

Early Stage Growth Challenge Fund application guidance

This guidance outlines some of the key features of the Early Stage Growth Challenge Fund that you need to be aware of. It also offers guidance on what to expect from the application and what you'll need to provide. You must read this guidance before applying.

Contents

The fund

The application

After the application

Disclaimers

How to apply

Got a question?

The fund

This is a competitive funding call. This means funding is NOT being awarded on a first-come-first-served basis, and it will be open for applications for a fixed amount of time.

This funding is a combination of convertible loan (a type of debt that can be converted into equity shares at a later date) and grant. If you're successful, we'll decide during our assessment of your application if an element can be provided as a grant. Any grant element will only ever make up a maximum of 20% of the total amount awarded, and can only be awarded in relation to eligible costs.

This funding support is State Aid and may affect your eligibility for other State Aid measures including SME R&D Tax Credits.

How the convertible loan element works

This loan is designed to bridge investment for early stage, high growth, innovative businesses where COVID-19 has caused a delay in fundraising activities, a reallocation of resources away from growth activities or cashflow difficulties.

A convertible loan is a type of loan that can either be repaid with interest or converted into shares. If we choose to convert the loan into equity, this means that Scottish Enterprise would own part of your company. Key terms are as follows:

- Term: 36 months
- Interest: interest free for the first 12 months following drawdown. Thereafter, the rate of interest payable on the loan will be 8% per annum. The interest will accrue to be paid at the end of the term
- Conversion terms: please see the headline terms and the contract (each as defined below) for details of the circumstances in which all or any part of the loan may convert into shares

Further details are included in the [standard term sheet](#) (the "headline terms") and the [standard full legal document](#) (the "contract"). No changes can be made to these documents. We strongly recommend that you seek appropriate legal advice in relation to the contract and any other associated legal documentation which is required by the company (e.g. in respect of corporate capacity and authority to enter into the contract). You'll be responsible for paying for this advice.

How the grant element works

The grant, which is only available alongside the convertible loan, doesn't need to be repaid (except in certain circumstances laid out in the contract, such as your business ceasing operations), but you will have to evidence that the company is using the grant for eligible purposes and in line with the business plan proposals you submitted.

The terms of the grant are set out in the contract, which you should refer to alongside the [headline terms](#) for full details.

Who can apply?

The eligibility criteria for this fund is outlined on the [Early Stage Growth Challenge Fund page](#). Please make sure you qualify as an early stage, high growth, innovative company and meet all of the eligibility criteria before applying. If you're not eligible, your application will not proceed to full appraisal. You must be an executive director of your company to apply, and if your company is part of a group, the parent company must apply.

The amount

This fund offers total funding of £50,000 to £300,000 and it will be paid in one payment. We'll need to check that any funding you receive from the Early Stage Growth Challenge Fund won't exceed the EU State Aid Temporary Framework limit of €800,000 (£120,000 for companies active in the fishery and aquaculture sector or €100,000 for companies active in the agriculture sector) when combined with any other COVID-19 support you've received under this framework. This includes schemes such as the Bounce Back Loan, Coronavirus Business Interruption Loan, Pivotal Enterprise Resilience Fund, Innovate UK COVID-19 support and certain Local Authority grants. If you've received support via the EU-COVID-19 Temporary Framework you will have been advised of this when you received the funding.

What you can use this funding for

You can use this funding for growth activities including:

- Investment into innovation and R&D activities
- Activities focused on entering new markets, increasing market share, securing further market validation and development of your company's products or services

The grant element of the funding can only be used to fund R&D and related capital expenditure activities and costs. Innovation and R&D eligible activities and costs (excluding VAT) include the following items:

- R&D related employee costs
- Consultancy, subcontract and fees for trials and testing
- Preparation of technical manuals
- Intellectual Property costs
- Market assessment
- Developing new products
- Improving existing products
- Developing new or improved processes of production
- Capital expenditure related to R&D activities

See our [full list of eligible and ineligible grant costs \(PDF, 330KB\)](#) for more information.

Funding must not be used to:

- Pay any personal costs or any costs unrelated to the company
- Repay any financial indebtedness (including, but not limited to, bank borrowings, venture debt funding and any director, shareholder or other related party loans) other than in the ordinary course of business and as outlined in the application or business plan
- Make any dividends, other distributions or transfer of funds to shareholders or associated companies, make any bonus or other discretionary payment, whether via an advisory or bonus fee, to any employee, consultant, contractor or director of the company other than in accordance with any of its contractual obligations in effect prior to the date of the application and in the ordinary course of business
- Pay for acquisitions other than assets in the normal course of business
- Pay advisory fees, placement fees or bonuses to any corporate finance entity, investment bank or similar service in connection with this funding.

