



ENTERPRISE DEVELOPMENT SCHEME 2018

Guidelines

ISSUED BY THE DEPARTMENT FOR ENTERPRISE

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Introduction

Background

In January 2017, Tynwald approved the Isle of Man Government's Programme for Government. One of the strategic aims of the Programme is to further develop the Isle of Man as an Island of Enterprise & Opportunity.

Government seeks to encourage inward investment, grow existing businesses and increase our economic diversity in order to develop a resilient economy. Attracting workers to locate to the Island is also a key part of the strategy.

The Department for Enterprise (The Department) recognises that encouraging the development of early stage businesses is essential to a diverse and successful economy. The Enterprise Development Scheme (The Scheme) provides this support through loan and equity investment, which will help grow the economy and encourage the creation of new jobs. The Scheme will provide assistance to small and medium-sized businesses new to the Island and existing local businesses that wish to expand on the Island, subject to meeting the eligibility criteria.

The Scheme complements a suite of existing schemes designed to attract new businesses and help existing ones to grow, thus providing an environment conducive to the needs of business and entrepreneurs alike looking to set up and grow their business.

The Enterprise Development Scheme 2018 can be found at: -

<http://www.tynwald.org.im/business/opqp/sittings/20182021/2018-SD-0292.pdf>

The Scheme is made under the Financial Provisions and Currency Act 2011 and gives the Department the statutory authority to invest in businesses by way of loan support and equity investments. The Act can be found at https://legislation.gov.im/cms/images/LEGISLATION/PRINCIPAL/2011/2011-0021/FinancialProvisionsandCurrencyAct2011_2.pdf

Additional Support

Further details of the Department's other forms of assistance can be found at www.gov.im/enterprise

For further advice and guidance regarding the Department's schemes potential applicants are encouraged to complete the online enquiry form available at www.gov.im/businessenquiries

Disclaimer

The information contained in this document is intended to be general in scope and should not be relied upon as advice.

Provision of financial assistance is discretionary and the decision to provide assistance in any particular case will be based on the merits of the case.

The Department may amend these Guidelines from time to time. While every effort has been made to ensure that the content is correct and up-to-date at the time of publication, the Department does not accept any responsibility, legal or otherwise, resulting from any errors or omissions and shall not be liable for any losses or damage that anyone may suffer as a result of relying on the information contained herein.

Prospective applicants may wish to take professional advice before making an application and should seek advice in relation to any documents they are asked to sign whereby they offer security for any financial assistance offered to them.

Any offer of financial assistance is also subject to availability of Department funds.

1. THE ENTERPRISE DEVELOPMENT SCHEME

1.1 Purpose and Scope

The main purpose of the Scheme is to grow the Isle of Man economy and create jobs on the Isle of Man by providing funding for businesses entering or in their commercial phases. As the scheme is intended to create jobs investments must be able to demonstrate job growth within a 12 month period after investment.

In summary, the Scheme: -

- Is effective for the period from 18th January 2019 to 31st December 2024
- Provides loan and equity investments
- Is internally managed within the Department, with external support procured as required

1.2 Support Available

The Scheme offers support by way of a loan, equity or a convertible instrument. The details are outlined below.

The Department will not consider support which would lead to it being the major investor or shareholder in the business.

Investments will have a minimum value of £100,000 and a maximum value of £1m per applicant.

The support is typically available for a period of up to 5 years. A longer period may be considered in exceptional circumstances for equity and convertible instrument investments, if the case warrants it. Where equity is held the Department will look to include an opportunity to exit at 5 years (if not before) at its discretion on negotiated terms.

In relation to investment levels:

- Investment will be up to 40% of the required funds for each investment round.
- Funding obtained/to be obtained from the Department or any other Government Department in the 12 month period before or after application in relation to the project will be taken into account in determining the total support available.
- Please note the actual level of support offered is primarily determined by the exchequer benefit created by the project. This is measured via the direct tax costs associated with any proposed additional employment to be created (applied on a pro-rata basis over a 5 year period) and any other exchequer benefit created (for example from construction work).

Businesses who have received funding under the Scheme will not be eligible to receive further funding in the 12 month period immediately following the receipt of that funding.

The consideration of loan or equity support is dependent on receipt of a full business plan and the evaluation by the Department or its advisers confirming the viability and sustainability of the project and its compliance with the eligibility criteria of the Scheme.

a) Loans

The purpose of loans under the Scheme is to support startups or business growth, job creation and new entrant benefit. Loans may also be used towards the creation of an asset.

The application for a loan must include a narrative which demonstrates how the loan will facilitate that purpose. Loans will not be awarded to businesses in difficulty or experiencing short term cash flow issues etc.

