

FIN(4)FW055
Finance Wales Inquiry
Response from Hugh James

I am a partner and head of the corporate and banking division at Hugh James, the largest Welsh law firm.

Hugh James is a full service commercial law firm advising a wide range of SMEs in Wales and elsewhere, as well as a range of banks, venture capitalists and investors, on debt and equity investments. We are on the panels of legal advisers of both the Welsh Government and Finance Wales.

We have read with interest the "Access to Finance Stage 2 Review" dated November 2013 prepared by Professor Dylan Jones-Evans (the Review), in particular the commentary on Finance Wales. We believe that our broad range of experience in acting for both investors and investees provides us with a good insight into the funding position within the SME market in Wales and elsewhere. It is in this context that we make this submission as part of the consultation process in relation to the Review. Our comments are limited to the discussion in the Review relating to Finance Wales. These comments are provided on a confidential basis and should not be made available to any third parties without our prior written consent.

We at Hugh James are lawyers, not bankers or economists. Others are therefore far better qualified than us to comment on the interest rates charged by Finance Wales to investee companies. What we would highlight though is that Finance Wales has a long track record of lending to, and investing in, SMEs which have a high risk profile. As for any lender or investor, this risk element is a critical factor in determining the required return. The fact that Finance Wales is itself partially funded by lending from banks on commercial terms, which of course has to be repaid, also needs to be taken into account. Comparing Finance Wales's interest rates with those of mainstream lenders does not accurately reflect Finance Wales's position in the market.

We are aware that, during the economic downturn since 2008, numerous SMEs have been referred by mainstream lenders to Finance Wales because the mainstream lenders were unable or unwilling to provide funding (or perhaps additional funding) since the risk was too high. In many cases, Finance Wales has provided such funding on the basis that the SME's main bank retains its existing facility, with Finance Wales providing additional funding. In these cases, it is usually the case that the bank gets repaid first before Finance Wales receives any repayment. There are not many lenders prepared to take this risk, other than secondary lenders who would charge interest and

fees far in excess of those charged by Finance Wales, in recognition of the risk that they may not be repaid.

In our experience, Finance Wales has provided a financial lifeline to many SMEs that would simply not have been available elsewhere, particularly during the period since 2008. We have no doubt that, were it not for funding from Finance Wales, numerous SMEs in Wales would have been unable to survive the economic downturn, leading inevitably to loss of employment. We do not comment on whether this strategy is correct – that is a ultimately a matter for politicians to determine. We thought however that it was important to highlight the contribution that Finance Wales has made to the Welsh SME economy over the last few years in particular.

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