THE HASHEMITE KINGDOM OF JORDAN

MINISTRY OF TOURISM AND ANTIQUITIES

THE WORLD BANK

THIRD TOURISM DEVELOPMENT PROJECT

SECONDARY CITIES REVITALIZATION STUDY

Karak

Proposal for public-private partnership

Attachment C

JOINT VENTURE OF COTECNO WITH ABT ALCHEMIA CDG MGA

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Abbreviations and acronyms

CAS	Country assistance strategy
CH	Cultural heritage
CBO	Community based organisation
CRP	City revitalisation program
DOS	Department of Statistics
EIA	Environmental Impact Assessment
GMK	Greater Karak Municipality
GOJ	Government of Jordan
IBRD	International Bank for Reconstruction and Development
ITFCSD	Italian trust fund for culture and sustainable development
JTB	Jordan Tourist Board
MENA	Middle East and North Africa
MOE	Ministry of Environment
MOMA	Ministry of Municipal Affairs
MOPIC	Ministry of Planning and International Cooperation
MOTA	Ministry of Tourism and Antiquities
NEAP	National Environnemental Action Plan
NGO	Non Government Organization
PA	Public Awareness
PPP	Public-private partnership
STDP	Second Tourism Development Project
TOR	Terms of reference
TTDP	Third Tourism Development Project
UNESCO	United Nations Educational, Scientific and Cultural Organisation
URP	Urban regeneration program
VEC	Valued Environmental Components
WB	The World Bank
WHL	World heritage List
WTO	World Trade Organisation

1. Introduction

In the analysis of the individual PPP proposed action, namely the realization of the new hotel and shopping facility within Karak bus station, the perspective considered is that of the single operator directly managing the economic activity. All the necessary investment costs have been considered in the financial analysis.

Revenues and operating costs are those directly connected with running of the activities. Consequently, also the costs associated with the rent of the areas and buildings are included under these items.

The analysis of the financial return of the proposed public-private partnership project has been elaborated according to the scheme set forth above. The indicators of return that have been considered are the Financial Net Present Value (FNPV) and the Financial Internal Rate of Return (FIRR).

The net flow of financial benefits is determined by the difference between financial benefits and costs, considered for the purpose of the profitability analysis. The assessment of profitability is made in relation to the specific operating agency standpoint, thus assuming that such operator will be responsible for the investment and that the capital invested will be repaid in the running of the site.

The discount rate used to calculate the NPV and to assess the acceptability of the FIRR is based on the calculation of the weighted average cost of capital (WACC), expressed on a constant price basis, used to finance the project[1].

[1] According to a capital structure entirely financed by private capital, the WACC coincides with a nominal cost of equity equal to 10%.

2. Business plan for PPP Action “Main Bus Station; new hotel and shopping facility”

2.1 INTRODUCTION

In order to properly enhance the significance of the Main Bus Station as the living, economic and social hub of the city, the project proposes the design and construction of new hotel and shopping facilities within the station compound. Construction of a new multifunctional complex including the following components:

- A six level, 40 double room hotel with a panoramic roof terrace café for a total of approximately 2.000 sqm;
- A three level shopping and ticket selling facility with a restaurant and a covered, panoramic roof-top terrace for outdoor dining for a total of approximately 500 sqm (excluding roof top terrace).

The management hypothesis assumes that a private company will manage the whole complex.

2.2 INVESTMENT COSTS

All the investment costs related to the project will be borne by the company managing the hotel and shopping facility and amount to a total 1.4 million US$ (0.97 million JD), broken down as follows.

