

GOVERNMENT SUPPORT FOR SMALL AND MEDIUM BUSINESS ENTERPRISES IN SCOTLAND AND WALES SINCE DEVOLUTION

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This paper summarizes the findings of a recent review of government efforts to support Small and Medium-Sized Enterprises (SMEs) in Scotland and Wales since the devolution, in 1999, of some administrative powers from the U.K. central government in London to new national governments in Edinburgh and Cardiff respectively.

The writer formulated the following two hypotheses prior to this review, namely that

1. Increased funding, over and above annual increases in GVA (Gross Value Added, or the value of all the goods and services produced) has been made available, since Devolution, to Scottish and Welsh quasi-autonomous bodies designed to attract outside investment and assist SMEs.
2. At the same time, the new governments have required greater efficiency and accountability from these business-development organizations in the latter's efforts to provide support for all businesses, including SMEs.

This paper will use the new European Commission definition of Micro, Small and Medium-sized businesses, which will come into effect on January 1, 2005, i.e. Micro Enterprises are defined as those having fewer than ten employees and annual sales (turnover) of less than two million Euros; Small Enterprises have 11-50 employees and sales of E2-10 million, while Medium-(Sized) Enterprises have 51-250 employees and sales of E11-50 million (EntreNews, 2003). At present Scotland and Wales use somewhat different – and generally stricter – criteria for their definitions of SMEs, but this will not affect the findings and conclusions of the report that follows.

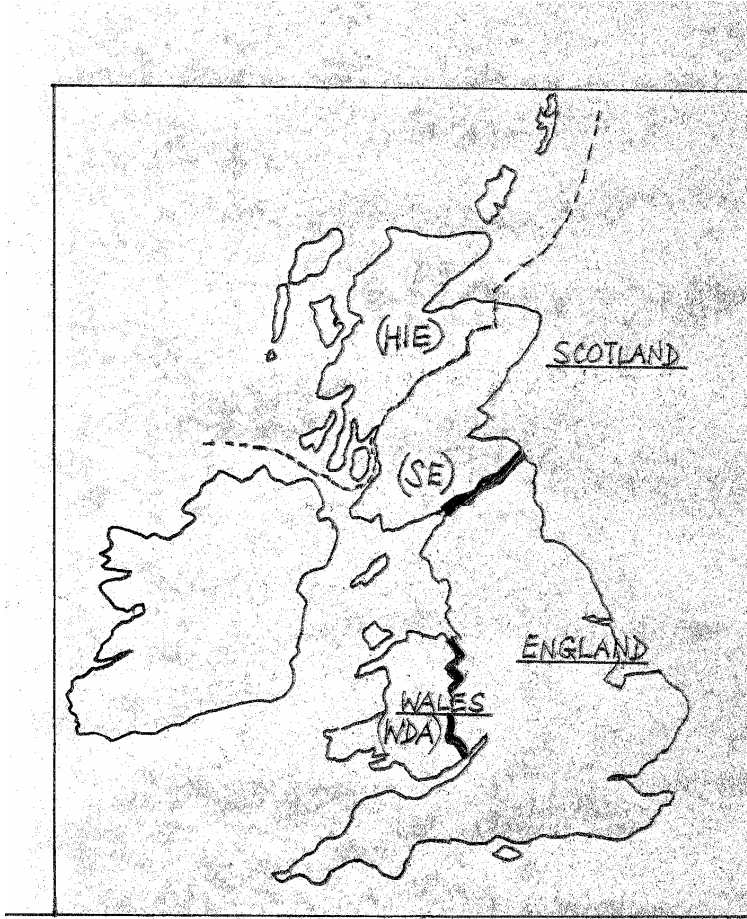
The two governments of Scotland and Wales (The Scottish Executive and the Welsh Assembly), like the Government of the UK as a whole, will probably accept the new EU regulations when they come into effect in 2005. This is because, as we shall see, the European Union currently provides economic development funds to the UK and to both Scotland and Wales, and such aid may not be forthcoming if they do not adhere to EU regulations. However, it should be emphasized that the European Commission doesn't permit assistance to certain manufacturing sectors (man-made fibre and yarn, shipbuilding and repair, certain activities in the automobile sector, iron and steel, coal and some fishery and agricultural products).

