

RELEASABLE INFORMATION FOR YOUR FOI

---

**From:** Gwyon R (Rachel)  
**Sent:** 09 January 2015 14:34  
**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and the Economy  
**Cc:** Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; DG Enterprise, Environment & Innovation; Mason JK (John); Gillespie G (Gary); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); **[REDACTED]**; Lloyd E (Elizabeth); **[REDACTED]**  
**Subject:** Business Development Bank (BDB): Project process and timing

DFM

3 page submission attached seeking decisions

Attached Above

Project Initiation Document for comments:

**[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]**

Rachel Gwyon

---

**From:** Gwyon R (Rachel)  
**Sent:** 14 January 2015 16:37  
**To:** First Minister; Deputy First Minister and Cabinet Secretary for Finance, Constitution and the Economy  
**Cc:** Permanent Secretary; Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; FM Policy Team Mailbox; DG Enterprise, Environment & Innovation; Mason JK (John); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); **[REDACTED]**; Lloyd E (Elizabeth); **[REDACTED]**  
**Subject:** FW: Business Development Bank (BDB): Project process and timing

Re-issued to include FM's interest and the role of the FM Policy Team in this work.

Thanks

Rachel

---

**From:** **[REDACTED] On Behalf Of** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Sent:** 20 January 2015 15:13  
**To:** Gwyon R (Rachel); First Minister; Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy; **[REDACTED]**  
**Cc:** Permanent Secretary; Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; FM Policy Team Mailbox; DG Enterprise, Environment & Innovation; Mason JK (John); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); **[REDACTED]**; Lloyd E (Elizabeth); **[REDACTED]**; Roy G (Graeme)  
**Subject:** RE: Business Development Bank (BDB): Project process and timing

Rachel,

Thank you for your submission of 9<sup>th</sup> January.

Due to other pressures it is unlikely that we will be able to arrange a slot with you to meet with DFM before recess. However, as highlighted in the FM's Programme for Government speech this is a key commitment and we will try to get a steer from DFM to allow you to continue to progress this project.

**[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]**

Kind regards,

**[REDACTED]**

**[REDACTED]** [Private Secretary \(Depute\) to John Swinney MSP, Deputy First Minister](#)

**From:** Gwyon R (Rachel)

**Sent:** 23 January 2015 15:45

**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy; First Minister;  
**[REDACTED]**

**Cc:** Permanent Secretary; Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; FM Policy Team Mailbox; DG Enterprise, Environment & Innovation; Mason JK (John); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); **[REDACTED]**; Lloyd E (Elizabeth); **[REDACTED]**; Roy G (Graeme); Barry White  
**[REDACTED]**

**Subject:** RE: Business Development Bank (BDB): Project process and timing

Further advice attached as requested.

This has been jointly agreed with Scottish Enterprise, Policy Team, and benefited from OCEA input.

Rachel Gwyon  
Scottish Business Development Bank

Deputy First Minister

**BUSINESS DEVELOPMENT BANK (BDB): VISION, PROCESS AND TIMINGS**

**Purpose**

1. With thanks to the First Minister's Policy Team for advice, this note updates on the Business Development Bank and seeks your agreement on a number of key areas to allow us to continue to progress this policy. It overtakes our earlier 9<sup>th</sup> January advice.

**[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]**

**From:** Lloyd E (Elizabeth)  
**Sent:** 13 February 2015 10:40  
**To:** Gwyon R (Rachel); **[REDACTED]**  
**Subject:** FW: Business Development Bank (BDB): Project process and timing

Rachel / **[REDACTED]**

**[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]**

Liz

---

**From:** **[REDACTED] On Behalf Of** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Sent:** 13 February 2015 10:31  
**To:** Gwyon R (Rachel); Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy; First Minister; **[REDACTED]**  
**Cc:** Permanent Secretary; Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; FM Policy Team Mailbox; DG Enterprise, Environment & Innovation; Mason JK (John); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); **[REDACTED]**; Lloyd E (Elizabeth); **[REDACTED]**; Roy G (Graeme); Barry White **[REDACTED]**  
**Subject:** RE: Business Development Bank (BDB): Project process and timing

Rachel,

The DFM has now considered the attached submission and is content with the recommendations made.

