

# 'It's déjà vu all over again' : looking back at the Welsh Development Agency

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## Introduction

Governments have been intervening to boost an underperforming Welsh economy since 1934. Regional policies encouraged manufacturing industries to locate factories in Wales after the Second World War but these policies lost effectiveness in the 1970s (Gooberman and Curtis, 2020). The decline of regional policies coincided with the government's 1976 creation of the Welsh Development Agency (WDA). The Agency had a central role in economic development until it merged with the Welsh Government in 2006. This article provides a brief overview of recent research (e.g. Gooberman, 2017; Gooberman and Boyns, 2020) to explore the WDA's achievements and their contemporary implications.

The WDA was funded by the Welsh Office before 1999 and then by the National Assembly for Wales/Welsh Assembly Government. It also raised income from property. The Agency was autonomous with its own board as it was obliged to work closely with industry, using skills different to those generally found in the civil service. Agency activities can be divided into: property; foreign direct investment (FDI); land reclamation; business support, and; venture capital. The remainder of this paper will explore each of the roles in turn, before turning to contemporary implications.

## Property

The WDA inherited the government's portfolio of industrial sites and premises. Throughout the late 1970s and the deep recession of the

early 1980s, the agency built hundreds of advance factories and marketed them to investors. The portfolio was successful and almost 50,000 people worked in Agency owned factories by the end of the 1980s.

Nevertheless, two trends impacted property activities by the 1990s. One was that manufacturing focused increasingly on technology, not assembly. The Agency responded with plans for high-specification developments but few were constructed. The other trend was the economic shift from manufacturing towards services. Fewer investors were willing to locate factories in Wales, but the Agency infrequently developed properties or sites suitable for service sector activities. WDA activity decreased even before John Redwood, the non-interventionist Secretary of State for Wales from 1993, ordered the Agency to sell its portfolio (Gooberman, 2019).

Property was a low priority after devolution but one high profile project was Technium facilities. These housed and supported high technology companies but were built without adequate assessments of market potential. They created few jobs and the programme was ultimately cancelled in 2010 (Pugh et. al., 2018). The Agency also prepared a strategy to fill gaps in the types of sites and properties offered to investors, but this was side-lined during the merger with the Welsh Assembly Government.

The WDA's activities were effective when the construction of factories and their subsequent

occupation enabled jobs to be created quickly at a time of great need. However, the Agency struggled when manufacturing declined, and was discredited by the Technium programme. Overall, the WDA's early interventions were successful, but the impact of subsequent ones declined as markets changed.

## FDI

The WDA initially part-funded the Development Corporation for Wales, a semi-state FDI marketing organisation. The corporation merged with the WDA in 1983 to manage overseas offices marketing Wales to investors. The Agency focused on manufacturing as these companies wanted locations with attributes offered by Wales: access to European markets; low cost labour; availability of sites and factories; good road and rail communications; and, grants (Goberman, 2017). In the late 1980s and early 1990s, Wales captured up to a fifth of UK FDI projects including those from Sony, Hitachi, Panasonic and Toyota.

Despite success, FDI was critiqued. Criticisms included the few jobs created compared to those lost through deindustrialisation, investments were often assembly-type operations employing few high skilled workers, and the unreliability of performance data. Crucially, Wales' FDI performance declined from the mid-1990s. Decline was driven by the loss of competitive advantage in manufacturing FDI to low-tax locations in Ireland and low-wage locations in Eastern Europe after EU enlargement. Concurrently, FDI was increasingly likely to be in service activities which Wales had long struggled to attract.

The downturn of manufacturing FDI coincided with its symbolic peak in 1996: the LG project from South Korea that planned to create 6,000 jobs in Newport. LG received large grants but the project failed and much of the grant was lost, discrediting FDI orientated policy (Goberman, 2018).

Nevertheless, FDI was often beneficial and many factories created significant impacts, some of which endured for many years.

Foreign firms in Wales tended to be larger, more productive and higher paying than domestic firms (Munday, 2000). The position of Wales as a leading FDI location was a significant achievement that was greatly assisted by the WDA. However, manufacturing FDI was vulnerable to external influences and could form only one element of a regenerating economy, but success prompted the Agency to over-prioritise this type of inward investment.

## Land Reclamation

The volume of historic resource extraction and heavy industry left thousands of derelict sites throughout Wales. These included spoil heaps from mining slate, copper and coal, as well as former factories and military bases.

The Agency managed an ambitious reclamation programme. When assessing sites, the legacy of the Aberfan disaster prompted the WDA to prioritise those that were unsafe. The Agency then prioritised those with potential for factories or housing, followed by sites with potential for leisure usage or environmental enhancement.

The WDA reclaimed 8,300 hectares across hundreds of sites from 1978-79 to 2005-06. In north Wales, the Agency cleared workings including those related to the extraction of slate, lead, silver and copper. In south-west Wales, the WDA cleared sites including former military installations, while dramatic transformations in the south Wales valleys included the removal of a 120-metre-high spoil tip at Bargoed (Goberman, 2015). By the early 1990s, the amount of land cleared enabled activity to increasingly focus on urban regeneration that combined clearance with housing, retail, infrastructure and leisure facilities.

Reclamation dramatically improved landscapes throughout Wales, although many sloping and isolated sites were unsuitable for employment uses. Urban programmes improved townscapes although physical regeneration was no panacea for structural problems. Finally, the removal of dereliction led to an external reassessment of Wales'

qualities as an investment and tourist destination (Gooberman and Boyns, 2020).

