

Economic Intelligence Wales

Annual report

June 2020

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*The ONS has advised on the production of this report but is not responsible
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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 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 at developmentbank.wales.

Executive Summary

The final quarter of the 2019/20 financial year was dominated by the Covid-19 pandemic. The world economy is in unprecedented times. The IMF is forecasting a 3% contraction of global GDP in 2020, a deeper recession than that recorded in the 2008/09 financial crisis. The International Labour Organisation forecasts 130 million job losses in 2020 globally. US unemployment claims reached 40 million by the end of May 2020 (14.7%) and US GDP contracted by 5% in 2020Q1.

The QR3 in March was identified as a benchmark of economic conditions prior to the pandemic. While the effects of the pandemic are severe, they came at a time when the UK economy was already slowing down and with production and investment facing significant challenges. **UK GDP contracted by 0.2% in February 2020, and that was before the Covid-19 impact started to be felt in the UK.**

UK GDP fell by 2% in the period 2019Q4-2020Q1. In March alone UK GDP is estimated to have recorded a monthly decline of 5.8%, and in April the UK GDP decline is estimated at 20.4%, this being a record high since 1997 when comparable monthly records began. **The Bank of England forecasts a 14% contraction in the UK economy in 2020 and an increase of unemployment from 4% in 2019 to 8% in 2020.** The IMF forecast for the UK shows a decline of 6.5% in 2020, with unemployment rising to 4.8% in 2020. **The quarterly GDP estimates for Wales are volatile, but the latest estimates for 2019Q3 reveal an increase of 0.9%, following a decline of 0.1% during 2019Q2. This increase was driven by services and construction. Due to the time lag in publishing the estimates, it will be some months before the impacts of Covid-19 are shown in the quarterly GDP data for Wales.**

UK business investment was flat in 2020Q1. The impacts of the Covid-19 outbreak were beginning to be felt towards the end of the

The Welsh small business confidence index crashed to an all time low in 2020Q1

Welsh SME confidence declined from -27% in 2019Q4 to -125 in 2020Q1. Wales recorded the smallest fall in confidence between 2019Q4 and 2020Q1 across the 12 UK regions.

2020Q1, with some firms halting investment plans, particularly in sectors such as travel, retail and hospitality. The Bank of England expects that the UK will see business investment declining by 26% in 2020.

According to the ONS Business Impact of COVID-19 Survey, since March 2020, 60% of UK SMEs reported a decrease in turnover, with one in four SMEs reporting a contraction of greater than 50%. **Between 20 April and 3 May, Wales exhibited the largest share of SMEs surveyed that saw a fall in turnover (66% of sampled Welsh SMEs). Around 21% of Welsh SMEs had temporarily closed or temporarily paused trading, with most of these in leisure, hospitality, wholesale and construction. Wales was the UK region with the greatest annual percentage rise of dissolutions; these increased from 982 in March 2019 to 2,359 in March 2020.**

The effects of the pandemic are expected to be more severe and of longer duration in selected services sectors, including hospitality, leisure, and tourism, as well as wholesale, transport and construction. Micro companies with lower levels of resources are an area of particular concern. **Areas of Wales such as the Mid and South West, with a high specialisation in wholesale and hospitality, and a high share of micro firms in the regional business stock, are particularly vulnerable.**

Executive Summary

Demand for cashflow credit facilities has increased sharply. One out of three firms surveyed in the ONS Business Impact of COVID-19 Survey had either no cash reserves or cash flow remaining for just 3 months. **The FSB Small Business Index report revealed that the rate of small businesses applying for credit increased by 2.1% in 2020Q1, compared to the previous quarter.** The BVA-BDRC SME Finance Monitor reported that for the 3 months to April that the future appetite for finance had increased across all SME employment size bands.

While business conditions are poor, the Deloitte Chief Financial Officers Survey indicated that despite the sharpest squeeze in financing conditions since the 2008/09 financial crisis, credit at the end of March remained more easily available and cheaper than in the previous crisis due to the fall in Bank of England interest rates. A stronger banking system and the policy interventions to combat Covid-19 effects have influenced this picture. The UK Government Coronavirus Job Retention Scheme, Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLs), business rates relief grants, and the Welsh Government's Economic Resilience Fund, including the Development Bank of Wales' COVID-19 Wales Business Loan Scheme have all helped Welsh SMEs.

The impacts of the Covid-19 crisis are also starting to show in credit risk ratings. The proportion of Welsh SMEs falling into the High Risk group increased from 2.5% in March to 5.8% in May 2020. Finance, hospitality, transport and telecommunications saw the largest share of SMEs in the High Risk category in May 2020.

Total cumulative Development Bank investment to the end of the 2019/20 financial year was almost £690m, up from £590m in 2018/19. Loans accounted for 58% of this total, with equity investments representing around

27%, and mezzanine the remaining 15%.

Almost 4,000 loan investments have been made between 2001/02 to 2019/20, with these loans linked to activity that has created nearly 12,800 jobs, and safeguarded over 21,830 jobs. More than 340 equity investments have been conducted over the period, creating over 3,280 jobs and safeguarding around 2,330 jobs.

The 2019/20 financial year was a strong one for Development Bank of Wales in terms of both the number of SMEs receiving investment and value of investments. New investments made by the Development Bank in 2019/20 **reached a record high of £103m, with these linked to more than 960 jobs created and 2,300 jobs safeguarded.**

This Annual Report (AR) provides estimates of some of the wider economic impacts of Development Bank investments during the year. **Every £1m of Development Bank investment in the 2019/20 year can be connected to an estimated £1.93m of Welsh GVA.** The direct jobs created or safeguarded are estimated to be connected to a direct GVA of over £125m. However, when the multiplier impacts of this economic activity are included, this increases to almost £200m of GVA and more than 4,950 jobs.

Whilst these estimates indicate the wider significance of Development Bank investments to the Welsh economy, they are only partial. Firstly, the GVA and jobs estimates are derived only from the (short term) direct jobs resulting from the investments made in 2019/20. Secondly, there may also be productivity impacts and other wider social impacts. These are more difficult to quantify, but will become particularly important in the coming years as the Development Bank investments seek to support SMEs impacted by the coronavirus pandemic.

This is the second Economic Intelligence Wales Annual Report (AR). In 2020Q1 the economic impacts of the COVID-19 pandemic and lockdown policies elsewhere started to be felt in the Welsh and UK economy. The UK (and global) economy will dip into a serious recession in 2020. However, the spread of the pandemic affected a UK economy that was already slowing down, with both production and investment facing significant problems in anticipation of the UK departure from the EU and the beginning of the transition period. In much of what follows, commentary is only provided on the initial effects of the pandemic and subsequent mitigation policies on the Welsh economy. Further analysis of the impacts of the pandemic will be included in Quarterly Reports (QRs) during 2020/21.

Sections 2-4 of this report provide data and commentary on the UK and Welsh macroeconomic context within which Welsh SMEs operate, together with analysis of the initial effects of Covid-19 government support to firms and factors relating to the demand for, and supply and cost of, SME finance. These sections have the objectives of understanding:

- Macro-economic factors shaping the demand for SME finance in Wales.
- Trends in SME growth, start-ups, and business survival prospects in Wales.
- The supply of finance to SMEs in Wales.
- The amounts and types of lending/ investment into SMEs in Wales, particularly in the context of Covid-19.

Section 5 summarises the activities of the Development Bank of Wales in the context of factors affecting the demand for, and supply of, finance to SMEs in Wales. In summary, the AR identifies:

- The use of Development Bank funds in financing Welsh SMEs, and what type of enterprises and industries are being supported.
- The geographical distribution of SME investment around Wales.

While prior Quarterly Reports (QR) examined the activity of the Development Bank in terms of investments made, the Annual Report goes a step 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. We also note in respect of this Annual Report that some economic data relating to Covid 19 effects and interventions can change quickly.

The Covid-19 pandemic swiftly followed the departure of the UK from the EU and the economic slowdown during 2019Q4. The public health effects and various mitigation policies have affected production across most sectors of the economy which has been coupled with sharp falls in consumption spending and increased consumer uncertainty. The effects on Welsh SMEs are already visible in the first month of the pandemic and the subsequent economic crisis,

with conditions having marked impacts on both the amount of finance available in the market (loans, guarantees and equity) and types of interventions from the Governments (CWBS, CIBLS and the job retention scheme), as well as the uses to which funds are being put.

In 2020Q1 the UK economy records the largest quarterly contraction since 2007/08.

On an annual basis UK GDP contracted by 1.6% in the year to 2020Q1. UK GDP fell by an estimated 2% between 2019Q4-2020Q1, constituting the largest contraction since 2008Q4.¹ In March alone UK GDP is estimated to have recorded a monthly decline of 5.8%, and in April 20.4%, a record fall since 1997 when comparable monthly records began. The Bank of England was forecasting a massive 25% decline for 2020Q2.² Household expenditure contracted by 1.7% and gross fixed capital formation fell by 1% in the first quarter of this year, compared to 2019Q4.

Each main sector of economic activity contracted in 2020Q1. Output in construction fell by 2.6%, production by 2.1%, and services by 1.9%. Wholesale and retail declined by 0.4%. But conditions worsened further in April. For example, just 197 cars were produced in the UK in April 2020, plummeting from 70,971 in April 2019. Car sales fell from 161,000 in April 2019 to just 4,100 in April 2020, the lowest levels since 1946.³ Manufacturing as a whole contracted by 1.3% in 2020Q1. Within manufacturing,

machinery and transport equipment witnessed the greatest decline, due to the fall in demand and the halt in production caused by the pandemic. Output in 2020Q1 increased in some sectors such as pharmaceutical products (by 0.7%) and chemicals (by 0.2%).

Labour markets have seen dramatic change as lower demand for products and services has made businesses cut activity, reduce working hours and lay off or furlough workers. Prior to the lockdown, unemployment in the UK increased from 3.8% in 2019Q4 to 3.9% in 2020Q1. Wales saw a 0.3% quarterly increase in its unemployment rate, reaching 3.2%⁴ in 2020Q1. In May 2020, the number of people in Wales claiming unemployment benefits reached 121,900 or 8% of the workforce.⁵

These figures barely capture the initial impact of the pandemic and mitigation policies. A timelier picture of conditions comes from an examination of the number of workers being furloughed through the *Coronavirus Job Retention Scheme*.⁶ At the end of April, 3.8m workers had been furloughed, with this number increasing to

¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2020>

² <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020>

³ <https://www.smmr.co.uk/vehicle-data/car-registrations/>

⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/may2020>

⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nationallabourmarketsummarybyregions01>

⁶ <https://www.gov.uk/government/collections/hmrc-coronavirus-covid-19-statistics>

9.1m by the middle of June. In Wales, 316,000 workers had been furloughed by the beginning of June, around 26% of the total workforce in the region. The total value of furlough claims in the UK was £21bn. It is believed that 74% of Welsh businesses applied for the scheme – the highest in UK in the middle of May, compared to 67% England, 72% Scotland and 65% in Northern Ireland.⁷ Moreover, the number of workers on UK payrolls declined after several years, from 29m in March to 28.4m in May 2020.⁸

An ONS analysis of Covid-19 social impacts on Great Britain revealed that 29% of respondents were furloughed and 20% had seen a decrease in hours worked.⁹ The Coronavirus Job Retention Scheme is now expected to last until August, when employers will be asked to pay the social protection and employer pension contributions of workers, while by October they will be asked to pay 20% of wages of furloughed employees.

Overall, the Bank of England forecasts a 14% economic contraction for 2020, and a rebound in 2021 of 15%.¹⁰ The Bank predicts unemployment to increase from 4% in 2019 to 8% in 2020, before falling to 7% in 2021. The

IMF forecast for the UK shows a contraction of 6.5% in 2020 and a recovery of 4% in 2021, with the unemployment rate rising to 4.8% in 2020 and falling to 4.4% in 2021.¹¹ What is critical to understand is the high level of uncertainty around forecasts with many economic models poorly equipped to treat with such large changes in activity. What is clear is that there is some expectation of more permanent scarring of long-term economic prospects as a result of the pandemic but also the public expenditure required to alleviate damage.

Although the quarterly (experimental) GDP estimates for Wales are volatile, the figures for 2019Q3 show an increase of 0.9%, following a decline of 0.1% in the quarter to 2019Q2 and a 0.6% quarterly increase in 2019Q1.¹² GDP in Wales had grown by 1.7% in the period 2018Q3-2019Q3. The increase in Welsh GDP was driven mainly by information and communication (14%), administrative and support service activities (4.5%), education (3%), and construction (2.5%). By contrast, manufacturing fell by 2.5%, with a similar decline being recorded by accommodation and food service activities.

⁷ <https://www.bbc.co.uk/news/uk-wales-52650074>

⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/june2020>

⁹ <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/datasets/coronavirusandthesocialimpactsongreatbritaindata>

¹⁰ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020>

¹¹ <https://www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020>

¹² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/julytoseptember2019>

UK business investment flat in 2020Q1.

Following a 0.5% quarterly decline in 2019Q4, UK business investment was flat in 2020Q1. According to the latest Bank of England *Agents' summary of business conditions*¹³ the investment intentions of businesses had slightly improved due to the relative political stability in the aftermath of the 2019 UK general elections. The impacts of the Covid-19 outbreak were beginning to be felt towards the end of the first quarter of 2020, with some firms halting investment plans, particularly in sectors such as travel, retail and hospitality.

