**THE HASHEMITE KINGDOM OF JORDAN**
MINISTRY OF TOURISM AND ANTIQUITIES

**THE WORLD BANK**

THIRD TOURISM DEVELOPMENT PROJECT
**SECONDARY CITIES REVITALIZATION STUDY**

# Salt

# Proposal for public-private partnerships

# 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 |
| 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 individual PPP action, the new “central square”, 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 of the PPP Action S.02 "the New Central Square"

## 2.1 INTRODUCTION

The project's objective is that of creating a public space adjacent to the existing Saaha compound, provided with leisure and entertainment facilities where Salt's citizens can meet and socialise.

The project proposes the demolition of three modern governmental buildings and the transformation of the resulting void into a mixed-use open-air facility space to the benefit of Salt's citizens leisure. In this contest, it is foreseen an area of 250 sq. Mt. for commercial purposes.

The management hypothesis assumes that a private company will manage the commercial area.

## 2.2 INVESTMENT COSTS

All the investment costs related to the project will be borne by the company managing the parking and amount to a total of 127 thousand US$ (90 thousand JD), broken down as follows.

| | JD | US$ |
|---|---|---|
| **A) WORKS** | | |
| NEW BUILDING CONSTRUCTION commercial spaces (Total area Sq. Mts 210 X JD/sq.mt 200) | 42.000 | 59.280 |
| INTERNAL FURNISHING commercial spaces (Total area Sq. Mts 210 X JD/sq.mt 120) | 25.200 | 35.568 |
| **TOTAL COST OF THE WORKS** | **67.200** | **94.848** |
| | | |
| **B) ADDITIONAL PROVISIONS** | | |
| b1) TECHNICAL EXPENSES | | |
| Detailed design consultancy ( 8% of A ) | 5.376 | 7.588 |
| Construction supervison ( 5% of A ) | 3.360 | 4.742 |
| Construction site security ( 3% of A ) | 2.016 | 2.845 |
| Topographical & archaeological surveys/specialistic investigations ( 3% of A ) | 2.016 | 2.845 |
| | | |
| b2) CONTINGENCIES (15% of A) | 10.080 | 14.227 |
| **TOTAL COST OF THE ADDITIONAL PROVISION** | **22.848** | **32.248** |
| | | |
| **TOTAL COST (A+B)** | **90.048** | **127.096** |

**TABLE 1 - INVESTMENT COSTS BY ITEM**

## 2.3 OPERATING COSTS

The operational needs of this area in terms of personnel are estimated in 1 temporary employee. The total expenditure for this personnel is estimated to be of 2,000 US$ per year.

Based on experience, other operating costs per year are estimated to be as follows, (in US$):

- - Material 1,000
- - Ordinary Maintenance (0.6% of investment) 1,000
- - Services (power, water, cleaning etc.) 1,000

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** | 1.200 | 1.600 | 2.000 | 2.000 | 2.000 |
| **Material** | 600 | 800 | 1.000 | 1.000 | 1.000 |
| **Ordinary Maintenance** | 600 | 800 | 1.000 | 1.000 | 1.000 |
| **Services** | 600 | 800 | 1.000 | 1.000 | 1.000 |
| **TOTAL** | **3.000** | **4.000** | **5.000** | **5.000** | **5.000** |

**TABLE 2 - RUNNING COSTS CONSIDERED IN THE FINANCIAL ANALYSIS (US$)**

### 2.3.1 REVENUES

The revenues related to the Leisure Park derive from the leasing of spaces (853 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 Rome 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 3 - ROYALTIES PER COMMERCIAL ACTIVITY IN FIUMICINO AIRPORT**

For the commercial area of Salt 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 Salt's formal sector. Finally, the total revenues of the rented spaces will be of 22 thousand US$, that represents less than 19% of the estimated total sales.

| | | |
|---|---|---|
| SURFACE | SQ.MT. | 210 |
| Establishments | n. | 4 |
| surface/est. | Sq.mt. | 53 |
| Total Sales/est. | US$ | 28,972 |
| Total Sales/est. | US$ | 115,889 |
| Royalties | US$ | 11,589 |
| unit rent | US$/sq.mt. | 50 |
| Rent | US$ | 10,500 |
| total revenues of spaces | US$ | 22,089 |
| price/sales | % | 19,06 |

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

## 2.4 FINANCIAL PLAN

As for the implementation phase, the Government will finance 30% of the total funding required and privates the other 70%.

Estimated financial revenues already for the first year of business activity cover all financial needs related to the running phase.

## 2.5 FINANCIAL PROFITABILITY

The results obtained (see the table on the next page) show the sound profitability of the new commercial area: the calculated FNPV, evaluated at a back discounting rate of 10%, is of 16 thousand US$ and consequently the FIRR is of 11.7%.

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** | **10,1%** | **8,9%** | **8,3%** |
| **FNPV** | **1** | **-9** | **-16** |

## FINANCIAL ANALYSIS OF THE PPP PROJECT

| | YEARS | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Investment costs | 127 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Running costs | 0 | 3 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Incomes | 0 | 13 | 18 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 | 22 |
| Residual value | | | | | | | | | | | | | | | | | | | | 64 |
| **Net benefits** | **(127)** | **10** | **14** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **17** | **81** |
| **Accrued net benefits** | **(127)** | **(117)** | **(103)** | **(86)** | **(69)** | **(52)** | **(35)** | **(18)** | **(1)** | **16** | **34** | **51** | **68** | **85** | **102** | **119** | **136** | **153** | **170** | **251** |

| | |
|---|---|
| **FINANCIAL IRR** | **11,7%** |
| **FINANCIAL PNV (,000 US$)** | **16** |
| **BACK DISCOUNTING RATE** | **10,00%** |