**[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]**

Kind regards,  
**[REDACTED]**

**From:** Gwyon R (Rachel)  
**Sent:** 03 March 2015 15:54  
**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy; First Minister; **[REDACTED]**  
**Cc:** Permanent Secretary; Cabinet Secretary for Infrastructure, Investment and Cities; Minister for Business, Energy and Tourism; FM Policy Team Mailbox; DG Enterprise, Environment & Innovation;

Mason JK (John); Director of Financial Strategy; Rankin S (Shane); Macdonald R (Roddy); Gil O (Oonagh); [REDACTED]; Lloyd E (Elizabeth); [REDACTED]; Roy G (Graeme); Barry White [REDACTED]; DG Finance Mailbox; McAllister C (Colin); [REDACTED]; Gillespie G (Gary); [REDACTED]

**Subject:** Business Development Bank: Forthcoming March activity and EU findings

Further to 13<sup>th</sup> February DFM agreement to the vision for the Business Development Bank, I attach 1 page advice on March next-steps and 1 page summary of EU comparator nations.

This advice has been drawn up with Scottish Enterprise, OCEA and Policy Unit.

Thanks

Rachel Gwyon

Scottish Business Development Bank

## **Attachment 1**

Deputy First Minister

### **Business Development Bank (BDB): Forthcoming March activity**

#### **Purpose**

1. To update DFM on activity expected during March related to development of the Business Development Bank (BDB), including proposed publications.

#### **Background**

2. “Sustainable, Responsible Banking: A Strategy for Scotland” (2013) foresaw a published BDB business case. Since then, and in Programme for Government, Ministers have committed to develop options for, and establish, a Bank.

3. A key part is our programme of stakeholder engagement, including a joint public-private-sector Policy Working Group to co-ordinate progress. Stakeholder momentum is increasing. A range of supporting evidence will be finalised shortly, to capture the momentum and as a platform for next steps. This includes work that the European Policy Research Centre at Strathclyde University is contributing. Their researchers have examined arrangements in 9 EU countries. Their in-depth report shows how such banks are a regular part of EU countries’ SME support. (Annex A)

**[Redacted under S.30(b)(i) Free and Frank Provision of Advice]**

**A Business Development Bank is a regular part of other EU countries' business sector support**

[REDACTED S25: Information was published at

[http://www.eprc.strath.ac.uk/news/EPRC\\_Business%20Development%20Banks\\_March%202015.pdf](http://www.eprc.strath.ac.uk/news/EPRC_Business%20Development%20Banks_March%202015.pdf)

**From:** Gwyon R (Rachel)

**Sent:** 26 May 2015 15:27

**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]

**Subject:** Business Development Bank: Publication: Evidence report, Vision and Role

One page note covering draft BDB evidence report for clearance.

DFM's Foreword is in square brackets as this still awaits SPAD comments.

SE and HIE have agreed the detailed report. Senior SE staff will conduct a final review before Thursday for their interests.

Our aim is to publish on 4<sup>th</sup> June. DFM comments are sought on or before Monday morning, 1<sup>st</sup> June

Rachel Gwyon

Scottish Business Development Bank

ANNEX A:

### **Proposed Advisory Group**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

### **SCOTTISH BUSINESS DEVELOPMENT BANK: DFM QUERIES**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

Deputy First Minister

### **BUSINESS DEVELOPMENT BANK: UK AND STRUCTURAL IMPLICATIONS**

#### **Purpose**

1. To seek your agreement to our advised approach to the structural options for the Business Development Bank, which has UK implications. This note also advises on next steps and likely public actions ahead of May 2016.

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

Annex A

#### **Scottish Business Development Bank Remit**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

Annex B

#### **Proposed Powers and Flexibilities for the Business Development Bank**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

---

**From:** Gwyon R (Rachel)

**Sent:** 29 May 2015 17:32

**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm) [REDACTED]

**Subject:** Final Draft " Business Development Bank - Supporting SMEs"

[Two page covering advice note](#)

[REDACTED S25: Information was published at <http://www.gov.scot/Publications/2015/08/3776/3> ]

Final draft report, as discussed with Policy Unit, for agreement.