Business investment intentions have been decimated by uncertainty resulting from the pandemic. The Chief Financial Officers participating in the Decision Maker Panel Survey¹⁴ revealed that they expected sales to be on average 40% lower in 2020Q2 relative to normal. The Bank of England predicts 40% lower business investment in 2020Q2 compared to 2019Q4. This came on top of overall business investment slowing to an annual increase of just 1% in 2019. The Bank of England forecasts that, under its 'illustrative scenario', the UK will see business investment declining by 26% in 2020, but rising by 19% in 2021 and 12% in 2022.

The Bank of England cuts interest rates to record low in March 2020.

Lower demand places downward pressures on inflation. Inflation declined from 1.5% in March to 0.8% in April, and further to 0.5% in May 2020, the lowest since May 2016. The Bank of England predicts inflation in 2020 of

around 0.6%, down from 1.8% in 2019. The Bank of England decided to change interest rates after 6 months, cutting them from 0.75% in February 2020 to 0.25% on 11 March and further to a record low of 0.1% just eight days later.

¹³ <https://www.bankofengland.co.uk/agents-summary/2020/2020-q1>

¹⁴ <https://decisionmakerpanel.co.uk/wp-content/uploads/2020/05/monthly-dmp-data-april-2020-1.xlsx>

Small firms' confidence crashes to all-time low in 2020Q1.

The *UK Small Business Index*¹⁵ crashed to an all-time low in 2020Q1 reflecting the initial effects of the pandemic and the huge uncertainty caused. The UK Small Business Index plummeted to -143.4 in 2020Q1.¹⁶ Already in 2019Q4, the index had reached its lowest point (-21.1) since the Credit Crunch. The net balance of UK SMEs reporting a decline in exports was 40%, again an all-time low point. More than 80% of small companies anticipated a fall in revenues in 2020Q2, one in ten small firms intended to close amid the Covid-19 turmoil, and with one third of small businesses planning to reduce staff numbers.

While confidence plummeted across UK regions, Wales alongside the North East of England were the regions with the least pessimistic small firms. Wales recorded the smallest fall in confidence between 2019Q4 (-27) and 2020Q1 (-125), although the fall of 98 points was the largest regional quarterly decline ever recorded. One year ago, Wales was the outlier region in terms of the UK confidence index, with the index value increasing from 3 in 2018Q4 to 11 in 2019Q1, with the UK value standing at -5 in 2019Q1.

UK small business confidence index crashes in hospitality and leisure in the first quarter of 2020

Lowest confidence was recorded in non-essential sectors that faced severe lockdown measures and a significant fall in demand, such as hospitality (-187), leisure (-178) and retail (-155).

¹⁵ "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, 2020).

¹⁶ FSB (2020). FSB voice of small business index, Quarter 1 2020. Available at: <https://www.fsb.org.uk/static/282782c0-0f30-4e7b-a24b4cd2757b3ebc/FSB-Q1-2020-Small-Business-Index.pdf>

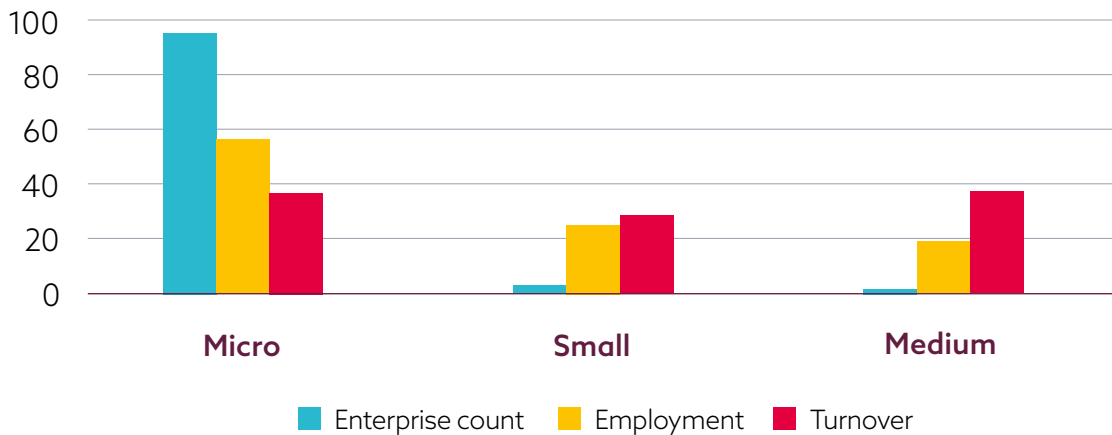
The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

Micro firms are the largest SME group in Wales. The smallest firms face challenges due to their limited financial and personnel resources.¹⁷ In Wales, 95.6% of SMEs are micro firms employing less than 9 people.¹⁸ Small companies made up 3.6% of Welsh firms in 2019, while medium-sized firms accounted for 0.8% (Figure 1). The contribution of micro firms to SME employment in Wales was 56% in 2019, with small firms accounting for 24% and medium-sized for 20%. The SME turnover information is less clear and should be treated

with more caution. As noted in previous QRs, data for micro business turnover is often subject to future revisions. Provisional data for 2019, indicates that micro businesses' turnover fell by 20% during 2018-2019, small firms' turnover declined by 0.9%, while medium-sized enterprises increased their turnover by 3.4%. Sole traders demonstrated a 52% decline in their turnover in the year to 2019, based on provisional data from the Stats Wales site. Indicative data will be revised and included in the future QRs during 2020/21.

Figure 1.
SMEs in Wales by Size Band (% , 2019)



Source: Stats Wales, Business structure in Wales by size-band and measure (provisional data)

¹⁷ Bartik et al. (2020) How are small businesses adjusting to covid-19? Early evidence from a survey. Available at: <https://www.nber.org/papers/w26989.pdf>

¹⁸ Welsh Government data is published via the StatsWales platform. The Source document here is <https://gov.wales/sites/default/files/statistics-and-research/2019-12/size-analysis-active-businesses-2019-503.pdf>

The SME picture in Wales:

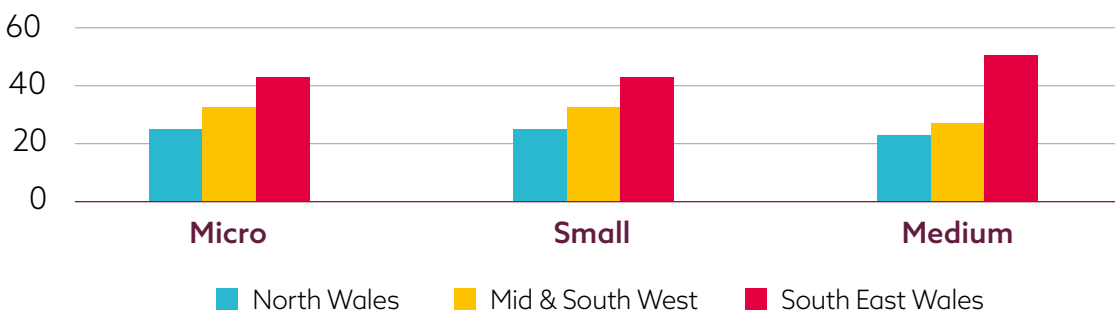
the initial impact of Covid-19 and the changing conditions shaping demand for finance

South East Wales had the highest concentration of SMEs in all size-bands in 2019.

Figure 2 shows that over 40% of Wales' micro, small, and medium firms are in South East Wales. In terms of the business stock in each Welsh region micro firms predominate. For

example, Mid and South West Wales recorded a 95.6% share of micro companies in their business stock, slightly higher than North Wales (95.4%) and South East Wales (95.2%).

Figure 2.
SME count in Wales, % by region and size band (2019)



Source: Stats Wales, Enterprises by size-band, area and year (provisional data)

The SME picture in Wales:

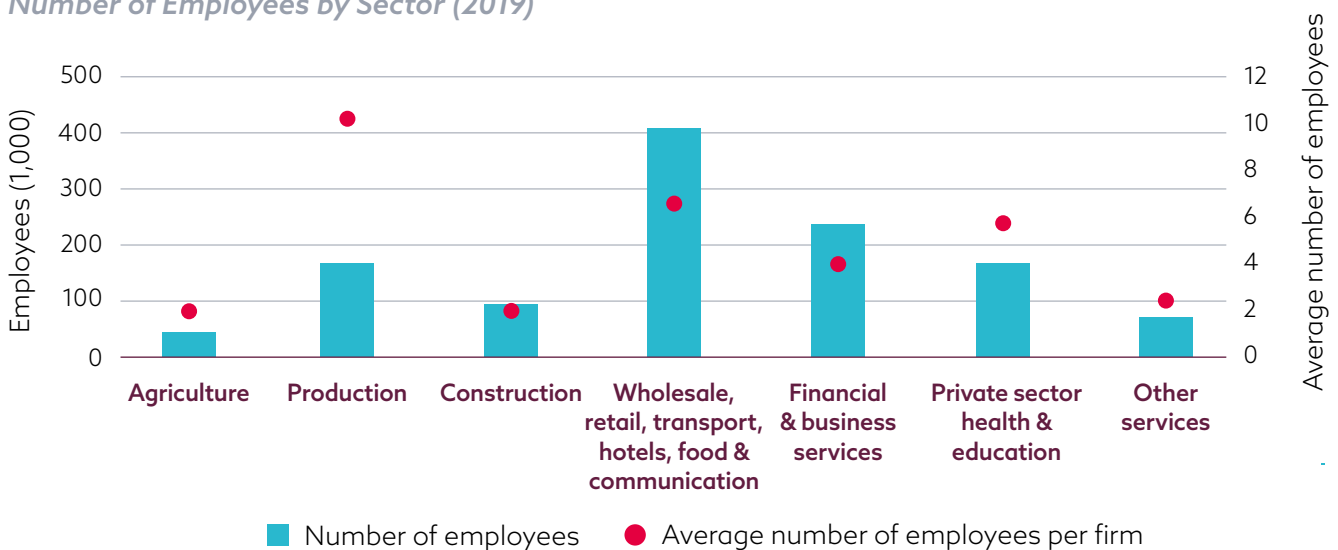
the initial impact of Covid-19 and the changing conditions shaping demand for finance

The wholesale/retail trade sector had the highest SME employment in 2019.

The effects of Covid 19 are expected to be sectorally uneven. Wales has a high concentration of SME employment in sectors such as wholesale and retail, transport, hotels and food, as well as communications (Figure 3). These sectors are expected to be worst affected by the pandemic, and the sectors most exposed through an elongated post-lockdown process. Figure 3 reveals that around 34% of 2019 employment in Wales was in wholesale, retail etc (400,000 employees), followed by financial and business services (227,000), private

sector health and education (172,000), and production (167,000). Moreover, in wholesale and retail the average employment per enterprise is less than 8 people. The Bevan Foundation's *Where Next for the Economy report*¹⁹ claims that the Covid-19 impact on Wales could be lessened by the significant contribution to Welsh GDP made by sectors perceived to be less affected such as education, health and public administration (24.5% contribution to GDP in Wales compared to 17.3% in the UK).

Figure 3.
Number of Employees by Sector (2019)



Source: Stats Wales, Enterprises by industry (SIC2007), size-band and area (provisional data)

¹⁹ <https://www.bevanfoundation.org/wp-content/uploads/2020/05/Economy-Briefing-Final.pdf>

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

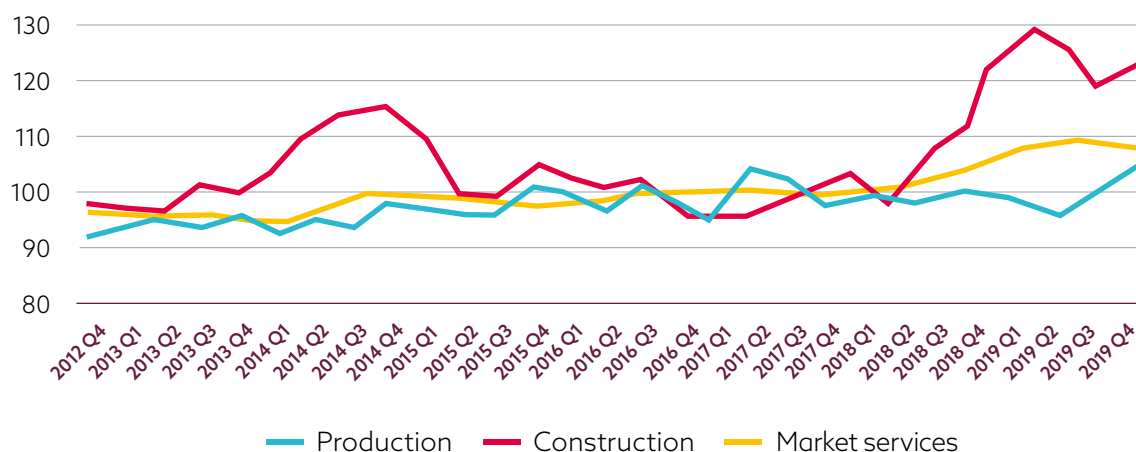
Slowing output growth in market services in 2019Q4.

Figure 4 shows the quarterly movement in the Welsh indices of output in production, construction and market services from 2012Q4 to 2019Q4. The index of construction sector output continued the growth achieved in 2019Q3 when it recovered after a quarter of negative growth. In 2019Q4, it was placed well above (by 26%) its 2016 base year index value.

The market services index in Wales declined for a second consecutive quarter following five consecutive quarters of positive growth. The production index for Wales has exhibited growth for a second consecutive quarter in 2019Q4. The production index was 4.5% above its 2016 base year index level in 2019Q4.

Figure 4.

