THE HASHEMITE KINGDOM OF JORDAN

MINISTRY OF TOURISM AND ANTIQUITIES

THE WORLD BANK

THIRD TOURISM DEVELOPMENT PROJECT

SECONDARY CITIES REVITALIZATION STUDY

Madaba

Proposal for public-private partnership

Attachment C

JOINT VENTURE OF COTECNO WITH ABT ALCHEMIA CDG MGA

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Table of contents

1. Introduction

In the analysis of individual PPP actions the perspective considered is that of the single operator directly managing the economic activity

In particular, the analysis of the following two actions has been undertaken:

- Cultural Center in the Saraya building;
- Park and structure for Leisure facilities.

The financial analysis of the former, takes into consideration only adaptation related costs, while, the latter considers all the needed investment costs.

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 two proposed public-private partnership projects 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 the difference between financial benefits and costs, considered for the purpose of the profitability analysis. Profitability assessment 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) utilized to finance the project[1], expressed on a constant price basis.

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

2. PPP Actions; business plan

2.1 CULTURAL CENTER IN THE SARAYA BUILDING

The project envisages the implementation of a 550 sq.mts. Cultural Center. The new Saraya Heritage Center has been proposed by the Madaba Heritage Society which will be responsible for its furnishing and management.

2.1.1 INVESTMENT COSTS

The investment costs related to demolitions and restoration will be covered by the CRP, while, those related to the adaptation works, amounting to 93 thousand US$ (66 thousand JD), will be borne by the Madaba Heritage Society.

2.1.2 OPERATING COSTS

The estimated personnel needs for the operation of the Cultural Center are as follows:

- Director of the Center: 1
- Normal employees: 2
- Temporary employees: 5

The total costs of such personnel has been estimated at 13,750 US$ per year, as shown in the table below.

STAFF	SALARY PER YEAR (US$)	NUMBER OF STAFF	TOTAL COST (US$)
Director of the center	4.000	1	4.000
Normal employees	3.000	2	6.000
Temporary employees	750	5	3.750
TOTAL		**8**	**13.750**

TABLE 1 – COST OF PERSONNEL FROM THIRD YEAR OF BUSINESS ACTIVITY

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

- Material 1,500
- Ordinary Maintenance (0.6% of investment) 3,000
- Services (power, water, cleaning etc.) 1,500

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	10.500	14.000	17.500	17.500	17.500
Material	1.800	2.400	3.000	3.000	3.000
Ordinary maintenance	2.400	3.200	4.000	4.000	4.000
Services	1.800	2.400	3.000	3.000	3.000
TOTAL	**16.500**	**22.000**	**27.500**	**27.500**	**27.500**

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

2.1.3 REVENUES

Revenues have been estimated assuming that 10% of international visitor flow of 2000 (the peak of the last years) to Madaba Church of Map[2] will visit the Center, meaning around 18,000 international visitors. The same flow of visitors has been assumed for the national target.

The ticket price could be set at 0.15 JD (0.21 US$) for nationals and at 1 JD (1.4 US$) for foreign tourists.

It is assumed that, during the first 3 years of operation, the ticket sales progressively develop as follows:

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

2.1.4 FINANCIAL PLAN

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

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

2.1.5 FINANCIAL PROFITABILITY

The results obtained (see table at the following page) show a low profitability for the Cultural Center: in fact the calculated FNPV, evaluated at a back discounting rate of 10%, results of – 56 thousands US$, and, consequently, the FIRR is "not calculable".

In order to evaluate the financial 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; 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%
EIRR			
FNPV	**101**	**104**	

TABLE 3 – PROFITABILITY ANALYSIS

Although the **profitability analysis** shows negative results, it is clear that, being the management of the Center a cultural activity, profit is not its main aim. The **minimum financial target must be sustainability** (to break even on costs) and this **goal appears to have been attained.**

[2] See the Economic Analysis annex 6.

FINANCIAL ANALYSIS OF THE PROJECT

	YEAR																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Investment costs	93	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Running costs	0	17	22	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28	28
Incomes	0	18	23	29	29	29	29	29	29	29	29	29	29	29	29	29	29	29	29	29
Residual value																				
Net benefits	**(93)**	**1**	**1**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**	**2**
Accrued net benefits	**(93)**	**(92)**	**(91)**	**(89)**	**(87)**	**(86)**	**(84)**	**(82)**	**(80)**	**(79)**	**(77)**	**(75)**	**(74)**	**(72)**	**(70)**	**(68)**	**(67)**	**(65)**	**(63)**	**(62)**

FINANCIAL IRR	**n.c**
FINANCIAL PNV (,000 US$)	**-72**
BACK DISCOUNTING RATE	**10%**

2.2 PARK AND STRUCTURE FOR LEISURE FACILITIES

The project proposes the transformation of a vast decayed empty space, located within the urban fabric of the city core, into a leisure park supported by a series of structures dedicated to the promotion of local handicrafts and to the provision of spaces where the local population can meet and socialize. The new leisure park acts as the ideal terminus of the proposed new Linear Civic Centre which comprises the rehabilitation of the urban node of the Church of the Map, the redesign of the axis of King Tallal Street and the restoration of the Ottoman landmark building known as the Saraya and its re-use as the city's heritage centre.

