



Economic Intelligence Wales

Annual report 2018/19

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Cardiff Business School
Ysgol Busnes Caerdydd



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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 DEVELOPMENT BANK OF WALES . 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 developmentbank.wales

Executive Summary

This is the first Economic Intelligence Wales (EIW) Annual Report on the activity of the Development Bank of Wales, expanding the baseline picture of Welsh SME activity established in EIW's first three quarterly reports of the 2018/19 financial year. This Annual Report comes at a time of increasing uncertainty over UK economic prospects and global trading conditions. Current labour market strength hides real uncertainty facing some goods and services sectors, while positive GDP growth in 2019Q1 could be associated with manufacturing stockpiling to deal with the original Brexit deadline.

Micro business turnover in Wales dropped significantly, from £20bn in 2017 to £16bn in 2018, while their total count and their employment increased by 2% and 1.6% respectively from 2017 to 2018. This may provide some evidence that smaller firms have been affected more by current uncertainty than other larger firms.

The decline in turnover from micro businesses was in contrast to an increase in turnover from small and medium-sized companies. Turnover of small enterprises increased by 4.5% in the year to 2018, while the turnover of medium-sized businesses grew by 14%, **but with an overall decline in turnover for all Welsh SMEs of 3.1%**. The overall decline in turnover is a reflection of the importance of micro-firms in the Welsh SME population.

The highest business birth rates are in the South East Wales region. However, three-year survival rates for businesses that started in 2014 are lower in South East Wales (57.7%) than in Mid & South West (62%) and North Wales (64.5%).

SME Finance Monitor for 2018Q4 shows that 41% of surveyed SMEs in Wales used external finance in 2018Q4. The proportion of surveyed SMEs that used loans specifically was higher in Wales (38%) than in the UK (32%).

Although SME turnover dropped last year, more SMEs in Wales plan to grow this year than in the UK (58% compared to 50%). This is an improved picture for Wales, considering that the *SME Finance Monitor for 2017* revealed a figure of 40%.

The proportion of Welsh SMEs estimated to be at High credit risk increased from 3.9% in June 2018 to 6.7% in May 2019. By contrast, the proportion of Welsh SMEs in the Normal, Stable and Secure categories declined in the year to May 2019.

Development Bank of Wales

Total cumulative Development Bank investment to end 2018/19 financial year was almost £590m, up from £565m to 2018/19Q3 as reported in QR3. Loans accounted for 54% of this total, with equity investments representing around 28%, and mezzanine the remaining 18%.

More than 3,200 firms had received loans from 2001/02 to 2018/19, with these loans linked to activity that has created nearly 12,000 jobs, whilst safeguarding around 19,500 jobs. More than 260 companies had received equity investment, creating over 3,130 jobs and safeguarding around 2,240 jobs.

The financial year 2018/19 has been a strong year for Development Bank of Wales in terms of number of SMEs receiving investment, value of direct investment and private sector leverage. New investments by the Development Bank in 2018/19 **summed to around £80m**, with these linked to **800 jobs created** and almost **2,000 jobs safeguarded**.

Every £1m of Development Bank investment can be connected to an estimated £2.3m of Welsh GVA.

The Welsh GVA connected to the 800 jobs created as a result of Development Bank investments is estimated at almost £30m. The estimated Welsh GVA connected to the total of almost 2,800 jobs created and safeguarded is around £110m, however when multiplier effects are added this figure grows to more than £181m. This figure should be considered as a conservative estimate of impact as it relates to short term job and GVA effects only. Development Bank of Wales' investments are likely to have wider and longer term impacts not fully captured by this analysis, including for example more difficult to quantify impacts on firm efficiency and productivity.

1. Introduction

This is the first Economic Intelligence Wales Annual Report. This report develops and expands the baseline picture of Welsh SME activity established in the first three quarterly reports of the 2018/19 financial year and analyses the impact of the investments made by the Development Bank of Wales. Sections 2 and 3 of this report outline the UK and Welsh macroeconomic context within which SMEs operate, analysing factors relating to demand, supply and cost of SME finance.

Section 4 focuses on the impact of the investments made by the Development Bank of Wales during the 2018/19 financial year. In summary, it examines:

- The use of Development Bank funds in financing Welsh SMEs, and what type of enterprises and industries were supported.
- The geographical distribution of SME investment around Wales.
- The economic impact of the investments made by the Development Bank of Wales.

While prior Quarterly Reports (QR) examined the activity of the Development Bank in terms of investments made, the Annual Report goes a stage further and seeks to provide insights into the wider regional economic impact of investments made. The final section draws conclusions from the overall analysis.

This report is largely based on publicly available data (generally reported in calendar years) together with a special analysis of data provided by the Development Bank of Wales (mostly reported in financial years). Due to differences in reporting periods there will be some slight temporal mismatch of data within this report.

2. The Welsh Economic Context

2.1 UK and regional economic prospects

Local, national and global economic conditions impact business growth, and hence the demand for, and supply of, different types of capital and external financial support.

Increasing uncertainty for the progress of the UK economy...

...has resulted from a lack of clarity on the future trading relationship with the EU. Recent months have also seen a severe escalation of trading tensions between the USA and China, aggravated by increasing tariffs, and restrictions placed because of security concerns over Chinese firm Huawei. This has increased uncertainty, and compounded a volatile Sterling exchange rate. The Sterling Index was 17% lower in February 2019 than its most recent peak in November 2015. UK GDP grew by 0.5% between 2018Q4 and 2019Q1, and recorded a 1.4% increase in the year to 2019Q1. Growth of GDP might reflect an

Outlook and uncertainty

Continued business uncertainty is reflected in central bank policy. In February 2019, the Bank of England's Monetary Policy Committee decided to retain the bank rate at 0.75%, after its increase from 0.5% in August 2018.

element of stockpiling in the manufacturing sector caused by uncertainty over Brexit¹.

Strong manufacturing output quarterly growth to 2019Q1....

...of 2.2% was at the highest level since the late 1980s as manufacturers rushed to complete orders before the original March Brexit deadline. However latest figures are suggesting that the UK manufacturing sector contracted in May for the first time since July 2016 as new orders fall and stockpiling declines.² Despite recent growth in services having slowed, UK unemployment hit a 44-year low in the three months to March 2019 (3.8%). This is due to firms hiring rather than investing, with business investment still low and unemployment at a record low. In Q4, business investment fell by 0.9% and was the fourth consecutive quarter of decline having been weak since the Brexit referendum.³

Poorer SME conditions amid economic uncertainty but Wales stays positive

While the GDP growth highlighted above may be linked to an element of stockpiling, UK confidence indexes also reflect something of a 'preparatory' outlook. The *Small Business Index*⁴ of UK business confidence fell from -1.7 in 2018Q3 to -9.9 in 2018Q4 and continued negative in 2019Q1 (-5). Wales, however, continues to be the outlier region in terms of this UK confidence index, and has done throughout the last year. The index value increased from 3 in 2018Q4 to 11 for 2019Q1.⁵ The Federation of Small Business argues that confidence remains fragile⁶ in the context of macro-economic uncertainty, with operating costs having significantly increased.⁷

FSB Voice of Small Business Index, Q1 2019

FSB revealed that in 2019Q1 small business confidence had been negative for three straight quarters for the first time in the *Small Business Index* history (since 2010Q1).

2.2 The SME picture in Wales: understanding factors shaping demand for finance

A significant decline of 20% in the turnover of Welsh micro businesses in 2018

Of 257,500 SMEs in Wales, over 95.5% are in the micro (0-9 employment) category (D1). The turnover of these micro businesses fell by 20% in the year to 2018, declining from £20bn in 2017 to £16bn in 2018 (D2). This is a significant drop in turnover for an important segment of the Welsh economy.

¹ ONS (2019). GDP first quarterly estimate, UK: January to March 2019. Available from: <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2019>

² IHS Markit (2019). IHS MARKIT / CIPS UK MANUFACTURING PMI. Available from: <https://www.markiteconomics.com/Public/Home/PressRelease/eafabe8382054b868b618dcf6f0b98d8>

³ Bank of England (2019). Available from: <https://www.bankofengland.co.uk/-/media/boe/files/inflation-report/2019/may/inflation-report-may-2019.pdf>.

⁴ "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the following weightings: +2, slightly improved +1, approximately the same 0, slightly worse -1 and much worse -2; the Small Business Index is derived from the sum of these factors" (FSB, 2019: 9).

⁵ EIW (2019). Export Finance in Wales. Available from: <https://developmentbank.wales/sites/default/files/2019-02/English%20Bespoke%20Report%20FINAL%2025%20Feb2019.pdf>

⁶ FSB Wales (2019). <https://www.fsb.org.uk/standing-up-for-you/national-offices/wales/press-releases/small-business-confidence-struggles-as-firms-call-for-action-at-spring-statement>

⁷ FSB (2019). <https://www.fsb.org.uk/media-centre/press-releases/cost-of-government-policy-to-average-small-firm-surges-60-000-in-six-years>

A 20% decline in turnover is significant but has not affected growth of the total count of micro businesses nor their employment in Wales. The micro business count and employment increased by 2% and 1.6% respectively from 2017 to 2018.

The fall in Welsh micro business turnover reflects an overall UK fall - micro business turnover in the UK as a whole fell from £655bn in 2017 to £514bn in 2018 (21.5%). This was a slightly larger fall than the 20% fall recorded in Wales. At the time of writing this data is provisional, but if confirmed such a large drop in turnover may reflect the beginning of more tangible outcomes from the current economic uncertainty.

Turnover increase of Welsh medium-sized enterprises was higher than in small enterprises in 2018

In contrast to Welsh micro businesses turnover, other SME businesses have increased their turnover. The increase in turnover of medium-sized enterprises in 2018 (14%) was much higher than the rise in turnover of small companies (4.5%). However, it was the micro business turnover slump that restricted the overall annual change in turnover for all Welsh SMEs to -3.1% between 2017 and 2018.

The total count of medium-sized enterprises in Wales increased by 2.3% between 2017 and 2018, with a 4.3% increase in employment (D2). Employment in medium-sized enterprises having increased by 9.7 percentage points less than turnover gives a very basic indication of the productivity of these firms as their turnover growth outpaces employment growth. Furthermore Welsh medium-sized enterprises support nearly one fifth of SME employment (19.7%), and 35% of total SME turnover while accounting for less than 1% of the SME enterprise count in 2018. Overall, between 2017 and 2018, the total enterprise count and employment for Welsh SMEs both increased by 2%.

