

Green Economy Inquiry

Economy, Trade, and Rural Affairs Committee

FSB Wales

March 2024

About FSB

Celebrating its 50th anniversary, FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit, and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

Within its devolved powers, what should be the Welsh Government's key priorities to maximise the potential economic opportunities from green economy sectors? To what extent does its current approach reflect these?

Climate change presents a significant challenge to our economic and governance systems. Devolution allows for Wales to carve out its own bespoke agenda to address much of this, harnessing decision making that will enact and influence overall policy outcomes related to climate change, food security and economic development. Economic, social, and environmental stresses cannot be addressed in isolation from one another, cross governmental efforts will be necessary if meaningful change is to be overseen.

Un tournant du temps – high inflation, supply chain disruptions and cost increases from Brexit, and the war in Ukraine have directly led to higher commodity prices meaning government must now do more with less. A negative relative GDP growth trajectory of -5% of since 2016¹ means that radical and innovative mechanisms that streamline decision making and guarantee long term funding streams must be unlocked if Wales is not only to be seen as an attractive location for international investment but also taken seriously as a world leader in the fight to cut carbon emissions. This only reinforces the overbearing demand to build the green economy for self-sufficiency and security as well as to harness the potential economic opportunities for local communities.

¹ Springford, J (2022) “[The cost of Brexit to June 2022](#)”, Centre for European Reform, November.

The **Well-Being of Future Generations Act (2015)** shows the holistic approach already taken by Welsh Government to set a world leading precedent on how generational challenges should be addressed in unison with other directives. However, in strengthening our economy to become more versatile and resilient, these challenges will require a strategy that is well-equipped to deliver a smooth transition to a greener economy which harnesses the economic opportunities that ensure a business ecosystem capable of developing their full potential.

Critical infrastructure and the further development of technologies will offer long term solutions that address security concerns, while investing in local communities that have a strong grounding in SME activity. At the heart of this must be a drive to enhance the competitiveness of Wales's net-zero industries. In FSB's 'Accelerating Progress' report, we highlight how small businesses are keenly aware of the need to act on climate change; however, many are resource-poor in terms of time, expertise, and finances. In this regard, efficiency is key to ensuring that the green economy in Wales is fully optimised. Our recent reports on skills (['A Skills Led Economy for Wales'](#)) and on manufacturing (['Manufacturing Momentum'](#)) emphasise this need for matching skills and to build capacity and capabilities of SMEs, and supplier development. There is a need to make the soil fruitful for investment in Wales, and to provide long term plans and support institutions that provide stability and confidence for investors.

In our own assessment of this, the focus point for Welsh government should be to consider.

1. A simplified regulatory framework
2. A streamlined financing model for Welsh infrastructure projects
3. The establishment of an arm's length body to coordinate investment in Wales, including a focus on the green economy and utilising contracting arrangements, tools such as the Social Partnership and Procurement Bill to ensure SME opportunities.
4. A revision of enhanced skills training opportunities in green innovative industries.

Developing the economic mission further to provide a roadmap to the industries we wish to foster and attract, and the role SME's will play in both promoting a modern and dynamic green economy in Wales should be placed in high standing in a list of priorities. Through a simplified, faster, and more predictable framework which secures the volume needed for raw materials, and ensuring users can benefit from the low costs of renewables will give Wales the security it needs to reinvest in local community projects, local procurement opportunities and the advancement and dissemination of modern technologies and innovative practices. Anchor institutions – whether government, public and education bodies, or large firms and private investment – are key in ensuring the development of these supply chains.

In our assessment, we've concluded that Welsh government should further explore the practicalities of an Economic Development Agency for Wales as an arm's length body which can be used as a departmental tool to coordinate with established institutions such as Development Bank Wales (DBW) and Business Wales to oversee, incubate and foster economic growth across the country in line with climate and environmental directives. The aim is to provide a comprehensive ecology of support and development to build our businesses' capacities and capabilities. In doing so, would create a more supportive environment for scaling up the Welsh business sector to both be attractive for investment but also for research and development alongside Wales's universities.

What are the key barriers to Wales making the most of opportunities in the green economy, and what steps should be taken to overcome these?

Most enterprises in Wales are SME, constituting 99.3% of all active businesses. Specifically, micro-enterprises, those with fewer than 10 employees, make up 94.7% of total enterprises. In terms of employment and turnover, SMEs contribute significantly, accounting for 62.9% of private sector employment and 42.5%, respectively, in Wales¹.

