

# A Vision for Welsh Investment

Ambition, Action, Achievement

## Invest Wales

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Ceidwadwyr  
Cymreig

Welsh  
Conservatives



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Photo courtesy of Paul Davies AM

## Access to Finance - Introduction

Small and Medium Sized businesses (SMEs) are the lifeblood of the Welsh economy accounting for 99% of all active enterprises in Wales and employing over half of the private sector workforce.

One of the main challenges facing SMEs in Wales is access to finance. Access to finance is important for funding investment, ensuring businesses reach their full growth potential, and for facilitating new business start-ups. Sometimes, only a modest level of assistance is needed yet, ironically, this can be the most difficult level of assistance to access.

The primary source of finance for SMEs is through the banks. Five out of every six businesses that expect to need future finance anticipate seeking it from banks.<sup>1</sup> Banks approve loans which provide SMEs with the finance to develop their business; this in turn benefits the local area and stimulates regional economic growth.

<sup>1</sup> ONS, *Access to Finance 2007 and 2010*, 28 October 2011





Photo courtesy of Jason Betchel

## Bank lending in the UK

It has become increasingly difficult for SMEs to successfully access finance from a bank. The Department for Business, Innovation and Skills stated that the stock of bank lending to SMEs peaked in 2009 and has been declining ever since.<sup>2</sup> The 2008 banking crisis led to a worsening of credit conditions for the small business community as wholesale banking markets seized up.

The decrease in the number of successful loan applications made by SMEs was not necessarily a worldwide trend. The UK experienced a 24% fall in the number of successful loan applications between 2007 and 2010; this is compared to a 9% fall in Germany. In the US, the Small Business Administration (SBA) actually increased its small business loans in 2010.<sup>3</sup>

Lending to SMEs in the UK decreased significantly compared to other countries due to the concentration of the retail banking sector. In the UK 92% of the banking sector is made up of five large banks, which has had a significant effect on competition. In comparison, 13% of the German banking sector is made up of large banks.<sup>4</sup> The 2008 banking crisis simply emphasised existing weaknesses in the UK banking market and created an increasingly difficult situation for SMEs.

<sup>2</sup> BIS: *SME Access to External Finance*, January 2012

<sup>3</sup> FSB Report *ALT+ Finance: Small firms and access to finance*, February 2012, p.4

<sup>4</sup> Prof R Werner, *IWA/FSB: Alternative finance for Welsh microbusinesses conference speech*, Novotel Cardiff, 23 October 2012

# Making Wales Competitive

The tough economic climate and limited business support has meant many SMEs are struggling to survive. Domestic business confidence is down, vacancy rates are up and business birth rates in Wales remain lower than the UK average.

- The Federation of Small Businesses' (FSB) Small Business Index (SBI) for the third quarter of 2012 shows that business confidence in Wales had fallen to its lowest level since the end of 2011. Wales' business outlook slipped from -12 to -25 and is therefore the lowest reading of any part of the UK except Northern Ireland.<sup>5</sup>
- During 2011 the enterprise birth rate in Wales was 9.3% which is the second lowest rate out of the UK countries and regions. The UK birth rate was 11.2%. It is concerning that the enterprise death rate remains higher than the birth rate in Wales at 9.5%.<sup>6</sup>
- The tough economic climate has forced many local shops out of business leaving vacant and dilapidated buildings lining our high streets. In November 2012 Wales had the second highest vacancy rate in the UK at 15.1%. This is higher than the UK average of 11.3%.<sup>7</sup>

The FSB stated that problems with access to finance and weak consumer demand are taking their toll on businesses across Wales. It is essential that Wales must not fall behind the rest of the UK; SMEs need effective support in order to remain competitive.

<sup>5</sup> FSB Index, 2012

<sup>6</sup> ONS, 13 December 2012

<sup>7</sup> BRC/Springboard Monitor, 19 November 2012



Photo courtesy of National Assembly for Wales

## Believing in Wales

Wales is a small nation of 3.06 million people and yet has a strong entrepreneurial spirit and huge business potential. The Welsh business stock is 99.2% SMEs and out of the 209,200 SMEs in Wales, 199,300 are microbusinesses.\* Microbusinesses employ 615,600 people in Wales – 60.5% of all private sector employees.<sup>8</sup> We need to believe in these businesses; they are the life-blood of Welsh economy and the heart of achievement and success in Wales.

Wales cannot afford to wait for the improbable occasion that one or more multi-national enterprises make Cardiff their headquarters. We believe that acting now and investing in the people *throughout* Wales will ensure the long term sustainability of the Welsh economy.

SMEs exist in cities, towns and villages throughout Wales, in homes, in small offices and in family firms. We have some amazing success stories in Wales.

\* Micro, small or medium sized business – as defined in Welsh Government statistical analysis (25 October 2012); Micro 0-9 employees, Small 10-49 employees and Medium 50-249 employees.

<sup>8</sup> *Size analysis of Welsh Business 2012*, 25 October 2012, p.1



**Halen Môn**, the Anglesey Sea Salt Company, has an enormous profile and has grown from supplying the local butchers in Menai Bridge to being stocked in Harvey Nichols and the best delicatessens and restaurants in the world in just fifteen years.

**Rachel's**, the first certified British organic dairy, came from a family farm in rural West Wales. They now export yoghurts, milk, cream and butter all over the world.

**Penderyn** set up a brand new Welsh Whisky Distillery in the heart of the Brecon Beacons, the first new distillery in over a century. The company made the most of the Welsh heritage and rural setting.

**Williams Medical Supplies** founded in 1986 is the largest supplier to general practitioners (GPs) in the UK, and has been voted one of the Best 100 Small Companies to work for.

