead a diagnosis of the region in terms of rural tourism and suggest development prospects. Among other things, this study uses the elements developed so far which are the sharing out of competencies in rural tourism and the concept of “terroir”.

#### *Territorial diagnosis: the lowlands of South-East Galway*

County Galway is the second largest county in Ireland and has a great diversity of landscapes, from the famous mountain and maritime scenery of Connemara in the West, to the Lakeland on the bank of the River Shannon in the East. At the North of Galway City, Lough Corrib, the second largest lake in Ireland, forms a physical partition between the uplands of West Galway and the lowlands of East Galway.

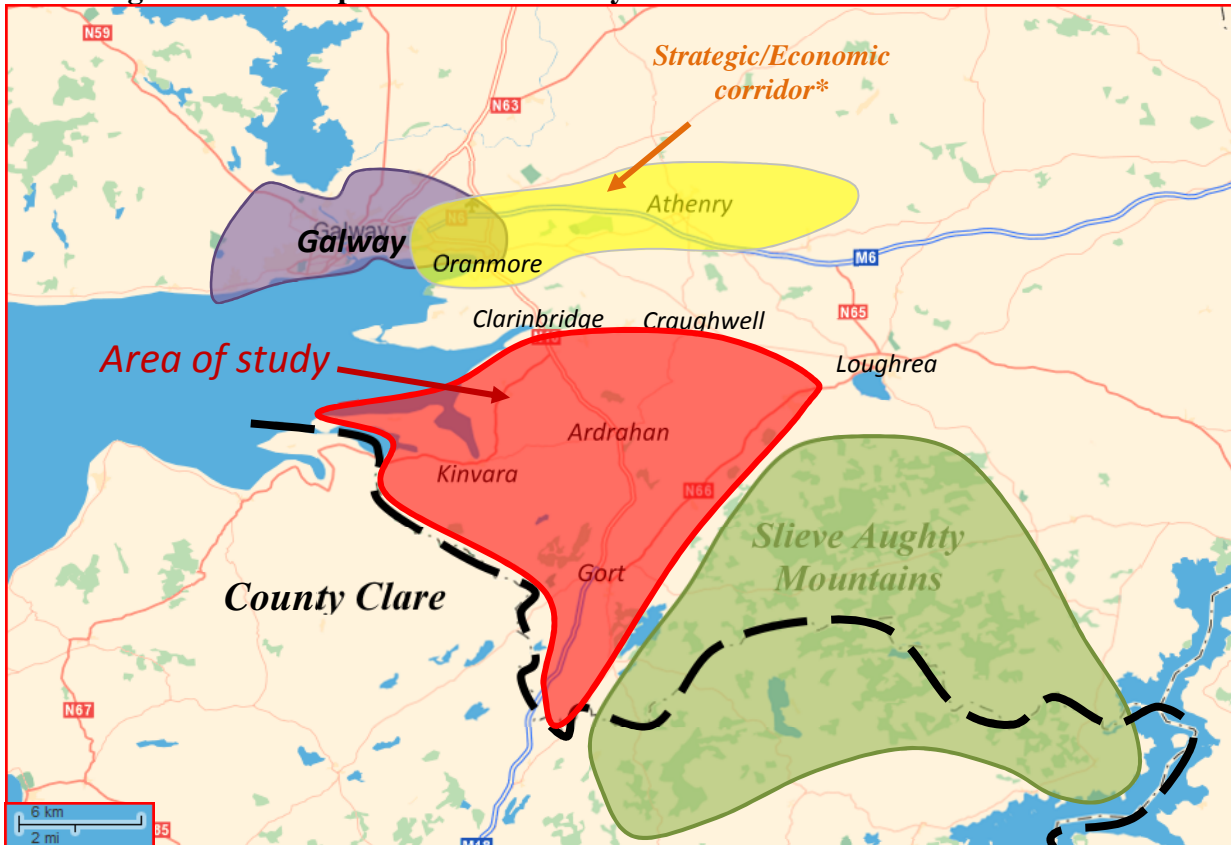
East Galway is approximately divided in two by the Galway-Dublin motorway. The North is a large low-lying region which belongs to the “Central Plain” of Ireland. The landscape in the South is heterogeneous with the Shannon River and bogs in the East and the dry karst landscape in the West, separated by the Slieve Aughty Mountains.

This part of the study is focused on the area called “South-East Galway” which tallies with the karst landscape of “Gort lowlands”. This region is delimited:

- On the North, by the towns of Craughwell and Clarinbridge;
- On the East, by the Slieve Aughty Mountains;
- On the South, by the County Clare border;
- On the West by the Galway Bay coast.

The purpose of this work is to realise a diagnostic of rural tourism in this region with the following guideline questions: Is rural tourism developed in this region? What is the tourism potential of this area? What could be done to improve its attractiveness with the aim of promoting a local development?

**Figure 9.4 Map of the area of study**



*\*Galway County Development plan  
2009-2017*

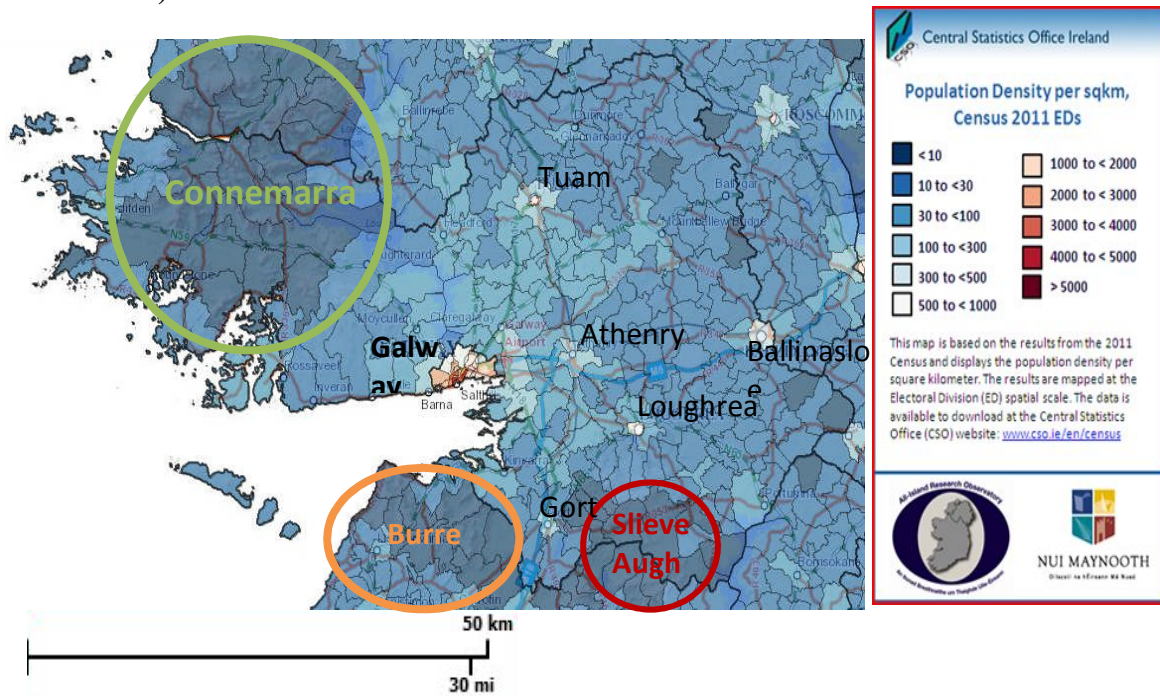
### *Statistics and general data*

First of all, statistics and general data give a global overview of the area of study in order to identify the main spatial structure of the region and the dynamics influencing its development into the context of county Galway.

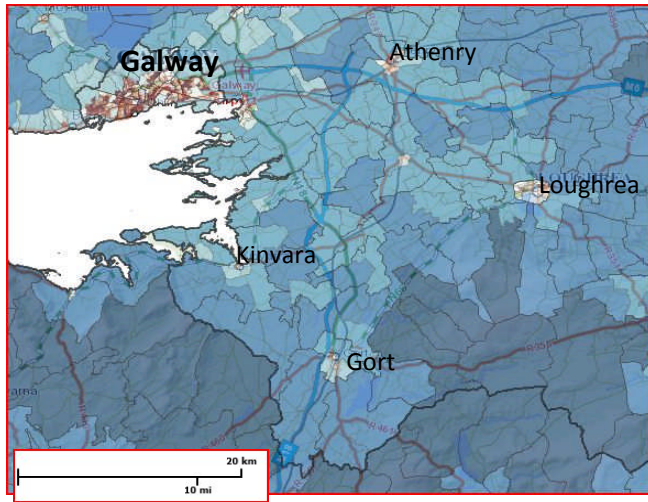
### *Population*

The latest census in Ireland was carried out in 2011 and the results published by the CSO (Central Statistics Office) give interesting information concerning population in County Galway, and in particular in the area of study.

**Figure 9.5** Population density in County Galway per Electoral Division (per km<sup>2</sup>, census 2011)



At a County scale, several density zones are visible. On the West, Connemara is sparsely populated as well as the Slieve Aughty Mountains on the South-East and the uplands of the Burren in County Clare. A more densely populated zone at the centre of the county conveys the attractiveness of Galway City as a major factor influencing the development and the land settlement of the county.



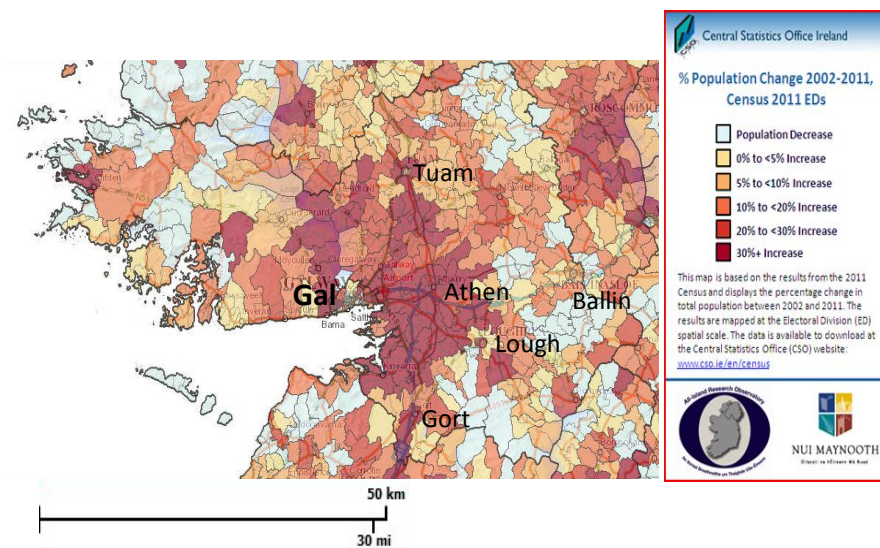
**Figure 9.6 Population density in the area of study per Small Area (per km<sup>2</sup>, census 2011)**

In this context, the area of study appears to be a moderately populated region. The most densely populated zones are the North of the area (influence of Galway City), the coast of Galway Bay (Kinvara) and the town of Gort. However, as detailed further, the whole area of study is considered as a “rural area under urban pressure” by the County Council.

The two main “urban centres” of the region are Gort (2,782 inhabitants in 2006) and Kinvara (1,160 inhabitants in 2006). In the area of study and in the county in general, the housing settlement is mostly scattered. During the “boom”, and despite the County Council’s policy of grouping together new buildings around existing towns and villages, a lot of new estates and houses were built on the outskirts of the historic centre or in the neighbouring countryside. Thus, the landscape is often altered by scattered new buildings, with a variable density depending on the region.

The data dealing with population change between 2002 and 2011 highlight the influence zone of Galway City and its attractiveness, especially in the North and in the West of our area of study. Gort also appears to be an attractive town.

**Figure 9.7** Population change 2002-2011 in County Galway (% , per electoral area



Contrary to the rest of the area, the number of inhabitants in the Electoral Division of Gort has decreased. Indeed, in the 2000's, a meat factory opened in Gort and Brazilian workers were hired to work for this firm. A Brazilian Community life developed in Gort with (amongst others) exotic food shops, summer festivals and mass in Portuguese so that the town became a “Little Brazil”. But the closing down of the factory in 2007 and the general economic slowdown caused the departure of a lot of workers and explains the particular situation of Gort in terms of population change since 2006 as well as the general slow down of the dynamism of the town (see following section).

The region of study is well served in terms of transports and Gort appears to be the bond of main transport routes in this area. As seen in figure 8.4 two major roads go through Gort: the N18 that goes to Galway (National Primary Road) and the M18 (Motorway) that serves County Clare down to Limerick. Moreover a project is in progress to build a motorway from Gort to Tuam and create a Motorway network between Tuam, Galway and Limerick. Several roads link Gort to the nearby regions (the Burren and the Slieve Aughty mountains). Concerning the railway network, Gort has also a strategic position as it is located on the very recently developed commuter service between Galway and Limerick, making the access to the urban poles easier for the inhabitants of the area. However, this new service has not yet had a significant impact on the activity of the town and seems to be underused so far. This new service is part of a broader layout called “the Western Rail Corridor”, from Limerick to Sligo. Projects and discussions are in progress to carry on with the re-opening of train routes to the North. Kinvara is on the coastal route that runs along Galway Bay from Galway to the Burren. Indeed, all the tour operator buses follow this itinerary to visit the uplands of the Burren which makes this location strategic from a tourist point of view. However, Gort and its surroundings are not a destination for bus operators and the regular regional bus services only serve the region.

#### Prospects in the County Development plan 2009-2015

According to the County Development Plan 2009-2015, the area of study is heterogeneous in terms of strategy of development. Figure 8.4 shows that Gort and the axis to Galway City is part of an “economic corridor” where the priority is to optimise new investments and growth with commuter services and road network improvements. Tourism does not seem to be a



prospect of development for this particular zone. On the contrary, the Galway Bay with Kinvara and the South of Gort are considered as characteristic areas of the “unique visual and environmental character” of the County and in which rural tourism is part of the dynamic of the region. However, the whole region of study is part of the “Galway Transportation and Land Use Study” (GTPS) which means that it is considered as a “rural area under strong urban influences”. This particular status within the county has to be taken into account in the perspective of a rural tourism development prospect: it has to be borne in mind that the region is strongly influenced by Galway City as a commuter zone and that the Gort-Galway axis does not have a significant tourist orientation but belongs to a strategic economic zone. So the development of a tourism activity will require a clear stand this way by local authorities as it is not the only potential of the region.

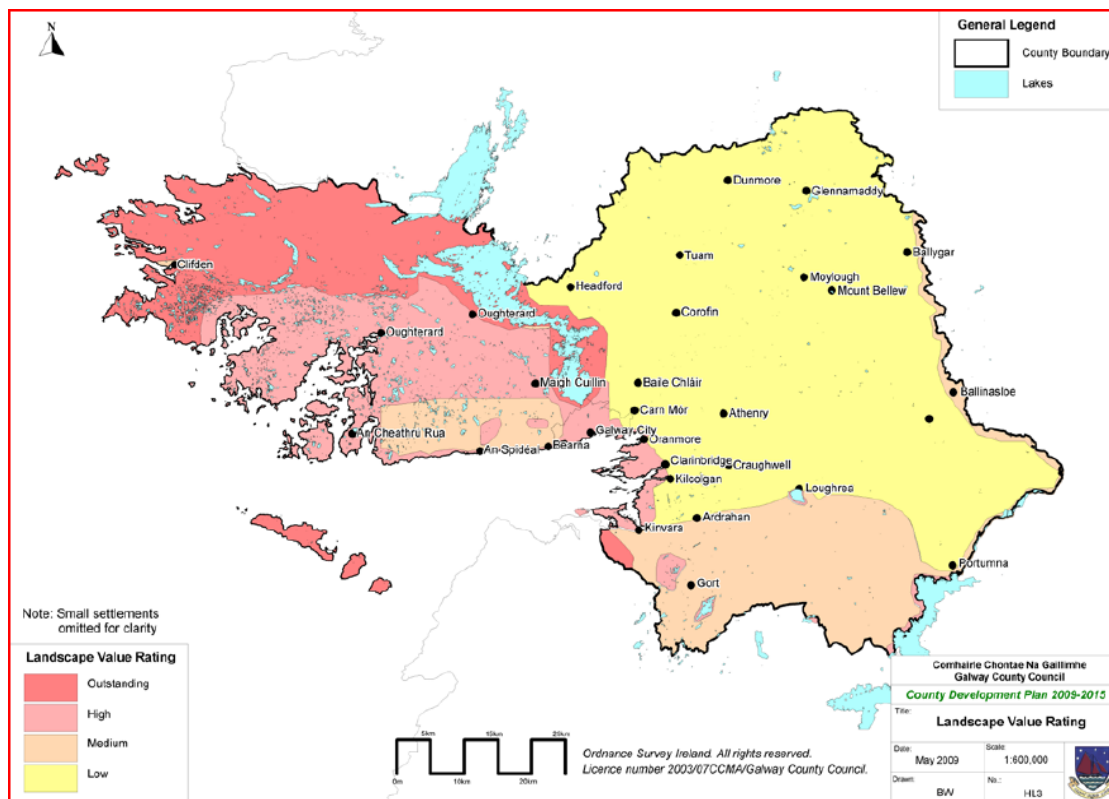
### *Unique features and tourist potential*

Identifying what is unique about an area is the first step to assess its tourist potential. All the features that are part of the local identity or “terroir” can contribute to the attractiveness of the region, in particular in terms of rural tourism.

### *Landscape and natural heritage*

The erosion of limestone rocks caused the formation of a karst landscape which is typical of South-East Galway. Even if the scenery is less impressive than in North-Clare uplands, the rock type of the subsoil of these two regions are similar. Indeed, the limestone rocks are responsible for the unique landscape of the Burren but this term is very often associated with North-Clare uplands. Thanks to its scenic hilly landscape, North-Clare alone appears to be “The Burren” as a tourist destination. But the geological delimitation would group Gort lowlands and North-Clare uplands as The Burren. Even if it is true that South-East Galway is not part of the most stunning landscape of the West, the region has unique natural features that contribute to its typical characteristics.

**Figure 9.8 Landscape value rating according to the County Development Plan 2009-2015, Galway County Council**



The Gort lowlands are characterised by typical karst features: cracks in the limestone pavement, springs, swallow holes and underground cave systems, turloughs (seasonal lakes, fluctuating with the rainfalls, and due to hollows in the pavement making the water table very close to the surface flood). The flora is also rich and diversified, from calcareous grasslands to native woodland, coastal and turlough habitats. These features give to the area a typical landscape and a rich natural heritage.

The Coole-Garryland Complex Special Area of Conservation, of which belongs Coole Park, is a nature reserve that contains several typical natural features of the area with among others: turloughs with their particular biodiversity, well known woodlands (“Seven Woods of Coole”, Yeats) and birds. The park provides a visitor centre and trails to discover the rich natural resources and the beautiful landscape of Gort lowlands.

### Culture and built heritage

The lowlands of South-East Galway present a significant interest in terms of culture and built heritage. Some of them are already well-known tourist attractions such as **Dunghaire Castle** in Kinvara, a tower house in which banquets are organised during the summertime (managed by Shannon Development, a company in charge of the development of the region in connection with Shannon Airport). On the contrary, other sites are under-exploited: for instance **Kilmacduagh** (owned by the OPW) is a remarkable monastic site at the edge of the uplands of the Burren, with a cathedral, churches, a cemetery, a Grebe house and a spectacular round tower (complete, over 30m tall, very good example of this particular Irish feature). A very brief sign is the only source of information available for visitors concerning this stunning monastic complex.

Moreover, the Gregory's family was settled in this region, of which belonged Isabella Augusta Gregory also called Lady Gregory, a famous dramatist and co-founder of the Abbey Theatre. Their estate in Coole was the centre of the revival of Irish Literature during the 20th century. Several remains of this period can be found in the area and give the region a unique cultural interest, with:

- **Coole Park and Gardens** are of course a great place to visit to discover the environment that inspired many writers, including Yeats who mentioned the Estate of Coole in several poems. The Gregory's house in Coole was destroyed after Lady Gregory's death but some buildings remain (including a new visitor centre with an exhibition on Lady Gregory's life in Coole) and trails permit visitors to enjoy the nature heritage of the demesne.
- **Thoor Ballylee** is a Norman style tower located near Gort town. Yeats bought it and lived a few years in it with his family at the beginning of the 20<sup>th</sup> century. The tower, belonging to Fáilte Ireland, was used as a museum until recent years but major flooding significantly damaged the building. The structure of the tower and its surroundings have been restored but it is unlikely that the museum will reopen to visitors, because of the significant investments and operating costs that would be needed.
- **Woodville Walled Garden** is also associated with Lady Gregory as her brother lived there at the beginning of the 20<sup>th</sup> century. The site is a remarkable expression of the History of the region. The garden has recently been restored by the owners and is now open to visitors who can discover the reconstitution of a traditional kitchen garden and learn more about Woodville and its rich history.
- **Kiltartan Gregory Museum** is an old school, built at the behest of Sir Gregory, which was saved and restored by a local community in order to preserve the local heritage. The small building is now used as a museum in which the main room is an exhibition of belongings of the Gregory family. The management of this museum is still provided by volunteers.
- **Roxborough Gates** are remains of the house where Lady Gregory was born and where she spent some years of her childhood. The mansion was destroyed in 1922 but the impressive Grand Gates are still extant. A project of restoration is in progress with the support of the Galway Rural Development Company.

Many other historical buildings remain in the lowlands of South-East Galway, but the fact that Lady Gregory and Yeats lived in this area gives it a unique cultural interest. The different remains from the last century through Lady Gregory's life and work are now part of the identity of the region and should be more used as a tourist attraction. A project has recently been initiated by local stakeholders involved in tourism to create a trail that would permit visitors to discover the rich literary heritage of the Gort lowlands. A lot of work remains to be done (the type of trail: bus tour and/or online brochure for a self-driving journey; renovation of the Roxborough Gate; prospects of Thoor Ballyle; opening of a visitor centre on one of the



sites; etc.) but this heritage is actually a significant tourist potential that is under-exploited and is promising to improve the attractiveness of the region.

Tourist potential of the two main towns of the region: Gort and Kinvara

Gort and Kinvara are the two main “urban centres” of the area of study but their respective tourism attractiveness are very different.

Kinvara is located on the Galway Bay, on the coastal road leading to County Clare. This old fishing port has a really picturesque setting, with the view on the Bay and Dunghaire castle. This town is considered as the gateway of the uplands of the Burren, with several informative signs about the trails and the heritage in the area. Several bus tours visiting the North of County Clare stop in Kinvara. Indeed, tourism is already part of the activities of the town with craft shops, B&B and restaurants. Two famous festivals take place in Kinvara every summer, with traditional music and Galway Hookers races (traditional boats used to transport turf to Kinvara). Moreover, a local community started a farmers’ market a few years ago and now, every Friday during the summertime, local producers sell food and craft on the Main Square.

This market was an initiative of local stakeholders following the carrying out of a study a few years ago by the Galway County Council, the Tipperary Institute and the Kinvara Development Plan Steering Group. The result of this study was the publication of the Kinvara Integrated Area Plan which identifies all the development issues of the town (heritage, environment, planning, infrastructure, tourism, economy, etc.) and suggests action plans to implement over the years. This initiative is very positive for the town and participates in giving a good dynamic of development to Kinvara.

On the contrary, Gort is a much less dynamic town in the field of tourism. Several B&Bs, hotels and restaurants can be found in Gort but there are no signs or information available for tourists concerning the region. The town is not included in the Burren from a tourist point of view, even if the potential of the town is significant (strategic localisation, lowlands Burren landscape, Coole Park, Thoor Ballyle, Kilmacduagh, Kiltatran, Gregory Museum). No famous event takes place in Gort during the summer season. The closing down of the factory a few years ago was a hard blow for the town and was not favourable for the implementation of new projects of development. Today, Gort does not have a good reputation as a tourist destination and an important long-term project should be put in place to change this negative image. Indeed, according to the Fáilte Ireland Domestic Tourism Survey 2009, 25% of Irish holidaymakers choose recommendations by family/friends or their own experience as the main reason for choosing a holiday destination.

### *Barriers and challenges to Rural Tourism development*

#### *A lack of integration into the Burren*

The Gort lowlands have a significant tourist potential. The strategic localisation (Connemara, Galway City, Slieve Aughty Mountains, uplands of the Burren), the typical karst landscape, the unique cultural identity, and the remarkable built heritage are significant elements that contribute to its attractiveness. However, this region is located close to several internationally famous destinations with in particular the Burren uplands, Galway City and Connemara. Even if Gort lowlands have their own typical features, it is not sufficient for the region to become a tourist destination in itself. Moreover, this area is part of the Burren. While the

Burren as a tourist destination is limited to the uplands, the geological, biological and cultural delimitation of the Burren goes as far as the town of Ardara. The integration of the County Galway part of the Burren is inadequate and the Gort lowlands do not benefit from its tourist attractiveness and fame. Even locals have mixed feelings concerning their belonging to this region. Several actions in progress prove that the identity of the Burren is changing in the way of a better integration of the lowlands: the communities dealing with heritage conservation already integrate both the lowlands and uplands into their training and conservation projects and a community charter for the Burren is in development (committee: Burren Farming for conservation Programme, The Burren Connect Project, Burren IFA, Burrenbeo Trust Ltd, Galway County Council and Clare County Council). The main objectives of this charter would be to characterise the identity of the Burren region and community and the formulation of a strategy to tackle the issues that the people who live/work in the Burren are facing. These actions are promising but the complete integration of the Gort lowlands will require a major and large-scale project with a strong implication of local authorities and tourism stakeholders.

### *A scale problem*

The actual projects in progress in the area dealing with rural tourism (heritage conservation actions, Lady Gregory and Yeats Trail) are facing scale issues. As this area is not a tourist destination compared to the neighbouring regions, isolated projects are not sufficient to attract a significant amount of tourists and stakeholders are meeting with major problems in developing their businesses. Indeed, the agency in charge of tourism in Ireland, Fáilte Ireland, has recently put in place a “top-destination management” policy. Mainly because of cut-backs, the funds are now focused on the destinations that attract the large majority of tourists. The neighbouring rural regions considered as top-destinations would be: Connemara, the Shannon region and the Burren (uplands).

The area of study is not considered as a main destination on a national scale. But the consequence is that isolated projects like the literary trail cannot benefit from significant help of national organisations such as Fáilte Ireland. Even if local agencies like Galway Rural Development Company provide a vital source of funding to these local projects, their success would need a more global action plan to initiate a dynamic in rural tourism development at a regional scale and bring in a significant amount of visitors. Moreover, there is a lack of co-ordination, communication and structure between local authorities and stakeholders in the region of study. An explanation could be the particular territorial organisation in Ireland: the competencies linked with rural tourism development (planning/rural development/tourism) are shared out by different agencies and at different scales which does not optimise the emergence of inter-competencies regional projects.

### *The tourist offers (accommodation, activities and services) do not stand out*

A factor of success of rural tourism is to provide quality accommodation and services to visitors and make them come and stay in the area. The experience of a farm stay, a B&B or a hotel offering local food, outdoors or educational activities are essential to complement the amenities of the region such as the heritage (natural, built, cultural, etc.). In particular in the region of study where the landscape is not as stunning as in the neighbouring tourist destinations, the need for providing unique and high-quality services is even more important to attract visitors. To this day, the accommodation and activities provided in the region do not stand out and the services offered to visitors (visitor centres, events, tourist shops, etc.) in the area of Gort are under-developed.

### *Conclusion of the diagnosis: SWOT analysis*

STRENGTHS	WEAKNESSES
<p>The region of study has a significant tourist potential: a rich and diversified natural and built heritage, a significant literary interest, picturesque towns, etc.</p> <p>The localization is strategic: between Galway City, the uplands of the Burren and the Slieve Aughty Mountains.</p> <p>This area is well served by transport networks (on the Limerick-Galway axis via the motorway, new train service, less than 45 min from Shannon International Airport)</p>	<p>This region does not have enough typicity to become a destination in itself. Even if it has a significant potential, the landscape is not as stunning as the neighbouring regions (uplands of the Burren, Slieve Aughty or Connemara).</p> <p>There is no coherent and regional tourist policy in the region, involving all the players in the field of tourism. So even if there are already sites with significant tourist attractiveness, the lack of coordination does not permit the region to have an effective visibility.</p> <p>The reputation of the area of Gort does a disservice to its potential. Indeed it is more known as an economic and industrial pole than a picturesque rural town.</p> <p>The tourist offers (accommodation, activities and services) do not stand out and is not a source of attractiveness for the region.</p>
OPPORTUNITIES	THREATS
<p>The region is part of the Burren: it could benefit from the fame and attractiveness of the uplands. Belonging to this strong territorial identity could be a way to bind all the tourist projects under a same name and unify the offer.</p>	<p>Scale problems are a challenge to new tourist products development: for instance the project that is in progress concerning the literary trail is a good idea but it is difficult to get funding and have a significant visibility to attract enough visitors. A tourist product on its own cannot create a real regional dynamism (linked with the lack of coordination).</p>

## **9.5 PROSPECTS OF RURAL TOURISM DEVELOPMENT IN THE AREA OF STUDY**

Considering the conclusions of the diagnosis, several prospects can be suggested within the framework of a rural tourism development project.

### *Create a structure to co-ordinate the tourist products of the region*

The creation of a community in order to group people and projects together across the Gort lowlands would help to structure the tourist opportunities in the area and give it more credibility and visibility. Indeed, such a workgroup would help solve the scale problems that are facing individual projects and would give a structure and a dynamic to the tourism offer of the region. Several very interesting initiatives have emerged in the region (farmers' market in Kinvara, literary trail in the area of Gort) but to have a significant impact on the attractiveness of the area, they should be promoted as a same region instead of isolated projects. The landscape of the Gort lowlands is not sufficient to attract enough visitors so a strong network of tourist products has to be developed to deal with this weakness.

This proposal raises the question of the management of this project: who should lead the workgroup? The question is crucial as it deals with the long term sustainability of the project. A local authority could be in charge at the beginning to initiate the network. But what authority is best for this type of project? Fáilte Ireland is a national agency and is not focused on local development. Galway Council is not officially in charge of tourism but helps local communities with funds and training. Teagasc and Galway Rural Development Company have an interesting regional rooting and expertise but is it their responsibility and do they have enough human and financial resources? Moreover, giving the workgroup its own governance is necessary to ensure its long term sustainability and to get stakeholders involved in the management of the project. This study could be a good opportunity to

organise a discussion group to discuss the type of organisation that could structure the tourist offer and support the development of rural tourism in the Gort lowlands.

Moreover, even if the heritage conservation has to be a pillar of the work of this group, one of the main objectives should be to develop tourism as a source of income and local development. Indeed, it is very different to putting in place projects to protect the landscape and heritage of the region and developing a tourist destination. Only providing tourist products and facilities will generate incomes for locals. The case of the Kiltartran Gregory Museum is a good example: the community was created to save an historical building and protect the heritage linked with Lady Gregory. This objective is now achieved thanks to the remarkable energy and motivation of the volunteers of the community. However the Museum does not attract many visitors because it is not managed as a tourist product. Because of all these years of commitment and the difficulties in finding new sources of funding, the community is now facing a lack of dynamism which make it difficult to keep the place attractive for visitors (improve the exhibition, organise events, etc.). A regional structure dedicated to rural tourism might take over on communities that need help to convert their heritage into a tourist product. However, even if the heritage is seen as a “tourist product”, its conservation is essential as it is key for the long term sustainability of the project.

### *Redefine the Burren “terroir”*

Being really integrated into the unique Irish “terroir” of the Burren can deeply change the prospects of development of the region of study. This point raises the question of the geographical borders of a “terroir” already mentioned in Section 2. A “terroir” is anchored in a geographical area, with its physical and biological characteristics. In the case of the Burren, this area could be restricted only to the uplands as the place of pasture of cattle during the winterage. However, the landscape alone is not sufficient to define a “terroir” and other factors have to be taken into account. Indeed the geology, the biodiversity, the culture and the traditional agricultural practice of the Burren go as far as the town of Ardahan and include the area of study. Redefining the “terroir” of the Burren to change the tourist image restricted to the uplands and really integrating the Gort lowlands are major challenges for the development of the region of study. It has to be a committed policy led among others by local authorities. This project would use the different steps to go from a “terroir” to a tourist destination presented in Section 3, adapted to this particular situation.

**Identification:** The list of features that are part of the tourist potential of the region of study detailed previously is not exhaustive. So a complementary study would be needed to entirely identify the typical features of the region.

**Education:** An educational mission has to be lead to make inhabitants and local communities fully aware of their rich heritage, the significant potential of their region and their belonging to the Burren. This project cannot be achieved without the locals’ sharing the identity of the Burren from North Clare to South-East Galway.

**Sustainability:** Investments should be done by public agencies on the under-exploited sites such as Kilmacduagh or Thoor Ballylee to permit the visitor to fully discover these remarkable heritage sites and optimise their tourist potential. Planning and land settlement projects are also needed to physically bind Gort lowlands and Clare uplands: road signs, informative panels, visitor centre, driving/cycling/walking trails, etc. Moreover, organising events during the summer time is a good way to bring visitors to the area.

**Promotion:** A long-term marketing policy (intended for domestic/international visitors and tourism stakeholders such as bus operators, accommodation providers, etc.) is required to change deeply the common image that reduces the Burren to the uplands of County Clare.

Because of its unfavourable reputation, Gort is worthy of particular attention within this project as it could be seen as an opportunity for a revival of the town. On the other hand, Kinvara is already tourism orientated so less work is needed.

The workgroup presented previously could be the privileged interlocutor to represent the interests of the stakeholders of the region of study, as the “Community of the lowland Burren” for instance. Moreover, this project echoes the Burren Charter currently in progress and should be lead jointly.

#### *Develop a high-quality tourist “offering”*

Despite an improved network and a better integration to the Burren “terroir”, the Gort lowlands will still have to deal with the competition with neighbouring areas with their scenic landscape to make people come and stay in the region. This is the key of a sustainable source of local economic development. That is why the quality of the tourism “offer” is crucial. Providing high-quality accommodation and services incites tourists to choose this particular area. Putting in place such a quality policy requires a training plan intended for businesses of the region of study. The objective would be to develop a tourist “offer” that stands out from ordinary experiences and based on the typicities of the Burren: local food, walks, activities, culture, etc. Several training programmes are already provided by local and national agencies so the “Community of the lowland Burren” could implement at a local scale, with a homogeneous policy designed for the local context. Again this should be seen as a long term project.

## **9.6 SUMMARY AND RECOMMENDATIONS**

Recommendations from academic, expert and the public suggest that with more people living in urban areas all around the world, the appeal of Ireland’s rural and green proposition is likely to increase in response to a greater desire to ‘get away from it all’ and reconnect with a more natural rhythm and pace of life.

Agencies and experts have suggested to CEDRA that it welcomes any initiatives which help to enhance and improve access to rural Ireland for the development of sustainable tourism, and which help to support the priorities of the National Countryside Recreation Strategy prepared by Comhairle na Tuaithe. Fáilte Ireland recommends five main strategic objectives which include:

1. To achieve sustainable and responsible recreation in the countryside
2. To promote caring recreational use of the countryside
3. To develop a national framework that promotes the rights and responsibilities of both owners and users
4. To develop a suitable structure to deliver a national countryside recreation service in a strategic and co-ordinated way
5. To secure a package of funding mechanisms to deliver on the objectives of the strategy

In order to meet these objectives it has been recommended by experts that;

- Consideration should be given to the expansion/ alteration of the Rural Environment Protection Scheme (REPS)/ Agri-Environment Options Scheme (AEOS) to encourage landowners to provide access to the countryside for the purpose of facilitating tourism activities in rural areas. At a minimum it is recommended that:
- Farmers should not be at a disadvantage under these schemes for facilitating recreational activities on their lands and any revised scheme should seek to encourage farmers to proactively participate and facilitate access for tourism and recreation, and that some form of compensation could be provided for this.
- The LEADER Programme should continue to develop and support tourism activities and services. To date, Fáilte Ireland has been restricted in providing matched funding for projects with LEADER companies. A change in this approach would be welcomed to allow key projects to be aligned and existing scarce resources to be leveraged for maximum impact.
- Where possible and where this does not conflict with the provisions of Axis IV, provisions should be made to maximise tourism benefits in rural coastal areas, and to build on the AXIS IV strategies developed by the six Fisheries Local Action Groups set up around the country.
- Rural tourism should also seek to maximise potential benefits from food tourism. Food has a particularly important role in this modern economy, particularly in the development of tourism services. Food tourism is about the range of 'food experiences' available for visitors which forms a vital part of the value network linking local food producers, communities and cultural and tourism entrepreneurs. Growth opportunities in this area can be maximised by expanding the number and variety of authentic, high quality food experiences that are easily accessed by the visitor, for example but not limited to Farms open to visitors; Producers with visitor facilities; Demonstrations of traditional skills/authentic techniques such as smoking, cheese making etc.; and Museums/exhibitions that link the agriculture and food heritage of a region.
- All possible funding streams should consider support packages to stimulate small business start-ups, develop business clusters and grow networks of local guides and operators. This may include financial and mentoring supports as well as bespoke training.
- The importance of supporting the communities to create and build digital strategies will need to be addressed.

In realising the full potential of coastal tourism, it is necessary to identify and develop ambitious projects of scale. The 'Wild Atlantic Way' is a new and innovative project and designed to highlight Ireland's unique geographical positioning along the Atlantic Ocean, and to use this ocean theme as a vehicle to allow tourists understand how the sea shaped our coastal communities, our lifestyle and our traditions. The project has been in development since early 2012 and involves the creation of a themed and integrated driving route along the Atlantic coast of Ireland from Donegal to West Cork. The route is designed to comprise a central spine with a series of loops and spurs off it which encourages tourists to explore all

that the west coast has to offer. It will showcase the best scenery and attractions for visitors with improved on-road infrastructure such as improved viewing points or ‘Discovery Points’ with better interpretation. The central objective of the project is to develop a driving route that is of sufficient scale and singularity to stand out internationally so that in time, the ‘Wild Atlantic Way’ will achieve a recognition and prominence similar to a small group of other internationally known driving routes, such as the Great Ocean Road in Australia or the Garden Route in South Africa. The planned outcomes are greater international visitor numbers to the west of Ireland, longer dwell time in towns and villages along the coast and increased visitor spend. The final 2,500km route was recently decided following a comprehensive public consultation process. The route will include 159 strategically placed “Discovery Points” which are designed to allow tourists to stop and learn about the location, understand the points of geographic, historical, or cultural interest, and hopefully decide to stay a little longer in the area and explore what it has to offer. The response to the project so far has been encouraging. Tour operators, local authorities, business people and local residents have all expressed an interest in becoming involved and in maximising the opportunity presented by this development. Last April, hundreds of overseas tour operators were given an advance preview of the route at Fáilte Ireland’s annual trade fair for international buyers.

Developing routes is an important part of ensuring Ireland is able to provide the leisure tourist with a memorable experience. Work continues on the development of this initiative, and in this regard agencies have claimed that they will continue to work closely with each of the Local Authorities along the West Coast, as well as with the Leader Companies, Údarasna Gaeltachta and the Western Development Commission. It is expected that significant further progress on the development of this project will be made by June 2014.

In addition to this increased focus on the west through the Wild Atlantic Way project, a number of recent projects east of the Shannon have also been developed in recent years with the objective of ensuring that tourism plays a vital role in the rural economy. In particular, the rejuvenation of the Boyne Valley Drive and the creation of the Kildare/Wicklow Grand Tour are two such initiatives. In their planning, these projects have utilised the characteristics of successful rural tourism destinations in that they are destination focussed, contain urban links, are centred around trade networking and clustering, and include elements of entrepreneurship and the utilisation of local champions.

Another recommendation from an academic point of view states that rural tourism needs to be recognised by tourism agencies as a central component of tourism in Ireland. Many methods of support are in place already for businesses (e.g. funding through Fáilte Ireland, LEADER, Commission for European Bankers, inclusion in promotion by Fáilte Ireland and Regional Tourism Authorities, training through various agencies) but a policy for rural tourism is lacking and weakens the visibility of the sector for would-be tourists (O’Connor and Dunne, 2009). More generally, rural tourism needs to be recognised as a form of ‘countryside capital’ (Garrod et al., 2006). Tourism agencies, other relevant public bodies (local authorities, National Parks and Wildlife Service) and tourism providers need to work together to maintain the quality of tourism infrastructure and products in the countryside. Local tourism providers and the public more generally also have roles to play:

- Planning regulations need to be applied strictly to protect the natural and the built environment and complied with;
- Standards of accommodation need to be maintained at a high level, as does food quality;

- A high quality of service and a welcoming attitude towards tourists are essential, if they are to return and recommend a premises or area to others. Providing rural tourism services needs to be recognised as a profession with particular standards, whether operating on a full time or a part time basis.

Fragmentation remains a problem in Irish rural tourism. Methods of overcoming fragmentation are desirable (in addition to a policy framework for rural tourism) (Cawley and Gillmor, 2008b):

- Greater integration between ‘honeypot’ towns and their hinterlands (the proposed loop touring routes off the Wild Atlantic Way may help in this regard along the west coast) (see Saxena et al., 2007 for discussion of integrated rural tourism as a concept);
- The Regional Nature Park in France, which incorporates the range of stakeholders in a particular area in tourism-related development, is an interesting model for integrating pertinent stakeholders (Cawley et al., 2007);
- Continued investment in tourism and hospitality related training and education. There is a well-established record among the Institutes of Technology and FETAC courses in this regard which can be expanded.

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## **Part III. The Local Economy**

## Chapter 10. QUANTIFYING THE EMBEDDNESS OF BUSINESSES IN THE LOCAL ECONOMY<sup>41</sup>

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### 10.1 INTRODUCTION

An objective of local economic development strategies is the establishment of economic growth and job creation in specific local areas. Amongst the goals of the strategy is to create employment, increase incomes, deepen linkages in the local economy to maximise multipliers and to create clusters to increase scale effects from agglomeration.

#### *SME's in the Local Economy*

Small and medium businesses contribute significantly to the Irish economy and can potentially play an important role in returning Ireland to sustainable economic growth. In this chapter, we consider the potential impact business can have on the local economy in rural areas and consider factors that can make these businesses a success.

In 2010, small and medium enterprises (SMEs) represented 99.8 per cent of active enterprises in Ireland, accounting for nearly 195,000 businesses (all figures from CSO, 2012). 69.1 per cent of those employed in Ireland work in small or medium sized businesses, representing over 850,000 workers. SMEs also account for 51.5 per cent of turnover and 46.8 per cent of gross value added (GVA) of businesses in the Irish economy. However, like all other sectors of the Irish economy, SMEs have been heavily affected by the recent economic downturn. Employment in SMEs in 2010 has fallen by 18.2 per cent from 2006 levels, representing a loss of 190,800 jobs, with the construction and industrial sectors suffering the greatest number of losses.

The statistical data shows the importance of SMEs but it is also necessary to acknowledge the intangible ways SMEs contribute to the Irish economy, especially in rural areas. SMEs are regionally spread throughout the country, providing employment and vital services for rural localities. They contribute to building a community and enhancing a location's attractiveness as a place in which to live and do business. Locally trading firms are primarily involved in activities such as retail, construction and transport, as well as business, professional and personal services (Advisory Group for Small Business, 2012).

Despite the difficult economic situation, new firms continue to be established at an impressive rate. It is estimated 2,200 people in Ireland set up a new firm each month in 2011, a considerable increase on the previous year (Fitzsimons & O'Gorman, 2012). Irish entrepreneurs are ambitious, with one in five expecting to have significant jobs growth within five years, a higher level than EU and OECD averages despite the current economic situation in Ireland (General Entrepreneurship Monitor, 2012). In this context, it is important to know if successful small businesses share any characteristics that Irish SMEs can apply in order to grow successfully and create jobs.

Recent research by the ESRI has shown the corrosive effect that lack of demand has had on small businesses. Finding customers has been identified by 38 per cent of Irish SMEs as the

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biggest problem they currently face, compared to 15 per cent of SMEs identifying access to finance as their biggest issue. Spending by Irish consumers has fallen 20 per cent from peak levels, while the savings rate has exploded from pre-recession levels. Although the Government must continue their work in terms of rebalancing the public finances, serious attention must also be paid to reigniting demand in the Irish economy.

Additionally, more can be done to reduce costs for SMEs, especially in the area of rates. Unlike other taxes, rates are paid by companies whether they are profitable or not. One possible solution is to link rates to turnover so that what companies pay in rates is a function of what they earn rather than where they are located. Also, in order to stimulate small towns and rural areas, the taxation structure should be adjusted to reduce the cost of starting up and running small businesses.

### *Measuring the Impact of Local Economic Development*

Place and location are intrinsically important in the development processes (Pike et al., 2006) as understanding spatial and regional economic problems depends upon three dimensions: (1) natural resource advantages, (2) economies of concentration, and (3) costs of transport and communication (Hoover and Giarratani, 1984).

Multiplier or input-output analysis is frequently used as a planning tool in economic development decision making, building on the work of Leontief (1951). Most countries regularly produce Input-Output tables at a national level that describe the interconnections between sectors in an economy and can be used to quantify the multiplier within an economy (Henry, 1972; CSO, 2009). However given different intra-national economic structures, there is a need for sub-national disaggregation (Henry, 1977b). Sub-national models can be used to model local multiplier effects of local economic activity (Frechtling and Horvath, 1999; Druckman and Jackson, 2009).

While there is a relatively extensive literature internationally utilising regional IO models for regional multiplier analyses (Dewhurst et al., 1991), the data requirements can be significant (Dewhurst, 1992) and as a result until relatively recently there has been relatively little work done within Ireland. Fannin and Johnson (2004) constructed a sub-national social accounting matrix for the Border Midland and Western Region and Mac Feely (2011) has generated the first consistent regional input-output tables for Ireland.

However, rural analysis requires more localised models and thus analysts, given the significant data requirements we have opted for a less sophisticated methodology such as economic base or Keynesian income multiplier methods (Mulligan and Gibson, 1994a, 1994b; Mulligan and Kim, 1991).<sup>42</sup>

In this paper we develop some of the evidence base to support rural economic analysis. Although we do not go so far as developing multipliers, we undertake a representative survey of businesses to quantify the spatial distribution of the inputs and outputs of businesses in Ireland. It thus enables us to indicate which types of businesses are embedded more in their local economy in terms of the purchase of inputs and in terms of the sale of goods and services. Utilising this survey, we can differentiate between final demand and businesses to business trade and to decompose these effects by type of geographical location.

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<sup>42</sup> Robison (1997) however describes a methodology for developing community input-output models.

## *Structure of the Paper*

The paper is decomposed into 4 sections. Section 2 describes the data and survey design. It also provides some summary statistics. In section 3, we describe the spatial pattern of outputs, while in section 4, we describe the spatial pattern of inputs. Section

### **10.2 DATA AND SUMMARY STATISTICS**

In order to undertake this analysis, we require a dataset indicating the spatial pattern of outputs and inputs for businesses. As such data is rare, we conducted a random survey of businesses in Ireland. The data was collected by a survey company and research partner, with the data reweighted to produce national totals. There are 1179 firms in the enterprise data. The partners have provided data from 129 firms and the survey company provided data on 1050 firms. It should be noted that the survey was conducted across all industrial types including public services. However farm businesses have been excluded from this study. Industrial category is self-reported in this survey, so it may differ from NACE classifications. For example, Agriculture, Forestry and Fisheries, businesses are classified as those whose primary clients are in these sectors such as Agricultural contractors etc.

The dataset collects data in a number of dimensions:

- Characteristics of the firm, including location, industry, number of employees, turnover, year of establishment
- Inputs, including share by industrial classification by location (categorised into the closest 40km, the rest of the region, the rest of the country, overseas)
- Outputs, including share by industrial classification by location (categorised into the closest 40km, the rest of the region, the rest of the country, overseas)

The survey focused on shares of inputs and outputs by type and location, because of the difficulty in accessing financial data due to commercial sensitivity. However, the industry, turnover and the number of employees gives an idea of the total inputs and outputs.

A small number of very large businesses in the sample skew the results quite significantly. In order to avoid the impact of these outliers given the sample size, the results in this paper are reported excluding 26 firms with turnover of over €250 million.

We were able to geo-reference the survey to the closest electoral district, of which there are over 3,400 in Ireland, which enables us to characterise businesses by the location in which they are based, which is a primary objective of this study.

#### *Summary Statistics*

We classify businesses geographically into 3 zones, city, town and open countryside/village. We define cities in this study as being within the six cities i.e. Dublin, Cork, Galway, Limerick and Waterford. There are 441 businesses located in cities, 419 in towns and 365 in the open countryside (Table 1).

Table 1 describes the share of businesses by industry and the share of employees by industry and location. In each type of area, the sector with the highest share of businesses is Commerce, with between 29 per cent in the countryside and 44 per cent in cities. However as these businesses are often small businesses, the share of employees is only about 10 per cent.

At the other extreme, education, health and social welfare services comprise about 10 per cent of the businesses, but 36 per cent of employment.

**Table 10.1 Summary Statistics: Industrial Shares by Location Type**

	Rural	Towns	Cities	Total	Rural	Towns	Cities	Total
	Share of Businesses				Share of Employment			
Agriculture, Forestry and Fish	5.6	3.8	0.4	3.0	4.9	7.4	0.0	2.2
Industry	8.1	7.3	7.1	7.4	8.5	6.8	3.0	4.5
Building and Construction	8.3	5.4	5.3	6.1	2.1	2.0	1.3	1.6
Commerce	30.0	37.1	43.9	37.3	14.9	11.3	9.5	10.5
Transport, Storage and Comm	5.2	2.7	4.0	3.9	4.6	1.7	4.4	3.8
Public Admin and Defence	0.7	1.3	1.0	1.0	0.4	2.7	1.6	1.7
Educ, Health and Soc. Work	8.4	12.0	9.5	9.9	5.0	33.4	27.3	26.0
Other	33.8	30.4	28.8	30.5	59.5	34.6	52.9	49.7
Total	100	100	100	100	100	100	100	100
Number of Businesses	363	407	429	1199				
Average Number of Employees	20.4	32.0	92.3	50.4				

Source: Teagasc Local Business Survey

Table 2 describes the distribution of turnover in our survey. Rural towns with lower demand have a greater share, 46 per cent of very small businesses with turnover of less than €150000 than towns (36 per cent) and cities (27 per cent). 44 per cent of businesses in cities have turnover of more than €1million, compared with 30 per cent in the countryside and 23 per cent in towns.

**Table 10.2 Distribution of Turnover by Location Type**

	Rural	Towns	Cities	Total
€<50,000	26.2	20.5	10.8	18.9
€50,000 – €150,000	19.9	15.3	16.2	17.1
€150,000 – €300,000	16.2	12.5	11.0	13.1
€300,000 – €1,000,000	14.5	21.8	18.2	18.3
€1,000,000+	23.2	29.9	43.7	32.7
Share of Respondents who answered question	89.5	83.8	80.0	84.2

Source: Teagasc Local Business Survey

Reflecting the difference in turnover in table 9.2, we observe in table 3 that rural firms and businesses have fewer employees at 22 on average than towns (33) and cities (88), with the part time share in towns slightly higher.

**Table 10.3 Employment Characteristics by Location Type**

	Full Time	Part Time (FTE)	Average Employees
Rural	18.4	3.2	21.5
Towns	26.7	5.9	32.6
Cities	76.4	11.5	87.9
Nation	43.1	7.2	50.4

Source: Teagasc Local Business Survey

### 10.3 RESULTS 1. LOCATION OF OUTPUT

In this section, we provide statistics relating to the spatial distribution of outputs. Table 4 describes the main market of firms by location. For 64 per cent of rural businesses, the largest market is within 40km of the business, while for 75 per cent of towns, the local market is their largest, compared with 64 per cent for urban businesses. Thus firms in towns and rural areas rely on local business demand to a greater extent than city firms or firms in the countryside.<sup>43</sup> Only about 6-8 per cent of businesses have the export market as their primary market.

However the situation is more complicated than this. Most businesses are small and most of these sell locally. However larger businesses are more likely to sell their produce elsewhere. Weighting by the number of employees, if output is proportional to the number of employees, then weighting by the number of employees is akin to saying what share of output from these areas is sold locally; thus the greater the number of employees, the higher the weight.

Weighting by the number of employees, we find that firms in the open countryside 47 per cent of employees work in businesses that sell into the local market, while 61 per cent of employees in towns and 34 per cent in cities work in businesses that are primarily in the local economy. Interestingly, 17 per cent of employees working in businesses located in towns have the export market as their primary market, which is higher than the share of businesses in the cities, which is about 16 per cent.

The differences in export shares may seem surprising between cities and towns. We find that the dataset includes a relatively large number of firms in towns with very high export shares. In many cases, these firms rely on exports for over 80 per cent of their demand. The largest exporting firms are located in areas such as Shannon and a number of towns with populations in the region of 20 to 30 thousand. There are however a number of rural firms in the data which are heavily dependent on exports and are located in villages and small towns throughout the country. Many of these firms appear to be principally involved in Agriculture, Forestry and Fish or manufacturing including the manufacturing of food and beverages.

**Table 10.4 Main Output Market by Location Type**

	Rural	Towns	Cities	Nation	Rural	Towns	Cities	Nation
	Weighted by Business				Weighted by Worker			
Within 40KM	64.1	75.4	64.1	67.9	46.6	60.7	34.2	41.5
Elsewhere in Region	11.1	6.2	6.4	7.7	10.3	8.2	21.3	17.1
Rest of Ireland	18.3	12.2	21.9	17.6	33.3	13.9	28.2	25.7
Exported	6.6	6.2	7.6	6.8	9.7	17.2	16.3	15.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Teagasc Local Business Survey

It may be the case that businesses located in cities are in a relatively strong position to attract demand from outside of their immediate geographical space but within the region. For example, firms located in Galway city may find it relatively easy to attract demand from firms located in Mayo. The opposite may be true for firms located in Mayo who may find it relatively difficult to attract demand from firms outside of their own immediate locality.

<sup>43</sup> It should however be noted that the average share of output is lower as those businesses whose main market is local often sell outside of the immediate vicinity, while those whose primary market is the export market are less likely to sell in the local economy.



Another example could involve business between a firm in Clonakilty and a firm in Cork city which is more than 40km away. The firm located in Clonakilty may require an input from a firm in Cork city. This input for the Clonakilty firm is classified as an output for the firm in the city. The output from the city firm is not however, classified as being 'local' due to the distance between the businesses. This example is likely to be common throughout the country as city-based firms can rely heavily upon demand from towns within their region but further than 40km from their location. Other factors are clearly important such as the scale of the individual firm or the degree to which firms are specialised in particular products or services.

Thus rural firms appear to be more reliant on demand from their immediate geographical surroundings than town and city firms, while most firms in all locations are most reliant on the local market. Given the disproportionate impact of the economic recession in terms of employment (O'Donoghue and Geoghegan, 2013) and in terms of consumer spending in small towns (Carey et al., 2013), combined with the reliance of most businesses on the local economy, we see the localised vicious cycle created by the downturn. Thus most rural and town businesses are reliant on the local economy, which has been hit more deeply.

In table 5, we report the output shares for each industry group by location type. This table shows that there are large differences between industries in terms of the reliance upon local demand for outputs. We note again that businesses are weighted by employment, thus the distributions reflect the share of workers rather than the share of businesses. Within the agricultural sector, 70 per cent of the workers in rural areas work in businesses whose primary market is the local market, while 67 per cent in the towns have a primary export market, reflecting the divide between production and processing. Amongst manufacturing, the export share is highest in towns, reflecting the types of businesses that have been attracted by FDI as well as concentrations in locations like Shannon.

There is a strong difference between cities and towns and rural areas in terms of commerce and transport, with the former primarily serving the rest of the country, while the latter two serve the local area. This reflects the synergies between cities and their surrounding hinterlands. Construction is predominantly a local business in terms of outputs. In terms of public administration, the pattern is more similar between towns and cities, serving as administrative hubs for the surrounding area, while social services are more spatially clustered on the immediate vicinity. For the other category that includes hotels and restaurants, towns are more likely to serve the local market, while in cities and rural areas, their focus is broader.

**Table 10.5 Main Output Market by Sector and Location Type**

Sector	Within 40km			Rest of Ireland			Export		
	Rural	Towns	Cities	Rural	Towns	Cities	Rural	Towns	Cities
Agriculture, Forestry and Fish	69.9	16.3	44.4	13.0	16.3	55.6	17.1	67.4	0.0
Industry	17.1	9.8	27.6	40.8	23.9	35.2	42.1	66.3	37.2
Building and Construction	65.8	47.1	57.1	34.2	52.9	42.9	0.0	0.0	0.0
Commerce	63.8	73.5	41.9	36.1	6.0	51.3	0.1	20.5	6.8
Transport, Storage and Comm	74.9	82.9	16.1	14.5	17.1	67.3	10.6	0.0	16.6
Public Administration	100.0	30.3	25.8	0.0	69.2	74.2	0.0	0.6	0.0
Educ, Health and Soc. Work	99.1	95.4	64.1	0.8	4.6	35.9	0.1	0.0	0.1
Other –Inc. Hotels & Rest.	38.2	52.7	19.2	56.5	45.1	54.6	5.4	2.2	26.2
Total	46.6	60.7	34.2	43.7	22.2	49.5	9.7	17.2	16.3

Source: Teagasc Local Business Survey

Note: Weighted by number of workers

**Table 10.6 Share of Outputs to Business and Households by Sector and Location Type**

Sector	Business to Business				Business to Household			
	Rural	Towns	Cities	Nation	Rural	Towns	Cities	Nation
Agriculture, Forestry and Fish	70.0	83.9	23.7	79.7	30.0	16.1	76.3	20.3
Industry	85.6	86.8	91.6	88.6	14.4	13.2	8.4	11.4
Building and Construction	51.3	72.6	92.6	80.5	48.7	27.4	7.4	19.5
Commerce	83.3	60.4	73.0	72.0	16.7	39.6	27.0	28.0
Transport, Storage and Comm	89.7	86.5	80.7	82.5	10.3	13.5	19.3	17.5
Public Administration	27.6	35.0	38.3	36.9	72.4	65.0	61.7	63.1
Educ, Health and Soc. Work	2.8	4.8	9.1	7.8	97.2	95.2	90.9	92.2
Other –Inc. Hotels & Rest.	33.4	46.6	60.9	54.8	66.6	53.4	39.1	45.2
Total	50.1	41.6	49.6	48.0	49.9	58.4	50.4	52.0

Source: Teagasc Local Business Survey

Note: Weighted by the Number of Workers

Table 6 shows the percentage share of output sold to Businesses and households. The average firm (again weighted by number of employees) sells 48 per cent of output to other businesses and 52 per cent to households. This varies considerably according to industry. Almost all of the industry and transport output is sold to other businesses while the vast majority of output from Educ, Health and Soc. Work goes directly to households. For agricultural enterprises, we find that 80 per cent is sold to other businesses. The Other sector that includes hotels and restaurants varies, with a third going to businesses in rural areas, but 61 per cent in cities.

**Table 10.7 The Dominant Business to Households Markets by Location Type**

Sector	Within 40KM	Elsewhere in Region	Rest of Ireland	Exported
Agriculture, Forestry and Fish	95.2	4.4	0.4	0.0
Industry	84.3	1.5	9.8	4.3
Building and Construction	64.2	5.6	30.1	0.0
Commerce	74.1	12.2	9.1	4.6
Transport, Storage and Comm	86.7	0.2	12.2	0.9
Public Administration	45.8	24.1	29.9	0.2
Educ, Health and Soc. Work	77.1	11.3	11.7	0.0
Other –Inc. Hotels & Rest.	46.4	21.9	13.8	17.8
Total	61.9	15.6	12.9	9.5
Total-Rural	70.0	9.9	16.8	3.4
Total-Towns	80.6	4.4	7.6	7.4
Total-Cities	54.3	20.4	13.9	11.3

Source: Teagasc Local Business Survey

Note: Weighted by the Number of Workers

In table 7, we report the primary markets for business to household output. We find that 62 per cent of workers are employed in businesses whose dominant business to households market is within 40km of the firm. It compares to 54 per cent for urban-based firms, 70 per cent for rural areas and 81 per cent for towns. This is unsurprising given that cities have the capacity to attract regular and occasional visits from people residing well outside of the city in question.

A comparison of table 5 and table 7 shows the intuitive result that household demand is more local on average than business demand. While the primary market for business is the local market for 62 per cent of workers, this compares to 41.5 per cent for business to businesses in total. Rural business to business markets are more likely to be outside the local market than business to households (70 per cent compared with 46.6 per cent) as is the case for cities (54

per cent compared with 34 per cent). Meanwhile business to business and business to household are predominantly local for towns (81 per cent compared with 61 per cent), again reflecting the role that towns play in serving their local economy.

While most business to household is local, some sectors like the Other (incorporating hotels and restaurants) and public administration have a wider footprint. Although not reported here, we find that the city, town, rural divide is maintained across individual sectors, although business to household construction is much more reliant on the local market than those in towns and cities.

The statistics for rural agricultural enterprises in relation to output rather than primary market are quite interesting in that these firms benefit from a very significant level of demand from households outside of their region. Roughly two-fifths of that household demand comes from outside of the firms region. A closer inspection of the data reveals that the agricultural enterprises, with the most reliance on household demand are primarily located outside of the large towns. We find that this is being driven by a relatively small number of firms located in relatively small towns with populations of about 5,000 people. These firms are capable of operating at a national level and do not rely heavily on local demand for their output.

#### 10.4 RESULTS 2. LOCATION OF NON-LABOUR INPUTS

In this section, we turn our attention to the input demand footprint of businesses. In our analysis, we focus on the source location of non-labour inputs as distinct from all input. In addition, we exclude profits and depreciation of the capital stock. This means that output shares and non-labour input shares can diverge significantly.

**Table 9.8: Primary Non-Labour Input Market by Location Type**

	Within 40KM	Elsewhere in Region	Rest of Ireland	Imported	Total
Rural	44.6	6.9	25.9	22.5	100.0
Towns	56.4	10.2	26.2	7.1	100.0
Cities	59.1	6.9	23.7	10.3	100.0
Nation	56.7	7.6	24.5	11.1	100.0

Source: Teagasc Local Business Survey

Note: Weighted by the Number of Workers

Table 8 shows that urban (both town and city) firms are much more dependent upon local suppliers than rural firms. Town firms rely upon local suppliers for 56 per cent of their inputs, city firms rely on local markets for 56% while rural firms rely upon local suppliers for 45 per cent of their inputs. Comparing with the dominant markets for outputs in table 4, we find that the local market has a similar share in both towns and rural areas. For cities however the share is substantially higher than for outputs. In the case of both towns and cities export markets are relatively more important than import markets, reflecting the concentration of the exporting sector in these towns. It should be noted however, that this study ignores issues such as transfer pricing, focusing primarily on merchandise and service inputs and outputs.

**Table 10.9 Share of Inputs by Industry Group among Urban firms**

	Rural				Towns				Cities			
	Within 40KM	Elsewhere in Region	Rest of Ireland	Exported	Within 40KM	Elsewhere in Region	Rest of Ireland	Exported	Within 40KM	Elsewhere in Region	Rest of Ireland	Exported
Agriculture, Forestry and Fish	33.7	59.7	2.7	4.0	28.3	43.3	16.5	12.0	55.6	0.0	31.1	13.3
Industry	6.0	18.1	14.9	61.1	48.0	11.8	7.2	32.9	59.4	2.9	4.9	32.8
Building and Construction	61.6	13.4	18.4	6.5	41.2	4.7	38.0	16.1	87.9	2.3	4.5	5.3
Commerce	22.8	3.5	49.4	24.4	59.5	5.4	23.1	12.0	37.6	21.6	10.2	30.7
Transport, Storage and Comm	80.4	2.4	11.8	5.4	9.8	3.9	86.4	0.0	60.4	0.0	20.9	18.6
Public Administration	75.6	24.4	0.0	0.0	99.4	0.0	0.0	0.6	76.5	12.3	11.2	0.0
Educ. Health and Social Work	93.6	2.6	3.0	0.8	50.5	7.0	40.3	0.1	61.4	0.3	22.7	15.6
Other –Inc. Hotels & Rest.	50.1	2.3	25.3	22.3	69.8	6.9	18.6	4.7	60.7	8.5	28.9	1.8
Total	44.6	6.9	25.9	22.5	56.4	10.2	26.2	7.1	59.1	6.9	23.7	10.3

Source: Teagasc Local Business Survey

**Table 10.10 Input Shares by Industry Group for Rural Firms**

	Share of Inputs from this Industry							
Industry	Agriculture	All Manufacturing	Building	Commerce	Transport, Storage and Communications	Public Admin	Education, Health and Social Work	Other inc. Hotels and Restaurants
Agriculture, Forestry and Fish	79.7	0.4	0.8	4.1	4.6	0.1	5.4	8.2
Industry	12.0	69.3	10.8	20.1	18.2	27.3	25.9	16.4
Building and Construction	1.2	5.5	67.2	3.9	13.5	12.8	14.4	8.0
Commerce	2.3	11.1	12.0	47.8	28.0	14.1	23.2	30.2
Transport, Storage and Comm	3.1	6.8	4.2	10.1	31.9	12.8	8.1	6.9
Public Administration	0.0	0.8	0.5	1.8	0.5	13.1	4.2	1.3
Educ. Health and Social Work	0.6	0.2	1.0	1.0	0.1	4.2	17.3	1.5
Other –Inc. Hotels & Rest.	1.0	6.0	3.4	11.0	3.1	15.6	1.4	27.4
Total	100	100	100	100	100	100	100	100

Source: Teagasc Local Business Survey

In table 9 we decompose the main input markets by industry. No significant pattern arises. Only for public administration, whose inputs are largely local, there is a consistent pattern. The main conclusion therefore is that utilising national input-output tables is not sufficient for local area analysis as there is substantial heterogeneity across different areas.

### *Share of Inputs by Industry*

We attempt in Table 9.10 to decompose the share of inputs by industry using our survey. Appendix 1 further decomposes this into rural areas, towns and cities. It represents the share of inputs for each industry coming from each other sector. Although not reported here, this can be further decomposed into the distance from the business. It is this akin to the A matrix in the Leontief Inverse matrix.

For Agriculture, Industry, Construction and Transport, more than half of their inputs comes from the same sector. This is by and large true when one decomposes by geographical area. However for the public and service sectors, this pattern is less clear with a much greater variety of inputs from many different sectors. Again there is substantial variability across geographical areas.

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## Appendix 1

**Table 10.11 Shares of Inputs by Industry by Location**

Rural								
	Agriculture, Forestry and Fish	Industry	Building and Construction	Commerce	Transport, Storage and Comm	Public Admin.	Educ, Health and Soc. Work	Other – Inc. Hotels & Rest.
Agriculture, Forestry and Fish	67.6	0.1	3.2	4.1	1.1	0.0	6.0	10.5
Industry	24.2	74.4	14.8	20.0	11.5	0.0	9.2	27.4
Building and Construction	0.3	4.0	62.7	1.3	0.0	0.0	6.3	2.8
Commerce	3.3	12.7	9.2	58.2	66.2	90.9	28.2	26.0
Transport, Storage and Comm	1.8	5.7	1.6	6.3	17.2	5.2	6.8	7.3
Public Admin.	0.0	0.0	0.8	3.8	2.7	3.9	6.9	1.0
Educ, Health and Soc. Work	2.2	0.3	0.1	3.8	0.1	0.0	33.4	1.3
Other – Inc. Hotels & Rest.	0.6	2.8	7.6	2.0	1.2	0.0	3.3	23.8
Total	100	100	100	100	100	100	100	100
Towns								
	Agriculture, Forestry and Fish	Industry	Building and Construction	Commerce	Transport, Storage and Comm	Public Admin.	Educ, Health and Soc. Work	Other – Inc. Hotels & Rest.
Agriculture, Forestry and Fish	84.9	1.2	0.6	9.9	0.4	0.4	9.0	6.7
Industry	7.4	80.9	24.3	16.5	16.1	39.9	15.1	12.5
Building and Construction	1.6	1.9	37.3	7.4	0.6	29.9	14.8	5.8
Commerce	1.6	12.0	30.0	35.6	37.6	1.9	24.8	34.6
Transport, Storage and Comm	3.4	2.9	5.3	6.6	28.7	2.8	6.7	11.1
Public Admin.	0.0	0.1	1.0	1.9	0.7	24.5	2.5	5.2
Educ, Health and Soc. Work	0.0	0.0	0.2	1.0	0.9	0.3	25.6	0.8
Other – Inc. Hotels & Rest.	1.0	1.0	1.3	21.0	14.9	0.3	1.2	23.3
Total	100	100	100	100	100	100	100	100



Cities								
	Agriculture, Forestry and Fish	Industry	Building and Construction	Commerce	Transport, Storage and Comm	Public Admin.	Educ, Health and Soc. Work	Other – Inc. Hotels & Rest.
Agriculture, Forestry and Fish	19.3	0.1	0.2	1.8	5.8	0.0	4.0	8.1
Industry	17.2	57.8	3.0	21.5	19.8	21.5	30.8	15.0
Building and Construction	0.0	8.9	83.5	3.4	17.7	3.8	14.5	9.5
Commerce	28.6	9.5	3.8	49.5	19.4	17.1	22.4	30.2
Transport, Storage and Comm	12.9	10.3	4.4	12.5	35.2	18.9	8.8	6.0
Public Admin.	1.8	1.9	0.2	1.2	0.0	7.2	4.7	0.5
Educ, Health and Soc. Work	3.6	0.2	1.7	0.2	0.0	6.6	13.4	1.8
Other – Inc. Hotels & Rest.	16.7	11.4	3.2	9.8	2.0	25.0	1.4	29.0
Total	100	100	100	100	100	100	100	100

## Chapter 11. RURAL AND URBAN HOUSEHOLD CONSUMPTION BEHAVIOUR IN IRELAND

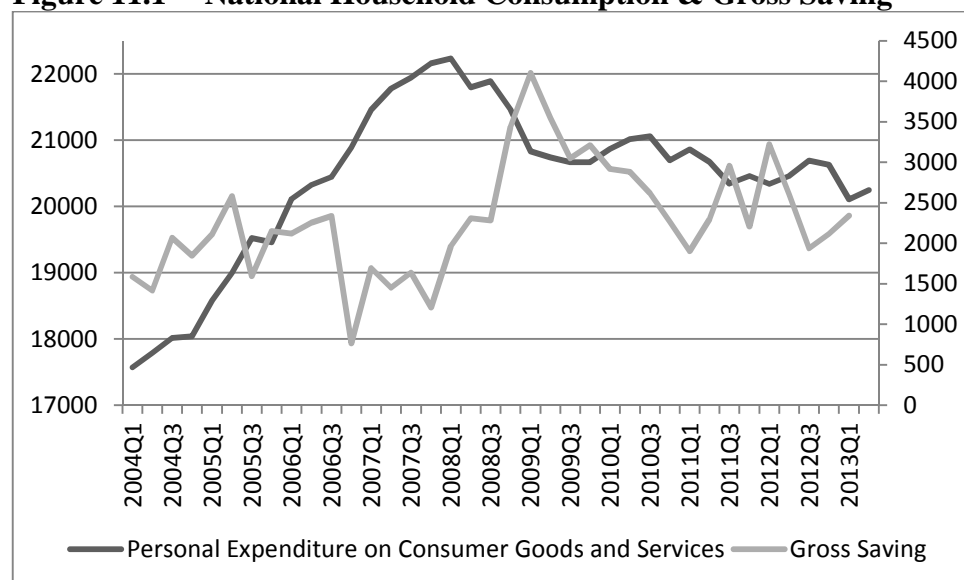
Mary Carey, Cathal O'Donoghue, Jason Loughrey and David Meredith

### 11.1 INTRODUCTION

In this paper several strands of research are combined to shed some light on the location of household consumption. The impact of the financial crisis, in terms of depleted house prices, and increased savings rates, on household consumption in local areas will also be considered. An overview of the economic downturn and the importance of small towns are briefly discussed by way of introduction. Section 2 provides a brief outline of the related literature. Section 3 provides background information and some description statistics on the data utilised in the analysis (Teagasc Location of Consumption Survey, National Budget Survey and Census 2011 Small Areas Population Statistics). Section 4 provides the results of the analysis on the location of spending. While section 5 details the impact of the financial crisis and finally section 6 outlines the main conclusions and direction for future research.

The fall in consumption levels since the onset of the financial crisis is an on-going drag on the domestic economy, and the recovery, in many of the peripheral countries (in particular Spain, Portugal, Greece, and Ireland<sup>44</sup>) most affected by the Euro-Area crisis. Ireland has experienced the largest and fastest decline in per-capita consumption across non-crisis and crisis nations of Europe in the wake of the financial crisis (O'Connell *et al*, 2013).

**Figure 11.1 National Household Consumption & Gross Saving**



Source: CSO Quarterly National Accounts 2004 - 2013

The Quarterly National Accounts (QNA) indicate that gross savings peaked in quarter 1 2009. Gross savings have declined since the peak as personal consumption took a higher share of personal income but remains at an elevated level. Personal

<sup>44</sup> Recent Quarterly National Accounts releases suggest signs of stabilisation in personal consumption levels (CSO, 2013).

consumption peaked in quarter 4 2007 and reached a low in quarter 1 2013<sup>45</sup>. Consumption in Ireland has been on a downward trajectory or relatively modest growth since quarter 1 2008 (see graph 1). The increase in unemployment (peak at 15 per cent in quarter 1 2012) is a primary cause for the decline in consumption. Fiscal consolidation, in terms of increased taxes and reduced social welfare transfers, has also contributed to the decline in consumption. In addition, the impact of a balance sheet recession as households continue to deleverage and/or increase precautionary savings due to the bursting of the real-estate bubble can also be attributed as a key reason for continued subdued personal consumption expenditure. The impact of the financial crisis on the national economy is well documented. However, it should be noted that the financial crisis had a disproportionate impact on rural areas and particularly in terms of its impact on employment in small towns outside of the main cities in Ireland (Loughrey *et al.*, 2013). In this context, the importance of small towns should be considered in light of policy initiatives to kick start the domestic economy.

Small towns have an important functional relationship in linking rural regions and larger cities. Small towns are considered as an urban settlement in a rural region and are also considered as a link between rural regions and larger cities (Lynch, 2005). This functional economic relationship is important from both perspectives – the urban place acts as a central place<sup>46</sup> while the rural place often provides support to the urban centre. This relationship between an urban centre (be it city, town, or village) and its surrounding countryside has evolved in recent years due to socio-economic, transportation (improved road networks) and communication systems changes. It would be interesting to do a time series analysis of spatial consumption behaviour in Ireland during the ‘Celtic Tiger’, the real-estate bubble and financial crisis years to exert the impact of such transportation and communication changes. However, such data is not available with a spatial disaggregation component. Nevertheless, understanding the location of household expenditure will allow for a descriptive examination of the impact of the financial crisis on the local economy.

## 11.2 THEORY: FACTORS AFFECTING CONSUMER SPENDING

There are three important groups of factors that should be considered when analysing spatial household consumption behaviour (Van Leeuwen & Rietveld, 2011); characteristics of the consumer, characteristics of the retail centre(s) including location, and the type of product being purchased and the reason behind the shopping trip. Each of the aforementioned groups of factors have a vast array of literature examining the impact on consumer spending which will be briefly discussed in the subsequent paragraphs.

### *Characteristics of the consumer*

The demographic and socio-economic characteristics of the consumer are an important consideration in understanding spatial household consumption behaviour (Hubbard, 1978). Consumer related factors, such as age, race, family composition, income and wealth, have been studied extensively in an attempt to understand the impact on consumption behaviour. Age is an important factor as it is said to affect the

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<sup>45</sup> Both Q4 2012 and Q1 2013 data releases were subject to large revisions by the CSO.

<sup>46</sup> See King (1984) for a detailed overview on Central Place Theory and the related literature.

level of mobility of the consumer and thus affect the likely distance the consumer will be able/willing to travel to a retail centre (Pinkerton et al., 1995 & Powe et al., 2004). Attachment to the local area is also said to affect consumption behaviour - the longer an individual has resided in the area the more likely they are to shop in the locality (Brown, 1993). Income is another important consumer based factor that affects mobility. The studies on the impact of income make a distinction between in- (town) shopping and out- (of town) shopping. Higher income suggests a higher propensity to shop around and thus travel further (Huff, 1959 & Papadopoulos, 1980). However, the income effect is less evident when in-shopping (Pinkerton *et al.*, 1995). Another important income related factor is the wealth effect (via impact on consumer sentiment). In particular, housing wealth effects are said to have a relatively large effect on the determination of consumer spending (Bostic et al., 2009). The decline in house prices has an effect on consumption decisions through the perceived wealth effect and any possible constraints in borrowing (Campbell & Cocco, 2007). There is a strong link between house prices and saving behaviour (Engelhardt, 1996 & Carroll, 1992). According to the 'Life Cycle Hypothesis of Saving' households build up a stock of assets as they age to smooth consumption over their lifetime. A household wealth appreciation/depreciation (i.e. a rise/decline in house prices) can reduce/increase 'active' saving (Modigliani, 1966). A spatial variation in the wealth effect, and the impact on precautionary savings, would translate through the differing market prices between urban and rural property markets (further discussion in section 6).

#### *Characteristics of the retail centre*

Supply side factors also affect the behaviour determining the location of household consumption, such supply side factors include, the distance to the shop or retail centre, and the attractiveness of the destination shop or retail centre. The further the individual has to travel to the shop or retail centre the less likely they are to travel there – the measurement of distance (road, straight line, cognitive) did not affect this result (Cadwallader, 1975). The attractiveness of the destination, in an attempt to reduce the possibility of an unsuccessful trip, also has an effect on spatial household consumption behaviour. Different proxies have been used to estimate attractiveness such as accessibility, quality of service provided (i.e. parking facilities used by Gorter et al., (2003)), and the price and assortment of products supplied (i.e. size of the store first used by Huff (1964) and subsequently Schenk et al. (2007) used available floor space).

#### *Type of product*

Finally, the third set of factors which should be considered when analysing spatial household consumption behaviour relate to the type of product being purchased and the reason behind the shopping trip. The different reasons for shopping can be categorised as “run, fun, and goal” shopping (Gorter et al., 2003). Shopping on the run relates to purchasing everyday items and is most likely to occur close to the place of residence or place of work (Van Leevan & Rietveld, 2011). Fun shopping is associated with shopping for pleasure or socialising and is most likely to occur in areas with a wide variety of shops (Schenk et al., 2007), while goal shopping relates to predetermined purchases such as durable expenditures.

### **11.3 METHODOLOGY, DATA AND SUMMARY STATISTICS**

This research utilises a range of spatially disaggregated data including the CSO Household Budget Survey, Census 2010 Small Area Population Statistics (SAPS) and a Teagasc Location of Consumption Survey.

### *Small Area Population Statistics*

Small Area Population Statistics are Census 2011 statistics produced for a range of geographical levels from state to small area and electoral district level. This level of disaggregation will provide information on the impact of the financial crisis on rural and urban areas. SAPS provide detailed information on population, employment and unemployment levels.

Employment increased substantially in small-medium towns, villages and the open countryside during the property induced bubble years (see table 10.1). This is in line with expectations given the significance of the construction sector (and subsequent decline) in employment across Ireland during the 2004 – 2007 period (Morgenroth, 2008 & Meredith, 2012). Morgenroth (2008) showed that agriculture and construction are the most dispersed sectors across the country while other sectors (such as chemicals and financial services) are more concentrated in urban areas.

**Table 11.1 Spatial Distribution of Population and Employment**

	Population Share	Employment Rate		Unemployment Rate <sup>47</sup>	
		2006	2011	2006	2011
Open Countryside	0.01	0.54	0.49	0.03	0.09
Villages (200-1499)	0.29	0.55	0.49	0.03	0.10
Towns (1500-2999)	0.08	0.55	0.49	0.04	0.11
Towns (3000-4999)	0.05	0.58	0.50	0.04	0.11
Towns (5000-9999)	0.09	0.58	0.50	0.05	0.12
Towns (10000+)	0.15	0.57	0.50	0.05	0.11
Waterford City	0.01	0.52	0.45	0.06	0.13
Galway City	0.02	0.55	0.51	0.05	0.11
Limerick City	0.01	0.48	0.39	0.06	0.13
Cork City	0.03	0.48	0.42	0.05	0.11
Dublin City	0.12	0.56	0.51	0.05	0.10
County Dublin	0.16	0.60	0.54	0.04	0.09
Country	1.00	0.56	0.50	0.04	0.10
Countryside	0.30	0.54	0.49	0.03	0.10
Towns	0.36	0.57	0.50	0.04	0.11
Cities	0.34	0.53	0.47	0.06	0.11

Source: CSO Small Area Population Statistics

The employment rate in towns declined by the largest percentage (from 57 per cent in 2006 to 50 per cent in 2011) compared to the percentage decline for countryside, cities and the entire country. In addition, the unemployment rate increased by the largest percentage (from 4 per cent in 2006 to 11 per cent in 2011) in towns and in the countryside (from 3 per cent in 2006 to 10 per cent in 2011) in comparison with the

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<sup>47</sup> Information derived from identical questions in the census and QNHS for the same year may show appreciable differences due to the broader questions in the QNHS. For example the Census recorded an unemployment rate (based on Principal Economic Status) of 19.0 per cent in 2011, compared with the official rate (based on ILO criteria) of 14.3 per cent.

increase in cities (from 6 per cent in 2006 to 11 per cent in 2011) albeit cities were starting at a higher base.

**Table 11.2 Distribution of Net Jobs**

	2006	2011
Open Countryside	-0.27	-0.22
Villages (200-1499)	-0.26	-0.24
Towns (1500-2999)	-0.11	-0.11
Towns (3000-4999)	-0.07	-0.06
Towns (5000-9999)	-0.02	0.01
Towns (10000+)	0.02	0.07
Waterford City	0.22	0.12
Galway City	0.17	0.21
Limerick City	0.17	0.24
Cork City	0.19	0.28
Dublin City	0.17	0.22
County Dublin	-0.14	-0.09
Total	-0.07	-0.04
Rural	-0.30	-0.25
Towns	-0.03	0.00
Cities	0.04	0.09

Source: CSO Small Area Population Statistics

Note: Net Jobs = Number of Jobs – Number of People in Employment

On the related topic of net jobs (net jobs equals the number of jobs minus the number of people in employment)<sup>48</sup> also provided by SAPS (see table 10.2). On average, smaller locations are net commuting out, while the bigger locations have net commuting in. The data refers to averages, as there are many small towns that are net commuting in, particularly in remoter areas. On average therefore smaller towns have a higher propensity to be net commuting out and thus are dormitory locations, with predominantly businesses supplying the needs of the population, with most people commuting elsewhere for employment.

### *Household Budget Survey*

Detailed household income and expenditure is collected by the CSO in the Household Budget Survey (HBS) for the purposes of updating the weighting basis of the Consumer Price Index. From the Household Budget Survey (see table 10.3) it would appear that disposable income is lower in rural areas (€8548 in 2004/5) than in urban areas such as Dublin (€12932 in 2004/5). However, this variation would be reduced once equivalence scales (factors such as size of the household and the age of its members) are applied. The HBS provides information on the annual household income which appears skewed towards lower income bands – see figure 2. The Household Budget Survey also provides information on the share of gross income spend on a broad range of categories which will be discussed in section 5.

