

**Senedd Cymru**  
**Pwyllgor yr Economi, Masnach a Materion Gwledig**  
**Ymchwiliad i Fanc Datblygu Cymru**  
**DBW03**  
**Ymateb gan: Ffederasiwn y Busnesau Bach – Cymru**

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**Welsh Parliament**  
**Economy, Trade, and Rural Affairs Committee**  
**Development Bank of Wales inquiry**  
**DBW03**  
**Evidence from: Federation of Small Businesses – Wales**



# Development Bank of Wales Inquiry

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## Economy, Trade, and Rural Affairs Committee

### FSB Wales

January 2023

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### About FSB

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.

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### The overall performance of the Development Bank of Wales since it was established in 2017, including areas of success as well as any areas of under-performance?

The majority of enterprises in Wales are small and medium-sized, 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% and 42.5%, respectively, in Wales<sup>1</sup>. Consequently, supporting and financing small businesses is integral to the overall health of the Welsh economy and the Development Bank of Wales plays a pivotal role in shaping this funding and finance landscape in Wales.

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<sup>2</sup>.

The primary reasons cited for seeking support from the Development Bank were 'to grow their businesses' and 'to recover from the impact of

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<sup>1</sup><https://www.gov.wales/sites/default/files/statistics-and-research/2023-06/size-analysis-businesses-2022-655.pdf>

<sup>2</sup><https://www.fsb.org.uk/resource-report/building-business.html>

Covid-19'. Notably, over half (53%) of respondents who accessed support from the Development Bank emphasized that it played a crucial role in helping them survive, underscoring the institution's significance not only in fostering innovation and growth but also in providing vital crisis funding.

With Wales no longer receiving EU funds and facing uncertainties regarding the Shared Prosperity Fund and the Levelling Up Fund, the accessibility, reliability, and appropriateness of funding from the Development Bank of Wales become increasingly crucial for the Wales' economic stability.

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. Additionally, 60% of those who hadn't utilised its services were still aware of its existence. This shows growing awareness - an FSB Wales 2018 survey, where only 41% of respondents were aware of it, though it's important to note that this survey was conducted shortly after the bank's establishment.

Among those who had accessed support, 52% expressed satisfaction. Our data suggests that the Development Bank of Wales (as well as Business Wales) is firmly established and integral to the support system for SMEs in Wales. Those who have interacted with these institutions generally hold a positive view of them. Our data indicates that the Development Bank of Wales (and Business Wales) are well established and part of the furniture for SMEs in Wales and are generally viewed favourably by those who use them. Given the difficulty in Wales to provide publicity for Welsh institutions, this is an important part of the business support capacity for networks and engagement, as well as nudges and incentives toward economic policy goals.

#### SME Comments from FSB Wales' Building Business report (2022):

*"I have found there has been great business support in Wales."*

*"The support for start-ups is great."*

*"Without government assistance my business would not have survived. I am looking at expanding into online retail."*

While the Development Bank of Wales enjoys notable recognition, and users, on the whole, express satisfaction, our survey revealed that 36% of those who accessed support were dissatisfied. Numerous respondents expressed reservations regarding the delivery of business support. It is imperative that intervention and support strategies are grounded in thorough market analysis and collaborative efforts with the private sector, addressing instances of market failure.

The Bank's objectives and operational methods should align with a comprehensive strategy that envisions an economic framework centered on sustainable business growth, encompassing funding, regulation, and finance, to institutionalize a 'think small first' mindset within government policy. Our 'missing middle' strategy serves as a compelling illustration of this concept. In consideration of how its policies impact businesses and economic growth, Welsh Government should consider instituting SME Regulatory Impact Assessments as takes place in each of the other nations in the UK, and utilise expertise from institutions such as the Development Bank of Wales as appropriate in assessing policy impact on SMEs. Perhaps looking towards the work of the 'New Deal for Business Group' instituted by Scottish Government as an example of a new partnership approach on the economy.<sup>3</sup>

FSB considers therefore that there is a need to put the Development Bank on a legislative footing which would embed the Bank into longer-term thinking on the growth of the Welsh economy and clarify the role of the Bank within that conversation. In general, any conversation about institutions such as DBW needs to be part of a wider assessment of the future of the business support landscape in Wales and how that can be shaped to support business growth. Whatever the future shape of funding, it is vital that the core business support infrastructure, including Business Wales and Development Bank of Wales, is protected and developed and placed on a statutory footing with core multiyear funding set out, and viewed as a key competitive advantage to Wales's economic and business development.