Mid & South West Wales was the only region that saw a decline in micro firms in year to 2018...

...but the number of small enterprises increased, while the number of medium-sized companies was little changed (D3). Turnover declined for micro businesses in all three Welsh regions. By contrast, medium-sized enterprises significantly increased their turnover across Wales between 2017 and 2018, particularly in South East Wales, and Mid & South West (both increasing by 20%, with a small increase in North Wales of 1%).

Higher numbers of SMEs in services sector activities

Most Welsh SMEs are active in services (tertiary) sector activities, including wholesale, retail, transport, hotels, food and communication. These industries record relatively strong birth rates, and generally have lower capital constraints during the start-up phase compared to more capital intensive manufacturing.

South East Wales had the highest business birth rate

...with the economically smaller areas of North, and Mid & South West Wales having relatively fewer new starts (D4). However, three-year survival rates for the businesses that started in 2014 are lower in South East Wales (57.7%) than in Mid & South West (62%) and North Wales (64.5%), reflecting the differences in competition in these areas. Additionally, an established local economy could have a churn of businesses

Wales' three-year survival rates

Three-year survival rates for the companies that started in 2014 in Wales (60%) are similar to those prevailing in England, Scotland and Northern Ireland.

setting up that have a short life compared to rural businesses that could be companies with longer lifespan.

The Welsh Index of Production output slowed...

...in the three months to December 2018 (D5). The slowdown in Wales' production output growth (including manufacturing, energy and mining and quarrying) counters the UK wide growth that had been experienced over the last quarter. By contrast, the Welsh construction output index reveals impressive growth, increasing by 5% between Q3 and Q4 2018, and having increased by 29% between Q3 2017 and Q4 2018. The increase in the construction output index between Q3 and Q4 2018 might be linked in part to the growth of new dwellings in Wales by 22% over the same period.⁸ The increase of construction output index does not necessarily imply increasing demand for finance as the increased stock building was funded by cash reserves.⁹ Market services output has seen more modest increases in recent quarters.

3. Provision of SME finance and cost of finance

Bank lending to UK SMEs grew...

...by around £1bn between 2017 and 2018 (D10). Over the longer term, bank lending to UK SMEs grew by 35%, rising from £43bn in 2013 to £58bn in 2018. Asset finance flows, private external equity investment, and peer-to-peer business lending have recorded an even greater increase over the same period although private equity investment fell between 2017 and 2018. The trend in the 12-monthly growth rate of loans provided to UK SMEs dipped below 0% during 2018, but became positive in January (0.4%) and February (0.1%) 2019.

The *Bank of England Credit Conditions Survey 2019Q1* showed that the supply of credit to UK SMEs declined in 2018Q4 and 2019Q1, following two consecutive quarters of positive change from 2018Q2 to 2018Q3 (D11). The change in the success rate of loan applications from SMEs was -3% in 2018Q3-2018Q4, before recording no change in 2018Q4-2019Q1. Average interest rates for SMEs succeeding in gaining loans, fell slightly from 3.4% in December 2018 to 3.3% in February 2019.

SME Finance Monitor 2018Q4 reveals that...

...the proportion of surveyed Welsh SMEs using any type of external finance was 41% (UK, 36%), according to D6. There is some volatility here with the *SME Finance Monitor 2018Q2* showing that 36% of Welsh SMEs made use of external finance. Around 38% of Welsh SMEs surveyed used loans, overdrafts and credit cards (UK, 32%), while only 10% made use of other forms of external finance (UK, 12%). 44% of Welsh SMEs surveyed (D7) are permanent non-borrowers (UK, 49%), while 83% of surveyed SMEs were happy non-seekers who had not sought, or wanted to seek, finance.

Welsh SMEs had higher success rates of applications for finance compared to UK SMEs (87% to 80%). Moreover some 30% of Welsh SMEs made use of personal funds to finance their businesses. Regarding other types of external finance, the proportion of surveyed SMEs that were aware of equity funding

⁸ Stats Wales (2019). New dwellings completed by area, dwelling type and number of bedrooms. Available from: <https://statswales.gov.wales/Catalogue/Housing/New-House-Building/newdwellingscompleted-by-area-dwellingtype-numberofbedrooms>

⁹ Bank of England (2019). Inflation report. Available from: <https://www.bankofengland.co.uk/-/media/boe/files/inflation-report/2019/february/inflation-report-february-2019.pdf>

was lower in Wales than the UK (31% to 34%). Economic Intelligence Wales has recently undertaken a more detailed analysis of equity clusters in Wales.¹⁰

SME Finance Monitor 2018Q4 revealed that a slightly lower proportion of surveyed Welsh SMEs made profits and recorded growth compared to those in the UK as a whole. Of these companies in Wales, 14% were owner only businesses, 30% were micro, 41% were small, and 15% were medium-sized. The proportion of SMEs that engaged with foreign trade was similar in Wales and the UK (D8).

In contrast to earlier reviewed FSB conclusions on SME business confidence, Figure D9 shows more encouraging findings in terms of Welsh SMEs planning to grow during 2019 with 53% (UK, 50%) planning to grow this year. This figure is little changed from the 50% reported in the *SME Finance Monitor* for 2018Q2 but considerably higher than the 40% in 2017. Major barriers affecting Welsh SMEs include political uncertainty/government policy (for 24% of SMEs surveyed), legislation, regulation and red tape (22%), and the current economic climate (21%). Finally, the percentage of surveyed Welsh SMEs planning to apply for or to renew finance was lower in Welsh SMEs compared to all UK SMEs (7% to 10%).

Credit risk of Welsh SMEs

Levels of lending to SMEs are affected by their credit risk. D12 provides risk information for over 60,000 Welsh SMEs. The risk classifications used range from High Risk to Secure and are derived from accounting and other information available to credit risk agencies.

D12 reveals that the proportion of Welsh SMEs cited as having High credit risk increased from June 2018 to May 2019. At May 2019 some 6.7% of Welsh SMEs were estimated to be at High Risk, up from 5.3% in February 2019 and 4.1% in September 2018. The proportion of Welsh SMEs estimated to be in the Caution category was 72% in May 2019, similar to February 2019. The proportion of Welsh SMEs in the Normal, Stable and Secure categories has declined between June 2018 and May 2019. There are linkages between the proportion of Welsh SMEs in High and Caution risk categories and business survival rates.

Risk category survival rates

SMEs classified in the High Risk category will likely become insolvent within one year. Enterprises in the Caution category are typically four times more likely to fail than those in the Normal category.

4. Development Bank of Wales activity

4.1 Investment activity in year to end Q4 2018/19

Development Bank of Wales' total cumulative investment at 2018/19Q4 reached £586m...

...up from £565m to 2018/19Q3 as reported in QR3. Loans accounted for 54% of this total (D13), with equity investments representing 28%, and mezzanine the remaining 18%.

By the end of the 2018/19 financial year, 3,205 firms in Wales had received loans

...with these loans linked to activity that has created an estimated total of around 12,000 jobs, whilst safeguarding around 19,600 jobs (see D14). More than 264 companies have received equity investment, creating over 3,130 jobs and safeguarding around 2,240 jobs.

¹⁰ Economic Intelligence Wales (2019) https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf

Manufacturing has been the main recipient of Development Bank of Wales' cumulative investment (£148m), followed by Construction and ICT sectors (see D15). Loans make up the majority of investments in all locations, with the South East region accounting for the largest share of all investment types (see D16).

The EU co-financed Wales Business Fund has invested £92m to the end of 2018/19 financial year (D17). Other Funds which have made significant investments during the year include the Wales Capital Growth Fund, with £37m of investment, Wales Property Fund (£27m), and the Wales Micro-business Loan Fund (£17m).

Strong growth in new loan investment

New loan investment amounted to £57m, growing by over 150% in the 2018/19 financial year (D18) compared to the previous financial year, while new equity investment has increased by 61%, with £20m investments over the same period (D19). Mezzanine investment in the period 2017/18Q4 to 2018/19Q3 has declined, with no new mezzanine investment in either Q3 or Q4 of 2018/19 (due to the reclassification of investment types by the Development Bank).

New investment in the South East Wales increased during the final quarter of 2018/19 financial year

The South East region secured the largest share of new investment in 2018/19Q4 (D20), after investment in Mid & South West dominated in 2018/19Q3. Investment in Mid & South West had a steady upward trajectory for the last three quarters to 2018/19Q3. The upward trajectory that North Wales experienced in the last two quarters to the end of 2018/19Q3 ceased in 2018/19Q4, when total investment recorded a quarterly decline of 25%, falling from £6.4m to £4.8m. There are specific geographic targets for the largest Fund, the EU-financed Wales Business Fund, which has its focus on investment in West Wales & Valleys areas. Mid & South West Wales had the highest investment per 10,000 residents aged 16-64 years as it recorded the greatest number of SMEs per 10,000 residents (£0.53 million of investment from the Development Bank and 1,552 SMEs per 10,000 residents), followed by North Wales (£0.41 million of investment from the Development Bank and 1,507 SMEs per 10,000 residents), and South East Wales (£0.37 million of investment from the Development Bank and 1,151 SMEs per 10,000 residents).

The construction sector received the largest share of new investment in the 2018/19 financial year

D21 shows the distribution of recent investment by economic sectors for the whole 2018/19 financial year. Investment was highest in the Construction sector (obtaining £28m of investment, and note the sharp increase in construction sector output shown earlier in this report), followed by ICT activities (£13m).

2018/19 was a strong year in terms of the value of direct investment, private sector leverage and SMEs receiving investment

Both new investment and private sector leverage (PSL) have trended upwards since 2011/12, with the exception of 2017/18 for PSL (D22). D23 shows that 2018/19 was a record year in terms of SMEs receiving investment, with 426 companies supported by the Development Bank of Wales during the year, up from 321 in 2017/18. However, D23 also shows that the short-term impact of funds in creating and safeguarding jobs is not comparable with the number of SMEs receiving investment. This is due to the system of collecting these short term impacts as the Development Bank reports jobs created for the Wales Business Fund in line with European Regional Development Fund stipulations.

