



# The Development Bank of Wales

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*A strategic national asset for a more  
prosperous Wales*

July 2017

# Foreword

## *For Wales to prosper, our businesses need to prosper*

When our businesses thrive, they create a higher number of better quality jobs. The taxes they pay strengthen our public finances. The people they employ strengthen our communities. When Welsh businesses are strong, Wales is strong.

## *For our businesses to thrive, they need finance*

In the past, Welsh businesses would have turned to banks to access finance. But since 2008, face to face contact with banks has reduced and support withdrawn for more risky investments such as business start-ups, with small-to-medium enterprises (SMEs) hardest hit. At the same time, the pressure on public finances has restricted Government's ability to intervene. Wales has benefited from support from Europe in the past, but the United Kingdom's decision to leave the European Union means that in 2023 that EU funding will stop. During uncertain times and without alternative sources of finance, many businesses may struggle to survive and grow.

## *The Development Bank of Wales will fill the gap between the finance the private sector supplies and the funding our businesses demand*

On the one hand, it will serve Welsh businesses, giving them the capital they need to grow. On the other hand, it will serve Welsh Government, by directing public funds to where they can have most impact – on a larger scale, at a faster speed, and in a sustainable way.

## *The launch of the Development Bank of Wales marks a step change in Government-backed funding for Welsh businesses*

The Development Bank of Wales will lend and invest more money, through a wider range of financial products which will be informed through the creation of an Intelligence Unit. The Intelligence Unit will seek to better understand the Welsh market and the needs of businesses. This will ensure the ability to respond quickly to changes in supply and demand in the Welsh market with suitable tailored products. The Development Bank will work more closely with Business Wales, to ensure Welsh businesses get support and advice alongside finance. In doing so, it will play a pivotal role in securing a prosperous future for Wales.

**Giles Thorley**

*Chief Executive*



# The Development Bank of Wales *highlights*



Generating more than

**one billion pounds**

of investment support for Wales over the next five years



Helping businesses to create and safeguard more than

**5,550** jobs per  
annum



Investing over

**£80m**

per annum in SMEs within five years



Increased micro finance support from

**£6m to over £40m**



**Attracting  
over £460m**

Private Sector Investment over the next five years

# Why Wales needs a Development Bank

## *Private sector lending is contracting*

The 2013 *Access to Finance Review Stage 2 Report* identified a considerable gap between the funding our businesses need and the finance the market is prepared to provide. Two years later, the 2015 *Feasibility Study into the Creation of a Development Bank for Wales* found that this funding gap was getting wider, with the situation in Wales worse than in England and Scotland.

## *99% of the 250,000 businesses in Wales are either SMEs or micro-businesses employing fewer than 9 people*

Since 2008 small businesses have struggled to find growth capital. Now more than ever businesses need to know that they will continue to be able to access much needed finance. It isn't just the newest businesses that need increased support. The Rowlands review found that the funding gap was even more acute for well-established SMEs seeking between £250,000 and £10 million.

## *The United Kingdom's decision to leave the European Union creates more uncertainty*

Economic uncertainty is likely to make it more difficult for businesses to access finance. The UK's decision to leave the EU will create opportunities and threats. Welsh businesses need access to finance in order to exploit the opportunities and deal with the threats. Finance Wales has been able to assist Welsh businesses using EU-financed programmes since 2001 but the UK's decision to leave the EU means that no further EU funding will be available after the existing programme ends in 2023. The sustainable funding delivered through the development bank will assist in maintaining business confidence through these uncertain times.

## *Governments across the world use development banks to promote economic development*

Since 2008, they have assumed a counter-cyclical role, scaling up their lending operations as commercial banks scaled theirs down. A Development Bank of Wales would become a cornerstone for delivering Welsh Government priorities, driving up long-term growth, and creating and safeguarding higher quality jobs.

# What the Development Bank of Wales will do *overview*

*The Development Bank of Wales' mission is to unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the space between the demand and the market.*

*Its vision is to be a unique resource for Wales, creating long-term value by delivering financial services – enhancing a dynamic, competitive Welsh economy.*

*It will lend and invest funds directly with Welsh businesses*

The Development Bank of Wales will generate returns on investments in Welsh Businesses which can then be reinvested into further businesses. Businesses will be able to come direct to us to access the finance they need. We will make it a priority to deliver great customer service through face-to-face relationships and a commitment to understanding Welsh businesses and their needs.

*It will also attract additional funds from third parties*

To increase the impact of the investments we make, we will build relationships with private and public financial institutions across the UK and raise Wales' profile globally as a first-class place to do business and invest sustainably. Private sector investors will be encouraged to invest in individual businesses, but also at a fund level.

*To increase accessibility to the Bank's service, we will invest in a better digital experience*

We will build a new website with customer experience at the heart of its design.

We will also build a digital platform that lets businesses apply for funding online, register for updates and chat with us direct. When businesses make funding applications, our new customer relationship management system will integrate these with our internal processes, so businesses get a seamless experience.

