

## ANNEX B: Local Growth Fund – Early thinking on a Theory of Change

Our ambition is to support productivity growth and tackle issues leading to economic inequalities across Wales




This annex seeks to summarise some of the findings from the socio-economic analysis, wider evidence, and the discussion in the consultation document to illustrate early thinking on the theory of change for the Local Growth Fund in Wales. The intention is to briefly describe those areas where we think the LGF could have some measurable impacts, should they be prioritised.

The evidence and actions are illustrative only and are not intended to be exhaustive. They are designed to show the rationale for the objectives proposed and to provide some examples of types of activities which might contribute towards those objectives. Once objectives are agreed there will be flexibility to identify the most suitable actions to deliver them beyond what is set out here.




### Priority 1: More productive and competitive businesses

Illustrative Evidence	Issue/opportunity	Objective	Illustrative actions
<p>Start-ups are a key driver for breakthrough innovation, enhancing economic dynamism and long-term growth (<a href="#">OECD</a>)</p>	<p>Issue: The business landscape can become dominated by many micro-businesses and small firms, with fewer medium and large firms which are</p>	<p><b>Increase the creation of start-ups and spinouts with growth potential, including a focus on under-represented groups and social enterprises.</b></p>	<p>Finance for start-ups and spin-outs in high growth potential areas where there are market failures.</p>




<p>Start-up and survival rates lag UK averages (<a href="#">Welsh Government, Business Demography 2023</a>)</p> <p>Barriers to growth of start-ups and spin outs in Wales (<a href="#">Coadec Startup Wales 2023</a>)</p> <p>Lower levels of growth of micro-businesses to SMEs (<a href="#">Welsh Government Size Analysis of Active Businesses in Wales, 2023</a>)</p> <p>Specific Barriers /under representation of social enterprises and start-ups by underrepresented groups (<a href="#">ERC main barriers to entrepreneurship in underrepresented groups 2020</a>; <a href="#">Social Enterprise UK Survey 2023</a>)</p>	<p>associated with higher productivity. Many micro-businesses fail to grow, limiting overall economic and productivity growth.</p> <p>Opportunity:</p> <p>Increase the number of start-ups and spin-outs in Wales by addressing barriers such as finance and advice.</p> <p>Increase the number of start-ups and spin-outs with growth potential which will become SMEs and larger businesses.</p> <p>Targeted support for under-represented groups and social enterprises to take advantage of untapped potential and new business models.</p>		<p>Business support and advice linked to any financial support to start and grow a business.</p> <p>Tailored support for social enterprises to promote alternative business models, including staff buy-outs.</p> <p>Tailored support to address specific barriers faced by under-represented groups (e.g. women, minority groups, etc.).</p>
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Lower levels of investment in SMEs and social enterprises (<a href="#">Economic Intelligence Wales Annual Report September 2025</a>)</p> <p>Regional differences in access to finance opportunities for growth (<a href="#">Development Bank Wales SME Access to Finance Report 2025</a>)</p> <p>Lower access to export opportunities (<a href="#">OBR Economic and fiscal outlook – March 2024</a>)</p>	<p>Issue:</p> <p>Barriers to expansion, export, and attracting investors can stifle existing businesses and prevent growth and expansion, particularly when carrying out activity for the first time. In turn this can lead to reduced competitiveness, stifle innovation, and limit growth prospects.</p> <p>Opportunity:</p> <p>Increase the growth of SMEs and social enterprises with high growth potential by identifying and tailoring solutions to address barriers to investment at key points of business growth and expansion.</p>	<p><b>Address barriers to growth (e.g. expansion, export and attracting investors) for high-growth potential SMEs and social enterprises.</b></p>	<p>Repayable finance for SMEs and social enterprises in high-growth potential areas where there are market failures.</p> <p>Direct support to support an overall increase in exports, particularly in areas of competitive advantage (e.g trade missions, market research).</p> <p>Targeted business support and advice, particularly where linked to other support, to address specific barriers to growth (e.g. access to investors).</p> <p>Sector specific support where tailored solutions are needed to address growth barriers and support sector specific networks.</p>