A) WORKS	**JD**	**US$**
NEW BUILDING CONSTRUCTION (Total area Sq. Mts 2,500 X JD/sq.mt 200)	500.000	705.715
INTERNAL FURNISHING (Total area Sq. Mts 2,500 X JD/sq.mt 120	300.000	423.429
TOTAL COST OF THE WORKS	800.000	1.129.144
B) ADDITIONAL PROVISIONS		
b1) TECHNICAL EXPENSES		
Detailed design consultancy (8% of A)	40.000	56.457
Construction supervison (5% of A)	25.000	35.286
Construction site security (3% of A)	15.000	21.171
Topographical & archaeological surveys/specialistic investigations (3% of A)	15.000	21.171
b2) CONTINGENCIES (15% of A)	75.000	105.857
TOTAL COST OF THE ADDITIONAL PROVISION	**170.000**	**239.943**
FINAL PUBLIC/PRIVATE PARTNERSHIP ACTION PROJECT COST (A+B)	**970.000**	**1.369.087**

TABLE 1 - INVESTMENT COSTS BY ITEM

2.3 OPERATING COSTS

As for personnel, considering the operational needs of the hotel, 10 employees will be necessary: 8 employees plus 2 area directors.

According to the cost estimates presented in Section 5 of Annex 1 as for the recruitment of personnel (an average annual cost of 3,360 US$), salaries costs for the directors and the employees have been estimated respectively in 4 and 3 thousand US$ per year, thus resulting in a total cost of 32,000 US$ per year for the hotel personnel. The total costs of such personnel are shown in the table below.

STAFF	SALARY PER YEAR	NUMBER OF STAFF	TOTAL COST
Director of the area	4000	2	8,000
Employees	3000	8	24,000
1			
Total		10	32,000

TABLE 2 - COST OF PERSONNEL FROM THE THIRD YEAR OF BUSINESS ACTIVITY (US$)

Based on experience, other yearly costs are assumed to be as follows, (in US$):

- Material 5,000
- Ordinary Maintenance (0,6% of investment) 6,000
- Services (power, water, cleaning, etc.) 5,000

The running costs to be considered in the financial analysis are listed in the following table that refers to the first 5 years of business activity. While, from the 3rd year up to the end of the analysis period (20th year), these costs remain constant, in the first two years, they have been estimated to be 60% (first year) and 80% (second year) of the ones estimated from the 3rd year onwards.

	YEARS				
ITEMS	1	2	3	4	5
Salary	19.200	25.600	32.000	32.000	32.000
Material	3.000	4.000	5.000	5.000	5.000
Ordinary Maintenance	3.600	4.800	6.000	6.000	6.000
Services	3.000	4.000	5.000	5.000	5.000
TOTAL	**28.800**	**38.400**	**48.000**	**48.000**	**48.000**

TABLE 3 - RUNNING COSTS CONSIDERED IN THE FINANCIAL ANALYSIS (US$)

2.4 REVENUES

Revenues related to the project are those deriving from the leasing of the 40 rooms and from the renting of the 500 sq. Mt. shopping area.

Regarding the hotel, the trend of the bed and room occupancy rate of Karak and of whole Jordan has been analysed (see table below).

	1998	1999*	2000	2001	2002	2003
Room Occupancy Rate	20.44%	16.09%	33.59%	9.60%	6.20%	6.3%
National Room Occupancy Annual Average	37.65%	35.57%	39.47%	30.50%	32.00%	33.8%
Bed Occupancy Rate	20.18%	18.17%	34.33%	7.30%	4.20%	4.4%
National Bed Occupancy Annual Average	32.66%	31.21%	33.42%	25.80%	26.50%	30.7%

1999 including hotel apart.& suites*

TABLE 4 - PERCENTAGE ROOM AND BED OCCUPANCY RATES IN KARAK HOTELS

In the following table, the main parameters used to estimate the revenues related to the hotel are listed. Finally, a bed occupancy rate of 40% has been considered, equal to the rate observed in 2000 at the national level.

