

SCOTTISH ENTERPRISE

EVALUATION OF THE SCOTTISH CO-INVESTMENT FUND (SCF) AND SCOTTISH VENTURE FUND (SVF) III AND IV APPENDICES – FINAL V5.0

April 2022

APPENDIX 1: ERDF SUPPORTED FUND PERFORMANCE

The European Regional Development Fund (ERDF) provided support for the period July 2015 to September 2018 and the impacts resulting from ERDF support (i.e. July 2015 to September 2018) are reported here. To achieve this, Scottish Enterprise data has identified supported companies who received funding sourced from ERDF. All other companies were removed to enable the following analysis. As with **Chapter** Error! Reference source not found., in some cases gaps in data availability have limited this analysis.

Overview

ERDF provided **£35.4m** of funding to SE to partially fund the SCF and SVF. 171 companies received ERDF funding over **370 deals**. ERDF provided 40% match funding out of a total of £88.4m investment. An additional **£203.8m** of private and other public sector investment was leveraged as a result of the SE and ERDF investment.

The ERDF investment was split across ten themes, with each theme reflecting:

- one of four funds – i.e., the SCFIII, the SVFIII, the SGS¹ SCFIII or the SGS SVFIII;
- one of two geographies – Lowlands and Uplands (LUPS) and Highlands and Islands (H&I); and
- the focus of the investment – either innovation or competitiveness (comp).

A breakdown of investment across these ten themes is detailed in Table 1.

Table 1: ERDF investment by source of funds

ERDF Funding Theme	Total investment (Including ERDF)	Total ERDF Investment	Proportion of total
SCFIII Comp LUPS	£11.5m	£4.6m	13%
SCFIII Comp H&I	£0.6m	£0.2m	1%
SCFIII Innovation LUPS	£10.5m	£4.2m	12%
SCFIII Innovation H&I	£0	£0	0%
SVFIII Comp LUPS	£24.2m	£9.7m	27%
SVFIII Comp H&I	£1.5m	£0.6m	2%
SVFIII Innovation LUPS	£14.0m	£5.6m	16%
SVFIII Innovation H&I	£1.6m	£0.6m	2%
SGS SCFIII Comp LUPS	£8.6m	£3.4m	10%
SGS SVFIII Comp LUPS	£15.9m	£6.4m	18%
Total	£88.4	£35.4m	100%

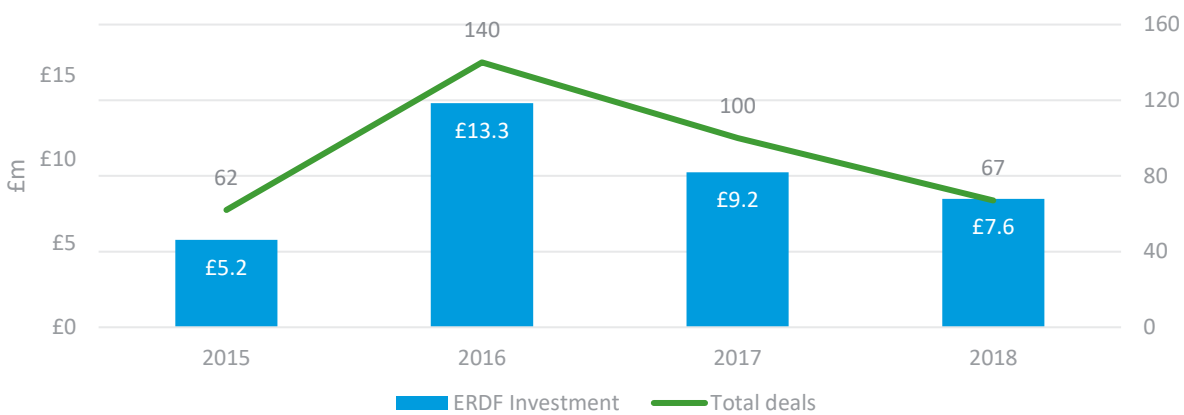
Source: SE ERDF deals split by theme

¹ SGS refers to the 'Scottish Growth Scheme', a £500 million package of financial support, backed by the Scottish Government. SGS funding supported the ERDF competitiveness theme in the Lowlands and Uplands region.

Investments by Year and Fund

Figure 1 details the investments in companies that received ERDF funding per year, highlighting peak deal numbers and investment in 2016, which declined yearly thereafter (note that 2015 and 2018 are part-years only).

Figure 1: Total deal amount and investment per year (ERDF)



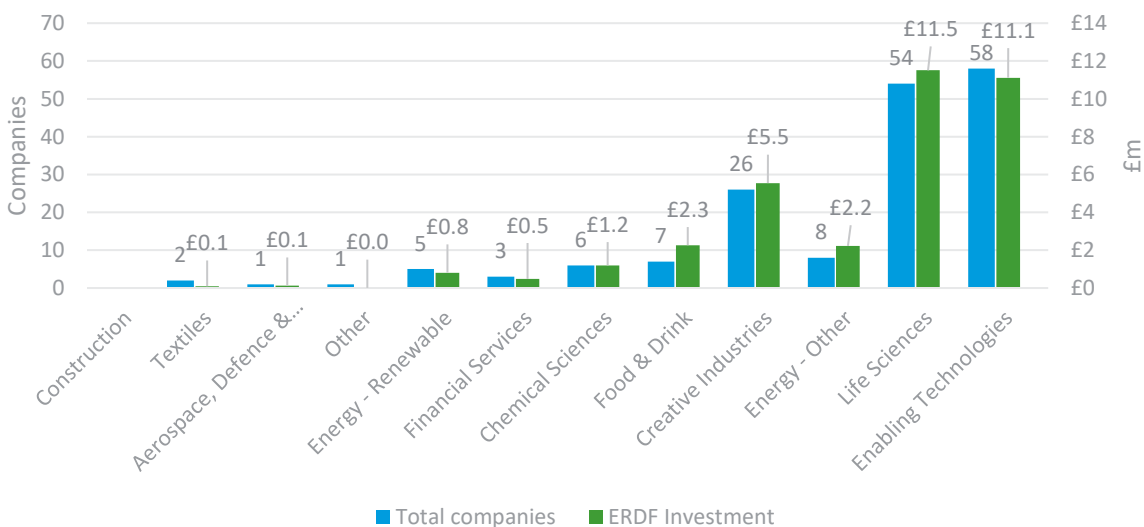
Source: SE SCF / SVF Evaluation Deals Data

Investment Sectors

ERDF supported investment across a large range of high growth sectors. As is shown in

Figure 2 companies supported were most likely found in Enabling Technologies, (34%) Life Sciences (32%) and Creative Industries (15%) sectors. The total ERDF investment per sector is also displayed, with the three aforementioned sectors most prominent.

Figure 2: Investment Sectors (ERDF)

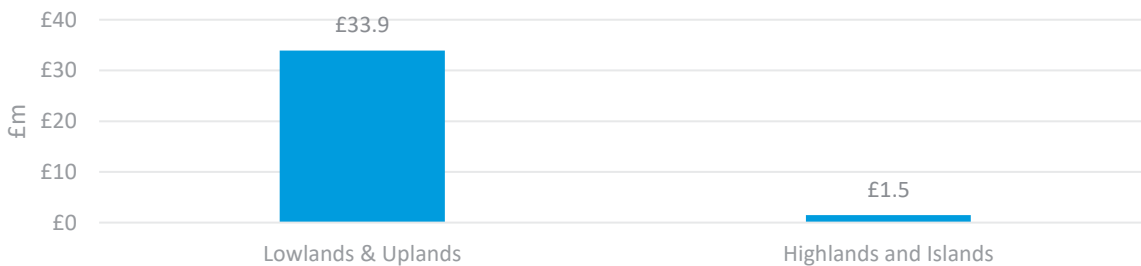


Source: SE SCF / SVF Evaluation Deals Data

Investment Geography

A breakdown by geography in Figure 3 shows that the vast majority of investment supported by ERDF was in the Scottish Lowlands and Uplands region, with only £1.5m going to companies in the Highlands and Islands. This reflects the significant clusters of investment in around Edinburgh and Glasgow cities, accounting for 59% of the ERDF investment total. The proportion of investment in the Lowlands and Uplands to Highlands and Islands (96% L&U, 4% H&I) is broadly as expected in initial ERDF allocations (92.2% L&U, 7.8% H&I).

Figure 3: ERDF Investment by geography (£m)



Source: SE SCF / SVF Evaluation Deals Data

Investment and Leverage

Fund Investment

ERDF has provided £35.4m of support for portfolio companies, as part of £88.4m of total SE investment, across SCF III and SVF III investments (including SGS funded SCFIII and SVFIII). 65% of ERDF funding was provided to companies through the SVF and 35% through the SCF. This is detailed in Table 2.

Table 2: Actual Fund Investment

Fund	Number of deals (ERDF Funded)	ERDF Investment (£m)	SE Investment (£m)	Average deal size (SE Investment) (£th)	% of Total ERDF Invested
SCF III	176	£12.3	£30.8	£174.7	35%
SVF III	194	£23.1	£57.7	£297.2	65%
Total	370	£35.4	£88.4	£236.0	100%

Source: SE SCF / SVF Evaluation Deals Data

Private Sector leverage

ERDF supported deals have generated private sector investment totalling £203.8 as well as £3.2m of additional public capital. This gives an investment ratio of close to 1:6 ERDF investment to leveraged investment.

Table 3: Private Sector Leverage

Fund	Private Capital Leveraged (£m)	ERDF Investment (£m)	SE Investment (incl ERDF) (£m)	Other Public Sector Investment (£m)	Total Investment (£m)	% of total investment private capital
SCF III	£77.7	£12.3	£30.8	£2.0	£110.5	70%
SVF III	£126.2	£23.1	£57.7	£1.1	£185.0	68%
Total	£203.8	£35.4	£88.4	£3.2	£295.4	69%

Source: SE SCF / SVF Evaluation Deals Data

Private sector capital was provided from both Angel Syndicates and Other Private Sector Investors (e.g. High Net Worth Individuals, Venture Capital, Etc.). **Table 4** details the source of private capital per fund, showing that in total, other private investor types (i.e. non-Angel Syndicates) provided a greater proportion of levered investment. As is shown in Table 2, ERDF supported a greater number and higher value of SVF deals. This can be explained, as the SVF model favours investors less active or less experienced (i.e. VCs, corporate investors, HNW individuals) compared to SCF which is likely to suit Angel groups.

Table 4: Source of Private Capital

Fund	Source of private capital	Amount Leveraged (£m)	% of total private investment
SCF III	Angel Syndicate	£50.9	65%
	Other Private Sector	£26.8	35%
SVF III	Angel Syndicate	£28.3	22%
	Other Private Sector	£97.8	78%
Total	Angel Syndicate	£79.2	39%
	Other Private Sector	£124.6	61%

Source: SE SCF / SVF Evaluation Deals Data

Investment Performance

19 companies supported by ERDF had deals written off, totalling £2.7m of ERDF investment and a total SE investment of £6.6m. This is shown in **Table 5**.

Table 5: Write off

Write off	SCF III (£m)	SFV III (£m)	Total (£m)
ERDF Investment	£0.7	£2.0	£2.7
Total SE investment	£1.7	£5.0	£6.6

Source: SE SCF / SVF Evaluation Deals Data

As shown in Table 6, 27 investments supported by ERDF, totalling £15.1m of SE investment (inclusive of ERDF investment) have been disposed of / repaid for a total of £25.6m, giving a profit of circa £10.5m. Additional income from interest and fees for ERDF supported companies totals £0.59m.

Table 6: Share Disposal

	ERDF Investment in exited companies (£m)	SE Investment in exited companies (£m)	Share Disposals (£m)	Income from capital repayment/ disposals (£m)	Profit from disposals total SE investment (£m)
Total	£6.0	£15.1	£12.7	£25.6	£10.5

Source: SE SCF / SVF Evaluation Deals Data

125 ERDF companies are still active investments, with a current net book value of £87.7m. With total initial investment in these ERDF supported companies totalling £125.6m, income of £26.2m and an NBV (at 31 March 2020) of £87.8m, the gross return on investment amongst ERDF supported companies is calculated² to be -9.2%. As discussed in the context of the overall portfolio above (Chapter **Error! Reference source not found.**), this should be viewed in the context of (a) the suppression of valuations at 31 March 2020 due to the Covid-19 pandemic and (b) the feature of early-stage investing that 'losers' tend to be identified early (and are hence reduced in value) and 'winners' take time to mature and exits occurring later in the investment cycle.

Outcomes

This section looks at the outcomes (e.g. employment, turnover, etc.) for supported companies following investment from the co-investment funds. As earlier stated, the extent of the outcomes presented may be understated as data is not fully collected for all supported companies. It also must be recognised that ERDF financial input accounts for just a small portion of the total investment that companies received.

To assess the economic outcomes attributable to ERDF funding, all additional inputs beyond ERDF must be considered (detailed in Table 7). The total financial investment in ERDF supported companies by SE is £209.1m, of which ERDF funding accounts for 16.9%. To provide

² Return on investment compares the return from an investment, relative to the investment cost. It considers the initial investment, income from the investment and current value of the investment, dividing the total benefit of an investment by the cost of the investment, and is expressed as a ratio. As is detailed in the text, this figure may not fully reflect investment performance as it is a snapshot in time of investments where returns are still to be fully realised by failures are likely to emerge earlier.

a high-level estimate of the economic impact attributable to ERDF, outcomes have been reduced to 16.9%. N.B. SE will have incurred staffing costs which, although not included in this apportioning of impact, must also be considered when assessing the overall impact.

Table 7: Additional Financial Inputs³

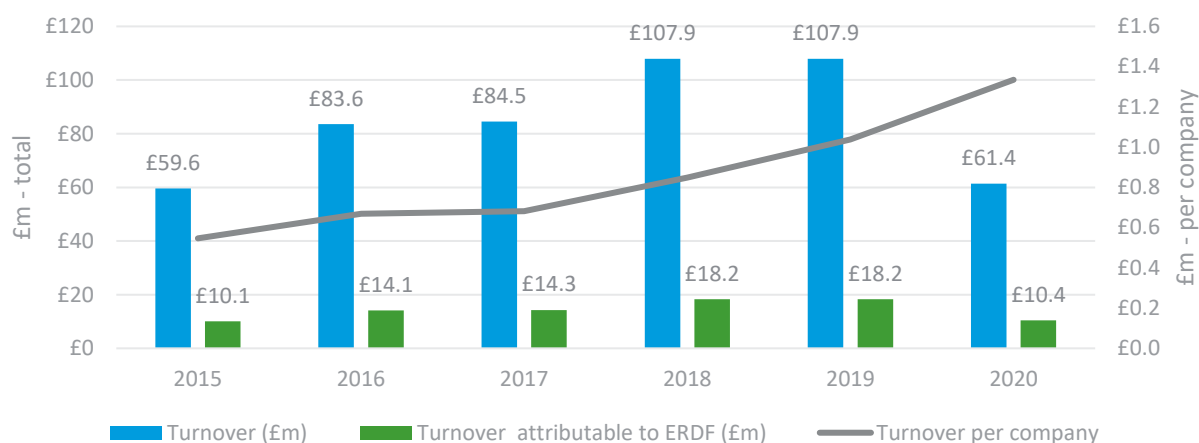
Funding	Amount (£m)	% ERDF of total
ERDF Funds	£35.4	100.0%
SCF / SVF III	£88.4	40.0%
Total SCF / SVF III and IV	£125.6	28.2%
Total SCF / SVF investment in companies	£184.8	19.1%
Total SE financial Investment in companies	£209.1	16.9%

Turnover

In total, companies supported by the funds through ERDF turned over **£504.8m** with the peak of turnover coming in the later years of ERDF's support (2018 / 2019). As is shown in the graph, there is a continuous increase in average portfolio size, showing growth in turnover is not just as a result of portfolio growth. As outlined above, 16.9% of investment in ERDF supported companies came from ERDF funding, as such, an estimate of turnover amongst supported companies attributable to ERDF funding is also displayed in Figure 4 with a total attributable turnover of **£85.4m**.

Figure 4: Total Turnover (£m)

³ This table presents the cumulative financial input into ERDF supported companies by SE and includes the proportion of the total financial input that ERDF funding accounted for. i.e. for total SE financial investment in ERDF-supported companies (row 6), which includes all SCF/SVF funding as well as prior funding from other SE funds, the ERDF portion of this funding accounted for 16.9%.



Source: SE SCF / SVF Company Metrics

In **Table 8**, the total turnover for companies is apportioned by ERDF investment theme. Due to complexities in some companies receiving multiple funding rounds assigned to different investment themes, it has been agreed with SE that the most pragmatic approach is to apportion outcomes on a pro-rata basis, where it is assumed that inputs into a company are directly proportion to outcomes (i.e. SCFIII Comp LUPS accounts for 13% of the total investment and as such 13% of the outcomes are attributed to this funding input).