	Increased competitiveness of Welsh businesses internationally and higher levels of innovation and productivity where growth is sustainable.		
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Lower levels of lending to SMEs in Wales (<a href="#">Wales SME Access to Finance Report - 2025</a>)</p> <p>Regional disparities in use of grants (<a href="#">Development Bank Wales SME Access to Finance Report 2025</a>)</p>	<p>Issue:</p> <p>A history of underinvestment results in less developed financial ecosystems, which makes it harder for local firms to attract capital. This perpetuates regional inequality and a concentration of economic inactivity.</p> <p>Opportunity:</p>	<p><b>Address specific market failures in the access to repayable finance to establish and grow Welsh businesses and social enterprises.</b></p>	<p>Use of loan, equity or mezzanine investment vehicles for businesses and social enterprises to address specific market failures and where there is high growth potential. These might be on a sectoral, geographic or thematic basis.</p> <p>Boosting existing repayable national, regional or local repayable finance schemes where there is added value (e.g. to extend to less developed areas or target specific under-served sector).</p>




	<p>Increase the uptake of repayable finance by businesses and social enterprises by addressing barriers such as availability, complexity and suitability.</p> <p>Increase the number of start-ups and spin-outs with growth potential accessing repayable finance.</p>		<p>Tailored support and advice for social enterprises linked to finance support.</p> <p>Capital investment funds to support capital investments by businesses or key infrastructure where repayable finance options are viable.</p>
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Lower levels of businesses engaging in research development and innovation and benefiting from knowledge exchange ( <a href="#">Welsh Government: Wales Innovates delivery plan</a> )</p>	<p>Issue:</p> <p>Key issues include a lack of cohesion, misaligned resources, and limited capacity building which limit the ability to innovate and remain competitive. Research</p>	<p><b>Increase levels of investment in research, development, knowledge exchange and innovation in businesses and research organisations, including in the areas of</b></p>	<p>Finance for RD&amp;I in high growth sectors linked to commercialisation or adoption of innovation.</p> <p>Sector specific support where there are existing strengths and competitive potential (e.g. AI, Cyber Security, Connectivity, Life Sciences, Green Economy).</p>

<p>Underinvestment in research in Wales in growth sectors since the loss of EU funding (<a href="#">ETRA Committee consultation on post-EU regional development funding - Universities Wales response</a>)</p> <p>Fragmented support for knowledge exchange and collaboration at national and regional levels (<a href="#">Welsh Government: Wales Innovates delivery plan</a>)</p>	<p>underpins productivity growth, but Welsh organisations are less successful in securing competitive funding, creating a vicious circle.</p> <p>Opportunity:</p> <p>Increase the number of businesses and research bodies in Wales collaborating in RD&amp;I by addressing barriers such as finance and advice.</p> <p>Increase the number of partnerships between universities, businesses and UK and international bodies.</p> <p>Support for spin-outs using IP with growth potential in high growth sectors.</p> <p>Investment in RD&amp;I capacity and</p>	<p><b>AI, cybersecurity, digital and green growth.</b></p>	<p>Support to create Welsh-led RD&amp;I partnerships with UK and international organisations in areas of strength or potential competitive advantage.</p> <p>Business support and advice linked to any financial support for RD&amp;I.</p> <p>Tailored support for spin-outs using IP in high growth sectors.</p>
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	infrastructure can provide the right conditions to grow existing strengths and increase competitiveness.		
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## Priority 2: Supporting People into Work and Increasing Skills

Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Higher levels of economic inactivity in Wales than the UK (<a href="#">Labour market statistics (Annual Population Survey): April 2024 to March 2025 [HTML]   GOV.WALES</a>)</p> <p>Increasing levels of economic inactivity in certain groups, including young people and older people ( <a href="#">Learning and Work Institute - NEET data briefing April 2025</a>)</p> <p>Increase in economic inactivity due to long term health conditions, including mental health. (<a href="#">Public Health Wales briefing December 2022</a>)</p> <p>Specific barriers to employment for groups who</p>	<p>Issue:</p> <p>Economic inactivity is associated with lower incomes and can reinforce economic inequalities. It reduces access to labour for businesses and can hamper economic growth, increase demands on public finance, and reduce the tax base.</p> <p>Opportunity:</p> <p>Increase the number of young people, disabled people, women and people from ethnic minority communities in the workforce by</p>	<p><b>Reduce levels of economic inactivity, notably among young people, disabled people, women and people from ethnic minority backgrounds.</b></p>	<p>Targeted and tailored employability support, engaging with community and third sector networks.</p> <p>Support for SME and social enterprises to encourage inclusive recruitment.</p> <p>Integrated employability, health and wellbeing support, including supported employment, job coaching and workplace adjustments.</p> <p>Tailored support to address specific barriers faced by under-represented groups (e.g. women, minority groups, etc.).</p>






