

186. PROFILE ON OUTSKIRT LODGE

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I. SUMMARY

This profile envisages the establishment of an outskirts lodge with a capacity of serving 40,000 customers per annum.

The potential customers for the proposed service are estimated at 225,692 persons per annum. The potential customers are expected to reach at 508,301 persons by the year 2020.

The total investment requirement is estimated at about Birr 25.59 million, out of which Birr 2.72 million is required for lodge equipment. The lodge will create employment opportunities for 247 persons.

The project is financially viable with an internal rate of return (IRR) of 15.92 % and a net present value (NPV) of Birr 10.40 million, discounted at 8.5 %.

II. SERVICE DESCRIPTION & APPLICATION

An outskirts lodge is a building usually providing meals, overnight accommodations and other guest services including park lodges, hunting lodges, and ski lodges are usually located in or near mountains or tourist attractions in the areas at the edge of a town or city, farthest from the center. It is a type of lodge, which specifically utilizes the open environment and associated natural and historical attractions for recreational purpose of its customers

An outskirts lodge service is one type of local/International tourist attraction area where services related with

- Physiographic;
- History and
- Recreational features are provided.

In this profile study, tourist lodge services of recreational feature are considered.

III. MARKET STUDY AND SERVICE CAPACITY

A. MARKET STUDY

1. Past Supply and Present Demand

An outskirts lodge is a type of lodge, which specifically utilizes the open environment and associated natural and historical attractions for recreational purpose of its customers. Addis Ababa is the center for Africa and various international organizations. Besides, almost all forms of tourists arrive and depart through Addis Ababa owing to its opportunity of being the gateway to the outside world and to the different parts of Ethiopia. This and the endowment of Addis Ababa with various historical and natural attractions make it an appropriate site for outskirts lodges service provision.

The highest share of customers for outskirts lodges are domestic and international tourists. Addis is visited by almost every tourist coming to Ethiopia to stay rarely more than two days during arrival and departure excluding conference goers with some average 3 – 5 days and also large numbers of businessmen, diplomats and conference goers. Studies show that currently more than 20,000 Diaspora travelers a year mostly stay in Addis Ababa. Further, transiting visitors are growing at between 15 % and 25 % from 2001 – 2005 reflecting the development of Addis as a hub for regional air travel.

Therefore, as almost all foreign tourists arrive and depart through Addis Ababa, the potential customers for outskirts lodges in the city could be estimated by the volume of tourists arriving. Table 3.1 shows international tourist arrivals during 1997-2005.

Table 3.1
INTERNATIONAL TOURIST ARRIVALS DURING 1997-2005

Year	Number Of Tourists Arrived
1997	139,000
1998	112,000
1999	115,000
2000	135,954
2001	148,438
2002	156,327
2003	179,910
2004	184,077
2005	227,398
Average	155,345

Source: Ministry of Culture and Tourism

As can be seen from Table 3.1, arrival of tourists during 1997-2005 has been steadily increasing registering an annual average growth rate of 7%. The average number of tourists arriving during the years 1997-1999, 2000-2002 and 2003-2005 was 122,000, 156,327 and 197,128 respectively showing a rising trend.

Assuming that the average number of tourists that arrived during the last three years (2003 – 2005) which was 197,128 reasonably indicates the number of tourists arrival for the year 2006, and considering the past growth trend of tourist arrivals (7%) will continue in the near future the present (i.e. 2008) number of tourist arrivals is estimated at 225,692 and this number shows the potential number of customers for out skirt lodges.

2. Projected Demand

As indicated above the service provided by out skirt lodges is influenced by the number of tourist arrivals. Therefore the expected number of customers is assumed to increase at an average growth rate of 7% which is equivalent to the average growth rate registered by tourist arrival in past. Accordingly, taking the estimated present demand as a base and applying a growth rate of 7% the number of customers for out skirt lodge service is projected as shown in Table 3.2

Table 3.2
PROJECTED NUMBER OF TOURIST ARRIVALS

Year	Number Of Tourists
2009	241,490
2010	258,395
2011	276,482
2012	295,836
2013	316,544
2014	338,703
2015	362,412
2016	387,781
2017	414,925
2018	443,970
2019	475,048
2020	508,301

3. Pricing

Currently, out skirt lodges charge from Birr 80 to 250 per night. Usually, the lodges charge lower prices for local tourists and higher prices for foreigners. For the purpose of this study an average price of Birr 120 per night (excluding meals) is adopted.

