

Economy, Trade and Rural Affairs Committee

Green Economy Inquiry

Cwmpas is a development agency working for positive change in Wales. We are a co-operative, and our focus is on building a fairer, greener economy and a more equal society, where people and planet come first.

As part of the Social Enterprise Stakeholder Group, we are the lead partner in delivering Social Business Wales, the Welsh Government's specialist support service for social enterprises, co-operatives, and employee-owned businesses.

Our consultancy team works with the Welsh Government, local authorities, housing associations, universities, charities, social enterprises, and businesses in the private sector, helping them to think creatively and act smartly so they can embed the kind of positive values within their operations that bring sound and lasting social and economic benefits to the communities they serve.



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?

It is key that we understand that every sector can be a part of the green economy. Social enterprises we have supported across many different sectors all make a significant contribution to the green transition by making sustainable choices and embedding them in their business model. This can clearly be the case when the social enterprise is operating in a sector with a clear link to the green transition, like community energy production, but also when operating in other sectors. By supporting the development of the social enterprise model in all sectors we can maximise economic, social and environmental impact through the triple-bottom line business model. This model embeds and prioritises the valuation of social and environmental impact to the same extent as economic impact within businesses.

The Welsh Government has strongly supported the development of the social enterprise sector through its funding of Social Business Wales, and the continued funding following the end of EU-funding. It has supported the Social Enterprise Stakeholder Group's ambition to make social enterprise the business model of choice by 2030. In 2020, the SESG published its Vision and Action Plan: Transforming Wales through Social Enterprise, which seeks to make social enterprise the business model of choice in Wales by 2030. We will be updating on progress against this ambition over the next few months.

The sector is growing from strength to strength in Wales. There are now approximately 2,828 businesses in the sector, an increase of 22% from 2020 (2309). We believe that the next stage in making Wales the best country in the world to start and grow a social enterprise will be putting this model, and support for the sector, at the heart of Wales' economic strategy. This will be key to maximising the economic, social and environmental value that the sector can provide. Embedding

this model within the green economy will maximise the positive impacts and supporting a green transition.

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?

Mapping data – barriers to growth within the social enterprise sector

As discussed previously, we believe that the growth of the social enterprise model in Wales is essential to achieving a just transition and maximising the economic, social and environmental potential of the green economy.

The Social Business Wales mapping exercise, published in 2023 with research conducted in 2022, highlighted some of the barriers to growth within the social enterprise sector. 'Energy costs' was cited by nearly a third of businesses (31 percent) as one of their main barriers to growth. Equally, economic climate and high inflation were cited by nearly half of respondents (48 percent), compared with 19 percent in 2020 and 23 percent in 2018. Cash flow was also a barrier for a quarter of businesses (25 percent) which more than doubled from only 10 percent in 2020.

The greatest barrier for businesses, however, was time pressures/lack of staff capacity, which was noted by 52 percent of social businesses surveyed. It's interesting to note that 'obtaining grant funding' has also risen to 51 percent, having fallen in 2020 to only 31 percent. This follows a pattern seen elsewhere with the effect of the pandemic, where there were a number of resilience or recovery grants for businesses in 2020 which were no longer available in 2022.

Businesses who suggested that accessing finance was a barrier for their business were asked a follow up question to understand the nature of these challenges. The data suggests that a key driver of this concern was a lack of time to be able to apply for finance (34 percent or 40/118 businesses), which reflects the broader barriers facing businesses around organisational and staff capacity. A further 32 percent didn't have the expertise to apply for finance, which suggests a skills need within the sector.

Businesses were able to offer free text responses around the support they needed to address their barriers to growth. The most common response was around marketing (16 percent or 39/237 businesses). Whilst 9 percent commented that they needed funding to address barriers, 15 percent said they wanted training or support to be able to access funding or finance themselves. A significant number of responses referenced support around staff or training, with 14 percent needing support with recruitment for staff or volunteers, 13 percent needing training for their existing staff, and a further 2 businesses struggling to recruit apprentices.