*It will complement the private sector, not compete with it*

The Development Bank of Wales will exist to finance viable businesses that the market can't or won't serve. For instance, the Bank will work with early-stage businesses, including start-ups, where the market is reluctant to take on the risk. Where we find businesses that would be better supported by mainstream finance, we will refer them to other providers. In many cases the DBW will invest alongside the private sector to create a viable funding package.

*It will focus on the needs of micro to medium businesses in every region of Wales*

The Development Bank of Wales will focus on micro-businesses and SMEs. But it will also have the flexibility to support larger businesses. It will operate an 'all Wales' policy, monitoring the impact of the investments it makes to make sure that every region of Wales benefits.

*It will operate a self-funding model*

The Development Bank will be self-sustaining and will not require financial support for its core operating costs from Welsh Government and its use of recycling of funds and robust investments strategies will maximise the impact of taxpayers funding and provide value for money in delivery of Government priorities.

# What the Development Bank will do for Welsh businesses

## *It will make more money available to Welsh businesses*

The Development Bank of Wales is forecast to invest £400m up to 2021/22. Private sector funds will more than double this figure to £860m. When the Help to Buy Wales scheme is taken into account, the overall impact over five years will be more than £1bn of investment into the Welsh economy.

## *It will launch new funds and enhance existing ones*

The Development Bank of Wales will continually work to develop new funds and products to meet the needs of businesses in Wales. It will significantly increase the availability of finance across a broad range of funding solutions to ensure that companies can access the right support at the right time for them.

## *It will offer more tailored and flexible packages*

The Development Bank of Wales will have the flexibility to tailor its support to what businesses need. This may include a combination of debt and equity finance or longer term (patient) capital up to 10 years. The DBW will recognise that each business proposition is unique and will provide support that meets their specific needs.

## *It will offer 'money plus management'*

As well as making investments, we will focus on maximising the return on those investments – for the businesses themselves, and to ensure we have funds to reinvest in the future. We provide ongoing support to businesses post investment through, working closely with their management teams through dedicated account managers, taking positions on the Board of key equity investment businesses and signposting them to further support as required.

Current funds (July 2017)	Deal range	Business Lifecycle				Timing			Investment Type		Additional
		Early Stage	Growth	Succession	Turnaround	Up to 10 years	Up to 5 years	Up to 18 months	Debt	Equity	Non-SME
Wales Micro Business Loan Fund	£1k - £50k	•	•			•			•		
Management Succession Fund	£500k - £3m			•			•			•	•
Wales Capital Growth Fund	£50k - £2m	•	•					•	•		•
Wales Business Fund	£50k - £2m	•	•	•			•		•	•	
Wales Property Fund	£250k - £4m	•	•					•	•		
Technology Seed Fund	£50k - £150k	•				•				•	
Technology Ventures Investments	£50k - £1m	•	•			•				•	
Rescue and Restructuring	£25k - £2m				•		•		•		

# What the Development Bank will do – *The broader offering*

## *It will provide a wider range of products and services*

The Development Bank of Wales will continue to expand its remit beyond its core business of providing loans and investments direct to businesses. It will build on the success of the Help to Buy Wales scheme by providing investment services to support a wide range of Government priorities.

## *Government business support and the provision of finance will be better aligned*

Investment into SMEs is substantially improved where finance and business support are aligned. To make this happen, the Development Bank of Wales will work more closely with Business Wales, making it simpler and easier for businesses to access support alongside funding.

## *It will create a new Intelligence Unit to drive better understanding of business and their needs*

To make sure funding and support gets to where it's needed, in a way that works for businesses, we will create a new Intelligence Unit, a research department tasked with in-depth analysis of the needs and behaviours of micro to medium businesses in Wales.

The Intelligence Unit will produce regular reports tracking the supply of and demand for finance. They will also help us measure the impact of the Bank's investments, on businesses and on the Welsh economy. They will be an open and collaborative team, working with the Office of National Statistics, Cardiff University and other academic institutions, and sharing market intelligence with business schools and publications. This will leave the Development Bank of Wales well equipped to respond quickly and effectively to changing market needs.

## *It will provide a focal point for business growth in Wales*

The DBW will work with mainstream and challenger banks, crowdfunding platforms, and mutual and social enterprises, including co-ops and credit unions, to increase the overall amount of finance available to Welsh businesses. Through a new network, we will identify and encourage potential new angel investors and bring them together into syndicates to increase Angel investment in Wales.

# What the Development Bank will deliver for Wales

The Development Bank of Wales will become the cornerstone organisation for delivery of public sector financial products, supporting micro to medium businesses in Wales and increasing the supply of finance. It will promote economic development through an adaptable delivery model that is responsive to market needs whilst providing continued value for money for public funds. It will deliver key Welsh Government policy objectives by achieving performance targets and providing investment management and support services across the whole of Welsh Government.

## *The Development Bank of Wales will enable the Welsh Government to deliver its policy objectives across Wales.*

It will support economic growth and development, so that all sectors and parts of Wales are given the support they need to flourish.

## *It will invest for social as well as economic impact*

The Development Bank of Wales would target becoming a prominent impact investor, monitoring key performance indicators such as reduction of carbon emissions, employment in deprived areas and previously under-represented groups.