Consequently, jobs created as a result of investment are not captured during the investment year until they are verified on the one year anniversary of investment and every 12 months thereafter. The jobs created and safeguarded saw an annual decline of 35% and 8%, respectively. Overall, in 2018/19 the new investment amounted to £80m and £126m PSL, boosted through a share placing by Creo Medical. These investments created 800 jobs and safeguarded 1,997 jobs within the 2018/19 year. When including further jobs created from investments made in previous financial years, as the Development Bank continues to actively work with its investee companies to achieve business growth, total jobs created during the 2018/19 year increases to 1,750.

The features of a typical firm assisted by Development Bank of Wales in 2018/19

Based on the annual data, a typical firm supported by the Bank in 2018/19 is a micro company, receiving investment of around £150,000.

4.2 Economic impact of Development Bank of Wales' investments 2018/19

Development Bank of Wales' investment has wider regional economic effects

As the Development Bank of Wales makes investments, these investments also work to support output and employment in different parts of the regional economy. While investments in individual SMEs support economic activity, these same SMEs also support other activity in Wales through their purchases of goods and services in the region, and through their payment of incomes to households. This section seeks to provide some evidence on these wider effects, and includes a modelled component using the framework of the Input-Output tables for Wales¹¹, that permit indirect and induced household effects linked to specific SME activity to be estimated.

The geographical spread of Development Bank investment is a key context factor. During the 2018/19 financial year, the South East region secured the largest share of new investment (46% of the value of investment and 44% of the number investments) and PSL (62%), followed by Mid & South West Wales, and then North Wales. South East Wales attracted PSL exceeding Development Bank investment by 37%. This compares to Mid & South West Wales which attracted PSL at a level 23% lower than Development Bank investment, and North Wales where PSL was 34% lower than Development Bank investment (D24).¹²

Employment creation per £100,000 of Development Bank investment

The distribution of investment in part results in the distribution of employment created and safeguarded as a result of Development Bank of Wales activity. During the 2018/19 financial year, around 480 jobs were reported to have been directly created in South East Wales as a result of Development Bank investments made in the same year, with almost 180 jobs created in North Wales and just over 140 jobs in Mid & South West Wales. D24 shows the number of jobs created for each £100,000 of Development Bank investment. The graph also shows total jobs (created and safeguarded) per £100,000 investment. In total every £100,000 invested by the Development Bank of Wales during the 2018/19 financial year supported an average of 3.5 new jobs in the same year, with an average of more than 3 jobs per £100,000 invested in each region. It is important to note that in

¹¹ For information on the framework of analysis see https://www.cardiff.ac.uk/_data/assets/pdf_file/0010/698869/input-output-tables-2007-final-30-6.pdf

¹² Note that results on the geographical and sectoral distribution of PSL exclude one large amount of PSL related to a particular investment as this would have skewed the results of the analysis.

In addition to this, other jobs will be created and safeguarded in future years as a result of investments made during 2018/19 (see also section 4.1). These impacts are therefore short term only and are a conservative guide as to the impacts during the 2018/19 financial year only. In addition, the Development Bank of Wales receives returns from investments (in the form of loan repayments and equity exits). Hence these calculations do not represent a ‘cost per job’ as would be the case for grants to support firm development and growth.

The levels of Private Sector Leverage and jobs created and safeguarded by Development Bank investments also vary by sector. As already noted in the previous section, the Construction sector received the largest share of new investment. However in terms of PSL, the highest values were in Information and Communication.

The distribution of job creation by industry is important. Clearly the linkage between Development Bank investment and employment is not linear, with investment in some sectors of the economy creating more direct employment than in others. For example, D25 reveals variation in new employment created per £100,000 Development Bank investment by sector. Higher rates of new job creation per £100,000 investment are found in Education (5.6), Finance & Real Estate (3.7), Administrative Activities (3.6), and Health (3.0). This is not surprising given that some of these are more labour intensive sectors of the Welsh economy. Lower levels of new employment creation per £100,000 investment are found in some of the more capital intensive sectors such as Manufacturing (around one job per £100,000 investment). Again these sectoral results report only the short term impacts that occurred during the 2018/19 financial year.

The details on investment and jobs created and safeguarded were used to estimate the wider economic impacts on the Welsh economy. By combining information on Gross Value Added per job (derived from the GVA by sector accounts and job estimates by sector from the Office for National Statistics), and jobs created and safeguarded by sector, estimates of GVA directly supported by Development Bank investments by sector could be derived. This direct economic activity will support other GVA and jobs through indirect /supply chain effects, as well as through the re-spending of wage incomes within the Welsh economy. The Welsh Input-Output framework was used to estimate these ‘multiplier’ effects, and the results are outlined in the figure below.

The short term economic impacts of Development Bank of Wales’ investments, 2018/19



Source: Development Bank of Wales (special analysis), Input-Output Tables for Wales.

The Welsh GVA connected to the 800 new jobs created in 2018/19 as a result of Development Bank investments made during the 2018/19 financial year is estimated at £29.4m. However, it is recognised that investments made by the Development Bank of Wales also worked to safeguard employment. The estimated Welsh GVA connected to the total 2,797 jobs created and safeguarded is £109.4m, but when multiplier effects are included this figure grows to £181.3m. **In summary every £1m of Development Bank investment during the 2018/19 financial year can be connected to an estimated £2.3m of Welsh GVA.** This result should be considered as conservative, due the issues noted above relating to short term versus long term impacts of investments. In addition this GVA estimate has been derived from jobs created and safeguarded as a result of investments made. Development Bank of Wales' investments may also result in more general improvements in efficiency and productivity, which may result in further impacts on GVA in Wales. It has not been possible to estimate these impacts for this report, however with relevant data this may be possible for future annual reports.

5. Conclusions

Over the course of the first year of EIW reports, culminating in this Annual Report, a number of interesting findings have been made in relation to the Welsh economy. QR3 saw a sharp decline in the turnover associated with micro firms in Wales between 2017 and 2018, as it dropped by 20% and of particular concern in the Annual Report are the increasing numbers of Welsh SMEs that are falling into riskier credit categories, with this expected to impact survival rates in due course.

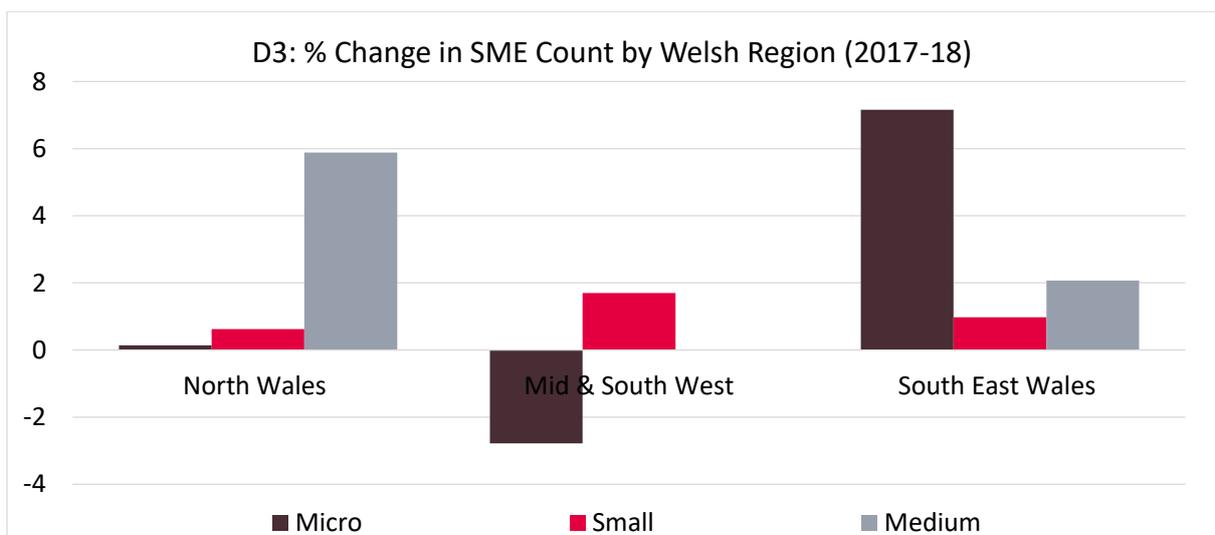
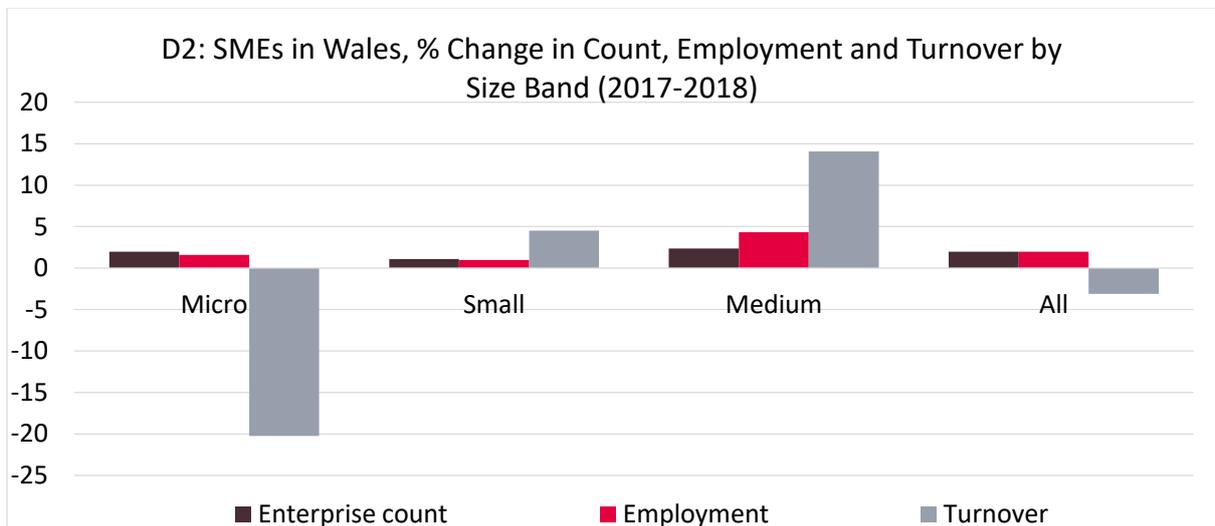
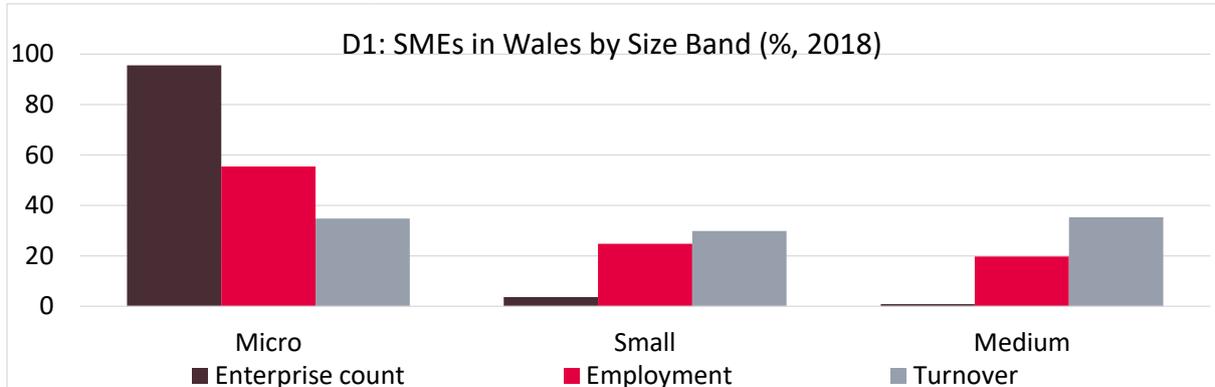
However, it is difficult to escape the conclusion that some of the economic numbers present conflicting messages, not least macroeconomic indicators of quarterly GDP growth and labour market indicators. Moreover, Welsh SME confidence levels remain higher than the UK average, although this confidence could quickly change, due to the increased uncertainty. The proportion of SMEs in Wales making use of external finance is higher than in the UK, with Welsh SMEs having higher success rates of finance applications.

