

FIN(4)FW003
Finance Wales Inquiry
Response from MiE Group

I understand that there is currently a consultation period with regard to the role that Finance Wales can and should play to stimulate the Welsh economy.

By way of background, I am writing as an existing shareholder in a Welsh company that has already been assisted Finance Wales. Based on my detailed understanding of this company, Finance Wales were instrumental in the formation of the company and in its subsequent success – the company has invested millions into the Welsh economy, employs many individuals in advanced technology sector jobs and continues to grow successfully. I do not believe that this company would have achieved the success it has, or be located in Wales, had it not been for the investment provided by Finance Wales.

Looking to the future, I am writing as the founding principal of an investment company aiming to invest in industrial companies in the United Kingdom. My original intent had been to target my investment search in the Birmingham area as there is an investment fund (Finance Birmingham) sponsored by the local council to promote businesses in the region. Following several discussions with Finance Wales I have now decided to expand my search to include Wales – this is heavily driven by the financial support they are able to provide. I currently have one investment proposal outstanding in Wales and I am considering two further opportunities.

The financial support that has attracted me to Finance Wales is the level of investment lending they are able to provide. Put simply, they are willing to consider investment scenarios that are more aggressive than other commercial lenders. From a positive perspective, such scenarios are likely to create more investment and employment in Wales but this does expose Finance Wales to greater risks than other commercial lenders will consider. Based on my experience, at this time other commercial lenders are extremely conservative and will not provide lending to many investment scenarios. It is the ability to provide such lending that is Finance Wales' main attraction.

I understand that the current debate in Wales is what is the appropriate interest rate to charge. On the basis of the above, I would argue that the appropriate rate is the market rate that enables Finance Wales to continue to provide its services into the future. Given its portfolio risk profile I would expect Finance Wales to charge a range of rates to reflect the default risks that it accepts. For lower risk senior lending I view the appropriate rate as 5-10% while higher risk scenarios the rate should be above 10% (sometimes substantially above). For very low risk scenarios I could foresee lower rates (2-4%) but there is already availability for such loans from the commercial banks.

Finance Wales is filling a current “market gap” (anything that is not very risk free) and they need to have the business model to enable them to continue to provide such funding in the future. I could not see a sustainable business model where Finance Wales fills the fund gap but only charges 2-4%. The alternative would be to provide Finance Wales with yearly additional grants to “refill” its reserves after it does not earn a fair return. As a taxpayer I think that such a policy of funding businesses at below market rates would be poorly received by the public!

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