Table 8: Turnover split by ERDF Theme

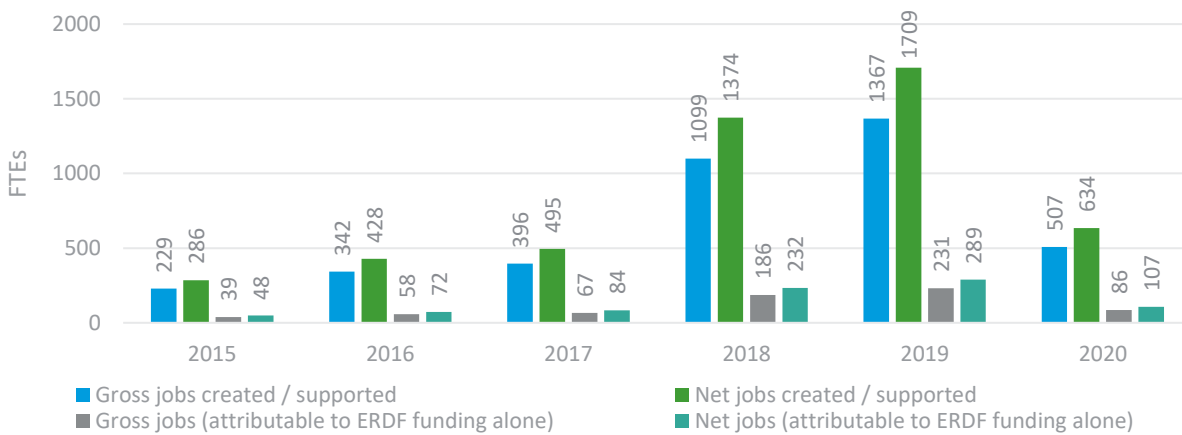
ERDF Funding Theme	Total turnover (£m)	Turnover attributable to ERDF investment (£m)
SCFIII Comp LUPS	£65.8	£11.1
SCFIII Comp H&I	£3.3	£0.6
SCFIII Innovation LUPS	£59.8	£10.1
SCFIII Innovation H&I	£0.0	£0.0
SVFIII Comp LUPS	£137.8	£23.3
SVFIII Comp H&I	£8.4	£1.4
SVFIII Innovation LUPS	£80.0	£13.5
SVFIII Innovation H&I	£9.0	£1.5
SGS SCFIII Comp LUPS	£49.7	£8.4
SGS SVFIII Comp LUPS	£91.0	£15.4
Total	£504.8	£85.4

Source: SE ERDF deals split by theme

Employment

Due to some gaps in reporting, assigning a precise baseline figure for company employment has proved difficult, and as such, the year prior to the start of the SCF/SVF III period (2014) has been used as the most appropriate baseline figure, and all jobs created / supported are additional to this baseline. In 2014, the reported employment level amongst ERDF supported companies was 394 FTEs. **Figure 5** details the jobs created / supported by the Fund's intervention in ERDF supported companies, per year, alongside the jobs created / supported attributable to the ERDF funding input. In total, financial input in ERDF supported companies have contributed directly to supporting 3,940 job-years (gross⁴). The net jobs created by supported companies have been calculated following the assumptions for deadweight, leakage and displacement outlined in **Appendix 4** as well as employment multipliers⁵, outlining the indirect and induced employment impacts. The net job years supported is calculated to be 4,925 job-years. Also displayed are the number of jobs created attributable to ERDF input (16.9% of total outcomes). Based on this method, ERDF funding directly supported 666 job-years amongst portfolio companies, with a net employment (including indirect and induced jobs) of 833 job-years.

Figure 5: Jobs created / supported



Source: SE SCF / SVF Company Metrics

As with turnover, employment outcomes for ERDF supported companies have been apportioned by the ERDF investment theme. This is detailed in **Table 9**.

Table 9: Employment split by investment theme

⁴ Gross refers to the number of jobs reported by companies. Net jobs includes adjustment for additionality as well as employment multipliers (to account for indirect / induced employment)

⁵ Scottish Government (2020), Supply, Use and Input-Output Tables: 1998 – 2017, available at <https://www.gov.scot/publications/input-output-latest/>

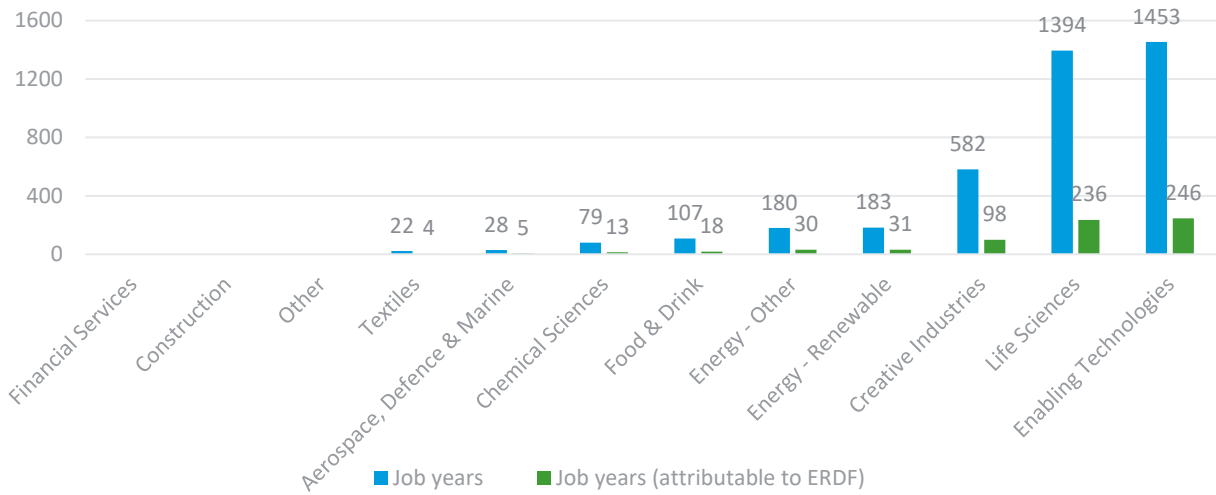
ERDF Funding Theme	Gross job-years (total)	Net job-years (total)	Gross job-years (attributable to ERDF investment)	Net job-years (attributable to ERDF investment)
SCFIII Comp LUPS	513	642	87	109
SCFIII Comp H&I	26	33	4	6
SCFIII Innovation LUPS	466	583	79	99
SCFIII Innovation H&I	0	0	0	0
SVFIII Comp LUPS	1075	1344	182	227
SVFIII Comp H&I	66	82	11	14
SVFIII Innovation LUPS	625	781	106	132
SVFIII Innovation H&I	70	88	12	15
SGS SCFIII Comp LUPS	388	485	66	82
SGS SVFIII Comp LUPS	710	888	120	150
Total	3940	4925	666	833

Source: SE ERDF deals split by theme

Figure 6 details the job-years supported per sector, showing both the total job-years, and those attributable to ERDF funding. Enabling technologies, life sciences and creative industries are responsible for the majority of job-years amongst supported companies.⁶

⁶ These three sectors have the highest total number of job-years, but renewable energy and aerospace, defence and marine companies both have higher average job years per company, at 37 and 28 job years per company respectively. (Enabling Technology: 25 job-years per company; Life Sciences: 26 job-years per company; and creative industries: 22 job-years per company).

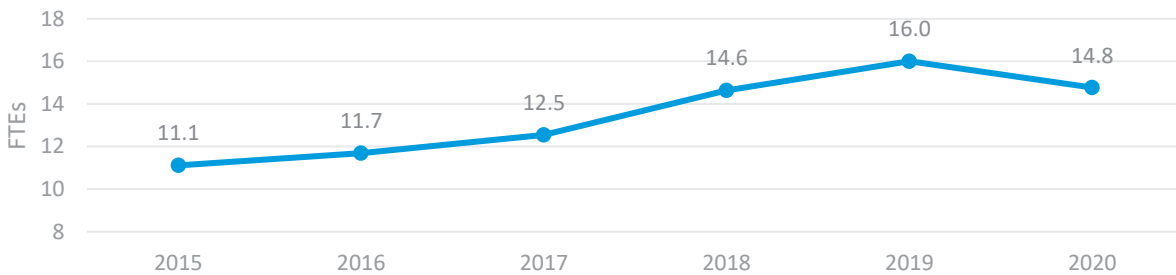
Figure 6: Job years per sector



Source: SE SCF / SVF Company Metrics

The average employment level of ERDF-supported portfolio companies has slowly risen over the course of the evaluation period, to 16.0 in 2019 before slightly dropping again in 2020. This is shown in **Figure 7**.

Figure 7: Average Employment per company (ERDF)

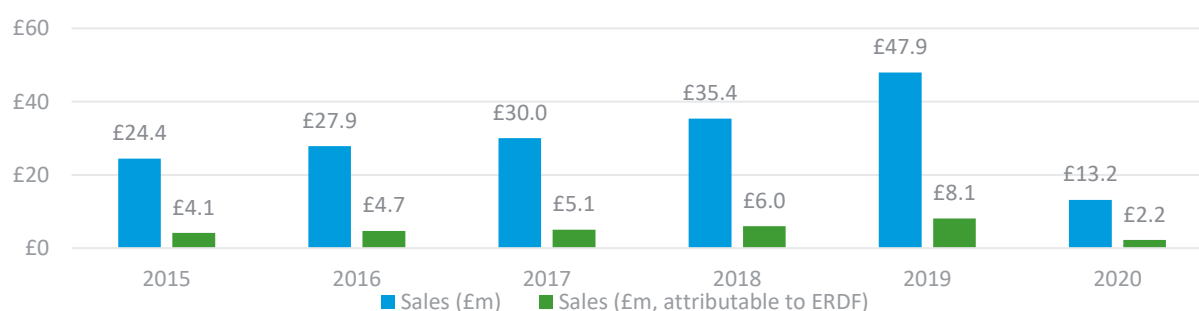


Source: SE SCF / SVF Company Metrics

International Sales

In total, there has been **£178.8m** of international sales from ERDF-supported companies. **Figure 8** details the international sales made by supported companies per year, as well as the level of sales attributable to ERDF funding.

Figure 8: International Sales (£m) (ERDF)



Source: SE SCF / SVF Company Metrics

Below, **Table 10** apportions the total international sales by ERDF investment theme, attributing international sales to theme based on a financial input.

Table 10: International Sales split by ERDF Theme

ERDF Funding Theme	Total international sales (£m)	International sales to ERDF investment (£m)
SCFIII Comp LUPS	£23.3	£3.9
SCFIII Comp H&I	£1.2	£0.2
SCFIII Innovation LUPS	£21.2	£3.6
SCFIII Innovation H&I	£0.0	£0.0
SVFIII Comp LUPS	£48.8	£8.3
SVFIII Comp H&I	£3.0	£0.5
SVFIII Innovation LUPS	£28.3	£4.8
SVFIII Innovation H&I	£3.2	£0.5
SGS SCFIII Comp LUPS	£17.6	£3.0
SGS SVFIII Comp LUPS	£32.2	£5.5
Total	£178.8	£30.2

Source: SE ERDF deals split by theme

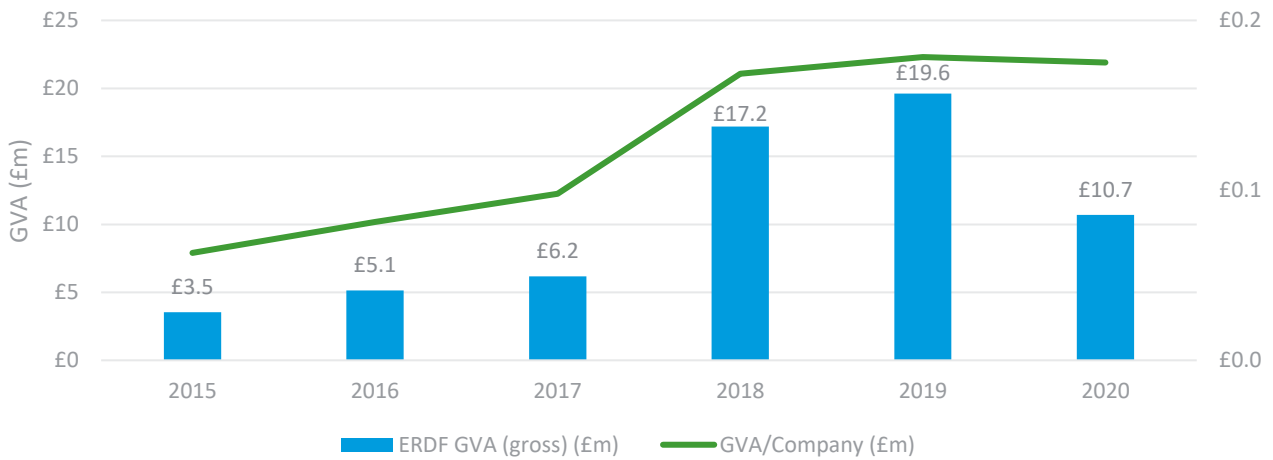
Economic Impacts

Gross Value Added

The estimated GVA resulting from ERDF SCF/SVF support (i.e. over the evaluation period) is shown in Figure 9. A detailed description of the methodology used to estimate GVA is provided in Appendix 4. **Figure 9** and **Figure 10** profile the gross and net economic impact of ERDF supported companies by year. The employment levels attributable to ERDF funding (16.9% of total ERDF supported companies) have been used as the basis of calculating the GVA estimates. This analysis assumes ERDF to be responsible for 16.9% of GVA impacts. From this analysis, it

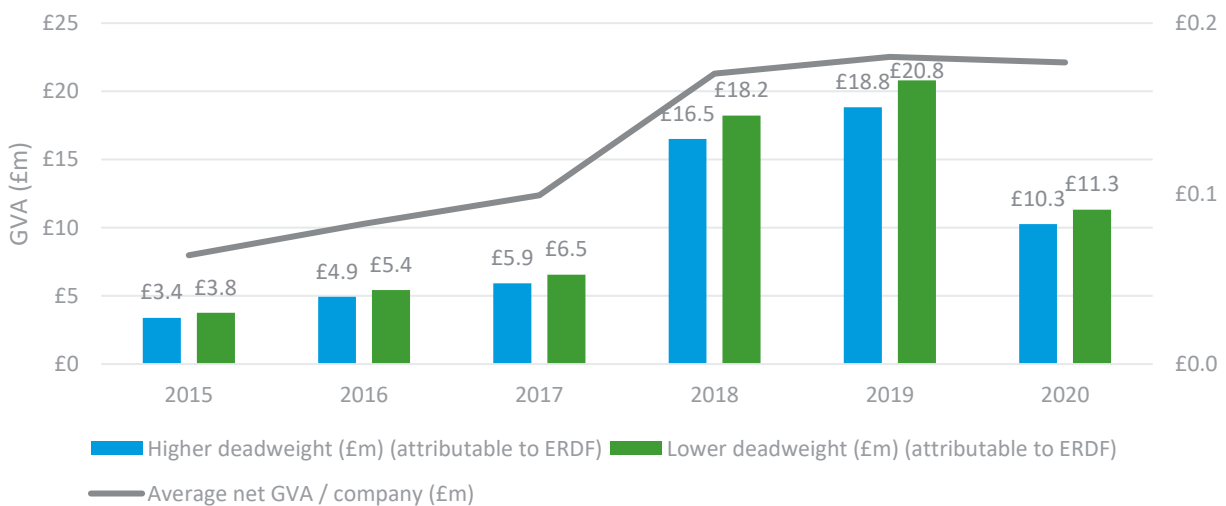
is estimated that the total gross GVA occurring directly as a result of ERDF funds is **£62.4m** and the net GVA is between **£59.9m** and **£66.1m**, depending on the level of deadweight applied to the calculations.

Figure 9: Gross GVA attributed to ERDF funding



Source: SE SCF / SVF Company Metrics; SG Growth Sector Statistic (2021); SABS 2018

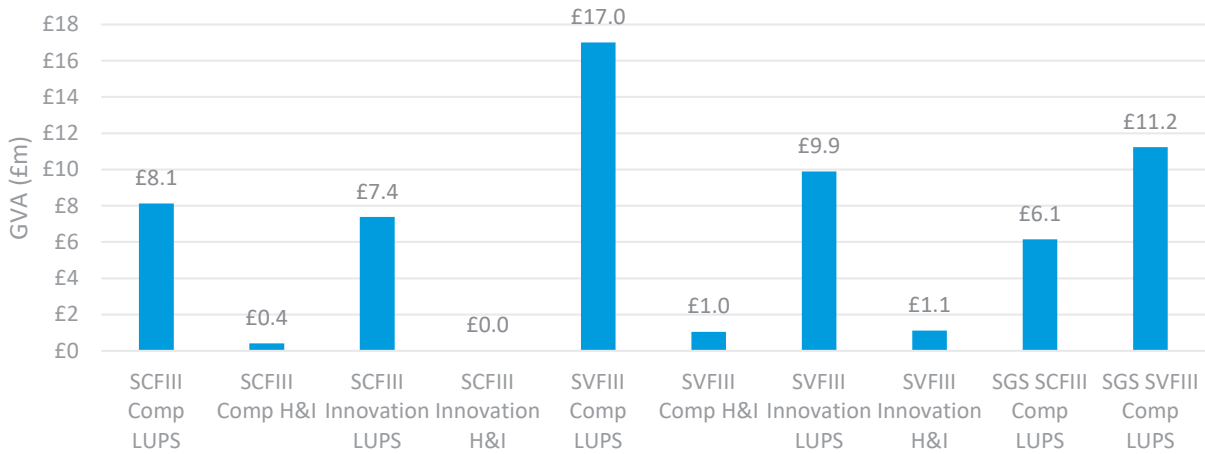
Figure 10: Net GVA attributed to ERDF funding



Source: SE SCF / SVF Company Metrics; SG Growth Sector Statistic (2021); SABS 2018; Supply, Use and Input-Output Tables (Scotland); RSM Survey 2021.

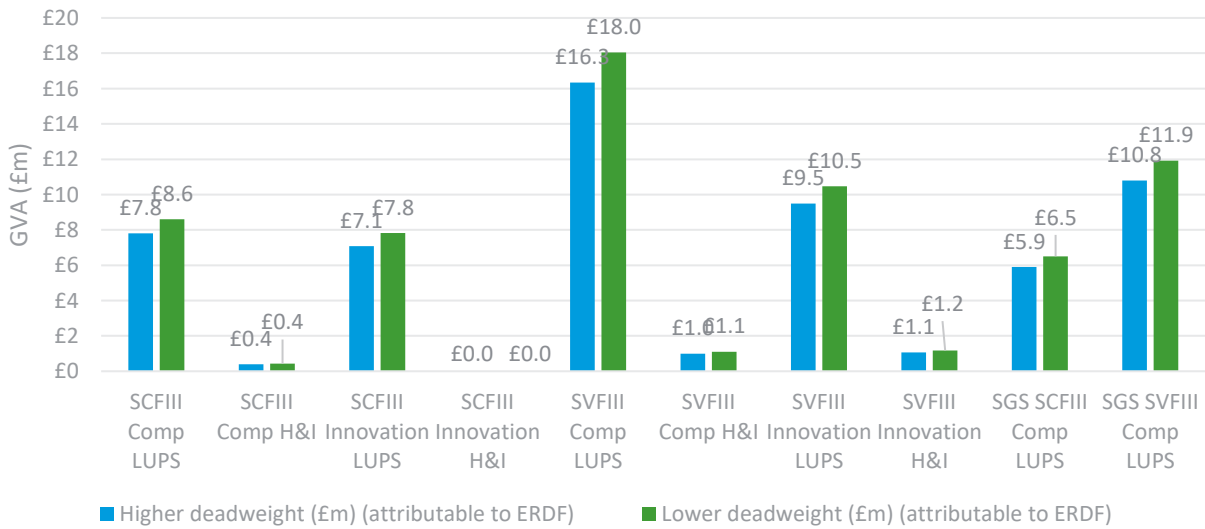
Figure 12 presents the estimated total Gross GVA (£62.4m) by ERDF investment theme, and **Figure 12** illustrates estimated net GVA (£59.9m to £66.1m) by theme, whereby GVA has been attributed based on the proportion of financial input.

