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**Modernization and harmonization of Tourism study
programs in Serbia**

544543-TEMPUS-1-2013-1-1-RS-TEMPUS-JPCR

**Work
package 8**

**Activity 8.5. Development of institutional
financial sustainability plan**

BTC'S FINANCIAL SUSTAINABILITY PLAN

(Revised edition)

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Project Task:

Activity 8.5. Development of institutional financial sustainability plan

The description of the project task:

Create a Sustainable Financial plan in accordance with the rules of the EACEA and Laws of the Republic of Serbia. In preparing the Financial Plan to consider and act in accordance with the approved proposal of TEMPUS project budget and necessary adjustments which are the result of changes occurring during the project's implementation.

The description of the outcome:

This report is the result of joint work of project team composed of representatives BTC Užice.

Financial plan of the Tempus project

„Modernization and harmonization of Tourism study programs in Serbia“

1. INTRODUCTION

1.1 Baselines

EACEA has approved the project „Modernization and harmonization of Tourism study programs in Serbia“ (hereinafter referred to as MHTSPS) - 544543-TEMPUS-1-2013-1-1-RS-TEMPUS-JPCR. The project represents a part of a TEMPUS project for candidate countries to join the EU and new EU neighbouring countries.

1.2 The purpose of the financial sustainability plan of the TEMPUS PROJECT

The main purpose of this **Financial plan** is to enable the project partners to perform and present the cost-benefit analysis of the TEMPUS project MHTSPS in accordance with the principles and rules set by the EACEA. This will ensure that the approved TEMPUS project is implemented with the desired quality, in a given time and within the approved budget.

1.3 Target audience and application of the Financial Sustainability Plan of the TEMPUS project

Target audience

The Financial Sustainability Plan of the TEMPUS project can be equally used by all TEMPUS project partners for the preparation of project tasks or for the assessment of the TEMPUS project's implementation.

At the same time, the Financial Sustainability plan of the TEMPUS project should be used for the purpose of revision by the chosen auditor.

Application

The content and requirements of this **Financial plan** are general and it is envisioned for them to be applicable to all MHTSPS TEMPUS project partners. The updated version of the Financial plan will be available on the following link (<http://www.mhtsps.vpts.edu.rs/>)

In the case that the requirements of this Financial plan are inapplicable, their omission can be considered with the Steering Committee.

1.4. The content of the Financial plan of the TEMPUS project

The financial sustainability plan consists of three main parts.

Part I: The process and principles

Chapter 2 describes how is the Financial plan to be used in the process of project appraisal. Chapter 2 also lists the main steps which are to be undertaken in the process. Chapter 3 considers the importance of financial analysis for the implementation of the TEMPUS project.

Part II: Calculations in Financial plan

Chapter 4 describes the main elements, steps and indicators of financial analysis. Chapters 5 and 6 are dealing with sustainability of the project results. Chapter 7 describes the risk analysis.

Part III: Control list

Chapter 8 gives a control list which can be seen as a summary of the previous parts and which can be used as a useful tool for evaluation of the quality of the financial analysis. Chapter 9 provides the list of activities for informing the public.

Part I The process and principles

2. THE ROLE, PLACE IT OCCUPIES AND THE PROCESS OF FINANCIAL PLAN AND ITS' ANALYSIS

2.1 Baselines

This chapter consists of two main parts: (I) a description of the role and places the financial plan and analysis occupy in the decision-making processes; why are financial plan and analysis used, and (II) a description of the financial planning and analysis process, as well as a description of how financial plan and analysis are actually performed.

2.2 The role and place a financial plan occupy and its' analysis

2.2.1 The evaluation and financial plan and analysis

The purpose of an economic evaluation is to ensure that the approved budget of the MHTSPS TEMPUS project is efficiently allocated. The evaluation of the TEMPUS project plays an important role in the process of project implementation and after the project ends so as to ensure that the goals and objectives of the project are met.

This way, the evaluation presents an ongoing process that can be applied in all stages of the project's implementation. There is a need for a successive and comprehensive framework for the presentation of the achievements of each project proposal. All effects of the project must be identified and presented in such a way that they can be compared objectively. An analysis of costs provides such a framework.

Cost analysis offers information that can be used for TEMPUS project evaluation.