SCOTLAND

Scotland (**Alba** in the Scottish Gaelic language) had a population of 5,062 millions (i.e. about 8.6 percent of the total population of the UK) according to the 2001 census. It thus has a population approximately equal to that of Finland, and a larger population than that of eight members of the newly enlarged European Union (i.e. Ireland and Luxembourg, Lithuania, Latvia, Estonia, Slovenia, Greek Cyprus and Malta).

The great majority of Scots (over 90 percent or 4,627 millions) live in the so-called "Lowlands", occupying the south and south-eastern half of the country. The remaining 8.5 percent (433,745) live in

Exhibit One



Key: HIE = Highlands & Islands Enterprise Jurisdiction.
 SE = Scottish Enterprise Jurisdiction.
 WDA = Welsh Development Agency Jurisdiction.

the “Highlands” (the more mountainous, moorland region of the north and west of Scotland) and the “Islands” (which include the Inner and Outer Hebrides to the west of the Highlands, and the Orkney and Shetland island groups to the north).

250 years ago it is estimated that close to 30 percent of the population of Scotland lived in the Highlands and Islands, but this region (and especially the mainland) was severely depopulated in the eighteenth and nineteenth centuries as a result of social and economic “clearances”, leading to massive emigration to the Lowlands and elsewhere. World War One also took a heavy toll of Highlands and Islands youth.

Scottish Gaelic (**Gaidhlig**) a Celtic language closely related to Irish and distantly related to Welsh, was once spoken throughout the Highlands and even in parts of the Lowlands. It is now only spoken by 93,282 people (UK Census 2001), or less than 2 percent of population. Many of these have “emigrated” from the Highlands and Islands to live in large Scottish Lowland

Cities such as Glasgow (**Glaschu**). However, Gaelic is still the primary language of communication (and, increasingly, of local government) in the islands of the Outer Hebrides and Skye. Gaelic is also spoken in certain smaller islands in addition to several isolated communities along the north-west littoral of the Scottish Mainland. Despite the limited area in which the language is now spoken, a majority of the Scottish people regard “the Gaelic” (pronounced “Gallic” in Scotland) as an integral part of their national heritage and believe that Gaelic-speakers are entitled to the same degree of government economic and other support as their English-speaking compatriots.

Scotland has always differed from England in some respects. (For example, Scotland has always had its own legal system and has issued its own banknotes). Even before Devolution, the Scottish Office, a semi-autonomous body with some Scottish administrative powers, existed in Edinburgh (**Dun Eideann** in the Gaelic language) to deal with chronic economic and social problems in these regions (see below). It established the Scottish Development Agency (SDA) in an effort to attract new investment to Scotland as a whole, to help counteract the effects of the decline of the major Lowland industries; coalmining, steel-making and shipbuilding.

In the years following World War Two, Scottish national consciousness (which had never been completely dormant) gradually increased. By the 1990s there was a growing demand for a more far-reaching degree of self-government. A referendum was held in 1997 and the country voted for devolution. Scottish national elections were held in 1999 and the Scottish Labour (Socialist) Party won the greatest number of votes. A new Scottish government, known as the **Scottish Executive** and consisting of a Labour-Liberal Democrat coalition, took office shortly afterwards in Edinburgh.

Scottish Enterprise

Scottish Enterprise (and its sister organization, Highlands and Islands Enterprise, or HIE) were established in 1991 (i.e. prior to Devolution), following a 1990 government review of the SDA and HIDB. Scottish Enterprise continues under Scotland's new government. It operates throughout Lowland Scotland (Exhibit One). It aims to "develop the wealth-generating capacity of Scotland's economy" and currently has three strategic goals: "growing the business base, improving Scotland's global connections and developing the skills and learning of its people". Its head office is in Glasgow although the majority of its funding is channeled through a network of 12 Local Enterprise Companies (LECs), as well as 12 overseas offices in Europe, North America and the Far East (Scottish Enterprise, 2004).

Since its launch, Scottish Enterprise has been active in assisting Scottish SMEs via both its **Business Growth Fund** and its **Co-Investment Fund**. Its **Small Business Services' High Growth Unit**, which was established in 2002, aims at initiating and completing 30 high-growth start-up projects over a three-year period. These will have a value of P5 million. The unit has access to a high-value network of expertise and experience in order to assess and support the development of potential start-ups.