### **Business support**

In the late 1970s a few advisors from the Agency's Small Business Advisory Unit visited companies to advise on topics including advertising and exporting. The annual number of advisory visits and interviews, however, then grew to over thirteen thousand by 1989-90. The WDA also prioritised high technology businesses from 1984 through its Wales Investment and Technology (WINTech) division, but struggled to achieve impact (Henderson, 2018).

By 1991-92 WINTech had merged with the Agency's largest department, the Business Support Division. More resources drove greater activity across a complex mix of technology, supplier development, and skills development (Morgan and Henderson, 1997). Evaluation was often lacking. The Agency also launched a rural programme in the early 1990s that created local development agencies.

The WDA co-ordinated some business support activities from the mid-1990s, notably through a Regional Technology Plan that drew on the views of 600 organisations. The Agency overhauled general advisory support and the 'Business Eye' service responded to 25,000 enquiries in 2005-06. Finally, a greater focus on entrepreneurship appeared, particularly through the Entrepreneurship Action Plan.

Business support gradually moved from the margins to become the Agency's central activity. While there was much activity and some positive outputs, the intangible nature of many of the former combines with the lack of data to preclude an overall assessment of effectiveness.

### **Venture Capital**

Between 1976 and 1994 the WDA made over two thousand loan and equity investments (Gooberman and Boyns, 2019). The Agency argued that commercial providers neglected

viable projects, while its investments would create spillover benefits such as jobs.

The WDA initially supported businesses of all sizes but losses led to reduced activity after 1979. However, economic turbulence then prompted more investment in small firms and start-ups. Investments included large sums in Parrot, a computer disc manufacturer. The WDA also created new funds including the Welsh Venture Capital Fund, and underwrote share issues.

The annual number of investments peaked in 1989-90, but the Agency was discredited by poor financial performance throughout most of the 1980s, the 1989 failure of Parrot, the closure of the loss-making Welsh Venture Capital Fund, and underwriting losses.

By 1990 the WDA accepted that it was 'difficult, if not impossible' to make a positive return from start-up or early stage businesses. Investment declined and focused on low risk projects. Expectations remained unfulfilled and in 1994 John Redwood ordered the WDA to largely withdraw from investment (Gooberman, 2019).

Nevertheless, devolution led to policy reversal and a new body, Finance Wales, was established as an Agency subsidiary in 2001. By 2005-06 Finance Wales had invested in over 90 companies and although it was recording successes, overall performance was unclear.

The scope of WDA activity and the failure to build a profitable portfolio by 1994 implies that viable projects overlooked by commercial providers did not exist in volume. The problem was that the Agency's objectives of assembling a profitable portfolio and raising commercial activity were incompatible in a poorly performing economy. However, while spillover data are limited, it is likely that investment helped to create much-needed benefits in a deindustrialising economy lacking many attributes necessary for self-sustaining regeneration (Gooberman and Boyns, 2019).

## Findings and observations

It is difficult to quantify and assess the totality of Agency activity (Goberman and Boyns, 2020). Consistent time-series data for all activity do not exist and cannot be reassembled. Where data exist, many approaches to double-counting, additionality and displacement reduce their credibility. For example, the WDA did not publish the number of jobs claimed as created or safeguarded by all Agency activities until 1995-96. These figures grew from 15,230 in 1995-96 to peak at a barely credible 52,900 in 2003-04.

Nevertheless, intervention was most effective where Wales had a competitive advantage. When the country offered manufacturers low-cost access to European markets, the Agency could exploit this through expertly providing sites, factories and access to Welsh Office grants to attract investment that filled factories and created thousands of jobs. While land reclamation was often separate from other activities, its impact was dramatic. Overall, it is likely that the economy would have been in a significantly worse state without these Agency interventions.

Conversely, the WDA struggled in areas where Wales had long exhibited weaknesses including developing indigenous businesses and higher-value service sector activities. Its venture capital portfolio performed poorly in financial terms while business support often strained to achieve measurable impact. Successful interventions in manufacturing obscured the lack of impact elsewhere, but the WDA struggled once the focus of intervention shifted to services. While difficulty was generally attributable to structural problems outside the Agency's reach, it could have made greater efforts to adapt its activities.

Political devolution created new pressures. The new institution was determined to solve economic underperformance and, boosted by European structural funds, dramatically increased resources for economic development. However, strategies and

programmes were too numerous, over-optimistic and poorly governed, producing disappointing results despite greater funding. The WDA became bloated and unfocused, contributing to political disappointment and its dissolution in 2006 (Goberman, 2017).

The Welsh Government now discharges many of the Agency's former responsibilities, but it faces similar structural problems, and, despite some successes, the Welsh economy by 2018 was 'exactly where it was in 1998 in relative performance terms' (Bristow, 2018).

There are two final observations. The first is on governance. The establishment of the Agency as an arms-length body to support more effective interactions with businesses was vindicated. Such bodies can bridge cultural differences between the public and private sectors to deliver tailored services effectively and efficiently. Nevertheless, the WDA suffered governance failures in the early 1990s, highlighting how arms-length bodies need rigorous internal governance and effective external scrutiny.

The other observation is that the WDA highlighted the increasingly obvious difficulties of intervening successfully in an underperforming 'regional' economy dominated by services. The Agency built its reputation through intervening in manufacturing, but economic change prompted a greater emphasis on services through an over-complex variety of projects, programmes and funding streams. Although the WDA declared after the millennium that it was creating and safeguarding many thousands of jobs, observers struggled to detect improvements to the country's economic trajectory.

To conclude, the Agency's history suggests that economic development activities can be worthwhile but will struggle to deliver their broader objectives within the contemporary economy of Wales. The question of what could best deliver these objectives has yet to be conclusively answered.

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