Figure 11: Gross GVA Split by ERDF theme



Source: SE ERDF deals split by theme

Figure 12: Net GVA Split by ERDF theme



Source: SE ERDF deals split by theme

Impact Ratio

The impact ratio details the net GVA per £1 of spend. Based on the 16.9% of total Net GVA attributed to the ERDF funding support, the impact ratio for ERDF funding has been calculated, as shown in **Table 11**.

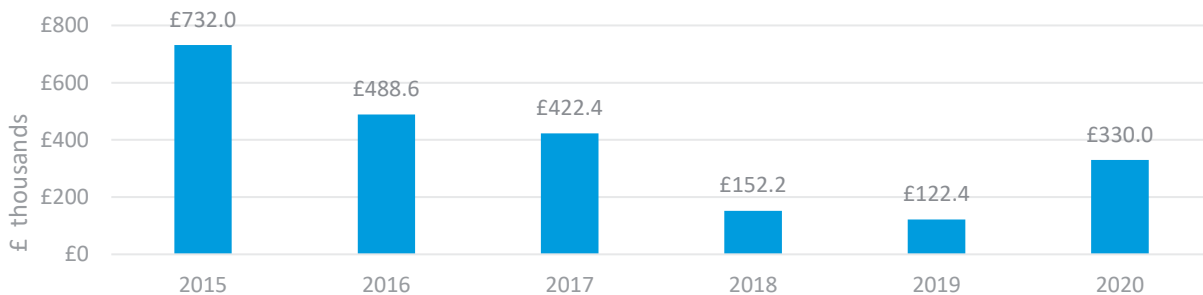
Table 11: Impact Ratio for ERDF spend

Funding Source	Total Invested	GVA (net)	Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)
ERDF	£35.4m	£59.9m - £66.1m	£1.69	£1.87

Cost per Job

Employment figures have also been used to calculate the gross and net cost per job created shown in **Figure 13**. Following a similar approach as above to attribute impacts, 16.9% of the jobs created are attributed to ERDF funding, and this figure will inform cost per job analysis. The cost per job⁷ follows the same pattern as with the full fund impacts outlined in section **Error! Reference source not found.**, with cost per job decreasing over time as more jobs are realised by portfolio companies. 2019 saw the lowest cost per job at £122.4k per FTE before an increase to 2020 (likely due to underreporting of company data in this year). As is stated in the main body of the report, it should be noted that company growth will be realised over a longer timeframe, and as such, these cost per job figures will overstate the cost per job expected to be achieved. As such, cost per forecast job will give a better estimation of the investment per FTE. These are provided in the following section.

Figure 13: Cost per net Job (£ thousands)



Source: SE SCF / SVF Company Metrics

Forecasts

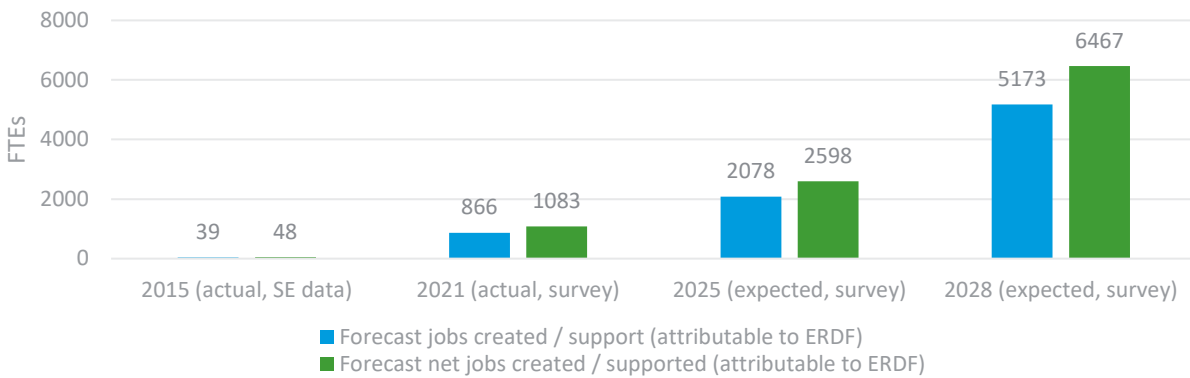
Employment Forecasts

Surveyed companies gave estimates of future turnover and employment levels, in 2025 and 2028, as well as present day estimates. These have been used to calculate an estimate of turnover and employment for the next seven years, using survey data to provide an estimate for the total population. **Figure 14** details employment forecasts (both gross and net, following the same methodology as in the employment section). To account for the optimism of entrepreneurs self-reporting expected data, the expected employment levels for 2025 and 2028, shown in the figure below have been reduced by 20%. The method for this is summarised in **Appendix 5**. To

⁷ This cost per job figure includes the total ERDF investment in companies only.

account for the additional support beyond the ERDF funding received contributing to job creation, Employment levels have been reduced to 16.9% of forecast levels, as outlined above. ERDF have contributed to a predicted employment figure of close to 6,500 FTEs by 2028.

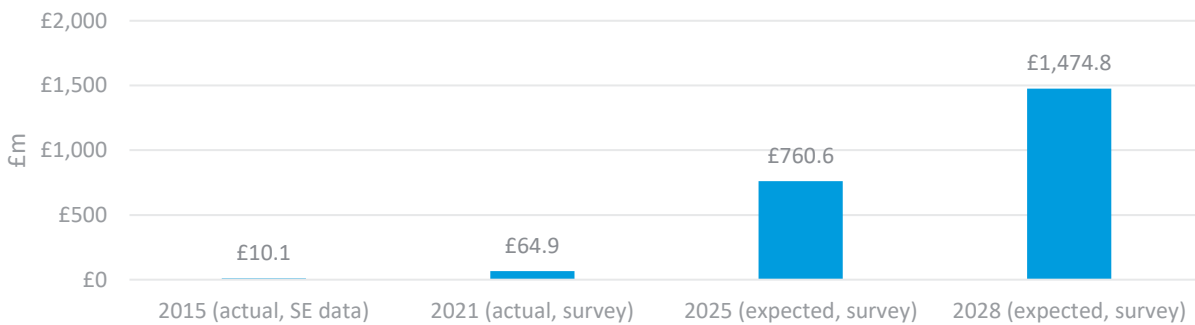
Figure 14: Forecast employment (FTEs) (attributable to ERDF)



Source: RSM Survey, 2021 (n=36)

Likewise, **Figure 15** details forecast levels of turnover, which are expected to rise significantly to 2028. This forecast level is 16.9% of the total ERDF company turnover forecast and is therefore an estimate of the forecast turnover attributable to ERDF input. Following the method outlined in **Appendix 5**, these forecasts have also been reduced by 20% to account for optimism bias.

Figure 15: Forecast Turnover (£m) (attributable to ERDF)



Source: RSM Survey, 2021 (n=36)

Forecast employment figures for ERDF supported companies, attributable to ERDF (adjusted for optimism bias) were used to calculate the expected GVA (gross and net) of the funds, shown in **Table 12**, following the method outlined in **Section Error! Reference source not found.** (GVA). These gross and net GVA estimates can be attributed to ERDF inputs as they reflect 16.9% of the total ERDF expected GVA.

Table 12: Expected GVA (attributable to ERDF)

Year	Expected GVA (gross) (£m)	Expected GVA (net) (£m)
2025	£289.2	£277.6 – £306.6

2028	£644.8m	£619.0 - £683.5
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Source: RSM Survey, 2021 (n=36)

Similarly, the expected gross and net cost per job has been calculated, based on projected (net) employment figures. Expected employment figures have been reduced by 20% to account for optimism bias. The cost per job for ERDF investment is shown in **Table 13**.

Table 13: Forecast Cost per Job (attributable to ERDF)

Funding	2025		2028	
	Cost per Job created (gross) (£th)	Cost per job created (net) (£th)	Cost per Job created (gross) (£th)	Cost per job created (net) (£th)
ERDF	£17.0k	£13.6k	£6.8k	£5.5k

Source: RSM Survey, 2021 (n=36)

Based on the forecast net GVA for 2025 and 2028, the impact ratio per £1 of ERDF spend has been calculated, shown in **Table 14**.

Table 14: Forecast Impact Ratio (for impacts attributable to ERDF)


Funding Received	Total ERDF Invested	GVA (net)	2025		2028	
			Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)	Impact Ratio (£) (high deadweight)	Impact Ratio (£) (low deadweight)
ERDF	£35.4m	2025: £277.6m – £306.6m 2028: £619.0m - £683.5m	£1: £7.9	£1: £8.7	£1: £17.5	£1: £19.3

Source: RSM Survey, 2021 (n=36)

Summary

ERDF SCF/SVF support has led to companies generating £85.4m over the period 2015 to 2020 and has supported 833 (net) job-years. ERDF funding has also led to the generation of £62.4m gross GVA and net GVA of between £59.9m and £66.1m, resulting in an impact ratio of between £1:£1.69 and £1:£1.87.

Projected future outcomes generated include an estimate of 6,467 net jobs by 2028 and £1,474.8m turnover. By 2028, the direct result of ERDF input is estimated to be between £619.0m – £683.5m of GVA, with a forecast impact ratio of between £17.5 and £19.3 per £1 of ERDF spend, and a cost per net job in 2028 of £5,500.



The majority of ERDF investment was in the Lowlands and Uplands region of Scotland, and within the competitiveness investment theme. Across both innovation and competitiveness themes, investment in the Highlands and Islands has been low.

APPENDIX 2: POLICY & ECONOMIC CONTEXT

Table 15 outlines the documents reviewed. Each of these documents give insight into the strategic and policy context in which the funds sit, highlighting the external factors that may have affected the performance of the funds in delivering outcomes for businesses.

Table 15: Key Strategy / Policy Documents

Area of Focus	Strategy / Policy Document
Economic Development	The Scottish Government Vision for Trade (Jan 2021)
	Scotland's Fourth National Planning Framework Position Statement (Nov 2020)
	Shaping Scotland's Economy: Inward Investment Plan (Oct 2020)
	Protecting Scotland, Renewing Scotland: The Scottish Government's Programme for Scotland 2020/21
	Scottish National Investment Bank Proposal to Set Missions for the Scottish National Investment Bank (Aug 2020)
	Scottish Enterprise Strategic Framework 2019 – 2022
	Scottish Govt. Economic Action Plan 2019 - 2020
	Scottish Government National Performance Framework (July 2018)
	Scotland's Economic Strategy (March 2015)
	European Structural and Investment Funds: Scotland Operational Programmes 2014-2020
Covid-19	Towards a Robust, Resilient Wellbeing Economy for Scotland
	Covid-19 Labour Market Insights: SDS Response (Dec 2020)
Business start-up and scale up	Scotland CAN DO: an innovation action plan for Scotland (Jan 2017)
Investment	Investing with Purpose: Scotland's Global Capital Investment Plan (Mar 2021)
	A National Mission with Local Impact: Infrastructure Investment Plan for Scotland 2021-22 to 2025-26 (Feb 2021)

Economic development

A clear national government priority is to enable sustainable economic growth. Encouraging and supporting an innovative, enterprising, skills-based economy that provides high value jobs and sees Scotland competitive in specialist sectors and an attractive place for investment is a key goal of Scottish public sector stakeholders. **Scotland's Economic Strategy** (2015), **Scotland CAN DO** (2017) and **Scottish Government Economic Action Plan** (2019-2020) mark significant strategies for achieving this objective.

Both the SCF and SVF have the goal of addressing the gap in funding that businesses may face, in order to enable them to grow. **SE Board Approval Papers** for the Third and Fourth iterations of the funds outline the gaps that they seek to address; namely:

- investors tend to favour later-stage deals in already established companies, rather than investing in the early-stage risk capital market. This market failure highlights the short-term nature of the investment market, as investors favour larger deals due to the high, fixed transaction costs, which limit returns on earlier-stage investments as well as tending towards less risky investments, in companies that can prove capability, rather than pre-revenue and unproven early-stage companies.
- developing products and taking them to market has inherent risks, given the uncertainties related to new technologies, markets and business models. Economic benefits of new innovations cannot be realised until the product is brought to market, however, significant financial input is required to develop innovations to take to market and companies must rely on their existing cash reserves until the product is market ready. During this time, companies will struggle to attract additional investment, due to their unproven business model, and the failure rate is high, particular amongst companies where the route to market is longer and less straightforward. Hence, the equity capital available to early-stage companies is limited.
- structural features within the Scottish Market limiting capital for early-stage companies also include the geographical wealth distribution of the UK (focusing investment in London and the South East), limited capacity to fund large-scale investments in Scotland, and a lack of exit opportunities to recycle monies.
- an equity gap for deals above £2 million has been identified, with these businesses being able to access early-stage funding but being unable to secure further rounds at the scale required to support growth.

In addressing these gaps and market failures, the funds contribute to **Scotland's Economic Strategy's** Investment priority, delivering a business environment in Scotland that supports growth. The Funds, by supporting high-growth SMEs are also key in stimulating innovation and accelerating job creation, thus aligning with **SE's Strategic Framework** (2019 – 2022) which has ambitions to create quality jobs and boost entrepreneurship, and **SE's Three-Year Corporate Strategy**, with details SE's ambition to build: future economic opportunities; vibrant economic communities across Scotland; resilience and growth in businesses and sectors; and build Scotland's reputation and reach in strategically important markets. By enabling businesses to access further investment, this enhances their potential to be competitive both domestically and internationally.

Shaping Scotland's Economy (2020) outlines nine areas of relative strength and opportunity for Scotland, in energy transition, decarbonisation of transport, software and IT, digital financial services, digital business services, space, health-tech, transformation of chemical industries and food and drink innovation. There is a commitment to specifically support these sectors and bring the benefit to all of Scotland. The commitment to bring and support opportunity in Scotland is a cross-cutting theme across each of the strategies reviewed. These priority sectors have been targeted by SCF and SVF III and IV, in line with the ERDF objective of Smart Specialisation, throughout the delivery of the funds, with Life Sciences, Food and Drink manufacturing, enabling technologies, creative industries and energy all receiving significant investment. The textile industry, identified as a key sector of strength for rural areas, was also targeted for investment. **Table 16** details the alignment of the Fund's priority sectors with those identified in key strategy/ policy documents.

Table 16: Alignment of SCF/SVF sectors with priority / sectors of comparative advantage

SCF / SVF Priority Sector	ERDF (2014) Smart Specialisation Sectors	Scotland's Economic Strategy (2015)	Shaping Scotland's Economy (2020)
Aerospace, Defence & Marine			
Chemical Sciences			✓
Construction			
Creative Industries	✓	✓	
Enabling Technologies		✓	✓
Energy (Renewable & Other)	✓	✓	✓
Financial Services		✓	✓
Food & Drink	✓	✓	✓
Life Sciences	✓	✓	✓
Textiles	✓		

Business growth / incubation

Scotland's Economic Strategy (2015) highlights that the success of Scotland's economy depends upon the growth and competitiveness of Scottish businesses and therefore the need to create a business environment that supports business growth. **A new blueprint for Scotland's rural economy: Recommendations to Scottish Ministers – National Council of Rural Advisers** (2018) sets out the objective of creating a supportive enterprise environment for rural business growth, specifically supporting developing sectors.

Scotland CAN DO: an innovation action plan for Scotland (Jan 2017) sets out increasing Scotland's ability to scale up innovative companies with rapid growth as key method in supporting and encouraging innovation. The plan suggests drawing together existing high growth initiatives into a collaborative SCALE UP programme.

Attracting investment

Attracting inward investment for Scottish businesses, particularly internationally is a large area of focus for SG. **Scotland's Global Capital Investment Plan** (2021) details the key objectives of the SG, which including building up long-term partnerships with investors (as initial investors go on to be repeat investors), provide intelligence to help nudge investors towards greater risk appetite, continue to invest in sectors where Scotland can be globally competitive (low carbon transition, health and life sciences, digital, and high value manufacturing). In addition, **Scotland's Trade and Investment Strategy 2016–21** highlights the desire to enable and support new investors to invest in Scotland, and to help companies access international investors and a broader range of venture capital. The strategy emphasises how SMEs face challenges in raising

the funds that they need and that access to appropriate finance is critical, particularly for high growth businesses looking to move to the next stage.

Supporting inward investment in Scotland is one of the key areas of focus identified in Scottish **Government's Economic Action Plan 2019-2020** and **Scotland's Inward Investment Plan (2020)** highlights the SG's ambition to be the leading destination for inward investment, and the plan of action as to how that will be achieved.

Other Key Themes

Along with a commitment to business support, innovation and internationalisation, themes that flow through each of the strategies include inclusive growth, fair work and place-based opportunity. Transition to net zero / the climate opportunity and the central place of investment in infrastructure (physical and digital) as well as in people (skills development) also come through strongly.

As outlined in the **Scotland Economic Strategy (2015)**, inclusive growth involves the promotion of fair work, tackling inequality and realising opportunities across Scotland in towns, cities and rural areas. The **ERDF Scotland Operational Programmes 2014 – 2020** document explains that achieving inclusive growth is interlinked with investment in High Growth Sectors and innovation. Inclusive growth requires the creation of employment opportunities in sustainable and high value jobs, decreasing the risk of poverty, as well as ensuring these benefits are spread across Scotland. SCF and SVF have a specific objective of creating jobs in Scotland, and as they target high value, innovative and growth potential sectors, the jobs created are often high value.

The funds are also well designed to ensure benefits reach across Scotland, with priority sectors in Energy, Textiles, and Food and Drink particularly relevant for rural areas, whilst Life Sciences, Chemical Sciences and Enabling Technologies tend to be focused in urban clusters.

Net zero and the climate opportunity have been a key aspect of SG policy, with the **2020 Fourth National Planning Framework** aiming to stimulate the green economy, and net zero emissions highlighted as a core outcome and new *green* jobs highlighted as a core outcome for the **Protecting Scotland, Renewing Scotland** strategy. SCF and SVF do not have specific carbon reduction outcomes, but they have invested and levered over £100m into the energy sector, including in renewable, energy storage, energy management and low-carbon technologies. The funds have contributed to cluster development, enabling innovative energy companies to survive and compete on the global market.

Skills development and investing in people capital is a key theme of the **Economic Action Plan 2019 – 2020**. Vital to skills development is ensuring access to well-paid jobs and therefore the role that SCF and SVF play in enabling innovative and high-tech / highly skilled companies grow to be able to expand and take on more staff is an important part of the process.

