

**Senedd Cymru**  
**Pwyllgor yr Economi, Masnach a Materion Gwledig**  
**Economi Gwyrdd**  
**GE09**  
**Ymateb gan: Banc Datblygu Cymru**

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**Welsh Parliament**  
**Economy, Trade, and Rural Affairs Committee**  
**Green Economy**  
**GE09**  
**Evidence from: Development Bank of Wales**



## Green Economy consultation- Economy, Trade, and Rural Affairs Committee

### Response by Development Bank of Wales

1. 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?

- **Renewable energy developments-** supporting streamlined planning consents and grid requirements
- **Incentivised funding solutions-** for businesses and homeowners using hybrid finance packages to stretch the funding impact
- **Clear and accessible strategy with support and campaigning-** breaking down the inbuilt complexity and supporting economic actors to see clear pathways to contribute

Net Zero is the single largest economic mission in Wales. Action is imperative in Wales's prioritisation of a green focus and meeting its commitments for climate change. Policies and strategies have been developed to consider the scope of the issue and the areas that need support and we now need to see this translate into positive investment.

This should be prioritised into energy generation, incentivisation products for the wider economy in the short and medium term, and the development of a long term strategy to enable change.

**Energy generation-** Welsh Government has an opportunity to leverage the unique natural resources it has available through land ownership for the growth of large scale net zero energy generation such as onshore wind. On a smaller scale, development of frameworks such as the heat strategy and bodies such as Ynni Cymru should provide a strong catalyst to furthering the achievement against this ambition.

At Development Bank, we have seen the demand for energy generation projects with local ownership grow. We have seen success of this through our delivery of the Local Energy Fund which has invested over £10m in community energy projects. These investments have centred on projects within mid and south-west Wales. Schemes such as this are key to ensuring growth of the green economy and providing resilience to energy disruptions in communities. Funding in this area, coupled with Welsh Government Energy Service which provide technical, commercial and procurement support, has demonstrable success as seen with projects such as Egni Coop.

For large scale developments our engagement with developers points to planning consents and grid connections being large barriers to progress. There is a growing list of developments across Wales that need support to mobilise which will then provide a step change in energy generation capacity in Wales.

**Incentive schemes-** More information on the Development Bank's activity to support the green economy through innovative financial products is given in response to

question 7. These include hybrid products targeting SMEs where action is expected but there is limited incentive coupled with the lack of resource, expertise and capital to catalyse action. These products also aim to target housing retrofit where, much like the support to SMEs, homeowners are in a difficult position with cost of living increases making everyday expenditure a challenge, and the concept of retrofit a complex and confusing one.

The domestic retrofit market will be crucial to delivering 5.5 GW generation through heat pumps. Incentivizing action in this sector will also require investment by Welsh Government. Allocation of an element of non repayable funding alongside repayable funding in a hybrid offer is a cost effective and value for money way to maximise impact of public funds. One doesn't work without the other and commitment from Welsh Government to address this needs to be secured.

**Long term investment strategy-** Clear communication of a long-term investment strategy will increase the number of people and businesses needing to access advice and tools to help their net zero journey. At present there is no clear centralised support to help either homeowners or businesses in their net zero journey. It is vital that Welsh Government take the lead in creating this function to maximise the rate of take up and therefore impact in this area.

Alongside short-medium term measures, Welsh Government should prioritise the development of a coherent Net Zero investment strategy, that enables and captures the opportunity of the additional investment required in Wales to deliver Net Zero (£~63bn by 2050 (CCC, 2019)).

This strategy should address a key challenge of Wales Carbon Budget 3 to rapidly scale additional investment for decarbonisation measures in Wales from ~£4.4bn (2021-25) to £11bn (2026-30). A strategy should clearly communicate the mission (i.e. the Net Zero capital gap by sector), regulatory drivers across sectors (e.g. Gas boiler phase out), facilities for investment (e.g. funds, advisory services) and policies for the future.

## 2. 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?

**Funding and cost-** Incentivisation comes with a cost and early activity to generate opportunity in the green economy requires a proposition of incentivisation. This needs to be accepted and budgeted for.

**Decision making with competing pressures-** The pace of change in the sector, competing opinions and requirements, as well as budgetary and resource constraints creates a barrier to robust decision making. Allowing best to be the enemy of good does not allow for progress. Test and learn, early adopter support and building momentum will allow the green economy to become more mainstream.

**The requirement for a legislative roadmap-** This is the critical point in time for robust investment to create an active economy that is able to grow and meet its net zero ambitions. Action will only progress where there is a clear roadmap on regulation and legislation that is understood by those undertaking the required change.