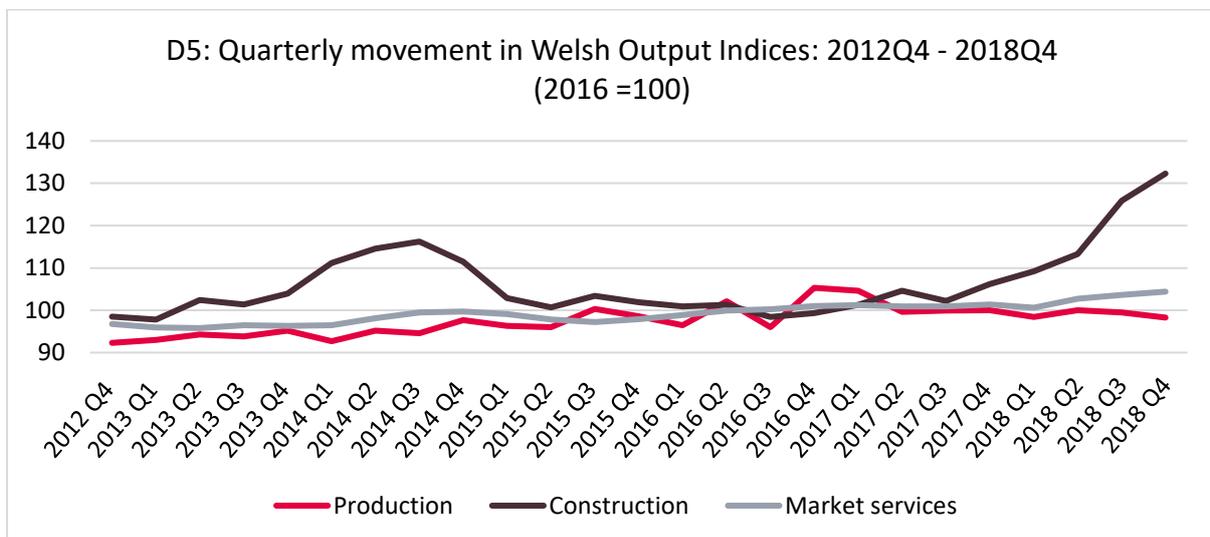
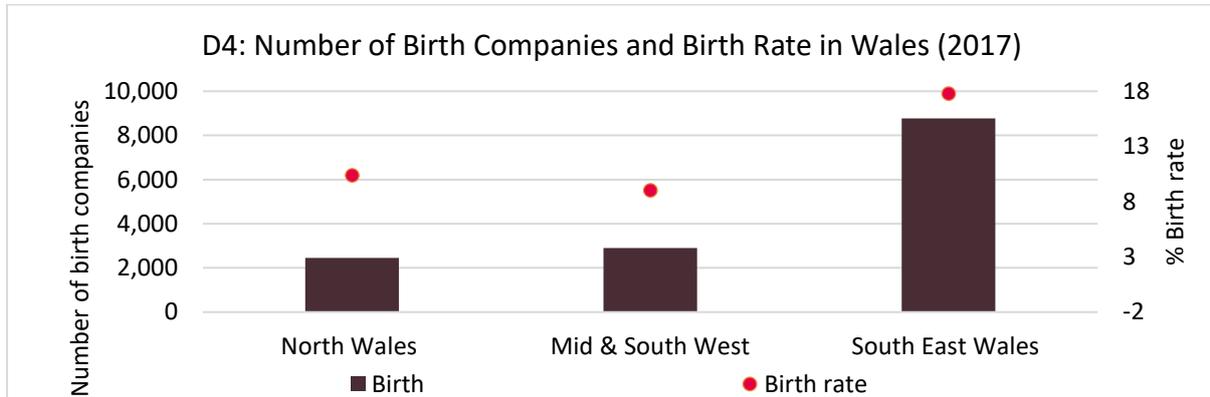
The 2018/19 financial year marked a record year for the Development Bank of Wales, in terms of SMEs receiving investment, and the values of direct investment and private sector leverage. The Annual Report also provides evidence on the wider regional economic impacts of investments made by the Development Bank of Wales.

The first full year of operation for the new Development Bank of Wales has seen a strong investment performance in the context of challenging business conditions and increasing uncertainty of UK and global economic prospects. The Development Bank of Wales has played an important role in supporting SME activity, with total investments of over £0.6 billion since 2001, leveraging over £0.8 billion from the private sector, and creating or safeguarding over 51,600 jobs in Wales. These are long-term jobs estimates and cannot be compared to those in the Dashboard, which only focus on short-term job creation and support.