The application

This is a competitive funding call, meaning it will be open for applications for a fixed amount of time. This means it's NOT a first-come-first-served basis – all applications will be reviewed based on how the funding could help your company progress, and how your company could contribute to the wider economic recovery. However, not all applications which meet the eligibility criteria will receive funding.

What you'll need to provide

During the application, we'll ask you some questions about your business. You'll also need to provide some information in the form of document uploads. These include:

Current and historical documents

- Full annual accounts for the last 3 years (or for the period from incorporation if your company is less than 3 years old)
- Your most recent management accounts
- Detailed trade and creditor listings, including aged creditors/debtors (bills you haven't paid yet or customers that haven't paid you yet)
- Your current share capital table (showing the current and fully diluted position), including details of prior external fundraisings and relevant valuations.

Evidence of ONE of the following:

- You've received a technology right (such as a patent, utility model, design right or protection certificate) registered in the last 24 calendar months
- You've received a R&D or innovation grant or prize of minimum £50,000 by an EU institution, EU body or regional/national research or innovation support scheme in the last 24 calendar months
- You've received (or are working through a formal application for) approval from a regulatory body such as MHRA, FDA or CE, or equivalent
- You've previously raised external equity finance (not including founders, family, friends and crowd funding)

Forecast documents

- A business plan - we've provided a [business plan template \(MS Word doc, 60KB\)](#) to help if needed
- An investor deck (if not provided in detail in the business plan)
- Financial forecasts for the coming 36 months (with the first year detailed monthly as a minimum)
- Detailed current and forecast anonymised salary information
- Economic impact details - we've provided an [economic impact template \(MS Word doc, 22.1KB\)](#) to help

Other documents

- A bank statement for your business bank account, dated within the last three months. It must show the bank logo, your company name, your company address, your account number and your sort code
- The information you provide should be concise and up to date.

Demonstrating the impact of COVID-19

During your application, you'll need to show that COVID-19 has had a clear negative impact on revenues or costs, either causing:

- A cash shortfall over the next 12 months, or cause you to divert resources away from growth activities
 - Your achievement of development or investor milestones which to take longer, with an expected delay in the timing of your first or next equity fundraising
- You'll be expected to provide this information in your business plan.

External funding and investment

As part of your application, we'd like to know more about your funding plans. You'll need to provide an investor deck that includes:

- A concise summary of funding raised to date (investors, amounts and purpose)
- Details of any fund raising that was in progress before COVID-19
- Information about any additional funding you need in the next 12 months
- Details about how you're planning on approaching this future funding requirement
- How the funding being applied for will help you progress through the next 12 months

Other COVID-19 funding

If you've received any other type of COVID-19 funding, you can still apply, as long as that funding isn't being used for the same purposes as this funding.

Any funding you receive from the Early Stage Growth Challenge Fund, when added to funding you've already received from other COVID-19 support services under the EU COVID-19 Temporary Framework, cannot exceed €800,000 (or €120,000 for companies active in the fishery and aquaculture sector and €100,000 for companies active in the agriculture sector).

During the application we'll ask you about other COVID-19 support you've received, to make sure this fund won't take you over the maximum limit allowed under the EU COVID-19 Temporary Framework which is being used to deliver this fund.

Fair Work First

We also ask if you're a Fair Work First employer or committed to becoming one as our focus is on supporting companies that will drive the recovery of the Scottish economy and the wellbeing of our people. Fair Work First means:

- Investment in skills and training
 - No inappropriate use of zero-hours contracts
 - Action on gender pay
 - Genuine workforce engagement
 - Payment of the real Living Wage. The real Living Wage is currently £9.30 per hour and is based on the cost of living.
- It's not something you need to have previously signed up for or taken part in. You can make the commitment during the application – but your business plan should show how you plan to fulfil this commitment.

[Find out more about Fair Work First](#)

Business plan

To support your application, you'll need to provide a business plan. This should contain information about the impact of COVID-19, your external investment plans, your finance requirements and more. We've included an optional template to help. You can either download it and fill it in, or use it as a guide to make sure your existing business plan contains everything we need.

[Download business plan template \(MS Word doc, 60KB\)](#)

Financial forecasts

Your financial forecasts should provide projections covering a period of 3 years. These should include monthly profit and loss, balance sheet and cashflow statements. Things to consider when creating your forecasts include:

- Turnover/gross profit margins
 - Collection/payment terms
 - Capital expenditure
 - VAT
 - Incoming finance
 - Interest rates
- The first 12 months of your forecasts need to contain as much detail as possible.

