



10/1/14

We would like to submit our responses to the specific questions below in relation to Finance Wales.

- The role and strategic purpose of Finance Wales – should it be self-financing by operating on commercial investor principles, or should it primarily support the economic development priorities of the Welsh Government? How do banks operate alongside public bodies such as Finance Wales, and how could this be improved?

The role and strategic purpose of Finance Wales needs clarifying and reviewing in light of the recent report by Dylan Jones-Evans. The question above implies that banks are the only other option that need consideration. There is increasing recognition and appreciation elsewhere for alternative players within the finance sector. To future-proof and ensure a more vibrant and sustainable economy and enterprise sector for Wales and we must encourage and support diversity rather than design centrally controlled unitary solutions.

As the only CDFI in Wales we have struggled to receive both recognition and support with the focus being on FW. Whilst elsewhere in the UK there are opportunities for greater diversity in financial provisioning, within Wales we have had too narrow an emphasis on single unified platforms. And now we may need to avoid the danger of this being extended to just two, if there is to be a single development bank under a Business Wales type programme.

We have worked well with FW in the past and have made loans especially to businesses that have either been rejected by FW or who have chosen not to use them. In return we have made referrals where appropriate back to them, mainly outside of our scale (above £50,000). But significant opportunities have been missed by the challenges posed for us in gaining access to capital and resources for scaling up our own operations - unlike the CDFI sector elsewhere who have had access to capital and revenue funds such as the Phoenix fund etc. There has been a singular lack of vision and ambition to grow alternative providers with the dominant emphasis being on FW.

Last year the 70 or so CDFIs in the UK had an important impact on businesses and households who were unwilling or unable to access mainstream providers such as FW:

Collectively we :

- Lent £200m to 33,400 customers

- Created and protected 8,300 jobs
- Supported 2,600 businesses, and 347 social ventures
- Saved 18,850 people from illegal and high-cost lenders
- Repaired 1,400 sub-standard homes
- Facilitated £116m of bank finance

There is a need to ensure if we are belatedly going to redesign the financial landscape then we must not skew the market by selective provisioning, and re-plan for a more inclusive and varied sector.

At present we have a nascent but under-resourced third sector, with a lack of appreciation for how mutuals and not-for-profits can intervene in providing alternative models, as the public sector withdraws and where a private sector would be unable to generate profits. Within SMEs there is a huge range of types of enterprises and personalities, and perhaps even more so within the micro-sector. We need to be able to deliver a much wider range of options for advising, financing, supporting and mentoring this diversity, and resist the risk of a simplistic and anodyne single delivery approach towards growing the Welsh economy.

- **Current performance** – has Finance Wales achieved appropriate outcomes in areas such as jobs created/safeguarded, business support, return on investment, economic impact, associated private sector investment etc?

No response – unknown.

- Interest rates charged – are these appropriate relative to those charged in the private sector or other sources, and given State Aid requirements? Should interest rates charged by Finance Wales be commensurate with risk?

We have found difficulty in competing where FW has been prioritised for subsidised capital. Ours is raised in the market and we have had higher overheads as a small but growing finance company with limited support from Welsh Government. However we can compete well where we have been able to achieve economies of scale. We have had clients who are unhappy with the charges and costs added to FW loans and especially to the time costs in the application process which can be crippling. However that said, they have also offered value for money for many other businesses.

We have competed with them and won custom on a like for like basis over micro loans and where clients appreciate a more tailored and supportive service.

- Value for money – does Finance Wales provide value for money to the Welsh Government, and how does it compare relative to other forms of public intervention and support?

We are certain that smaller dispersed programmes of capital funds would be more effective and successfully deployed and be better targeted. There is a real need to deliver 'relationship' type banking services and from specialist providers who understand local business and markets.

- Arrangements for future sources of finance – what potential forms of finance should be considered by Welsh Government for Finance Wales (including sources such as European funds and the European Investment Bank)?

This begs the question – should the finance go just to FW ? We would argue that WG should be looking at securing a range of finance to support a range of players across Wales, not just FW.

Significant leverage can be gained by WG offering Loan Guarantees, which can then be used to lever in external capital. This is a model that we use but which we are unaware if FW uses.

- The stage 2 report proposes that it would be less confusing for Welsh SMEs if all sources of finance, including UK programmes, were combined. Would it be beneficial to devolve a proportion of UK public support programmes to be administered in Wales?

No. Refer to our previous comments. This will merely build another FW type operation under a different name and fail to address the other key issue within DJE report which recognises a failure in diversity and market competition.

We have recently found ourselves unnecessarily competing with Business Wales for Start Up business loans. Despite being the only alternative Welsh lending company, BW has elected to partner with an English lender, representing a huge missed opportunity for building capacity and strength within Wales and retaining capital within our economy. More joined up and ambitious thinking could help design and evolve a more robust homegrown sector that could service the needs of new and diverse emerging enterprises.

- Corporate structure of Finance Wales - is the current structure fit for purpose and what potential alternative models could be considered?
- Activities of the Finance Wales Group in the north of England – is this of benefit to the economy and SME businesses of Wales?

Providing information to the Committee

You are invited to submit written evidence to the Clerk of the Finance Committee at the above address, to arrive by Friday 10 January 2014. If possible, please send your response by e mail to FinanceCommittee@wales.gov.uk by Friday 10 January 2014.

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