Subsequently, the race to cut carbon emissions, and transition the Welsh economy to a more sustainable and greener alternative will require a concerted effort to work with SME's effectively if the goal targets are to be met by 2050.

The key starting point for policy makers to understand is that SMEs are time and capacity poor, often have no access to finance and will require clarity, support and advice on steps they need to take, as well as the skills they require. Building networks of SMEs and relationships for the long term is key to this.

A key barrier is that relationships with business support institutions (e.g. Business Wales and Development Bank of Wales) – which are well-regarded – tend to be at the start-up of a business. However, after the first 3 years and when many businesses are looking to scale up and so require specialist and bespoke support, many feel that support is not available or unsuitable. This can be addressed through looking at businesses through a 10-year growth journey lens, with relationships built through patient capital (particularly on net-zero), and through better links and signposting from public and private (which often can provide more specialist support) providers.

As per our [2021 Accelerating Progress Report](#), an example of where there is a lack of clarity and certainty on the costs of those businesses that have not yet taken steps to address their energy usage, 29 per cent of small businesses say energy is not a significant cost, 24 per cent say that the return on investment takes too long or is too uncertain, and 22 per cent highlight the lack of capital (savings) as a reason why they are unable to invest. While businesses are expected to lead the way in the transition to more sustainable energy sources, it

is important that they are given the tools to do so in a tough economic climate, and that the opportunities are highlighted and the incentive structure in place.

We have seen a promising development in on-shore and off-shore wind farms being developed by major leading companies such as Vattenfall, Minesto and Copenhagen Infrastructure Partners and Bute with other projects such as the Swansea Tidal Lagoon potentially offering further opportunities in the near future. These projects have a commitment to improve community energy and energy security as part of their stated investment value, but a formalised mechanism that guarantees SME's access to contract and procurement opportunities would be useful, with contractual arrangements following accordingly. Welsh Government should explore and use its powers in the Social Partnership and Procurement Act (2023) to ensure SMEs have ample opportunity to harness these. Within this framework and by use of a potential Economic Development Agency for Wales, additional direct assistance can be administered to SME's who need additional guidance in making a green transition which would in turn help in building green skills through supply chain management and relationships.

What actions should the Welsh Government take to support development of Wales-based supply chains in green economy sectors?

A Welsh Government arm's-length body which is able to directly coordinate procurement would help streamline and guarantee that funding is directed in the right place and that the concerns of businesses can be triaged depending on organisational size and issue. Healthy supply chains, and good supply chain practice in general, can yield significant benefits to smaller suppliers, customers (often larger businesses), the wider economy, and society. Simply, good supply chain practice makes business sense, bringing a genuine competitive advantage to both larger business customers and smaller suppliers. A lack of coordination at this stage has the potential to make the Welsh governments strategy of net-zero less efficient and more complicated.

It is also important that the different institutions complement and support one another in providing an ecology of support for businesses in Wales. This would need to have a central point of contact and clear signposting to support (public and private) for SMEs – our polls show Business Wales is well known and part of the furniture, so could fulfil this role effectively, if provided with resources to do so.

Access to finance is a perennial issue, and a long-term fiscal strategy is a necessary part of providing SMEs with support for transition as needed. Welsh financial institutions such as the Development Bank for Wales have a strong track record in delivering for SME's. In a 2022 survey conducted by FSB Wales, respondents were asked about seeking business support from various organisations. Results showed that 11% accessed support from the Development Bank, while 22% sought assistance from Business Wales, and 3% from the

British Business Bank. The Development Bank does well in terms of recognition. In FSB Wales research from 2022, 65% of respondents were familiar with the Development Bank of Wales. This shows growing awareness - an FSB Wales 2018 survey, where only 41% of respondents were aware of it shortly after the bank's establishment.

There is value in reviewing how DBW's fiscal and monetary policies could be broadened to complement a refocused strategy on the Welsh green economy both to provide investment support, but also to provide support and advice to other institutions on bringing in investment capital to Wales. It should continue to ensure partnership working and harness the fiscal firepower of UK institutions such as the British Business Bank – an institution which also needs to be part of the approach to delivering in funding and capacity to assist SMEs to develop capability which contributes to net zero.

What skills challenges exist in relation to transitioning to a green economy? What actions should be taken, and by whom, to ensure the skills are there to meet the growing demands of a green economy?

