



# GUIDELINES FOR COMPLETING AN APPLICATION FOR IDA IRELAND RD&I GRANT SUPPORT

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# 1 INTRODUCTION

## 1.1 BACKGROUND

The IDA Ireland grant for Research, Development & Innovation (RD&I) is part of a national R&D support program aimed at developing and significantly increasing company engagement in RD&I activity in line with the objectives set out in The Action Plan for Jobs.

Companies establishing or substantially expanding their existing Irish R&D function can avail of this financial incentive to carry out in-house R&D projects and collaborative projects with third-level institutes and industrial partners.

It is intended that, through this financial support, companies will be encouraged to grow competitively by increasing their research, development and technical innovation activities and that the quality and quantity of R&D linkages between companies both nationally and internationally will be increased. Specifically IDA Ireland envisages that companies utilising this RD&I grant aid will be aiming towards achieving the following:

- Increased strategic relevance of the Irish operation within the corporate group structure;
- A significant, ongoing/established R&D budget;
- A demonstrable connection between R&D activity and commercial outputs;
- An established R&D team with high level skills;
- High quality facilities for R&D;
- Formation of robust R&D quality management systems;
- Position the Irish operation optimally to win future higher value/more strategic investments with potential for economic impact;
- Develop a culture of innovative thinking throughout the company which aims to harness the creativity of all the staff towards defined business goals.

These guidelines are intended to assist in the completion of the application form for RD&I grant aid from IDA Ireland.

## 1.2 AIMS OF RD&I GRANT AID

The aims of the RD&I grant aid are to:

- Help manufacturing and service firms to develop innovative products, processes and services;
- Increase the number of companies performing R&D in Ireland;
- Increase the scale of the investment in R&D in Irish operations;
- Increase the number of companies in Ireland doing R&D for the first time;
- Ensure Irish based companies, protect their futures by helping them reach and exceed European and international norms for R&D investment;
- Increase the quantity and quality of the R&D linkages between companies and academia, either in Ireland or internationally, through collaborative research programmes.

## 1.3 FORM OF AID

Funding will be in the form of an R&D grant which will be a percentage of the overall eligible costs of the project, the percentage is determined on a case by case basis. The grant will be paid by IDA retrospectively following completion of agreed milestones as outlined by the company in the application form and agreed in the subsequent legal agreement on terms and conditions of the grant.

## 2 ELIGIBLE PROJECTS

### 2.1 APPLICANT ELIGIBILITY

The RD&I grant is open to application by existing and potential clients of IDA Ireland.

The programme is also open to support B2B<sup>1</sup> collaborations (MNC-MNC and MNC-SME<sup>2</sup>). In the case of companies where there is collaboration between companies in different countries, only the eligible R&D costs of the Irish based activity will be considered for support under this RD&I grant. In all cases, each applicant company in the collaboration must independently complete a full RD&I grant application.

### 2.2 R&D PROJECT DEFINITION

A 'R&D project' means an operation that includes activities spanning over industrial research or experimental development (see section 2.3), and that is intended to accomplish an indivisible task of a precise economic or technical nature with clearly pre-defined goals.

RD&I projects must satisfy the following criteria:

- Are an integral part of the strategic development plans of the company rather than routine developments;
- Contribute to a sustained process of innovation within the company;
- Have well defined plans to commercialise the results of the R&D (typically within one year of completion of the project);
- Represent an advance in the level of technical innovation relative to the company's current products/processes;
- Are designed to help the company meet market requirements, especially in the area of higher added value products with increased functionality and benefits;
- Clearly show how companies have planned to undertake the project, particularly in relation to the resources required to develop the project.

### 2.3 ELIGIBLE ACTIVITIES

Projects which relate to products, processes or services which can be defined as experimental development or industrial research are eligible for support. Projects may contain one or more of these categories i.e. it may share elements of experimental development and industrial research. A description of each category is given below.

#### **Experimental Development**

'Experimental development' means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services. This may also include, for example, activities aiming at the conceptual definition, planning and documentation of new products, processes or services.

Experimental development may comprise prototyping, demonstrating, piloting, testing and validation of new or improved products, processes or services in environments representative of real life operating conditions where the primary objective is to make further technical improvements on products, processes or services that are not substantially set. This may include the

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<sup>1</sup> For applications involving B2B (Business to Business) collaborations please consult with your IDA Executive before initiating the application process to discuss process and options.

