EFFICIENCY ANALISYS OF FINANCING A TOURISTIC DEVELOPMENT PROJECT

ANALIZA EFICIENŢEI FINANŢĂRII UNUI PROIECT DE DEZVOLTARE TURISTICĂ

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Abstract: *Jiu Valley can obtain a priviledged place in tourism. For development and modernization of touristic area Vulcan, authorities from Vulcan city hall have started a development and modernization project of this beautiful touristic area The existence of created facilities from project investments will lead to attraction of a higher number of tourists. But the financing decision and implementatin of the project will be taken after making the economic and financial analysis.*

Key words: *tourism, development, financial economic analysis, efficiency.*

INTRODUCTION

Tourism has a multitude of economic implications because the tourists contribute in sales, profit, jobs, local and national budget incomes, all recorded in a touristic area. Direct effects are produced in the primary sectors of tourism – accommodation, restaurants, transport, leisure and retail. By its secondary effects tourism has an impact over the majority of economic sectors.

Tourism uses approximately 80% of global labour force and also has the largest contribution to taxes and duties. Touristical activity deploys continuously, 365 day per year, 24 hours per day. (Băcanu, 2009, p. 32).

Jiu Valley can obtain a priviledged place in tourism. It has extraordinary mountains – Parang, Straja, Retezat, Sureanu – were development of infrastructure will bring many tourists that want to spend their holiday in Romania. Existent pensions are in a continuous proces of modernization, many of them offering services and conditions that surpass other areas from Romania. The development of the cult for tourism will introduce Jiu Valley and Vulcan city in national and international tourism, as

a particular destination for tourism agencies.

MATERIALS AND METHODS

For development and modernization of touristic area Vulcan, authorities from Vulcan city hall have started a development and modernization project of this beautiful touristic area, a project that consider:

- building two gondolas;
- arranging and complete tooling of five ski slopes;
- constructing the electric power instalation;
- constructing water instalation for producing artificial snow;
- arranging and flagging two mountain tracks;
- arranging a parking lot at the base of the first gondola, respectively at 1300 m benchmark;
- construction of two multifunctional buildings, mountain rescue and mountain gendarme.

By realising the investment, the touristic atractiveness of the area will improve the competitivity related to other similar touristic areas in the country.

The indicators upon the project acts are: tourists number, average accomodation time and expenses per tourist. The implementation of the project will lead to a growth of these indicators and as a result will produce benefits to local economy. International economic literature in the field of tourism projects and the results of implementation of similar projects (touristic infrastructure) shows the fact that indirect and induced benefits represents 50 to 200% of direct benefits. Consequently, the economic impact increases considerably.

The existence of created facilities from project investments will lead to attraction of a higher number of tourist. But the financing decision and implementatin of the project will be taken after making the economic and financial analysis.

Economic analysis is the one that justifies the decision to subsidize or not of the national or comunitary authorities. Financial analysis has the aim only to determine the necessity and the amount of financing.

RESULTS AND DISCUTIONS

Socio-economic ABC analysis

For determining the economic, social and environment performances of the project is necessary to make some corrections, for incomes and also for costs. Updating rate used in economic analysis is 5.5%, different from the one used in financial analysis.

The analisys was made over a 10 years period at incremental level, being taken into account tourists which will use the new ski facilities realised by suggested project. It has been considered the two categories of tourists: registered tourists and unregistered tourists, where in the first category are included only tourists that use the servicies of accomodation structures with touristic function in that area. In the category of unregistered tourists have been included tourists that stay at area residents that offer accomodation, at friends , relations or tourists that come in the area to practice winter sports, mountain hikes or enjoy nature over limited periond of a day.

To make the economic analysis of the project, have been used conversion factors between 0.85 and 1, that were applied on exploitation incomes, respectively on exploitation expenses with the highest rate in the total of expenses – with the personell and utilities. After making these corections, respectively NPV for EUNV and IRR for IREP, were obtained the following values for the indicators:

- Economical updated net value (EUNV) 8 247 209 lei;
- The internal rate of economic profitableness (IREP) 6%;
- Economic balance between benefit and cost (B B/C) 6%.

For the analysed project to be feasible also from the economic point of view, the EUNV must be positive, IREP higher that the rate of economic updates (5.5%), and the balance between benefit and cost higher that 1. Because we obtained a positive value for EUNV and for IREP a percent higher than the rate of economic update used, the project is economic feasible.