Business Growth Fund

Scottish Enterprise's Business Growth Fund was established in 1999. It provides SMEs with loans and equity investments of between P20,000 and P100,000 (E30,600-150,400). It focuses on SMEs which "indicate an ambition to grow" and which satisfy various criteria relating to their size and viability. Companies must meet the EU definition of a small or medium-sized company. Business Growth Fund policy is that at least 50% of an overall funding proposal must come from the private sector.

Scottish Enterprise is, in addition, willing to provide advice and support in helping SMEs secure equity funding, including investment via its Business Growth Fund. (Companies are also advised to consult independent advisers). Since its establishment, the Business Growth Fund has invested over P9, 000 (E13,530) in approximately 120 SMEs (Scottish Enterprise, 2004).

Co-Investment Fund

This Scottish Enterprise-administered fund provides equity funding to SMEs on a co-investment basis with carefully-selected "co-investment partners. The partner can be any of the following:

- corporate ventures
- institutional investors
- professional fund managers
- smaller unregulated fund managers and investors
- business "angels" syndicates and private investors

In 2002-2003 SE assisted in 8,700 start-ups in the Lowlands of Scotland; its area of responsibility. Its staff estimate that, during this same period, it provided assistance of some kind to a grand total of approximately 15, 000 firms, including the start-ups mentioned above.

Highland and Islands Enterprise

The “Highlands and Islands” of Scotland are more distant from the Scottish capital, Edinburgh and consist, with the exception of the city of Inverness (**Inbhir Nis**), where HIE is based, of a region of scattered small communities. In its Vision Statement, HIE stresses ...”we are particularly conscious that the opportunities offered by the unique environment (i.e. magnificent mountainous and coastal scenery) and cultural heritage (i.e. the Gaelic language and traditions) should be used in a way that does not compromise this special place for future generations.” (Gaelic-speaking staff members are to be found throughout the HIE network and practically all staff are bilingual in the Western Isles).

HIE has categorized parts of the Highlands as “Fragile Areas” and “Regeneration Areas”. **Fragile areas** suffer from particular constraints on economic growth such as geographic remoteness and demographic decline. These often indicate an over-reliance on low-wage primary sector industries and tourism. (For example, in the Western Isles region (i.e. the islands of the Outer Hebrides, a Gaelic-speaking region) the population fell from 31,336 in 1981 to 26, 502 in 2001, a 15.4% decrease).

Regeneration areas are Highland or Islands areas which are normally reasonably stable in economic terms, but which may face a sudden or threatened crisis resulting in a shortage of employment opportunities. Such a crisis may be caused by the closure of a firm or a significant change in circumstances for a key sector or industry.

HIE delivers its services through 10 Local Enterprise Companies based throughout its area (Exhibit One). **HIE Starts**, a business start-up program which was partly funded by the EU, operated from April 2001 to March 2004. HIE Starts provided would-be entrepreneurs with advice, training and financial assistance. Advice was usually provided by business advisors on a one-to-one basis, with Gaelic-speaking advisers being made available in the Western Isles) Training normally involved a three-day course at a central location, delivered by a professional training company to groups of up to twenty at a time. Financial assistance, which rarely exceeded 3000 pounds sterling (£4,520), usually involved a 500-pound (£755) grant toward capital expenditure together with a living allowance. All decisions regarding further assistance were made at the local level.

HIE Starts appears to have been a very successful program. For example, new business starts in the Highlands & Islands in 2001 totalled 1,702, a substantial number for a region with a small total population (Highland & Islands Enterprise, 2004). The program will be reintroduced in the near future.

Assistance to established businesses – as well as to would-be entrepreneurs - is also available. Any existing business with plans for expansion can approach the Local Enterprise Company to seek assistance. The latter may be offered in the form of grants toward plant and machinery assistance, obtaining or developing land, marketing or support for e-businesses. The LEC will also work with other bodies to help deliver an appropriate solution for the client.

Effects of Devolution in Scotland

Devolution appears to have had some significant effects on Scottish Enterprise and Highland & Islands Enterprise. To begin with, these organizations work more closely with the Scottish Executive than did

their predecessor organizations with the earlier Scottish Office. They are closer to the government's policy-making machinery and more accountable to Scottish politicians.