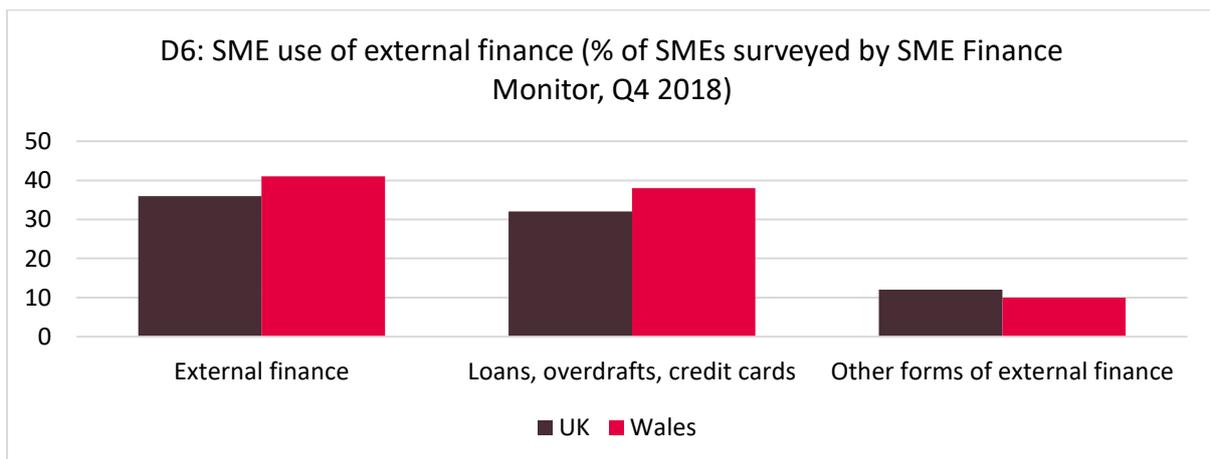
August 2019 Dashboards

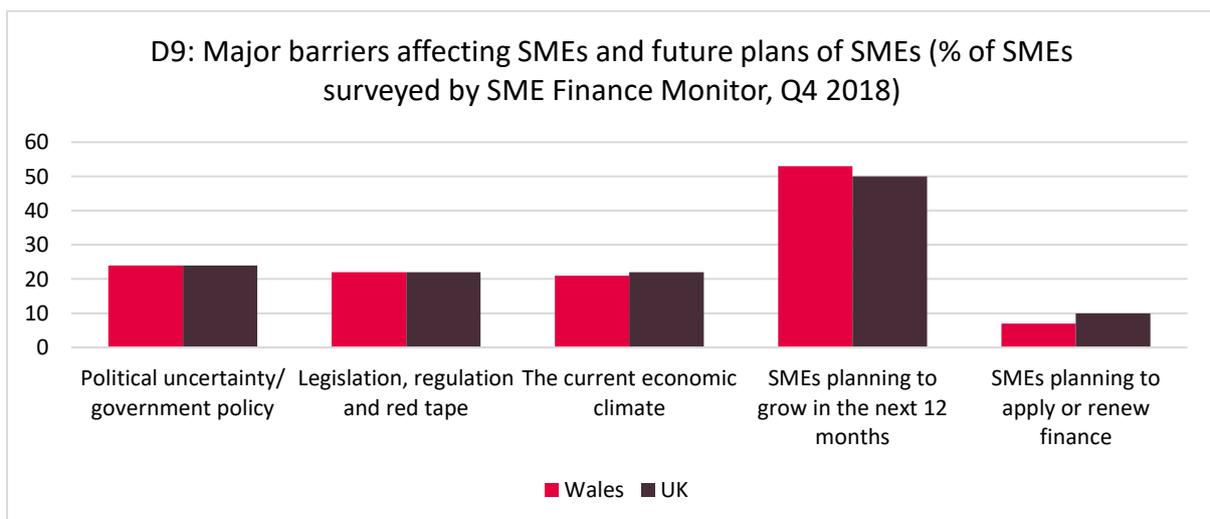
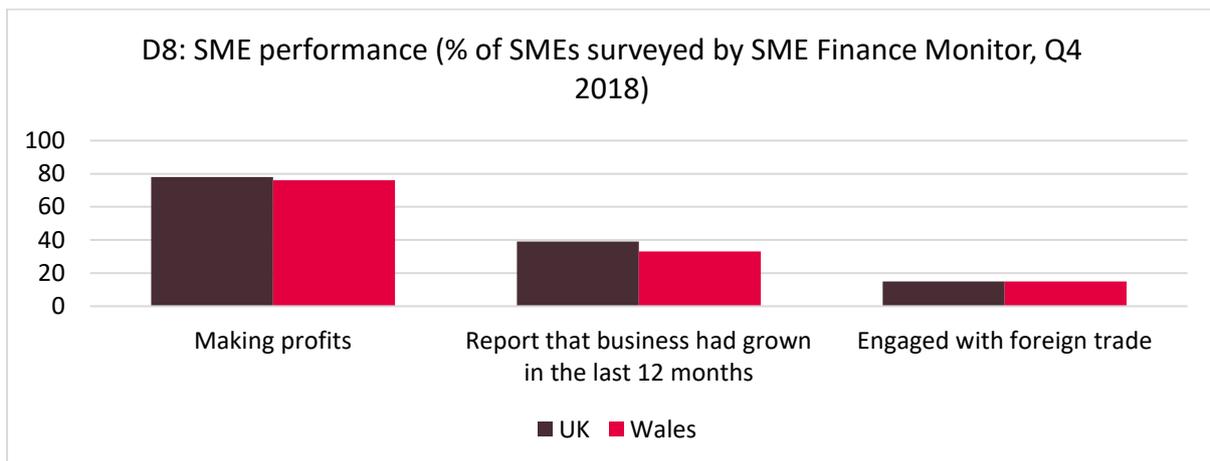
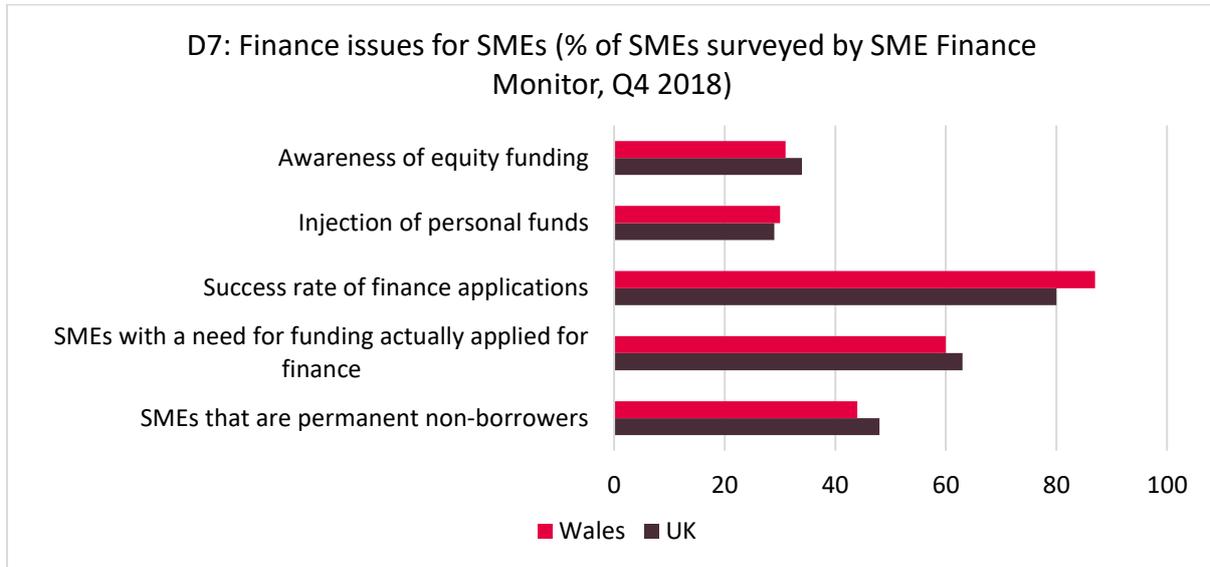
Dashboard 1: The SME picture in Wales

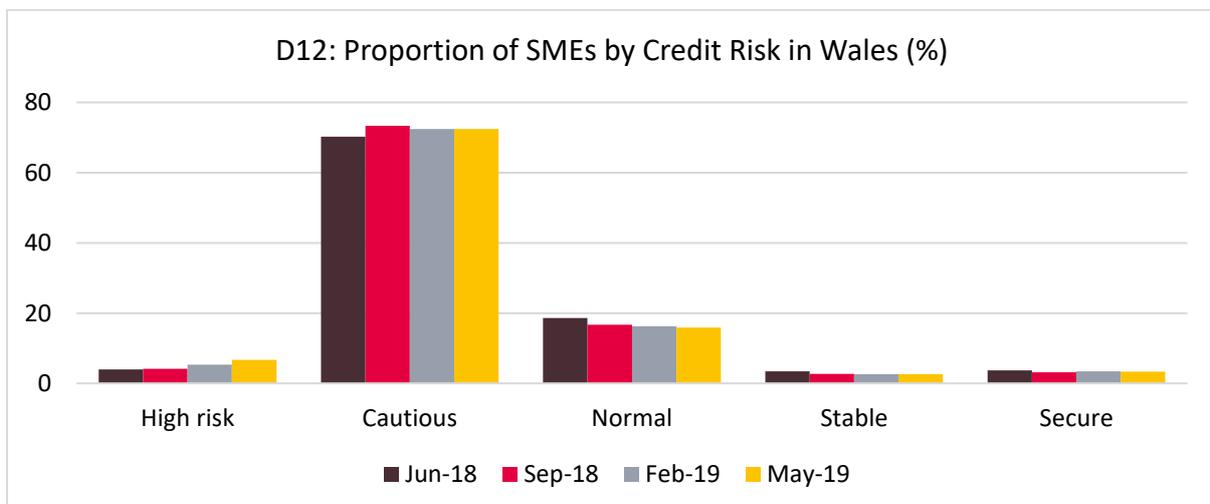
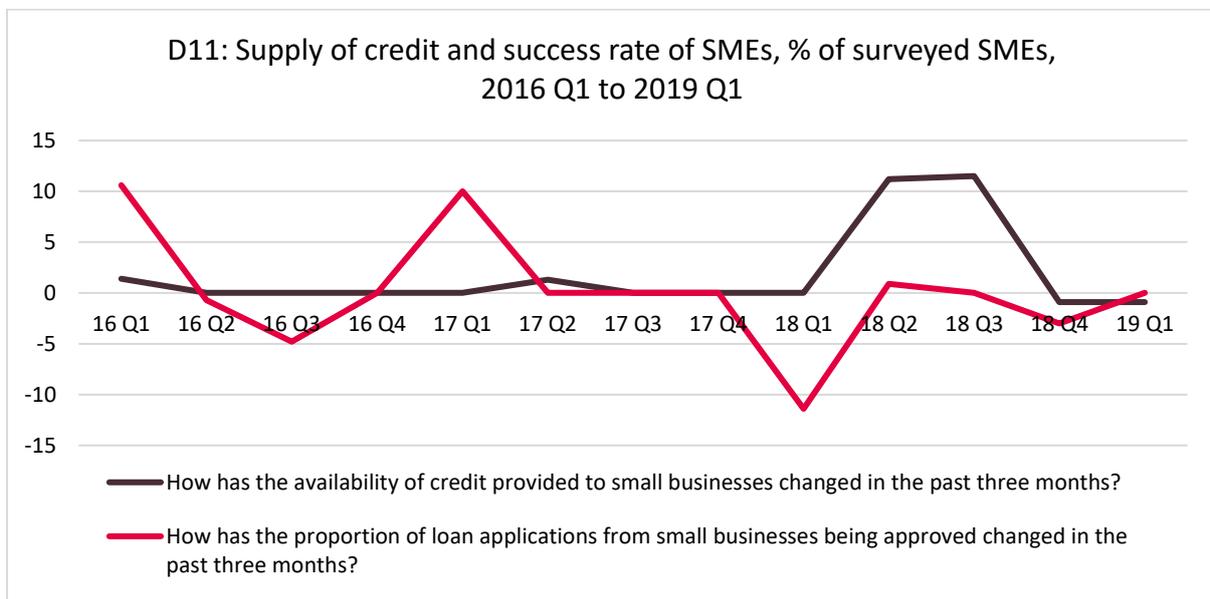
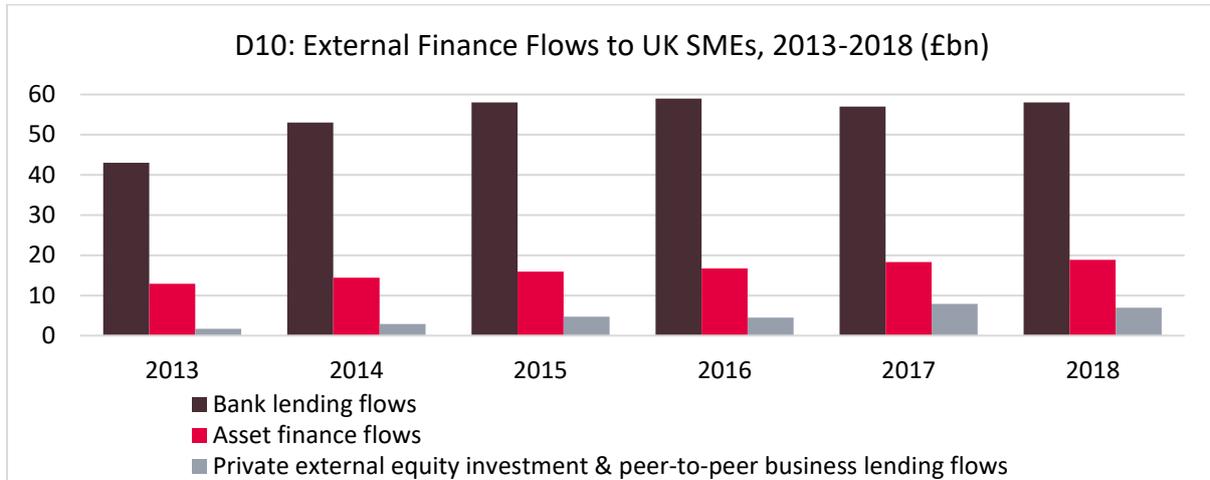