The analysis should offer evidence that this TEMPUS project is:

- **Necessary and in accordance with** the national sectoral development strategy as well as with the EACEA regulations. This is achieved via control whether the project results contribute to the achievement of program and politics objectives.
- **Advisable from the socio-economic point of view.**
- **Has a commitment of 10% co-financing of its own participants share in the TEMPUS project implementation.**

2.2.2 Important characteristics of the financial plan and analysis

Project's effects on all stakeholders and society in general

The financial plan and analysis include identification of all financial effects the project has on all stakeholders (participants). The unit used to measure the above-mentioned effects is money.

The rationale for application of the financial plan and analysis is that project inputs are to be valued according to their opportunity cost, and results of the project are to be valued according to the willingness of beneficiaries to pay. However, opportunity costs do not always correspond to the expressed financial costs. Similarly, the willingness to pay is not always correctly revealed.

Discounted cash flow in time

Financial plan and analysis use a discounted cash flow approach for the calculation of financial and economic performance indicators of the project. The purpose of discounting is to display in current values, the flow of costs and flow of benefits that occur during a project's lifespan - or during a certain period for which a project evaluation is done, in accordance with the EACEA defined accounting for the value of euro.

Valuation in constant or current prices

Costs and benefits in this TEMPUS project will be evaluated in nominal terms (current prices will be given in euros), which are effectively observed year after year.

2.2.3 When are a financial plan and cost analysis necessary?

Cost analysis in the project cycle

For TEMPUS projects the process, starting from the project identification through its selection and ultimate project realization up until its evaluation, is contracted for a period of 36 months. Throughout this process, financial plan and costs analysis can provide useful information to decision makers.

In the initial stage – design of TEMPUS project proposal, what is used is the (simplified) financial plan – it is being in accordance with the rules for the application prescribed by the EACEA.

In the preparation phase/implementation of a TEMPUS project, financial plan and analysis can be used for the evaluation, for example when project costs significantly exceed the costs approved by TEMPUS project plan. The revised financial plan and analysis that use actual costs can provide valuable insight into the impact that these changes can have, which can affect the further decision-making. Usually, this kind of analysis is done when there is a direct cause such as (expected), excessive cost overruns.

In the final phase/project finalization, a comparison of financial analysis performed after the project is complete (ex-post) and financial plan and analysis performed prior to project implementation (ex-ante) can offer information on actual effectiveness of a TEMPUS project.

2.2.4 Financial analysis

Financial analysis is mainly performed with the aim of project cash flow forecasting. Moreover, financial analysis should consist of the following steps:

- The evaluation of total project costs,
- Calculation of indicators of the financial performance of the project for TEMPUS project partners.

Co-financing

We should have in mind that TEMPUS projects are mandatory co-financed with 10% of the total project value. Each partner co-finances 10% of the TEMPUS project, which relates to its participation in the total value of the TEMPUS project.

2.2.5 Risk assessment

In the last step of TEMPUS project evaluation what needs to be done is a risk assessment of the project. The proposal of this TEMPUS project has built-in preventive measures aimed to prevent the emergence of risks that could jeopardize the implementation of TEMPUS project. Detailed description of the previously mentioned measures can be found in the adopted project Proposal. Good project management can reduce the occurrence of a risk.

3. PRINCIPLES OF FINANCIAL ANALYSIS

Costs incurred by the Project Contractor (lead-partner)

Financial analysis is an estimate of the financial costs that the contractor - Business Technical College of Vocational Studies Užice will have over the lifetime of the project. BTC is responsible for its part of the project as well as for the Tempus project in whole and must, therefore, harmonize all parts of the project and provide the synergistic action of all project partners.

The overall objective of financial analysis is to determine whether the project is profitable from a financial point of view. Specific objectives are that each partner has some benefits from the implementation of this TEMPUS project.

The approved budget and Work plan of TEMPUS project for individual Partners, and for TEMPUS project in whole, represents a Plan of Diversification of funding – Financial plan of the TEMPUS project (Annex to this document).

EACEA has allowed that certain cost categories (personnel, equipment, travel, printing, and other indirect costs) can be changed, up to 10%, without the approval, which allows the Project management to, inside this framework, manage the implementation of Financial Plan.

Cash flows: the cost over the lifetime of the project

In order to calculate these indicators, we need to perform an evaluation of information on financial cash flows (total inflows and outflows of funds). The aim of the TEMPUS project Management is to secure project's liquidity throughout its life cycle

3.1. Basic elements of financial analysis

In order to make an overview of financial cash flows, a number of basic elements need to be determined first. Their list is provided in the text that follows.