There has been a gradual shift away from direct financial support for economic development for Scottish business enterprises of all sizes to an emphasis on creating the right conditions for businesses of all sizes to develop and grow. This change in focus is, in part, due to recognition that, in the twenty-first century regional, and even national, governments have a diminished ability to wield macro-economic levers. Instead, they recognize that they would be wise to focus on micro-economic interventions. However, the change of focus is also due to an increased recognition that people and businesses create wealth, not governments. Today, both Scottish Enterprise and Highland and Islands Enterprise act far more as "enablers" to economic development (such as policies to improve Scottish telecommunications infrastructures) than as direct providers of assistance.

If we compare the figures, in Table One, for the years 1991 and 1999 (when Devolution occurred)) it can be noted that, before Devolution, government financial support of Scottish Enterprise and Highlands & Islands Enterprise failed to keep pace with the increase in Scotland's GVA during the same period. The country's GVA increased by 35.4 percent during these pre-Devolution years. In sharp contrast, Grants-In-Aid to Scottish Enterprise actually decreased by 2 percent, HIE's budget increased by a mere 7.2 percent.

In sharp contrast, while Scotland's GVA increased by 14.6 percent from 1999 to 2003 (following Devolution), Scottish Enterprise's grants increased by 19.6 percent and HIE's by 29.4 percent. It appears, therefore, that the writer's **Hypotheses One** is confirmed.

These budgets were, of course, augmented by European Union grants, for each of which an application has to be made. In some years (both before and after Devolution) these EU grants have accounted for a mere additional 3 percent of the Scottish Executive's annual Grant-in –Aid to each of its two enterprise organizations, but in other years they have accounted for as much as 25 percent.

Table One

<u>Year</u>	<u>Scottish Enterprise Budget(PMill)*</u>	<u>% Increase (Decrease)</u>	<u>HIE Budget (PMill)*</u>	<u>% Increase/ (Decrease)</u>	<u>Scotland: Gross Value Added (PMill)</u>	<u>% Incr (Decr)</u>
1991	379.3	-----	72.1	-----	45,276.0	----
1992	375.6	(1.0)	77.7	7.7	47,597.0	4.5
1993	378.8	.8	79.0	1.7	49,949.0	4.9
1994	432.7	14.2	76.2	(3.5)	52,943.0	6.0
1995	437.8	1.2	76.0	(2.6)	55,431.0	4.7
1996	433.4	(.1)	74.9	(1.4)	58,079.0	4.8
1997	412.7	(4.8)	78.9	5.3	60,828.0	4.7
1998	393.3	(4.7)	78.1	(1.0)	62,285.0	2.3
1999	371.9	(5.4)	77.3	(1.0)	63,932.0	4.2
2000	392.9	5.6	83.4	7.9	67,150.0	3.4
2001	404.6	3.0	95.9	15.0	69,179.0	3.0
2002.	425.4	4.9	102.6	7.0	72,223.0e	4.4
2003	453.0	6.5	102.2e	(3.9)	73,261.0e	1.4
2004	NA	NA	NA	NA	NA	NA

*1991 budget figures are for April 1, 1991 – March 31, 1992; subsequent figures are similarly based. They do not include European Union, which varies from year to year. NA = Data not immediately available. E = Estimate. (Sources: UK Statistics, Scottish and Highland & Island Enterprise).

Since Devolution, together with increased government financial support, there have also been significant changes in Scottish Enterprise and HIE with a view to achieving greater efficiencies. Their overall objective, established by Scotland's Ministry of Enterprise and Lifelong Learning, is "**A Smart, Successful Scotland**". "Growing Business", "Global Connections" and "Skills and Learning" are now priority performance targets. Even before Devolution, executives from the private sector were invited to serve on the boards of Scottish Enterprise and Highlands and Islands Enterprise. 80 percent of Scottish Enterprise's staff (vs. a previous 54 percent) now deal **directly** with customers.

The two organizations' overall objectives and general strategy are now established largely by Scotland's civil servants and their performances are scrutinized by members of the Scottish Executive. There is a stronger emphasis on specific objectives and a goal of greater efficiency. It is suggested that **Hypothesis Two** (i.e. that greater efficiency and accountability have been achieved as a result of Devolution) is thus confirmed in the case of Scottish Enterprise and Highlands and Islands Enterprise.

WALES

Wales (**Cymru** in the Welsh language) has a population of 2.9 million (2003 figures) or about 55 percent of Scotland's population and five percent of the population of the United Kingdom as a whole. Its population is thus larger than the populations of six countries in the enlarged EU. Its land area is about 8,000 square miles, i.e. slightly larger than the German state of Bavaria or the U.S. state of Massachusetts.