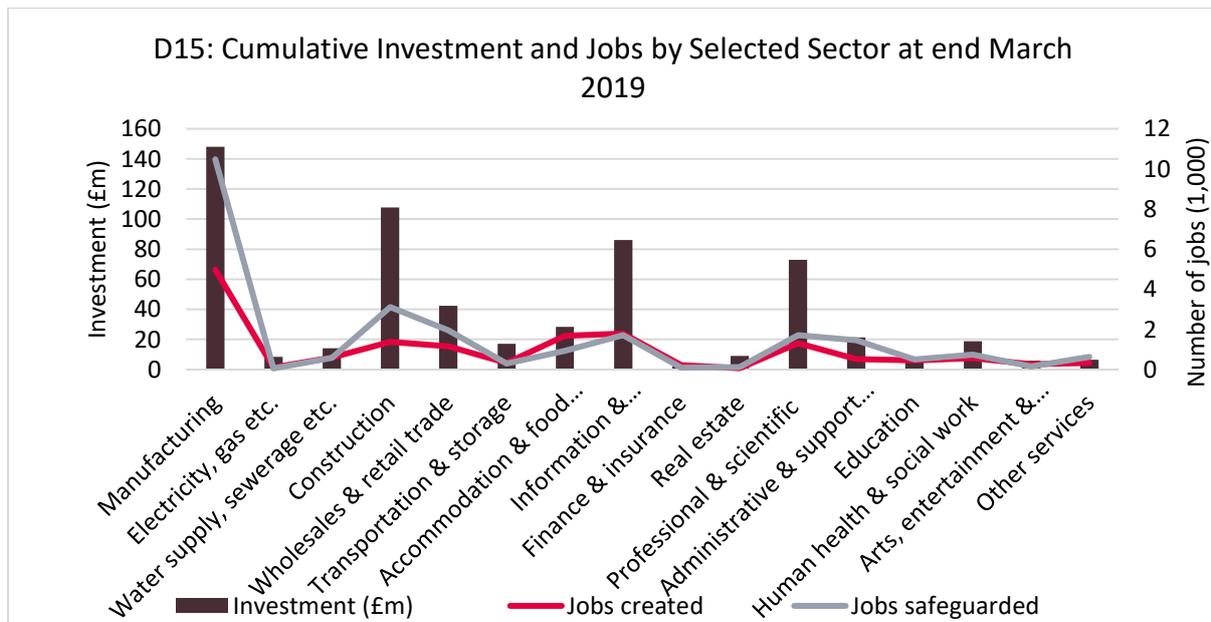
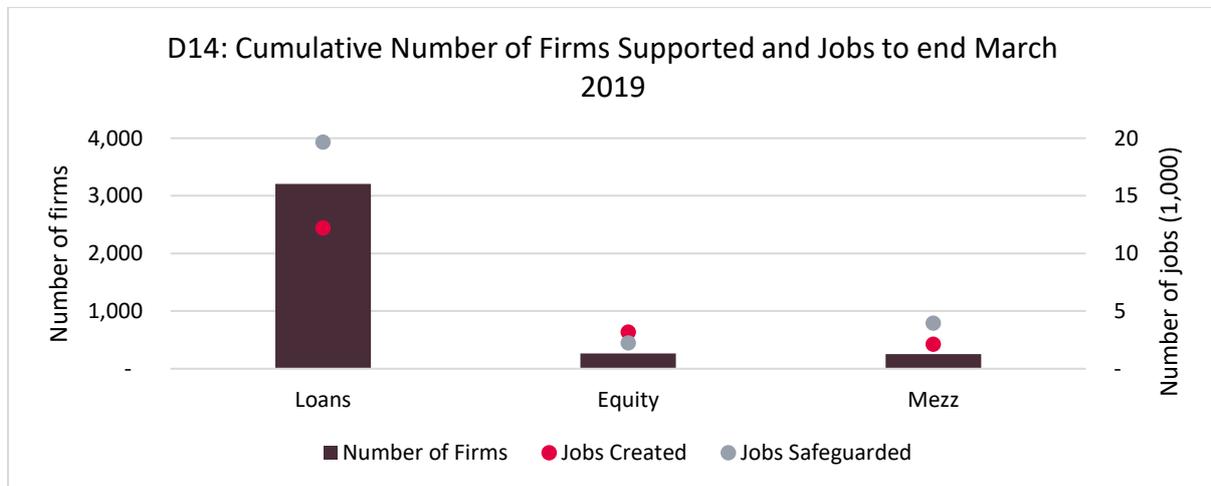
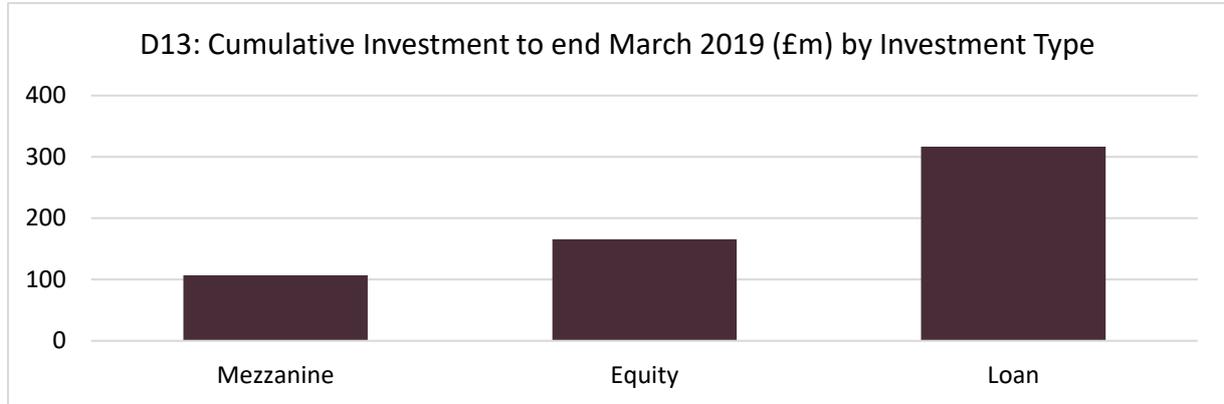
Dashboard 2: Provision of SME finance and cost of finance

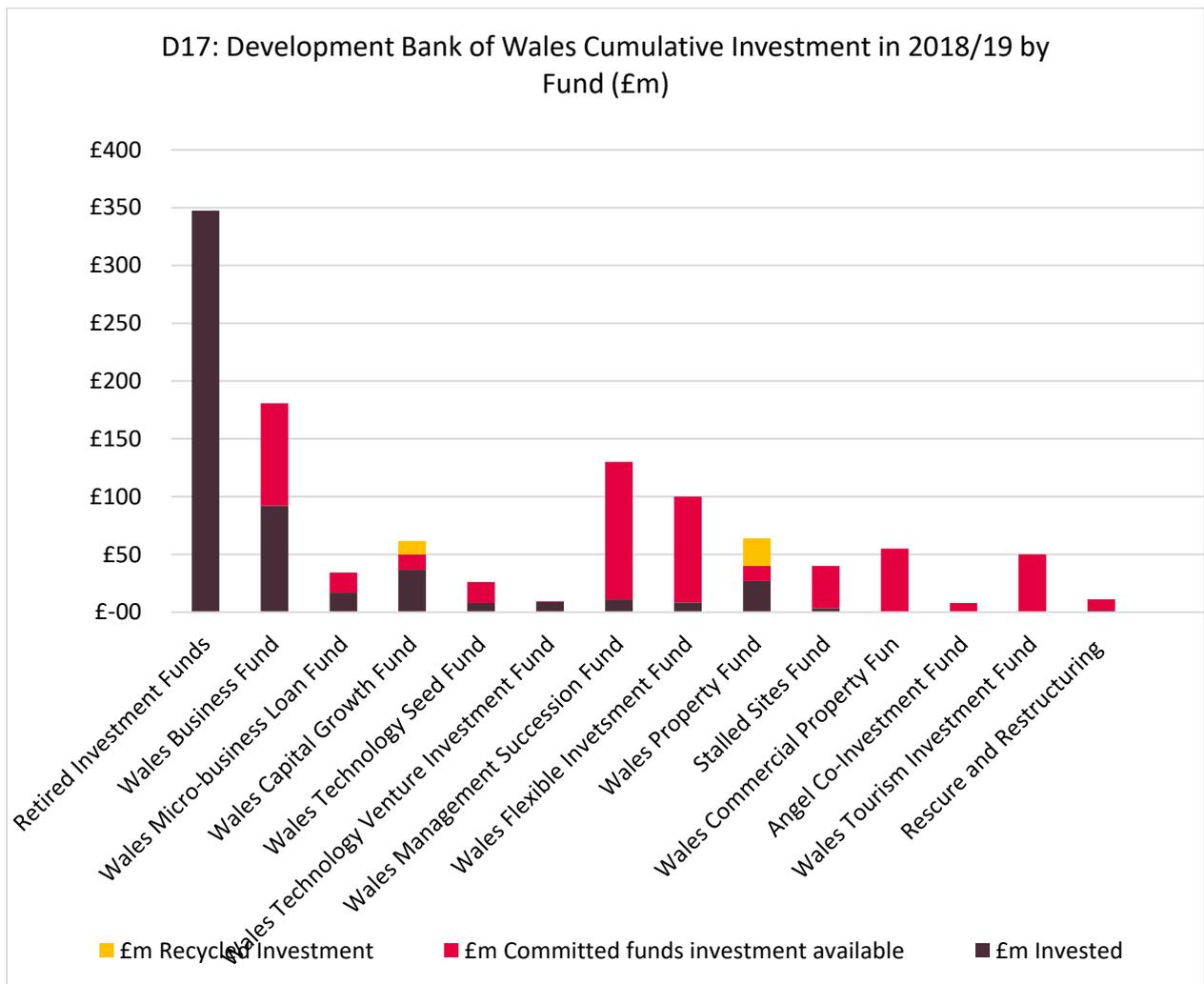
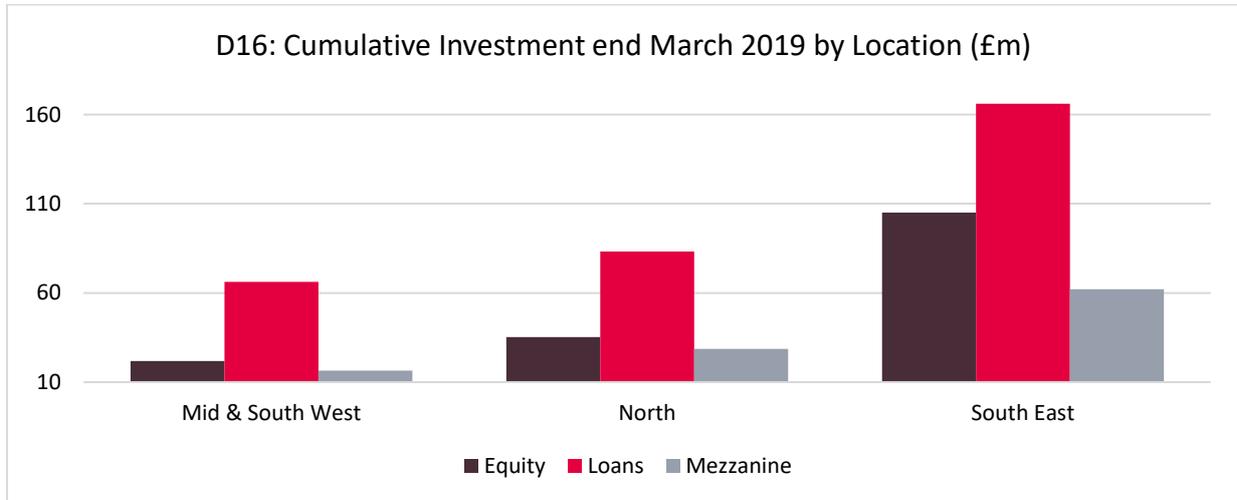


