

FIN(4)FW035  
Finance Wales Inquiry  
Response from ACCA Cymru/Wales

## **Access to Finance Review Stage 2**

ACCA (Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

---

ACCA members in practice in Wales have a vital role to play in supporting our SME economy and providing businesses with relevant and timely advice on business growth, including guidance on accessing appropriate finance.

ACCA Cymru/Wales very much welcomes Professor Dylan Jones-Evans' report as a very important contribution to a key conversation on which we feel action is required.

In looking at issues around the ability of businesses to access suitable finance, it is important to reinforce the importance for businesses to have the right mix and type of finance. This increases flexibility for finance activity in different climates and situations and reduces dependency on and exposure to a single form of finance in what continues to be a volatile market.

The danger of over-dependence on single forms of finance has been well evidenced over recent years with a number of viable businesses facing a crisis of funding.

Finance is above all, an asset and needs to be treated as such – it should be used. Businesses cannot afford to have assets unused and not servicing its needs. However, this requires a change in business thinking in many instances.

There has been a clear drop in demand for finance from businesses over recent years and we feel that although this is reflected to some degree within the report, this needs to be more clearly stated. Popular commentary has often laid blame entirely at the door of the banking institutions and although they undoubtedly bear some responsibility, this is by no means the entirety of the situation.

Thought must be given as to how, in an environment of economic recovery, we are to help instil the confidence among SMEs which leads them to seek appropriate funding where there is an identified business need.

There is very little mention of the important role played by advisors in assisting businesses in choosing the right sources and combination of funding. The support network which sits alongside Wales' business is vital and so we would like to see accountants and other trusted advisors better reflected in this conversation.

### **Bank Funding**

We recognise many of the comments made by Prof. Jones-Evans with regard to the availability of bank funding in Wales and this has been echoed in conversations with members in practice across the country in recent years.

We agree that a number of factors likely contributed to this but whilst not wholly defending the actions of banks, we must not underestimate the role of sentiment in increasing the perception of risk among funders and businesses alike and the real impact that has had on the availability and take-up of the various products within the market.

There is a need for better popular understanding of the way in which banks operate and some of the chains of decision making. There needs to be greater transparency on the part of the banks in some of the algorithms which drive trading and investment decisions – so-called 'black box' trading.

We agree with the assertion that Welsh Government support should not operate in isolation from high street banks. Welsh Government support may well be appropriate in some cases where banks have rejected a funding bid for whatever reason.

However, creating an effective referral system will be challenging. There needs to be a realistic expectation of Welsh Government's capacity to take up such cases and there must be mechanisms in place to ensure that banks do not use this to pass off cases which although risky, would normally be supported.

### **Alternative Sources of Funding**

We are pleased to see that the report highlights the potential opportunity posed by alternative sources of funding and we very much welcome the analysis provided by Prof. Jones-Evans.

However, as is stated, awareness of less 'traditional' sources of funding among businesses remains generally low and part of the drive to improve access to funding should be a concerted campaign of communication by agencies such as Business Wales, professional and business bodies to educate businesses as to the options available.

Among the forms of finance available to businesses, we were surprised to see that supply chain finance was not reflected within the report. At its best, supply chain finance can do much to improve the working capital of a business and we would be interested to hear Prof. Jones -Evans view on this form of finance and its appropriateness for Welsh businesses.

Whilst very supportive of the suggestion that there may be a role for peer-to-peer lending and crowd funding to play in supporting Welsh businesses, few businesses have engaged with such networks and among many, there is confusion.

Much will have to be done to help educate businesses and advisers to enable informed decisions to be made as to the suitability of such models.

We agree with the suggestion that there may be scope for Government to align with or invest in such mechanisms and we welcome the idea of a top-up in addition to the 20% afforded by UK Government for loans supported by peer-to-peer lenders. We also welcome the suggestion that crowd funding could form part of the solution for investments under £50,000.