After the application

Appraisal criteria

We'll appraise all submissions against four criteria:

- COVID-19 recovery plan – consideration of efforts made to date to secure required funding, assessment of the business plan and financial information, and clear articulation of the funding gap attributable to COVID-19
- Commercial – management, product, market, commercial traction achieved, experience of other material investors, nature of funding achieved to date and future funding prospects
- Strategic and economic – including growth and export potential, job creation and innovation potential
- Fair work and place – commitment to fair working practices and contribution to economically disadvantaged locations in Scotland as defined by the Scottish Index of Multiple Deprivation

The appraisal of your application alongside others will determine if your application is successful and how much combined convertible loan and grant funding we award you. We expect that your business plan will help us make a full assessment of your application against these criteria, and how your company will contribute to Scotland's economic recovery.

The appraisal will also draw on the knowledge of Scottish Enterprise, Highlands and Islands Enterprise and South of Scotland Enterprise colleagues who may have already worked with your company.

Sharing your information

To support our appraisal, we'll sometimes use an external panel of investment experts. We may share your application and supporting documentation, but we'll make sure all information is shared securely. All external panel members will sign an [appointment letter \(PDF, 850KB\)](#), which sets out their obligations on data sharing, ensuring confidentiality. We'll manage potential conflicts of interest. By submitting your application, you're agreeing to your information being shared.

Contacting you for additional information

If we need extra information from you to help us make a decision about your application, we'll get in touch using the contact details you provide during the application. The information will have to be provided within the timeframe noted and any detail must be in line with what could be expected by any third party investor (an investor who doesn't have a prior connection with the company). If the information is not provided in the timescale we will reject your application.

If your application is successful

Once we've reviewed all the applications, we'll let you know if you've been successful, and if so, how much funding you're receiving. We'll let all successful awardees know week commencing 7 September 2020.

If you're successful in securing funding, you'll have 10 days to return the signed contract which will include the terms of the convertible loan.

Disclaimers

Scottish Enterprise retains its right to alter the application process, eligibility criteria and allocation criteria at any time, with details of any such changes posted on this website.

Full terms and conditions can be found in the [contract and headline terms](#).

Data protection and GDPR

As part of the application process, we'll collect information about your investors, your company and your nominated solicitors. We'll also collect some personal information. We'll use the information we collect to monitor the allocation of funds and ensure that funds are allocated to eligible companies. We reserve the right to share all data for research purposes with other government departments and agencies acting on our behalf. Data and documents provided may be used for KYC (Know Your Customer), anti money laundering (AML) and general fraud checks as part of the full application.

See our [privacy notice](#) for further details on how we look after and use your personal data.

Freedom of information

Scottish Enterprise is subject to the Freedom of Information (Scotland) Act 2002 and may be obliged to release information about your application or funding award in response to any requests received.

How to apply

You can apply using our online application form. You'll need to answer some detailed eligibility questions first, to make sure you're eligible. If you're eligible, you'll need to create an account to continue with the application. This means you'll be able to save and return later whenever you need to.

We'll review all applications once the application window is closed so it is not a first come first served basis. Applications open on 20 July 2020 and close at 5pm on 31 July 2020.

Got a question?

If you're still got questions about this fund after reading the application guidance, you can get in touch with our team. We'll try to respond within 2 working days.

[Submit an enquiry](#)

Applications aren't open yet

This fund will be open for applications from 20 July 2020 until 5pm on 31 July 2020. If you're interested in applying, you can use the information given so far to help you prepare for your application and make sure you have all the documents and evidence you need.

Prefer to speak to someone?

If you've got a question and want to speak to someone directly, you can call 0300 013 3385 and select option 2 to be put through to our Early Stage Growth Challenge Fund team.

Early Stage Growth Challenge Fund

This new fund aims to support innovative, early-stage, high-growth companies who have been affected by the COVID-19 pandemic.

Contents

[What is the Early Stage Growth Challenge Fund?](#)

[Who is it for?](#)

[Am I eligible?](#)

[What can this funding be used for?](#)

[How this fund works](#)

[Convertible loan details](#)

[Grant funding details](#)

[How to apply](#)

What is the Early Stage Growth Challenge Fund?

This new Scottish Government fund is managed by the Scottish Investment Bank, the investment arm of Scottish Enterprise. It's designed to support early-stage, high-growth, innovative Scottish companies who have been negatively affected by the COVID-19 pandemic. It's aimed at companies where COVID-19 has had a clear impact on revenue, working capital costs, or access to equity investment, resulting in a cash shortfall, a diversion of resources away from growth activities or a delay in achievement of development or investor milestones. It can provide from £50,000 to £300,000 per company.

