

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

**Karak**

**Financial analysis**

**Annex 7**

**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
GKM	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 Environmental 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

The financial analysis of CRP proposal for Karak has been developed at two levels:

- internal financial analysis of the PPP action (described in Attachment C of this report);
- global financial analysis of the entire project.

In the analysis of the individual PPP action that foresees 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.

In the global financial analysis of the entire project, the perspective is that of the agency promoting, realizing, and managing the project.

Therefore, the investments costs considered are all-inclusive and comprise items shared by the different uses, primary and secondary infrastructure works as well as resettlement.

Given that the operating costs and revenues derives from the same management hypothesis formulated for the individual actions, in the analysis of the whole project only the financial plan has been developed.

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### 1.1 FISCAL IMPACT

The implementation of the Karak CRP will have effect on the public administrations' budget in terms of both incomes and expenditures. The professional capacity and soundness related to the realization and management of the projects envisaged in the Program will be analysed in Annex 5 "Municipal organization, management and finance".

#### 1.1.1 PUBLIC ADMINISTRATIONS' INCOMES

The Program will have a positive impact on public administrations' incomes, thanks to the increasing tax levies applied to the additional earnings generated by the Program implementation.. Such new earnings will originate mainly from:

- the increase in tourist flows, that will consequently stimulate growth in all the economic sectors directly and indirectly related to the tourism one;
- the increase in the overall revenues of the commercial activities located in the city core, that will directly benefit from the interventions foreseen by the physical action n.01 "Upgrading of the street network".

#### 1.1.2 PUBLIC ADMINISTRATIONS' EXPENDITURES

Over the 5-year implementation period, the Government will have to provide about US\$ 1,265 thousand in counterpart funds under the Project, with a maximum of US\$ 705 thousand in FY02. This level of investment is less than 0.065 percent of the 2003 country's total gross domestic investment (about US\$2.2 billion) thus, it should not cause any fiscal constraint. The WB will finance 70% of the project, the Central Government will finance 13% and the Municipality 2%. Private investors will provide the remaining funds, representing 16% of the total

The new infrastructures created or rehabilitated by the Project will produce a slight increase in recurrent expenditures, estimated at about 137 thousand US\$ per year.

## **2. Karak CRP overall costs and financial plan**

The tables at the end of the paragraph show the overall investment costs of Karak CRP in each of the envisaged five years of program implementation, together with their distribution both by item and by program action.

The total investment will amount to 8.7 million US\$, with the main investments being concentrated in the second and third year of implementation (2.7 million US\$ and almost 4 million US\$ will be invested in those two years respectively).

As for the single actions, action K.01 - Upgrading of the street network is the most expensive amounting to almost 4.5 million US\$.

The investment costs of the foreseen PPP action will represent the 16% of the total, amounting to more than 1.3 million US\$.

### **2.1 FINANCIAL PLAN**

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The financial plan of the Karak CRP has been developed considering separately the implementation and the operational periods. This allows to better understand the different financial sources.

As for the implementation phase, the World Bank will be the major financing institution, with 6 million US\$ (70% of the total), while the Central Government will finance the land acquisition for almost 1,086,801 US\$ (13% of the total). The Municipality will finance the 2% of the investment costs, mainly equipment (50% of the total envisaged for this item) and personnel recruitment (from 0 during the first year to 100% during the fifth year) related ones, while private investors will finance the investment costs envisaged for the PPP action, that account for the 16% of the overall costs.

During the operational phase, private investors will finance the costs related to the management of the PPP action, the municipality will finance 50% of the equipment costs envisaged in the eight years and the Central Government will finance the rest.

