

# If Wales is to be an AI Nation, SMEs must be at its Heart

A three-page briefing for Welsh and UK decision-makers

Prepared by: <https://aigrowthzones.wales/>

## Why this matters now

Wales is about to become one of the UK's main testbeds for AI-driven growth.

Two AI Growth Zones – one in North Wales (Prosperity Parc on Anglesey and Trawsfynydd in Gwynedd) and one along the M4 corridor from Newport to Bridgend – are expected to attract billions of pounds of private investment, create thousands of jobs during construction and build-out, and anchor the UK's next wave of AI infrastructure. The South Wales zone alone is projected to bring around £10 billion of investment, at least 5,000 jobs and over 1GW of power demand by the early 2030s, with North Wales forecast to add more than 3,400 jobs.

At the same time, Welsh Government's AI Cymru strategy places data centres, "Adoption Hubs" and AI skills at the heart of a long-term vision for economic growth and public service reform. AI Growth Zones and AI Cymru are now facts on the ground. Any future Welsh Government will inherit them. Many of the largest early employment effects will come during construction. The enduring economic test is whether the benefits diffuse into Welsh SMEs, supply chains and new specialist firms.

Two stubborn facts frame this moment:

- Wales has the **lowest productivity** of any UK nation or region.
- The Welsh economy is **built on SMEs**, which account for around **62.3% of all employment**, higher than the UK average.

Yet AI adoption in Welsh SMEs is still low. Senedd-commissioned research found that just 7.4% of Welsh SMEs had adopted AI in 2022, lower than England (9.8%) and Scotland (8.1%). Only around 7–10% of Welsh SMEs are using AI today, depending on the survey. AI is also likely to change the shape of work as much as the quantity of work. Policymakers should therefore judge Growth Zones not only by headline jobs, but by whether they raise productivity, support transitions into specialist work and widen participation across the SME base.

The implication is simple:

---

*If AI doesn't reach tens of thousands of small firms across Wales, it will not fix the productivity problem, no matter how many data centres we build.*

---

AI Growth Zones and AI Cymru give us the infrastructure and the narrative. What we need now are practical tests to ensure this infrastructure delivers for the firms where most Welsh citizens work, and that the long-term gains are not confined to a few fenced-in sites.

This briefing proposes three tests for AI Growth Zones and AI Cymru and sets out immediate actions for both Welsh and UK Governments.

## Three practical tests for AI Growth Zones

To know whether AI Growth Zones and AI Cymru are really working for Welsh businesses, they should be able to pass three basic tests.

### **Test 1: Data-centre deals must clearly benefit Welsh SMEs**

AI infrastructure incentives should be conditional on local value. Every major data-centre or AI campus in a Growth Zone should:

1. Set and publish targets for spend with Welsh suppliers, including a defined share for Welsh SMEs.
2. Fund skills and adoption programmes that bring SMEs into the AI workforce, not just train staff for large operators.
3. Offer a small but meaningful share of compute or cloud credits for use by local SMEs, universities and public-interest projects.

### **Test 2: AI adoption funding must back real SME projects, not short-term pilots**

AI adoption and skills budgets should be built around concrete work in real firms. In practice this means:

1. Run sector-based cohorts of SMEs (for example in manufacturing, fintech, food and drink, tourism, construction and care) through 6–12-month AI projects from scoping to delivery.
2. Put a rural and Welsh-language lens on these cohorts: ensure significant participation from rural SMEs and support Welsh-language AI tools and interfaces so adoption reaches the whole economy, not just urban tech clusters.
3. Tie support to measurable improvements in productivity, quality, cost or resilience, and use simple voucher-style funding that lets SMEs work with accredited Welsh AI providers.

### **Test 3: Grid and energy planning must leave space for small firms**

Growth Zones will drive significant new electricity demand. Grid reinforcement and energy planning should:

1. Reserve a clear share of new local capacity for SMEs, public services and small industrial users, not just large data-centre connections.
2. Encourage flexible and non-traditional connection offers that bring down costs and waiting times for smaller users.

3. Use large AI and data-centre projects as anchors for new renewables and storage that also improve resilience for nearby businesses and communities.

## A missing fiscal lever: make AI Growth Zones tax effective

One important lever is still missing from the current debate: fiscal design. Government already knows how to use tax policy when it wants to accelerate a place-based industry shift. If AI is strategically important, AI Growth Zones should be designed to be meaningfully tax-advantaged for both businesses and scarce talent.

- Offer targeted tax relief and capital incentives for AI activity and SME productivity adoption, not just start-up or construction spend.
- Offer NIC or income tax relief for scarce AI roles relocating to Wales where employers commit to mentoring, apprenticeships or formal skills transfer.
- Make relief conditional on Welsh jobs, local procurement, skills transfer, supply-chain participation and measurable productivity gains.

Done well, fiscal support becomes an exchange rather than an open-ended subsidy, and helps Growth Zones reach the wider Welsh economy.

## Immediate actions for the Welsh Government

The Welsh Government can take a small number of practical, action-oriented steps to lock in an SME-first approach:

1. Launch a first wave of SME AI projects fast. Commit in the first year to support an initial wave (e.g. 50–100 SMEs) in priority sectors in each Growth Zone, with funding and technical support for 6–12 month AI projects, and publish productivity, quality, cost, resilience and transition outcomes.
2. Create a small “AI for SME Productivity” team with licence to move. Set up a cross-Government team that can rapidly approve pilots, unblock procurement and energy issues, shape transition routes into specialist work, and work directly with ecosystem partners, operating on agile cycles rather than multi-year planning horizons.
3. **Make the front door simple and delivery-focused.** Use existing business networks, sector bodies and regional innovation partners as a shared front door that routes SMEs into funded pilots within weeks, not months, with light-touch paperwork and pre-approved provider lists.
4. **Learn from real projects, then scale what works.** Use data and feedback from early pilots to refine longer-term AI Cymru and Growth Zone delivery, adjusting metrics, funding models and regulations based on what moves the needle on SME productivity, rather than more generic consultations.

5. Publish a Wales-specific fiscal ask for AI Growth Zones. Set out the reliefs Wales wants Westminster to consider, the conditions attached, and the metrics that will govern them.

## What UK Government and regulators could do

The UK Government and regulators control many of the rules that shape AI Growth Zones. To ensure Welsh SMEs benefit, they should:

1. Build the three tests above, and the principle of conditional local benefit, into national guidance for AI Growth Zones, so that incentives, adoption funding and grid plans are explicitly judged on their impact on SMEs.
2. Design a targeted fiscal package for AI Growth Zones covering AI activity, SME adoption and scarce talent, with benefits earned in return for jobs, skills transfer, local supply-chain participation and measurable productivity gains.
3. Make UK-level support for major AI infrastructure projects conditional on local-supply-chain commitments, SME skills and adoption programmes, and contributions to local renewables and storage.
4. Support Ofgem and network operators to develop simple, SME-friendly models for self-consumption, net metering and local energy sharing, and use Wales as a test bed where on-site renewable power for small users is effectively low- or zero-cost at the point of use.

## Offer

We would welcome the opportunity to brief ministers, advisers and officials, together with a small group of Welsh SME founders, on how these three tests, a conditional fiscal package, and a stronger focus on productivity diffusion could be embedded into existing AI Cymru and AI Growth Zone delivery.

Get in touch with us at [hello@aigrowthzones.wales](mailto:hello@aigrowthzones.wales)