

CONSULTATION ON THE POTENTIAL INTRODUCTION OF AN ENTERPRISE DEVELOPMENT FUND TO THE ISLE OF MAN

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A. EXECUTIVE SUMMARY

1. This Consultation Paper seeks opinion on the proposed establishment of an Enterprise Development Fund ("EDF") in the Isle of Man to support job creation and grow our economy.
2. The Department of Economic Development (DED) believes that the EDF will provide valuable support to existing Isle of Man businesses during all phases of growth and will also be attractive for new businesses wishing to relocate to the Island. The Department believes that this is essential if the island is to attract and grow new businesses to continue to diversify the Island's economy.
3. Research by the Department has shown that all UK regions have some form of development fund, often also supported by private funding. Many have funded a gap in the market following the withdrawal of some traditional sources of finance.
4. The Department considers that there are opportunities to attract new businesses to the Isle of Man, increase support to existing enterprise and encourage new job growth on the Island.
5. It is proposed that the EDF encompass 3 different core areas of support:
 - a. For start-ups with 1-10 employees
 - b. For Small to Medium Enterprises (SMEs) with 5-20+ employees entering a growth phase and
 - c. For relocating medium to large firms to the Island
6. The EDF would complement the other initiatives identified under the 'Enterprise Isle' project, which aims to attract more businesses and entrepreneurs through offering a holistically competitive offering to market. This fund will be accompanied by other incentives from tax related items to advisory support to businesses.
7. Whilst the Government recognises there are strong business reasons to support the generation of jobs locally, there are also risks and would like to formally seek the public's views before the design of any proposed scheme is proposed to the Council of Ministers and ultimately Tynwald.
8. For further information on what assistance is currently available through DED please visit www.gov.im/businessassistance

The consultation closes on Thursday 3rd September 2015.

B ECONOMIC PERFORMANCE

1. The Isle of Man, in common with many western nations has seen a reduction in bank lending available to business since 2008. Overall business lending has more than halved from around £1.2bn to around £500m over this period.
2. Despite this the Island has continued to grow, with GDP increasing at a level between 3 and 4% in real terms over recent years.
3. Looking at the components of growth though a different picture emerges. Personal incomes have in fact fallen in real terms over the past 5 years.
4. Moreover, the aggregate number of people in employment has also fallen by around 700 (or 2%) in the last three years.
5. Putting this information together, a picture emerges of an economy where new jobs are not being created in sufficient quantity to offset losses in sectors such as banking.
6. Some job losses have been exported but even with businesses that are successful, are growing and are taking on staff, access to funding is an inhibiting factor to their future success, and may be limiting the range and number of jobs created.
7. The ability to create more and better jobs, increase incomes and local spending is essential in order to raise the taxation income to fund public services. It can also help prevent some of the negative factors resulting from a reduction in the size of the public sector on the wider economy.
8. The Isle of Man has the space to expand, a well-developed infrastructure, and has substantially dealt with its recent fiscal challenges. That said, the longer term challenges resulting from an aging population can only be met by growing the relative number of workers to pensioners.
9. The Island therefore needs to be responsive to the wider competitive environment it finds itself in if it is to attract new jobs and inward investment.

C. BACKGROUND TO CONSULTATION

1. The Isle of Man is a diverse international business centre. In the last 10 years it has increasingly attracted high-growth Small & Medium-sized Enterprises (SMEs) delivering services worldwide, often via electronic channels.
2. The Department undertook extensive research on how growth in the Island's economy can be maximised, resulting in the document Vision 2020 published January 2014. Since that time work has been underway to deliver on the 8 key strategies in Vision 2020. One of these strategies - Enterprise Isle - is aimed at providing more effective and holistic support for high-growth SMEs given their proven value. A range of measures are currently under development and will be rolled out as part of Enterprise Isle.

3. One key area raised is the difficulty such businesses often encounter in raising early stage finance. The Department believes there is a strong case for investing public funds to help to attract and grow such businesses, helping them to succeed and generate jobs in the Island. This consultation is intended to seek feedback on how to design and deliver the proposed EDF in such a manner that it provides well-targeted support that meets the specific needs of the businesses concerned.
4. In order to sustain and improve the Isle of Man's future economic position the Island needs to create new jobs and new economic sectors. As the economy changes shape and the existing population continues to age, it is important that the Isle of Man plans ahead.
5. The Department estimates that 500-1,000 jobs per annum is a suitable target to generate economic growth, fund much needed services and replenish fiscal reserves. It is anticipated that part of this growth may be achieved by direct support and / or investment into the Isle of Man economy as part of our investment strategy.
6. The Isle of Man economy has maintained resilience by creating a stronger and more diversified economy than many of its competitors. The creation of such an environment only comes about by offering meaningful advantages to entrepreneurs and businesses that are essential to attract new businesses and nurture entrepreneurial ambition.
7. The Department feels that it is appropriate to support existing jobs and create new opportunities through Government led incentives and the diversification of funding models.
8. This Consultation Paper is the next stage of an exercise undertaken by the National Strategy Group to examine the viability and risk posed by creating an EDF on the Isle of Man. It has included desk based research into other jurisdictions, interviews with key influencers and analysis of financial resources, legal powers and constraints.
9. The project has looked to evaluate the viability of a fund on the Isle of Man that will deliver targeted finance to on-Island firms and those wishing to relocate here. The target size of the funds committed to this exercise would be up to £50 million over a 5 year period.
10. The proposed EDF would offer either grant, loan or equity based support, depending on the business type and where they sit on the business growth cycle. It is not intended to provide subsidies for businesses with trading difficulties nor speculative enterprises.