We can look at this in terms of 3 linked issues that need addressing, with some specific needs within that overarching framework:

1. Access to skills and support architecture around skills
2. Identifying specific skills for the green economy and priming those skills
3. Aligning the short term and long term.
4. Access to skills and support architecture around skills

Our recent skills report, '[A Skills-Led Economy for Wales](#)' found several issues that cause issues around accessing skills for SME employers, including around green skills.

OECD research finds that the UK could benefit from a 5% productivity gain if the level of skills mismatch was reduced to OECD best practice levels. While many economic development and growth levers do not sit with Welsh Government, this area is largely devolved, and so should provide a clear economic priority and be developed as a mission for Welsh Government to address on a cross-governmental basis. As a key driver for future economic development and opportunities, this holds true for green skills for the future particularly.

Small businesses in Wales are currently grappling with accessing sufficiently skilled staff while they also confront the challenge of a growing perceived mismatch between the skills in the education system and those that business needs.

This in a Welsh economy where 99.3% of businesses are small businesses, and provide 62.9% of private sector employment¹, the part of the economy that has the most potential to grow is the small business economy. So, the opportunity costs of not addressing these needs for the green transition would be significant.

This structural dilemma arises from a combination of factors, including a lack of foresight in anticipating skill requirements and a failure to adequately adapt vocational education and training to address the evolving needs of the labour market. But continuing the structural mismatch is going to present any green skills agenda with the same problems.

Addressing these evolving needs requires a more robust alliance between the spheres of education and training, and the stakeholders within the labour market, with a particular emphasis on SMEs. This collaborative effort is essential for enhancing the alignment of skills with the rapidly changing demands of the labour market.

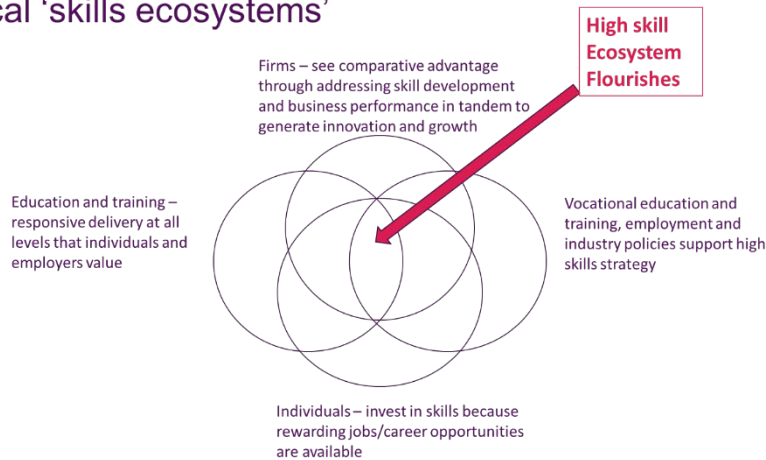
At Welsh Government level, there is a need to ensure a collaborative cross-departmental approach that aligns skills and economic needs and ensures an agenda that addresses the needs of all stakeholders. A Skills led mission that gives Welsh Government a priority through a taskforce for skills-led SME approach, taking in senior officials and policy development across Economy and Skills and Education to ensure a joined-up approach geared toward long term economic development.

There is also a need for a more interconnected policy response at a local level, the importance of which particularly relevant in the case of SMEs, which are much more likely to serve local markets and are required to draw from a local supply of skills. For instance, the OECD has long advocated for a local ecosystem approach² to address issues related to growth, jobs and skills. This is because addressing these issues requires action across a range of inter-connected policy areas – including business support, innovation, skills, economic development, and industrial strategy.

Building core people-management capability and improving firms 'absorptive capacity' is a necessary first step to business improvement given that many SMEs either lack a dedicated HR function or are time and resource poor and therefore lack in depth knowledge of the skills gaps and people management challenges and how to address them effectively.

From this general strategic framework, the economic mission on skills follows. Focusing on growing the SME economy in Wales and refreshing the 'missing middle' agenda we can build the key policy interventions for a better Skills-Led Economy in Wales geared for SME growth, building the capacity and capabilities of our firms while also building our citizens to have new skills opportunities, equipping them for future transition in the economy.