3.1.1 Time horizon

Time horizon spreads from December 1st, 2013 to November 30th, 2016. In the middle of the previously stated period, an Intermediate Report (the integral part of it being the Financial Report) will be submitted to EACEA.

3.1.2 Determining the total costs and revenue

Main costs occur during the realization of TEMPUS project.

In the **project planning phase**, one needs to consider a number of costs, such as costs of TEMPUS project planning, costs referring to bodies in charge of the planning process and other planning costs.

In the **implementation phase of the project**, an evaluation of following costs needs to be performed: staff costs, equipment costs, printing and publishing costs, travel costs and costs of stay, other and indirect costs, all of which are presented in the following table:

Table 1: *Costs occurring in the implementation phase of the project*

		I. PROJECT COSTS €	CONDITIONS
Direct costs			
1	Staff costs	253,164.50	<i>Cannot exceed 40% of the total eligible direct costs</i>
2	Travel costs and Costs of Stay	139,313.00	
3	Equipment	177,105.00	<i>Cannot exceed 30% of the total eligible direct costs</i>
4	Printing and Publishing	32,590.00	
5	Other costs	59,120.00	
Total Eligible Direct Costs		661,292.50	
Indirect Costs		46,290.47	<i>Flat rate funding of 7% of the total eligible direct costs or 0.</i>
TOTAL ELIGIBLE COSTS		707,582.97	<i>Must equal total project finance below</i>
		II. PROJECT FINANCE €	
A	Tempus Grant Requested	636,821.97	<i>Cannot exceed 90% of the total eligible costs</i>
B	Co-financing	70,761.00	<i>Must be at least 10% of the total eligible costs</i>
TOTAL PROJECT FINANCE (A+B)		707,582.97	<i>Must equal total eligible costs above</i>

Market prices

For financial analysis **market prices** respecting EACEA value established for the euro, are to be used.

Part II: Calculations in Financial plan

4. INDICATORS OF FINANCIAL ANALYSIS

When financial cash flows of the project are completed, the next step is to calculate the financial indicators. These indicators are intended to demonstrate the financial effectiveness of the TEMPUS project.

Computer monitoring of all project costs is performed with every project partner. Thus, in the table in the Annex to this document we see the **Gross costs of Tempus project N° 544543** by type of income for the period 01.12.2013 - 31.05.2015. Other costs are monitored using the following table:

Table 2. Monitoring of Printing and Publishing Costs

Exchange rate: 114,041

No.	Date	Service provider	Amount in RS dinars	Amount in euros	
1	12.03.2014	Grafoplast plus	5,376.00	47.14	
2	12.03.2014	Pulsar	63,112.80	553.42	
3	10.10.2014	Papir promet	139,054.00	1,219.33	
4	10.10.2014	Grafoplast plus	126,325.00	1,107.72	
5	04.02.2015	Grafoplast plus	36,250.00	317.87	

Table 3. Monitoring of transfer of funds which are distributed to TEMPUS project partners

Partner Ref no.	Short name of the organization	Organization	Approved amount (EUR)	Donation - 90%	First transfer - 60%		Second transfer - 30%	
					Date	Amount	Date	Amount
P2	VPSSS	Higher School of Professional Business Studies, Novi Sad	2 529, 96	2 299, 50	07/04/2014	2 299, 50	*	*
P3	HBSL	Higher Business School of Leskovac	122 385,1275	110 146, 31	07/04/2014	66 087, 79	18/01/2016	33 043, 89
P4	UNIKG	University of Kragujevac, Faculty of Hotel Management and Tourism, Vrnjačka Banja	126 163,395	113 546, 72	07/04/2014	68 128, 03	18/01/2016	34 064, 02
P5	TORZS	Tourism Organization of Western Serbia	21 934, 755	19 741, 20	07/04/2014	11 844, 72	18/01/2016	5 922, 36
P6	RPK	Uzice Regional Chamber of Commerce	21 934, 755	19 741, 20	09/04/2014	11 844, 72	21/01/2016	5 922, 36
P7	PKV	Chamber of Economy of Vojvodina	22 211, 1	19 989, 90	09/04/2014	11 993, 94	21/01/2016	5 996, 97
P8	TOL	Tourist Organization of Leskovac	21 451, 41	19 306, 15	09/12/2014	11 583, 70	18/01/2016	5 791, 85
P9	UOG	University of Greenwich	48 000, 815	43 200, 40	16/04/2014	25 920, 24	23/02/2016	12 960, 12
P10	TEIP	Technological Education Institute of Piraeus, Athens, Greece	37 365, 57	33 600, 57	16/04/2014	20 859, 65	23/02/2016	10 080, 17
P11	USAMV	University of Agricultural Sciences and Veterinary Medicine of Cluj-Napoca	24 343, 2	21 981, 20	16/04/2014	13 589, 80	23/02/2016	6 594, 36