<p>are underrepresented in the labour market (<a href="#">Welsh Government Plan for Employability and Skills 2022</a>)</p>	<p>addressing barriers to employment.</p> <p>Increased co-ordination of national and regional employability support.</p> <p>Increased accessibility employability programmes.</p> <p>Increase employment outcomes for people underrepresented in the workforce, including disabled people, women and ethnic minorities.</p>		
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<b>Illustrative Evidence</b> 	<b>Issue/opportunity</b> 	<b>Objective</b> 	<b>Illustrative actions</b>
<p>Inequity of opportunity to access and progress in fair and rewarding work (<a href="#">Race</a>)</p>	<p>Issue:</p>	<p><b>Improve the in-work retention and</b></p>	<p>Employability support in work progression.</p>

<p><a href="#">Inequality in the Workforce - Carnegie UK</a>; <a href="#">Disabled people's employment in the UK: A thematic review of the literature - GOV.UK</a> )</p> <p>Ethnic minority and gender pay gaps <a href="#">Wellbeing of Wales, 2024: progress towards national milestones</a></p> <p>Lower wages, productivity and qualifications levels (<a href="#">Labour market overview: January 2025 (headline results) [HTML]   GOV.WALES</a>; Office for National Statistics (2025). <a href="#">Productivity flash estimate and overview, UK</a>)</p>	<p>Structural barriers prevent certain groups from accessing jobs and progressing in their careers which entrenches systemic disadvantages and results in a significant waste of human potential.</p> <p>Opportunity: Increase targeted support for in-work retention and progression.</p> <p>Increase the number of employers in Wales offering fair and supportive workplaces and opportunities for progression.</p> <p>Increase the proportion of regional and national investment programmes.</p>	<p><b>progression of under-represented groups, including challenges of low paid and insecure employment.</b></p>	<p>Tailored guidance and support for employers to encourage inclusive recruitment, retention and progression of underrepresented groups.</p>
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	Increase access to in-work training and skills in priority sectors.		
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Lower achievement of qualifications at all levels (<a href="#">How workforce qualification levels differ across England and Wales - Census 2021, ONS</a>)</p> <p>Increased levels of economic inactivity for people with no or low level qualifications (<a href="#">Wales Economic and Fiscal report 2024, Economic inactivity by qualification level - GOV.UK 2023</a>)</p> <p>Lack of higher level skills in workforce in key sectors (<a href="#">The</a></p>	<p>Issue:</p> <p>Lower skills levels are linked to reduced earning potential, higher unemployment rates, and poorer health outcomes for individuals, which in turn stifles economic growth, increases inequality, and strains public services. Higher skills levels are linked to higher productivity, the growth in new jobs, higher levels of</p>	<p><b>Improve qualification and/or skills levels, focusing on basic and higher-level skills.</b></p>	<p>Increased availability of basic skills embedded in employability support.</p> <p>Partnerships with FE/HE and employers to design training to address specific local issues, sector specific gaps, or general skills in demand across the economy.</p> <p>Higher level skills investments targeted at existing or emerging gaps in key sectors or places, in particular where linked to long term plans.</p>

<p><a href="#"><u>Future of Regional Development and Public Investment in Wales - OECD</u></a></p>	<p>innovation, and increased competitiveness.</p> <p>Opportunity:</p> <p>Increase availability and completion rates of skills qualifications.</p> <p>Increase support for essential literacy, numeracy and digital skills.</p> <p>Increase availability of higher level training aligned to growth sectors.</p>		<p>Delivering local, regional and sector skills strategies to target specific gaps in existing provision.</p>
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Workforce skills shortages in key sectors including health and social care, foundational economy, green economy and digital and AI skills gaps.  <a href="#">Employer Skills Survey 2022: Wales report</a></p> <p>Lower levels of qualifications, especially in underrepresented groups <a href="#">Economic inactivity by qualification level - GOV.UK</a>  <a href="#">Ethnicity facts and figures</a></p>	<p>Issue:</p> <p>Skills shortages can constrain growth and productivity, increase costs, and can have negative impacts on employee morale and retention. Issues include higher operating costs due to increased wages and recruitment efforts, lower output and quality of work, difficulty meeting customer demand, stalled innovation, and increased stress and burnout for existing staff, as companies struggle to maintain operations and expand. In Wales it could mean less opportunities available to the local</p>	<p><b>Tailored demand-led skills support and training for high growth potential or regionally important sectors.</b></p>	<p>Training provision aligned to national, regional and local skills plans and priorities to address gaps.</p> <p>Employer engagement in design of training programmes, in particular where sectors have been prioritised in skills plans or to support significant growth opportunities (e.g. FLOW or nuclear).</p> <p>Targeted accessible training for underrepresented groups in areas of growth opportunity, e.g. young people, disabled people, women, ethnic minorities.</p>