The Celtic language of Wales, Welsh (**Cymraeg**), is relatively more vigorous than is its Celtic cousin, Gaelic, in Scotland. Welsh is currently spoken by 21 percent of the total population (2001 Census) and an estimated 25 percent of the children. It is often not known that, with the possible exception of Basque, Welsh is the oldest **living** European language. The distinguished English writer Tolkien, who admired Welsh and studied it, called it the "senior language of .. Britain". Unlike Basque and certain other lesser European languages, it has a rich and flourishing literature dating from the sixth century; predating the Anglo-Saxon classic Beowulf by at least two centuries. Despite having been discriminated against by London governments for 700 years (not being taught in Welsh schools, or used in the courts or in any official events) it flourishes today in many parts of Wales.

Everyone in Wales, as in Scotland, speaks fluent English but the percentage of young people who also speak Welsh seems likely to increase significantly during the next 20 years, since the new Welsh government has adopted an equal-status policy for the two languages and Welsh-language-medium schools have become very fashionable. (From a pan-European viewpoint, it may be of interest that many children educated in Welsh-medium schools are, in addition to Welsh and English, often fluent in two major continental European languages). As we shall see, Welsh Government efforts to assist SMEs in Wales also try to safeguard and encourage the use of the native language.

Prior to 1999, Wales enjoyed a rather limited degree of political autonomy. A "Welsh Office" in Cardiff (**Caerdydd**), the Welsh capital, was permitted to make decisions only in the areas of education and health. Even after 1999, the Devolution proposals of Tony Blair gave Scotland a greater degree of self-government than Wales. This may have been due to Scotland's larger population and its fact that it only became subject to London rule in 1707. (Wales had been subject to intermittent London rule since 1282. However, Wales remained restive and there was a major Welsh uprising under **Owain Glyndwr** (Shakespeare's Owen Glendower), a great Welsh hero, in 1400. Wales finally accepted London rule in 1485, when the Welshman Henry Tudor won the throne of England, thus fulfilling an old Welsh prophecy).

In a 1997 referendum, which closely followed the one held in Scotland, the people of Wales voted for Devolution. It was a closer vote than that in Scotland because of Wales' closer geographic proximity to, and its longer political association with England, and because Welsh national sentiment had been weakened as a result of two massive waves of immigration from England. (The first took place in south-east Wales during the final years of the Industrial Revolution from 1880 to 1914. The second has consisted of "settlers" (often, though not always, retirees) from overcrowded English cities to Welsh-speaking rural areas in the north and west, from about 1960 to the present day.

Nevertheless, in spite of these two massive waves of English immigration, national feeling in Wales remained sufficiently strong as to result in a majority in favour of Devolution among those who cared enough to vote. As in Scotland, elections were held in 1999 and the Labour (Socialist) Party won an even larger share of the vote than in Scotland (Wales and Scotland have traditionally voted Socialist, whereas England has often voted for the Conservative Party). The new Welsh legislative body, known as "The Welsh Assembly" (**Y Cynulliad** in Welsh) since its powers are less than that of a parliament, met for the first time in 2000.

Led by a First Minister, the Welsh Assembly Government is responsible for deciding how the majority of UK Government expenditures in Wales are to be spent. Its responsibilities include education, health services, local government, transport and economic development. The Assembly Government is provided, annually, with funds by the UK Government in London; it then decides how this budget is to be allocated.

Historically, mineral-based industries and manufacturing (e.g. coal-mining, slate-mining, steel-making and tin-plating) were the basis of the economic strength of Wales, but in recent years the balance has shifted towards the service sector. Key industrial sectors currently include aerospace, automotive, customer relationship management and contact centres, semiconductors, life sciences, information technology, software and multimedia.

The Welsh Development Agency

The Welsh Development Agency (WDA) is the leading economic development organization in Wales (Exhibit One). Its main aims are "to stimulate the growth of new businesses in Wales, attract new inward investment and work with local communities to encourage prosperity". The Welsh Government works closely with the WDA; usually the WDA helps initiate a project and, working closely with the firm involved, secures Government approval of the necessary funding. Since certain Welsh regions were designated, by the EU as being eligible for economic assistance grants, the annual WDA budget has increased considerably.