## *It will make Wales the most attractive place in the UK for SMEs and micro-businesses to start, grow and succeed*

It will be a strategic national asset, giving Wales a competitive advantage when it comes to attracting, retaining and building small businesses.

## *It will provide investment management services to the whole Welsh Government*

The Development Bank of Wales will make its financial support services available to every Welsh Government department. For example, this will include the potential to support larger scale infrastructure or green growth projects.

## *To differentiate further from commercial lenders, we will make sure the Development Bank of Wales has a physical presence across Wales*

While our investment in IT will allow businesses to access the Development Bank of Wales' services remotely, the Bank also needs to provide a level of personal interaction that differentiates it from the private sector. This will drive any decisions that are made on office locations. We are exploring the idea of creating a network of 'agencies' across Wales, a network of advisers across all regions, who are well versed in the online application process, and who understand what the Development Bank of Wales offers.



***A significant step will be establishing a new headquarters in Wrexham***

This will involve consolidating our North Wales offices in Wrexham. At first, we anticipate there will be 20 people based in North Wales, rising to 50 within two years of the Bank's launch. Wrexham will be considered as the preferred site for all new services as they are established, subject to business needs and value for money considerations.

***Successful investments now will fund more investments in the future***

The money we lend and invest will flow back into the Bank through returns on our investments. This in turn will create sustainable funds to support more Welsh businesses in the future.

***This means more funding for Welsh businesses and the Welsh economy***

The Development Bank of Wales will increase the funding to the Welsh economy, creating an impact in excess of £1bn over five years, (including Help to Buy Wales), with the potential to raise further private sector funding.

***A new brand will set new standards in the minds of the Welsh business community***

The Development Bank of Wales needs to be a brand that means something to businesses. The name has been chosen to reflect the new organisation's business

activities. But it will also make its purpose, remit and approach clear. Development banks are known as institutions with high standards of transparency and accountability.

***It will help businesses create and safeguard thousands of jobs***

By increasing lending and investment into Welsh businesses, the Development Bank of Wales will assist businesses to increase the number of jobs created and safeguarded from the current 3,000 per annum to 5,500 within five years. The Development Bank of Wales will also have a clear focus on delivering higher-quality jobs too.

***It will drive more innovation and productivity***

With a focus on creating more high-quality jobs, the Development Bank of Wales will drive more innovation and productivity into the Welsh economy, making better use of a skilled and well-educated population.

***That means a more secure and prosperous Wales***

By delivering a more successful and dynamic private sector, creating more wealth and more high-quality jobs, the Development Bank of Wales will drive forward Wales' transformation into a thriving, enterprising and sustainable nation, having a lasting impact on the wellbeing of future generations.

# Establishing the Development Bank of Wales

*The transition from Finance Wales to the Development Bank of Wales is underway.*

## *The Development Bank of Wales will be built on solid foundations*

The creation of the Development Bank of Wales is innovative in approach. It would represent a significant step change from Finance Wales' current business model. Yet despite that, it's low-risk and cost-effective in delivery. That's because it will be built on solid foundations – the proven best practice of development banks around the world, and the skills, knowledge and experience of Finance Wales.

## *It will be governed by an independent Board of Directors, with input from the Welsh Government*

The Board will initially be made up of six Non-Executive Directors and two Executive Directors. It will be chaired by Gareth Bullock, former Group Executive Director of Standard Chartered Bank. Gareth has over 30 years' experience in the financial services sector. The Executive team will be headed by Chief Executive Giles Thorley, a former FTSE 100 CEO and investment executive with over 25 years of finance and senior corporate management experience. The balance of the Executive team has collective experience of over 100 years providing lending and support services to the SME community.

## *The most critical risk the new Bank faces is securing the funding it needs*

The business model depends on the Bank reaching a larger scale and wider breadth of offering quickly. That is how it will have the impact on the Welsh economy that the business case describes. To make this possible, The Welsh Government is working towards approval of a number of new funds targeted at supporting Welsh businesses.



# Timeline and future development

**2013**

The *Access to Finance* review explored the availability of funding for small to medium sized enterprises (SMEs) in Wales.

**2015**

The National Assembly's Finance Wales Inquiry looks into the operation and future role of Finance Wales.

*The Feasibility Study into the Creation of a Development Bank for Wales* concluded that 'a new organisation should be created to manage the public funding of SMEs in Wales that should be along the lines of a public development bank.'

**Jul 2017**

Finance Wales' business case for the creation of the Development Bank of Wales is approved by Cabinet.

**2016**

The First Minister announced that the Development Bank of Wales would be a key priority of the fifth Assembly.

continued investment growth

**Oct 2017**

Launch of DBW alongside new brand and new head office location.

**Jan 2018**

Head office functional in North Wales.

**2020**

Annual investment reaches £80m creating a £172m impact with co-investment and 5500 jobs created and safeguarded.

**The following disclosure will become operational from the point the Development Bank of Wales becomes active:**

Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales (Banc Datblygu Cymru ccc) has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc (Banc Datblygu Cymru ccc) nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found on our website.