The funding is a combination of convertible loan and grant. A convertible loan is a type of loan funding that can either be repaid with the associated interest or converted into equity (meaning Scottish Enterprise would own shares in your company). The grant element does not need to be repaid, and will only make up a maximum of 20% (if any) of any funding awarded.

This fund is open for applications from 20 July 2020 until 5pm on 31 July 2020.

Who is it for?

This fund is for early-stage, high-growth, Scottish companies working on unique products or services in new or niche markets. You should be focused on innovation, research and development (R&D), and intellectual property, and might be working in promising sectors such as fintech, life sciences, space, green tech, digital and data, and artificial intelligence. You should be based in Scotland but looking to compete, or already be competing, in international markets.

We're always interested in the big picture, and are keen that companies who are working on products and services that could change the way we live and work, and could help drive a sustainable and inclusive economy apply. You should be committed to fair working practices and have the potential to create high value jobs in Scotland.

Am I eligible?

Your company must meet the following criteria to apply, which we'll check as part of our appraisal process. If you don't meet the minimum criteria (or can't sufficiently evidence it) your application will not proceed to appraisal. If your company is part of a group, it must be the parent company that applies, and the parent company that meets these criteria.

To be eligible, you must:

- Be based in Scotland or have the majority of your operations in Scotland
- Be a private company limited by shares
- Have been incorporated on or before 31 December 2019, but less than 10 years ago
- Have 2-49 full time equivalent employees, with at least 80% based in Scotland. This doesn't include contractors or employees on zero-hours contracts.
- Be a small or micro enterprise – a turnover of less than €10 million or a balance sheet value of less than €10 million
- Be an early stage company with a high growth potential, operating in or targeting international growth markets. You must have raised external equity finance in the last 24 calendar months, or be planning on doing so in the next 12 months. This equity can't come from founders, family, friends or crowd funding.
- Be a high growth and innovative company – you must have registered at least one technology right (such as a patent, utility model, design right or protection certificate) in the last 24 calendar months, OR have received an R&D or innovation grant or prize of minimum £50,000 by an EU institution, EU body or regional/national research of innovation support scheme in the last 24 calendar months, OR have received (or are working through a formal application for) approval from a regulatory body such as Medicines and Healthcare Products Regulatory Agency (MHRA), U.S. Food and Drug Administration (FDA) or CE certification mark, or equivalent OR have previously raised external equity finance (not including founders, family, friends, and crowd funding)
- Be able to show plans to use this funding for eligible costs and activities (as listed under 'what can this funding be used for?')
- Be committed to Fair Work First – you should be committed to investing in skills and training, avoiding the inappropriate use of zero-hours contracts, taking action on gender pay, promoting genuine workforce engagement, and paying the real living wage (currently £9.30 an hour)

Meeting these eligibility criteria does not guarantee you'll receive funding. This this is a competitive funding call and only the most highly graded companies will receive funding.

This fund cannot support businesses who:

- Are sole traders or partnerships
- Are registered in a recognised tax haven, including any subsidiaries (you can check this using the [EU list of third country jurisdictions for tax purposes](#))
- Are involved in banking, insurance or sub-prime lending, gambling, adult entertainment, tobacco, activities with adverse impact on human rights or locally traded services and activities
- Are involved in any activities that could have a negative impact on Scottish Enterprise's reputation or ethical standards (at the sole discretion of Scottish Enterprise)
- Have already received £800k of support via the EU COVID-19 temporary framework, which includes support schemes such as the Bounce Back Loan, Coronavirus Business Interruption Loan, Pivotal Enterprise Resilience Fund, Innovate UK COVID-19 support and certain Local Authority grants. If you've received support via the EU COVID-19 temporary framework, you will have been advised of this when you received the funding.

What can this funding be used for?

You can use this funding for growth activities including:

- Investment into innovation and R&D activities
- Activities focused on entering new markets, increasing market share, securing further market validation and development of your company's products or services

You can't use it to fund activities that you've already received a grant or award for.

The grant element of the funding can only be used to fund research and development and related capital expenditure activities and costs. Innovation and research and development eligible activities and costs (excluding VAT) include the following items:

- R&D related employee costs
- Consultancy, subcontract and fees for trials and testing
- Preparation of technical manuals
- Intellectual Property costs
- Market assessment
- Developing new products
- Improving existing products
- Developing new or improved processes of production
- Capital expenditure related to R&D activities

See our [full list of eligible and ineligible grant costs](#) for more information.