Welsh output indices: trends 2012Q4 - 2019Q4 (2016 =100)



Source: Stats Wales, Welsh Indices of Production and Construction (2016=100) by section and year and Index of Market Services (2016=100) by year and area

Each of these output indices are expected to fall sharply in 2020. For example, early signs from *IHS Markit/CIPS*²⁰ show that the manufacturing Purchasing Managers' Index declined from 51.7 in February to 47.8 in March 2020 due to a fall in output and new orders.

²⁰ <https://www.markiteconomics.com/Public/Home/PressRelease/615ff58bd51c4d31b2ff0b4c851f2157>

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

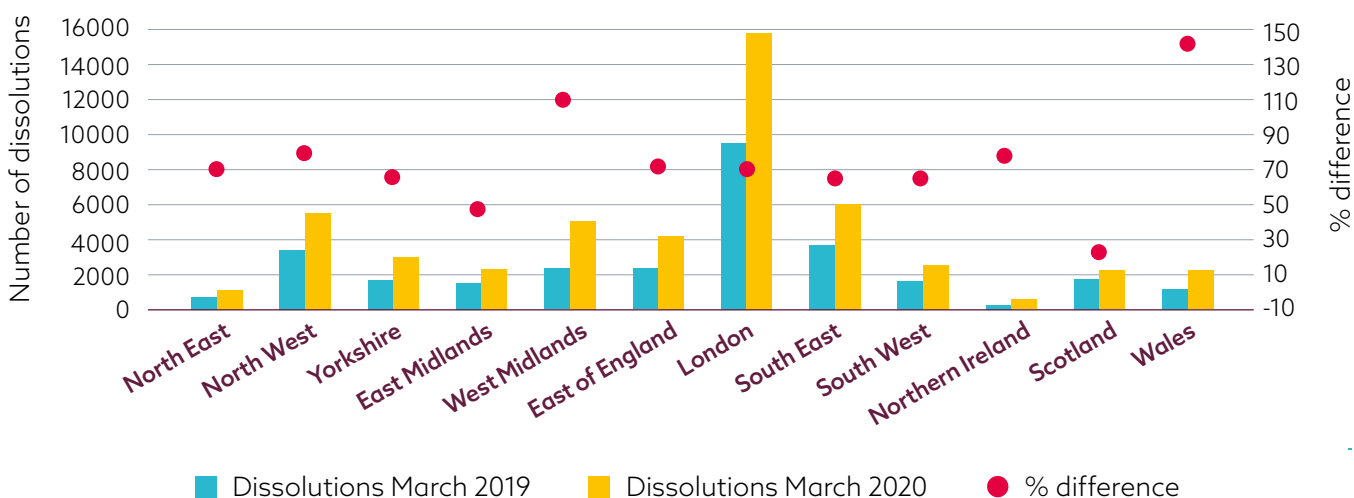
Wales saw the greatest annual % change in business dissolutions in March 2020.

According to analysis by the *Enterprise Research Centre*²¹ some 51,498 limited companies were dissolved during March 2020 (Figure 5). Comparing data from March 2020 to March 2019, the number of business dissolutions increased by 70% (21,206 more closures), with the number of start-ups declining by 23% (14,270 fewer). Whilst all sectors of economic activity experienced an increase in the number of dissolutions, transport

was the sector most severely hit seeing an increase of 194% in the year to March 2020.

While London saw the largest rise in dissolutions with a 67% rise (6,431) in March 2020, Wales was the region with the greatest annual percentage rise (140% rise or 1,377 more dissolutions). Wales also saw the fourth greatest percentage fall in incorporations among the UK regions i.e. a decline from 1,812 in March 2019 to 1,293 in March 2020 (-28%).

Figure 5.
Number of dissolutions year to March 2020



Source: Enterprise Research Centre

Five waves of the fortnightly ONS Business Impact of COVID-19 Survey were available at the time of writing this Annual Report. In what follows we reference different waves of the Survey in order to pick up on business effects at important stages during the Covid 19/lockdown process. According to the ONS Business Impact of COVID-19 Survey (the

five waves, fortnightly, from 9th March to 17th May)²², around 78% of SMEs surveyed in Wales had continued to trade during the first part of the pandemic (a similar rate to the UK average), with much of the remainder temporarily closing or temporarily pausing trading (21% or more than 20,000 firms).

²¹ <https://www.enterpriseresearch.ac.uk/uk-companies-facing-covid-19-pincer-movement-data-shows/>

²² <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybicsresults>

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

Less than 1% had permanently ceased trading. Most of the firms temporarily closed were in leisure, hospitality, wholesale and construction and with this in large measure an expected outcome of the lockdown. The Bevan Foundation's Where Next for the Economy

report estimates that the lowest rates of businesses temporarily closing were in South East Wales, with 21.4% of Newport businesses (the lowest) estimated to have been temporarily closed between 6th and 19th April, 22% in Cardiff and 31.7% in Gwynedd (the highest).

The initial impact of the Covid-19 pandemic.

According to the ONS Business Impact of COVID-19 Survey the turnover of SMEs interviewed has been badly affected (Figure 6). Since 20th April, 60% of UK SMEs reported a decrease in turnover, with one in four SMEs reporting a more than 50% contraction, with this rate falling to 25% of SMEs in the period between 4th and 17th May. The most affected industries in the period from 6th to 19th April were construction (81% of surveyed SMEs reported a fall in turnover), leisure (80%), transportation (74%), hospitality (68%) and wholesale (64%).

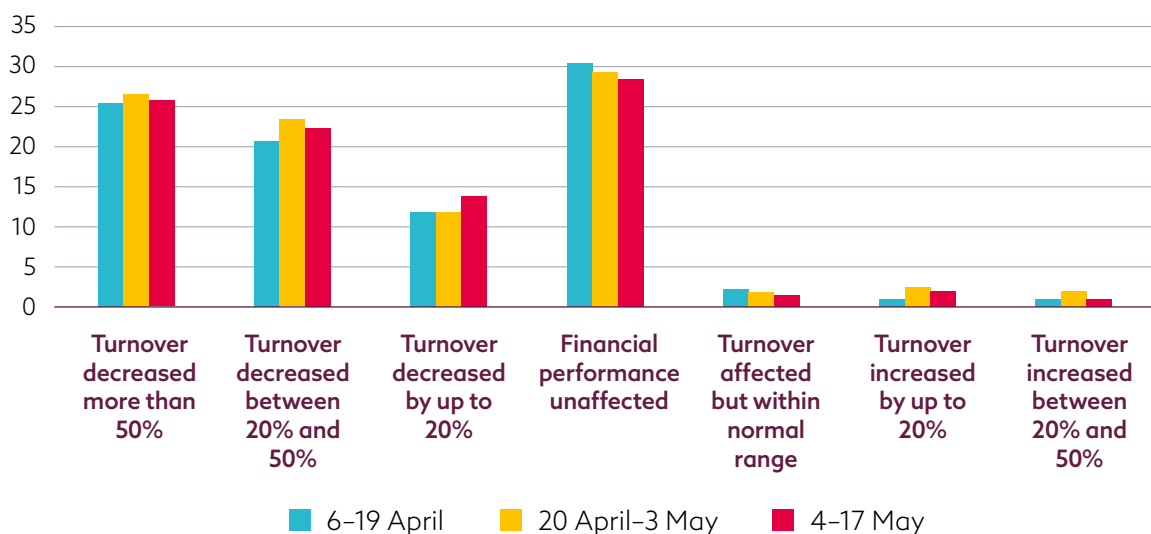
In the periods from 20th April to 3rd May and 4th to 17th May, the picture was little changed.

SME growth ambitions fall

According to the *BVA BDRC SME Finance Monitor*, the proportion of SMEs that have plans to grow declined from 52% in January to 34% in April 2020.

Figure 6.

Change in UK enterprise's turnover during the previous two weeks



Source: ONS Business Impact of COVID-19 Survey

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

SME concerns about the economic climate increase.

According to the *BVA BDRC SME Finance Monitor*,²³ the proportion of SMEs that were concerned about the current economic climate increased from 18% in January to an all-time high of 35% in April 2020. Political uncertainty and cash flow/late payment concerns also increased (from 21% to 24% and from 13% to

16% of respondents respectively). Concerns about the current economic climate rose more for self-employed (from 18% to 35% of self-employed respondents), micro firms (from 19% to 37%) and small companies (from 14% to 31%) rather than medium-sized businesses (from 20% to 26%).

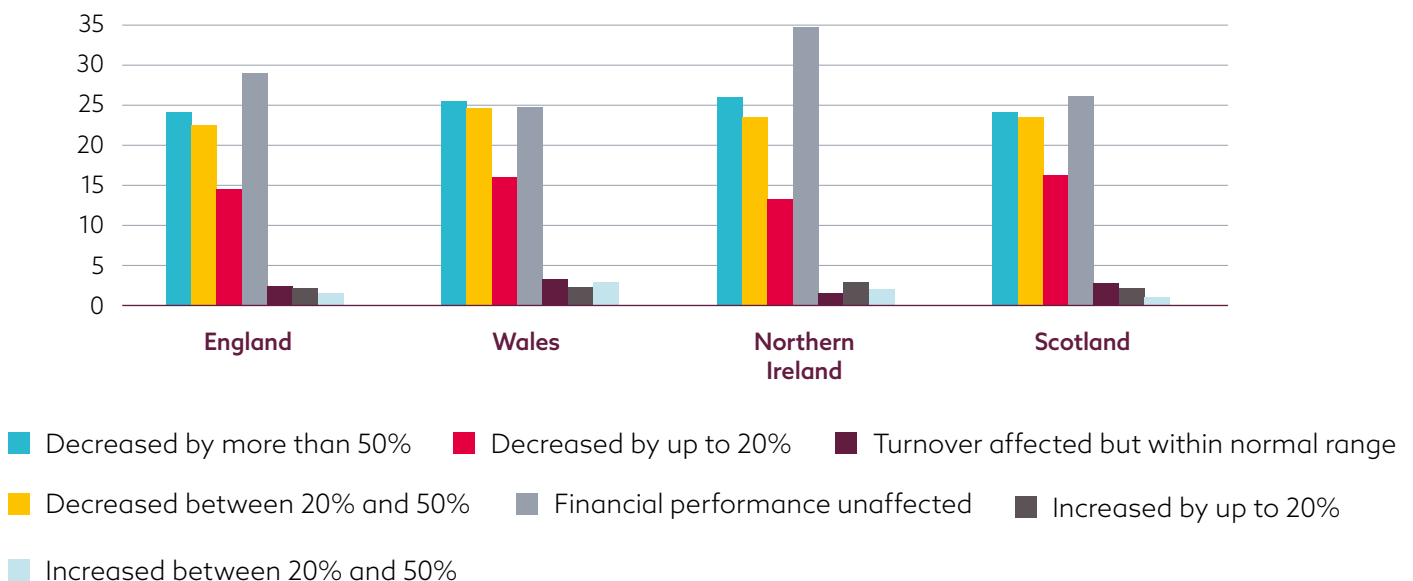
SMEs in Wales are reported as the most vulnerable across the UK devolved administrations.

The ONS Business Impact of COVID-19 Survey for the period between 20 April and 3 May showed that 66% of Welsh SMEs had seen a fall in turnover, followed by Northern Ireland

(62%). In three survey periods (fortnights 6-19 April, 20 April-3 May, 4-17 May), Wales recorded the lowest share of SME respondents that reported an unaffected financial performance.

Figure 7.

Change in enterprise's turnover during the previous two weeks across the UK countries and devolved administrations, SMEs surveyed between 20 April and 3 May



Source: ONS Business Impact of COVID-19 Survey

²³ <http://www.bva-bdrc.com/wp-content/uploads/2020/05/SME-Monthly-charts-April-FINAL.pdf>

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

3

Tourism and hospitality in Wales severely affected.

The *Welsh Government Tourism Barometer*²⁴ indicated that the sector has faced cancellations of bookings, with an average loss of 20% of the normal revenue for the whole financial year for firms surveyed between 22 April to 1 May 2020. In Wales, 53% of respondents had lost up to 20% of their normal revenue. Around 70% of firms interviewed between 22 April and 1 May 2020 had put at least one worker on paid leave or furlough (a significant increase from the 50% of firms surveyed between 26 and 31 March 2020). From 22 April to 1 May 2020, 80% of businesses interviewed in North Wales had furloughed staff, 72% in South East Wales, and 64% (on average) in Mid and South West Wales.

On average, 8 employees per surveyed tourism and hospitality firm were put on paid leave or furloughed, while only 0.1 worker per surveyed firm were made redundant, suggesting that the Coronavirus Job Retention Scheme had kept layoffs at a low level in hospitality and tourism in Wales to date. The tapering of this scheme presents an issue for 70% of businesses using paid leave or furlough, with firms in the sector facing critical decisions in the July-August period on how far to reopen facilities fully while the economy adapts.