	<p>population in high growth sectors.</p> <p>Opportunity: Address demand led skills development, targeted to key sectors.</p> <p>Expand learning pathways for individuals, aligned to demand and regionally important sectors.</p>		
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### Priority 3: Green infrastructure and energy efficiency

Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Decline in locally owned energy projects entering development (<a href="#">Community Energy State of the sector report 2025</a>)</p> <p>Need to meet the target of 100% annual electricity consumption from renewables by 2035 (<a href="#">Welsh Government Low Carbon Delivery Plan (2021-2025)</a>)</p> <p>Specific barriers (grid limitations, lack of profitability) especially in low-income or remote areas (<a href="#">Energy Generation in Wales: 2022</a>)</p>	<p>Issue:</p> <p>Decelerated and unequal energy transition, diminishing community benefits, and a loss of local control over energy systems. Community-owned projects face numerous systemic barriers, including insufficient government support and complex market regulations, which make it difficult for them to compete with large-scale commercial developments.</p> <p>Opportunity:</p>	<p><b>Increase renewable and low-carbon energy generation, particularly where locally owned and delivering against regional priorities.</b></p>	<p>Finance for renewable energy projects, prioritising local ownership models.</p> <p>Finance for RD&amp;I in green technologies.</p> <p>Support for targeted skills development.</p>

	<p>Increase the amount of locally owned renewable energy capacity by addressing barriers.</p> <p>Increase the proportion of low-carbon energy delivering to regional energy needs.</p>		
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Road transport contributes significantly to emissions in Wales (<a href="#">Wales' Fourth Carbon Budget, Climate Change Committee 2025</a>)</p> <p>Digital connectivity disparities in parts of Wales, especially</p>	<p>Issue:</p> <p>Transport and connectivity essential for businesses to grow and remain competitive, leading to constraints and risk of expansion outside Wales.</p>	<p><b>Support low-carbon transport and digital connectivity infrastructure where it supports regional growth priorities.</b></p>	<p>Finance for low-carbon transport infrastructure projects at local and regional level where barriers constraining growth are identified (e.g. access to employment sites).</p>



rural areas ([Connected Nations Wales Report 2024](#))




Exclusion from essential services like education, healthcare, and employment, and exacerbating existing societal inequalities based on age, income, gender, and ethnicity. Issues include access to travel options, unaffordable internet, lack of digital skills, inadequate devices, and insufficient digital infrastructure, which collectively leave people feeling left behind and unable to participate fully in society.

Opportunity:

Increase ultra-low emission infrastructure, including active travel networks.




Support projects prioritised in regional transport plans as important to growth of the regional economy.

Investment in digital connectivity where there are market failures not being addressed by other schemes, but constraining economic opportunity.




Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Market failure in low-income or remote areas (<a href="#">Understanding the barriers and enablers to supporting fuel poor households achieve net zero</a> UK GOV)</p> <p>Housing energy inefficiencies leading to higher emissions, energy costs and health inequalities (<a href="#">Improving energy efficiency in Welsh homes critical for health and well-being - Public Health Wales</a>)</p> <p>Rising energy costs disproportionately affect low-income households (<a href="#">Fuel poverty modelled estimates for</a></p>	<p>Issue: Costly to heat and cool homes, forcing households to spend a high proportion of their income on energy, leading to fuel poverty, ill health, and debt.</p> <p>Opportunity: Target capital investments in areas of market failure, with a focus on low-carbon heating systems and energy efficiency.</p> <p>Develop supply chains of local businesses and social enterprises</p>	<p><b>Support capital investment, where there is market failure, to tackle fuel poverty and improve energy efficiency in housing.</b></p>	<p>Support to enable social enterprises and local businesses to deliver retrofit and energy efficiency services.</p> <p>Support for targeted activities identified in regional and local energy area plans to tackle market failures and take advantage of growth opportunities.</p>

