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Assembly Members

15 July 2015

Dear Assembly Members

I would like to update you on access to finance and in particular the considerations on a Development Bank for Wales.

As you will be aware the Task and Finish Group, chaired by Professor Dylan Jones Evans, completed their feasibility study into the creation of a Development Bank for Wales in March. The feasibility study was enormously helpful. It identified that a number of market gaps need to be addressed in the provision of finance to Welsh SMEs and that there is a geographic bias regarding the availability of bank credit, informal investment and venture capital to businesses in Wales. It explored the possible form, function and feasibility of a Development Bank for Wales.

I wrote to the Enterprise and Business Committee and the Finance Committee enclosing a copy and welcoming comments on the study and its recommendations. I also sought the views of the Financial and Professional Services Sector Panel. I have now received responses from all three.

The Finance Committee has responded to me outlining a number of concerns with the changes taking place. They have sought clarification on the efficiency savings that might be associated with the external management of funds; that the skills and knowledge of Finance Wales and its staff should be utilised to take forward the development bank model and further analysis of the funding options should be undertaken.

The Enterprise and Business Committee have also responded and similarly stress the importance of building on the expertise and experience of Finance Wales. They too set out areas where further clarification will be important in regard to remit, timescales, funding and utilising the skills in Finance Wales.

The Financial and Professional Services Sector Panel provided me with views on key matters such as leadership and remit for a Development Bank together with some thoughts on the structure of the project team that would be tasked in driving forward this work.

Given this advice and following further discussions with Professor Jones-Evans, I will be taking work forward on a phased basis through discrete but related strands of work.

One of the strands of work will be to strengthen our focus on improving the availability of finance for SMEs. My Officials will continue to work with private sector investors, including the banks, the British Business Bank and Finance Wales in order to maximise the flow of funds for Welsh businesses.

Following the review carried out by Robert Lloyd Griffiths, setting out the importance of SMEs becoming lending ready, we are aligning the functions of the Sector Teams and Business Wales, working more closely with Finance Wales to enable improved access to finance and ensure that businesses receive the right mix of financial and non-financial support. This is a significant strand of work and when complete will provide a comprehensive brokerage solution for businesses seeking finance.

In addition to basic information and support, the Business Wales Service already supports SMEs directly on a one to one basis to access finance from a range of different sources, from early start investment through grant and basic bank finance, through to equity and Business Angel investment.

I have already announced the launch of a pilot Bank Referral Initiative working alongside NatWest Bank and Finance Wales which will work with those businesses that have been declined bank funding. This demonstrates the closer collaboration that we intend to establish with the banking sector as we move forward.

Discussions are also progressing with the Royal Bank of Scotland with the aim of increasing the borrowing available to the social enterprise sector in Wales and I hope to make further announcements on this in due course.

Recognising the need for change, a separate strand of work will be driven by Finance Wales, with the adoption and implementation of many of the recommendations made in the review. As a starting point and part of the first phase, the former Director of Finance of my Department has now joined the

Finance Wales Executive Team and will work closely with Senior Officials in the Welsh Government.

This will ensure that we continue to build upon the skills and expertise within Finance Wales as we move forward and address the concerns of the Finance Committee in that regard. As an example, Finance Wales and my Officials are working with WEFO on the structure of the successor to the JEREMIE fund which ends later this year. One feature of the new fund will be a focus on greater levels of syndication with the private sector when structuring financing packages with businesses.

To support new ways of working, Finance Wales will require a new Chief Executive and I will be asking the Board of Finance Wales to start the selection process. It will be essential to recruit an individual with the right set of skills and experience to manage the organisation through an exciting and challenging period of change. I will be meeting with the Chair shortly to discuss this and other arrangements.

These strands of work are essential whichever model for a Development Bank is finally adopted, which leads me to the final strand of work, which will be commenced at the same time. This strand will involve a detailed look at structures, investment regulations, scope and state aid as well as funding / borrowing mechanisms. It will consider the issues raised by both Assembly Committees. A team comprising Welsh Government Officials and Finance Wales has been tasked to take this work forward and produce a costed business plan for a Development Bank.

I will provide a further update for Members after Summer Recess.

*Edwina Hart*