B. CAPACITY AND SERVICE PROGRAMME

1. Capacity

Based on the market study for the forecasted arrivals of tourists and the economic scale of service provision, the envisaged outskirts lodge will provide services to a total of 40,000 local and international tourists per annum. The service will be given for three shifts of eight hours per day.

2. Service provision programme

The project requires some years to penetrate into the market and capture a significant share. It will start providing services at 60% and 90% of its rated capacity in the first and second year of service provision, respectively. Full service provision shall be attained in the third year and then after. The proposed service provision programme is shown in Table 3.3.

Table 3.3
SRVICE PROVISION PROGRAMME

Service	Year of Service Provision		
	1	2	3-10
% Of Service Provision Capacity	60	90	100
Number of local and international tourists per annum	24,000	36,000	40,000

IV. MATERIALS AND INPUTS

A. RAW MATERIALS

The type materials and the estimated cost, in local currency, for the provision of outskirt lodge services are indicated in Table 4.1.

Table 4.1
ANNUAL MATERIAL AND CONSUMABLE
REQUIREMENT AT FULL SERVICE CAPACITY (LUMP SUM)

Sr. No.	Description	Total Cost (000) Birr
1	Raw and processed food stuffs (wet and dry)	300.00
2	Beverages	200.00
3	Soft drinks	50.00
4	Fruits	30.00
5	Cleaning agents	10.00
6	Cleaning materials	5.00
7	Towels	30.00
8	Pair of Bed sheets	50.00
	Blankets,	85.00
9	Table clothes	20.00
10	Food stuffs and other inputs for horses	40.00
11	Plant seedlings	30.00
12	Fertilizer	20.00
19	Pesticide	20.00
20	Insecticide	10.00
21	Other miscellaneous inputs	100.00
	Sub Total	1000.00

B. UTILITIES

The major utilities required by the center are electricity, fuel oil and water. The estimated annual requirement at full capacity and the corresponding cost is given in Table 4.1. The envisaged outskirts lodge will also utilize water from drilled wells for the purpose of an artificial lakes for fishing, plant and garden watering and other related purposes

Table 4.1
ANNUAL UTILITIES REQUIREMENT AND ESTIMATED COST

Sr. No.	Description	Unit of Meas.	Qty.	Unit price (Birr)	Cost ('000 Birr)
1	Electricity	KWh	40,000	0.4736	18.944
2	Fuel oil (stand by diesel generator)	Lt	1000	6.90	6.9
3	Water	M ³	5000	3.25	16.25
	Total				42.094

V. TECHNOLOGY AND ENGINEERING

A. TECHNOLOGY

1. Service provision process:

The envisaged outskirts lodge will provide its services for both local and international tourists.

The main services and the number of areas where the provision of services could take place are as follows:

- Swimming
- Fishing,

- Trekking,
- Hiking,
- Wild life viewing (Mammals and birds),
- Hippo spotting,
- Mountaineering, or climbing,
- Mountain biking,
- Horseback riding etc.

In addition to the above-mentioned recreational features, the envisaged tourist lodge will provide:

- Accommodation with/with out break fast,
- Dinning and coffee ceremony,
- Laundry service
- Special occasions services
 - Conferences,
 - Honeymoons,
 - National music, art exhibition and other festivals/events,
 - Family, small reunion / retreat, or a business meeting etc.

Accommodations are equipped with satellite TV, VCR/DVD, broad multimedia connection, and some rooms are also provided with fish cleaning facilities with deshalers and complimentary fish freezing unit.