However, a judgement would have to be made regarding risk and the likely long-term stability of networks given the profusion of suppliers and the fact that these platforms are relatively new. A sizable collapse of any of the emerging networks would do much to undermine the process of crowd funding or peer-to-peer lending.

### **Finance Wales**

ACCA Wales has not sought to gather substantial detailed survey information from members regarding the performance of Finance Wales.

However, since the publication of the report, a number of ACCA members have offered their own experiences.

In the main, most comments regarding the operation of and interventions by Finance Wales have been positive with one member stating that they were 'bemused' by headlines in the Western Mail which questioned whether Finance Wales was 'fit for purpose'.

We feel that in Finance Wales, we have a brand which is generally well respected and has been an asset and a positive model of Government-backed support at a time when the wider market was substantially failing SMEs.

There are evidently substantial questions which will need to be addressed as to the historic operation of Finance Wales. However, of immediate concern is the likely future role of Finance Wales and so in order to minimise the impact on the brand and credibility of Finance Wales, there needs to be an early and informed conversation

about how the organisation and the wealth of talent within it should be best deployed to support Welsh businesses.

A number of our members have questioned the rationale of the possibility of scrapping Finance Wales in favour of an alternative model when what seems to have been deficient were the 'mission-drift' and systems and rates of interest employed by Finance Wales. All of these measures could be addressed within a re-stated and perhaps more robust remit stated clearly by Welsh Government.

What is clear however is that the Government in appropriate circumstances requires a vehicle for intervention and Finance Wales has to some extent provided that vehicle. Any change therefore needs to ensure that a medium for intervention is retained to help offset the impact of any further funding crisis and support Welsh SMEs.

We do agree that the line between Finance Wales as a commercial entity and a lender of last resort, tasked with reinforcing the economic development activity of the Welsh Government is very unclear and needs to be addressed.

### **The Development Bank for Wales**

We agree with the assertion in the report that public sector financial support in Wales is fragmented and in addition, there is no suggestion that it is well understood by businesses.

Business support afforded by the public sector should indeed be seen through the prism of economic development and the support available leveraged to that end.

We agree too that support delivered from any source within the public sector should not displace the private sector. This principle applies not just to finance but to the advice and guidance given to businesses including that given by accountants.

However, defining the lines of competency and 'responsibility' between private and public sector is not easy and less easy still for the customer to appreciate and this will need to be addressed.

The suggestion of a Development Bank for Wales is an interesting one and deserves further investigation by the Welsh Government. However, there is currently too little detail about this specific suggestion to allow practitioners and businesses to properly form a view as to whether such an institution would provide the most attractive solution for Wales.

Fundamentally, serious consideration should be given to the impact of any further upheaval in the business support landscape in Wales – a landscape which has changed dramatically and frequently in the last fourteen years and which has thus generated suspicion and confusion among businesses.

We note the suggestion that certain elements of Business Wales should be brought into such a possible Development Bank. However, there is no detail about what this activity should be and why this would be better placed under the Development Bank rather than a strengthened Business Wales which we would favour.

The brand of the Business Wales one-stop-shop has lately started to gain significant traction within Welsh business with very positive engagement by Business Wales with business and advisors.

This conversation is an opportunity to address the wider landscape of Welsh Government business support and perhaps clarify and strengthen the overall brand of Business Wales.

However, to do that, we feel that there needs to be stated commitment to the continuation of the Business Wales brand as the Welsh Government's vehicle for business support in Wales. This will help to instil some stability, build on its recognition and further develop relationships with business and professional advisors.

Overall, we question whether there is a need for significant upheaval in the existing mechanisms leveraged by the Welsh Government for supporting business rather than a re-tasking of existing structures, focussing them firmly to support economic development objectives and in supporting businesses in an environment of growth rather than one of economic stagnancy.

We would be happy to clarify any of these points further if required.

**Ben Cottam**  
**Head of ACCA Cymru/Wales**  
**December 2013**