Standard room - 1 adult	40
Standard room - 2 adult	45
N. of rooms	40
Capacity (bed/year)	26,400
Bed occupancy rate	40%
Total revenues	237,600

The revenues related to the shopping derive from the leasing of spaces (500 sq.mt.). It can be assumed that the amount paid by the tenants will be represented by:

- a fixed component, represented by the renting fee;
- a variable component, that is the royalty on the turnover reached by the establishments located in the area.

Tenants will be mainly small and medium establishments of handicraft, shops, bar, restaurants, etc.

This management arrangement is widely diffused in the shopping centres as well as in airport's duty free and duty paid. Usually the royalties range from 15 to 30%, according to the type of business. The following table lists the royalties paid by tenants in Fiumicino airport, according to the various commercial activities located in the duty paid area.

Commercial typology	Royalties
Newspaper kiosk	8%
Pastries shop	30%
Bank	50%*
Griffes	16%
Jewelleries	15%
Clothing accessories	25%

* calculated on bank commissions

TABLE 5 - ROYALTIES PER COMMERCIAL ACTIVITY IN FIUMICINO AIRPORT

For the commercial area of Karak it is possible to assume that:

- the royalty will be of 10%;
- the renting fee will be calculated on the basis of 50 US$ per square meter.

However, it should be noted that renting fees in Jordan, varies greatly, according to different factors including, among other: position, quality of building, furnishing, etc. For instance, in Amman, shops' renting fee can easily reach 2-300 US$/sq. Mt. per year.

The following table presents the main parameters for revenues calculation. Royalties have been calculated taking into account the total sales per establishment of the Karak' formal sector. Finally, the total revenues of the rented spaces will be of 54 thousand US$, that represents less than 19% of the estimated total sales.

Surface	Sq.mt.	500
Establishments	n.	10
surface/est.	Sq.mt.	50
Total Sales/est.	US$	28972
Total Sales/est.	US$	289722
Royalties	US$	28972
unit rent	US$/sq.mt.	50
Rent	US$	25000
total revenues of spaces	US$	53972
PRICE/SALES	**%**	**18,63**

It is assumed that, during the first 3 years of operation, the total revenues will progressively develop as follows:

- year 1: 60% normal operation
- year 2: 80% normal operation
- year 3: 100% normal operation

2.5 FINANCIAL PLAN

Estimated financial revenues for the first year of business activity do not cover all financial needs related to the running phase.

The following years, the revenues back both running costs and debt service.

2.6 FINANCIAL PROFITABILITY

The results obtained (see the table at the following page) show the sound profitability of the hotel and shopping facility: The calculated FNPV, evaluated at a back discounting rate of 10%, is of of 469 thousand US$ and consequently the FIRR is of 14.7%.

In order to evaluate the economic stability of the project, a sensitivity analysis has been carried out. Taking into account changes on: benefits, investment costs and running costs, three hypotheses have been developed; the results are listed in the table below.

	HP1	**HP2**	**HP3**
Benefits change	0	-15%	-10%
Investment costs change	10%	0	10%
Running costs change	10%	0	10%
FIRR	**13,0%**	**11,9%**	**11,2%**
FNPV	**321**	**177**	**126**

Thus, the project seems to offer **a high rate of profitability** even taking into account all investment costs including new building constructions and internal furnishings.

FINANCIAL ANALYSIS OF THE PROJECT

	YEARS																			
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
Investment costs	548	821	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Running costs	0		29	38	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48	48
Incomes	0	0	175	233	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292	292
Residual value																				685
Net benefits	**(548)**	**(821)**	**146**	**195**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**244**	**928**
Accrued net benefits	**(548)**	**(1.369)**	**(1.223)**	**(1.028)**	**(785)**	**(541)**	**(297)**	**(54)**	**190**	**433**	**677**	**920**	**1.164**	**1.408**	**1.651**	**1.895**	**2.138**	**2.382**	**2.625**	**3.554**

FINANCIAL IRR	**14,7%**
FINANCIAL PNV (,000 US$)	**469**
BACK DISCOUNTING RATE	**10,00%**