The envisaged lodge will have a total 50 bed rooms (15 double bed rooms with breakfast, 10 single bed rooms with breakfast, 10 three bed rooms with break fast and the remaining 15 bed rooms are single bed room with/with out break fast).

All the services in the lodge (recreational, dinning, coffee ceremony, and special occasion services) are rendered to customers up on their request.

Customers can make a booking to every services where payment with foreign currency (for international tourists) and with local currency (for local tourists) are available with both in cash and by means of credit cards.

The provision of the service doesn't have any adverse impact on the environment.

B. ENGINEERING

1. Machinery and Equipment

The list of machinery, equipment and other facilities required for provision of outskirts lodging services and the corresponding cost is estimated to be Birr 2, 720,000, out of which are all required in local currency (See Table 5.1).

Table 5.1

MACHINERY, EQUIPMENT & TOOLS REQUIREMENT & COST

Sr. No.	Description	UOM	Qty	Total cost ('000 Birr)
1	Broadband internet line with all accessories (supply and installation)	Unit	2	30.00
2	Satellite TV service with accessories (supply and installation)	Unit	2	10.00
3	Desktop computer with accessories (network supply and installation)	Set	40	300.00
4	Bed with side drawers, assorted type and sizes	set	50	90.00
5	Fishing rod with accessories	Set	20	44.50
6	Mountain climbing tools and accessories	Set	20	50.00
7	Public addressing system (supply and installation)	Set	2	100.00
8	CCTV (supply and installation)	Set	1	470.00
9	Foldable chairs	Pcs	200	20.00
10	View zooming device with accessories	Set	4	600.00
11	Security mobile Radio, weapons and inspection device (Assorted)	Lump sum		80.00
12	First aid kit	Set	4	20.00

Sr. No.	Description	UOM	Qty	Total cost ('000 Birr)
13	Table and chairs for restaurant, bedrooms, offices (assorted type and sizes)	pcs	500	100.00
14	Catering and kitchen tools and equipment (assorted type and sizes)	Lump sum		80.00
15	Refrigerator (assorted type and sizes)	Lump sum	60	90.00
16	Plastic chairs with table and umbrella	Set	30	50.00
17	Wheel barrow	Set	10	2.00
18	Spade with handle	Pcs	30	1.50
19	Fork with handle	pcs	30	1.50
20	Scraper with handle	pcs	30	1.50
21	Vacuum cleaners and accessories (Assorted)	pcs	8	40.00
22	Mobile diesel generator with canopy attachment and control system 11KW	Set	1	20.00
23	Mobile grinding machine with accessories (Assorted)	Set	2	5.00
24	Mobile drilling machine with accessories (Assorted)	Set	2	5.00
25	Mobile arc welding transformer	Set	2	20.00
26	Mobile gas welding machine	Set	2	20.00
27	Mechanic tool kit with metallic box	Set	2	5.00
28	Lawnmower and its accessories	Set	5	30.00
29	TV-set	Set	30	120.00
30	Retractable aluminum ladder (Assorted)	Pcs	4	10.00
31	Plumber tool kit with metallic box	Set	2	5.00
32	Refrigerator maintenance and repair kit	Set	1	4.00
33	DVD player	Set	40	40.00
34	Cafeteria facilities	Set	2	55.00
35	Other miscellaneous items			200.00
	Total			2720.00

2. Land, Building and Civil Works

The envisaged outskirts lodges requires a total plot of land of 7,000 m² area out of which 2000 m² area is the indoor built-up area which consists of the following buildings Accommodations(1500m²) administration offices reception(90m²), restaurant(250m²), kitchen(50m²), store(60m²), toilet(50m²) etc. 5000 m² area is the out door built -up area which includes the swimming pool(600m²), artificial lake for fishing(500m²), horse riding field(1500m²), cafeteria(250m²), generator house(30m²), warehouse(150m²), park(1500m²), parking lot(270m²), walk ways, garden and guard room(200m²).

Assuming an average indoor and outdoor construction rate of Birr 2,300 per m², the total cost of civil and building is estimated Birr 16,100,000.