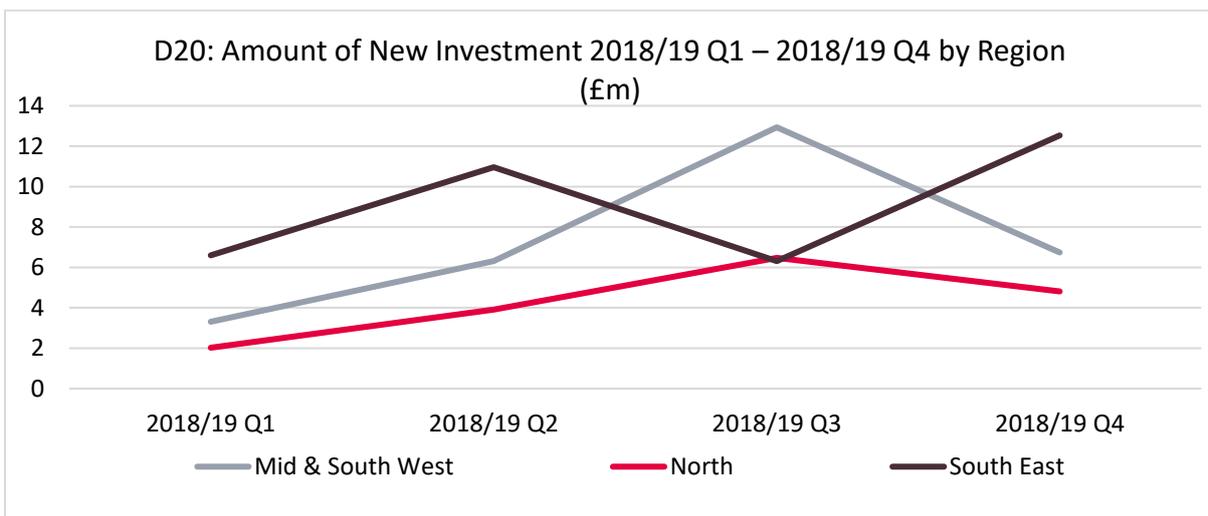
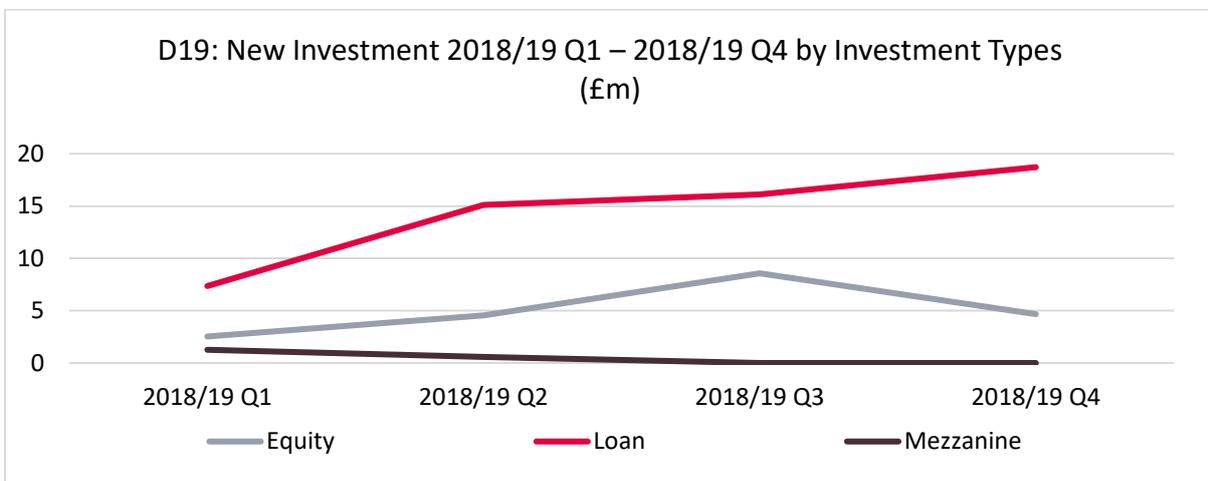
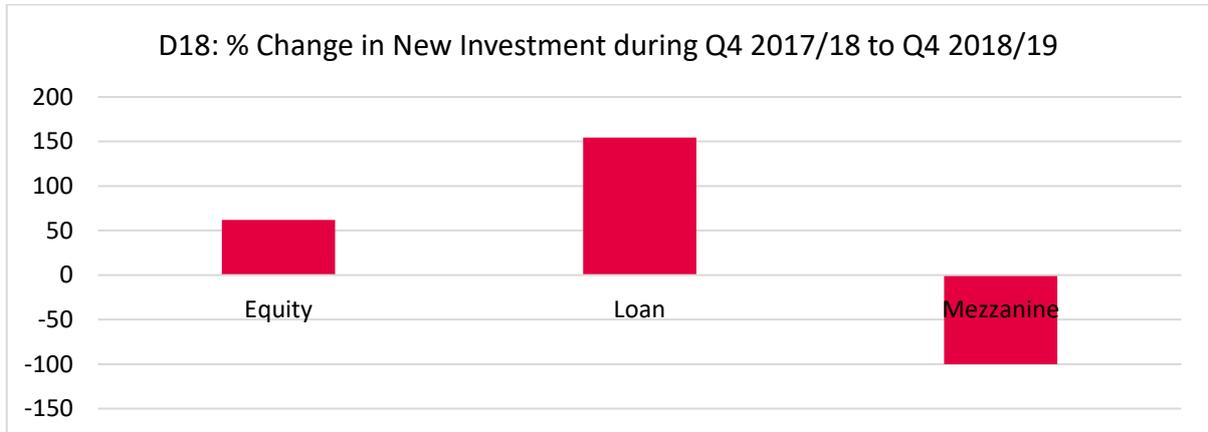


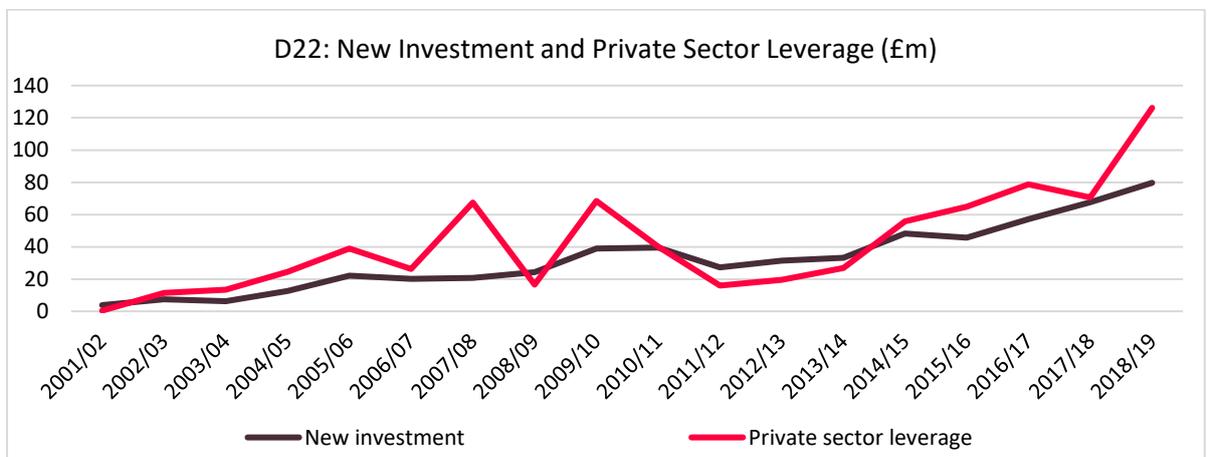
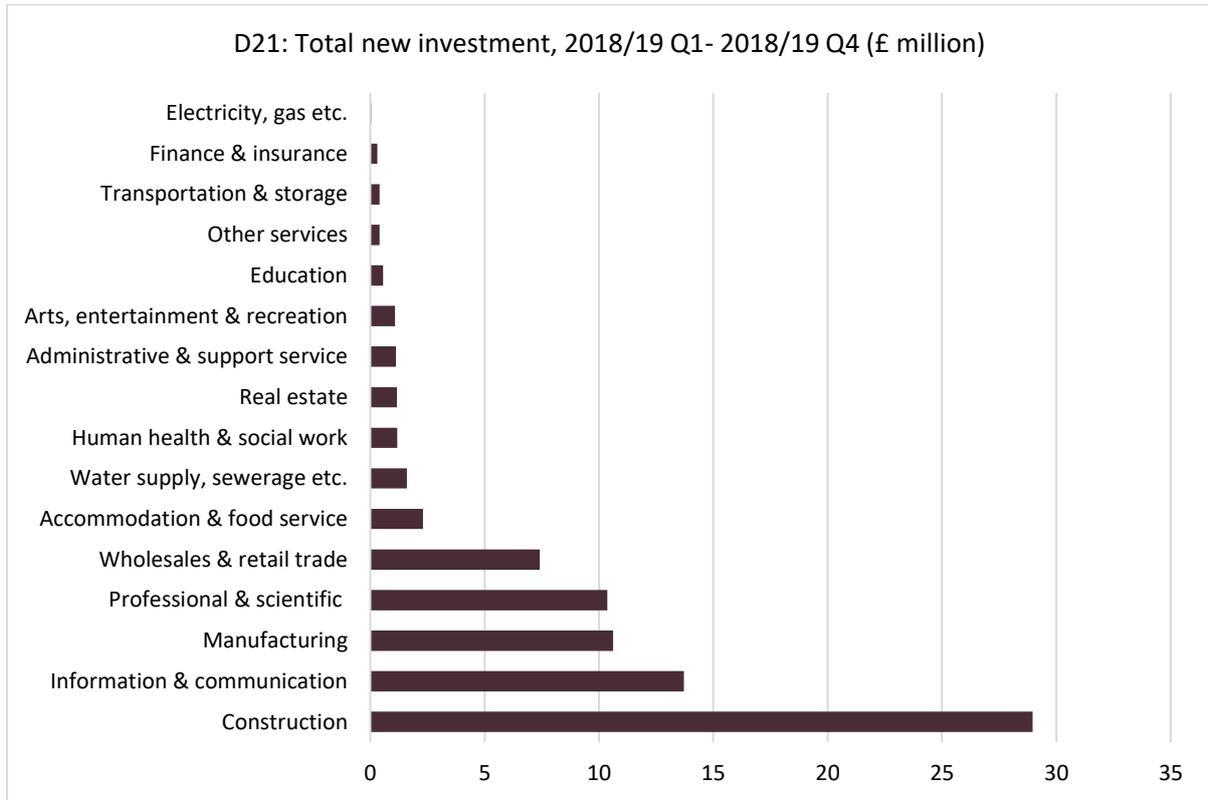