**Howies** has become known for their high-quality ethical sports clothes based in Cardigan Bay.

**Sain Records** was established as a Welsh-language record production company in 1969 and has grown to sell its music throughout the Celtic Nations, and online.

Welsh small businesses represent the people of Wales and they need nurturing and encouraging.



Photo courtesy of Anthony Pickles

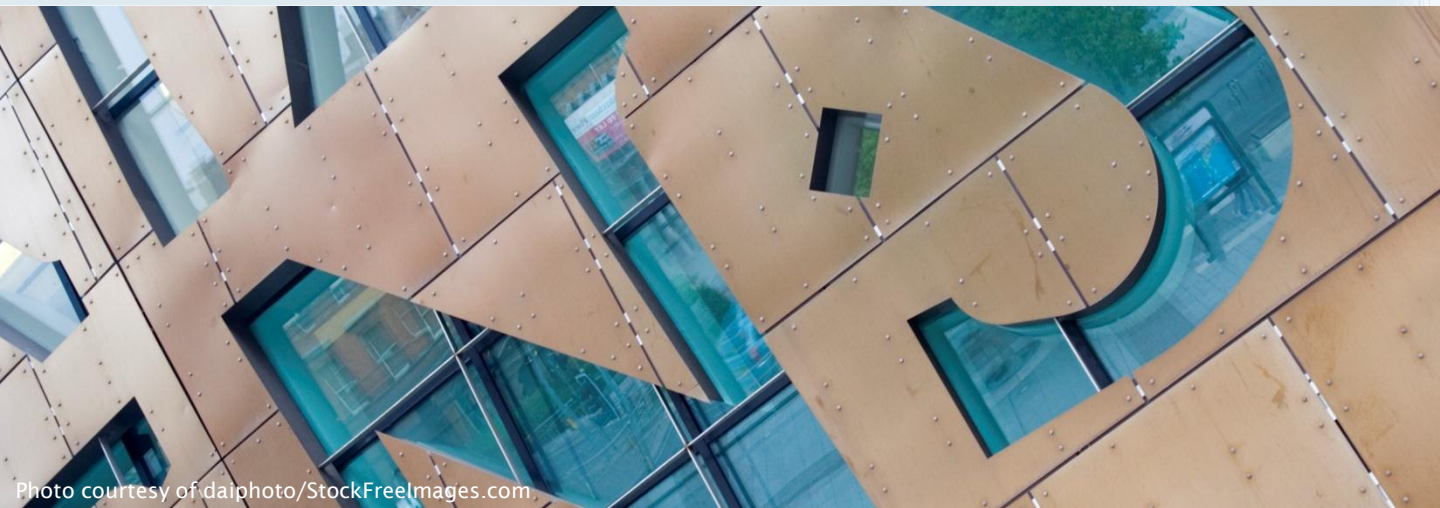


Photo courtesy of daiphoto/StockFreelimages.com.

## Welsh Conservative Vision

**In order to stimulate the economy access to finance must be localised. Welsh Conservative vision is to establish a system of geographically accountable Welsh regional investment ‘banks’.**

Although we are not talking about ‘banks’ in the true sense, Welsh Conservatives hope to capture the familiarity and confidence inspired by the experienced local bank manager. Local knowledge can – and should – affect a decision whether to lend or not. Local businesses would benefit from local access to finance.

Welsh Conservatives want to stimulate the local economy and support SMEs by improving access to finance at a local level. This is an important aspect of the localism agenda which would ensure that investments support local SMEs and stimulate the local economy and community.

The Welsh Government established Finance Wales plc in 2000 to make commercial investments in SMEs throughout Wales. Finance Wales is a wholly owned subsidiary of the Welsh Government and runs several grant programmes such as the SME Investment Fund and the Micro-business Loan Fund. However, Finance Wales has failed to effectively engage with SMEs across Wales and this is highlighted by the fact that a worrying 64% of businesses were unaware of Finance Wales’ existence and just 4% have secured financial support from Finance Wales.<sup>9</sup>

<sup>9</sup> FSB Survey Panel, May 2012





Photo courtesy of wgy1952/StockFreeImages.com

Welsh Conservative vision aims to reform Finance Wales and develop a more effective investment structure which is readily available and accessible to businesses throughout Wales. The policy proposals will use the leverage of the state to support long term lending to SMEs.

## **Structure and Implementation**

Welsh Conservative policy proposals aim to reform Finance Wales and develop our own investment brand called *Invest Wales*. Invest Wales will reform part of Finance Wales' function, catering for the micro, small and medium sized business loans. Loans over £1 million will be dealt with by existing Finance Wales functions. Invest Wales will be governed by an overarching board, and have six regional branches throughout Wales which provide localised access to finance for SMEs.

By utilising the funding flow and basic concept of Finance Wales to develop the Invest Wales scheme, we will initially create six regional branches. The six regions will have roughly even population splits; recognising the distinct economic problems which characterise each area. The six regions are detailed below:

- Invest Wales Central
- Invest Wales Valleys
- Invest Wales South East
- Invest Wales South West
- Invest Wales Mid & West
- Invest Wales North



The six regions identified above have different economic challenges and therefore the regional Invest Wales branches would be specialised to each economic area. For example, the South Wales Valleys are struggling with an unemployment rate of 12.5%, higher than the Welsh average and significantly higher than the rate in Mid and West Wales of 6.1%.<sup>10</sup>

The draft model (page 12) illustrates how this localised access to finance may be developed. Welsh Conservative vision aims to ensure access to finance is geographically accountable. The creation of six regional Invest Wales branches is the beginning of a process which aims to ensure this localised model filters down into each constituency, city, town and high street in Wales.

Government finance support schemes are often considered distant and complex and are run by faceless investment organisations which have little connection with the local community. Invest Wales will have accessible regional branches which will understand the local economy and therefore identify gaps in the market. This in turn will support local SMEs and stimulate the regional economy.