Barriers to growth of the green economy are common to previously emerging sectors and modernisation of existing economy. Barriers such as the adoption and embedding of innovation, new business models, regulation and funding. Early and robust interventions, incentivising early adopters to overcome these barriers can accentuate the opportunities. This would then link to productivity increases from innovation in the green economy, catalysing impact amongst supply chains.

The uptake curve needs to be managed to ensure those that lag behind are not permanently excluded from the benefits of a green economy due to reluctance or capability. This can be seen in projects concerning digital maturity. Businesses, particularly those in some rural and foundational sectors, may not be directly averse to change but do not have the ability to manage the change due to capacity and infrastructure. This needs to be addressed through proactive decision making and focused funding.

Better clarity on the roadmap for future legislation and regulation is vitally important for all economic actors, from businesses to homeowners, suppliers and producers. Understanding this time frame and how it is coupled with financial support will increase activity in the green economy. Sufficient lead time is required and so an early structure and promotion of the pathway to decarbonisation, in an accessible form is an important tool.

Momentum can also be generated from public sector leadership. Sharing learnings on how the public sector is meeting its 2030 targets will demonstrate leadership, while early initiative outcomes have the opportunity to transfer knowledge to the market.

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

**Addressing the barriers to generate a more active market place-** From our development activity, the most urgent support requirement to build the supply chains within the green economy are concerning and supplier base matching the demand requirements while ensuring quality. An active and supported market is needed to build an active supply and producer base.

**Deliver on the Net Zero Skills Plan-** Creating the expertise and capabilities in Wales to support the green economy is vital both for its growth and for the inherent opportunity for small businesses in Wales.

Development of new Schemes by the Development Bank in both the housing and business space has flagged risks in the availability of supply chain in Wales to support in the areas of technology production, technology installation as well as advice.

Action in this area is often cited as being stilted with investing in future needs by supply chain actors a risk until clearer opportunity to create demand is visible. Catalysing action in the green space is vital for Wales to build its skills and expertise to ensure it can service its own supply chain without relying on cross border expertise, providing opportunity for growth.

Focus for Welsh Government could be for example, prioritising interventions to support decarbonisation of major emitters and new infrastructure. These interventions should support businesses in Wales to supply and build off these developments, garnering competitive advantages for future investment rounds in Wales and UK-wide. This would demonstrate the productivity and sustainability increases as the rest of the economy catches up with business models for net zero.

Welsh Government can also utilise its own supply chain reach to facilitate small businesses journey to net zero. Public procurement is a lever for change amongst small businesses. It is an opportunity make commercial decisions which will enhance the sustainability focus within the wider market.

**4. 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?**

**Delivery of the Net Zero Action Plan-** WG have mapped out their net zero skills plan and this should continue to be delivered.

**Centralised advice-** Businesses and homeowners lack specialist knowledge and technical skills to invest in decarbonisation, often due to time and resource being constrained by competing priorities. Access to consistent and up to date trusted advice from a centrally trusted entity would be highly beneficial to support growing demands. Building this skillset in Wales should be prioritised.

**Simplification of understanding of accredited providers-** Simplification or clarity on the link between accreditation and certification bodies across the green space- Trustmark, PAS, MCS- would help determine skills needs for those looking to take on green projects. It would also support trade businesses have clarity on how to diversify their business effectively to support future needs.

The skills required to grow the green economy vary across sectors and pathways. There is an evidence gap in the spread, scale and growth of the skills within Wales to transition to net zero and the Net Zero Skills Action Plan highlights these in the detail they warrant.

Asymmetric information in the green space creates market failure as businesses do not know what to invest in or how to plan for such a project. Finance alone cannot overcome this capacity issue. Consequently, businesses either do not know where to start or do not trust the sources of information, whether on cost savings or usefulness of green finance, enough to adjust their view of risk on investing in decarbonisation. A trusted centralised entity for green support would provide surety and clarity in information for both businesses and homeowners and is a necessity to enable more considered action in Wales.

Part of the Development Banks work in the green space is identifying ways to support a business 'pivot' its offer to help existing trade businesses invest in the assets they need for future net zero focused delivery. Facilitating existing business to pivot requires communicating the opportunities in Wales, its potential market size, and supporting new entrants to upskill.

**5. 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?**

Many small businesses will be impacted by the transition to net zero. Barriers restricting their participation in the transition to net zero generally fall under the following themes:

- **Lack of internal knowledge**- not knowing where to start or have the internal resources to progress a project. This is particularly so in relation to the complexities of the technologies and installations involved.
- **Lack of strategic alignment**- Small businesses are busy with the day job and therefore need support to be catalysed into action through a clear and incentivised offer.
- **Cost of change**- access to affordable long-term finance, particularly at a time when they are managing spiralling operational costs.
- **Control over premises they occupy**- understanding areas where they can impact particularly when they rent their commercial space from a third party.