<sup>2</sup> For collaborations that engage with SME's (small medium sized enterprises) of indigenous origin, IDA Ireland's sister agency Enterprise Ireland will be involved in the grant aid process as they hold the legal remit to support the indigenous component of the proposed R&D activity. The B2B model proposed by the company will be discussed with the IDA Exec and the company will be advised on how to incorporate this activity into their RD&I application.

development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes.

Experimental development does not include routine or periodic changes made to existing products, production lines, manufacturing processes, services and other operations in progress, even if those changes may represent improvements.

### Industrial Research

‘Industrial research’ means the planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services or for bringing about a significant improvement in existing products, processes or services. It comprises the creation of components parts of complex systems, and may include the construction of prototypes in a laboratory environment or in an environment with simulated interfaces to existing systems as well as of pilot lines, when necessary for the industrial research and notably for generic technology validation.

## 2.4 INELIGIBLE ACTIVITIES

It is not the aim of this initiative to fund routine or periodic changes to products, production lines, manufacturing processes, existing services and other operations in process, even if such changes may represent improvements. Projects involving routine transfer of well-established technology to a new site are not eligible for R&D grant aid unless a case can be made that significant technical uncertainty must be addressed.

R&D Centres are typically not supported using this grant aid. Support in the form of a capital grant under the [Regional Aid Guidelines](#) may be made for the creation of a R&D Centre. Application for support for a R&D Centre should be on the basis of a separate case for support for an expansion project, which is not related to specific R&D projects. Application for R&D Centres is not covered in detail in these guidelines.

## 2.5 APPLICATIONS CONSISTING OF MULTIPLE PROJECTS AND/OR MULTIPLE WORK PACKAGES

An application for RD&I grant aid may consist of one or more R&D projects (as defined in section 2.2). Each R&D project may contain multiple work packages.

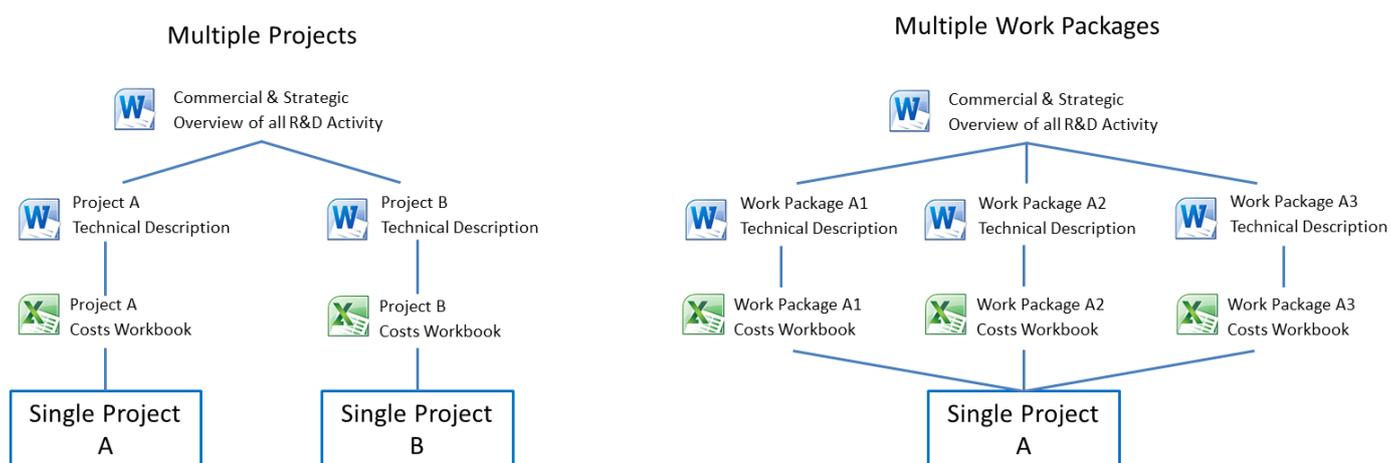


Figure 1 - Multiple Projects V's Multiple Work Packages

Figure 1 shows how the application forms should be used when there are multiple projects and/or multiple work packages.