Impact of COVID-19

Covid-19 has undoubtedly impacted businesses across Scotland, not least in limiting the availability of investment capital available to them but also in the number of start-ups that have been birthed and the survival of start-ups. As Scotland has large rural areas, these areas face particular exposure due to the impacts of measures put in place to combat the spread of Covid-

19. In 2020, the accommodation and food services industry experienced the worst performance across sectors in Scotland in terms of turnover.

The self-employed may be impacted more significantly by Covid-19, largely due to fewer supports being available to them⁸. There have also been reports of unequal impacts on a range of groups across Scotland, including young people⁹.

The claimant count in Scotland is 5.9% and this has increased by 87.2% from the previous year¹⁰.

At a sector level, those worst hit by Covid-19 (e.g. accommodation and catering) were not eligible for SCF/SVF funding, however, sectors that the funds do support including manufacturing, creative industries, financial services and construction all were impacted more than average.¹¹ As is made clear in Chapter **Error! Reference source not found.**, there is nuance to the impact of Covid-19, with some sectors unimpacted, and some, for example, in the Life Sciences sector, experience high growth, due increase investment and product demand.

Impact of Brexit

The impacts of Brexit have not been fully realised as yet, however, the structure of the Scottish economy indicates how and where futures impacts may be seen.

10.2% of total GVA¹² in Scotland and 9.2% of total employment¹³ comes from Manufacturing, making it the second largest sector for GVA and the fourth largest sector for employment. In 2018, 61.2% of total exports to the EU in Scotland came from Manufacturing, hence Scotland is particularly exposed to disruption in trading caused by Brexit¹⁴. SCF and SVF's investment in enabling technologies in particular is placed at risk. Also identified as impacted by Brexit is the chemical and pharmaceutical industry, another key sector for the funds. Consultation in later chapters revealed that for those companies hoping to internationalise and, who saw Europe as a potential market, have been significantly impacted by Brexit. Further detail on this point can be found in Section **Error! Reference source not found.** of the main report.

⁸ <https://fraserofallander.org/regional-impacts-of-the-coronavirus-pandemic/>

⁹ https://nationalperformance.gov.scot/sites/default/files/documents/NPF_Impact_of_COVD_Summary_slides_December2020.pdf

¹⁰ Regional labour market: Claimant Count by unitary and local authority (experimental), 10 December 2020

¹¹ Institute for Government (2020), Brexit and coronavirus Economic impacts and policy response

¹² ONS, Regional gross value added (balanced) by industry: all NUTS level regions, 2019.

¹³ Businesses in Scotland: 2020

¹⁴ Export Statistics Scotland 2018

APPENDIX 3: PUBLIC SECTOR EARLY-STAGE RISK CAPITAL

As is detailed in **Appendix 4**, the Public Sector is a key player in the Scottish early-stage, risk capital market. Two separate initiatives are used by the Scottish Government to deploy public money into early-stage companies: Scottish Enterprise Co-Investment funds and the Scottish Growth Scheme Equity Investment. In addition, the Covid-19 pandemic induced a response from the public sector to provide packages of support to impacted businesses, which included initiatives to shore up the investment markets impact by the pandemic. Relevant initiatives will also be profiled below. Finally, also included in this summary of public equity funding, is the Scottish National Investment Bank (SNIB), a development investment bank, backed by the Scottish Ministers, operating commercially and independently for the benefit of Scotland.

Scottish Enterprise Co-investment

As part of SE's business support, they can co-invest funds into high-growth businesses alongside private investors, including business angels, angel syndicates, venture capital groups and corporate investors. The Funds have been established from the mid-2000s and are designed to cover each stage of a company's start up and scale up journey.

- **Scottish Co-investment Fund:** this equity gap fund invests alongside private sector investors, offering equity funding from £10,000 up to £1.5 million for deals ranging typically from £20,000 to £10 million. Deals are brought to SE by accredited co-investment partners and SE invest on equal terms. The fund can invest from start-up, to early stage, to expanding business and is designed to address the finance gap at this stage of company growth.
- **Scottish Venture Fund:** this equity gap fund invests alongside private sector investors, offering equity funding from £10,000 up to £2 million. The fund can invest alongside sophisticated private sector investors on equal terms, up to a maximum of 50% of the total funding. The company seeking funding will first secure private investment before bringing the opportunity to SE, where SE will appraise the opportunity, assess economic benefits, propose terms of investment and undertake due diligence.
- **Energy Investment Fund:** The Energy Investment Fund ('EIF') is a Scottish Government Fund managed and delivered by the SE investment team. EIF acts as a gap funder, providing support where there is a demonstrable gap in a projects funding package. It has the remit to accelerating the development of commercial low carbon energy projects in Scotland and increase community ownership of energy projects in Scotland. The fund can provide flexible funding approaches, including equity investment.
- **Scottish-European Growth Co-Investment Programme:** this programme is a £100 million equity co-investment scheme, managed by the European Investment Fund (EIF), in partnership with Scottish Enterprise, with the remit of investing up to £10 million alongside private investors to catalyse at least another £100 million of capital to target companies. The focus mainly on the "second equity gap" that companies face when they move beyond the start-up stage and into the growth phase of their lifecycles. Start-up companies are also eligible for finance. The programme is now discontinued due to Brexit.

Scottish Growth Scheme Equity Investment

The Scottish Growth Scheme is a Programme for Government commitment by the First Minister offering up to £500 million of financial support to help businesses grow. This is being delivered through a number of initiatives. As part of the Scheme, the Scottish Government capitalised two private funds focused on new investments and start up growth adding to Scotland's VC community.¹⁵

- **Techstart Ventures Equity Finance:** this provides equity finance of up to £2 million, in rounds of up to £10 million for eligible business, to be used for purposes including: growth funding; research and development; working capital; and capital expenditure. Techstart Ventures invests principally in early-stage start-ups and SMEs who are developing innovative new products with high growth and export potential.
- **Foresight Scottish Growth Fund:** the fund will offer equity investments of up to £2m, in rounds of up to £10m alongside co-investor firms, to growing small and medium-sized enterprises (SMEs) throughout Scotland. To receive support, an applicant must demonstrate potential for high growth within their proposal, be innovative, launching new products and services, and have the potential to deliver economic benefits to Scotland.

Covid-19

- **The Early-Stage Growth Challenge Fund:** this provided funding to innovative and high-growth, small and micro enterprises that were adversely impacted by the pandemic. Convertible loans were offered with a term of 36 months and attract interest at 8% (interest free for the first 12 months). One must either repay the convertible loan with accrued interest or convert it into equity, with the agreement of SE.
- **British Business Bank Future Fund:** This is a government scheme that supported UK-based companies with funding ranging from £125,000 to £5 million, subject to at least equal match funding from private investors. The scheme aimed to support companies facing financing difficulties due to the Coronavirus outbreak. The Future Fund scheme is being delivered by the British Business Bank.

SNIB

The Scottish National Investment Bank is a development investment bank, established and funded by Scottish Ministers on behalf of the people of Scotland. It seeks to invest where the private sector is not providing sufficient investment to business or projects that support the development of the economy. The Bank has been established to operate commercially and is operationally independent from government. The bank typically invests in businesses / projects seeking more than £1 million, and invests in line with three missions:

- achieving a Just Transition to net zero by 2045;
- extended equality of opportunity through improving places by 2040; and
- harnessing innovation to enable people to flourish, by 2040.

¹⁵ Scottish Government (2021) Financing Scotland's Recovery

APPENDIX 4: RISK CAPITAL MARKET CONTEXT

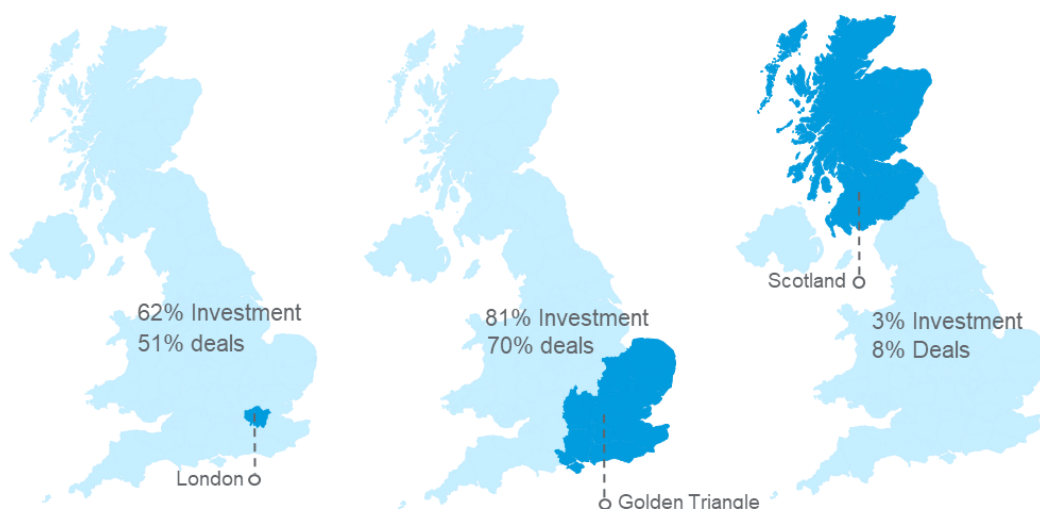
This appendix provides an overview of the context in which the Funds have operated, in order to assess persisting rationale and understand the impact of the Funds on the Scottish equity investment market. The evidence used to inform this review is drawn from SE's risk capital market report. This is research undertaken by SE, based on Beauhurst data, that tracks the performance of the Scottish equity market and benchmarks with the other regions and the nations of the UK.

UK Market

UK Market Context

The UK investment market is not evenly distributed; investment activities are strongly concentrated in London. London secured, in 2020, 62% of UK investment and 51% of deals. This, combined with the two other Golden Triangle¹⁶ regions of the East of England and South East, accounts for 81% of total investment and 70% of deals in the UK. Figure 16 highlights this uneven spread of investment in the UK Context. Scotland, when compared to other UK regions, performs strongly in terms of the number of deals, outperformed only by London and the South East of England in 2020, but in terms of the total amount of investment, sits behind the Golden Triangle regions as well as the West Midlands and North East.

Figure 16: Geographic distribution of investment in the UK (2020)



Source: Scottish Enterprise (2021) *Investing in Ambition Scotland's Risk Capital Market in Context*

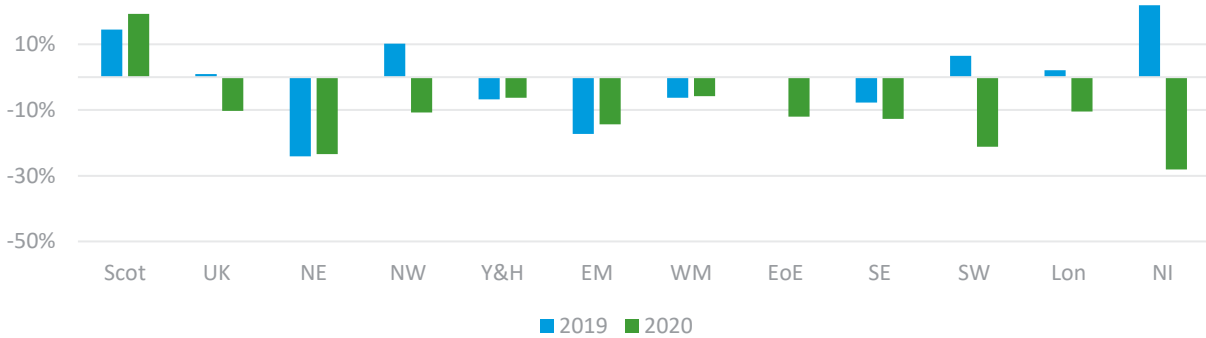
UK Market Trends

As is shown in Figure 17, Scotland's risk capital market, in terms of deal numbers, is growing. Scotland is the only UK region to have positive growth in the number of deals from 2018, to 2019 and 2020. As will be drawn out further in later sections, this positive performance, in the context

¹⁶ Collective name given to the area in the UK of significant investment activity, innovation, and high growth companies.

of a global pandemic, where the UK as a whole saw an 10% decrease in the number of deals, may be attributed to the Scottish Enterprise market response (Early Stage Growth Challenge Fund) and the impact of the existing co-investment funds (SCF and SVF) sharing out and mitigating risk in the context of increased uncertainty.

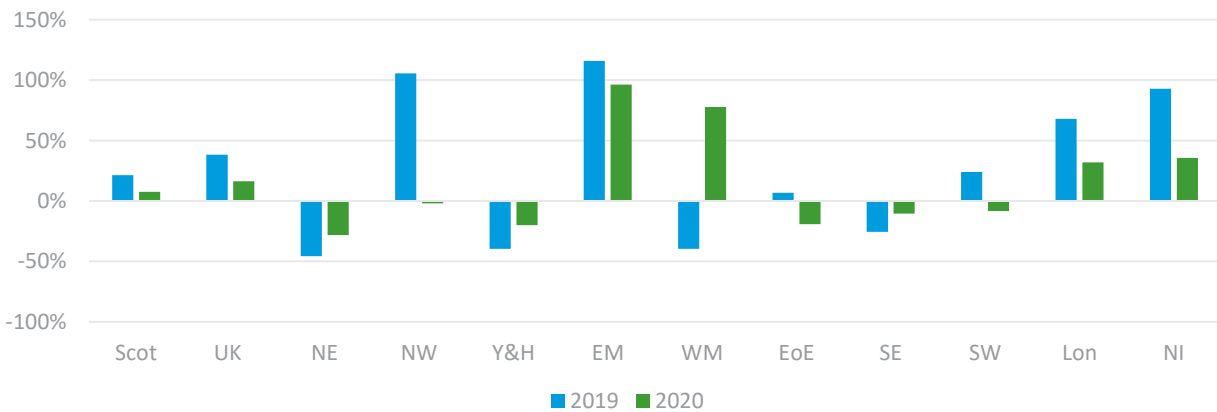
Figure 17: Growth in number of deals from 2018



Source: Scottish Enterprise (2021) Investing in Ambition Scotland’s Risk Capital Market in Context

However, when the total investment is tracked from 2018, the picture is mixed, as detailed in Figure 18. Scotland shows only modest growth from 2018 when compared with the UK as a whole and selected strong performing regions. This, given the context of Scotland’s strong deal performance, highlights the impact of very large deals that skew the market. In 2020, deals over £50 million account for less than 1% of total deals, however, made up a third of the total UK investment. This activity is focused primarily on London, with other regions able to achieve occasional deals of this size.

Figure 18: Growth in amount of investment from 2018



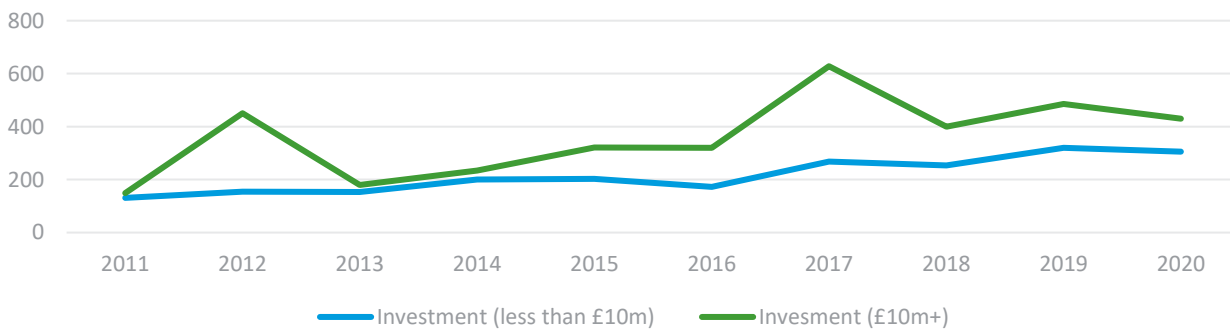
Source: Scottish Enterprise (2021) Investing in Ambition Scotland’s Risk Capital Market in Context

Scottish Market

Market Trends

From 2011, to 2020 there has been significant and sustained growth in the total equity investment in Scottish businesses, of 170%. Of particular relevance to this evaluation, given the remit of SCF and SVF to support companies at venture stage, with deals of up to £1.5m and £2m per round respectively, is the change in the underlying market (deals under £10m). From 2011 to 2020 there has been 133% growth in total investment for deals below £10m, and from 2015 (when SCF/SVF III was initiated) and 2018 (when SCF/SVF IV was initiated) that growth represents 50% and 20% respectively. Market trends are detailed in Figure 19.

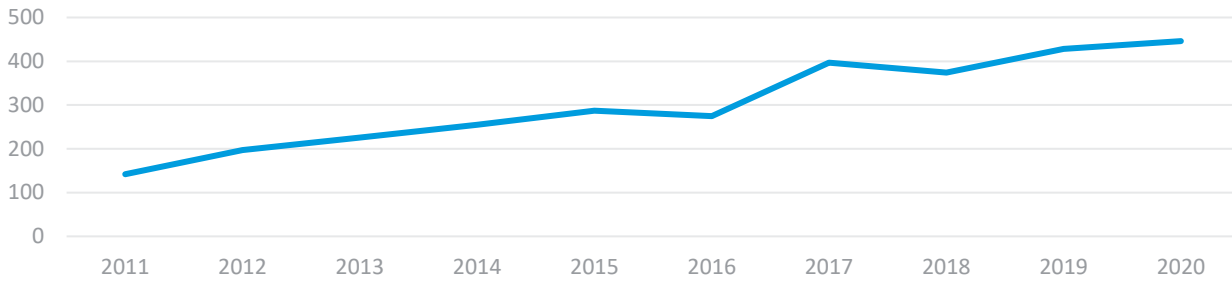
Figure 19: Investment trends from 2011



Source: *Scottish Enterprise (2021) Investing in Ambition Scotland's Risk Capital Market in Context*

As with investment value, the number of deals completed shows strong positive growth from 2011. Benchmarked against other UK regions, this was the third best performing UK region in terms of deals in 2020, and in terms of number of deals per 10,000 businesses, Scotland is second only to London. However, recent trends have shown a decrease in the proportion of first-time deals, compared to follow-on rounds – the number of first-time deals is a significant marker of the strength of early-stage market. In 2016, first time deals represented 44% of all deals, and by 2020, this was 24%. This should however be taken in the context of Covid-19, where investors on the whole sought to protect their existing portfolio, rather than make new investments. Trends in the number of deals is shown in Figure 20.