Working via the WDA, the Welsh Government offers a number of flexible schemes designed to facilitate investment in Wales. All of them are available to SMEs. They include, but are not confined to, **Regional Assistance Grants** and **Investment Grants**.

Regional Selective Assistance Grants

These grants are made by the Welsh Assembly Government, working through the WDA, to support capital investment projects for investors who create new, or safeguard threatened, jobs in certain areas of Wales. Under these circumstances, RSA is paid as a capital grant. Alternatively, where a project requires little capital investment but creates jobs, RSA can be paid as a jobs grant.

RSA is discretionary and can be available to businesses **of any size** with eligible investment projects. However, projects needing a grant of P50, 000 (\$79,000) or less are directed to an alternative scheme, the Assembly Investment Grant (see later). Presumably many, if not most small and medium enterprises fall within this latter category. Projects typically cover a period of three to five years. RSA is only available in areas of Wales that have been designated by the European Commission as “Assisted Areas” (see earlier). These are areas which enjoy a lower standard of living than the rest of the country and offer few employment opportunities for young people. “**Tier One**” regions include former coal-mining and slate-quarrying areas in addition to areas that include predominantly agricultural land. (The Welsh agricultural sector has experienced great economic difficulties in recent years).

The Tier One region include almost the whole of north, west and southwest Wales and the former south Wales coal-mining valleys of the southeast and the northeast of Wales. Significantly, too, with the exception of some of the southeast valleys, the Tier One region is predominantly Welsh-speaking. The grant ceiling set by the European Commission for investment projects in Tier One areas is 35% of eligible project costs but higher ceilings apply to SMEs.

Tier Two areas include the cities of Cardiff and Newport (**Casnewydd**) as well as some agricultural areas. The ceiling for Tier Two is usually 15% of project costs. The level of eligible project costs is generally determined by the amount of project expenditure in the Assisted Area. However, project costs can alternatively be established with reference to salary costs over two years for new jobs.

Three criteria are used by the Welsh Assembly Government in appraising RSA applications:

- **Viability:** both the investment project and the company/group proposing the project must be commercially and financially viable.
- **Additionality:** the company/group must demonstrate that the project would only proceed if the grant is awarded.
- **Efficiency:** the project must benefit the national as well as the local economy.

Assembly Investment Grants

The Welsh Government, working through the WDA, also has discretionary powers to support investments involving property, by providing contributions in the form of “gap funding” in areas where the total project cost of a development exceeds its open market value on completion. These are available to SMEs as well as larger firms. There are two main schemes: **Property Development Grants** and **Business Premises Improvements Grants**.

Property Development Grants

These grants can be used to support new buildings or extensions to existing premises. Grants are negotiable and are normally awarded on the basis of the minimum amount of funding required to secure the project. Applications are evaluated according to:

- Contributions to local economic needs.
- The extent of additional private sector funding required.
- The number of jobs created or safeguarded by the project.

Business Premises Improvement Grants

These grants can be offered to support the improvement or adaptation of business premises in order to meet the individual needs of a company. The grant enables the building of specialized installations, adaptations of buildings or equipping premises designed to meet the needs of an identified occupant. Companies applying for assistance need to demonstrate that:

- The required works are necessary to the premises.
- No other suitable premises are available.

Projects are assessed on the basis of their contribution to the aim of ensuring there is an adequate supply of suitable premises in which businesses can establish themselves.

SMART Wales Program

This consists of a group of schemes aimed at promoting innovative research and development by SMEs.

- **SMART** is a biannual competition open to small firms in Wales, i.e. those employing **less** than 50 employees. It provides feasibility studies for innovative technology projects that possess good commercial potential. The maximum grant available is P45,000 (\$71,000).
- **SPUR** provides further financial help with the development of new products and processes that involve a significant technological advance. The grant is normally 30% of project costs up to a maximum of P200,000 (\$315,000). These grants are available to all SMEs. Companies must have **fewer than 250 employees**.
- **SPURplus** supports a small number of projects of strategic significance with grants of up to a maximum of P370,000 (\$582,000).
- The **Regional Innovation Grant** is designed to encourage the development and introduction of new or improved products or processes in Wales. Assistance is set at 50% of eligible costs up to a maximum of P25,000 (\$40,000). The scheme is open to firms employing **50 people or less**.
- **Processing & Marketing Grants** are specifically aimed as a support measure for food processing companies in order to help them gain an increased market share. Grants of up to P1,200,000 (\$1,900,000) are available to new investors for buildings, equipment, new product development, marketing activities and general business development. The maximum grant is 40% of eligible costs.