[REDACTED S25: Information was published at <http://www.gov.scot/Publications/2015/08/3776/3> ]

Rachel Gwyon

**From:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Sent:** 01 June 2015 19:32  
**To:** Gwyon R (Rachel)  
**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]; Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy; [REDACTED]  
**Subject:** Re: Final Draft " Business Development Bank - Supporting SMEs"

Copying in [REDACTED]

[REDACTED]

**From:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Sent:** Monday, June 01, 2015 07:26 PM  
**To:** Gwyon R (Rachel)  
**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]; Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Subject:** Re: Final Draft " Business Development Bank - Supporting SMEs"

Rachel et al,

Thanks for this.

[REDACTED S25: Information was published at <http://www.gov.scot/Publications/2015/08/3776/3> ]

[REDACTED]

**From:** Gwyon R (Rachel)  
**Sent:** Monday, June 01, 2015 11:34 AM  
**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED];

**Subject:** RE: Final Draft " Business Development Bank - Supporting SMEs"

[REDACTED]

Here is a one-pager with answers to DFM queries:

**Attached separately**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

[REDACTED S25: Information was published at <http://www.gov.scot/Publications/2015/08/3776/3> ]

[Redacted under S.30(b)(i) Free and Frank Provision of Advice]

[REDACTED S25: Information was published at <http://www.gov.scot/Publications/2015/08/3776/3> ]

Many thanks

Rachel Gwyon

**From:** [REDACTED] On Behalf Of Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

**Sent:** 01 June 2015 08:01

**To:** Gwyon R (Rachel); Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy

**Cc:** First Minister; Minister for Business, Energy and Tourism; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]

**Subject:** RE: Final Draft " Business Development Bank - Supporting SMEs"

**Importance:** High

Rachel,

The DFM has now read the attached documents but in order to help him take this forward he would like the following questions answered on one side of A4 paper. If this could be with us by 1530 today it would be most appreciated.

Kind regards,

[REDACTED]

[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]

[REDACTED] Private Secretary (Depute) to John Swinney MSP, Deputy First Minister

**From:** Gwyon R (Rachel)

**Sent:** 02 June 2015 10:14

**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy 2011 to 2016

**Cc:** First Minister 2014 to 2016; Minister for Business, Energy and Tourism 2011 to 2016; Permanent Secretary; DG Economy; Mason JK (John); DG Scottish Exchequer Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]

**Subject:** RE: Final Draft " Business Development Bank - Supporting SMEs"

[REDACTED]

Thanks for this helpful steer.

We will wait to hear and take things from there.

Rachel

**From:** [REDACTED] On Behalf Of zzzDeputy First Minister and Cabinet Secretary for Finance, Constitution and Economy 2011 to 2016

**Sent:** 19 June 2015 14:39

**To:** [REDACTED]; zzzDeputy First Minister and Cabinet Secretary for Finance, Constitution and Economy 2011 to 2016; Gwyon R (Rachel)

**Cc:** zzzFirst Minister 2014 to 2016; zzzMinister for Business, Energy and Tourism 2011 to 2016; Permanent Secretary; DG Economy; Mason JK (John); DG Scottish Exchequer Mailbox; Director of Financial Management; Macdonald R (Roddy); [REDACTED]; Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED];

**Subject:** RE: Final Draft " Business Development Bank - Supporting SMEs"

Rachel

DFM has considered the material you have provided on the BDB, and very much appreciates the volume of work that has gone into the consideration of the issue.

[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]

He appreciates that you are working to an exceptionally tight timescale and I would stress that DFM is grateful for the work that has been done thus far.

[REDACTED]

[REDACTED] Private Secretary to John Swinney MSP | Deputy First Minister of Scotland

Deputy First Minister

**BUSINESS DEVELOPMENT BANK (BDB) : MEETING ASPIRATIONS:  
STRUCTURAL ADVICE ON THE 'FUND'**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**Annex A**