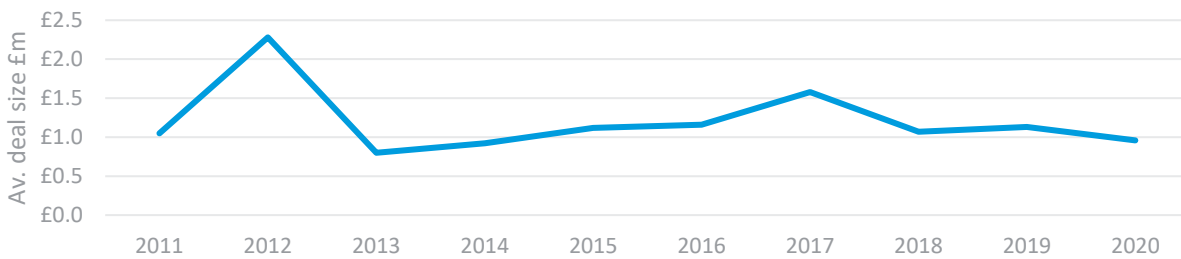
Figure 20: Number of equity investment deals from 2011



Source: Scottish Enterprise (2021) *Investing in Ambition Scotland's Risk Capital Market in Context*

As can be seen in Figure 21, the overall trend in average deal size has remained fairly stable, around £1m. Spikes can be seen in 2012 and 2017; in both these years, investments made in deals over £10m were significantly higher than expected, hence skewing average deal size, based on a small number of companies.

Figure 21: Average deal size, Scottish equity investment market, from 2011



Source: Scottish Enterprise (2021) *Investing in Ambition Scotland's Risk Capital Market in Context*

Investor Trends

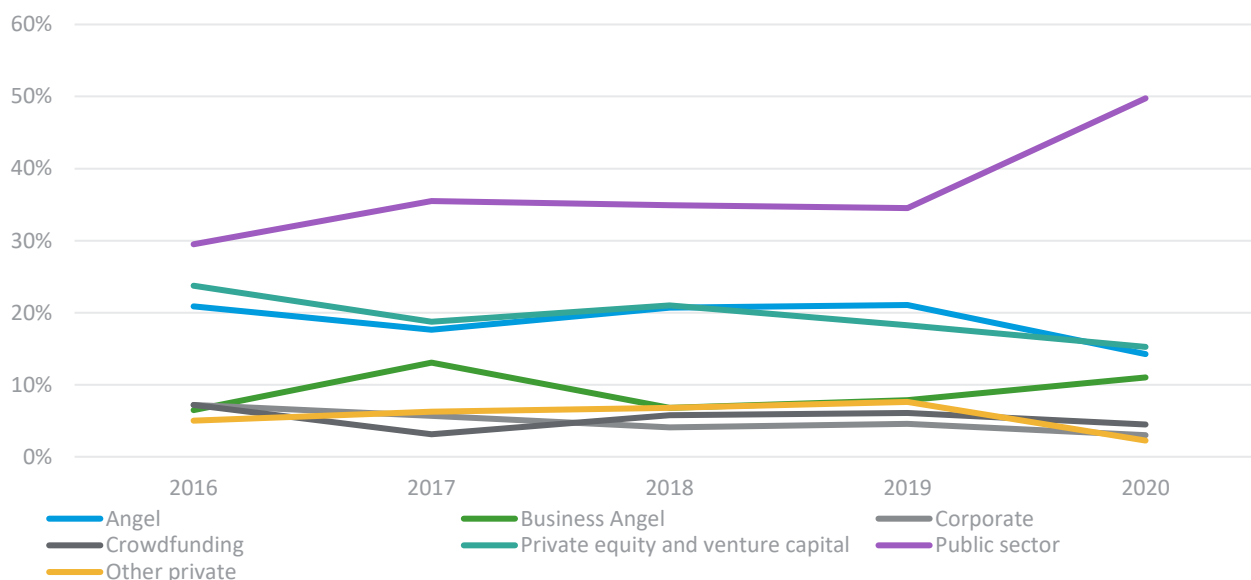
When benchmarked against other UK regions, Scotland's Business Angel market is particularly strong, and there is evidence of increased deal syndication. In addition, the Scottish market represents a diverse mix of other investor types, including private equity and venture capital, but in general, Scotland faces similar challenges to other UK regions (non-golden triangle) in terms of growing a pipeline of investor opportunities and attracting international investment. Scotland's public sector participation in deals is also strong, reflecting significant participation through SE and the SG investment activities. As part of Logan's Scottish Technology Ecosystem Review¹⁷, the risk capital market was assessed, and whilst Logan accepted that for a well-balanced market, angel investment is key, but when this type of investment dominates others, there is a 'relatively low upper limit on the capital that can locally be invested in a given business'. Angels will struggle

¹⁷ Logan, M. (2020), Scottish Technology Ecosystem Review An independent review commissioned by the Scottish Government

to investment beyond the start-up stage, and although syndicates will have more reach, the problem of a cap on investment persists. VCs are key to addressing this but for a number of reasons, Logan suggests that problems exist: 1. There aren't enough VC firms, and those that are in Scotland often focus investment activity outside Scotland; 2. External VCs are not focused on Scotland and do not have a meaningful presence in Scotland; and 3. Cap tables often include a large amount of passive investors (due to syndication) and relatively large percentage of public money which put off other private investors.

Figure 22 describes the changes in the investors active in the Scottish equity investment market from 2016 to 2020. Trends for these five years show only limited change in the profile of investors to 2020, with only the public sector (69%) and business angels (70%) showing positive growth. This is however in the context of Covid-19, and the prominence and growth of the public sector in the investment market can be explained by interventions emerging as a response to Covid-19 e.g. Early Stage Growth Challenge Fund, without which, investment would have been 42% lower and deal numbers 26% lower. To understand the change in the market, apart from the impact of Covid-19, growth rates to 2019 shows 51% in 'other private'¹⁸ sources of funding, 22% in business angels, 17% in public sector and 1% in angel funding. All other types of investor recorded negative growth in 2019 and 2020.

Figure 22: Trends in type of investor 2014 - 2020



Source: Scottish Enterprise (2021) Investing in Ambition Scotland's Risk Capital Market in Context

Key Sectors

Digital and IT has seen more deals than any other sector since 2015, making up 30% of separate investments in 2020 in Scotland. In different UK regions there are other sectors which claim

¹⁸ Other private may include accelerators, commercialisation companies, family offices and private investment vehicles and universities.

larger shares of deals and investment. This reflects the economic infrastructure of each region, for example Technology & Engineering is more prominent in the East Midlands, and Life Sciences in the East of England.

The vast majority of priority sectors for SCF and SVF are represented in the sectors receiving the most amount of investment, highlighting a significant degree of alignment between the ambitions and objectives of the fund, and the outcome for the Scottish Risk Capital market. Change over the past five years has been limited, with most sectors seeing little growth.

Table 17: Proportion of deals per sector

Sector	2016	2017	2018	2019	2020
Digital & IT	30%	28%	31%	29%	30%
Business Services	21%	22%	21%	22%	21%
Technology and Engineering	17%	20%	17%	20%	19%
Life Sciences	7%	8%	7%	8%	8%
Food & Drink	8%	7%	10%	6%	7%
Other	5%	4%	4%	4%	5%
Oil & Gas	2%	3%	2%	3%	3%
FinTech	2%	2%	2%	2%	3%
Energy (other)	4%	3%	3%	3%	3%
Renewable Energy	3%	3%	2%	3%	2%
Aerospace and Satellites	1%	1%	0%	0%	1%

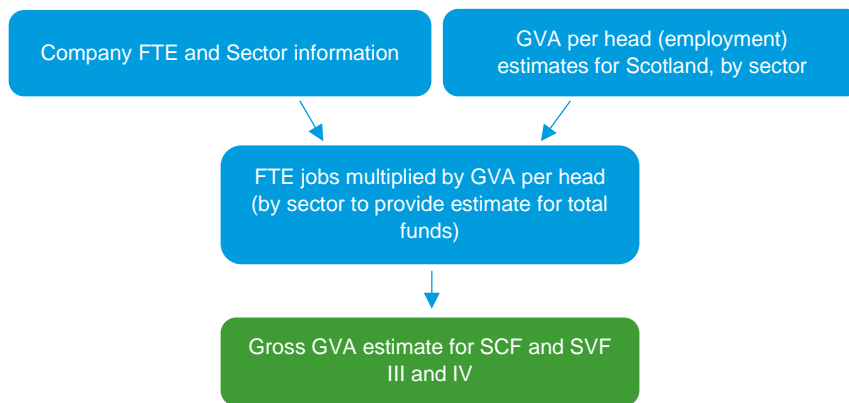
Source: Scottish Enterprise (2021) *Investing in Ambition Scotland's Risk Capital Market in Context*

APPENDIX 5: GVA CALCULATION METHODS

Gross GVA method

Gross Value Added (GVA) is a measure of the contribution to the economy of each individual producer, industry or sector' reflecting the value of production less direct costs. To calculate the GVA created, this analysis will use employment data as a proxy measure and will utilise GVA estimates.¹⁹ Data provided by SE on company employment levels per year over the evaluation period will be used to inform this analysis. This method is summarised in **Figure 23**.²⁰

Figure 23: GVA Method (Gross)



SG estimates of GVA per head are summarised in **Table 18**. These are derived from GVA per head estimates for growth sectors, and, where additional data is required, the SABS 2018. For years 2019 and 2020, GVA per head data for 2018 is used.

Table 18: GVA per head estimates

Sector	GVA per head (employment) £m ²¹			
	2015	2016	2017	2018
Construction	£55,139	£51,944	£56,492	£57,019
Textiles	£49,145	£37,540	£42,949	£43,389
Aerospace, Defence & Marine	£55,193	£50,341	£56,293	£53,444
Other	£48,173	£45,202	£50,906	£52,549
Energy – Renewables	£198,736	£189,752	£263,243	£298,517

¹⁹ Scottish Government (2021), Growth sector statistics; Scottish Government (2018), Scottish Annual Business Statistics 2018

²⁰ N.B. some companies in the portfolio are pre-revenue, and as such this GVA approach may overestimate GVA impacts.

²¹ ibid

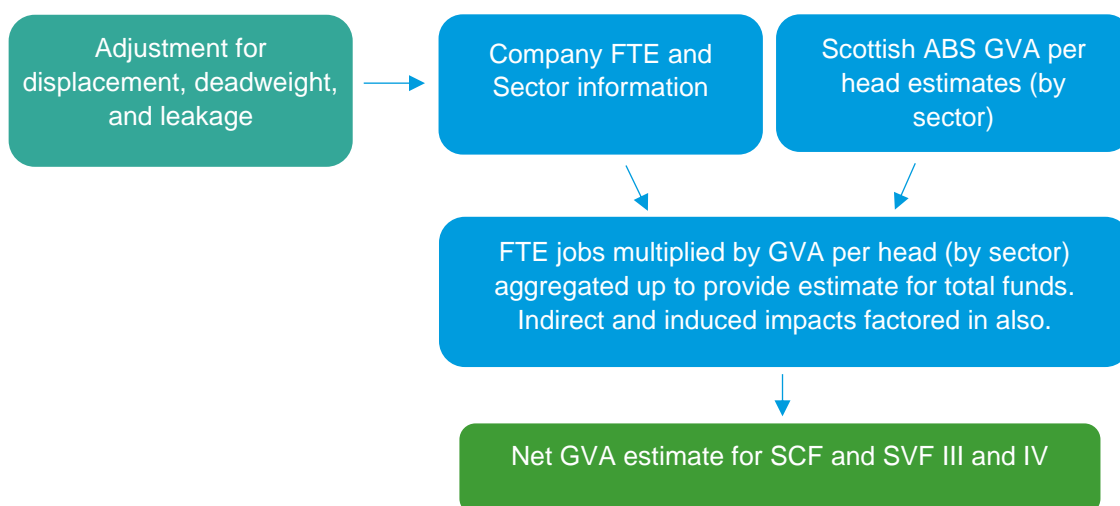
Sector	GVA per head (employment) £m ²¹			
	2015	2016	2017	2018
Financial Services	£55,801	£49,470	£43,307	£51,259
Chemical Sciences	£79,371	£89,401	£75,893	£87,889
Food & Drink	£42,368	£45,390	£47,638	£46,363
Creative Industries	£68,836	£60,866	£68,064	£59,547
Energy - Other	£198,736	£189,752	£263,243	£298,517
Life Sciences	£77,743	£84,266	£78,320	86,515
Enabling Technologies	£61,923	£65,005	£61,071	£68,656

Multiplying these estimates by the number of jobs attributable to the funds intervention per sector allows for the GVA (gross) per year to be calculated.

Gross to Net method

This section details the method for Gross to Net GVA calculations. The method is summarised in Figure 24.

Figure 24: GVA (net) method



Deadweight

BIS 'Research to improve the assessment of additionality'²² provides estimates of deadweight across various types of interventions. Reporting on 363 evaluations at a regional level, this guidance provides a most common deadweight value of 49.5% for evaluations of 'individual

²² BIS/CEA (2009), Research to improve the assessment of additionality: Table 3.2 Deadweight at the regional level for Individual enterprise support

enterprise support', 50.0% for evaluations of activities in the theme of 'promotion and development of science, R&D and innovation infrastructure' and 51.0% in the 'attraction of inward investment' theme. This provides a benchmark figure of 50% for similar intervention types to SCF/SVF and is useful for our analysis of deadweight.

English Partnership Additionality Guidance²³ highlights the importance of including project-specific data to make an assessment of deadweight. To satisfy this requirement the RSM 2021 survey of beneficiaries required companies to assess the extent to which activities would have occurred, had the support from SCF / SVF III and IV not been available. The adjustment for deadweight has been calculated based on these survey responses. Participants in the survey were given the option to respond that without support, they would have been unable to proceed, or, able to proceed at a smaller scale, at a slower pace, or both. These results are summarised in **Table 19**. below. **It should be noted that this sample size of 56 reflects only a small section of the total SCF/SVF III and IV population and is not necessarily representative of all companies receiving support. As such, these findings may give a deadweight figure that does not necessarily reflect the experience of companies across the entire portfolio.**

Table 19: Additionality Survey Responses

Response	Respondents (n=56)²⁴
Unable to proceed	41%
Proceed at a smaller scale	9%
Proceed with delayed results	11%
Proceed with smaller scale and delayed results	38%
Not have been impacted	2%

Only 2% of companies suggested that the intervention was not necessary for them to achieve the outcomes seen. In contrast, 41% of respondents identified absolute additionality of the intervention. 32 companies (57%) identified that they would have been able to proceed, but with a reduction in the scale or pace of outcomes, or both. For these companies, a portion of impact is considered deadweight. Other evidence to be considered is the qualitative responses of key stakeholders, who report that there is a high degree of additionality associated with the funds.

In order to calculate the proportion of impacts considered to be reflective of deadweight, based on survey responses, this analysis will employ Scottish Enterprise 'Ready Reckoners'. Scottish Enterprise's 'Additionality and Economic Impact Assessment Guidance Note' sets out a guideline range of values for deadweight, as a percentage of the gross direct effects of the intervention option, as follows: none – 0%; low – 25%; medium – 50%; high – 75%; and total – 100%. These will be utilised alongside the existing evidence base in order to make a determination of the deadweight associated with the portfolio.

²³ English Partnership Additionality Guide Fourth addition, 2014

²⁴ Column totals 101% due to rounding

Survey responses have been used to calculate the proportion of impacts considered to be reflective of deadweight, as follows:

- for those companies that reported they would have been unable to proceed, there is assumed to be 0% (none) of impacts considered deadweight (i.e. 100% of impacts are additional).
- for those who would have not been impacted if the funds were not available, it is assumed that all impacts (100%, total) are deadweight.
- for those companies that reported they would experience **both** delay results and at a smaller scale, a small proportion of impacts are to be considered deadweight as the intervention of the funds contributes to both scale and timing of impacts. Survey participants were not asked the extent to which impacts would have been achieved regardless of intervention, however, based on qualitative feedback on the high overall additionality of the funds, as well as the impact on both scale and timing, evaluators have determined that for this cohort, a low deadweight ready reckoner of 25% is appropriate; and
- for those companies that responded that they would expect **either** impacts at a smaller scale, **or** delayed impacts, the influence of the funds on observed impacts is less than the previous cohort, and therefore deadweight is greater. Again, following the evidence base that suggests the funds are highly additional, evaluators have deemed it appropriate that for this cohort, there is a medium deadweight ready reckoner of 50% applied.

The results of the application of the above assumptions are detailed in **Table 20**, which identifies a deadweight adjustment factor of 20%. Given the limitations associated with sample data and the assumptions adopted, we have **presented deadweight within a range of 20% - 30%**. The calculated value of 20% has been taken as the lower end of the range, as the BIS benchmarks identified that suggest circa 50% is an appropriate deadweight value for similar intervention. This range is deemed appropriate by evaluators as it takes into consideration: surveyed beneficiaries; stakeholder perspectives; previous evaluation benchmarks; and SE ready reckoners. As stated above, this figure is based on assumptions and a small survey sample and should be understood as the best estimate of deadweight.

Table 20: Deadweight

Response	Respondents (n=56)	% Impacts considered deadweight (of gross direct impacts)	% Deadweight impacts experienced by SCF/SVF III and IV portfolio
Unable to proceed	41%	0%	0%
Proceed with smaller scale and delayed results	38%	25%	9%
Proceed at a smaller scale	9%	50%	4%
Proceed with delayed results	11%	50%	5%
Not have been impacted	2%	100%	2%
Adjustment to account for deadweight			20%

Leakage

The economic impacts created by the project are also subject to adjustments for displacement and leakage. It is assumed that **10% of GVA will be lost to leakage**. This is sourced from the Homes and Community Agency Additionality Guide²⁵ (2014) which advises that for Business Development and Competitiveness interventions the average regional leakage is 11.5%. Given the eligibility criteria of the funds, and the fact that support is provided to early-stage, high growth potential companies, this has been reduced to 10%, which is described in the document as '*the majority of benefits will go to people living within the target area/the target group*'.

Displacement

The GVA lost to **displacement is calculated to be 25%**. This also sourced from the Homes and Community Agency Additionality Guide which suggests Business Development and Competitiveness intervention will displace 29.3% of non-supported business. This was adjusted to 25% as companies supported are often innovative, working in new high growth sectors. This is described in the document as an expectation of '*some displacement effects, although only to a limited extent*'.

