

FIN(4)FW001
Finance Wales Inquiry
Response from Finance Birmingham

Sir

I read with interest the report on Access to Finance within Wales to the SME community and certain of the criticisms made of the current providers and particularly Finance Wales.

Finance Birmingham (FB) was set up approximately three years ago to provide funding for SME's in Birmingham backed and funded by Birmingham City Council where viable businesses were struggling to secure growth and working capital funding from traditional bank lenders. Originally a loan fund, this has now been extended into an equity fund, creative fund and high tech fund to meet the demand from the SME community.

The whole rationale of the spread of the investments within FB was to create a blended portfolio return (and thus make the operation economically viable) ranging from the traditional debt products where interest rates range from 10% - 12.5% to the capital gains generated from equity investment. To date approximately £10 million has been invested and the fund is profitable.

Our model was very much based on the approach adopted by Finance Wales who have used the benefit of scale, experienced professionals and blended return to ensure that considered lending and investment decisions are made to suitable qualifying companies and where the risk is priced accordingly. This to my view is a highly sensible and professional approach recognising the huge inherent risks of lending and investing in the SME space.

It is therefore with some dread that I see the suggestion of a Development Bank of Wales. This has all the connotations of the worst of the old RDA network where lending and investment decisions were based on almost a grant mindset and the loss rate of most of the funds was entirely unacceptable and the mindset of investment was largely to meet money out targets. Any suggestion therefore that the creation of such an entity is progressive is at best naive and at worst entirely forgetting the failures of the past. The commercial banking sector do not want to lend to SME's because their loss rate is too great - it is simply not viable and the suggestion that a business bank with social motives can buck this trend is frankly intellectual nonsense missing the critical feature of all credible academic research - learning from the data of the past.

Consequently the ethos of FB will continue to be that of Finance Wales which is to support SME growth to quality companies using a mix of instruments but recognising that the pricing, risk assessment and professional management of the book is paramount. We are investing public money and expect to generate both economic and non-economic (job creation and preservation) returns. We are not a socially orientated business bank lending

money without understanding or addressing the inherent risk and pricing of the SME space - as that has been tried and in almost all cases has universally failed at heavy economic cost. I see little in this report that is not suggesting a return to this.

John Handley
Chief Investment Officer - Finance Birmingham