The existing abandoned heritage buildings (853 sq. mt.) should be restored so as to provide an indoor space dedicated to leisure activities and local handicraft promotion (internet café, restaurant, handicraft center, etc.).

The management hypothesis assumes that a private company will ensure the rehabilitation and management of the buildings.

2.2.1 INVESTMENT COSTS

The overall investment costs related to the project to be borne by the private company amount to a total of 509 thousands US$ (360 thousand JD), broken down as follows.

	JD	US$
A) WORKS		
REHABILITATION OF EXISTING BUILDINGS (Total area Sq. Mts 853 X JD/sq. mt 200)	170,600	240,790
STATIC CONSOLIDATION AND STRUCUTRAL RECONSTRUCTION	30,000	42,343
INTERIOR FURNITURES (Total area Sq. Mts 853 X JD/sq. mt 120)	102,360	144,474
COST OF THE WORKS	**302,960**	**427,607**
B) ADDITIONAL PROVISIONS		
b1) TECHNICAL EXPENSES		
Detailed design consultancy (8% of A)	13,648	19,263
Construction supervision and management (5% of A)	8,530	12,039
Construction site security (3% of A)	5,118	7,224
Topographical & archaeological surveys/specialistic investigations (3% of A)	5,118	7,224
b2) CONTINGENCIES (15% of A)	25,590	36,118
COST OF THE ADDITIONAL PROVISION	**58,004**	**81,869**
FINAL ACTION PROJECT COST (A+B)	**360,964**	**509,476**

TABLE 4 – INVESTMENT COSTS

2.2.2 OPERATING COSTS

The operational needs of this area in terms of personnel are estimated as follows:

- Director of the area 1
- Normal employees 1

The total expenditure for this personnel is estimated to be of 7,000 US$ per year, as shown in the table below.

STAFF	SALARY PER YEAR (US$)	NUMBER. OF STAFF	TOTAL COST (US$)
Director of the area	4,000	1	4,000
Normal employees	3,000	2	3,000
Total		**3**	**7,000**

TABLE 5 – COST OF PERSONNEL FROM THE THIRD YEAR OF BUSINESS ACTIVITY

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) 4,000
- - Services (power, water, cleaning etc.) 1,500

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	4.200	5.600	7.000	7.000	7.000
Material	600	800	1.000	1.000	1.000
Ordinary maintenance	2.400	3.200	4.000	4.000	4.000
Services	900	1.200	1.500	1.500	1.500
TOTAL	**8.100**	**10.800**	**13.500**	**13.500**	**13.500**

TABLE 6 – RUNNING COSTS CONSIDERED IN THE FINANCIAL ANALYSIS (US$)

2.2.3 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 Fiumicino Rome 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 7 – ROYALTIES PER COMMERCIAL ACTIVITY IN FIUMICINO AIRPORT

For the Leisure Park of Madaba 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 Madaba's formal sector. Finally, the total revenues of the rented spaces will be of 86 thousand US$, that represents less than 20% of the estimated total sales.

Surface	Sq.mt.	853
Establishments	n.	15
surface/est.	Sq.mt.	57
Total Sales/est.	US$	28,972
Total Sales/est.	US$	434,583
Royalties	US$	43,458
unit rent	US$/sq.mt.	50
Rent	US$	42,650
total revenues of spaces	US$	86,108
price/sales	%	19,81

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

2.2.4 FINANCIAL PLAN

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

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

2.2.5 FINANCIAL PROFITABILITY

The results obtained (see table) show the sound profitability of the leisure park. The calculated FNPV, evaluated at a back discounting rate of 10%, is of 92 of thousands US$ and, consequently, the FIRR is of 12.5%.

In order to evaluate the financial 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; 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%
EIRR	**10,9%**	**9,8%**	**9,2%**
FNPV	**36**	**-6**	**-29**

TABLE 8 – PROFITABILITY ANALYSIS

Thus, the leisure park seems to offer **a high rate of profitability** even taking into account all investment costs, i.e. rehabilitation, restoration, consolidation and services.

FINANCIAL ANALYSIS OF THE PROJECT

	YEAR																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Investment costs	509	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Running costs	0	8	11	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Incomes	0	52	69	86	86	86	86	86	86	86	86	86	86	86	86	86	86	86	86	86
Residual value																				**255**
Net benefits	**(509)**	**44**	**58**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**73**	**327**
Accrued net benefits	**(509)**	**(466)**	**(408)**	**(335)**	**(263)**	**(190)**	**(117)**	**(45)**	**(28)**	**(100)**	**(173)**	**(246)**	**(318)**	**(391)**	**(463)**	**(536)**	**(609)**	**(681)**	**(754)**	**(1,081)**

FINANCIAL IRR	**12,5%**
FINANCIAL PNV (,000 US$)	**92**
BACK DISCOUNTING RATE	**10%**