The breakdown on data by gender is interesting. A slightly higher percentage of women have accessed Business Wales than men (79% to 75%) but there is a significantly lower percentage of women (51%) who are aware of Development Bank of Wales as compared to men (70%). This finding fits with wider evidence that women have less knowledge of and access to finance than male business owners. It is also reflected by the fact that in our survey a lower proportion of women (26%) say they are like to access finance than men (37%).

Welsh Government should commit to a substantial external consultation with partners as to the future design of business support in Wales engaging the voice of recipients of business support and those businesses which have no previously sought support to understand need and barriers.

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<sup>3</sup> <https://www.gov.scot/publications/new-deal-business-group-progress-report-recommendations/documents/>

Furthermore, all Welsh Government-supported enterprise development programmes undertaken by the Development Bank of Wales should be equality impact assessed, to review the impact on protected characteristics at the budgeting, design, implementation, monitoring and evaluation stages.

The Development Bank of Wales should assess the availability of finance for women entrepreneurs and ensure there are no unnecessary restrictions to the awarding of finance. This should include access to its own funding and financing mechanisms, but also assessment of the gender gaps in the wider funding environment (including the big banks).

SME Comments from FSB Wales' Building Business report (2022):

*"On the whole I think business support in Wales is good, however I think that recently support services have been overwhelmed and more funding is required to ensure a complete service. It seems follow ups and additional support are suffering. There also needs to be much more support and funding available to small sustainable companies selling or manufacturing green and eco friendly products if we intend to make a difference. It is these companies that need to be rewarded which in turn will encourage others to follow suit."*

*"Large, meaningful grants for businesses that could make environmental improvements would be very welcome."*

*"In my opinion there is too much talk and not enough action from WG and Westminster level on the Green Economy and increasing investment in sustainability...this is not filtering down so SMEs are still not able to afford to become more sustainable as the costs are prohibitive. We need real change and real funding and support brought in for SMEs who want to expand sustainable and environmentally, so it costs them less to adapt to take a more environmental approach."*

*"It's (business support) fragmented between local authorities, Business Wales, DBW, and Welsh/UK Governments."*

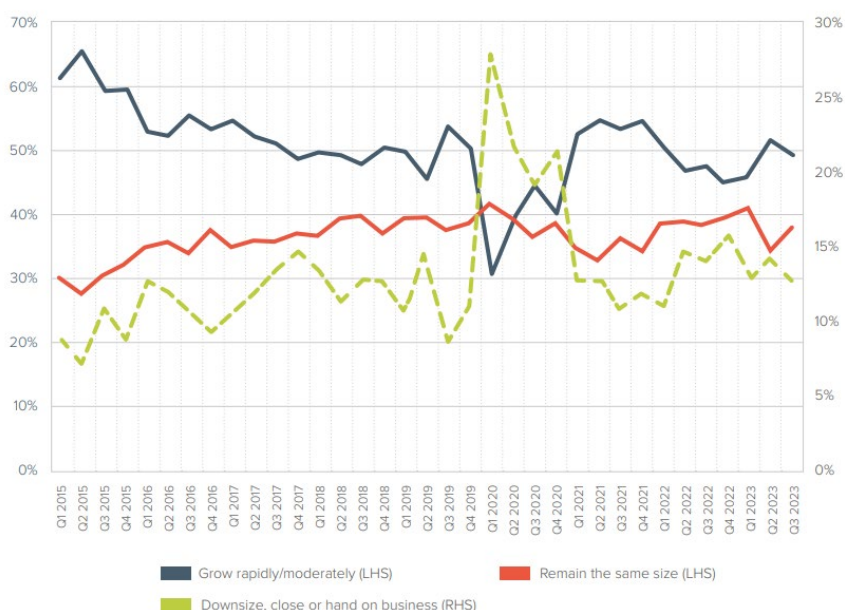
*"There is much talk of the foundational economy and supporting small business in Wales to grow. to innovate and to improve. The talk does not seem to translate into effective or useful action from the perspective of a small business. Support is poorly targeted, there is little evidence of value of money in the way funds are allocated. The metrics used to measure the success of individual projects are often deeply flawed."*

*"It's very difficult to access – we feel we only find out what's available by chance not by design"*

## The extent to which the Development Bank of Wales has met the specific objectives as set out in 'The Development Bank of Wales - A Strategic Asset for a more Prosperous Wales'<sup>4</sup> and in the 'Term of Government Remit Letter' for the Development Bank<sup>5</sup>?