### **Multiple Projects**

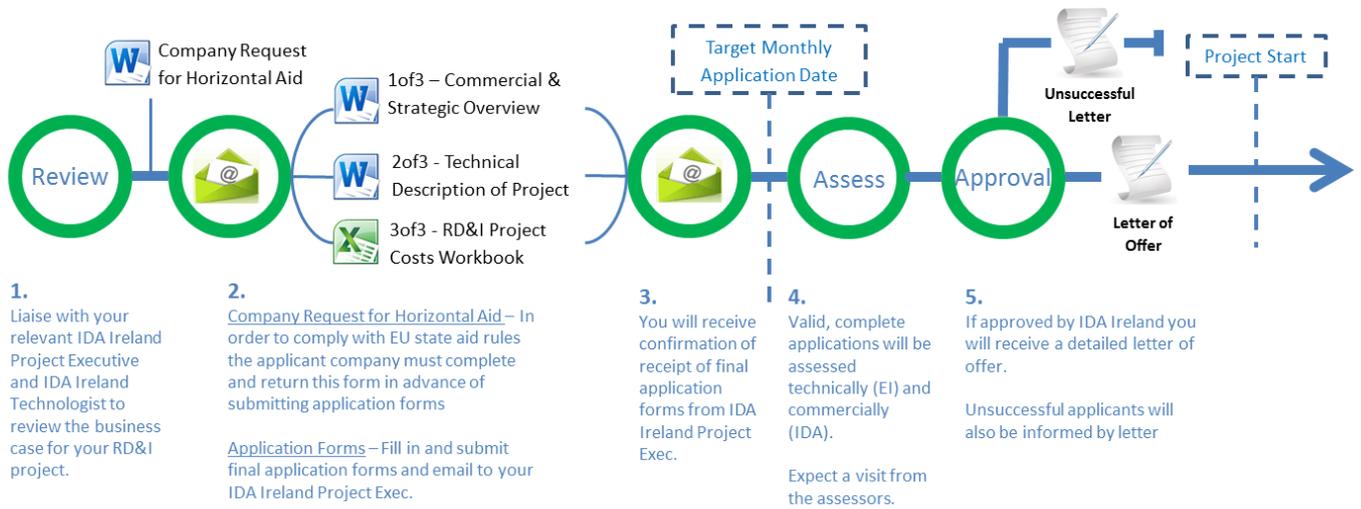
When two or more R&D projects are clearly separable from each other (and in particular when they have independent probabilities of technological success), they are considered multiple single projects. Multiple approved projects are covered under one grant agreement. There is no mechanism to transfer costs between projects if one was under-estimated and another over-estimated.

### **Multiple Work Packages**

A R&D project may consist of several work packages that aim to achieve one or more of the project objectives. For applications with multiple work packages the interdependence of each work package, technical and/or economic, should be clearly described in the Commercial & Strategic Overview document (under “Overview & Scope of Proposed R&D Activity”).

Please consult with your IDA Executive who can guide you on how best to categorise your proposed activity if there is any uncertainty.

### 3 APPLICATION PROCESS



#### IDA Ireland’s Supporting Documentation



Figure 2 - IDA Ireland's RD&I application process

Figure 2 above details the different stages of the application process. The RD&I grant application process can be broken down into three distinct phases; engagement & application forms (section 3.1), assessment (section 3.2) & approval (section Error! reference source not found.).

#### 3.1 INITIAL ENGAGEMENT & APPLICATION FORMS

Prior to completing any forms a company should discuss the proposed R&D activity in detail with their relevant IDA Ireland Project Executive and IDA Ireland Technologist.

To formally initiate the process the company needs to complete the ‘Request for Horizontal Aid’ form and return it to IDA Ireland in advance of completing application forms.

The application has several forms, which are listed in Table 1.

FORM	DESCRIPTION
<b>1 of 3 – Commercial &amp; Strategic Overview of Proposed Activity</b>	This form should be filled in by a person with commercial knowledge of the company and the markets that they operate in (e.g MD, Financial Officer, Business Development). The purpose of this form is to set the commercial and strategic context for the R&D activity. The information provided enables IDA Ireland assess how the R&D activity is an integral part of the strategic development plan of the company and the potential for commercial return. These are both key elements when determining the funding decision and funding amount.
<b>2 of 3 - Technical Description of Project</b>	This form should be filled in by a technical person in the company, ideally the technical lead on the project. The purpose of this form is to provide a detailed technical description of the project and capture the various project planning elements required to successfully deliver the required outcome. The external Technical Assessor will use this technical document to establish whether the activity is sufficiently “innovative” and “risky” to warrant public investment support.