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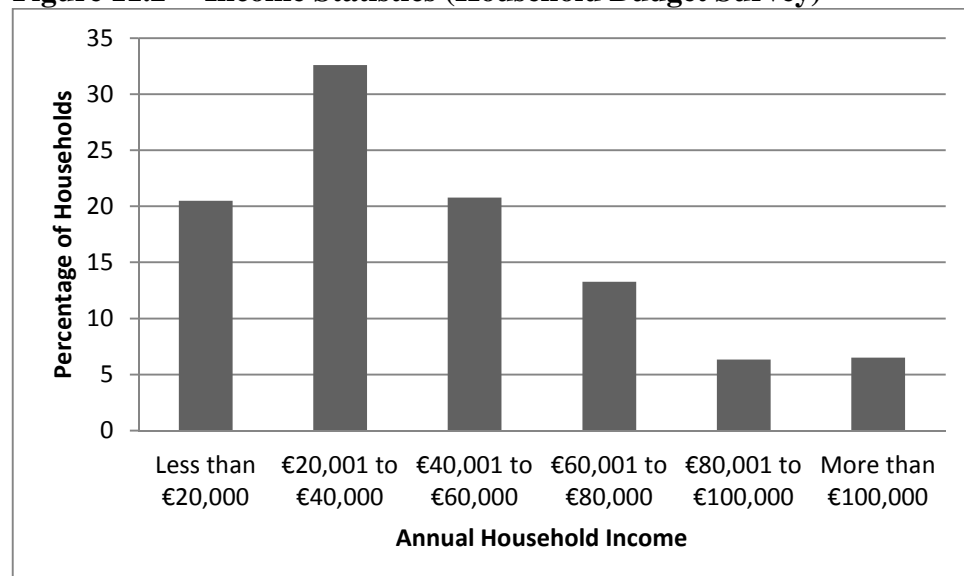
<sup>48</sup> There are slight differences between the total number of jobs and the numbers in work due to non-reporting in the data. We have adjusted the data to ensure the total number of jobs equals the number of those in employment.

**Table 11.3 Summary Statistics of Disposable Income (Household Budget Survey)**

2004-05		2009-10	
Location	Disposable Income	Location	Disposable Income
<i>Cities</i>			
Dublin metropolitan area	12932	County Borough	11998
		Suburbs of County Boroughs	11950
Towns with more than 20,000	9509	Environs of County Boroughs	10200
Towns with 3,000 - 20,000	9075	Towns 10,000+	9545
		Towns 5,001 - 10,000	10578
Towns less than 3,000	8636	Towns 1,000 - 5,000	10064
		Mixed Urban/Rural Areas	8804
Rural households	8548	Rural Areas	8322
Total	9830	Total	10126

Source: CSO Household Budget Survey

**Figure 11.2 Income Statistics (Household Budget Survey)**



Source: CSO Household Budget Survey

### *Teagasc Location of Consumption Survey*

The Teagasc Location of Consumption Survey asks households to report the distribution of consumption classified by category of economic activity and by location (within 10km, between 10 and 40km, elsewhere in the region, elsewhere in the Republic of Ireland (ROI), or elsewhere in the world (ROW)). The following section outlines the characteristics and further information on the survey data.

The data is reasonably representative which includes data from 24 counties in the Republic of Ireland. Three counties are not represented; Carlow, Laois, and North Tipperary. There are a total of 814 individuals in the dataset. All 814 individuals are either solely or jointly responsible for the decision-making process relating to consumption of goods and services for the household. In the dataset the households vary in size between 1 and 8 members; 683 (84 per cent of the dataset) individuals are

part of a household of four or less members while 131 (16 per cent of the dataset) individuals are part of a household of five or more members.

**Table 11.4 Summary Statistics Consumption Survey**

Location	Population Share
Open Countryside and Village	0.31
Towns (1600-4999)	0.13
Towns (5000-9999)	0.09
Towns (10000-)	0.07
Cities	0.40
Towns	0.29

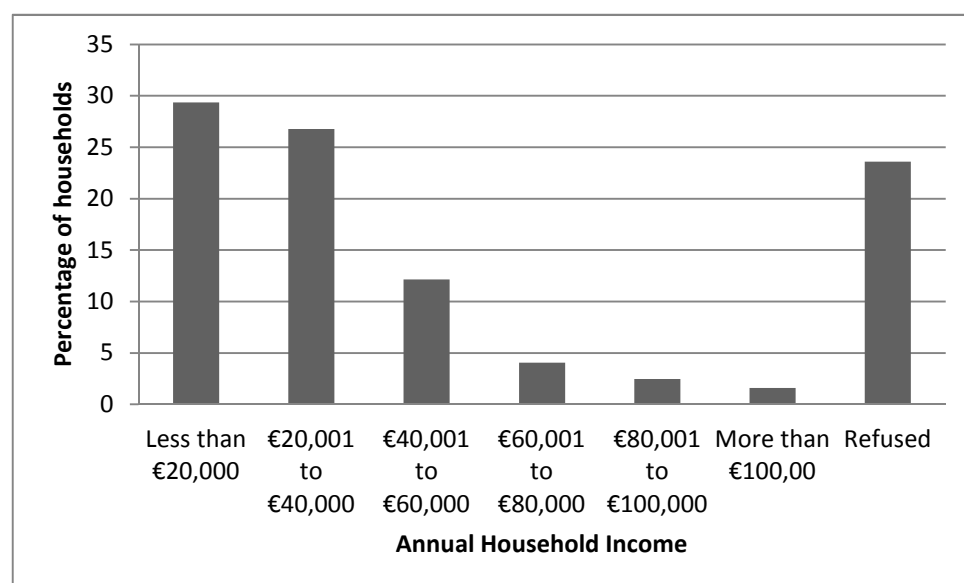
Source: Teagasc Location of Consumption Survey

A total of 461 (or 57 per cent of the dataset) individuals are located in an urban area, while 353 (43 per cent of the dataset) individuals are located in a rural area. Of the 353 individuals located in rural areas, 61 (7 per cent of the dataset) reside on a farm while the remaining 292 (36 per cent of the dataset) are rural based but do not reside on a farm. An important factor of mobility is access to private transport. A total of 698 (86 per cent of the dataset) individuals have access to private transport such as a car or a motorcycle while only 116 (14 per cent of the dataset) individuals sampled do not have access to car or a motorcycle. Access to transport will allow the individual to consume at a variety of distances based on preference as opposed to necessity.

The survey also provides information on the annual household income, as a proxy for household wealth, despite 192 individuals (24 per cent) refusing to provide details on the household income. Of the remaining 622 (76 per cent of the dataset) individuals that reported the household's annual income, the results are heavily skewed towards the lower income bands – see figure 10.3. The high percentage in the less than €20,000 band is inconsistent with the HBS income distribution – see figure 10.2. The high percentage of the people unwilling to disclose the annual household income has presumably affected this distribution. Household tenure also provides another indicator of household wealth. Of the 814 individuals sampled 339 (42 per cent of the dataset) households own the home outright, 242 (30 per cent of the dataset) households have a mortgage, and 233 (29 per cent of the dataset) households rent the property in which the household reside.



**Figure 11.3 Annual Household Income (Survey Statistics)**



Source: Teagasc Location of Consumption Survey

#### 11.4 RESULTS 1. LOCATION OF SPENDING

While it is well known and acknowledged that spending locally will contribute to the locality through jobs and increased activity, very little analysis has been conducted in Ireland on where consumption occurs and the resulting impact on the “local multiplier”. To help us understand the importance of the local economy appendix 1 (tables 1 – 5) displays the distribution of consumption by location and by category. The allocation of household consumption was divided into five broad categories of expenditure in the Teagasc Location of Consumption Survey; main grocery shop, shopping for small items, shopping while travelling to and from work/school, shopping for durable goods and socialising. The respondents were asked to specify the location where the products/services were purchased. Comparing the distribution of consumption by location for each of the broad categories (table 1 to table 5 in appendix 1: located at the end of the paper) shows that there are marked differences between the categories with respect to the spatial distribution of consumption. Among this sample shopping for small items mainly takes place locally while shopping for durable items takes place further from the household, in line with expectations from the literature. However, there are marked divergences from the national trend when the analysis is conducted at a disaggregated rural-urban scale.

##### *Main Grocery Shop*

Individuals, in towns of all dimensions, identified the local distance as particularly significant when asked the location of the main grocery shop. However, interestingly the countryside/village and city based respondents had to travel further to reach their desired main grocery shop – within 1-9km for city dwellers and 10-19km for rural dwellers. The shopping pattern in Dublin City may be affecting the city based result. Supply side characteristics relating to the location and attractiveness of retail centres

would appear to be affecting the shopping behaviour of households in this regard. Over the previous decade new types of shopping facilities, such as low cost supermarket outlets (e.g. Tesco, Lidl, Aldi), have been developed in decentralised locations on the outskirts of large towns, in the suburbs, or in the centre of smaller towns (see Clarke et al., 2004 for a full description of the scale of change in grocery retailing). These new types of shopping facilities are attractive to consumers due to, for example, the quality of parking facilities, the variety of products offered, the often cheaper prices, and the general improved accessibility of the area.

### *Shopping for Small Items*

Across all categories of settlements (countryside/village, towns, cities) purchasing small items, such as bread, chocolate bar, newspaper etc., took place mainly within very close proximity to the household residence. This is particularly true for individuals residing in small and large towns with over 90 per cent of all small item purchases taking place within 1km of the household. The divergence from trend occurs in the countryside/village and city based respondents once again. The towns and city households have considerably higher percentages of households that purchase their small items within the 10km distance. While countryside/village households place significant emphasis within the 19km distance which is as expected given that rural households would have to travel further to reach a shop of any description.

### *Shopping while Travelling to and from Work/School*

Purchases made when travelling to and from work or school mainly also took place in very close proximity to the household. However, there was a greater spatial variation across all distances for each of the categories of settlements than when shopping for small items or when travelling for the main grocery shop. The countryside/village and city based respondents provide an interesting divergence from trend once again reflecting the commuting nature of both categories of settlements. The largest spatial variation across all locations occurs in the countryside/village category with all distances reflected while the cities category is mainly focused in the 0-19km distances.

### *Shopping for Durable Goods*

There is a greater spatial variation in the distance travelled by individuals, across all categories of settlements, when shopping for durable goods, such as furniture, carpets, household appliances, toys, sports equipment, tools and audio-visual equipment, etc.,. In general, the main distance travelled is within the 0-19km range. Medium-large towns and cities respondents identified the local economy as particularly important while the countryside/villages respondents attributed little significance to the local economy when purchasing durable goods. However, over one-third of countryside/village based respondents, while only a tiny fraction of city based respondents, travel greater than 20km to purchase durable goods. Supply side factors reflecting the availability of retail stores selling durable goods would appear to be affecting the shopping behaviour of households. In particular, rural areas are dependent on nearby small-medium sized towns for service provision of such durable goods which reflects one side of the interdependency of rural and urban areas.

### *Socialising*

Individuals, in small/medium/large towns and countryside/village, identified the local economy as particularly significant when asked the location of where they socialise. However, respondents in countryside/village and small towns attribute a higher importance to larger distances when compared with city dwellers in particular. Interestingly, the city respondents attribute the lowest importance to the local distance but the highest importance to the 1-9km distance reflecting the pattern of city centres retaining their dominance in terms of socialising hotspots.

## **11.5 RESULTS 2: NATURE OF CONSUMPTION SPENDING PATTERNS**

The Household Budget Survey collects information on the gross income expenditure by seventeen categories including food and non- alcoholic beverages, public transport, clothing and footwear, health, motor fuel, alcohol, tobacco, and home heating. Comparing the pre-crisis (2004-5) and during crisis (2009-10) distribution of income spends the largest shifts in expenditure across the seventeen categories took place in the food and non-alcoholic beverages (A), Housing Costs (F), and Pubs and Restaurants (N) categories (see table 10.5). The share of income spent on Food and Non-Alcoholic beverages decreased, by 1.3 per cent, on average while the share of income spent on Housing Costs increased, by 4.2 per cent. The Housing Costs variable is an interesting dynamic to consider the effect of the property bubble crash on rural-urban spending patterns; the share of Gross Income spent on housing costs increased most in towns and rural areas despite house prices having a larger cumulative fall in cities.

**Table 11.5 Spending Patterns as a Share of Gross Income**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q
2004-5																	
Country	11.5	0.6	1.2	4.5	3.1	6.3	4.9	5.6	6.1	1.3	1.7	2.7	1.6	10.2	9.2	12.7	14.6
City	9.6	0.7	1.0	4.3	2.3	7.7	4.6	5.5	4.4	1.8	1.6	2.7	1.8	11.0	8.9	12.5	16.4
Towns	12.5	0.6	1.6	4.9	3.5	6.5	4.8	6.0	6.7	1.1	1.8	2.8	1.5	10.0	9.7	13.0	14.5
Rural	13.2	0.4	1.2	4.3	3.7	3.8	5.3	5.5	8.0	0.8	1.8	2.8	1.6	9.5	9.3	12.8	12.0
2009-10																	
Country	10.2	1.1	1.3	3.9	3.4	10.5	3.4	2.1	6.9	1.4	2.5	4.0	1.5	5.0	12.9	9.3	13.7
City	8.8	1.1	1.2	3.9	2.8	11.4	3.1	2.1	4.9	1.7	2.1	3.9	1.7	5.2	12.7	8.5	16.0
Towns	10.5	1.1	1.3	3.9	3.4	11.6	3.3	2.0	7.4	1.4	2.7	4.0	1.4	4.9	12.9	9.7	12.6
Rural	11.7	1.0	1.4	3.9	4.2	8.5	3.8	2.3	9.2	0.9	2.8	4.1	1.2	4.9	13.2	10.0	11.8
Percentage Change 2004-5 to 2009-10																	
Country	-1.3	0.5	0.1	-0.6	0.3	4.2	-1.5	-3.5	0.8	0.1	0.8	1.3	-0.1	-5.2	3.7	-3.4	-0.9
City	-0.8	0.4	0.2	-0.4	0.5	3.7	-1.5	-3.4	0.5	-0.1	0.5	1.2	-0.1	-5.8	3.8	-4	-0.4
Towns	-2	0.5	-0.3	-1	-0.1	5.1	-1.5	-4	0.7	0.3	0.9	1.2	-0.1	-5.1	3.2	-3.3	-1.9
Rural	-1.5	0.6	0.2	-0.4	0.5	4.7	-1.5	-3.2	1.2	0.1	1	1.3	-0.4	-4.6	3.9	-2.8	-0.2

Source: CSO Household Budget Survey

Note: A: Food and Non Alcoholic Beverages; B: Alcoholic Beverages; C: Tobacco; D: Clothes and Footwear; E: Domestic Fuel; F: Housing Costs; G: Household Expenses; H: Health; I: Private Transport; J: Public Transport; K: Telecommunications; L: Recreation and News papers; M: Education; N: Pubs and Restaurants; O: Other; P: Durables; Q: Taxes and Social Insurance Contribution

## 11.6 RESULTS 3: SAVINGS RATE & HOUSE PRICES

### *House Prices*

House prices across Ireland have fallen rapidly since the peak of the real estate boom in 2007. According to Lyons (2013) house prices have fallen by more than 50 per cent between 2007 and 2012. The cumulative percentage change of new house prices shows that the Dublin and Waterford markets have seen the greatest drops while the Galway market has dropped the least. More recently, a two-speed property market has developed in Ireland with house prices in the Dublin rising while house prices have remained broadly flat in the rest of Ireland (Daft, 2013).

**Table 11.6 Cumulative Percentage Change of New House Prices**

	2007	2008	2009	2010	2011	2012	2007 to 2012
National	321616	302124	239003	228369	231301	220224	-34.9%
Dublin	414843	366275	258441	251976	291538	266557	-36.5%
Cork	324737	313052	248933	246403	242957	235547	-29.5%
Galway	296607	284972	226909	216386	228938	218883	-27.5%
Limerick	290997	275214	251484	226752	217518	211055	-30.9%
Waterford	290769	284660	226508	220788	206664	179628	-44.5%
Other areas	295576	279804	229189	218209	216854	207609	-33.1%

Source: Hosted by CSO for The Department of the Environment, Community & Local Government

### *Savings Rate*

As previously discussed savings spiked during the initial years of the financial crisis. However, there is also a spatial variation to this trend (see table 7). There has been a larger rise in savings in small towns, than rural areas or cities, during the 2004-5 and 2009-20 time periods.

**Table 11.7 Savings Rate by Area**

	2004-05		2009-10
Dublin metropolitan area	5.0	County Borough	12.1
		Suburbs of County Boroughs	9.0
Towns with more than 20,000	0.7	Environs of County Boroughs	4.0
Towns with 3,000 - 20,000	-1.3	Towns 10,000+	5.6
		Towns 5,001 - 10,000	6.8
Towns less than 3,000	-1.8	Towns 1,000 - 5,000	13.1
		Mixed Urban/Rural Areas	7.6
Rural households	4.8	Rural Areas	3.4
Country	2.5	Country	8.1
Country (National Accounts)	11.4	Country (National Accounts)	5.9
City	3.6	City	10.5
Towns	-1.4	Towns	7.1
Rural	4.8	Rural	5.9

Source: CSO Household Budget Survey

## 11.7 REFERENCES

## 11.8 CONCLUSIONS AND FUTURE RESEARCH

The analysis presented in this paper provides a descriptive analysis of the trends in household income, employment levels, unemployment levels, house prices, and saving rates at the local level since the onset of the financial crisis in 2008. The declines in employment recorded in the SAPS are unsurprising given the pace of the deterioration of the Irish economy during the crisis years. However, a significant concern is the scale of the decline in employment in towns given the extent to which towns support the economic viability of the surrounding rural areas (rural areas and small towns are mainly net commuting out).

If recent trends in small-medium towns and rural areas, in terms of elevated precautionary savings and flat house prices, continue the implications will be continued low levels of personal consumption expenditure. The spatial variation in consumption patterns observed in this analysis points to the significance of the local economy for most categories of expenditure. Given the likely impact on the “local multiplier” there is a clear need to continue to develop our understanding of the local economy and the importance of small towns as consumption centres.

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## 11.10 APPENDIX 1

**Table 11.8 Main Grocery Shop Distribution by Location**

	Open Countryside and Village	Towns (1600-4999)	Towns (5000-9999)	Towns (10000-)	Cities	Total
Local	0.28	0.64	0.63	0.87	0.43	0.46
1-9km	0.23	0.09	0.11	0.11	0.54	0.31
10-19km	0.34	0.21	0.11	0.02	0.03	0.15
20-29km	0.04	0.04	0.11	0.00	0.00	0.03
30-39km	0.03	0.01	0.01	0.00	0.00	0.01
40-49km	0.01	0.01	0.01	0.00	0.00	0.01
50km+	0.07	0.01	0.03	0.00	0.00	0.03
	1.00	1.00	1.00	1.00	1.00	1.00
Sample Size	246	107	75	55	321	804

Source: Teagasc Location of Consumption Survey

**Table 11.9 Small Shop Distribution by Location**

	Open Countryside and Village	Towns (1600-4999)	Towns (5000-9999)	Towns (10000-)	Cities	Total
Local	0.67	0.92	0.73	0.96	0.60	0.70
1-9km	0.14	0.02	0.13	0.04	0.35	0.20
10-19km	0.15	0.04	0.07	0.00	0.01	0.06
20-29km	0.01	0.01	0.00	0.00	0.00	0.00
30-39km	0.00	0.00	0.03	0.00	0.01	0.01
40-49km	0.00	0.00	0.01	0.00	0.00	0.00
50km+	0.03	0.01	0.03	0.00	0.03	0.02
	1.00	1.00	1.00	1.00	1.00	1.00
Sample Size	251	106	75	55	316	803

Source: Teagasc Location of Consumption Survey

**Table 11.10 Commuting Shop Distribution by Location**

	Open Countryside and Village	Towns (1600-4999)	Towns (5000-9999)	Towns (10000-)	Cities	Total
Local	0.48	0.78	0.74	0.82	0.52	0.59
1-9km	0.14	0.07	0.08	0.05	0.40	0.21
10-19km	0.19	0.09	0.10	0.09	0.05	0.11

20-29km	0.04	0.04	0.00	0.00	0.00	0.02
30-39km	0.03	0.00	0.03	0.05	0.00	0.02
40-49km	0.05	0.00	0.03	0.00	0.01	0.02
50km+	0.06	0.01	0.03	0.00	0.02	0.03
	1.00	1.00	1.00	1.00	1.00	1.00
Sample Size	171	68	39	44	181	503

Source: Teagasc Location of Consumption Survey

**Table 11.11 Main Durable Shop Distribution by Location**

	Open Countryside and Village	Towns (1600-4999)	Towns (5000-9999)	Towns (10000-)	Cities	Total
Local	0.07	0.24	0.30	0.40	0.31	0.23
1-9km	0.13	0.10	0.12	0.13	0.54	0.28
10-19km	0.42	0.31	0.23	0.29	0.13	0.27
20-29km	0.10	0.13	0.22	0.00	0.00	0.07
30-39km	0.13	0.05	0.00	0.13	0.00	0.06
40-49km	0.05	0.07	0.09	0.00	0.00	0.03
50km+	0.10	0.10	0.04	0.05	0.01	0.06
	1.00	1.00	1.00	1.00	1.00	1.00
Sample Size	229	105	69	55	288	746

Source: Teagasc Location of Consumption Survey

**Table 11.12 Main Socialising Distribution by Location**

	Open Countryside and Village	Towns (1600-4999)	Towns (5000-9999)	Towns (10000-)	Cities	Total
Local	0.45	0.70	0.59	0.91	0.43	0.52
1-9km	0.17	0.03	0.21	0.06	0.50	0.28
10-19km	0.23	0.17	0.07	0.02	0.06	0.12
20-29km	0.06	0.06	0.04	0.00	0.00	0.03
30-39km	0.02	0.03	0.00	0.00	0.00	0.01
40-49km	0.02	0.00	0.03	0.00	0.00	0.01
50km+	0.05	0.01	0.06	0.02	0.01	0.03
	1.00	1.00	1.00	1.00	1.00	1.00
Sample Size	215	100	68	53	293	729

Source: Teagasc Location of Consumption Survey

## **Chapter 12. SOCIAL INCLUSION ISSUES IN RURAL AREAS**

Cathal O'Donoghue, John Lennon, Jason Loughrey, David Meredith, Jim Walsh

### **12.1 INTRODUCTION**

One of the main objectives of government in Ireland is “to be recognised as a modern, fair, socially inclusive and equal society supported by a productive and prosperous economy.” One of the primary objectives of economic policy is to improve the welfare or wellbeing of the population and that furthermore, that economic policy should strive to improve fairness and social inclusion within society, particularly in relation to lowering the rate of poverty.

Significant issues in relation to the Social Inclusion objectives are:

- The persistently higher poverty rate in rural areas and the rising poverty rate within rural towns
- The high jobless household rates in Ireland relative to other countries and in particular the higher share amongst rural towns. This has been exacerbated due to the economic downturn but is a long term structural issue.

When achieving this goal we must acknowledge that there are both demand side and supply side issues, where demand side relates to the issue of job creation and supply side relates to the search and taking up of employment. While there are significant demand side issues, in relation to improving the environment for job creation, in this section, we focus more explicitly at the supply side and in relation to measures within the tax and social welfare codes that can improve demand side incentives.

Within the area of social inclusion our focus is on measures that:

- Reduce poverty and social exclusion
- Increase the incentive to work
- Reduce the cost of employment

In terms of the local labour markets, employment rates in the open countryside and rural towns are currently below the national average, but for small and medium sized towns, the employment rates were higher than the national average. In addition, employment rates have fallen at a faster rate than in urban areas. Thus rural areas have experienced quite significant employment volatility. We thus argue that tax and social policy should be utilised to reduce this volatility.

### **12.2 SOCIAL INCLUSION POLICY AT NATIONAL AND EU LEVEL**

The Government policy approach to tackling poverty and social exclusion is set out in the National Action Plan for Social Inclusion 2007-2016. The plan sets out a comprehensive programme of actions to reduce poverty. The plan provides a strategic framework to facilitate greater co-ordination and integration of structures across Government. It sets out 12 goals and over 150 targets and actions across government departments and agencies to achieve the plan.

The plan is based on a lifecycle approach which places the individual at the centre of policy development and delivery. The four lifecycle stages are children, people of

working age, older people and people with disabilities. The plan also identifies as a priority the tackling of poverty in urban and rural areas. The plan states:

- The overall aim is to build viable and sustainable communities, improving the lives of people living in disadvantaged areas and building social capital.....rural disadvantage can manifest itself in a number of ways. Declining or slow-growing populations, migration of younger people from rural to urban areas, lack of services, lack of employment opportunities, low income farming households, higher dependency levels and isolation are examples.....social exclusion is frequently the results of multiple disadvantage.

There are three high-level goals in relation to disadvantaged communities:

- high quality housing
- access to healthcare services via primary care teams
- integration of migrants, in particular in education system

There is a range of actions contained in the plan in relation to disadvantaged communities which aim 'to enable communities as far as possible to identify and address issues and challenges in their own areas'. These include community and voluntary activities, fuel poverty, broadband, financial exclusion, community-based programmes and services.

#### *National Social Target for Poverty Reduction*

A key element of the national action plan is [national social target for poverty reduction](#), which sets out the Government's ambition for reducing and ultimately eliminating poverty. The target is *to reduce consistent poverty to 4 per cent by 2016 (interim target) and to 2 per cent or less by 2020, from the 2010 baseline rate of 6.2 per cent.*

In addition to the headline target, the Government has agreed to set new sub-targets for reducing poverty among children and jobless households, and for Ireland's contribution to the Europe 2020 poverty target (see below).

The implementation of the target is supported by annual monitoring of progress towards the target and related indicators (called the [Social Inclusion Monitor](#)), and an integrated 'social impact assessment', which incorporates poverty impact assessment.

#### *National reform programme for Ireland under the Europe 2020 Strategy*

The national reform programme (NRP) is a government policy statement in support of the Europe 2020 Strategy to promote jobs and growth in a smart, sustainable and inclusive way. The strategy has five headline targets, including a target in relation to poverty, namely to lift at least 20 million people out of the risk of poverty and exclusion by 2020. The poverty target is supported by other social targets in relation to employment and participation in education.

The NRP sets out Ireland's contribution to the Europe 2020 target, which is to reduce by a minimum of 200,000 (4.4 per cent) the combined population in consistent poverty, at-risk-of-poverty or in basic deprivation, from the 2010 baseline of 31 per cent. The [2013 Update of the NRP](#) outlines an 'active inclusion strategy' for meeting the target, with three main components:

- Adequate minimum income
- Activation and inclusive labour markets
- Access to quality services.

Adequate minimum income relates to the key role of welfare payments and other social transfers in preventing households from falling into financial poverty. Irish social transfers continue to perform effectively in reducing the at-risk-of-poverty rate by 60 per cent, rising to 69 per cent if pensions are included. Various aspects of income support policy continue to be under review to improve their efficiency and effectiveness.

Activation and inclusive labour markets refer to the importance of unemployment as a cause of poverty, in particular the high proportion (24 per cent) of the population aged 0 to 59 years in jobless households (the EU average is only 10 per cent). Jobless households are a high risk group for poverty, with a particular concern about child poverty. Adults in jobless households are furthest from the labour market and experience significant educational and social class disadvantages. The 2013 review of the Programme for Government has as a priority to make sure that economic recovery does not bypass jobless households. Active labour market policies are key to addressing the employment needs and capacities of jobless households in an inclusive labour market. Measures include the rollout of *Intreo*, the new integrated employment and support service, reform of working age schemes, and improvements in employment support programmes, including rural-specific schemes, to enhance their effectiveness and efficiency.

Access to quality services is especially relevant to the prevention of child poverty, especially in the formative years of a child's life. The lack of such services in childhood can lead to the perpetuation of poverty in adult life. As highlighted by a recent European Commission recommendation, prevention is most effectively achieved through integrated strategies that combine to support parental employment, adequate income support and access to services that are essential to children's outcomes. In this regard, Budget 2013 provided new funding of €20 million to improve services for children in three discrete ways: an area-based approach to child poverty, an extension of the school food programme and increased provision of after-school childcare places.

#### *European policy response to rural poverty*

Eliminating poverty and social exclusion is one of the main priorities of the EU. There are a number of European policies which impact on rural poverty and social exclusion:

- Europe 2020 Strategy (discussed above)
- EU regional policy supports job creation, competitiveness, economic growth, improved quality of life, infrastructural development and sustainable development..
- EU Common Agricultural Policy aims to ensure a fair standard of living for farmers and to promote balanced development of rural areas. The rural development programme supports employment and prevents social exclusion in rural areas.
- EU Social Investment Package is a 2013 initiative to address the worsening social situation in Europe. It identifies ways by which member states can modernise

their social protection systems through better administration, integrated approaches, and lifelong investment.

A recent issue of the [EU Rural Review](#) outlines the role of EU rural development policy in enhancing employment, reducing rural poverty and strengthening social inclusion.

#### *Governance and consultation on social inclusion policy*

The Social Inclusion Division in the Dept of Social Protection is responsible for coordinating the implementation of social inclusion policy across government departments. It also has a remit to undertake research and policy analysis on poverty, and supports the application of poverty/social impact assessment. The Social Inclusion Division is represented on the Senior Officials Group on Social Policy, which reports to the Cabinet Committee on Social Policy. Involvement of and consultation with stakeholders, especially those experiencing poverty, is an important feature to social inclusion policy. The Social Inclusion Forum is an annual event to monitor progress on poverty and social exclusion. An expert group advises on the research and monitoring work of the Division.

### **12.3 INDICATORS AND DATA ON RURAL POVERTY AND SOCIAL EXCLUSION**

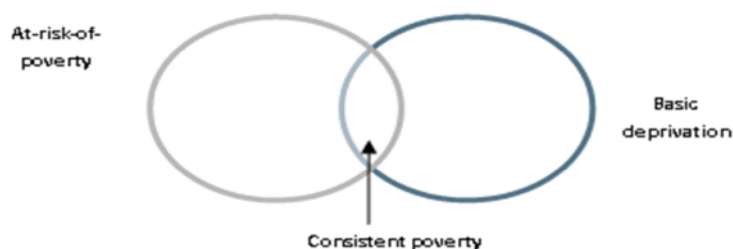
Ireland has adopted the following official definition of poverty:

- People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society. As a result of inadequate income and resources, people may be excluded and marginalised from participating in activities which are considered the norm for other people in society. (National Anti-Poverty Strategy, 1997)

In line with this understanding of poverty as a relative and multi-dimensional phenomenon, Ireland uses three indicators to measure poverty (see diagram 1):

- at-risk-of-poverty (income below 60 per cent of the median)
- basic deprivation (lacking 2 or more basic necessities)
- consistent poverty, which captures those who experience both at-risk-of-poverty and basic deprivation, i.e. multiple forms of poverty.

**Diagram 1: National poverty indicators**



The data on the national poverty indicators are taken from the [Survey on Income and Living Conditions](#) (SILC), undertaken on an annual basis by the Central Statistics Office. The latest available data are for 2011; the 2012 results will be available at the end of 2013.

#### *Poverty rates in rural areas*

The poverty rates for rural areas are summarised in table 1, along with comparable figures for the state and for urban areas.<sup>49</sup>

**Table 12.1 Poverty rates in rural and urban areas in 2011**

	Consistent poverty		At-risk-of-poverty		Basic Deprivation	
	Risk (%)	Share (%)	Risk (%)	Share (%)	Risk (%)	Share (%)
<b>Rural</b>	7.1	39.7	18.8	45.3	21.8	34.2
<b>Urban</b>	6.8	60.3	14.2	54.7	26.2	65.8
<b>State</b>	6.9	100	16	100	24.5	100

Source: CSO, SILC, 2011

#### *Consistent poverty*

In 2011, the consistent poverty rate was 6.9 per cent (this equates to 316,000 people).

There is little variation in the consistent poverty rate between urban and rural areas. In rural areas, the rate was 7.1 per cent, while the rate in urban areas was 6.8 per cent.

The distribution of the population in consistent poverty is strongly concentrated in urban areas, at 60 per cent. Rural areas account for 40 per cent. This reflects the shares of the total population.

<sup>49</sup> Urban areas refer to cities; suburbs of cities; mixed urban/rural areas bordering on the suburbs of cities; towns and their environs with populations of 5,000 or over (large urban); mixed urban/rural areas bordering on the environs of larger towns; and towns and their environs with a population of 1,000 to 5,000 (other urban). Rural areas relate to mixed urban/rural and rural areas.



Consistent poverty has increased in recent years, from 4.2 per cent in 2008 to 6.9 per cent in 2011. In rural areas, the increase was from 4.3 per cent to 7.1 per cent. There was a similar increase in urban areas.

#### *At-risk-of-poverty*

The at-risk-of-poverty rate was 16 per cent in 2011.<sup>50</sup> The at-risk-of-poverty rate in rural areas in 2011 was 18.8 per cent. In comparison, the rate in urban areas was 14.2 per cent.

Rural areas account to 45 per cent of the population at-risk-of-poverty, compared to 55 per cent in urban areas.

The at-risk-of-poverty rate has increased from 14.4 per cent in 2008 to 16 per cent in 2011. The trend in rural areas shows no change: 18.7 per cent in 2008 and 18.8 per cent in 2011. A significant increase in at-risk-of-poverty has taken place in urban areas, albeit from a much lower base: 11.9 per cent to 14.2 per cent. These figures are in keeping with the historically lower household incomes in rural areas.

#### *Basic deprivation*

In 2011, the basic deprivation rate was 24.5 per cent. The basic deprivation rate in rural areas in 2011 was 21.8 per cent, while the rate in urban areas was 26.2 per cent.

Of the population in basic deprivation, 34 per cent is in rural areas, and 65 per cent in urban areas.

Basic deprivation has increased considerably since 2008, from 13.8 per cent to 24.5 per cent. The increase has been greater in urban areas, rising from 14.3 per cent to 26.2 per cent. In rural areas, basic deprivation has increased from 13 per cent to 21.8 per cent.

Table 2 presents a breakdown of three main indicators used in the national social target for poverty reduction, using five locational categories.

**Table 12.2 Poverty indicators used in the national social target, by location in 2011**

	<b>Consistent poverty</b>	<b>Children in consistent poverty</b>	<b>Jobless households</b>
<b>Cities &amp; suburbs</b>	4.9%	8.1%	19.8%
<b>Towns and envi with pop=&gt;5000</b>	9.6%	13.2%	29%
<b>Towns and envi with pop 1000&lt;=&lt;5000</b>	10.1%	14.9%	31.5%
<b>Mixed urban / rural areas</b>	7.5%	8.1%	24.6%
<b>Rural</b>	6.5%	8.3%	24.3%
<b>State</b>	6.9%	9.3%	24%

Source: CSO, SILC, 2011

<sup>50</sup> The at-risk-of-poverty threshold in 2011 was €209 per week for an individual or €485 per week for a family of four (2 adults and 2 children).

For consistent poverty, the rate is highest in towns and mixed urban/rural areas at between 7.5 and 10.1 per cent. For rural areas, the rate is slightly below the national average at 6.5 per cent.

Information is also presented on the two groups identified as key policy priorities: children in consistent poverty and jobless households. The rate of child poverty is almost 50 per cent higher in towns, with lower rates in cities and rural areas. At the same time, because many children live in these areas, they account for almost half of all child poverty.

Again, the rate for jobless households peaks in towns, at c 30 per cent of the population. In mixed urban/rural and rural areas, the rate is c 24 per cent, in line with the national average. Significantly, rural locations account for 43 per cent of all those in jobless households in the state.

It is clear from these data that tackling poverty in rural areas will be critical in order to meet the national social target for poverty reduction and the sub-targets for children and jobless households.

#### *Local level data on poverty*

While SILC is the official source of data on household and individual income and for the measurement of poverty and deprivation in Ireland, there is a limit to which it can be disaggregated by geographical area. This is due to the sample size and as such it can only be relied on at NUTS levels 2 and 3.

There is a separate approach to the measurement of poverty at local level using the Census of Population., known as the Pobal HP local deprivation index. These data are not comparable with the national poverty indicators. Details on the Pobal HP Deprivation Index is available from <https://www.pobal.ie/Pages/New-Measures.aspx>. Pobal have also launched a GIS (Geographical Information System) application which is available on its website at <http://maps.pobal.ie/#/Map>.

#### *Understanding rural poverty and social exclusion*

Various national and EU studies have informed the understanding of rural poverty, including a European Commission report on [\*Poverty and Social Exclusion in Rural Areas\*](#) and two studies by Combat Poverty Agency on [\*Poverty in Rural Ireland\*](#) and [\*Low Income Farm Households\*](#). The research highlights two main dimensions to rural poverty. The 'poverty of rural areas' refers to the existence of specific disadvantages in rural areas as compared to urban areas. These economic and social structures limit the opportunities for people in rural areas and include the following:

- Demography - Issues relating to migration/urbanisation, changing population/age profiles with younger people leaving and older people remaining, and gender imbalance with the migration of economically active females to urban areas. The issue of counter-urbanisation is also raised, where people have moved back to rural areas but commute or work from home. Demographic issues have implications for the labour market, levels of economic activity, provision of services, the sense of isolation, dependency levels, fertility rates and low population densities in rural areas.

- Remoteness: infrastructure and access to basic services - Access to services can be particularly problematic in remote rural areas. Lower population densities and poor infrastructure reduce the viability of services in these communities. Some areas, particularly those close to urban centres, have benefited from improved transport infrastructure. This has increased the opportunity for people in rural areas to access employment and increase their levels of social interaction. Along with the positives of commuting, there is also a danger in that it reduces demand for local services, leads to higher house prices, changes the character from rural to suburban, and increases transport costs, pollution and environmental conditions. Other rural areas have poor transport infrastructure which limits access to markets, employment opportunities and increases the sense of isolation, leaving inhabitants dependent on irregular public transport networks.
- Other issues for rural areas include the poor condition of the housing stock, lower ICT / broadband coverage, lower capacity of rural dwellers in ICT usage, and lack of access to health care and social services. In terms of the latter, the study points to remoteness, low population densities, dispersion of rural areas and policy decisions around the centralisation/location of services.
- Education - Levels of educational attainment are crucial to economic and social development. There can be lower levels of participation in pre-school, early childcare and education, primary and secondary schooling in rural areas. This increases the risk of inter-generational transmission of poverty and unemployment in rural communities. Limited access to early childcare and schooling may be a contributory factor. There may also be less educational and post-school training/apprenticeship/college choices for young people in rural areas. The situation may be exacerbated by the outward migration of educated younger people.
- Research highlights the presence of a social immobility trap in rural areas, which can be seen in terms of lower income levels, lower quality and less secure employment opportunities, and lower levels of educational attainment. The presence of this trap exacerbates the danger of intergenerational poverty and unemployment, forcing young people to out-migrate.
- Labour market - Lower population densities, lack of access to services, lower levels of educational attainment or suitably qualified workers and poor infrastructure disincentivise economic activity / enterprise development in rural areas. This has a knock-on effect on labour market opportunities, forcing people to out-migrate and increasing the risk of poverty, insecure employment and unemployment.
- Agriculture remains an important industry in rural areas, but can be associated with low levels of income, seasonal nature of employment and danger of inter-generational poverty and social exclusion. Reforms to payments under the Common Agricultural Policy will also impact rural communities.

The second dimension, ‘poverty in rural areas’, highlights rural groups with higher poverty risks, such as children, young people, older workers, lower skilled workers and the unemployed. As shown above, the two stand-out groups with high poverty risk in rural Ireland are children and people living in jobless households.

## 12.4 THE IMPACT OF THE ECONOMIC DOWNTURN ON THE SPATIAL DISTRIBUTION OF INCOME

In this section we review the results of our projection exercise in relation to employment rates, household income and poverty. As outlined above, we utilise the recent official statistics for:

- Employment rate (QNHS Quarter 2 2011 and Local Social Welfare Office, April 2011)
- Labour Market Status (QNHS Quarter 2, 2011)
- Earnings (Earnings, Hours and Employment Costs Survey , Q2 2011)
- Other Market Income (National Accounts Q2 2011)

**Figure 12.1 Female Employment Rates in 2006 and 2011 by District**

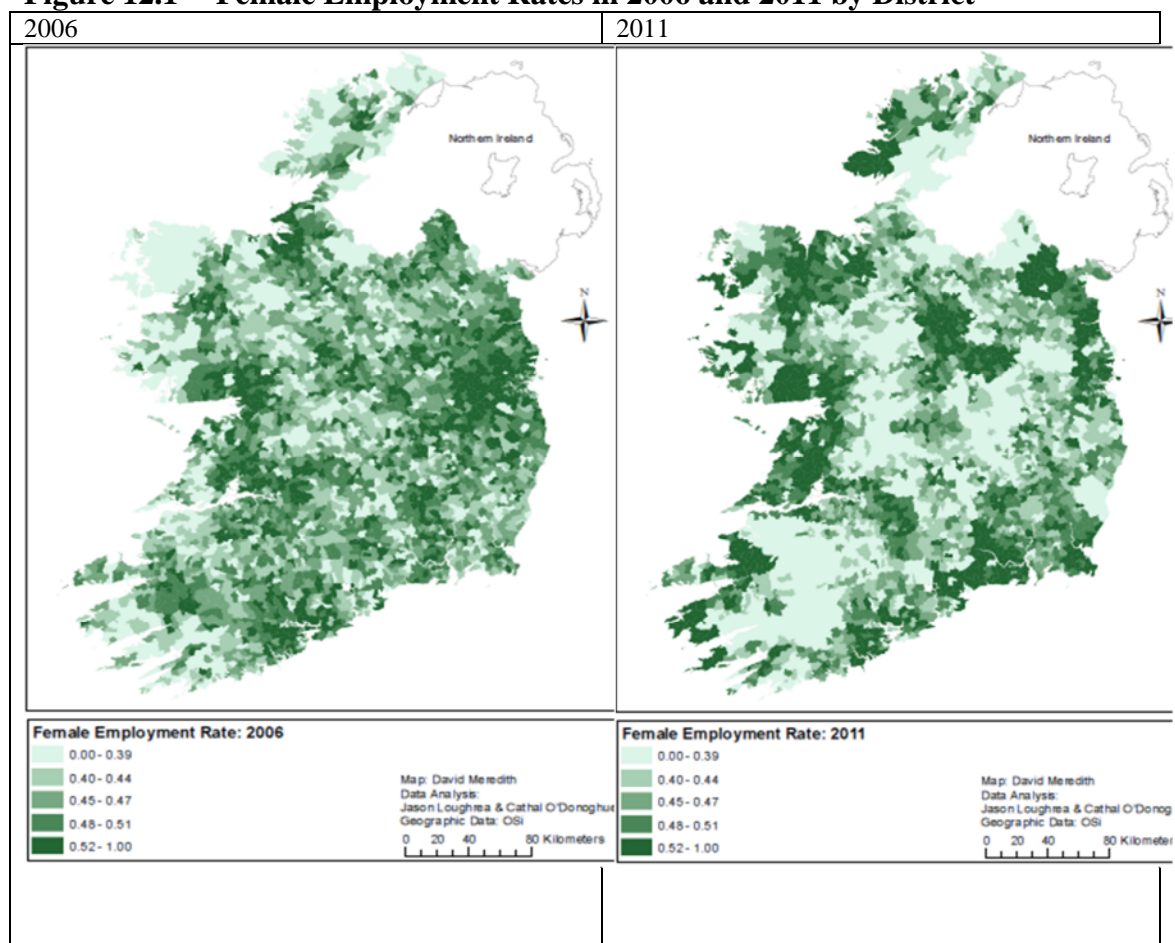
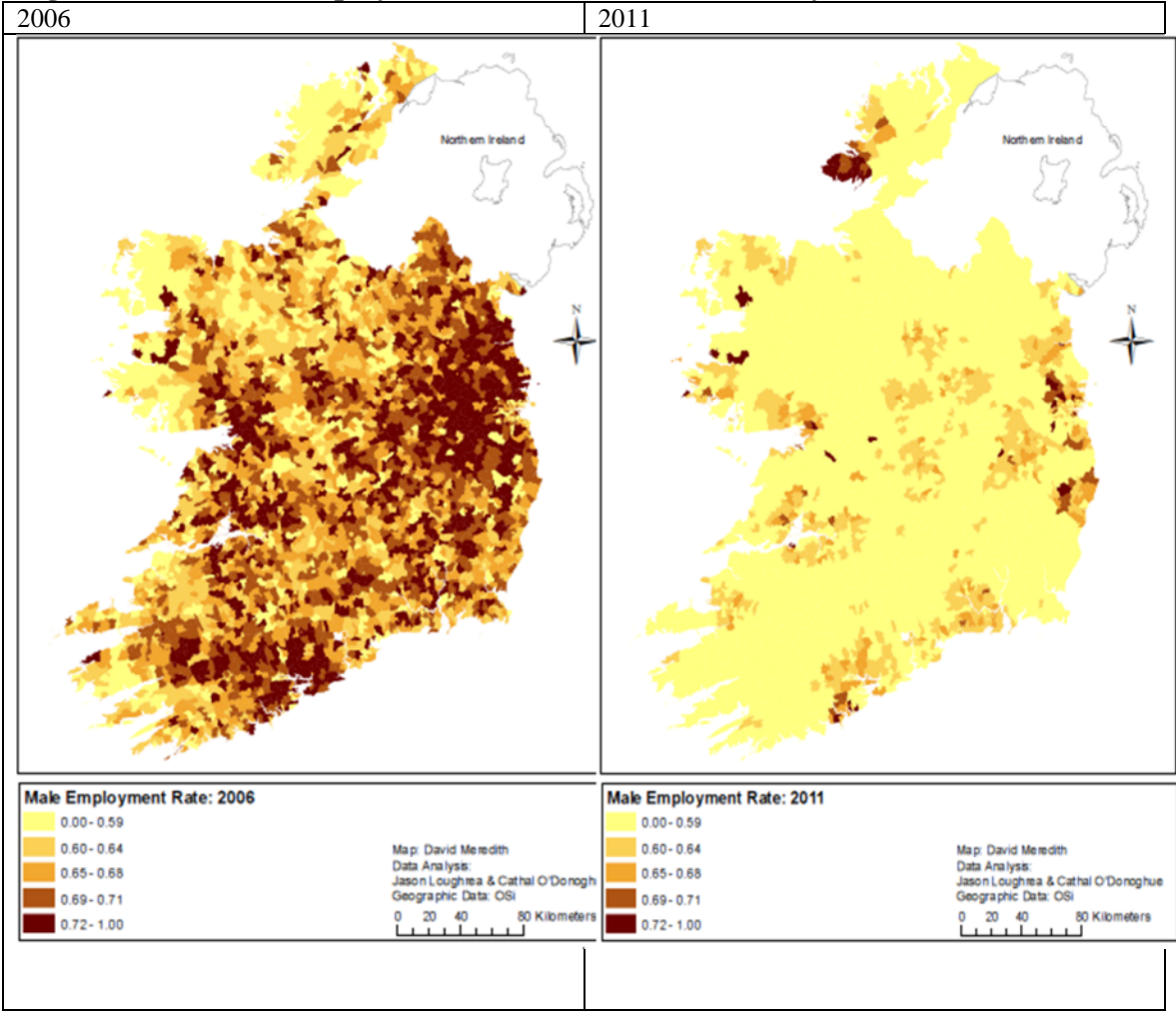


Figure 1 illustrates the changing pattern of female employment rates between 2006 and 2011 i.e. the percentage of females aged 15 and above in employment. It appears that the areas with the largest declines in female employment lie on the outskirts of Dublin city. In 2006, the percentage of females in employment stood at greater than 45 per cent in most of the mid-east region<sup>51</sup> which surrounds Dublin city. This is in contrast to the picture in 2011 as the majority of these districts now have a female employment rate

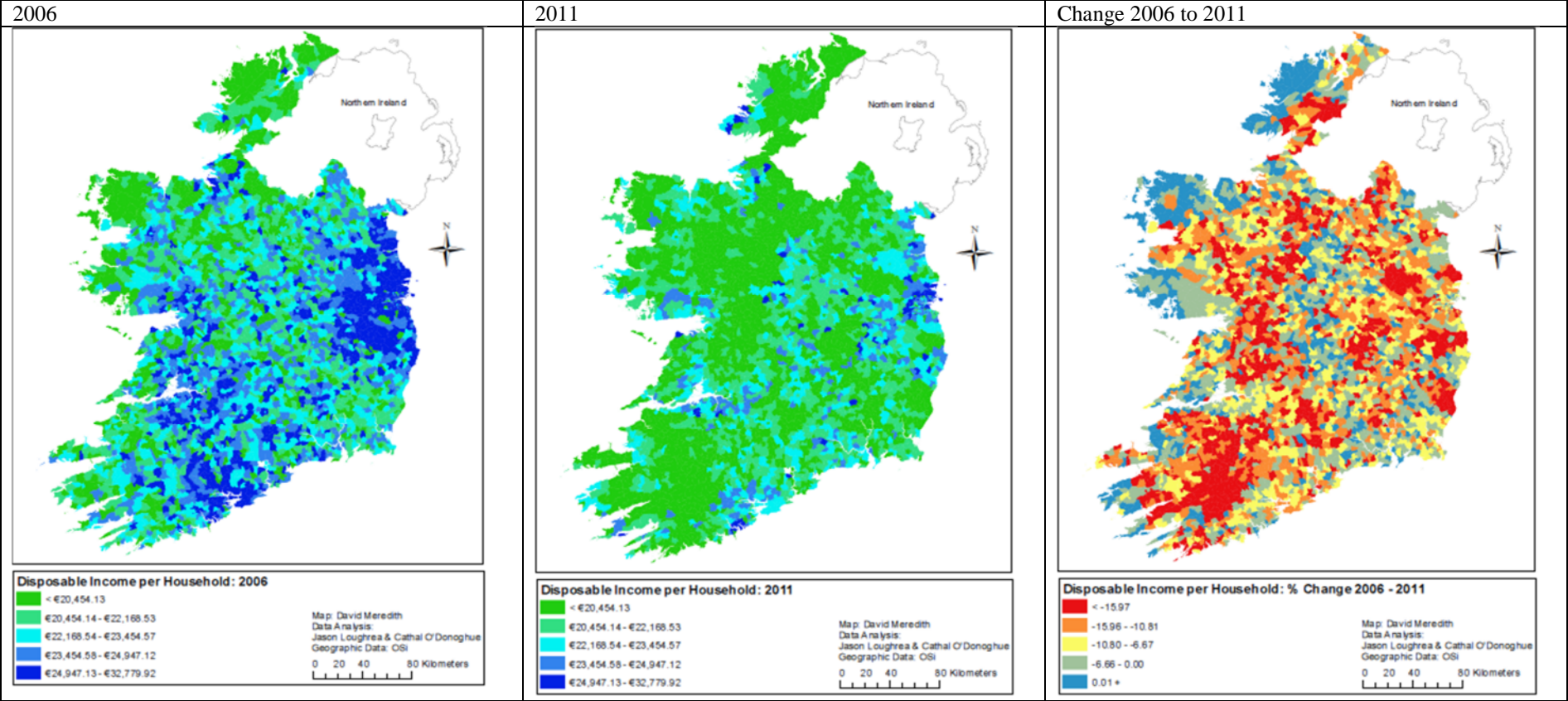
<sup>51</sup> The mid-east region includes the counties of Meath, Wicklow and Kildare

less than 45 per cent. Most parts of the south-west region appear to have much lower female employment rates in 2011 relative to 2006.

**Figure 12.2 Male Employment Rates in 2006 and 2011 by District**



**Figure 12.3    Equivalised Disposable Income 2006, 2011 and change 2006-2011 by District**



\*\*The OECD Equivalence scales are used in this analysis. The OECD system allocates a value of one to the first adult in each household, a value of 0.5 to each additional adult and 0.3 for each child within each household.

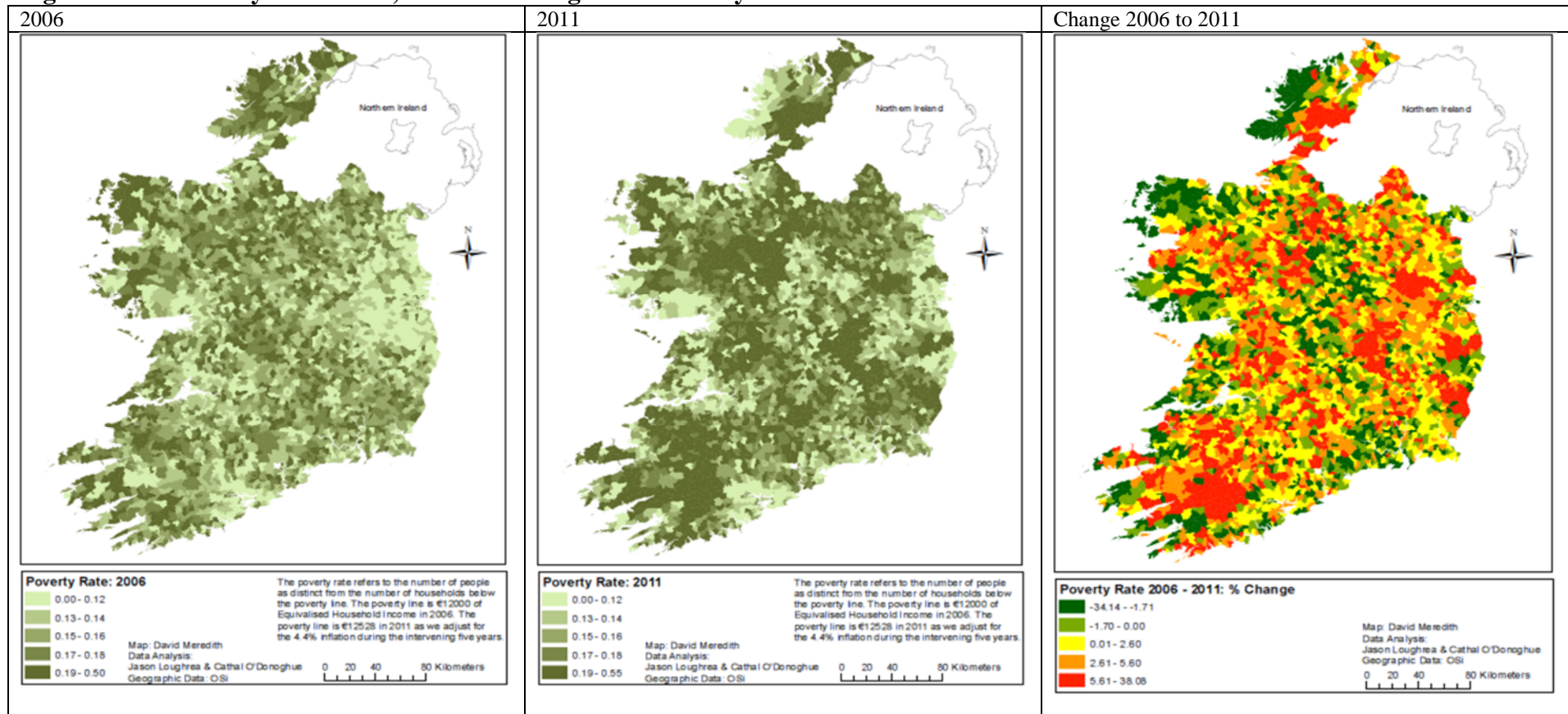


We know that the overall female employment rate declined by less than 2 per cent between 2006 and 2011. There must therefore be areas which have experienced some increase in employment among women. The above graph indicates that areas such as West Clare, West Kerry, County Waterford, North Mayo and West Donegal have witnessed increases in female employment. These are largely rural areas with particular demographic population profiles. This is not a universal trend whereby rural areas have experienced lower declines in female employment. Large parts of the midlands including the counties of Roscommon, Offaly, Laois and North Tipperary have experienced declines in female employment rates that far exceed the national average. The most densely populated areas of the major cities appear to follow closely the national level trend in terms of female employment rates.

In figure 2, we report the male employment rate from our baseline year, 2006 and our projection year 2011. Male employment rates fell to a much greater extent than female employment rates. This is partly due to the initially higher labour force participation rates among men and the greater life expectancy of women relative to men. The large decline in employment within construction is likely to be a further and perhaps more significant contributor to the divergence of employment rates by gender. The above maps confirm the national trend and illustrate the variability of these large employment declines across the country.

It appears from the map of 2006 that the male employment rate stood at greater than 69 per cent in most of the area surrounding Dublin city. This is no longer the case in 2011 as employment rates have declined to below 59 per cent. The largest declines in male employment rates are in counties with predominantly rural settlement patterns. These include Carlow, Cavan, Roscommon, Laois and Leitrim. Male employment rates appear to be holding up much better in the cities relative to elsewhere in the country. This pattern is somewhat evident from the trends of female employment but is much more striking in the case of males. It remains the case however, that suburban areas in Dublin county have closely followed the national trend and have been affected to a much greater extent than the inner parts of the city. A similar divide between city and county is evident from Galway, Limerick, Cork and Waterford.

**Figure 12.4 Poverty Rates 2006, 2011 and change 2006-2011 by District**





The relatively large variation of change in employment rates ought to provide some indication about the differential income change across the country during the relevant period. Figure 3 illustrates the change in household disposable income between 2006 and 2011 for each district in the country. Focusing on the change in disposable income, it appears that large parts of the south-west region have been particularly affected by the recession in terms of declines in household income as indicated by the red colouring. We should again be cautious in interpreting these results given differences in population density and district size. Large parts of the commuter belt surrounding Dublin city have districts with declines in excess of 10 per cent. The coastal areas do not appear to be among the worst affected areas and thus mirroring the employment trends. The declines in household income are lower in the five major cities relative to the rest of the country. It appears that household income was initially lower in the cities in 2006 relative to the national level with the exception of Dublin. The lower decline of household income in the cities relative to the rest of the country points therefore towards a narrowing gap in household income between city and non-city based populations outside of Dublin.

The change in average or median household income is not always a reliable indicator of the change in poverty given that the extent of income inequality can vary across time and space among other things. Figure 4 shows that poverty rates increased in most but not all districts within the country. This is partly due to the measurement of poverty in this instance. We hold the poverty line constant at a level of real income in 2006 i.e. €12,000 in equivalised household disposable income. The Consumer Price Index grew by 4.4 per cent between the second quarter of 2006 and the second quarter of 2011. Therefore declines in nominal household disposable income of less than 4.4 per cent are construed to be increases in real income over the relevant period. Despite these measurement issues, the spatial pattern of poverty change follows closely that of household income change. The percentage of households living below the poverty line actually declined in some districts, particularly those located in the five major cities and along some coastal areas. The poverty trends show that the major cities outside of Dublin had initially higher poverty rates than the rest of the country. A number of counties in the east of the country appear to be particularly badly hit by increases in poverty including Kildare, Carlow, Laois and Meath and this is not surprising given the large employment declines in these areas.

## **12.5 SUPPLY SIDE ISSUES**

While there are significant demand side issues in relation to employment creation and poverty reduction, there are key issues in relation to supply side, the incentives for people to enter the labour market.

These relate to:

- Rural specific issues in relation to the financial incentive to work
- Family specific issues in relation to Jobless households

### Financial Incentives

In areas and times of lower economic activity, typically the potential wage rate is lower than in areas and times of higher economic activity. This has both implications for poverty and for work incentives.

**Table 12.3 Average Earnings by Population Density**

	Mean Earnings
Densely populated area	39220
Intermediate area	33086
Thinly populated area	30107

Source: CSO, SILC (2010)

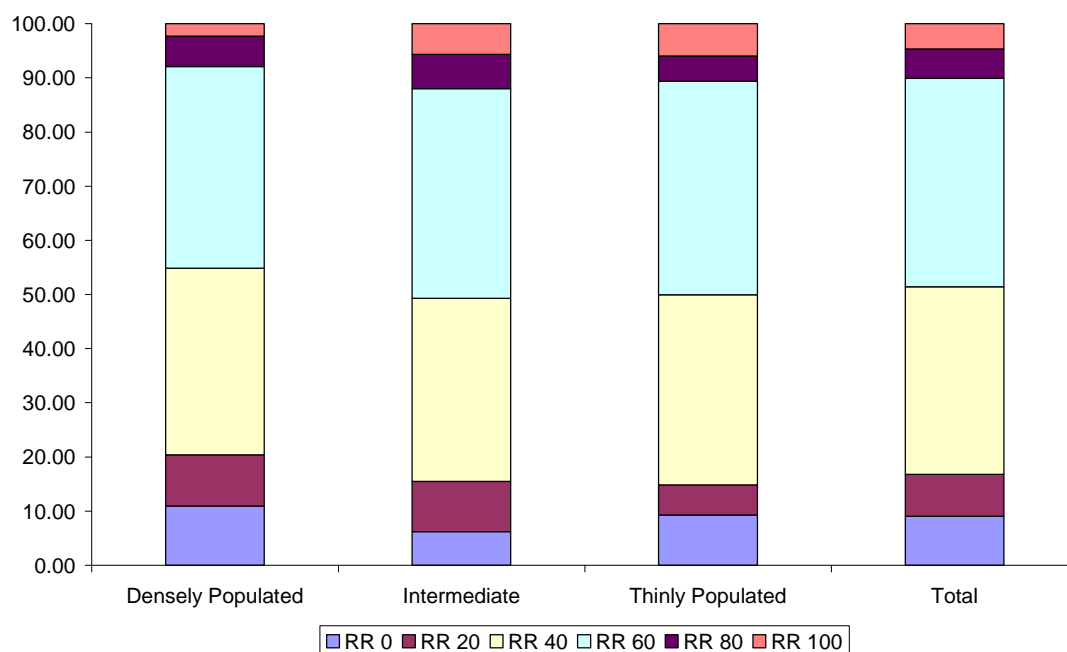
Note:

1. Densely populated area (>500 persons/km<sup>2</sup>); Intermediate populated area (> 100 persons/km<sup>2</sup>); Thinly populated area (<= 100 persons/km<sup>2</sup>)

Once we adjust for industry, age and education level, the intermediate area is not significantly different to the densely populated area.

Because social welfare rates are the same in all areas, as a result replacement rates, the ratio between out of work income and in-work income, can be higher in some rural areas (See Figure 11.4). This combined with lower employment demand and thus higher job search costs (See Figure 11.5) and/or the need to travel or migrate for work can reduce the incentive to work. This is particularly an issue in relation to rural areas within commuting distance of urban centres. The marginal impact on travel costs is lower outside of these areas due to lower opportunities – a demand side related issue.

**Figure 12.5 Distribution of Replacement Rates**



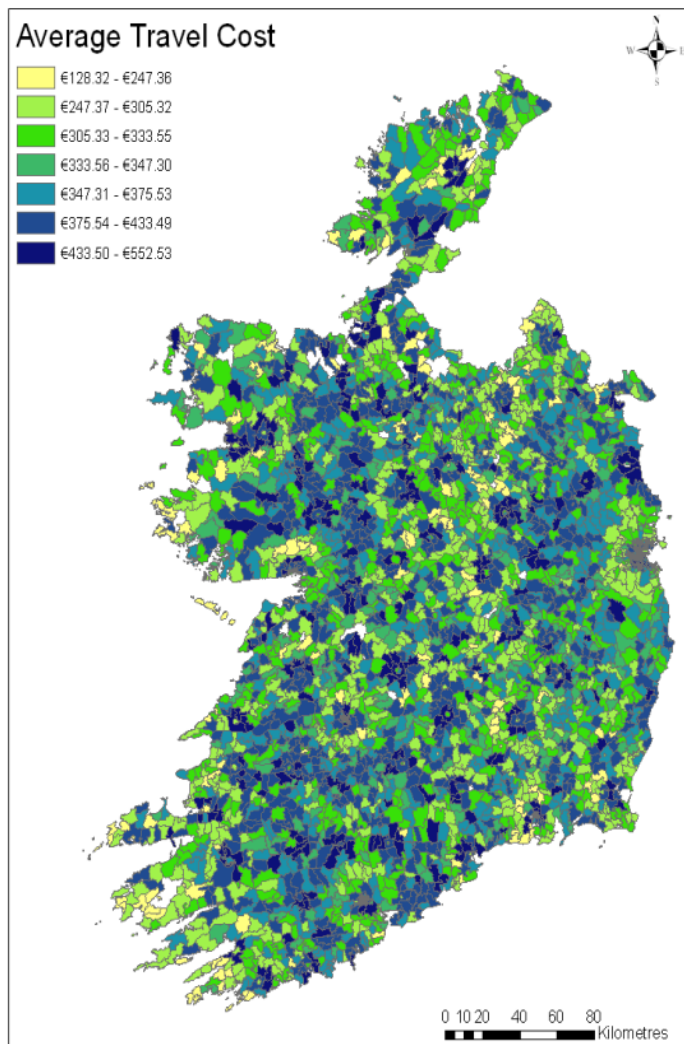
Source: O'Donoghue and Vega (forthcoming)

Note: A Replacement Rate is the Ratio of Out of Work Income to In-Work Income

There a number of ways to improve the incentive to enter the labour market. These include:

- Increasing the in-work labour income
- Reducing labour taxes and charges
- Reducing out-of work income
- Increasing in-work benefits such as the family income supplement

**Figure 12.6 Average Travel Costs**



Source: Morrissey, O'Donoghue and Vega (2013)

Given some of the demand specific issues in relation to rural areas, there have been calls to reduce the minimum wage. Indeed, the minimum wage was reduced in the previous government and subsequently increased back to the original level by the current government. Reducing the minimum wage results in lower labour supply incentives.

Taxation on labour has increased during the economic downturn due to the need to achieve balance in the public sector finances. From a labour supply perspective, it

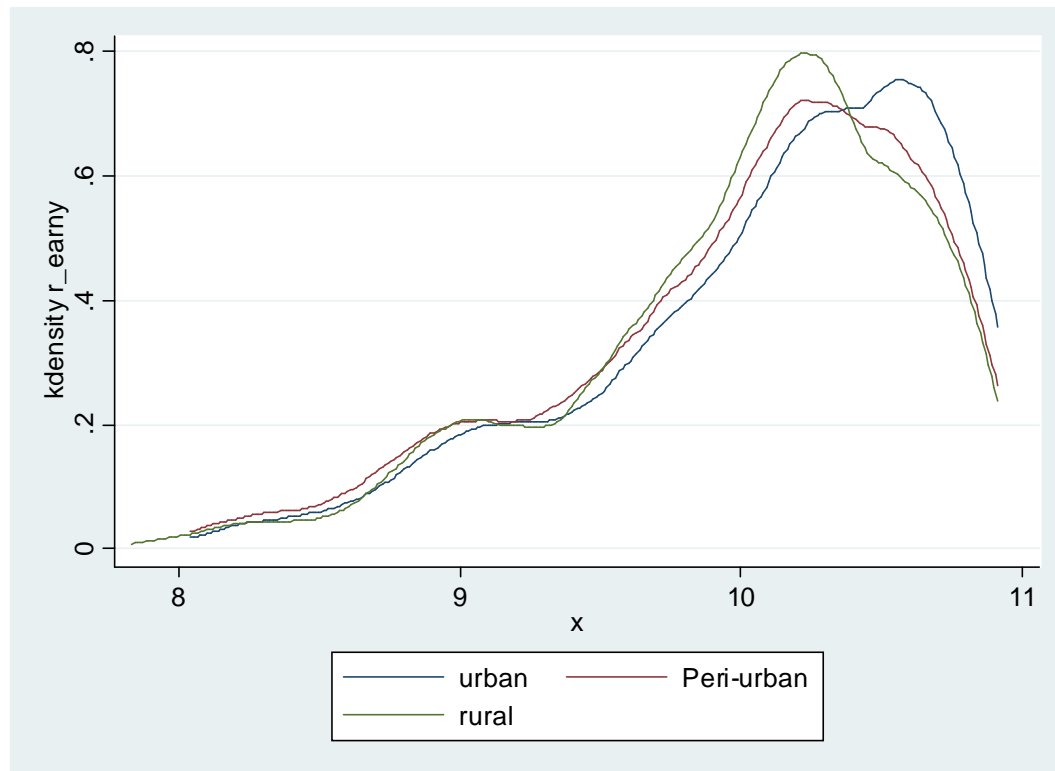
would be desirable to reduce the taxes, particularly higher marginal rates, when the country can afford to do so. The movement towards a more balanced taxation system through the use of property taxes should facilitate this.

Prior to 1989, the social welfare code partially recognised this by having lower social welfare rates for those living in rural areas. We do not support this however as poverty rates are higher in rural areas.

Within the social welfare code, there is a policy instrument known as the Family Income Supplement (FIS) which aims to incentivise work by increasing the income of those working 20 hours or more relative to not working. Due to changes in the means test, the differential has eroded to some extent. Increasing FIS relative to Job Seekers benefits and other out of work benefits can help to improve the relative incentives of working. This effect would be particularly the case in rural areas where wage rates are on average lower.

An issue not specific to rural areas is the complexity of the tax and social welfare codes. Complexity increases the transaction cost of working with the systems, increases poverty by reducing benefit take-up and reduces labour supply incentives due to greater uncertainty. Increased transparency of the system, similar to changes in the UK would improve these dimensions.

**Figure 12.7 Distribution of the Earnings (unaccounted for by differences in education and age etc.)**



Note: to adjust for the different structure of the labour market

### *Labour Market Activation Programmes*

In parallel to financial incentives, the issue of joblessness in households, which has been identified as a specific issue in Ireland relative to other countries. This is an issue that is also specific to rural areas. Lack of employment in a household and often inter-generationally can induce a vicious cycle that is difficult to exit and with long term consequences in terms of labour market engagement and poverty.

We recommend that:

- Increased resources be targeted at labour market activation programmes, particularly those that facilitate greater labour market engagement and skills
- These should recognise the specificities of jobless households by targeting households rather than individuals
- There is a particular need for resources in small and medium sized rural towns

There are a variety of labour market activation programmes in the State such as the Job Bridge programme and the Rural Social Scheme etc. Many of these have benefits beyond labour market engagement and activation, including contribution to the community and reduced isolation. We recognise these benefits and support their continuance.

Research on these programmes in the last economic crisis indicated that many of these programmes had limited impact in terms of labour market outcomes. As a result a focus on effectiveness and impact in terms of increased employability and skills is necessary in these programmes.

### **12.6 DEMAND SIDE OBJECTIVES**

During periods or areas of demand contraction, there are a number of options open to a business:

- Reduce employment
- Reduce profits
- Reduce wages
- Reduction in hours
- Or some combination

Between the onset of the crisis and the end of 2010, Ireland's employment rate fell about 15 percentage points (Figure 11.8). However average hours worked fell only 2%. This was one of the biggest differentials across the EU. In the Britain, by contrast employment and hours fell by about the same rate, while in Northern Ireland, hours fell by a greater proportion than employment. Thus the structure of the labour market and related policy resulted in a greater employment impact than in most other countries.

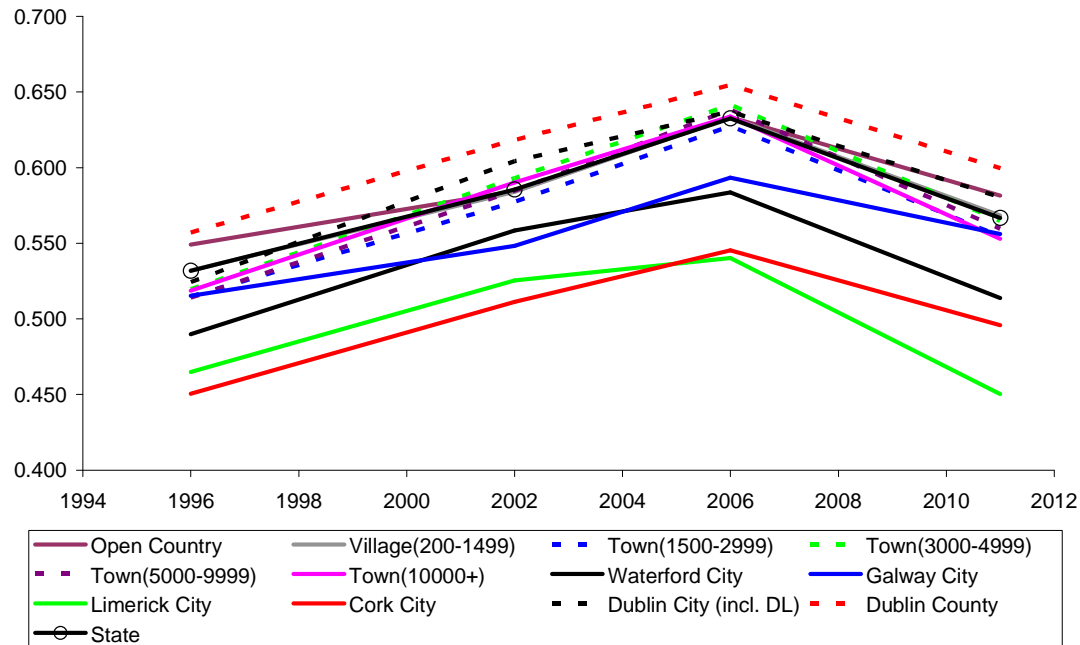
The returns to investment such as self-employment income, interest, dividends and rents are among the most volatile sources of income.<sup>52</sup> Thus profit will be one of the first hits

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<sup>52</sup> Since the crisis in 2008, self-employment income fell 31%, rents by 47%, dividends by 50% (by 98% in 2009), while employment income fell on average by 16% per person.

during a demand contract and consequentially one of the first to rise during an upturn, reflecting the risk-reward relationship.

**Figure 12.8 Employment Rate by Area Type**



Given the wellbeing implications of employment loss and the longer term social and personal costs due to disengagement with the labour market and higher costs of labour re-engagement, employment retention is recommended during periods of temporary demand contraction.

In Germany, where GDP fell by 6.7 percentage points, unemployment actually reduced, with working hours falling by 3.4%. While part of the reason results from differences in the long-term sustainability of the economic structure of the two countries, Germany employed a novel scheme known as Kurzarbeit (Short Time Working) whereby workers were able to reduce their hours when demand contracted. Under this scheme, 67% of the shortfall in income due to this hours reduction is paid by the social insurance system up to a period of 2 years. However it is unlikely to have an impact on temporary employment or for non-viable businesses as in the case of many construction companies after the property crash.

Given that the introduction of a Kurzarbeit type scheme requires the accumulation of a social insurance fund and also given that much of the employment loss has already occurred, this is not a short term solution or possibility. However consideration should be given as part of a longer term restructuring of the social welfare code to make it more resilient in times of economic crisis.

Another way to reduce the employment impact of economic downturns is to use demand related pay. Variable pay is often used at different ends of the earnings distribution in terms of bonuses and performance related pay at the top and over-time lower down. However varying a proportion of pay in relation to the performance of the

firm is another mechanism that can allow for greater cyclical adjustment of pay over the course of the economic cycle, reducing the need for lay-offs in a down turn.

Thus when demand contracts, there is a contractual mechanism to reduce pay, reducing the need to shed labour. On the other hand, there is a contractual obligation to increase pay when demand increases. This is a variant of performance related pay, but may be easier to manage as it relates directly to the profitability of the business. Of course as profit can be manipulated via the use of investment and other measures, further work is required to avoid this. Further work is also required as to what an appropriate rate would be and at what point the demand related pay would fall to zero. Another advantage of the greater use of demand related pay may also help to avoid future property bubbles if mortgages were tied to core pay, with the expectation that demand related pay contributed to savings.

The question remains as to what should happen to those at the minimum wage. The level of minimum wages in Ireland has been subject to a lot of debate as Ireland has the second highest minimum wage in the EU after Luxembourg and 27% higher than the UK (PublicPolicy.ie, 2013). However when adjusted for different prices Ireland has the fifth highest, 10% ahead of that of the UK and when adjusted for median wage levels, Ireland is around the average 1% ahead of the UK. Thus overall the level of the minimum wage is more of an issue of the general competitiveness of the economy in terms of relative wages and prices.

Both in terms of poverty alleviation and labour supply, unless there was a significant reduction in the cost of living and the cost of working, we would prefer to maintain the minimum wage. Instead we support moves to harmonise the minimum wage across sectors and a streamlining of sector specific minimum wages and differential minimum wages for different times of the week. Thus maintain the higher rate of the minimum wage in exchange for greater flexibility.

The wider objective to improve the cost base of the economy can both improve the competitiveness of businesses and improve the purchasing power of people, increasing their welfare.

Rather reducing the tax-wedge on employment would be more effective. This can be done via the progressivity of employer pay-related social insurance contributions. However as this approach is untargeted, it can be quite expensive. Instead the aim within the national job strategy to provide targeted employment subsidies for businesses hiring the long-term unemployed can help to achieve this objective in a more cost effective fashion. Given the structural issues in rural areas that can result in longer term unemployment and/or migration, these policy can be particularly relevant for rural areas.

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## Chapter 13. THE ECONOMIC STRUCTURE OF TOWNS IN IRELAND

Cathal O'Donoghue, Cathal Geoghegan, Kevin Heanue and David Meredith

### 13.1 INTRODUCTION

While there has been a significant amount of research on urban areas or rural areas (Quigely, 1998; Cervero, 2001; Terluin, 2003; Agarwal et al., 2009), there has been a relative paucity of research on small and medium sized towns.<sup>53</sup> As Tacoli (1998) points out, the distinction between urban and rural is complex, with the demarcation between the two often being blurred in reality. This interaction between urban and rural is particularly relevant for small and medium sized towns, combining both urban and rural economies.

A substantial proportion of the population live in small and medium sized town with over one third of the population living in settlements of more than 1500 outside of the main cities. Historically, the towns developed to serve as both inputs to the surrounding farm economy, as a source of both goods and services, and as a market for agricultural produce, both in terms of consumption and trade. Towns were usually close enough together for farmers and their families to visit them on foot or horseback on market day and then return home on the same day (Courtney, 2000). Additionally, small towns acted as a focal point for their hinterlands, which helped to maintain both economic and social linkages. However as transport and communication links have improved, many of these roles have been replaced by bigger towns that are now more accessible. Increased commuting and in-migration, raised consumer expectations in terms of service range and quality and pressures to reap economies of scale have contributed to the decline of service availability in small and medium-sized towns (Powe & Shaw, 2004). The move towards larger and more economic outlets for both goods and services has also meant that the smaller settlements have lost functions and the larger settlements have acquired additional or larger scale functions. This can be seen in the decline of village shops and small retail outlets in town centres as improved transport links and greater car ownership encourage more shopping trips and out-of-town shopping centres (Courtney, 2000, Powe & Shaw, 2004).

Small and medium-sized towns operate at the centre of the local rural economy and therefore reflect the changes the rural economy has seen in the developed world in recent years. The decline of agriculture, both as a source of employment and as a share of GDP, has been a significant factor in the shifting rural economy. In Ireland, agriculture and related sectors employed more than half the workforce in the 1950s. In 2012, employment in agriculture stands 4.7% of the workforce and contributes 1.2% of GDP (DAFM, 2013). This pattern is mirrored in other developed countries, such as the United States (Henry & Drabbenstott, 1996) and the United Kingdom (Courtney, 2000). Over time, rural areas with significant natural amenities, recreational opportunities or

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<sup>53</sup>Van Leeuwen (2010) undertook a study of small and medium sized towns in a number of European countries. In the UK there have been a number of studies on market town regeneration such as Thomason and Collig (2003), Phillips and Swaffin-Smith (2004) and Morris (2012).

quality of life advantages have the greatest opportunities for growth and development (Johnson, 2006).

Hubbard and Ward (2008) through interviews outlined a number of driving forces behind recent changes in rural Ireland, including (i) the CAP support for agriculture; (ii) the influx of foreign direct investment (FDI) and (iii) the development of infrastructure based on EU Structural and Cohesion funds. CAP support in the form of subsidies for farmers has helped maintain Irish agriculture but has also driven structural change in the sector. FDI driven by multinational companies (particularly in the high tech and internationally traded services sectors) has provided employment in rural areas. However, most FDI has been directed to urban areas. Infrastructural development in terms of roads, airports and telecommunications has also influenced changes in surrounding urban areas.

From a planning perspective, small and medium sized towns are referenced in national planning documents such as the National Spatial Strategy (NSS), the National Development Plan (NDP) and the County Development Plans (CDPs). However outside of the larger towns and cities, classified as Hubs and Gateways, the NSS is not strong in relation to these towns. The NSS identifies various cities and large towns as gateways and hubs to lead development in their regions, with other towns, villages and rural areas characterised as having complementary roles. The NDP concentrates on how sectoral investments will be made e.g. economic infrastructure, enterprise and science, human capital, social inclusion. Although these investments would affect small and medium sized towns, the towns themselves are not singled out for attention. The CDPs usually provide more detail on how small and medium sized towns in the county should be developed but largely concentrate on complying with national and regional development plans.

The paper will progress as follows. The next section presents the theoretical context to our work. In section 3, we describe the demographic and education characteristics of towns. Section 4 describes the geography of towns while section 5 describes the economic profile. We develop in section 6 an index of economic strength. Section 7 concludes and makes some policy recommendations.

### **13.2 THEORY FACTORS AFFECTING THE SUCCESS OF SMALL TOWNS**

For small towns to develop and grow economically, we must first understand why some towns grow while other towns decline. Barkley (2001) presents two well-established explanations of local economic growth and development: Economic Base Theory and Comparative Advantage Theory.

Economic base theory or export base theory focuses on the demand-related factors responsible for local economic growth or decline (Andrews, 1954; North, 1956; Tiebout, 1956). The theory suggests that the economy can be divided into basic (export) activities and non-basic (local) activities.<sup>54</sup> Basic activities involve firms serving markets outside their community and as a result, bringing outside money into the

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<sup>54</sup> Export here means export outside of the hinterland and not necessarily overseas.

community. Non-basic activities involve the firms serving markets within the community. Basic industries are the prime stimulators of growth in the local economy because the goods they export bring outside money that raises the overall level of income in the community. Non-basic activities merely result in money trading hands within the community. Additionally, households and non-basic sectors will initiate additional rounds of spending with the money received from the exporters, thereby producing a multiplier effect. As a result, each unit of basic export income generates more than one unit of total community income.

Economic base theory is often criticised because it doesn't explain why exporting firms decide to locate in a particular community. The theory of local comparative advantage (first mentioned by Adam Smith in *The Wealth of Nations* and formulated by David Ricardo in 1817 *On the Principles of Political Economy and Taxation*) emphasises the supply side of the economic development process that complements the demand side explored by economic base theory. A supply-driven model makes local economic activity dependent on the availability of resources (labour, capital, markets, transportation etc.) for the production of goods and services. Economic activity will develop according to local comparative advantage, with each local community specialising activities where it can produce more efficiently than other regions. Therefore, in order for rural communities to grow, they must improve the quality/availability of local inputs. Comparative advantage theory says that communities decline because conditions have changed such that they are no longer competitive in the production of goods and services. For example, agriculturally based communities have declined because fewer farmers are necessary to feed the nation or textile manufacturers close down because they can no longer compete with Asian producers.