The type of loan offered is dependent on the individual circumstances as follows:

Secured loans - Provided adequate security can be provided by a debenture on the assets of the Company or personal guarantees or a combination of both, the Department can provide a simple loan at a competitive interest rate (a minimum of 5%). Because administration is straightforward, there are no administration or facility fees or other costs applied, but the applicant company would be responsible for its own legal and other costs.

Unsecured loans - If the Company cannot offer any suitable security and/or cannot demonstrate a track record or positive cash flow loan support may still be available if the business has confirmed orders and is about to expand rapidly and can meet future interest payments. The interest rate applied will typically be higher than the secured loan option and the Department may apply a premium such as a royalty or commission on sales. Interest repayments may be deferred to assist cash flow in the early stages.

Convertible Loan Stock - A further loan option is one that is secured by way of a debenture on the shares of the company. An option can be provided to convert this to equity in certain circumstances. Similar to an unsecured loan the interest rate applied would be higher and again a royalty, commission or redemption premium may be applied.

Other loan options may be available on a case by case basis and a combination of loan and equity may be possible subject to the Department's investment criteria.

The business must be able to demonstrate that it can afford to make the schedule of repayments.

The applicant must have in place relevant business experience and a management team that possesses the relevant skills, experience and/or qualifications to carry out the proposed business activities.

Other terms and conditions may be applied depending on the individual circumstances.

The Department will monitor the progress of the business and the repayment of the loan with the flexibility to revisit the repayment schedule if necessary.

An ongoing management fee will be levied by the Department, if the Department feels that it is appropriate to appoint an external manager to manage the loan.

For unsecured loans and convertible loan stock, an administration charge of upto 5% of the assistance provided will be taken at source. The Department may vary this amount and will reduce it in respect of larger applications in order to cover its underlying administrative costs.

b) Equity

The Department may be prepared to consider taking an equity stake in a business either as ordinary or preference shares. For equity investment, security must be provided by way of a debenture on the assets of the company or personal guarantees or a combination of both.

Equity investment may be preferable to loans as it does not impact on the company's borrowing with banks.

The type of shares to be taken will form part of the negotiation which may be held with the Department's investment advisers as will the need to agree a valuation of the business at the time of investment.

Ordinary shares may have preferential rights and must not be subordinated to other shareholders in the same round. Dividends are linked to performance.

Preference shares may have a conversion element (to ordinary equity) and/or contain a redemption premium. They are ranked higher than ordinary shares with respect to fixed dividend payments.

The Department is prepared to allow equity investments to convert to loans on within certain parameters.

An administration charge of no more than 5% of the assistance provided will be deducted at source. The Department retains the flexibility to vary/wave this charge if the circumstances of an individual application warrant such a course of action, and will reduce this charge in the case of larger applications so it meets its underlying administrative costs.

Should the Department appoint an Investment Manager to manage the investment, then an investment monitoring fee offsetting our external costs will be added. The management fee will be paid throughout the period which the Department holds an equity stake.

Other terms and conditions may be applied depending on the individual circumstances.

The Department retains the right to take a position on the board of the assisted company.

1.3 Eligibility

The business must comply with the Enterprise Development Scheme 2018 which can be found at <http://www.tynwald.org.im/business/opqp/sittings/20182021/2018-SD-0292.pdf>

Businesses must in the first instance comply with the eligibility criteria set out in the scheme as follows:

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- That some or all of the persons employed by the business are or will be Isle of Man staff;
- The principal activities in respect of which financial assistance is sought will take place in the Isle of Man;
- It can be conducted lawfully in the Isle of Man;
- Is not or would not be detrimental to the physical environment of the Isle of Man;
- Would not bring or would be likely to bring the Isle of Man or the Government into disrepute;
- No person involved in controlling the business and no relevant shareholder is disqualified from holding an appointment as a director or a company secretary anywhere in the world at the time of application;
- No person involved in controlling the business is the subject of an outstanding execution anywhere in the world at the time of application;

- No person involved in controlling the business is insolvent at the time of application;

The Scheme states that a declaration must be submitted by the applicant to the Department which confirms: -

- (a) the disclosable beneficial owners of the business at the time of application to the Department;
- (b) whether or not, at the time of application, the business is in compliance with the law in the Isle of Man (or, where the business is not based in the Isle of Man at the time, the laws of the jurisdiction in which the business is based) in relation to -
 - income tax;
 - national insurance;
 - value added tax;
 - any other taxes or duties payable;
 - health and safety;
 - planning;
 - employment; and
 - immigration and work permits;
- (c) any instances of non-compliance with the law in any of those respects occurring in the period of one year ending with the time of application;
- (d) any debts owed by a person involved in controlling the business, a relevant shareholder or any business with which those persons are associated which are overdue by more than 6 months at the time of application; and
- (e) any criminal convictions of a person involved in controlling the business or a relevant shareholder at the time of application. It is immaterial where the offence was committed or where the conviction was imposed. the following offences are to be disregarded: -
 - offences which are spent for the purposes of the Rehabilitation of Offenders Act 2001 (or would be had the convictions occurred in the Isle of Man); and
 - offences which are not punishable with custody or would not be so punishable if committed in the Isle of Man.