<a href="#">Wales (headline results): as at October 2024   GOV.WALES</a>	delivering energy efficiency services in areas where there is market failure.		
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#### Priority 4: Local Infrastructure to drive regional economies

Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Need for regionally targeted investment to address equalities and disparate regional economic growth (<a href="#">Wales Infrastructure Investment Strategy</a>)</p> <p>Regional disparities in economic growth ( <a href="#">OECD Multi Governance Review - Moving Forward Together 2024</a>)</p>	<p>Issue:</p> <p>Low levels of capital investment by private sector a potential key factor in lower productivity growth. Low levels of public investment in infrastructure which supports the environment for all businesses to survive and grow. Hindered investment, stifled job creation, and perpetuated economic disparity within and across regions.</p> <p>Opportunity:</p>	<p><b>Develop key sites and premises important for regional growth and in regionally prioritised growth sectors where there is market failure.</b></p>	<p>Investment to address market failures in bringing forward underutilised and high potential sites and premises (e.g. remediation, surveys).</p> <p>Consider opportunities to address finance gaps to leverage private investment where there is demand for premises but market failure in meeting part of the financing.</p> <p>Integrated investment in town centres, linked to coherent and evidence-based existing place-based plans and a wider strategy (e.g. transforming towns).</p>

	<p>Developing strategic sites can attract investment, create jobs in areas of need and stimulate local economies.</p> <p>As part of a joined up regional strategy can create clusters or areas of genuine competitive advantage where local and regional strengths are leveraged and potential in growth sectors harnessed.</p>		
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<b>Illustrative Evidence</b> 	<b>Issue/opportunity</b> 	<b>Objective</b> 	<b>Illustrative actions</b>
Regional disparities in access to transport and connectivity <a href="#">(Welsh Government National</a>	Issue: A cycle of disadvantage that limits opportunities	<b>Improve local economic infrastructure, including transport, digital</b>	Investment in digital infrastructure to support growth sectors where there

<p><a href="#">Transport Delivery Plan 2022 to 2027</a>)</p> <p>Inequalities in access to quality and rewarding work in Wales (<a href="#">Institute for the Future of Work - Good Work Time Series 2025</a>)</p>	<p>and can lead to economic decline, particularly where poor connectivity reduces networks and agglomeration benefits.</p> <p>Opportunity:</p> <p>Co-ordinated investment in infrastructure can promote growth and reduce regional disparities, with benefits associated with clusters and supporting agglomeration.</p> <p>Alignment with Investment Zones, Enterprise Zones, Growth deals and other regional investments.</p> <p>Support Regional Transport plans.</p>	<p><b>connectivity, green spaces and community assets to support sustainable communities in rural, coastal, city and urban areas.</b></p>	<p>are market failures and specific opportunities identified.</p> <p>Improve in transport and active travel links to make employment sites accessible.</p> <p>Support relevant projects identified in regional transport plans or strategic development plans where there are growth opportunities.</p> <p>Enable local growth infrastructure in small-scale local infrastructure, digital connectivity, and public facilities to unlock wider investment. This can support wider priorities such as place-based regeneration and attracting businesses and new residents.</p>
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Illustrative Evidence 	Issue/opportunity 	Objective 	Illustrative actions
<p>Underinvestment in assets with the potential support regional growth (<a href="#">Senedd Culture, Communications, Welsh Language and Sport Committee Report, 2025</a>)</p> <p>Persistent regional disparities in investment ( <a href="#">OECD Multi Governance Review - Moving Forward Together 2024</a>)</p>	<p>Issue: Economic decline, the erosion of community identity, and poorer public health outcomes.</p> <p>Opportunity: Support for tourism, cultural and health and wellbeing developments to support wider socio-economic outcomes.</p>	<p><b>Investment in prioritised heritage, tourism or cultural assets to support regional growth ambitions and local opportunities.</b></p>	<p>Targeted support to develop assets with wider socio-economic benefits and outcomes.</p>