## KARAK CRP OVERALL INVESTMENTS COSTS BY ITEM

A) WORKS		Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>ROAD CONSTRUCTION:</b>							
Type A - Al Malk Al hussaym str. - Al Mujamma str. (Total area Sq. Mts 5,055 X JD/sq.mt 22)	USD	15,697	141,269				156,965
SALAH AD-DIN AL AYYUBI STREET - pedestrian paths (Total area Sq. Mts 940 X JD/sq.mt 30)	USD		3,980	35,822			39,802
SALAH AD-DIN AL AYYUBI/AL MADEENAH STREET JUNCTION (Total area Sq. Mts. 3,070 X JD/sq.mt 16)	USD		6,933	62,396			69,329
SOFT LANDSCAPING (Total area Sq. Mts 17,000 X JD/sq.mt 20)	USD		47,989	431,898			479,886
Type B (Total area Sq. Mts 22,470 X JD/sq.mt 16)	USD		50,744	456,694			507,437
Type C (Total area Sq. Mts 15,606 X JD/sq.mt 11)	USD		24,670	222,030			246,700
UTILITIES UPGRADING (see detailed cost estimate)	USD		124,291	1,118,615			1,242,905
TRAFFIC MANAGEMENT PLAN (lump sum)	USD		3,529	31,757			35,286
pedestrian paths (Total area Sq. Mts 2,200 X JD/sq.mt 30)	USD		9,315	83,839			93,154
HARD LANDSCAPE AND CANOPIES (Lump sum)	USD		11,291	101,623			112,914
SITE SPECIFIC ACTION: Ancient wall restoration (Lump sum)			52,929	476,358			529,286
BUS PARKING AREAS (Total area Sq. Mts 4800 X JD/sq.mt 17)				11,517	46,069	57,586	115,173
GREEN AREAS (Total area Sq. Mts 200 X JD/sq.mt 20)				565	2,258	2,823	5,646
SPECIAL CANOPY STRUCTURES (Lump sum)				14,114	56,457	70,572	141,143
REHABILITATION OF THE EASTERN GATEWAY TUNNEL (Lump sum)				11,291	45,166	56,457	112,914
NEW BUILDING CONSTRUCTION (Total area Sq. Mts 2,500 X JD/sq.mt 200)				0	282,286	423,429	705,715
INTERNAL FURNISHING (Total area Sq. Mts 2,500 X JD/sq.mt 120)	USD			0	169,372	254,057	423,429
<b>TOTAL COST OF THE WORKS</b>	<b>USD</b>	<b>89,232</b>	<b>1,102,710</b>	<b>2,960,819</b>	<b>864,924</b>		<b>5,017,686</b>
<b>B) ADDITIONAL PROVISIONS</b>							
<b>b1) TECHNICAL EXPENSES</b>							
Detailed design consultancy (8% of A)	USD	7,139	88,217	223,316	48,869		367,541
Construction supervision and management (8% of A)	USD	7,139	88,217	214,847	36,166		346,369
Construction site security (3% of new building construction)				0	8,469	12,703	21,171
Topographical & archaeological surveys/specialistic investigations (5% of A)	USD	4,462	55,136	133,927	22,075		215,599
<b>b2) CONTINGENCIES (15% of A)</b>	<b>USD</b>	<b>13,385</b>	<b>165,407</b>	<b>418,717</b>	<b>91,630</b>		<b>689,139</b>
<b>C) LAND ACQUISITION</b>	<b>USD</b>	<b>381,086</b>	<b>705,715</b>				<b>1,086,801</b>
<b>D) DEMOLITION OF INTRUSIVE BUILDINGS</b>	<b>USD</b>		<b>42,343</b>				<b>42,343</b>
<b>E) TRADITIONAL BUILDINGS REHABILITATION</b>	<b>USD</b>		<b>423,429</b>				<b>423,429</b>
<b>F) CAPACITY BUILDING</b>							
Recruitment of personnel	USD	26,880	26,880	26,880	26,880	26,880	134,400
Training	USD	13,500	6,750				20,250
Municipal Information System	USD	10,000	20,000	10,000			40,000
Technical Assistance	USD	20,000	20,000				40,000
In-kind Assistance	USD	115,000				108,000	223,000
<b>TOTAL COST OF THE CAPACITY BUILDING</b>	<b>USD</b>	<b>185,380</b>	<b>73,630</b>	<b>36,880</b>	<b>26,880</b>	<b>134,880</b>	<b>457,650</b>
<b>FINAL ACTION PROJECT COST (A+B+C+D+E+F)</b>	<b>USD</b>	<b>687,822</b>	<b>2,744,803</b>	<b>3,996,975</b>	<b>1,103,248</b>	<b>134,880</b>	<b>8,667,727</b>