From an economic perspective, we must ask why towns and cities exist in the first place. Powerful forces, such as high land prices, traffic congestion, overcrowding, intense competition, and pollution should push people and firms away from urban centres but, as we know, most people live in or near towns and cities. A number of reasons have been put forward as to why people and firms are drawn to urban areas, including concentrated markets, economies of scale, sharing of knowledge, access to product varieties and cultural amenities (Clement, 2004). Theories for why towns and cities exist all try to explain why the forces bringing people and firms together overcome the forces driving them apart.

The first rigorous economic model of a city is provided by von Thünen in the early 19<sup>th</sup> century (Fujita et al., 2001). Von Thünen described an economy in which farmers bringing produce to market in an urban centre would incur a transport cost proportional to the distance they travelled. A farmer whose land was closer to the urban centre would benefit from lower transport but would suffer higher land rents. The pattern determined what kinds of goods would be produced near the centre and which could still be profitable if grown far from town. This pattern is often represented as concentric rings of cultivation (Fujita et al., 2001). With this model, von Thünen introduced an essential element for the study of cities and economic growth: the idea of proportional transportation costs and their relationship to overall costs of production.

Alfred Marshall looked less at the costs of farmers bringing products to market and more at the internal dynamics of industry and the urban areas where they tended to locate. Marshall offered three main reasons for why industry and population tend to concentrate in cities: labour market pooling; input markets; and human capital and knowledge. Industries and workers that locate in cities increase the worker's probability of finding a job and decrease the search costs for firms seeking labour. A geographically concentrated industry can support a range of specialised local input suppliers, thereby creating backward linkages. Finally, the proximity of skilled workers means that the knowledge and ideas will transfer among them, generating innovation and new growth.

However, while agglomeration can have positive effects like increasing productivity and innovation, it also has its negative side in terms of increased congestion, commute times and pollution. Henderson (1974) introduced a model showing that there is a trade-off between welfare and city size. The model is based upon the fact while there are positive externalities related to agglomeration, there are negative externalities in terms of the commuting costs in large cities. As city size increases, an individual citizen's utility also rises as long as the positive effects of agglomeration outweigh commute costs. When commute costs outweigh the positive agglomeration effects, utility starts to fall. This relationship between city size and citizen utility can therefore be expressed as an inverted U.

In this model, all cities will reach an optimal size based on the trade-off between welfare and city size. If cities are not at their optimal size, the theory argues that developers will recognise this and build in areas with sub-optimal populations until the optimal city size is reached. The fact that cities are not all of the same size arises from the fact that positive externalities tend to be specific to particular industries while negative externalities tend to depend on the size of the city. This observation has two consequences. Firstly, because there are negative externalities associated with city size, it makes no sense to put industries without mutual spillover in the same city. Therefore, each city should be specialised in one or a few industries that create positive externalities. Secondly, the degree of specialisation will depend on the nature of the business, which will consequently affect the optimal size of the city. Finally, the theory argues that relative prices will adjust so that the welfare of representative residents in the different cities will be the same.

The notion of the "second economy" comes from developmental economics and mainly refers to informal economic activity that takes place outside the formal, "first" economy. Atkinson (2008), as part of a report on the second economy in small and medium sized towns in South Africa, defines the second economy in terms of survivalist enterprises and micro-enterprises. Survivalist enterprises are very low income, usually have no paid employees and are directed mainly at maintaining survival for the owner. They are usually unregistered, non-tax paying and hence informal in status. Micro-enterprises have fewer than five employees, operate below the VAT registration limit and are often unregistered for other business purposes as well. Atkinson (2008) argues that "the fortunes of the second economy probably depend on the fortunes of the first economy, but that the first economy should be harnessed in ways that make it accessible to the second economy" (p. 6).

In terms of regional development, Parr (1999) defines the growth pole strategy as follows:

If a given level of public investment on infrastructure and inducements to the private sector could be focused within the region at a limited number of locationally favoured centres, the impact on the economy in terms of inward investment (leading to increased employment opportunities and higher per capita incomes) would be greater than under a strategy which sought to assist the least-favoured parts of the region or one which allocated expenditures on a purely proportionate basis in terms of population or employment (p.1200).

Growth poles thus act as the primary focus points in the transformation of the spatial structure of the regional economy. Investment is focused on a number of regional growth pole towns in order to make them attractive to incoming economic activity and capable of economic development. A more competitive spatial structure should emerge, encouraging development in the growth pole towns and their hinterlands.

In the context of small and medium sized towns in Ireland, the previous theoretical discussion can provide insight into the concept of towns as places to work in (growth towns) versus places to live in (dormitory towns). Growth towns, in the absence of cities in the region, act as regional growth poles, providing the benefits cities derive from agglomeration. These towns thus become centres of economic activity and a source of jobs and higher per capita income. However, other towns have become dormitory towns, with little local economic activity and the population migrating to nearby cities to work and returning at night. The dormitory town phenomenon can be applied to the von Thünen economic model with workers replacing agricultural goods. Rents are lower in dormitory towns (as they are for further from agricultural land in the von Thünen model) than in the city centre where workers are employed. Although commute costs are higher than they would be closer to the city centre (as transport costs would be for farmers with their agricultural goods), this is compensated for by the decreased rents the worker enjoys.

### **13.3 DEMOGRAPHIC STRUCTURE**

For the purposes of this paper, towns are divided into three categories according to population size, outside of the five cities and open countryside. These categories are 1500-2999 inhabitants, 3000-4999 inhabitants and 5000-9999 inhabitants, towns of 10000+ inhabitants, similar to choices made in the 2011 Census of Population. In addition, we classify settlements with between 200 and 1499 inhabitants as villages. Dividing small towns into different categories allows a more accurate representation of current circumstances facing towns, reflecting the heterogeneity of circumstances in towns of different sizes.

This paper uses data from the two most recent censuses of Ireland (2011 and 2006). According to our calculations using the most recent census, there were 134 towns outside the cities and County Dublin in 2011 with population between 1500 and 9999. Of these, 52 towns had between 1500 and 2999 inhabitants, 20 towns had between 3000 and 4999 inhabitants and 32 towns had between 5000 and 9999 inhabitants and 30 towns with more than 10000 inhabitants.

As shown in Table 1, these towns collectively account for 34 per cent of the Irish population, with 15 per cent of the population in towns of larger than 10000. 30 per cent lived in villages and the open countryside, while 35 per cent lived in the cities.

These towns grew bigger between 2006 and 2011, with migration rates of between 4 and 7 per cent, although towns of more than 10000 had a net outflow. The dependency ratio (the ratio of non-working age to working age inhabitants) in towns is above the national average due primarily to the number of children. The dependency ratio for the countryside is highest, due in part to a larger elderly population. However towns have a lower share of inhabitants with a third-level education just below the national average, but lower than cities.

**Table 13.1 Population Structure in 2011**

	Share of Towns	Share Aged < 15	Share Aged > 65	Dependency Ratio	Net Migration Rate	Population Share
Open Countryside		0.17	0.18	0.50	-0.02	0.01
Villages (200-1499)		0.19	0.15	0.48	0.00	0.29
Towns (1500-2999)	0.39	0.20	0.14	0.47	0.04	0.08
Towns (3000-4999)	0.16	0.20	0.13	0.46	0.07	0.05
Towns (5000-9999)	0.23	0.20	0.13	0.45	0.04	0.09
Towns (10000+)	0.22	0.19	0.12	0.42	-0.02	0.15
Waterford City		0.17	0.15	0.43	-0.05	0.01
Galway City		0.14	0.11	0.32	-0.03	0.02
Limerick City		0.15	0.15	0.41	-0.10	0.01
Cork City		0.12	0.17	0.39	-0.04	0.03
Dublin City		0.13	0.15	0.36	0.00	0.12
County Dublin		0.19	0.11	0.41	0.00	0.16
Nation	1.00	0.18	0.14	0.43	0.00	1.00

Source: CSO Census of Population 2006, 2011

**Table 13.2 Education Characteristics in 2011**

	Compulsory	Upper Secondary	Tertiary	Change Tertiary Share 2006-11
Open Countryside	0.41	0.33	0.26	0.05
Villages (200-1499)	0.37	0.35	0.27	0.03
Towns (1500-2999)	0.34	0.36	0.30	0.01
Towns (3000-4999)	0.31	0.36	0.33	-0.02
Towns (5000-9999)	0.30	0.38	0.32	-0.02
Towns (10000+)	0.29	0.36	0.35	-0.02
Waterford City	0.36	0.34	0.30	-0.03
Galway City	0.20	0.32	0.48	0.02
Limerick City	0.40	0.33	0.27	0.02
Cork City	0.35	0.31	0.34	0.03
Dublin City	0.31	0.27	0.42	0.04
County Dublin	0.24	0.35	0.41	-0.03
Nation	0.32	0.34	0.34	0.00

Source: CSO Census of Population 2006, 2011

In general, the housing stock in the town categories is slightly older than that in the cities (Table 3), but younger than in the open countryside. Nearly 80 per cent of the housing stock in the country has been built since 1991, with 39 per cent being built since 2006 when the housing bubble was at its height. There is also a greater amount of

unoccupied housing in the towns and countryside than there is in the cities, reflecting the unsustainable building boom that took place around the country during recent years.

**Table 13.3 Housing Characteristics in 2011**

	Pre 1990	1990-2005	2006+	Occupied	Owner Occupied	Private Rent	Social Rent and Other
Open Countryside	0.59	0.28	0.13	0.72	0.90	0.04	0.05
Villages (200-1499)	0.20	0.40	0.40	0.78	0.85	0.08	0.07
Towns (1500-2999)	0.22	0.39	0.39	0.77	0.75	0.15	0.10
Towns (3000-4999)	0.23	0.38	0.38	0.82	0.70	0.19	0.11
Towns (5000-9999)	0.24	0.38	0.38	0.84	0.68	0.21	0.12
Towns (10000+)	0.24	0.38	0.38	0.86	0.65	0.24	0.11
Waterford City	0.20	0.40	0.40	0.82	0.60	0.20	0.20
Galway City	0.23	0.38	0.38	0.84	0.50	0.38	0.12
Limerick City	0.16	0.42	0.42	0.85	0.59	0.25	0.15
Cork City	0.15	0.43	0.43	0.86	0.54	0.28	0.18
Dublin City	0.14	0.43	0.43	0.87	0.53	0.33	0.14
County Dublin	0.24	0.38	0.38	0.91	0.71	0.20	0.09
Country	0.21	0.39	0.39	0.83	0.71	0.19	0.10

#### 13.4 GEOGRAPHY OF SMALL TOWNS

Table.4 shows the distribution of population in each region by town type, as well as the distribution of population across regions by town type. Towns with between 1500 and 2999 inhabitants are most common in the Border Region containing Louth, Leitrim, Sligo, Cavan, Donegal, and Monaghan, followed by the Mid-East Region of Kildare, Meath and Wicklow and the South-West Region of Cork and Kerry. Towns with between 3000 and 4999 inhabitants are most common in the South-West Region, followed by the Border Region and Mid-East Region in third. Finally, towns between 5000 and 9999 inhabitants were most common in the Mid-East Region (reflecting the number as dormitory towns for Dublin), followed by the South-West Region and the South-East Region of Carlow, Kilkenny, Wexford, South Tipperary and Waterford.

**Table 13.4 Regional Distribution by town type 2011**

	A	B	C	D	E	F	G	H
Decomposition within Region								
Open Countryside	0.02	0.00	0.004	0.03	0.02	0.01	0.01	0.02
Villages (200-1499)	0.44	0.00	0.21	0.48	0.43	0.48	0.32	0.49
Towns (1500-2999)	0.18	0.00	0.12	0.10	0.12	0.08	0.09	0.12
Towns (3000-4999)	0.09	0.00	0.07	0.04	0.02	0.05	0.09	0.06
Towns (5000-9999)	0.09	0.00	0.24	0.11	0.12	0.10	0.12	0.10
Towns (10000+)	0.18	0.00	0.36	0.24	0.15	0.18	0.19	0.04
City	0.00	1.00	0.00	0.00	0.14	0.09	0.18	0.17
Total	1	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Decomposition across regions								
Open Countryside	0.20	0.00	0.05	0.15	0.15	0.10	0.15	0.19
Villages (200-1499)	0.17	0.00	0.08	0.10	0.12	0.18	0.17	0.17
Towns (1500-2999)	0.24	0.00	0.17	0.08	0.12	0.10	0.15	0.14
Towns (3000-4999)	0.21	0.00	0.16	0.06	0.03	0.13	0.28	0.13
Towns (5000-9999)	0.11	0.00	0.31	0.07	0.11	0.12	0.18	0.10

Towns (10000+)	0.14	0.00	0.30	0.10	0.09	0.14	0.20	0.03
City	0.00	0.81	0.00	0.00	0.03	0.03	0.08	0.05

Source: CSO Census of Population 2011

Note: (A) Louth, Leitrim, Sligo, Cavan, Donegal, Monaghan; (B) Dublin; (C) Kildare, Meath, Wicklow; (D) Laois, Longford, Offaly, Westmeath; (E) Clare, Limerick, Tipp. N.R.; (F) Carlow, Kilkenny, Wexford, Tipp S.R., Waterford; (G) Cork, Kerry; (H) Galway, Mayo, Roscommon

Table 5 shows the average distance of various town types from the closest economic hub, as well as the distance of the highest unemployment areas in each town type from the closest economic hub. In the countryside and the towns, the highest unemployment areas are further away from an economic hub than average while the reverse is the case in the cities (with the exception of Galway), with the highest unemployment areas being closer to the centre than average areas.

**Table 13.5 Average Distance to Closest Hub 2011**

	Highest Unemployment Areas	All Areas	Ratio
Open Countryside	35.1	32.3	1.09
Villages (200-1499)	33.6	28.7	1.17
Towns (1500-2999)	33.5	26.5	1.26
Towns (3000-4999)	27.4	26.0	1.05
Towns (5000-9999)	32.9	27.2	1.21
Towns (10000+)	32.8	19.7	1.67
Waterford City	2.1	2.3	0.91
Galway City	4.2	3.0	1.41
Limerick City	1.3	1.5	0.88
Cork City	2.2	2.3	0.97
Dublin City	4.0	4.1	0.98
County Dublin	9.9	11.4	0.87
Country	23.2	19.7	1.18

Source: CSO Census of Population 2006, 2011

### 13.5 THE LOCAL ECONOMY

Table 6 shows the impact of the economic downturn by comparing the employment and unemployment rate between 2006 and 2011. Although the downturn has clearly affected the country as a whole, its impact has been particularly pronounced in towns. The unemployment rate has increased by 150 per cent nationally, but has risen by 200 per cent in towns with between 3000 and 4999 inhabitants. The unemployment rate increase is also above the national average in the two other categories of town as seen below. The employment rate in towns has suffered a larger decrease than the national average following the downturn.

We are interested in the extent to which areas are the economic driver of their hinterland or whether they serve as dormitory towns to economically stronger hubs. We can use the measure of net jobs, the number of jobs in the locality minus the number of people in work living in the locality, as a measure of this.

Generally, there is an urban/rural divide in terms of net jobs. As shown in Table 7, from the open countryside to towns up 4999 inhabitants, there are a higher number of people in work than jobs in those locations. This suggests that people resident in these localities travel elsewhere to work. The opposite is seen in towns and cities with upwards of 5000 inhabitants, which act as a source of jobs for their hinterlands.



**Table 13.6 Labour Market Structure**

	2011		Change 2006-2011	
	Employment Rate	Unemployment Rate	Unemployment Rate	Employment Rate
Open Countryside	0.49	0.09	1.80	-0.09
Villages (200-1499)	0.49	0.10	2.08	-0.11
Towns (1500-2999)	0.49	0.11	1.77	-0.12
Towns (3000-4999)	0.50	0.11	2.00	-0.13
Towns (5000-9999)	0.50	0.12	1.57	-0.14
Towns (10000+)	0.50	0.11	1.38	-0.13
Waterford City	0.45	0.13	1.10	-0.13
Galway City	0.51	0.11	1.05	-0.07
Limerick City	0.39	0.13	1.09	-0.18
Cork City	0.42	0.11	1.09	-0.11
Dublin City	0.51	0.10	0.88	-0.09
County Dublin	0.54	0.09	1.36	-0.10
Country	0.50	0.10	1.50	-0.11

Source: CSO Census of Population 2006, 2011

**Table 13.7 Distribution of Net Jobs (# Jobs- # In Work)**

	2006	2011
Open Countryside	-0.22	-0.20
Villages (200-1499)	-0.21	-0.21
Towns (1500-2999)	-0.05	-0.08
Towns (3000-4999)	-0.01	-0.03
Towns (5000-9999)	0.06	0.05
Towns (10000+)	0.12	0.13
Waterford City	0.33	0.17
Galway City	0.27	0.26
Limerick City	0.26	0.29
Cork City	0.29	0.34
Dublin City	0.28	0.28
County Dublin	-0.07	-0.05

Source: CSO Census of Population 2006, 2011

**Table 13.8 Industrial Distribution of Employment**

	2006				2011			
	Agri	Const.	Ind.	White Collar	Agri	Const.	Ind.	White Collar
Open Countryside	0.17	0.14	0.17	0.52	0.23	0.06	0.11	0.60
Villages (200-1499)	0.11	0.15	0.18	0.57	0.13	0.07	0.13	0.67
Towns (1500-2999)	0.05	0.14	0.18	0.64	0.05	0.06	0.14	0.75
Towns (3000-4999)	0.03	0.12	0.17	0.67	0.04	0.05	0.14	0.76
Towns (5000-9999)	0.02	0.12	0.17	0.68	0.03	0.05	0.15	0.78
Towns (10000+)	0.01	0.11	0.15	0.73	0.01	0.04	0.13	0.81
Waterford City	0.01	0.08	0.21	0.70	0.00	0.03	0.17	0.79
Galway City	0.01	0.08	0.15	0.76	0.01	0.03	0.14	0.83
Limerick City	0.00	0.08	0.22	0.70	0.00	0.03	0.13	0.84
Cork City	0.00	0.10	0.15	0.75	0.00	0.04	0.14	0.83
Dublin City	0.00	0.08	0.10	0.82	0.00	0.03	0.06	0.91
County Dublin	0.01	0.07	0.11	0.81	0.01	0.04	0.08	0.87

Total	0.04	0.11	0.15	0.69	0.05	0.05	0.12	0.78
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Source: CSO Census of Population 2006, 2011

In terms of industrial distribution, towns are more reliant on agriculture, construction and manufacturing jobs than urban locations. As the size of the settlement increases, white collar jobs become increasingly important. The impact of the downturn can be seen most clearly in the sharp decline in construction employment and jobs between 2006 and 2011 (see Tables 8 and 9). Employment in construction was particularly important in towns and therefore, these localities have been particularly hard hit by the downturn.

**Table 13.9 Industrial Distribution of Jobs**

	2006				2011			
	Agri	Const.	Ind.	White Collar	Agri	Const.	Ind.	White Collar
Open Countryside	0.35	0.20	0.11	0.34	0.34	0.10	0.16	0.40
Villages (200-1499)	0.20	0.22	0.15	0.43	0.23	0.10	0.15	0.53
Towns (1500-2999)	0.06	0.16	0.18	0.60	0.07	0.07	0.16	0.70
Towns (3000-4999)	0.04	0.15	0.19	0.62	0.04	0.06	0.15	0.74
Towns (5000-9999)	0.02	0.12	0.18	0.67	0.02	0.05	0.17	0.76
Towns (10000+)	0.01	0.09	0.18	0.72	0.01	0.04	0.14	0.81
Waterford City	0.00	0.07	0.26	0.67	0.00	0.03	0.14	0.83
Galway City	0.01	0.07	0.21	0.71	0.00	0.03	0.17	0.79
Limerick City	0.00	0.07	0.09	0.83	0.00	0.03	0.05	0.92
Cork City	0.00	0.07	0.11	0.81	0.00	0.02	0.11	0.86
Dublin City	0.00	0.05	0.07	0.88	0.00	0.02	0.05	0.93
County Dublin	0.01	0.11	0.14	0.75	0.01	0.05	0.11	0.83
Total	0.05	0.12	0.15	0.68	0.05	0.05	0.12	0.77

Source: CSO Census of Population 2006, 2011

One of the consequences of the economic downturn was a rapid increase in the savings rate as households became more risk averse, due to changed circumstances such as unemployment and pay cuts and as a result of lower future expectations. Nationally, the savings rate fell from 11.4 per cent in 2005 to 5.9 per cent in 2011. Of particular concern here is the differential change in savings in different areas. This is because of the importance of the domestic sector in the local economy which is particularly hit in periods of lower demand.

Carey et al., (2014) undertook a study of the CSO Household Budget Survey (HBS) analysing consumption, income and the consequential savings rate by the relatively crude spatial classification contained in the HBS. We report this analysis in table 12.10. There has been a larger rise in savings in small towns, than rural areas or cities, during the 2004-5 and 2009-20 time periods. Categorising households into cities, towns and rural areas, we find that nationally the dataset reveals a similar trend to the nation, albeit at a lower level, reflecting the fact that the top 1 per cent of incomes are under-represented in the HBS and household data ignores corporate saving etc.

At a disaggregated level, the savings rate is highest in cities in both periods, however towns exhibit the biggest change from a negative savings rate in 2004-5, consistent with the expenditures associated house buying and inward migration in this period, to a

savings rate of over 7 per cent in 2009-10. This reflects the fact that unemployment increased to the greatest extent in towns. Rural households, more reliant on Agriculture, which has fared reasonably well going from having the highest savings rate to the lowest, reflecting the smallest change in the savings rate.

**Table 13.10 Savings Rate by Area**

	2004-05		2009-10
City	3.6	City	10.5
Towns	-1.4	Towns	7.1
Rural	4.8	Rural	5.9
Country	2.5	Country	8.1
Country (National Accounts)	5.9	Country (National Accounts)	11.4
Dublin metropolitan area	5.0	County Borough	12.1
		Suburbs of County Boroughs	9.0
Towns with more than 20,000	0.7	Environs of County Boroughs	4.0
Towns with 3,000 - 20,000	-1.3	Towns 10,000+	5.6
		Towns 5,001 - 10,000	6.8
Towns less than 3,000	-1.8	Towns 1,000 - 5,000	13.1
		Mixed Urban/Rural Areas	7.6
Rural households	4.8	Rural Areas	3.4

Source: CSO Household Budget Surveys, Carey et al., (2014)

The consequential impact on welfare of these economic changes can be captured by the deprivation rate, poverty rate and jobless rates (Table 11). Table 11 presents a breakdown of three main indicators used in the national social target for poverty reduction, using five locational categories. Consistent poverty which is a combination of the monetary headcount rate and deprivation indicators has the highest rate in towns and mixed urban/rural areas at between 7.5 and 10.1 per cent, with rural areas, slightly below the national average at 6.5 per cent. The share of children in these households is higher and exhibits a similar spatial pattern.

Of particular concern is the share of jobless working age households. Ireland has a relatively high proportion of households with anyone in work relative to European partners, including those with high aggregate unemployment rates. In towns we find that about a third of working age households have no one in work relative to 24 per cent in rural areas and less than 20 per cent in cities. Significantly, rural locations account for 43 per cent of all those in jobless households in the state.

**Table 13.11 Poverty indicators used in the national social target, by location in 2011**

	Consistent poverty	Children in consistent poverty	Jobless households
Cities & suburbs	4.9%	8.1%	19.8%
Towns and envi with pop=>5000	9.6%	13.2%	29%
Towns and envi with pop 1000<=<5000	10.1%	14.9%	31.5%
Mixed urban / rural areas	7.5%	8.1%	24.6%
Rural	6.5%	8.3%	24.3%
State	6.9%	9.3%	24%

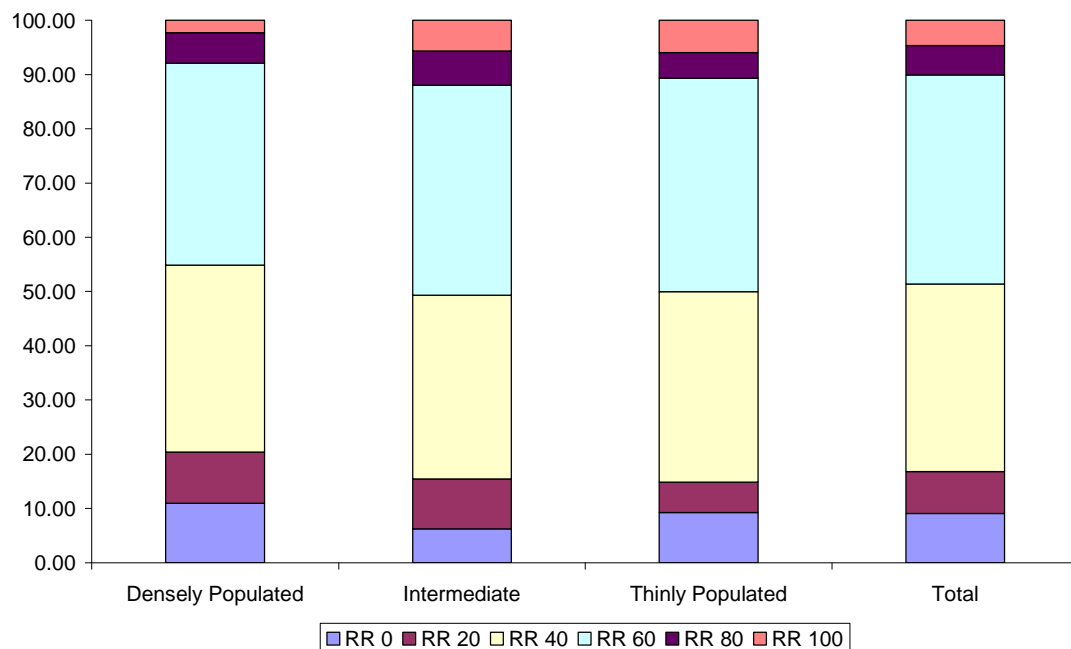
Source: CSO SILC 2011, Walsh (2013)

This high share of jobless households is of particular concern as it can result in lower motivation and experience of interaction in the labour market which can have inter-generational consequences and thus be more difficult to solve and result in wider socio-economic consequences than a more equal spread of unemployment. Thus tackling poverty in rural areas will be critical in order to meet the national social target for poverty reduction and the sub-targets for children and jobless households.

While there are clear labour demand issues in the economy associated with the lack of domestic demand, there are also labour supply issues, resulting from lower potential wages relative to unemployment benefits in the economic downturn. In areas and times of lower economic activity, typically the potential wage rate is lower than in areas and times of higher economic activity. This has both implications for poverty and for work incentives.

This effect can also have spatial impacts. Because social welfare rates are the same in all areas, as a result replacement rates, the ratio between out of work income and in-work income, can be higher in some rural areas (See Figure 12.1). This combined with lower employment demand and thus higher job search costs and/or the need to travel or migrate for work can reduce the incentive to work. This is particularly an issue in relation to rural areas within commuting distance of urban centres. The marginal impact on travel costs is lower outside of these areas due to lower opportunities – a demand side related issue.

**Figure 13.1 Distribution of Replacement Rates**



Source O'Donoghue and Vega (forthcoming)

Note: A Replacement Rate is the Ratio of Out of Work Income to In-Work Income

### 13.6 ECONOMIC STRENGTH

In this section, we develop a measure known as economic strength to identify towns that have been most severely affected by the economic downturn. Using the data described above, we define economic “strength” as an index that is a function of the unemployment rate and the level of migration. The lower the unemployment rate, the stronger the town was and the higher the level of inward migration, the stronger the town was.

Table 12 describes the share of towns by type and by quintile of economic strength. Economic strength is divided into five quantiles, going from the strongest to the weakest. There is significant variation within each town type but generally, the larger towns, with over 10000 inhabitants look “weaker” than the smaller towns, especially those with between 3000 and 4999 inhabitants.

**Table 13.12 Type of Towns by Strength**

	Quantile					Total	Share of Population
	Strongest	2	3	4	Weakest		
Towns (1500-2999)	0.19	0.27	0.20	0.17	0.17	1.00	0.32
Towns (3000-4999)	0.24	0.20	0.30	0.16	0.10	1.00	0.17
Towns (5000-9999)	0.23	0.18	0.16	0.21	0.23	1.00	0.22
Towns (10000+)	0.17	0.15	0.16	0.27	0.25	1.00	0.29
Population	216127	217066	209081	219054	207523	1068851.00	

Source: CSO Census of Population 2006, 2011

Large variations can also be seen between the strength of towns within a region (see Table 13). For example, the West Region of Galway, Mayo and Roscommon has 31 per cent of its towns in the strongest quantile, but it also has 28 per cent of its towns in the weakest quantile. Overall, the West, South-West and East Regions have the highest share of “strong” towns while the Midlands, Mid-West the East and the South-East Regions have the highest share of “weak” towns. In terms of rural areas (see Table 12), the strongest Regions were the West, South-West and the Mid-West, while the weakest regions were the Border, the South-East and the Mid-East.

**Table 13.13 Towns in Regions by Strength**

	Quantile						Share of Population
	1	2	3	4	5	Total	
Louth, Leitrim, Sligo, Cavan, Donegal, Monaghan	0.07	0.28	0.28	0.16	0.22	1.00	0.17
Kildare, Meath, Wicklow	0.26	0.16	0.14	0.26	0.19	1.00	0.08
Laois, Longford, Offaly, Westmeath	0.07	0.16	0.24	0.11	0.42	1.00	0.10
Clare, Limerick, Tipp. N.R.	0.23	0.16	0.10	0.27	0.24	1.00	0.12
Carlow, Kilkenny, Wexford, Tipp S.R., Waterford	0.04	0.16	0.24	0.28	0.29	1.00	0.18
Cork, Kerry	0.27	0.23	0.29	0.17	0.04	1.00	0.16
Galway, Mayo, Roscommon	0.31	0.29	0.02	0.11	0.28	1.00	0.17
	0.20	0.20	0.20	0.20	0.19	1.00	1.00

Source: CSO Census of Population 2006, 2011

Note 1 is strongest and 5 is weakest

Table.14 shows the characteristics of towns by strength. As can be seen below, there is a huge variation between the strongest and weakest towns, especially when the weakest 10 per cent are considered. In towns, there is a 50 percentage point difference between the unemployment rate in the strongest quantile and the weakest 10 per cent. A huge difference in unemployment levels is also apparent between the strongest and weakest rural areas. Similarly, there is a large difference in the levels of tertiary education in the strongest and weakest towns. The weakest 10 per cent of towns also have a larger proportion of unoccupied housing than average. The strongest towns are also much closer to the nearest economic hub than the weakest. Additionally, stronger towns have positive net migration rates while weaker towns suffer negative ones. Interestingly, weaker towns have a much greater share of net jobs, on average, than the strongest towns. This may be because the weakest towns act as economic poles for the area and are therefore a source of jobs their hinterlands. Stronger towns are typically much closer to other economic hubs.

**Table 13.14 Characteristics of Towns by Strength**

	Unemployment Rate	Dependency Ratio	Tertiary Education Share	Occupied Housing	Distance to Closest Hub	Average Net Migration	Share of Net Jobs	Home Owner Share
1	75	96	124	102	76	0.23	-420	0.68
2	90	101	102	99	85	0.05	-130	0.67
3	99	97	103	101	106	0.03	171	0.66
4	107	102	90	100	113	-0.02	142	0.66
5	121	103	88	98	113	-0.04	577	0.66

Source: CSO Census of Population 2006, 2011

Note: The values are relative to National Average = 100

Note 1: is strongest and 5 is weakest

### **13.7 SUMMARY AND RECOMMENDATIONS**

The situation faced by towns across the country is a complex one. It cannot be boiled down to traditional policy issues such as the East-West divide. For example, East coast towns have been disproportionately affected by the downturn while towns in the West are among the strongest in the country. Similarly, we can't classify some counties as strong and some as weak as both strong and weak towns exist within the same county, often proximate to each other. Towns have particular issues affecting them that may require short-term or long-term solutions or both. Some towns may need short-term job creation measures to reduce local unemployment while others may require long-term structural change in terms of enhanced skills and infrastructure to attract new industries.

Our research has shown that small and medium sized towns, on average, have been impacted to a greater extent by the economic downturn than cities. They have suffered higher increases in unemployment rates, as well as greater decreases in employment levels. Additionally, jobs in small and medium sized towns and the open countryside are disproportionately reliant on industrial sectors with falling employment such as agriculture, construction and industry. Poverty rates are also higher in small and medium sized towns and the open countryside, with one third of working age households with no one in work, 50% higher than in cities.

These areas are more dependent on declining economic sectors such as agriculture, construction and industry for employment than cities. As a result, unemployment rates in small and medium sized towns are, for the most part, higher than the national average.

Consequently, consumer demand is depressed. The savings rate, which was at 2% in 2007, is now 12-14% nationally across households and industry. Savings rates have risen substantially amongst the smallest towns, with the savings rate increasing by 300% compared with cities. The biggest impact of the changed savings rate is a reduction in investment expenditure, which is vital for economic growth. Averages in indicators also mask a wide variability in characteristics. When comparing the best ten towns and the worst ten towns, as measured by unemployment and migration, the bottom ten towns have twice the unemployment rate, a difference in the net migration rate of 80% and 56% of the share of tertiary education.

Despite the depressed situation in small and medium sized towns, they are not a point of focus in national policy strategies. As part of the government's Action Plan for Jobs, a new sectoral strategy to promote employment and support local enterprise by local government was published (DECLG, 2012). The strategy outlines measures to be planned and implemented by local authorities around the country to promote local economic development such as in the areas of business charges, local enterprise and business support arrangements, procurement support, local development and community based initiatives.

However, it must be acknowledged that decision-making and funding constraints make it difficult for local government in Ireland to significantly develop the local economy. It has been put forward that in countries where resources and decision-making responsibility are relatively centralised, such as in Ireland and England, the

decentralisation of power to local government would improve services and acknowledge the unique economic and social challenges of rural areas (Pearce et al., 2005).

Lambe, (2008) in the study *Small Towns, Big Ideas*, a year-long study of small towns across the United States identifies seven themes as take-away lessons for other communities:

- In small towns, community development is economic development
- Small towns with the most dramatic outcomes tend to be proactive and future-oriented: they embrace change and assume risk
- Successful community economic development strategies are guided by a broadly held local vision
- Defining assets and opportunities broadly can yield innovative strategies that capitalise on a community's competitive advantage
- Innovative local governance, partnerships, and organisations significantly enhance the capacity for community economic development
- Effective communities identify, measure and celebrate short-term successes to sustain support for long-term community economic development
- Viable community economic development involves the use of a comprehensive package of strategies and tools rather than a piecemeal approach

Barkley (2001) recommends six separate alternatives for employment generation in small towns and strategies communities can use to make these alternatives come to pass in their towns:

- Recruit new basic employers from outside the community, primarily branches of multi-plant manufacturing concerns
- Support entrepreneurial activity and the development of new small businesses
- Increase income and employment in local agribusiness industries by further processing of local production or the development of new agricultural products
- Expand local service and trade activity to reduce leakages of spending outside the community
- Develop tourism, recreation and retirement industries so that significant outside spending is attracted to the community
- Develop programmes which will aid in the retention of and expansion of existing businesses

The Market Towns Initiative (MTI) was a UK community-led development programme that operated throughout rural England between 2000 and 2005/6. It was designed to help local people identify and capitalise on the economic, environmental, and social strengths and weaknesses of small country towns (Morris, 2012). A number of studies have been carried out examining how successful the MTI was and what lessons can be learned for the future (Countryside Agency, 2004; Phillips & Swaffin-Smith, 2004; Ward, 2006; Morris, 2012). The need to form relationships and maintain good communications with other stakeholders is emphasised. Putting people with the right skills in key organisational positions is important, as is getting organising structures right in terms of quality and representation. Consultation with the community is necessary along with the need to deal with and manage the views of disparate groups. Expectations are important, and over-promising should be avoided, particularly in terms of availability of money. Finally, it's necessary to ensure that sufficient skills are



developed within towns so that work can continue after initiatives end or funding runs out.

For towns looking to develop a strategy in order to boost economic development, Coppedge (1982) and Woods and Sloggett (2002) both provide detailed checklists to show what is required. Coppedge (1982) provides a seven step strategy:

- Develop an overall plan;
- Look at the infrastructure;
- Compile a list of “suspects” (businesses that could operate profitably in the area);
- Convert suspects to prospects (prospective business);
- Sell the prospect (convince prospect to start a business in the area);
- Follow through on commitments;
- Keep existing businesses.

Woods and Sloggett (2002) put forward eight steps toward designing a strategic economic development plan:

- Establish a steering committee;
- Obtain technical assistance;
- Develop basic data;
- Review economic development alternatives;
- Analyse key issues;
- Identify financial resources;
- Set priorities;
- Implement the plan.

These plans can prove beneficial for a number of reasons. Firstly, they outline the steps to follow, requiring the community to identify the intermediate steps needed to reach their final goals. Secondly, they promote the efficient use of scarce resources and improve co-ordination between different stakeholders. Thirdly, they help to build consensus and increase public awareness of how development occurs. Finally, a strategic plan can encourage forward-thinking and strengthen the community’s competitive position by showing its level of organisation to outsiders.

### *Policy Recommendations*

In order to improve the economic situation in rural Ireland, we propose that an integrated stimulus programme targeted at small and medium towns is developed within the RDP. The objectives of the programme are very complementary with the social inclusion and rural regeneration programme and could be delivered by LEADER.

The structure of the programme would be multifaceted with a focus on:

- Making towns more attractive to live in and visit
- Making it easier to do business
- Increasing consumer demand and sentiment
- Improving access to finance for SME’s.

The mechanism for the delivery of these recommendations would be via a Targeted Stimulus Programme with the following characteristics:

- Resources would be concentrated in a small number of areas with the greatest need
- The process should be competitive, with resources going to those towns that can most demonstrate the potential impact from funding ensuring that the impact would be highest, rather than merely allocating the most needy towns.
- The focus should be on areas with the greatest economic disadvantage as measured by unemployment and migration.
- Consistent with objectives in relation to Community Led Local Development, a town must create a local development group to lead development in towns and to prepare a development plan.
- It should leverage complementary actions in other areas
- Successful towns would be selected on the basis of both need in terms of unemployment rate, migration rate and the viability and cost effectiveness of development plans.

Specifically the Small Towns Stimulus Programme would:

- Improve the physical architecture and appearance of small towns by creating targeted incentives to facilitate town and village renewal and refurbishment.
- Facilitate local demand via and retro fitting of older houses
- Incentivising activities such as festivals, markets that will increase footfall in the town
- Incentivise the use of unoccupied commercial properties.
- Develop capacity to serve as a rural tourism hub

Make it easier to do business:

- Take the cost out of doing business by reducing fixed costs moving as many fixed costs (such as rent, rates, insurance) to turnover based for small start-up and vulnerable companies.
- With underutilised property incentivise profit sharing rental schemes for private landlords in stimulus towns.
- Work with insurance companies move to turnover based insurance for small start-up and vulnerable companies in stimulus towns.
- Regulatory agencies to undertake a development role by both facilitating SME's in navigating regulations and by ensuring speedy decisions.
- Improving access to finance of SME's by reforming the structure of funding small businesses, by moving some of the existing grant based funding mechanisms, loans or equity financing via a Local Enterprise Development Fund which is now allowable under EU regulations. This would help to deal with displacement issues, enabling more existing businesses to be supported and also help to target existing gaps in working capital rather than just physical and human capital investments.

It should leverage the following complementary actions:

- Work with enterprise training agencies to improve the skills and capacity of existing and new businesses
- Implement derelict sites regulations.
- Encourage active participation in Tidy Towns.
- Increased focus on tourism potential (domestic and overseas)

- Improve access to finance by enterprises by ironing out problems with loan guarantee and micro finance schemes.
- In terms of social exclusion, target active labour market measures to focus on jobless households in small and medium sized towns, facilitate more flexible movement from work to non-work and back again in the Social Welfare system and allow for labour activation placements in these towns to last for 18 months in the stimulus towns.

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## **Part IV. Supporting Inward Investment**

## Chapter 14. REGIONAL LABOUR MARKETS IN IRELAND

Jasmina Behan

### 14.1 INTRODUCTION

The decline in economic activity observed following the credit crunch and the bursting of the housing bubble in 2008 had dramatic consequences for the Irish labour market. The analysis presented in this chapter shows how the difficulties in the labour market were felt across the regions by outlining key indicators and trends across a number of labour market dimensions. This chapter represents an extract of the research originally conducted by the Skills and Labour Market Research Unit (SLMRU) in FÁS for the Expert Group on Future Skills Needs, which was in its totality published in the EGFSN Regional Labour Markets Bulletin 2012.

### 14.2 LABOUR MARKET INDICATORS

Table 1 presents demographic and labour market statistics by region for quarter 1 2012. In terms of the population size and density, Dublin was the largest region accounting for more than a quarter of the national population and with a density of over a 1,000 persons per km<sup>2</sup>. Although the Midland region had the smallest population (under 300,000), the population density was the lowest in the West region at 31 persons per km<sup>2</sup>.

Dublin accounted for over a quarter of the national labour force. The highest labour force participation rate was in Dublin, Mid East and West, at over 60%; the lowest was in the Border region. At over 60%, the highest employment rates were in the Mid East and Dublin; the lowest in the Border region – almost ten percentage points lower. Dublin and the Mid East had the lowest unemployment rates (13%), while the highest unemployment rate was in the South East.

**Table 14.1 Demographic and labour market statistics by region, q1 2012**

	Area km <sup>2</sup>	POP 000s	P/km <sup>2</sup>	POP 15-64 000s	LF 000s	E 000s	UE 000s	E rate	UE rate	P rate
Border	12,200	503	41	326	203	173	31	52%	15.0%	52%
Dublin	900	1,197	1,330	805	580	504	76	61%	13.1%	61%
Mid East	6,100	551	90	368	271	237	34	63%	12.5%	65%
Midland	6,500	281	43	181	125	102	23	55%	18.1%	58%
Mid West	8,300	375	45	246	177	149	28	58%	15.8%	60%
South East	9,400	511	54	331	230	185	45	54%	19.7%	58%
South West	12,200	654	54	430	301	261	40	59%	13.2%	58%
West	13,800	430	31	281	209	175	33	60%	15.9%	62%
Ireland	70,000	4,502	64	2,966	2,095	1,786	309	59%	14.7%	60%

Source: Analysis by FÁS (SLMRU) based on CSO data; [www.iro.ie](http://www.iro.ie)

### 14.3 SECTORAL EMPLOYMENT

Table.2 presents sectoral distribution of employment in each region in quarter 1 2012. In each region, the wholesale and retail sector was one of the largest, accounting for approximately 15% of employment. In terms of employment share, agriculture was negligible in the Dublin region. In Dublin, less than 10% of employment was in industry, while in most other regions it was 15% or more. In each region, at least one quarter of the total regional employment was in public administration, education and health.

Dublin's share in the national employment in the financial, ICT and professional services sectors, exceeded 40%; this was higher, by over 10 percentage points, than its share in the total national employment of 28%. In fact one in two persons working in the financial sector was located in Dublin. With the exception of the Mid East and Dublin, the share of employment in the financial, ICT and professional services sectors in each region was below the national average. By contrast, the Border and South East had a higher than average share in the total employment in agriculture.

**Table 14.2 Sectoral employment by region, (000s) q1 2012**

Sector	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Agriculture	13.8	1.6	8.1	7.2	8.7	16.4	12.1	12.7	80.7
Industry	24.1	38.1	31.2	15.2	23.4	30.9	40.5	29.1	232.6
Construction	11.7	20.1	14.7	7.7	10.2	11.0	17.0	10.3	102.7
Wholesale and retail	25.2	69.4	37.9	16.2	20.7	27.7	42.0	24.4	263.5
Transportation	8.3	32.4	9.5	4.4	9.0	8.1	11.3	5.9	88.8
Accomm. and food	11.4	27.6	12.2	6.1	9.7	11.8	21.4	11.5	111.6
ICT	3.5	35.4	11.4	2.3	5.4	3.6	8.0	5.5	75.2
Financial	4.4	48.8	16.6	3.2	6.2	5.3	8.3	6.2	99.0
Professional activities	5.9	38.7	13.1	3.9	6.1	8.1	12.0	7.7	95.5
Admin. and support	5.9	19.8	8.1	3.3	4.4	5.2	9.2	4.2	60.1
PAD	10.7	28.2	13	7.7	9.1	8.8	12.7	9.6	99.9
Education	14.4	40.7	18.8	8.3	10.5	15.9	21.5	15.7	145.8
Human health	23.5	69.7	29.7	12.1	16.6	23.9	34.6	24.1	234.1
Other NACE activities	9.9	33.3	13.1	4.8	8.5	7.9	10.6	8.7	96.8
Total	172.9	503.8	237.4	102.3	148.7	184.5	261.1	175.4	1,786.1

Source: Analysis by FÁS (SLMRU) based on CSO data

In 2010 there were almost 200,000 active enterprises outside of agriculture and the public sector in Ireland. Of these, 30% were located in Dublin, while Dublin and the Mid East combined accounted for just over 40% of total national active enterprises. Of the total number of active enterprises in the financial sector, over 60% were in Dublin. Only 2% of national enterprises in the financial sector were located in the Midlands. Dublin also had a high share of active enterprises in the ICT and professional services sectors, at 53% and 42%.



**Table 14.3 Number of active enterprises by business economy sectors and region<sup>55</sup>, 2010**

Region	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Mining and quarrying	***	***	***	***	***	***	***	72	381
Manufacturing	1,551	2,587	1,494	816	1,102	1,501	2,003	1,128	12,790
Electricity, gas, supply	***	***	***	***	***	***	***	***	310
Water; sewerage, waste	122	175	96	***	***	***	127	***	825
Construction	4,900	7,938	5,007	2,512	3,380	4,605	6,549	4,580	40,459
Wholesale and retail	5,141	11,347	4,790	2,532	3,697	4,828	6,518	4,175	43,981
Transportation	1,374	2,543	1,393	627	882	1,187	1,588	847	10,572
Accomm. and food	2,097	3,379	1,453	944	1,698	2,007	2,902	1,952	16,511
ICT	437	5,319	1,049	230	567	496	1,055	653	10,057
Financial and insurance	***	3,326	308	128	268	234	408	241	5,282
Real estate activities	991	4,363	1,378	468	801	967	1,590	1,002	11,673
Professional activities	1,899	13,083	3,250	1,037	2,056	2,207	4,633	2,059	30,801
Admin. and support	***	3,853	1,304	544	1,132	1,057	1,590	1,033	11,789
Total	19,873	58,046	21,596	9,938	15,699	19,246	29,073	17,836	195,431

Source: CSO, Business Demography; SLMRU (FAS) analysis of CSO data

The following activities have been excluded: agriculture, public sector and the activities of holding companies

\*\*\* denotes small numbers which have been excluded to protect the confidentiality of individual enterprises

Table 4 presents the share of active enterprises (outside agriculture and the public sector), by size, for each region for 2010. In all regions, the overwhelming majority of enterprises were micro enterprises – employing fewer than 10 persons. In 2010, with the exception of Dublin, over 90% of active enterprises in each region employed fewer than 10 persons. The highest share of micro enterprises was in the Midland and Border regions. The share of enterprises employing over 250 persons was less than 1% in all regions.

<sup>55</sup>The geographical breakdown is approximate as it is based on the address at which an enterprise is registered for Revenue purposes, rather than where the business operates; the discrepancy in totals is due to a 'region unknown' category which has been excluded.

**Table 14.4 Active enterprises by enterprise size, 2010**

Company size	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Under 10	93.2%	88.3%	92.3%	93.5%	91.2%	92.1%	91.1%	91.9%	91.0%
10 - 19	3.0%	5.7%	4.5%	3.1%	5.0%	4.0%	5.0%	4.2%	4.7%
20 - 49	2.7%	3.6%	2.2%	2.4%	2.5%	2.7%	2.5%	2.6%	2.8%
50 - 249	1.0%	1.9%	0.8%	0.9%	1.1%	1.0%	1.2%	1.1%	1.3%
250 and over	0.1%	0.5%	0.1%	0.1%	0.2%	0.1%	0.2%	0.1%	0.2%

Source: CSO, Business Demography, NACE Rev 2 B-N

Table 5 presents employment in manufacturing by technology intensity type and sector for quarter, 1 2012. Of just over 200,000 persons employed in manufacturing in quarter 1 2012, the highest share (18%) was in the South-West region. Although Dublin accounted for 16% of the total manufacturing employment, its share in high tech manufacturing was 23%, employing almost 12,000 persons. At 5% each, the share of high tech manufacturing employment was the lowest in the Midland and Border regions.

**Table 13.5. Employment in manufacturing by technology type by region, q1 2012**

	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
High tech	2,400	11,900	10,000	2,700	4,900	5,100	10,800	5,000	52,700
Medium-high	3,700	3,900	3,300	2,200	3,900	5,100	4,300	10,800	37,300
Medium-low	4,600	3,300	4,800	3,600	5,400	6,200	4,900	3,100	35,900
Low tech	11,500	13,900	9,000	3,900	7,400	11,300	16,100	7,200	80,300
Total	22,200	33,100	27,200	12,400	21,500	27,700	36,100	26,100	206,200
High tech	5%	23%	19%	5%	9%	10%	20%	9%	100%
Medium-high	10%	10%	9%	6%	10%	14%	12%	29%	100%
Medium-low	13%	9%	13%	10%	15%	17%	14%	9%	100%
Low tech	14%	17%	11%	5%	9%	14%	20%	9%	100%
Total	11%	16%	13%	6%	10%	13%	18%	13%	100%

Source: Analysis by FÁS (SLMRU) based on CSO data

### *Occupational employment*

Table 6 presents regional employment by occupational group for quarter 1 2012. Of the 1.79 million persons in employment in Ireland in quarter 1 2012, one in two were white collar workers: managers, professionals, associate professionals and clerks. At 60%, the share of white collar workers was highest in Dublin. Similarly, 23% of employment in Dublin was in professional occupations, compared with 16% in the Border and South East. Craftpersons accounted for 8% of the total employment in the Dublin region, while in all other regions, except the Mid East, the share was more than double that.

**Table 14.6 Regional employment by occupational group (000s), q1 2012**

Row Labels	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Managers	11.3	47.4	23.2	6.4	12.1	14.0	20.0	11.3	145.7
Professionals	26.6	114.9	46.3	16.1	23.1	27.9	47.7	30.8	333.4
Associate prof.	13.6	76.6	35.9	10.3	16.4	17.5	26.3	18.9	215.5
Clerks	18.0	65.8	28.9	11.7	17.7	17.6	27.5	18.4	205.6
Craftpersons	32.0	39.7	31.5	19.0	27.2	34.6	43.5	31.1	258.7
Service workers	18.2	36.1	16.5	8.8	10.8	17.0	20.3	13.7	141.5
Sales workers	14.3	43.2	19.9	8.6	13.2	13.9	23.7	13.8	150.7
Operatives	16.6	27.5	15.2	9.7	13.9	19.5	22.4	19.3	144.1
Labourers	21.8	50.1	19.7	11.2	13.6	22.5	29.1	17.0	185.0
Grand Total	172.9	503.8	237.4	102.3	148.7	184.5	261.1	175.4	1786.1

Source: Analysis by FÁS (SLMRU) based on CSO data

### *Vacancies*

Despite a difficult economic situation in the labour market, vacancies continued to arise during 2012. In the first nine months of 2012, almost 50,000 vacancies were advertised on DSP/FÁS Jobs Ireland internet portal (Table 7). The highest number of vacancies was advertised for the Dublin region. In all regions, most vacancies were advertised for associate professionals (many in sales), labourers and personal service workers. The Dublin region accounted for 38% of the total number of advertised vacancies.

**Table 14.7 Number of vacancies by occupational group and region, Jan-Sept 2012**

Occupation	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Managers	82	407	72	59	61	72	145	71	969
Professionals	276	1,218	203	103	146	124	305	244	2,619
Assoc. prof.	733	4,437	918	414	584	903	1,389	561	9,939
Clerks	256	1,360	232	126	198	147	476	239	3,034
Craft	563	1,566	563	382	371	469	907	483	5,304
Personal etc.	821	2,828	787	376	306	603	1,323	558	7,602
Sales	875	1,904	670	436	364	831	822	332	6,234
Operatives	263	1,156	442	158	155	304	431	194	3,103
Labourers	724	3,436	971	510	777	854	1,549	630	9,451
Total	4,593	18,312	4,860	2,564	2,962	4,307	7,347	3,312	48,257

Source: DSP/FÁS Jobs Ireland database

### *Sourcing from outside the European Economic Area (EEA)*

The data on employment permits issued to non-EEA workers in 2011 suggests that some vacancies were proving difficult to fill from the Irish labour supply<sup>56</sup>. Over 3,000 new employment permits were issued to non-EEA workers in 2011. New employment

<sup>56</sup> When interpreting employment permit data, it should be noted that the number of work permits issued for most occupations represents an over-estimation of the true annual inflow of non-EEA, Romanian and Bulgarian workers into the Irish labour market because not all new employment permits are issued to first time applicants; for instance, when an employment permit holder is made redundant, a new permit is issued rather than the old permit being renewed.

permits were issued in all regions; however, the numbers issued were relatively small – of one-digit magnitude in many occupations and for many regions. In most regions, the greatest share of employment permits was issued for health occupations and IT specialists. Most employment permits were issued for the Dublin region.

### *Replacement demand*

Given the expected slow economic and employment recovery in the short term, replacement demand – demand arising from retirements and other exits from employment (excluding vacancies arising from turnover within an occupation) – will continue to be the main source of employment opportunities in many occupations. Based on the employment levels in quarter 1 2012 and a conservative annual replacement rate of 2%<sup>57</sup>, it is estimated that the employment opportunities arising from replacement demand will be approximately 35,000 per annum (Table 8). Employment opportunities will arise in all regions and across all occupational groups. In some occupational groups (e.g. sales, labourers) the replacement demand presented here is likely to be an underestimation of the demand, given that these occupations typically have higher exits and thus higher replacement rates.

**Table 14.8 Estimated replacement demand by occupational group and region, q1 2012**

Row Labels	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Managers	200	900	500	100	200	300	400	200	2,900
Professionals	500	2,300	900	300	500	600	1,000	600	6,700
Associate prof.	300	1,500	700	200	300	400	500	400	4,300
Clerks	400	1,300	600	200	400	400	600	400	4,100
Craftpersons	600	800	600	400	500	700	900	600	5,200
Service workers	400	700	300	200	200	300	400	300	2,800
Sales workers	300	900	400	200	300	300	500	300	3,000
Operatives	300	600	300	200	300	400	400	400	2,900
Labourers	400	1,000	400	200	300	500	600	300	3,700
Total	3,500	10,100	4,700	2,000	3,000	3,700	5,200	3,500	35,700

Source: Analysis by FÁS (SLMRU) based on CSO data

Note: Estimates based on 2% annual attrition rate and q1 2012 employment levels

## **14.4 EMPLOYMENT CHANGE 2008-2012**

Between quarter 1 2008 and quarter 1 2012, employment in Ireland decreased by almost 340,000 (Table 9). Over this period, employment declined in each region, with the most pronounced decreases, in absolute terms, recorded in the Dublin, Border, South West and South East regions, at -117,000, -47,000, -44,000 and -38,000 respectively. The smallest decline was recorded in the Mid East (less than 20,000).

In each region, the greatest decline in employment, in absolute terms, was recorded in construction. The decline in construction employment in each region over this period

<sup>57</sup>The annual replacement rate varies according to occupation; for example, it may be as low as 2.5% for professional occupations or up to 3.9% for labourers (FÁS/ESRI *Manpower Forecasting Studies. Report No. 9. Estimating Labour Force Flows, Job Openings and Human Resource Requirements*. April 2001). During a recession, replacement rates are likely to be lower and therefore a conservative estimate of 2% was used here.

was greater than the increase in the period quarter 1 2004 to quarter 1 2008. In most regions, large employment declines were also recorded in retail, industry and agriculture, although of the lesser magnitude than in construction.

**Table 14.9 Employment change by sector and region (000s), Q1 2008 – Q1 2012**

Row Labels	Bord er	Dubli n	Mid East	Midl and	Mid West	South East	South West	West	Irelan d
Agriculture, forestry and fishing	-4	1	-7	-3	-4	-4	-8	-6	-35
Industry	-7	-19	-6	-4	-6	-4	-7	1	-50
Construction	-20	-36	-17	-9	-11	-21	-19	-16	-149
Wholesale and retail trade; repair of motor vehicles and motorcycles	-7	-22	*	-3	-5	-7	-2	-5	-51
Transportation and storage	-1	-3	-1	-1	*	*	*	*	-5
Accommodation and food service activities	-2	-9	-2	-2	*	*	-2	-2	-19
Information and communication	-1	*	2	*	1	1	*	2	4
Financial, insurance and real estate activities	-4	-7	4	*	3	*	-1	2	-4
Professional, scientific and technical activities	-2	-7	-1	-2	*	-1	-2	-1	-15
Administrative and support service activities	-2	-12	*	*	-2	-2	-3	-1	-22
Public administration and defence; compulsory social security	2	-5	*	*	2	*	*	-1	-3
Education	1	4	*	1	-2	3	-1	1	7
Human health and social work activities	*	1	8	1	1	1	3	*	14
Other NACE activities	-1	*	1	1	2	-3	-2	-1	-2
Grand Total	-47	-117	-19	-22	-23	-38	-44	-28	-338

Source: Analysis by FÁS (SLMRU) based on CSO data

Sectoral distributions of employment decline were broadly similar across regions, although the absolute and relative magnitudes of decline differed. In each region, construction accounted for the greatest share in regional employment decrease. This was followed, in most regions, by wholesale/retail, industry and agriculture.

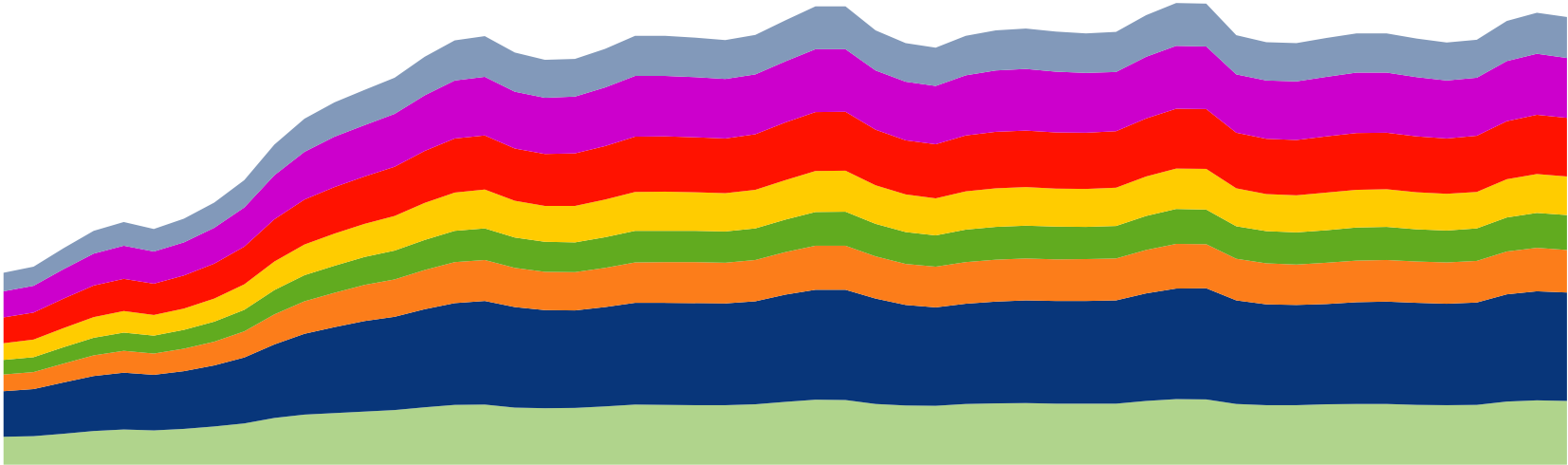
### *Job announcements*

Monitoring of recent announcements in the media suggests that job creation continues despite difficulties in the Irish labour market, with job creation announcements throughout 2011 and the first three quarters of 2012 exceeding the number of announcements of job losses. Although there have been job announcements for all regions, most job announcements have been for the Dublin region, followed by the South West region.

### *Live Register*

Although not an official measure of unemployment, the number of persons registering for unemployment assistance and other statutory entitlements with the Department of Social Protection (Live Register) provides an indication of trends in unemployment. In August 2012, there were 456,000 persons on the Live Register. One in four were located in the Dublin region. Since mid 2010, the numbers on the Live Register in each region have remained relatively stable at a level significantly higher than those observed prior to the crisis. There is a pronounced seasonality in the numbers signing on the Live Register in each region.

**Figure 14.1   Persons on Live Register by region**



Border   Dublin   Mid-East   Midland   Mid-West   South-East   South-West   West

Source: Analysis by FÁS (SLMRU) based on CSO data

The age distributions of persons on the Live Register were broadly similar across regions (Table 10). In each region, the share of persons aged under 25 on the Live Register ranged between 17% and 19%. The highest share of under-25s on the Live Register (19%) was in the Midland and Border regions.

**Table 14.10 Live Register by age group and region, August 2012**

Age	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	State
Under 25 years	12,454	19,264	7,317	6,659	6,893	10,992	9,608	7,164	80,351
25 years and over	52,527	91,317	36,074	28,695	32,474	48,630	51,470	34,718	375,905
Total	64,981	110,581	43,391	35,354	39,367	59,622	61,078	41,882	456,256

Source: Analysis by FÁS (SLMRU) based on CSO data

The gender distributions of persons on the Live Register were broadly similar across the regions (Table 11). Males accounted for over 60% in each region, with the highest share of males recorded in Dublin (65%).

**Table 13.11 Number of persons on the Live Register by gender and region, August 2012**

Gender	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	State
Male	40,525	71,368	26,900	21,899	24,417	37,483	38,449	25,584	286,625
Female	24,456	39,213	16,491	13,455	14,950	22,139	22,629	16,298	169,631
Total	64,981	110,581	43,391	35,354	39,367	59,622	61,078	41,882	456,256

Source: Analysis by FÁS (SLMRU) based on CSO data

### *Official unemployment*

In this section Quarterly National Household Survey (QNHS) data is used to report on the official unemployment statistics. The Live Register data is not specifically designed to measure unemployment. Table 12 presents unemployment by sector and region for quarter 1 2012. Of 309,000 unemployed persons in quarter 1 2012, one in four had previously been employed in the construction sector. In each region, the share of unemployed persons previously employed in construction was higher than for any other sector.



**Table 14.12 Unemployment by sector and region, (000s) q1 2012**

Sector	Borde r	Dubli n	Mid East	Midla nd	Mid West	South East	South West	West	Irelan d
Agriculture, forestry and fishing	*	*	*	*	*	1.2	*	*	4.1
Industry	4.8	8.6	3.5	3.2	5.0	5.4	4.3	4.5	39.4
Construction	7.9	14.1	10.5	6.1	5.5	13.1	10.8	9.1	77.0
Wholesale and retail trade; vehicle repair	3.7	9.6	3.8	3.5	3.3	4.9	5.5	4.0	38.5
Transportation and storage	*	3.9	1.1	*	1.2	1.4	1.2	*	10.5
Accommodation and food service activities	2.4	4.5	2.4	1.4	2.0	2.9	3.2	3.0	21.8
Information and communication	*	2.4	*	*	*	1.2	*	*	6.9
Financial, insurance and real estate	*	2.2	*	*	*	*	*	*	5.2
Professional, scientific and technical activities	*	4.2	1.0	*	*	1.8	1.3	*	11.7
Admin. and support service activities	1.3	2.3	1.3	*	1.1	1.8	1.9	1.0	11.2
PAD	*	*	*	*	*	*	*	*	3.4
Education	*	*	*	*	*	*	*	1.1	6.5
Human health and social work activities	2.0	3.4	1.4	*	1.9	2.0	1.1	1.3	14.0
Other NACE activities	*	4.4	1.4	*	1.0	1.5	2.0	1.0	13.1
No sector	3.1	13.5	4.9	2.9	4.4	6.5	5.9	4.5	45.7
Total	30.5	75.8	34.0	22.7	28.0	45.3	39.8	33.1	309.0

Source: Analysis by FÁS (SLMRU) based on CSO data

Although Dublin accounted for one quarter of total national unemployment, its share in the total of unemployed persons who had previously worked in IT, transportation, professional and financial services was higher than 30% for each of these sectors.

Table 13 shows unemployment by occupational group and region for quarter 1 2012. There was a pronounced similarity in the occupational distributions of the unemployed between regions. In each region, between one fifth and one quarter of unemployed persons had previously worked as craftpersons. The share of craftpersons amongst the unemployed was the highest in the South East and South West regions (27%), while it was lowest in Mid West (18%) and Dublin (19%). The share of labourers was between 15% and 20% in each region, with the highest in the Border, South East and South West (20% in each) and lowest in the Mid East (15%). Although Dublin accounted for one quarter of total national unemployment, its share in the total of unemployed persons who had previously worked as professionals was much higher, at almost 40%.

**Table 14.13 Unemployment by occupational group and region, (000s) Q1 2012**

Occupation	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
Managers	*	2.3	1.7	*	*	1.5	1.4	*	9.4
Professionals	1.0	5.3	*	*	1.1	1.3	1.7	1.6	13.7
Assoc. prof.	1.2	4.8	1.9	1.4	1.7	1.8	1.7	2.3	16.9
Clerks	2.1	5.0	2.5	1.0	2.1	2.6	2.1	2.0	19.3
Craft	7.7	14.7	8.3	5.0	4.9	12.3	10.7	8.3	71.8
Personal etc.	2.1	3.7	2.2	1.2	2.2	1.9	2.0	1.3	16.6
Sales	2.7	7.1	3.0	2.3	2.3	3.4	2.6	2.4	25.9
Operatives	4.0	6.6	3.8	3.1	4.1	5.2	3.8	3.8	34.4
Labourers	6.0	12.9	5.0	4.3	4.5	9.2	8.0	5.9	55.7
No occupation	3.2	13.3	4.9	3.0	4.4	6.2	5.8	4.5	45.3
Total	30.5	75.8	34.0	22.7	28.0	45.3	39.8	33.1	309.0

Source: Analysis by FÁS (SLMRU) based on CSO data

In each region, persons holding higher secondary education accounted for the highest share of the unemployed in the region (one quarter to one third in the Midland) (Table 14). The share of unemployed holding third level honours degree or above was 15% or less in each region. Of all unemployed persons in Ireland who hold lower secondary qualifications or less, the highest share was located in the South East and Midland region (36% each).

**Table 14.14 Unemployment by education and region, (000s) Q1 2012**

Occupation	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
No formal/primary	4	7	3	2	3	6	4	4	32
Lower secondary	6	17	7	6	5	10	8	5	65
Higher secondary	8	21	9	7	9	12	10	10	86
Post leaving cert	6	12	8	3	4	8	8	5	54
3 <sup>rd</sup> level non hon degree	3	7	3	2	2	4	4	3	29
3 <sup>rd</sup> level hon degree or above	3	11	3	2	4	3	5	4	35
Other/not stated	1	*	1	*	1	2	1	2	8
Not applicable	*	*	*	*	*	*	*	*	1
Grand Total	31	76	34	23	28	45	40	33	309

Source: Analysis by FÁS (SLMRU) based on CSO data]

#### *Job seekers with the Public Employment Service (PES)*

Table 15 presents data on persons registered with the Public Employment Service (PES) who were seeking employment, in receipt of unemployment benefit (allowance or credits), with previous occupations and who were ready to take up employment in September 2012. As with unemployment figures, the highest share of job seekers in each region had previously been employed as craftpersons or labourers (between one fifth and one quarter each). Less than 10% of job seekers in each region had previously worked as managers, professionals, personal service or sales workers. Although Dublin accounted for one quarter of all job seekers registered with the DSP, its share amongst job seekers who had previously worked as managers, professionals and associate professionals was higher, at almost one third for each occupational group.

**Table 14.15 Number of job seekers by occupational group and region, Sep 2012**

Occupation	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Grand Total
Managers	327	1,099	473	160	259	351	315	255	3,239
Professionals	1,107	2,898	936	402	837	1,074	1,281	1,069	9,604
Assoc. prof.	1,875	5,425	1,886	742	1,408	1,876	2,063	1,636	16,911
Clerks	2,338	5,430	2,358	1,072	1,853	2,586	2,280	1,775	19,692
Craft	4,961	8,635	4,250	2,366	3,370	5,862	5,509	4,061	39,014
Personal etc.	1,786	2,637	1,302	862	1,241	1,860	1,687	1,186	12,561
Sales	1,694	3,952	1,553	1,006	1,253	2,100	1,939	1,341	14,838
Operatives	3,602	6,559	2,910	1,866	3,131	4,453	3,708	2,889	29,118
Labourers	5,380	9,178	3,811	2,539	3,622	6,288	5,276	3,769	39,863
Grand Total	23,070	45,813	19,479	11,015	16,974	26,450	24,058	17,981	184,840

Source: DSP/FAS Client database

### *Supply from education and training system*

The data on numbers of students enrolled in education and training provides an indication of the supply expected to emerge from the system over the short to medium term.

In 2011, almost 300,000 students were enrolled in courses across further and higher education in Ireland (Table 16). Each region provided courses at FET and higher education levels, although Dublin had the highest number of students enrolled in all levels observed, accounting for almost 40% of the total enrolments. Almost 60% of all national enrolments at postgraduate level were in Dublin. FÁS enrolments were somewhat more evenly distributed across regions, although Dublin accounted for almost 30% of the total.

**Table 14.16 Number of students engaged in education and training by region, 2011**

Region	Border	Dublin	Mid East	Midland	Mid West	South East	South West	West	Ireland
FET (FAS)	9,583	16,734		6,963	5,748	7,612	7,943	3,677	58,260
FET (PLC)	4,647	12,430	2,126	1,358	2,863	3,854	6,323	2,926	36,527
Undergraduate	12,110	62,199	6,469	4,439	17,189	11,869	24,813	19,244	158,332
Postgraduate	725	19,835	1,853	446	2,893	951	4,304	3,725	34,732
Total	27,065	111,198	10,448	13,206	28,693	24,409	43,383	29,572	287,851

Source: DES, HEA, FÁS

## **14.5 CONCLUSION**

The key points can be summarised as follows:

- In terms of labour market indicators, there are many similarities across regions; e.g. occupational distribution of Public Employment Services (PES) vacancies,

age and gender profile of the Live Register, contribution of the decline in the construction sector to labour market difficulties etc.

- There are also many differences across regional labour markets; e.g. contribution of agriculture to the regional employment, unemployment rate, labour force participation rate etc.
- In quarter 1 2012, in each region, the wholesale and retail sector accounted for c. 15% of regional employment; Dublin was overrepresented in ICT, professional and financial services
- In 2010, 40% of active enterprises outside agriculture and the public sector were located in Dublin and Mid-East
- In all regions, c. 90% of enterprises are micro enterprises
- Almost one in five persons working in manufacturing in 2012 was employed in the South West region
- In quarter 1 2012, the share of white collar workers in regional employment was highest in Dublin (60%) and lowest in the Border, Midland and South East
- Between quarter 1 2011 and quarter 1 2012, employment continued to decline in Dublin, the Border, Mid West and South East
- In each region, Live Register levels have stabilised (at high levels) since mid 2010
- In quarter 1 2012, unemployed persons previously employed in the construction sector accounted for the highest share of unemployment in each region
- In quarter 1 2012, the share of skilled tradespersons amongst the unemployed was highest in the South East and South West (27%) and lowest in the Mid West (18%) and Dublin (19%)
- In quarter 1 2012, in each region, the highest share of job seekers registered on PES had previously worked as skilled tradespersons or labourers (between one fifth and one quarter each).

## 14.6 APPENDIX

**Table 14.17 NUTS3 regions in Ireland**

Border	Dublin	Mid East	Mid West	Midland	South East	South West	West
Cavan	Dublin City	Kildare	Clare	Laois	Carlow	Cork City	Galway City
Donegal	Dun Laoghaire	Meath	Limerick City	Longford	Kilkenny	Cork County	Galway County
Leitrim	Fingal	Wicklow	Limerick County	Offaly	South Tipperary	Kerry	Mayo
Louth	South Dublin		North Tipperary	Westmeath	Waterford City		Roscommon
Monaghan					Waterford County		
Sligo					Wexford		

Occupations are classified according to SOC (Standard Occupational Classification) 2010 occupational groups; however, for brevity and clarity purposes, the following terms will be used in addition to the SOC 2010 occupation classification:

SOC 2010 Occupational Group	Also known as
Associate professional/technical occupations (e.g. laboratory technicians, business sales executives)	Technicians
Administrative and secretarial occupations	Clerks
Skilled trades occupations (e.g. chefs, electricians, construction trades, welders, farmers)	Craftpersons
Caring leisure and other service occupations (e.g. childminders, care workers hairdressers)	Personal services
Elementary occupations (e.g. waiters, cleaners, construction labourers)	Labourers

## **14.7 REFERENCES**

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## **Chapter 15. SPATIAL TRENDS IN EMPLOYMENT IN FOREIGN FIRMS IN IRELAND**

Proinnsias Breathnach

### **15.1 INTRODUCTION**

In a country with a small domestic market such as Ireland's, the development of exports is the key to achieving high living standards. The Irish government has relied principally on inward investment by foreign firms as the principal means of achieving this since the late 1950s. Generous capital grants, tax incentives and the availability of suitable labour have been the principal means employed to attract inward investment.

This policy met with increasing success through the 1960s followed by a surge of investment following Ireland's accession to what was then called the European Economic Community (EEC) in 1973, as this meant that foreign firms could use Ireland as a low-cost base for serving the large EEC market. This was followed by a slowdown during most of the recessionary 1980s, during which many of the plants established in the previous two decades contracted or closed.

However, things picked up again in the late 1980s and, following a brief dip in the early 1990s, a further surge of inward investment commenced in 1993 which underpinned the "Celtic Tiger" phenomenon and saw employment in foreign firms increase by two thirds (to 164,000) by 2000. The great bulk of this new investment came from the USA which by 2000 accounted for two thirds of all employment in foreign firms operating in Ireland.

In the period 2000-2010, while the reported exports of foreign firms based in Ireland continued to grow strongly (by 56% in current prices), there was a sharp fall (of 22%) in employment. Furthermore, the spin-off effects of foreign firms also contracted: expenditure by foreign firms on wages/salaries, materials and services fell by 18% (in current terms) over the period. This apparent conflict between trends in exports, on the one hand, and employment and local expenditures, on the other, is an indication of the extent to which the Irish output data for foreign firms are being distorted by transfer price manipulation on the part of the firms in question in order to exploit Ireland's tax advantages.

Over the last thirty years the IDA became increasingly selective in the types of investment it sought to attract to Ireland, focusing on sectors with long-term growth prospects for which an Irish location was suitable. In manufacturing, the main concentrations in the 1990s were in electronics (mainly office and computing machinery) and chemicals/pharmaceuticals. However, a more significant development was the rapid rise in investment in services activities capable of using information technology for conducting international transactions, especially software/computer services, financial services (whose growth primarily emanated from the establishment of the International Financial Services Centre in Dublin in 1987) and business services (especially back-office activities). By 2000, employment in foreign-owned services operations amounted to 46,000, 28% of all foreign-firm employment.

In the 2000s the electronics sector was heavily affected by, firstly, the dot.com crash in the early part of the decade and, secondly, by the emergence of China as a major global competitor in this sector. Foreign employment in the sector fell by one half between 2000-2010. Non-electronics manufacturing employment fell by 25%, but losses in chemicals/pharmaceuticals were at a much lower level (8%) while the medical devices sector did well over the decade. Employment in international services actually increased marginally over the period, so that its share of total employment in foreign firms rose to 36%.

## **15.2 EARLY SPATIAL POLICY AND PATTERNS**

From the commencement of the inward investment policy, it was government policy to encourage a broad geographical dispersal of foreign-owned projects. This was designed to counter the existing pattern of industrial location, which was heavily concentrated in and around the main cities. This policy was formalised in the Regional Industrial Plans implemented by the IDA (which had been given responsibility for regional industrial development in 1969) during 1973-82, which pursued a very ambitious policy of industrial dispersal, underpinned by a major programme of “advance” factory construction. This included the allocation of 77 factory units to 57 towns and villages of less than 1,500 (i.e. officially “rural”) with a further 63 units going to 35 small towns (population 1,500-5,000), located mainly in rural areas. Between them, these accounted for almost one quarter of all advance factory floorspace built.

With existing industry (mainly in urban locations) experiencing major contraction in the free trade conditions which accompanied EEC entry (exacerbated by international recession in the 1970s and early 1980s), this period witnessed a major shift in industrial location patterns in favour of less-developed and more rural regions. Thus, in 1981, the proportion of total manufacturing employment accounted for by foreign firms was around 50% in the northwest, west and midwest regions while it was much less in the east, northeast and southeast (Gillmor, 1985).

However, most of the employment in the firms in question was in unskilled and poorly-paid activities with a high female content, such as clothing, electronics assembly and packaging of pharmaceutical products. While this made it easy to attract the plants in question to more rural areas with little previous experience of industrialisation, it did little to raise skill levels (and thereby long-term development prospects) in the areas in question. These plants also developed few local roots, which rendered them vulnerable to contraction or closure in recessionary periods such as were experienced in the 1980s or in the face of rising wages and other costs such as occurred in Ireland in the 1990s. Few of the foreign plants established in Ireland in the 1970s continue in operation today.

The failure of the industrial dispersal policy of the 1960s/70s to create a sustainable base for rural development in Ireland was freely admitted by the (then) Department of Enterprise, Trade and Employment in its 2003 *Review of Industrial Policy*: “In many cases... the enterprises established in rural areas were heavily dependent on low labour costs and were not rooted in any more lasting sources of comparative advantage. While they gave a boost to their local economies during their time here, this did not offer a viable basis for long-term development” (p.167). Accordingly: “There is no longer a



national strategy of dispersing industrial employment and it is becoming increasingly difficult to attract overseas industry to areas outside the major population centres” (Commins and Keane, 1994, p.195).

This became apparent with the new wave of inward investment which occurred in the 1990s and involved much higher levels of skill than had been the case with earlier investment phases. This had major implications for rural and small-town locations, as incoming firms were drawn to larger urban centres where pools of skilled workers were more likely to be found. This applied in particular to the rapidly-growing international services sector, which has a particular orientation towards the main cities, and especially Dublin. The fact that much of the new investment involved large-scale production units and office operations further reinforced the attractions of larger urban centres. The contraction of manufacturing employment among foreign firms in the 2000s has had further negative implications for more rural regions, as much of this involved the more routine forms of electronics production which had been more dispersed in its locational patterns.

### 15.3 METHODOLOGY

From information obtained from the annual Forfás survey of employment in firms which have received assistance from one of the Irish government’s enterprise promotion agencies (IDA, Enterprise Ireland, Shannon Development, Údarás na Gaeltachta) - henceforth “agency-assisted” firms - it is possible to analyse spatial trends in employment in foreign firms in some detail for the period 2001-2011<sup>58</sup>. The spatial units used for this analysis are a set of 72 “local urban fields” (LUFs), representing the commuting hinterlands of all non-dormitory towns with at least 1,500 in-situ jobs in 2006. The population census for that year allowed the actual location of jobs (as distinct from the places of residence of workers) to be mapped using commuting data derived from the census.

In adopting this approach, the analysis here accepts the view advanced by Commins and Keane (1994) and also adopted by the European Spatial Development Perspective (1999) that it is not realistic to view the development of rural areas (i.e. those areas lying outside urban centres of 1,500+ population) in isolation from the local and regional urban centres within whose hinterlands these areas lie. This arises particularly from the decline of agriculture as a rural employment source and the increasing mobility of rural dwellers (of which rural-urban commuting is one dimension).

Due to issues of small numbers and confidentiality, it has been necessary to combine most of the LUFs into 38 larger groupings. This has been done on the basis of contiguity, spatial coherence and the minimum necessary to overcome the small numbers and confidentiality issues. These have been analysed in terms of trends in employment in foreign firms, disaggregated into material production activities (mostly manufacturing) and services, over the two periods 2001-2006 and 2006-2011. In the following, “employment” refers to employment in foreign firms unless otherwise

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<sup>58</sup> Much of the data assembly and analysis involved was carried out by Dr Chris van Egeraat of the Department of Geography at NUI Maynooth and Dr. Declan Curran of the Dublin City University Business School, in conjunction with the current author.

specified. While material production includes a small amount of non-manufacturing activity (e.g. agriculture and fishing) we refer to this sector as “manufacturing”. Dublin includes adjacent areas in northwest Kildare and southeast Meath.

#### **15.4 OVERALL EMPLOYMENT TRENDS 2001-2011**

In 2001, foreign firms accounted for a slight majority (51%) of all employment in agency-assisted firms (Table 1). This was made up of a minority share (48%) of manufacturing employment (which in turn represented 73% of total employment) but a substantial majority (60%) of services employment. Between 2001-2006, overall employment in foreign firms fell very marginally (0.6%), compared with an increase of 7% in indigenous employment. However, this minor overall change masked a fall of 9% in manufacturing (mainly in electronics), and an increase of 18% in services. The corresponding figures for the indigenous sector were a fall of just 1% in manufacturing and a sharp rise (36%) in services. As a result, the foreign sector share fell to 46% in manufacturing and 56% in services.

Between 2006-2011 (Table 2), total foreign-firm employment fell by 9% compared to 11% for indigenous firms, leaving the foreign sector with a slight majority of total employment at the end of the period. Again, the overall rate of decline in foreign employment masked a severe fall in manufacturing employment (18%) and a significant further rise in services (7%). The corresponding figures for indigenous firms were a 20% fall in manufacturing and a 10.5% increase in services. As a result, the foreign share of manufacturing rose slightly and of services fell slightly.

Over the entire period, therefore, total employment in foreign firms fell by 9% compared with 5% for indigenous firms (Table 14.3). Foreign manufacturing employment fell by 26% (21% for indigenous) while services employment rose by 26% (50% for indigenous). Within the foreign sector, the services share of total employment rose from 32% to 44% over the decade. Foreign firms which commenced production after 2006 employed 11,268 people in 2011 (7.0% of total foreign employment in that year). Of these “new” jobs, 84% were in services. This contrasting performance of the manufacturing and services sectors clearly will have had a substantial impact on spatial trends in employment, given the different locational patterns of the two sectors.