²⁴ <https://gov.wales/tourism-barometer-coronavirus-covid-19-impact-survey>

The SME picture in Wales:

the initial impact of Covid-19 and the changing conditions shaping demand for finance

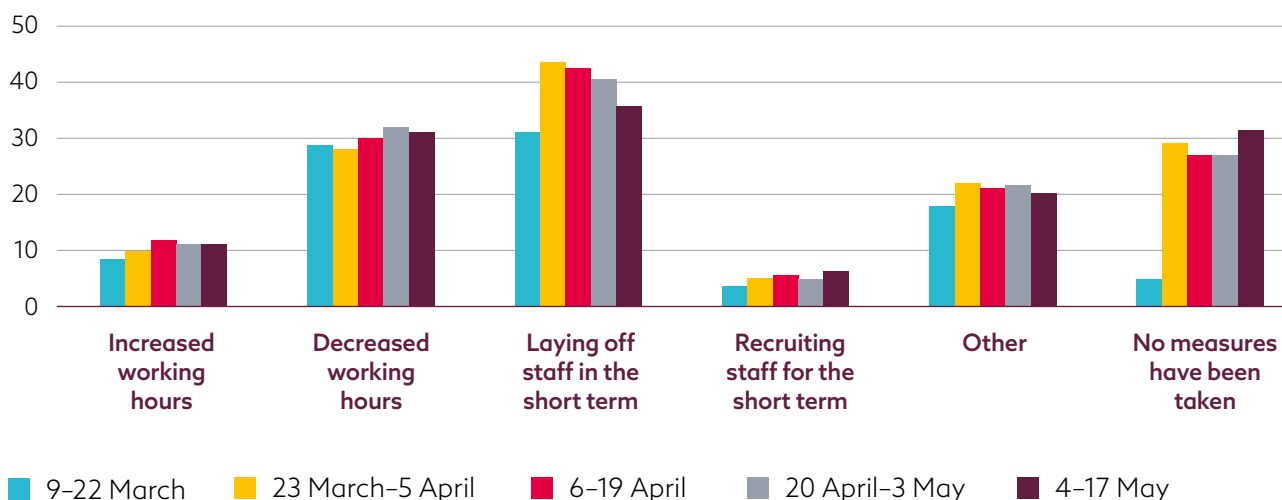
SMEs reacted by defensive and offensive strategies.

Many small business employers have sought to cope with the economic contraction by rearranging overdraft and loan repayments, seeking government support, and cutting costs. According to the *ONS Business Impact of COVID-19 Survey*, most respondents had resorted to short term lay-offs and reductions in working hours (Figure 8).

Some others have implemented more proactive strategies. According to the *FSB New Horizons*²⁵ survey 40% of respondents had decided to increase the use of digital technologies and their online presence, with 35% seeking to change their business practices to accommodate working from home.

Figure 8.

Measures taken by SMEs to cope with the impact of COVID-19 on their workforce



Source: ONS Business Impact of COVID-19 Survey

Clearly the effects of the pandemic are more severe in sectors of the economy that faced strictest lockdown measures and that are related to non-essential production. The above review suggests that the operation

of firms in hospitality, tourism and transport is most severely disrupted, while food processing and pharmaceuticals, together with non-market services are less affected.

²⁵ <https://www.fsb.org.uk/resource-report/new-horizons.html>

Increase of demand for cashflow and credit.

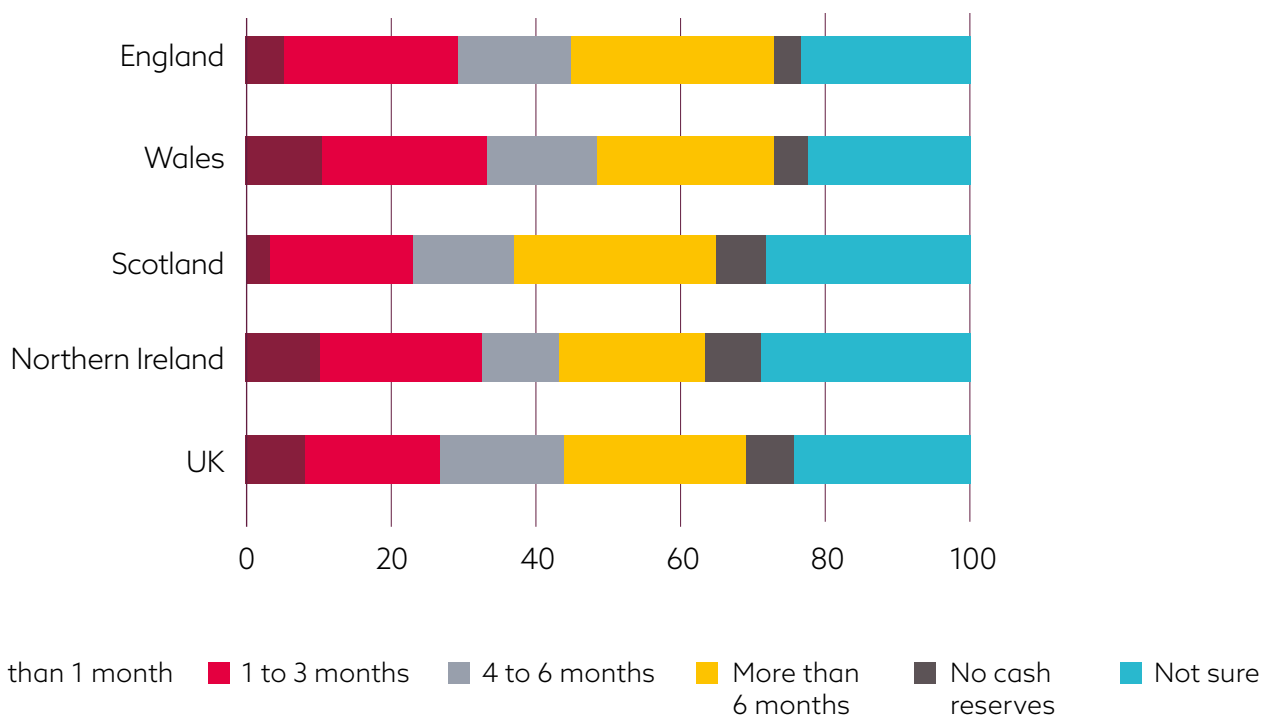
Loan and finance conditions for Welsh SMEs have been quickly evolving as a result of the Covid-19 response.

The demand for cash flow credit facilities has increased sharply according to the *Bank of England Agents' summary of business conditions*.²⁶ Figure 9 shows that one out

of four firms (26.4%) surveyed in the *ONS Business Impact of COVID-19 Survey* in the UK had either no cash reserves or cash flow remaining for up to 3 months. It is unlikely that the information in Figure 9 fully reflects the impacts of government interventions to support business through the crisis.

Figure 9.

How long do you think your enterprise's cash reserves will last?
SMEs surveyed between 4 and 17 May



Source: ONS Business Impact of COVID-19 Survey

²⁶ https://www.bankofengland.co.uk/agents-summary/2020/2020-q1?utm_source=Bank+of+England+updates&utm_campaign=0bf45745c6-EMAIL_CAMPAIGN_2020_03_26_09_31&utm_medium=email&utm_term=0_556dbefcdc-0bf45745c6-113443741

The FSB *Small Business Index Report* revealed that the rate of small businesses applying for credit increased in 2020Q1 by 2.1%, with the proportion of successful applications at 67%, rising by 3.6% compared to 2019Q4. It is noted that this period precedes, in large measure, the Covid 19 crisis. Moreover, the rate of successful applicants that were offered an interest rate below 4% declined by 10% in 2020Q1 compared to the 2019Q4. The *Deloitte Chief Financial Officers Survey*²⁷ reports that the Covid-19 turmoil has resulted in a sharp increase in demand for credit and a renewed focus on corporate leverage.

Finally, the *BVA BDRC SME Finance Monitor*²⁸ reported that future appetite for finance has increased across all SME firm size bands in the 3 months to April 2020. The proportion of SMEs interviewed that had stated plans to apply for external finance increased from 8% in January to 15% in April 2020. The greatest rise was observed in medium-sized firms (from 7% to 17%) and self-employed (from 6% to 14%). Micro and small businesses exhibited smaller increases (from 14% to 20% and from 12% to 18%, respectively).

...but some reluctance to apply for credit, despite the fall in interest rates.

Notwithstanding some firms have shown a reluctance to actually apply for loans because of fears of being unable to repay as a result of the pandemic.²⁹ However, credit remains more easily available and cheaper than in the peak of the 2008/09 financial crisis. The strength of the banking system and the policy interventions to combat the Covid-19 effects have influenced this. Figure 10 reveals

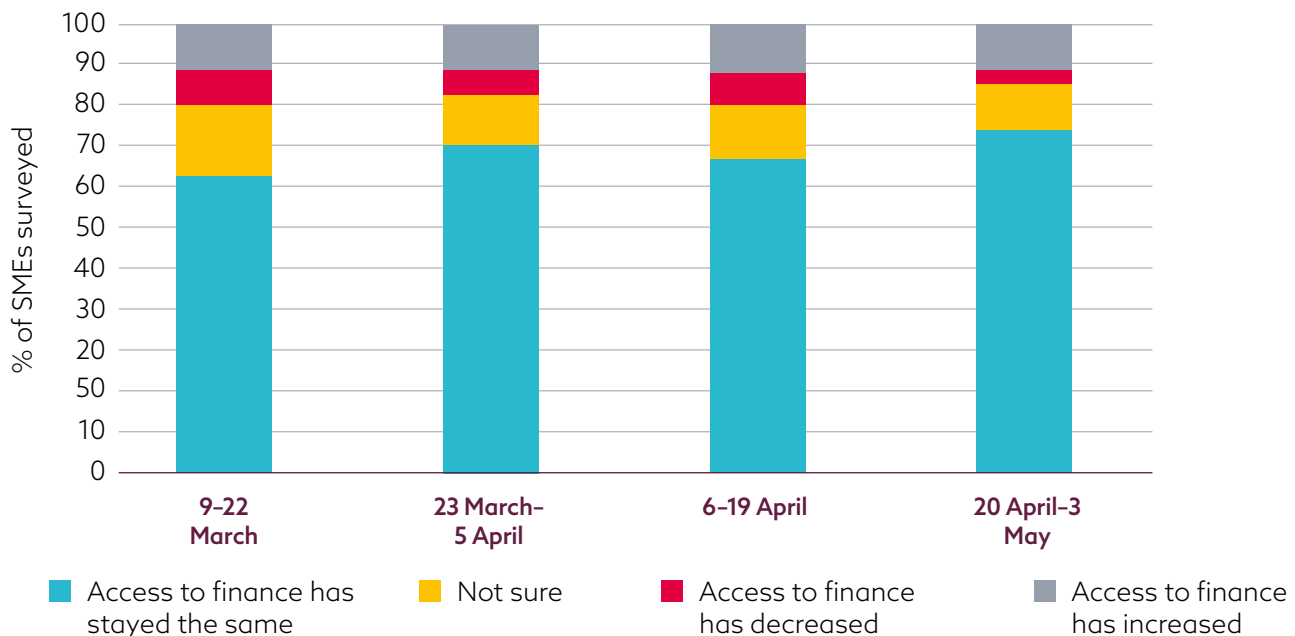
that while access to financial resources has remained unchanged for the vast majority of SMEs responding to the ONS Business Impact of COVID-19 Survey, the share of SMEs surveyed reporting that access to finance has decreased has fallen from 8.8% in 9-22 March to 4.7% in 20 April-3 May, and this likely to be a reflection of government intervention in April.

²⁷ <https://www2.deloitte.com/uk/en/pages/finance/articles/deloitte-cfo-survey.html>

²⁸ <http://www.bva-bdrc.com/wp-content/uploads/2020/05/SME-Monthly-charts-April-FINAL.pdf>

²⁹ <https://gov.wales/tourism-barometer-coronavirus-covid-19-impact-survey>

Figure 10.
Change in enterprise's ability to access financial resources



Source: ONS Business Impact of COVID-19 Survey

The use of external finance by SMEs interviewed in the *BVA BDRC SME Finance Monitor*³⁰ declined from 38% in January to 30% in April 2020. This was driven mainly by the fall in the use of external finance by

the self-employed and medium-sized firms. Amid the tightening business conditions, the proportion of SMEs that had injected personal funds (internal finance) increased from 19% in January to 27% in April 2020.

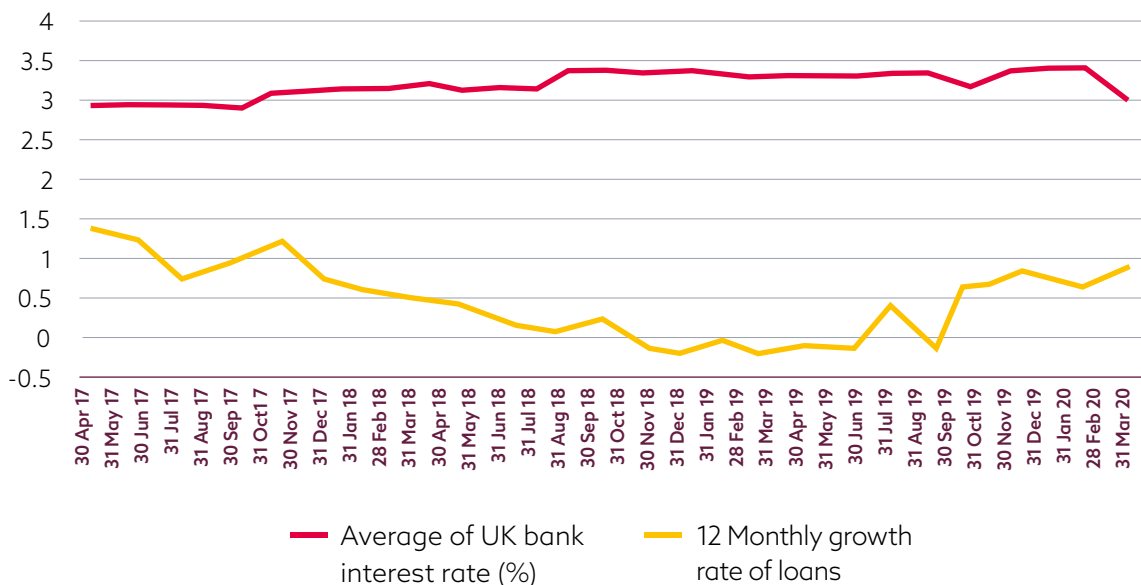
Interest rates on UK SME loans fell to their lowest since October 2017.