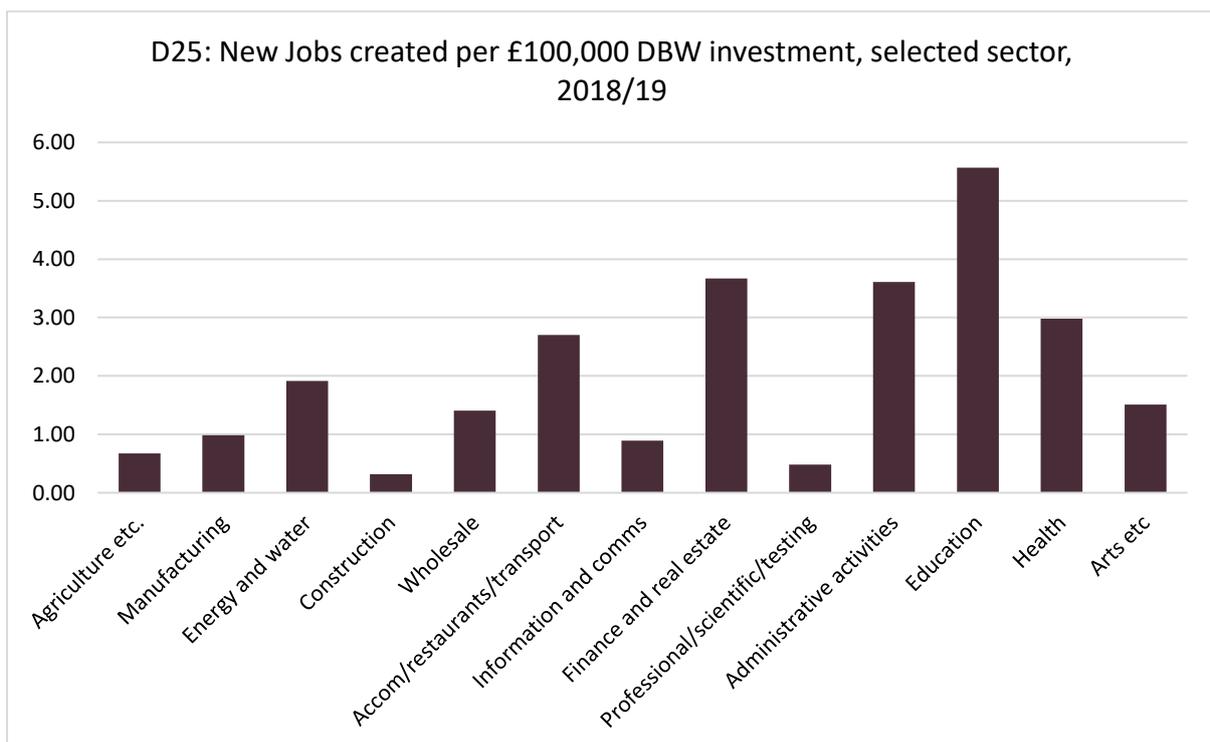
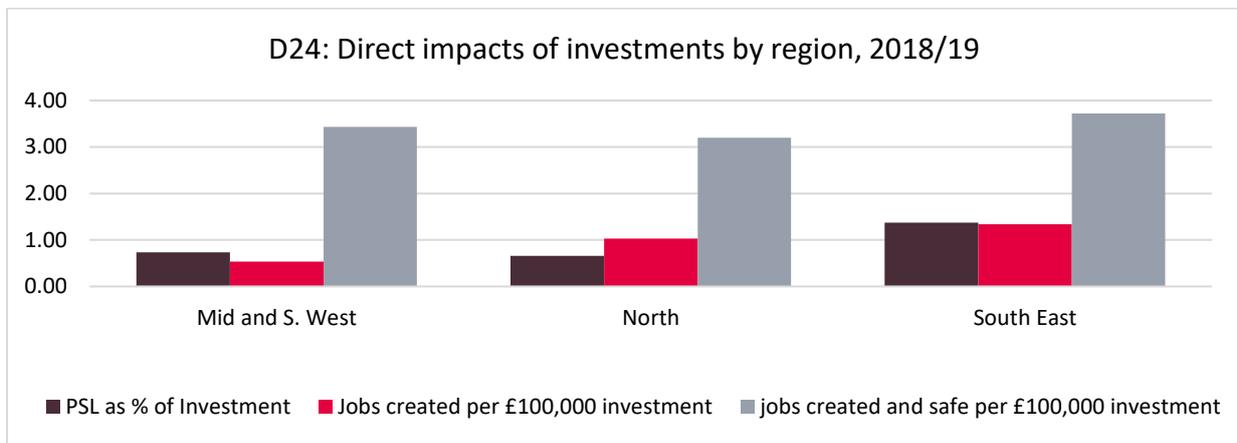
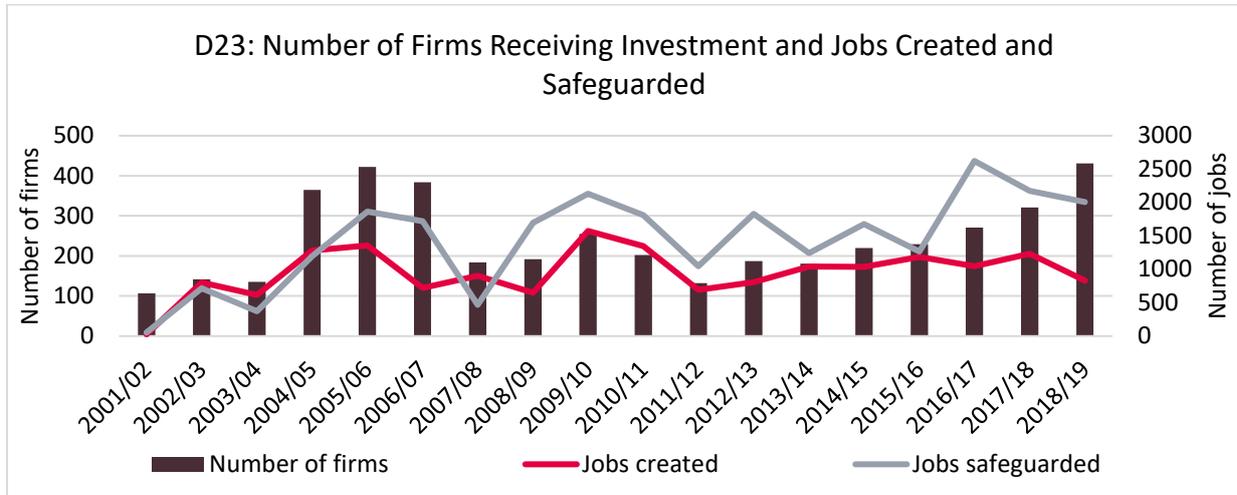
Dashboard 3: Development Bank of Wales











Data sources:

D1 & D2: StatsWales. Available from: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/latestbusinessstructureinwales-by-sizeband-measure> (next update: November 2019)

D3: StatsWales. Available from: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year> (next update: November 2019)

D4: StatsWales. Available from: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Demography/businessbirths-by-area-year> (next update: November 2019)

D5: StatsWales. Available from: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Economic-Indices/Indices-of-Production-and-Construction/welshindicesofproductionandconstruction-by-section-year> (next update: July 2019)

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D6, D7, D8 & D9: The SME Finance Monitor Management Summary: UK and Wales.

D10: British Business Bank (2019). Small Business Finance Markets 2018/19. Available from: https://www.british-business-bank.co.uk/wp-content/uploads/2019/02/British_Business_Bank_Small-Business-Finance-Report-2019_v3.pdf (next update: to be announced)

D11: Bank of England (2018) Credit Conditions Survey | 2018 Q4. Available from: <https://www.bankofengland.co.uk/-/media/boe/files/credit-conditions-survey/2019/2919-q1.pdf?la=en&hash=91544C51667041A2E0634B8BE5DB346BE6B0752D> (next update: 18 July 2019)

D12: FAME, Bureau van Dijk, and based on Companies House data. Available from: <https://fame.bvdinfo.com/version-2018327/Home.serv?product=fameneo&setlanguage=en> (updated monthly)

D13-D25: Development Bank of Wales, Special analysis