**KARAK CRP OVERALL INVESTMENTS COSTS BY ACTION**

		<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>Total</b>
K.01 - Upgrading of the street network	USD	21,347	1,254,343	3,208,527			4,484,218
K.02 - The new "heritage walk" along the eastern side of Karak	USD	481,094	1,365,846				1,846,941
K.03 - The re-design of the existing bus station	USD		50,983	203,932	254,916		509,831
K.03 - Private component	USD		0	547,635	821,452		1,369,087
Capacity building	USD	185,380	73,630	36,880	26,880	134,880	457,650
<b>Total</b>	USD	<b>687,822</b>	<b>2,744,803</b>	<b>3,996,975</b>	<b>1,103,248</b>	<b>134,880</b>	<b>8,667,727</b>

## KARAK CRP FINANCIAL PLAN

IMPLEMENTATION PERIOD (amounts in US\$)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Total Financing Required</b>										
Project costs:										
Investments costs	660,942	2,717,923	3,970,095	1,076,368	108,000	0	0	0	0	0
Recurrent costs	26,880	26,880	26,880	26,880	26,880					
Total project costs	687,822	2,744,803	3,996,975	1,103,248	134,880	0	0	0	0	0
Interest during construction	0	0	0	0	0	0	0	0	0	0
<b>Total Financing</b>	<b>687,822</b>	<b>2,744,803</b>	<b>3,996,975</b>	<b>1,103,248</b>	<b>134,880</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Financing</b>										
WB	249,236	2,032,368	3,435,900	261,636	54,000	0	0	0	0	0
Government:										
Central	381,086	705,715	0	0	0	0	0	0	0	0
Municipalities	57,500	6,720	13,440	20,160	80,880	0	0	0	0	0
Privates	0	0	547,635	821,452	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
<b>Total Project Financing</b>	<b>687,822</b>	<b>2,744,803</b>	<b>3,996,975</b>	<b>1,103,248</b>	<b>134,880</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
OPERATIONAL PERIOD (amounts in US\$)										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Total Financing Required</b>										
Project costs:										
Investments costs	0	0	0	0	0	0	0	108,000	0	0
Recurrent costs	0	0	3,600	16,200	47,880	106,680	128,880	137,880	137,880	137,880
Total project costs	0	0	3,600	16,200	47,880	106,680	128,880	245,880	137,880	137,880
Interest during construction	0	0	0	0	0	0	0	0	0	0
<b>Total Financing</b>	<b>0</b>	<b>0</b>	<b>3,600</b>	<b>16,200</b>	<b>47,880</b>	<b>106,680</b>	<b>128,880</b>	<b>245,880</b>	<b>137,880</b>	<b>137,880</b>
<b>Financing</b>										
WB	0	0	0	0	0	0	0	0	0	0
Government:										
Central	0	0	3,600	16,200	19,080	41,400	54,000	117,000	63,000	63,000
Municipalities	0	0	0	0	0	26,880	26,880	80,880	26,880	26,880
Privates	0	0	0	0	28,800	38,400	48,000	48,000	48,000	48,000
Other	0	0	0	0	0	0	0	0	0	0
<b>Total Project Financing</b>	<b>0</b>	<b>0</b>	<b>3,600</b>	<b>16,200</b>	<b>47,880</b>	<b>106,680</b>	<b>128,880</b>	<b>245,880</b>	<b>137,880</b>	<b>137,880</b>