Local 'skills ecosystems'



It is also vital that short term skills gap for areas that will clearly be important for green transition be address. A clear example the role of construction and SME housing developers and retrofitting is a key area that will require both ensuring a substantial workforce and new skills to ensure that they are able to succeed. There are many examples of smaller developers – particularly in rural areas – must refuse or not compete for contracts as there is no local skills base. This issue was exacerbated by Brexit with less labour from abroad, but also with rising wages in urban centres (especially London) displacing workers from more peripheral areas. Filling this gap is essential for success.

Providing for a skilled support network for SMEs – e.g. to provide for green audit that are practical and provide a clear understanding of costs – is also important to build the engagement with SMEs, and to provide the focus on what needs to be done and the relative benefits of transition.

Identifying specific skills for the green economy and priming those skills

In terms of identifying specific skills for future development, there is a continuing need for a clear steer on priorities and arising green economy opportunities – whether they be through Wales' natural resources and comparative advantages (such as in tidal, wind and coastal, and projects such as in Pembrokeshire and Anglesey and across the North Coast) and aligning skills development accordingly. This requires input from multiple areas of expertise.

For SMEs, many of the opportunities arising are within the supply chains, ensuring that there is a legacy of skills development in our communities, building up capacity to take those opportunities.

This requires:

1. Building entrepreneurial skills into areas for high skill industries (such as through universities STEM courses, and hubs for green skills, such as marine biology)
2. Building central hubs of learning to develop specific green skills and spin off businesses
3. Ensuring that investment includes clear obligations towards building SME supply chains for higher and lower skill capacities and support through diffusion of expertise, knowledge and support on capacity and capabilities building in big infrastructure projects. So, areas such as contractual arrangements for investors and Tier 1 suppliers in receipt of public funding is key here, and we should look at using SP and Procurement Act to ensure a system that builds capacity from bottom-up and not looking at only contracting outside or overseas down supply chain.
4. A proportion of the £100m earmarked for the Transition Board should be used to work in partnership with Tata and academic experts to assess and map the supply chain impacts, and also outline areas for skills and supplier development within Wales taking in opportunities in the transition to greener production process.
5. More opportunities for peer-to-peer networking as well as promotion and sharing of examples of good practice via business networks could help to scale and spread successful ways to working. Learning from the impact of community networks from Accelerator programmes should be taken to wider business support mechanisms.
6. Aligning different strands together to ensure that the areas for building these skills are marketed as attractive high skill areas – targeting students to stay, and others to return. This should also align with a general Welsh brand as a green nation and be attractive for sustainable tourism.

Alongside such larger – or community – green projects, there is also the need to build the support system for advice and signposting to expertise through business support such as Business Wales, whether through its own capacity or through a list of providers. The private and public support services should be better linked to ensure that they feed into each other in a way that feels seamless to firms on their journey, via providing a searchable facility and list of accredited and trusted providers to support businesses access additional specialist support.

Ensuring that a green audit (including green skills audit) is something that is provided for SMEs through any loan schemes through DBW, and meaningful action that provides information on initial costs, options for financing (e.g. 0% loans), and what costs savings would be. Providing a systematic holistic support that understands SMEs limits on time (and so capacity and capabilities) is key to success, and this includes match making skills with SMEs. This would look to

address our findings that SMEs are often left to navigate a complex skills system themselves, this particularly being felt more since the loss of capacity in this regard within Careers Wales.

Better Alignment the short term and long-term priorities in any mission approach.

Another reason to look at a systematic approach within a Green Economic Mission and to build the institutional ecosystem to support skills in SMEs in Wales is that it will need to manage the tension between

- (1) Identifying priority areas to ensure long term capacity and capabilities building, aligning to a wider economic mission in long term
- (2) Provide flexibility for a fast-changing agenda, allowing for understanding that serendipity in unexpected innovation developments within Wales can also play a role in shifting priorities

Balancing these diverse needs requires fleshing out the delivery of the Economic Mission, the mechanisms for delivery, putting economic development at heart of skills. There is also a need to ensure that short term decisions for skills-led sustainable economic growth are aligned to the Mission – in other words that any mission has an impact and clear influence on budgetary decisions in the short term. It is noticeable that a refresh of the Economic Mission released in November appeared to be separate and/or have no influence over the draft budget proposals, at least in terms of skills.

This is important, as short-term decisions now can hollow out capacity and capabilities in Wales for the medium term and raising them back is exceedingly difficult. Ensuring a system that provides for the just transition shaped to the needs of SMEs at present with a view on the future is key to success.