**Table 15.1 Broad Employment Trends 2001 – 2006**

2001							2006								
	Tot Emp	%	Mfg	%	Services	%	Tot Emp	Ch%0106	%	Mfg	Ch%0106	%	Services	Ch%0106	%
Foreign	176545	51.4	120077	48.1	56468	60.3	175523	-0.6	49.6	109017	-9.2	46.0	66506	17.8	56.8
Indigenous	166623	48.6	129477	51.9	37146	39.7	178386	7.1	50.4	127870	-1.2	54.0	50516	36.0	43.2
Total	343168	100	249554	100	93614	100	353909	3.1	100	236887	-5.1	100.0	117022	25.0	100.0

**Table 15.2 Broad Employment Trends 2006 – 2011**

2006							2011								
	Tot Emp	%	Mfg	%	Services	%	Tot Emp	Ch%0611	%	Mfg	Ch%0611	%	Services	Ch%0611	%
Foreign	175523	49.6	109017	46.0	66506	56.8	160461	-8.6	50.3	89221	-18.2	46.5	71240	7.1	56.1
Indigenous	178386	50.4	127870	54.0	50516	43.2	158293	-11.3	49.7	102485	-19.9	53.5	55808	10.5	43.9
Total	353909	100	236887	100.0	117022	100.0	318754	-9.9	100.0	191706	-19.1	100.0	127048	8.6	100.0

**Table 15.3 Broad Employment Trends 2011 – 2011**

2001							2011								
	Tot Emp	%	Mfg	%	Services	%	Tot Emp	Ch%0611	%	Mfg	Ch%0611	%	Services	Ch%0611	%
Foreign	176545	51.4	120077	48.1	56468	60.3	160461	-9.1	50.3	89221	-25.7	46.5	71240	26.2	56.1
Indigenous	166623	48.6	129477	51.9	37146	39.7	158293	-5.0	49.7	102485	-20.8	53.5	55808	50.2	43.9
Total	343168	100	249554	100	93614	100	318754	-7.1	100.0	191706	-23.2	100.0	127048	35.7	100.0

## 15.5 SPATIAL DISTRIBUTION OF FOREIGN EMPLOYMENT IN 2001

Table 4 shows the proportion of total employment in agency-assisted firms by Local Employment Field (LUF) in 2001. This shows major spatial variation, ranging from Athlone at the top of the list (78%) to the Mallow group (Mallow/Mitchelstown/Charleville) of LUFs at the bottom (9%)<sup>59</sup>. Of the 38 LUFs, 17 have an above-average share of foreign employment. These include all five main cities although Dublin, interestingly, has the lowest share of this group. It is perhaps surprising to see Athlone at the top of the list, exceeding even Ennis/Shannon (given the historic role of Shannon as a specific target for the attraction of inward investment to Ireland).

**Table 15.4 Foreign firm % share of total employment 2001, 2006, 2011**

Year	2001	2006	2011
Arklow/Gorey	28.0	45.3	41.7
Athlone	78.4	64.0	76.0
Ballina	41.7	37.4	53.5
Ballinasloe/Loughrea	52.3	39.8	19.2
Bandon/Macroon	39.4	31.5	40.4
Bantry/Clonakilty/Skibbereen	10.3	11.9	13.7
Bray/Wicklow	48.2	42.1	43.5
Carlow	27.8	19.0	15.4
Carrick-on-Shannon/Longford/Roscommon	29.7	44.4	41.7
Castlebar/Westport	57.9	46.8	44.4
Cavan	20.8	17.0	18.3
Clonmel/Carrick-on-Suir	58.0	58.3	67.3
Cork City/Midleton	68.4	67.4	70.9
Donegal County	35.7	24.2	31.4
Drogheda	33.7	31.4	28.9
Droichead Nua	61.8	54.4	49.9
Dublin	55.9	56.2	56.3
Dundalk/Ardee	62.0	53.2	45.4
Dungarvan/Fermoy/Youghal	59.1	55.4	50.9
Ennis/Shannon	75.5	71.9	69.2
Galway/Tuam	56.7	60.0	61.9
Kilkenny	11.3	11.4	12.8
Killarney	67.2	45.9	51.8
Limerick City	67.0	60.5	54.4
Listowel/Newcastlewest	48.9	44.3	40.6

<sup>59</sup> In this and subsequent tables which show distributions for 2001, 2006 and 2011, the LUFs are listed in alphabetical order. References in the text to “top of the list/table” etc. refer to the highest values in the table rather than the actual placing of the LUFs in the table as presented.

Mallow/Mitchesltown/Charleville	8.8	23.0	21.8
Monaghan County	14.3	12.7	12.1
Mullingar	53.9	32.6	22.2
Naas	39.8	35.2	27.6
Navan/Trim	24.1	17.6	18.2
Nenagh/Birr/Roscrea	34.2	17.2	8.6
Portlaoise/Athy	33.8	29.3	26.6
Sligo	53.3	53.8	58.4
Thurles/Tipperary/Cashel	40.0	32.3	22.4
Tralee	30.0	23.3	17.5
Tullamore/Edenderry	52.3	38.3	30.0
Waterford City	58.8	52.9	47.4
Wexford/New Ross/Enniscorthy	36.8	34.0	35.1
Total	51.4	49.6	50.3

Table 4 tells us nothing about the absolute level of foreign employment in the different LUFs, nor indeed how this compares with that in indigenous employment. It may be, for example, that the IDA (part of whose remit is responsibility for regional industrial development) seeks to steer inward investment to areas where the presence of employment in indigenous firms is weak (and vice-versa). There are some hints at this in Table 4, in that many of the LUFs with the weakest relative foreign presence (the Mallow group, the Monaghan County group - Monaghan/Castleblayney/Carrickmacross - and Cavan) have strong indigenous manufacturing sectors based mainly on food processing.

In order to explore this further, the simple device was used of expressing employment in both foreign and indigenous firms as a ratio of population, which provides a useful way of comparing the relative “density” of employment in both groups across LUFs. We have used the 2006 population for this census; using a single census provides a fixed baseline against which change over time can be assessed. The resultant density distributions are shown in Table 5 (indigenous firms) and Table 6 (foreign firms). Both tables show very high levels of internal variation in 2001. Monaghan County and the Mallow group have by far the highest densities of indigenous employment, more than five times that of Athlone and Killarney at the other end of Table 5. The relative gap between Ennis/Shannon and Waterford City (at the top of Table 6) and the Bantry group (Bantry/Clonakilty/Skibbereen), Kilkenny and the Mallow group (at the bottom) is even greater.

**Table 15.5      Employment density and change, indigenous firms 2001, 2006, 2011**

LUF	Pop06	Emp01	Emp/000	Emp06	Ch%0106	Emp/000	Emp11	Ch%0611	Emp/000
Arklow/Gorey	48417	1927	39.8	1420	-26.3	29.3	1070	-24.6	22.1
Athlone	41,757	751	18.0	1260	67.8	30.2	755	-40.1	18.1
Ballina	37,372	1444	38.6	1679	16.3	44.9	1056	-37.1	28.3
Ballinasloe/Loughrea	39026	921	23.6	1010	9.7	25.9	1088	7.7	27.9
Bandon/Macroon	39779	2129	53.5	2982	40.1	75.0	1872	-37.2	47.1
Bantry/Clonakilty/Skibbereen	48138	1892	39.3	2335	23.4	48.5	2425	3.9	50.4
Bray/Wicklow	87860	2755	31.4	2470	-10.3	28.1	1772	-28.3	20.2
Carlow	63,408	3471	54.7	3384	-2.5	53.4	3033	-10.4	47.8
Carrick-on-Shannon/Longford/Roscomon	92515	3643	39.4	3465	-4.9	37.5	2727	-21.3	29.5
Castlebar/Westport	84248	2516	29.9	2833	12.6	33.6	2885	1.8	34.2
Cavan	58,896	3627	61.6	4355	20.1	73.9	4398	1.0	74.7
Clonmel/Carrick-on-Suir	61452	2103	34.2	2150	2.2	35.0	1906	-11.3	31.0
Cork City/Midleton	308,091	8906	28.9	10437	17.2	33.9	9730	-6.8	31.6
Donegal County	140451	6551	46.6	6296	-3.9	44.8	4947	-21.4	35.2
Drogheda	93,447	3544	37.9	3445	-2.8	36.9	3150	-8.6	33.7
Droichead Nua	66,233	1673	25.3	2031	21.4	30.7	1883	-7.3	28.4
Dublin	1,260,167	53255	42.3	55636	4.5	44.1	52939	-4.8	42.0
Dundalk/Ardee	70,150	1770	25.2	2119	19.7	30.2	2005	-5.4	28.6
Dungarvan/Fermoy/Youghal	62,227	1751	28.1	1654	-5.5	26.6	1227	-25.8	19.7
Ennis/Shannon	88,140	2637	29.9	2793	5.9	31.7	2866	2.6	32.5
Galway/Tuam	197,184	8105	41.1	8191	1.1	41.5	7565	-7.6	38.4
Kilkenny	75,372	3650	48.4	4278	17.2	56.8	3416	-20.1	45.3
Killarney	45,578	715	15.7	845	18.2	18.5	748	-11.5	16.4
Limerick City	161,450	5156	31.9	6819	32.3	42.2	5429	-20.4	33.6

Listowel/Newcastlewest	43,207	1632	37.8	1625	-0.4	37.6	1129	-30.5	26.1
Mallow/Mitchelstown/Charleville	64,961	5478	84.3	4288	-21.7	66.0	3299	-23.1	50.8
Monaghan County	58,512	5494	93.9	6147	11.9	105.1	4599	-25.2	78.6
Mullingar	51,646	1096	21.2	1621	47.9	31.4	1521	-6.2	29.5
Naas	55,417	2356	42.5	2520	7.0	45.5	2257	-10.4	40.7
Navan/Trim	90,008	3428	38.1	3339	-2.6	37.1	3431	2.8	38.1
Nenagh/Birr/Roscrea	56,146	2572	45.8	3178	23.6	56.6	2603	-18.1	46.4
Portlaoise/Athy	73,761	1830	24.8	1860	1.6	25.2	1304	-29.9	17.7
Sligo	84,598	2840	33.6	2564	-9.7	30.3	1923	-25.0	22.7
Thurles/Tipperary/Cashel	58,980	1223	20.7	1354	10.7	23.0	978	-27.8	16.6
Tralee	83,591	4161	49.8	4182	0.5	50.0	3448	-17.6	41.2
Tullamore/Edenderry	58,608	1869	31.9	2386	27.7	40.7	2175	-8.8	37.1
Waterford City	79,539	4411	55.5	5393	22.3	67.8	4870	-9.7	61.2
Wexford/New Ross/Enniscorthy	109,516	3341	30.5	4042	21.0	36.9	3864	-4.4	35.3
Total	4239848	166623	39.3	178386	7.1	42.1	158293	-11.3	37.3

**Table 15.6 Employment density and change, foreign firms 2001, 2006, 2011**

LUF	Pop06	Emp01	Emp/000	Emp06	Ch%0611	Emp/000	Emp11	Ch%0611	Emp/000
Arklow/Gorey	48417	751	15.5	1177	56.7	24.3	765	-35.0	15.8
Athlone	41,757	2732	65.4	2238	-18.1	53.6	2396	7.1	57.4
Ballina	37,372	1031	27.6	1002	-2.8	26.8	1214	21.2	32.5
Ballinasloe/Loughrea	39026	1009	25.9	669	-33.7	17.1	259	-61.3	6.6
Bandon/Macroom	39779	1382	34.7	1373	-0.7	34.5	1267	-7.7	31.9
Bantry/Clonakilty/Skibbereen	48138	218	4.5	316	45.0	6.6	386	22.2	8.0
Bray/Wicklow	87860	2566	29.2	1794	-30.1	20.4	1365	-23.9	15.5
Carlow	63,408	1335	21.1	796	-40.4	12.6	554	-30.4	8.7
Carrick-on-Shannon/Longford/Roscommon	92515	1542	16.7	2772	79.8	30.0	1950	-29.7	21.1
Castlebar/Westport	84248	3459	41.1	2490	-28.0	29.6	2302	-7.6	27.3
Cavan	58,896	952	16.2	893	-6.2	15.2	983	10.1	16.7
Clonmel/Carrick-on-Suir	61452	2907	47.3	3012	3.6	49.0	3929	30.4	63.9
Cork City/Midleton	308,091	19251	62.5	21613	12.3	70.2	23712	9.7	77.0
Donegal County	140451	3633	25.9	2009	-44.7	14.3	2266	12.8	16.1
Drogheda	93,447	1805	19.3	1579	-12.5	16.9	1280	-18.9	13.7
Droichead Nua	66,233	2701	40.8	2421	-10.4	36.6	1872	-22.7	28.3
Dublin	1,260,167	67392	53.5	71452	6.0	56.7	68312	-4.4	54.2
Dundalk/Ardee	70,150	2888	41.2	2406	-16.7	34.3	1665	-30.8	23.7
Dungarvan/Fermoy/Youghal	62,227	2528	40.6	2052	-18.8	33.0	1272	-38.0	20.4
Ennis/Shannon	88,140	8134	92.3	7158	-12.0	81.2	6431	-10.2	73.0
Galway/Tuam	197,184	10597	53.7	12297	16.0	62.4	12289	-0.1	62.3
Kilkenny	75,372	463	6.1	551	19.0	7.3	501	-9.1	6.6
Killarney	45,578	1465	32.1	716	-51.1	15.7	805	12.4	17.7
Limerick City	161,450	10487	65.0	10437	-0.5	64.6	6468	-38.0	40.1



Listowel/Newcastlewest	43,207	1561	36.1	1293	-17.2	29.9	773	-40.2	17.9
Mallow/Mitchelstown/Charleville	64,961	531	8.2	1278	140.7	19.7	918	-28.2	14.1
Monaghan County	58,512	913	15.6	895	-2.0	15.3	633	-29.3	10.8
Mullingar	51,646	1279	24.8	785	-38.6	15.2	433	-44.8	8.4
Naas	55,417	1558	28.1	1366	-12.3	24.6	859	-37.1	15.5
Navan/Trim	90,008	1086	12.1	715	-34.2	7.9	764	6.9	8.5
Nenagh/Birr/Roscrea	56,146	1337	23.8	661	-50.6	11.8	245	-62.9	4.4
Portlaoise/Athy	73,761	934	12.7	769	-17.7	10.4	472	-38.6	6.4
Sligo	84,598	3240	38.3	2986	-7.8	35.3	2703	-9.5	32.0
Thurles/Tipperary/Cashel	58,980	814	13.8	645	-20.8	10.9	283	-56.1	4.8
Tralee	83,591	1784	21.3	1271	-28.8	15.2	729	-42.6	8.7
Tullamore/Edenderry	58,608	2046	34.9	1483	-27.5	25.3	930	-37.3	15.9
Waterford City	79,539	6289	79.1	6067	-3.5	76.3	4385	-27.7	55.1
Wexford/New Ross/Enniscorthy	109,516	1945	17.8	2086	7.2	19.0	2091	0.2	19.1
Total	4239848	176545	41.6	175523	-0.6	41.4	160461	-8.6	37.8

There is an obvious element of complementarity between the tables suggesting that there is a degree of “balancing out” between the distribution of indigenous and foreign employment. Thus, Monaghan County, the Mallow Group and Cavan, the top three LUFs in Table 5, are all towards the bottom of Table 14.6 while Athlone, in 3rd position in Table 6, is second last in Table 5. However, a simple Pearsonian correlation between the two density variables, while predictably negative, was quite low ( $R = -0.278$ , indicating that less than 8% of variation in the distribution of foreign employment is explained by corresponding variation in indigenous employment).

Interestingly, eliminating the five main cities and Ennis/Shannon from the calculations yields a much stronger (although still relatively weak)  $R$  value of  $-0.449$ , suggesting that urban attraction is a strong locational influence operating independently of regional balance considerations. It may be noted that these six centres occupy six of the top seven places in Table 6 (foreign employment density). By contrast, these centres are widely distributed throughout Table 5, indicating a much more dispersed distribution pattern for indigenous employment. This is further indicated by the fact that no less than 30 of the 38 LUFs have a below-average density in foreign employment compared with 22 with respect to indigenous employment

The overall lack of complementarity between Tables 5 and 6 is shown in Table 7, which combines these tables and thus shows the employment density of all agency-assisted employment. While the degree of disparity between top and bottom is not as great as in Tables 5 & 6, is still very considerable, with Waterford City at the top (and thus the most favoured LUF according to this measure) portraying almost four times the density of the Thurles group (Thurles/Tipperary/Cashel) at the bottom. Ennis/Shannon and Monaghan County also do particularly well in this table, with Portlaoise/Athy only marginally better than the Thurles group at the other end of the scale. It may also be noted that the five main cities and Ennis/Shannon occupy six of the top eight places in Table 7 (the others being Monaghan County and the Mallow group).

Finally, given the contrasting performances of the manufacturing and services sectors in the 2000s, it is useful to look at the division between manufacturing and services employment among foreign firms by LUF in 2001 (Table 8). It might be that those LUFs with a strong existing base in services would be best placed to benefit from the sector’s subsequent growth (and vice-versa for manufacturing). It might usefully be reiterated here that not all sectors shared equally in the sharp decline in manufacturing employment which occurred between 2001 and 2011. The main casualty here was the electronics sector, and one might, therefore, expect those LUFs with a strong presence in this sector to portray a much poorer employment performance than LUFs with specialisms in manufacturing sectors with a stronger overall performance (as in the case of the Galway/Tuam LUF with respect to medical devices).

Table 8 shows that, in 2001, only four LUFs (Dublin, Ennis/Shannon, Drogheda, Bray/Wicklow) had a proportion of employment in services above the national average (32%). Of the 38 LUFs, 20 had less than 10% of their employment in services, with eight having no employment in services at all. There is no obvious spatial pattern in the distribution of these LUFs.

## 15.6 EMPLOYMENT TRENDS 2001-2006

On average, foreign firms in Ireland experienced an employment decline of 0.6% between 2001-2006; however, there was major variation around this average, with some LUFs actually expanding strongly but a larger group performing very poorly (Table 9). Eleven of the 38 LUFs had a better performance than the overall average, of which ten actually increased their employment level. This group of eleven included Galway City, Cork City, Dublin and Limerick of the main cities, but the standout performers were the Mallow group (141%), the Carrick-on-Shannon group comprising Carrick-on-Shannon, Longford and Roscommon (80%), Arklow/Gorey (57%) and the Bantry group (45%).

For the Mallow group, this was a particularly significant development, as this was the LUF with the lowest share, and third lowest density, of foreign employment in 2001. Indeed, its high growth rate between 2001-2006 is attributable to a considerable extent to the low initial foreign employment base in the LUF. This also applies to the Bantry group; however, while the latter's growth occurred entirely in services, the Mallow group's growth was all in manufacturing, and the LUF remained services-free at the end of the period. In the Carrick-on-Shannon group and Arklow/Gorey there was significant growth in both sectors, but with services predominating in both cases.

Of the other LUFs which achieved overall employment growth between 2001-2006, Galway/Tuam and Cork City/Midleton both experienced significant growth in both manufacturing and services, whereas there was manufacturing decline in Dublin. However, this was greatly outweighed by growth in services employment (in fact, Dublin alone accounted for 68% of all services employment growth nationally in the period). While the employment growth rate portrayed by Cork, Dublin and Galway was relatively modest, the absolute employment size of these centres and the fact that most LUFs experienced employment loss saw the combined share of total employment accounted for by these LUFs growing from 55% to 60%.

In both Kilkenny and the Wexford group, overall growth arose from strong expansion (albeit from small initial bases) in services more than counterbalancing significant contraction in the manufacturing base. Clonmel/Carrick-on-Suir's employment base remained almost entirely in manufacturing, but did well to register modest growth in the face of an overall loss of 9.3% in manufacturing employment in the period.

At the other end of the scale, there were 12 LUFs which experienced employment contraction exceeding 20% between 2001-2012. These were widely distributed, being located in counties Donegal, Mayo, Galway, Tipperary, Kerry, Offaly, Westmeath, Meath, Carlow and Wicklow. Ten of these LUFs experienced substantial erosion of their manufacturing base (>25% compared with the national average of 9.3%). The Thurles group experienced below-average manufacturing loss (8%) but major erosion (55%) of what was initially a significant services base (27% of total employment in 2001). Bray/Wicklow actually witnessed manufacturing employment growth but saw its substantial initial services base (39% of total employment) almost completely eliminated over the period. However, most of this involved a relocation by a single firm of employment to a nearby site in Dublin and may not have greatly affected the workers concerned.

**Table 15.7      Employment density and change, all firms 2001, 2006,2011**

LUF	Pop06	Emp01	Emp/000	Emp06	Ch%0106	Emp/000	Emp11	Ch%0611	Emp/000
Arklow/Gorey	48417	2678	55.3	2597	-3.0	53.6	1835	-29.3	37.9
Athlone	41,757	3483	83.4	3498	0.4	83.8	3151	-9.9	75.5
Ballina	37,372	2475	66.2	2681	8.3	71.7	2270	-15.3	60.7
Ballinasloe/Loughrea	39026	1930	49.5	1679	-13.0	43.0	1347	-19.8	34.5
Bandon/Macroon	39779	3511	88.3	4355	24.0	109.5	3139	-27.9	78.9
Bantry/Clonakilty/Skibbereen	48138	2110	43.8	2651	25.6	55.1	2811	6.0	58.4
Bray/Wicklow	87860	5321	60.6	4264	-19.9	48.5	3137	-26.4	35.7
Carlow	63,408	4806	75.8	4180	-13.0	65.9	3587	-14.2	56.6
Carrick-on-Shannon/Longford/Roscommon	92515	5185	56.0	6237	20.3	67.4	4677	-25.0	50.6
Castlebar/Westport	84248	5975	70.9	5323	-10.9	63.2	5187	-2.6	61.6
Cavan	58,896	4579	77.7	5248	14.6	89.1	5381	2.5	91.4
Clonmel/Carrick-on-Suir	61452	5010	81.5	5162	3.0	84.0	5835	13.0	95.0
Cork City/Midleton	308,091	28157	91.4	32050	13.8	104.0	33442	4.3	108.5
Donegal County	140451	10184	72.5	8305	-18.5	59.1	7213	-13.1	51.4
Drogheda	93,447	5349	57.2	5024	-6.1	53.8	4430	-11.8	47.4
Droichead Nua	66,233	4374	66.0	4452	1.8	67.2	3755	-15.7	56.7
Dublin	1,260,167	120647	95.7	127088	5.3	100.9	121251	-4.6	96.2
Dundalk/Ardee	70,150	4658	66.4	4525	-2.9	64.5	3670	-18.9	52.3
Dungarvan/Fermoy/Youghal	62,227	4279	68.8	3706	-13.4	59.6	2499	-32.6	40.2
Ennis/Shannon	88,140	10771	122.2	9951	-7.6	112.9	9297	-6.6	105.5
Galway/Tuam	197,184	18702	94.8	20488	9.5	103.9	19854	-3.1	100.7
Kilkenny	75,372	4113	54.6	4829	17.4	64.1	3917	-18.9	52.0
Killarney	45,578	2180	47.8	1561	-28.4	34.2	1553	-0.5	34.1
Limerick City	161,450	15643	96.9	17256	10.3	106.9	11897	-31.1	73.7

Listowel/Newcastlewest	43,207	3193	73.9	2918	-8.6	67.5	1902	-34.8	44.0
Mallow/Mitchesltown/Charleville	64,961	6009	92.5	5566	-7.4	85.7	4217	-24.2	64.9
Monaghan County	58,512	6407	109.5	7042	9.9	120.4	5232	-25.7	89.4
Mullingar	51,646	2375	46.0	2406	1.3	46.6	1954	-18.8	37.8
Naas	55,417	3914	70.6	3886	-0.7	70.1	3116	-19.8	56.2
Navan/Trim	90,008	4514	50.2	4054	-10.2	45.0	4195	3.5	46.6
Nenagh/Birr/Roscrea	56,146	3909	69.6	3839	-1.8	68.4	2848	-25.8	50.7
Portlaoise/Athy	73,761	2764	37.5	2629	-4.9	35.6	1776	-32.4	24.1
Sligo	84,598	6080	71.9	5550	-8.7	65.6	4626	-16.6	54.7
Thurles/Tipperary/Cashel	58,980	2037	34.5	1999	-1.9	33.9	1261	-36.9	21.4
Tralee	83,591	5945	71.1	5453	-8.3	65.2	4177	-23.4	50.0
Tullamore/Edenderry	58,608	3915	66.8	3869	-1.2	66.0	3105	-19.7	53.0
Waterford City	79,539	10700	134.5	11460	7.1	144.1	9255	-19.2	116.4
Wexford/New Ross/Enniscorthy	109,516	5286	48.3	6128	15.9	56.0	5955	-2.8	54.4
Total	4239848	343168	80.9	353909	3.1	83.5	318754	-9.9	75.2

**Table 15.8 Services share of foreign employment 2001, 2006, 2011**

LUF	Empl01	Services %	Emp06	Services%	Emp11	Services%
Arklow/Gorey	751	20.5	1177	33.7	765	33.1
Athlone	2732	24.8	2238	28.6	2396	43.8
Ballina	1031	17.9	1002	24.1	1214	20.8
Ballinasloe/Loughrea	1009	11.5	669	31.2	259	0.0
Bandon/Macroon	1382	0.4	1373	0.4	1267	0.0
Bantry/Clonakilty/Skibbereen	218	6.0	316	39.9	386	61.7
Bray/Wicklow	2566	39.4	1794	2.2	1365	0.1
Carlow	1335	0.0	796	0.0	554	11.9
Carrick-on-Shannon/Longford/Roscomon	1542	28.9	2772	35.8	1950	35.4
Castlebar/Westport	3459	7.5	2490	5.5	2302	5.4
Cavan	952	0.0	893	0.0	983	0.8
Clonmel/Carrick-on-Suir	2907	0.6	3012	0.2	3929	0.2
Cork City/Midleton	19251	22.3	21613	23.7	23712	30.0
Donegal County	3633	14.7	2009	57.3	2266	64.9
Drogheda	1805	39.8	1579	54.6	1280	64.5
Droichead Nua	2701	25.4	2421	16.5	1872	13.4
Dublin	67392	56.8	71452	63.3	68312	70.5
Dundalk/Ardee	2888	9.0	2406	25.7	1665	34.0
Dungarvan/Fermoy/Youghal	2528	0.0	2052	0.0	1272	0.0
Ennis/Shannon	8134	49.3	7158	56.9	6431	54.1
Galway/Tuam	10597	12.2	12297	12.4	12289	23.3
Kilkenny	463	20.5	551	55.0	501	87.4
Killarney	1465	5.0	716	0.0	805	0.0
Limerick City	10487	16.6	10437	19.5	6468	24.1

Listowel/Newcastlewest	1561	0.0	1293	0.0	773	0.0
Mallow/Mitchesltown/Charleville	531	0.0	1278	0.0	918	0.0
Monaghan County	913	3.3	895	3.1	633	6.5
Mullingar	1279	0.0	785	0.0	433	0.0
Naas	1558	10.3	1366	13.3	859	28.6
Navan/Trim	1086	24.0	715	41.0	764	46.7
Nenagh/Birr/Roscrea	1337	1.1	661	2.3	245	6.5
Portlaoise/Athy	934	0.0	769	0.0	472	0.0
Sligo	3240	0.0	2986	6.5	2703	2.1
Thurles/Tipperary/Cashel	814	27.3	645	15.2	283	29.0
Tralee	1784	9.0	1271	6.3	729	15.2
Tullamore/Edenderry	2046	2.1	1483	0.0	930	0.0
Waterford City	6289	8.8	6067	19.0	4385	12.7
Wexford/New Ross/Enniscorthy	1945	6.5	2086	19.1	2091	16.2
Total	176545	32.0	175523	37.9	160461	44.4

**Table 15.9 Foreign Employment Change 2001-2011**

LUF	Total 01	Mfg 01	Services 01	Total 06	Tot Ch%	Mfg 06	Mfg Ch%	Services 06	Serv Ch%	Tot11	TotCh%	Mfg11	MfgCh%	Ser11	
Arklow/Gorey	751	597	154	1177	56.7	780	30.7	397	157.8	765	-35.0	512	-34.4	253	-36.3
Athlone	2732	2054	678	2238	-18.1	1599	-22.2	639	-5.8	2396	7.1	1347	-15.8	1049	64.2
Ballina	1031	846	185	1002	-2.8	761	-10.0	241	30.3	1214	21.2	961	26.3	253	5.0
Ballinasloe/Loughrea	1009	893	116	669	-33.7	460	-48.5	209	80.2	259	-61.3	259	-43.7	0	-100.0
Bandon/Macroom	1382	1376	6	1373	-0.7	1368	-0.6	5	-16.7	1267	-7.7	1267	-7.4	0	-100.0
Bantry/Clonakilty/Skibbereen	218	205	13	316	45.0	190	-7.3	126	869.2	386	22.2	148	-22.1	238	88.9
Bray/Wicklow	2566	1555	1011	1794	-30.1	1755	12.9	39	-96.1	1365	-23.9	1363	-22.3	2	-94.9
Carlow	1335	1335	0	796	-40.4	796	-40.4	0	NA	554	-30.4	488	-38.7	66	NA
Carrick-on-Shannon/Longford/Roscommon	1542	1096	446	2772	79.8	1781	62.5	991	122.2	1950	-29.7	1259	-29.3	691	-30.3
Castlebar/Westport	3459	3198	261	2490	-28.0	2352	-26.5	138	-47.1	2302	-7.6	2177	-7.4	125	-9.4
Cavan	952	952	0	893	-6.2	893	-6.2	0	NA	983	10.1	975	9.2	8	NA
Clonmel/Carrick-on-Suir	2907	2891	16	3012	3.6	3005	3.9	7	-56.3	3929	30.4	3920	30.4	9	28.6
Cork City/Midleton	19251	14966	4285	21613	12.3	16501	10.3	5112	19.3	23712	9.7	16594	0.6	7118	39.2
Donegal County	3633	3100	533	2009	-44.7	857	-72.4	1152	116.1	2266	12.8	796	-7.1	1470	27.6
Drogheda	1805	1087	718	1579	-12.5	717	-34.0	862	20.1	1280	-18.9	455	-36.5	825	-4.3
Droichead Nua	2701	2014	687	2421	-10.4	2022	0.4	399	-41.9	1872	-22.7	1622	-19.8	250	-37.3
Dublin	67392	29083	38309	71452	6.0	26255	-9.7	45197	18.0	68312	-4.4	20146	-23.3	48166	6.6
Dundalk/Ardee	2888	2629	259	2406	-16.7	1788	-32.0	618	138.6	1665	-30.8	1099	-38.5	566	-8.4
Dungarvan/Fermoy/Youghal	2528	2528	0	2052	-18.8	2052	-18.8	0	NA	1272	-38.0	1272	-38.0	0	NA
Ennis/Shannon	8134	4122	4012	7158	-12.0	3082	-25.2	4076	1.6	6431	-10.2	2950	-4.3	3481	-14.6
Galway/Tuam	10597	9305	1292	12297	16.0	10778	15.8	1519	17.6	12289	-0.1	9420	-12.6	2869	88.9
Kilkenny	463	368	95	551	19.0	248	-32.6	303	218.9	501	-9.1	63	-74.6	438	44.6
Killarney	1465	1392	73	716	-51.1	716	-48.6	0	-100.0	805	12.4	805	12.4	0	NA



Limerick City	10487	8741	1746	10437	-0.5	8401	-3.9	2036	16.6	6468	-38.0	4909	-41.6	1559	-23.4
Listowel/Newcastlewest	1561	1561	0	1293	-17.2	1293	-17.2	0	NA	773	-40.2	773	-40.2	0	NA
Mallow/Mitchelstown/ Charleville	531	531	0	1278	140.7	1278	140.7	0	NA	918	-28.2	918	-28.2	0	NA
Monaghan County	913	883	30	895	-2.0	867	-1.8	28	-6.7	633	-29.3	592	-31.7	41	46.4
Mullingar	1279	1279	0	785	-38.6	785	-38.6	0	NA	433	-44.8	433	-44.8	0	NA
Naas	1558	1398	160	1366	-12.3	1185	-15.2	181	13.1	859	-37.1	613	-48.3	246	35.9
Navan/Trim	1086	825	261	715	-34.2	422	-48.8	293	12.3	764	6.9	407	-3.6	357	21.8
Nenagh/Birr/Roscrea	1337	1322	15	661	-50.6	646	-51.1	15	0.0	245	-62.9	229	-64.6	16	6.7
Portlaoise/Athy	934	934	0	769	-17.7	769	-17.7	0	NA	472	-38.6	472	-38.6	0	NA
Sligo	3240	3240	0	2986	-7.8	2793	-13.8	193	NA	2703	-9.5	2647	-5.2	56	-71.0
Thurles/Tipperary/Cashel	814	592	222	645	-20.8	547	-7.6	98	-55.9	283	-56.1	201	-63.3	82	-16.3
Tralee	1784	1623	161	1271	-28.8	1191	-26.6	80	-50.3	729	-42.6	618	-48.1	111	38.8
Tullamore/Edenderry	2046	2003	43	1483	-27.5	1483	-26.0	0	-100.0	930	-37.3	930	-37.3	0	NA
Waterford City	6289	5735	554	6067	-3.5	4914	-14.3	1153	108.1	4385	-27.7	3829	-22.1	556	-51.8
Wexford/New Ross /Enniscorthy	1945	1818	127	2086	7.2	1687	-7.2	399	214.2	2091	0.2	1752	3.9	339	-15.0
Total	176545	120077	56468	175523	-0.6	109017	-9.2	66506	17.8	160461	-8.6	89221	-18.2	71240	7.1

Seven of the twelve high-employment-loss LUFs had a minimal services presence (<10%) at the beginning of the period, and in all cases, there was little or no services growth to compensate for substantial losses in manufacturing employment. The only LUF in this group to portray significant services growth was that embracing County Donegal (Ballybofey/Buncrana/Donegal/Letterkenny). However, in this case strong growth (116%) of a significant initial services base was greatly outweighed by massive losses (72%) in the county's initially-strong (mainly textiles-based) manufacturing sector. As a result, the share of total employment taken by services jumped from 15% to 57%.

Of the intermediate LUFs in Table 9, the main feature was the strong growth in services which went much of the way to counterbalancing substantial manufacturing decline in Waterford City and (especially) Dundalk/Ardee; the significant employment loss (18%) experienced by Athlone, which had the highest share of foreign employment in 2001; the stability in services employment but substantial manufacturing loss at Ennis/Shannon; and the reverse experience of Droichead Nua, where manufacturing employment was stable but services declined significantly.

Overall, there was no discernible pattern in inter-LUF variation in foreign employment growth performance over the period. The possibility that those LUFs which already had a strong foreign employment base may have performed better was explored by calculating a correlation coefficient between foreign employment density in 2001 and growth rate 2001-2006. Contrary to expectation, the correlation coefficient was actually negative but, at -0.1767, very weak. A second possibility was that those LUFs with a strong indigenous employment base would show a weak foreign employment growth rate (based on the idea, advanced above, that the IDA would tend to steer inward investment away from such areas). While the correlation coefficient in this case was also negative (as expected) it was even weaker, at -0.116 (which means, effectively, no association between the variables at all).

As regards trends in the share of total employment taken by foreign firms, this is a function of the pattern of change in indigenous as well as foreign employment. Not only did indigenous employment grow significantly (by 7%) during 2001-2006 (while foreign employment declined slightly), but it was widely dispersed, with 27 LUFs experiencing growth (compared with just 10 for foreign employment), of which 20 experienced above-average growth (Table 5). Athlone, which had the highest share of foreign employment in 2001, had the highest growth rate for indigenous employment (68%), while its foreign employment shrank by 18%. In general, there was virtually no correspondence between the inter-LUF growth performance in indigenous and foreign employment.

The overall impact of these differing growth trends in the indigenous and foreign services on the inter-LUF share of total employment accounted for by foreign firms is shown in Table 4. While the share of the foreign sector in total agency-assisted employment only fell very slightly (from 51.4% to 49.6%) between 2001-2006, there was very substantial movement at the LUF level, with 29 LUFs losing foreign share. Of these, eight experienced a loss in excess of ten percentage points, the worst-affected being Killarney, Mullingar and the Nenagh group (Nenagh/Roscrea/ Birr), followed by Athlone, Tullamore/Edenderry, Donegal County, Ballinasloe/ Loughrea and Castlebar/Westport. Interestingly, three of the main cities (Cork, Limerick and Waterford) also suffered falling share, as did Ennis/Shannon. Gaining in excess of ten percentage points were Arklow/Gorey, the Mallow group and the Carrick-on-Shannon group.

Finally, as regards the overall share of foreign employment accounted for by services, there was some improvements as regards spatial distribution, with 21 LUFs reporting an increase in their share (Table 8). However, in seven cases this was due more to manufacturing decline than services growth: apart from Sligo (which started from a zero base), 13 LUFs exceeded the overall growth rate of 18% for services employment., with eight experiencing growth rates of >100%. Of the latter, five had small services bases originally but the other three (the Carrick-on-Shannon group, Donegal County and Waterford City) did have a significant initial level of services employment.

Where there were only four LUFs with an above-average share of services employment in 2001, this grew to seven in 2006 (despite a significant increase in the average, from 32% to 38%), the additions being Donegal County, Kilkenny, Navan/Trim and the Bantry group (with Bray/Wicklow dropping out). However, those LUFs which started the period with little or no services employment were finding it difficult to attract employment in the sector. Of the 10 LUFs whose services share had fallen, seven had a share of <10% in 2001; there were still 17 LUFs whose services share was below 10% (compared with 20 in 2001); there were now nine LUFs with no services employment at all (compared with eight in 2001); and seven of the eight LUFs which had no services employment in 2001 remained in the same position in 2006 (the exception being Sligo).

## **15.7 EMPLOYMENT TRENDS 2006-2011**

Overall, foreign firm employment fell by just under 9% between 2006-2011 (combining an 18% fall in manufacturing and a 7% rise in services). However, there was major variation around this overall average (Table 9). Ten LUFs actually experienced growth, led by Clonmel/Carrick-on-Suir followed by the Bantry group (whose initial foreign sector was quite small) and Ballina. In the cases of both Clonmel/Carrick and Ballina, most of the growth occurred in manufacturing. Three of the LUFs experiencing growth (Donegal County, Killarney and Navan/Trim) had experienced very substantial employment losses in 2001-2006. Donegal County's good performance was entirely driven by services growth (in the face of continued manufacturing decline), and a remarkable feature of the recent economic experience of this region has been the way it has been reinventing itself, following the collapse of its manufacturing base, as a successful centre for export services, mainly in the Letterkenny area. Cork/Midleton's and Athlone's growth has also been driven by strong services expansion, with Athlone reversing the significant decline experienced in 2001-2006.

At the other end of the scale, no less than 24 LUFs experienced a rate of decline in excess of the overall average. For 20 of these (including the Carrick-on-Shannon and Mallow groups and Arklow, the three star performers in the previous period) the rate of loss exceeded 20%. Of this 20, 17 had also experienced employment contraction in the previous period. For eight LUFs, it was the second period in a row of 20+% decline. The worst-hit LUF was the Nenagh group, which followed a 51% fall in 2001-2006 with a further 63% decline in 2006-2011. This adds up to an 82% contraction over the decade. The cumulative decline for Ballinasloe was 74% and for the Thurles group 65%.

Of the 20 LUFs which declined by more than 20%, 12 had little or no services employment at the beginning of the period. Not that possession of a strong services component provided a guarantee against employment decline: Waterford City, the Carrick-on-Shannon group and Limerick City all had a substantial services base in 2006, and all experienced substantial erosion of that base over the ensuing five years.

While the overall rate of decline in indigenous employment was greater than that for foreign employment (11% compared with 9%) its spatial impacts were not as severe (Table 5). While only six LUFs (headed by Waterford City) enjoyed positive growth (at very modest levels), only 16 contracted by 20+% while six LUFs experienced rates of decline in foreign employment which were greater than the worst decline rate in indigenous employment (40%). Three LUFs (the Bantry group, Cavan and Navan/Trim) managed to achieve growth in both foreign and indigenous employment; by contrast, 25 LUFs experienced declines in both. Of the latter, ten experienced declines in excess of 20% on both counts.

The upshot of all of these changes was that, while the overall share of total employment accounted for by foreign firms rose slightly (from 49.6% to 50.3%), there was not nearly as much movement in the pecking order as there had been in a previous period (Table 4). Athlone moved back to the top of the list, followed closely by Cork/Midleton, Ennis/Shannon and Clonmel/Carrick-on-Suir. At the other end, the Nenagh group's share now stood at a miniscule 8.6% (down from 34.2% in 2001). Just two LUFs (Athlone and Ballina) increased their shares by more than 10 percentage points while Ballinasloe/Loughrea, Mullingar and the Thurles group saw their shares fall by at least 10 percentage points.

The services sector's share of total foreign employment continued its inexorable rise, up from 38% in 2006 to 44% in 2011 (Table 8). At the same time, employment in the sector was being increasingly concentrated in a few LUFs. There were now six with a services share of over 50%, headed by Kilkenny with an extremely high share of over 87%. At the other end of the scale there were now 16 LUFs with less than 10% of their foreign employment in services, of which nine had no services employment at all.

## 15.8 SUMMARY

Over the entire period 2001-2011, foreign employment fell 9% while its share of total employment in agency-assisted firms fell by one percentage point to 50.3%. Foreign manufacturing employment fell by 26% while service employment rose by the same proportion, so that the share of the latter rose from 32% to 44%.

The picture of spatial change over the period depicted here is complex and highly variegated, with the fortunes of individual LUFs waxing and waning in terms of both indigenous and foreign employment. Changes in the latter have neither paralleled nor complemented changes in the former. Changes in services and manufacturing employment have equally shown little pattern.

Twelve LUFs actually experienced an increase in foreign employment over the period, led by the Bantry (77%) and Mallow (73%) groups (albeit from low initial bases in both cases), followed by Clonmel/Carrick-on-Suir (35%), the Carrick-on-Shannon group (27%) and Cork City/Midleton (23%). Most of those LUFs (the great majority) which lost foreign employment did so at a much higher rate than the overall average (9%), with eight losing over half of their 2001 employment, led by the Nenagh group (82%) and Ballinasloe (74%). A further 14 LUFs lost between 25-50% of their 2001 foreign employment. There is no discernible spatial pattern regarding employment gains or losses. Most LUFs also experienced a decline in the share of total employment taken by foreign firms, the most precipitous falls being experienced by Ballinasloe/Loughrea (down 33 percentage points to 19%), Mullingar (down 32 points to 22%), and the Nenagh group (down 26 points to just 9%).

The key spatial feature of the overall pattern of employment change over the period 2001-2011 is the increasing domination of national employment by three of the main cities, namely, Dublin, Cork and Galway. In terms of overall employment, these three cities, combined, increased their share from 55.1% to 65.1%. Dublin's share of manufacturing employment actually fell (from 24.2% to 22.6%) whereas the shares for Cork and Galway increased

strongly (from 12.5% to 18.6% in the case of Cork and from 7.8% to 10.6% in the case of Galway). Overall, then, the combined share of the three cities rose from 42.5% to 51.8%.

It is in the services sector that the domination of the “big three” cities is most pronounced. Dublin actually experienced a slight decline in share (from 67.8% to 67.6%). However, this share in itself is three times its share of manufacturing employment, reflecting Dublin’s continuing very dominant position in this sector. Neither Cork’s nor Galway’s performance in this sector was as strong in manufacturing, but in both cases it was still quite positive (from 7.6% to 10.0% in the case of Cork and from 2.3% to 4.0% in the case of Galway). Thus, the combined share of the three cities rose from 77.7% to 80.6%.

The performance of the other two main provincial cities (Limerick and Waterford) was much weaker. Both lost out significantly as regards overall employment share, manufacturing share and, perhaps most significant of all, services share. More worryingly for these two cities, services employment was stagnant in the case of Waterford and fell significantly in the case of Limerick.

Outside of these cities, some LUFs have done reasonably well, although the overall pattern has been rather negative. LUFs’ fortunes have waxed and waned over time, depending on a combination of local circumstances, developments in particular firms which sometimes can have a dominant local effect at this level, and sectoral developments whose impacts are also very variable. However, two things are clear. The preference of foreign services firms for large urban locations has major implications for areas outside the main centres (which in Ireland essentially means Dublin and Cork in this case). Plus, without a critical mass of firms, individual localities will continue to be vulnerable to developments affecting individual firms which account for a large share of employment in these localities.

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## Chapter 16. RURAL COMMUTING AND EMPLOYMENT IN TOWNS

Deirdre Frost

### 16.1 INTRODUCTION

Any examination of the rural economy needs to understand the nature and extent of commuting from rural areas. The purpose of this research is to provide some sense of the scale of one of the more important rural-urban linkages; that of commuting to work, based on data from the most recent Census (2011). The particular focus here is on commuting from rural areas to work in urban areas. The analysis undertaken will help our understanding of the extent to which rural dwellers commute to and avail of employment in urban centres.

Much discussion of rural-urban linkages takes place in the absence of clear definitions of what is considered urban and rural and often in the absence of a quantitative evidence base. Of course there are issues regarding what constitutes rural areas and urban areas, and there is a case for several categories within each based on the ‘degree’ of rurality. For example, many would regard smaller towns as rural towns, rather than urban centres and there are differences between remote rural areas and those close to urban centres. This more nuanced categorisation is beyond the scope of this paper but is evident in some of the maps included. [Note Editor, refer here to elsewhere in research report where definitions of rural are discussed]. In providing this quantitative measure of rural commuting some definitions of rural and urban are required and spatial areas need to be demarcated. The definitions used are discussed below.

#### *Commuting*

Commuting is an integral element of the operation of labour markets throughout the developed world. Across OECD countries there is net out commuting from rural regions indicating that generally there are more workers than jobs in rural regions<sup>60</sup>. These rural urban and inter-regional labour market linkages are important in understanding the relationship between rural and urban areas and in understanding the importance of urban employment as an essential aspect of rural communities.

By its nature, commuting can be multi-directional. While commuting is often seen as predominantly from periphery to core or rural to urban, rural regions are employment destinations for commuters from urban centres. There are also strong rural to rural economic linkages which are important in sustaining rural communities<sup>61</sup>. However the larger flows tend to be from rural to urban and the focus here is on rural commuting to towns. The definitions of rural and urban are subject to debate and are discussed below. The purpose of this paper is to explore some of these rural-urban links as well as quantifying the extent and nature of these flows.

From a policy perspective an important consideration is the extent to which new jobs created are filled by the unemployed or underemployed or by changed commuting patterns. Employment growth in a given community will be accessed by both existing residents – rural dwellers, residents from adjoining areas (both urban and rural) and in some cases further afield. A study of rural commuting in North Carolina found that a greater number of urban jobs were filled by non-resident commuters, compared to rural areas where employment growth led to a greater reduction of out-commuting through employment taken up by rural

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<sup>60</sup> Commuting: its importance for rural employment analysis. Schindegger, F. Krajasits, C. 1997.

<sup>61</sup> See for example Harris, S., Alasia, A., Bollman, R. Rural Commuting: Its Relevance to Rural and Urban Labour Markets, Statistics Canada, Rural and Small Town Canada Analysis Bulletin. 2008

residents. The study also suggests that urban employers draw their labour supply from a wider geographic area (including nearby rural areas) than do rural businesses<sup>62</sup>.

In terms of income generation and all that may flow from this, including spending patterns, to the individual it may make little difference where a new enterprise is established and new employment is created as long as it is within reasonable and affordable commuting distance. This is discussed under the section Travel to Work distance, below. From a wider economy perspective however the effects can be significant. Commuting for employment purposes also provides opportunities for other economic and social activity, such as shopping and leisure activities. Those rural dwellers who commute to work in urban areas can engage in additional economic activity there, which otherwise may have occurred in the rural area. This, while providing greater choice to the rural commuter, may involve a loss of income to the rural community in which the worker lives.

The total number of those commuting to work each day is a factor of the overall numbers at work as well as other factors such as car ownership and the availability of public transport services<sup>63</sup>. In 2011, 1.66 million workers indicated that they travelled to their work (excluding those working from home<sup>64</sup>), a decrease from 1.79 million in 2006, reflecting the fall in the number of persons in employment over the five year period.<sup>65</sup>

Apart from this recent contraction, the evidence within Ireland suggests that commuting has been increasing with a period of uninterrupted growth in the number of persons commuting to work between 1986 and 2006<sup>66</sup>. Commuting increased in the '90s and '00s in part arising out of increasing employment but also from increasing house prices which impacted on place of residence, though place of work may have remained the same. Additional factors supporting increased commuting include improvements to the road network and increasing car ownership. It is important to note that the definition of commuting used here includes any mode of transport.

The particular focus of this paper is an examination of the extent to which commuting is a factor in supporting the economy of rural areas through employment of rural dwellers in towns, excluding the nine National Spatial Strategy (NSS) gateways. Rural dwellers who commute to work in gateways are examined in Chapter Four, Rural Commuting, Gateways and Foreign Direct Investment, WDC, 2013. To what extent do rural dwellers commute to and avail of employment in towns? Analysis of rural employment patterns and rural employment opportunities generally must take account of those rural dwellers who commute from rural to urban and this is the focus of this chapter. The data analysed is focused on the numbers and profile of rural dwellers commuting to employment in towns.

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62 Renkow, M. Rural Employment Growth: Who Gets the Jobs?, NC State Economist, Agriculture and Resource Economics, July/August 2002 North Carolina State University.

63 Over the last thirty years the use of cars has become increasingly prevalent. In 1981, 498,646 persons or 57 per cent of commuters either drove to work or were a passenger in a car. Thirty years later, this number had more than doubled to 1,136,615 persons, representing 69 per cent of commuters. This rise is despite the increase in public transport options available, CSO Census 2011.

64 A total of 83,326 persons indicated that they worked mainly at or from home in 2011, down from 105,706 (21%) since 2006.

65 There is also a category of worker with no fixed place of work or mobile workers. In 2011, over 148,000 workers indicated that they had no fixed place of work. This represented a 29 per cent decline from 2006. Over half (57%) of mobile workers were employees with a further 43 per cent self-employed. Mobile workers were typically male (78.6%) and almost three in ten mobile workers were in the construction industry.

66 CSO, Census 2011, Profile 10 – Door to door, p.7



## *Employment policy*

The national policy focus on jobs growth is focussed particularly on urban areas. Foreign direct investment, accounting for much of the recent employment creation, and state assisted employment generally is increasingly concentrated in the gateways and to a lesser extent the hubs<sup>67</sup>. Current policy appears to contrast with the industrial policy of the 1960s and 1970s with wider regional dispersal of foreign manufacturing and this is discussed further in Rural Commuting, Gateways and Foreign Direct Investment, WDC. 2013. While there are sectors with rural growth potential, for example tourism and agrifood, in the absence of policy interventions aimed at dispersing economic growth to all regions and areas, there is likely to be ever greater pressure on rural dwellers to commute or migrate to take up jobs located in urban areas.

## *Employment in Towns*

Previous research on small towns has highlighted their importance in supporting the rural economy. The WDC has highlighted the role of small towns within the predominantly rural Western Region. In particular the WDC has noted the importance of public and private investment in these smaller towns to support economic development<sup>68</sup>. The National Spatial Strategy noted that in supporting development in the West ‘the critical factor is underpinning sustainable development of strategically placed medium-sized towns to reinforce rural economies<sup>69</sup>. More recently, the role of towns in supporting the rural economy has been examined and the role and performance of towns with populations of 3,000-5,000 in particular has been highlighted<sup>70</sup>. The analysis on commuting in this chapter will help in understanding the role of towns in supporting the rural economy through employment opportunities across a range of sectors in particular retail and locally traded services, public services and manufacturing.

Towns of varying sizes also support both indigenous and foreign state assisted employment. Though the evidence indicates an increasing concentration of foreign direct investment in Dublin and other large cities, smaller scale operations can and do successfully operate in towns. Examples of smaller centres which have been successful in increasing agency assisted employment over the last decade include Bantry/Clonakilty, Carrick-on-Shannon, Clonmel/Carrick-on-Suir, Mallow/Mitchelstown<sup>71</sup>. There are many examples of smaller companies operating and exporting successfully from outside the large centres and some from quite small centres. Many of them cite the available labour supply as a positive attribute of their more rural location, as staff loyalty tends to be higher<sup>72</sup>. There are examples too of

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<sup>67</sup> See Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013, Chris van Egeraat, Proinnsias Breathnach & Declan Curran, Gateways, hubs and regional specialisation in the National Spatial Strategy, IPA Vol. 60, no.3 (2013).

<sup>68</sup> WDC, Jobs for Towns, Small and Medium-Sized Towns on Radial Routes in the Western Region, 2003

<sup>69</sup> National Spatial Strategy, 2002, p.47

<sup>70</sup> Dr. K Walsh and Brian Harvey Employment and Social Inclusion in Rural Areas: A Fresh Start, Pobal 2013

<sup>71</sup> Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013

<sup>72</sup> A few examples available include CMS Peripherals in Kiltimagh, Co. Mayo, E&I Engineering, Burnfoot, Co. Donegal, Merenda Ltd, Manorhamilton Co. Leitrim, Lionbridge Technologies, Ballina, Co. Mayo (Telecommunications), McHale Engineering Limited, Ballinrobe, Co. Mayo, MeteoGroup, Ennis, Co. Clare (Software), Ansamed Limited, Boyle (Medical Devices). MBNA/Bank of America in Carrick-on-Shannon is an example of a large employer successfully sourcing labour supply from a relatively small town and wider hinterland. Many of the companies cite the good labour supply and strong work ethic as benefits of more rural locations. See [www.wdc.ie](http://www.wdc.ie) and [www.lookwest.ie](http://www.lookwest.ie)

companies locating in smaller towns but within commuting distance of a larger labour pool with similar skills base e.g. medical devices companies in Gort and Loughrea Co. Galway accessing the labour supply within the Galway city catchment<sup>73</sup>.

### *Definitions – Rural, Urban (towns), Gateway*

#### *Rural*

There are a range of definitions of rural, ranging from the broadest; capturing all areas outside of the five main cities<sup>74</sup>, or all areas outside of the nine gateways and nine hubs designated in the NSS<sup>75</sup>; to narrower versions such as the OECD definition which classifies rural as areas with a population density of less than 150+ per sq km. This OECD definition may be more appropriate to areas with higher population densities as many smaller urban centres would be classified as rural. The CSO defines rural based on settlement size where settlements with a population of less than 1,500 and open countryside are classified as rural<sup>76</sup>. The CEDRA terms of reference acknowledge that while the definitions of rural areas are varied, the Commission will adopt a holistic view of rural as being outside the main metropolitan areas. The Commission's remit recognises of course the relational nature of economic development and the interconnections between rural and urban areas<sup>77</sup>, and as such rural commuting to urban areas is an important aspect of this.

In choosing a definition the purpose of the analysis is an important consideration. The focus of this research is rural dwellers and the extent and nature of rural commuting to urban centres. It is also important to capture as much commuting from rural areas as possible. On this basis the narrower definition of rural using the CSO definition of areas less than 1,500 is used. This definition classifies more centres as urban and in the context of commuting, this is particularly important for parts of the country which have many smaller urban centres but lack a large urban centre which is evident in parts of the West and North West in particular. These smaller urban centres often play a more significant role than their size suggests.<sup>78</sup>

Rural areas differ and in the context of this paper a key difference is between those which are rural but proximate to urban centres and those rural areas that are remote rural, for example many parts of the west coast. These differences are evident in the commuting distances and journey times and the extent to which particularly remote areas are beyond the sphere of influence of gateways and towns and this is evident in some of the maps. In providing a quantitative measure of rural commuting some definitions and thresholds of rural and urban are required. The gateways, urban (towns) and rural areas are shown on Map 1 below.

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<sup>73</sup> For example CareFusion established medical devices manufacturing centre in 2011 in Gort, Co. Galway with the support of the IDA, now known as Natus Medical. Previous analysis of travel to work data has shown that the Galway city Travel to Work Area (TTWA) or labour catchment extends to the County Galway boundary and beyond. WDC Travel to Work and Labour Catchments in the Western Region; A Profile of Seven Town Labour Catchments. 2009

<sup>74</sup> The White Paper on Rural Development 1999

<sup>75</sup> Rural Development Programme 2007-2013

<sup>76</sup> Research done by Dr. K Walsh and Brian Harvey Employment and Social Inclusion in Rural Areas: A Fresh Start used 3 categories based on settlement sizes of; > 5,000, 3,000 – 5,000 and less than 3,000. Pobal 2013

<sup>77</sup> <http://www.ruralireland.ie/index.php/remit>

<sup>78</sup> In contrast the OECD definition would categorise what are considered urban centres (albeit small ones) in rural regions as rural e.g. Donegal town and many small towns in counties Mayo, Roscommon and Sligo. e.g. Ballinrobe, Ballaghderreen, Ballyhanuis, Tubbercurry and Castlereagh.

### *Urban*

The urban category (towns with a population of 1,500 and above) is further divided into two categories, separating the gateways out from the other urban centres (towns). This allows an examination of rural commuting to gateways as well as rural commuting to towns.

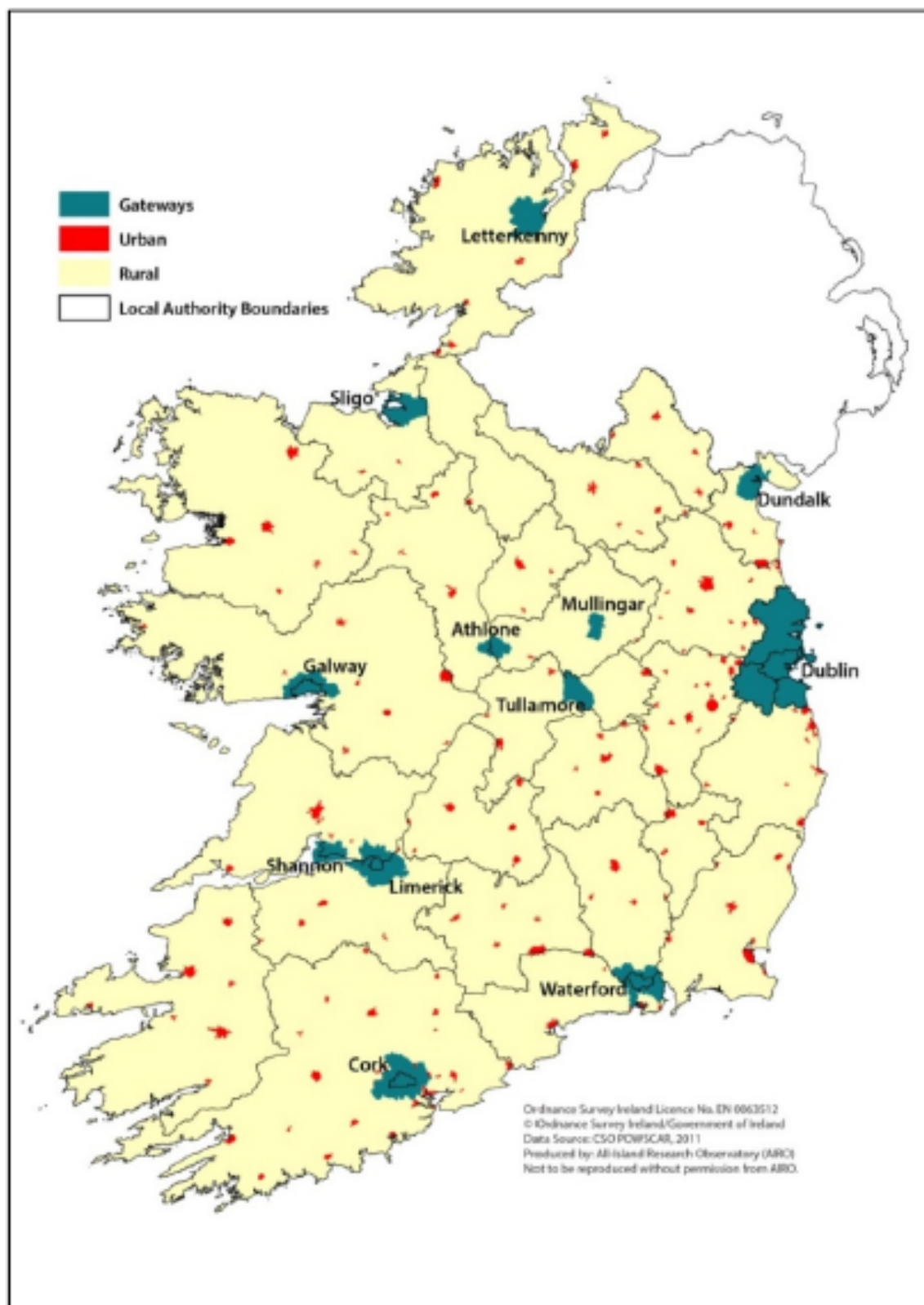
### *Gateway*

The geography of gateways is defined as the legally defined boundaries of the gateways plus all electoral divisions (EDs) which adjoin these boundaries. This is more extensive than the normal gateway definition (of town plus environs) and will capture employment centres located on the outskirts of gateways<sup>79</sup>.

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<sup>79</sup> This is also the definition used in the paper by Chris van Egeraat, Proinnsias Breathnach & Declan Curran, Gateways, hubs and regional specialisation in the National Spatial Strategy, IPA Vol. 60, no.3 (2013)

Figure 16.1 Employment Geography and commuting Context: Rural, Urban, Gateway



## 16.2 COMMUTING TO WORK IN IRELAND – THE LATEST EVIDENCE

### *Place of residence*

In 2011, there were 1.7 million (1,770,644) workers of which 35.5% (629,382) are categorised as rural dwellers. The working population defined as urban dwellers (including gateway dwellers) comprises 64.5% of the total (1,141,262)<sup>80</sup>. While over a third of workers are located in rural areas, there is just over a fifth (21.3%) of jobs located in rural areas. The extent to which rural dwellers commute to work in towns and the profile of these workers is the focus of this paper and is examined in the following sections.

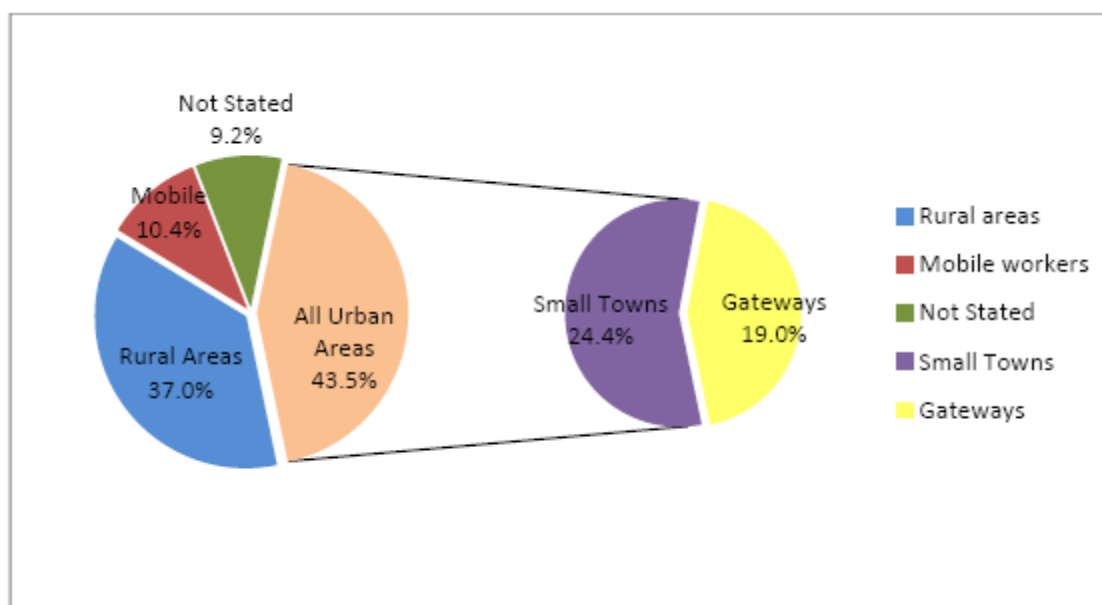
## 16.3 RURAL AND URBAN DWELLERS PLACE OF WORK

### *Rural Dwellers*

In 2011, there were 629,382 workers living in rural areas. Figure 1 below shows rural dwellers by place of work. The most significant employment destination for workers living in rural areas is urban areas with 43.5% (273,503) of these commuting to work in urban areas, of which 153,747 (24.4%) commute to towns and 119,756 (19%) commute to gateways.

Over a third of all rural dwellers (37% - 232,587) worked in rural areas. The remainder is accounted for by the categories of mobile workers (10.4% = 65,515) and uncodeable or blanks (9.2% = 57,777) both of which are proportionately more prevalent in the rural residential population compared to those resident in urban areas<sup>81</sup>. The classification is discussed further in the methodology section in the Appendix.

**Figure 16.2 Rural Dwellers by Place of Work, 2011**



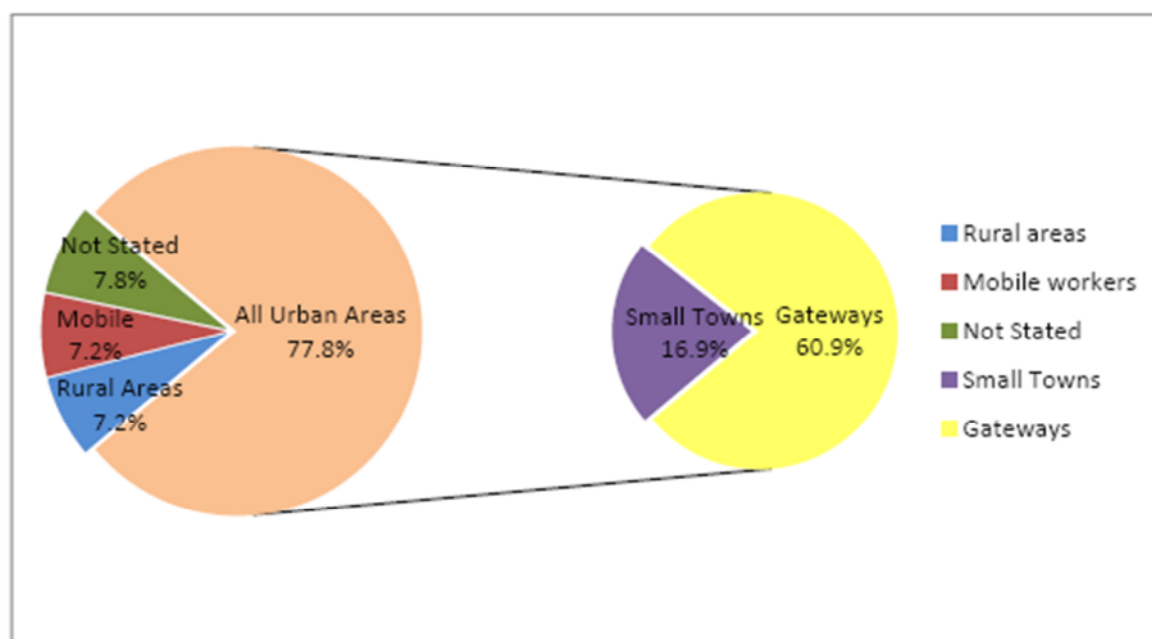
<sup>80</sup> Of this urban population, 1.7% (29,227) resides in rural EDs within gateways as defined for this research. This is explained further in the methodology section.

<sup>81</sup> Among the urban resident population 7.8% (89,474) were categorised as blank and 7.2% (82,662) as mobile workers.

## Urban Dwellers

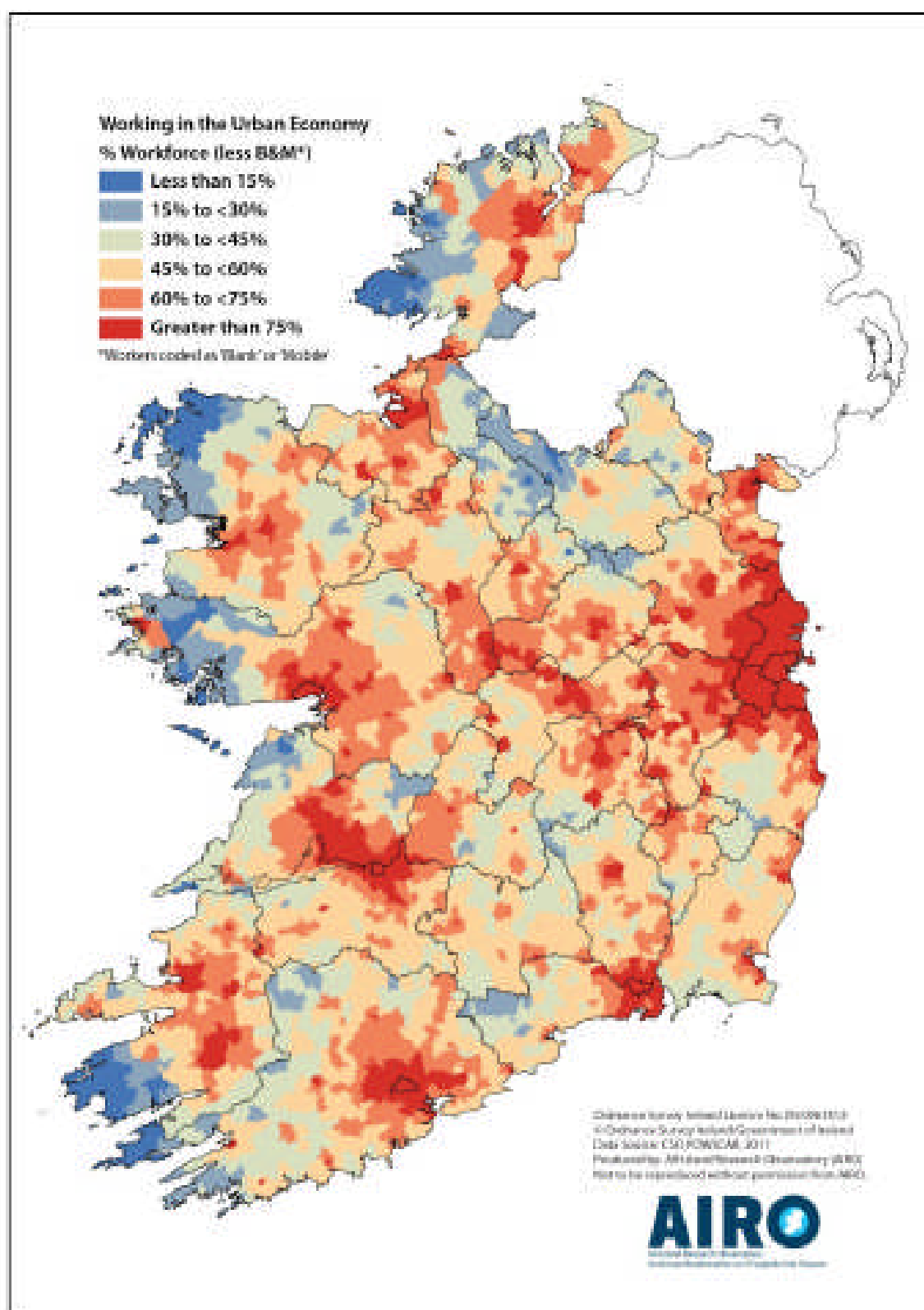
Urban dwellers, accounting for 1.14 million workers mostly work in urban areas. Figure 2 below shows the place of work for all urban dwellers with 61% (694,856) working in gateways which highlights their significance as an employment destinations. A further 16.8% (192,644) of urban dwellers work in towns so that combined, urban centres are the place of work for 78% of urban dwellers. Of all urban dwellers, 7.2% (81,626) commute to work in rural locations to work. The remainder were classed as either mobile or blank.

**Figure 16.3 Urban Dwellers by Place of Work, 2011**



Map 4 below illustrates the distribution of all urban employment showing the proportion of the workforce in each electoral division (ED), employed in towns and gateways. The stronger the shade of red, the higher the share of the population working in towns and gateways with deep red indicating in excess of 75% of the workforce employed there. The blue areas, dispersed throughout inland areas and along the coast are those areas with less than 30% of the population working in towns or gateways and are the more rural parts of the country.

**Figure 16.4 Who works in the Urban Economy including Gateways, 2011**

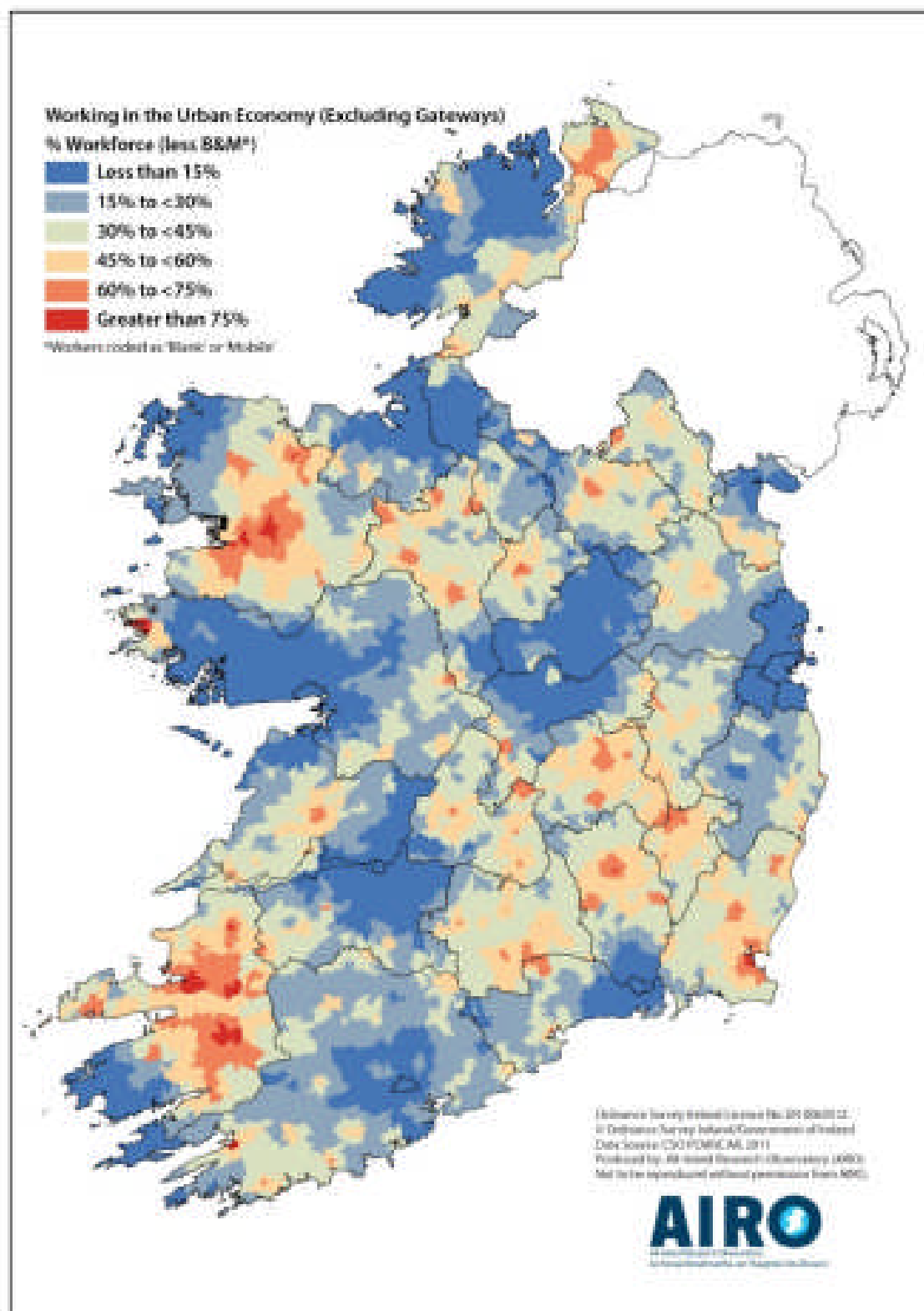


In contrast, Map 5 below illustrates the distribution of town based employment, excluding those employed in the gateways. This shows the proportion of the workforce in each electoral division (ED), working in towns and these towns are the focus of this paper. The stronger the shade of red, the higher the share of the population working there with deep red indicating

greater than 75% working in the towns. Many of the dark blue areas in and around the cities illustrate the importance of gateway employment. The rural regions are depicted in blue also and are the same as illustrated in Map 2, along the coast and various inland areas. Map 3 shows the importance of towns in providing employment in many parts of the West, Midlands and the South-East.



**Figure 16.5 Proportion of the workforce working in Towns (population centres greater than 1,500 & excluding gateways), 2011**



In the following section we will examine the profile and labour market characteristics of those rural dwellers (N = 273,503) who commute to work in all urban areas, accounting for over 54% of all rural dwellers which provided a workplace location. In particular the focus will be

on those rural dwellers commuting to work in the towns, depicted in red in Map 1, (population centres greater than 1,500 and excluding the gateways, N=153,747), comprising 30% of all rural dwellers who provided a workplace location.

## **16.4 RURAL COMMUTING TO URBAN AREAS - OVERVIEW**

### *Where do rural dwellers work?*

Of the total working population living in rural areas which provided a workplace destination over half, 54% (273,503) commute to work in all urban areas (towns and gateways), indicating the importance of towns and gateways in sustaining the livelihoods of rural dwellers. Understanding this and supporting these employment patterns will remain vital to the economic wellbeing of rural areas. Therefore it is very important that the nature and extent of commuting to these centres is understood. Of course as discussed at the outset, some towns could be considered rural towns, but in the context of this commuting analysis the CSO threshold of population centres of 1,500 and above is used to define towns and centres less than that are defined as rural.

Towns<sup>82</sup> are the employment destination for just under a quarter (24.4% or 153,747) of all workers resident in rural areas. This accounts for 56% of all urban employment locations for rural residents, depicted in Figure 1. While the towns are more significant, gateways are nonetheless important employment locations for rural dwellers accounting for 19% of all employment destinations for rural dwellers (119,756 workers). The profile of these rural dwellers commuting to work in gateways is discussed in more detail in Chapter Four, Rural Commuting, Gateways and Foreign Direct Investment, WDC, 2013.

In the following sections the labour market characteristics of rural commuters working in towns (N=153,747) are examined. The journey time to work, industry of employment and socio-economic group are presented. Following this there is an outline of personal labour market characteristics such as gender, age and education levels.

### *Travel to Work Journey Time*

Commuting distance is an important aspect with shorter journey times more common than longer journeys. The question of what can be considered a daily commutable distance also arises and the mode of transport and quality of transport infrastructure as well as transport costs are relevant here. For example, the Croke Park Agreement between the Government and public sector unions considered a drive time of 45 kilometres acceptable. Elsewhere a radius of 60km has been used to measure the labour supply catchment for foreign direct investment<sup>83</sup>. An important feature of shorter distance commuting is exurbanisation, where rural communities are located in fairly close proximity to urban areas. Some of these rural communities are migrants from urban areas and suburban employment can be as accessible to rural dwellers as to urban dwellers.

Examining the travel time for rural dwellers working in towns, shows the extent to which rural dwellers commute shorter or longer distances and the extent of the towns' travel catchments. The most common drivetime for rural dwellers working in towns is 15-30 minutes with 42% of rural dwellers commuting to towns with this journey time, see Figure 3 below. The next most common journey time, for nearly one quarter (23.9%) of rural dwellers working in towns, is 5-15 minutes. Over 65% of rural dwellers working in towns have a journey time

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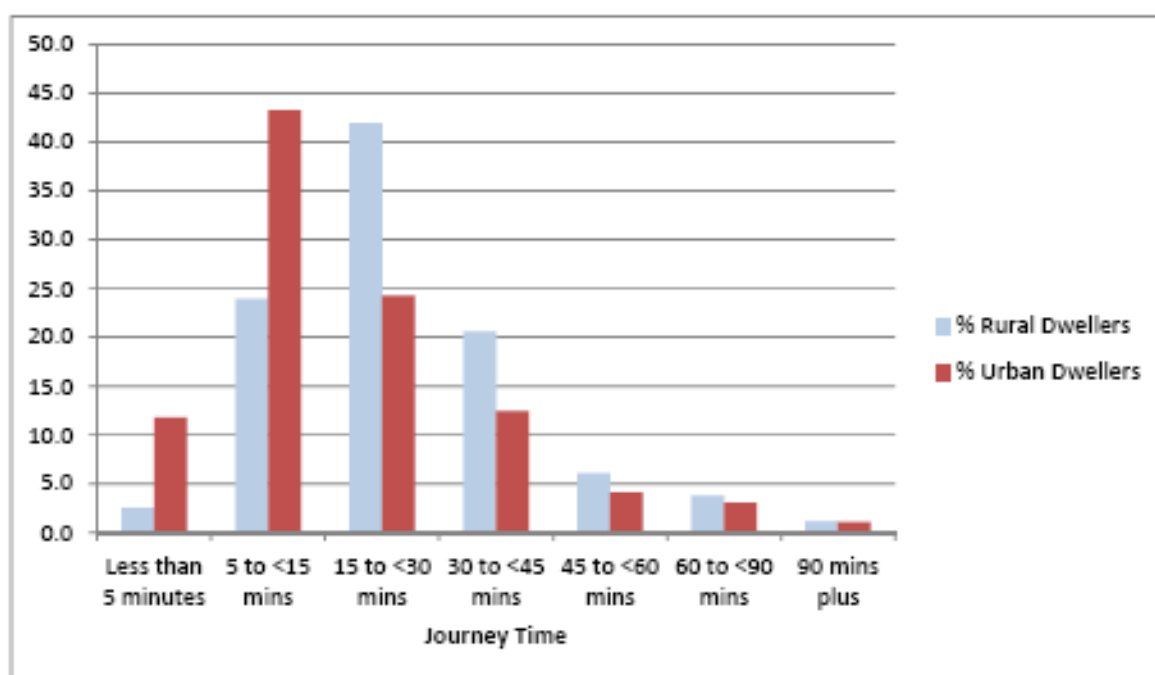
<sup>82</sup> Centres greater than +1,500 and excluding gateways

<sup>83</sup> IDA presentation to SPACEial North West Data Workshop, November 2012.

of 30 minutes or less. A further fifth (20.6%) of rural dwellers commuting to work in towns have a drive time of 30-45 minutes to work. This indicates that close to 90% (89%) of rural dwellers employed in towns are within a 45 minute drive time catchment.

Though there is a higher proportion of urban dwellers working in towns with shorter journey times, as would be expected (79.4% of urban dwellers have a travel time of 30 minutes or less compared to 68.4% of rural dwellers), comparing those who travel longer distances, the travel time of urban and rural dwellers is not too dissimilar (see Figure 3).

**Figure 16.6 Travel time for those rural and urban dwellers who work in towns**



#### *What Industry Sectors do rural dwellers work in?*

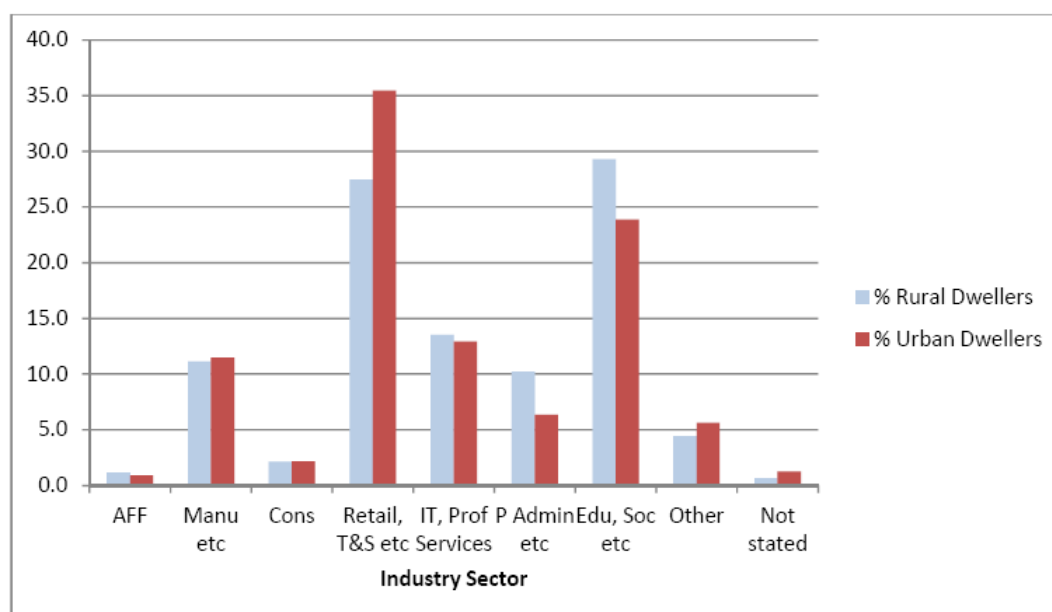
In this section the industry profile of rural dwellers is examined. First there is a brief examination of the industry profile comparing the sectors in which urban and rural dwellers are employed. Following this the sectoral profile of those rural dwellers who commute to work in towns is examined to ascertain if there is a difference in industry profile between those rural dwellers who commute to work in towns and urban dwellers working in towns.

