**The UK Sovereign Wealth Fund – a Genesis discussion paper**

“Backing the bedrock of UK commercial life through a new UK Sovereign Wealth Fund to bring the SME sector back from life support to lead national prosperity”.

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**Summary**

* The SME sector represents 97% of UK businesses.
* The survival of a significant proportion of UK business will depend on funding generated and underwritten by taxpayers.
* That funding should build a UK Sovereign Wealth Fund, providing returns to the whole nation through equity or loan investment in UK SMEs.
* Since its formation in 1998, Genesis Initiative leaders have called for a national investment and support agency, following US and German models, to back SMEs and to growth national wealth. If not now, when?

**Proposal for UK National Sovereign Wealth Fund Backing the SME Sector**

As a result of C-19, we are looking at a devastated social, economic and commercial landscape. However, we will emerge from the crisis and, when we do, we will need to rebuild. In these dark days, as so many work tirelessly to help the sick, the business community has an opportunity to design the nation’s future structure; one that reflects what the crisis has taught us – that we’re all in this together.

The UK economy can be divided into four clear segments: the Public Sector; large private enterprise; small and medium sized enterprise; and, those who don’t work for pay. The needs and dynamics of each segment are different. However, small and medium sized enterprises (SMEs) have always been the bedrock of the UK’s commercial life. They are the economic power of the people made manifest in thousands of small businesses providing huge amounts of employment and generating wages, dividends, capital growth, and tax income. SMEs account for about 97% of businesses in the UK and they can be seen as a natural resource in the way that coal, oil and gas have been in the past. Almost all new net job creation comes from the SME sector.

We want to build on that idea; build on that bedrock.

There is no escaping the fact that the commercial future of the country depends on national funding. Funding generated and underpinned by tax-payers. The people of the UK will fund the rebuilding of the UK economy. To that end, we propose the creation of a Sovereign Wealth Fund (SWF). That is a well-understood concept and a prime example of 21st Century, social-capitalism in its best, most powerful form. Examples can be found globally, from Norway, to Singapore to many US states and far beyond.

The SWF allows the nation to share in the growth that it will be helping to create. It will manage the flow of state funds into SMEs in return for equity-ownership, interest payments, or both. In this way, the SWF will secure its investments and create the opportunity for increasing wealth in the future; a wealth that can be shared among the people – a return on investment.

The SWF will be staffed from the huge reservoir of businesses and commercial talent that exists in the UK. Regional hubs can be established to ensure local focus on local issues. The SWF will be centrally managed, but its activities will be dispersed across the land. It will be a commercially managed, commercial enterprise owned by the nation, for the long-term good of the nation.

Banks and other institutions, including pension funds and insurance companies, who want to participate in this enterprise will be welcomed. These institutions are not able to behave like the SWF – the risk profile is too difficult for them – but they should not be precluded from supporting it. They can lend to the SWF and thus ensure they remain within their industry regulatory framework.

Risk is at the heart of the current economic problem that’s been created by the global reaction to C-19. No commercial enterprise can afford to accept the risks inherent in the actions now needed to affect the rescue that’s needed. That’s not a fault or failing; it’s a reality of commercial life. The rules and regulations that control risk-taking are vital and cannot be relaxed now – that would create a store of future problems which, if and when realized, could cause new economic damage. We cannot let one catastrophe lead to another.

Only the nation, acting collectively can agree to enter the lions’ den. The nation, acting through the SWF, can rely on the law of large numbers and advance on the assumption that, of the millions of SMEs, the typical performance will be positive. Some will fail, of course; but there will also be stellar performances. Taken as a whole, the economics should be good. And, more than that, the regenerative effect of the SWF’s actions will be invaluable. That’s how the SWF differs, fundamentally from traditional funding sources. The SWF values national wellbeing as an asset of the enterprise.

Let that sink in. An enterprise with “wellness” as its prime motivational force. This would be a genuinely new and ambitious project. A project that captures so many elements of modern economic thinking. The profit motive will be present, but it won’t be paramount. The SWF can’t run at a sustained loss over a long period and it’s not meant to. It’s not uncommercial. Rather, it’s “sociomercial”. It combines social well-being with commerciality so as to deliver more than just hard currency, financial returns.

If the greatest socio-economic question of our times is: how do we, as a nation recover from C-19? Then if the answer is not: create a Sovereign Wealth Fund, what is?

**Background Notes**

**Sovereign Wealth Funds**

Some of the principles and proposals set out above may seem contradictory to traditional UK north Atlantic capitalism. Today, we do not believe that change can only be empty words in the hope that, the economy swings back to a version of business as usual. There has to be real transformation to move ahead once the COVID-19 virus has subsided. Across a range of countries in almost every national demographic, sovereign wealth funds are part of planning the future and tend to reflect national assets and characteristics and business strengths of those particular economies.

**Public Investment in the SME sector**

The US and Germany are just two countries with a not dissimilar outlook on the importance of SMEs that make a strong state backed lending and investment commitment to that sector. Respectively, [The US Small Business Administration](https://www.sba.gov/) and Germany’s [KfW Development Bank](https://www.kfw-entwicklungsbank.de/International-financing/KfW-Entwicklungsbank/) are just 2 examples of national organisations taking a long term stake in the growth and development of the SME sector, working on the basis of a return to the nation rather than state subsidy to small businesses.

**About the Genesis Initiative**

The Genesis Initiative was formed in 1998 to improve the quality of the debate on SMEs and create economic reform, driven by SMEs and supported by Parliamentarians. The Genesis Senate meets at least three times during each Parliamentary session, normally in March, June and October. It involves senior representatives of Entrepreneurs, SME Academia, Parliaments and Assemblies and SME Organisations within the UK (some 115 organisations representing some 1 million members across business sectors <https://www.genesis-initiative.org/senate/senate-member-listing/> ). This combination of entrepreneurial zeal, concentrated research and commitment from experts working on behalf of SMEs is linked with All Party Support across the House of Lords and Commons. Their joint efforts contribute to the continued growth of the SME sector within the United Kingdom. This experience and knowledge are shared with international partners who wish to work with or emulate this model.

Small business is the backbone of the British economy and when it does well the whole country does well. The role of Genesis is to act as an umbrella organization, working on behalf of the SME community to optimise potential growth in the SME sector by fostering a “can do” culture. We aim to participate fully in achieving economic and structural reforms that will enable business to flourish, resulting in higher productivity and a significant increase in the GDP of UK PLC.