A useful way to bring a longer-term vision in alignment with present pressures is to provide autonomy on decision making – properly accountable – for Arm's Length Bodies and provide an ecology of different institutions tasked with clear remits and responsibilities, and with partnership agreements in place to further the economic mission and a green transition.

In terms of skills, the Commission for Tertiary Education and Research (CTER) potentially provides new opportunities for better skills matching in this regard and has responsibility to better access for employers in its remit. It should be tasked in its ways of working with ensuring alignment with the business support institutions, again as appropriately set out by the steer provided by Welsh Government through the economic mission and economic strategy underneath the Mission, with partnership working, contractual arrangements following those functions accordingly.

It is important to retain an SME focus in these ways of working, as this is where there is real opportunity to endogenous growth and skills development, and so

supplier development. As such, when looking at a system that iterative when identifying skills, there is a need to balance between short-term bite size skills courses that are reactive to immediate needs, and also how this can feed into apprenticeships and more formal accreditations to build progression over the long term, both of which are key to learners and different parts of the SME sector.

Another area in terms of addressing short term vs long term is from the side of support for businesses looking for new skills and looking to grow their business. Our interviews indicate that there is general satisfaction with the role of business support (e.g. Business Wales, DBW) in supporting startups, but many find they struggle for support after the first 3 years, and this is a key area of focus and intervention through skills (including green skills). In this case building relationships with buildings and planning for 5-10 years, alongside skills system support for SMEs, and aligning to patient capital so as to build a relationship over the long term, would provide an approach that not only builds the number of new businesses but provides the support ecology for growth, and the capacity and capabilities to take advantage of new opportunities, including in the green economy.

What will workers and employers need for a just transition to a Net Zero economy to be achieved, and what actions should the Welsh Government take to deliver the elements of this that lie within its devolved powers?

For SME employers it is vital that schemes start from understanding the pressures upon them, in terms of capacity (time and costs). Therefore, any aim to move must start from a basis of looking to provide headroom for SMEs to transition through alleviating costs and/or time in any schemes proposed, and that SMEs have fair access with schemes shaped to include their needs in a just transition. As noted, this also makes sense in terms of sustainable growth, prioritising growth from community businesses embedded in their local areas.

As such there are numerous opportunities in this agenda, if we get the frameworks right. It is important that the Welsh Government accentuate the positives and develop a strategy and narrative that focuses on tangible benefits for businesses and communities, be they in terms of lower costs or supply chains or new business opportunities. Currently the story SMEs hear are added costs and obligations, or at best mitigations of risks, rather than the numerous opportunities. But this story requires the link of the long-term vision to concrete proposals that focus on providing benefits now, and a strong steer from government to provide credibility for investment.

This can develop from the next steps in forming the means by which we will achieve any economic mission. This requires clarity on what Government will do (and won't do), how it will build advantages in Wales, what tools it can use and develop (e.g. DBW; long term finance plan), it would focus on developing access

to finance (including 0% loans specific to green economy and sectoral needs for efficiency etc); noting how it will ensure businesses who are tenants in their premises can also be afforded the tools to gain from any efficiency.

How will the Welsh Government need to work in partnership with others to realise the potential of the green economy and deliver a just transition? To what extent is the partnership working that is needed being undertaken?

The above questions have dealt with the partnership working through arm's-length organisations in Wales and provide a model too for providing the infrastructure that better facilitates working across governments, with arm's-length bodies tasked with implementing a green economic strategy serving as an honest broker to align strategy and guard against duplication. Arm's-length bodies – properly held accountable to the Senedd and Westminster as necessary – can provide a long-term view, independent and trusted evidence, and serve as central point of contact for engagement with the public and across different governments from local to UK, as well as potentially in providing confidence to investors.

In terms of Welsh and UK Government working together, the experience has been patchy, and there are elements of competing visions leading to competing funds duplicating and providing more complexity within Wales. For example, SPF funding being centralised to UK risks projects being approved that duplicate Welsh Government activity, or indeed compete with them, and there is some cross over in British Business Bank funds in Wales and Development Bank of Wales funding available to businesses. Other areas where Wales struggles is in innovation and R&D funding.

For SMEs, the main issue is that they should not see the joins between different governments when looking at finance and SPF schemes, and Business Wales has been a successful shop window in this regard, with very high recognition in our surveys, and it needs to continue to be resourced to fit its responsibilities effectively and to provide the interventions that support businesses towards growth, and that funding needs to be secure for the long term (so beyond 2025). UK and Welsh Governments partnership on freeports has shown that governments can work together toward a common goal, and British Business Bank working closely on some funds with the Development Bank of Wales shows that good practice is done, but it should be done in a more systematised way to ensure maximising the advantages of different levels of government and institutions, whether in local intelligence and networks in place, or in terms of fiscal resources and expertise.