Further eligibility requirements are that the business must: -

- Be seeking to create or expand an Isle of Man presence;
- Fully co-operate in the evaluation and future marketing of the Scheme; and
- Sign an agreement to abide by all the terms and conditions.

For the avoidance of doubt, financial assistance may be provided to an off-Island business in respect of a business established or to be established in the Isle of Man.

The Scheme is primarily open to undertakings engaged principally (i.e. more than 50%) in export-focused activity or are the only local company serving the local market in the following sectors: -

- Biomed/Life Science
- Clean Technology
- Digital and Creative
- E-Business (including E-Gaming, FinTech and ICT)
- Financial & Professional Services
- Manufacturing (including Food and Drink)
- Ship and Aircraft Management

Examples of sectors and types of business **not** supported are: -

- Businesses without substance
- Construction
- Local (non-unique) service providers
- Pubs, clubs and restaurants
- Real estate / property development

- Retail
- Tourism accommodation providers

Applications will be considered from businesses that are not export-focussed or are only partially export-focussed, but only if they can demonstrate that the project will generate significant levels of new local economic activity and employment creation or has an advantageous business model that does not simply displace trade from one Isle of Man business to another.

1.4 Application process

It is expected that the Department will evaluate the majority of loans internally and will prepare reports for consideration and a decision by the Enterprise Development Scheme Committee (The Committee).

For complex loans and for equity investments, the Department will progress the application and evaluation as far as possible and then engage an external suitably qualified and licensed Investment Adviser to undertake the evaluation and prepare reports for consideration and decision by the Committee.

The outline application process is as follows: -

a) Initial enquiry

- All applicants are required to submit an initial online enquiry form to the Department.
- The online enquiry form can be found at <https://www.gov.im/categories/business-and-industries/business-support-and-assistance/enquiry/>
- The Department receives the initial enquiry and acknowledges receipt.
- The initial enquiry form must contain the following written details:
 - Contact name, company name and full contact details
 - Business sector
 - Value of support required and percentage share offered for equity investments
 - Total value of other funding raised
 - Details of funding request refusals
 - Number of jobs and salary details created by the investment
- **Importantly** - The Department requests a business plan or executive summary etc, if not initially received. The requirements of the business plan can be summarised as follows: -
 - An overview of the project;
 - expenditure in respect of which financial assistance is sought;
 - background and current or proposed location of the business;
 - CVs and relevant experience of the management team;
 - details of the business: (date of registration, shareholders (to include percentages of shares owned), directors, beneficial owners etc. and links to other businesses, if any);
 - business model, together with short and long term objectives, key customers, confirmed orders etc.;
 - employment structure including numbers of employees, types of jobs, wage rates etc.;

- information as to premises - whether owned or rented and the location. Where premises are rented or leased, details of owners and annual costs (including rent and any service charge contributions and/or other regular outgoings; and
 - marketing plan including whether customers are off-Island or on-Island.
 - Financial information including: -
 - copies of audited accounts for the previous 3 years (if applicable); and
 - projected profit and loss forecasts for the next 3 years together with an explanatory narrative.
- The Department checks the eligibility against the Scheme's eligibility criteria, undertakes basic due diligence checks, assesses suitability for other DfE schemes support and ensures that the business isn't likely to present any reputational problems etc.
 - The Department will at its discretion conduct checks on the background of the directors and major shareholders of the business to assess their suitability for investment.
 - The enquiry can be rejected at this stage if it does not comply with the Scheme or any guidance provided, fails to meet the eligibility criteria or the applicant fails to supply all required information.
 - The Applicant will be advised of the reasons for rejection and where appropriate, information as to the manner in which a defective application may be rectified.

b) Application, review and evaluation

- The Department will examine the enquiry in greater detail and seek further information as appropriate including a full detailed business plan if not already received.
- If the Department determines that the applicant appears to be eligible and that the proposed project for which support is sought is potentially suitable, an application form will be issued.
- The Department will then complete detailed due diligence.
- With regards to the application: -
 - All applications must be made in writing on the appropriate application form.
 - Applicants must declare details of any other applications for financial assistance or grants submitted by the applicant in respect of the same business or any similar business within the previous 5 years to the Department, any other Department or Statutory Board of the Isle of Man Government or a Government or public authority in a jurisdiction other than the Isle of Man.
 - It must contain details of the amount and type of assistance required summarised as follows:
 -
 - for loans: -
 - The type of loan
 - The amount
 - The repayment period
 - for equity investments: -