Figure 4 below shows the share of employment by industry sector of those working in towns, classified by urban and rural dwellers. For both urban and rural dwellers the most important sectors are Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities, followed by Education, Human Health and Social Work Activities sector.

Examining rural dwellers who commute to work in towns, the Education, Human Health and Social Work Activities sector is the most important employment sector accounting for nearly 30% (29.3%) of the total. This is higher than the share of urban dwellers engaged in these positions (23.9%). The next most important employment sector is the broad sector of Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities to which 27.5% of all rural dwellers who commute to work in towns are engaged in. The third most important sector is Information and Communication, Financial, Real Estate,

Professional, administration and support service activities comprising 13.5% of all rural dwellers who work in towns.

**Table 16.1      Employment by industry for those rural and urban dwellers who work in towns**



### *Rural and urban differences*

Comparing the industrial profile of rural dwellers and urban dwellers working in towns, it is evident that rural dwellers are represented disproportionately higher in three sectors, namely the predominantly public sectors of Education, Human Health and Social Work Activities and Public Administration and Defence; as well as IT, Professional Services. It is clear that these three sectors which combined account for over 53% (81,523) of employment of rural dwellers in towns are very important to the employment situation of many rural dwellers.

Conversely rural dwellers working in towns have a lower representation than urban dwellers in two broad sectors; Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities and Other, which may suggest a different skill set between urban and rural dwellers.

### *Future employment potential*

In supporting rural employment and specifically employment located in towns that rural dwellers commute to, industrial policy needs to be cognisant of the different sectors and different policy responses needed. Is there employment growth potential in those sectors which rural dwellers are employed in? For example, of the three most important sectors for rural commuters, the first is predominantly public sector employment and so government policy determining the location of these jobs is very important. The recent cuts to public

sector employment along with the incentivised early retirement schemes for public sector workers are likely to have a disproportionate effect on those centres where this employment is concentrated. The sectors of Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities are generally private sector activities and while

government policies can have an effect, the influence in determining the location and extent of these jobs will be less than that for public sector employment.

Other important sectors such as Information and Communication, Financial, Real Estate, Professional, administration and support service activities and Manufacturing, mining and quarrying, Electricity, Gas, Water supply and Waste Management are impacted by Government policies to varying degrees. In particular ICT and Manufacturing sectors are heavily influenced by Government policy through for example the state agencies including IDA and EI. Apart from supporting the growth of these sectors, over the last decade the locational impact of foreign direct investment has been concentrated in the large cities<sup>84</sup>.

The location of new employment opportunities will be influenced by the extent to which the current pattern towards concentration in gateways and, increasingly to just a few gateways, will continue or will there be more proactive policies to ensure more dispersed employment creation in a wider range of towns. It is clear that urban employment across a range of industry sectors is vital in sustaining rural communities. Government employment policy as well as policies supporting access to employment for example through transport services and infrastructure, childcare supports and broadband infrastructure will be critical to ensuring that this important aspect of rural income generation is maintained.

#### *Which Socio-Economic groups do rural dwellers belong to?*

In this section the socio-economic profile is examined, comparing the profile of rural dwellers working in rural areas with those commuting to work in towns and compared to those urban dwellers working in towns. The socio-economic group is determined by occupation and employment status and aims to classify those on the basis of comparable skill and educational levels<sup>85</sup>. This is also a useful indicator of the type of employment and skills available and is particularly informative when compared to the national socio-economic structure.

Nationally the largest socio-economic group is non-manual occupations accounting for over a quarter (26.2%) of the total. The next most significant socio-economic groups are employers and managers (15.8%) and lower professionals (15.5%). The semi-skilled category is the fourth most significant socio-economic group followed by the higher professional category comprising 8.0% of the total.

#### **Rural and urban dwellers who work in towns**

Figure 5 below shows the share of employment by socio-economic group for those rural and urban dwellers who work in towns. The largest socio-economic group is non-manual occupations, accounting for 35.2% of all rural dwellers who work in towns, slightly higher than those urban dwellers working in towns (34.2%). This is much higher than the share of the national population engaged in non-manual occupations (26.2%) indicating a particular concentration of this type of occupation in towns.

The next most significant socio-economic group for both urban and rural dwellers working in towns is lower professionals accounting for 20.3% and 15.8% respectively. This compares with 15.5% of all workers nationally and indicates that proportionately more rural dwellers are

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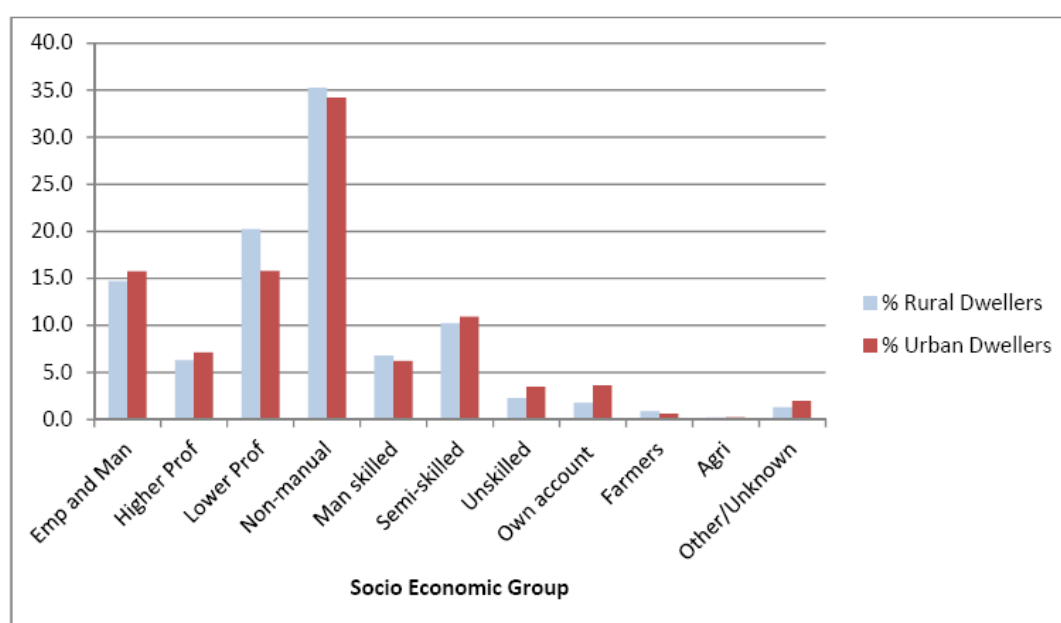
<sup>84</sup> For example, Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013 and Chris van Egeraat, Proinnsias Breathnach & Declan Curran, Gateways, hubs and regional specialisation in the National Spatial Strategy, IPA Vol. 60, no.3 (2013)

<sup>85</sup> The socio-economic group is reported here in place of the occupational classification which was not included in the POWSCAR dataset for confidentiality reasons.

engaged in lower professional occupations than urban dwellers working in the town or the population generally.

Employers and managers are the third most important socio-economic group accounting for 14.7% of all rural dwellers commuting to work in towns. 15.8% of urban dwellers working in towns are in this socio-economic group. The semi-skilled category is the fourth most significant socio-economic group accounting for 10.2% of all rural dwellers commuting to towns followed by the skilled manual category, comprising 6.8% of rural dwellers working in towns, similar to the share of higher professionals accounting for 6.3% of rural dwellers commuting to work in towns.

**Figure 16.7 Employment by socio-economic group, rural and urban dwellers who work in towns**



Rural

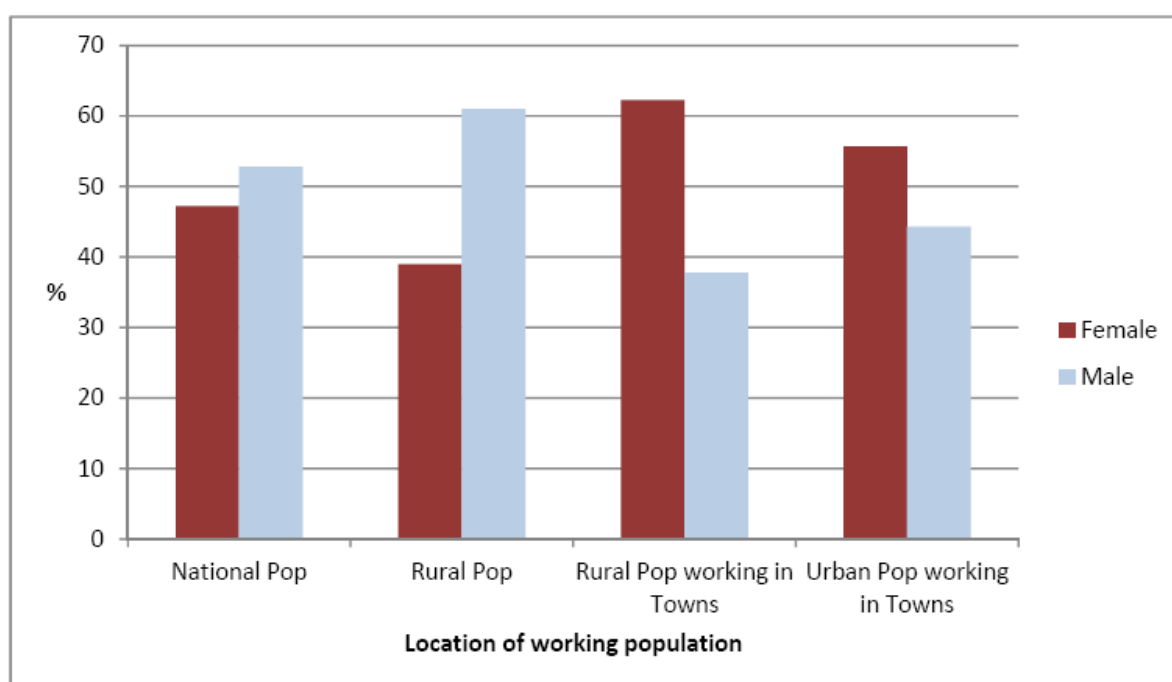
dwellers form an important part of the workforce of towns. In general their socioeconomic characteristics are not radically different to that contained in the urban based population but they do reflect the education and skill base as well as the employment opportunities available in towns such as non-manual, lower professional and employers and managers. Ensuring a high rate of educational participation to third level and beyond as well as ensuring that continuing and professional development and off the job training opportunities are widely available and accessible to rural dwellers will be important in sustaining this source of employment for rural dwellers and ensuring a skilled rural workforce which can avail of new employment opportunities.

The following sections examine the personal labour market characteristics such as gender, age and education.

### *Gender*

Nationally 52.8% of the working population is male. Considering rural dwellers only, the gender profile of the working population rises to 55.5% male. Of those rural dwellers working in rural jobs, the male share rises again, to 61%, displayed in Figure 6 below. This highlights the continuing importance of some rurally based sectors traditionally considered male such as agriculture.

**Figure 16.8 Employment by gender for those rural and urban dwellers who work in towns**



*Gender profile of rural dwellers commuting to towns*

Though women comprise just 44.5% of working rural dwellers, a significant majority (62.2%, N= 95,692) of those rural dwellers working in towns are female. Female rural dwellers commuting to towns outnumber their male counterparts by a factor of 1.6<sup>86</sup>. That women comprise just 44.5% of working rural dwellers but account for 62.2% of all rural dwellers commuting to work in towns illustrates the importance of town based employment for the rural female labour force as well the importance of town based employment as a source of income generation for rural dwellers.

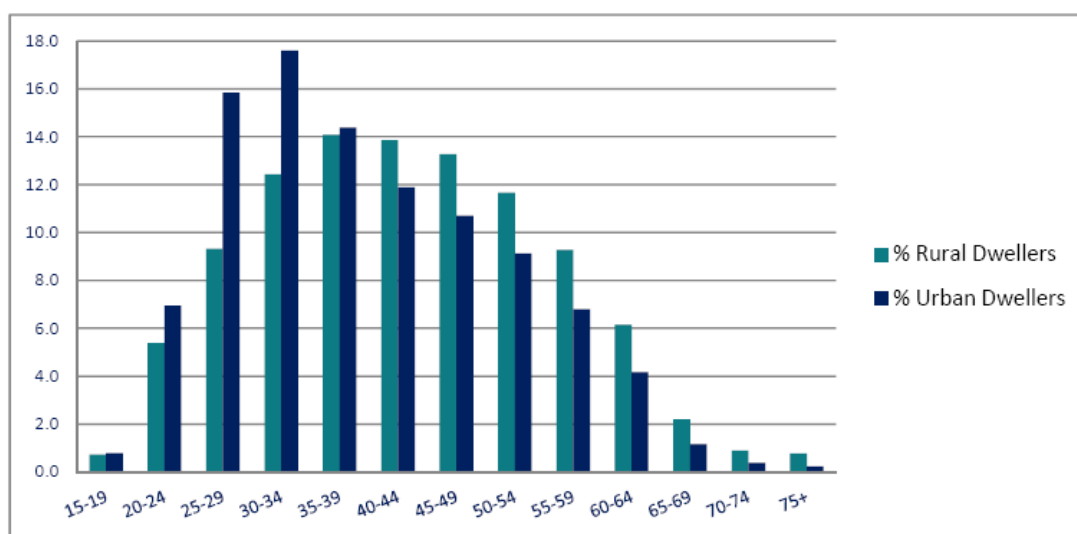
There is a higher share of female rural dwellers working in towns compared to female urban dwellers working in towns (62.2% and 55.7% respectively) again highlighting the particular importance of town based employment to the rural based female workforce.

*Age*

Comparing the rural and urban working population, the urban population is younger with a higher share in each age category under the age of 40 years. Over the age of 40 years, the share of rural dwellers in each age category exceeds that of urban dwellers, shown in figure 7 below.

<sup>86</sup> (95,692 and 58,055 respectively)

**Figure 16.9 Age profile of all working urban and rural dwellers, 2011**



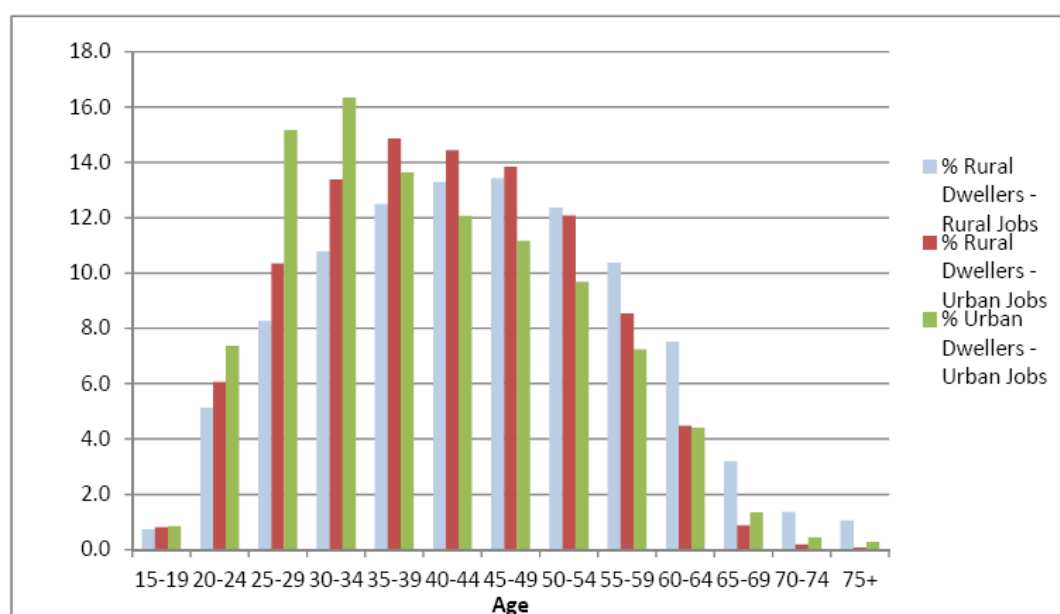
### *Age by Place of Work*

The age of the workforce also varies by place of work. Over a third (36%) of rural dwellers is aged over 50 years compared with just over a quarter (26.3%) of those rural dwellers commuting to towns (see Figure 8 below). At the younger age spectrum, there is a lower share of rural dwellers aged under 34 years employed in rural areas (24.9%), than rural dwellers commuting to towns (31.7% aged under 34 years). The age profile of rural dwellers working in rural jobs only is even older, with just 24.9% aged 34 years or younger.

Focussing on those working in towns, the age profile of rural workers commuting to towns is older than the age of urban dwellers employed in towns (Figure 8). For example 69.4% of rural dwellers working in towns are aged 35 years and over compared to 60.2% of urban dwellers working in towns. The largest age cohort among rural dwellers commuting to work in towns is in the 35-39 age group containing 14.9% of rural dwellers. The largest age cohort among the urban dwellers working in towns is in the 30-34 age group (16.3%).



**Figure 16.10 Employment by age for rural and urban dwellers and place of work**



It is clear therefore that the age profile of those rural dwellers who commute to work in towns is younger than the rural dwellers who work in rural areas, but is generally older than urban dwellers who work in towns, the exception being the share engaged in the 65+ category, possibly indicating mobility factors.

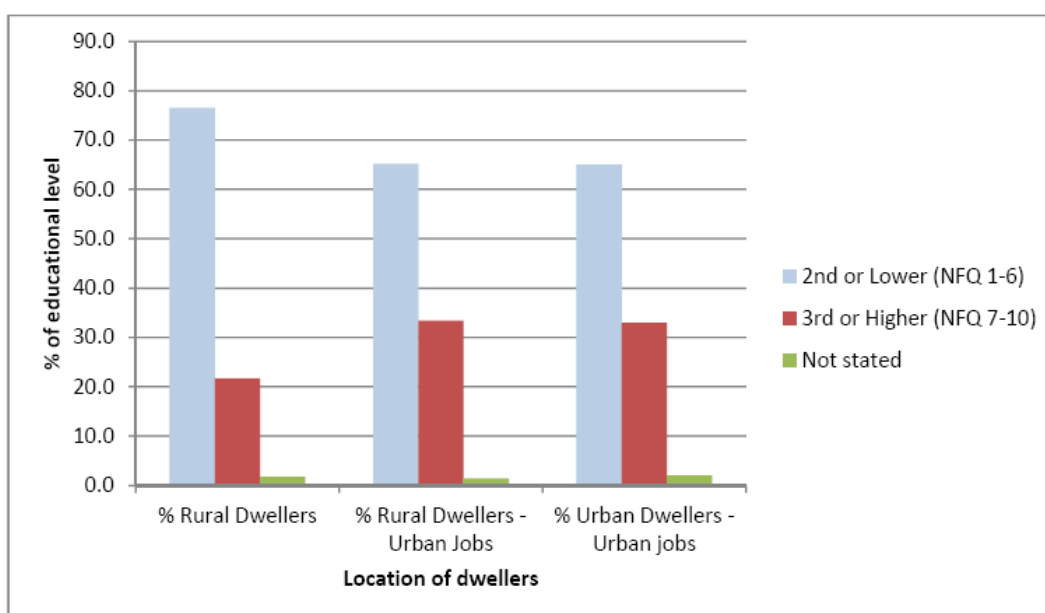
The age profile differences can reflect a variety of factors apart from the greater availability of employment opportunities in urban areas. Generally the age profile in rural areas is older than that of urban areas. At the younger age spectrum, many rural dwellers leave rural areas to participate in third level education. A related factor is the differing education levels of the workforce where the age of entry into the workforce for those with a degree or higher are necessarily older than those without. Other factors are sectoral employment differences, where agriculture will account for a high share of older persons working in rural areas. This difference in age profile may also reflect issues such as transport access and mobility of the younger workforce in rural areas.

### *Education*

Just over a third (34.8%) of the total working population have completed third level education or higher. However just 27.3 per cent of rural dwellers have completed third level or higher. An even lower share of rural dwellers engaged in rural jobs has third level education (21.7%).

Of those rural dwellers commuting to work in towns the share with a third level of education rises to 33.4%, just lower than the national average (34.8%). Examining the educational profile of all those working in towns, there is a strong degree of similarity in educational levels whether workers are rural or urban dwellers. A slightly higher share of rural dwellers working in towns (33.4%) has a third level education or higher, compared to 32.9% of urban dwellers working in towns. No further detail on educational levels or specific subject areas is available from the dataset.

**Figure 16.11 Education level for rural and urban dwellers and place of work**



## 16.5 SUMMARY

- Of those rural dwellers who provided a workplace destination, 30.3% commute to work in towns<sup>87</sup>.
- Towns are the employment destination for just under a quarter (24.4% or 153,747) of all workers resident in rural areas accounting for 56% of all urban employment locations for rural residents.
- Most rural dwellers who commute to work in towns live within a 30 minute drive time and close to 90% of rural dwellers employed in towns are within a 45 minute drive time.
- Rural dwellers working in towns are represented disproportionately higher in three sectors, the predominantly public sectors of Education, Human Health and Social Work Activities (30% ) and Public Administration and Defence as well as Information Technology (IT) and Professional Services. These three sectors which combined account for over 53% (81,523) of employment of rural dwellers in towns are very important to the employment situation of many rural dwellers.
- The largest socio-economic group is non-manual occupations, accounting for 35.2% of all rural dwellers who work in towns.
- Proportionately more rural dwellers are engaged in lower professional occupations than urban dwellers working in the town or the population generally.
- Women comprise just 44.5% of working rural dwellers but 62.2% of all rural dwellers commuting to work in towns. Town based employment is very important to the rural female labour force.
- The age profile of those rural dwellers who commute to work in towns is younger than the rural dwellers who work in rural areas, but is generally older than urban dwellers who work in towns.
- Over a third (33.4%) of rural dwellers commuting to work in towns have a third level education or higher, slightly higher than the rate for urban dwellers working in towns.

## 16.6 CONCLUSIONS

<sup>87</sup> Centres greater than +1,500 and excluding gateways

The analysis on commuting highlights the role of towns in supporting the rural economy through employment opportunities across a range of sectors in particular retail and locally traded services, public services and manufacturing. Rural dwellers commuting to towns are more likely to be female, younger, educated, engaged in lower professional and non-manual occupations often within the public sector and living within a 30 minute drive time.

Towns of varying sizes also support both indigenous and foreign state assisted employment and there are many examples of towns which have been successful in increasing agency assisted employment over the last decade. Towns host many smaller companies operating and exporting successfully many of which cite the available labour supply as a positive attribute of their more rural location. Some companies choose to locate in smaller towns but within commuting distance of a larger labour pool.

An important policy consideration is the extent to which new jobs will be filled by the unemployed or underemployed or by changed commuting patterns. Employment growth in a given community will be accessed by both existing residents as well as commuters (from both urban and rural areas). In terms of income generation, to the individual it may make little difference where a new enterprise is established as long as it is within reasonable commuting distance. From a wider economy perspective however the effects can be significant. Commuting to towns for employment purposes also provides opportunities for other economic and social activity which may mean a loss of income to the rural community.

In supporting rural employment and specifically employment located in towns that rural dwellers commute to, industrial policy needs to be cognisant of the different sectors and different policy responses needed. Is there employment growth potential in those sectors which rural dwellers are employed in? For example, of the three most important sectors for rural commuters, the first is predominantly public sector employment and so government policy determining the location of these jobs is very important. The sectors of Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities are generally private sector activities and while government policies can have an effect, the influence in determining the location and extent of these jobs will be less than that for public sector employment.

Government employment policy as well as policies supporting access to employment for example through transport services and infrastructure, childcare supports and broadband infrastructure will be critical to ensuring that rural dwellers can continue to access town based employment and that this important aspect of rural income generation is maintained.

## **16.7 APPENDIX**

### *Methodology*

The data analysis is based on the Census of Population 2011, Place of Work, School or College Census of Anonymised Records (POWSCAR). Several methodological issues are explained below.

#### Place of residence

In 2011, there were 1.7 million (1,770,644) workers of which 35.5% (629,382) are categorised as rural dwellers. The working population defined as urban dwellers (including gateway dwellers) comprises 64.5% of the total (1,141,262). Of this urban population, 1.7% (29,227) reside in rural EDs within gateways as defined for this research where gateways and hubs

constitute the legally defined boundaries of the urban centres in question plus all EDs that that adjoin these boundaries. This is more extensive than normal (town +environs) definition and will capture firms on the outskirts of urban centres. For those rural dwellers originally classified as rural but located within the gateway are reclassified as urban dwellers. The same reclassification occurs for place of work which if located in rural EDs within the definition of gateways is recoded to gateway places of work.

#### Place of work

Workers with 'no fixed place of work' (including blanks and mobile place of work) have been excluded which removes 295,428 workers from the analysis leaving a population of 1.475 million workers. Those working from home are categorised according to their place of residence; either rural, urban or gateway. This has a greater impact on the numbers working in rural areas, reflecting the greater proportion working 'from home' in the agricultural sector.

After removing blanks and mobiles and re-assigning those who work at or mainly from home to their place of residence, the total number of workplace destinations examined is 1,475,216 of which the proportion working in rural areas (rural jobs) accounts for 21.3% (314,213) of the total. Urban jobs (both gateway and towns) account for 78.7% of all jobs of which 55.2% (814,612) are in gateways, and 23.5% (346,391) are employed in the towns.

Students who work part time are not included in the analysis.

#### Classifications

##### Industry

- 1=Agriculture, forestry and fishing
- 2=Manufacturing, mining and quarrying, Electricity, Gas, Water supply and Waste Management
- 3=Construction D=Non-manual
- 4=Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities
- 5=Information and Communication, Financial, Real Estate, Professional, administration and support service activities
- 6=Public Administration and Defence; Compulsory Social Security
- 7=Education, Human Health and Social Work Activities J=Agricultural workers
- 8=Other Service Activities Z=All others gainfully occupied and unknown

##### Socio-economic group

- A=Employers and managers
- B=Higher professional
- C=Lower professional
- E=Manual skilled
- F=Semi-skilled
- G=Unskilled
- H=Own account workers
- I=Farmers



## Chapter 17. RURAL COMMUTING, GATEWAYS AND FOREIGN DIRECT INVESTMENT

Deirdre Frost

### 17.1 INTRODUCTION

Much of the employment nationally is located in cities, with the five principal cities accounting for 45 per cent of all job locations in the country<sup>88</sup>. Recent direct employment growth supported by the state agencies has also been concentrated in the larger cities<sup>89</sup>. While part of the role of the gateways is to accommodate and attract foreign investment, the evidence<sup>90</sup> indicates that an increasing concentration of foreign direct investment is in the very large centres especially Dublin and Cork. There is a perception in many regional and more rural areas that this source of employment creation, which is often well paid and highly skilled, is beyond reach. The policy priority is to secure inward investment for Ireland in the first instance and the need to ensure a more balanced spatial distribution is relegated as a policy objective. Other explanations are that the scale of the investment is such that it can only be reasonably accommodated in the largest cities, particularly because of labour supply issues and infrastructural capacity<sup>91</sup>.

It is not clear that agency assisted employment should be so concentrated. Industrial policy in the 1970s/80s involved a policy of dispersed investment with the construction of over 130 'advance' factory units in small population centres of up to 5,000 and including many centres of population of 1,500 – 5,000. Employment in foreign firms was widely dispersed<sup>92</sup>.

It is evident that not everywhere can (or should aspire to) host large enterprises but the issue of scale has been largely absent from the debate. Smaller companies or sites within companies can and do successfully operate and export from smaller locations. Examples of smaller centres which have been successful in increasing foreign agency assisted employment over the last decade include Bantry/Clonakilty, Carrick-on-Shannon, Clonmel/Carrick-on-Suir, Mallow/Mitchelstown<sup>93</sup>. There are many examples of smaller companies operating and exporting successfully from outside the large centres and some from quite small centres. Many of these cite the available labour supply as a positive attribute of their more rural location, as staff turnover tends to be lower<sup>94</sup>. There are examples too of companies locating in smaller centres but within commuting distance of a larger labour pool with similar skills base e.g.

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<sup>88</sup> J. Gleeson, Irish Times, 15th December 2012

<sup>89</sup> Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013.

<sup>90</sup> For example, Chris van Egeraat, Proinnsias Breathnach & Declan Curran. Gateways, hubs and regional specialisation in the National Spatial Strategy, Administration, Vol 60, No.3 2013 and Breathnach, P, Spatial trends in employment in Foreign Firms in Ireland, CEDRA Research Paper, 2013

<sup>91</sup> For example, international access points, or very strong telecommunications infrastructure or other infrastructure or more likely a combination of these factors.

<sup>92</sup> While there were many reasons why this employment was not sustainable over the longer term, it is not clear that the rural or regional location in and of itself was a reason p, 2, 3 Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013

<sup>93</sup> Breathnach, P, Spatial trends in employment in foreign firms in Ireland, 2013

<sup>94</sup> A few examples available include CMS Peripherals in Kiltimagh, Co. Mayo, E&I Engineering, Burnfoot, Co. Donegal, Merenda Ltd, Manorhamilton Co. Leitrim, Lionbridge Technologies, Ballina, Co. Mayo (Telecommunications), McHale Engineering Limited, Ballinrobe, Co. Mayo, MeteoGroup, Ennis, Co. Clare (Software), Ansamed Limited, Boyle (Medical Devices). MBNA/Bank of America in Carrick-on Shannon is an example of a large employer successfully sourcing labour supply from a relatively small town and wider hinterland. Many of the companies cite the good labour supply and strong work ethic as benefits of more rural locations. See [www.wdc.ie](http://www.wdc.ie) and [www.lookwest.ie](http://www.lookwest.ie)

medical devices companies in Gort and Loughrea Co. Galway accessing the labour supply within the Galway city catchment<sup>95</sup>.

It could also be suggested that with the success of Dublin in particular in attracting foreign direct investment and employment, and with concerns now being expressed regarding commercial property availability, increasing rents and housing shortages in certain areas in the capital, other cities and towns without these constraints should now be in a position to benefit from investment. These other towns and cities have the same regulatory and tax regime and many now have much improved infrastructure such as transport links and broadband.

Labour is mobile and people follow jobs as the current and previous high rates of emigration attest. Previous economic growth periods have also demonstrated that when employment opportunities are available, people return from overseas or from urban centres to more rural and regional areas to take up positions. The skills set needed is often available in regional and rural locations or will move there, both for the employment opportunities and for lifestyle factors<sup>96</sup>. For example some companies have not chosen city locations but moved to smaller locations to tap into the labour market that was resident there e.g a pharmaceutical company established in Loughrea, Co. Galway to access the skills available there. Unum, a software services company moved to Carlow to avail of the locally available workforce, some of whom would have previously commuted to Dublin<sup>97</sup>. These examples illustrate that jobs can follow people rather than the traditional pattern of people following jobs.

The particular focus of this paper is on those rural dwellers who commute to work in the nine National Spatial Strategy (NSS) gateways. The extent to which rural dwellers commute to work in gateways and the profile of these workers is set out. The importance of rural dwellers to the labour supply of gateways is examined as well as the importance of gateway employment to many rural dwellers. A case study of rural dwellers commuting to IDA business parks in the gateways of Galway is presented. Rural dwellers who commute to work in other towns are examined in Chapter Two, Rural Commuting and Employment in Towns, WDC, 2013.

## **17.2 RURAL DWELLERS AND GATEWAY EMPLOYMENT**

The following section examines the extent to which rural dwellers commute to and avail of employment in gateways. Some of their key labour market characteristics are examined including their industrial sector and socio-economic profile as well as personal characteristics such as age, gender and education levels. The subsequent section will look in more detail at three gateways, Galway, Sligo and Waterford and the labour supply commuting to IDA business parks within these gateways.

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<sup>95</sup> Previous analysis of travel to work data has shown that the Galway city Travel to Work Area (TTWA) or labour catchment extends to the County Galway boundary and beyond. WDC Travel to Work and Labour Catchments in the Western Region; A Profile of Seven Town Labour Catchments. 2009

<sup>96</sup> There are many examples of people moving to the West of Ireland for employment opportunities and lifestyle reasons, documented on [www.lookwest.ie](http://www.lookwest.ie)

<sup>97</sup> Ms. Kathy Owen, Chief Information Officer & Senior Vice-President, Unum US was quoted in the press release; We are also very aware of the trend whereby many people working in and around Dublin live in Counties Carlow, Kildare, Kilkenny, Laois and Wexford and we see potential to recruit skilled and experienced people from among this group – allowing them to work far closer to home without sacrificing their careers. [http://www.idaireland.com/news-media/press-releases/unum-establishing-software/](http://www.idaireland.com/news-media/press-releases/unum-establishing-software)

The geography of gateways is defined as the legally defined boundaries of the gateways plus all electoral divisions (EDs) which adjoin these boundaries<sup>98</sup>. This is more extensive than the normal gateway definition (of town plus environs) and will capture enterprises located on the outskirts of gateways. Larger employers and foreign direct investment often locate adjacent to urban centres rather than within city centres as they often seek large greenfield sites but with access to various utilities such as water, energy, and telecommunications infrastructure as well as space and access to a large labour supply.

Map 1 below shows the percentage of the workforce<sup>99</sup> (both rural and urban dwellers) who work in the gateways. The red areas indicate that greater than three quarters of the workforce is employed in gateways. The dark blue areas are those where less than 10% work in a gateway, these are generally either the more remote areas such as the coastal areas along the west coast as well as inland areas such as Cavan/Monaghan and Tipperary, Kilkenny and Wexford. The pattern in the South east also reflects the strong agricultural economy there.

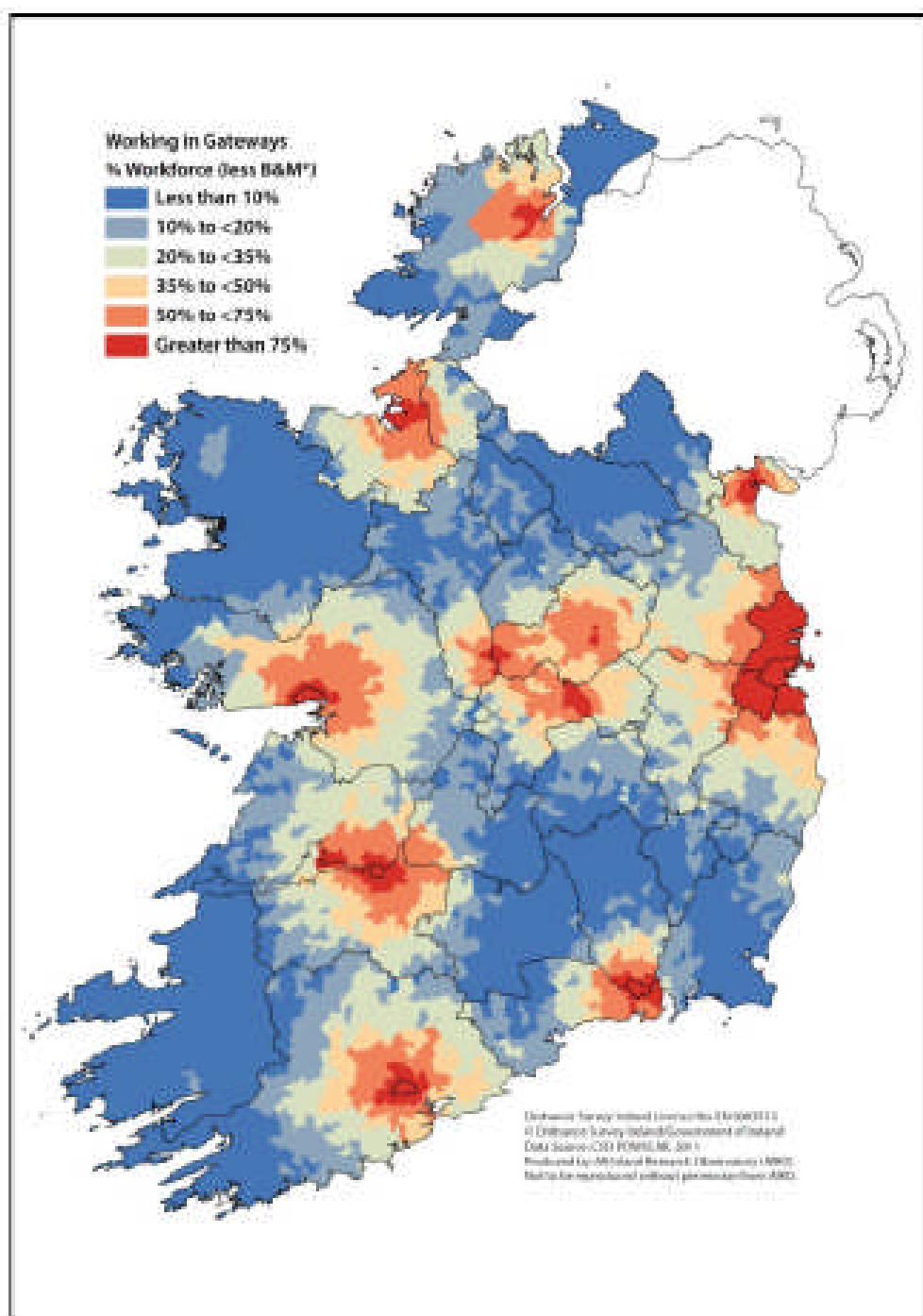
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<sup>98</sup> This is also the definition used in the paper by Chris van Egeraat, Proinnsias Breathnach & Declan Curran, Gateways, hubs and regional specialisation in the National Spatial Strategy, IPA Vol. 60, no.3 (2013). Those rural dwellers originally classified as rural but living within the gateway are reclassified as urban dwellers. The same reclassification occurs for place of work which if located in rural EDs within the definition of gateways are recoded to gateway places of work.

<sup>99</sup> The data excludes those who indicated that their place of work was mobile or 'blank'.



**Figure 17.1 Who works in the Gateways, (All Dwellers) 2011 (Map1 )**

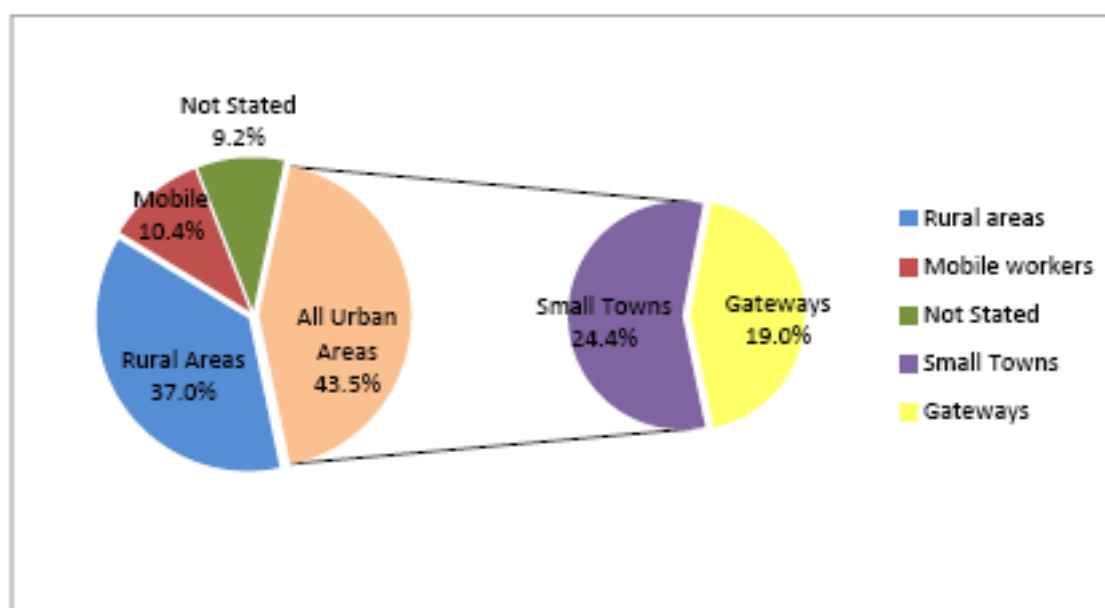


### *Rural Dwellers Place of Work*

In 2011, there were 629,382 persons at work, living in rural areas (outside centres of 1,500 or more). Figure 1 below shows rural dwellers by place of work. The most significant employment destination for workers living in rural areas is urban areas with 43.5% (273,503) commuting to work in urban areas. Of these 153,747 (24.4%) commute to towns and 119,756 (19%) commute to gateways, indicating the importance of towns as employment centres for

rural dwellers. Over a third of all rural dwellers (37% - 232,587) worked in rural areas<sup>100</sup>. The classification is discussed further in the methodology section in the Appendix.

**Figure 17.2 Rural Dwellers by Place of Work, 2011**



#### Rural dwellers working in gateways

The focus of this paper is those 19% (119,756) of rural dwellers who commute to work in gateways. Rural dwellers are an important source of labour supply for the gateways. In fact rural dwellers account for 14.7% of all workers in the gateways.

#### Travel time to gateway locations

It is likely that many rural dwellers who work in gateways are living close by. Examining the journey time of those rural dwellers who commute to work in a gateway provides some indication of the extent of that gateway's sphere of influence and the extent to which it impacts on its rural hinterland. Journey times are also a way to measure travel to work areas or labour catchments which is useful in measuring the potential labour supply available to a new enterprise. The geographic extent of travel to work areas and the various 'containment ratios' of labour catchments have been examined in previous research by the WDC<sup>101</sup>.

The question of what can be considered a daily commutable distance also arises and the mode of transport and quality of transport infrastructure as well as transport costs are relevant here. For example, the Croke Park Agreement between the Government and public sector unions considered a distance of 45 kilometres acceptable. Elsewhere a distance of 60km has been used to measure the labour supply catchment for foreign direct investment<sup>102</sup>. An important feature of shorter distance commuting is exurbanisation, where rural communities are located in fairly close proximity to gateways. Some of these rural communities are migrants from gateways and suburban employment can be as accessible to rural dwellers as to urban

<sup>100</sup> The remainder is accounted for by the categories of mobile workers (10.4% = 65,515) and uncodeable or blanks (9.2% = 57,777) both of which are proportionately more prevalent in the rural residential population

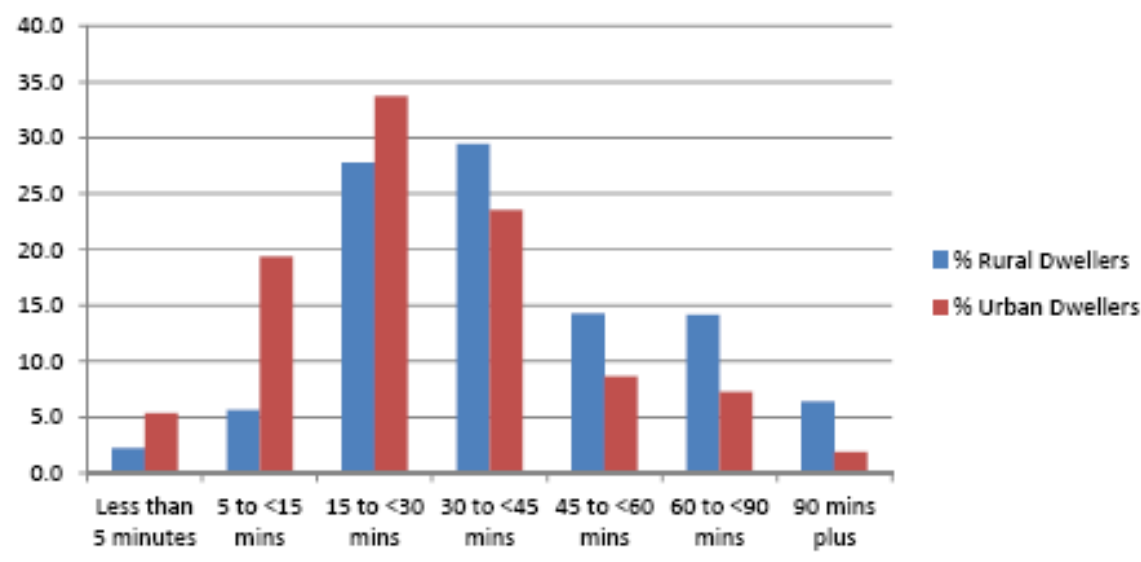
<sup>101</sup> p.18 Travel to Work and Labour Catchments in the Western Region. WDC, 2009

<sup>102</sup> IDA presentation to SPACEial North West Data Workshop, November 2012.

dwellers, compared to those resident in urban areas. Among the urban resident population 7.8% (89,474) were categorised as blank and 7.2% (82,662) as mobile workers.

Figure 2 below charts the travel time of rural and urban dwellers who work in gateway locations. A greater proportion of rural dwellers travel for 30 minutes or more and the difference between rural and urban dwellers increases as journey time increases.

**Figure 17.3 Travel time to Gateways**



The most common travel time for rural dwellers working in gateway locations is 30-45 minutes (29.5%). Just over 14% of rural dwellers travel between 45-60 minutes and 14.2% of rural dwellers travel between 60-90 minutes. Only 6.4% of rural dwellers travel 90 minutes or more suggesting that generally the extent of the catchment of a gateway is within a 90 minutes' drive time. Of course this will vary for specific gateways and the quality of

transport services and degree of traffic congestion in each gateway are also likely to be factors.

Close to 35% of rural dwellers working in gateways have journey times in excess of 45 minutes, suggesting that many live some distance from their place of work. Many of these are possibly living in the blue and light blue areas depicted on Map 1 and commuting to a gateway up to an hour and more away.

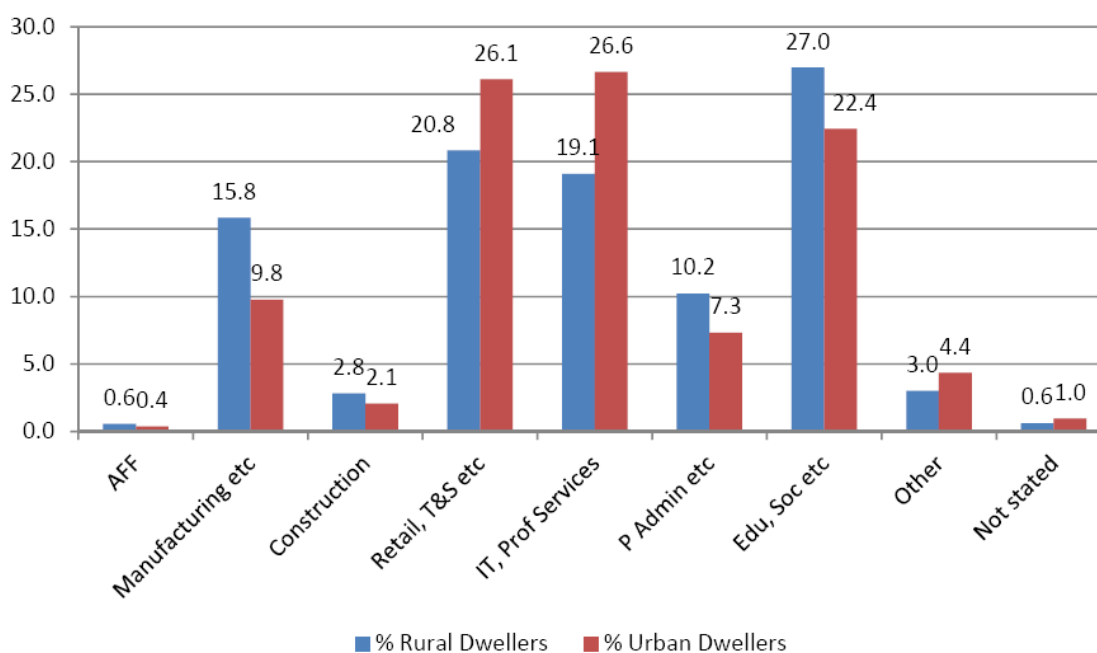
The areas beyond a 90 minute drive time could be considered remote rural, areas where distance, journey times and transport infrastructure mean that they are beyond commuting distance to gateways and gateway employment. Of course these areas are often within the catchment of towns of varying sizes which are more important employment locations for rural dwellers, discussed in Chapter Two, Rural Commuting and Employment in Towns, WDC, 2013.

#### Industrial profile of rural dwellers working in gateways

Examining those rural dwellers working in gateways, they are generally employed across five industrial sectors (Figure 3). The sector of Education, Human Health and Social Work Activities accounts for 27% of those rural dwellers working in gateways. The next most important employment sector is the broad sector of Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities in which a fifth (20.8%) of all rural

dwellers who commute to gateways for work are engaged in. The third most important sector is Information and Communication, Financial, Real Estate, Professional, Administration and Support Service activities in which another fifth (19.1%) of rural dwellers commuting to gateways are employed. The sector of Manufacturing, Mining and Quarrying, Electricity, Gas, Water supply and Waste Management accounts for 15.8% of all rural commuters working in gateways and Public Administration and Defence accounts for 10.2% of employment in gateways by rural dwellers.

**Figure 17.4 Rural and urban dwellers working in gateways by Industry**



Compared to urban dwellers employed in gateways, rural dwellers working there are overrepresented in the public sector dominated sectors and Manufacturing (Industry) highlighting their significance for rural dwellers commuting to work in gateways. These sectors often provide relatively stable, well paid and full-time employment which is more worthwhile for rural dwellers to commute to. They are underrepresented in knowledge and local services. In some cases local services may be relatively lower paid and part-time and therefore it may not be worthwhile for rural dwellers to commute to. It may also be that these employment opportunities are also available closer to home, unlike some other positions for example ICT positions which are more likely to be located in gateways.

#### Socio-economic group

The socio-economic group is determined by occupation and employment status and aims to classify on the basis of comparable skill and educational levels<sup>103</sup>. This is also a useful indicator of the type of employment and skills available.

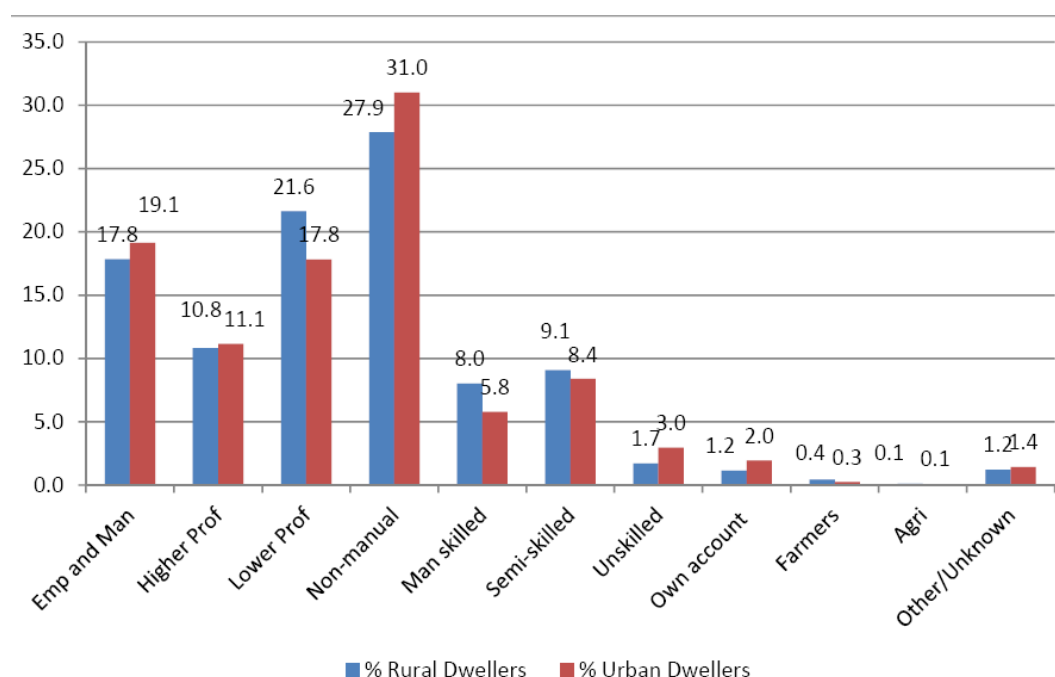
Considering those rural dwellers who commute to work in gateways (Figure 4), the largest socio-economic group is non-manual occupations accounting for 27.9% of the total. The next most significant are lower professionals (21.6%) followed by employers and managers

<sup>103</sup> The socio-economic group is reported here in place of the occupational classification which was not included in the POWSCAR dataset for confidentiality reasons.

(17.8%). One tenth (10.8%) of rural dwellers working in gateways categorise themselves as higher professionals.

Notable differences between rural dwellers and urban dwellers engaged in gateway employment are a lower proportion of rural dwellers classified as non-manual and employers and managers. There are a higher proportion of rural dwellers classed as lower professional, likely to be influenced by the relatively high participation in public sector and Industry. There are also a higher proportions of rural dwellers classed as semi-skilled and manual skilled.

**Figure 17.5 Rural and urban dwellers working in gateways by Socio-economic group**



#### Gender profile of rural dwellers commuting to gateways

The gender pattern of rural dwellers commuting to gateways is less marked than for those commuting to towns<sup>104</sup> but nonetheless a majority of those rural dwellers commuting to work in gateways are female (53.3% N=63,807). This compares with 51.6% of urban dwellers working in gateways. In both gateways and towns, female rural dwellers significantly outnumber their male counterparts indicating the importance of urban employment to female workers living in rural areas. The role of farming and to a lesser extent construction in rural male employment is a key factor. The lower share of women commuting to gateways compared with the share commuting to towns may in part reflect longer commuting distances coupled with childcare responsibilities.

#### Age

The largest age cohort of rural dwellers commuting to gateways is the 35-39 age group comprising 18.1%. The largest age cohort among the urban population employed in gateways is younger, 18.2% are aged between 30-34 years. Comparing rural dwellers and urban dwellers, there is a higher proportion of rural dwellers working in gateways aged 40-49 years.

<sup>104</sup> Chapter Two, Rural Commuting and Employment in Towns, WDC, 2013

From the ages of 50 years and above there is a roughly similar age distribution between the two groups of workers.

At the younger age spectrum there is a higher share of urban dwellers aged between 20 and 34 years working in the gateways compared to rural dwellers. This is likely to reflect the proximity of some urban dwellers to gateway employment opportunities. It may also reflect the higher rate of third level participation among rural dwellers. Other factors may include lifecycle choices where younger workers choose to live in cities but then sometimes choose to live in more rural locations when rearing a family.

## Education

Just over a third (34.8%) of the total working population have completed third level education or higher. However just 27.3 per cent of rural dwellers have completed third level or higher. An even lower share of rural dwellers employed in rural areas has third level education (21.7%). However, of those rural dwellers commuting to work to gateways the share with a third level of education rises to 44.2%, much higher than the national average (34.8%).

There is a strong degree of similarity in educational levels whether workers are rural or urban dwellers. 44.2% of rural dwellers in urban jobs have a third level education or higher, while the figure for urban dwellers in gateway jobs are 45.4%. This suggests that from an enterprise perspective the qualification and educational levels of the labour supply is critical regardless of from where it originates.

The educational profile of workers engaged in towns is lower than that of the gateways, 33.4% of rural dwellers commuting to work in towns have a third level education or higher, a slightly lower percentage (32.9%) of urban dwellers working in towns have a third level education or higher. This indicates that the employment profile and opportunities in gateways, to which rural dwellers commute to (and urban dwellers), require higher educational levels than the jobs in the towns. This may be in part due to the greater prevalence of certain elements of public sector employment and foreign direct investment in the gateways, many of which employ a very high proportion of graduates). Rural commuters and FDI employment is examined in the next section.

## **17.3 RURAL DWELLERS AND FOREIGN DIRECT INVESTMENT: A CASE STUDY**

### *Introduction*

This section examines the gateway of Galway in more detail focussing on the labour supply to IDA business parks within these gateways. Rural dwellers who commute to work in these business parks, which generally host large multinational companies, are profiled and the extent to which rural dwellers form part of the labour supply for foreign direct investment and indigenous export based industry is examined.

Foreign assisted employment (IDA) was chosen as the focus of this WDC analysis for two main reasons. Firstly, IDA employment growth has been strong in recent years, especially compared to other sectors. Secondly, spatially identifying IDA sites as employment locations is often easier than indigenous locations as the former are quite geographically localised (in IDA business parks) while the latter are more diffuse.

The case study were chosen because it is one of the smaller gateways located within a large rural hinterland. Some of the larger gateways, such as those on the East coast (Dublin,

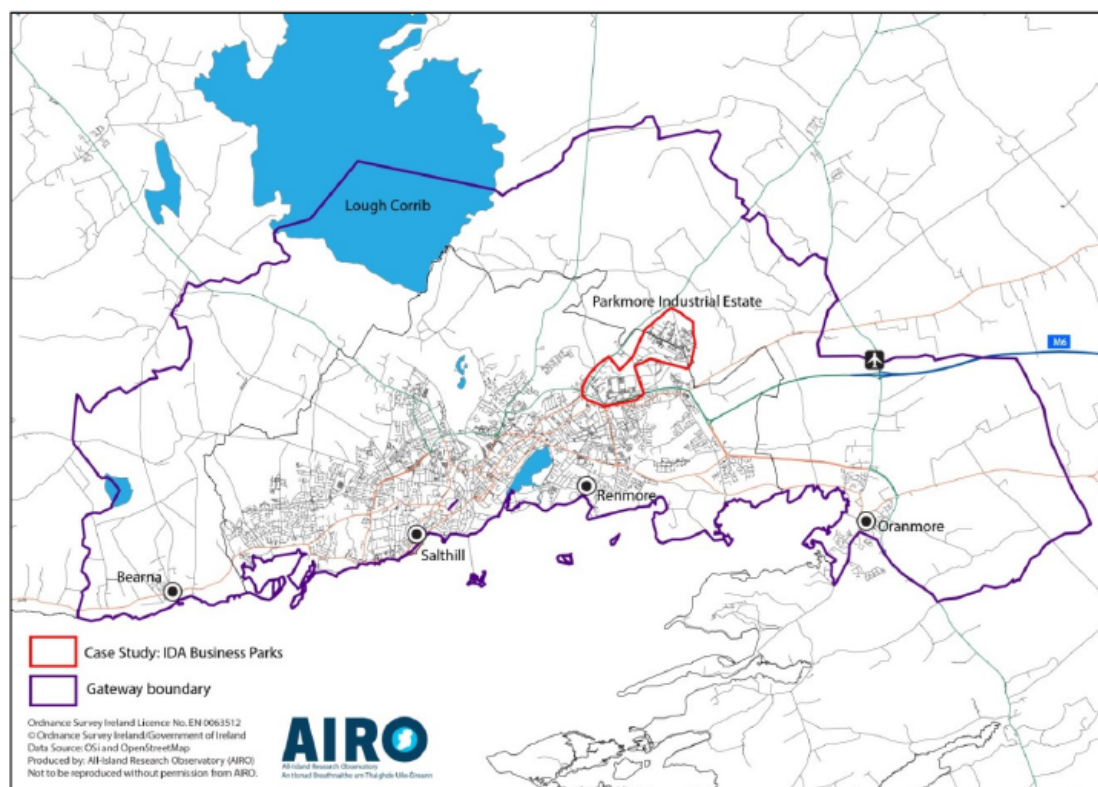
Dundalk) are likely to have more urban based commuters, whereas these smaller gateways may have a greater impact on their rural hinterland.

The IDA/industrial zones chosen have been digitised and have been checked to include all major employers assisted by the IDA in the case study business park. The extent of rural dwellers commuting to work in these sites is outlined along with their general labour market characteristics.

Galway is the largest case study with 16,701 rural dwellers commuting to work within the gateway of Galway.

The case study area focuses on the IDA business parks located on the East side of the city, delineated in red in Map 2 below. This includes the business parks of Ballybrit, Parkmore and Galway Technology Park. There are other IDA business parks in Galway such as the IDA business parks in Newcastle and Mervue, but the site selected hosts the majority of IDA assisted employment in the city. There are some other employers such as Enterprise Ireland assisted companies as well as some small retail units located within the study area but the majority of the workforce is in IDA assisted companies. The case study area includes large foreign multinational companies such as Boston Scientific, Medtronic, SAP and Merit Medical.

**Figure 17.6 Case study IDA business parks, Galway (Map 2)**



### Rural dwellers working in IDA assisted companies

Of the 16,701 rural dwellers commuting to work within the gateway of Galway one quarter (4,285) commute to work in the companies within the case study area.

### Travel time

Of these, over three quarters (75.7%) of rural dwellers commuting to work in the IDA business parks have a travel time of less than 45 minutes. A further 13.5% have a journey time of between 45 minutes and an hour, while 10.7% have a journey time longer than 1 hour. Comparing rural dwellers commuting to business parks with those commuting to work in the gateway generally, a greater share of those working in the gateway overall have longer journey times with 14.3% travelling for 1 hour or more. One factor may be the location of the businesses in the case study area which are located on the east of the city. For those commuting from the east to other large employment centres within the gateway, (schools, university and University College Hospital) further travel into the city on more congested routes is required.

### Industrial profile

The industrial profile of the IDA business parks is predominantly manufacturing activity<sup>105</sup> accounting for (69.2%) of all rural dwellers employed in the parks, followed by information and communications activity (15.4%). Wholesale and Retail trade is the third most popular activity in the IDA business park accounting for 10% of employment of rural dwellers.

### Socio-economic profile

Four socio-economic groups are important among rural dwellers working in the IDA business parks; the most significant socio-economic group is semiskilled workers accounting for nearly a third of all rural dwellers employed in the IDA business parks and these are likely to be engaged in production within the various manufacturing plants, (31.3%). The next largest group are higher professionals accounting for a fifth of rural dwellers commuting to the business parks (20.2%). Lower professionals (14.6%) and Employers & managers (14.0%) are the next most significant socio-economic groups of rural dwellers working in IDA business parks.

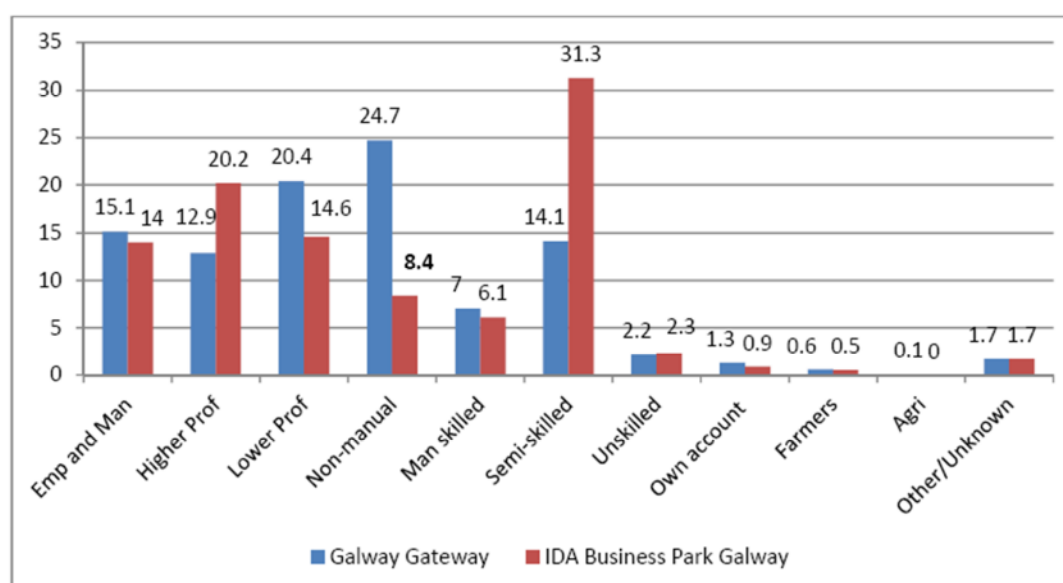
Elsewhere within the gateway of Galway generally rural dwellers are spread across a broader range of socio-economic groups of which the most important are; Non-manual occupations (24.7%), Lower professional (20.4%), Employers & managers (15.1%), Semiskilled (14.1%) and higher professional occupations.(12.9%). It is clear the employment within the IDA business parks is concentrated in the semi-skilled and higher professional categories. This contrasts with the broader range of socio-economic groups in the gateway generally.

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<sup>105</sup> Please refer to the appendix for the full detail of each industry sector.



**Figure 17.7 Socio economic profile of rural dwellers working in Galway Gateway and IDA Business Park**



### Education

Those rural dwellers who commute to work in the IDA business parks are slightly less likely to have completed third level education (40.3%) compared to those rural dwellers who work elsewhere in the gateway (44%). This reflects the high level of manufacturing employment in the IDA business parks and the semi-skilled occupations. Elsewhere in the gateway much of the Education and Human Health sectors are likely to employ third level graduates.

### Gender

There are more male rural dwellers (61.8%) employed in the IDA business parks (compared to male rural dwellers employed elsewhere in the gateway (44.7%). Gateway employment (outside of the business parks) is much more important for female rural dwellers commuting to work, who account for 55.3% of all rural dwellers. The pattern is reversed when examining those rural dwellers engaged in IDA business parks specifically where 38.2% are female.

### Age

The age profile of rural dwellers working in the IDA business parks is concentrated in the 30-44 years age bracket, accounting for 61.9% of all rural dwellers employed there. In contrast the age profile of those rural dwellers working elsewhere in the gateway is more widely distributed, for example 51.8% are within the 30-44 years age bracket and over one fifth (20.2%) are aged over 50 years. Within the IDA business parks those aged over 50 years account for 13.3% of all rural dwellers. At the younger age spectrum there are also proportionately more aged less than 30 years employed in the gateway generally compared to the IDA business parks (14.9% and 13.1% respectively). Therefore the age profile of multinational employment generally is not as widely distributed as employment generally. At the younger age level, this may reflect the education and skill levels required in the industry sectors in the IDA business parks such as Medical devices, ICT and Pharma, whereas Gateway employment generally is likely to have a wider range of education and skill level requirements.

Are males/females concentrated within certain socio-economic groups and certain employment locations?

## **17.4 CONCLUSIONS**

One of five (19%) rural dwellers commute to work in the NSS gateways. Economic development and job creation strategies need to acknowledge and recognise the extent to which rural dwellers commute to gateways to work. While many work in rural areas, many more work in towns and gateways and within gateways many work in IDA business parks. A significant proportion of those rural dwellers commuting to gateways, work in the foreign direct investment sector (FDI) and more specifically in IDA Business Parks though the share varies in each case study gateway.

The analysis shows that rural dwellers, often travelling distances in excess of 45km, commute to work in gateways. They have the skills to access this employment and some may choose to travel long distances to access better employment opportunities within the gateways. However, rural dwellers living in more remote rural regions are beyond the catchment of gateways. For these, employment opportunities in adjacent towns are important.

There are examples of where some companies have not chosen city locations but moved to smaller locations to tap into the labour market that was resident there. These and previous industrial policy has shown that not all investment needs to be concentrated in the gateways.

Rural dwellers are an important part of the labour supply of enterprises located in IDA business parks. Rural dwellers are also an important element of public sector employment in gateways.

Income support and job creation for rural dwellers will continue to depend in part on commuting to larger centres to work in the public sector, locally traded and in the export oriented sectors (both indigenous and foreign).

The planned New Spatial Strategy needs to recognise the commuting patterns of rural dwellers as well as the capacity of smaller towns and cities to host smaller scale foreign and indigenous export oriented enterprises.

In considering the economic development of rural areas and a new Spatial Strategy it will be important to recognise, identify and document different types of rural areas and the characteristics of different types of rural commuting, for example the greater Dublin commuting rural belt, different to west Cork, South East. NW, West – around Galway, Mid-West around Limerick?

Further conclusions and recommendations to be included in final report with completed of case study analysis.

## **17.5 APPENDIX**

### *Methodology*

The data analysis is based on the Census of Population 2011, Place of Work, School or College Census of Anonymised Records (POWSCAR). Several methodological issues are explained below.

#### Place of residence

In 2011, there were 1.7 million (1,770,644) workers of which 35.5% (629,382) are categorised as rural dwellers. The working population defined as urban dwellers (including gateway dwellers) comprises 64.5% of the total (1,141,262).

Of this urban population, 1.7% (29,227) reside in rural EDs within gateways as defined for this research where gateways and hubs constitute the legally defined boundaries of the urban centres in question plus all EDs that that adjoin these boundaries. This is more extensive than normal (town + environs) definition and will capture firms on the outskirts of urban centres. For those rural dwellers originally classified as rural but located within the gateway are reclassified as urban dwellers. The same reclassification occurs for place of work which if located in rural EDs within the definition of gateways is recoded to gateway places of work.

#### Place of work

Workers with 'no fixed place of work' (including blanks and mobile place of work) have been excluded which removes 295,428 workers from the analysis leaving a population of 1.475 million workers. Those working from home are categorised according to their place of residence; either rural, urban or gateway. This has a greater impact on the numbers working in rural areas, reflecting the greater proportion working 'from home' in the agricultural sector.

After removing blanks and mobiles and re-assigning those who work at or mainly from home to their place of residence, the total number of workplace destinations examined is 1,475,216 of which the proportion working in rural areas (rural jobs) accounts for 21.3% (314,213) of the total. Urban jobs (both gateway and towns) account for 78.7% of all jobs of which 55.2% (814,612) are in gateways, and 23.5% (346,391) are employed in the towns.

Students who work part time are not included in the analysis.

#### Classifications

##### Industry

- 1=Agriculture, forestry and fishing
- 2=Manufacturing, mining and quarrying, Electricity, Gas, Water supply and Waste Management
- 3=Construction D=Non-manual
- 4=Wholesale, Retail Trade, Transportation and Storage, Accommodation and Food Service Activities
- 5=Information and Communication, Financial, Real Estate, Professional, administration and support service activities
- 6=Public Administration and Defence; Compulsory Social Security
- 7=Education, Human Health and Social Work Activities J=Agricultural workers
- 8=Other Service Activities Z=All others gainfully occupied and unknown

##### Socio-economic group

- A=Employers and managers
- B=Higher professional
- C=Lower professional
- E=Manual skilled
- F=Semi-skilled
- G=Unskilled
- H=Own account workers

- I=Farmers

## **Part V. Supporting Enterprise Development**

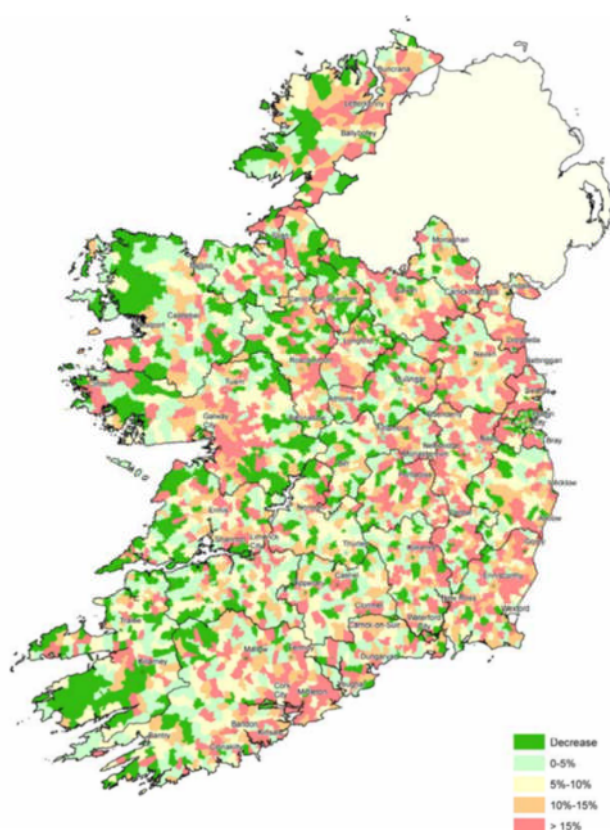
## Chapter 18. THE COMMUNITY ELEMENT OF ENTERPRISE DEVELOPMENT IN REMOTE RURAL AREAS

Ciaran Lynch

### 18.1 INTRODUCTION

While the agriculture and food sector has had a high profile in recent years as one of the most successful parts of the economy, rural areas in Ireland continue to suffer from a variety of difficulties that are likely to continue into the future. These difficulties arise from different sources and are manifest in a variety of ways. One matter that is notable is that different regions of population change can be identified between the 2006 and 2011 Censuses. While the pattern is quite mixed, population decline or low levels of population growth are particularly noticeable in those areas which are more remote from major urban centres. Figure 1, which is based on a map produced by the CSO for the 2011 Census of Population, illustrates this well. The areas outlined are those that show the highest overall levels of population growth.

**Figure 18.1 Population change in Ireland 2006-2011**



The map indicates that the main urban centres of Dublin, Waterford, Limerick, Cork and Galway have driven population growth in their hinterlands, that a number of other clusters of settlements have had a similar effect, but that there are significant parts of the country which are suffering demographically and that these areas tend to be those that are more remote from the major urban centres.

From an economic point of view, while agriculture is still an extremely important part of the Irish economy, its contribution to GNP remains low at a little over 2 percent, its contribution

to exports also remains low, while its contribution to employment has fallen over time, even if it has shown marginal growth in recent years. In addition, other parts of the economy that contributed particularly strongly to the rural economy have been under pressure in recent years, including the service sector and, in particular, the construction industry. Employment in the latter sector fell by over 150,000 between mid-2006 and mid-2012 from 250,000 to about 100,000. This resulted in those employed in the construction sector and resident in rural areas falling as a percentage of all those employed and resident in rural areas from just over 14 percent in 2006 to about 6.5 percent in 2011.

The unemployment figures in rural areas are also worth noting. In 2011, 144,000 people in rural areas were recorded as seeking employment, an increase of nearly 100,000 over the figure in the 2006 Census. It should also be noted that the percentage of those employed in the occupational categories that are largely dependent on the public sector is high in rural areas and that these sectors of employment are, if anything, liable to decline in the medium term.

With regard to off-farm jobs that are reliant on a strong economy, it has been pointed out by O'Brien and Hennessy (2006), that good economic conditions allowed low-income smallholders to achieve an acceptable level of income and to continue living in rural areas. However, as the economy has become less buoyant with fewer off-farm jobs available, the opportunities for supplementing income have decreased, leading to the likelihood of further decline in remote rural areas.

Taking all these factors into account, suggests that employment opportunities for the rural population are limited and, in these circumstances, the creation of small and micro-enterprise in rural areas is going to be of increasing importance in terms of economic development, the livelihoods of people living in those areas and hence the sustainability of rural communities. Therefore it is important that all aspects of enterprise support in rural areas are considered in order to give the best possibility of sustainable success in this endeavour.

A number of programmes have, of course, been put in place to support rural development such as the Rural Development Programme, Rural Development Fund, Farm Relief Services and Western Investment Fund and these are complemented by measures aimed at supporting indigenous industry and SMEs, and in particular, supporting micro-enterprises in or close to rural areas. These latter supports include the funding, training and education provided by the County Enterprise Boards, and the Enterprise-Start/New Frontier types of programmes funded by Enterprise Ireland and run through the Higher Education Institutions.

However, despite this range of supports and resources, many more remote rural communities continue to exhibit a low rate of enterprise development and a relatively high rate of out-migration and population decline.

While this issue is clearly significant today, it was also a matter of concern in the past. In 2004 a research project was undertaken by the Tipperary Institute to consider the issue from a particular perspective (see Moran & Lynch, 2004). This project was carried out with the support of Area Development Management Ltd and the Offaly Local Development Company.

A key objective of the research project was the identification of critical success factors in promoting and achieving sustainable rural enterprise development that could be applied in an Irish context and with a particular focus on more remote rural areas. These areas would equate

approximately with the 'weaker' and 'remote' areas<sup>106</sup> as defined in the NSS typology of rural areas. Remoteness tends to increase towards the west of the country, with interspersed less remote 'pockets' of Electoral Divisions around the cities and towns as suggested by the population map above.

The focus of that project was also on small-scale rural enterprise and, in the context of the project, small-scale rural enterprise referred to indigenous enterprise established by local entrepreneurs or by inward investment, thereby providing employment for people within the community.

## **18.2 RESEARCH APPROACH**

The key steps undertaken in the research process were the identification and documentation of relevant national and international research; identification of general themes and of the factors giving rise to the most successful outcomes in Ireland and abroad; and the design of a hypothetical model for the encouragement and support of enterprise in remote rural communities.

The area of focus for the research included all of Ireland, including island communities and Gaeltacht area as well as relevant areas of the UK and in particular the Highlands & Islands of Scotland. In addition, the research included Italy, Finland and South Africa. Sources of information included reports and documents from a variety of agencies in Ireland, academic sources such as conferences, conference papers and journal articles and agencies in Italy and the UK.

A number of successful rural enterprises and rural communities that had managed their own development were also reviewed, as were case studies and sources of information from the broadcast and print media. An example of successful community ownership and management is an alternative energy generating project in the Sliabh Felim area which has been replicated in the recently opened Templederry Windfarm project. Other examples can be found in the many community-owned and run childcare facilities throughout the country and the emerging enterprises that provide care for the older members of the population as well as the occasional community-owned and run shop or hostel.

A large and varied amount of information was obtained during the course of this research, therefore, but it did not purport to be exhaustive, though it was considered that sufficient information was obtained in order to address the research question (the identification of critical success factors in promoting and achieving sustainable rural enterprise development that could be applied in an Irish context) in a comprehensive manner.

### *Critical Success Factors*

Based on the research conducted, a number of critical success factors for enterprise development in rural areas were identified and these are shown in Table 1 below. They represent a combination of tangible and intangible factors, some of which will have a direct influence, and some an indirect influence on the likely levels of enterprise and entrepreneurship. Both the factors and the type of influence have local and non-local

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<sup>106</sup> The National Spatial Strategy proposed a five-category typology of rural areas in Ireland – Areas that are Strong, Areas that are Weak, Areas that are Changing, Areas that are Remote and Areas that are Culturally Distinct. Areas that are Weak are defined as those including more western parts of the Midlands, certain parts of the Border and mainly inland areas in the West, where population decline has been significant while Areas that are Remote are primarily to be found on the Islands and the West Coast.



dimensions. This study suggested that all of these factors should be taken into consideration in the design of supports and the provision of resources that are intended to facilitate and encourage enterprise development in remote rural areas and communities.

**Table 18.1 Critical Success Factors for Enterprise Development in Rural Areas**

Level	Direct influence	Indirect influence
Local	Existing entrepreneurs Potential opportunity entrepreneurs Potential necessity entrepreneurs Existing natural and human resources Potential natural and human resources	Community culture and attitude Key individuals
Non-local	Enterprise support agencies and policies Local Development companies Semi- state bodies using natural resources, especially Bord na Mona, ESB and Coillte Education and Training Institutes	Finance & investment Markets Clusters & Networks Technology Infrastructure

The following explores each of these factors a little more.

### *Entrepreneurship and Individual Entrepreneurial Potential*

At the level of the *individual*, it is useful to apply the entrepreneurial typologies as defined by the Global Entrepreneurship Monitor (GEM), i.e. the ‘necessity entrepreneur’ and the ‘opportunity entrepreneur’. While the opportunity entrepreneur is responding to a perceived opportunity and pursues entrepreneurship out of choice, the necessity entrepreneur follows this route because there is no actual or perceived alternative.

The Irish GEM Report for 2002 showed that 85 percent of those people actively involved in new entrepreneurial activity were opportunity entrepreneurs, leaving 15 percent potentially as necessity entrepreneurs.

In the corresponding report for 2012 the following is stated:

In the more recent period there has also been a decline in the rate among the general population of those stating their intention to start a business, a decline in the perception of entrepreneurship as a good career option, and a rise in entrepreneurship motivated by necessity. (GEM Report 2012, p. 24). The same report also states that: The continuing high proportion of early stage entrepreneurs turning to entrepreneurship out of necessity (28 percent) may also be impacting on the numbers aspiring to set up a business, as it may be making entrepreneurship a less desirable option for those who have other choices. (Ibid. p 28)

It is clear, therefore, that the percentage of necessity entrepreneurs has almost doubled in the decade between 2002 and 2012. This is not surprising in the context of the current economic environment and the limited employment opportunities that exist.

For Moran & Lynch (2004), ‘it appears likely that a high percentage of low-income smallholders currently fall into the category of “necessity entrepreneur” and it is likely that this observation would continue to apply. Such a conclusion would be consistent with the findings of Meredith (2012) which indicated that among a sample of 472 farmers nationwide, 38 percent said their preferred development strategy was to develop and expand their farming business while 58 percent expressed a preference for combining farm work with an off-farm

job. Just 2 percent of farmers expressed a preference for setting up a diversified farm-based business.

The category of the ‘necessity entrepreneur’ can itself be divided into sub-categories since people may adopt the entrepreneurial route out of different perceived needs. For example, a highly-skilled professional who has been made redundant from the corporate world and decides to ‘go it alone’ will quite probably have a different perspective on his or her venture than will a low-income smallholder who pursues entrepreneurship out of necessity of income. This latter type of entrepreneur has also been termed a ‘reluctant’ entrepreneur (Galbraith et al, 1996) and may be distinguished from the entrepreneur who regards the necessity as a stimulus to do something he or she may have wished to do but lacked the energy or courage to pursue.

Entrepreneurship would, therefore, represent a significant change in lifestyle and attitude for many people and if it is not considered to be a positive change, it needs to be supported and facilitated in a manner that goes beyond the provision of technical business supports. In remote rural areas, the introduction or existence of enterprise resources and business incubators alone will not necessarily result in the successful development or encouragement of entrepreneurship. Moran & Lynch (2004) suggests the concept of the **Entrepreneurial Community** as one that would allow a blending of the traditional technical supports which do, of course, continue to apply, with approaches that are targeted at the community as well as at the individual, particularly in the context of community attitudes.

### 18.3 COMMUNITY ATTITUDE AND CATALYSTS FOR CHANGE

One of the key determinants of successful community development is a desire for change on the part of the community. If the majority of people are comfortable and financially secure, it would appear that there is less of a desire to change or to engage in developmental activities at community level. As people have generally become more affluent, it has been commented that there is less of a ‘community spirit’, with people more focused on their own lives and with less time available for community involvement. A survey carried out for Dublin City Council and reported in Changing Ireland in 2007, for example, found that community spirit was increasing in the less affluent parts of the city area but declining in the more affluent parts. However, those that are not prosperous or that are in a state of decline may be more likely to try to change or improve that situation, particularly if there is a catalyst for change.

One of the precursors to change or to the community development process is often therefore a change in *attitude* in the community and a determination to succeed in developments efforts. All programmes or interventions are more successful, therefore, when they have a local focus and are tailored to meet the needs of local communities or individuals.

