Instruction for completing Annex 4 to the application FDW16 – second call

Financial sustainability and revenue model

General

1. The template for Annex 4 "Financial sustainability and revenue model" is used to present the revenue model(s) or business case(s), related to the project proposal. Besides a commercial business case, other revenue models are also possible, such as a non-commercial revenue model (e.g. income through tariffs and taxes, other local funding), cross subsidy etc. The model also takes into account project proposals that have no (clear) revenue model or one later in time during the project period. In the latter case the cash-flow statement has to be filled in as much as possible and the revenue model for those years for which it is relevant during the project period. In the project proposal the revenue model(s) targeted by the project need to be further explained.

_N.B. The meaning of the terms revenue model and business case are not (very) different from each other. Hereafter, only the term ‘revenue model’ is used, yet it can also be read as ‘business case’._

2. Please fill in the templates (for the full nine years) and provide a narrative on the revenue model in the project proposal, Annex 1, paragraph 4.1.

3. The forecast period as filled out in the templates has to be _nine years_, instead of the duration of the project period plus two additional years.

4. Cash revenues (cash-flow) and sales (Profit & Loss = P&L) must be filled in as positive numbers and expenses (cash-flow) and costs (P&L) as negative numbers in the model.

5. The first tab of the template, ‘Application sheets’, contains three overviews:

   1) “The cash flow forecast total project” shows us all the financial flows of the project, such as cash revenues, expenses and financing.

   2) “The P&L forecast primary revenue model (= project business case) is the operating base of the project and related to the project activities of the project partners. “Cash-flow forecast total project”, is financially closely related to the P&L forecast primary revenue model.

   3) “The P&L beneficiary revenue model” is the outcome of the project and as such a stand-alone financial revenue model. This entails the revenue model not ‘owned’ by one or more of the project partners or directly invested in by the project. For example a revenue model at the level of beneficiaries, such as SME’s, farmers etc.
6. The most important income and cost items must be specified at tab 2 (Cash-flow income or revenue), tab 3 (Operational cash-flow expenditures), tab 4 (Other cash-flow items), tab 5 (P&L: Operational costs) and tab 6 (capital expenditures and depreciation). These tabs are a tool to complete the application sheet properly (tab 1). Note: The application sheet and the tabs are linked to each other via formulas. The blue indicated cells in tab 1 to tab 6 have to be filled in, other (coloured) cells are connected via formulas.

With this call it is an obligation to describe the underlying assumptions. Below every tab there's a special section for this purpose.

7. The numbers to be filled in must be fully assignable to the project. In the Cash flow forecast the figures refers to the cash flows that are directly attributable to the project. In the primary and beneficiary revenue models the figures refers to additional (incremental) incomes and costs which are a direct result of the project.

8. The total project proposal may consist of several revenue models. If the proposal contains more than one primary and/or beneficiary revenue model (e.g. a secondary one) please contact RvO.nl for advice and support to adapt the model into more revenue models. It is also recommended to use more Annex 4 models (one Annex 4 for every revenue model, if possible). Contact RVO.nl also, if you notice the structure of the templates is not well-suited to your type of project.

9. The P&L template applies to a revenue model. Revenue models may not always lead to operational sustainable entities. If not operationally sustainable, other financial sources should ensure that the project results are sustainable.

10. Financial reporting years are not necessarily calendar years; for example in case of a broken fiscal year.

11. The financial reporting years of the P&L of the beneficiary revenue model may differ from those of the project cash-flow / revenue model(s).

12. All forecasts are without inflation and V.A.T.

13. All figures are presented in Euro's (specify the exchange rate used between euro and the local currency). Specify this at the top of tab 1: Application Sheets.

14. The model is designed to check the financial sustainability of the project and the operational sustainability of the different revenue components. The check on "non-commercial viability" of the project as a whole will be reviewed on the total subsidy application, as additional to this model.

15. In-kind contributions in relation to the project are also part of the cash-flow forecast. In the cash-flow forecast the in-kind expenses must be filled in at "Staff hours in kind" (item 5 of Application sheet, tab 1).

16. In the sheet 'Application Sheets': The cash items "Cash-in from sales and operational cash expenditures (items 1+2)" on one hand and the P&L items: "sales and operational costs (items 11+12)" on the other hand are normally not equal to each other. The difference in most cases is caused by balance sheet items such as accounts receivables and payables, which makes income not directly a cash-revenue and which makes costs not directly an expenditure.
However, for simplicity reasons, the model does not take into account “accounts receivables and payables”. As a consequence “cash-in from sales (item 1)” and “sales in P&L (item 11)” are equal to each other.

