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FINANCING TOURIST ACTIVITY

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Abstract: This paper researches which of the possible financing models (self-financing, loan, mutual fund, issuing securities and leasing) is the most convenient for tourism financing on the grounds of opinions and views of student population. Taking into account that future social and economic development depends on student population, that in every society intellectual endeavor (science and art) exists ever since man exists, that the overall progress of mankind is based on the great intellectual endeavor of former civilizations, as well as the fact that Western Serbia has remarkable natural and anthropogenic characteristics suitable for valorization for the purpose of tourism development, the research questions were formulated and the research was performed. The methods used were: analysis, correlation, deduction and induction. Field research has been of the primary importance and it was based on questionnaires, interviews and in-depth interview.

Key words: financing, tourism, leasing, loan

Introduction

There are several models of financing tourism activities or the tourism industry. Every funding is an investment. Investor, whether a legal entity or natural person, can provide financing for the tourism activities as follows:

- through self-financing
- through mutual fund
- through issuing securities and
- through leasing.

One rather developed model of financing of economic activity including development of tourism as economic activity is leasing. Leasing may be understood as a contemporary and specific model of financing investments though which some assets (devices, machines, equipment etc.) are obtained and used under lease. Leasing positively influences economic growth. In a turbulent surrounding and because of very strong competition in the market, companies,

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tourist organizations and individuals constantly need financing for development of their business activities.

Leasing and loans as debt instruments of companies and individuals, with internally generated financing in the form of undistributed profits or savings and with equity and debt securities issuance, are the most important external sources of financing investment projects in a broad sense. It also is and should be the source of financing of tourism related business activities. Leasing appeared as an alternative model of financing investments at the end of XIX century in practice. The word lease means conveying property for a specified rent. The word at the same time denotes a contract by which one party is obliged to grant (lease) a second party the object of the contract for a specific period or for specific a use (business), while the second party is obliged to pay the specified lease payments (Stakić and Stamatović: 2003).

In order to solve the dilemma what is cheaper to use for project financing, leasing or loan, it is necessary to do qualitative and quantitative (financial) analysis, under the given circumstances. Qualitative aspect of the analysis implies evaluating all the advantages and disadvantages of using these two financial alternatives.

Methodology

The field research was conducted by students of Business-Technical College in Užice and authors by means of interview, survey and in-depth interview from 15 October 2012 to 1 February 2013. The target population were students who were born in 1993, 1992, 1991, 1990 and 1989, and who attend colleges and faculties in Užice and the surrounding area, 100 kilometers far from Užice (Vujović & Jovanović: 2012). The research included students who studied both at state and private colleges and faculties.

Survey participants were 560 students (primarily from Business-Technical College and Teachers' Training Faculty in Užice, but also students from other colleges and faculties in Užice, both private and state). However, for this paper and investigation of its hypothesis, the research included the sample of 320 participants. As for the territory covered, the research was performed in the following municipalities: Ivanjica, Sjenica, Prijepolje, Priboj, Rudo, Čajniče, Višegrad, Bajina Bašta, Ljubovija, Požega, Zlatibor, Čajetina and Užice. The sample was stratified. Stratification was based on age structure of the students (year of birth) and locations where they study. From the total number of 560 students, 320 questionnaires were processed. (Table 1.)

Table 1. Demographic structure of the students included

Gender structure	Number of students	In percentage
Male	115	35.93
Female	200	62.50
Not reply	5	1.57
Total	320	100.00

Source: The research conducted

Results of the research

This part of the paper presents results of the research. The question which was formulated and asked during the interview, and which was subsequently crucial for in-depth interview was: "Which of the offered models of financing tourism business (self-financing, loan, mutual fund, issuing securities and leasing)" is the most acceptable according to you, and which one would you choose for financing tourism related business activities? Majority of the students, 81 of them, or 25.31 %, of the total number included answered that leasing is the most acceptable model of financing, while 63 examinees, or 19.69 %, chose loan.

