FIN(4)FW045
Finance Wales Inquiry
Response from the ICT Sector panel

General Comments

The ICT Sector panel like the broad sweep of the report, it's details and, within it's terms of reference, comprehensive.

It is a much-needed piece of analysis.

SPECIFIC COMMENTS :

Section 5 – Finance Wales

The report contains a thorough analysis of interest rates charged by FW across all it's loan portfolio. Interest rates are reported alongside each other, and this suggests that they are in some way comparable. The references to Security of loans (Collateral) and Risk of loans (the likelihood of getting paid back) are made only at a summary level.

For instance, Table 4 on page 34 lists the comparison between Rescues and Restructure (which gives an interest rate of 11.85%) and compares this to the average of all loans at 10.41.

In the experience of the ICT sector panel, these level of interest are not high, when taken alongside the likely available Security (which is low) and level of Risk (which is high).

For clarity, our sector panel can only speak about the ICT Sector, which, unlike say Energy sector, does not have significant plant and capital resources which could be used as Security.

Using single-case examples is always dangerous, but in many cases within the direct experience of the ICT Sector Panel, the interest rates charged are not high.

There is reference in the report to the Microfinance Ireland fund (Page 42). The report states that compared to the interest rates charged by Ireland "… the cost of lending to Micro-Businesses seems excessively high" (Page 42). And indeed, comparing 8.8% (Ireland's Rate) to 11.25% (FW's rate for the Wales Micro-Business Loan Fund") is certainly higher, but we do not think to difference is "excessive". Further more, the web page http://microfinanceireland.ie/faq/ explains that the individuals behind the companies that these loans are made to are personally responsible. This re-enforces the requirement to always consider the issues of Security and Risk alongside the basic interest rates of any loan.

It would have been interesting to look in detail at a sample number of loans offered by Finance Wales and see if there were other comparative loan-terms offered by other lenders. This would have allowed a true comparison across these three components of Security, Risk and Interest Rates.

Within the ICT Sector therefore, we see no compelling evidence that Finance Wales *SHOULD* have charged lower interest rates. However, it is certainly the case that Finance Wales *COULD* have charged less, but even this view is never supported by analysis of Security and Risk. The report states this fact too "… there may be sound commercial reasons why this (charging higher interest rates) is the case".

Which brings us back to the key question is whether FW is a commercial Fund Manager, or whether it is an economic development facilitator. In the view of the panel, it is trying to be both, and, it is necessary that it does so.

Fund Manager – FW needs to act as a Fund Manager, because Wales is too small to support any other Venture-fund investor (whether that is on a Venture Capital basis or a Private Equity Basis). It is the experience of the ICT Sector Panel that having FW as an independent organisation is critical to its success. Indeed, we think that even the possibility that FW may be brought into Welsh Government risks FW's credibility with the Welsh entrepreneurial community.

Section 7 – Development Bank for Wales

Does FW help to drive the economic development for Wales ?

The report seems to argue that it does not. Our view is that FW actually attempts, with some success, to fulfil both roles. It clearly does behave as a VC, making equity investments (which is a huge form of investment not referenced by the report). The brutal reality is that, without Finance Wales (and Xenos), Welsh companies would have to get themselves to London to find equity investment. So, be filling a gap where the market ignores Wales, there clearly is an Economic Development commitment that FW fulfils.

So there is no philosophical reason to create a Development Bank.

If, however the Development Bank is meant to bring a streamlining to the existing Welsh Government funding options, this is to be applauded. But all this would do is to better manage the existing processes. From an entrepreneur's perspective, a commercial view of the demands of lenders is always to be preferred to the perspective that the Government or Civil Services can offer. We know that the burden of red-tape is often quoted, and putting lending *into* government and away from (an arms-length body such as Finance Wales) seems contrarian.

We do believe that there could be a better and closer relationship between the High Potential Start-Up Programme (page 54) and funding bodies. However, in the experience of the ICT Panel, there is already a very close relationship with at least part of this programme and FW, the weakness, if it exists, is in accessing the Welsh Government funding – Which is slightly contrary to the position of the report.

Arguably, it could be suggested that Welsh Government might consider a more responsive approach of making some of its grant-funding available via FW – Again, contrary to the report's recommendations.

SUMMARY

We think it is disappointing that phrases such as "not fit for purpose" have been used (albeit in a highly qualified way) about Finance Wales.

The fundamental question from the report seems to be this issue of whether FW is a Fund Manager or a commercial body. Our view is that they should be (and are endeavouring to be) both. Walking the tight line between those two is not easy, especially as the commercial community often shun lenders that are seen as being too close to government. But FW cover a very wide range of funding options – Making them unique in the UK.