However, there are also areas where we can see how this can be resolved by allowing an ecosystem where various parts 'do what they do best'. In the Investment Fund for Wales for example, there seems to have been good partnership work between DBW and the BBB, with the latter providing fiscal

firepower and DBW's subsidiaries tasked with the allocation of funds (BBB does not directly fund anyone but works in partnerships).

Similarly, it appears that – with some obvious tensions at times – Welsh Government and UK Government have worked effectively together on freeports. We would hope this would carry on being a model as they develop, alongside the green projects in train, with each aware of the institutional strengths the other (and local government) brings to the agenda's success, and the legitimacy of each party.

There are lessons to learn for SPF in terms of its performance thus far. FSB has always advocated that decisions on the funding allocated should be held by Welsh Government to align with regional economic goals, but that does not mean that this is an endorsement of the previous funding arrangements. Rather, the opportunities – wherever the levers lie – would be to make the system more flexible and reactive, better aimed at SMEs (so with longer time frames for submission, marketing and for budget cycles, as SMEs struggle to access such funds). A system that looks at using arm's-length bodies can also align the strategy of UK as a whole and that of Welsh Government with appropriate weighting, or in a way that is not zero-sum.

The Welsh Government says it will face considerable budgetary constraints in the short term. How should it prioritise investment to support development of the green economy over the shorter and longer-term? What innovative approaches to financing could be considered to maximise potential investment and benefits?

We welcome that both candidates for prospective FMs have placed a central and renewed emphasis on the economy. As noted, there is an urgent need to build from the economic mission to be a clear influence on decision making for annual budgets. This should align too with the Future Generations Act and may need to revisit the National Indicators for a prosperous Wales.

- The use of arm's-length bodies can provide expertise and ways of working that make the most of the resources available. – a regional development body to bring in investment and create the stable architecture for investor confidence; partnership across institutions and shared ways of working can also provide for mutual reinforcement.

Some aspects that can be taken now that build toward the long term are less costly than others – for example building networks of SMEs, engagement and links to FE and HE, aligning skills system to decision around business support – so do what we do better through alignment and a holistic strategy based on a renewed economic mission. They are largely based around ways of working than additional costs, although ensuring that growing and building networks they are included as value in any targets and performance indicators is important.

Indeed, part of the point of the 'mission economy' is to provide the shape to better use and allocate resources, and so this structural and network, and relationship building towards the same goal is one that can and should be undertaken as it is not costly, is based on ways of working and clarifying remits and responsibilities and how different parts of an ecology in support of business work together better.

Alongside this, a budget outlook that fits the aims of Well-Being of Future Generations agenda in terms of economic sustainable development, noting that decisions now under particular political pressure – such as drastic cuts to skills budget – make building to the same capacity (never mind growing further) as now will be increasingly difficult as these institutions and schemes are difficult to rebuild once lost.

But while finance and funding are tight and the economy remains in challenging times, it is useful to build the relationships and support networks necessary to provide for SMEs 'absorptive capacity' and towards them building capacity and capabilities now, but also able to absorb better the support available when the financial environment is better.

Another place to look is where are the key parts for sustainable growth and is the money currently allocated targeted at the right parts of the system. Prof Dylan Jones Evans' recent evidence to the Finance Committee's inquiry on the Development Bank raised that DBW's performance figures illustrated the need to target more smaller and micro firms, and that he noted that the figures for job creation and growth in these areas were convincing on this. He also noted that referrals from Business Wales to Development Bank – and so evidence of alignment of priorities on micro businesses in particular – should be greater than it is.

So, a focus should be on the mutually reinforcing aspects:

- Ensuring finance and funding are targeted at the areas that can grow most, through SMEs supported across a 10-year journey for growth as appropriate and provide more support beyond the startup phase.
- Building the skills and business support apparatus, including relationships with business, to maximise the efficiency of long-term financing of green economy by preparing the ground now.
- We should explore how we can increase fiscal firepower while aligning Welsh strategies and local expertise – this can be through partnerships with UK institutions such as the British Business Bank; but also, through an arm's length regional development body that looks to bring in external investment and provides a stable system for investor confidence.