<b>3 of 3 - RD&amp;I Project Costs Workbook</b>	This spreadsheet is used to capture the costings for the proposed RD&I Project. For a more detail on the eligible costs and costing models used refer to section 0. The external Technical Assessor will use this document to ensure eligible costs are aligned with comparable industry norms.
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Table 1 - Documentation required for RD&I application

The application can be held in draft for discussions and revision until the client is satisfied it reflects the work program proposed and IDA Ireland are satisfied that all required information is present.

The documents should then be submitted to the dedicated IDA Ireland Project Executive via email. The application will not be processed until all sets of documentation are received by IDA Ireland. The applicant will receive an email to acknowledge receipt of supporting documentation with guidance on next steps and timelines if not already discussed and agreed.

## 3.2 ASSESSMENT PROCESS

### External Technical Assessment

The IDA will assign an independent technical assessor to evaluate the project. That person will be under strict non-disclosure terms and is usually either a Technologist from another state agency (Enterprise Ireland) or an academic from an Irish University.

The goals of the technical assessment process are to;

- a) establish the eligibility of the project for funding support with reference to EU state aid regulations (see section 7.3);
- b) provide a technical assessment report to the IDA as input to the committee in making the funding decision;
- c) determine the project costs that are eligible for grant support.

The assessor will look to set up a meeting with one or more **technical staff** from the applicant company to review the project plan. The normal agenda of a technical assessment is;

- understand current R&D activity;
- review the overall goal of the proposed R&D activity and the technical approach;
- review the technical activities and the challenges involved;
- discuss the innovative aspects of the project and the resources need for successful delivery;
- understand the expected outputs and the plans towards commercialisation of R&D outputs.

The face to face meeting format is an informal technical discussion rather than a PowerPoint presentation. A demonstration or tour of existing systems may be appropriate to give context.

The assessor will also want to talk through the project costs. This is often done with members of the company's finance team and could be done either as part of the same technical assessment meeting or as a separate meeting.

After the meeting(s), there may be updates required to the project plan and/or costs to be sent to the technical assessor as input to his/her report. The technical assessor will submit an evaluation report to the IDA establishing the eligibility or otherwise of the project and providing a comment to the IDA on the 'technical quality' of the project as well as a determination of the allowed project costs.

## **IDA Ireland Assessment**

The IDA Ireland approving committee/authority in making its decision on a Company's funding rate, will take into account an assessment of the technical, commercial and financial merits of the project as well as the need for state intervention (section 7.3) and the incentive effect of the grant aid (section 7.4). The approving committee/authority will be presented with an assessment of the project by the Project Executive, which incorporates commentary on the following assessment criteria:

- Value for money for the State taking into account the performance against targets set in previous investments, the quality of this project compared to previous R&D projects and the overall amount of State funding received by the company in the last seven years;
- How the proposed activities are additional to the current level of R&D activities and lead to a sustainable increase in R&D as a % of sales;
- How the R&D plan is an integral part of the strategic development plan of the company;
- Financial track record of the company;
- Development needs of the company;
- Previous track record in implementing previous State funded R&D projects (if any);
- The increase in R&D capability within the company;
- Technical feasibility of the project;
- Quality of project planning and costing;

Additional information will be required by the IDA Ireland Project Executive upon submission of application forms in order to supplement the assessment of your application by IDA Ireland, this includes:

- The company's most recent audited and management accounts (P&L and Balance Sheet) should be forwarded with the application;
- Detailed group structure (if applicable);
- Full company financial projections;
- Cashflow projections.

### **3.3 TIMEFRAME**

Applications are processed on a monthly basis. The typical approval time frame from target monthly application date to a project being presented at committee is dependent on the grant amount and is detailed in Table 2:

<b>Grant Amount</b>	<b>Approval By</b>	<b>Typical Timeframe</b>
Greater than €7.5m.	Government	8-10 weeks
€500,000 to €7.5m	The IDA Ireland Board	6-8 weeks
Up to €500,000 per project.	The IDA Ireland Management Investment Committee (MIC)	4-6 weeks

**Table 2 - Typical RD&I time frame from monthly call close to approval decision**

All applications will be subject to a technical assessment by an independent assessor. Therefore, within the timeframes detailed in Table 2 a defined set of action items need to be completed. In order to adhere to these defined deadlines, the company is asked to facilitate the Technical and Commercial assessor (IDA Ireland) both in terms of having early meetings and in providing all necessary information as requested. The indicative assessment timelines are subject to the availability of an appropriate external technical assessor. The company should not make any spend on proposed activity prior to IDA approval of the grant (see section 7.4).