D. THE PROPOSAL: ENTERPRISE DEVELOPMENT FUND

There are three core support types proposed in the new scheme.

1. Small businesses in the start-up phase focussed on Island.
2. Existing businesses, both domestic and export focussed, in the second round of funding or expansion stage looking for lending or equity investment which increases the economy of the Isle of Man.
3. Attracting new export focussed businesses to the Island at key growth or commercialisation phase of their business. It is anticipated that these will be in targeted niche sectors.

1 Support for Small Businesses in Start-up

This support would provide **Grant only** support for two business types, Micro & Small businesses. The key focus is to drive small businesses as the engine for future SME businesses.

1.1 Micro businesses / Early Start-ups

1.1.1 Key Proposed Features

The target market for this level of support is those businesses as follows:

- Business Stage: Start-ups or very early phase.
- Turnover: <£50,000.
- Employs: 1 – 2+ people.
- Location: on Island only.
- Target market: expected to be mainly on Island focus.
- Experience: None required but attendance at a mandatory business course is required to qualify.

1.1.2 Support to be given

- Financial Support: Grant
- Amount: up to £5,000 (staged payments)
- Financial evidence: business plan & cash flow will be required
- Sectors: None excluded subject to consultation response.
- Purpose: Support new business ventures.

1.2 Small businesses

1.2.1 Key Proposed Features

The target market for this level of support is those businesses as follows:

- Business Stage: larger start-ups, small trading business.
- Turnover: <£150,000.

- Employ: 2 – 10+ people.
- Location: mainly on Island only.
- Target market: On-Island focus with some business income coming from off Island.
- Experience: important but attendance at mandatory business course required in appropriate cases.

1.2.2 Level of Support

- Financial basis: Grant.
- Amount: up to £25,000 (staged payments).
- Maximum: up to 40% (based on economic value to the Island).
- Evidence: business plan & cash flow will be required.
- Excluded Sectors: Solely domestically focussed sectors (such as Restaurants, Retail and Property). New sectors or industries may be considered.
- R&D Qualifies: Yes. Designed to encourage innovation and expansion.
- Basis: Post spend on identifiable projects.
- Purpose: Support businesses in early stages of growth. Suggest <2 years.

2 Supporting Existing Proven Businesses to Expand

This scheme would provide support to small and larger medium sized businesses, by offering loan or equity based support. It is designed to assist established businesses and incoming businesses to expand, particularly those providing their goods and services to off island customers, which generates further employment on existing proven business models.

It is intended that the scheme would be managed by experienced third party managers such as banks / finance intermediaries (for the loan element), crowdfunding platforms (loan and equity) and Private Equity managers.

2.1 Loans - Existing Small & Medium sized Enterprises

2.1.1 Key Proposed Features

The target market for this level of support is those businesses as follows:

- Business Stage: up to 2 years old and entering initial growth
- Turnover: <£250,000.
- Employ: 5 – 20+ people.
- Location: on Island.
- Target Market: Both on-Island and off Island.
- Financing: evidence of existing borrowing rejected.
- Business Experience: Essential.

2.1.2 Support to be given

- Financial: Loan.
- Term: 1 to 5 years.
- Amount: typically up to £100,000 (staged payments).
- Evidence: Full Business Plan & cash flow will be required.
- Purpose: capital, plant, equipment, premises or other tangible assets.
- Restrictions: ability to afford repayment.

2.2 Equity - Existing Small & Medium sized Enterprises

2.2.1 Key features

The target market for this level of support is those businesses as follows:

- Business Stage: up to 5 years old, entering next growth phase.
- Turnover: <£500,000+.
- Employ: 5 – 20+ people.
- Location: on Island.
- Target Market: Both on-Island and off Island.

2.2.2 Support to be given

- Financial: Equity Investment.
- Term: 3 to 5 years.
- Amount: up to £100,000 - £250,000.
- Amount of Equity %: case by case.
- Evidence: Valuation, 5 Year Business Plan & Cash flow Forecasts.
- Purpose: Support business expansion programme.
- Targeted sectors: Niche export sectors such as E-Business, Financial Services, Manufacturing, Bio-Medical and other emerging sectors.

3 Supporting New Businesses to the Island looking to Establish / Expand

This element has been designed to attract larger businesses wishing to scale up their export led business to the next level or to enter a 'commercialisation stage' of an existing project, by relocating to the Island and creating new employment. This may be via an additional round of equity funding.