The regions will be governed by an Invest Wales 'Board' which will consist of an Invest Wales Director, appointed by the Welsh Government, and six regional board members who will represent the six regional Invest Wales branches.

The Invest Wales Board will report to the Welsh Government but will sit independently alongside it. The Board will be responsible for monitoring the regional hubs and the businesses they are investing in. They will be responsible for setting branding, business counselling advice and online 'banking'. They will also be required to report quarterly on key economic indicators in each of the regions and how the investments are impacting and developing the economy of those regions.

<sup>10</sup> ONS *Regional Labour Market Statistics*, December 2012



Photo courtesy of pepitoid, StockFreelImages.com

The infrastructure of Finance Wales is well-established, but badly advertised to businesses. 64% of businesses do not know of its existence.<sup>11</sup> As it is a wholly-owned subsidiary of the Welsh Government, there is precedent to feed in money which is not dominated by profit margins, and can therefore be lent for a much longer period than a normal high street bank.

Welsh Conservatives are not looking to build banks from scratch. The Invest Wales model would be put out to tender in each region and consequently 'hosted' in an existing retail bank, or other financial institution. The value of this structure is that it will help to spread the risk with the bank providing half the capital for the loan. The bank will be required to put up very small amounts of money. In part – this is much like the *Funding for Lending Scheme* introduced by the Bank of England in August 2012, which encourages banks to lend to businesses, however with the added bonus that there is a partnership sharing the risk of loaning to Welsh businesses.

<sup>11</sup> FSB Survey Panel, May 2012

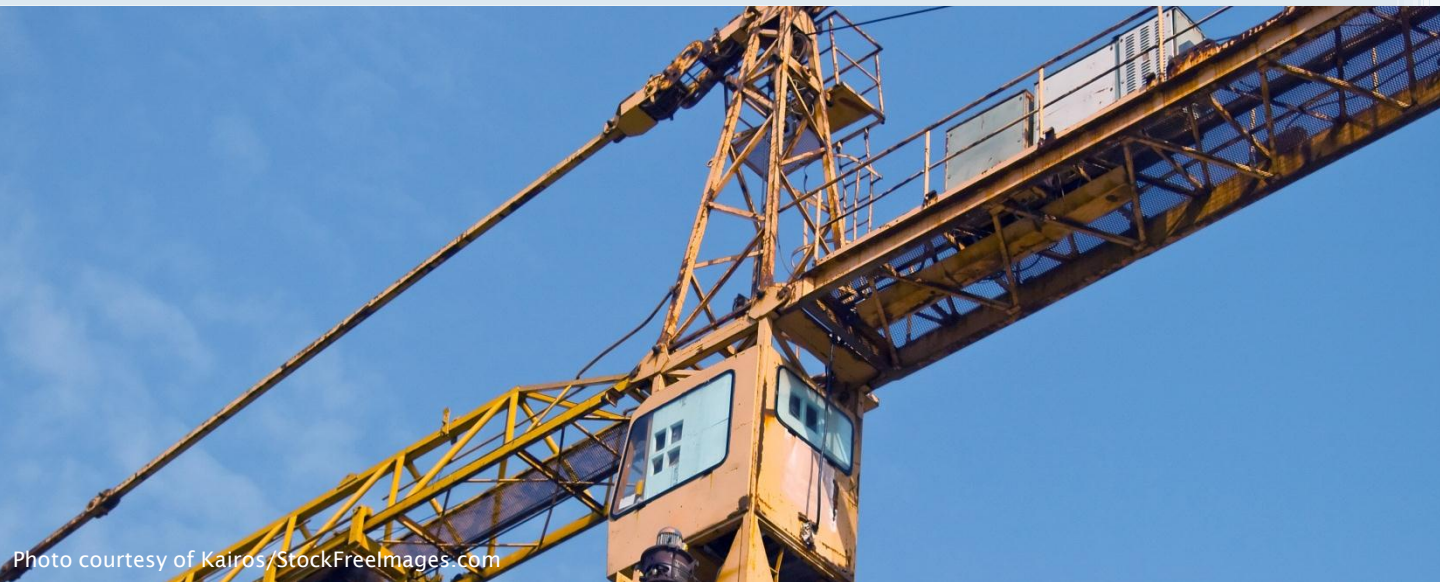


Photo courtesy of Kairos/StockFreelimages.com

Within the host institution Invest Wales staff, including a local Invest Wales ‘bank manager’ would be employed and would be responsible for guiding businesses through the application process and with their local knowledge, assist them with business counselling. During the application process businesses must show that any investments would have a wider benefit for the local economy and community.

Welsh Conservative policy proposals believe in the value of building effective relationships between businesses and the finance community. In order for trust to be brought back to banking finance we must draw on the values of the traditional bank manager who cultivates a lasting relationship with the local community. We want people to trust and identify with their regional Invest Wales branch manager; being able to access easily the information and support they need to grow their businesses.

Welsh Conservatives believe in building a vibrant Welsh economy. We are ambitious that once this model gets the wheels of the small business economy turning again there may be scope for examining how to improve access to savings accounts and mortgages. Our vision is that by running Invest Wales through existing finance infrastructures, it will have a chance to take root in the local economy.

