

Finance Committee – Inquiry into Finance Wales

Finance Wales Stakeholder Breakfast event

22 January 2014
Pierhead, Cardiff Bay

Background

- 01.** As part of their inquiry into Finance Wales, the Finance Committee held a breakfast event with SMEs on 22 January 2014 to discuss their experiences with Finance Wales. A full list of attendees can be found at annex A.
- 02.** The session was run as four discussion groups. Participants were provided with some proposed areas for discussion, attached at annex B.

Key Issues

- 03.** There was a lot of support for Finance Wales at the session, and many commented that they disagreed with the findings in the Access to Finance review. SMEs told the Members that they value the approach taken by Finance Wales, such as being flexible in funding arrangements and the stability it offers in comparison to high street banks. It was suggested that Finance Wales is an asset and could have done with more support, and that the attitude of wanting to get rid of Finance Wales was an example of 'Wales shooting itself in its foot' again.
- 04.** The majority of concerns expressed by the SMEs to Committee Members were around customer care and communication. There was a suggestion that Finance Wales could be more proactive in promoting itself to SMEs, as there were a lot of referrals through intermediaries such as accountants.
- 05.** The SMEs did raise a number of questions about how Finance Wales innovates or spots a new/good idea and whether there is sufficient specialist knowledge within the organisation.
- 06.** The following key themes emerged from the discussions, which are explored in more detail below:
 - There is a need for Finance Wales
 - There is a need to define the remit of Finance Wales
 - Finance Wales' interest rates
 - Communication and Marketing
 - Funding for different types of business
 - Length of process



- The wider Welsh Government business support needs to be reviewed

The need for Finance Wales

In general, the SME representatives felt that there was a need for Finance Wales. They felt that a lot of businesses would not have come to fruition, or be based in Wales, without Finance Wales. They were willing to lend when the risk would be unacceptable to mainstream lenders. Attendees felt that Finance Wales had lent to businesses; and that as there was no private equity in Wales Finance Wales has helped to bridge this gap. It was considered that Finance Wales is not a replacement for private investments, but instead it is an accompaniment to it. They also felt they were receptive and flexible and can fill a gap due to the wide range of products they offer.

Remit of Finance Wales

Members were told that the remit and purpose of Finance Wales needed to be clarified. The SME representatives felt that it needed to be clear whether it was a quasi-grant provider, economic development agency or an autonomous lender/commercial entity. Some representatives felt that its key function was as an investment house, and others felt that FW goes through venture capital processes to make a decision. The SMEs felt it was unclear as to whether Finance Wales should focus on start-up funding or growth facilitation or job development. Some of the SMEs suggested that Finance Wales should provide seed funds, particularly given the low land prices and start-up costs in Wales. There were a number of concerns expressed about the difficulties of Finance Wales being a corporate structure in a political remit and the need to establish if they should be an organisation who balance risk and security in investing in business, or just an arm of Welsh Government business development. The SMEs suggested that this was an issue, as to be successful Finance Wales needs people who know the business/commercial world and that 'you can't do finance on the process'.

Finance Wales' interest rates

There has been much discussion about whether Finance Wales' interest rates are too high at 10% on average. The general consensus was that the rates were not unreasonable given the level of risk involved, as most of the loans are unsecured. It was suggested that the criticism of the interest rates was particularly unwarranted given the fact that banks were not lending to businesses in the main. It was suggested that while commercial loans have a lower APR, if you add in other things such as life insurance then it adds up to a comparable level to FW's APR. Furthermore the difference between a 5% APR and a 10% APR is around £100 a month, which should not be enough to make a business unviable. It was suggested that there was a misconception in the high rates being offered, with participants highlighting that the levels are not comparable to WONGA or such companies, or indeed London based private equity firms, and that if they were too high they would not have any business. There was surprise expressed at criticism of Finance



Wales' drive to self-sustain. There is a question of whether people would want the WG want to subsidise interest rates at a cost to the taxpayer.

Communication and Marketing

One of the major areas of concern about Finance Wales, was around the need for better communication and marketing of the services required. Participants told us, prior to involvement that they had little awareness of what Finance Wales did, and where they fitted into the funding mechanism, although others felt they were visible in the Business community. The difficulties of communicating to all small businesses, and the positive relationship Finance Wales had with accountancy firms, who tend to act as brokers in funding arrangements, were highlighted to members. It was suggested that a lot of Finance Wales' business came from referrals. Some participants were critical of the marketing material which was produced, suggesting that it was dated and unclear with regards to the areas they support. The SMEs stressed that if you are a start-up you need to know easily what is available to you, and that signposts to the relevant bodies were really important.

Funding for different types of business

Some participants raised concerns about the areas financed by Finance Wales, and suggested that this may need to be reviewed. Concern was expressed that Finance Wales were not flexible enough to deal with modern business models. SMEs raised concerns about Finance Wales's definition of retail, and that it had not been reviewed given the development of e-commerce. Participants felt Finance Wales was not upfront about what they will invest in, either in the details provided or in planning discussions. Moving forward, it was suggested that Finance Wales should get involved with seed funds for small technology businesses.

Length of process

There were some concerns about the process for getting a loan from Finance Wales. SMEs told us that the process can be off-putting and Finance Wales should consider offering some help with the application process. Finance Wales had taken longer to make a decision than other investors, such as private equity, in hybrid deals. Not everyone felt this was a problem, with some recognising the need for due diligence in allocating public money. It was suggested that innovative approaches such as recording video applications could be considered, as in a scheme being run by TSB and the UK Government, which could reduce the time spent on filling in forms. We were told that it would be useful to have an early indication whether you will be allowed to borrow, to save producing the detailed information and then being declined. It was felt that using accountancy firms often smoothed the process as they were able to advise on the information provided.



The wider Welsh Government business support needs to be reviewed

There was a general consensus that there was a need for a wider review of the business support provided by the Welsh Government. It was felt that there was a need for a strategic approach to business support, and that this was not Finance Wales's job.



Annex A

- Simon Buckley- Evan Evans Brewery
- Neil Cocker- Cardiff Start/Dizzyjam
- Warren Oscar Fauvel- Nudjed
- David Anthony- Chevler
- James Roberts- Grant Thornton LLP
- Anthony Bird- The Komodo Group
- Malcolm Duncan- Superod
- Dr Chris Tackaberry – Clinithink Ltd
- Clarissa Chambers
- Lindsay Hogg- Watts Gregory LLP
- David Jones- ICT Sector Panel
- Barry Pappin- Vita
- Dr Meirion Morgan- Meirion Morgan Limited
- Peter McGuinness- Chromogenics
- Gareth Kempson- Biomonde



Annex B

Themes for questioning

- How has the demand for finance by SMEs changed since the credit crunch in 2008?
- What has been your experience of Finance Wales?
- How well does the financial support and advice on offer from Finance Wales compare to other providers (e.g. banks)?
- What support would you like from Finance Wales and Welsh Government in the future?
- How well does Finance Wales promote itself and the range of funding options?