Indirect and Induced Impacts

GVA multipliers were used to account for the indirect and induced impacts of the funds. Supply Use and Input-output Tables for Scotland (2020)²⁶ were used to identify the relevant GVA and employment multipliers per sector. Type 1 and Type 2 multipliers were both assessed to account for indirect and induced impacts.²⁷ Relevant sectors were identified based on SCF/SVF priority

²⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/378177/additionality_guide_2014_full.pdf

²⁶ Scottish Government (2020), Supply, Use and Input-Output Tables: 1998 – 2017, available at <https://www.gov.scot/publications/input-output-latest/>

²⁷ N.B. Type 2 multipliers incorporate Type 1 multipliers, and therefore, Induced impacts were determined by Type 2 minus Type 1 multipliers.

sectors, detailed in **Table 21**. Indirect impacts were identified to engender an increase of 35% and induced impacts, an increase of 26%.

Table 21: Multiplier Sectors

SCF / SVF Priority Sector	Sectors included in Type 1 & 2 Multipliers
Aerospace, Defence & Marine	Public administration & defence
Chemical Sciences	Other chemicals (manufacturing)
Construction	Construction
Creative Industries	Creative services
Enabling Technologies	Computers, electronics & opticals, Information services, Machinery & equipment, other manufacturing
Energy (Renewable & Other)	Electricity
Financial Services	Financial services, Business support services
Food & Drink	Other food (manufacturing)
Life Sciences	Pharmaceuticals, Health, Research & development, Other professional services
Textiles	Textiles

APPENDIX 6: METHOD TO CALCULATE OPTIMISM BIAS

To make an assessment of the optimism bias amongst those self-reporting employment and turnover figures, this analysis will use benchmarks from previous evaluations where early-stage companies forecast turnover and employment growth, as well as evidence from SE of the accuracy of account managed companies forecast data.

Two appropriate benchmark evaluations have been identified: Evaluation of the British Business Bank Start Up Loans (2019)²⁸ and the Evaluation of Invest NI's Propel Programme (2015)²⁹. In these evaluations, OB ranges from 20% to 25%.

SE has also provided data from its Economic Trends Survey (2017 – 2020) comparing the difference in actual performance and expected performance at six-month intervals for account managed companies. For both Employment and Turnover estimates, this data is summarised in **Table 22** below. **It must be emphasised that these figures apply to forecasts at a six-month interval, rather than the five-year and ten-year interval that is required for this analysis, and as such, these figures must be used with caution and applied as an indication only.**

For both Employment and Turnover estimates, this data is summarised in **Table 22** below.

Table 22: Accuracy of Performance Forecasting by Survey Respondents

Forecast	% of businesses forecasting turnover	% of businesses forecasting employment
Forecast Accurately	63%	63%
Over Optimistic	25%	28%
Under Optimistic	13%	9%

Source: *Economic Trends Survey (2017 – 2020)*

This data shows that for account managed companies, although 25% overestimate turnover and 28% employment, a portion (13% / 9%) underestimate growth. These figures do not give an indication as to the extent over or under for company predictions, but give a sense that, on balance, at a six-month interval, a majority of account managed companies forecast accurately or under-forecast outcomes.

This has led evaluators to select the lower end of the range, **20%**, as the OB for this evaluation. This level of OB has been agreed with SE as an appropriate level, particularly given the complexities in finding definitive data that matches company size, sector and life cycle. It should be noted that this OB is a best estimate based on a small existing evidence base and is, as such, limited in its robustness.

Optimism Bias: 20%

²⁸ Available at <https://www.british-business-bank.co.uk/wp-content/uploads/2019/06/SUL-Evaluation-Year-3-Report-June-2019.pdf>

²⁹ Available at <https://www.investni.com/sites/default/files/documents/static/library/invest-ni/documents/propel-programme-evaluation-april-2015.pdf>

APPENDIX 7: BENEFICIARY FEEDBACK

This appendix provides insight into beneficiary experience of the funds, the impact of the funds and future learning. The findings are supported by 57 responses to online surveys and an additional 11 interviews with beneficiaries.³⁰

RSM conducted three online surveys, distributed to three cohort groups, namely:

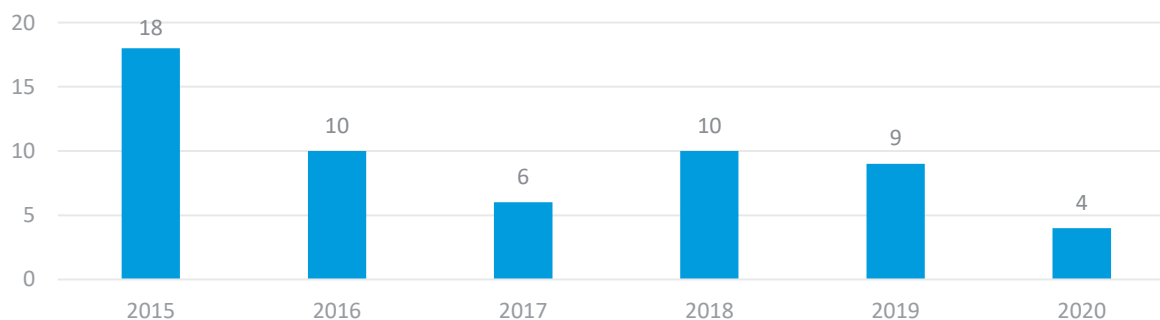
- those receiving funding from the Scottish Co-investment Fund III / IV only;
- those receiving funding from the Scottish Venture Fund III / IV only; and
- those receiving funding from both the Scottish Co-investment Fund and Scottish Venture Fund III / IV.

Detailed semi-structured interviews were carried out with a sample of **11** beneficiaries from across different geographies and sectors. These were used to produce beneficiary 'snap-shot' case studies, detailed throughout the chapter to add insight into the experiences of supported companies.

The survey and consultation findings reflect the views of those RSM engaged with and are not intended to be representative of the beneficiary population as a whole; however, the achieved response rate provides good coverage across the types of project and investment

The survey population represented 34% of supported companies over the SCF / SVF III and IV timeframe, and were distributed well over the three cohort groups, with 27% (n=18) of SCF only supported companies, 36% (28) of SVF only supported companies and 42% (n=11) of companies supported by both funds. Although a significant number of respondents were first supported in 2015, there was a good spread of companies from 2015 to 2020, shown in **Figure 25**.

Figure 25: Respondents by year first supported by SCF/SVF



Beneficiary Journey

Referrals

A range of sources of referral brought companies to the funds, including private investors, SE Account Managers and other pre-existing links with SE, promotional material and other

³⁰ Suggested beneficiaries for consultation were determined prior to the publishing of the online survey, through discussion with SE.

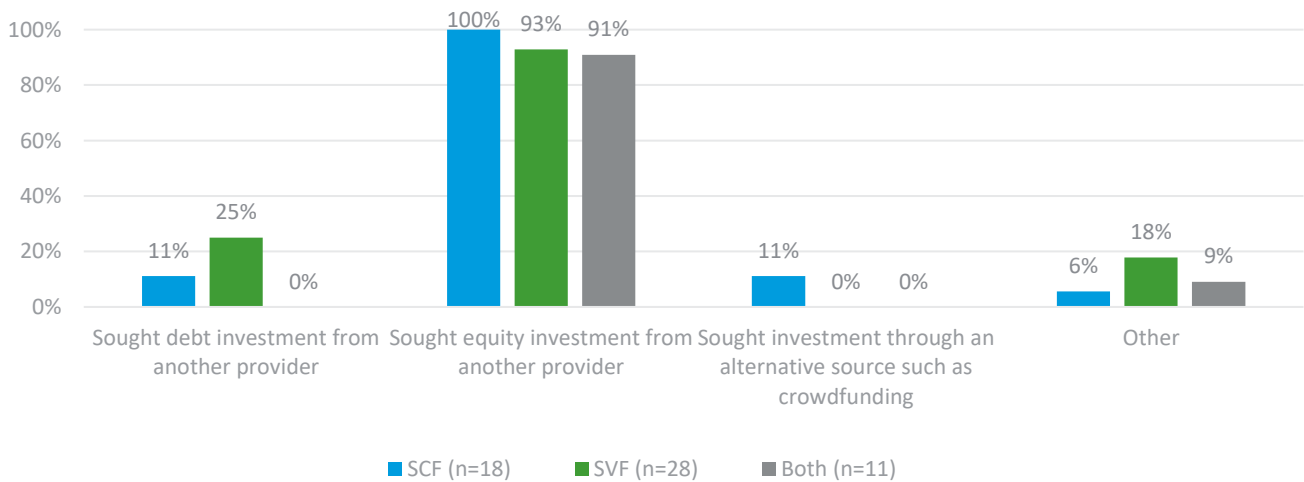
businesses. For both SCF and SVF relationships with private investors and SE Account Managers account for the vast majority of referrals.

It was evident in consultation that supported companies did not necessarily go out looking for SE as an investment partner via the co-investment funds, but rather, it was through the private investor that SE became involved.

Fund Alternatives

All of the survey respondents had sought alternative finance prior to securing funding from the Fund. As shown in **Figure 26** below, the most common source was equity investments. Alternative funding such as crowdfunding was not a popular pathway prior to joining the Fund. Some companies also reported seeking grant funding, from sources including Innovate UK and SMART Grants, as well as management investing personal money into the business.

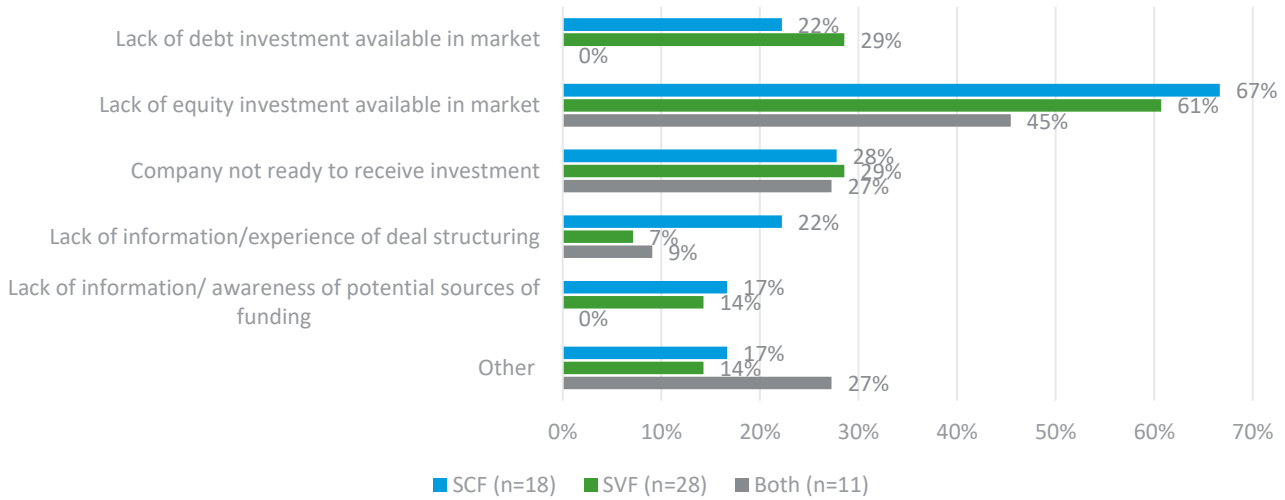
Figure 26: Alternative sources of finance



Barriers to Growth

The biggest barrier to growth faced by companies was the availability of capital, with lack of equity investment and debt investment in the market. Companies also reported being at too early a stage to attract and receive investment which acted as a barrier.

Figure 27: Barriers to growth



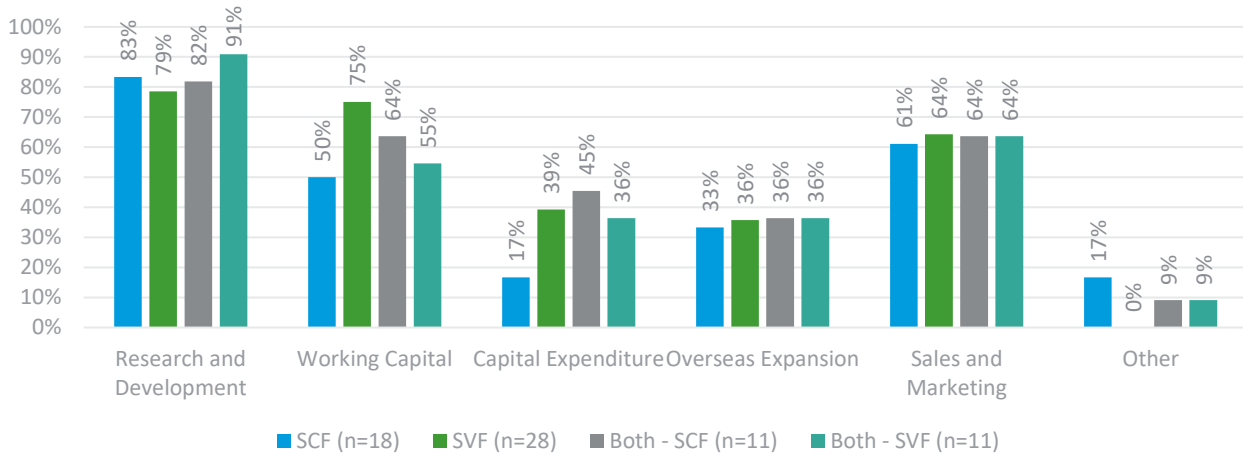
Detailed consultation highlighted the challenges of developing products and bringing them to market. High capital costs associated with research and development, as well as a limited ability to generate revenue to sustain the company as products are developed were often cited as barriers to the company growth. One company outlined the difficulty in competing in the global market, whilst relying on the more limited Scottish investment pool.

“There wasn’t the access to capital – we required expensive hardware and a lot of effort is needed to go into what we were developing. Always a limit in grants, but the Scottish ecosystem is limited and we’re a small company – so there’s a small pool of investment compared to, for example, the States, but we were competing globally. SE in that gap is essential. Without them, we would have fallen behind completely in terms of start-up.” – Renewable Energy Company, SVF

Purpose of funding

Companies sought funding for a variety of reasons. Many companies were in later follow-on rounds and were using capital for overseas expansion and sales and marketing, whilst others were at an earlier stage, requiring funding for R&D and capital expenditure.

Figure 28: Purpose of SCF/SVF funding



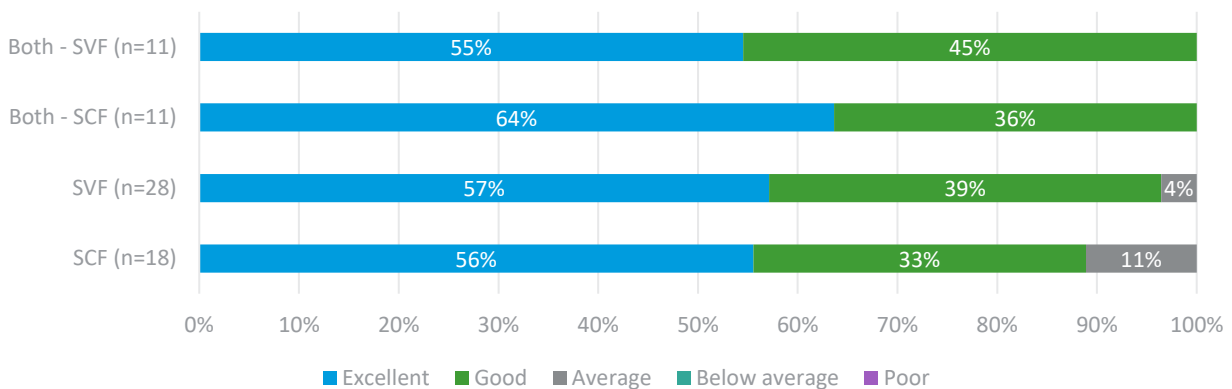
Programme Delivery

This section considers the delivery of the funds, including an assessment of the process of securing funding, ongoing relationships, additional support and the delivery model.

Application Process

Survey respondents were asked to detail their experience of securing funding from SCF and SVF, with the results displayed in **Figure 29**. Overall, respondents were positive about their experience, with the majority reporting a clear and well-signposted process. A small minority did highlight that the SVF process was somewhat confusing and difficult to navigate, a response which was absent from the SCF feedback.

Figure 29: Experience of application process



SCF Application Process

Generally, SCF consultees were entirely positive about the process of applying for funding, with 56% reporting that the process was excellent and 33% that it was good. There were no reports of the process being below average. Feedback was often that SCF Partner investors would, following an initial conversation, lead on the process side, undertake due diligence and engage with SE themselves to see if they wanted to be involved. This, to supported companies, allows for a straightforward application process, where they only need engage with one investor.

“The last round or two have been relatively straightforward. It has been mainly a direct engagement with [SCF Partner].” – Life Sciences Company, SCF

“[SCF partner] would deal with the process side of things – they would do that regularly. That’s all done through [SCF Partner].” – Enabling Technologies Company, Both

A number of companies surveyed/ consulted highlighted that the process was inflexible, which led to some issues. The case study below highlights some of these issues, whilst also highlighting the benefits of a well-defined process.

SVF Application Process

The process for SVF is similarly positively received. Companies supported by SVF seem to be more engaged with SE, but this is not considered a negative point. One company consulted with, in contrast to the above feedback, suggested that the flexibility and visibility of SVF was the reason they opted for this mechanism of support rather than larger European and UK options.

“You always want to move quicker, but to be honest, it moved efficiently in terms of what it was. It seems very established. You can plan it out, in terms of the committees. I would actually say it’s excellent... The flexibility is helpful – there was larger European funding we could have got, but the lack of visibility made it a no go” – Renewable Energy Company, SVF

Some respondents surveyed found that the length of time to complete deals was a drawback of the process, but on the whole, companies tended to find the process straightforward. Support mechanisms, including Account Managers and private investors with prior experience of the process, were cited as ensuring the process was effective.

Both

For those experiencing both funds, generally, consultees and surveyed companies felt that the process was comparable. Although some surveyed companies did report that the length of time to secure decision for SVF was longer than SCF, which is reflective of the model.

“It feels like a similar process between SCF and SVF” – Life Sciences Company, Both

“SVF was much more time consuming with uncertainty that you don’t know if the investment would be forthcoming at the end of the process” – Enabling Technologies, Both

Communication

Survey respondents were overwhelmingly positive about ongoing communication, with 93% (n=27) of SCF respondents and 97% (n=39) of SVF respondents finding it either good or excellent. Qualitative survey feedback offered a comparable picture of ongoing communication, with both funds commended for clearly defined demands on information and responsibilities, ease of access to appropriate individuals and efficient communication mechanisms.