**Wales Average:**

Pop 3,063,200

Unemployment rate 7.9%

Claimant Count rate 5.5%

209,200 SMEs in Wales

Welsh Government

**Invest Wales Board**

(Previously Finance Wales)

**Invest Wales Valleys**

Pop 363,000

Unemployment rate 12.5%

Claimant Count rate 6.4%

Blaenau Gwent

Merthyr Tydfil

Rhondda Cynon Taf

Local High Street

**Invest Wales South West**

Pop 378,800

Unemployment rate 9%

Claimant Count rate 3.8%

Neath Port Talbot

Swansea

Local High Street

**Invest Wales Central**

Pop 611,600

Unemployment rate 8.5%

Claimant Count rate 4.2%

Cardiff

Bridgend

Vale of Glamorgan

Local High Street

**Invest Wales South East**

Pop 506,900

Unemployment rate 9.1%

Claimant Count rate 4.7%

Newport

Monmouthshire

Caerphilly

Torfaen

Local High Street

**Invest Wales North**

Pop 687,800

Unemployment rate 6.9%

Claimant Count rate 3.8%

Conwy

Denbighshire

Flintshire

Gwynedd

Isle of Anglesey

Wrexham

Local High Street

**Invest Wales Mid & West**

Pop 515,100

Unemployment rate 6.1%

Claimant Count rate 2.8%

Ceredigion

Powys

Carmarthenshire

Pembrokeshire

Local High Street



## Welsh Conservative Investment Criteria

- A business with headquarters in Wales – money must be kept in local communities
- Micro, small or medium sized business – as defined in Welsh Government statistical analysis; Micro 0-9 employees, Small 10-49 employees and Medium 50-249 employees.<sup>12</sup>
- Funding required: £1,000 – £1,000,000
- Details of length of investment period – lower interest rates than high street bank will be applied.
- Detailed business plan – drawn up with Invest Wales ‘Bank Manager’:
  - 3-5 year plan
  - Clear division between % of retail, manufacturing and residential spaces
  - How the business fits into the local community
  - Marketing and PR principles – websites, appropriate social media
  - Viability of asset acquisition
- In order to ensure best practice and fair investment procedures Invest Wales would be guided by a ‘Charter’. The Invest Wales Charter aims to guide customers, as well as staff, and ensure fairness and trust is central to Invest Wales investments. Please find details of the Charter in Appendix C.

The next stage of the policy process would be to commission a detailed consultation with the UK banking sector, the relevant EU officials and other financial organisations to gauge their position and engagement with a Government backed SME Investment scheme like Invest Wales.

<sup>12</sup> *Statistics for Wales*, 25 October 2012

## SME Journey under Welsh Conservative proposals:

<b>Week 1</b>	Walk into local high street <i>Invest Wales</i> /visit the website
	Apply through an easy to use system online, or with the Invest Wales Bank Manager in store
<b>Week 1-2</b>	Make an appointment to either go into the local branch to discuss the potential investment or arrange a telephone conversation to discuss options
	Access to information - networking opportunities
	Work through a detailed business plan if a start-up; growth plan if already operational
	Contract signed with an agreement on length of contract and points throughout the length of the journey where advice may be given or reassessment may take place.
<b>Week 2-4</b>	Loan deposited



Photo courtesy of yanc/StockFreelimages.com

## Business Counselling

Many businesses require more than just finance. Many have the ideas but lack contacts in the right industries; many need a small amount of help to structure their business plans correctly, or guidance in marketing and PR to help their enterprise grow and flourish.

Welsh Conservative vision aims to provide not just the finance but the finance counselling which could support SMEs throughout Wales. In each local host retail bank, one counter will be set aside for Invest Wales where we will employ our Invest Wales Bank Manager/staff who will manage applications and guide SMEs through the application process. They will also provide expertise and advice on business plans, marketing and PR.

The FSB in Wales reports that many of their members have been turned down for financial assistance because their business plan is not quite as detailed as the retail bank requires, or their business has failed or not grown as much as it had the potential to do so because they didn't have the networks, contacts and the advertising skills. The Invest Wales 'Bank Manager' will fill these gaps. They will know the local area and have a portfolio of contacts that will be able to strengthen the amount of advice and training available to an SME. By encouraging healthy support networks, other businesses will in turn benefit from having Invest Wales in their community.

Welsh Conservatives believe there is more to investing in the economy than just money; successful access to finance also needs access to expertise; otherwise both money and Welsh talent is wasted.

A hand is shown in the process of drawing the word "money" in white chalk on a black background. The word is written in a lowercase, slightly cursive font. The hand is holding a piece of white chalk and is currently finishing the letter 'y'.

© Images\_of\_Money

## Targets

Welsh Conservatives want to stimulate the local economy and support SMEs by improving access to finance at a local level. In order to achieve real change for SMEs across Wales we have identified five headline targets to measure access to finance and business support.

The long term target is to provide effective support for Welsh SMEs and stimulate the local economy. It is notable that the unemployment rate across the border in the South West, as of December 2012, was 5.7%; this significantly lower than the unemployment rate in Wales, which is 7.9%.<sup>13</sup>

<sup>13</sup> ONS, December 2012



# Headline Targets

1. Welsh Conservatives wish to see business confidence in Wales in line with or above the UK average. The FSB has found that business confidence is at its lowest level since the end of last year. Domestic confidence must be improved.
2. Welsh Conservatives want to improve access to finance for businesses in Wales and see increased lending to SMEs, which make up 99% of our business stock.
3. Welsh Conservatives want to see a more localised approach to finance and investment. We are concerned that, too often, banking and lending decisions are not based on local factors and knowledge.
4. Public awareness of available finance must be improved through a targeted and localised approach. A worrying 64% of businesses are unaware of Finance Wales' existence.
5. Survival rates amongst Welsh enterprises needs to improve, ensuring flourishing local economies and increased employment opportunities. The five year survival rate for enterprises born in 2005 and still active in 2010 for Wales was 44%, the same as the UK survival rate. We want to see the survival rate above the UK average.



Photo courtesy of Zllgzxy894/StockFreeImages.com

## Case Studies

The following pages outline three case studies which detail real life examples of businesses struggling to access finance from the banks.

