

An IWA report | February 2021

A better balance

Business support policy for
the foundational economy
Summary and recommendations



MAKING
WALES
BETTER



GWNEUD
CYMRU
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Summary and recommendations

The foundational economy is an important policy agenda for Wales, addressing under-investment in everyday essentials such as food, housing, care and transport. The IWA has partnered with CREW to explore options that policy makers in Wales can use to strengthen the foundational economy.

Our report ‘A Better Balance’ presents a detailed analysis of policy and practice in business support in Wales and its impacts on the Welsh economy. We conclude that business support in Wales needs to be made more accessible to firms in the foundational economy, and that doing so will have both economic and social benefits for our communities.

Changes are needed on four key themes:

- Smarter Sector Policy
- Rethinking Productivity
- Supporting Entrepreneurial Ecosystems
- Getting the Structures Right

Welsh programmes for business support are broadly delivering against their stated targets, but they have not had a perceivable impact on a number of key outcomes, such as productivity growth and improved living standards.

There are several reasons for this, including macroeconomic conditions, scale and the increasing challenges of capturing the benefits of high-growth firms. Trends suggest these constraints are likely to get worse in the future. In light of these challenges, we need to explore different approaches to economic development within the devolution settlement.

In Wales, we see a relative lack of businesses growing from microfirms to become successful small and medium enterprises - the so-called ‘missing middle’. Business support can help to fill this missing middle, contributing to the growth of successful, grounded firms which combine commercial acumen with a commitment to their communities and their workers. However, the current design of programmes makes this difficult, as they reach only a small number of firms, are targeted at particular sectors, and are too focused on jobs growth as a success measure.



Smarter Sector Policy

Current economic development policy targets priority sectors, but the methods used to identify these priorities are often unclear. This makes it harder to scrutinise decisions, but also limits the ability of different stakeholders to ‘buy-in’ to the vision.

Policy makers need to develop **smarter sector policy**, informed by engagement with firms and by a wider variety of data sources. Current programmes focus too heavily on job growth, without recognising that some sectors contribute to economic and social value in other ways. Future business support programmes should take a more granular approach to target setting.

Where Wales is now...

Priority sectors change with each period of government, and sometimes within periods of government.

Delivery does not keep pace with this change, often becoming reactive rather than strategic. Everyday essentials fall through the cracks.

Where Wales needs to be...

A research-oriented approach led by the Welsh Government that triangulates economic data about businesses, employment and supply with high-quality engagement with a wide range of firms.

This makes it easier to identify opportunities for the Welsh economy.



Rethinking Productivity

There is a pressing need to **rethink ‘productivity’ for social benefit**. Firms in the foundational economy provide many everyday essentials and help make communities good places to live. However, they fall into a gap between business support that focuses on jobs growth and a public service improvement agenda that focuses on the public sector. Emphasising shared challenges, such as decarbonisation and broadening the use of technology, can help to bridge this gap.

Where Wales is now...

Foundational firms in Wales are essential to the functioning of everyday systems and processes.

These firms have very little access to support or investment.

They are less likely to benefit from new technologies and processes.

Where Wales needs to be...

The Welsh Government and Business Wales identify and actively promote new processes and technologies to small, foundational firms.

This helps firms contribute to social agendas like decarbonisation and better social care.



Support Entrepreneurial Ecosystems

Business support programmes should recognise the importance of the **entrepreneurial eco-system** and the role of more generic and accessible support in creating a more dynamic business environment. Policy makers need to recognise the value that microbusinesses play in this ecosystem and support opportunities for collaboration.



Get the structures right

The context for regional economic development is changing rapidly, and the Welsh Government can take nothing for granted post-Brexit. This means we need to get the structures right.

Wales needs an office for economic development at the centre of government to better align priorities across departments, make the most of budgets and funding streams, and compete more effectively for funding from outside Wales.

Finally, the next Welsh Government should respond to historic changes by undertaking widespread engagement to inform a long-term, consensus-based vision for the future of the Welsh economy that will outlast individual Ministerial priorities.

Where Wales is now...

Potential and current business owners perceive a lack of opportunity to start or expand businesses.

Many established businesses which contribute to their local area are threatened by structural changes in the economy.

Where Wales needs to be...

The Development Bank of Wales provides more accessible microfinance that supports a wider range of businesses.

Collaboration between firms is supported by the use of voucher schemes.

The Welsh Government uses its ability to convene and to think strategically by encouraging and supporting firms to prepare for the future.

Where Wales is now...

Economic policy in Wales faces a cliff-edge with the end European structural investment.

Current investment and policy making is disjointed, with programmes and strategies pointing in different directions.

Where Wales needs to be...

A long-term strategic vision is shared across the political spectrum, by businesses, and civil society.

Ministers across different departments deliver investment that contribute to shared goals.

The Welsh Government convenes partners across Wales to develop successful bids for funding from across the UK.

