

FIN(4)FW063
Finance Wales Inquiry
Response from Gambit Corporate Finance

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Our Reference: JFH/mjp

Dear Minister

As you are aware, last week the Stage 2 report of the Access to Finance Review was released. Compiled by Professor Dylan Jones-Evans, it questioned whether Finance Wales was “fit for purpose” and recommended the establishment of a Development Bank of Wales to manage its funds, as well as other financial support schemes.

As anticipated, the report has been the subject of much media coverage and exchanges within the business community and local government.

I genuinely believe that private sector sentiment until now has warmed to your decisive and proactive stance, but this report is potentially divisive because of the threat of interventionism whilst resurrecting memories of the WDA demise.

Commentators in last week’s media included “business leaders” in the guise of representatives of private sector membership bodies and politicians across the main parties who publicly questioned the “higher rates” of interest on loans made by Finance Wales.

Some of these remarks were, at best, naïve and demonstrated a lack of understanding of private sector financial markets and the deployment of debt funding by specialist institutional lenders.

Notably, there was little comment from business owners and wealth creators who have had to face the reality of prevailing market conditions and the availability of debt finance and investment capital either in Wales or beyond.

Indeed, the author, who has been honoured for his significant and commendable development of the Fast Growth 50 awards to recognise fast growing Welsh SMEs, should know that over the last five years an average of c.25% of the recipients of the Fast Growth 50 nominations have received financial support from Finance Wales, a lifeline for some of them.

Those of us who, on a daily basis, deal with SMEs seeking funding are only too aware of the vital role Finance Wales has played in sustaining Welsh business over the last five years of this Great Recession. As an established institution, it has come a long way in its professionalism and expertise. Outside of the Principality, Finance Wales has a positive reputation amongst the UK’s financial community and is a trusted co-investor to partner with non-Welsh institutional investors on local transactions.

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Interestingly, Professor Jones-Evans was a director of Finance Wales for several years when Objective 1 and 2 funds attracted interest rates of 11.75%. It is actually easy to demonstrate that the “higher interest” rates are UK market facing, for the level of risk and anticipated returns required to responsibly deploy unsecured funds, which inevitably sit behind the banks in any security ranking. These rates are the norm in structured finance.

The concept of establishing a Development Bank is not totally “off the wall” as long as it is clear in its role, operated by suitably qualified financial managers whose experience extends beyond dealing with the lesser complexity of grant aid.

Arguably, Finance Wales has certain funds which could be divested to the Development Bank whilst it retains the senior debt, mezzanine and equity finance provision to ambitious and investor-ready SME companies whether singularly or in syndication with other investors including the Business Growth Fund.

The report makes reference to avoiding displacing competition from private banks and equity investors, particularly if Finance Wales is providing risk capital at a discount to market rates. This is a serious threat to an already barren funding landscape as other institutions would not waste time in isolating Wales from their investment criteria.

Finance Wales has come a long way in its 12 years despite being the victim of a “marriage made in hell” between a corporate entity and government controlling partner.

Hands up, it has had its issues, particularly in the early years, but nevertheless has consistently been Wales’ SME finance house, responsible for filling the funding gap which other institutions were not prepared to address or commit to.

For this role and risk play there is a market driven price to pay which reflects the inevitable high failure rate to be recouped on the back of fewer winners. This is fundamental to a qualifying ability to attract new capital for future investment.

By all means, let us explore the creation of a centralised Development Bank with a range of funding instruments to assist micro businesses, early stage companies and start-ups. Consider too the provision of collateral support to enable SMEs with guarantees and security requirements which growing companies require to win trade and leverage bank funding.

If this means separating off a slimmed down Finance Wales, then surely it has to be a better outcome for all of its stakeholders.

Yours sincerely

A handwritten signature in blue ink, appearing to read "J Frank Holmes".

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