With revenues falling due to the poor trading conditions, the risk of default increases, which could result in an increase in the cost of bank borrowing. The Bank of England reduced the interest rate to 0.1% in March 2020, seeking to lower the cost of borrowing for businesses. Consequently, the average

interest rates on UK SME loans declined from 3.36% at the end of February to 3.01% at the end of March 2020. This is the lowest level of interest since October 2017 (2.91%). The annual change in loans provision increased from 0.7% in January to 1.1% in March 2020.

³⁰ <http://www.bva-bdrc.com/wp-content/uploads/2020/05/SME-Monthly-charts-April-FINAL.pdf>

Figure 11.
Interest rate on UK SME loans, and growth rates of loans



Source: Bank of England

Critical policy interventions by the UK and Welsh governments to support businesses.

In addition to the Coronavirus Job Retention Scheme that supported both businesses and workers, several financial initiatives were launched to combat pandemic effects.

For example the Coronavirus Business Interruption Loan Scheme (CBILS) is available to SMEs for loans of up to £5m. Administered by the British Business Bank, it focuses on supporting smaller firms, with funding provided by more than 40 private lenders, including private banks and investment groups, who will benefit from a government guarantee. Up to 14th June, 49,250 facilities were approved with a total value of £10.11bn.³¹

The *Bounce Back Loan Scheme (BBLs)* was launched after concerns that CBILS could not be reached by the vast majority of SMEs due to the low level of guarantee provided by the state, the need for firms to provide forecasts, the speed of application processing, and subjective criteria covering business viability.³² Under the BBLs, SMEs can borrow from £2,000 up to 25% of their turnover, with the maximum loan available at £50,000. The UK government provides lenders with a 100% guarantee and covers the first 12 months of interest payments. Thereupon, the interest rate is set at 2.5% per annum. Demand for BBLs has

been extremely high and for some this revealed the importance of a 100% state-guarantee scheme with faster application processing.³³ For example on the opening day of BBLs, Lloyds Bank announced that it loaned more than £1bn to 32,000 SMEs.³⁴ Up to 14th June, 863,500 facilities for the BBLs (almost twenty times the facilities related to CBILs) were approved with a total value of £26.3bn. The UK Government guarantee against loans extended to many firms through British Business Bank BBLs and CBILs schemes has fundamentally changed the risk appetite of mainstream lenders opening the way for businesses to access finance.

The Future Fund, delivered by the British Business Bank, provides convertible government loans ranging from £125,000 to £5m to innovative firms that are being impacted by Covid-19. The loans are subject to at least equal match funding from private investors. Finally, the UK Government announced that all VAT payments are deferred for three months from 20th March, and with the Bank of England announcing on 18th June that a further £100bn would be pumped into the UK economy.

All these interventions have implied significant changes in UK public finances. Borrowing in April 2020 increased by 464% annually, from £11bn in April 2019 to £62bn.³⁵ This implied the largest annual increase in public debt as a share of GDP since records began in March 1993. Public debt increased by £118.4m (17.4%) from £1,769bn in April 2019 to £1,887bn in April 2020 (or nearly 98% of GDP).

The Welsh Government has also intervened to help businesses. The *Welsh Government's Economic Resilience Fund* opened for applications on 17th April, seeking to provide financial support during the Covid-19 pandemic and will help organisations to manage cash flow pressures. It was paused on 27th April following a very high level of applications.

As part of the Welsh Government's Economic Resilience Fund, the Development Bank of Wales launched the £100m *COVID-19 Wales Business Loan Scheme* on 30th March to support businesses experiencing cash flow difficulties. Moreover, the Development Bank of Wales offered a 3-month capital and monitoring fee repayment holiday for existing borrowers, to help them cope with the impact of Covid-19.

The total value of financial support in Wales offered stands at £1.35bn as of 15th June 2020.³⁶ From this, £696m was related to the business rates grants scheme, that was launched by the UK Government and £235m was linked to the Economic Resilience Fund, while the Development Bank of Wales received 1,608 applications for the newly established Covid-19 Wales Business Loan Scheme. The latter was fully subscribed one week after its launch.

³¹ <https://www.gov.uk/government/collections/hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics>

³² <https://www.fsb.org.uk/resources-page/government-urged-to-up-80-guarantee-on-smallest-emergency-business-loans-as-average-value-tops-170-000.html>

³³ <https://www.iod.com/news-campaigns/news/articles/New-figures-show-need-for-coronavirus-loan-scheme-changes>

³⁴ <https://www.reuters.com/article/us-health-coronavirus-britain-lloyds-idUSKBN22H1XI>

³⁵ <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/april2020>

³⁶ <https://gov.wales/summary-data-about-coronavirus-covid-19-and-response-it-8-june-2020>

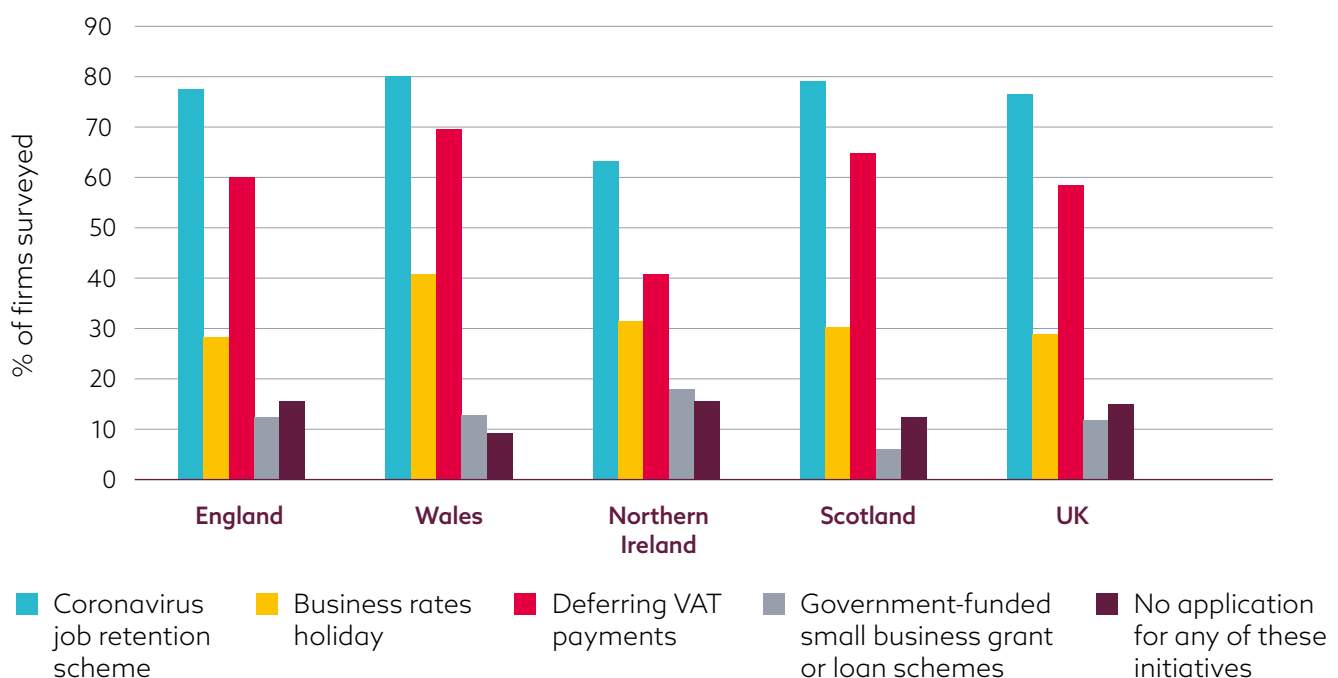
Wales had the highest rate of applicants to the UK Government Schemes.

The ONS Business Impact of COVID-19 Survey indicated that the majority of respondents had applied for the Coronavirus Job Retention Scheme. Between 6th and 19th April, Wales recorded the highest rate of firms surveyed having applied for the scheme (73.8%, UK average was 67%), with this rate increasing to almost 80% in the following fortnight (again Wales had the highest rate in the UK, with the national average increasing to 76%). Between 4 and 17 May, Wales demonstrated the second highest rate of firms having applied for the Coronavirus Job Retention Scheme with 80.1% (Scotland 81.8%, England 79.8% and Northern Ireland 74.5%).

With business rate relief Wales also saw the highest rate of applicants (39% in 6-19 April, and 41% in 20 April-3 May, with the UK average standing at 27% and 29% respectively). Wales also had the highest rate of applicants for VAT payments deferrals, with 65% from 6th to 19th April (UK average was 56%), and 69% from 20th April to 3rd May (UK average was 59%). Conversely Wales presented the lowest rate of firms surveyed that did not apply for any of the government initiatives (13% in 6-19 April, 9% in 20 April-3 May, 15% in 4-17 May).

Figure 12.

Applications by firms surveyed to government support packages to cope with COVID-19, firms surveyed 20 April to 3 May



Source: ONS Business Impact of COVID-19 Survey

The Welsh Government's Tourism Barometer reported that 48% of tourism industry firms interviewed between 20th April and 3rd May 2020 had applied for the Welsh

Government's Economic Resilience Fund, with 11% of applications reported as unsuccessful. Around 60% of respondents had applied for the business rate grant of up to £10,000.

Equity investment is at stake...

Apart from the tightening of credit conditions and the subsequent government support packages, investment capital is also affected by the pandemic. According to Beauhurst, and related to the 29,000 firms on its database³⁷, some £18.9bn of equity investment is at risk, while 22% of jobs in high-growth firms are at risk because 65% of scale-up firms are under threat of decline or closure. Beauhurst confirms the significant impact on leisure and retail. 'Tech' firms facilitating remote

working, appear to be less vulnerable, with this seen to be 'benefiting' the Greater London area in particular. Wales, Scotland and Northern Ireland had the highest rate of severely and critically impacted firms in their regional business stock, with the low level of technology and equity investment possibly affecting this finding, since companies having received equity investment are overall less likely to be negatively affected by Covid-19.

...after a period of significant growth of small business equity finance markets.

The turbulence in investment capital markets comes after significant growth of small business equity markets. According to Small Business Finance Markets 2019/20³⁸, from 2014 to 2018,

the value of smaller firms' equity finance rose by 131% to £6.7bn, despite persistent low demand for equity finance products.

³⁷ <https://about.beauhurst.com/research/covid19/>

³⁸ <https://www.british-business-bank.co.uk/research/sbfm/>

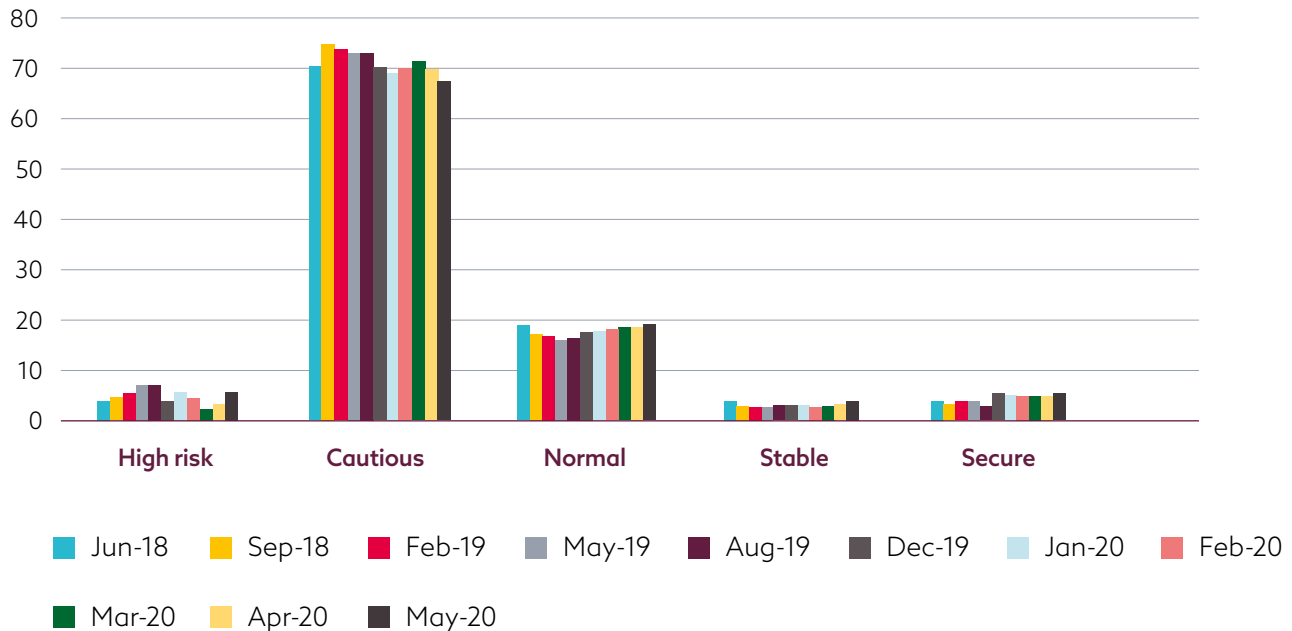
Increase in High credit risk Welsh SMEs.

