

Senedd Cymru

Pwyllgor yr Economi, Masnach a Materion Gwledig

Ymchwiliad: Yr Economi Sylfaenol

Cyf: FE10

Ymateb gan: Banc Datblygu Cymru

-

Welsh Parliament

Economy, Trade, and Rural Affairs Committee

Inquiry: The Foundational Economy

Ref: FE10

Evidence from: Development Bank of Wales





The Economy, Trade and Rural Affairs Committee Inquiry The Foundational Economy

Response from the Development Bank of Wales

To what extent has the Welsh Government embedded support for the foundational economy into its overall approach to economic development? What further steps should it take to do this?

Wales has a significant Foundational Economy and as the Welsh Government's funding delivery arm, focused on supporting regional investment across Wales, support to the Foundational economy is fundamental to what we do.

As noted in the Business Case for our £500m Flexible Investment Fund, it is essential that public funding for the Welsh economy ensures the right degree of flexibility to not only support the wider priority sectors but also to support businesses within the foundational economy providing both goods and services. More specifically, the Development Bank sees reaching more microbusinesses as key in embedding economic development impact for the foundational economy. We currently invest c. £45.9m into micro businesses in Wales per annum, which has grown from £31.7m three years ago. This equates to 53% of the value of funding invested by DBW and 81% of the recipient businesses.

Welsh Government's foundational economy policy focus as outlined in the EAP was in the four sectors of tourism, food, retail and care. Using data available from the 2018/19 financial year to the end of the 2023/24 financial year, the Development Bank has invested £286m in these foundational economy areas. Annual investment grew from £29m to £63m over the same period (from mainstream funds i.e. not including emergency Covid support). Capturing this data centrally, or further analysing this support specifically from WG funds operated by DBW, is not currently collected. There is then potentially a much wider impact view and learnings, including from other organisations, that could be consolidated to help better inform and drive the foundational economy's role in economic development in Wales.

Given the cross-portfolio nature of the foundational economy, how should the Welsh Government create a co-ordinated approach to mainstreaming support for foundational economy sectors across government?

Welsh Government should provide a clear set of consolidated targets for the foundational economy as a basis for systematic engagement and collaboration. Bringing together the potential impacts from the various cross portfolio actors brings a sense of joint action.

In many cases these targets do exist, but are not collated, or aligned on a clear time frame to enable strategic engagement. In the case of the Development Bank of Wales then for example,

this presents a barrier to assessing whether there is a market gap for funding developments to the target ambitions, or to take an integrated view of the investment challenges.

As a segment of the total economy of Wales with particular benefits for Welsh society, it would be valuable to have specific time bound wellbeing targets set for the Foundational Economy, that would facilitate Welsh Government's economic development agencies to develop strategy.

Cross portfolio delivery dynamics aren't necessarily specific to Foundational Economy delivery. Learnings from other areas, such as Net Zero and Carbon Budgeting may provide elements of best practice in achieving this.

Which of the Welsh Government's foundational economy policy initiatives have been most successful, and why? Which have worked less well, and why?

Observations here from DBW are at a macro level, without access to delivery impacts across the policy initiative areas. In particular, defining the foundational economy can still be difficult. A clear definition aligning to established categorisation can help delivery agents more clearly focus on the foundational economy impact. Especially so with a broad range of sectors covered, yet with these sectors also including significant non-foundational actors within the wider economy. The foundational economy has the ability to create resilience and capacity in economic growth in Wales therefore clarity of its definition and role should be clearly understood. Arguably the grouping of included elements is too complex and the reach of required impact too broad.

Ensuring firms remain rooted in the communities is a key element of successful foundational policy delivery. Ongoing support both through advice and funding for business succession needs to be a core part of policy development.

Furthermore it must be recognised that there are regional differences in terms of the wants and needs of communities and it must be ensured that policy allows for flexibility in approach. Engagement at a local level is fundamental here. This is reflected in the Development Bank Corporate Plan as a Critical Success Factor in the delivery of debt and equity finance is the need to 'optimise DBW's regional presence to impact on the foundational economy'.

The role of Social Enterprises should also be central to foundational economy policy. Social enterprises in Wales most frequently operate in financial and professional services, retail, creative services, tourism and care service sectors- key foundational economy sectors. These enterprises can help play a role in local communities through encouraging skills progression, productivity and more sustainable business models. Social enterprises provide services that the public and private sectors would struggle to maintain. Supporting these organisations offers a 'ground-up', community-led approach to economic development to complement large scale infrastructure projects, creating a vibrant foundational economy.

Business support through Business Wales also plays a key role in foundational economy impact as a regional delivery tool. Identifying skills requirements and matching to skills strategies should also be clear.

In addition, independent research, by an organisation like Economic Intelligence Wales, may provide more insights on impact across policies and highlight areas of best practice and learnings for forward delivery. An area of focus here maybe better understanding the underlying dynamics of the supply chain ecosystem in Wales.

What progress has been made in using procurement to strengthen the foundational economy since [our predecessor Committee looked at this issue in 2019](#)? What further actions are required to deliver greater progress, and what innovative examples of best practice could be built on?

From the perspective of the Development Bank, progress in fairer and inclusive procurement which has stemmed from WG policy since 2019 has included:

- Broadening the use of platforms to publicise procurement opportunities to the greatest possible market.
- Embedding Community Benefits into procurement to ensure that wider social and economic issues are considered when tendering contracts to maximise the investment as widely as possible. This is done through PCR 2015 which allows contracting authorities to lay down conditions relating to economic, innovation-related, environmental, social, or employment-related considerations.
- Communicating Community Benefits to suppliers such as including on-site vocational training, employment of people experiencing difficulty with integration, the fight against unemployment, recruitment of long-term job seekers or training measures.
- Committing to ensuring that sustainability is considered in all actions and decisions within procurement. This is embedded through the Well-Being of Future Generations (Wales) Act (2015) and includes how suppliers can support DBW in achieving net zero