## 3.4 IMPLEMENTATION OF APPROVED INVESTMENTS

Projects should begin within six months of the formal approval, otherwise approval may be withdrawn. Projects approved for aid must be completed by the deadline for completion stated in the grant agreement or by the revised deadline where an IDA Ireland approved extension has been granted. If a time extension is required to complete the proposed activity, the company is advised to contact the dedicated IDA Ireland Project Executive to discuss as soon as possible.

If the project is approved by IDA Ireland the company will receive a detailed letter of offer and will be issued with a Grant Agreement.

### **Stage 1**

- Company sign Grant Agreement. Use as reference for grant payment submission;
- Company receive a copy of the Technical Assessment from the IDA Project Officer. This one page reference document gives guidance to the client companies on the expenditure allowed in each of the approved categories.

### **Stage 2**

- Company compile expenditure for submission to IDA. This compilation of expenditure should be based on the milestones defined in the grant agreement. Milestones can be grouped together to reduce administration.
- Company complete relevant IDA forms (see website for checklist & forms);
- Company engage Auditors to review grant claim in accordance with M45 document;
- Auditor & Company submit claim to IDA Grant Payments (original & soft copy).

### **Stage 3**

- Your Grant Payment Inspector will review the claim and seek clarification if necessary;
- If all is in order, the Grant Payment Inspector picks a sample of items from the forms submitted for inspection. A grant inspection date is agreed with the company;
- The inspection consists of:
  - Review sample of invoices, bank statement to ensure they are in grantee name and within the time period of the project;
  - Review pay slips, timesheets and gross to net;
  - Physical inspection of capital items;
  - R&D team update on the project to ensure project on track and the expenditure is in line with the original technical assessors report;
- Grant Payment Inspector also requests that the IDA Project Officer approve the Company's (1) Milestones (2) Annual Audited Accounts.

### **Stage 4**

- Grant Payment Inspector recommends payment;
- Authorisation of your claim and submit to Finance Department for payment.

## 4 ELIGIBLE COSTS

It is a requirement of the [State Aid rules](#) under which this initiative is approved that the **project must not have commenced** prior to the company receiving grant aid approval for the proposed activity.

Table 3 details the typical expenditure limits for each spending category of a R&D Project.

Expenditure Category	Expenditure Cap (% of Total Project Expenditure)
Overheads	30% of personnel costs
Consultancy	10%
Travel & Subsistence	No % (See Section 4.4 indicative spending)
Materials	20%

Table 3 - Typical Expenditure Limits

When the requested expenditure exceeds these limits, a comprehensive justification should be provided.

### 4.1 PERSONNEL COSTS

Annual salary costs for personnel e.g. researchers, technicians and other supporting staff to the extent employed on the project are eligible. Base salary is the only allowable cost. This includes employee's PRSI but excludes employer's PRSI, bonuses, pensions or any other benefits. This category is only for personnel employed by the grantee company (the Irish entity).

Personnel costs cover R&D staff and a proportion of R&D management only. Senior management oversight of the R&D project is considered to be an overhead cost rather than directly attributable as either a personnel or consultancy cost.

Break down the number of people in each role over the lifetime of the project on a monthly basis (as per personnel sheet in Form 3 of 3 - RD&I Project Costs Workbook). Month 1 can be treated as the start month of the project or as the start of the calendar year, whichever is most appropriate to the applicant. Additional months should be added into the sheet as necessary.

### 4.2 OVERHEAD COSTS

The overhead is calculated automatically and added to the salary costs in the Forecasted Draw-Down Sheet in form 3 of 3 - RD&I Project Costs Workbook.

Overheads are calculated at 30% of the eligible personnel costs and cover categories such as; employer's PRSI (social insurance), bonuses & benefits, recruitment costs, heat, light, rent, phone costs, administration staff (reception, HR, finance).

There is no need to provide a detailed breakdown of overheads.

### 4.3 CONSULTANCY COSTS

The cost to the company for availing of technical consultancy or contractual research from third parties (an individual, a company or a 3<sup>rd</sup> level organisation) is eligible in so far as it relates to the technical aspects of the development project.

Consultancy should be about bringing in new skills/capability to the R&D team in Ireland. It should be clearly demonstrated that this is a short term measure. Only consultancy time spent in Ireland with the team is considered to be eligible; this is not about

helping to fund part of the R&D team elsewhere. Some level of contract R&D staff based in Ireland working directly for the grantee company may be eligible, as long as there is a clear plan to bring the roles in-house.