### **Utopia Hair & Beauty, Narberth**

Utopia Hair and Beauty Salon is located in Narberth, Pembrokeshire. Established in April 2001 Utopia has developed from a small hair salon employing five people, into a growing business and Training Academy employing 14 people.

Utopia now runs three businesses in Narberth including the Hair and Beauty Salon, a Barbers and a City and Guilds accredited Training Academy which has over 100 students. As the business has grown the owners have needed more space for expansion. With the help of the bank they acquired the adjacent retail spaces with the intension of a full redevelopment. The long term vision is to have a coffee shop, retail area, training and the salon all under one roof with residential apartments on the first floor.



Photo courtesy of Utopia Hair and Beauty

The owners provided a detailed business plan for this redevelopment and provided all the necessary information and documentation required by the bank. However, the bank was only willing to lend a less than half of the money required. The owners have therefore been unable to begin the redevelopment and the properties they acquired remain vacant.

Utopia is a strong small business which is looking to develop into a medium sized enterprise with more employees and more retail space. Not only would the redevelopment provide long term growth in the local economy and increase footfall, it would also provide work during the redevelopment period. The long term redevelopment plans have always been the ambition of the business and it is devastating for the owners to be denied a loan at this final hurdle.

## Store4Sure, Wrexham

Store4Sure is a self-storage company based in Wrexham in North Wales. The business operates 150 different sized storage rooms and has the capacity to store a range of items from furniture to caravans and cars.

The business offers clean, dry and secure storage with 24 hour recorded and monitored CCTV. The business has been operating for four years and employs three people.

Store4Sure expanded after two years and the owner received financial support for this expansion from the bank. Recently Store4Sure was looking to go through another period of expansion. The business was growing and the owner was looking to purchase more storage space and equipment, such as a forklift truck. The business presented the bank with a detailed business plan, and the required two year cash flows.

Although the bank was happy with the business plan and the application met the relevant criteria, the business could not afford the loan because of the costly interest rate. The bank offered a 20% interest rate for a £25,000 loan. Originally the bank offered the loan with a more affordable interest rate; however this was offered at a personal loan rate and immediately changed once it became clear it was a business loan.

This is a vibrant business in North Wales which has the potential to expand in size and provide further employment. Welsh microbusinesses, such as Store4Sure, must be able to access finance at an affordable rate in order to expand and in turn stimulate the local economy and benefit the wider community.



Photos courtesy of Store4Sure.com



## Denbigh Chocolate & Coffee Shop, Denbigh

Denbigh Chocolate and Coffee shop was established three years ago and is located in Denbigh town centre. The shop currently employs nine part-time staff and is renowned for its luxury handmade chocolate. The shop offers a range of services including the coffee shop, personalised cakes, hampers and a party and event service.

The business has plenty of development opportunity and the owners were looking to expand and open another shop in the surrounding area. The owners have therefore approached the bank several times in the last three years applying for a loan for business expansion. However, the bank simply declined the application without even asking to see a business plan or the company accounts.

This popular local business has huge potential and through expansion has the capability to employ more people. The business has ambition to create its own brand of local ice cream and, if it were able to establish a second shop, this diversification would have created two full time jobs. As a result of the problems with access to finance the business has been unable to expand and has been forced to rely on help from family and friends for support.

The owner of the chocolate shop is the vice-chair of a local business group and is a former member of the Federation of Small Businesses North Wales Committee. The owner has also been in business since 1987 and therefore has extensive experience. However, the financial barriers to expansion are stifling the growth of a potentially flourishing local business.



Photo courtesy of DenbighChocolateShop.com









# International Models

## Germany

The German banking system is characterised by a larger number of players and therefore greater potential for competition. In Germany, state (federal and regional) involvement in financing is much more extensive, it is estimated that about five billion euros per annum is directed to SMEs in the form of grants.

### ***Structure:***

**Landesbanken** – layer of banks which sit above the Sparkassen. The Landesbanken is the top institute taking over tasks that a local Sparkassen is too small for.

**Sparkassen** – The Sparkassen are regional retail banks which are legally and economically independent credit institutions. There are 420 Sparkassen banks in Germany. These banks highlight the decentralised nature of the German banking system.

The Sparkassen are governed by Federal and state law which has created a set of rules around local and regional banks that obliges them to invest primarily in local businesses. There is a savings bank law in each of the regions (Länder) and it is these laws which decree that a savings bank must fulfil a 'public legal obligation'.

The Sparkassen therefore must restrict their activities to the local area and their success is tied to the local economy. Though they are not profit oriented they do turn a profit; but must also serve their local community.

During the financial crisis Germany's large commercial banks (like Britain's banks) cut credit and lending fell by 10% between 2006 and the middle of 2011. In contrast, the Sparkassen increased lending by 17% and continue to do so.<sup>14</sup> Their local focus and commitment to local businesses re-emphasised the contribution they make to the stability and prosperity of the German economy.

<sup>14</sup> *Retail Banker International Website*, accessed 27 May 2012



## **Business Development Bank of Canada (BDC)**

Founded in 1944 the BDCs mandate is to help create and develop Canadian businesses through financing, subordinate financing, venture capital and consulting services, with a focus on SMEs.

BDC has more than 100 business centres across Canada and serves about 28,000 clients. BDC's debt obligations, secured by the Government of Canada, are issued to the public and private sector institutions.

The bank was established by an Act of Parliament as the Industrial Development Bank (IDB) in September 1944. IDB was initially an arm of the Bank of Canada, and the Governor of the Bank was also Chief Executive Officer of the IDB.

The BDC reports to the Canadian Parliament through the Minister of Industry.