The impacts of the early 2020 economic slowdown and then possibly the Covid-19 crisis are beginning to be exhibited in credit risk ratings. Figure 13 shows changes in the credit rating of Welsh SMEs from the beginning of this year to May 2020, and reveals an increase of firms in the High Risk group. The share of SMEs in the High Risk category significantly declined from 5.8% in January to 2.5% in March 2020 (the lowest ever recorded in EIW

reports). However, it recorded a sharp rise from March to May, reaching the January 2020 level (5.8%). The Cautious category declined in the same period, with the share of SMEs falling in this group falling from 71% in March to 66% in May 2020. A stable monthly increase in Normal, Stable and Secure SMEs categories was recorded in for all the months in 2020. Overall, the picture seems mixed.

Figure 13.

Proportion of SMEs by Credit Risk in Wales (%), June 2018 – May 2020



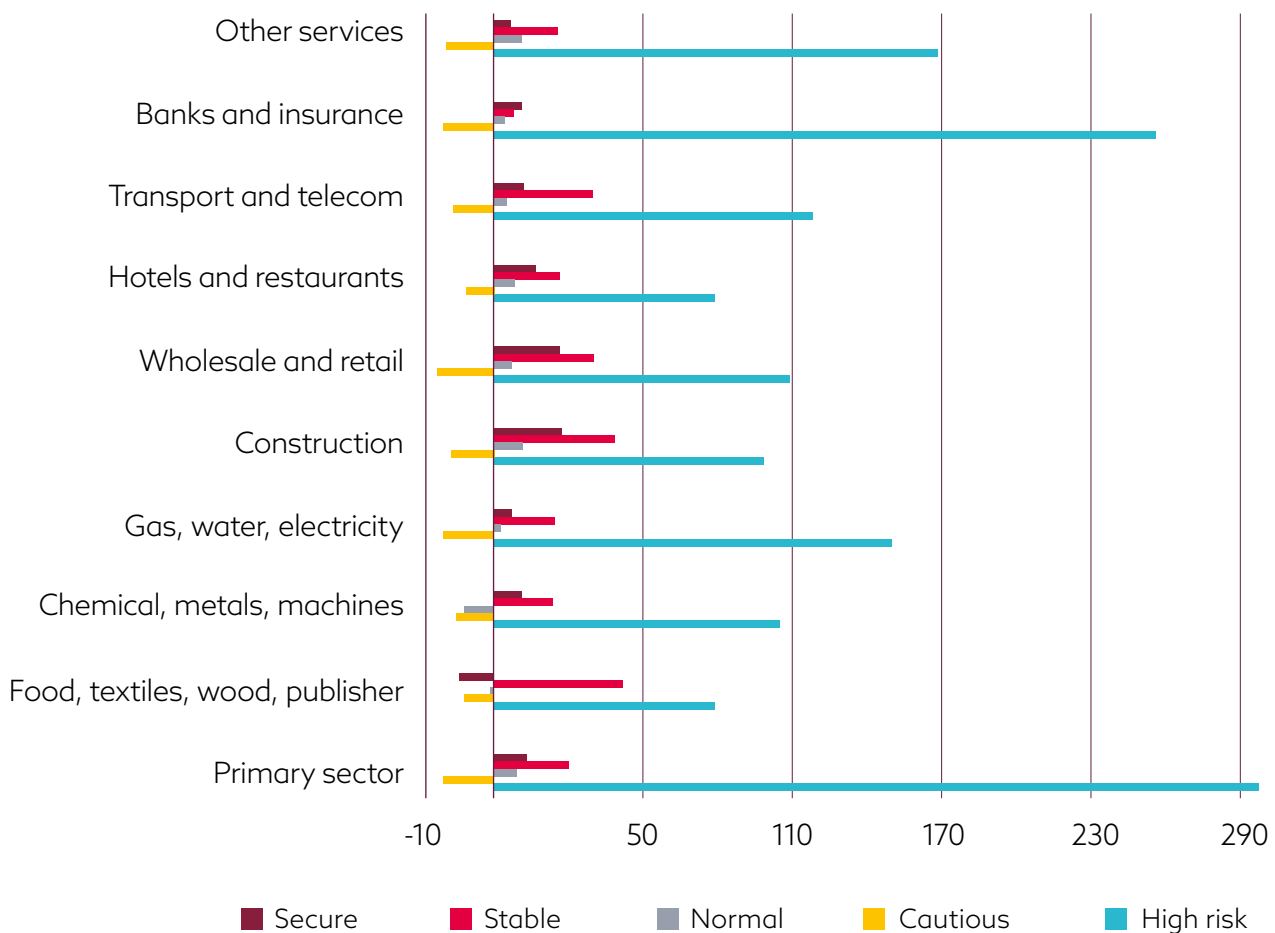
Source: FAME, Bureau van Dijk

Figure 14 reports how the proportions of SMEs in the different risk categories and sectors changed from March to May 2020. Note here that Figure 14 reveals very little about the relative size of the sectors involved. All the sectors exhibited a rise in the share of SMEs falling in the High Risk category, with the greatest increases recorded in the primary sector and various services branches (banks and insurance, education, health), gas, water and electricity, as well as transport and telecommunication. Construction and wholesale and retail recorded the greatest

increase in the Secure category. The only category that recorded a decline in all the sectors was the Cautious, with this reflecting the mixed picture related to credit risk changes of Welsh SMEs during the first half of 2020. It is expected that some of the credit risk assessment here relates to annual financial reports available in the first quarter. This means that the underlying situation with respect to changes in the number of firms in different credit risk categories as a result of the Covid 19 pandemic will be slow to emerge.

Figure 14.

% Change in proportion of SMEs by Credit Risk and Sector in Wales between March and May 2020



Source: FAME, Bureau van Dijk

This section summarises Development Bank of Wales' investments in 2019/20 Q4 and examines the annual activity of the Bank. All the data in this section has been derived from the Development Bank of Wales' database.

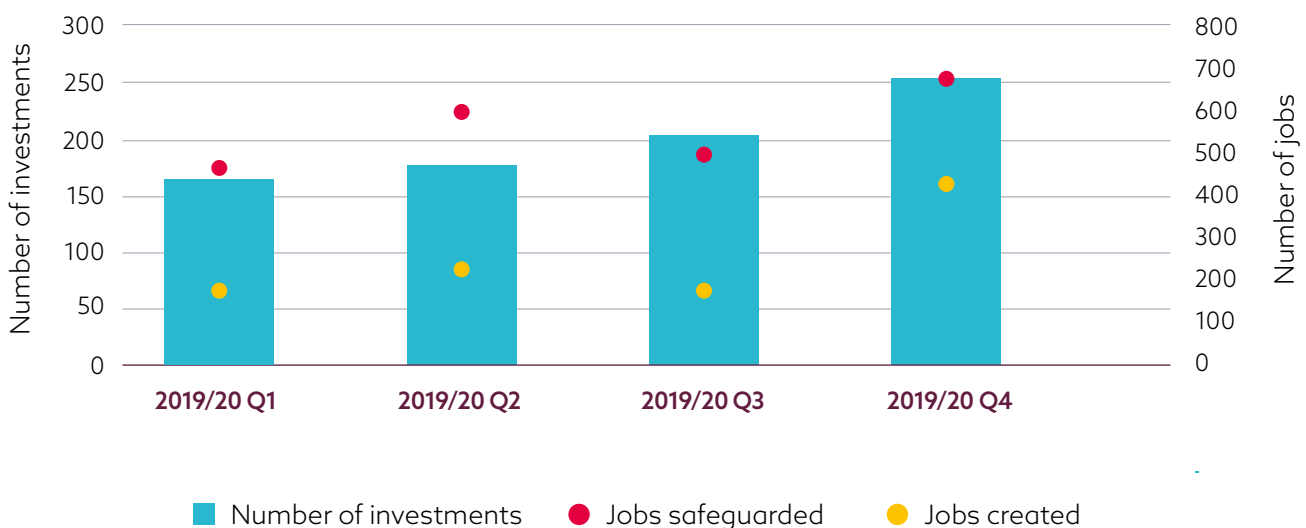
256 investment transactions in 2019/20 Q4.

The Development Bank made 256 investment transactions in 2019/20Q4, up from 148 in 2019/20Q1, 178 in 2019/20Q2 and 203 in 2019/20Q3 (Figure 15). The total investment value in Q4 was £33.6m, up from £26.9m in 2019/20 Q3, £21.9m in 2019/20 Q2 and £21.1m in 2019/20 Q1. The average investment amount

was similar to that in the three previous quarters of 2019/20 (£130,000). The 256 investments in 2019/20 Q4 created or safeguarded 1103 jobs, up from 658 in 2019/20 Q3, 590 in 2019/20 Q1 and 446 in 2019/20 Q2 (4.3 jobs per investment).

Figure 15.

Investment transactions and Jobs created and safeguarded, 2019/20Q1 - 2019/20Q4



Development Bank of Wales' total cumulative investment at the end of 2019/20 reached £689m...

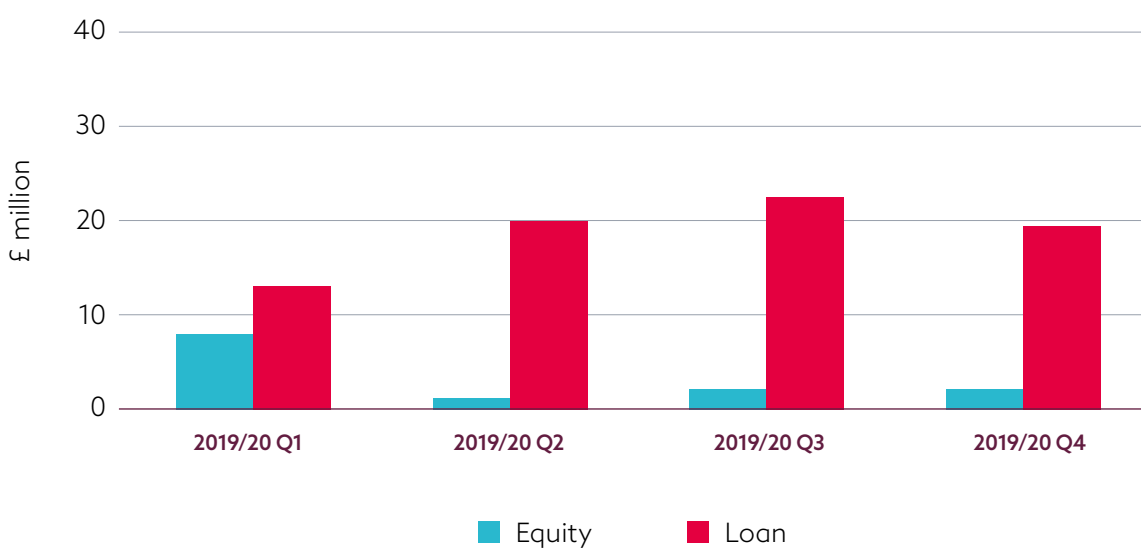
...up from £586m to the end of 2018/19, with new investments of £103m in 2019/20. Loans accounted for 58% of this total, with equity investments representing 27%, and mezzanine the remaining 15%.

Strong growth in loan investment.

Loan investment amounted to £29.7m, up from £23.3m in 2019/20Q3 and £20m in 2019/20Q2, increasing for a third consecutive quarter (Figure 16). Equity investment slightly increased from £3.6m in 2019/20Q3 to £3.9m in 2019/20Q4.

Figure 16.

New Investment by Investment Type (£m), 2019/20 Q1 - 2019/20 Q4

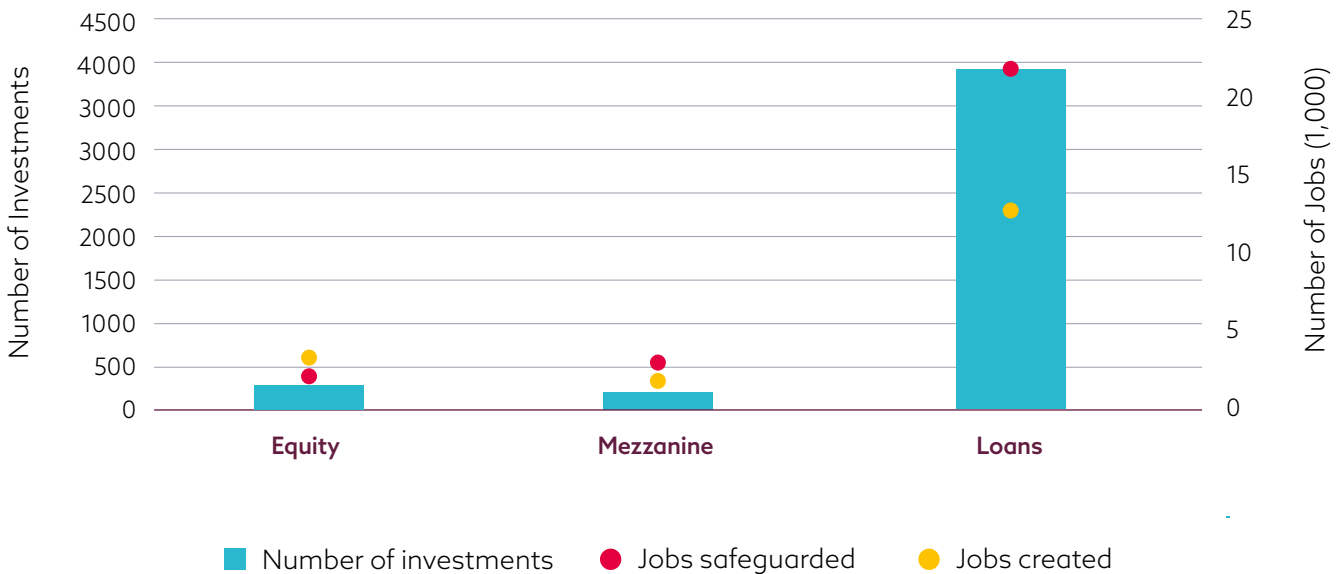


By the end of the 2019/20 financial year, 3,930 loan investments have been made.