Table 2. Results of the answers of examinees

Models of financing	Results	In percentage
Loan	63	19.69
Self financing	38	11.88
Leasing	81	25.31
Mutual fund	50	15.62
Securities	28	8.75
No ansver	60	18.75
Total	320	100.00

Source: The research performed

Financing tourism related activities through leasing and loan

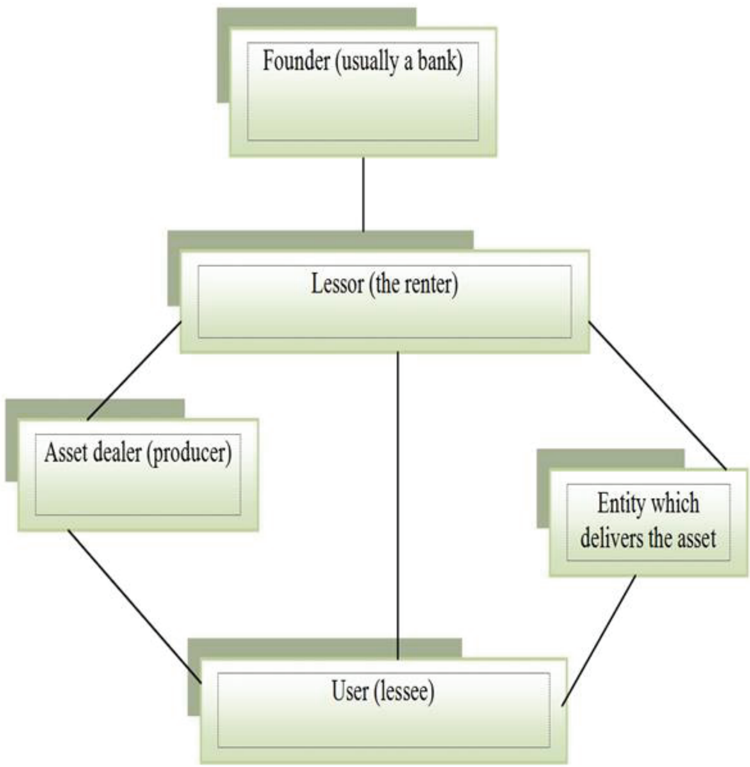
Leasing as the model of alternative financing of investments in tourism as business activity can usually be used (and is used) by those companies, young entrepreneurs and natural persons who do not have capital for buying the necessary and up-to-date equipment crucial for their activities related to tourism, and who cannot apply for a loan for other reasons.

For the companies and entrepreneurs which want to establish and expand their activities, obtaining equipment through leasing is the better solution than loan for at least three reasons:

- the equipment can be used as long as profitability of its results-products is at a satisfying level;

- after expiration of the lease contract, the equipment can be replaced by even more up-to-date equipment;
- after expiration of the lease contract the user will decide whether to keep the equipment in his possession or not.

Figure 1. Lease contract parties



The advantage of leasing as a model of financing investments is that it enables investors to use modern and expensive equipment even though they do not have capital of their own. The obligations arising from the lease contract through which the equipment and modern technology that the investor (legal or natural person) needs are purchased, are paid from the capital made by that new equipment under lease. For some investors this may be the only possible and very appropriate way of accomplishing a business venture (Vukosavljević, 2012, 96). Lease is a model of financing based on a contract, according to which owner of some assets (lessor) gives the other party (lessee) exclusive right to use assets if he pays rental on predefined time intervals. (Đuričin & Lončar: 2003).

In other words, it is a legal transaction in which one party (lessor), who buys the asset from a dealer (the party which delivers the asset), and rents out the same object of lease to the third party (lessee–user) for a specified period of time, while in return the lessor is entitled to a rental form the lease contract. Graph of the leasing parties can be presented in the following way (see Figure 1).

Lessor is any legal entity which hands lessee over the lease object to use it during a defined period of time, in exchange for the agreed rental, but at the same time keeps the right to ownership over the lease object. In exchange for the service provided, lessor:

- enters into a contract on delivery of the asset with the provider of the asset (by means of which the lessor acquires ownership over the lease object), while lessee defines the who the deliverer and the object of leasing will be;
- enters into a contract with a lessee, by means of which lessor transfers to the lessee the right to hold possession of and use of the lease object for a defined period of time, while the lessee pays the agreed rental in agreed installments.