Costs can be included for:

- Testing costs as part of the product/service development;
- Input from technical consultants;
- External consultant to help implement the R&D project;
- Design Costs - Industrial design costs are normally considered an eligible cost as part of an overall development project. The company must be able to make a clear distinction between the proposed design input and the normal routine design activity of the company (which are ineligible for support). The use of designers, either internal or external to the company, will be covered in these cases in so far as they relate to a specified R&D programme
- Funding towards market-led research/consumer focus panels is eligible where there is a clear requirement for the results to be used to develop the product/process which is the objective of the R&D project. Projects consisting solely of market-led research/consumer focus panels/consumer reaction to products which are not integral to the R&D project are not eligible.

Note:

- Training is not an eligible activity as part of an R&D project;
- Original invoices for all consultancy will be required for grant claims. To ensure value for money it is suggested that clients seek three competitive submissions for consultancy assignments where the consultant’s fee is €25,000 or more – payment of grant is conditional on receipt of supporting documentation so that the inspection team can evaluate if the submission chosen represents value for money;
- Consultant costs should be a modest portion of the overall project costs (typically <10%). Further clarification will be required for unusually high levels of consultancy costs;
- Consultants daily rate should be inclusive of all travel and subsistence expenses;
- All costs should be entered in Euros, if applicable the FX rate should be detailed under “rationale for cost estimate”.

#### 4.4 TRAVEL AND SUBSISTENCE COSTS

When completing the travel and subsistence costs, fill in the best estimate of how many trips are expected to take place, for how many people and for how long. The following travel and subsistence expenses are indicative of maximum allowable amount:

##### **Ireland**

Mileage 60 Cents/Km

Economy Car Hire

Subsistence\*, 24 hr period, €150 per Day

Subsistence\*, Day rate, €60

##### **Overseas**

Economy Air/Rail Fares

Mileage 60 Cents/Km

Economy Car Hire

Subsistence\*, 24 hr period, €200 per Day

Subsistence\*, Day Rate €60

\*For all out of pocket expenses including, hotels, meals, taxis, local fares, incidentals etc.

Subsistence can only apply where a person is absent on business at a location more than 8 kilometres (overnights 80km) from their work base.

Note:

- Travel and subsistence for consultants should be included in their daily rate (and not charged separately here);
- Marketing, sales, or training related travel is not eligible for support.

## 4.5 MATERIALS COSTS

The cost to the company for materials is eligible in so far as it relates to the technical aspects of the development project. Enter the most accurate costings available for materials in the RD&I Project Costs Workbook. Quotations should be obtained. Indicate if quotations have been obtained or give a reason as to their absence.

Potential cost recovery must be taken into account and deducted from the project costs. This applies to materials for prototyping, either through the sale of prototypes or as scrap value or other residual value to the materials beyond the term of the R&D project.

Software licenses for the project may be eligible, as may software hosting costs as long as they can be clearly justified and required for the R&D project

Production or operations materials are not eligible (e.g. buying production software licenses for example)

Note that original invoices for all materials will be required for grant claims

## 4.6 CAPITAL DEPRECIATION

Support for specific capital assets is subject to the following criteria being met:

- The items are essential for the successful completion of the R&D activities described in the application;
- The time that the asset is specifically used on the R&D activities is supportable.

A linear depreciation model is assumed and is the default used in application form 3 of 3 - RD&I Project Costs Workbook, see Figure 3 below. A company's own audited depreciation model used in their financial reporting may also be used.