During the decade of diversification (1965-1974) the federal government recommended it become a one-stop shop for small businesses. The following decade the bank decentralised “authority for approving loans and opened more branch offices”.<sup>15</sup>

They provide financing online and in branches in both official languages. They have a focus currently on technology and export sectors of the economy. BDC offers both financing solutions (long term financing, venture capital, subordinate financing) and consulting services. BDC's innovative term financing features fixed or floating rates and repayment schedules up to 20 years, tailored to capital needs. Project-based financing and a comprehensive approach to risk assessment allows BDC to help businesses whose financial needs exceed the parameters of traditional financing.

<sup>15</sup> BDC website, *History*, accessed 22 November 2012

## **Small Business Administration (SBA) – USA**

The SBA is a United States Government agency that provides support to entrepreneurs and small businesses. SBA loans are made through banks, credit unions and other lenders who partner with the SBA. The SBA provides a government-backed guarantee on part of the loan.

Under the Recovery Act (2009) and the Small Business Jobs Act (2010), SBA loans were enhanced to provide up to a 90% guarantee in order to strengthen access to capital for small businesses after credit froze in 2008. The agency had record lending volumes in late 2010.

The SBA does not provide personal banking, or provide grants to businesses; they behave as a commercial bank, providing long-term finance and consulting. The SBA was set up by President Hoover in 1932 “to alleviate the financial crisis of the Great Depression”.<sup>16</sup>

### ***Small Business Development Centers (SBDCs)***

SBDCs provide technical assistance to small businesses and aspiring entrepreneurs, supporting business performance and sustainability. They help with the creation of new businesses, which in turn then foster local and regional economic development through job creation and retention as a result of the extensive one-on-one long-term counselling, training and specialised services they receive from the SBDCs.

The SBDCs are made up of a unique collaboration of SBA, state and local governments, and private sector funding resources.

<sup>16</sup> SBA.Gov website, *Small Business Development Centers*, accessed 22 November 2012

SBDCs provide services such as development of business plans, manufacturing assistance, financial packages, and procurement contracts. Special emphasis areas include international trade and export assistance; e-commerce; technology transfer; assistance for veterans, including reservists, active duty, and disabled personnel returning from deployment; disaster recovery assistance; Internal Revenue Service (IRS), Environmental Protection Agency (EPA), and Occupational Safety and Health Administration (OSHA) regulatory compliance; research and development as well as market research.

Based on client needs and local business trends and individual business requirements, SBDCs modify their services to meet the evolving needs of the small business community in which they are situated.<sup>17</sup>

### **Handelsbanken – Sweden**

Swedish Bank Handelsbanken has been trading since 1871. Its expansion into other countries including Britain has seen it become a successful and steady investor of small businesses.

The bank has regional headquarters and the chief executive of the UK business outlined the principles the bank trades on: “you’ve got to understand your customers’ needs, their dreams”; who will understand the customers better “people like me in this ivory tower or local people who are geographically closer to their customers?”.<sup>18</sup>

During the Swedish recession of the early 90s, they were the only major Swedish bank not to have to discuss applying for a state guarantee. The bank prides itself on an ‘innovative approach’ and how it finds the right solution to match the requirements of individual businesses.

They offer flexible products such as capital finance and longer term finance. They work with the business to find the right solutions to their requirements and help to ease cash flow in order to provide the necessary stability to support business growth.

<sup>17</sup> SBA.Gov website, *Small Business Development Centers*, accessed 22 November 2012

<sup>18</sup> *The Guardian website*, 14 September 2012, accessed 21 November 2012

## **Bank of Essex – UK**

In 2009 Essex County Council set up the ‘Bank of Essex’ in partnership with Santander. The concept was to shift away from a remote centralised system of banking to one more responsive to local need. The bank was part funded by Essex County Council and Santander. The concept included a physical presence on the high street with a branch in Chelmsford as well as a website and access through post offices.

Although the bank closed in 2011 due to political priorities as well as budgetary constraints, the experience highlighted the importance of localising access to finance for SMEs.

## **Funding for Lending Scheme - UK**

There have been many attempts to revive business lending in the UK. The Funding for Lending Scheme was launched as a flagship policy by the Bank of England and HM Treasury and was launched as a scheme which would help banks and building societies to lend to consumers and businesses.

Initial hopes for the scheme were that it would increase net lending by as much as £80bn (5%). Figures released on 3 December 2012 for the third quarter of the year showed that the banks’ total net lending rose by £496m.<sup>19</sup>

***FSB Alt+ Finance Report: “The benefit of a local banking structure, with decision makers close to their customers, is a key strength of both the US and German banking models.”<sup>20</sup>***

<sup>19</sup> BBC News, 3 December 2012

<sup>20</sup> FSB Alt+ Finance Report, February 2012, p.4-5.





Photo courtesy of Boysun/StockFreeImages.com

# Differences to other Finance Institutions

Institution	Description	Difference to Invest Wales
Finance Wales	<p>Finance Wales is a wholly-owned subsidiary of the Welsh Government and provides commercial funding to SMEs and larger businesses throughout Wales.</p> <p>Finance Wales' headquarters are in Cardiff and although there are three small regional offices, one based in Newtown, one in St Asaph and one in Llanelli, there remains little understanding and awareness of Finance Wales.</p> <p>According to a FSB Survey from May 2012 a worrying 64% of businesses were unaware of Finance Wales' existence and just 4% had secured financial support from Finance Wales.</p> <p>Finance Wales can be seen as a centralised venture capitalist which focuses on large investments with a maximum loan of £2million. The SME Investment fund has, as of November 2012, invested in four businesses, the amounts invested include; £200,000, £150,000, £375,000 and £750,000<sup>21</sup>. Whilst these are no doubt valuable investments, many SMEs only need small loans in order to support their business.</p>	<p>KEY DIFFERENCE: Welsh Conservatives want to localise access to finance. The creation of Invest Wales regional hubs will make finance more accessible and investment will reflect the needs of each region.</p>

<sup>21</sup> Written Assembly Question 61599, 21 November 2012

**High Street Bank**

A normal high street bank does have the ability to lend to SMEs, however, as outlined above the economic conditions and the nature of the UK banking market (in the UK 92% of the banking sector is made up of five large banks) have restricted SME access to finance through the banks.