This reality has been recognised in a number of approaches to local development that have been developed and applied in Ireland over the last decade. A number of these are reviewed by O’Riordain (2011) in a report prepared for Ballyhoura Community Development. In this report it is stated that –

There is a need for community buy in to the process. The community needs to be motivated, to see the merit and want to participate in the plan. All of the groups and the sectors that do not have a representative group need to be involved from an early stage. (O’Riordain, 2011, p.5).

The same report also notes that, while the capacity of communities to engage has improved over the last 10 years, there are now two categories of community.

The most advanced community umbrella groups who also need to ensure a social inclusion focus in their work. The less advanced communities require support in developing structures and developing the capacity of the disadvantaged and broad-based interest groups in their community. (Ibid p. 4)

In the context of economic development, there are a number of 'intangible' cultural factors that may influence the level of entrepreneurship within rural communities. For example, the attitude within the community towards entrepreneurs or potential entrepreneurs or indeed the belief that potential entrepreneurs may hold of how they will be perceived within their communities can have a significant effect on their decision about whether or not to start a business. For example, Anderson et al (2000) describe this phenomenon in rural communities in Scotland and note that while hopes of success may be a stimulus, fear of failure may both inhibit the establishment of an enterprise and limit the ambition of the entrepreneur with regard to the growth of the business. For some people, the risk of starting a business or venture in the 'public eye' can be too great, particularly if the consequences of 'public' failure are taken into account. In remote rural communities, it is often the case that everyone is well known and this lack of anonymity may potentially inhibit entrepreneurship.

It is also important that the approaches to the development of rural areas are socially and culturally appropriate. As noted by Macken-Walsh (2009)

There is a need for strategies to open up the rural development debate and to encourage the participation of social groups such as farmers and fishers who are slow to engage. Strategies should not only seek to improve methods of communication between rural development agencies and local inhabitants but should also incorporate techniques that help to identify and instil more culturally and socially appropriate forms of rural development. (Macken Walsh, 2009, p. 126)

The role of *key individuals* in the process of community development also should not be underestimated. These people may come from within the community or from outside but in either case, the people involved must be trusted and respected by the community. In some cases, 'external' catalysts have been the trigger for action in areas or communities and, while the importance of the issue of 'internal' community ownership of development cannot be overlooked, there is also a need to recognise that some communities benefit from an appropriate external intervention to begin the process of regeneration or development. One of the difficulties in modern rural Ireland in this regard is the decline in the trust and influence of the traditional community leaders which has not been effectively replaced by a corresponding growth in other trusted individuals or institutions.

Many opportunity entrepreneurs may leave their own community to work and live. If they have a strong commitment to their community and generate financial resources elsewhere, they can make a valuable contribution to the community in which they previously lived, if they so desire.

### *Political Policies and Financial Support*

One of the key factors in the success of enterprise development is the existence of appropriate political and fiscal frameworks and policies that support rural and remote rural enterprise development.

Enterprise support policies in the Emilia-Romagna region of Italy (Cooke, 1996) are based primarily on the provision of services rather than financial support or grants. ERVET is the

central support system for the region and comprises public sector and private sector members. Services are provided through a series of Business Service Centres that focus on particular sectors (eg food or ceramics) and / or functions such as exporting.

One of the key successes of this approach in the Emilia-Romagna region is the effectiveness of community animators and the subsequent level of community involvement, particularly the quality of ideas brought forward. This is linked to the contribution played by the community itself and its culture and attitude towards enterprise development. In some cases, an 'outreach' approach using key animators to work with individuals or communities who might not otherwise take advantage of the supports that are available is necessary; this is time-consuming and potentially costly, but the long-term benefits can be significant.

It is noted that this approach has been adopted by a significant number of Local Development Companies in Ireland in recent times. Through the appointment of animators with a specific focus, such companies have sought to encourage enterprise development in particular areas and to develop a positive attitude to entrepreneurship within these areas. For example, the Clare Local Development Company appointed animators for rural enterprise, and a community, heritage and tourism animator; the North Tipperary LEADER Partnership appointed a Lough Derg Tourism animator; South Tipperary Development Company appointed a Food Tourism animator and a Festivals and Events animator. Similar appointments were made by many other local development companies including Laois, Sligo, IRD Duhallow, West Limerick, Louth, South-West Mayo and South Kerry. While the role of these animators may have varied, a key objective of many was to facilitate the development of project proposals by communities and individuals through direct engagement and active support.

#### **18.4 EXPLOITATION, DEVELOPMENT AND MARKETING OF LOCAL RESOURCES**

There needs to be an awareness of the presence and value of local resources including the natural amenities of the area itself and their potential for development, with an appropriate level of investment, either private or public.

In this regard Macken-Walsh (2009) notes that:

Appraising local resources is a critical step towards achieving this and the role of extralocal actors in identifying areas of potential is crucial. Strategic efforts to build confidence are also required, and here, the importance of joining up the local with the extralocal is again emphasised. (Macken-Walsh, *Ibid.*, pp. 126-7)

This emphasises the fact that the acknowledgement of local potential is a key part of the development of an entrepreneurial community, a fact that is now being recognised by emerging voluntary organisations such as Communities Creating Jobs. (See [www.ccjireland.com](http://www.ccjireland.com) )

The animators referred to above may be considered an example of the bringing to bear of extra-local resources in this regard. Generally, the animators appointed to stimulate community and enterprise development were not members of the local communities; they brought a more dispassionate view and a history without complications to the task of stimulating action. While the evidence is anecdotal, it has been suggested that external animators were very successful in stimulating the development of projects and in encouraging potential entrepreneurs to create project proposals and to submit them for funding. However, these animators are not engaged with the communities on a longer-term basis and, as a result,

the overall enhancement of the capacity of the community and a raising of the overall community consciousness regarding enterprise development may be more limited.

What is probably required is a balance between externality and long-term engagement. A process which facilitates overall community engagement rather than specific engagement with individuals or groups and which is at least mentored by those external to the community may well be the most effective overall approach.

## **18.5 SALES AND MARKETING SKILLS**

All business enterprises, whether in remote rural areas or not, will only succeed in the long term if they continue to provide a product or service that is demanded by their market and if they have a route to market. This means that businesses must monitor and adapt to their external environment and continuously look for opportunities or threats. Sales and marketing and business development activities can be supported by the development agencies where skills are not available within the business itself, provided the links are made and that the agency can deliver support in an appropriate manner. Amongst the factors listed by Moran and Lynch in this regard are minimisation of bureaucracy in accessing funds or information about development programmes or supports as well as perceived transparency in their running and management.

The importance of *good business management skills* is a ‘generic’ requirement across all rural enterprises, regardless of sector.

An interesting point made in relation to the existence of sales and marketing skills in remote rural areas (Munroe, 2003) is that ‘sales and marketing types’ do not often live in or choose to live in remote rural areas, which means that this type of skill is not available in abundance in such areas.

Another phenomenon that is beginning to emerge as a factor in the development of rural areas in the UK is the role of ‘in-migrants’ into rural communities, who may bring with them skills and experience of business management that can be applied for the benefit of the community (Smallbone, 2003). These are sometimes people who have retired and are willing to act as mentors or to advise local businesses or they are people with ideas that they themselves want to implement. However, these potential resources need to be activated and communities supported in carrying out this activation.

One approach being developed to achieve this is a voluntary community-based initiative called Communities Creating Jobs. Arising out of the experiences of a number of community-based actors, the initiative proposes a 10-point plan for accessing and utilizing such resources. The 10 point model includes the following suggestions:

- Identify a group of people within a community willing to be a CCJ organisation
- Meet and adopt the CCJ
- Identify those who are willing, either individually or as a group, to take responsibility for particular aspects of the work of the CCJ body such as promotion, communication including website updates, mentor care, enterprise promoter care, enterprise opportunity identification, Community Asset Audit and agency relationship management
- Identify and recruit a cohort of volunteer experts/mentors within the community and gaps where no suitable mentors appear to be available
- Meet with the relevant enterprise support agencies responsible for the CCJ organisation’s community in order to establish positive relationships
- Carry out a Community Asset Audit using the CCJ Template

- Arrange, promote and hold an open day/evening or similar event in order to publicise the availability of the CCJ service and to identify potential enterprise promoters
- Arrange mentor support for potential entrepreneurs
- Submit information/news/models to the CCJ communication hub
- Attend meetings of CCJ for support and to report progress

This approach is community-based and seeks to access community resources through the use of members of the community requesting access of those who own the resource, whether the resource is financial, capital or human. There is no huge leap of insight involved in this approach; the key feature is that it is based in the community, has a single focus on creating jobs, is voluntary and seeks a response by community members asking other community members for assistance.

As well as being community-based, however, the approach relies on support to the local community groups being provided by an external national body which develops models and templates, provides a means of networking and communication and acts as an interface between national organisations and agencies and the community-based committees.

## **18.6 CLUSTERS AND NETWORKS**

The existence of clusters and networks can have a positive impact on the performance of individual companies and industry sectors. Clusters work well when there is a formal or informal agreement between the companies regarding their objectives or working arrangements and which are seen as having the capacity to benefit all companies or the region as a whole. There is a link between the creation of clusters and a spirit of co-operation. Clusters may develop organically but there is a greater chance of successful development when there is a planned and co-ordinated strategy in place.

There are cases in the Highlands and Islands of Scotland where small clusters of healthcare and ICT companies have been established and have contributed to the development of the local economy. There is, for example, a digital healthcare cluster located in the vicinity of Inverness and Nairn. These, however, need to be continually managed and reviewed, in respect of the addition of new companies or potential companies moving away from the area. Some clusters such as the Scotch Whisky industry tend to be very dependent on their physical location for raw materials and are therefore very unlikely to re-locate.

The Italian Emilia-Romagna region has in place 'industrial districts' that house the skills and expertise that have allowed particular areas to become very competitive in industries such as ceramics, clothing, footwear and food. Many of the companies operating in these industrial districts are dependent on each other for the manufacture of their products that are then sold in domestic and international markets.

### *Co-operation and Competition*

A factor in some successful enterprise development is co-operation between companies such that they can maintain flexibility of manufacture or service and develop products tailored to customer needs. They are also able to undertake contracts and win customers that they could not achieve alone. These companies may also at times compete with each other but there remains an overall spirit of co-operation and recognition of the advantages of co-operation for the companies themselves and for their region. This is a perspective that needs to be actively promoted as the tendency is for entrepreneurs to be competitive rather than co-operative.

### ***Technology & Infrastructure***

The existence and use of technology such as broadband and the internet can have a bearing on the ease with which business can be conducted in remote areas, particularly as Irish society moves more and more towards being a knowledge economy. Similarly, if there is good physical infrastructure in place it will have a positive effect on the likelihood of businesses being established from external sources, if inward investment in an area is sought.

### **18.7 CONCLUSION**

These are the principal critical success factors that were identified by Moran & Lynch (2004). There is a need to consider to what extent these factors presently exist in an Irish context and, moreover, to consider how they can be replicated or applied in remote rural communities with due consideration being given to the potential barriers to their implementation.

### *Application of the Research Findings within an Irish Context*

The critical success factors that have been identified all have relevance in an Irish context. While it is recognised that it is not possible to superimpose a model from one country or region to another, it is possible to apply the principles. Indeed many of the elements that have been identified are already in place. For example, regions of Ireland and the Emilia-Romagna region in Italy have some similar enterprise development supports such as business advice and services, but major differences between these regions such as population and the number and types of industries mean that the Italian model cannot be replicated exactly in Ireland. However, the principles of clustering and networking have relevance for rural Ireland and, indeed, there are some excellent examples of this approach in Ireland already. These include, in particular, networks of food producers that share marketing and branding such as the Fuschia Brand and the Tipperary Food Producers network. The Tipperary Green Enterprise Network is an example of a group of small enterprises that co-operate and provide mutual support in an emerging enterprise area, while groups such as the Comeragh Mountain Forum and the Ballyhoura Enterprise Network provide an opportunity for enterprises and communities in rural areas to work together. In addition, there are many networks of rural tourism providers active throughout the country, which seek to work together to attract visitors and to retain them in their areas.

It is relatively straightforward to compare the various types of enterprise support structures in different countries. It is more difficult to understand why some programmes are more successful than others, when the type of support is very similar or even identical. For example, the success with which LEADER projects are implemented varies, despite the fact that the type of support offered is similar. Some communities become entrepreneurial and active in their own development without any form of external support while others do not even fully avail of existing supports.

There is good evidence to suggest that the success of both the process of community development and related enterprise development will depend on ‘intangible’ factors such as attitude and personal relations as much as it will on ‘tangible’ measures such as improvements in infrastructure and the provision of traditional enterprise supports.

In the case of remote rural communities and low-income farm families, a higher proportion of potential entrepreneurs are likely to be in the ‘necessity’ category than would be the case for the population at large. Where people do pursue enterprise opportunities, therefore, they are more likely to do so out of necessity rather than opportunity in these areas.

‘Necessity’ entrepreneurs have a different perception of entrepreneurship or business ownership than do ‘opportunity’ entrepreneurs. There is also some evidence from other countries that rural or remote rural entrepreneurs may have different motivations for starting a business than those in other areas, whether they do so out of necessity or as a result of an identified opportunity. (See for example Freir-Gibb and Nielsen, 2011)

#### *A typology of entrepreneurs and access to supports*

With regard to the issue of access to supports, Figure 2 below shows a typology of rural entrepreneurs and illustrates the current enterprise supports available. With regard to the existing support for true necessity entrepreneurs, there are gaps in provision in terms of the content and delivery mode of conventional programmes. These, in particular, relate to the assumption that the entrepreneur has the drive, risk-taking mentality and vision that are typical of the entrepreneur. For the entrepreneur of necessity, supports that help to create a belief that



it is possible for them to become a business-person, that the risks involved are reasonable and manageable, that they are not likely to be derided in the community if they fail and that becoming an entrepreneur is a path worth following, are all necessary. This requires supports that are as much to do with counseling and life-coaching as they are to do with business mentoring and the provision of technical support in areas such as finance and marketing. This group may not even consider entrepreneurship as a potential option for them, either because they do not believe that they have the skills to be an entrepreneur (which in some cases may be true) or because they have never had to consider any alternative to traditional employment in another organisation. **An outreach approach with a stronger emphasis on mentoring and opportunity identification is required in these cases to look at changing attitudes towards entrepreneurship and facilitating its development within remote communities.**


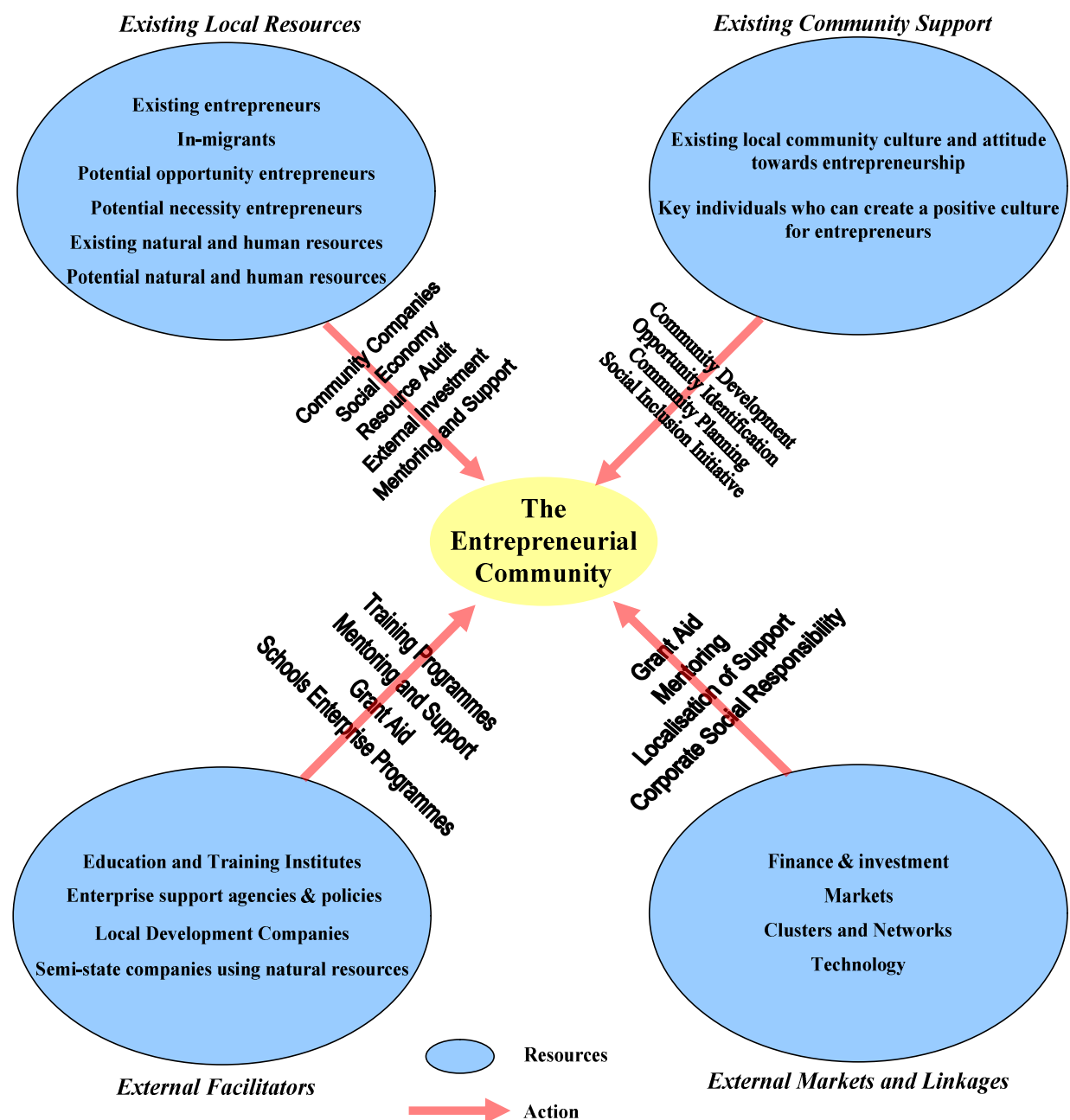
<b>A Typology of Rural Entrepreneurs</b>			
<b>Ambition</b>	To provide a sustainable livelihood as far as possible through current occupation	To establish a micro-enterprise to support own family	To expand a micro-enterprise or establish and sustain an SME with wealth-creation possibilities
<b>Expectation</b>	Rely on current occupation to the greatest extent possible. May be forced to develop some entrepreneurial activity or become an employee to provide a sustainable livelihood	Own, manage and work in a home-based or service business mainly serving the community	Own and manage a small community or home-based business with the intention of growing beyond the local community market including through exports and on-line sales
<b>Potential to Employ Others</b>	Very Low	Low	Moderate to High
<b>Agencies Primarily Involved</b>	Teagasc if a farm family Local Development Company	Teagasc Local Development Company County Enterprise Board	Teagasc Local Development Company County Enterprise Board Enterprise Ireland Uadaras na Gaeltachta
<div style="text-align: center;"> <p><b>Towards the opportunity entrepreneur                  Towards the necessity entrepreneur</b></p>  </div>			
<b>The Entrepreneurial Continuum</b>			

Figure 3 describes a model which demonstrates some potential mechanisms by which the critical success factors identified above might be achieved in order to improve levels of entrepreneurship or enterprise creation in remote rural communities. The blue ovals contain the critical success factors and the orange arrows and their accompanying text represent the various mechanisms by which these can be applied in order to try to create the entrepreneurial community which is at the heart of the study.

considerable amount of time and needs to be implemented in a balanced manner that encompasses an element of ‘lifelong learning’ with the need to demonstrate short – term successes and results.

Indeed, the importance of this approach is now being recognised within the community and voluntary sector. A number of initiatives such as Communities Creating Jobs, the Social Enterprise Network and Get Local amongst others, recognise the importance of this interface and are seeking to create mechanisms to mobilise local community resources for enterprise and job creation.

**Figure 18.3 A Model for Creating the Entrepreneurial Community**



## 18.9 CONCLUSIONS AND RECOMMENDATIONS

The development of enterprise and the level of entrepreneurship in remote rural communities will be influenced by 'intangible' social and cultural factors as well as purely rational economic factors and the existence of conventional enterprise supports. Both the factors and the type of influence have local and non-local dimensions. The critical success factors in successful remote rural enterprise development are likely to exist to varying degrees according to the unique characteristics of individual geographic areas. Some factors are precise and capable of being easily measured, while others are more imprecise and require further development.

This chapter presents a model which seeks to incorporate a community development element into enterprise development in more remote rural communities. Moran & Lynch (2004) suggested a further stage in developing this model. Though this approach is not included here, it included the assessment of this model in practice, the evaluation of its benefits and challenges and its refinement as a practical tool by piloting the model in selected locations.

A key element in any model that might be developed in this context is the integration of the activities of different actors in a coherent way at the level of the community. In addition to the normal business advice and supports which are acknowledged to be necessary if not sufficient elements of any model, the following might also be included:

- A community animation action using the skills and resources of the LEADER Companies
- The involvement of a voluntary community-based process with an enterprise and employment focus such as that represented by the CCJ model
- Use of the resources and networks of other community organisations such as the GAA to promote the principle of entrepreneurial activity by highlighting and recognising successful local entrepreneurs
- Creating targeted programmes of support for those segments of the community that are under-represented in Irish entrepreneurial activity such as women and young people whose participation rates are low in European terms
- Targeting community leaders as future entrepreneurs and providing them with particular support and encouragement such as that provided in the Life Coaching elements of the Options programme
- Promoting the inclusion of the encouragement of entrepreneurial activity as a specific focus within all community development plans from wherever they arise
- Creation of a positive regulatory environment for rural entrepreneurship. The Planning and Development system is a good example of such a regulatory environment and a positive approach could be promoted by the issuing of appropriate guidelines to Planning Authorities by the Minister for the Environment, Community and Local Government
- Promotion of the possibility of becoming an entrepreneur as a valid life and career choice in schools and other youth environments
- Limitation of the negative impact of failed businesses by
- Reduction of the failure rate by providing support and mentoring for a number of years beyond the establishment period of enterprises
- Promoting the concept of business failure as a natural part of business success and highlighting international experience in this regard
- Providing targeted support to the owners of failed businesses to enable them to establish new enterprises quickly

- Providing advice and support to businesses to ensure that business failure does not impact unduly on the personal lives or circumstances of the entrepreneur
- Pro-actively engaging with smaller enterprises and entrepreneurs of necessity to encourage them in considering the expansion of their business and/or entering the export market
- Development of local enterprise networks for mutual support and learning. Within Community Enterprise Centres it is reported anecdotally that the informal networking and peer support available is a significant benefit to the occupants.

These approaches should be incorporated into an integrated action plan for each community with the specific tasks of the plan being assigned to individual organisations.

Some of the organisations that might be involved in such a process include –

- The Local Authority
- The LEADER Local Action Group
- The Education and Training Board
- Teagasc
- Community and Voluntary Organisations
- Local Enterprise Development or Support Networks
- Local farming organisations

By integrating the activities of these bodies within a community development context which recognises the social as well as the business factors at work in enterprise development, the likelihood of increasing the pool of entrepreneurs of opportunity and of those who move from being entrepreneurs of necessity to entrepreneurs of opportunity might be significantly increased.

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## **Chapter 19. THE CHALLENGES AND OPPORTUNITIES IN THE DEVELOPMENT OF RURAL SMALL-TO-MEDIUM SIZED ENTERPRISES**

Helen McGrath and Tom O'Toole

### **19.1 OVERVIEW OF RURAL SMEs**

The sustainability and growth of rural SMEs continues to be a primary concern across all developed nations. Many rural communities in Ireland have been greatly impacted by declining and aging populations, deficiencies in information capital, lack of skilled labour and support services, and limited local markets. Infrastructure is often less developed in rural areas which impacts SME growth and product mobility in addition to the historical reliance on traditional sectors such as agriculture which are in a state of natural employment decline in many parts of the world (Irvine & Anderson, 2008; Ring et al., 2010). SMEs are important to rural areas and have been promoted, in general, by many governments as the engine of economic growth, the incubator of innovation, and the solution to persistent unemployment (Audretsch, 2004; Berger et al., 2004). SMEs have been at the heart of government policy in both Europe and Ireland in recent years. Considerable resources have been invested by the European Union in support of SMEs, through direct financial assistance and through subsidised advisory services (OECD, 2006) to aid their continued survival. Yet much evidence exists to support the fact that many fail to grow (Mueller et al., 2008).

Over the past two decades, substantial academic research has been undertaken in the area of SMEs, recognising the need for concepts developed for large firms in areas such as strategy and planning to be tailored to address the special characteristics and situations of small firms (Van Laere and Heene, 2003). Storey (1994) began an argument that continues to be prevalent in the academic literature that all too frequently the large-firm model is applied to the SME without question: "...the small firm is not a 'scaled-down' version of a large firm and ... theories relating to SMEs must consider the motivations, constraints and uncertainties facing smaller firms and recognise that these differ from those facing larger firms" (Westhead and Storey, 1996: 18). The acceptance of SMEs as disparate to their larger counterparts in terms of their core capabilities and characteristics is significant, as their 'uniqueness' affects the means through which they operate in the market. Distinguishing characteristics of rural based SMEs such as diversity, small scale, owner personality, independence and flexibility have been identified as competitive advantages. However, rural SMEs also face issues which impair both their growth and survival rates, including diseconomies of scale, under-financing and lack of specialised managerial competence. In terms of government support, this rationale calls for further development of customised policy and support measures to address the specific constraints and challenges facing the small firm, and in particular, rural firms operating in peripheral regions in Ireland.

According to the SBA Factsheet (2012), SMEs account for almost 99.8% of active enterprises in Ireland with the majority of firms in the economy comprising micro-enterprises (90.8%), employing less than 10 people. Micro-enterprises are particularly prevalent in rural areas where SMEs have a tendency to be very small including a high percentage of one-person businesses. Hence, there is a need for an on-going rural-specific enterprise policy focus to counteract the liabilities associated with small size and being based in a peripheral location. The White paper on Rural Development (1999: 8) defined the rural policy agenda as "all Government policies and interventions that are directed towards improving the physical, economic and social conditions of people living in the open countryside, coastal areas, towns and villages and in smaller urban centres outside of the five major urban areas", which includes areas outside of Dublin, Cork, Waterford, Limerick and Galway. The aim of rural

development policy in Ireland is to promote sustainable development by addressing economic, social and environmental concerns: supporting rural enterprise is part of that policy.

Supporting rural enterprise is vital due to the unique characteristics inherent in small firms operating in rural Ireland. Such characteristics present both opportunities and challenges for SME growth and are detailed in section 22.2 in addition to the contextual environmental issues that they face. Section 22.3 presents an overview of the current support infrastructure in place for rural enterprise expansion, using case study evidence from the craft microbrewery sector as an exemplar (section 22.4). Policy recommendations including the development of network capability, changes to current managerial training and support development initiatives, in addition to fostering a spirit of entrepreneurship are highlighted in section 22.5 followed by conclusions which are outlined in section 22.6.

## 19.2 CHALLENGES AND OPPORTUNITIES FOR RURAL SME EXPANSION

The challenges and opportunities for SME expansion are numerous and have been identified in the extant SME marketing, management, strategy and policy literatures. Many of the challenges and opportunities facing rural SMEs are dictated by their peripheral location, however, SMEs also possess certain characteristics which can enable or inhibit growth irrespective of their geographic location. Some of the inherent factors that impact rural SME expansion are detailed below and include, among others, small scale; the degree of labour intensity; access to capital; survival rates; growth orientation; and, innovativeness and flexibility. The challenges and opportunities for rural SME expansion in addition to environmental context are detailed in this section.

### *Challenges for rural SME expansion*

**Small scale:** Rural enterprises frequently operate on a local basis with low economies of scale and scope. They tend to be family run and initial resources such as set-up costs and expertise commonly originate within the entrepreneur's social networks, such as family and close friends (Hite & Hesterly, 2001; Larson & Starr, 1993) in addition to a government financial grant and/or a small loan.

**Labour intensive:** In rural areas, production and service activities are customarily labour intensive (Wiggins & Proctor, 2001), traditionally in agriculture and more recently in the craft food and product sectors with minimal equipment and technology being used in production processes. Although this adds considerably to employment opportunities in rural areas, it can represent a financial drain on the rural SME.

**Lack of capital:** Due to scarcity of capital and a lack of access to sources of credit particularly in the current recession, investment in equipment, expertise and market research for national or international expansion may be limited. Recent research suggests that liquidity is a matter of concern for SMEs as cash is such a critically scarce resource as a result of supply constraints, which do not exist to the same extent for large, urban firms (Battisti et al., 2013).

**Local market scope:** Many micro-enterprises strive to find both their customers and suppliers within a very local space. Rarely does the scope of their business activity extend beyond the immediate environment.

**Growth Orientation:** Much small firm literature would express growth as an entrepreneurial or SME fundamental (Gartner, 1990), however this assumption is at odds with many small firms operating in peripheral regions. SME growth in rural areas remains low, and this

disparity may be due to the way in which the SMEs view their social and economic surroundings. For example, rural based SMEs may assume growth within their sector is not possible beyond a certain level as they focus on a narrow geographic scope whereas for others quality of life protectionism supersedes growth ambitions where they view their enterprise from a craft or “lifestyle” perspective (McGrath & O’Toole, 2013).

**Resource Constrained:** The size and peripheral location of rural SMEs can make them particularly vulnerable to resource constraints which can impair innovative, growth inducing activities. Many small firms fail to meet growth targets or cease operation within a few years of creation and a lack of resources including financial resources, human expertise, time, and having a limited impact on the marketplace are often cited as major contributing factors (Lee et al., 2010).

**Lack of Strategic/business Planning:** Being time constrained, owner/managers of rural SMEs may lack the time to step away from the treadmill of day-to-day activities and strategically plan for the long-term success and growth of their business. This translates to informal, iterative, incremental and unstructured planning hindering the development and growth of SMEs (Brinckmann et al., 2010).

#### *Opportunities for rural SME expansion*

**Survival Rates:** Small firms operating in rural areas often have higher survival rates due to a strong loyal local following of their brand, less competition, and limited growth ambitions (Pritchard et al., 2012). However, growth orientated SMEs in remote rural areas can successfully make the transition from a regional to a national market and sometimes to an international market, for example, Kerry Group Plc and Glanbia Plc are two Irish food producers who have become major success stories in the international market.

**Innovative/Creative:** Many rural SMEs are innovative and creative, carving out niche spaces in the market to differentiate themselves from their competitors. They are opportunistic, seeking and identifying opportunities for future survival and success. However, the Global Entrepreneurship Monitor (2011) revealed that within Ireland 69% of entrepreneurial activity is driven by opportunity with 31% driven by necessity. This does not compare favourably with the OECD or EU averages. The opportunistic entrepreneur is driven by the achievement of success through exploiting an opportunity for some form of gain, often believed to be economic (Reynolds et al., 2002). The central motivation for the necessity entrepreneur is to avoid failure and earn enough money to be able to support one’s self and family which can mitigate innovation and creativity.

**Resilience/Flexibility:** SMEs in rural areas are resilient and adaptive to change (Anderson et al., 2010). Their small size and lack of multiple levels of command means that they are more flexible than their larger counterparts and responsive to their environment.

**Niche Markets:** Rural SMEs are becoming more successful at serving niche markets. Traditionally the rural business environment has been less crowded creating a sheltering effect reducing the pressure to innovate (Virkkala, 2007). However, many farm enterprises in peripheral regions in Ireland are small which means these operations are being encouraged to become more entrepreneurial through diversification and engaging in new activities in pursuit of business growth in niche markets thus making the overall enterprise more sustainable.

**Opportunities Stemming from Networks:** As noted, small rural firms are accepted as being flexible and responsive to customer and market opportunities, but their small size implies they



are particularly vulnerable to resource constraints. Networks of inter-firm cooperation are one important and established means through which rural SMEs can overcome the liabilities associated with newness and smallness through bringing external information and financial and human capital into the firm. As Minitti (2005) explains, by observing others, a potential entrepreneur acquires information and skills through meeting other individuals who have similar or complementary expertise, through learning the ropes of how to find competent employees, through sourcing inputs at affordable prices, through potential financial support, for example, advance payment by a buyer made possible by the entrepreneur's close relationship with the buyer firm, and, most importantly, through finding potential buyers through connection to other firms and organisations.

**Building networking capability:** Developing the ability to use and operate in networks (network capability) is essential for rural SME expansion. Being able to use network capability means that the rural SME knows who and how to access resources through other businesses and organisations that would support its growth ambitions. Network capability is essential for SMEs as studies have shown that sales growth, sales per employee, profit attainment, perceived customer relationship quality, realised competitive advantages, and long-term survival are influenced by network capability (Walter et al., 2006). Using networks as a business tool for growth also enables rural SMEs to access and share critical information and expertise, external opportunities and resources, advice and ideas and more tangible assets, an important competency given their resource constraints. For example, relationships with suppliers and distributors can lead to seamless and flexible procurement processes and information sharing which can ultimately facilitate new product development. Even relationships with competitors have been noted to provide access to temporarily needed resources or lead to the temporary pooling of resources, positively influencing firm performance and growth (Lechner et al., 2006). However, the capability to use and benefit from diverse networks is not inherent and must be developed by the rural small firm. Internal capabilities such as social and communication skills, product knowledge (Hill, 2001), innovation, responsiveness to change (Wynarczyk et al., 1993), and flexibility (Van Gils, 2000) are useful for network capability. Yet the scale of the entrepreneurial firm and its often independent, internally orientated established means of doing business (Nooteboom, 1994) tend to curb strategic participation in networks. For rural SMEs to reap the opportunities from operating in networks, they need to develop their network capability to become strategically active in networks.

#### *Environmental/contextual Considerations*

Small and micro firms play a vital role in the rural economy. They provide essential goods and services in addition to rural employment. However, rural enterprises are greatly affected by the environment in which they operate. The rural environment is generally seen as less munificent for small businesses, and therefore, large urban areas continue to attract a significant proportion of investment in economic activity. Among the core factors which make urban locations more appealing than rural locations in terms of attracting investment include the economies of scale associated with their size, access to a large pool of labour skills, access to vital logistical services, and a better information and telecommunications infrastructure. Large urban centres are characterised by concentrations of important decision-makers and can provide access to networks of influence such as the headquarters of companies and public bodies, and the incubation services and the specialised information and advice of universities. Specialist state enterprise supports and agencies are also more accessible to SMEs in urban locations which can facilitate their growth. These urban characteristics create fruitful conditions for small firms to flourish. In contrast, peripheral regions where local markets are limited decreasing the scale of production and where larger suppliers and customers are often

geographically distant are seen as more hostile environments for small firms (Anderson et al., 2010). SMEs in rural areas often lack access to low cost and high-speed communication technology, have lower network opportunities, less access to finance, lower perceived entrepreneurial opportunities, and a less experience workforce. Logistics and transportation can inhibit SME growth in rural areas as it is more difficult to access larger and international markets.

### **19.3 THE SUPPORT INFRASTRUCTURE FOR RURAL SME EXPANSION AND GROWTH**

The Department of Jobs, Enterprise and Innovation (DJEI) is responsible for enterprise policy in both the rural and urban areas of Ireland. Its responsibilities include (among others) industrial development policy, company and patents law, competition policy, trade policy, manpower policy and employment conditions with an overarching aim to drive Ireland's competitiveness and productivity by creating the conditions where enterprise, entrepreneurship and innovation can flourish and quality employment opportunities are grown and maintained. Under this government department, Forfás is the policy advisory and co-ordination board for enterprise development and science, technology and innovation in Ireland. Forfás, operating under the auspices of DJEI, ensures the coherence of policies across the development agencies supporting rural enterprise.

There are numerous agencies involved in delivering enterprise supports in rural Ireland<sup>107</sup>. Some agencies are involved in delivering enterprise supports to established and start-up businesses: Enterprise Ireland (EI), Shannon Development, Western Development Commission (WDC), Údarás na Gaeltachta, Inter Trade Ireland, City and County Enterprise Boards (CCEBs), and Leader. Other agencies place a significant focus on industry promotion and marketing: EI; Bord Bia, Tourism Ireland and Fáilte Ireland whereas some agencies operate with a significant policy advice function: Forfás and WDC (Central Expenditure Evaluation Unit (CEEU) Report, 2011). Detailing the individual supports provided to rural businesses is outside the scope of this chapter. However, as the CEEU report highlights, there are eight agencies involved in providing various types of direct financial support/investment to enterprises in rural Ireland namely; EI; IDA Ireland; Údarás na Gaeltachta; Shannon Development; CCEBs; Intertrade Ireland; Bord Iascaigh Mhara (BIM); and, Leader. Ten agencies provide training services for businesses; EI; IDA Ireland; Shannon Development; Science Foundation Ireland (SFI); Údarás na Gaeltachta; CCEBs; BIM; Teagasc; Fáilte Ireland; and Leader with nine agencies providing support to micro-enterprises; EI; IDA Ireland; CCEBs; Intertrade Ireland; Shannon Development; Science Foundation Ireland (SFI); Údarás na Gaeltachta; Fáilte Ireland; and Leader.

#### *Financial Support*

According to the SBA Factsheet (2012), access to finance remains one of the most problematic areas for Irish SMEs with the credit crunch squeezing entrepreneurs and small businesses in Ireland more than their counterparts in other EU countries. Yet, as noted, there are many financial supports available to Irish SMEs through the public sector especially in the start-up phase of a new enterprise. Financial assistance is available for many activities including feasibility studies, manufacturing equipment, employment supports, and premises. The Halo Business Angel Network was launched in Ireland to develop and foster the growth

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<sup>107</sup> Currently, some of the agencies mentioned in this section are being amalgamated, merged or having their reporting lines changed.

of private equity and business angel activity in Ireland with complementary state investment. Under this scheme, private investors are matched with pre-screened investment opportunities in start-up enterprises. In 2009, there were nine investments made by private investors in EI's client companies. In 2012, a total of €18m was invested in 30 deals, compared with a total investment of €10m in 33 deals during 2011. In addition, the Microenterprise Loan Fund Scheme was recently launched by the Department of Jobs, Enterprise and Innovation (DJEI) to provide loans of up to €25,000 to start-up, newly established, or growing microenterprises employing less than 10 people, with commercially viable proposals that do not meet the conventional risk criteria applied by banks. Micro-enterprises can apply for the loan to facilitate start-up costs, business expansion and working capital.

### *Training Services*

Within rural Ireland, the development of strong and highly skilled SMEs, the supply of sophisticated support structures and the activation of a conducive business environment are central to the policy agenda, and have been reflected in the policy direction taken by Ireland in recent years. In response to a 2003 assessment by the OECD of management development in SMEs, which found a positive relationship between high standards of management/marketing practice and high levels of productivity in businesses (OECD, 2005), Irish policy instruments now reflect that the performance, effectiveness and prosperity of the small business sector in rural areas is determined by the quality of the management skills of owner/managers. Improvements in management capabilities have been found to increase productivity, returns on capital employed, sales and market share irrespective of the country of operation, sector, firm size or other similar characteristics. In fact, the most important causes of enterprise failure in Ireland, as in almost all other countries, has been cited as poor management, such as lack of business policy, inappropriate cost-accounting methods, errors in market forecasts, and inadequate management structure (Forfás, 1999). Research by the Expert Group on Future Skills Needs (EGFSN, 2005) indicates that the level of general management skills in Irish SMEs is perceived to be relatively poor, particularly in terms of human resources, marketing and finance. Hence the supports offered by the ten agencies providing training services for businesses (EI; IDA Ireland; Shannon Development; SFI; Údarás na Gaeltachta; CCEBs; BIM; Teagasc; Fáilte Ireland; and Leader) aim to activate the establishment of SMEs, develop the business skills of management and personnel, develop skills in marketing and internationalisation, promote product development, promote the utilisation of new technology and improve productivity, increase co-operation between enterprises and promote networking.

### *Network Support*

Given the potential value of networks to rural SME expansion it is useful to look at some of the supports offered to enhance network capability and network activity in operation at a national level and in rural Ireland. Forfás, as the head of the policy tree, plays an important advisory role highlighting the capabilities that must be addressed to sustain and maintain the competitiveness of the Irish enterprise economy. Although Forfás is not directly responsible for policy implementation a report that they conducted entitled "Innovation Networks" (2004) focused attention on the role of networks as conduits of knowledge recognising that innovation predominantly involves collaboration and the exchange of tacit knowledge at the interfaces between organisations. Forfás and Bord Bia have recognised the role of co-opetition with networks of competing firms, albeit specialised in their own niche, linked by common technologies and skills both collaborating and competing to achieve efficiencies, increased scale and scope, shared costs and risks, enhanced learning, speed to market and market flexibility. The Report recommended the establishment of demand driven networks with the

state acting as a broker providing initial financial support and encouragement. This initiative would create awareness of the benefits of networks, provide training and network managers to implement network activities in addition to support on network formation issues.

In terms of network development, EI employs social media to highlight new developments or breakthroughs by their client companies, to develop relationships and to increase contact and communication with their clients and the wider community. This is conducted through the use of online networks such as LinkedIn, Facebook and Irish Business Network Blogs. They place emphasis on working with other like-minded companies and exploring the knowledge that exists in Higher Education Institutes. Their aim is to assist firms in sourcing companies with similar research agendas and helping them to collaborate to share resources and knowledge. To this end, within Ireland, their **Industry-led Research Networks Programme (ILRNP) and their Competence Centres Initiative** enables clusters of companies in Ireland to work together to overcome common research challenges and drive opportunities for innovation, growth and jobs. To stimulate innovation networking among industry and sector groups, Enterprise Ireland provided €600,000 in funding to three enterprise innovation networks in 2009: the Irish Software Innovation Network, the Construction IT Alliance, and the Industry Research & Development Group. These networks promote innovative business practices in member companies and build collaborative links with researchers to gain access to R&D expertise. However, these network supports seem more suitable for larger, urban-based enterprises where clusters of firms exist in close proximity to third level educational facilities. At a more rural level the Leader programme facilitates network development through the provision of a range of assistance types for adding value to local products, including support for business networks, collective marketing, local branding initiatives and innovative activities in local communities such as social and information networks.

The Plato network, governed by IBEC (national employers' organisation) and the Chambers of Commerce of Ireland, provides SMEs with discussion forums and networking events as well as the possibility for an owner-manager to learn from a more experienced entrepreneur. Through a unique partnership with large "parent" companies, Plato encourages owner managers to share experiences and resources, to stimulate new ideas and to support each other as they make strategic decisions about the future of their business. It also provides a confidential environment where owner managers can benefit from facilitated group learning, training activities and networking events. Each Plato region has several groups comprising 10 to 12 owner managers with each region responsible for its own programme of events, network linkages and business/management development activities. The groups meet monthly with each participating parent company releasing its executives on a part-time basis to serve as Plato group leaders with additional guest speakers invited to provide further information and training. While member SMEs benefit in terms of access to knowledge and information, parent companies benefit from new linkages to local supply sources for products and services, as well as the opportunity to demonstrate a commitment to the economic development of their local region.

Skillnets is an enterprise-led support body whose mission is to enhance the skills of people in employment in Irish industry to support competitiveness and employability. Skillnets is responsible for the operation of the Training Networks Programme, a government funded initiative to ensure that Irish industry is incentivised to train, upskill and keep their employees professional skills at the best international standards. Although the core of the network comprises the member companies, network structure is formal in nature with services provided by certifying bodies, research units, trainers, business advisors, consultants and academics. The **network manager** is the key coordinator of the training interventions and the link person between the companies involved. A trend towards sectoral training networks has

emerged due to their ability to meet common training needs leading to greater efficiency, flexibility and relevance. Sectoral networks also provide a forum for new information, sharing ideas and relationship development with other similar enterprises leading to an opportunity to tap into a range of business opportunities that arise from being part of an inter-firm network. Some examples of sectoral networks which have emerged include in: information and communications technology; agriculture; construction; food and drink; green technology; international financial services; life sciences; and tourism and travel.

#### *Potential changes to public policy – craft brewing rural exemplars*

To indicate the changes that could be made to public policy to facilitate SME expansion we examine the Irish micro-brewery industry in relation to their engagement with the State as they commenced their enterprises and moved towards growth. The number of peripheral based craft food and microbrewery businesses has increased significantly over the past four years. Since 2008, at least 11 new microbrewery firms have been established mainly in rural areas of Ireland with many more planned. A Micro/Craft Brewery can be largely defined as any brewery that produces less than 30,000 HL of beer annually. Due to the smaller scale of production and smaller batch sizes, the process is more labour intensive, as automation of the process would ‘impersonalise’ the craft itself undermining the ethos of a microbrewery. In 2011 we undertook a study of the sector and interviewed each SME brewer in operation in Ireland and Northern Ireland (19 in total), the vast majority of which were rural enterprises (McGrath and O’Toole, 2013). Our findings in relation to public policy are presented below and in keeping with the previous section are presented in terms of financial support, training support, and network support.

#### *Support for the Irish micro brewing industry*

In terms of *financial supports* the micro-brewery entrepreneurs did seek state assistance in their set-up phase. Each of the brewery owner/managers received funding towards their equipment and machinery without which many of them stated they would not be operational. However, the participants noted that the grants received required a lot of paperwork, which was a massive time consuming process. It was noted: “*It is ok for the bigger brewers that have administration staff but the process was very time consuming for us*”. Another noted: “*After a lot of hard work we got €50,000 –it cost us more in time and energy*”. In addition to the time and expense involved in attaining funding, the SMEs noted that each piece of equipment had to be bought new while second hand equipment may have sufficed. However, the majority of the participants did state that without the funding attained “*we would not be here*”. Financial support was also received for the development of websites: “*We are developing a new website. It is costing us €1,000 but we will get half of the money back from the Enterprise Board*”. In Ireland, there is a government policy of encouraging co-opetition in the food sector (Bell and Shelman, 2010) where members of a supply chain are encouraged to both compete and cooperate with each other (Bengtsson and Kock, 2000). This is at odds with current practice as the findings suggest that funding for the micro-brewers was allocated on an individual, competitive basis. Findings suggest that state support at an industry group level could have had potential to eliminate problems common to the SMEs by facilitating the development of network capability. The main problem faced by the network of brewers was the lack of raw materials available to purchase within the country. For example, malt was only available at one point in Ireland for the micro-brewing industry and subsequently the company supplying them signed an exclusive deal with a large brewery preventing the brewers from obtaining it locally. This doubled the price of the raw materials for the industry as they were faced with shipping costs and, in some cases, exchange rates. Bottles, glassware and hops were also sourced outside of Ireland on an individual basis impacting on the cost of

production. As one participant noted *“Even with a critical mass of micro brewers forming in Ireland no real support industry exists. However, as more and more micro breweries come on board we hope that a support industry will grow around us”*. A potential solution mentioned was the formation of a cooperative *“where we would have a central place for bottling, buying malt, distribution”*. However, lack of funding was the core reason cited for the slow progress in its development, an area where industry group funding would be beneficial.

Regarding *information and training provision* little support was given to the SME brewers in rural Ireland. The training courses were noted as being very general and deemed too homogeneous whereby a demand for specialised advisors clearly existed. One of the Irish SMEs participated in a local business course run by the Enterprise Board but they noted that the Enterprise Board did not seem to *“bring any knowledge of the drinks or micro brewing industry”*. Bord Bia organised a social media course which was useful as the SMEs relied heavily on social media for marketing purposes. However, the course operated by Bord Bia was not sector specific. Another participant noted that they took part in a *“Vantage Programme”* organised by Bord Bia whereby eight companies are placed in focus groups to facilitate their marketing through an examination of their branding, including their labelling. *“The programme was really useful and we got really great feedback regarding our branding. All eight members of our group were food and beverage companies but there were no competitors present for any of us”*. Excluding competitors from government sponsored programmes did not facilitate the development of network capability as it gave the participant the feeling that they should guard their marketing activity from competitors thus reinforcing a self-reliance culture among the brewers. No training supports existed in relation to network or network capability development. However, one SME noted that Bord Bia recently provided translators in France to assist their salesperson to build a relationship with local distributors as they were planning to commence exporting soon.

Government sponsored events represented a facilitating factor in the entrepreneurs' development of *network capability*, particularly enabling the formation of a network of micro-brewers. Festivals operated and run by Bord Bia were said to *“cost nothing”* and *“are a good promotional tool”*. The festivals act as a forum to bring the network of brewers together where they can discuss their respective businesses and share information. Due to the fact that the entrepreneurs are usually consumed by their day-to-day activities, the festivals act as: *“a really good opportunity to talk to each other, find out what other people are doing, the problems they are having and how they are fixing them”*. The brewers noted that coming together as an industry at events helped to raise awareness of the industry as a whole and at an individual level assisted them *“to get our name out there”*. The festivals also served to correct misconceptions that Irish craft beer was significantly more expensive than the better known, mainstream brands. Festivals also acted as a promotional tool facilitating marketing. The group of brewers being present gave critical mass which led to free publicity which in turn enhanced awareness of the industry as a whole. The following quote captures the benefits of using festivals as a key promotional tool enabling entrepreneurial participation in networks. *“If you go to a newspaper as an individual you can take an advert out but if you go to the newspaper and explain that the Irish microbrewers are having an event then you get a lot of free publicity out of it. It works very well that way as people say wow when they read that there are 17 of us. You can therefore promote yourself in a better manner at a lower cost”*. All of the participants attended the majority of beer festival around the Republic of Ireland, which enabled network capability development as positive interaction and exchange of information ensued. Bord Bia also provided finance (€500) to publicans to run a beer and cheese event to jointly promote Irish craft beer and cheese helping the brewers to build relationships with their core customers.

## 19.4 RURAL ENTERPRISE POLICY RECOMMENDATIONS

This chapter has established that rural SMEs are disparate from their urban counterparts, and are presented with unique opportunities and challenges dictated by their peripheral location. Some of the rural enterprise policy ideas that could be reinforced and developed from our review are detailed here.

**Support structures:** There are currently multiple agencies involved in delivering diverse enterprise supports in rural Ireland. This may lead to confusion on the part of the time-constrained SME owner who often lacks full awareness of the supports available to grow their business. A one-stop shop is recommended for rural SME support provision whereby all information relating to government support provision can be seamlessly accessed in one location for both growth oriented and lifestyle entrepreneurs. This could be linked to the Community Enterprise Centres across the country whereby the SME could be connected to an expert advisor at a university or larger business via technology without leaving the area. This would be particularly beneficial for innovative companies to overcome challenges that they may face, for example, in accessing new product development expertise of national centres/laboratories, and could also support more rural SMEs benefiting from EI's Innovation Voucher programme.

**Training:** Differences within rural business communities exists between owner/managers who are ambitious in relation to growth and those who view their enterprise through a "lifestyle" of "craft" lens favouring quality of life protectionism over firm growth. We would recommend that managerial training and support development initiatives should be:

Geared towards the specific challenges and opportunities faced by rural enterprises and not SMEs in a general sense;

Different programmes should be developed for the growth oriented and lifestyle firm owner;

That training should be sector specific and made relevant to the specific industry that the rural SMEs are engaged in. This could be facilitated by on-line training.

**Education:** Fostering a spirit of entrepreneurship should be encouraged and nurtured from a young age in rural Ireland to increase the number of businesses being established in peripheral regions and to retain key talent in the area. Entrepreneurship should be encouraged at secondary school level through school-based project scholarships to Irish universities and colleges to foster a culture of risk taking and creativity from a young age. Whilst many initiatives and much progress has been made in fostering a spirit of entrepreneurship in our primary and secondary schools, it may now be time to systematise it and provide curriculum support to all schools. It would also assist the next generation to look favourably at establishing their own businesses leading to a higher percentage of opportunity as opposed to necessity entrepreneurs.

**Network capability development:** Networks need to be understood by rural SMEs as diverse and interconnected relationships between the firm, their value chain partners, competitors, social networks (family/friends/other businesses) and formal networks including educational institutes and relationships at a policy level. In order to reap value through relationships, mentors and training specialists need to be aware of the benefits of operating through diverse networks and encourage rural SMEs to engage in same. Introductions and relationship contact building support should be offered to SME owner/managers to facilitate this development, particularly with relationships outside the immediate area and on an international level to

facilitate exports. Developing network capability should be at the heart of government policy for SMEs operating in rural Ireland. Their small size, lack of resources and peripheral location would lead to an assumption that SMEs would welcome initiatives designed to reduce marketing and procurement costs and increase the flow of information pertinent to their businesses. However, as the micro-brewing case study suggested, operating within networks is not an automatic process and like all capabilities needs to be built. One way to further encourage co-opetition and cooperation in rural areas and enhance network capability development would be to allocate funding on an industry/area group basis as opposed to having the sole focus of funding grants on the individual firm. State funding in this way would encourage a tradition of cooperative partnerships and networks. Hence, we would recommend Irish policy makers to develop frameworks and mechanisms for building trust and commitment between rural SMEs to attain benefits through networks through the provision of network funding encouraging collaboration, cooperation and co-opetition as a strategic business tool.

**Finance and funding:** We would recommend a more flexible policy framework that allows funds to be allocated on a company-by-company basis as opposed to the strict rules and regulations that currently govern grant provision in Ireland. It is our opinion that such resolute positions towards policy are unnecessary as rural SMEs, by their very nature, are unique and merit to be regarded as such. In addition, as our case study suggested, the application process should be made more SME friendly as it can represent a costly administrative burden for rural SMEs, particularly to those who are unsuccessful in the process. In addition to providing funding on an individual case-by-case basis, an initiative could be put in place similar to the Flanders region in Belgium whereby national and regional authorities could grant loans to rural SMEs through collaboration with the banks. This is particularly important at times when it is difficult for the SME to attain finance through the banking system to facilitate the working capital needed for the growth of their enterprise.

## 19.5 CONCLUSION

For the start-up rural enterprise in Ireland, government support in terms of financial assistance, general business advice and information and access to premises is strong. This was particularly evident within our case study of the brewing sector when compared to other studies that we have conducted in similar rural enterprises in the Flanders region in Belgium and in Georgia in the United States which showed that no state support existed in these two regions to facilitate the nascent SME brewer. Hence, at an individual level, support for the start-up rural enterprise in Ireland is favourable. Yet, in looking at the current supports available in Ireland, a gap emerges whereby more assistance is offered to high potential start-up firms as opposed to SMEs engaging in organic, more tempered growth which is often more characteristic of the more peripherally located firm.

We have suggested networks as a useful strategy for rural enterprise development and growth. Ireland is a breeding ground for entrepreneurial talent and creativity, particularly in the food and beverage industry. However, rural SMEs have not developed growth trajectories similar to their international counterparts, which may be due, in part, to a lack of participation in networks. Hence, this chapter suggests challenges for Irish policy makers in developing frameworks and mechanisms for building trust and commitment between entrepreneurs to attain benefits through networks, perhaps through the provision of network funding. Clearly policy interventions must address the rural SME characteristics, which restrain the development of network capability which limits the use of collaboration, cooperation and co-opetition as a strategic business tool option.



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## **Chapter 20. ENTREPRENEURSHIP IN IRELAND**

Colm O’Gorman

### **20.1 INTRODUCTION**

The benefits of entrepreneurship are generally acknowledged by policy makers. However, the challenge of understanding the process of how entrepreneurship leads to economic growth and development remains. The challenge facing policy makers charged with promoting economic development is to develop answers to the following questions:

- ‘Where do organisations come from? What accounts for the formation of new organisational populations? (Romanelli and Schoonhoven, 2001: 40).
- ‘What determines the supply of productive entrepreneurship?’ (Baumol, 1993: 16)
- What factors influence a country’s ‘entrepreneurial capital’, defined as the ‘regional milieu of agents that is conducive to the creation of new firms’? (Audretsch and Keilbach, 2004: 420)

These questions are particularly pertinent in rural areas. Such areas frequently have lower levels of economic growth and development and may find it difficult to sustain high-growth entrepreneurs. Is this the case in Ireland?

Many reviews of Ireland’s industrial and economic development have argued that as a country our relative industrial performance has been poor (National Economic & Social Council, 1982). Prior to the recent period of economic growth, the historian Joe Lee argued that ‘It is difficult to avoid the conclusion that Irish economic performance has been the least impressive in Western Europe, perhaps all of Europe, in the twentieth century’ (1989: 521).

Ireland did experience a period of sustained economic growth between 1994 and 2007. However, during the period 1994 to 2001 this was driven by the exporting sector, a sector in which foreign owned multinationals dominant; while the more recent period of growth, 2001 to 2007, growth was driven by an unsustainable increase in domestic consumption (Forfas, 2010). Forfas (2010: xiv) concluded that an export led growth is the best route by which Ireland can return to sustainable growth and that while this will continue to involve the attraction and development of FDI, adequate resources must be directed to ‘accelerate and realise the potential of the indigenous base, building on evolving capabilities and changing dynamic to realise a step-change in its contribution to growth and exports.

Is there something about the Irish that makes them less likely to start and grow businesses? Is the problem in Ireland a misalignment of incentives, such that entrepreneurial activity has been directed into unproductive, and what recently might be considered, destructive rent-seeking behaviours? Do individuals in rural areas, where access to markets and resources is harder, find entrepreneurship more difficult or less desirable? This chapter reviews the research evidence on entrepreneurship to identify how rural areas might support entrepreneurship.

### **20.2 THE BENEFITS OF ENTREPRENEURSHIP**

Entrepreneurs play a key role in economic development. The EU Green Paper on Entrepreneurship (European Commission, 2003) outlined the benefits of entrepreneurship as:

- Entrepreneurship contributes to job creation and growth;
- Entrepreneurship is crucial to competitiveness;
- Entrepreneurship unlocks personal potential; and

- Entrepreneurship and societal interests.

The 2007 Forfas report, *Towards Developing an Entrepreneurship Policy for Ireland*, summarised the potential benefits for Ireland as strategic, economic, spatial, social and personal (Table 1).

**Table 20.1 Summary of Potential Benefits for Ireland**

Strategic	Contributing to the strategic positioning of Ireland as a knowledge economy, strengthening the base of Irish companies, complementing and leveraging the contribution of foreign direct investment
Economic	Contributing to real increases in productivity, innovation, competitiveness and employment creation
Spatial	Playing a significant role in urban regeneration, and in rural and regional development, while enriching the quality of life throughout the country and enhancing consumer choice
Social	Contributing to social cohesion through the engagement of the more marginalised individuals and groups within society through gainful entrepreneurial endeavour
Personal	Means to greater material benefits (wealth and status) as well as self fulfilment (freedom, independence, challenge) through unlocking personal potential

Source: *Towards Developing an Entrepreneurship Policy for Ireland*, Forfas, 2007, Table 5: Summary of Potential Benefits for Ireland, p.29.

### *What is Entrepreneurship?*

Casson's (2003) definition of the entrepreneur is 'an entrepreneur is someone who specialises in taking judgemental decisions about the coordination of scarce resources'.

This definition highlights many of the difficulties policy makers face in seeking to support individual entrepreneurs. Casson (2003) argues that judgmental decisions require the entrepreneur to synthesize information from different sources; and that a lack of personal wealth is a major constraint on the scale of entrepreneurial activity. This means that policy makers face difficulties in evaluating the initiatives of entrepreneurs, particularly during their early stages of development. Paradoxically, the higher the levels of novelty associated with a new venture, the more difficult it is for external parties, such as financiers and support agencies, to assess the potential of the new business.

### *How Does Entrepreneurship Contribute to Development?*

Entrepreneurship contributes to economic growth and development through several specific mechanisms:

- The creation of new enterprises can increase competition;
- Through the creation and transformation of knowledge, entrepreneurs create new enterprises (Acs and Varga, 2005);
- Through a process of spin-offs from existing organisations new industries can develop (Klepper, 2008); and
- Entrepreneurs can increase the diversity of organisations within regions, and reduce vulnerabilities associated with industry concentration.

### *What Determines the Level of Entrepreneurship?*

Not all national economic systems are equally good at supporting entrepreneurship as evidenced by variations in the levels of entrepreneurial activity across national contexts (Acs et al. 2004); within national contexts (Johnson, 2004; Reynolds et al., 1994); and over time (Carree et al., 2002). There is an extensive literature within the entrepreneurship domain that focuses on identifying and explaining variations in levels of entrepreneurial activity. Lundstrom and Stevenson (2005) identify a list of over forty variables that have been used to explain entrepreneurial activity. These include factors such as entrepreneurial characteristics and preferences, aspects of national culture, the extent and nature of demand, tax rates, and the time and costs of business registration.

An alternative perspective on entrepreneurial activity comes from scholars who have sought to explain economic development and growth. In his seminal work Kilby (1971) argues that an understanding of the supply of entrepreneurial services is critical to any explanation of economic growth. Kilby (2003) argues that the shortage of entrepreneurial talent is associated with low levels of economic development in developing economies.

Supply and demand side determinants of entrepreneurship may vary both over the short term and the long term. For example, Reynolds (1999) has argued that in advanced economies there are higher levels of both start-ups and closures when there is demand growth, greater presence of potential entrepreneurs, economic diversity, and more small businesses. He argues that in the US the short term determinants of levels of high levels of start-ups and closures are: greater personal wealth; population growth; the absence of unemployed/economically desperate individuals; and economic diversity. He also suggests that medium term determinants are: increased wealth; enhanced growth or turbulence; lack of rigid employment practices; and economic diversity. He argues that there is little direct evidence that lower costs, direct government support or a 'positive business climate' has a consistent effect in promoting births, growth or volatility.

### *The Entrepreneur- What Matters?*

Focussing on the specific individual, research suggests certain factors are associated with the decision to engage in entrepreneurship. As highlighted in Casson's (2003) definition of entrepreneurship, these relate to two sets of factors: *information and knowledge* and *resources*.

An individual's understanding of a potential market opportunity is shaped by their 'retained expertise' (Dougherty 1990:70). The prior knowledge and prior experience of an individual influences the nature and extent of opportunities identified (Gruber et al., 2012; Ucbasara et al., 2009). Some forms of experiences, particularly prior entrepreneurial and prior managerial experiences are associated with entrepreneurs identifying more opportunities, while prior marketing experience and prior technological experiences, constrain the number of opportunities identified by entrepreneurs (Gruber et al., 2012).

Research suggests a positive relationship between prior general work and managerial experience and nascent entrepreneurial activity (Delmar and Davidsson, 2011). In terms of general work experiences, individuals who have worked in small firms or who have worked in young firms are more likely to engage in entrepreneurship (Wagner, 2004). Prior experience of self-employment increases the likelihood that an individual will move into self-employment at some subsequent stage of their career (Carroll and Mosakowski, 1987).

Research on novice and experienced entrepreneurs demonstrates differences in both the number of opportunities identified and the process of opportunity identification. Experienced entrepreneurs, both serial and portfolio, identify more business opportunities than novice entrepreneurs (Ucbasaran et al., 2009). Portfolio entrepreneurs are ‘individuals who currently have minority or majority ownership stakes in two or more independent businesses that are either new, purchased and/or inherited’ (Westhead et al., 2003: 189).

Role models also matter to entrepreneurship. Arenius and Minniti (2005) show that ‘knowing a recent entrepreneur’ is associated with increased entrepreneurial intent and entrepreneurial activity; while Lafuente *et al.* (2007) report that knowing an entrepreneur is associated with entrepreneurial activity. Children of self-employed parents are more likely to become entrepreneurs (Young, 1971) and a large number of self-employed individuals have self-employed parents (Shapero and Sokol, 1982).

Individuals with self-employed parents are more likely to move into family employment and self-employment themselves at points in their own careers (other than for their first employment) (Carroll and Mosakowski, 1987). Perceptions of the status and performance of a self-employed parent can influence intention to be an entrepreneur (Davidsson, 1995). Colleagues can be important role models, with individuals with co-workers who have prior entrepreneurial experiences more likely to become entrepreneurs (Nanda and Sørensen, 2010).

An entrepreneur’s options are constrained by access to resources (Aldrich and Fiol, 1994; Casson, 2003). For many entrepreneurs limited personal resources results in new ventures that fail or remain small (Storey, 1994). Resource constraints often result in ventures that are improvised (Baker et al., 2003).

### *The Supply of, and Demand for, Entrepreneurship in Ireland*

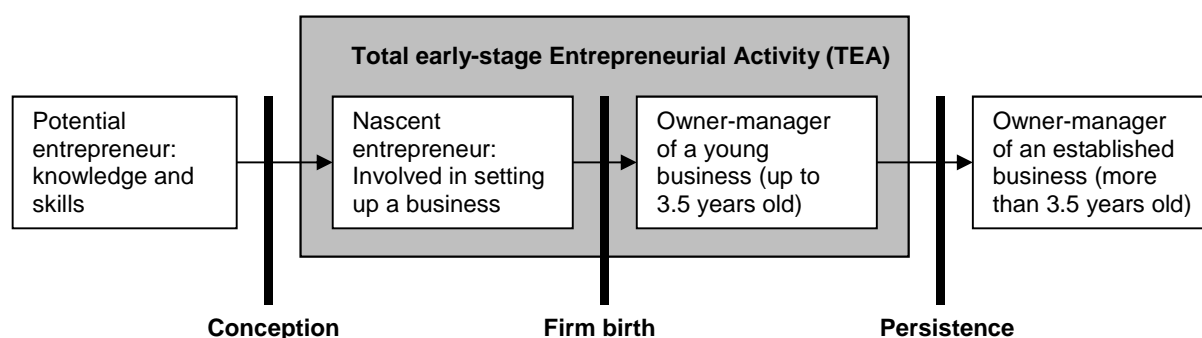
Is there a problem with the supply of entrepreneurs in Ireland? Keating and Desmond argued that the Irish are poor entrepreneurs not because of objective factors such as ‘absence of means and opportunities’ but because of subjective, cultural factors (1993: 190). This resonates with Lee’s explanation for the relatively poor levels of economic development in Ireland. Lee argued that ‘native businessmen of the necessary quality simply were not, for whatever reason, available’, suggesting that a ‘native entrepreneurial cadre of the requisite quality had failed to emerge’ (1989:536).

However, O’Connell (1992) argued that ‘there is every evidence that Irish people are highly responsive to financial incentives’, but that ‘the incentive structure itself, however, it is now widely accepted, has been heavily biased against productive economic activity’. Kingston (1995) and Barret (1995) make a similar argument, suggesting that profit opportunities in Ireland were skewed in favour of rent seeking behaviour. Various industrial policy reviews have made a similar point. For example, the ‘Culliton Report’ suggested that ‘the competitive edge of Irish industry has been distracted from serving the market and achieving high productivity, into maximising the grant or tax benefit’ (Industrial Policy Review Group, 1992: 22). More recently, Forfas (2010: 3) suggested that the recent recession was driven by a ‘consumption bubble in Ireland’, noting in particular that the expansion of the construction sector drew ‘human and capital resources from other potentially more productive and sustainable sectors (2010: 4).

### *Levels of entrepreneurship*

In recent years, the Global Entrepreneurship Monitor (GEM) has provided data on levels of entrepreneurship in Ireland. GEM provides unique measures of the involvement of individuals in entrepreneurial activity. GEM describes entrepreneurial activity as a process and measures different phases of this process from conception through firm birth to persistence (Figure 1).

**Figure 20.1 GEM Model of Entrepreneurship**



Source: GEM

Table 2 illustrates entrepreneurial activity over a ten year period (Fitzsimons and O’Gorman, 2013). The 2012 GEM report outlines how the ten year period divides into two distinct periods - the period from 2003 to 2008, and the period from 2010 to 2012. The period from 2003 to 2008 was characterized by high levels of entrepreneurial activity; while a decline in the rate of entrepreneurial activity, particularly among men, is apparent in the period from 2010 to 2012. In summary, there were declining rates of entrepreneurship in more recent years. The 2012 GEM report highlighted the following:

The rate at which people in Ireland were setting up new businesses<sup>108</sup> in the earlier period averaged 3.9% compared to 2.6% in the later period. Moreover, in each of the years of the 2003 to 2008 period, except one (2006), the rate was higher than it was in any of the three later years of 2010 to 2012;

In each year of the earlier period the rate of total early stage entrepreneurial activity<sup>109</sup> was higher than in the later period, averaging 8.1% compared to 6.7%;

The numbers aspiring to start businesses<sup>110</sup> were higher in the period 2003 to 2008, an average of 11%, than they were for the period 2010 to 2012, an average of 8.3%; and responding to a perceived opportunity has remained the dominant motivational factor cited by early stage

<sup>108</sup> New business owners are entrepreneurs who at least part own and manage a new business that is between 4 and 42 months old and have not paid salaries for longer than this period. These new ventures are in the first 42 months after the new venture has been set up. The rate is for those in the adult population aged 18-64 years inclusive.

<sup>109</sup> Total early stage entrepreneurial activity refers to the total rate of early stage entrepreneurial activity among the adult population aged 18-64 years inclusive. In some instances, this rate is less than the combined percentages for nascent and new business owners. This is because, in circumstances where respondents qualify as both a nascent and a new business owner, they are counted only once.

<sup>110</sup> Aspiring entrepreneurs are those who expect to start a business in the next three years. The rate is for those in the adult population aged 18-64 years inclusive.



entrepreneurs throughout the ten year period. The increase in the rate at which necessity was cited as the principal motivator, however, has increased steadily from 6% in 2007 to 19% in 2008 and 32% in 2010. It has declined slightly from this peak more recently, but necessity motives are still at levels not seen in the earlier part of the ten year period (28%).

However, some aspects of entrepreneurial activity did not decline. The GEM 2102 report highlights the following:

- The rate at which people in Ireland were actively planning new businesses, nascent entrepreneurs<sup>111</sup>, remained broadly similar across the two periods averaging 4.5% in the earlier period, compared to 4.2% in the later period;
- The rate of owner managers of established business<sup>112</sup> in Ireland in the most recent period was, on average, 8.3%, while for the earlier period the rate was, on average, 7.8%; and
- The rate at which entrepreneurs were exiting and closing businesses reached a peak in 2011, but in general the rates in the earlier period (1.9% average) are broadly similar to the rates in the later period (1.7% average).

**Table 20.2 Entrepreneurship in Ireland, 2003 to 2012**

Year	Aspiring entrepreneurs	Nascent entrepreneurs	New business owners	Early stage entrepreneurs (TEA) <sup>113</sup>	Owner managers of established businesses	Entrepreneurs discontinuing businesses <sup>114</sup>
2012	8.0%	3.9%	2.3%	6.1%	8.3%	1.2%
2011	8.5%	4.3%	3.1%	7.3%	8.0%	2.8%
2010	8.4%	4.4%	2.5%	6.8%	8.6%	1.2%
2009	-	-	-	-	-	-
2008	10.0%	3.3%	4.3%	7.6%	9.0%	1.8%
2007	11.2%	4.2%	4.2%	8.2%	9.0%	1.9%
2006	9.8%	4.5%	2.9%	7.4%	7.8%	1.8%
2005	12.6%	5.7%	4.7%	9.8%	8.1%	2.3%
2004	11.0%	4.4%	3.6%	7.7%	6.5%	1.3%
2003	11.3%	5.1%	3.8%	8.1%	6.7%	2.5%

Source: GEM 2012 Irish Report

<sup>111</sup> Nascent entrepreneurs are those actively planning a new venture. These entrepreneurs have done something during the previous twelve months to help start a new business, that he or she will at least part own. Activities such as organising the start-up team, looking for equipment, saving money for the start-up, or writing a business plan would all be considered as active commitments to starting a business. Wages or salaries will not have been paid for more than three months in respect of the new business. Many of these people are still in fulltime employment. The rate is for those in the adult population aged 18-64 years inclusive.

<sup>112</sup> In addition to those people who are currently involved in the early stages of a business, there are also many people who have set up businesses that they have continued to own and manage. These people are included in the established business owner index which captures the percentage of people in the population that have set up businesses that they have continued to own and manage and which has paid wages or salaries for more than 42 months. The rate is for those in the adult population aged 18-64 years inclusive.

<sup>113</sup> In some instances, this rate is less than the combined totals for nascent and new business owners. This is because, in circumstances where respondents qualify as both a nascent and a new firm entrepreneur, they are counted only once.

<sup>114</sup> Closed a business in the previous 12 months and the business was discontinued.

### *Entrepreneurship by immigrants and impact of overseas experience*

The 2012 Irish GEM report included data on levels of entrepreneurship amongst those who had lived outside of Ireland (Fitzsimons and O’Gorman, 2013). In 2012 the rate of early stage entrepreneurship was higher among those who were not born in Ireland (7.2%) than among those who were born in Ireland (5.8%). It should be noted, however, that the majority of those newly arrived into Ireland are in the age group in which individuals are most active as entrepreneurs. This may have more influence on their being entrepreneurs than their immigrant status.

In 2008 the Irish GEM report indicated that those that have lived outside Ireland for more than one year (whether they were born in Ireland or not) are considerably more involved in early stage entrepreneurship, as nascent and new firm entrepreneurs (10.5%), than are those who have not lived in any other country (Fitzsimons and O’Gorman, 2009). Those who came to Ireland from another country in the ten years prior to 2008 were more involved in early stage entrepreneurial activity (12.7%) than those who came to Ireland before 1999 (8.9%). The latter group are to be found to a greater extent among the cohort of *established entrepreneurs* (13.2%). In each of these instances those who lived out of the country for a time are considerably more entrepreneurial than those who have not lived overseas.

### *Attitudes to entrepreneurship*

GEM provides measures of ‘culture’ with respect to entrepreneurship by assessing attitudes of the general population (Table 3). Relative to other countries in Europe and in the OECD, Ireland scores relatively highly on these measures. The 2012 GEM report highlights the following:

- Successful entrepreneurs have continued to be held in high esteem throughout the ten year period;
- The perception of entrepreneurship as a good career choice has steadily declined; and
- The general perception that the media provides supportive coverage to the activities of entrepreneurs showed a significant decline in 2007 (68% from 84% the previous year) and has not returned to the earlier very high levels.
- GEM also provides an assessment of the perceptions of individuals about their capacity to engage in entrepreneurship (Table 3). The 2012 GEM report highlights the following:
- Knowing a recent entrepreneur, personal perception of possession of relevant knowledge and skills to start and grow a business, and fear of failure as a deterrent have remained broadly constant over the decade; and
- The factor which shows the greatest variation over the ten year period is the perception of opportunities. In 2008 this declined to 27% from 46% the previous year

**Table 20.3 Attitudes and perceptions relating to entrepreneurship in Ireland**

Year	Personal context			Culture			
	Know a recent entrepreneur	Perceive opportunities in local area	Self- perception of skills & knowledge to start-up	Fear of failure prevent start-up	Entrepreneurship is a good career choice	Success at entrepreneurship has high status	Supportive media coverage of entrepreneurs
2012	37%	26%	45%	41%	45%	81%	61%
2011	39%	26%	46%	41%	46%	83%	56%
2010	35%	23%	49%	39%	52%	81%	61%
2009	-	-	-	-	-	-	-
2008	37%	27%	48%	38%	55%	80%	65%
2007	39%	46%	49%	37%	63%	83%	68%
2006	39%	44%	51%	35%	70%	82%	84%
2005	43%	52%	50%	38%	69%	79%	83%
2004	41%	45%	48%	39%	66%	85%	77%
2003	43%	33%	46%	41%	66%	76%	84%

Source: GEM 2012 Irish Repor

### *Impact of entrepreneurship*

GEM provides measures of the potential impact of entrepreneurship by measuring early stage entrepreneurs' perceptions of the growth potential, internationalisation potential and innovativeness of the new business. The GEM reports for Ireland have highlighted how the majority of entrepreneurs setting up new businesses are in low technology sectors; are not particularly innovative; and have little or no aspiration for growth.

However, a small number of new businesses will have a disproportionate economic impact due to their ability to exploit newer technologies, their high degree of innovation, their greater export orientation and their aspirations for growth. Over the past ten year period there has been a small minority of firms each year that are characterised as innovative and that expect to be international and to have high growth (Table 4). GEM highlights the following:

GEM takes the entrepreneurs' estimate of expected employment numbers over a defined period as a proxy to measure their growth aspirations. For the period 2003 to 2012, on average one in four (24%) of early stage entrepreneurs expect to be self-employed and to have no employees. As is common in other countries, the majority of early stage entrepreneurs in Ireland do not expect to become significant employers and this is evident throughout the decade. However over the past ten years in Ireland an average of one in three (34%) have expected to employ at least five staff within five years of start-up;

A higher percentage of early stage entrepreneurs were more innovative in recent years (2010 to 2012) than previously (2003 to 2008) in terms of the degree of novelty of their products or services and the relative lack of competitors. The use of the latest technology is lower in more recent years; and

In the years 2005 to 2007 inclusive, there was an exclusive focus on the Irish market by almost half or more of all early stage entrepreneurs. Since 2008 this has reduced to approximately one in three (averaging 37% 2008 to 2012). Nearly one in four (23%) early stage entrepreneurs have, or expect to have, at least twenty five per cent of their customers in overseas markets. This has remained largely constant over the period 2005 to 2012.

**Table 20.4 Potential impact of entrepreneurs in Ireland Impact of Early Stage Entrepreneurs, 2003 to 2013**

Year	Innovativeness			Internationalisation		Growth expectations	
	Product/ service is new to all customers	New business has no competitors	Business uses the very latest technology (less than 1 year)	No customers outside country	At least 25% of customers outside country	Any jobs now or any jobs expected in 5 years	Expect to employ at least 5 employees five within 5 years
	% of all early stage entrepreneurs	% of all early stage entrepreneurs	% of all early stage entrepreneurs	% of all early stage entrepreneurs	% of all early stage entrepreneurs	% of all early stage entrepreneurs	% of all early stage entrepreneurs
2012	23%	20%	8%	34%	28%	73%	33%
2011	16%	12%	6%	40%	24%	71%	40%
2010	21%	18%	7%	36%	23%	77%	33%
2009	-	-	-	-	-	-	-
2008	11%	12%	6%	36%	27%	82%	40%
2007	8%	12%	7%	46%	22%	71%	27%
2006	13%	10%	5%	56%	20%	75%	33%
2005	14%	15%	13%	57%	17%	76%	29%
2004	17%	14%	12%	n/a	n/a	76%	39%
2003	17%	19%	14%	n/a	n/a	80%	34%

Source: GEM 2012 Irish Repor

### *Who starts businesses in Ireland?*

GEM provides data on Ireland's early stage entrepreneurs. The data suggests that early stage entrepreneurs come from a broad range of age groups, education backgrounds, income levels, and included both men and women. However, some 'groups' are more representative. In summary, Irish early stage entrepreneurs are:

- Male. Like other European countries Ireland has a much higher proportion of men compared to women engaged in entrepreneurial activity, with men more than twice as likely as women to be entrepreneurs. In 2012 there was a particularly significant decline in the rate at which men were early stage entrepreneurs. The rate among women has remained more consistent;
- Aged between 25 and 45 years. In 2012, those in age group of 25-44 accounted for the greatest proportion of early stage entrepreneurs;
- Relatively well educated. In 2012, the prevalence of early stage entrepreneurs with education attainment levels beyond secondary school is much higher in Ireland (73%) than it is across the OECD (49%), EU-27 (49%), or EU-15 (51%);
- From middle or high income households. Those living in households with high income levels tend to be the most entrepreneurial. This is true in Ireland as it is across the OECD, EU-27 and EU-15; and
- May have prior entrepreneurial experience. GEM data from 2008 suggests that approximately one in four early stage entrepreneurs have previous entrepreneurial experience (Fitzsimons & O'Gorman, 2009). This was at a time of high levels of entrepreneurship in Ireland.

### *Entrepreneurship training and education*

The 2008 GEM Irish report measured the extent of entrepreneurship training and education. It reported that approximately one in four adults (26%) in Ireland has participated in some type of training or education in starting a business (Table 5). A higher proportion (39%) of those in the younger age (18-24) group have had some type of education or training intervention of this nature compared with those in the older age groups. For example, just 20% of those in the older age group (55-64) have had any type of training or education in starting a business. Of those that have had some training or education in starting a business about half got that knowledge while at school and half subsequently. Of those who had an enterprise education module in school, slightly more than half participated on a voluntary basis.

The report suggests that the participation in education and/or training in relation to entrepreneurship has positive effects on an individual's preparedness and their likelihood of becoming an entrepreneur. In Ireland, those with training or education in entrepreneurship are more likely to perceive that they have the skills, knowledge and experience required to start a business and are more likely to expect to start a business in the future. They are also more likely to be currently active as an *early stage entrepreneur* (though the training or education may not have preceded the decision to be an entrepreneur). The positive effects are more striking on those who opted for courses of this nature rather than were obliged to take them.

However, the majority of entrepreneurs, have not received any education or training related to starting a business. In 2008 just one in three *early stage entrepreneurs* (37%) and *established entrepreneurs* (38%) in Ireland said that they had received some training in relation to starting a business. The great majority of these did not receive this training at school.

**Table 20.5 The Impact of Entrepreneurial Training in Ireland**

	Has skills, knowledge and experience to start a business	Expects to start a business in the next three years	Currently active as a <i>nascent</i> or <i>new firm entrepreneur</i>
Adults with training or education in entrepreneurship	68%	20%	14%
Adults with no training or education in entrepreneurship	40%	6.5%	5.5%

Source: GEM 2008 Irish Report

### *High Growth Entrepreneurship*

A small number of firms, so called High Growth Firms, make a disproportionate economic impact. In the UK, research has sought to profile High Growth Firms (Anydike-Danes et al., 2009; Mason and Brown, 2010). Anydike-Danes *et al.* (2009) found that HGFs represent roughly 6% of all UK firms and account for more than half of the employment growth. The majority of these firms are so-called gazelles (firms in business less than 5 years). Gazelles tend to grow faster and are responsible for a fifth of the employment growth generated by the HGF population. In terms of sector activity, High Growth Firms are spread across sectors with business services and wholesale and retail accounting for almost half of UK High Growth Firms. The sector with the highest concentration of High Growth Firms was located in the financial services (9%) and real estate and business services (8%) while manufacturing had the lowest share (4%). High Growth Firms are spread across the UK, though they are particularly prevalent in South and East London.

A study of High Growth Firms<sup>115</sup> in Ireland (Kidney et al., 2013) suggests that high growth firms in Ireland tend to be young (64% were less than 10 years); are equally likely to be small or medium sized (at the start of their growth period); are clustered in the greater Dublin area (62%); are privately owned firms (91%); and 64% are concentrated in four sectors: manufacturing; information and communications; wholesale and retail trades; and professional, scientific, and technical activities.

### *Entrepreneurship in the Regions*<sup>116</sup>

In 2008 the GEM Irish report provided data on levels of entrepreneurship by region in Ireland (Fitzsimons and O’Gorman, 2009). The regions used were the European Union designated NUTS III regions (Border Regions; Dublin; Mid-East; Midlands; Mid-West; South-East; South-West; and the West) (Table 6). To estimate entrepreneurial activity in NUTS III regions in Ireland, appropriate county level data from annual GEM surveys were combined for the five year period 2004 to 2008 inclusive.<sup>117</sup> This resulted in a sample of approximately 8,600 adults aged 18 to 64 years of age.<sup>118</sup> Given the relatively small sample sizes for some regions, however, and the statistical margin of error attached to such sample sizes, it is important to

<sup>115</sup> The OECD defines a high growth firm as one whose turnover grows by, on average, 20% per annum over a 3 year period. This means that turnover increases by 72.8% over three years. The EU defines SMEs based on turnover as follows: Small firms- €2 - €10 million; Medium-sized firms- €10 - €50 million.

<sup>116</sup> This section draws on the 2008 GEM report.