* Note: Partner 2 - Higher School of Professional Business Studies from Novi Sad withdrew from the project during the first year of project implementation.

If it turns out that deviations in spending are over the scope of the Financial Plan, TEMPUS project Management will need to take certain corrective measures with the aim of complying the total spending of the project with the Contract signed with EACEA.

5. SUSTAINABILITY OF THE OUTCOMES - RESULTS OF THE MHTSPS TEMPUS PROJECT

Sustainability of the results of MHTSPS TEMPUS project will be ensured through:

1. Implementation of accredited tourism study programs,
2. Implementation of additional training courses for students of tourism study programs,
3. Established training courses for tourism industry employees,

4. Operation of Web portal,
5. Ecotourism laboratory services for stakeholders, and
6. Continuation of the International Conference regarding the importance of tourism for the development of Serbia and Western Balkans.

6. FINANCIAL PLAN OF MHTSPS PROJECT RESULTS' SUSTAINABILITY

Table 4: *The structure of additional revenues based on the expected results of the MHTSPS Tempus project*

Type of estimated revenue	The calculation of income	Total amount of additional revenue
1. Income from accredited tourism study programs - budgetary students	136 students x 940 EUR	127.840 EUR
2. Income from accredited tourism study programs - self-financing students	59 x 700 EUR	41.300 EUR
3. Revenues from additional training courses for students of tourism study programs	143 students x 50 eur	7.150 EUR
4. Income from Established training courses for tourism industry employees	Training 5 x 20 persons x 100 eur / person	10.000 EUR
5. Income from affiliation fees for the maintenance and improvement of the functioning of the web portal	150 members x 10 eur / month x 12 months	18.000 EUR
6. Revenue from ecotourism laboratory services	8 measuring points x 50 euro / month x 12 months	4.800 EUR
7. Income from International Conferences related to the importance of tourism for the development of Serbia and Western Balkans	Revenues will cover the expenses of the conference	0 EUR
TOTAL		209.090 EUR

7. RISK ANALYSIS

7.1 Baselines

This chapter on risk analysis is directly based on the results of a financial analysis.

7.2 Risk analysis

Risk analysis can be defined as “estimation of possibilities that a project will have a satisfactory effect, as well as an estimation of results’ variability in comparison to previously performed best appraisal estimate.”

Risk evaluation is performed when applying, where results are defined and the acceptable level of risk is determined as well as ways of mitigating the risk.

7.3 Discussion on results and ways of mitigating the risk

The Overall objective of risk analysis is to determine the level of TEMPUS project risk and its dependence on certain critical parameters. With risk analysis what can be determined is the probability of

poor outcomes, and it can also help in identifying ways in which a project can become more stable. It is necessary that each partner in the project identifies and recognize the potential risk, and then, based on that information, develop ways to prevent, control and transfer that risk.

Part III Checklist

8. CONTROL LIST OF COST ANALYSIS

8.1 Baselines

This section presents a control list of financial analysis. The control list is based on the steps in the process and descriptions, as presented in the preceding sections of this Financial Plan. As such, this control list can be seen as a summary of the Financial Plan for financial analysis. The intention of this control list is to serve as a tool for checking the quality of the financial analysis of the project.

8.2 First check for completeness

Review of the main inputs should be performed during TEMPUS project evaluation and financial analysis. This would, among other things, include a document which describes project aims (see the Appendix), financial analysis (see the Appendix) etc.

9. ACTIVITIES OF INFORMING THE PUBLIC

To inform the target groups about project results, BTC will organize and implement an information campaign through:

- Web portal of the *MHTSPS* project,
- Sending information via e-mail to each stakeholder,
- Press conferences, and
- Brochures about the implementation of the *MHTSPS* TEMPUS project.