**KEY DIFFERENCE:** Welsh Conservative proposals are different from a normal high street bank as they are focused on lending to SMEs on a geographically accountable basis. The Invest Wales model also proposes to share the risk of the loan whilst maximising the opportunity for SME lending.

**Credit Union**

There are 22 Credit unions in Wales providing services to more than 55,000 people. Credit Unions are member-owned financial cooperatives.

Normally, only a member of a credit union may deposit money with the credit union, or borrow money from it. They do not traditionally lend to businesses, however changes to the Credit Unions Act 1979 meant that credit unions can now choose to provide services to community groups, social enterprises and businesses.

Local businesses and partnerships can now use the credit union for their financial services. Some credit unions have taken the power to provide business loans, for example the North Wales Credit Union consortium. However, according to ABCUL (Association of British Credit Unions Limited), credit unions are approaching these powers with caution.

**KEY DIFFERENCE:** Welsh Conservative vision focuses solely on loans to businesses not individuals.

**UK British Business Bank**

The UK British Business Bank was announced at the Liberal Democrat Conference in September 2012. The Business Secretary, Vince Cable, announced £1bn to establish a bank to support British SMEs.

Vince Cable said that the new bank could leverage up to £10bn to help businesses struggling to find funds from high street banks. It will bring together in one place Government finance support for SMEs.

**KEY DIFFERENCE:** Welsh Conservative vision proposes a regional focus for finance, which will be attractive to small businesses.

The addition of Invest Wales will provide Welsh businesses with optimum opportunity to access finance.

**Plaid Cymru proposals**

At the Plaid Cymru Conference in October 2012 Leanne Wood proposed a network of business credit unions which will be financed by public sector pension funds. Since this announcement in October there has been no further detail on these proposals.

**KEY DIFFERENCE:** Welsh Conservatives will utilise the existing funding flow established for Finance Wales. The key difference between Welsh Conservative vision and Plaid Cymru proposals is the funding source.

Invest Wales also proposes to provide more than simply finance; it is about the package of support that an SME may need, including business counselling and support.



**Big Society Capital**

The Big Society Capital is a UK social investment bank started in 2011 which launched a £600m investment fund on 4 April 2012. Big Society Capital focuses on the social investment market with the aim of making it easier for social ventures to access the finance and advice they need.

Set up by the UK Government and was originally called the Big Society Bank (BSB).

**KEY DIFFERENCE:** The Big Society Capital focuses on social investment. Welsh Conservative policy aims to help SMEs and the local economy. Investments must have some community benefits (as outlined in the lending criteria) but the policy is predominately economically driven.

**Green Investment Bank**

The Green Investment Bank is a funding scheme initiated in 2010 by the UK Government. In March 2012 the UK Government announced that the Green Investment Bank would be located in Edinburgh and London. The £3billion scheme aims to attract private funds for the financing of the private sector's investments related to environmental preservation and improvement.

**KEY DIFFERENCE:** Welsh Conservative proposals do not specifically focus on green investment and are focused on all SMEs.

Welsh Conservative proposals offer wide-ranging community benefits which may include in some instances, but are not limited to, green projects.

<p><b>Business Angels</b></p>	<p>Business Angels are private equity investors, usually affluent individuals who provide capital for a business start-up. The investment is usually in exchange for convertible debt or ownership equity.</p> <p>The Welsh Business Angel Network is called Xénos.</p>	<p><b>KEY DIFFERENCE:</b> Welsh Conservative proposals do not rely on affluent individuals, the proposals aim to utilise the structure and funding flow already in place through Finance Wales, using Government finance to support long term investments.</p>
<p><b>Funding Circle</b></p>	<p>Similar to Business Angels, the Funding Circle uses private investors. The money is spread across different businesses, spreading their risk, and the businesses are credit assessed by the Funding Circle’s Credit Assessment Team.</p> <p>The Credit Assessment Team lends to ‘strong credit worthy businesses’.</p>	<p><b>KEY DIFFERENCE:</b> Whilst we want Welsh businesses to build strong credit worthy SMEs, many may start out with no credit rating. Welsh Conservative proposals also do not use private investors.</p>

**Please find in Appendix B a diagram illustrating the various funding options for SMEs in Wales.**



# Conclusion

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Welsh Conservatives believe in Welsh business and Welsh entrepreneurial spirit. SMEs are the lifeblood of the Welsh economy accounting for 99% of the Welsh business stock. However, SMEs are facing tough economic conditions and business confidence is at its lowest level since the end of last year. Access to finance is often a huge obstacle for SMEs who largely only require small scale loans to support their business.

Finance Wales and other Government grant support schemes are often seen as distant, complex and unattainable. Welsh Conservatives want to localise financial support making it more accessible for businesses.

Welsh Conservative vision is to establish a system of geographically accountable Welsh Regional Investment 'Banks' using the model of Finance Wales as a basis for structure and funding flow. Profits would remain in a region and be used to reinvest into more local SMEs.

The regional branches of Invest Wales would have an understanding of the investment needs of the local economy and provide the appropriate business counselling and support.

We must be creative in Wales. We cannot simply rely on inward investment; we must support our local businesses and build on the entrepreneurial spirit, the hard work and the resources already available in Wales.