<sup>117</sup> By combining the data available from the adult population surveys for a five year period it is possible to have a sufficient sample size in each region to make meaningful comparisons between and across regions.

<sup>118</sup> Sample sizes (rounded) for the regions using the combined 2004 to 2008 datasets are as follows: Border 800; Dublin 2,540; Mid-East 850; Midland 600; Mid-West 620; South East 870; South-West 1,400; West 910.

remember that small differences between NUTS III regions may not be statistically significant differences.

In summary, the 2008 GEM report highlights the following (Table 7):

- There is variation across the regions in terms of the rates of entrepreneurship;
- In all regions a large number of people aspire to be entrepreneurs in the next three years, but there is considerable variation across regions in this respect;
- Across the regions, considerable differences can be observed in the rate of *nascent entrepreneurship*, with the Mid-East (5.8%) having almost double the rate of the Dublin region (3.8%);
- The rate at which individuals are successful in setting up new businesses around the country varies considerably with the highest rate of *new firm entrepreneurs* in the South-East (6.1%) almost double that of the Border region (3.1%);
- Total early stage entrepreneurial activity rates reflect the nascent and new firm rates and range from a low of 7.2% in Dublin, the Mid-West and the South-West to a high of 10.7% in the South-East and 10.0% in the West; and
- The highest rate of informal investment is in the West (3.2%) and the South-West (3.1%). The rate of informal investment activity is lowest in the Mid-West (1.4%). Informal investors are those that have invested in someone else's new business in the previous three years. As they are typically family members or friends of the entrepreneur in whose business they invest, there is often a relatively close geographical proximity between the investor and the investee.<sup>119</sup>

**Table 20.6 NUTS III Regions in Ireland**

Region	Counties
Border	<a href="#">Cavan</a> , <a href="#">Donegal</a> , <a href="#">Leitrim</a> , <a href="#">Louth</a> , <a href="#">Monaghan</a> and <a href="#">Sligo</a>
<a href="#">Dublin Region</a>	Dublin City, <a href="#">Dun Laoghaire-Rathdown</a> , <a href="#">Fingal</a> and <a href="#">South Dublin</a>
<a href="#">Mid-East</a>	<a href="#">Kildare</a> , <a href="#">Meath</a> and <a href="#">Wicklow</a>
Midlands	<a href="#">Laois</a> , <a href="#">Longford</a> , <a href="#">Offaly</a> and <a href="#">Westmeath</a>
<a href="#">Mid-West</a> <sup>4</sup>	<a href="#">Clare</a> , <a href="#">Limerick</a> and <a href="#">North Tipperary</a> <sup>4</sup>
<a href="#">South-East</a>	<a href="#">Carlow</a> , <a href="#">Kilkenny</a> , <a href="#">South Tipperary</a> <sup>120</sup> , <a href="#">Waterford</a> and <a href="#">Wexford</a>
<a href="#">South-West</a>	<a href="#">Cork</a> and <a href="#">Kerry</a>
West	<a href="#">Galway</a> , <a href="#">Mayo</a> and <a href="#">Roscommon</a>

Source: GEM 2008 Irish Report

<sup>119</sup> Mason, C. M. and Harrison, R. T. (2002), Barriers to investment in the informal venture capital sector, *Entrepreneurship & Regional Development*, 14, (3), pp. 271-287.

<sup>120</sup> As GEM data is collected by county there is data for the county of Tipperary but not separately for North and South Tipperary Riding, which are in two separate NUTS III regions, the Mid-West and South-East regions respectively. The appropriate analytical response is to exclude Tipperary from the analysis. While this could influence the rate of entrepreneurial activity for the South-East and Mid-West, there is no reason to believe that the rate for either of these regions would be significantly higher or lower than the other counties in the respective NUTS III regions. Accordingly, the rate of entrepreneurial activity for these regions is calculated excluding Tipperary. In calculating absolute numbers of entrepreneurs in the Mid-West and South-East regions, we apply these GEM rates to the total population of the regions, including Tipperary North and Tipperary South respectively.



**Table 20.7 Entrepreneurial Activity by Region (2004-2008)**

Region	Expect to start a business in next 3 years <i>Percentage of adults</i>	<i>Nascent entrepreneurs</i>  <i>Percentage of adults</i>	<i>New firm entrepreneurs</i>  <i>Percentage of adults</i>	<i>Early stage entrepreneurs</i> (TEA) <sup>121</sup> <i>Percentage of adults</i>	Informal investment activity <i>Percentage of adults</i>
<i>Ireland (2008)</i>	10.0%	4.4%	3.9%	8.1%	2.8%
Border	12.8%	5.0%	3.1%	7.9%	2.0%
<a href="#">Dublin</a>	10.5%	3.8%	3.6%	7.2%	2.3%
<a href="#">Mid-East</a>	11.8%	5.8%	4.0%	9.5%	2.4%
Midlands	10.3%	5.7%	3.9%	9.1%	2.7%
<a href="#">Mid-West</a>	13.0%	4.3%	3.5%	7.2%	1.4%
<a href="#">South-East</a>	10.7%	5.1%	6.1%	10.7%	2.0%
<a href="#">South-West</a>	8.6%	4.1%	3.3%	7.2%	3.1%
West	10.5%	5.4%	4.9%	10.0%	3.2%

Source: GEM 2008 Irish Report

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<sup>121</sup> *Total early stage entrepreneurial activity (TEA)* is a combination of nascent and new firm entrepreneurs. Nascent and new firm rates sum to less than the *early stage entrepreneurship* rate as some entrepreneurs are initially counted as both but are only counted once in the early stage rate.

## 20.3 ENTREPRENEURSHIP POLICY

### *Policy Approaches*

Creating and sustaining an ‘eco-system’ that is supportive of entrepreneurship is challenging. While some factors may be influenced by short term policy measures, other factors, such as culture, and the consequences of past choices, may be more difficult to influence. These problems are compounded by the subjective judgement and market uncertainty that characterises what entrepreneurs do. In such contexts, direct supports and interventions by policy makers are likely to be frequently characterised by a ‘clash of cultures’.

The EU Green Paper on Entrepreneurship (European Commission, 2003) describes the challenge facing the EU as follows:

- The challenge for the European Union is to identify the key factors for building a climate in which entrepreneurial initiative and business activities can thrive. Policy measures should seek to boost the Union’s levels of entrepreneurship, adopting the most appropriate approach for producing more entrepreneurs and for getting more firms to grow.
- The EU Green Paper on Entrepreneurship (European Commission, 2003) suggests that to support entrepreneurship, policy needs to focus on three levels. The Green Paper describes these as:
- To motivate individuals to become entrepreneurs, they should be made aware of the concept of ‘entrepreneurship’, and this should be made a sufficiently attractive option. They should be equipped with the right skills to turn ambitions into successful ventures.
- For entrepreneurial ventures to develop into healthy firms, supportive framework conditions are essential. These should allow firms to develop and grow and not unduly hinder contraction and exit.
- Entrepreneurial activity depends on a positive appreciation of entrepreneurs in society. Entrepreneurial success should be valued and the stigma of failure reduced.
- Other academic research has focussed on the importance of local and regional factors. These perspectives typically emphasise the importance of local factors such as ‘knowledge’ creating institutions and access to finance (Best, 2001; O’Gorman and Kautonen, 2004; Saxenian, 1994).

### *Entrepreneurship policy in Ireland*

What is Ireland’s entrepreneurship policy? The often implicit assumption that the relative poor performance of Irish industry indicates an absence of policy to promote industry would be a misrepresentation of the story of Irish industrialisation. According to Burke (1995: 4) ‘government policy has taken an active role in encouraging enterprise’. This has manifested itself in many ways, such as the creation of semi-state businesses; the opening of the Irish economy to free trade; and the development of sector development strategies. More specifically, Irish industrial policy has also sought

to support export-oriented indigenous firms, including new enterprises. Industrial policy has focused assistance on established and new manufacturing firms which had potential to either export or to substitute for an imported product. As such Irish entrepreneurship policy focused on a narrow range of 'high potential start-up' ventures, mainly manufacturing firms with export potential and 'internationally traded services' businesses. The range of measures used to assist established and new manufacturing firms includes preferential corporate tax and capital and employment grants. Current supports for entrepreneurial activity are focused on a small number of new start-ups engaged in manufacturing or internationally traded services (for example software firms).

In May of 2013 the Government stated it will publish a National Entrepreneurship Policy Statement. The invitation for submissions states that the National Entrepreneurship Policy Statement 'particularly focusses on entrepreneurship in terms of start-up companies, and ensuring that the overall environment is conducive to increasing the levels of people starting up new businesses across all industry sectors, both domestically trading and export oriented' (Department of Jobs, Enterprise and Innovation, 2013: 3). A consultation process is currently underway.

#### *Policy recommendations*

Regional supports for entrepreneurship will by necessity operate within a broad national framework that seeks to promote economic development through a range of policy measures and approaches. Such policies may be tempered by other government policy objectives. In particular, policies that support new enterprises may challenge the interests of established businesses.

The 2012 GEM report provided a set of broad policy recommendation with respect to entrepreneurship in Ireland. These were as follows:

The Government should clearly state its recognition of the importance of entrepreneurship, and should state its commitment to (i) generate greater numbers of entrepreneurs and to (ii) strengthen their capacity to develop businesses that can grow and create employment. To achieve this, the government should set out an entrepreneurship policy, centered on the entrepreneur. This policy should have clearly stated targets, be resourced, and results should be monitored on an annual basis. The policy should be implemented with co-ordination across relevant Government Departments and state agencies;

A focus on increasing entrepreneurial activity, by:

Increasing opportunities for entrepreneurship, for example, by providing easier access for newer and smaller businesses to the State's purchasing of goods and services;

Tapping into the entrepreneurial potential of the entire population, regardless of age, gender, nationality, background and employment status. This will require targeted approaches to raise the level of entrepreneurial activity generally and among specific groups;

- Ensuring better access to finance, including bank finance, for new and growing businesses; and
- Enhancing the attractiveness of entrepreneurial activity by reducing the risks of entrepreneurial failure. The price of “honest” failure in entrepreneurial endeavour could be reduced.
- Maximise the impact of entrepreneurial activity by:
- Strengthening the capacity of more of early stage entrepreneurs to develop growth orientated businesses and to reach customers in overseas markets.

### *Regional policy recommendations*

The above recommendations suggest that policy should focus on the twin objectives of (i) increasing levels of entrepreneurship and (ii) increasing the economic impact of entrepreneurship. The data on levels of entrepreneurship across regions in Ireland suggests that regions differ in terms of their levels of entrepreneurial activity. This suggests that in some regions the focus of policy and programmes might initially be on increasing levels of entrepreneurship, while in other regions, where there is a higher level of entrepreneurship, the focus of policy and programmes might be on increasing the impact of entrepreneurship.

Building on research that focusses on ‘how new organisations emerge’ and ‘what businesses achieve high growth’ the following recommendations suggest areas of focus for regional development agencies. These recommendations are focussed on the individual, on the assumption that at a regional level, high levels of interaction are possible between stakeholders involved in entrepreneurship. They include a focus both on ‘de novo’ entrepreneurs (individuals with no prior experience of entrepreneurship), on experienced entrepreneurs, and on entrepreneurs and owner-managers with growth ambitions. The recommendations are as follows:

#### *Potential entrepreneurs:*

Policies and programmes seeking to encourage ‘de novo’ entrepreneurs (individuals with no prior experience of entrepreneurship) to engage in entrepreneurship should recognise the positive impact of ‘near-by’ entrepreneurial role models. ‘Near-by’ role models are those that are personally known to the individual and those that are similar to the individual, for example in terms of occupational choice;

Policies and programmes seeking to encourage higher levels of entrepreneurship should facilitate augmenting the pool of entrepreneurs by facilitating inward migration. Those that migrate into a region, including those that migrate inward from other regions and those that migrate inward from other countries, whether of Irish or non-Irish origin, tend to be more entrepreneurially active; and

Policies and programmes seeking to encourage entrepreneurship should recognise the role that existing successful firms can play in creating ‘spin-offs’. As ‘spin-offs’ from successful firms are frequently successful (success breeds success), policies and programmes should facilitate this process.

#### *Experienced entrepreneurs:*

Policies and programmes should encourage and support existing experienced entrepreneurs to engage in entrepreneurship. Those with business and entrepreneurial experience identify more business opportunities and are better equipped to evaluate the business potential of such opportunities; and

Policies and programmes should encourage and support existing experienced entrepreneurs and experienced managers to support others seeking to engage in entrepreneurship (through mentoring, investing, etc.). (GEM data suggests that over one third of informal investors have first-hand experience of entrepreneurship themselves).

#### *Entrepreneurs and owner-managers seeking to grow:*

Policies and programmes should support both new and existing businesses with growth ambitions. While only a small proportionate of new businesses have the potential to achieve high growth, research suggests that both small and medium sized business, and both new and established businesses, can achieve high growth. These high growth firms come from a broad range of sectors and are not limited to the sectors traditionally supported by Irish development agencies. However, not all entrepreneurs and owner-managers seek to grow their businesses, and any focus on growth should be in the context of the entrepreneur's own aspirations.

## **20.4 CONCLUSIONS**

Promoting economic development and regional development poses significant challenges for less developed regions, for rural regions and for late industrialising regions. This chapter has reviewed evidence on entrepreneurship in Ireland, including entrepreneurship within regions, and international research evidence on factors that facilitate entrepreneurship. Based on this evidence specific recommendations for regional policy are proposed.

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## Chapter 21. SUPPORTING ENTERPRISE DEVELOPMENT IN RURAL AREAS

Brendan O’Keefe

### 21.1 INTRODUCTION

There are many types of rural areas – each with their own distinctive development needs and resource potentials. Consequently, enterprise development strategies need to avoid a ‘one size fits all approach,’ and must take into account the differences within and between rural areas at the regional and sub-regional levels. Policy and practice experiences over recent decades demonstrate the advantages that accrue from a mix of approaches that involve all tiers of government from the national to the local, and which allow for significant local adaptation and bottom-up inputs. Both Irish and international experience demonstrate the merits of place-based solutions over sectoral strategies. These imply that decision-making processes are collaborative, and require the promotion of multi-level governance.

The Irish experience of the past twenty-five years is that the European Union has been more significant than elements of the Irish state in enabling rural economic diversification. Given the need, therefore, to bring about a greater commitment to regional and rural development in Ireland and recognising the need to promote the sustainability of rural enterprises, this chapter looks specifically at agencies that operate at the local level. It assesses in particular the future role of LEADER<sup>122</sup> in driving economic development and it considers how synergies can be created between the various enterprise support and economic development agencies, so that entrepreneurship is encouraged and valued, and that entrepreneurs are pro-actively supported.

The chapter also examines how rural areas can attract investment and it looks specifically at the role of the state and the various tiers of government in enabling rural competitiveness, connectivity and attractiveness. Attaining sustainable rural development requires an emphasis on the potential of rural places and people. This needs to be accompanied by the strengthening of regional and local autonomy, and by fostering the leadership and capacity that already exists within rural communities, not least in the LEADER Local Action Groups.

#### *Context*

While Rural Ireland faces many challenges at present, it is also characterised by high levels of innovation, entrepreneurship and a can-do attitude. Decades of marginalisation have prompted several rural communities to take charge of their own development fortunes, and Ireland is characterised by a high number of community-led or bottom-up initiatives (McDonagh, 2001; Briscoe and Ward, 2005; McDonagh et al., 2009). Ireland

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<sup>122</sup> LEADER (*Liaison Entre Actions de Développement de l’Economie Rurale*) is an approach to rural development that is place-based. It involves the development of multi-sectoral, multi-annual strategies and their implementation by quasi-autonomous partnerships, known as Local Action Groups (LAGs). LAGs are led by civil society (community and voluntary organisations) and involve the productive sector (farmers, unions and employers), environmental bodies, local authorities and the state sector. There are over 1,000 in the EU and 34 in Ireland. LAGs received EU funding through the second pillar of the Common Agricultural Policy, with national and (regional governments) providing co-finance.

also has over twenty years' experience in promoting rural development using the LEADER methodology and Irish Local Action Groups are among the most celebrated in Europe (European Court of Auditors, 2010). In recent years, however, LEADER has lost some of its edge as central government has sought to impose an up-scaling of LEADER areas and has placed an increased emphasis on bureaucratic controls over local responsiveness and innovation. While the need for financial and administrative accountability must not be diluted, the promotion of enterprise development in rural areas requires approaches that are rooted in the local territory, value local resources and distinctiveness, are led by local stakeholders who work in partnership with local authorities and state bodies and are subject to internal and external evaluation.

## **21.2 RURAL TERRITORIES IN IRELAND**

Walsh (2007) maps the many rural area types that exist in Ireland. These include:

- the peri-urban areas that surround the gateway cities and towns,
- diversifying areas, based on landscape, scenic amenities and national parks, most of which are in the West of Ireland,
- strong agricultural areas, mainly in Leinster and East Munster,
- more vulnerable agricultural areas in West Munster, East Connaught and North Leinster,
- peripheral and structurally weak rural areas in South West Munster, North Connaught and especially in Donegal and throughout the Border Region.

Crowley et al. (2009) highlight considerable inter- and intra-regional variety with respect to the characteristics and performance of the agriculture sector. Meredith (2006) illustrates how economic trends have impacted on the demography of rural areas, and his work demonstrates the many demographic challenges that are currently facing rural areas that are outside the commuter zones of the Gateway cities. These studies among others (Horner, 2000; McHugh, 2001; Creamer et al., 2009) illustrate that:

- The diversity of rural areas does not correspond with administrative boundaries, but is influenced by a range of factors, including topography, economic patterns, culture, connectivity (locally and externally), state investment / commitment and the degrees of pro-activity and empowerment of local actors among others.
- Peripherality, which has long been associated with the Western seaboard is equally, if not more pronounced, in the border counties; and within the Western Region, there is very considerable variety in the performance of rural territories;
- Formerly strong rural areas including parts of the Midlands (where the state was a significant employer – Bórd na Móna and the ESB) and dairying areas in Munster and Cavan & Monaghan need to be enabled to adapt and regain economic competitiveness.

These geographical realities necessitate economic development strategies that are much more spatially-refined and territorially-differentiated than is currently the case. Approaches must provide for greater local input into the design and implementation of strategies. They also require a whole of government approach, with state bodies and local authorities collaborating with local actors to unleash the development potential of regions and territories that are lagging or are perceived to be marginal.

Over the past two decades, inter-regional disparities have widened in Ireland, and this country is one of a small few in the ‘developed world’ to have a ‘primate city’<sup>123</sup>. In order to seek to alleviate this imbalance, and recognising the diversity of rural area types and that their **boundaries are fluid and fuzzy**, The National Spatial Strategy (NSS) (Department of Environment, Heritage and Local Government 2002; 57-58) opted to designate gateways and hubs in all eight regions and it outlined four broad approaches to promoting inter-regional and territorial balance in Ireland:

- Revitalising,
- Strengthening,
- Reinforcing,
- Consolidating and Cooperating.

While the need for **territorially-differentiated** strategies has been recognised since the advent of the NSS, and agencies such as IDA Ireland have focused on attracting investment to locations outside of Dublin and Cork (O’Brien, 2011), the scale of the operations attracted to Ireland is such that the vast majority of the employment generated is in the Greater Dublin Area. Indeed, 46% of all IDA-supported companies are located in Co. Dublin (2012 figures), and as the maps in Annex 1 show, some counties, especially in the Midlands, have less than 2% of IDA-backed firms. Moreover, regional imbalances are being compounded and rural peripherality is being increased by the fact that the NSS has not been accompanied by the level of political **decentralisation** that has characterised successful spatial planning and territorial organisation in other OECD members. This needs to be addressed in order to maximise the employment and development potential of rural areas.

#### *Developing the Potential of All Territories – Drawing on International Best-Practice*

Breathnach (2012) records how the Irish state’s fixation with attracting FDI (Foreign Direct Investment) over several decades has delivered little by way of substantial or sustainable economic development to most rural regions. This approach has been driven by central government, and it has lacked regional and local inputs, resulting in a side-lining of Irish entrepreneurship and the consequent underperformance of most Irish regions. Where other countries have sought to ameliorate inter- and intra-regional imbalances and disparities, they have tended to introduce reforms of the political system, and those that have been most successful in promoting regional competitiveness have created and nurtured governance structures for effective bottom-up/endogenous development (Danson et al., 1997; Governa & Salone, 2005).

Breathnach (2012) demonstrates that the formation of ‘development coalitions’ at the regional and local levels, which involve the public, private, productive and community sectors have the capacity to transcend sectional and geographical interests, mobilise cross-community support for development objectives, and facilitate coordinated action. This view is supported by OECD evidence from over thirty countries, which argues that decentralisation and the strengthening of **local governance** structures are associated with a progression away from the re-distribution of resources (traditionally from the core to the periphery – via EU regional policy, rather than national efforts in the case of

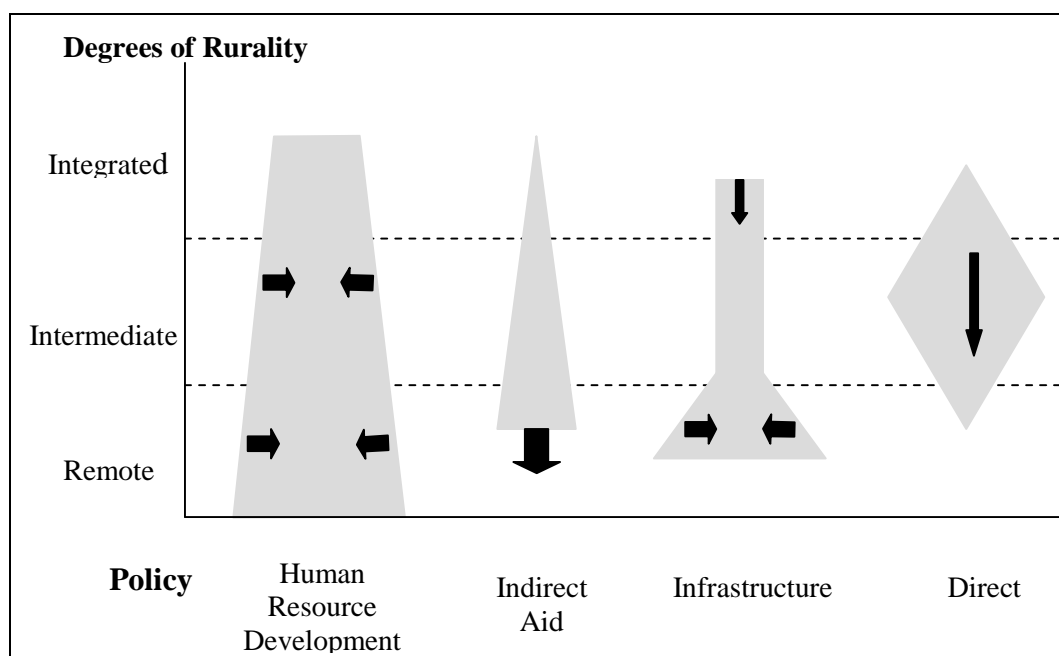
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<sup>123</sup> A primate city has at least double the population of the second largest city in the state.

Ireland) to stimulating the **potential of local** economies and enhancing more sustainable growth (OECD, 2005; 68).

The shift from top-down government to bottom-up governance requires local capacity-building as well as a re-orientation of thinking and approaches on the parts of central government departments and agencies. Multi-level governance implies vertical and horizontal coordination, inter-agency **cooperation**, greater **transparency** and mechanisms to ensure multiple stakeholders can input into decision-making processes. In enabling agencies to respond to locally-defined needs and priorities in a way that ensures **co-ordination between the various arms of government**, the OECD has argued for public investment to be fully territorially differentiated, and has proposed the following model:

**Figure 21.1 Appropriate Policy Mix and its Evolution for Employment Measures in Rural Areas**<sup>124</sup>



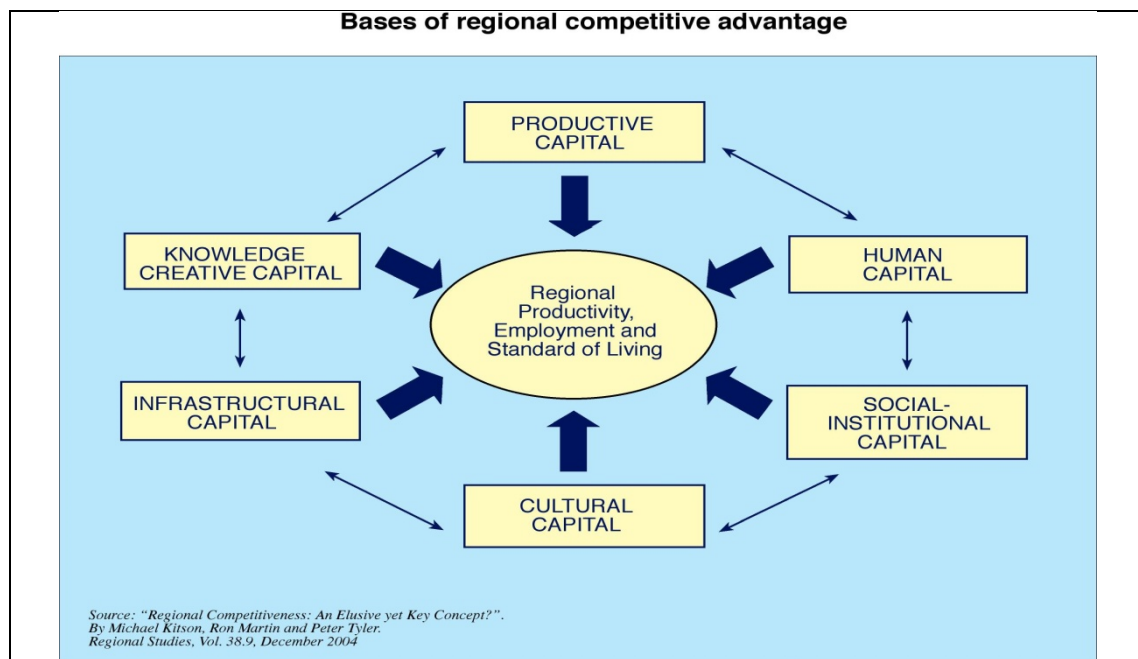
Giving effect to the OECD resource allocation model and **enabling regions to decide** on development priorities through processes of **multi-level governance** will have significant and far-reaching implications for regional development in Ireland. It will challenge the populist orthodoxy that focuses on a rising tide from Dublin lifting other boats, as it will demonstrate the merits of **summative growth** i.e. growth that involves

<sup>124</sup> The shapes in the diagram correspond to the distribution of each policy type by degree or rurality. Thus, the quadrilateral for human resource development reflects a recommendation that the largest share of human resource development funds be spent in the more remote areas and that in integrated areas, most human development investments should come from market-based decisions by the social partners. A similar pattern may be observed in terms of indirect aid and infrastructure, the latter being heavily weighted in favour of remote rural areas. The arrows on the figure suggest how the expenditure path for each programme type should adjust over time as initial investments by public authorities take effect. In terms of the institutional framework for the realisation of these interventions, the OECD advocates a partnership approach with high levels of local support and participation (OECD, 1995: 38).

contributions from all regions<sup>125</sup>. Rural and regional development must, in the national interest, be seen as public goods and strategic national objectives. Until they are, Ireland risks over-specialisation and over-concentration in a single region. In contrast, as Garcilazo (2011) demonstrates, rural regions in most other EU member states have been enabled to make very significant contributions to national growth and prosperity.

Attaining summative growth requires an emphasis on territorial capital and resources, which Kitson et al. (2004) operationalize as a set of inter-related elements:

**Figure 21.2 Bases of Regional Competitive Advantage**



Rural regions and territories increase their competitiveness and productivity by:

- recognising and valorising their own resources,
- developing inter-regional and intra-regional linkages – hard and soft (institutional) infrastructure,
- emphasising the quality of life of citizens and the natural environment and
- promoting multi-level governance to ensure on-going and meaningful local participation and vertical linkages which ensure state buy-in and co-ordination of agency inputs.

International best practice and the emerging policy trends across the EU and OECD are supportive of the LEADER model of rural development. The academic and practitioner evidence from several counties is that area-based partnerships/Local Action Groups represent a successful model for promoting development (Constantinou, 2008). While the achievements of Irish LAGs are recognised, LAGs tend to be seen externally as delivering or administering a programme. This is but a limited perception of LEADER;

<sup>125</sup> Summative growth contrasts with competitive growth. The former emphasises inter-territorial collaboration, while the latter has been characterised by inter-regional / inter-county rivalries and a consequent waste of resources.

**LEADER is not a Programme – it is an approach to rural development.** A LAG is not an administrative body; it is meant to be an active agent of development. For the programme period 2014 – 2020 **the LEADER method** and the delivery thereof **by Local Action Groups** has to be at **the core** of Ireland’s rural enterprise development strategy. To do anything else would be to ignore the international evidence and to stifle rural entrepreneurs.

### 21.3 SPATIAL FACTORS – THE OPTIMUM SCALE FOR THE DELIVERY OF INTERVENTIONS

The evidence from international best practice, the main elements of which have been referred to in the preceding pages, point to the primacy of area-based or territorial development over sectoral strategies. The landmark OECD (2006) report ‘The New Rural Paradigm’ articulates the salient features of contemporary rural development:

**Figure 21.3 The New Rural Paradigm**

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

These ‘new approaches’ are consistent with the specific features of LEADER as envisaged and promoted by the European Commission. As noted by AEIDL (the LEADER Observatory) the LEADER approach to rural development is based on proximity and the creation of links (2001; 55) such that the most appropriate scale for development interventions is a territory that is sufficiently small as to enable identification of local resources – particularly latent ones and promote community participation, but which is large enough to enable inter-actor networking (between public and private sector bodies). Territories should be defined from the bottom-up, recognise and celebrate diversity and **complement regional development** by promoting inter-territorial collaboration. Indeed, a recently published independent evaluation of EU regional policy (IRS and IGOP, 2011) records that LDA (Local Development Approaches) add value to the delivery of cohesion policy. The evaluators contend that ‘pure LDA’<sup>126</sup>, works best when **grass -roots actors** (community organisations, social enterprises and micro firms) are given the assistance to build-up the capacity needed to boost community development. These findings echo an EU Commission Paper (2011; 1) which states that:

<sup>126</sup> The IRS and IGOP report notes that pure LDA is characterised by a small territorial focus, integrated thematic approach and inclusive partnership.

*“Over the past 20 years, the LEADER approach to community-led local development (CLLD) – designed to help rural actors consider the long-term potential of their local region, has proven an effective and efficient tool in the delivery of development policies. CLLD can mobilise and involve local communities and organisations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth, fostering territorial cohesion and reaching specific policy objectives.”*

### *Optimising Spatial Scale in Ireland*

The international evidence and best practice in promoting rural economic diversification point to a need to re-invigorate territorial development and place-based approaches i.e. LEADER- in Ireland. This requires reversing the trend that emerged with the ‘Cohesion Process’ (2005 – 2008)<sup>127</sup> that was characterised by a preference for 16<sup>th</sup> and 17<sup>th</sup> century local authority boundaries over locally-defined contemporary functional territories. While ‘Cohesion’ enabled a welcome integration of LEADER and other local development strategies and programmes, it also involved a blind up-scaling of some LAG territories, resulting in a reduction in the number of LAGs and a reconfiguration of their spatial remit. In some cases this led to a discontinuity in knowledge capital at local level. The current ‘alignment’ proposals, which if implemented, could result in one LAG per local authority area, represent a further deviation from the area-based approach to development. Alignment is particularly problematic in the Irish context, given that the state is, along with Greece and Portugal, the most centralised in Europe and local government is subject to an inordinate degree of control from Dublin (ESPON, 2006; Bannon, 2007; Breathnach, 2012). **Moreover, Ireland is second only to the UK in having the smallest number of local authorities per capita and our county council areas are very large and populous when compared with municipal authorities in other European democracies** (Callanan et al, 2012).

The promotion of economic diversification and enterprise development through territorial development strategies must therefore take place outside of the geographical and administrative straight-jackets of local government. While LEADER LAG areas are generally closer to the norms recommended in international best practice, there is some scope for down-scaling. Across rural Europe, the average LAG territory has a population of 30,000. In Ireland, the corresponding figure is considerably higher.

It is worth noting that county-based LAGs are more dominant in Leinster, while western counties continue to have a number of LAGs at the sub-county level<sup>128</sup>. Given the topography of western counties, as well as the need for territorial differentiation and a geography that is conducive to participative governance, it is **imperative that all**

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<sup>127</sup> In parallel with enabling the expansion of LEADER, the state and EU promoted the establishment of APCs (Area-Partnership Companies) and CPs (Community Partnerships) to promote social inclusion and economic development in deprived areas. APCs had a tri-partite structure – similar to LAGs, and were reflective of the tri-partite model of national social partnership. Since 2009, LAGs and APCs / CPs have been obliged by government to amalgamate – a process known as ‘Cohesion’ (Humphreys, 2011; O’Keeffe, 2012), and in many instances smaller APCs and CPs were subsumed into LAGs

<sup>128</sup> The number of local development partnerships in counties along the west coast is as follows: Donegal 3, Mayo 3, Galway 4, Kerry 4, and Cork 5. In addition, offshore islands have their own federation partnership.



**existing LAGs are retained**, and it is recommended that consideration be given to enabling sub-county and district level approaches where these are currently absent and/or where LAGs are aware that smaller functional territories would be more appropriate.

### *Governance and Scale*

Reviews of place-based strategies across Europe (Westholm et al. 1999, Bridger and Luloff, 1999; Esparcia et al., 2000; Little and Jones 2000; RuDi, 2010, Metis, 2010 among others) all note that where ‘partnerships’ were heavily weighted towards the public sector, power relationships tended to be unequal and the principles of endogenous development were compromised. Similar evidence resounds from North America (Douglas, 2008 and 2010). Despite the overwhelming national and international evidence that supports **community-led** LEADER LAGs, the government is currently being asked to consider proposals (Department of Environment, Community and Local Government, 2012; 32) to establish new quangos i.e. SECs in each county with “responsibility for the management and dispersal of local and community development programme funds”. Moreover, consultative documents emanating from the Department in 2013 suggest that the SECs would be 15-member bodies, with the largest portion of the seats being allocated to statutory and local authority representatives, with the filling of some seats being at the discretion of the county/city manager. If such structures were to have the responsibilities proposed for them, they would immediately begin to duplicate functions currently being undertaken by LAGs. **Such duplication needs to be avoided** in the interest of providing a quality service to, and promoting engagement with, entrepreneurs. Moreover, if decision-making powers were to be vested in SECs, rural stakeholders would be less keen to serve on the board of sub-committees of LAGs, as such bodies would be seen as subordinate.

While the promotion of inter-agency collaboration (including between LAGs and Local Authorities) is certainly a desirable feature of rural development, the evidence to date reveals that such collaboration is best promoted from the bottom-up, rather than imposed from the top-down as attempted through ‘cohesion’ and ‘alignment’. One of the requirements of ‘cohesion’ was that all LAGs reserve at least two seats on their Boards of Director for county councillors. Those LAGs that did not have councillors on their boards prior to cohesion report that with some notable exceptions, councillors have low levels of attendance at board and sub-committee meetings. Moreover, ‘cohesion’ has not yielded any new significant collaborations between LAGs and Local Government. Instead, local authorities and LAGs co-operate effectively with one another based on local priorities, and their collective achievements in initiatives such as the Tidy Towns, Pride of Place and Young Entrepreneur are well recognised and can be built upon.

Any assertions that local authority-led LAGs are prevalent in other EU member states require close examination. The first round of LEADER in some states in Eastern Europe involved having local authorities as the administrative partners at local level. While the European Commission had wanted civil society organisations to assume this role, as happens in Ireland and other countries in Western Europe, the communist legacy in countries such as Poland and Bulgaria was such that outside of Church-based bodies, most civil society structures lacked administrative experience. While it is envisaged that

LAGs will be led by civil society post 2014, local authorities have (since 2007) played an important interim role in hosting LAGs. Indeed, since 2007, LEADER in Eastern Europe has focused considerably on increasing the capacity of civil society. The issue of scale is also important if making any comparisons between Ireland and countries where local authorities administer LEADER, e.g. Poland has 2,489 local authority units called *gmina* (municipalities), which have an average population of 15,000.

### *Inter-Territorial and Cross-Border Collaboration*

Peripheral rural areas and those adjacent to borders face particular challenges in realising their potential. Distance from the county town/main urban centre has tended to inhibit connectivity and lead to an invisibility of particular places among public bodies. Examples of territories that are adversely affected by being on the edge of a county are West Limerick, North Mayo, Peninsular Kerry, Western Duhallow, North East Clare and West Offaly. The situation is even more acute in areas along the border with Northern Ireland, particularly Inishowen, North Leitrim, West Cavan and North Monaghan. In order to eliminate peripherality (which is inexcusable given contemporary technologies and infrastructure potential), it is necessary to promote greater inter-municipal collaboration. There are several examples of governance collaborations that have been successfully promoted in other countries e.g. Contrats de Pays in France and Mancomunidades in Spain (using LEADER territories), as well as several initiatives in Emilia Romagna, Italy and in Québec, Canada. At a minimum, all County Development Plans, Local Area Plans and LEADER Business Plans should make specific references to, and provisions for, addressing the development **potential** of peripheral areas, and where these are adjacent to county boundaries, such provisions must be developed and documented collaboratively by the respective cross-boundary local bodies (including councils in N. Ireland). Throughout Europe, the appraisal of LEADER plans involves the awarding of **extra credits** to those LAGs that operate across municipal, county and regional boundaries, as is stated by the OECD (2005; 98) “administrative boundaries do not necessarily coincide with areas that are relevant economically.”

The recognition that **functional territories** (economic, social, cultural and environmental) transcend administrative and inter-jurisdictional boundaries has been a significant motivating factor behind the many successful endogenous cross-border initiatives that have developed in rural areas along the border between Ireland and Northern Ireland (Creamer et al., 2009). Local authorities including Newry & Mourne District Council, Dundalk **Town Council** and Louth County Council have successfully promoted the Newry – Dundalk Twin City. There are also several good-practice examples in more rural areas; Fermanagh District Council, Monaghan Town Council and Clones **Town Council** have pioneered the Clones-Erne East Partnership. Community and voluntary organisations are very significant drivers of collaboration (e.g. Blacklion – Belcoo)<sup>129</sup>. In order to build on this social and intellectual capital, and in giving effect to the recognition of functional territories that transcend the border, **LAGs should operate on a cross-border basis**. Not only would this **align** LEADER

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<sup>129</sup> Details of cross-border collaboration can be reviewed on [www.iclrd.org](http://www.iclrd.org) International Centre for Local and Regional Development.

**with the local geographical realities**, it would also open-up increased opportunities to lever EU funding for cross-border initiatives.

#### **21.4 CASE STUDY EVIDENCE AND INDEPENDENT RESEARCH ON TERRITORIAL DEVELOPMENT**

On-going evaluation – internal and independent external – is essential in promoting sustainable rural development. All iterations of LEADER in Ireland have been subject to baseline or ex-ante and mid-term evaluations. The ex-ante evaluations have been very useful to LAGs, policy-makers and rural citizens in quantifying targets and indicators for LEADER. The mid-term reviews, which have been undertaken by Fitzpatrick & Associates and by Indecon record the performance of LEADER with respect to KPIs (Key Performance Indicators) and the evaluators have sought to identify issues that needed to be addressed in order to optimise the delivery of rural development.

However, the mid-term evaluations have been limited to examining the financial and other quantitative outputs of LAGs, and have not had sufficient scope to **examine the development processes** that pertain in LAGs and their territories. Moreover, there has been no independent ex-post evaluation of LEADER in Ireland since the Department of Agriculture commissioned Kearney & Associates to do so in 1994. Consequently, there is a **severe paucity of hard evidence at national level**, with the result that decisions are being made (e.g. cohesion, alignment and SECs among others) that are based on anecdotes, lobbying and/or short-term financial considerations. It is imperative that a **full independent ex-post evaluation of the current RDP** (all Axes) be undertaken and that this pursue a scoping methodology similar to that applied by Kearney et al (1995).

In the absence of national evaluations of the processes, structures, governance, outputs and territorial impacts of LEADER, Irish LAGs have referred to and participated in EU-wide studies and have taken on board recommendations arising from evaluations conducted in other EU regions and member states. Most have undertaken internal evaluations, although changes to OP rules, pressures on administrative resources in recent years and the annualisation of budgets (introduced by the Department of Environment, Community and Local Government) have limited LAGs' capacity to undertake and/or commission evaluations.

##### *Impacts of the LEADER Methodology*

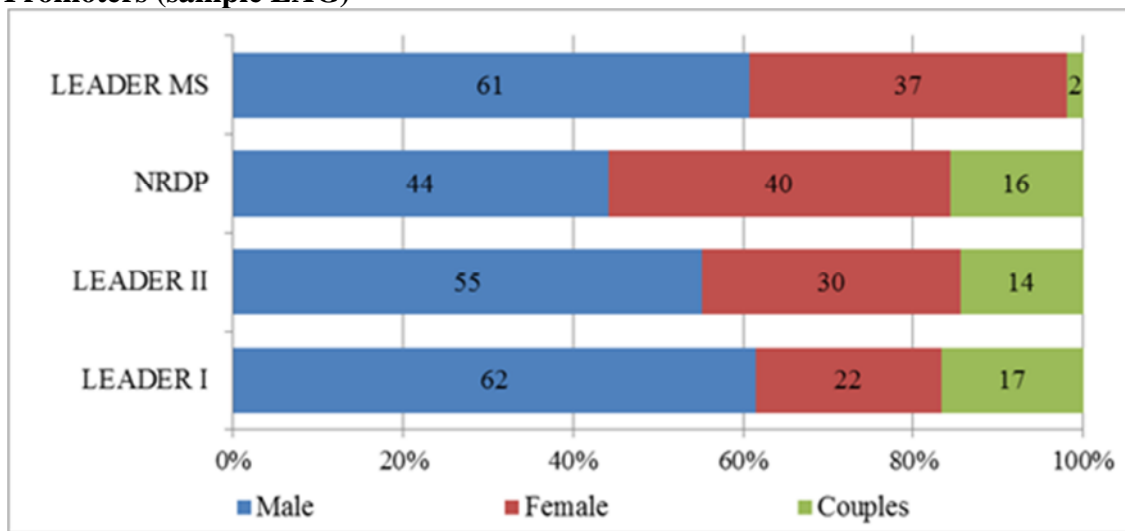
With respect to supporting the development of enterprises in rural areas, independently gathered data on the performance of LAGs, demonstrates their capacity to engage with entrepreneurs who are outside the remit of larger and sectoral bodies. In order to secure a longitudinal appraisal of the performance of LAGs, the data presented in this section relate to a LAG that has implemented all four iterations of LEADER. The LAG, which is based in the BMW Region, pre-dates LEADER in that it was established by civil society organisations in the late 1980s. Since then it has developed as a multi-stakeholder partnership and promotes an integrated and holistic approach to territorial development, whereby LEADER is delivered in conjunction with other local development programmes and initiatives. To date, LEADER has operated on a multi-annual basis as follows:

1. 1991 to 1994 – LEADER I

2. 1995 to 1999 – LEADER II
3. 2000 to 2006 – LEADER+ (in most parts of Ireland) with the NRDP (National Rural Development Programme) operating under the LEADER model in some BMW territories and throughout Ireland to enable activities in areas not covered by LEADER+ (e.g. some types of rural tourism projects)
4. 2007 – 2013 – LEADER Mainstream (Part of the Rural Development Programme)

Women are reasonably well represented among commercially-oriented project promoters, and as this graph shows, their representation has improved over the past two decades, although the gender balance in respect of the present programme is not as healthy as was the case for LEADER+ (2001 – 2006).

**Figure 21.4 Gender Balance among Individual and Enterprise Project Promoters (sample LAG)**



Other social impacts of LEADER include the up-skilling of the local population as a result of the various training programmes that have been delivered. LEADER has also contributed to increased social capital and capacity-building of community and voluntary groups<sup>130</sup>. This is very significant, not just for community development, but because the **social economy** represents a huge source for potential **employment creation** in rural areas that have progressive community groups (Noya and Clarence, 2009).

The following table shows the significance of **continuity between programmes** and it provides further evidence of the progressive **incremental nature of the LEADER**

<sup>130</sup> These organisations report that prior to their involvement with the LAG, their membership levels stood at 1,846. Therefore, the groups report that levels of volunteerism have risen by 123%. Indeed, since the commencement of the current LEADER Programme in 2009, the number of volunteers has risen by 73% (from 2,381 to 4,126). While there may be several factors that are contributing to this rise in voluntary activity, consultations with promoters reveal that the support and encouragement of LEADER is a key motivator.

**approach** to project development<sup>131</sup>. The table shows that of the of the 59 community organisations supported by a given LAG through the current LEADER Mainstream (MS) Programme, 23 were also beneficiaries of the previous programme, 13 produced projects under LEADER II, and seven were involved with LEADER I. The trends are consistent with observations on the ground, which show that one successful community project leads to another and that many community organisations are implementing development plans on a phased basis - with LEADER support. In addition to those who have received grant aid, a number of other businesses supported through previous programmes have availed of information sessions, **training programmes and mentoring** provided since 2009.

**Table 21.1 Impact of Previous LEADER Programmes on Project Numbers and Funding Uptake<sup>132</sup>**

Type of Promoter Funded	LEADER MS	Number of whom were supported in previous programmes			Percentage of whom were supported in previous programmes		
		LEADER+	LEADER II	LEADER I	LEADER+	LEADER II	LEADER I
Community Organisations	59	23	13	7	39.0	22.0	11.9
		74	16	6		21.6	8.1
			50	7			14.0
Individuals and Businesses	51	4	3	1	7.8	5.9	2.0
		111	11	5		9.9	4.5
			183	22			12.0

The **continuity of the relationship** between the LAG and entrepreneur (which would be jeopardised if decision-making or oversight functions were to be transferred to SEC's) is essential. As shown in Table 2, of the 113 promoters who received capital funding under LEADER I (same LAG case study), almost one-fifth have availed of support in subsequent programmes to enable their businesses to expand. Indeed, of the 40 capital allocations made under the current programme, 5 have been awarded to projects that were also developed with LEADER support prior to 2009.

<sup>131</sup> The data presented in the table are based on classifying all promoters into two broad categories: Community Organisations are defined as collective promoters, whose main focus is on non-commercial activities. Individuals and Businesses include all other promoters, including collective bodies with a commercial focus.

<sup>132</sup> Figures are taken from a case study LAG.

**Table 21.2 Impact of Previous LEADER Programmes on Project Numbers and Funding Uptake among Businesses and Commercial Entities**

Programme	Number of Entrepreneurs and Businesses Grant-Aided with Capital Support*	<i>of which (the numbers below) led to LEADER-funded Business Development and Expansion</i>		
		LEADER II	LEADER+	LEADER MS
LEADER I	113	20	5	1
LEADER II	114		8	1
NRDP	91			5
LEADER MS	40			

\* does not include community / voluntary groups. All promoters are counted only once (regardless of the number of projects). Excludes Technical Support and Training Grants.

LEADER's emphasis is very much on the SME sector, and its support for feasibility studies and research into business/product development is associated with enterprises coming on stream. As Table 3 shows, 37 feasibility and technical support grants have contributed to the development of 14 businesses (same case study LAG).

**Table 21.3 Impact of Technical Assistance and Feasibility Studies on Project Numbers and Funding Uptake among Businesses and Commercial Entities**

Programme	Feasibility Studies / Technical Assistance Grants*	<i>of which led to LEADER-funded Business Development</i>				Total New Businesses	Conversion Rate for Feasibility Studies into Businesses
		LEADER I	LEADER II	LEADER+	LEADER MS		
LEADER I	9	1	2	1	0	4	44.4
LEADER II	19		4	0	0	4	21.1
NRDP	5			2	1	3	60.0
LEADER MS	4				3	3	75.0

\* does not include community / voluntary groups. All promoters are counted only once (regardless of the number of projects).

Training grants and bursaries account for one-fifth of all LEADER grants to private and commercial entities, and these investments have enabled promoters to secure third level qualifications, acquire business skills, gain employment and/or to become more active citizens in community and local development. As Table 4 shows, 95 training grants have yielded 24 enterprise projects, and that in some cases, the transition involved may take a number of years.

**Table 21.4 Impact of Training Grants on Project Numbers and Funding Uptake among Businesses and Commercial Entities**

Programme	Number of Training Grants*	<i>of which led to LEADER-funded Business Development / Expansion</i>			
		LEADER I	LEADER II	LEADER+	LEADER MS
LEADER I	13	3	0	0	0
LEADER II	50		8	5	2
NRDP	21			2	0
LEADER MS	11				4

\* does not include community / voluntary groups. All promoters are counted only once (regardless of the number of projects).

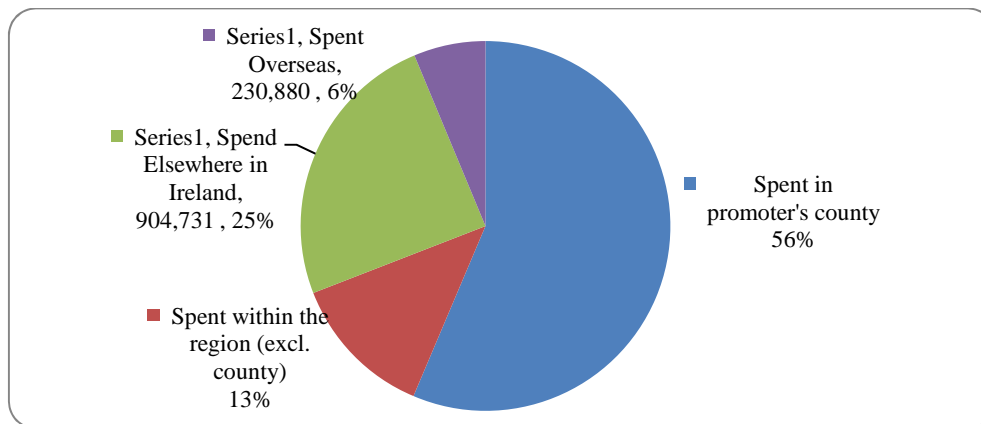
The research findings in respect of enterprise development that are presented in this chapter resonate with many of those articulated in the European Ex-Post Evaluation of LEADER+ that was published in 2010. That evaluation noted that **LEADER “complemented mainstream programmes as it provided ‘soft support’ such as animation, feasibility studies, consultancy, etc., as indispensable backing for the ‘hard investments’ carried out with the help of the ERDF or other funds”** (Metis GmbH et al., 2010; 20).

**Despite the evaluation’s emphasis on the centrality of animation to processes of territorial development, the current LEADER rules and administrative systems (as operated in Ireland) are not fully conducive to project animation.** The decision by the government to change the funding schedule from multi-annual to annual and the obligation on LAGs to spend 20% of funds on administration in any given year runs contrary to the experience over several generations of LEADER, that animation and some administration activities need to be frontloaded. Not only do the current rules cause frustrations for staff, they are perceived among project promoters as a barrier to development. Therefore, in the interest of promoting greater efficiency of LAGs and making them more accessible to would-be entrepreneurs, it is recommended that LEADER revert to operating on a **multi-annual cycle and that LAGs have autonomy in scheduling activities and expenditure** in line with territorial development needs and potential.

## 21.5 IMPACTS BEYOND LEADER

Being locally-based LEADER plays a very significant role as a driver of the local economy; LAGs are important local employers in themselves and they are customers of local services. Moreover, the projects they generate deliver considerable multiplier effects locally. As outlined in Figure 4, the majority of LEADER funds and the project expenditure they generate stay within the project promoters’ county, and 94% of all funds remain within Ireland.

**Figure 21.5 Destinations of Monies spent on LEADER MS (Mainstream) Projects<sup>133</sup>**



This pattern of expenditure by LEADER project promoters indicates that significant **benefits derive to the wider local economy** – beyond the immediate projects – and that as a result, LEADER plays a commendable role in supporting and sustaining several businesses in addition to those which LAGs tend to enumerate among their beneficiaries. Research findings with respect to one selected LAG reveal that the forty individuals and enterprises supported by LEADER generate business for a further 108 suppliers based within the same county as well as for 84 suppliers in other locations. Almost half (48.5%) of their total outgoings are spent within the county.

While the recently-introduced obligation on those applying for LEADER funds to use the e-tender system when seeking quotations for prescribed functions was anticipated by managing authorities to prevent undue inflation resulting from LEADER, it could have a negative impact on local economies, as local businesses may be excluded from undertaking works. If this were to occur, as has happened with some government departments (e.g. school buildings), LEADER funds would haemorrhage from marginal rural areas<sup>134</sup>, leading to a scenario that contradicts the very *raison-d'être* of the programme and of EU regional policy. Value for money criteria need to be more holistic and take into account the long-term operations of projects.

A review of the **sustainability of jobs** created by LEADER (based on a sample of 5 LAGs) shows that of:

- Enterprises supported<sup>135</sup> under LEADER I (1991 – 1994), 67% are currently trading.
- Enterprises supported under LEADER II (1995 – 2000), 74% are currently trading.

<sup>133</sup> Based on a census i.e. survey of all project promoters in a sample LAG.

<sup>134</sup> In addition, consultations with community leaders reveal that using local suppliers confers many advantages, particularly in respect of follow-up and after-care supports to projects.

<sup>135</sup> Includes technical support / feasibility studies.



### *Local Perceptions of LEADER*

Not only do the international evidence and the data presented in this chapter, but also the project promoters themselves emphasise the need for LAGs to continue as the implementing bodies for rural development funding post 2014. A survey of all project promoters (community, individual and business) in the LAG area of South West Mayo showed very strong support among project promoters for maintaining the current LAG system, including **sub-county structures and community-led LAGs**. Entrepreneurs also reported the need for an **increased focus on animation and capacity building**, and they lauded the LAGs work in providing **mentoring for small businesses**, which they recommended should be further developed (O’Keeffe, 2013). The large attendances at public meetings across the country provide further evidence of the strong opposition to the current alignment and SEC proposals. Opposition is as strong among the business community as it is among civil society, and the experiences and concerns of entrepreneurs need to be listened to; indeed they should have been consulted as part of the formulation of ‘Putting People First – Action Programme for Effective Local Government’. Had their expertise been taken into account, the government would currently have a very different set of policy proposals before it.

### *Recommendations for Supporting Rural Enterprise*

The 1988 EU White Paper ‘The Future of Rural Society,’ which became the policy catalyst for LEADER envisaged that rural communities would diversify their economic bases and become vibrant spaces with a high quality of life. The Cork Declaration of 1996 and The Salzburg Declaration of 2003 encouraged all governments and statutory bodies to work to promote *A Living Countryside*. These core principles have been reiterated and updated in the context of the current governance milieu in Ireland in the 2013 New Cork Declaration. The European Spatial Development Perspective (ESDP) and subsequent EU policy papers such as the Barca Report (2009) strongly advocate bottom-up and community-led development, and they state that agencies need to work in partnership with rural communities. The ESDP also advocates inter-community collaboration and the fusion of partnerships between rural and urban areas. Ireland’s National Spatial Strategy (2002–2020) contains specific recommendations on the levels of public services that ought to be provided in rural communities (2002; 113). These policy and position papers that advocate territorial balance and sustainability do not appear to have been properly implemented by the responsible bodies. The National Spatial Strategy has become equated with the development of gateways and hubs, and its provisions in respect of rural areas have tended to be side-lined. As the ESDP is non-binding on EU member states, Ireland has tended to take a minimalist approach to its implementation, and most of the emphasis in the now ‘slimmed-down’ National Development Plan (NDP) is on projects in the Greater Dublin Area, which while they are important, do not contribute to the attainment of balanced and sustainable regional development.

Given the experience of LAGs, their track record and potential (as recognised by the OECD, European Commission and European Court of Auditors among others), and given the need to redress the current territorial imbalance in Ireland, and the legacy of a lack of investment in regional and territorial development, it is necessary to ensure that LEADER is at the core of the rural renaissance. As the OECD has stated (2007; 92):

*“The LEADER method shows its organisational originality at the local level in the role and functioning of the Local Action Groups which play a key role as the “crossroads” of the complex system of vertical and horizontal relationships... The LEADER method has had success and generated a lot of enthusiasm in many rural areas across the EU...*

*First, analysis of the LEADER programme’s implementation demonstrates that, even though often difficult to quantify, the benefits that a bottom-up, integrated approach to rural development can bring with relatively little resources are significant. Second, LEADER’s success stands in contradiction to and highlights the limits of the sectoral approach to rural areas which is still dominant in terms of financing throughout the EU and in several OECD countries.”*

Some LAGs will face challenges as they progress to becoming more proactive agents of development, and in this respect it behoves the state to support capacity-building and multi-level governance. Resource allocations to LAGs and policy decisions regarding need to be evidence-based, and the collection of evidence requires a greater commitment to evaluation at all levels.

## **21.6 ADDITIONAL RECOMMENDATIONS:**

*For LAGs:*

- Continue to support and invest in community development projects, and promote collaboration and synergies between the funding and support mechanisms that are available to complement LEADER, such as the Local Community Development Programme, Tús<sup>136</sup>, Rural Transport Scheme and the Rural Social Scheme (and future programmes / initiatives).
- Maintain and grow structures and mechanisms that enable inter-group collaboration and the transfer of ideas and good practices between community and voluntary groups.
- Celebrate and showcase successful community and enterprises development projects more frequently.
- Provide training for community groups on good governance and monitor the effectiveness of decision-making structures in communities.
- Work locally and through the Irish Local Development Network (ILDN) to input into the formulation of policies that are conducive to good local governance and sustainable rural development.
- Participate fully in regional and national policy-making initiatives.
- Continue the current arrangements for business mentoring and monitor the ensuing outputs.
- Conduct periodic skills audits among businesses supported (across all programmes) and put programmes in place to respond to the training needs of those in the SME sector.

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<sup>136</sup> The Tús initiative is a community work placement scheme providing short-term working opportunities for unemployed people. The work opportunities are to benefit the community and are provided by community and voluntary organisations in both urban and rural areas. The Tús initiative is managed by local development companies and Údarás na Gaeltachta for the Department of Social Protection, which has overall responsibility for the scheme.

- Provide information and training for new businesses on the use of ICT and e-business.
- Ensure consistency and transparency in the way in which promoters are informed about programme regulations and procedures.
- Forge stronger partnerships with the Credit Union movement and work to promote co-operative banking and local credit cycles.
- Develop linkages with European Bio-Regions/Eco-Regions.
- Continue to support eco-tourism and local food production and environmental proofing of projects.
- Demonstrate that they are real agents of multi-level governance and inter-agency partnership that are driven from the bottom-up. This requires full transparency in the publication and circulation of annual reports and accounts (should be hosted on the ILDN website and on each LAG's own website), the convening of open AGMs that are well advertised in advance, investing in building the capacity of civil society and LAG directors and members and the implementation of best practices in human resource management.

*For the Managing Authority (central government)*<sup>137</sup>:

- Implement in full, the recommendations in the ILDN Policy Position Paper on Stronger Local Democracy (March 2013).
- Immediately bring the recently-established LEOs within the remit of LAGs, so as to ensure a multi-sectoral and streamlined, integrated approach to economic development in each rural territory, rather than a fragmentation of efforts and parallel structures.
- Publish, in line with OECD recommendations (2005; 87-88) contractual arrangements with all agencies and the outputs and deliverables of all state and semi-state agencies, including resource allocations and grants awarded to third parties.
- Engage with the eight regional authorities in setting rural development priorities at the regional level and in promoting inter-LAG, inter-territorial and cross-border collaboration.
- Empower regional authorities to set regional development policy goals in conjunction with LAGs and other local actors.
- Ensure that post 2013, LEADER operates on a multi-annual basis, with each LAG having defined autonomy to schedule activities and budgets in line with local needs and potential.
- Position LAGs as the delivery mechanisms for future supports for rural development including the expansion of the social economy.
- Organise national ex-ante, mid-term and ex-post holistic evaluations of LEADER as standard, and ensure that the evaluation findings are published, disseminated and acted upon.

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<sup>137</sup> The Department of Agriculture Food and the Marine is responsible for the implementation of Pillar II of the CAP in Ireland, while functions for the oversight of LEADER rest with the Department of Environment, Community and Local Government. Between 1991 and 2002, these functions rested entirely with the Department of Agriculture (Food and Rural Development), while between 2002 and 2011, they resided within the Department of Community, Rural and Gaeltacht Affairs.

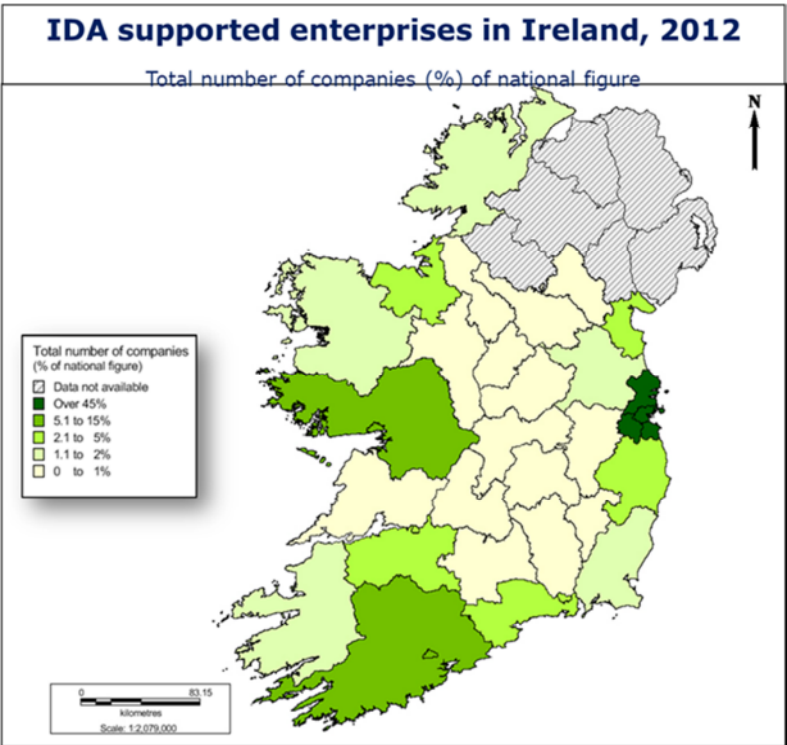
- Apply an evidence-based approach to decision-making with respect to resource allocations to LAGs.
- Provide sufficient resources for animation and capacity-building, and in the interest of leveraging external resources into rural territories, enable LAGs to utilise LEADER to prime other funding streams.
- Enable LEADER directors and staff to participate in programmes and initiatives that increase their skills and capacities to stimulate local development and interface effectively with community and business representatives.
- Facilitate LAGs to input into decision-making on policies that affect rural communities and rural liveability.
- Ensure that LAGs are the conduit through which information about local development, volunteerism, social capital and rural renewal are rolled-out to all communities.
- Ensure that rural development policy is evidence-based and is informed by independent advice and international best practice rather than by short-term political agendas.
- Encourage statutory agencies and other publicly-funded bodies to work more closely in partnership with LAGs in meeting the needs of the business community and SME sector.
- Implement the recommendations of the EU-wide evaluations of LEADER in respect of the appropriate levels of control and financial oversight.
- Involve LAG representatives in the formulation of rules governing the administration and execution of LEADER.
- Provide more flexibility in enabling LEADER to co-fund with other local development initiatives and programmes.
- Convene rural development fairs, conferences, policy fora and networking events at which the LEADER approach and its outputs are highlighted and discussed in an informed manner that seeks to optimise its performance.
- Liaise with the relevant government departments to ensure that the banks play a more active part in stimulating the development of the domestic economy through supporting small and medium enterprises.
- Permit LAGs to utilise animation resources to prepare project promoters for dealings with agencies that support export-oriented enterprises.
- Give effect to the observations in the European Evaluation of LEADER (2010; 175 - 176) that “Broadly speaking, the more autonomy and the less bureaucracy LAGs had, the more participation, structural changes, real rural development results they could achieve... The ultimate aim is not just to establish a partnership-based programme delivery mechanism at local level, it is rather to generate and to nurture the social competencies and skills to put up and run LAGs capable of surviving, adapting and flourishing on their own resources, supported by local people and stakeholders, and being able to tap into a wide range of funding opportunities in order to translate its strategic visions into real change”.

## 21.7 CONCLUSION

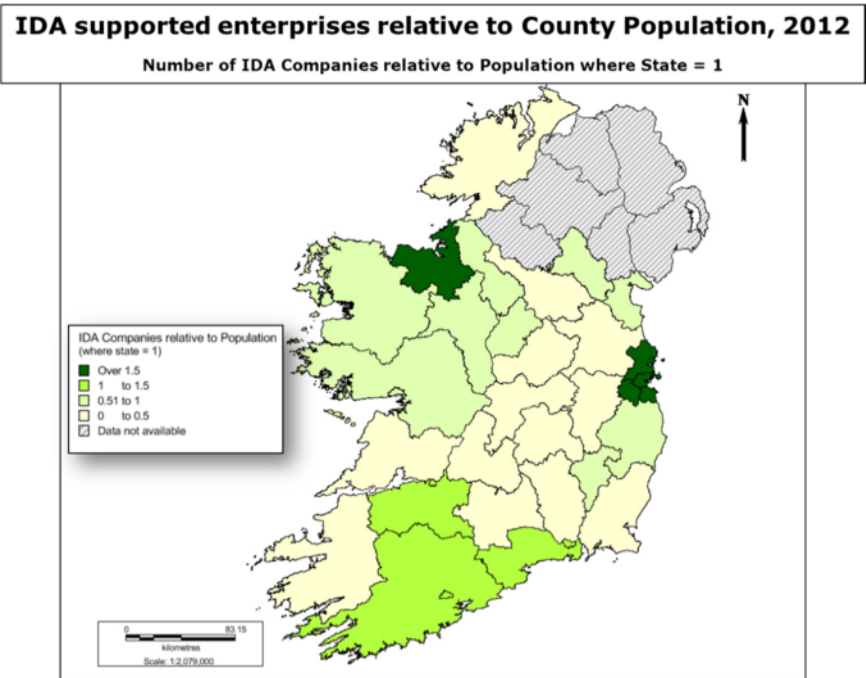
The experience and consolidation of LEADER over the past 25 years means that Ireland is fortunate to have in place at local level, structures that are seasoned, enterprising, flexible and innovative, and which are inclusive of and trusted by entrepreneurs.

LEADER Partnerships are effectively operating as one-stop-shops for enterprise development and they also deliver a range of complementary community development and service provision functions. LAGs are publicly accountable and operate with a private sector ethos. Each LAG has successfully integrated multiple programmes and operations under a single governance structure and a single administrative system, with procedures that have been verified and lauded by national and EU auditors. The Irish model of LEADER is particularly well-regarded throughout Europe and beyond, and under current EU Commission proposals for Community-Led Local Development, LAGs represent a useful strategic conduit through which Ireland can lever additional resources from the ERDF and ESF and apply them in a much more geographically-targeted manner than has pertained heretofore. The historical tendency of most state agencies to focus on urban centres and the under-performance of a number of the hub towns designated under the NSS has resulted in a situation whereby in most parts of rural Ireland, LEADER is the only active development agency. In order therefore to ensure that entrepreneurs continue to be supported – through information provision, incubation, mentoring, marketing and collaboration, it is essential that LAGs operate not just as funding bodies, but continue to be promotive and proactive in stimulating, fostering and sustaining the recovery and job-creation in all communities. The LEADER story through Europe demonstrates that all places have potential and all communities can be enabled to realise their development potential. By implementing the specific recommendations advanced in this chapter, LEADER post 2014 will be characterised by greater dynamism, reduced bureaucratic impediments, increased flexibility and responsiveness, less dependency on the centre and greater focus on local needs and potential.

Annex 1: County Distribution of IDA-supported Companies in Ireland



Data derived from IDA database of companies on [www.ida.ie](http://www.ida.ie)



Data derived from IDA database of companies on [www.ida.ie](http://www.ida.ie)

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## **Chapter 22. SOCIAL ENTERPRISE: A GROWTH OPPORTUNITY?**

Kathy Walsh

‘The social enterprise sector has to potential to create over 25,000 additional jobs by 2020’,<sup>138</sup>

Social enterprises have been recognised both nationally and at EU level as having an important role in our economic recovery in relation to their ability to create local employment opportunities, fill gaps in services, get people back to work/into work, build both social capital and community spirit. This in turn raises questions in relation to how many and what kind of social enterprises and social enterprise related jobs might be located in rural areas. This chapter seeks to respond to these questions by exploring what constitutes a social enterprise and what support currently exist to support social enterprise at both EU and national level. It specifically examines the current role, size and scale of social enterprises in rural Ireland and provides some practical examples of the different types of social enterprises operating in rural locations. It goes on to look at some of the key enablers and challenges for the sector in general and concludes with some key recommendations that if implemented would support the creation of additional social enterprises and associated employment opportunities in rural areas.

### **22.1 WHAT IS A SOCIAL ENTERPRISE?**

This section defines what it is that constitutes a social enterprise. It identifies various different types and legal forms of social enterprise. It also explores the benefits of social enterprises in comparison with public and private enterprises.

#### *A Definition of a Social Enterprise*

There is no universally accepted definition of what constitutes either a social enterprise or the social economy. The European Social Business Initiative (2010) defines a social enterprise as ‘An operator in the social economy whose main objectives is to have a social impact rather than make a profit for the owners or shareholders. It operates by providing goods and services for the markets in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible fashion and in particular involves employees, consumers and stakeholders affected by its commercial activities’.

The UK Department of Trade and Industry (2002) defines a social enterprise as ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profits for shareholders and owners’.

Despite the absence of a universally accepted definition of what constitutes a social enterprise what is clear is that social enterprises generally share a number of key characteristics (Defourny & Nyssens, 2012) including:

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<sup>138</sup> Minister Sherlock tasked with leading Government Action on Social Enterprise sector which has potential to create over 25,000 additional jobs by 2020. Dept. of Jobs Enterprise and Innovation, Press Release 29<sup>th</sup> July 2013.

- **Purpose:** social enterprises provide goods or services (including employment opportunities) in order to address a social need(s) or wider general interest goal. Addressing the need is the core purpose of the enterprise.
- **Profits:** generated by social enterprises are mainly re-invested to sustain the social or environmental mission of the enterprise.
- **Participation:** (in terms of ownership and decision making) Decision making within social enterprise rests within the community or amongst stakeholders with a shared interest in addressing the social need(s). Public authorities or private companies have no direct or indirect control over them (even though grant funding may be provided by these organisations).
- **Organisation type:** social enterprises are continuously trading organisations. An interesting benchmark sometimes applied to separate social enterprises from other (particularly not for profit or community) enterprises is that at least 50% of its turnover is earned income, although opinion would vary about what the best threshold would be<sup>139</sup>.

While there is as yet no nationally recognised definition of a social enterprise, the 2013 Forfás report defined social enterprise as ‘an enterprise that trades for a social/societal purpose, where at least part of its income is earned from its trading activity, is separate from government, and where the surplus is primarily re-invested in the social objective’ (p. 2). This Forfás Report ‘Social Enterprise in Ireland- Sectoral Opportunities and Policy Issues’ was the result of government recognition that ‘there is a strong social enterprise base in Ireland’ and a commitment in the 2012 Action Plan for Jobs to:

‘Report on the potential of social enterprise to create jobs. The report will identify the actions required, in funding, procurement, etc., by Government and other relevant bodies and agencies to create jobs in this sector. It will examine potential initiatives in this area.... and will be prepared with particular reference to the European Commission’s Social Business Initiative and associated funding’. (Recommendation 6.7 Action Plan for Jobs, 2012, p. 67).

The Forfás definition is useful because it captures some of the key characteristics of a social enterprise. Its adoption and use as a national definition of a social enterprise would be a welcome development because having a national definition would make social enterprises more visible and as a consequence, their contribution to the economy clearly measurable. Interestingly the current Forfás definition does not include a threshold of ‘earned income’.

### *Types of Social Enterprise*

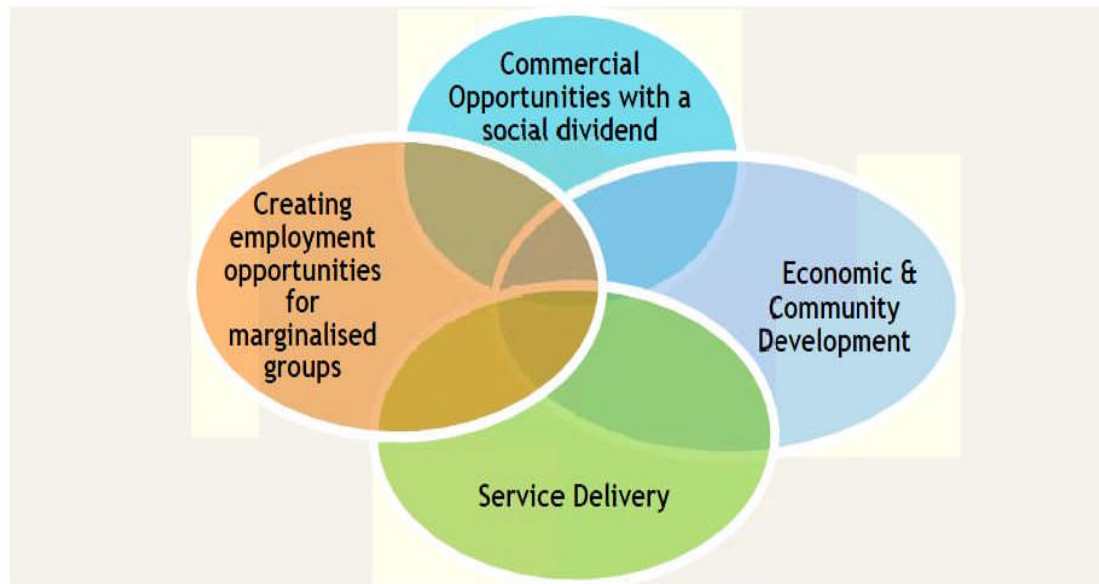
A whole variety of social enterprise types have been identified. The European Commission (2007) in its earlier work identified two overarching models, the first focused on enterprises who trade commercially in order to generate a profit in support of a social goal and the second on enterprises that trade for more social (often employment) purposes. More recently researchers (including Deforny & Kim, 2011) have identified a wide range and variety of sub-categories within these two overarching types.

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<sup>139</sup> European Commission (2013), p 31

From an Irish perspective the recent Forfás report identified four main types of social enterprise in Ireland. See Figure 1 for an overview of these different types and Table 1 for a description of these different types.

**Figure 22.1 The Four Main Types of Social Enterprise in Ireland**



Source: Forfás (2013)

**Table 22.1 Types of Social Enterprise in Ireland**

Type of Social Enterprise	Description	Example
Commercial opportunities with a social dividend	An organisation that trades in a service that has a social good and a high potential income generation capacity.	<b>Speedpak</b> who are based in Coolock provide a commercial contract packing service for industry. They also provide relevant work experience and training to people who have been out of work for a variety of reasons. ( <a href="http://www.speedpak.ie/">www.speedpak.ie/</a> )
Creating employment opportunities for marginalised groups	An organisation that works with individuals who are marginalised and disadvantaged and seek market opportunities in suitable sectors and industries for their labour.	<b>County Wexford Community Workshop (Enniscorthy) Ltd.</b> provide training (suitable for competitive employment) for people with a disability. They also provide sheltered work for those not capable of meeting the normal demands of industry. Their mission is to enable and empower people with disabilities to live the life of their choice to their utmost potential ( <a href="http://www.cwcwe.ie">www.cwcwe.ie</a> )
Economic & community development	A local organisation that identifies a gap in infrastructure or services where the private sector has not been able to develop a commercially viable solution.	<b>Innovation Wexford</b> offers a number of services for local enterprises including Wexford Enterprise Centre as a location for local businesses. ( <a href="http://www.innovationwexford.com">www.innovationwexford.com</a> )
Service delivery	An organisation that is primarily a delivery agent of public sector services (often, but not always to individuals and groups who are not in a position to pay full commercial rates for services).	<b>Fledglings</b> is a not-for-profit, social franchise <sup>140</sup> organisation providing high quality, early years education for the children of Tallaght West ( <a href="http://www.ancosan.com/?page_id=190">www.ancosan.com/?page_id=190</a> )

Source: Forfás (2013, p. 15)

Only one of these types of social enterprise has a strong commercial focus. The others all have strong service focus varying from employment creation to economic and community development to service delivery. The most commonly occurring types of social enterprise models in an Irish context are those that ‘create employment opportunities for marginalised groups’. These are also frequently referred to as ‘Work Integration Social Enterprises (WISE) models’<sup>141</sup>. These WISE’s are useful because they address issues of long term unemployment and occupational inactivity, while also mobilising market resources, subsidies, and volunteers and contributing to the overall health and well-being of the individuals involved (Davister, Defourny & Gregoire, 2004) These types of social enterprise models are heavily dependent on state and

<sup>140</sup> International Centre for Social Franchising (2012) report ‘Investing in Social Franchising, London’ defines social franchising as a “successful social purpose organisation that enables at least one independent franchisee to deliver their proven model under license and found at least 95 social franchised operating in the UK. Another example of a social franchise operating in Ireland is the Specialisterene Foundation based in Denmark who have recently provided a licence for the operation of its model/services (for the provision of jobs for people with an autism spectrum disorder (ASD), to Specialisterene Ireland Ltd.

<sup>141</sup> See O’Hara & O’Shaughnessy, (2004); O’Shaughnessy, (2008)

particularly labour market integration and support measures while examples of fully commercial social enterprises are small but growing.

### *Social Enterprise Legal Forms*

Social enterprises can take many different legal forms with new structures emerging over time (including the 1991 Italian social co-operative structure and the UK community interest company (CIC's) structure). Internationally, the choice of which legal structure a social enterprise adopts is largely determined by the particular jurisdiction in which the enterprise is located.

Social enterprises in an Irish context have adopted a variety of legal forms including companies limited by guarantee (with and without share capital), single member private companies limited by shares. According to Forfás (2013) 'companies limited by guarantee' are the most popular legal form. It is expected however with the available relevant Co-Op Rules developed by ICOS with the agreement of the Revenue Commissioners and the passing of the Friendly Societies and Industrial and Provident Societies (Miscellaneous Provisions) Bill 2013 (which will make it easier to run a co-operative as an alternative form of enterprise organisation), that an increasing number of social enterprises will at least give consideration to establishing as co-operatives type structures (including worker co-operatives).

### *The Benefits of Social Enterprises*

The particular benefits of social enterprises include:

- Ability to fill growing gaps in services and address demands for services that neither the private nor the public sector provide
- Flexibility and responsiveness in relation to finding new ways of addressing local and community needs in innovative ways
- Creation of local employment opportunities.
- Capacity to get people back to work and active in their community, building both social capital and community spirit
- Ability to engage with and deliver state and philanthropic investment at local level
- Adeptness at learning from the experiences of others and sharing new ideas with growing levels of interest in social franchising<sup>142</sup>

## **22.2 SOCIAL ENTERPRISE AT A EUROPEAN LEVEL**

This section examines the role, size and scale of social enterprises at European level. It also explores the supports provided at that level for social enterprises.

### *The Role, Size and Scale of Social Enterprise*

Social enterprise is recognised at EU level as '*an important source of inspiration and energy for a recovery*' European Commission (2013, p 4). This recognition stems from

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<sup>142</sup> Social franchising is defined as a "successful social purpose organisation that enables at least one independent franchisee to deliver their proven model under license". The recent International Centre for Social Franchising (2012) Investing in Social Franchising, Report found at least 95 social franchises operating in the UK.

the publication in 2009 of the Resolution on the Social Economy which called for recognition of the concept of the social economy and the added value it delivers and went on to suggest the adoption of the legal frameworks that would take into account these benefits.

The promotion of development of the social enterprise sector fits well with the Europe 2020 Strategy which seeks to turn Europe into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is despite the fact that accurate data on the size and scale of both social enterprise and the wider social economy in the European Union is difficult to locate, due partially to the lack of standardisation of the organisation types across countries and the fact that social enterprises are generally not categorised separately in official statistics.

With what data is available the European Commission have grouped all the various social economy organisations into four broad categories based on their legal form: co-operatives, mutual societies, foundations and associations, with considerable variation in legal forms from country to country. Aggregating the data from these four categories the Commission (2013 p 45) has estimated that the sector had over 14.5 million paid employees in 2009/10 (approximately 6.5% of the working population of the EU 27 and about 7.4% in the EU 15 countries).

#### *Support for Social Enterprise at EU Level*

The European Commission has recognised the role of social enterprises as a way of meeting new needs and delivering public services since the 1980's. Indeed supports for social enterprise have been available as part of both the European Social Fund and the European Regional Development Fund. Regulations for both of these funding streams in the 2014-2020 funding period indicate that this support is likely to continue and that 'promoting social economy and social entrepreneurship' will be a specific investment priority for the new funding period.

The 2011 Social Business Initiative (SBI) also contains specific measures to improve the visibility and recognition of social enterprises including within the Programme for Social Change and Innovation (2014-2020) an EU level financial instrument designed to help develop the European Market for social enterprise financing by providing equity, debt and risk sharing instruments (p.89). The expectation is that under this funding €100 million will be allocated to promoting social experimentation and another €90 million to supporting social enterprises. In addition to these financial supports the 2013 Social Investment Package (which in turn is linked to the 2013 communication on 'Social Investment for Growth and Cohesion) encourages member states to prioritise spending that enables people to fully contribute to the economy and participate in the society. It highlights the need and opportunity to invest in the development of social economy and social entrepreneurship in view of their contribution to inclusive employment, community development and social innovation. The cumulative effect of all of these schemes is to demonstrate the strong support and endorsement that exists at EU levels for the expansion of the social economy sector.



### 22.3 SOCIAL ENTERPRISE IN AN IRISH CONTEXT

This section reviews the size and scale of the social enterprise sector nationally. It also reviews the policy frameworks and supports available to the sector at national level

#### *The Size and Scale of the Sector*

The absence to date of an agreed national definition of a social enterprise means there is no up-to date nationally definitive data available on the exact nature and scale of the social enterprise sector. The Forfás Report estimated that there were 1,420 social enterprises, employing over 25,000 people, with a total income of around €1.4 billion in 2009. These figures (based on the findings of a 2011 Clann Credo study) could be somewhat inflated given that 63% of those involved in the study did not have any traded income in the previous year and the remainder had a traded income that made up just 17% of their total income. Notwithstanding these caveats, these figures demonstrate that the social enterprise sector in Ireland is relatively underdeveloped, making up a very small percentage of total national employment (3% approx.), particularly compared to the European norm of 6%.<sup>143</sup>

#### *Policy Frameworks & Supports for Social Enterprise*

Both the 2011 Programme for Government and the 2012 Action Plan for jobs identified social enterprise as an area with potential for job creation.

*‘The Government will promote the development of a vibrant and effective local enterprise sector’..... ‘It will instruct agencies to view social enterprises as important stakeholders in rejuvenating local economies’- thus acknowledging the role of social enterprise in regenerating local economics’. (The Programme for Government, 2011)*

The 2013 Forfás report which contains a series of recommendations to support the development of the sector was itself, a significant deliverable under the 2012 Action Plan for Jobs.