The values obtained for these indicators confirm the fact that the project is economicaly efficient to be financed, which means that even the exploitation incomes have been modified and some other exploitation expenses, by applying the conversion factors, the project has a relevant impact, so can receive structural funds.

Financial analises

The objective of financial analysis is to calculate the financial performance of a certain project over the reference period of time, with the target to find the most adequate system of finance. This analysis refers to financial sustenation and long term sustainability, indicators of financial performance.

The incomes will be assured by ticketing for cable instalations, so that the tickets for gondola are different for adults and children; for adults the ticket cost 10 lei return-ticket or 7 lei one way ticket, and for children the tickets are 8 lei round-ticket and 5 lei one way ticket, the schedule being from Tuesday to Sunday from 10 to 18.

The incomes are obtained from the average tariff of tourists. We estimated a growth in number with 3% in the first 5 years, and for the next 5 years a growth of 4%. To these incomes, the average acomodation tariff is taken into account, for those who demand accomodation, also the average daily expense of these tourists, obtaining total incomes.

Total exploitation cost include: cost with operation staff, social insurance, utilities, maintainance and consumable costs, advertising costs. Beginging with the second year till 6th year it is estimated an increase of all categories of costs with 2%, and from year 7 to 10 , agrowth with 3%. To these costs, are added indirect costs generated by collecting waste/turist. Taking into account these categories of costs, it is observed that they have a growing evolution, but lower that exploitation incomes; while incomes grow with 3 and 4% , expenses are growing with 2% respectively 3%.

We calculated and analysed the dynamic indicators of economic efficiency of the project of modernization of Vulcan touristic area.

The updated recovery date is 8.23, so being lower than the duration of operation of 10 years, that means that the project can be accepted so it is efficient.

The updated economic efficiency is 0.37 lei final profit/ 1 invested leu so for this modernization project, the indivative result is favourable, because at 1 invested leu is obtained an acceptable profit of 0.37 lei.

Capital bonds is 174 361 467 lei and the aim is to minimize it. Due to tha total value of investment in modernization project is 170 326 310 lei and we have a higher value that this, can be declared that is an unfavourable situation, the expenses must be reduced so that the capital bonds are as small as possible.

Financial analysis will follow to determine financial profitability of the investment, this implying:

-cash flow must be positve over the entire operation period;

-updated net value must be lower than 0;

-the internal rate of economic profitableness must be lower than updating rate (5%);

-balance between benefit and cost to be lower or at least equal to 1, where benefits refers to incomes obtained by exploitation of investment, and the costs refers to exploitation costs over the reference period.

The indicative financial updated net income was calculated with the updating rate of 5% and we obtained -43 549 190 lei. That means the project is profitable, because an obtained a negative value to this indicator.

The indicative internal rate of financial profitableness was calculated with the updating rate of 5% and is 0.35%. Because is lower than updating rate used for the analysis, 5%, the project can be considered eligible for financing.

The financial balance between updated benefits/updated costs is 0.68. Taking into account that is lower that 1, the two relations anterior presented, also the fact tat on the entire operation period, cashflow records positive values, the project needs non-refundable financing.

In conclusion, can be asserted that the project is profitable and need non-refundable financing, because the profitability conditions have been fulfilled: VNAF < 0, RIRF < 5% ş i BA/CA F < 0.

CONCLUSIONS

A standard analysis of the economic impact follow the cash-flow resulted from the money spent by tourists, firstly to companies and government agencies where tourist spend their money, and on the other hand, to:

- Other economic agents: that supply goods and services to tourism companies;
- Households: that receive payments workng in tourism and adiacent industry;
- Government: by various taxes applied to tourists, economic agents and households.

The attractiveness of Vulcan gorge area, sustained by economic and financial analysis justifies the opportunity of implementing the proposed

project, a fact that recomends sustenation and impementation.

The economic impact of touristic activity is the sum of direct, indirect and induced effects.Implementation of the investment project will ensure the following advantages:

1. Increasing collections from tourism, by increasing the number of tourists that will visit the area;
2. Increasing the opportunities for business in the area, by developing an activity sector that was insufficiently exploited;
3. New opportunities for investments in the area, in sectors like tourism, constructions, commerce, catering;
4. Indirect, growth of local authorities incomes, taxes and fees;
5. Growing the employment rate in the area in economic activities and of course of their wages and reducing unemployment rate.

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