# Appendix A – Lending Rules

## Rules for bank lending to SMEs

The British Bankers Association, Building Societies Association and the UK Cards Association have established a voluntary, self-regulatory Lending Code which covers lending to consumers, charities and microbusinesses (defined as having 0-9 employees and an annual turnover of up to €2 million).<sup>21</sup>

The key criteria for loan applications are outlined in Section 4 of the Lending Code:

*Before lending any money, granting or increasing an overdraft or other borrowing, subscribers should assess whether the customer will be able to repay it by considering some or all of the following, as appropriate:*

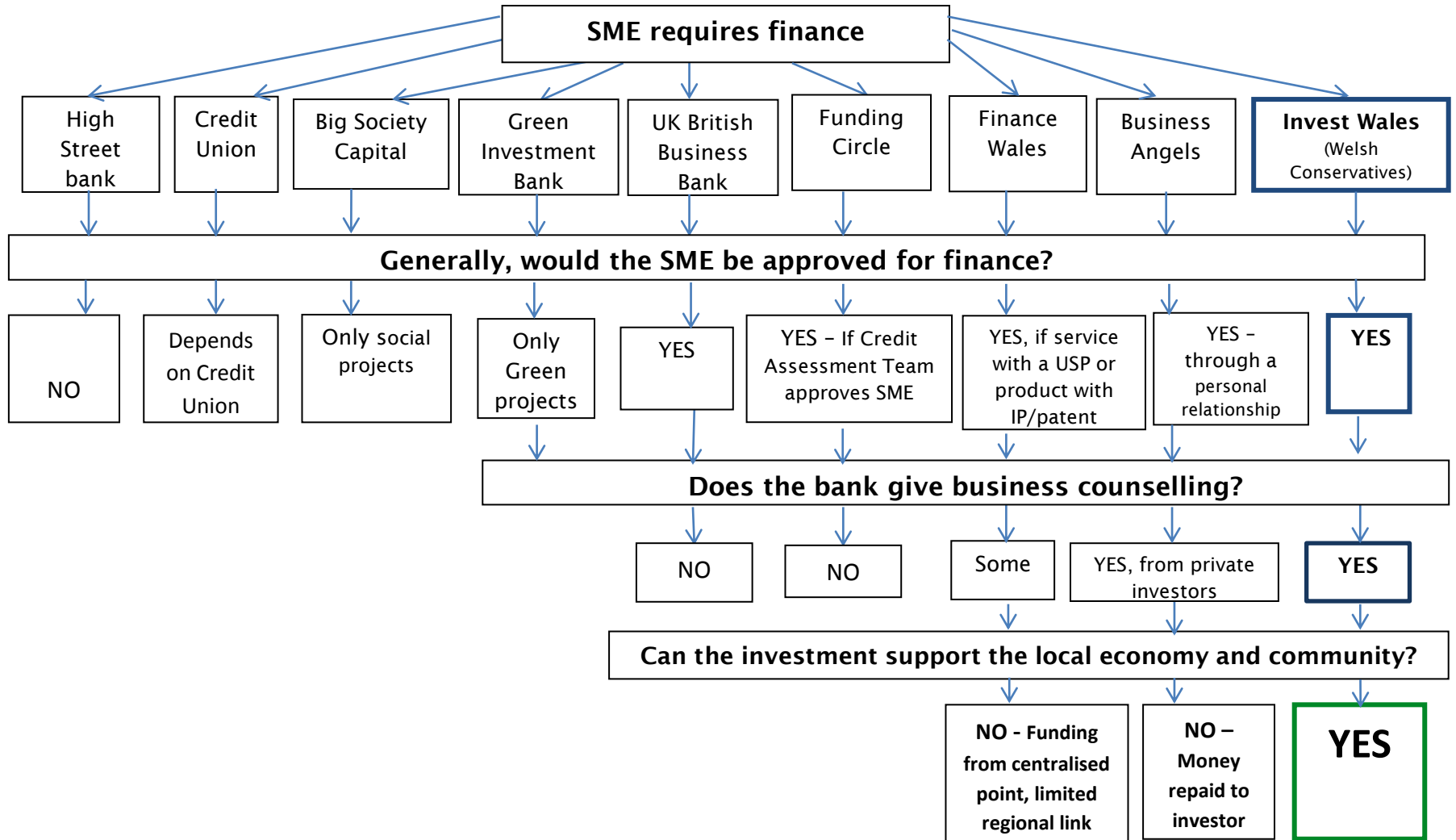
*Why the business wants to borrow the money;*

- The business plan and accounts;*
- The business's cash flow, profitability and existing financial commitments;*
- Any personal financial commitments which may affect the business;*
- How the customer has handled their finances in the past;*
- Information from credit reference agencies and, with the customer's permission, others, such as other lenders and the customer's landlord (where relevant);*
- Credit-assessment techniques, such as credit scoring; and*
- Any security provided.*

<sup>21</sup> Lending Standards Board, May 2012



# Appendix B – funding options for SMEs in Wales



# Appendix C – Invest Wales Charter

In order to ensure best practice and fair investment procedures Invest Wales would be guided by a 'Charter'. Please find the Charter below:

## Invest Wales Charter

1. The Board of Invest Wales will be made up of regional members, each representing one of the regional divisions.
2. Each regional Invest Wales will be required to report quarterly on their investments and the case details.
3. Investments will be made on merit; there should be no concern that only businesses known to the Bank Manager will be awarded loans. Our Bank Manager will put the needs of your business and your local community first.
4. Every effort will be made to ensure that if a business needs a loan, it is awarded. If a case seems less viable, business counselling should be undertaken. Invest Wales will meet you in person; if you make an application to Invest Wales online an appointment will be made to get to know you and your business. Invest Wales will do its best to ensure you can have the loan which suits you most.
5. Business counselling advice, branding and guidelines will be made available which will then filter down to regional and local branches. Invest Wales will support you every step of the way to ensure that you and your business succeed.

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