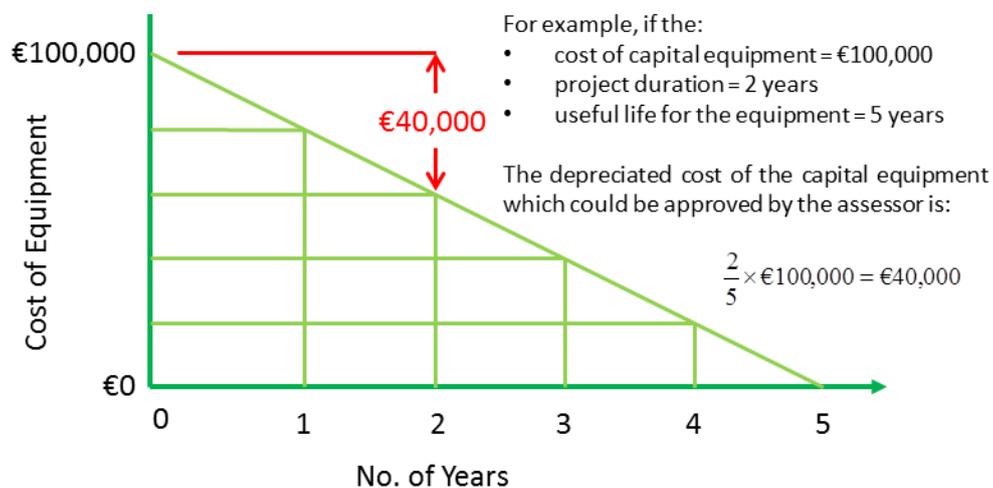


Figure 3 - Diagrammatic representation of capital depreciation

### Building Costs

Eligible costs of buildings are limited to the extent and for the period they are used in the research project. If such assets are not used for their full life within the research project, only the depreciation costs corresponding to the life of the research project, as calculated on the basis of good accounting practice, are considered as eligible. If the company has a formal depreciation policy agreed with its auditors, these figures may be used. Generally, buildings are depreciated over 20 years.

Buildings costs may be eligible in some cases, where the costs are for dedicated **new** R&D space for the team. Costs in this category may include some minimal level building fit-out for the R&D if applicable, however this would not extend to costs such as kitchen fit-out, etc.

### **Equipment costs**

Eligible costs for equipment are limited to the extent and for the period they are used in the research project. If such assets are not used for their full life within the research project, only the depreciation costs corresponding to the life of the research project, as calculated on the basis of good accounting practice, are considered as eligible. In accordance with the EU guidelines for R&D capital grants, the depreciation in years (useful life) for equipment is 5 yrs. For ICT capital costs (including software & software licenses costs) a shorter appropriate number of years could be used, e.g. 3 years.

All costs in this category must be ex-VAT (sales tax). All equipment must be physically housed in Ireland for it to be eligible and original invoices will be required for grant claim.

Production or operations equipment are not eligible although some proportion may be considered if the equipment is used exclusively for the R&D activity for a period of time. Rental of equipment for the period of the R&D activity is covered in Materials Costs.

Equipment often includes computers and servers for an R&D project but these must be justified as required for the R&D. Costs of software purchased outright (perpetual licences, with no recurring cost) may also be entered in this category if required for delivery of the R&D project. For rented software or software as a service, use the materials category.

Quotations should be obtained.

## **4.7 OTHER COSTS**

The applicant is urged to consult with the relevant IDA Ireland Project Executive if the guidelines above do not include all aspects of a potential application.

## 5 INTELLECTUAL PROPERTY MANAGEMENT

The RD&I grant supports in-house R&D, as a result all intellectual property resulting from activities supported by this fund resides with the applicant company.

Note: A Tax Rate of 6.25% will apply to profits arising to certain Intellectual Property Assets which are the result of qualifying Research & Development activity carried out in Ireland. Consult with IDA Ireland for more information on the [Knowledge Development Box](#).

## 6 REPEAT APPLICATIONS

In the case of companies who have previously carried out State supported R&D projects in the last seven years, the application must demonstrate either:

- a) that there is an incremental increase in R&D spend compared to the previous period; or
- b) the expenditure relates to a strategic shift in R&D for the company where the company is undertaking a significant risk in researching a fundamentally innovative and challenging technology new to the company but where there may not be a significant increase in spend compared to the previous period.

## 7 EU STATE AID

### 7.1 LEGAL BASIS

The legal basis will be the relevant sections of the [1986 Industrial Development Act](#) and [1987 Science and Technology Act](#).

### 7.2 STATE AID BASIS

The State Aid basis for R&D is the [COMMISSION REGULATION \(EU\) No 651/2014](#) of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. [Framework for state aid for research and development and innovation](#) (Brussels, 21.5.2014 C(2014) 3282) details state aid within the meaning of Article 107(1) of the treaty.

The Commission will consider an aid measure compatible with the Treaty only if it satisfies the following criteria:

- a) *need for state intervention*: a state aid measure must be targeted towards a situation where aid can bring about a material improvement that the market cannot deliver itself, for example by remedying a **market failure**.
- b) *incentive effect*: the aid must change the behaviour of the undertaking(s) concerned in such a way that it engages in additional activity, which it would not carry out without the aid or would carry out in a restricted or different manner or location.