Businesses and households working within the green economy are not a homogeneous group. Their needs for a just transition will vary. Identifying and managing these requires ground level knowledge of areas. It requires accessing the tacit knowledge in areas which is best gained by being embedded in communities.

The Development Bank recognise the importance of regulatory commitments tied to appropriate lead in times for individuals and business to anticipate and deliver decarbonisation measures in businesses and homes. Providing these market signals support investment decision making. To that end, Welsh Government should prioritise work to provide legislative clarity across devolved areas to support decarbonisation.

**6. 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?**

There are numerous actors with the required expertise that can cut across each sector to drive the transition and grow the green economy. Some of these include:

**Intra government policy cohesion-** ensuring policies complement and build rather than conflict.

**Energy experts accessible to businesses and homeowners-** through a centralised or sector specific support arm that supports the realisation of potential.

**Funding delivery providers-** Many areas of green economy development require robust financial management and outsourcing this to organisations like DBW is the most effective way to achieve results quickly. Utilising hybrid funding structures will maximise the impact of public funding where returns can be re used for future needs.

Intra-Government policy has been the core driver of decarbonisation across sectors. Cohesive policy reduces barriers to entry and incentivises the transition while managing growth and well-being benefits. Welsh Government have the tools at their disposal to ensure collaboration across public sector action. In a time of tightening public spending, cost effective transitions must be prioritised. Clear ownership of policy and strategy within WG will help make collaboration easier. Currently this can be hard to navigate due to the broad nature of the net zero challenge presented.

Another key area is the support and advice organisations targeting decarbonisation. These can inform policy for better decision making and support across sectors to deliver the transition. This includes organisations such as The Carbon Trust and Energy Saving Trust. These organisations provide accessible expertise to disseminate the skills needed to participate in the transition.

There is a growing market for energy consultants and auditors. Such organisations support businesses and homeowners to overcome the knowledge gaps to catalyse their transition to net zero and participate in the transition. Facilitating the structured, outcome focused, use of energy consultants and auditors overcomes the entry barriers and enables wider support such as finance to deliver the changes. Our Green Business Loan Scheme facilitates businesses to get an energy audit and deliver on the changes.

Bringing these elements together demonstrates the need for a centralised energy service providing robust, trusted and consistent advice to businesses and homeowners.

In terms of funding providers, the market offers different opportunities in working with sector of financial experts to ensure impact is being made in the areas targeted. A clear programme of delivery partners for funding needs is required.



**7. 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?**

**Hybrid lending structures-** Using minimum necessary grant alongside repayable loan structures to increase the impact of public sector funding.

**Clear programme of funding delivery partners-** utilise available market expertise to deliver funding packages to increase both efficiency and effectiveness

**Maintain incentives in the short term-** the green market is not yet mature enough in its mainstream activities to respond to a 'stick' rather than 'carrot' approach.

**Set the foundations for longer term scaling now-** Particularly in relation to Carbon Budget action, test and learn pilots agreed now will pave the way for longer term scalable solutions.

While Wales is performing close to its population share on the low carbon and renewable energy sector investment, other UK regions are performing above this on most LCREE indicators, including employment and business turnover.<sup>1</sup> Addressing the challenges of the Wales Carbon Budgets 2 and 3 will require significant investments across fully and partially devolved sectors.

British Business Bank research shows that while 58% of SMEs reported they are likely to access grant funding to support net zero actions, only 20% were likely to take on external loans.<sup>2</sup> This dropped to 3% for external equity investment. Hybrid funding solutions provide the opportunity to bridge some of this inactivity gap.

Examples of recent funding offers the Development Bank has successfully launched, that combines outsourced delivery (DBW), incentivisation and hybrid funding packages, are:

**Decarbonisation investment for businesses-** In February 2023, we launched the [Green Business Loan Scheme](#) which combines access to net zero consultancy with a financial support package for energy efficiency and decarbonisation projects, offering repayment holidays, discounted interest rates and patient capital.

**Incentive schemes for SME developers-** In 2022 we launched the [Green Incentive Scheme](#) which offers incentives to SME house builders who are using modern methods of construction/low carbon building methods.

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<sup>1</sup> [https://www.british-business-bank.co.uk/wp-content/uploads/2023/02/J0189\\_BBB\\_SBFM\\_Report\\_2023\\_AW.pdf](https://www.british-business-bank.co.uk/wp-content/uploads/2023/02/J0189_BBB_SBFM_Report_2023_AW.pdf)

<sup>2</sup> [https://www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0026\\_Net\\_Zero\\_Report\\_AW.pdf](https://www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0026_Net_Zero_Report_AW.pdf)

We also deliver the Local Energy Fund which supports SME and community groups with small scale regional renewable energy projects. This scheme offers long term capital with dedicated technical support and grant where required.