...with these loans linked to activity that has created an estimated total of around 12,800 jobs, whilst safeguarding around 21,830 (Figure 17). More than 340 investments were equity related, creating over 3,280 jobs and safeguarding around 2,330.

Figure 17.

Cumulative Number of investments and New/Safeguarded Jobs to the end of 2019/20



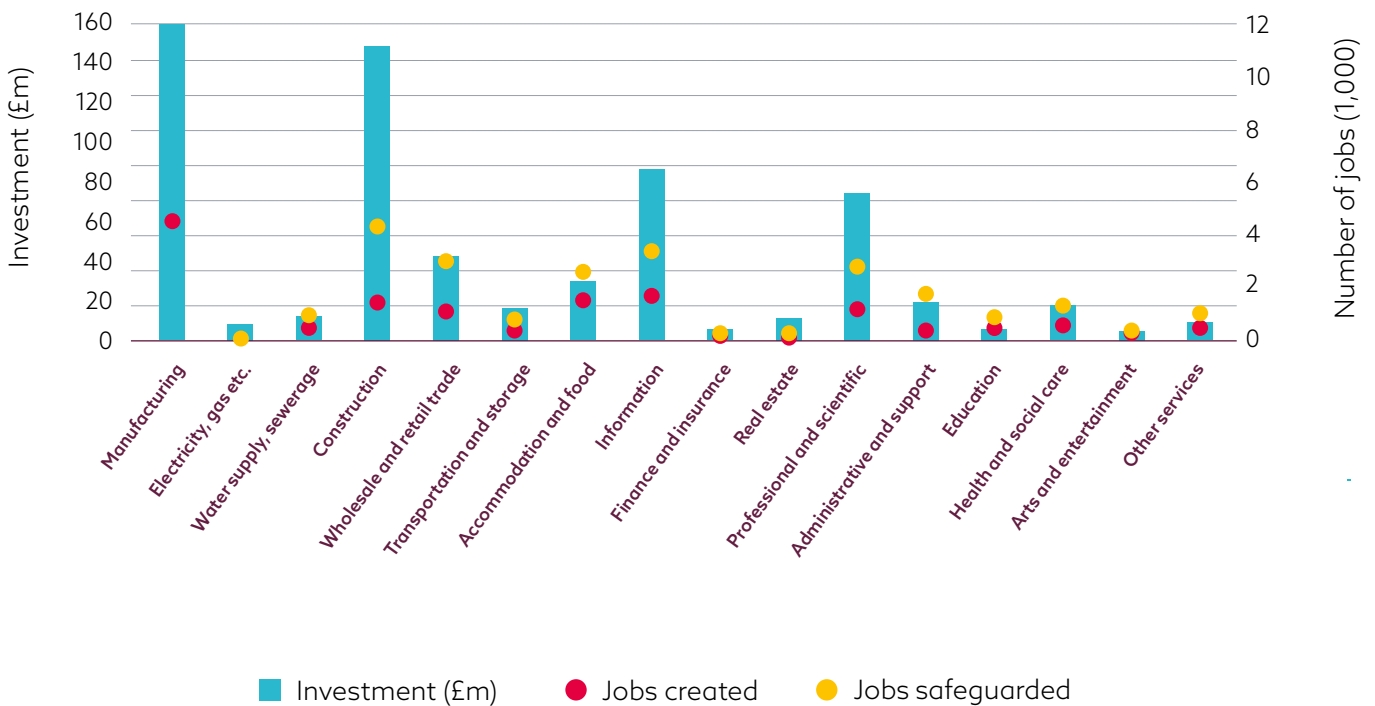
Most investments have been made in manufacturing by the end of 2019/20.

Manufacturing has been the main recipient of Development Bank of Wales' cumulative investment (£159m), followed by construction and ICT sectors (Figure 18). During 2019/20, construction received the majority of investment (£41m), creating or

safeguarding 430 jobs, reflecting the increasing property focused funds. This is followed by professional and scientific activities (£11.8m investment and 270 jobs), and manufacturing (£11.7m investment with 750 jobs).

Figure 18.

Cumulative investment value and Jobs by sector to the end of 2019/20



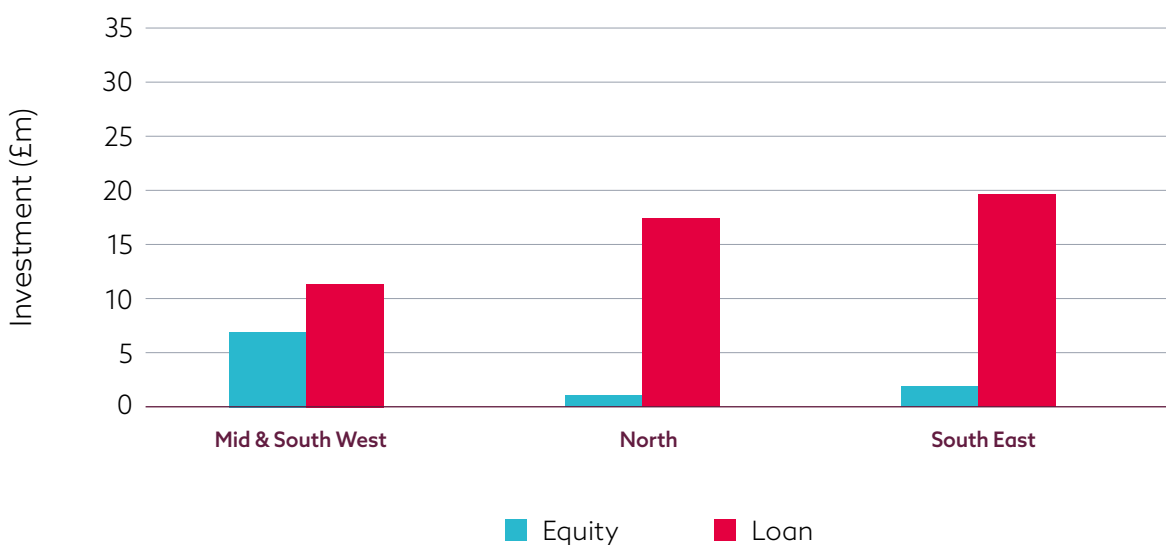
In 2019/20, businesses in South East Wales received most of the investments made by DBW.

Similar to 2018/19, businesses in the South East region accounted for the largest share of all investment types in 2019/20 (Figure 19). Businesses in the South East received loans of £31.3m and £7.4m of equity. Businesses in Mid

and South West received £28.4m in loans and £6m in equity, with businesses in North Wales receiving £27.6m in loans and £2.7m in equity.

Figure 19.

Investment by Location (£m), 2019/20



Loans make up the majority of investments in all locations by the end of 2019/20 financial year (Figure 20). Particularly, businesses in South East have received in £197m in loans and £111m in equity, businesses in

Mid and South West £111m in loans and £54m in equity, and businesses in North Wales £93m in loans and £25m in equity.

Figure 20.

Cumulative Investment by the end of 2019/20 by Location (£m)



2019/20 was a record year in terms of the value of direct investment and SMEs receiving investment, with private sector leverage decreasing.

In 2019/20, the value of direct investment totalled £103m and private sector leverage was £76m. This was an all-time record amount of investment in a year for the Development Bank of Wales. Both new investment and private sector leverage have trended upwards since 2011/12, with the exception of 2017/18 and 2019/20 for private leverage (Figure 21).

Figure 21.
Investments and Private Sector Leverage by financial year (£m)

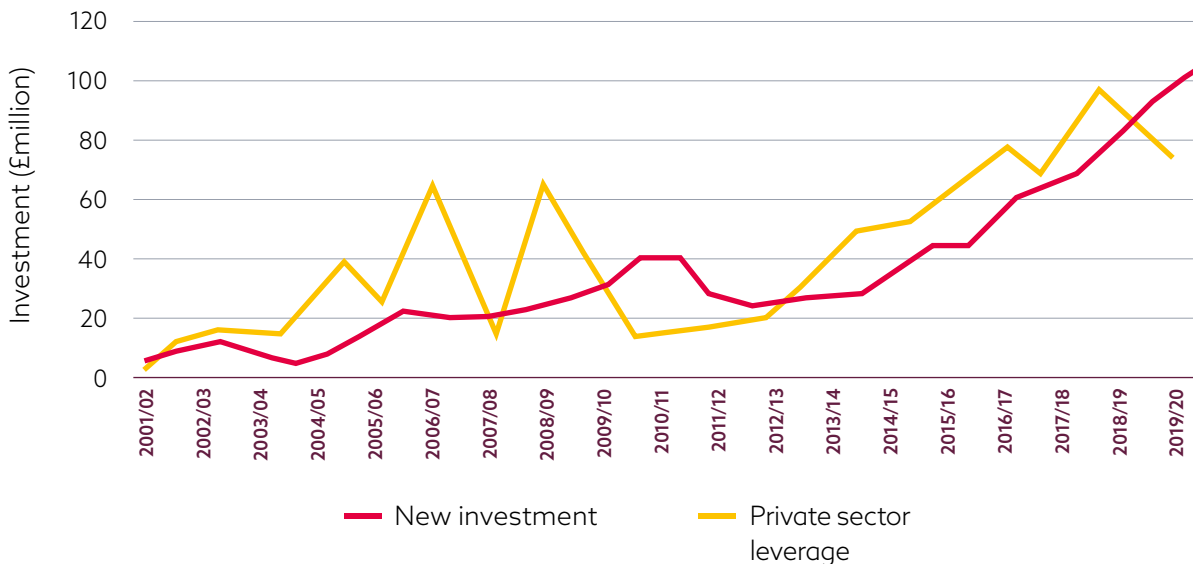
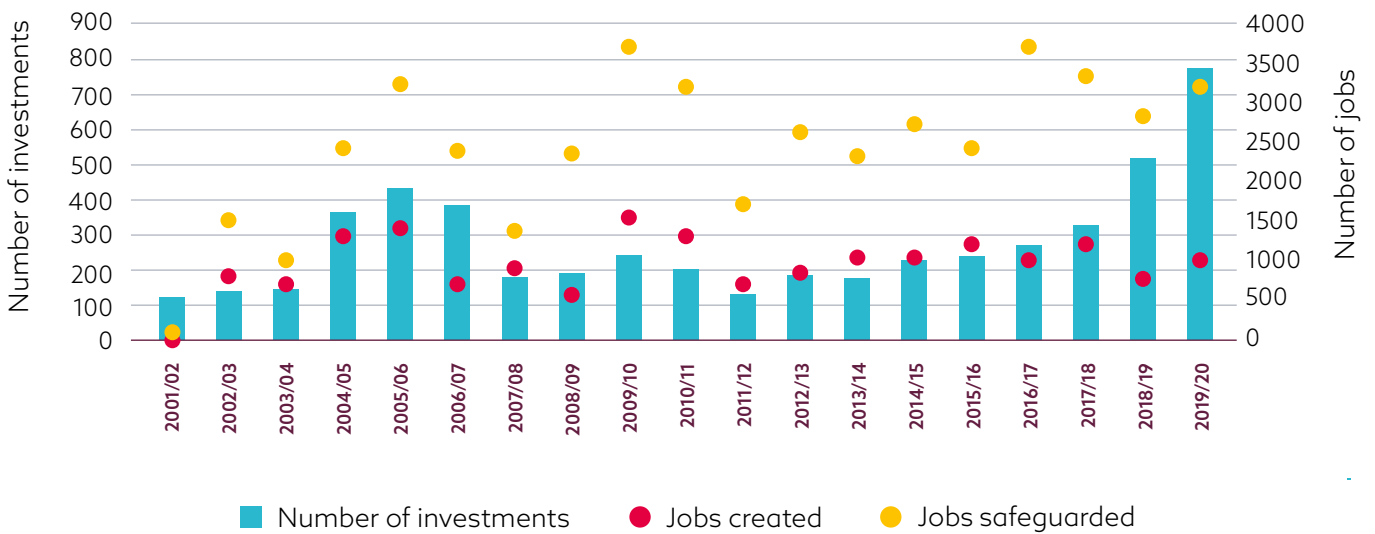


Figure 22 shows that 2019/20 was a record year in terms of number of SME investment transactions, with 785 investment transactions by the Development Bank of Wales during the year, up from 538 in 2018/19. Figure 22 also shows that the jobs created and safeguarded saw an annual increase of 20% and 15%, respectively. The investments within the 2019/20 year created 963 jobs (up from 800 in 2018/19) and safeguarded 2,308 (up from 1,997 in 2018/19).

However, 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 method of collection. The Development Bank reports jobs created for the Wales Business Fund in line with European Regional Development Fund stipulations. Therefore, jobs created by virtue 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.

Figure 22.
Number of Investments and Jobs Created and Safeguarded



Development Bank of Wales' investment has wider regional economic effects.