How this fund works

This is a competitive funding call. This means funding is NOT being awarded on a first-come-first-served basis, and it will be open for applications for a fixed amount of time. Those applicants we think have the most to contribute to Scotland's economic recovery, and where additional funding can make the greatest contribution, will be successful. This means that not all eligible companies will secure this funding.

The funding comes in the form of a convertible loan, with an element of grant attached. You don't need to repay the grant element, but (with our agreement) you must either repay the convertible loan with accrued interest, or convert it into equity. You'll need our agreement to do either. If we choose to convert the loan into equity, this means we would own shares in your company.

If you're successful, we'll decide during our assessment of your application how much funding you'll be awarded and how much (if any) can be provided as a grant. The grant element will only ever make up a maximum of 20% of the total amount awarded, and can only be awarded in relation to eligible costs.

Once we've reviewed all the applications, you'll find out during the week commencing 7th September 2020 if you've been successful or not, and how much funding you're receiving.

Convertible loan details

These terms are predefined and cannot be negotiated. The key terms are:

- Term: 36 months
- Interest: interest free for the first 12 months following drawdown. After 12 months, the rate of interest payable on the loan will be 8% per annum. Interest will accrue to be repaid at the end of the term.
- Conversion terms: please see the headline terms and the contract (each as defined below) for details of the circumstances in which all or any part of the loan may convert into shares

Further details are included in the standard [term sheet](#) (the "headline terms") and the standard [full legal document](#) (the "contract"). No changes can be made to these documents. You'll also find more details in the application guidance for this fund.

Grant funding details

The terms of the grant are set out in the contract. Please refer to the [headline terms](#) and the [contract](#) for full details. The grant does not need to be repaid (except in certain circumstances laid out in the contract, such as your business ceasing operations), but by entering into the contract you agree to providing evidence to show that you'll use the grant for eligible costs.





How to apply

This fund isn't open to applications yet. Applications open on 20 July 2020 and close on 31st July 2020. We'll review all applications once the application window is closed so it is not a first come first served basis.

In the meantime, you can read the full application guidance so you can start preparing for your application. The guidance contains key details about the fund, as well as more information about what you'll need to provide during the application.

[Read application guidance](#)

The application process

 <p>Step 1: Application guidance</p> <p>Before you can apply, you need to read the application guidance. This tells you more about the fund, and about the information you'll need to provide. It also provides details of the terms and conditions.</p>	 <p>Step 2: Eligibility</p> <p>Once you've read the guidance, you'll need to answer a few questions to make sure you're eligible.</p>	 <p>Step 3: Create an account</p> <p>Once you've read the guidance, you'll need to answer a few questions to make sure you're eligible. We'll check this information and ask for evidence, so it's important that you answer accurately.</p>	 <p>Step 4: Complete your application</p> <p>Once you've created an account, you can complete the rest of the application. You must complete and submit the application by 5pm on 31 July 2020.</p>
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Information you'll need to provide

During the application you'll be asked some questions about your company and about how COVID-19 has affected you. You'll need to provide a number of financial documents, including financial forecasts for 3 years (as a minimum, with the first year detailed on a monthly basis), full accounts from the last 3 years (or for as long as your company has been incorporated if this is less than 3 years) and your most recent management accounts. This helps to show the impact COVID-19 has had on your cashflow. You'll also need to provide information about other funding you're planning on securing.

You'll also need to provide a robust and concise business plan. This is a key document that will help us decide how viable your business is, the impact of COVID 19 on your business and what impact you could have on Scotland's economy and your ability to achieve this with this additional funding. If you're not sure what to include or want to make sure your existing business plan contains everything it needs to support your application, you can download our [business plan template](#) (MS Word doc, 60KB).

Interested in applying?

If you think you're eligible, you can read the full application guidance to make sure this fund is right for you, and help you prepare for the application.

[Read application guidance](#) >

Not right for you?

If this fund isn't quite right for your business, you can sign up to our email updates to hear more about other support we can offer and new funds that may be available in the future.

[Sign up to email updates](#)

<p>SUPPORT FOR BUSINESSES</p> <ul style="list-style-type: none"> Coronavirus (COVID-19) advice Prepare for Brexit Business development and advice Develop products and services Funding and grants Exports and international markets Improve productivity and employee engagement 	<p>LEARNING ZONE</p> <ul style="list-style-type: none"> Events Webinars Success stories and case studies Research and publications Business guides 	<p>OUR ORGANISATION</p> <ul style="list-style-type: none"> What we do How we do it About us Accessing our information Requests and feedback Current vacancies Media centre 	<p>GET IN TOUCH</p> <ul style="list-style-type: none"> Contact Us Sign up to our newsletter
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