

Enterprise and Learning Committee

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Purpose

The Assembly's Enterprise and Learning Committee is currently conducting an inquiry into the economic contribution of higher education.

As part of the inquiry, the Committee is considering how SMEs (including start-ups) drive the economy and how their sustainability can be secured. Given that this is a central aspect of the role of Finance Wales, this paper provides a briefing on Finance Wales' activities and how it provides commercial funding to small and medium-sized businesses (SMEs) throughout Wales.

Background

1. Established in 2000 by the Welsh Assembly Government to help address market failure in the provision of financial capital, Finance Wales provides commercial funding to SMEs throughout Wales.

2. The company is a wholly owned subsidiary of the Welsh Assembly Government, although it operates on a commercially independent basis through a board of directors sourced from the financial services sector.

3. Finance Wales has made more than 1900 investments and invested £94 million in Wales-based SMEs which has leveraged an additional £304 million private sector investment. Finance Wales' impact on the Welsh economy now exceeds a quarter of a billion pounds.

4. As a commercial growth funder, Finance Wales adopts a flexible but focussed approach and is involved in a growing number of syndicated deals with other private and public sector funders. Finance Wales can provide a mix of loan and equity finance to Wales' SMEs, ranging from a small loan of £5,000 to a £1 million plus equity investment.

5. Finance Wales has experienced considerable success with its funds operating in the Objective 1 & 2 regions. The Objective 1 fund in particular has experienced a high level of demand and the fund was fully invested a year ahead of target. Complimenting this, the risk profiles of both funds have remained within the target levels established with the original business plans and in the last 2 years a number of the fund's equity investments have seen profitable exits via trade sales or listings on the stock exchange.

6. Finance Wales has close links with all HEIs in Wales and has invested in a large number of spinout SMEs originating from the University sector. Since 2006, an MOU has been operating with private investors Biofusion and Cardiff University which has led to a number of successful co-investments with Finance Wales.

7. As a principal all Finance Wales funds under management are operated on a profit driven and commercial basis. Finance Wales' main two funds (over the period of 2001 - 07) were established using ERDF grant in Wales' Objective 1 and 2 areas to match alongside the private funds secured as debt from Barclays Bank plc. Other partners for Finance Wales have historically been HSBC, Royal Bank of Scotland and the European Investment Fund. In the longer term Finance Wales seeks to become a more financially sustainable organisation with only a minimum requirement for additional public sector support.

8. On the basis of good fund management performance, Finance Wales was able to raise an additional £15 million of private sector funding in 2007 to be invested in Wales' SMEs alongside Welsh Assembly Government finance through a new £30 million investment fund.

9. Finance Wales is currently in the process of developing a new £150 million fund through the European Commission's 'JEREMIE' initiative to operate through the current 2007 - 13 structural funding period. This fund will support all levels of SME within Wales providing investment ranging from small business loans, to technology transfer investment, to large scale venture capital.

10. xénos, the Wales Business Angel Network, is also a subsidiary of Finance Wales. It has facilitated more than £15million private sector investment in over 120 deals in Wales-based SMEs since 1997, funding all stages of development from early stage through to expansion, acquisition and turnaround. xénos investors now invest has increased each year and annual investment is now around £1.5million each year.

11. xénos acts as an introducer between business angels (high net worth individuals wishing to invest in companies) and companies seeking investment for high-growth projects. Often, business angels provide valuable business expertise and input as well as financial investment.

Summary / Recommendations-

The committee is requested to note the contents of this paper.