The implementation of non-grant RDI financing with ESIF

CDTI (Spain)
The implementation of non-grant RDI financing with ESIF

Strasbourg, September 22nd 2016

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CDTI
Contents

• Some history
• How it works
• Pros and cons
• Conclusions
### RTDI funding

- Evaluation and funding (around 1 B€/year)
- Reports towards tax exemption

### Support to the creation and consolidation of new technology based companies

- NEOTEC
- INNVIERTE (Venture capital)

### RTDI internationalization

- Technological Cooperation: Eureka, Iberoeka, Eurostars, **European Framework Programme**...
- Support to technological transfer: External network

### Aeronautics, Space and Industrial Returns Programmes

- Aerospace RTDI
- Technological supplies: CERN/ESRF, Hispasat, Eumetsat, Spainsat.
CDTI has expertise on ERDF management for business RDI funding since 1994

1994-1999 ERDF-CDTI Global Grant

2000-2006 Integrated ERDF-ESF

2007-2013 RDO Operative Program

2014-2020 Current Program

Soft loans + Grants

Soft loans
CDTI current R&D&I Programs’ portfolio

Direct Grants

Grants + Soft Loans

Soft Loans

Ayudas NEOTEC

FEDER (ERDF) INTERCONECTA

Tech based companies

Consortia based mainly in low developed and transition regions

Research and Development Projects

Business R&D projects (consortia or individual)

Línea Directa de Innovación

Business Innovation projects

CDTI FUNDS

ERDF FUNDS

Spanish Grants Law procedure

Closed calls.

Open calls.

CDTI procedure
Main Characteristics of CDTI´s R&D Projects

Open Calls for individual or collaborative projects

Only companies are eligible (RTOs participate as subcontractors)

Loans (EURIBOR) covering up to 75% of the budget

A non-refundable part is incorporated to the loan

Project´s duration: 12-36 months

Term Period: 10 years (2-3 year grace period)
CDTI R&D Project procedure

A. Project Selection

B. Project Approval and Contract Signature:
   CDTI New Loan*

C. Disbursement subject to the completion and implementation of the technical and economic individual milestones

D. Beginning Amortization Period

E. Finalization Amortization Period

*B: advanced installment available at Contract Signature
The Evaluation Panel Procedure

TECHNICAL EVALUATION DIRECTORATE (55 Senior experts)

- INDUSTRIAL TECHNOLOGIES AND INFORMATION SOCIETY
- ENERGY, MANUFACTURING AND TRANSPORT TECHNOLOGIES
- CHEMICAL, ENVIRONMENTAL AND MATERIALS TECHNOLOGIES
- BIOTECHNOLOGY, HEALTH AND AGRI-FOOD TECHNOLOGIES

ECONOMIC AND FINANCIAL AFFAIRS DIRECTORATE (19 Senior experts)

Technical and Commercial Evaluation

Economic and Financial Evaluation

EVALUATION
Economic and Financial Evaluation

Objective: Rating the company and, more importantly, analysing the adequacy of the project to the company.

The Financial/Economic Assessment has two phases:

- Quantitative assessment of the company versus several (28) sectorial ratios facilitated by the National Bank of Spain (Banco de España)
- Qualitative assessment of the project-company by financial experts

The average of both assessments is the final score issued by CDTI to rate the company.
### Companies' rating

<table>
<thead>
<tr>
<th>Moody's</th>
<th>Standard &amp; Poor's</th>
<th>EC Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa to A3</td>
<td>Baa1 to Baa3</td>
<td>Strong</td>
</tr>
<tr>
<td>BBB to BBB-</td>
<td>BB+ to BB</td>
<td>Good</td>
</tr>
<tr>
<td>A+ to A-</td>
<td>B+</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>B+</td>
<td>B</td>
<td>Weak</td>
</tr>
<tr>
<td>Ba1 to Ba2</td>
<td>BB- to B+</td>
<td>BAD</td>
</tr>
<tr>
<td>Ba3+ to B1</td>
<td>B to B-</td>
<td>C</td>
</tr>
<tr>
<td>B2 to B3</td>
<td>CCC+</td>
<td></td>
</tr>
<tr>
<td>Caa1</td>
<td>Ca2 and below</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Loans without guarantees (*)</th>
<th>Loans with guarantees</th>
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</table>

- The company is classified: Strong, Good, Satisfactory, Weak or Bad/Financial Difficulties.
- Establish the degree of collateralization: Low, Normal, High.

(*) except when the credit volume of the enterprise overcomes the maximum risk threshold.
Margins to be applied in principle depending on the rating of the undertaking concerned and the collateral offered

<table>
<thead>
<tr>
<th>Rating category</th>
<th>Collateralisation</th>
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<tbody>
<tr>
<td></td>
<td>High</td>
</tr>
<tr>
<td>Strong (AAA-A)</td>
<td>60</td>
</tr>
<tr>
<td>Good (BBB)</td>
<td>75</td>
</tr>
<tr>
<td>Satisfactory (BB)</td>
<td>100</td>
</tr>
<tr>
<td>Weak (B)</td>
<td>220</td>
</tr>
<tr>
<td>Bad/Financial difficulties (CCC and below)</td>
<td>400</td>
</tr>
</tbody>
</table>
Output of Financial/Economic Evaluation

*Setting financial conditions to approve the project: i.e.:
Increased capital*

*Setting the type of collateral*

*Establishing Rating Category of the company (According CE Communication for setting reference and discount rates)*
CDTI Executive Board meets on monthly basis to, among other actions, approve CDTI R&D projects.

What's approved:

- Projects' budgets
- Financial conditions
- Maximum CDTI contribution
- The Gross Grant Equivalent (GGE)
In one hand the Gross Grant Equivalent (GGE) calculated at the moment of the project approval

\[ \text{Total budget approved} = \text{CDTI contribution} + \text{Company's funding} \]

\[ = \text{The non-refundable tranche of the loan (a grant)} + \text{the subsidised interest of the loan according to each financial evaluation} \]
... and in the other hand the payment system assures that all certificated projects have been performed

The payment system

• is based on the reimbursement of costs already incurred and paid
• rules out any risk for the EC that may arise from the non-performance of the project or the non-reimbursement of the loan by the beneficiary.
This financial aid can be certificated to EU managing bodies since

Both aid measures included un GGE undoubtedly qualify as “transparent aid” as they are precisely calculated ex ante, at the moment of the project approval by CDTI’s Executive Board.

DG REGIO has consistently accepted the GGE of CDTI’s loans as eligible expenditure for ERDF contribution, provided that the declared costs have been incurred by the beneficiary and paid.
Cons

- High managing burden
- Assumption of a financial risk
- Difficult for high growth business
- Payback must be assured
- Not for high-technical risk projects
## Pros

<table>
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<th>Greater rigor</th>
<th>Good funding system</th>
<th>Meets EU requirements</th>
</tr>
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| • For project selection  
  • For granting public aids  
  • For project implementation | • **Sustainable** system for RTD funding (the loans are repaid)  
  • **Wide coverage** (up to 75%) of the project | • **Less aggressiveness** in terms of competition (lower state intervention)  
  • **High leverage** of ESIF funds |
Conclusions

This funding system provides a sustainable and affordable instrument for most of business-led RTD projects.