Businesses were also asked about the blended finance model, which was used for funds such as the Third Sector Resilience Fund and the Social Business Growth Fund (i.e. a mix of grants and loans) and may become more prevalent in the future. Most businesses (55 percent) are aware of the funds and, where they are aware, most (55 percent) indicated that they are interested in the model. This is despite the fact that only four percent accessed blended finance in the past year (see Figure 5.15), suggesting that there is good scope to increase this type of offer as an alternative for businesses who are eager to access grant funding.

Barriers to social businesses achieving net zero

Despite the fact that social businesses embed environmental sustainability through the triple-bottom line model, achieving net-zero remains challenging. In the most recent social business mapping exercise conducted in 2022 additional questions were asked of businesses around commitments to

and actions on becoming a business with net zero carbon emissions. Over half of businesses said that mitigating the climate crisis was a 'high' or 'essential' priority for them. Businesses were also asked if they have fully committed or considered becoming carbon neutral or net zero, with 15 percent of businesses committing and 36 percent of business considering it. This demonstrates that whilst many feel that addressing the climate crisis is a priority, a limited number of these businesses have fully committed to becoming carbon neutral or net zero.

Businesses were most likely to have introduced energy efficiency measures (63 percent or 129/205 businesses), whilst 39 percent (72/184) were considering switching to renewable energy. Comparably, the SEUK report suggests that 30 percent of social enterprises had installed energy efficiency devices in the last twelve months whilst according to the Business Insights and Conditions Survey in March 2022, approximately eight percent of businesses reported taking at least one strategic action to protect the environment. This demonstrates that Wales, and the social enterprise sector, is leading the way.

Businesses who hadn't considered becoming carbon neutral or net zero attributed this to a variety of reasons. For 27 percent of businesses it wasn't a priority, with many mentioning a lack of time or staff resource and some saying their focus was on their core social mission. For 10 percent of businesses the cost of implementing measures to become carbon neutral was the main reason why it was not something they had considered. For example, one business noted they were operating from an old building where the cost of energy saving measures would be too high. Responses indicated that for many businesses, energy efficiency measures on buildings were believed to be the primary action their business was able to take towards mitigating the climate crisis. Similarly, 18 percent commented that taking action was not in their power, mostly because they rent space and do not have the power to make energy saving adjustments. A further 19 percent of businesses felt that becoming carbon neutral was not relevant to their work, with many not having fixed locations, some being based outside, or being run by volunteers.

This evidence suggests that the social enterprise sector is eager to contribute to the development of the green economy – both businesses operating in sectors with the potential to grow during the green transition, and across all sectors through embedding sustainable practices. However, there is a clear need for tailored support to social enterprises and businesses more widely to achieve a just transition to net-zero.

Rebalancing local economies – lack of ownership

In order to achieve the type of economy we need in Wales, we need to empower communities to find solutions to the challenges we face. Ensuring the skills, innovation and entrepreneurialism we need to grow Wales' green economy will mean everyone in our communities must be engaged and have access to the new businesses and jobs that will be created. Doing this as effectively and justly as possible requires a re-balancing of local economies, anchoring decision-making and wealth in the hands of communities themselves. This will ensure that the interests of Welsh communities are at the heart of new business models. The development of social enterprises and community-led business models must be at the heart of strategies to achieve this model of economic development.

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

The Welsh Government has a key role in supporting and nurturing local, Wales-based supply chains across economic sectors and within new industries within the green economy.

Central to this is the need for specialist support for social enterprise. Social enterprises are rooted in their local communities and engage local people in measures to address the climate emergency, combining the innovation and entrepreneurialism of the private sector with its focus on well-being and working to the benefit of local communities. This triple-bottom line approach is the best model for developing the green economy in Wales. The impact of the Social Business Wales programme highlights the key role that specialist support plays for new and growing businesses within the sector and ensuring that this is available to new social enterprises in the green economy will be key in the short and long-term.