Communication with Scottish Enterprise

Consultees were clear that the primary individuals that they engaged with were not SE Portfolio Managers, but rather, the private sector investment partners. It is evident that SE takes a more hands-off approach to communication. Companies highlighted that Portfolio Managers seemed often busy, with a wide portfolio, and therefore, it was common for companies to report that their relationship with SE portfolio managers was quite distant, often only coming to the fore in crisis points. This was not levied as a criticism, but rather, was felt to be a good process of streamlining communication, as private co-investment partners became the main points of contact. Companies did find that their private investment partners were more closely engaged with Portfolio Managers.

“Certainly, in recent years, it has been very easy as we have a clear person to contact in SE for the SCF. I don’t think I’ve ever met, but I have a named individual. I know [SCF partner] find it very easy to communicate with the Portfolio Manager.” – Enabling Technologies Company, SCF

“With [SE investment managers], it’s a lot more light touch; they’re there if we need them. Because they have a streamlined arrangement with [SCF partner], that’s made the whole process simpler.” – Life Sciences Company, SCF

Communication with Private Sector Partner

Private sector co-investors take a much more active role in communication, often acting as the key touchpoint between companies and SE. Companies find that private co-investors are more suited to this role as often, they will have expertise and experience relevant to the company. When seeking follow-on rounds, companies report first going to co-investment partners, who in turn will take proposals to SE.

“[Private co-investment Partner] take an active view in terms of steering. Because they’re so experienced, SE don’t have to take the steer.” – Renewable Energy Company, SVF

“I would say that [SCF partner] are the focal point. Our initial approach is the management team of [SCF partner]. They will assess and look at our plans and our objectives. And from there, [SCF partner] would go out to SE and other investors to see if they are willing to get involved. [SCF partner] rubber stamp it.” – Enabling Technologies Company, SCF

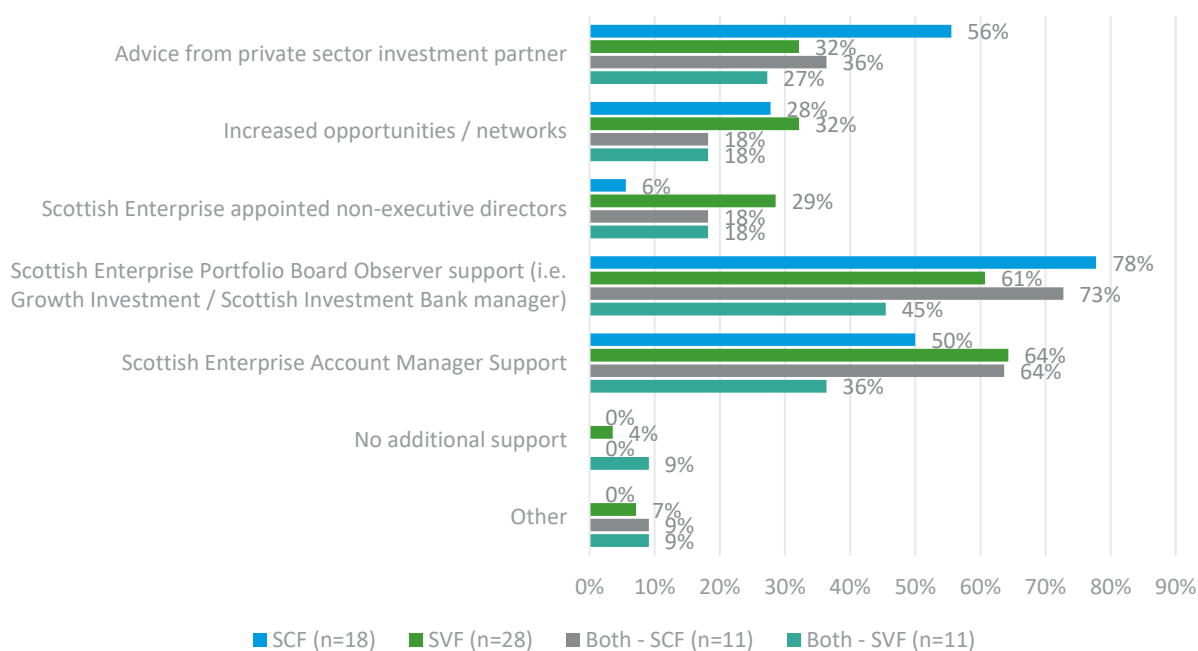
Additional Support

SCF survey respondents found that their Portfolio Manager was an excellent source of advice (on markets, board decisions, future strategy and opportunities), new connections and insight into further supports available from SE. SVF respondents concurred, with one respondent stating that *“Sometimes the non-financial help is as valuable as the financial - for example SDI introductions*

that connected the Business to overseas opportunities”. These respondents also highlighted the training opportunities that Portfolio Managers signpost towards as valuable. Respondents from both Funds also found that having dedicated SE Account Managers was useful in providing additional support, whose support including enabling companies to find appropriate grants, liaising with key stakeholders on behalf of companies, networking and internationalisation support.

Figure 30 highlights how these two avenues of support were identified as key by survey respondents.

Figure 30: Additional support received



Although communication with the SE investment team is relatively light touch, the majority of companies in consultation highlighted the positive benefits of being account managed, which by contrast, tended to constitute a closer and more personal relationship. Account Managers are where companies tend to go for advice on available SE support as well as wider advice on issues such as raising money, grants and networks.

“In terms of raising support – I had no gauge of what was normal. Once we got the investment, we became account managed at SE – this gave a lot of targeted support around areas we wanted to grow.” – Renewable Energy Company, SVF

Consultees, however, did feel that there was likely more support offered by SE that they simply weren’t in the loop for, and therefore missed out.

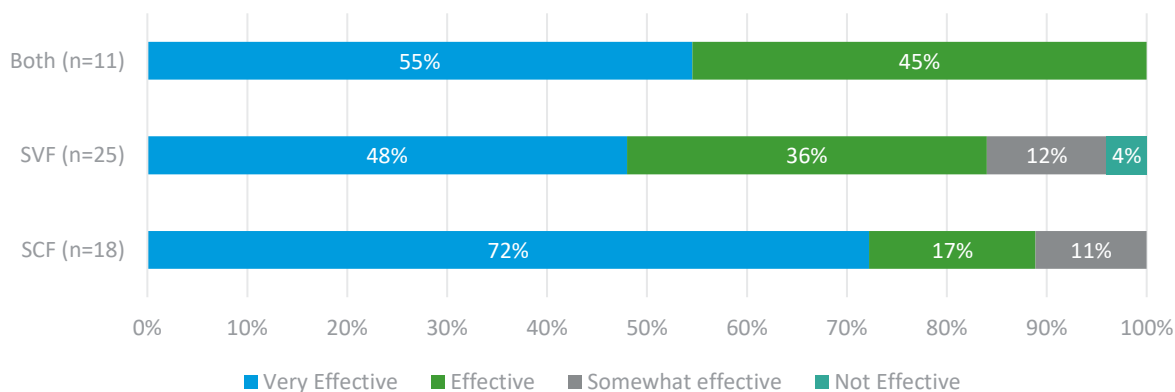
“There is a bucket load of resources – they have access to market reports and have research staff and money that is being used to build an infrastructure and I don’t think we

made the best use of that. We weren't always aware of what was on offer.” – Life Sciences Company, SCF

The Delivery Model

The majority of respondents reported that they found the model of public and private sector co-investment to be very effective or effective. The limited number who found this not to be the case highlighted additional complexities to investor relationships and restrictions in agreements impacting future growth.

Figure 31: Effectiveness of the Co-investment model



SCF

Surveyed companies highlight that SCF gives confidence to private investors to take on additional risk, speeds up the process of start-ups attracting finance and enables more realistic funding targets to be set. One company surveyed stated:

“Raising money really is hard and without co-investment from SCF we would genuinely have struggled to raise the funding required. There is a real ‘gap’ between what Angel money can achieve in Scotland, in terms of overall quantum of funding and risk appetite and institutional / VCT funding. SCF genuinely helps to bridge this gap. – Food and Drink Company, SCF

The delivery model received positive feedback from consultees, highlighting advantages in terms of streamlining processes, de-risking public sector investment, as well as providing consistency for investee companies.

“One thing I valued was consistency for what they needed as investors. They aren’t at mercy of LPs and 5/10-year exit horizons, so are very clear about what they need.” – Life Sciences Company, SCF

SVF

SVF received similar feedback, that the model was effective in de-risking investment as well as boosting the quantum of investment available for companies.

“We have found the model provides stable funding with good alignment on long term objectives. The level of engagement has been appropriate and supportive” – Food and Drink Sector, SVF

Impact

This section considers the impact of support on beneficiary companies, looking at headline impacts, impact on attracting international investment to Scotland as well as wider National Performance Framework benefits, the additionality of the funding and future outlook of supported companies.

Impact on supported companies

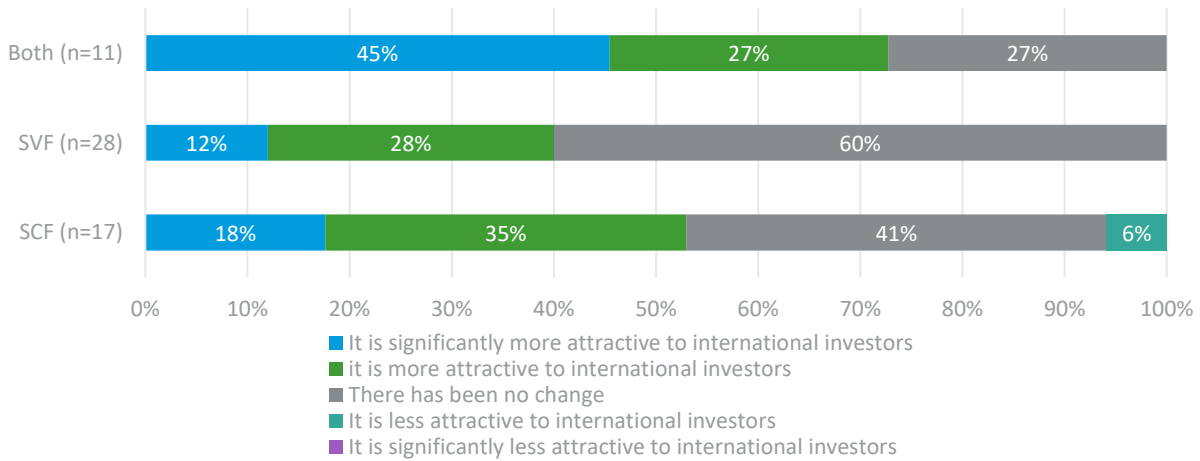
To date, the funds have contributed to impacts across a range of measures. Feedback from survey and interview respondents identify that the funds have:

- been essential for the survival and continued growth of many start-up companies with high growth potential;
- supported companies to attract follow-on funding from investors;
- supported the delivery of 6,613 (net) job-years, £765.8m in turnover and £202m in exports amongst supported companies;
- strengthened the position of companies to compete globally, enter new export markets and attract international investors; and
- supported the local and national Scottish supply chain, providing additional high value jobs to Scotland. A detailed overview of the fund’s performance is found in Chapter **Error! Reference source not found.**

International Investment

Of those companies surveyed, a total of 44% (n=24) reported that they had received international investment since 2015. This included 7 of the SCF cohort (41%, n=17), 13 of the SVF cohort (48%, n=27) and 4 of those receiving funding from both (36%, n=11). Overseas investors, according to surveyed companies, found the co-investment model attractive, giving credibility to companies through government backing, enabling companies to receive investment, or enable them to pursue this option in future funding rounds.

Figure 32: International Investment



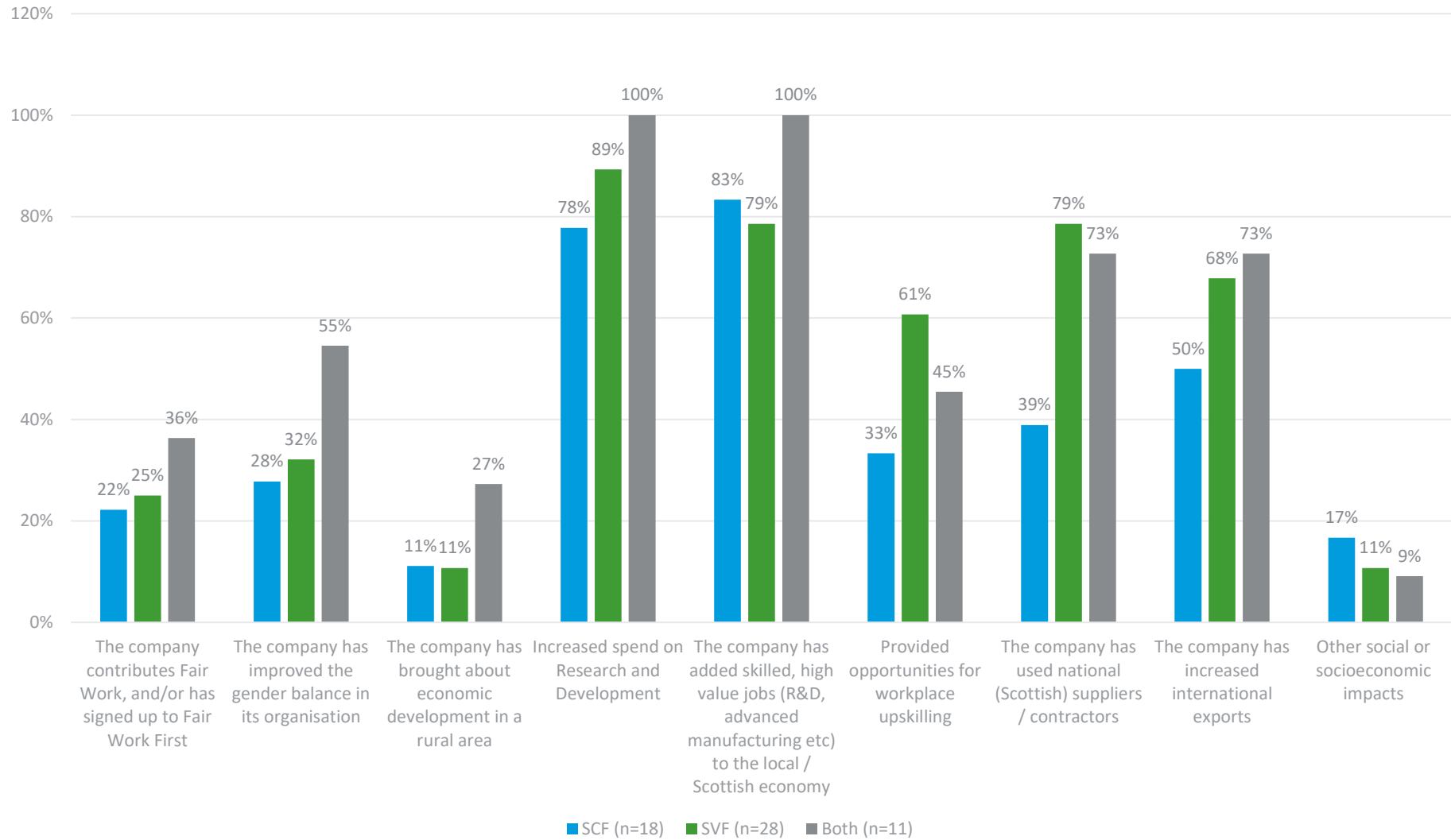
National Performance Framework

One company consulted with highlight that engagement with SE means there is often a push to look for additional benefits, particularly to Scotland. This push, to the individual, was found to not be inhibiting, but rather, is complementary to the work of the company.

Survey respondents reported on the wider benefits that they were able to deliver, relative to the National Performance Framework Measures. Significant wider benefits to Scotland included investment in R&D, as well as adding and securing high value jobs for the Scottish economy and supporting the wider Scottish economy through supply chain impacts.

Error! Reference source not found. details the wider benefits relating to relevant National Performance Framework measures, as cited by respondents.

Figure 33: Wider benefits



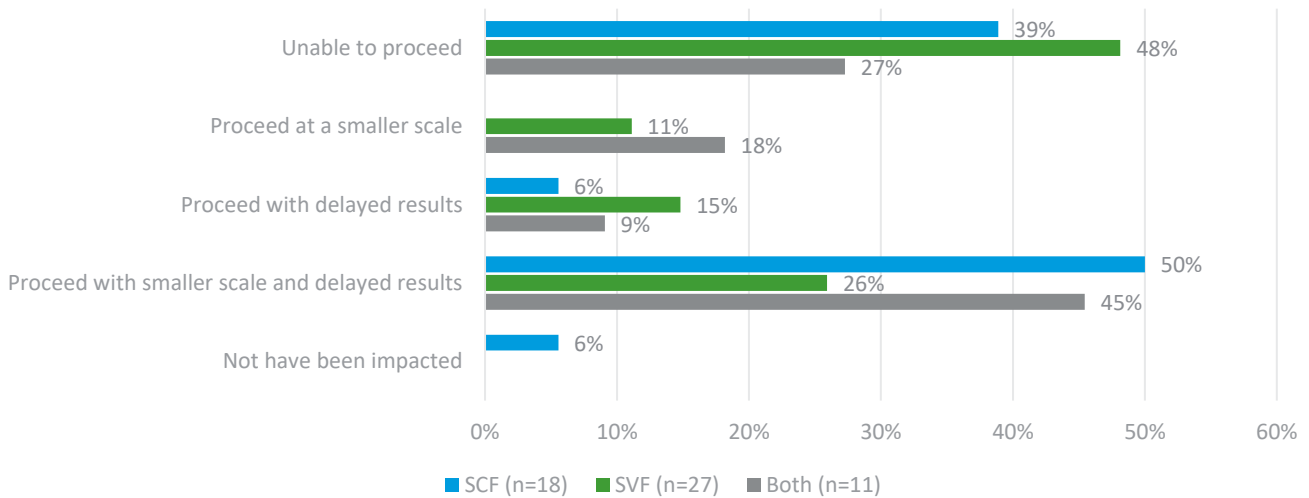
Additionality

The survey highlights that the funds have been essential to early-stage companies in Scotland. Without the funds, for some, business survival would have been impossible. Only one company (2% of total) surveyed reported that they would not have been impacted in some way, without the investment.