The Forfás study identified a gap in relation to an overall policy statement for social enterprise development in Ireland noting that responsibility for the area was currently spread across a number of Departments. It went on to identify a range of public funding supports available to social enterprise key among which included employment supports and public sector contracts. The subsequent appointment (following the launch of the Forfás Report) of Minister for State for Research and Innovation, Sean Sherlock TD, to develop the sector ‘on a cross-Departmental basis (with the support of the Dept. of Environment, Community and Local Government’) is clearly a very welcome development in this context. As is the Minister’s statement that he will be ‘arranging for the establishment of an Inter-Departmental Group as soon as possible to develop the

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<sup>143</sup> Justad, T (2012) Social enterprise in Sweden and Scotland: local and national responses, from Doyle & Lalor (eds), op cit.

sector and to determine how the recommendations in the Forfás report can best be delivered<sup>144</sup>.

The Forfás report also highlights the funding and supports available to the sector through a range of programmes and schemes. Table 2 provides a comparison of the supports available to social enterprises and the supports available to other enterprises.

**Table 22.2 A Comparison of Public Supports Available to Social Enterprises and Other Enterprises**

<b>Current Supports Available to Social Enterprises</b>	<b>Current Supports available to Other Enterprises Source: Sweeney (2013)</b>
Employment Supports (including the dedicated Community Support Programme (€44.3m supporting about 425 enterprises and services but closed to new applicants for a number of years) and other employment supports which operate also across the community and /or the private sectors (including in March 2012 the Tús Community Workplace (5000 places nationally), Job Bridge (5,163 internships commenced and additional 2,266 internships advertised) , the Rural Social Scheme (2730 places), the Community Employment Scheme (funding available for 23,300 places) and the Wage Subsidy Scheme (500 places taken up)	Direct grants to firms, farmers, and others. (€400m in 2011 for industry, > €2,000m for farming, €140m in 2011 for tourism, €451m in 2011 for science, technology and innovation). Various tax breaks
Opportunities to tender to deliver specific Public Sector Contracts (including contracts from: the HSE for the care of people with disabilities, day care, hospice care and other health services; the Dept. of Environment, Community and Local Government for the provision of social housing; the Dept of Transport, Tourism and Sport for local transport services primarily for older persons living in rural areas; the Sustainable Energy Authority of Ireland for the integration of innovative energy solutions at community level).	Opportunities to tender to deliver the range of Public and Private Sector Contracts
Opportunities for some financial support under the LEADER Programme and the Social Finance Foundation (which receives some public money) and some more general advice and support from a small number of publically funded intermediary organisations including: Local Development Companies  Opportunity for social enterprises involved in the supply of goods (particularly for the commercial market) to get 'capability support/business support' from County/City Based Enterprise Boards <sup>145</sup>	Dedicated state bodies (including state industrial and sectoral promotional agencies) which support the private enterprise sector including industry, enterprise, the service sector, farming, fishing, forestry). The majority cost of these supports is paid for by the taxpayer, with a small number of bodies charging in full or in part for some of their services.

<sup>144</sup> Minister Sherlock tasked with leading Government action on Social Enterprise sector which has potential to create over 25,000 additional jobs by 2020. Press Release 29<sup>th</sup> July 2013 Dept. of Jobs, Enterprise and Innovation. ([www.djei.ie/press/2013/20130726.htm](http://www.djei.ie/press/2013/20130726.htm))

<sup>145</sup> The County/City Based Enterprise Boards are due to be dissolved shortly when they will be replaced by Local Enterprise Offices (LEO's) situated in the local authority structures and overseen by Enterprise

Table 2 indicates that social enterprises receive significantly less financial and other supports from public sources than private enterprises. The majority of supports are employment-focused supports, with very limited financial and other supports available. There is also clearly an absence of a dedicated support for social enterprises compared with other enterprises, while public procurement options are more limited for social enterprises than they are for other enterprises because of capacity constraints (linked to a range of issues including the inability of social enterprises to meet capacity thresholds, disproportionate insurance requirements, the large scale of some contracts) and the very limited use of community and social benefit clauses that would recognise and reward social outcomes (Forfás, 2013 p.6).

## **22.4 SOCIAL ENTERPRISE IN RURAL IRELAND**

This section examines the role, size and scale of social enterprises in more rural parts of Ireland. It also provides some practical examples of social enterprises operating in rural locations.

### *The Role of Social Enterprise in Rural Ireland*

‘Loss of people and jobs has led to difficulties in many, particularly rural, communities. Some, however, are responding by galvanising their local communities and developing locally based responses’. (NESC, 2013)

Rural areas and communities face a range of challenges including isolation, linked to the distance from larger service centres and population shifts resulting in increased levels of urbanisation. This population imbalance has implications for the provision of services in rural areas and for smaller rural communities in particular, as they struggle to retain essential services and community infrastructure (NESC, 2013 p. 109). The limited nature of the labour market and employment opportunities mean also that rural areas have become increasingly dependent on public funding, and welfare transfers in particular, while the re-structuring of agriculture and the economic recession have led to a narrowing of the economic and employment base of rural areas. The interaction between these issues of demography, remoteness, the low level of education and poor labour market opportunities in turn contribute to the overarching issue of the ‘lack of opportunities’ and market failure related issues for individuals and communities because of their rural location.

One very positive feature of rural areas and communities is the number of voluntary and community groups that have emerged over the years to respond to the needs of particular communities or groups in rural areas. These range from national charitable organisations like the Society of Saint Vincent de Paul, to organisations that articulate the interests of particular groups like the Irish Farmers Association, to Local Development Companies keen to support and enhance social and economic development within their locale. What is also interesting is that some of these Local Development Groups have gone on to establish and support social enterprises to address particular local needs and services.

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Ireland. The Forfás report has suggests that these structures may be more suited to providing supports to commercial and self-sustaining social enterprises in the future.

### *The size and scale of the sector*

While the exact number of social enterprises operating in rural areas remains unknown, it is clear that social enterprise in rural areas operate across a range of sectors including: housing, community childcare projects, rural transport services, energy efficiency, recycling and insulation companies, community cafés, and training projects (Doyle & Lawlor, 2012 b).

Work has begun at local level (facilitated by range of organisations including Local Development Companies Ballyhoura Development, IRD Duhallow, North and East Kerry Development, the PAUL Partnership and Meath Partnership<sup>146</sup>) to map various aspects of the sector.

While the Meath study is still in the early stages of development, the 2012 Review of the Social Enterprise sector in Ballyhoura<sup>147</sup> found more than 120 social economy businesses (who derived their income from a combination of commercial trading, public contract delivery, national and local funding programmes and fundraising) employing 1,500 people and generating a turnover of €50 million per annum across a range of sectors<sup>148</sup>. In County Waterford, Dunhill Rural Enterprises Limited through their work estimated there were at least 218 social enterprises operating locally<sup>149</sup>. These and other pieces of research available locally, taken collectively suggest that the social enterprise sector in rural areas may be much larger than previously identified, but again much depends on the definition of social enterprise used.

### *Social Enterprises in Practice in Rural Ireland*

As part of the consultations undertaken by CEDRA, a Social Enterprise Workshop was organised in Croom, Limerick on the 23 April 2013. This workshop was attended by 16 invited social enterprises from across a range of sectors. Eleven of the social enterprises who attended the workshop also completed a questionnaire in advance of the meeting which provides some useful additional background information. Table 3 provides a profile of the social enterprises that completed the CEDRA survey and the key issues and challenges they identified.

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<sup>146</sup> [https://irl.eu-supply.com/app/rfq/rwlproposal\\_s.asp?PID=64653](https://irl.eu-supply.com/app/rfq/rwlproposal_s.asp?PID=64653)

<sup>147</sup> Ballyhoura Development (2012) Internal Review of the Social Enterprise Sector in the Ballyhoura area. Ballyhoura Development, Limerick (unpublished).

<sup>148</sup> The Ballyhoura area has a total population of 85,000 (Census, 2011)

<sup>149</sup> Email Communication with Mr Senan Cooke Secretary of Dunhill Rural Enterprises Limited (29 July 2013)

**Table 22.3 Profile & Key Findings Arising from CEDRA Survey of 11 Rural Social Enterprises**

No of Social Enterprises	11 (established over the period 1966 -2010). All were based in rural locations in Co. Limerick (6), Co. Cork (3), Co. Waterford (1) and Co Louth (1 operating nationwide)
Sectoral Involvement	5 involved in community development, 5 involved in social enterprise & 1 involved in renewable energy and fabrication.
Labour Market Programmes accessed	JobBridge, Community Services Programme, Community Employment Scheme & the Business Development Manager Programme
Total No of Employees	110 Full Time Employees and 400 Part Time Employees (9% full-time and 13% part-time employees posts supported by a variety of Labour Market Programmes)
Average Employees per enterprise	10 full time employees and 36 part-time employees
Three Greatest Achievements	Developed facilities/projects Created jobs Inspired the local community
Three Most Critical Resources	Finance & Fundraising Recruiting and retaining volunteers Accessing expert supports and knowledge (other than finance)
Three Greatest Challenges	Lack of access to finances Challenges of local fundraising Sustaining and managing volunteers
Future Plans	Expansion of the enterprise and the services it provides Utilise unused spaces/places in the community Increase employment levels within the enterprise
Three Key Supports	Training and education Clear funding routes and opportunities Increased levels of awareness of what social enterprise is

The social enterprises that completed the survey and/or attended the workshop provide a snapshot (rather than a representative overview) of the types of social enterprises that can be found in rural areas. A small number of these and other social enterprises have been selected for inclusion in this chapter in order to give some practical examples of the types of social enterprises currently serving rural locations. See Table 4 for details.

**Table 22.4 Rural Social Enterprises in Practice**

Type of Social Enterprise	Examples in practice
Commercial enterprise established to create a social return	<b>The Sliabh Beagh Hotel and Tourism Centre</b> was established in 2000 by Knockatallon Development Committee. Located in Knockatallon in north County Monaghan it is Ireland's only community owned hotel. It has 14 bedrooms and is well used by tourists and locals for a variety of tourism, social and community purposes ( <a href="http://www.knockatallon.com">www.knockatallon.com</a> )
Creating employment opportunities for marginalised groups	<b>The Watergarden</b> was established in Thomastown, Co Kilkenny by the Thomastown Camphill Community. It was established to create meaningful work for adults with special needs. It includes a coffee shop, garden centre formal water garden, art gallery and pottery which collectively provide diverse employment challenges and opportunities. ( <a href="http://www.camphill.ie/THOMASTOWN">www.camphill.ie/THOMASTOWN</a> )
Economic and Community Development	<b>Dunhill Rural Enterprises Ltd.</b> was established in 2000 with the goal of cultivating an entrepreneurial culture and create jobs in rural Co. Waterford. It has done this through the creation of Dunhill Eco park which provides a range of supports for small and medium sized enterprises who locate in the park including 1. The most competitive rental rates in the South-East Region 2. Tailored mentoring and business supports 3. Connections to the right people and networks 4. Environmental certification ( <a href="http://www.dunhillecopark.com">www.dunhillecopark.com</a> )
Service Delivery	<b>Care Bright</b> , based in Hospital, Co. Limerick was established as a social enterprise in 1998 to provide home care services for older people, people with disabilities and others who live independently in their own homes. They currently employ 250 locally based carers and provide contracted services on behalf of the HSE and for clients in a private capacity. ( <a href="http://www.carebright.ie">www.carebright.ie</a> )

## 22.5 ENABLERS AND CHALLENGES

This section identifies and explores some of the key enablers and challenges for the social enterprise sector.

### *Social Enterprise Enablers*

Key enablers for the sector include:

- European Commission and government recognition and endorsement of the social enterprise sector as a potentially significant source of job creation. The Forfás statement that the sector has the potential to create 25,000 additional jobs by 2020 represents an ambitious target to work towards and at least some of these could be provided in rural areas.
- The allocation of responsibility for the social enterprise agenda, and the implementation of the recommendations of the recent Forfás report on the sector to the Minister for State for Research and Innovation, Sean Sherlock in July 2013
- Minister Sean Sherlock's clear commitment to a) develop the sector 'on a cross-Departmental basis (with the support of the Dept. of Environment, Community and Local Government') and b) establish the Inter-Departmental Group to determine how best the recommendations in the Forfás report can be implemented.
- The adoption of a national definition of a social enterprise (such as that proposed by Forfás).

- The adoption of the Forfás proposal that social enterprise should form a core element in County/City Local and Community Plans.

### *Challenges for Social Enterprise*

Key challenges facing the social enterprise sector include.

- The fact that the sector and its potential are not well understood. This could be addressed by agreeing a national definition of a social enterprise and undertaking more and better research on the sector.
- Difficulties accessing finance at the different stages (establishment, expansion & maintenance) of development (other than one-off small scale grant aid and labour market supports).
- The lack of dedicated access to development support for groups with a social enterprise idea.
- Access to business support structures, management expertise & skills (similar to those available to the wider enterprise sector).
- Access to knowledge of specific social enterprise governance and capacity building issues
- A lack of specialist training and education opportunities. The Institute of Managers of Community and Voluntary Organisations in Ireland Ltd. ([www.imcv.ie](http://www.imcv.ie)) which was established in 2011 may over time be able to address this challenge through the application of occupational standards and provision of relevant training.
- A lack of support networks. This may be addressed over time with the recent establishment of Communities Creating Jobs ([www.ccj.ie](http://www.ccj.ie)) and the Irish Social Enterprise Network ([www.socent.ie](http://www.socent.ie)).
- For social enterprises that use volunteers, attracting, retaining and providing on-going support for these volunteers can be a challenging and very time consuming process.

## 22.6 KEY RECOMMENDATIONS

This section identifies a number of recommendations that if implemented would support the creation of additional social enterprise employment opportunities in rural locations.

### *Generating the Recommendations*

The 2013 Forfás Report identified 22 recommendations that could aid the growth and sustainability of the social enterprise sector nationally across 6 key areas:

- Policy development (one recommendation);
- Capacity building in the sector (six recommendations);
- Procurement (five recommendations);
- Funding and finance (five recommendations);
- Developing leaders and harnessing community support (two recommendations) and
- Governance (three recommendations).

There was a clear connection between these recommendations and the findings emerging from the CEDRA Social Enterprise workshop

### *Key Recommendations of the Development of the Rural Social Enterprise Sector*

This section includes a selection of key recommendations modified and adapted from the Forfás Report to order to ensure their relevance to the rural social enterprise sector.

#### **Policy development**

1. The adoption of a national definition of a social enterprise (such as that used in the recent Forfás Report, with consideration given to the application of a threshold of earned income for more social enterprises in operation for a number of years (e.g. 7 years)) and the development of a National Policy on Social Enterprise that recognises the potential of social enterprises to:

- Engage in economic and social development
- Fill gaps in the provision of key services in rural areas
- Generate employment in rural areas

This would (in line with the Forfás recommendations) be supported by the establishment by the Minister of State for Research and Innovation (Mr Séan Sherlock TD) of an inter-departmental group (to include the key Departments of Environment, Community and Local Government, Social Protection, Agriculture, Food and Marine, Arts, Heritage and the Gaeltacht, Health, Jobs, Enterprise and Innovation and, Transport and Tourism) to develop and champion the sector with the Dept. of Environment, Community and Local Government acting as the lead Department.

#### **Capacity building**

2. Develop the role of local authorities as a key support for social enterprise at ground level (the aligned Local Development Companies working closely with the new Local Enterprise Offices may provide a useful mechanism for doing this ), with a requirement



to include social enterprise as a core element in all local authority led/supported (County, Local and Community) Plans.

3. Encourage and support successful social enterprises to share learning and replicate successful enterprise models in other locations with similar issues. (Social franchising is recognised as a significant growth opportunity for successful social enterprises in other jurisdictions). The two newly established social enterprise networks (Communities Creating Jobs and the Irish Social Enterprise Network) may provide useful mechanisms for facilitating this.

4. Find ways (that recognise that social enterprises and social entrepreneurs located in rural areas may not have the same opportunity to access supports (both business supports and other governance related supports) as those in more urban areas) to build capacity in the social enterprise sector to ensure that social enterprises are 'investment-ready' at all stages of their development including start up, early stage dev. and growth phases. These could include:

- The addition of a specific Social Enterprise Sub Action within the Rural Development Programme (2014-2020) that would facilitate the provision of development and facilitation supports to build the capacity in the rural social enterprise sector at all stages of their development would be a useful development in this context.
- A review of the role and value of the existing Community Services Programme and re-opening of the Programme to new applicants on an annual basis.
- Open up the existing range of enterprise supports to social enterprises at all stages of their development.

5. Change curricula to ensure that social enterprise and non-profit management are included in mainstream academic business courses. Provide for on-going professional development and training for those already working in the sector. This would have to be provided through flexible and applied training that recognises that social enterprise managers and board members face particular challenges (e.g. access to transport, travel times, limited broadband speeds) in terms of accessing this type of training.

## **Procurement**

6. Development of guidance for contracting authorities (across the country) to incorporate social considerations in procurement processes (e.g. community benefit clauses). (This is already a feature in many other countries, and it is the case that European Union procurement law makes provision for public authorities to insert social clauses in their procurement procedures).

## **Funding and finance**

7. Include 'promotion of the social economy and social enterprises' as investment priorities under the ESF and ERDF Operational Plans 2014 - 2020. The adoption and application of the new European Community–Led Local Development approach would add further value to this.

8. Working with the Registrar of Credit Unions seek to encourage local credit unions of sufficient scale to consider lending to the social enterprises.

### **Developing Leaders and Harnessing Community Support**

9. Volunteers have an important role to play in the development of social enterprise at local and community level. Initiatives being developed (building on the work by the Taskforce on Active Citizenship) to develop a national volunteer policy need to recognise and accommodate this within their planned actions.

### **Governance**

10. There is a continuing need to promote the co-operative model where it can be demonstrated that the cooperative model offers benefits in relation to a particular sector or type of undertaking.

## **22.7 CONCLUSION**

The social enterprise sector in Ireland is relatively underdeveloped, compared with our European neighbours. The absence of a national definition of what constitutes a social enterprise means the sector is not always well understood and that there is no up-to date nationally definitive data available on the exact nature and scale of the sector in either urban or rural locations. What we do know is that social enterprises in rural areas operate across a wide range of sectors (including: housing, community childcare, rural transport, energy efficiency, recycling and insulation, community cafés, and training projects) and that there is scope for the development of new social enterprises in rural locations, if the correct conditions and supports can be put in place.

At a practical level key challenges for social enterprises include accessing finance and business development support, as well as specific advice in relation to social enterprise governance. Social entrepreneurs have also identified particular gaps in relation to specialist training and education opportunities and support networks, with particular support needed for social enterprises that use volunteers.

Recent positive developments at a national level include the allocation of responsibility for the social enterprise agenda, to the Minister of State for Research & Innovation (Mr. Sean Sherlock (TD) who will lead the establishment an Inter-Departmental Group to support the development of the sector and the implementation of the recent Forfás report recommendations. It is also the case that the recent 2013 Forfás definition of a social enterprise can provide a very useful basis for the development of a national definition of a social enterprise.

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## **Chapter 23. BARRIERS TO RURAL ENTERPRISE GROWTH**

Deirdre Frost

### **23.1 INTRODUCTION**

An important aspect of promoting the economic development of rural areas is an examination of what barriers and obstacles face businesses currently operating there and which may militate against the location of more enterprises establishing in rural areas. Are there barriers specific to rural enterprises or are they similar to those faced by enterprises located in urban areas? What do businesses require to establish, operate and compete effectively from a rural location? This chapter examines some of the research evidence and identifies some of the obstacles faced by rural enterprises in an Irish context. First, there is a brief discussion on rural development theory which provides a framework for the rest of the paper. The key factors of human capital, entrepreneurship, innovation and infrastructure have been identified as key drivers for growth. Barriers under each of these headings are set out along with the factors which support rural enterprise growth.

### **23.2 RURAL DEVELOPMENT GROWTH FACTORS**

Rural development theory has evolved with an increasing focus on the value of rural areas beyond agriculture and on the factors required to mobilise this potential. The New Rural Paradigm (OECD, 2006) highlights a ‘new’ approach which involves a greater focus on the assets and amenities of an area. Subsequent research by the OECD<sup>150</sup> argues that effective regional policy will develop the mutually beneficial relationship between urban and rural, and not presume that one is dependent on the other. This research also finds that simple concentration (agglomeration) is not a sufficient condition for sustained growth and that persistent disparities suggest unused growth potential in less developed regions. Along with infrastructure and innovation, human capital and entrepreneurship are very important factors for growth<sup>151</sup>. These elements of growth are examined in this chapter. The OECD research notes that rural areas develop in the same way as other regions, using their assets and advantages, some of which may be fixed (e.g. certain natural resources) but key assets such as those associated with the knowledge economy e.g. human capital and innovation capacity and infrastructure are not limited in supply. Public policy has a key role in ensuring growth is maximised from the assets present in regions and rural areas<sup>152</sup>.

#### *Opportunities and advantages of rural areas*

The advantages of rural regions are not solely based on traditional uses of natural resources. Too strong a focus on primary production and manufacturing can preclude

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<sup>150</sup> OECD, 2009, *How Regions Grow: Trends and Analysis* and OECD, 2009, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*

<sup>151</sup> OECD, 2012, *Promoting Growth in all Regions*, p.60

<sup>152</sup> WDC, 2010, *Why Care about Regions? A New Approach to Regional Policy*

the potential of the knowledge economy for rural areas. High value added activity and innovation is important for rural areas whether in tourism, eco industry, on farm or in local services. Many rural areas have assets (natural and cultural public goods such as water, clean environment, landscape and cultural heritage) which can provide opportunities for growth and development. Through online activity the potential for participation in global trade is largely unlimited by location. There are new opportunities arising from improved communications and digital technology which can support opportunities for enterprises in rural areas arising from globalisation, innovation, reduced transportation costs and changing trade patterns for commodities. There is an increased focus on amenities particularly for tourism and quality of life and opportunities exist in relation to renewable energy, creative industries and high-end knowledge economy, enterprises for which quality of location is more important than proximity.

### **23.3 WHY DO BUSINESSES LOCATE IN RURAL AREAS?**

Research shows that location in a rural area is in most cases a matter of preference for the rural business owner, rather than a strategy, and generally because of their close ties to the place where they have grown up. Some larger businesses have selected a rural site on the basis of cost advantages including lower property prices<sup>153</sup>. Other assets of rural areas include water, land, wind etc. All but the smallest firms have a considerable impact on their surrounding rural area, both as employers and by generating business for local suppliers. Though the numbers engaged in rural areas are smaller than urban areas, the economic activity and job creation which they generate has significant local effects. This can be enhanced by the fact that there is often a less diverse enterprise mix in rural areas increasing the relative importance and impact of rural enterprises.

Evidence of the barriers to the development of specifically rural enterprises is limited. Some barriers are faced by all enterprises independent of location, such as a general lack of credit arising out of the macroeconomic environment. The focus of this paper is those barriers which impact on rural enterprises specifically or where the current policy responses may be inadequate to effect change for enterprises located in rural areas.

#### *Issues of Size and Sector*

Barriers are likely to be different depending on the size and sector of the business activity. Recent trends suggest that enterprise growth and job creation may be increasingly concentrated in or near the larger urban areas<sup>154</sup> often along the motorway network and this is apparent even in sectors which are traditionally perceived as 'rural' businesses. An example is the recent establishment of the Kerry Group R&D offices in Naas, Co. Kildare where proximity to the motorway network (M7 and M50) was cited as a key factor<sup>155</sup>. Kerry Group is a large multinational with extensive global operations but headquartered in Ireland.

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<sup>153</sup> OECD, 2009a, OECD 2009b, WDC, 2007, Rural Businesses at Work

<sup>154</sup> Breathnach, P. 2013, Spatial Trends in Employment in Foreign Firms in Ireland. CEDRA research paper

<sup>155</sup> <http://www.enterprise-ireland.com/en/news/pressreleases/2012-press-releases/800-jobs-and-400-construction-jobs-to-be-created-by-kerry-group-in-government-supported-investment-minister-rutonminister-coveney.html>

There are also different types of rural areas with different sectoral strengths. In terms of agriculture, in general stronger rural areas have been located along the east coast of Ireland, while more of the West comprises rural areas categorised as weak or remote (National Spatial Strategy, 2002) which are lagging behind in development and suffering a decline in agricultural activity. On the other hand some more remote rural areas can have strong sectoral offerings such as tourism in West Cork/Kerry.

#### *What are the barriers?*

Priorities for the development of rural areas have previously been identified in the National Spatial Strategy (NSS), the National Development Plan 2007-2013 as well as in the Rural Development Programme 2007-2013. Themes include the need to promote the rural economy based on natural resources and environmental quality; enhancing accessibility; and encouraging the adoption of technologies that can offset the barriers of distance.

Though there may be some change and improvements, some of these themes and barriers are still issues for rural businesses in 2013. Consultation on the new Rural Development Programme 2014 -2020 is underway and overcoming barriers to rural enterprise growth should be considered as part of this process.

Drawing on the OECD research mentioned previously, the barriers to enterprise growth in rural areas will be examined under four broad headings: Human Capital, Entrepreneurship, Innovation and Infrastructure. Research has shown that these are the four critical factors underpinning rural growth and therefore barriers in these four areas can considerably inhibit rural enterprise growth.

#### A. Human Capital and Skills

The OECD found that human capital is even more important than infrastructure as a determinant of regional performance<sup>156</sup>. The improvement in the rural human resource base in all parts of Ireland during the economic boom was a key benefit of economic growth. Returning migrants and the opportunity to return to live and work in rural areas is evidence that the human resource base can change and improve but also that people follow jobs to where they want to live<sup>157</sup>. In this section the skills and training needs of rural enterprises and rural dwellers is examined.

##### 1. Rural enterprise skill needs

Rural enterprises need to be able to source and retain the right skills. In times of economic contraction rural areas often experience a brain drain with the loss of its skilled workforce, as well as potential entrepreneurs to either overseas locations or to other (usually urban) parts of Ireland. The OECD notes that this is one of two important skill issues facing the rural economy which contend with a more limited available skillset than urban areas because

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<sup>156</sup> WDC, 2011, WDC Policy Briefing No. 4 Education, Enterprise and Employment: How can better integration of the 3Es drive growth in the Western Region?

<sup>157</sup> The Census of Population 2006 illustrates the inter-censal population growth and [www.lookwest.ie](http://www.lookwest.ie) highlighted the job search of many returning migrants.

there is a smaller labour force with less diverse employment opportunities<sup>158</sup>. There is a legacy of out-migration from many rural areas, partly arising from life cycle choices but partly through perceived or real lack of opportunity. Promoting job creation in rural growth sectors will provide attractive job opportunities for rural dwellers close to where they live. It is important that these skills can be attracted back to rural areas. Quality of life factors are an important consideration in attracting skills back to rural areas and removing some of the barriers will help in this but a wider discussion of quality of life factors is outside the scope of this chapter.

It is worth noting that not all rural businesses experience skill shortages or deficiencies. For those who do, some may be very specialist skills or industry specific and some may be temporary arising out of a need to retrain or recruit as employees leave. Some rurally based businesses find that despite the barriers they face, for example distance to market, they can continue to compete on the basis of a loyal workforce and innovative product development, for example there are a range of medium to large sized manufacturing companies which export their products and services from rural locations in the West of Ireland<sup>159</sup>.

## 2. Large scale labour demand

The issue of sufficient human resource capacity is often raised when considering the needs of larger enterprises. Of course larger enterprises will generally need to locate in or near a large labour pool in urban areas. However there are multinational operations of significant scale outside the principal cities that can source most of the skills they require locally. There may be some specialist skills which are not available in the area but these are sometimes not available elsewhere in Ireland and are brought in from overseas<sup>160</sup>. An example of a relatively large enterprise in a rural town is Bank of America in Carrick-on-Shannon. This enterprise effectively draws on a large geographic catchment for its human resource needs capacity and has attracted locals back to the area.

## 3. Skills availability in more remote rural areas

Enterprise location may impact on skills availability. There are likely to be differences for enterprises in rural locations proximate to urban centres compared to those rural locations which are remote and beyond commuting distance. Many rural businesses operate in the hinterland of urban areas and can access the local labour supply or source labour from the commuting population within the catchment of the urban area. For example, some smaller medical device companies have chosen to locate in more rural parts of Co. Galway while attracting the labour supply available in the city. This reflects a pattern of commuting from core to periphery in contrast to the more common travel flows into the city. In many cases this is seen as preferable, as commuting 'against the

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<sup>158</sup> OECD, 2012, *Innovation and Modernising the Rural Economy*, p.8

<sup>159</sup> See <http://www.lookwest.ie/case-studies/enterprise/> Merenda Manorhamilton, E&I Engineering in Burnfoot, Co. Donegal, Mc Hale Engineering in Ballinrobe, Masonite, Walsh Mechanical Engineering in Ballinrobe.

<sup>160</sup> The CEO of a large multinational with several sites in the West has noted that he has not had a problem with the workforce skills apart from the 'high end specialist' element, which he needs to bring in from abroad (Puerto Rico) and would have to do so even if the company was based in Dublin.



traffic' is far quicker. Accessing the labour supply of an adjacent urban centre is not possible in more remote rural areas. Research has found that rural enterprises wishing to expand, or which need relatively scarce or specialist skills, may have difficulty being able to source suitable staff locally or in attracting third level graduates<sup>161</sup>. In some instances, this has caused them to move or open up alternative centres of operation in urban areas as specialised staff may have a preference for such locations, particularly as a lack of alternative employment opportunities in a rural area makes people reluctant to relocate for a single job opportunity. For example, a small multinational exporting company which contends with both the need for specialist skills and quality broadband infrastructure<sup>162</sup> moved from a rural location in Co. Clare (Kilrush) to Ennis. From a skills perspective, locating closer to the larger labour markets of Limerick and Galway ensured the company could access the skills needed.

#### 4. Specific skill shortages

Examining the specific skill shortages faced by rural enterprises, the following have been identified;

- Languages
- ICT, Science & Technology
- Sales<sup>163</sup>

Many of these skill shortages have been identified at a national level or even at a European or global level. There is evidence of a global shortage of technology skills<sup>164</sup> while at a national level many of the language skills required have been recruited from abroad. Research has shown that the sales and marketing activities of indigenous micro-enterprises and SMEs need to be supported so as to facilitate increased access to international markets. Recent vacancy data shows that most vacancies advertised across all regions are for associate professionals, many in sales, indicating continuing demand for such skills<sup>165</sup>. While growth in high value, high skill exporting enterprises is central to export-led recovery; it cannot provide a full solution for unemployment. Job creation in lower skill, employment intensive enterprises will also be required to address long term unemployment and prevent it from becoming embedded<sup>166</sup>. Forfás terms this a 'whole of enterprise' approach acknowledging that enterprises across all sectors have the potential to innovate and increase productivity but vary in how they contribute to growth and employment<sup>167</sup>.

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<sup>161</sup> WDC, 2007, Rural Businesses at Work

<sup>162</sup> While the broadband infrastructure in Ennis was an improvement there are still weaknesses which are outlined in WDC, 2012, Connecting the West, Next Generation Broadband in the Western Region.

<sup>163</sup> WDC, 2011, WDC Policy Briefing No.4 and WDC 2007, Rural Businesses at Work

<sup>164</sup> Most recently reported in The Irish Times, 20 June 2012, There is a global skills gap in technology – it's not just in Ireland, EMC President and Chief Operating Officer.

<sup>165</sup> DSP/FÁS Jobs Ireland internet portal 2012, FÁS, 2013, Skills and Labour Market Research Unit and Expert Group on Future Skills Needs Regional Labour Markets in Ireland, Jasmina Behan. Vacancies for labourers and personal service workers were also reported.

<sup>166</sup> WDC, 2011, WDC Policy Briefing No.4

<sup>167</sup> Forfás, 2010, Making it Happen: Growing Enterprise for Ireland

Focusing only on high growth ‘smart economy’ enterprises will not generate enough jobs, and this is reflected in the emphasis placed on other sectors such as tourism in the various Action Plan for Jobs 2012 and 2013.

## 5. Facilitating flexible working

Some companies operate policies of flexible working and eWorking where required and research indicates that more reliable broadband connectivity to homes will be required to enable home working and allow companies attract and retain key personnel<sup>168</sup>. For example, domestic broadband speeds of more than 5Mbps download and 1Mbps upload were required by applicants for new customer support jobs working from home for Amazon and Apple<sup>169</sup>. The need for improved broadband services is discussed further under the infrastructure section.

## 6. Engagement with Education Providers

Rural enterprises themselves need to engage with higher education institutions and Institutes of Technology (IoTs) in particular to identify skill shortages and future needs and provide input to course design and feedback on the employability of newly qualified staff. The role of IoTs in supporting education and training needs are particularly relevant to rural areas as they have a strong regional and rural presence. Coordination and long term planning are required among education and training providers in responding to rural enterprise needs. Better labour market information at rural and regional levels will enable the range of education, training and research providers to engage with and respond to skills needs which are specific to rural areas.

## 7. Access to Training

Research among rural businesses has identified a recognised need for more training but the barriers are cost and distance. The OECD regard this as the other key skill related issue facing rural economies; the extra cost borne in augmenting the local skill set<sup>170</sup>. Management and specialist courses are usually held in cities, which increases the cost of attending for those based in rural locations.

From a national training policy perspective, there is a need to acknowledge and cater for the training requirements of managers and workers in rural enterprises by tailoring training provision more effectively to their needs and to the realities of operating in a rural location.

The barriers to training faced by those in work and jobseekers in smaller centres and rural areas should be addressed in the design of education, training, internship, welfare and other labour activation programmes. The barriers of travel distance and lack of

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<sup>168</sup> WDC, 2012, Connecting the West, Next Generation Broadband in the Western Region.

<sup>169</sup> The Irish Examiner 31 August 2012.

<sup>170</sup> OECD, 2012, Innovation and Modernising the Rural Economy, p.8

public transport can be partly addressed through flexible learning e.g. part-time, online/distance, outreach.

This can be particularly important for those with greater caring responsibilities. The Institutes of Technology Ireland portal ([www.bluebrick.ie](http://www.bluebrick.ie)) allows potential students apply online for all flexible learning provided by IoTs, as well as for the Springboard programme for part-time higher education for the unemployed. The widespread availability of high speed broadband is required to facilitate distance education (discussed below). In addition, improved funding, more flexible routes of progression, recognition of prior and work-based learning and return to study assistance would help increase participation by adult learners.<sup>171</sup>

For smaller businesses, with limited management capacity in certain key areas, other means of accessing expertise were also seen as important. Suggestions include the involvement of a mentor or shareholder with specific skills, or a panel of legal, marketing and management consultants provided by a support agency which could be accessed as required by small businesses.

## 8. Continuing Skill development

Maintaining a skilled rural labour force also requires in-employment training and management skills development. This benefits individuals and firms particularly SMEs attempting to move up the value chain or in vulnerable sectors. The Skillnets programme supports such in-employment upskilling and its network approach can be particularly useful for rural enterprises. Research has found that the Skillnets initiative<sup>172</sup>, was the most common means of accessing training for rural businesses. The relevance of the Skillnets initiative may be due to the fact that it is based on a network approach, which allows the training to be specifically tailored to the needs of the enterprises involved, either sectoral or geographic.

## 9. Rural dwellers employability

While skills are critical from an enterprise perspective, for individual rural dwellers, their skill and education level has a profound impact on their employment prospects. Here, the other side of the skills issue – the employability of rural dwellers – is examined. Raising the educational attainment of those with lower education and skills will improve their employment prospects and the available skills pool. The OECD notes that increasing skills should be a key element of integrated growth strategies at regional level<sup>173</sup>. Specific issues related to rural upskilling are outlined below.

## 10. Rural Upskilling

Within some rural areas a dual skills base is evident comprising (1) a more educated group who migrate elsewhere or commute to urban centres and (2) a less educated cohort who have traditionally entered agriculture or local manufacturing. During the

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<sup>171</sup> Stokes, A. and Thorn, R., 2010, National Policies for the Implementation of Lifelong Learning

<sup>172</sup> WDC, 2007, Rural Businesses at Work, The Skillnets initiative is supported by the National Training Fund [www.skillnets.ie](http://www.skillnets.ie)

<sup>173</sup> OECD, 2012, Promoting Growth in All Regions 2012 p3

economic boom this latter cohort grew with many (especially males) leaving education earlier than they might otherwise have done based on the then vibrant and high paying construction sector.

The significant and rapid decline of this sector has left a group without appropriate skills for the sectors most likely to provide employment into the future.

Close alignment of education and training provision with current and future rural job opportunities is required to ensure enterprises can access the skills they need as well as raise education levels and reduce unemployment in rural areas. Upskilling and re-skilling needs to be targeted and there are some priority groups in rural areas including: workers in vulnerable sectors; young men in rural areas who left school to go into building; older men including part-time farmers who have lost jobs in construction or traditional manufacturing; and women in the retail, hospitality and other local services sectors. Re-skilling should also be based on an assessment of learner's abilities and needs to provide them with the 'right skills' for the types of jobs likely to emerge.

Growth sectors which are particularly suited to rural areas should be the focus of coordinated skills and training provision and be prioritised for investment. In more rural regions, coalitions of the private sector, enterprise support agencies, local authorities and education providers should drive their growth. The WDC's approach to developing the wood energy sector provides a useful model<sup>174</sup>.

Research has found that young jobseekers' attitude towards upskilling varies by their current level of education. Early school leavers and those with apprenticeships are very interested in more education, while graduates are less enthusiastic, citing cost and querying whether further qualifications would make them any more attractive in the jobs market.

Their main objective is gaining work experience; high quality work placements and internships are their priority.<sup>175</sup> Those with low qualifications are less likely to undertake further study and will only do so if they believe it is meaningful<sup>176</sup>.

Another mechanism to engage target groups in local rural communities could be through the use of voluntary 'learning mentors'. These would be peers of the priority target groups who have undertaken upskilling themselves. They should inform, advise and mentor jobseekers as they re-enter learning. The community and voluntary sector and local sports clubs could play a key role in helping learning mentors identify and make contact with individuals.

Upskilling adult learners can benefit rural areas specifically. The OECD has noted that Adult learners usually have links to a specific locality, and are therefore less mobile than younger students. Upgrading their skills will thus have a more direct effect on

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<sup>174</sup> WDC, 2011, WDC Policy Briefing No.4

<sup>175</sup> NYCI, 2010 National Youth Council of Ireland, 2010, Youth Unemployment in Ireland: The forgotten generation; BMW Regional Assembly, 2011, Audit of the Innovation System in the Border, Midland and Western Region

<sup>176</sup> WDC Policy Briefing No.4

regions' economic performance.<sup>177</sup> The considerable increase in the number of adult learners across further and higher education as a consequence of the increase in unemployment will have a direct impact on rural areas. At Letterkenny IT for example, 30% of their full-time students are mature students and it largely draws its student body from Donegal and the North West which is a largely rural region. In a recent survey of its graduates it was found that 60% of those who were at work were working in Co. Donegal.

## 11. Information on rural skills needs

Those requiring upskilling need to receive advice and information that is closely aligned to better rural labour market information. Changes in the Department of Education and Skills (DES), the Department of Social Protection (DSP), Higher Education Institutions (HEIs), Vocational Education Committees (VECs) and FÁS/SOLAS are aiming to improve the alignment of supply and demand for skills. These structural changes need to incorporate a degree of flexibility to respond to specific local skills and training issues in rural areas. A 'one size fits all' approach to education and training provision will not adequately address the real upskilling needs of rural areas.

Beyond the research cited there is little systematic information on the demand and supply of skills in rural areas or how the skills needs of rural businesses impact on their location decisions. The information on rural dwellers commuting to urban and gateway jobs (a separate CEDRA Chapter) will highlight some educational and occupational differences but more evidence and information is required. The recent work by the Expert Group on Future Skills Needs<sup>178</sup> identifying regional skills is welcome as previously most of the skills analysis occurred at a national level. The sub-national level is important and in the context of a strategy for the economic development of rural areas, consideration should be given to further enhancing the labour market information base for rural areas. This would recognise the rural-urban labour market linkages and travel to work areas focusing in particular on the labour market needs of rural areas. It would also take account of the different types of rural areas.

A joined up approach to enterprise, education and employment in both national policy design and regional and rural implementation reflects the OECD thinking on the need for a multidimensional approach. This approach will both improve outcomes and make the most of limited resources. Implementation of the proposals made here to identify and respond to rural skills needs, address the specific issues of jobseekers in more rural areas, support relations between enterprises and HEIs, ease access to enterprise supports and supporting innovation and removing infrastructure bottlenecks will support job growth and enterprise creation in rural areas.

## B. Entrepreneurship

While entrepreneurship is now seen as a driving force for modernising both rural and urban economies and a very important aspect of job creation, entrepreneurship in rural areas may be of particular benefit. Product cycle theory suggests that firms often

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<sup>177</sup> OECD, 2009, *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, p. 63

<sup>178</sup> Forfás, 2012, *Expert Group on Future Skills Needs Regional Labour Markets Bulletin* 2012.

relocate to rural areas at a later stage in their lifecycle<sup>179</sup>. Therefore promoting indigenous start-ups and entrepreneurs and taking advantage of local resources in rural areas can ensure a greater range of enterprises at different stages in their life cycle which in turn will help generate a more dynamic and buoyant rural economy.

Research on entrepreneurs in rural Ireland found that they started a business there because that is where they grew up. Therefore retaining young people or attracting them to return to rural areas is also critical to ensuring the continued establishment of new enterprises in rural areas<sup>180</sup>. Self-employment is also higher in more rural areas for example just 12% of those in cities were self-employed compared with 15.1% of those employed in small towns (pop 1,500 – 2,999) and 26.9% of those living and working in very rural areas<sup>181</sup>.

## 1. Networking in rural areas

Isolation can be an issue for rural entrepreneurs<sup>182</sup>. Research into rural businesses found that of those companies profiled, those which network closely with other businesses tend to do so more on a sectoral than a geographic basis. The more specialised sectors tend to be the most networked. Networks in rural areas do not provide as many potential customer contacts as they would in an urban area where the membership would also include large firms that would be potential clients.

## 2. Enterprise Supports

Supporting entrepreneurs across all sectors, in local services, in addition to exporting enterprises, is important for sustaining as well as creating jobs. The CEBs, local development companies and local authorities are the main providers of support to such businesses. Entrepreneurs, new and experienced, regardless of scale or sector face a very challenging business environment. Enterprise supports including funding, equity investment, soft supports (mentoring, advice), incubation space, marketing, entrepreneurship programmes, website development and international trade missions need to be continued and access to them made as easy as possible. The current process of establishing local employment offices (LEOs) must take into account the specific issues faced by rural entrepreneurs.

More active support for entrepreneurial activity in smaller centres and more rural areas is needed. For more rural areas developing enterprises built on its assets e.g. agriculture, renewable energy, creative industries, tourism, marine, will drive job creation. Research by the WDC identified a novel approach to make it easier for entrepreneurs to identify and access rural and regional business support services<sup>183</sup>. The ‘No Wrong Door’ model in Kansas and Wisconsin in the US recognises that while a ‘one-stop shop’ for business support may be desirable, it may not be possible in the short term and/or may not

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<sup>179</sup> OECD <http://www.oecd.org/rural/krasnoyarsk/Innovation-Modernising-Rural-Economy.pdf> p.8

<sup>180</sup> WDC, 2007, Rural Businesses at Work

<sup>181</sup> Census of Population 2011. Very rural areas are defined as those areas with less than 50 houses.

<sup>182</sup> WDC, 2007, Rural Businesses at Work 2007

<sup>183</sup> WDC, 2011, Policy Briefing No.4. Education, Enterprise & Employment: How can better Integration of the 3Es drive growth in the Western Region? P. 7

provide the specialised services required by some sectors or entrepreneurs<sup>184</sup>. Therefore a formalised system of cross-referrals among existing enterprise support agencies at a regional level, expanding on current informal arrangements, can provide an alternative solution. It would be important this also incorporate enterprise allowances for jobseekers. Essentially an entrepreneur should never go to a ‘wrong door’ when seeking assistance or rather it should ‘always be the right door’.

In the US it was found that success depended on a common intake procedure for requests, clear information for entrepreneurs, staff in each organisation trained in the services of others, setting-up of a clear regional referral system and regular collaboration between the partner agencies. Initial evaluations showed increased customer satisfaction, cost savings for the agencies and improvements in regional enterprise productivity. Such a system should be piloted in a rural region such as the Western Region.

### 3. Entrepreneurial education

Business innovation centres support college spin-out companies and external start-ups, while entrepreneurship education is critical. Developing business skills across all education levels and disciplines opens up the possibility of self-employment from a young age and widens the options for new graduates to become ‘job shapers’ rather than only ‘job seekers’.<sup>185</sup>

### C. Innovation

The OECD argues that understanding how innovation happens in rural areas and finding ways to foster it is central to modernising the rural economy<sup>186</sup>. Innovation is not solely about introducing new practices but it also includes improving and upgrading existing processes. In a rural context, innovation can be about adopting new technologies to sectors such as farming or tourism which in turn improves productivity. Innovation is also supported by research and links with higher education institutions.

Research on rural businesses has shown that linkages between firms and higher education institutions can vary, with the most common links relating to graduate recruitment. A small number of enterprises link with third level institutes for the purposes of R&D<sup>187</sup>. This may mean that benefits from greater cooperation in areas such as curriculum reform, technology transfer or product development are being lost.

Innovation and improved productivity will underpin future enterprise success. Nontechnological innovation has a key role for smaller firms, more traditional sectors and some service-based sectors and can be more affordable and effective than large scale, technology driven R&D

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<sup>184</sup> Pages, E., 2010, ‘No Wrong Door’ Model, p. 141-148 in OECD, 2010, A Review of Local Economic and Employment Development Policy Approaches in OECD Countries: Policy Audits

<sup>185</sup> Department of Education and Skills, 2011, National Strategy for Higher Education to 2030

<sup>186</sup> OECD <http://www.oecd.org/rural/krasnoyarsk/Innovation-Modernising-Rural-Economy.pdf> p.9

<sup>187</sup> WDC, 2007, Rural Businesses at Work

Universities still undertake most HEI research (88% of funding in 2010<sup>188</sup>) but the Institute of Technology share is growing and the Institutes of Technology can be particularly relevant in more rural areas. Increasing HEI-enterprise interactions in non-technological innovation presents a particular opportunity for more rural regions. It must also be recognised that HEIs are just one source of innovation for firms together with suppliers, customers and other firms.

To increase innovative activity in rural areas, opportunities to align research with regional and rural strengths and growth sectors, as well as to increase access to this research, should be explored. This could include creating internationally competitive innovation centres in HEIs based on research and enterprise strengths e.g. renewable energy, medical devices, creative industries<sup>189</sup>.

WDC research has highlighted the importance of getting an economic return from this research which requires enterprise-education collaboration. This has evolved over recent years as well as through technology transfer and industry liaison offices and programmes such as Innovation Partnerships and Innovation Vouchers. Innovation Vouchers are €5,000 grants which assist micro-enterprises and SMEs to engage with HEIs on small research projects. To date 564 (19.5% of total) have been approved in the Western Region<sup>190</sup>.

Despite the importance placed on enterprise-HEI collaboration, it is still quite limited except for high-tech firms. Barriers which have been identified include a lack of core funding and staffing for knowledge transfer in HEIs and differing expectations of businesses and HEIs.

Pricing and difficulties accessing funding, as well as problems finding out what research is underway in HEIs have also emerged as constraints<sup>191</sup>.

In its analysis of enterprise and education collaboration the WDC recommends the introduction of a brokerage facility to increase technological and non-technological interactions between enterprise and HEIs. This brokerage facility would act as a single point of contact and intermediary between enterprise and HEIs<sup>192</sup>. It should help companies clarify and frame their problem, identify funding sources and then provide impartial information and advice on which HEI(s) can best meet their needs and introduce them to the relevant technology transfer/industry liaison offices. The growing number of HEI alliances should facilitate this service. Enterprises in the Border,

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<sup>188</sup> Forfás, 2013, forthcoming. Provisional figures. This is down slightly from 90% in 2008. Forfás, 2010 The Higher Education R&D Survey 2008

<sup>189</sup> WDC, 2009, Submission to Innovation Taskforce

<sup>190</sup> WDC, 2011, Education, Enterprise & Employment: How can better Integration of the 3Es drive growth in the Western Region? p. 7 Data provided by Enterprise Ireland.

<sup>191</sup> BMW Regional Assembly, 2011 Audit of the Innovation System in the Border, Midland and Western Region.

<sup>192</sup> This facility such as Interface in Scotland, should be established. This could be incorporated into an existing agency e.g. Enterprise Ireland, Higher Education Authority or other organisation. Proposal No.2 (3Es) [www.interface-online.org.uk](http://www.interface-online.org.uk) Since 2005 Interface in Scotland has progressed 1,328 enquiries, resulting in 396 collaborative projects with 74% of those businesses not having worked with that academic partner previously. It is run by a staff of nine with both business and academic backgrounds.



Midlands and West (BMW) region have expressed an interest in such a single point of contact<sup>193</sup>.

The OECD has identified human capital, entrepreneurship, innovation and infrastructure as the key factors required to promote development across all regions. The previous sections have examined the needs of rural areas with regard to the human capital, entrepreneurship and innovation and have identified some proposals to support enterprise development in rural areas. The final section examines some of the key infrastructure barriers faced by rural areas in supporting rural enterprises.

## D. Infrastructure

### Introduction

For rural regions to develop they need to have a similar quality of infrastructure as is available in more successful regions. With poor infrastructural connectivity, enterprises and job seekers can face additional barriers to participation in the modern economy.

Conversely, improvements in infrastructural connectivity will generate productivity gains for local businesses and increase the attractiveness of an area for investment and tourism. In this section we focus on some of the main infrastructure barriers which rural areas contend with in trying to participate and compete in the global economy. Other barriers faced by rural enterprises including institutional factors such as access to finance<sup>194</sup> and changes to local support structures are to be examined in other CEDRA research.

### Broadband

#### Context

Through online activity the potential for participation in global trade is largely unlimited by location. Quality broadband can make geographic distance to market far less relevant and provide easy access to worldwide markets as well as being a catalyst in dispersing economic activity. Improved broadband infrastructure can reduce, if not eradicate the limitations of more peripheral locations.

Broadband network infrastructure enables the transmission of data. The better the network is, the faster the speed of data transmission. Broadband has enabled innovation and growth and international research shows that the internet contributes up to 6% of

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<sup>193</sup> BMW Regional Assembly, 2011 Audit of the Innovation System in the Border, Midland and Western Region

<sup>194</sup> WDC, 2011 Policy Briefing No. 4 Access to finance needs to be improved, with venture capital a regional priority (3Es). Almost all of the rural enterprises interviewed had received some form of assistance from state agencies. The larger enterprises had accessed funding from the main enterprise support agencies: One company had received an investment from the WDC Investment Fund. (Rural Businesses at Work, WDC 2007) Enterprise Ireland, Údarás na Gaeltachta or Shannon Development. The Business Expansion Scheme (BES) had also been used by the larger companies to raise capital. Locally-trading micro-enterprises and local service businesses in smaller centres and rural areas must be supported through national enterprise policy, especially in the context of any changes to CEB structures

GDP in advanced economies<sup>195</sup>. The internet is a driver of job growth creating 2.6 jobs for each one lost arising from technology-related efficiencies<sup>196</sup>.

The National Competitiveness Council considers that broadband is a priority for enterprise growth noting that...the widespread availability of advanced broadband infrastructure and

services is essential to realising future growth potential in existing and emerging sectors. It will also play a key role in supporting the growth of small business, capturing opportunities for productivity and innovation, supporting regional development. Despite recent progress, Ireland still lags the EU and OECD in terms of high speed broadband availability<sup>197</sup>.

### **23.4 EVIDENCE OF WEAK INFRASTRUCTURE**

The National Broadband Scheme (NBS) was established to provide basic broadband to those areas where the commercial operators were not providing services. There were mostly the rural areas. The NBS areas are those areas depicted in Map 1 in aqua green. The NBS did not (as intended) deliver a basic minimum broadband service to all, so a new scheme, the Rural Broadband Scheme (RBS) was established to ensure that those remaining premises which could not access basic broadband from the NBS or commercial providers would be served.

While a basic broadband service may now be considered universally available, service levels for both enterprises and domestic users in rural areas are considerably less than that available in urban areas. At a household level broadband speeds are slower in rural areas<sup>49</sup>. Case studies from businesses illustrate how rural businesses are frustrated by poor broadband service levels<sup>198</sup>. Forfás has noted that SMEs located outside the main urban centres have significantly less choice and less access to good quality services<sup>51</sup>.

The case studies also demonstrate the extent of international trade within the SME sector and that broadband is a prerequisite in enabling this. The SME sector needs competitively priced quality broadband services to enable it to trade internationally and to effectively compete with businesses in other countries. Next generation services are an important selling point for the State's development agencies and widespread availability will be important in ensuring support for new investments, both foreign and indigenous. Domestic speeds are increasingly important from an enterprise location perspective as they enable eWorking which some employers use as a flexible work

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<sup>195</sup> DCENR, 2012, Delivering a Connected Society, A National Broadband Plan for Ireland.<http://www.dcenr.gov.ie/NR/rdonlyres/1EA7B477-741B-4B74-A08E-6350135C32D2/0/NBP.pdf>

<sup>196</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0245:FIN:EN:PDF> The Digital Agenda for Europe is one of the seven flagship initiatives of the Europe 2020 Strategy, set out to define the key enabling role that the use of Information and Communication Technologies (ICT) will have in delivering on the Europe 2020 Strategy.

<sup>197</sup> National Competitiveness Council, 2011, Ireland's Competitiveness Challenge 2011.

<sup>198</sup> WDC, 2012, Connecting the West, Next Generation Broadband in the Western Region. WDC, 2007, Rural Businesses at Work.

practice<sup>199</sup>. eWorking can be particularly useful in promoting rural development and reducing, if not eradicating the limitations of more peripheral locations.

## Government Policy

The Government's National Broadband Plan (NBP) 2012, Delivering a Connected Society contains a commitment to deliver broadband targets of between 70 and 100Mbps to more than half the population by 2015. This level of service is likely to be concentrated in urban areas as the commercial return will be greater there. According to the NBP, at least 50% of the population will have access to headline speeds in excess of 70Mbps by 2015 and these services will be provided in the cities and towns 10,000+. It is likely that these speeds will become the 'industry standard'.

- 40Mbps to a further 20% of the population (by 2016). This service level is likely to be available in the smaller urban areas for example centers of population ranging from 1,500 – 10,000.
- Finally there is a commitment to a minimum service level of 30Mbps for all homes and businesses by 2016. The current minimum level of service is 2.3Mbps<sup>200, 201</sup>. While broadband penetration is increasing, over a third (34.7%) of all homes did not have a broadband connection in 2011<sup>202</sup>. Forfás, 2011, Ireland's Advanced Broadband Performance and Policy Priorities, p.9. The IDA has said that inadequate broadband has proved decisive in investment decisions. Poor broadband 'decisive' in losing investment, Irish Times, 31 August 2012.

Map 1 below is an assessment of next generation service provision based on the targets set out under the NBP. The exact rollout of services is yet to be determined but this provides an indication of where the different levels of services will be available. The availability of next generation services to the more rural areas is depicted by the two shades of green.

### 1. Rural areas – Areas covered by the NBS (aqua green)

The NBS areas (depicted in aqua green) are the rural areas and are served by the National Broadband Scheme (NBS) and Rural Broadband Scheme (RBS). Based on the current provision of basic broadband, market failure is evident in those areas now covered by the NBS and RBS schemes. It is likely therefore that Government funding will be required to deliver next generation broadband to most if not all these areas.

The NBP targets for these areas are headline speeds of 30Mbps. While 30Mbps will be a vast improvement on speeds currently available, these areas will be at a considerable disadvantage compared to more urban areas where speeds of 100Mbps are available. It

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<sup>199</sup> The Irish Examiner reported that broadband speeds of less than 5Mbps download and 1Mbps upload preclude applicants for new customer support jobs working from home for Amazon and Apple. 31 August 2012. Some of the case studies reviewed in WDC, 2012, Connecting the West, Next Generation Broadband in the Western Region, employ eWorking as standard practice.

<sup>200</sup>

<http://www.dcenr.gov.ie/Communications/Communications+Development/National+Broadband+Scheme/NBS+FAQs.htm#Product>.

<sup>201</sup> Nationally, 70% of urban households had broadband compared with 56.5% of rural households.

<sup>202</sup> The target speeds refer to download speeds and the upload speeds are usually less.

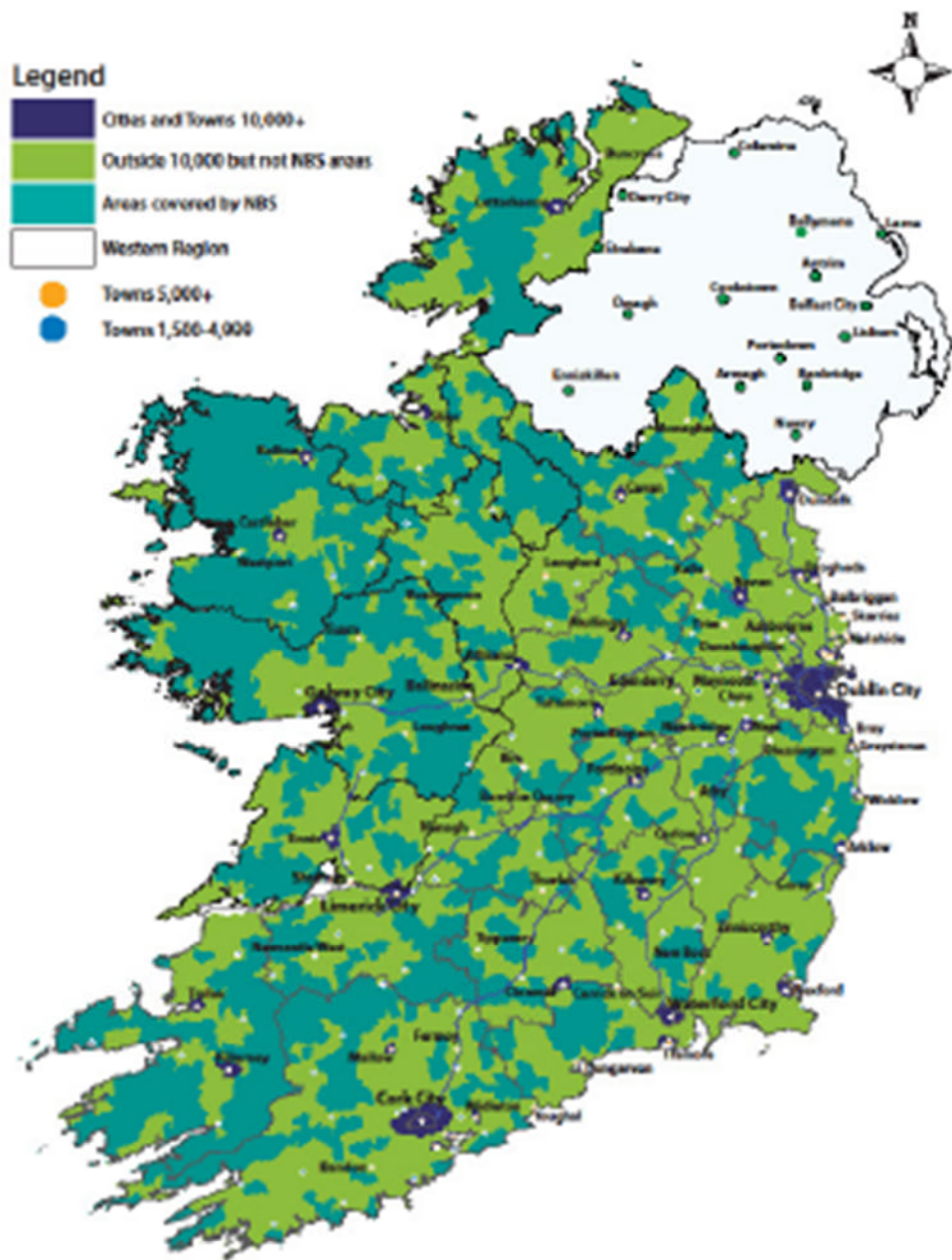
is also not clear that 30Mbps is likely to be sufficient over the longer term based on the previous experience of increasing broadband speed requirements, the range of applications which can be deployed and the new industry standard of 100Mbps and higher. 2. Semi-urban areas – Population centres of 1,500 - 10,000 (approx) (lime green)

The lime green areas are those outside the principal urban centres but not very rural areas, and are likely to include many urban centres and some county towns including towns with a population greater than 1,500 (blue dots) as depicted in Map 1. Target speeds of 40Mbps are planned for approximately 20% of the population (and possibly up to 35%). These slower speeds are likely to be delivered to smaller towns, for example those towns with a population of 1,500 – 10,000. It seems likely that these smaller towns may be at a considerable disadvantage compared to larger urban centres with broadband speeds double that. As with the more rural areas, these areas are will be much less attractive compared to the services that are and will be available in the principal urban areas and in the context of established trend of ever higher speeds becoming the acceptable minimum standard shows no sign of abating. This would suggest that 30-40Mbps will not be considered adequate in years to come<sup>203</sup>.

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<sup>203</sup> Generally the practice in most countries is to deliver the higher speed target (100Mbps) as far as possible, while deployment to the most rural and sparsely populated areas usually involves lower speeds, as set out in the EU DAE target of a minimum speed of 30Mbps for all EU citizens by 2020. Finland in particular is an example of a country with low urbanisation (similar to Ireland) but with ambitious targets for broadband speeds to practically the entire population. In Finland the current target is that by 2015 more than 99% of the population will have access to 100Mbps. In Australia 93% of Australian premises will have access to fibre to the premises, capable of providing speeds of up to one gigabit per second (1,024Mbps).

Figure 23.1 Next Generation Broadband in Ireland (Map 1)



Source: WDC 2012, Connecting the West, Next Generation Broadband in the Western Region.

23.5 RECOMMENDATIONS

Next generation broadband infrastructure is similar to other infrastructure in that delivery is less commercially attractive in more sparsely populated areas. While improved broadband speeds are a national issue, it is particularly important to ensure next generation broadband for rural businesses and those needing to trade online.

Technology can reduce distance to market for more peripheral locations but only where quality services are available at a competitive price. As in other countries, there needs to be significant state investment to ensure delivery to areas outside the principal urban areas. The following sets out the recommendations to support next generation deployment to more rural areas.

Many rural areas will continue to require further Government support in the provision of services. Funding needs to be ring-fenced and next generation services need to be delivered as soon as possible.

For the semi-urban areas (population centres of 1,500 - 10,000) further State investment should be used to deploy fibre networks enabling higher speed next generation services (100Mbps and not 40Mbps) as is the current target. This will ensure that the smaller urban areas are not at a disadvantage compared to the principal urban areas. Fibre deployment to these areas will be necessary to ensure the Programme for Government commitment of delivering fibre to the home or kerb for 90% of homes and businesses is met.

An immediate investment requirement is to build Metropolitan Area Networks (MANs - fibre networks) in the five remaining NSS centres, (Tuam, Castlebar, Ennis Shannon and Mallow). This will improve the attractiveness of these locations for industry and strengthen their role as economic drivers for their rural hinterlands as well as supporting fibre to the home or kerb in these centres.

Generally, larger users, often located in more urban areas can access the bandwidth they need but that the price is expensive compared to what is available internationally<sup>204</sup>. In addition, businesses outside Dublin have to pay the additional backhaul costs to the international access point at Dublin. Regional and rural broadband costs need to be competitive with Dublin rates, otherwise these extra costs to business will act as a disincentive to competitiveness, investment and job creation in rural areas.

### *Transport Infrastructure*

Transport infrastructure is recognised as one of the most important factors in stimulating economic growth, enabling more efficient movement of goods and services, reducing firms' transportation costs and allowing better operation of labour markets.<sup>205</sup> Access to quality road, rail and international air transport plays a crucial part in positioning rural areas within a modern global economy.

#### *Roads*

Transport requirements and travel behaviours are different in rural areas. Census 2011 shows that 54.7 per cent of commuters in Dublin relied on a car or motorcycle to get to work, compared to over 70 per cent of commuters in Cork, Waterford and Limerick. In

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<sup>204</sup> Forfás found that the average business package offered in Ireland is the fifth most expensive of the 13 countries benchmarked with the second slowest speed. Forfás, 2011, Ireland's Advanced Broadband Performance and Policy Priorities, p.22.

<sup>205</sup> Department of Finance, 2010, Infrastructure Investment Priorities 2010-2016, A Financial Framework.

the aggregate rural area 13.9 per cent of commuters used a van or lorry to get to work compared to just 6.3 per cent in the urban towns and only 3.4 per cent in Dublin<sup>206</sup>.

For enterprise, quality transport links between producers, consumers and suppliers are required to trade efficiently and confer competitive advantage through reduced costs, predictable journey times and access to wider markets.

Road infrastructure is the most important transport mode for access to and from businesses' rural locations, for clients, personnel travelling from headquarters and other sites, sales staff and the commuting workforce generally. For example in more rural areas limited transport options can be a barrier to participation in training and education. While courses on general subjects e.g. computer skills, may be provided locally, if participants want to progress or specialise they often need to travel. In Donegal jobseekers were willing to travel well over an hour to engage in training even though for some this raised barriers in terms of childcare and lack of public transport<sup>207</sup>. In 2008 while lifelong learning was undertaken by 33% of adults in Dublin it was only 18% in the Border region, likely influenced by access issues<sup>208</sup>. Poor basic infrastructure such as local roads can be an obstacle to rural locations even to those areas which are not very remote. Relatively poor road infrastructure can also add significant additional costs to road freight through increased damaged goods and greater maintenance costs for transport fleet. Transport costs can be a barrier and fuel price increases can impact on rural dwellers more than urban. Rural businesses<sup>209</sup> cite the importance of better road infrastructure with the need for road improvements generally highlighted as the most pressing.

Though there has been significant investment in the road network most particularly under the last two National Development Plans (2000-2006 and 2007-2013), much of the investment has been concentrated on the development of the MIUs. The improved MIU road infrastructure, providing shorter and more predictable journey times can further highlight the deficits in areas without such investment. This is apparent in some parts of the country where there is a complete absence of MIUs, for example the North West, so that this region is perceived as relatively more remote. Where motorways have been built there is an increasing concentration of development along these routes with investment gravitating towards improved motorway access. The MIU network also provides predictable journey times to international transport connectivity points at air and sea ports which are important to all businesses but especially those exporting.

### *Rail*

Census 2011 data shows that public transport (bus, minibuss, coach, train, DART and Luas) was more prevalent in Dublin. It was used by 21 per cent of commuters (93,034

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<sup>206</sup> CSO, Census of Population 2011, Profile 10, Door to Door, p.11

<sup>207</sup> Donegal County Council, 2010, Making the Future Happen ... Addressing the Unemployment Challenge in Donegal: Research report

<sup>208</sup> CSO, 2010, Quarterly National Household Survey, Lifelong Learning, Q3 2008

<sup>209</sup> WDC, 2007, Rural Businesses at Work, p.61

persons) in Dublin<sup>210</sup> compared with just 6.8 per cent in Cork, 6.4 per cent in Galway, 4.4 per cent in Limerick and only 1.8 per cent of commuters living in the aggregate rural area.

Intercity rail services, by their nature provide linkages between key urban centres and are therefore less available as a transport mode to rural residents. However, rail services may per cent in Galway and 4.4 per cent in Limerick. be useful to those rural dwellers that live close to a scheduled stop and where there is sufficient level of services. Rail transport is considered a more sustainable transport mode than road based transport, particularly in the context of commuting and there was a significant growth in rail based commuting before the economic contraction<sup>211</sup>. Public transport spending in Ireland has been concentrated on the transport needs of the Greater Dublin Area and the links between it and the other major urban centres. A review of public transport expenditure under Transport 21 shows that Almost two-thirds of public transport expenditure has been in Dublin with the majority of the balance on inter-urban corridors... the least favoured locations, even after allowing for population differences, are the deep rural areas not served by such corridor<sup>212</sup>.

Priorities for future investment in rail services are focussed on investing on those routes already well served by the motorway network. For example, the investments recommended concentrate on improving speeds on those intercity lines which have already seen the greatest improvement in the road network; for example to Belfast (M1), to Cork (M8), to Limerick (M7), and to Galway (M6). The rationale is to make rail transport more attractive as it has lost competitiveness with road. However, from a wider transport and accessibility perspective, the investment is being prioritised on those routes which already have excellent transport links. There are other routes serving more rural areas which have much weaker road and rail links for example to the North West and this reduces the competitiveness of these areas.

### *Rail Freight*

Rail freight is often the transport mode of choice for the distribution of bulky materials over relatively long distances. Often these freight movements are from rural locations to ports for export. In 1980 rail freight accounted for 12.7% of the total national freight movements but by 2009, this share had reduced to less than 1%. Some key sectors have been in decline, many of which were important sectors in the rural economy<sup>213</sup>. Additionally, in the absence of specific supports for rail freight, Iarnród Éireann has sought to operate rail freight on a strictly commercial basis.

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<sup>210</sup> CSO, Census of Population 2011, Profile 10, Door to Door, p11. It was used by just 6.8 per cent in Cork, 6.4

<sup>211</sup> While sustainable transport is not high on the policy agenda in the current economic climate and in the absence of significant capital funding for public transport, nonetheless it is likely to re-emerge as a priority when economic growth resumes.

<sup>212</sup> Chartered Institute of Logistics and Transport (Ireland) 2010, Transport 21 Midterm Review, p.5

<sup>213</sup> AECOM, 2012, p.173. Examples include Beer and Stout distribution (Diageo) which had long been a mainstay of the rail freight business. Other examples include Beet and Beet Pulp, (Carlow and Mallow) Cement (Tullamore & Waterford), Fertiliser (IFI factories at Arklow and Cork), Petrol and Oil (Sligo)



Nonetheless rail freight continues to be particularly important in supporting the logistics requirements of specific industries, many of which are rurally based. An example of the importance of rail freight to specific sectors is the case of mining. Lead and zinc are carried by rail from Tara Mines in County Meath to Dublin Port. The carrying of ores by rail is a requirement of the mine's planning permission. Coillte uses rail freight to transport pulpwood from the West of Ireland to the Coillte owned SmartPly Europe Plant in Belview Port (adjacent to Waterford city). Coillte has expressed interest in transporting wood by rail from locations such as Ennis and Farranfore. Currently the most significant rail freight route is from the West from Ballina, Co. Mayo exporting drinks concentrate (Coca Cola) to international markets via Dublin and Waterford Ports.

In Ireland, there is one subsidy provided to the combined rail passenger and freight sector with no distinction as to how it is allocated. In most other European countries there is a separate provision to support rail freight. The rationale for such support is based on the greater environmental sustainability and energy efficiency of rail transport, rail's superior safety record and the increasing need to reduce road congestion.

While road freight is likely to continue to be the most dominant freight transport mode it is likely that rail freight will grow in importance. Even where rail freight is not the cheapest mode, often companies are choosing it on environmental grounds. Rail freight is five times more carbon efficient than road. The environmental imperative is likely to increase with companies needing to demonstrate carbon savings. Access to the rail network can be an important factor in influencing location for specific types of industry.

### *Air Transport*

For an island economy air access is particularly important. More rural regions need to have good international connections and without efficient air access, companies in the region are placed at a competitive disadvantage to companies elsewhere. Case-study evidence from rural businesses highlight this where air transport is used to access other regions or countries, most businesses use the closest airports where possible. Rural businesses also note the importance of flight schedules that better facilitate business travel<sup>214</sup>.

An EU report measuring potential accessibility by air (using an index where EU 27 = 100), found that Dublin was the only region within Ireland above the EU average, measuring 135.<sup>215</sup> The more rural regions such as the Border<sup>216</sup> (60.2), West<sup>217</sup> (66.5) and Mid-West<sup>218</sup> (80.6) all recorded accessibility scores considerably below the EU average. The report underlines the role of airports in improving accessibility for remoter regions, noting the role of regional airports in the Nordic countries, which despite their remote location, record better than expected accessibility scores<sup>219</sup>.

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<sup>214</sup> WDC, 2007, Rural Businesses at Work, p.61

<sup>215</sup> [www.espon.eu/export/sites/default/Documents/Publications/TerritorialObservations/TrendsInAccessibility/accessibility\\_data.xls](http://www.espon.eu/export/sites/default/Documents/Publications/TerritorialObservations/TrendsInAccessibility/accessibility_data.xls)

<sup>216</sup> Donegal, Sligo, Leitrim, Cavan, Monaghan and Louth

<sup>217</sup> Galway, Mayo and Roscommon

<sup>218</sup> Clare, Limerick and North Tipperary

<sup>219</sup> ESPON, 2009, Territorial Dynamics in Europe: Trends in Accessibility, Territorial Observation No. 2, November 2009, p9

The geographic spread of air access services has been reduced following the closure of some regional airports to commercial services (particularly Galway and Sligo). This followed the withdrawal of some policy supports by Government. Forfás has cited the importance of air access to more remote areas such as the Border region and noted “the need to maximise the impact of regional airports”.<sup>220</sup> The IDA Strategy, Horizon 2020, with the ambition to locate 50% of FDI projects outside of Dublin and Cork<sup>221</sup> also highlights the need for good spatial balance in international air services to other parts of the country. Tourism has been identified as a very important sector for rural enterprise growth<sup>222</sup>.

International air access is the primary form of travel for most tourists. Airports are gateways to regional and rural tourism and are particularly relevant in the case of the short break market where travel time needs to be minimised. At a rural and regional level international air access is critical to capitalise on key international markets.

A recent study, examining the performance of tourism in the West has noted a significant decline in holiday bednights west of the Shannon which has occurred across all source markets and notes that the decline in share of North American bednights spent in the western seaboard area has also been steep, in large part a result of the switch from Shannon to Dublin as the principal port of arrival for Americans coming to Ireland<sup>223</sup>.

While direct international air access is not the sole reason for the declining share of tourism in the West, and other factors such as the growth of the short break market and the increasing appeal of city breaks are important factors, the value of direct international air access in supporting regional and rural tourism is noted.

In contrast, improved international air access via Dublin airport has supported tourism growth there. The ITIC report notes that The loss of share to the west is the direct corollary of the increasing share of holiday visits to Ireland concentrating on Dublin and the city’s immediate environs and cites the role of convenient access from markets as a factor<sup>224</sup>.

An example of the importance of international air access serving more rural areas is Ireland West Airport Knock and a regional initiative designed to support inbound tourism. In 2012 the airport embarked on a Western Region Tourism Marketing Programme (WRTMP); a collaborative programme led by the Western Development Commission, involving Tourism Ireland, Fáilte Ireland, five Local Authorities (Donegal, Sligo, Leitrim, Roscommon, and Mayo) Ireland West Airport and Donegal Airport. Five new routes were identified; Paris, Milan, Frankfurt, Barcelona and Dusseldorf and new inbound services from these destinations were promoted. These

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<sup>220</sup> Forfás, 2009, Regional Competitiveness Agenda: Realising Potential, Border, p.7

<sup>221</sup> IDA, 2010, Horizon 2020, IDA Ireland Strategy, p.13

<sup>222</sup> The Government’s 2012 p.97 Action Plan for Jobs identifies the tourism sector as one of the most important economic sectors with significant potential to play a key role in Ireland’s economic renewal<sup>73</sup>. The Action Plan notes that if tourism numbers nationally can be increased to 8 million, an additional 15,000 jobs within the sector is envisaged.

<sup>223</sup> New Directions for Tourism in the West, Irish Tourist Industry Confederation, 2011, p. 20.

<sup>224</sup> New Directions for Tourism in the West, Irish Tourist Industry Confederation, 2011, p. 19

routes delivered an additional 13,847 passengers in 2012, additional tourism revenue of €5.5 million<sup>225</sup>, which generated tax to the exchequer of €1.357million.

### *Recommendations – Transport*

#### *Roads*

Capital intensive new road projects need to be ‘ready to go’ once the funding is approved so there are no further delays. Road linkages beyond the main urban centres need to be prioritised. There needs to be a renewed focus on maintenance and improvement of local roads, ensuring better access to the motorway network.

In ensuring access to international air and port services, quality road access with predictable journey times is vital.

#### *Rail*

Public transport policy and investment needs to consider the transport needs of rural dwellers and businesses. A reorientation of public transport spending is needed to ensure remote and rural areas are more accessible.

The rail network is an important part of the public transport network, parts of which have historically had an extensive reach into rural areas. Service levels to many

rural parts have been in decline and are under further threat in the current environment with reduced rail passenger numbers nationally. The infrastructure must be maintained in public ownership and innovative service delivery should be considered.

The sustainability agenda has focused on the benefits of rail and there have been renewed demands to reinstate services and lines for both passenger and rail freight traffic. New services can be of huge benefit to rural communities along various routes. The criteria for investment in existing and new services need to include the benefits to rural and regional communities and must have a stronger focus on capturing as large a client base as possible to ensure maximum take up and value for money.

#### *Air*

The forthcoming National Aviation Policy must give consideration to the accessibility of rural areas to quality international air access services, ensuring that rural areas can access services within a reasonable travel time. Aviation policy needs to ensure there is a better spatial balance of international air services.

Due to the ease with which airlines can change routes and bases, the smaller regional airports are more vulnerable to variations in operational income and need to ensure that they comply with safety and security measures as well as the repair and upgrade of facilities. Operational and capital grant support needs to continue to be made available

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<sup>225</sup> This is based on 13,847 tourists staying an average of 4 nights, (based on Ireland West Airport survey, generating a spend of €100.00 per day (Fáilte Ireland, Tourism Facts 2011, December 2012).

to support regional airports which serve the international access needs of rural businesses and the tourism industry.

Increasing capacity for international inbound tourism will increase the total tourism sector, especially if access is improved so as to effectively serve all regions including the more rural regions. To do this there needs to be more support from the National

Tourism Marketing Fund to support access to the smaller airports so that tourism in all areas can realise its unfulfilled potential.

#### Energy Infrastructure

WDC research on rural businesses identified energy usage as a significant cost for many companies<sup>226</sup>. Energy price rises have affected competitiveness. Many rural businesses had changed provider, or at least sought quotes from a selection of providers, indicating an awareness of the development of competitiveness in the market.

Some rural enterprises also drew attention to the weakness of the energy infrastructure in their region particularly if there were to be an increase in demand for energy in the future. There has been significant investment in the electricity network but delays in the process has led to delayed investment in places.

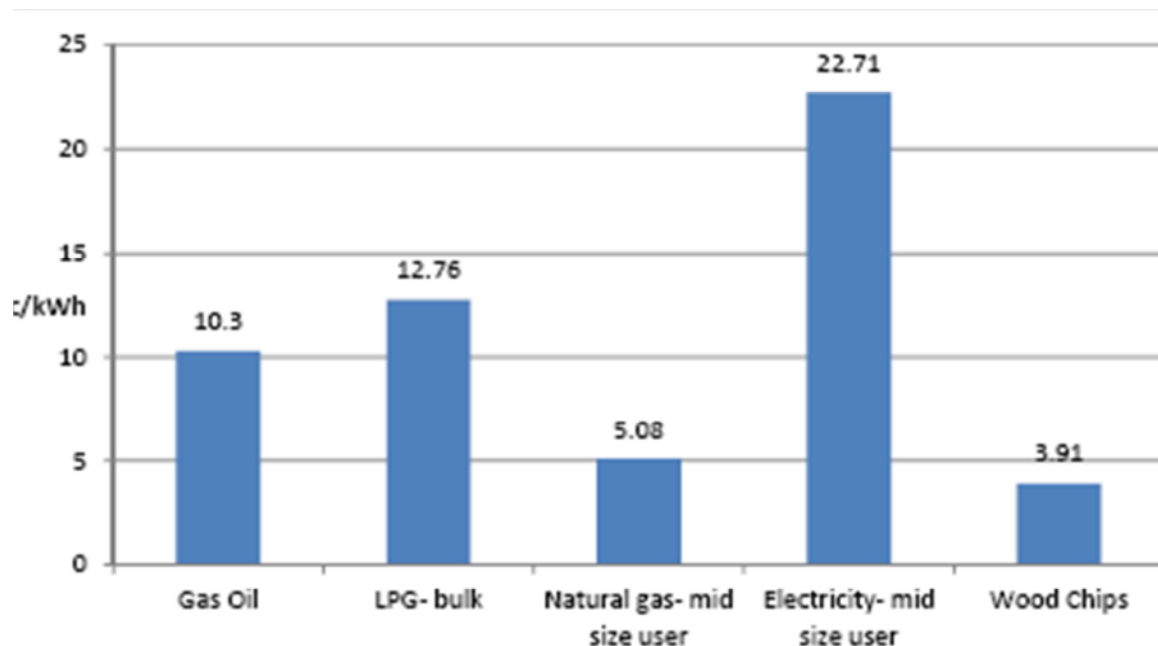
While there is competition in the electricity market, where the infrastructure is available to all users, WDC research<sup>227</sup> shows that businesses in areas off the natural gas network (much of rural Ireland, and the North West in particular), face considerably higher fuel costs. While most businesses use oil or LPG as an alternative, as Figure 1 below shows, these are clearly more expensive and incur higher rates of carbon tax than for natural gas.

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<sup>226</sup> WDC 2007, Rural Businesses at Work, p.62

<sup>227</sup> 2011, WDC Policy Briefing no. 5: Why invest in gas? Benefits of natural gas infrastructure for the North

**Figure 23.2 Commercial Fuel Cost Comparison**



Source: Western Development Commission based on SEAI Commercial Fuel Cost Comparison, April 2013

Wood chip is a cheaper fuel alternative, available in rural areas and with the potential to provide considerable benefits to the local rural economy, providing jobs and keeping energy spending locally. However this sector is only developing slowly. The WDC has a number of EU projects<sup>228</sup> (RASLRES and BioPAD) promoting the use of biomass as an alternative to fossil fuel and to provide cheaper, more competitive energy for commercial users in rural and other areas off the natural gas grid.

## **23.6 CONCLUSIOFUN**

The research presented has focussed on some of the key factors identified as barriers to rural enterprise growth generally and has examined specific barriers faced by enterprises in rural Ireland. The key constraints within human capital and skills, entrepreneurship, innovation and infrastructure have been discussed, and as the OECD and WDC research highlights, it is important to ensure that barriers across all areas are tackled. So, though infrastructure is very important it cannot drive development by itself. Unless combined with the other factors there will be a leaking effect with either goods and services from outside crowding local markets which cannot compete, or human capital commuting out, and being lost in terms of its skills to region, sometimes termed the ‘leaking by linking’ phenomenon.

The OECD advocates a multidimensional approach, where policy responses in the three key areas of Infrastructure provision, Human capital and Innovation are addressed

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<sup>228</sup> [www.biopad.eu](http://www.biopad.eu) , [www.raslres.eu](http://www.raslres.eu)

concurrently in order to support rural enterprise growth. It is also noted that ascertaining the specific bottlenecks or barriers, either innovation, infrastructure, human capital or institutional factors requires careful region-specific analysis to assess their impact of mobilising potential growth<sup>229</sup>.

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<sup>229</sup> OECD, 2012: Promoting Growth in All Regions p.3

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