In addition, the Welsh Government should pro-actively nurture the market for social enterprises to start and grow in the green economy. This can be done in a variety of ways that build community wealth in local economies. In 2022 we published a Guide to Building Stronger Local Economies that brings together a variety of concepts that build community wealth - employee ownership, the foundational economy, social enterprise, social value, community shares and community-led schemes, and the circular/sharing economy. All of these have a key role to play in facilitating the growth of social enterprises within local economies.

A positive example is Creating Enterprise, a social enterprise in Conwy. A subsidiary of Cartrefi Conwy, it started trading in 2015 and has quickly grown into the social contractor of choice for North Wales. It builds environmentally friendly homes using sustainable materials and is innovative in finding new ways to lower its carbon footprint, such as by sourcing eighty percent of its timber from Wales and constructing its frames onsite. As well as having an environmental mission, it has a social mission to create well-paid, full-time employment opportunities for the local community it serves. Its Creating Futures Academy helps local people find and access training, volunteering, and employment opportunities. In November 2020, it was named as the Fastest Growing Company in Wales. This team is the perfect example of how social enterprise can deliver on its three ambitions: business success, environmental sustainability, and helping people.

An important policy area is around procurement reform. The Welsh Government should continue to seek to embed a community wealth building, social value approach to procurement and ensure that well-being and impact on local economic development is at the heart of procurement strategy. The Social Partnership and Public Procurement Bill is a positive step in the right direction towards achieving this aim and we will support the social enterprise sector to understand the potential they have in achieving its ambitions.

A key element that has been identified by the social business mapping research is the value that social entrepreneurs give to peer-mentoring and opportunities to network. This is a core part of our strategy for delivering Social Business Wales and we would welcome opportunities to see how this can be funded and facilitated further.

We would also welcome the opportunity to learn from previous examples of challenge funding within the foundational economy and how this model can be used to facilitate innovation in green economy sectors in a way that is accessible for communities and social enterprises.

We are currently working on projects with partners across Wales that seek to support and facilitate high-quality collaborations between the third sector and academia. We believe that learnings from the Third Sector Research Partnership and Resourceful Communities Partnership are key to ensuring that communities can play a key role in sectors of the future, and the green economy is central to this.

A key objective in the Social Enterprise Stakeholder Group's Vision and Action Plan for social enterprise in Wales is for the sector to maximise the potential of digital technology. Support for digital transformation of community groups to form social enterprises and maximise productivity will be essential to ensuring that the potential economic, social and environmental impact of the sector is maximised.

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?

Fundamentally a just transition will mean re-balancing local economies, taking a well-being approach to economic development. Social enterprise should be at the core of this, because the business model means well-being and social impact is valued to at least the same extent as profit.

Part of the social value that the sector produces lies in its role as fair employers, offering a fair wage and conditions. Other questions related to social businesses as employers suggest that 66 percent pay the living wage to all staff (£9.50 in April 2022). The survey found that 22 percent of employers who had taken on new employees in the last 12 months reported that these included individuals who were unemployed immediately before taking up the post, accounting for 65 full time roles and 141 part time roles. This reinforces the sector's role in providing employment opportunities for individuals who are further away from the labour market. Furthermore, the data suggests that social businesses are good local employers, with 78 percent of businesses' workforce living within 10 miles of their workplace, up from 69 percent in 2020 and 57 percent in 2018.

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 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?

Procurement is key to achieving this ambition. The Welsh Government has a crucial expenditure into the Welsh economy and it can use this spend in an innovative way, seeing it as an investment into building a stronger green economy rather than solely a cost. This can be through continuing to develop its understanding of social value and community wealth building within procurement, continuing and expanding its work to reform procurement processes to enable small-scale, community-based suppliers to start and grow, and enabling the public sector to take a pro-active approach in the market through establishing arms-length social enterprises.

In addition, we have seen the vital role that innovative ethical financing can play for the sector. 2023/24 was another record-breaking year for Social Investment Cymru loan applications, demonstrating the demand and optimism within the social enterprise sector. Supporting the development of this model is the most effective way for the Welsh Government to achieve its

ambition of a just transition, and for maximising the potential of the green economy for Welsh communities.