**Summary of Business Development Bank Inferred Scope**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**Annex B**

**Possible structural options and classifications**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**Annex C**

**EU and EIB: National Promotional Banks.**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**Annex D**

**ONS Ruling on British Business Bank**

*“Incorporated in July 2013, British Business Bank PLC is wholly owned by the Department for Business, Innovation and Skills (BIS) and is designed to increase the supply of credit to small and medium sized enterprises (SMEs). Currently, British Business Bank PLC operates as a holding company for the group operating as British Business Bank, which includes, amongst others, Capital for Enterprise Ltd (currently classified to the central government (S.1311) sub-sector). ONS assessed British Business Bank PLC against rules in the European System of Accounts 2010 (ESA 2010) and accompanying 2014 Manual on Government Deficit and Debt. ONS judged that because British Business Bank does not exhibit sufficient decision making autonomy over the exercise of its principal function, it should not be classified as a separate institutional unit. ONS also judged that as HM Government is the sole shareholder in the company and the Secretary for State for BIS appoints the entire Board of Directors, British Business Bank PLC is subject to public sector control. It was therefore concluded that as British Business Bank PLC is not an*

*institutional unit, it should be consolidated to the sector of its controlling body (BIS), in this case the central government (S.1311) sub-sector.”*

## **Annex E**

### **Fund element of Business Development Bank approach**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

## **Annex F**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**From:** [REDACTED] On Behalf Of zzzDeputy First Minister and Cabinet Secretary for Finance, Constitution and Economy 2011 to 2016  
**Sent:** 07 August 2015 11:47  
**To:** Gwyon R (Rachel); zzzDeputy First Minister and Cabinet Secretary for Finance, Constitution and Economy 2011 to 2016  
**Cc:** Roy G (Graeme); DG Economy; [REDACTED]; Mason JK (John); [REDACTED]; McAllister C (Colin); zzzMinister for Business, Energy and Tourism 2011 to 2016  
**Subject:** Business Development Bank  
**Importance:** High  
Rachel,

Thank you for your submissions and keeping us up to date with developments.

DFM has had an opportunity to consider all the material and reflect upon the best way forward.

[Redacted under S.29(1)(a) Formulation or Development of Scottish Government Policy]

Kind regards,

[REDACTED]

[REDACTED] Private Secretary (Depute) to John Swinney MSP

**From:** Bain R (Russell)  
**Sent:** 26 August 2015 11:25  
**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Subject:** RE: "The Market for SME Finance in Scotland" - BDB evidence report - Final draft for approval

[REDACTED]

Many thanks for your help with this.

Russell

---

**From:** [REDACTED] On Behalf Of Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Sent:** 26 August 2015 11:18  
**To:** Bain R (Russell); Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Cc:** First Minister; Minister for Business, Energy and Tourism; Minister for Parliamentary Business; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Gwyon R (Rachel); Macdonald R (Roddy); Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]  
**Subject:** RE: "The Market for SME Finance in Scotland" - BDB evidence report - Final draft for approval

Russell,

Apologies for the delay in responding. The DFM has now considered the covering note and final draft evidence report and is content to approve.

Kind regards,  
[REDACTED]

[REDACTED] | Private Secretary (Depute) to John Swinney MSP, Deputy First Minister and Cabinet Secretary for Finance, Constitution and the Economy

**From:** Bain R (Russell)  
**Sent:** 21 August 2015 17:19  
**To:** Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy  
**Cc:** First Minister; Minister for Business, Energy and Tourism; Minister for Parliamentary Business; Permanent Secretary; DG Enterprise, Environment & Innovation; Mason JK (John); DG Finance Mailbox; Director of Financial Management; Gwyon R (Rachel); Macdonald R (Roddy); Roy G (Graeme); [REDACTED]; McAllister C (Colin); Fleming M (Malcolm); [REDACTED]; (Comms); [REDACTED];  
**Subject:** "The Market for SME Finance in Scotland" - BDB evidence report - Final draft for approval

[REDACTED S25: Information was published at  
<http://www.gov.scot/Publications/2015/08/3776/3> ]

Evidence report:

[REDACTED S25: Information was published at  
<http://www.gov.scot/Publications/2015/08/3776/3> ]

Many thanks,

Russell

## **Business Development Bank**

Deputy First Minister, First Minister

### **Business Development Bank: Meeting Programme for Government Actions**

1. On 30<sup>th</sup> October DFM requested an update on each PfG action related to the Business Development Bank. [Redacted under S.30(b)(i) Free and Frank Provision of Advice.]
2. Attachments summarise progress and next steps on each PfG commitment:
  - Annex A – single brand, digital platform and simplification of SME access to finance and support
  - Annex B – expansion in financial readiness support
  - Annex C – potential new products and services for the ‘Bank’ with timelines
  - Annex D – update on the £40m SME Holding FundProgress and this advice has been delivered with SE, HIE, Finance, SGLD, mygov.scot, Finance.Scotland and wider SG colleagues.