This would be an equity investment and would be managed by experienced Private Equity manager(s). We would look to involve suitable third parties willing to co-invest, match investment or co participants from the private sector. All participants would be responsible for obtaining their own advice.

3.1 Features

- Qualifying businesses should be already profitable with turnover greater than £2 million or at the commercialisation stage of an existing product.
- Qualifying businesses must commit to have on-Island physical substance, creating at least 20+ jobs.
- Export focussed business model.
- An equity stake would be considered of up to £1million and would be available on a deal by deal basis.
- Investment term of >3 years.
- **Government would not look to become the major shareholder except in highly exceptional circumstances.**
- Targeted growth sectors including Technology, Bio/Life Science, Export, Financial Technology (FinTech) and Emerging sectors but the mandate would remain under review.
- Target 20 – 30 holdings within the portfolio at any one time.
- Standard shareholder agreements would be required.
- Future exit terms would be considered to sell stakes back to other shareholders and/or management.

4 Other Information

- 4.1 The EDF sits under the wider 'Enterprise Isle' initiative of Government, a core feature of Vision2020.
- 4.2 Other incentives and initiatives are underway and will be separately launched.
- 4.3 The investment mandate would be set and overseen by Government with the appointed fund manager(s) accountable to Government through the Treasury and the Department. Annual reporting to Tynwald will also be provided to ensure appropriate public accountability.
- 4.4 Government would remain at arm's length from the management of all investments but would expect its appointed representatives to protect tax payers' interests.
- 4.5 One or more of the above schemes may be available to a business depending upon individual circumstances e.g. grant and loan.

E. QUESTIONS

Q1. Do you believe there is a need in the local market for an Enterprise Development Fund with a mandate to invest in local businesses and attract new business to establish here?

Q2. What benefits do you envisage for the Isle of Man?

Q3. Do you think the Government should offer grant, loan and equity support or not? Please give reasons for your answer.

Q4. What features in the proposals do you support and which aspects do you feel inappropriate in the various schemes described above?

- i) Small businesses in the start-up phase focussed on Island.**
- ii) Existing businesses, both domestic and export focussed.**
- iii) Supporting New Businesses to the Island.**

Q5. Based on what criteria do you think the Government's advisers should base their investment decisions i) as a standalone business ii) plus the wider benefits to the economy iii) or other criteria (e.g. job creation)?

Q5. Should the EDF be able to only support specific sectors (e.g. export focused) or all Isle of Man based businesses depending on quality of the business plan? If so, which and why? Please give reasons for your answer.

Q6. What risks do you see in providing such a scheme? Please expand your response where appropriate.

Q7. The scheme offers small start-up and commercial loans, do you feel these would complement rather than compete with the existing lending market locally? If so, how could the scheme be used to complement traditional providers of finance (i.e. banks)?

F. CONSULTATION PROCESS

- 1 Comments are invited on the proposals in the consultation document. The consultation is being conducted by the Department of Economic Development.
- 2 The Department undertook, as part of the initial research process, an interview programme with 17 business leaders both on and off Island. Comments are welcomed from anybody who may be affected by the proposed legislation.
- 3 Comments should be submitted in writing, by post or email to the following:

Mr John Spellman
Department of Economic Development
First Floor
St Georges Court
Upper Church Street
Douglas
Isle of Man
IM1 1EX

john.spellman@gov.im

The consultation closes on **Thursday 3rd September 2015.**

- 4 When submitting your views please indicate whether you are responding on behalf of an organisation.
- 5 Additional copies of the consultation document can be obtained from the Department of Economic Development (address as above).
- 6 To ensure that the process is open and honest and in line with the Government's Code of Conduct on Consultation responses can only be accepted if you provide your name with your response.
- 7 Unless specifically requested otherwise, any responses received may be published either in part or in their entirety. Please mark your response clearly if you wish your response and name to be kept confidential. Confidential responses will be included in any statistical summary and numbers of comments received.
- 8 A summary of the responses received will be published within 3 months of the closing date for this consultation, and will be made available on the Government website or by contacting the above named officer.
- 9 The purpose of consultation is to gather information, views and evidence which will allow an informed decision to be made regarding the proposals. As in any consultation exercise the responses received do not guarantee changes will be made to what has been proposed.

APPENDIX 1 – CODE OF PRACTICE ON CONSULTATIONS

It is the intention of the Department of Economic Development to carry out this consultation in accordance with the Government's Code of Practice on Consultation.

The Code sets out the following six criteria:

- Consult widely throughout the process, allowing a minimum of six weeks for a minimum of one written consultation at least once during the development of the legislation or policy;
- Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses;
- Ensure your consultation is clear, concise and widely accessible;
- Give feedback regarding the responses received and how the consultation process influenced the policy;
- Monitor your Department's effectiveness at consultation; and
- Ensure your consultation follows best practice, including carrying out an Impact Assessment.