Main issues for Economic and Financial analysis (CBA) in the R&D Sector

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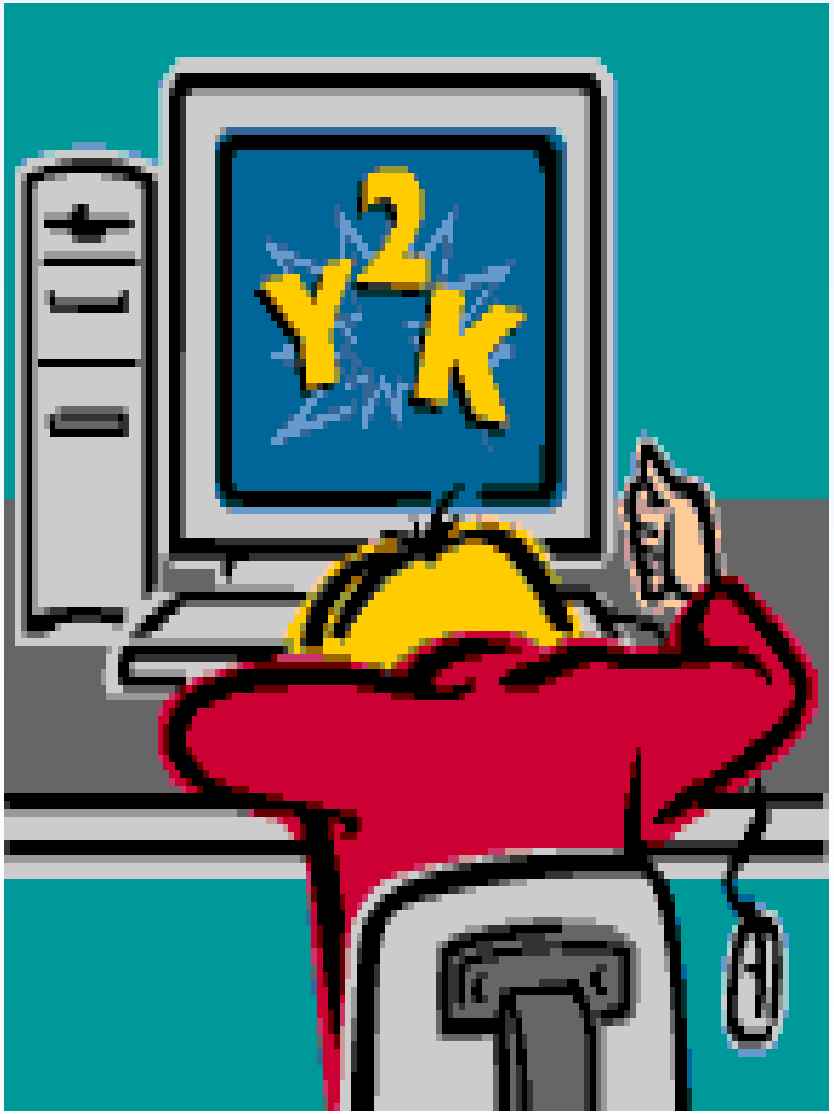
Financial Analysis (Ref. ESOP)

- **Financial Assumptions**
  - Time period 15 years
  - Financial Return 5.0%
  - Accounting System for Audit
  - Macro-economic assumptions (Ref. MEYS)
  - Incremental approach
  - Consistency of data with Technical analysis
- **Investment Cost breakdown (Net of sales of existing assets)**
  - Planning/design
  - Land purchase
  - Building and construction
  - Plant and machinery
  - Contingencies
  - Price Adjustment
  - Technical Assistance
  - Publicity
  - Supervision for construction
  - Financial
- **Operating Cash Flows**
- **Profitability**
- **Funding Gap**
- **Financial sustainability**
  - VAT treatment ex-ante



Operating Cash Flow (ESOP)

- + Operating costs
  - Salary costs management
  - Salary costs research team
  - Material costs
  - Repair and maintenance
  - Services
  - Rent
  - Overheads (full cost approach)
- + Re-investment
  - Buildings
  - Equipment
- - Operational Revenues (Economic Revenues)
  - From contract research
- - Other Revenues (Economic Revenues)
  - From renting
  - From other activities (selling patents)
  - = Operating Cash Flows

Evaluation of financial return on investment (ESOP)

➢ **Table 15: Evaluation of the financial return on investment**

Proposed items	**Years of evaluation**						
1. Investment (project budget)[1]							Res. value
2. Operating costs							
3. Operating revenues							
4. Net cash-flow (=3-2-1)							
Financial rate of return on investment – FRR/C							
Financial net present value of the investment – FNPV/C							
other indicators to be calculated: profitability index, payback period							

[1] inclusive residual value

Evaluation of financial return on capital

■ **Table 16: Evaluation of the financial return on capital**

Proposed items	**years of evaluation**						
1. Investment (project budget)							Res. value
2. Operating costs							
3. Operating revenues							
4. EU grant							
5. Credits (income from loans)							
6. Interests							
7. Loans reimbursement							
8. Fin. C-F (=3+4+5-1-2-6-7)							
Financial rate of return on national capital – FRR/K							
Financial net present value of the national capital – FNPV/K							
other indicators to be calculated: profitability index, payback period							
National contribution = Investment costs – EU grant – credits (income from loans).							

Funding Gap Calculation (ESOP) – Case a: Net Revenue-generating (Art. 55.2)

- **Step 1. Find the funding-gap rate (R):**

➢ R = Max EE/DIC where

1) Max EE is the maximum eligible expenditure = DIC-DNR (Art. 55.2)
2) DIC is the discounted investment cost
3) DNR is the discounted net revenue = discounted revenues – discounted operating costs + discounted residual value[1]

- **Step 2. Find the "decision amount" (DA), i.e. "the amount to which the co-financing rate for the priority axis applies" (Art. 41.2):**

DA = EC*R where
EC is the eligible cost.

- **Step 3. Find the (maximum) EU grant:**

✓ **EU grant = DA*Max CRpa where**

➢ **Max CRpa is the maximum co-funding rate fixed for the priority axis in the Commission's decision adopting the operational programme (Art. 52.7).**

Decision amount: case b) Not-revenue generating (ESOP)

- **Table 18: Community contribution calculation**

	Value in CZK	Value in EUR
Eligible cost (not discounted)		
Public Funding gap rate (100%)	100%	
Decision amount, i.e. the "amount to which the co-financing rate for the priority axis applies" (Article 41 (2)) = (1)*(2) (respecting the maximum public contribution according to state aid rules)		
EU Co-financing rate of the priority axis (%)	85%	
EU Community contribution =	Eligible costs * 85%	