- The company valuation
 - The % of equity being offered
 - The price of that equity
 - An exit strategy
- The Scheme Manager will assess the following factors relevant to the award of financial assistance:
 - Eligibility
 - Viability of the business
 - Wages and salaries
 - Job Creation
 - Location of Beneficial Owners
 - Local spend and secondary exchequer benefits including Benefit from construction work
 - Dividend Policy
- Applications may be declined at this point if it does not comply with the Scheme or any guidance provided. The Applicant will be advised of the reasons for rejection and where appropriate, information as to the manner in which a defective application may be rectified.
- Where the assistance sought is a loan and the application presents no particular difficulties, the Department prepares a report with a recommendation and passes the application to the Enterprise Development Scheme Committee (the Committee).
- Where the assistance sought is by way of equity, any convertible investment instrument or a complex loan, the Department commissions external advice (from an organisation on a select list of investment advisers who are suitably qualified, licensed to provide investment advice) to prepare a report with a recommendation to be considered by the Committee

c) Consideration by the Enterprise Development Scheme Committee (The Committee)

- The Committee: -
 - is established and appointed by the Department and comprises:
 - a chairperson who has relevant commercial experience and is appropriately qualified,
 - an officer from the Department,
 - an officer of the Treasury (or an officer delegated by the Treasury to undertake this function), and
 - requires a unanimous vote on all investment decisions.
 - the Committee considers the report prepared by either the Department or the Investment Adviser
- as appropriate, the DfE Manager or the Investment Adviser who prepared the report presents to the Committee and answers any questions.
- the Committee decides whether to support the application and the type and extent of support to be provided.

d) Offer letter and deal completion

- The Department: -
 - completes checks for any income tax, national insurance or VAT arrears etc.;
 - prepares and issues an offer letter / contract between the Department and the applicant in conjunction with Attorney General's Chambers as necessary;
 - arranges transfer of funds from Treasury in conjunction with the Director of Finance
 - in a case where an expert has prepared the report specialist, input may be required from that person as regards the agreement between the Department and the applicant.
- Applicants are informed in writing of the Department's decision

1.5 Review of decision

An applicant who submits an application for financial assistance which is decided by the Committee, may request the Department to review the decision.

A request for a review must: –

- be made in writing
- be received within one month of the decision
- specify the ground for the review which must be that the Committee –
 - erred in law;
 - based its decision on any incorrect material fact; or
 - exercised discretion in an unreasonable manner.

The Department may appoint an officer of the Department (other than a person previously involved in the process) to undertake the review and report to the Department on the matter.

If the Department concludes that the grounds for appeal are valid, the Department will remit the decision to the Committee for reconsideration, together with its reasons for doing so.

Important Note - Appeals cannot be made against the value or percentage of support offered or the terms and conditions applied for such support.

Where the applicant provides new information regarding the application, a new application form and updated accompanying information must be submitted.

Written review requests should be either emailed to enterprisesupport@gov.im or sent to:

The Enterprise Development Scheme Manager,
Department for Enterprise,
St Georges Court,
Upper Church Street,
Douglas,
Isle of Man
IM1 1EX

1.6 Investment monitoring

In respect of loan-only arrangements the Department: -

- manages the relationship with the recipient
- manages loan repayments
- monitors the performance of the businesses
- ensures the recipient complies with the terms and conditions relating both to the Scheme and the particular agreement he or she has entered into with the Department.

In respect of equity or convertible loan arrangements the Department will appoint a suitably qualified and experienced business/person (the Investment Manager) to manage the investment. This may involve:

- monitoring the investment and business performance
- sitting on the board and acting as the shareholder's representative, and will give this person delegated powers to act in the interests of the Department.

The Committee has overall responsibility for monitoring the investments portfolio.

1.7 Public disclosure

It is a statutory requirement that the following details of financial assistance provided under the Scheme are published by the Department:

- a list of the businesses which received support during the previous financial year;
- information concerning the economic benefits to the Island of support provided and the total amount of financial assistance in the previous financial year.

Applicants should also be aware that both parliamentary and freedom of information questions may be asked about particular applications or applicants.

2. Application Form

Applicants should read the above terms and conditions before submitting an application to the Department.

Completed application forms and supporting documentation should be either emailed to enterprisesupport@gov.im or sent to:

**The Enterprise Development Scheme,
Department for Enterprise,
St Georges Court,
Upper Church Street,
Douglas,
Isle of Man
IM1 1EX**