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

Annex A

### **Single Brand and Digital Streamlining of SME Access to Finance and Support**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**Annex B**

### **Expansion in Financial Readiness (FR) Advice**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

Annex C

### **Potential new ‘Bank’ Products and Services with Outline Timelines**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

## **DFM Briefing**

PS/DFM

## **SCOTTISH BUSINESS DEVELOPMENT BANK: UPDATE**

### **Purpose**

1. To provide:

a letter to Dr Lena Wilson, Chief Executive of Scottish Enterprise, confirming that Scottish Enterprise is to take responsibility for delivering the additional functions envisaged for a Scottish Business Development Bank and;

an inspired parliamentary question, informing Parliament of this decision.

2. This submission has been agreed with colleagues in Scottish Enterprise and the Scottish Investment Bank.

**Priority.**

3. **Routine.** However, as the Scottish Enterprise Board will be meeting on 29 January an early reply would enable this decision to be part of their discussions.

**Background**

4. The Scottish Government's 2015 Programme for Government sets out the approach to meeting the challenges faced by Scottish SMEs in accessing appropriate and affordable finance. Scottish Enterprise, Highlands and Islands Enterprise and Scottish Government officials have been working together to develop options for a Scottish Business Development Bank (BDB) to act as a mechanism to bring new sources of finance to Scotland.

5. It has become clear that, given the current fiscal framework and the constraints of our existing devolved responsibilities we are limited in what can be achieved in terms of a 'bank'. Therefore, the preferred option at this stage is to build on the Scottish Investment Bank rather than establish a new body to carry out the additional tasks envisaged for the Business Development Bank.

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**RACHEL GWYON**

Scottish Business Development Bank

**CC:**

PS/Cabinet Secretary for Infrastructure, Investment and Cities

PS/Minister for Business, Energy and Tourism

DG Enterprise, Environment and Innovation

John Mason, Director Economic Development

Marion McCormack, Sponsorship and Better Regulation

Roddy Macdonald, Innovation, Investment and Industry

Shane Rankin, European Structural Funds

[REDACTED]

Graham Roy, Policy Unit

[REDACTED]

Comms DFM  
[REDACTED]  
Colin McAllister, Special Advisor

## **SCOTTISH BUSINESS DEVELOPMENT BANK: THE FUTURE.**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

**ANNEX A**

### **Scottish Business Development Bank: SE and SIB commission**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

Deputy First Minister  
and Cabinet Secretary for Finance, Constitution and Economy  
John Swinney MSP



[REDACTED]  
E: dfm@gov.scot  
**Dr Lena Wilson**  
[REDACTED]

January 2016

## **SCOTTISH BUSINESS DEVELOPMENT BANK: THE FUTURE.**

The Scottish Government's 2015 Programme for Government sets out our approach to meeting the challenges faced by Scottish SMEs in accessing appropriate and affordable finance. With the help of your colleagues in Scottish Enterprise and Highlands and Islands Enterprise, we have been working to develop options for a Scottish Business Development Bank (BDB) to act as a mechanism to bring new sources of finance to Scotland. I appreciate the work that has been done to date by all partners.

As you are aware, the fiscal framework within which we have to operate is complex. We are also limited in what can be achieved in terms of a 'bank' within our existing devolved responsibilities. This is because we are more limited than, for example, the Irish in terms of borrowing powers for this purpose and the ability to manage funds across financial years or build reserves to ease risk management.

I have therefore decided that, at present, it would be best to build on the Scottish Investment Bank (SIB) rather than establish a new body to carry out the additional tasks envisaged for the Business Development Bank. This will ensure that there is an adequate opportunity to assess the efficacy of the new approach and to

demonstrate success for the longer term, albeit at a smaller initial scale than we had aspired to. It enables an early start to action and I have set out a short summary of the additional objectives that I would like SE to meet at Annex A.