### 7.3 DEMONSTRATING THE NEED FOR STATE INTERVENTION

RD&I activities are characterised by a high degree of uncertainty. Under certain circumstances, due to imperfect and asymmetric information, private investors may be reluctant to finance valuable projects and highly-qualified personnel may be unaware of recruitment possibilities in innovative undertakings. As a result, the allocation of human and financial resources may not be adequate and projects which may be valuable for society or the economy may not be carried out. In certain cases, imperfect and asymmetric information may also hamper access to finance. However, imperfect information and the presence of risk do not automatically justify the need for state aid. Projects with lower private returns on investments not being financed can very well be a sign of market efficiency. Moreover, risk is part of every business activity and is not a market failure in itself. However, in a context of asymmetric information, risk may exacerbate financing problems.

#### **1 of 3 – Commercial & Strategic Overview – Justification of Grant Aid.**

Comprehensive commentary on the need for state intervention must be provided in 1 of 3 – Commercial & Strategic Overview – Justification of Grant Aid. The cause of failure could be general regarding R&D activity in the EU or specific to the particular EU industry sector. Examples of inhibitors to success include:

- High element of technical or commercial risk;
- Complexity of research proposed;
- High level of up-front investment required;
- Length of time to achieve break-even point;
- Difficulty in protecting research output e.g. IP protection;
- Difficulty in sourcing required finance from the market;

#### **2 of 3 – Technical Description of Project**

A comprehensive commentary on the degree of technical challenge and the technical uncertainties should be provided in form 2 of 3 – Technical Description of Project.

IDA and the technology assessor must take a view on the technical challenge that is presented by R&D projects as this “degree of technical challenge” will be one of the criteria used to determine the level of grant support. The degree of technical challenge of a project is often influenced by the nature of underlying platform technologies employed. A complete description of these platform technologies is useful demonstrating how:

- the project represents a step up in capability by applicant; and

- the technologies can potentially underpin the development of a pipeline of products, services or processes.

In completing the section on uncertainties and technical risks in this form, consider whether the company faces uncertainty due to:

- First time technology has been employed in industry (uncertainty relating to utility/implementation);
  - First time technology has been employed by the Company and/or by the Irish subsidiary and there is a lack of published data from competitors (uncertainty relating to implementation);
  - First time this technology has been employed in the “field of use” by the industry (e.g. first time using this technology for a specific product/service/process);
  - A unique and untried combination of novel technologies will be employed (combinatorial uncertainty);
  - Need for the team to make significant changes/improvements/customizations to the technology to support development of new products/services/processes;
  - Risk factors beyond scope of this project may limit return on investment from this project: Technology platform may be surpassed by another platform or Product/Service under development may not gain market acceptance/regulatory approval;
  - Company undertaking a degree of open innovation – collaborating with outside partners with potential to lose some control of project and forfeit some ownership of foreground IP.
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- First time that the Irish subsidiary has had responsibility for implementing the technology platform
  - Technology has been used before but a significantly improved version exists and Irish subsidiary is seeking to assess its utility
  - Technology has been used before but requires modification for a new area of application
  - Need for the Irish team to invest in research to make improvements to the technology platform and support improvements to products/processes
  - Factors beyond scope of this project may limit return on investment from this project e.g. Technology Platform may be surpassed by another platform or the Product/Service under development may not gain regulatory approval (if needed) or market acceptance.

#### 7.4 DEMONSTRATING THE INCENTIVE EFFECT

An incentive effect occurs where the aid changes the behaviour of an undertaking in such a way that it engages in additional activities, which it would not carry out or it would carry out in a restricted or different manner without the aid. The aid must however not subsidise the costs of an activity that an undertaking would anyhow incur and must not compensate for the normal business risk of an economic activity.

**The Commission considers that aid does not present an incentive for the company wherever work on the relevant R&D activity has already started prior to the aid application by the company to IDA Ireland. Where start of works takes place before the aid application is submitted by the company to IDA Ireland, the project will not be eligible for aid.**

##### **1 of 3 – Commercial & Strategic Overview – Justification of Grant Aid.**

The Incentive effect should also be demonstrated in in 1 of 3 – Commercial & Strategic Overview – Justification of Grant Aid. The company must show that the grant aid will result in at least one or more of the following;

- A material increase in the size of the project; or
- A material increase in the scope of the project; or
- A material increase in the total amount spent on the project; or
- A material increase in the speed of completion of the project.

**END OF DOCUMENT**