

Senedd Cymru

Pwyllgor yr Economi, Masnach a Materion Gwledig

Ymchwiliad i Fanc Datblygu Cymru

DBW04

Ymateb gan: Uned Ymchwil Economi Cymru, Ysgol Fusnes Caerdydd

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Welsh Parliament

Economy, Trade, and Rural Affairs Committee

Development Bank of Wales inquiry

DBW04

Evidence from: Welsh Economy Research Unit, Cardiff Business School



Inquiry into the Development Bank of Wales

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Economy, Trade and Rural Affairs Committee

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About the Welsh Economy Research Unit, Cardiff Business School

1. The Welsh Economy Research Unit (WERU), based Cardiff Business School, seeks to provide research, analysis, and evaluation on all aspects of the Welsh economy. Through considered research it aims to improve the performance of Welsh firms, organisations, and the third sector, as well as the overall Welsh economy. This submission has been informed by WERU's ongoing work preparing Economic Intelligence Wales' (EIW) quarterly and annual reports, other bespoke reports, as well as its wider role in helping to inform policy concerning the Welsh economy. EIW is a research collaboration between the Development Bank of Wales (DBW), Cardiff Business School (WERU), Bangor Business School, the Enterprise Research Centre, and the Office for National Statistics.

Development Bank of Wales - Investments

2. The DBW has been established with a core objective to '...support the Welsh economy by making it easier for businesses to secure access to the finance needed to start-up, strengthen and grow'¹. As well as analysing economic data relevant to SME development in Wales, WERU's quarterly and annual reports for EIW summarise the investment activities of the DBW during each quarterly and annual period. It is important to note the synergistic relationship between these two functions.
3. The cumulative number of investments made by the DBW in the five years to the end of the 2022/23 year was over 3,642, with the total value of investments at over £610m. These figures have continued to grow during the current financial year. In the five years to 2022/23, businesses in the construction sector accounted for almost 40 percent of this investment, whilst manufacturing businesses accounted for 11 percent. In addition, over the same five year period, the value of co-investment (private sector leverage) associated with DBW investments totalled over £440m.

¹ <https://www.gov.wales/sites/default/files/publications/2023-11/development-bank-of-wales-term-of-government-remit-letter-2021-to-2026.pdf>

4. EIW's latest annual report provides the following summary of DBW activity during the 2022/23 financial year:
 - DBW completed 516 investments, with a total value of just over £124m. These investments were associated with almost 3,500 new and safeguarded jobs.
 - Over 61 percent of investments by value in 2022/23 were accounted for by loans and equity, with the remaining 39 percent linked to property development investments. In total, 18 percent of the value invested in 2022/23 related to equity investments at nearly £23m.
 - Around 42 percent of the total value of investments were made to firms located in south east Wales during 2022/23, with firms in mid and south west Wales, and those in north Wales receiving approximately 34 percent and 24 percent of investment funds respectively. This, in part, reflects the concentration of businesses in south east Wales, which has around 46 percent of the business population in Wales.
5. The value of DBW investments during 2022/23 in south east Wales was almost £450 per SME. The north Wales and mid and south west Wales regions both secured DBW investment levels, which were slightly above their business population share of around £530 per SME during 2022/23.
6. The total value of debt and equity investments made by DBW during 2022/23 was £75.8m, with equity investment made during the financial year of nearly £23m, almost double the value of the previous financial year. Meanwhile, the value of property development investments during 2022/23 totalled £48.4m. This investment model has led to positive economic outcomes, with almost 1,360 new jobs created and a further 2,080 jobs safeguarded, during the 2022/23 financial year.
7. During the 2022/23 financial year the construction sector received the largest share of DBW investment at just over £50m. Meanwhile, investments in firms in the manufacturing sectors were linked to the highest number of safeguarded jobs (almost 470), whilst investments in firms in the accommodation and food services sector created most new jobs (just over 300).

Development Bank of Wales – Economic Impact

8. EIW's annual reports calculate the Welsh gross value added (GVA) supported by DBW². Using this formula, the total direct jobs created (1,358) and safeguarded (2,076) during the 2022/23 financial year, which were linked to DBW investments, is estimated to be connected to be over £200m of GVA in gross terms and over £120m

² A detailed summary of the estimation methodology utilised is provided in the appendix of the most recently published annual report, available here: <https://developmentbank.wales/annual-report-september-2023>

of GVA in net terms. This compares with an estimated £85.8m GVA in net terms supported during the 2021/22 financial year. The net figure takes account of deadweight, displacement, substitution, and multiplier effects. During 2022/23, this equates to an estimated net increase in Welsh GVA of around £35,100 for each job created or safeguarded.

9. It should be noted, these results are estimates and are based on a number of assumptions. The results are also likely to be conservative as they exclude some DBW investments that are not directly aimed at job creation/safeguarding (for example, those associated with property or construction). Furthermore, in the application of the deadweight and other factors to derive net outcomes, no consideration is given to the fact that the vast majority of funds are repaid to DBW. This type of 'gross to net' calculation is usually undertaken in relation to grant payments. Finally, as indicated, the DBW investment activities are also linked with varying levels of co-investment/private sector leverage. The impacts relating to co-investment are not considered in this analysis.

Covid Wales Business Loan Scheme

10. As well as the economic impact identified above, it should be noted that the DBW also played an important part in the overall Welsh-led business finance support made available during the Covid-19 pandemic. The Covid Wales Business Loan Scheme (CWBS) operated by the DBW during the initial stages of the pandemic was fully subscribed and, for example, helped to safeguard around 2.5 percent of SME manufacturing, construction, and wholesale jobs in Wales at a critical time for the economy of Wales. The DBW provided an important, rapid, and professionally administered source of support to SMEs in Wales during the pandemic crisis.
11. Research undertaken by WERU and its partners to evaluate the impact of Wales-led Covid-19 business support has demonstrated the high degree of support that existed by Welsh SMEs for the loan scheme alongside other Welsh-led interventions. Moreover, the CWBS, in particular, may have had longer lasting impacts than emergency grant support, with many SMEs reporting that the investments were used to achieve longer-term business improvements, supporting staff development, marketing, and the development of new products and services.³

³ EIW has produced three reports into the effectiveness of Welsh-led business finance interventions resulting from the Covid-19 pandemic (the fourth and final report is due to be published shortly). Reports are available at: <https://developmentbank.wales/other-services/economic-intelligence-wales>