I look to Scottish Enterprise to work in the ways that your team identified as crucial to avoid the public sector displacing the market. That means ensuring SIB works through other market players, rather than developing new stand-alone approaches.

I also look to you to develop the right data and performance systems to help plan the best mix of products and services to maximise the impact on the £1bn to £2.5bn finance gap for SMEs over 3 years.

SE have an excellent track record of attracting investment to Scotland and I would like to see you plan for an increase in the scale and variety of sources of funds.

I am pleased that, despite a tough financial settlement, I have been able to use the draft budget to allocate £21.5m of Financial Transactions funding to SE in 2016-17 to developing SIB.

I look forward to seeing this reflected in your business plans and would be grateful if you could submit to me, before the end of this Parliamentary term, a plan for how the Scottish Investment Bank will take forward this work.

**JOHN SWINNEY**

**ANNEX A**

### **Scottish Business Development Bank: SE and SIB commission**

1. Programme for Government ([www.gov.scot/Publications/2015/09/7685](http://www.gov.scot/Publications/2015/09/7685)) explains:

- the Business Development Bank will act as a mechanism to bring new sources of finance to Scotland.
- Our Enterprise Agency partners will expand the provision of specialist financial readiness advice for SMEs, so that a greater number and wider range of companies can benefit from a readily accessible service.

The above areas are ones where I wish SIB and SE to lead, evolving new services and approaches from SIB and building strength for the medium to long-term.

#### **Why?**

2. 'The Market for SME Finance' [www.gov.scot/marketforsmefinancescotland](http://www.gov.scot/marketforsmefinancescotland) (Aug '15) showed supporting SME growth can help address long-standing challenges such as:

- a gap in the number of medium-sized companies in Scotland, relative to countries such as Germany, Austria, Finland and Sweden;
  - narrowing the gap in Scotland's productivity performance relative to key international competitors;
  - relatively low levels of international exporting activity;
  - diversifying and expanding the business base; and
  - supporting reindustrialisation.
3. It summarises current evidence on funding gaps for viable, investable SMEs:
- the latest annual lending gap is estimated to be in the range of £330 million to £750 million in Scotland. Loans under £1 million are hardest to obtain.
  - In the equity market there are on-going gaps, especially for those firms seeking investment in the start-up and early investment stages, as well as increasingly in raising over £2 million investment.
4. Evidence and discussions with lenders and business representatives suggest SMEs may find it difficult to access traditional lending where they:
- have security shortfalls;
  - are relatively new and are unable to demonstrate a performance track record;
  - are growing fast at home or abroad;
  - seek longer-term finance; and
  - or where it is more challenging for lenders to distinguish between higher and lower risk companies.

### **Requirements of SIB**

5. Build on what works, extend our reach, access new capital and expertise to:
- support company growth, particularly to build more medium-sized and larger enterprises;
  - contribute to the development of the economy by supporting and creating jobs; increasing economic growth; increasing exporting, innovation, and investment; and engendering fairness and equality; and
  - support the business finance market to work more effectively, particularly by increasing competition and diversity of provision.
6. SE and SIB should design and build capacity, capability and the right portfolio of services to:

- a) bring new investment into Scotland to help fill key funding gaps;
- b) deploy or manage Scottish resources;
- c) manage financial risk including across financial years;
- d) develop the best plan feasible within the public sector for sustainability;
- e) satisfy any relevant regulatory requirements and build the necessary financial credentials
- f) enable and provide financial instruments (debt, equity and guarantees) through existing and

7. SIB and SE should operate the following **principles** for both advice and financial support:

- work in partnership with public sector bodies, private sector providers, EU and UK provision;
- not displace market activity, and increase the supply of capital;
- operate with a global, ambitious and innovative mind-set;
- promote a strong ethical culture and values-based approach for their own services, those operated by partners, co-investors and supported companies; and
- build long-term value; develop sustainable benefits; and ensure efficiency and value for money

8. SIB should develop plans, and the best portfolio of services, to meet the largest part feasible of the funding gaps identified above, and tackle the gaps identified for types of finance and the needs of companies. SIB should develop a way to measure the impact of its development approach to demonstrate how the factors in paragraph 2 are being addressed.