The aim of this section is to provide some additional analysis relating to the nature and characteristics of Development Bank of Wales' investments during the 2019/20 financial year, and to consider the wider effects of these investments on the Welsh economy. As summarised in the previous section, the investments are made to a diverse range of SMEs located in different sectors and areas of Wales. These SMEs contribute to regional employment, self-employment, incomes and wages, whilst also purchasing goods and services within the regional economy, hence supporting additional economic activity in the wider economy. The analysis includes a modelled component using the framework of the Input-Output tables for Wales¹, that permit indirect and induced-income effects linked to specific SME activity to be estimated.

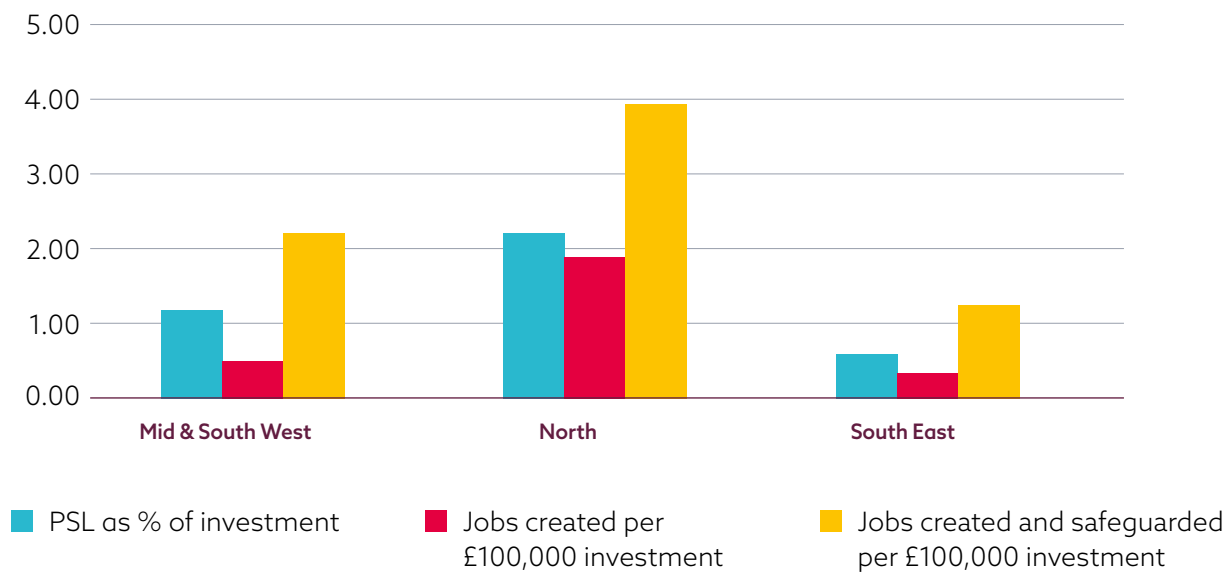
During the 2019/20 financial year, the investment amounts were more evenly distributed by Welsh region compared with 2018/19. In 2019/20 the South East region again secured the largest share of new investment (37% of the value of investment), followed by Mid & South West Wales (33%) and North Wales (29%). However, the highest levels of PSL were in Mid & South West Wales (at 40%, and with this region gaining the highest PSL to investment percentage in Figure 23) just above South East Wales (37%) and with the remaining 24% in North Wales. The level of PSL was below Development Bank investment values in each region during 2019/20. This contrasts with the previous financial year when the overall value of PSL exceeded the total value of Development Bank investments in Wales.

Employment creation per £100,000 of Development Bank investment.

During 2019/20 more than half of the jobs created or safeguarded by Development Bank investments were in South East Wales, with around 30% in Mid & South West Wales and less than 20% in North Wales. Figure 23 relates the jobs created to the investment amount in each region, as well as total jobs (created and safeguarded). On average 3.2 jobs were created or safeguarded in Wales per £100,000 of investment in 2019/20, with the highest figure in South East Wales (4.4 jobs created or safeguarded per £100,000 investment) and lowest in North Wales (1.6 jobs per £100,000 investment). It is important

to note that these impacts are short term only and are a conservative guide as to the impacts during one financial year. In addition to the jobs supported in 2019/20, other jobs will be created and safeguarded in future years as a consequence of investments made during the 2019/2020 financial year (see earlier). Furthermore, 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.

Figure 23.
Direct impacts of investments by region 2019/20

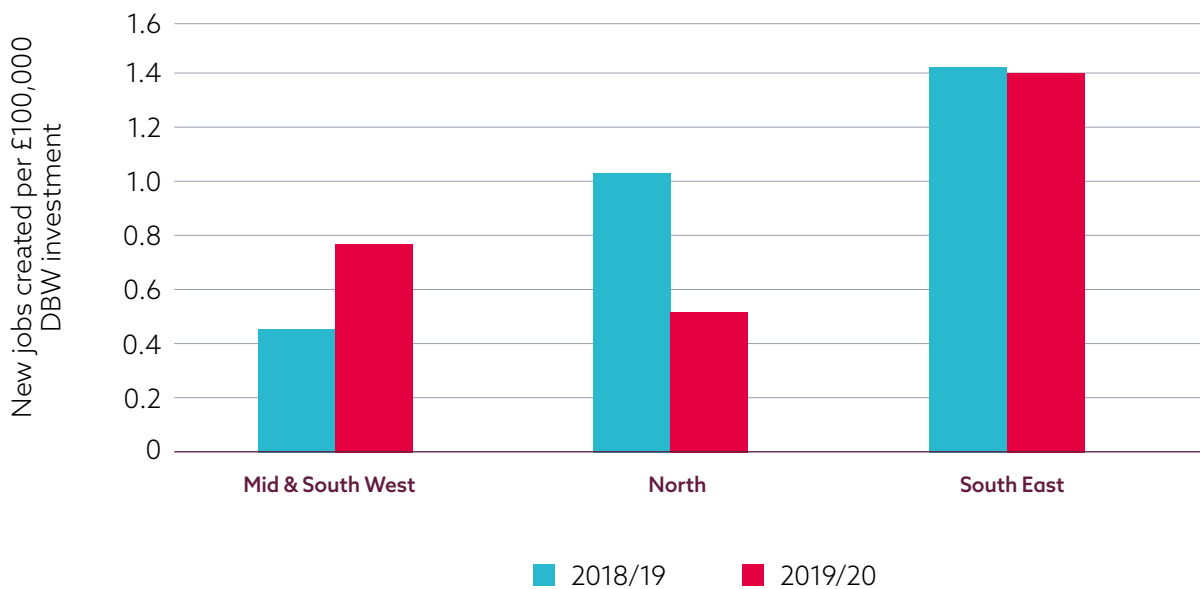


Source: Development Bank of Wales, Special analysis

Figure 24 just includes new jobs created per £100,000 of Development Bank investment in each region, comparing the results with the previous financial year. There is little change in the data for the South East region during the past year, however in there was a slight increase in Mid and South West Wales, and a decline in North Wales.

Figure 24.

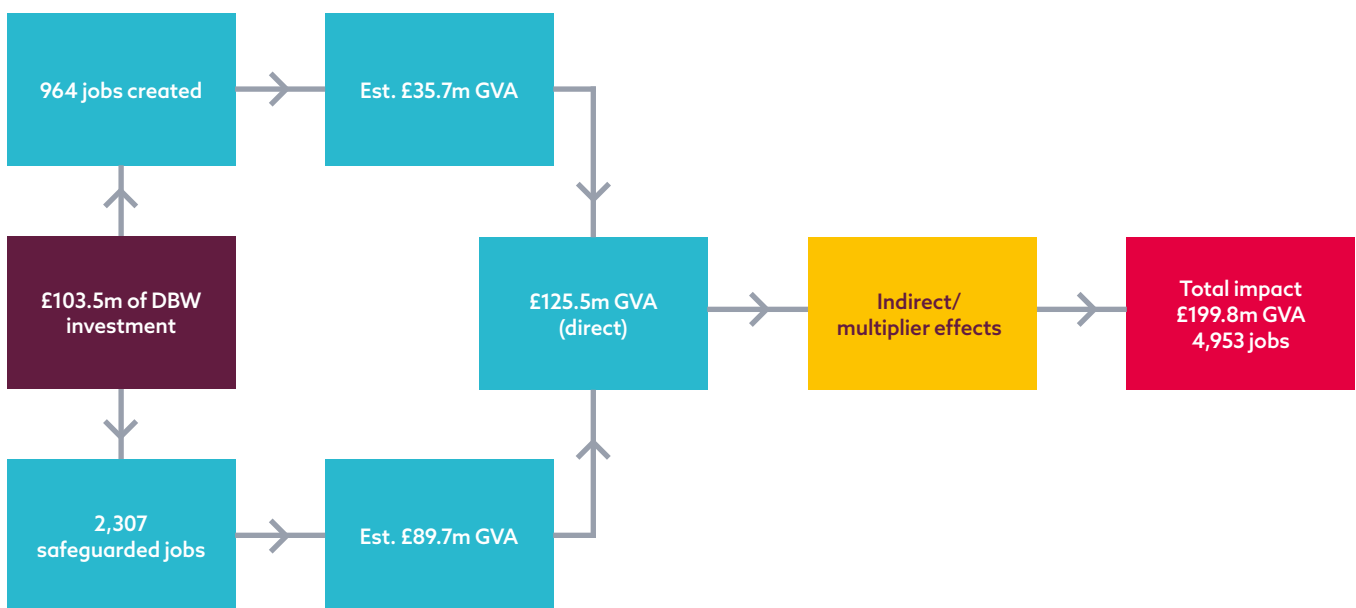
New Jobs created per £100,000 DBW investment by region, 2018/19 and 2019/20



The number of jobs and wider economic activity supported by Development Bank investments around Wales is expected to vary year by year. These impacts are determined by the sectoral distribution of investments made during the year and the characteristics of that economic activity. Investments vary considerably in terms of the number of direct jobs supported by sector/industry group, with further firm-level variations within those groups. High rates of new job creation per £100,000 investment in the 2019/20 financial year (as above, these are short term impacts only) are found in the more labour intensive sectors of the economy, for example, Accommodation and Food (2.70), Education (16.9), Health (6.3), Arts (3.3) and Other services (5.1). Lower levels of new employment creation per £100,000 investment are found in more capital intensive sectors such as Manufacturing (0.63).

The wider economic effects will also vary by sector. To estimate these effects details on jobs created and safeguarded during the 2019/20 financial year by sector were used in conjunction with 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). This enabled estimates to be derived for GVA directly supported by Development Bank investments by sector. 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 wider 'multiplier' effects, and the results are shown in Figure 25.

Figure 25.
The economic impacts of Development Bank of Wales' investments, 2019/20



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

The more than £100m of Development Bank investment provided to SMEs in 2019/20 supported 964 new jobs during the financial year. These jobs are connected to an estimated almost £36m of GVA, with a further almost £90m of GVA linked to the 2,307 safeguarded jobs, totalling to a direct GVA of over £125m, and 3,271 jobs. When the multiplier impacts of this economic activity are included, this increases to almost £200m of GVA and more than 4,950 jobs.

For every £1m of Development Bank investment within the 2019/20 year can be connected to an estimated £1.93m of Welsh GVA. Whilst these estimates indicate the wider significance of Development Bank investments to the Welsh economy, they are only partial. Firstly, the GVA and jobs estimates are derived only from the (short term) direct jobs resulting from the investments made in 2019/20. Secondly, in addition to the figures estimated in Figure 25 there may also be productivity impacts and other wider social impacts. These are more difficult to quantify, but will become particularly important in the coming years as the Development Bank investments seek to support SMEs impacted by the coronavirus pandemic.

The UK and world economies are going to experience a period of recession, and contraction of production, investment and consumption during 2020. The pandemic affects a Welsh economy already weakened by economic uncertainty resulting from EU transition.

Emerging evidence shows SMEs in Wales being significantly affected by Covid-19 with confidence indices falling to an all-time low in 2020Q1. Surveys have indicated that Wales has exhibited the highest share of SMEs with declining turnover since March, and with SMEs in leisure, hospitality, wholesale and construction being most affected. Wales was the UK region with the highest percentage rise of dissolutions in the year to March 2020.

SME demand for finance has increased. Government support packages and the better health of the banking system have offset something of poor business conditions. Welsh SMEs have had the highest rate of applicants to UK Government Schemes. Investment capital is also affected by the pandemic and problems here come after a period of Welsh growth of SME credit and equity markets. The impacts of the Covid-19 crisis are also being partly exhibited in credit risk ratings, with the proportion of the Welsh SMEs falling in the High Risk group increasing markedly, with finance, hospitality, transport and telecommunication, being the sectors with most severe impact.

The 2019/20 financial year marked a record year in terms of SMEs receiving investment and value of direct investment from the Development Bank. The Development Bank of Wales has played an important role in supporting SME activity, with total investments of over £0.7bn since 2001, leveraging over £0.9bn from the private sector, and creating or safeguarding over 55,500 jobs in Wales. These are long-term jobs estimates and cannot be compared to those in this AR, which only focus on short-term job creation and support. The Annual Report also provides evidence on the wider regional economic impacts of investments made by the Development Bank of Wales. The investments made during the 2019/20 financial year are estimated to have supported a total of almost £200m of GVA in Wales and over 4,950 jobs. Understanding the scale and nature of these impacts will be particularly important in future years as the Development Bank provide investments to SMEs impacted by the coronavirus pandemic.

The Development Bank is now facing the challenge of providing loan and equity funding at a critical time for Welsh SMEs. The launch of the COVID-19 Wales Business Loan Scheme has seen enormous demand, and revealed something of the advantages for a region of having a dedicated development bank during economic shocks.

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