Table 3. An example of acquiring equipment (machine) through leasing in EUR

Gross purchase value of the lease objects	10,000
Purchase value of the lease object	8,474.58
VAT on purchase value of the lease object (18%)	1,525.42
Residual value (20% of gross purchase value)	3,000.00
Net financed amount	7,000.00
Remaining value of the lease object	0.00
Lease amortization	7,000.00
Total interest	924.01
Total lease payments	7,924.01
Number of lease installments	24
Lease installment	330.17
Total contract value (2+8)	9,398.59
Other expenses of lease contract	337.15
Calculation of lease expenses in EUR: Annual nominal interest rate	12.00%
Effective interest rate	18.6%
Payment at entering into the contract: residual value + sum of other expenses	3,337.15
Approval expenses (processing of request) 1.5%	127.12

Source: authors

The advantages of acquiring equipment and other assets under lease contracts are significant, particularly in case of small and medium enterprises and natural persons. In Serbia, 17 leasing institutions have been established, which have delivered goods (equipment and final products) worth over 3 billion Euros so far. Potential investors in tourism have exceptional opportunities to use lease contracts to equip their premises in order to provide tourism related services. For the purpose of a more clear comparison of financing through loan and leasing, we present an illustration of acquiring equipment of XY company. Example: Financing equipment purchase through leasing and loan, in EUR (Table 3).

The example of equipment purchase financed through loan is presented in Table 4. Comparing the sum of total expenses in case of purchase of equipment under the above listed conditions, from the aspect of an entrepreneur, financial leasing is a more expensive way of financing than loan. The expense of insurance of the equipment, as well as VAT on interest contained in leasing rental, are the main causes.

Table 4. Example of equipment purchase financed through loan, in EUR

Gross purchase value of machine	10,000
Purchase value of machine	8,474.58
Tax on the purchase value of the car	1,525.42
Residual value (30% of gross purchase value)	3,000.00
Amount paid through loan installments	7,000.00
Remaining value of the lease object	7,000.00
Lease amortization	1,803.6
Total interest	8,803.60
Total loan installments	24
Number of loan installments	366.82
Loan installment	10,278.82
Total contract value (2+7)	172.68
Overview of other expenses occurring when	22.7%
entering into a loan agreement	36.7%
Annual nominal interest rate Effective interest rate	3,172.68
Payment at entering into the contract: residual value + sum of other expenses	169.49
Approval expenses (processing of request) 2,0%	3.18
Loan bureau expanses	22.7
Annual nominal interest rate	17.56
Effective interest rate	3,337.15
Payment at entering into the contract: residual value + sum of other expenses	800.00
Insurance expenses: from fire, breakage and other dangers	11,975.00
Total loan expenses: 4 + 8 + sum of other expenses + Insurance expenses	8,474.58

Source: authors

The influence of these factors has to be stressed particularly if we notice significantly lower interest rate in case of leasing (12%) relative to the loan interest rate (22%). Of course, it is necessary to thoroughly analyze and compare other benefits and flaws of these sources of financing before making the final decision. Sometimes the promptness of obtaining the leasing object may prevail over the price – which is lower in case of loan, as demonstrated in the above presented example.

Conclusion

The very indicator of not just economic, but of the total social development too, namely the number of students per 100,000 of inhabitants (it is a fact that the developed countries in respect to the underdeveloped have significantly higher number of students), has inspired this research. The investor, whether a legal entity or natural person, can provide financing for development of tourism or tourism related activities as follows:

- through self-financing,
- through loan,
- through mutual fund,
- through issuing securities and
- through leasing.

One rather developed model of financing economic activities including tourism is leasing. Leasing as the model of financing investments in tourism can usually be used by those companies, young entrepreneurs and natural persons which do not have capital to buy the necessary and up-to-date equipment for tourism related activities, and that cannot apply for a loan for other reasons.

Purchasing equipment through lease is a better solution than using loans for companies and entrepreneurs that wish to start and expand their activities for at least three reasons: the equipment can be used as long as profitability of its results- products is at a satisfying level; after expiration of the lease contract, the equipment can be replaced by even more up-to-date equipment; after expiration of the lease contract, the user will decide whether to keep the equipment in his possession or not. The advantage of leasing as a model of financing investments is that it enables investors to use modern and expensive equipment even though they do not have capital of their own.

The obligations arising from the lease contract through which the equipment and modern technology that the investor (legal or natural person) need are purchased, are paid from the capital made by that new equipment under lease. For some investors this may be the only possible and very appropriate way of accomplishing a business venture.

The advantages of acquiring equipment and other assets through lease contract are exceptional, particularly in case of small and medium enterprises and natural persons. Comparison of sums of total expenses in case of purchasing machines under the above terms, shows that finance leasing from the point of view of an entrepreneur is a more expensive means of financing than loan. Equipment insurance expense, as well as interest VAT in the rental, are the main cause of that. Influence of these factors must be particularly stressed if we take into account lower interest rate in lease contracts (12%) relative to the loan interest rate (22%). Certainly, when choosing one of the options, it is necessary to thoroughly analyze and compare all other advantages and disadvantages of using these financing sources

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