Yet, in this model, “operational cash-expenditures (item 2)” and “operational costs (item 12)” will probably differ from each other, only because of investments of stock in “raw materials”.

17. An example of a filled in “financial sustainability and revenue model” template is available at the FDW site (http://english.rvo.nl/fdw) and can be used to get a better understanding of the model and template.

1. Cash-flow forecast: total project

Explanation about the cash-flow statement:

1. The cash-flow statement provides a check on financial sustainability of the project. In other words, it shows how much the proposed project (i.e. revenue model) generates cash by itself (on its own strength), the extent to which funding is required and whether there is sufficient funding provided by the involved parties. Financial sustainability means that after project closure, the operation, maintenance and replacement costs of the project’s output and outcome can be financed without extra donor funding. The accumulated cash is primarily a reserve for replacement and secondary for expansion investments.

2. Working capital items for the operational cash expenditures like purchase of stock and use of raw materials for production are included. For simplicity reasons items like accounts receivables and payables, bank loans and interest are not included. In the event these items or others have a substantial value, it can be reported at other cash-flow items (item 4 and tab 4).

3. Expenses in hardware (item 7) are no costs, but investments if the economic lifetime is longer than one year.

4. Financing from Project partners are split into "co-project financing (item 8)" and "non-project financing (item 9)"; these refer respectively to ineligible and eligible items in relation to the project proposal. Sources of finance must be described in a narrative in the project proposal (Annex 1 to the application, paragraph 4.1). N.B. financing from project partners refers to fresh money and may not be capital that is reinvested from the project revenues.

5. Be sure that all Eligible cash-items (items 5 to 7) and the Financing items 8 to 10 in this model are consistent with Annex 3 to the application (Project budget).

6. Cash surplus or deficit before project financing shows whether the project proposal itself is running a cash surplus or deficit in a particular year. This result will show something about the status and quality of the revenue model. A (cumulated) deficit can result from the fact that the revenue model is still in the start-up phase, but could also mean that the revenue model is poorly executed or the operational structure is not well-designed. With a surplus the opposite can be the case.

A cash deficit in a particular year can mean that the project needs additional financing. But if sufficient cash-reserves are (still) present, financing can probably be postponed. In this respect the cumulative cash-flow after project financing shows the height of the financial reserves and must always be positive.
A cumulative cash deficit after project financing shows the project is underfunded and urgently needs fresh money.

2. **P&L forecast: Primary (and secondary, and so on) revenue model(s)**

   **Explanation about P&L:**

1. The P&L of the revenue model provides insight into the operational sustainability of the project. Operational sustainability means that the revenue model generates stable and sufficient revenues during and after the project period, which in turn is the basis for financial sustainability of the project.

2. Expenses made for Staff hours and Subcontracting as well all expenses made during the inception phase, are no part of the revenue model. These expenses are only for starting up, analysing or supporting the proposed project, and are no profit- or revenue generators.

3. The model requires standard depreciation periods for simplicity reason. The method used is straight line depreciation without residual values. Depreciation starts in the year of investing for the full annual depreciation part (1/45, 1/15 or 1/7 part of the purchase price, see below), regardless of the time in the year of investing. The following periods are used for different types of investing. At tab 6 of the templates a calculation model is provided to calculate the depreciation values.

   1. **Straight line depreciation in 45 years for the following investments:**
      - Static water infrastructure (water supply network, drainage, sewerage, water purification based on filtration, dams, etc.).
      - Existing buildings, construction and renovation (offices, warehouses, factories, pump houses and sanitation buildings, paving and fencing, etc.).

   2. **Straight line depreciation in 15 years for the following investments:**
      - Dynamic water infrastructure (moving parts and / or mechanical power: pumps, valves, purification based on mechanical-electrical, compressors, etc.).
      - Industrial plants (production machinery, silos, conveyor belts, cooling warehouses, cranes, etc.)

   3. **Straight line depreciation in 7 years for the following investments:**
      - Office furniture and computers.
      - Transport (passenger cars, trucks, forklifts).
      - Equipment and tools.
      - Sanitary facilities (toilets, sinks, water taps, etc.).

In certain context the abovementioned depreciation standards may not apply. If so, consult a RVO.nl advisor on how to deal with this.

3. **P&L forecast: Beneficiary revenue model**

1. In order to gain more insight, it is recommended to fill in the figures of only one beneficiary or at least of a small **representative group** within the target group instead of the high cumulated figures of all beneficiaries.

2. For further information, see the explanations as given under the previous paragraph on primary revenue model(s)