Finance Wales

The WDA provides a range of financial and managerial support for companies of all sizes through its Finance Wales subsidiary. This support consists of loans, equity investment, “mezzanine” (a form of risk capital) and managerial services. Applicants must submit a business plan. Finance Wales is particularly interested in companies with technological or innovative characteristics.

Other Sources of Support

Other sources which may provide access to funding include UK Steel Enterprises, Venture Wales, Education & Learning Wales, European Union R&D grants and local governments. The overall package of grants and other aid provided to industry is governed by state aid ceilings set by the European Commission. In cases where a firm (regardless of its size) obtains grant offers from a

number of sources, the overall package must meet state aid regulations. The environmental impact of aid is also important. The protection of the environment is a major objective of the Welsh Assembly Government. Many tourists are attracted to Wales because of its beautiful countryside. In addition to its intrinsic value and its contribution to the quality of life, a clean environment is recognized as an important factor in supporting economic development.

Rhaglen Ddeillio Cymru (Wales Spinout Programme)

This WDA program helps new businesses, sometimes based on research technology developed at HEIs (Higher Education Institutes), to “spin out” into successful new businesses. Individuals wishing to start a new business can receive assistance from their local HEI with respect to premises, finance, technical matters and business expertise.

.Specific SME Assistance: Welsh Enterprise Agencies

Attracting inward investment is an important function of the WDA, but this organization also places an increasing emphasis on encouraging and developing indigenous Welsh businesses. (At present, the UK’s rate of new business creation is lower than the European average rate; the rate for Wales is lower than that of the UK as a whole, and the rate for Welsh-speakers is lower still).

Even before Devolution the Welsh Development Agency and various smaller organizations (known as “enterprise agencies”) were available to respond to enquiries and specific requests for assistance from Welsh SMEs. Since Devolution however the Welsh Assembly Government has had more autonomy (than had its predecessor, the Welsh Office), to deliver business services that respond to the specific needs of SMEs and other business organizations in Wales.

Various appropriate Welsh enterprise agencies now submit competitive tenders for specific projects to the WDA, which then selects the agency (or combination of agencies) which, it is believed, will deliver the required service most efficiently and effectively.

The Entrepreneurship Action Plan is a long-term economic program which has been launched by the Welsh National Assembly. It funds a range of business support services for all sectors of the community. Among other activities, it targets underrepresented groups. Its **Potentia** project utilizes six partner organizations (or “enterprise agencies”) which target disabled people, women and single parents, ethnic minorities, the over-fifties, young people and Welsh-speakers. One of the more active of the organizations with which the WDA collaborates is **Menter a Busnes**.

Menter a Busnes (Enterprise and Business)

Menter a Busnes was established by the WDA and the Development Board for Rural Wales (DBRW) in 1989 (i.e. before Devolution) as a direct response to two important problems. Firstly, as was suggested earlier and as was subsequently confirmed by surveys, Welsh-speakers were reluctant to enter the business world, including the world of tourism, which is of great importance to the Welsh economy. Secondly, the important Welsh farming sector (largely consisting of small family farms and approximately 50% Welsh-speaking) was experiencing hard times, with many young people leaving for jobs elsewhere – often outside Wales. It was felt that, with the right training, many of these young people could become forward-looking rural entrepreneurs. Menter a Busnes is responsible for programs directed at Welsh-speakers.

For the first few years of its existence, Menter a Busnes received core funding from the WDA and the Development Board for Rural Wales. More recently it has received some EU funds which have been matched by the WDA. However an increasing percentage of its funding is now obtained through competitive tender and consulting fees. Among the “branded products” (subsidiary schemes) offered by Menter a Busnes are the following:

- **FfatriFenter (Enterprise Factory).** This program aims to encourage individuals 40 years of age or less (both Welsh-speaking and otherwise) to start thinking in a more entrepreneurial way and develop their enterprise skills. It also assists people to identify their own specific enterprise opportunities.
- **Croesawiaith (Welcome in Our Language)** Although the tourist industry now employs over 100,000 people in Wales, it is dominated by non-Welsh-speaking immigrants, even in the most Welsh-speaking parts of Wales. This program is designed to increase the use of Welsh within the tourist industry and encourage more Welsh-speakers to become the owners and managers of tourism businesses.
- **Gorwelion (Horizons).** This program, using radio programs, mobile exhibitions and the assistance of teachers and parents, encourages young Welsh-speakers to consider becoming entrepreneurs.
- **Sglein (“Shine and Polish”).** Sglein aims at developing “people skills”. It involves experts who work with individual organizations (operated both by Welsh-speakers and non-Welsh-speakers) to improve the latter’s efficiency and profitability.
- **Cwlwm Busnes Cymru (Wales Business Web)** is an on-line Welsh-language service providing a wealth of useful information to Welsh businesses, and encouraging cooperation and networking among them.
- **Agrisgop.** This program (the title is a hybrid of “agriculture” and “cope”) involves working with groups of farmers to help them set business objectives for the next 5-10 years, and to help them reach these goals.
- **Cyswllt Ffermio (Farming Connect)** is a national scheme run jointly by the Welsh Assembly Government and the WDA to provide a whole range of support services to Welsh farmers, including technical advice and grants. Menter a Busnes won the contract to deliver these services in many predominantly Welsh-speaking areas.

In 2003-2004 more than 8,600 individuals in Wales were assisted, by the WDA or one of its related organizations, in matters relating to starting up, or expanding, a business. There was also an encouraging increase in the number of **actual** new businesses launched with the WDA’s support; an increase which exceeded the WDA’s target.. The new WDA National Procurement Web-Site, a unique feature in the UK, has improved opportunities for Welsh SMEs to obtain contracts from the public sector. In September 2003 Llygad Busnes/Business Eye, a free business advice service accessible via a single telephone number, the web and 30 local offices was launched. Finally, in the important Welsh agri-food industry there was an increase of almost 2% in employment between 1998 and 2001

Effects of Devolution in Wales

Table Two indicates that, in sharp contrast to the pre-Devolution years, the annual funds allocated to the WDA since Devolution by the new Welsh Government have increased at a higher rate than has the rate of increase of Wales’ GVA. The new government, while recognizing the value of the WDA’s work by increasing its funding has, however, also permitted the WDA to focus its efforts (including its SME programs) more precisely, thus achieving a higher level of efficiency and accountability.

Hypotheses One and Two are thus confirmed.

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<u>Table Two</u>				
<u>Year</u>	<u>Welsh Development Agency Budget (Pmill)*</u>	<u>% Increase (Decrease)</u>	<u>Wales: Gross Value Added (Pmill)</u>	<u>% Increase (Decrease)</u>
1994	69.5	---	24,710.0	5.8
1995	50.2	(27.8)	26,028.0	5.3
1996	29.2	(41.8)	27,217.0	4.6
1997	61.0	108.9	28,492.0	4.7
1998	87.7	30.4	29,718.0	4.3
1999	117.3	33.8	30,652.0	3.1
2000	114.8	(1.1)	31,864.0	4.0
2001	110.0	(4.2)	33,086.0	3.8
2002	171.3	55.7	34,376.0e	3.9e
2003	245.3	43.2	35,717.0e	3.9e
2004	233.7	(4.7)	37,100.0e	3.9e

*1994 budget figures are for April 1, 1994 – March 31, 1995; see also subsequent figures. WDA figures do not include European Union funding. The amount of the latter varies from year to year, ranging in recent years from an additional 3 to 17 percent of grants. e = estimate.

On April 14, 2004, Mr. Rhodri Morgan, First Minister of the Welsh Assembly, announced that the WDA and another quasi-independent body would become departments of the Welsh Government by April 2006. It would be premature to comment on this development until further details are available.

Discussion & Conclusions

The new governments of Scotland and Wales are clearly aware of the vital importance of Small Business in their economies. Since Scottish and Welsh Devolution, the key organizations discussed above (Scottish Enterprise, Highlands & Islands Enterprise and the Welsh Development Agency) have received increased funding, augmented by European Union financial support which has, in some years, significantly augmented their grants-in-aid. While recognizing the value of the WDA's work by increasing its funding, the new Welsh Government has permitted the WDA to focus its activities more efficiently than in the pre-Devolution years. **Hypotheses One** and **Two** would thus appear to be confirmed for those Scottish and Welsh programs specifically designed to assist small and medium-sized enterprises.

References

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