

Cyhoeddir y papur hwn yn yr iaith y'i derbyniwyd gan Gynulliad Cenedlaethol Cymru.

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CBI Wales

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Review of rural economic diversification by the Agriculture and Rural Development Committee

Evidence from CBI Wales

Introduction

CBI Wales supports the Agriculture & Rural Development Committee in its inquiry into ways of encouraging a stronger and more diverse rural economy in Wales. The availability of finance, advice and support to rural businesses will be important to achieving diversification. But education not just advice in its narrowest definition will play a crucial role in raising ambitions and nurturing a culture of entrepreneurship. Attitudes to ownership will also need to be addressed. Private sector investors who are taking a risk by putting their money and often their time into a project will normally expect an equity stake in the business.

If we are serious about rural diversification then we will need to develop outward-looking businesses, which do not depend solely on local markets and are committed to growth. CBI member Oakwood Leisure is a prime example of such a company. Originally a dairy farm, it has become one of the UK's leading theme parks attracting regular visitors not only from across the UK but also Ireland.

This brief outlines the finance options available and their potential suitability and comments on the supply of advice and support to businesses.

Finance

Outside of one's own capital or family money, finance to start and grow businesses broadly falls into the following categories:

- Debt finance
- Business angel investment
- Venture capital
- Public sector support schemes.

Debt Finance

SMEs and start-ups have traditionally obtained debt finance from the High Street banks. Research amongst the CBI membership has indicated a greatly improved relationship between the banks and small firms compared to 10 years ago. But debt finance is rarely suitable for fast-growth companies requiring substantial up-front investment and where profitability (and therefore cash for repayments) will only be achieved 3 or 4 years ahead. It does play an important role in covering short-term cashflow difficulties however.

Business angel investment

About 5 years ago, CBI Wales led an initiative to create a business angel network for Wales. Zenos, managed by the WDA, was formed and now comprises a network of around 70 potential business angels. Over the last 2 to 3 years £2.8m has been invested through the network. The CBI has supported the development of business angel networks, not least because angels bring not just finance but also advice and support to a business. They also help to fill the equity gap because they are prepared to provide investment below £2m (see Venture Capital below). Angels usually require an equity stake in the business in return for risking their capital.

Venture capital

Clearly, traditional venture capitalists are increasing the size of their deals and ignoring the early stage companies. We believe that this has more to do with economics than a shortage of money. Management time per pound of investment is much less for larger deals. Whilst Government intervention can help, the scarcity and cost of investor time may be a more serious problem. It has proven difficult to bring entrepreneurs and together with investors in the past and there is not much sign that this is changing greatly.

Public sector schemes

There are a number of Government schemes providing SME finance both at a UK and Wales level. For example, the DTI Small Firms Loan Guarantee Scheme can be a valuable source for securing debt finance for smaller companies without capital to underwrite a loan and Finance Wales is another useful source backing SME investment in Wales. We would recommend that, if it has not already done so, the Committee examines the full range of publicly supported resources (EU, UK or Welsh) available to Welsh SMEs.

Advice and support

As the representative body for those outward-looking, growth-orientated businesses of all sizes which seek to capitalise on the opportunities that the global economy presents, CBI Wales is keen to work with the Assembly to ensure that rural businesses receive the support they need to succeed.

Personal enterprise must be developed

Much of the innovation and employment growth the Welsh economy needs will come from new start-up firms and from growth in existing SMEs. Such growth is driven by entrepreneurs. Some entrepreneurs are born not made, but many of us have latent enterprise potential which can be developed and which will be of value whether we start our own companies or work in existing ones.

Traditionally, developing personal enterprise has not been seen by education as a priority. To the extent that education has been seen as a preparation for the world of work it has been a preparation for a career as an employee, anticipating little if any career shift.

This must change. We need to develop, from an early age, a grasp of the fun and excitement of business, of how wealth is created and distributed, and the challenges of combining intellectual, physical and financial capital into enterprises.

Who are we trying to help?

Enterprise support needs to assist businesses at very different stages of growth and provision needs to be made for their very different needs. Moreover support needs can change rapidly in response to changes in the market and there must be flexibility for provision to change accordingly. This has implications for how limited resources are allocated. The Assembly needs to be clear about where it sees the priorities lying. For example, providing effective intervention in individuals' ambitions for self-employment can lead to better, sustainable businesses in the future and much could be done to improve support in this area. But the Assembly must provide a balance of services to support firms across the size range (including the crucial medium-sized firms) and choices will have to be made between firms with high growth potential and those which have "plateaued". Resources need to be concentrated on those firms with the greatest chance of success.

Access to support is key

Whilst diversification may require specialist assistance in certain cases, we do support the first-stop shop concept and believe that there should be one, strongly branded point of access for all support services (with no vested interest in supplying services itself). Radical improvements are needed to develop an

independent source of advice for businesses. England and Scotland have forged ahead with changes to provide more co-ordinated support to their businesses. Business Connect is poorly resourced and structured compared to similar services run across the UK and lacks the necessary independence. We need to develop a strong national framework which allows a demand-led system to develop. This means discretionary funding which allows services and support to respond flexibly to the fast-changing demands of businesses. It also means an approach which seeks to use public funding to fill gaps in the market. Welsh businesses must be able to take full advantage of the resources available and this includes services provided at UK level by the Small Business Service (SBS), DTI, and British Trade International, as well as by the EU. For example, the SBS has drawn together DTI finance initiatives into one directorate, providing a potentially useful source of financing for Wales' rural businesses.

Whilst there will be a number of core services required by businesses across Wales there will be differences in business profile between one region and another. There must be discretion for support agencies to set targets to meet needs at regional level.

CBI Wales
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