

Releasable Information for your FOI

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



[REDACTED]
Dr Lena Wilson
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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) 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 (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 an
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.

Letter from Dr Lena Wilson 10/03/2016

Sent as attachment.

Response to Dr Lena Wilson 22/03/2016

Sent as attachment.