“Getting to critical mass and beyond the point where you are funding your own growth is vital for any early-stage company. Had we not had SCF funding we would have grown much more slowly, hugely increasing the risk of business failure.” – Food and Drink Company, SCF

For others, whilst other support may have enabled them to proceed, an absence of support from the co-investment funds would have had impacts on scale, timing and impact, as detailed in **Error! Reference source not found.**

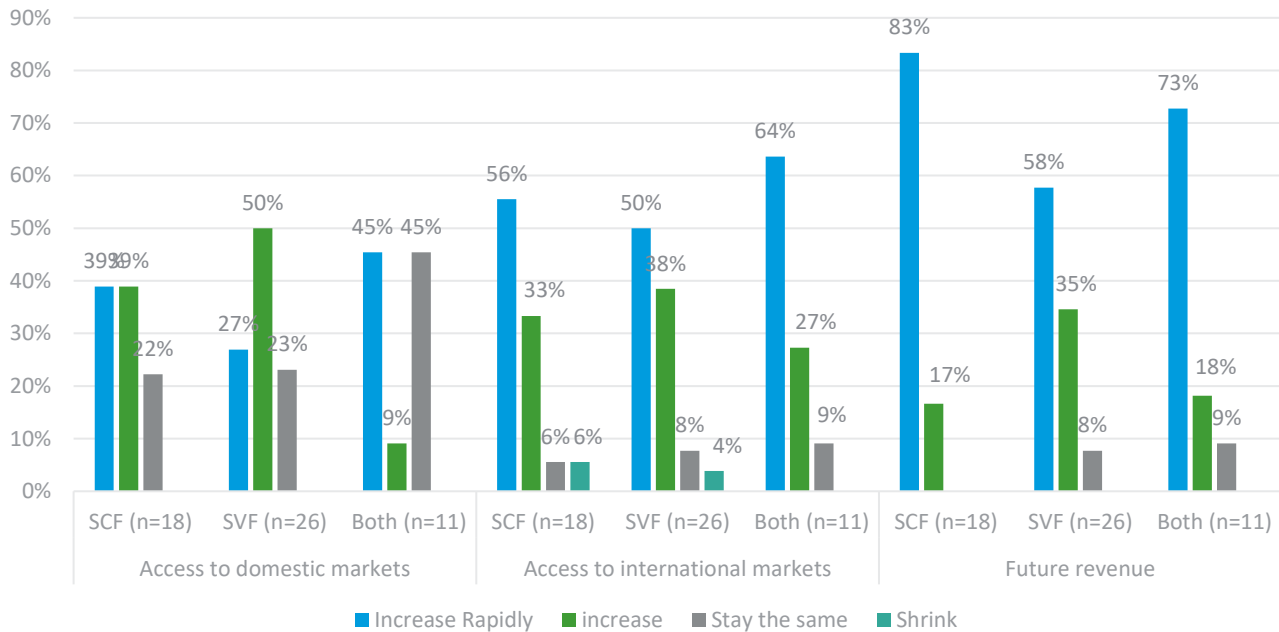
Figure 34: Impact if funding had not been available



Future growth plans

Surveyed companies were asked to assess their future growth opportunities, across domestic and international markets, and their future revenue growth. The majority of companies expected rapid increases or increases. A very small minority of companies saw shrinking opportunities in international markets, explaining that this was due to the impact of the UK EU Withdrawal. When asked about access to domestic markets, more companies suggested that there would be little change from now to 2028, explained by the fact that many were now focusing on international expansion.

Figure 35: Future access to markets

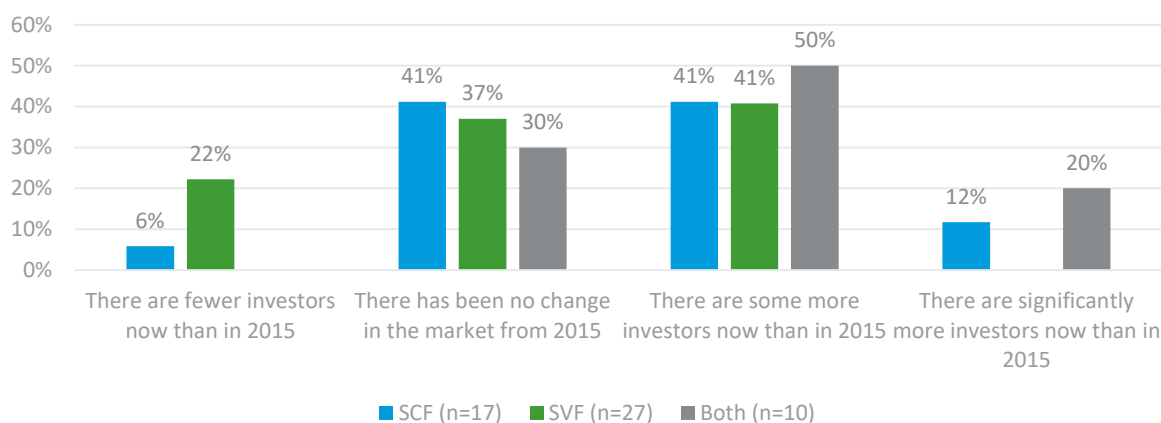


A significant majority (82%, n=47) of respondents said that they expect to seek further investment from SCF / SVF. This included 100% (n=11) of those receiving funding from both SCF and SVF, 83% (n=15) of those receiving SCF and 75% (n=21) of those receiving SVF. The purpose of further funding requirement varied based on business maturity, with some seeking funding for international expansion, business scaling and sales / marketing investment and some for product development and to bridge revenue gaps.

Changes to the Market

Survey responses detailing the changes in the Scottish Investment market are varied, with a broadly even spread of companies reporting some more investors or no change in the market. Analysis by sector suggests that the strength of the investment market differs, with food and drink, financial services and chemical sciences all reporting either no change or fewer investors, whilst textiles, life sciences and creative industries give a more positive picture of the market. Consultation with one life sciences company did note that even within the life sciences sector, the available of capital varied based on particular specialisms. Some companies also pointed to transition of capital availability, for example in the energy sector, companies felt there was a move from traditional energy investments into renewable technology.

Figure 36: Number of investors in Scottish Market from 2015



Some companies reported that more high-net-worth individuals seemed to be entering the market, more angel groups were active and there was greater appetite for larger funding rounds, whilst others still felt the challenges of attracting capital to start-up companies were high and options still limited.

“There is still a dearth of institutional money (VC funds) though a very little more has come from Maven. The ecosystem is still sub-scale and dominated by angels which is a distortion.” – Life Sciences Company, SCF

Multiple consultees outlined a funding gap of circa £2 - £5 million, generally above the level that Angel Investors would be willing to fund and too low to attract larger VCs. Whilst these companies found the Scottish market relatively strong up to the £2 million mark, this gap makes taking a product from proof of concept to commercialisation significantly more difficult.

“The big area where there is a gap in angel investment and private equity is between £2 million and £5 million. There’s a lot of smaller end at the £2 million and bigger investments start at £5 [million]; there’s a massive hole at that point. If you can’t get to the larger scale investments, you’re in a limbo land. It makes scale up a bit harder.” – Renewable Energy Company, SVF

“For the next couple of years, we’ll be in that awkward in between phase – we are still at an early stage of traction which does limit the number of parties interested and willing to invest. You aren’t at a safe demonstratable sales process that a VC will come and give you £10 – 20 million.” – Life Sciences Company, SCF

- However, there is evidence that the Scottish investor market is developing to give increased options for larger funding rounds, with one beneficiary highlighting that thinking is shifting to be “more analogous to the US VCs” and others highlighting that there is an increase in confidence in companies, demonstrated in the size of funding that people are going for.
- *“The market is now very attractive. People are registering companies in Scotland because of SCF. A lot of companies could be based down south, but deliberately chose Scotland. Quite a vibrant investment sector.” – Life Sciences Sector, SCF*

Constraints

This section looks to the internal and external challenges that have limited the effectiveness of the funds, including in particular the impacts of Covid-19 and the UK EU Withdrawal.

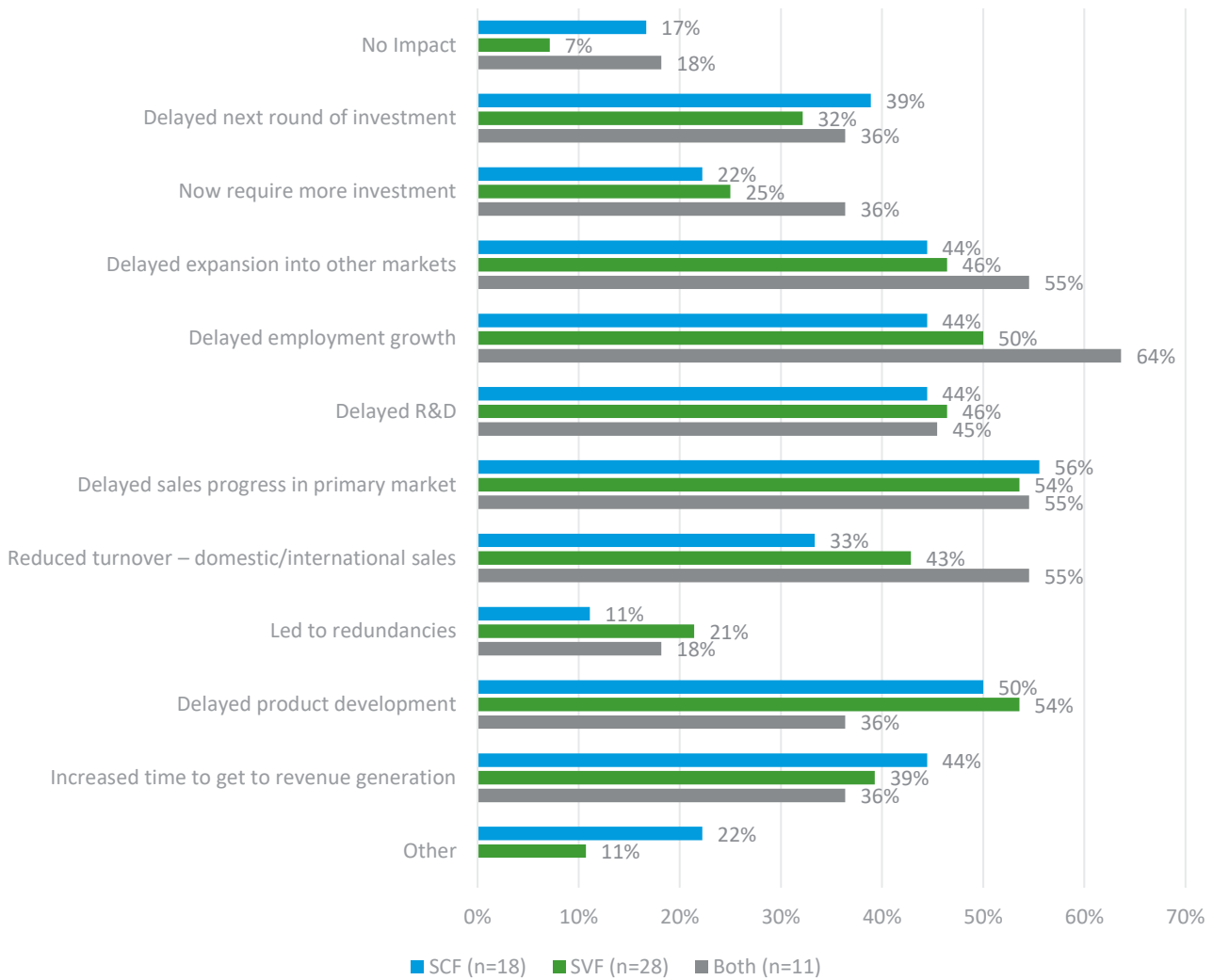
Internal Constraints

Consultees have outlined that the models and processes used by the funds are largely effective. However, one issue that was raised by investees was that the application process is felt by some to be inflexible, causing issues for companies, in particular, those who require funding for working capital. Companies who felt an increased time pressure, often due to concerns with capital reserves felt that greater flexibility / tailoring the application process to specific company circumstances would let to better outcomes for all.

External Constraints

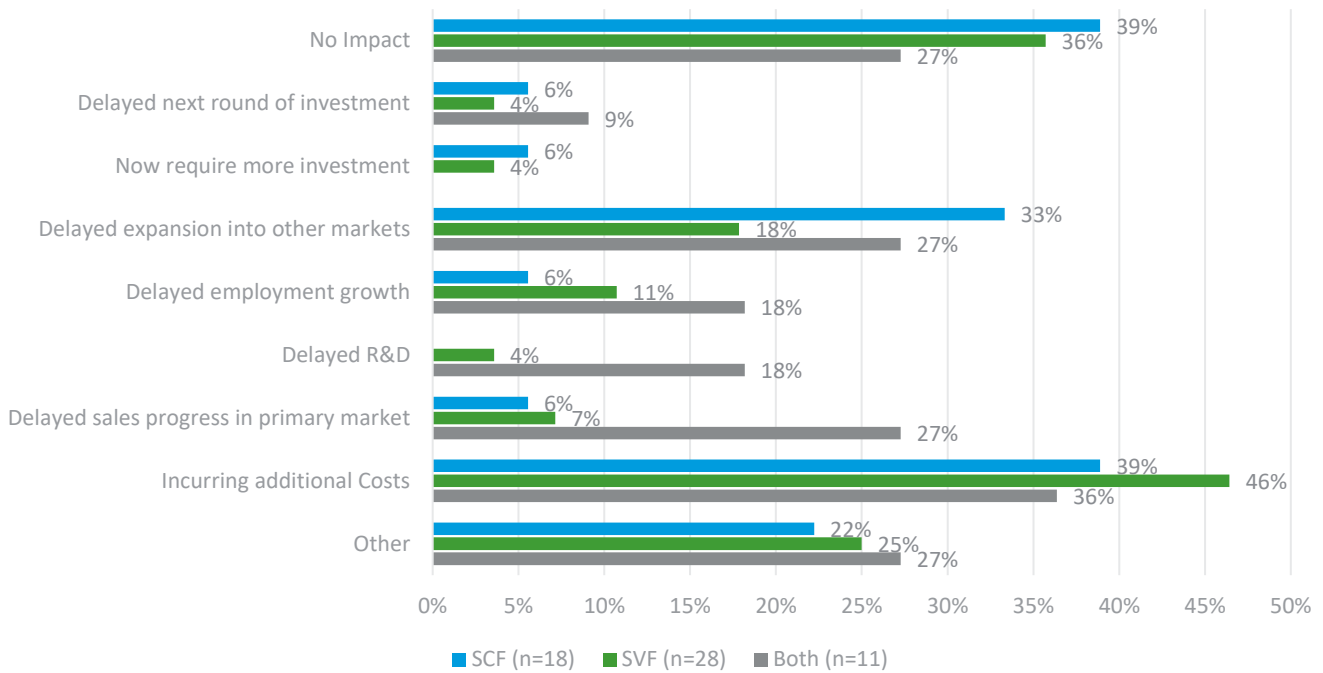
The impacts of **Covid-19** on supported companies have been mixed. For some companies consulted with, the pandemic has prevented them from moving into new markets, continuing with product development, and has increased supply chain costs. However, for some sectors, Covid-19 has provided an opportunity for growth and development. Only 12% (n=37) of surveyed companies reported no negative impact, and for companies that were affected, **Error! Reference source not found.** highlights the scope of impacts incurred.

Figure 37: Impact of Covid-19



As with the impacts of Covid-19, the impact of the **UK EU Withdrawal** is experienced differently by different companies based on activities and sector. 20 companies (35%) experienced no impact, but 42% (n=24) of companies were incurring additional costs and a significant number reported a delay in expansion into new markets, shown in **Error! Reference source not found..**

Figure 38: Impact of the UK EU Withdrawal



For most of the companies consulted, the EU has been less of a target market than, for example, the US. However, the few companies that had targeted EU countries for export reported that Brexit posed serious challenges to their business operations and the feasibility of exporting to the EU.

“Brexit has been a disaster for us. We are about to launch in amazon Germany...we had a product that headed off in April. It took 5/6 weeks to clear customs.” – Life Sciences Company, Both

A Future Fund

The Current Offer

Beneficiaries were positive about both the model and the support that they had received. The funds had attracted investors and de-risked investment, enabled funds to be channelled to companies that require a longer term for returns, leveraged private sector monies, and added significant value more broadly. Only 14 companies of 56 (25%) were aware of alternative funding that would have been appropriate for their organisation with the significant majority either unaware of alternative sources (n=17) or aware of sources that would not have been accessible (n=24).

“It fulfils a really important role. Without SCF funding, businesses would grow much more slowly which hugely increases failure risk and decreases appetite amongst other investors. To be honest SCF is an absolutely critical element of the early-stage business funding landscape in

Scotland. Without it, the number of deals getting done would drop off a cliff” – **Food and Drink Sector, SCF**

Key aspects of the funds

Surveyed companies and those consulted with have highlighted key aspects of the fund, which have contributed to its success and benefits to companies.

- The fund fills a necessary gap in the investment market, between smaller Angel investments and traditional VC money, which is looking for large deals in more mature companies;
- It boosts the amount of funding received by companies with limited due diligence burden;
- It attracts new investors to the market and to companies, and gives them confidence by sharing the risk;
- It gives consistency to investees with straightforward processes and good ability to test whether funding will be available.

Shortcomings

- additional support: generally, the companies consulted with were positive with regard to the funds, and rather, focused the shortcomings on the wider suite of provision offered by SE, suggesting that the “bits around the edges” could be improved to give more holistic support.
- dated documentation: one consultee highlighted that some of the clauses and requirements found in SE templates for SCF and SVF weren’t up to date and were irrelevant to the company. It was reported that these gave the impression to other investors that the company wasn’t up to date.

Recommendations

Beneficiaries have provided the following recommendations for SE to consider when designing and delivering any future fund.

- **additional support:** ensure that companies receive good early advice, particularly in areas where SE can add value (i.e. business decisions, for example, advice on how to take advantage of incentives available). One individual also highlighted that they could have been better prepared to scale up their company had specific mentor support for this stage been available.
- **international investors:** look to attract international funds to co-invest in Scottish companies with SCF / SVF. International investment could also be boosted by hosting international investor conferences in Scotland, to showcase the investment opportunities and give companies traction with international investors.
- **scale-up:** the model works well for start-ups and angel investors, but it could be improved if this could be repeated for scale-up companies and VCs, by making the level of funding available higher. Other support that would be helpful to assist scale up includes developing

networks, providing visibility / showcasing, providing access to infrastructure (financial and non-financial) and supporting with supply chain contacts.

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