From FSB Wales' research and interaction with our members, regarding the first specific objective of '**Economic Recovery and Future Growth**', shows that a lot of our members currently and over the past few years

**Figure 12:** Growth aspirations for next twelve months  
Source: FSB - Verve 'Voice of Small Business' Panel Survey



and in a state of 'firefighting'. The Development Bank of Wales needs to ensure that it's more short-term, crisis, and small pot funding is still available to give businesses the headroom they need to plan for growth. This will further help recovery and create an economic landscape where SMEs can grow. Smaller firms are more likely to be focused on the short-term goals, on business survival and 'getting the job done'.

This is not to say that having larger pots, innovation-targeted, or start-up funding is not crucial also. We have also found from our research on the 'Missing Middle' that support and funding for scale up is imperfect. In a Welsh economy where 99.3% of businesses are small businesses, and provide 63% of private sector employment, the part of the economy that has the most potential to grow is the small business economy and further encouragement of this is imperative.

<sup>4</sup><https://developmentbank.wales/sites/default/files/2017-10/DBW%20Strategic%20Outline%20Brochure%20digital.pdf>

<sup>5</sup><https://senedd.wales/media/qn0doyki/dp-1985-21-26.pdf>



Regarding the second objective of **'Net Zero'**, as will be discussed later in member experiences we have not heard much on the Development Bank of Wales' Green Loans. We welcomed the Green Loans provided by the Development Bank as these provide assistance and incentives to smaller businesses to decarbonise and become more efficient in areas where they otherwise may have struggled. Perhaps there is more room to provide support for Carbon Auditing? We would be keen to see ongoing data on the demographics of take up of these loans. We also have concerns about duplication of work within the Shared Prosperity Fund and Local Authorities, and even perhaps Welsh Government's new 'Future Proofing' Fund as announced in the recent draft budget. The Development Bank of Wales has gained good name recognition and has become an accessible and efficient way for small businesses to access funding options – to lose this or have it dispersed would have a negative effect on smaller businesses, who are time and resource poor, and the wider Welsh economy.

On the fourth specific objective of **'Value, Efficiency, and Customer Service'**, it is our understanding that generally the Development Bank of Wales is perceived well and is a valued institution in the financial landscape for SMEs, as outlined earlier in the document.

Finally, having worked alongside the Development Bank of Wales on our Small Business Breakfast Briefings, FSB Wales believe that the sixth specific objective regarding **'Intelligence and Research'** is being met well. We appreciate the collaborative intelligence work which only improves the depth and scope of both organisation's research and better informs decision makers.

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## Summary

The Development Bank is an effective, well known and useful tool in the armoury of Welsh Government, and one that has been quickly accepted as a good part of the business environment by smaller businesses. Its remit to ensure better access for SMEs is a vital part to steer the Welsh economy toward SME-led growth, and to develop its 'missing middle' agenda, as well as provide the access to finance needed for building SMEs' capacity and capabilities to deal with the challenges of a difficult economic environment and transition to net-zero.

It is a tool that does well in serving the wider economic strategy and mission. As such, many of its limitations, and the criticisms from embers that we encounter are often due to its needing to work within the economic strategy and economic mission developed centrally by Welsh Government, which now needs to be developed toward SME led growth

and with the ongoing economic squeeze, now needs to provide more on the detail and delivery towards long term aspirations, including how finance and funding can gear us toward growing our SME economy and supporting our communities' resilience and future prospects accordingly.

The Development Bank for Wales is a key part of the architecture and a competitive advantage for Wales and is a tool that can be part of delivering on and effective SME-led economic growth strategy for any future Welsh Government. The Development Bank for Wales is a key part of the architecture and a competitive advantage for Wales and is a tool that can be part of delivering on and effective SME-led economic growth strategy for any future Welsh Government. As such, FSB Wales would support its role being protected for the long-term and any future prospective First Minister to take steps toward that statutory underpinning.