Deputy First Minister  
and Cabinet Secretary for Finance, Constitution and Economy  
John Swinney MSP

[REDACTED]

E: dfm@gov.scot

Professor Lorne Crerar

[REDACTED]



---

February 2016

## **SCOTTISH BUSINESS DEVELOPMENT BANK: THE FUTURE**

The Scottish Government's Programme for Government sets out our approach to meeting the challenges SMEs face in accessing appropriate and affordable finance.

With the help of colleagues in Scottish Enterprise and Highlands and Islands Enterprise, we jointly published "The Market for SME Finance in Scotland" on 31 August last year which highlighted significant gaps in the Scottish marketplace for business funding for SMEs.

The challenge we face is how to establish the best approach under the UK Government accounting arrangements within which we are required to work. I believe that the best approach is to enhance the remit of the Scottish Investment Bank (SIB) and for Scottish Enterprise to offer a wider range of business investment approaches to address some of the marketplace gaps to improve the supply of funding. I am grateful for the support of HIE in furthering this approach.

Following our extensive joint work, critical factors in this enhanced approach include our shared purpose to:

- support company growth, particularly to build more medium-sized and larger enterprises;
- contribute to the development of the economy by supporting and creating jobs; increasing economic growth; increasing exporting, innovation, and investment; and engendering fairness and equality; and
- support the business finance market to work more effectively, particularly by increasing competition and diversity of provision.

Addressing this includes certain key priorities:

- Providing support to a broader number and range of businesses than currently;
- Offering and enabling loans, and potentially guarantees, alongside equity products;
- Encouraging and supporting increased diversity in funding within Scotland to provide more options to companies;
- Providing an enhanced financial readiness service; and,
- Facilitating additional investment into Scotland for the benefit of SMEs.

I am pleased that, despite a tough financial settlement, I have been able to use the draft budget to allocate £21.5m of Financial Transactions funding to SE in 2016-17, which could be used to help in developing SIB to meet its new objectives.

Given the scale of change envisaged, I anticipate SE planning for full implementation of the agenda through phased activities over the medium term, prioritising the best actions for early impact on the finance gap using the initial resources available.

It will be important to work in partnership with public sector bodies, private sector providers, EU and UK provision and in a way which increases the supply of capital and does not displace market activity. I have indicated to SE that I expect to see them lead on this agenda and to plan and implement the best mix of new products and services to maximise the evidenced and measurable, positive impact on the SME finance gap.

I have asked Scottish Enterprise to submit an outline plan for how they will take forward this work during 2016-17, before Friday 11 March. I expect that plan to include details of the proposed governance structure, that will allow for an inclusive approach with all other relevant public agencies, particularly HIE.

I have written separately to Lena Wilson, Chief Executive of Scottish Enterprise, outlining this approach.

**JOHN SWINNEY**

From: Rachel Gwyon  
Directorate for Economic Development  
15 March 2016

Deputy First Minister

## **SCOTTISH BUSINESS DEVELOPMENT BANK: THE FUTURE**

### **Purpose**

1. To provide you with advice and a draft reply to Dr Lena Wilson's letter of 10 March and SE's early action plan for enhancing SIB activities.

### **Priority**

2. Routine, although your earlier IPQ answer suggested SE's action plan would be placed in Parliament before the pre-election period begins on 23 March.

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

| Copy List: | For Action | For Comments | For Information    |                  |                   |
|------------|------------|--------------|--------------------|------------------|-------------------|
|            |            |              | Portfolio Interest | Constit Interest | General Awareness |
|            |            |              |                    |                  |                   |

DG Enterprise, Environment & Innovation  
 John Mason  
 Graeme Roy  
 Roddy Macdonald  
 [REDACTED]  
 Comms  
 SPADs

**ANNEX A**

**SCOTTISH BUSINESS DEVELOPMENT BANK: POTENTIAL FINANCIAL PRODUCTS**

[Redacted under S.30(b)(i) Free and Frank Provision of Advice.]

Attachments



Published Information on Parliamentary Questions can be found at <http://www.parliament.scot/parliamentarybusiness/28877.aspx?SearchType=Advance>

Additional Information on this topic may be held at the Scottish Parliament Information Centre.