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Dear Lena,

SCOTTISH BUSINESS DEVELOPMENT BANK: THE FUTURE

Thank you for your letter of 10 March responding to my request for an outline plan for taking forward enhancements to the Scottish Investment Bank remit in the 2016-17 year.

I welcome the way you highlight the important purpose to help companies grow and access appropriate finance. The three objectives I outlined are key: to grow more medium and larger enterprises; increase competition to make the finance market work more effectively; and increase exports, innovation, employment, economic growth and equality.

It will be important to assess impact so that development of existing measures focuses on those that deliver most benefit, and new ones are prioritised that will maximise the positive contribution to our national performance. I welcome your focus on evidence-based decision making and look for your early attention to an overarching performance and impact framework for outcomes from SE's enhanced remit and investment.

Your summary of the high level priorities to stimulate more viable demand; improve the provision of capital into the Scottish market; and respond to the evidenced finance gaps provides clarity and leadership. This recognises the imperative for speed when we have collectively identified £1bn-£2.5bn gaps in debt and equity finance for viable investable companies in Scotland over 3 years. It will be important to work through private sector partners, rather than risk displacing the market by operating alongside other investors.

I welcome your constructive approach to this sizeable challenge in reviewing and assessing options for the right way forward. I look forward to understanding how the internal investigations you outline will evolve into the best products and services to make use of SE funding and the requirement for the £21.5m Financial Transactions funding to be invested outside the public sector, recognising it is available in the 2016-17 financial year and cannot be utilised for early-stage research.

The broader Scottish Business Development Bank approach includes wider Scottish Government, local government and public agency finance initiatives for SMEs and is not limited to the expanded SIB. Examples include the SME Holding Fund and Social Investment Scotland. There will be an expectation that other bodies, including HIE and Business Gateway, can contribute to the strategic development of the Scottish Business Development Bank approach.

I know that Scottish Enterprise will continue to participate positively with partners to ensure that this broader approach is successful. I welcome your offer to consider branding and marketing. Your related decisions for SIB will be an integral part of SE's leadership approach, and I will also welcome your ongoing advice and input as Ministers consider and decide how the overarching Business Development Bank approach and brand is taken forward, with the enhanced SIB remit fitting within that umbrella.

I look forward to continued engagement between all of the key delivery partners and would like to be kept informed of progress with the activities of the enhanced SIB at regular intervals. This will be particularly important around how the impact of the £21.5m in Financial Transactions funding is measured. I expect that output should see a step change to reflect this investment. I also expect the demand stimulation activities to increase overall demand for SME finance, as monitored by other access to finance sources.

We both recognise that full implementation will take a phased approach and it would be helpful if you could share a six-monthly progress report, built around the performance and impact framework, with my officials. This should identify as far as possible the additional activities prioritised, invested and undertaken and the output achieved. This would also provide an opportunity to consider the next phase of implementation and any further actions for the medium term, as you set out in your letter.

Meantime I have made your helpful letter and early stage action plan available to Parliament through SPICe.



JOHN SWINNEY