According to the Federal Legislation on the Lease Holding of Urban Land (Proclamation No 272/2002) in principle, urban land permit by lease is on auction or negotiation basis, however, the time and condition of applying the proclamation shall be determined by the concerned regional or city governments depending on the level of development.

In Addis Ababa the city's Land Administration And Development Authority is directly responsible in dealing with matters concerning land. Accordingly, the initial land lease rate in Addis Ababa set by the Authority based on the location of land is as shown in Table 5.1.

Table 5.1
INITIAL LAND LEASE RATE IN ADDIS ABABA

Sr. No	Location of the land	Land Grade	Initial Price in m²
1	Central Business zones	1	1167.3
		2	1062.9
		3	916.2
		4	751.5
		5	619.2
2	Places That are Under Transit	1	716.4
		2	647.1
		3	559.8
		4	472.5
		5	384.3
3	Expansion Zones	1	245.7
		2	207
		3	150.3
		4	132.3

Source; Addis Ababa City Land Administration Authority

As can be seen from Table 5.2 the initial land lease rate ranges from Birr 1,167.3 to 132.3 per m².

Considering the nature of the project expansion zones are recommended as the best locations for the project. Accordingly, the least land lease rate in the expansion zones which is Birr 132.3 m² is adopted.

The Federal Legislation on the Lease Holding of Urban Land legislation has also set the maximum on lease period and the payment of lease prices (See Table 5.2 and Table 5.3.)

Table 5.2
LEASE PERIOD

Type of Service	Lease Period (Years)
Residential area	99
Industry	80
Education, cultural research health, sport, NGO and religious	99
Trade	70
Urban Agriculture	15
Other service	70

Table 5.3
LEASE PAYMENT PERIOD

Sr. No.	Service Type	Period of Payment According to the Grade of Towns
1	Private residential are obtained through tender or negotiation	50 - 60 years
2	Trade	40 - 50 years
3	Industry	40 - 50 years
4	Real estate	40 years
5	Urban Agriculture	8 - 10 years
6	Trade and social service	40 - 50 years
7	Others	40 years

Moreover, advance payment of lease based on the type of investment ranges from 5% to 10%. For those that pay the entire amount of the lease will receive 0.5% discount from the total lease value and those that pay in installments will be charged interest based on the prevailing interest rate of banks. Moreover, based on the type of investment, two to seven years grace period shall also be provided. The lease price is payable after the grace period annually.

Regarding, the terms and conditions of land lease the Addis Ababa City Government have adopted Article 6 of the Federal Legislation with very minimal changes. Therefore, for the purpose of this project profile since the project is engaged in social service , 99 years lease period, 50 years lease payment completion period, 5% down payment and seven years grace period is used.

Accordingly, the land lease cost of the project, at rate of Birr 132.3 per m² for 99 years of holding is estimated at Birr 63.69 million. Assuming 5% of the total cost (Birr 4.58 million) will be paid in advance as down payment and the remaining Birr 87.10 million will be paid in equal installments with in 50 years, the annual lease payment is estimated at Birr 1,741,994.

VI. MANPOWER AND TRAINING REQUIREMENT

A. MANPOWER REQUIREMENT

The total manpower requirement, including skilled and unskilled labor is 247 persons. The corresponding total labor cost, including fringe benefits, is estimate at Birr 2,940,750. Table 6.1 shows the list of manpower required and the estimated annual labor costs.

Table 6.1
MANPOWER REQUIREMENT & LABROUR COST

Sr. No.	Position	Req. No.	Salary (Birr)	
			Monthly	Annual
1.	General manager	1	5,000	60,000
2.	Secretary	1	1,000	12,000
3.	Head, finance & administration	1	3,500	42,000
4.	Tour operator	30	30,000	360,000
5.	Salesman	2	4,000	48,000
6.	Ticket attendant	4	2,800	33,600
7.	Receptionist	4	3,600	43,200
8.	Live saver	4	3,600	43,200
9.	Financial clerk	1	800	9,600
10.	Security officer	1	2,000	24,000
11.	Snr. Technician	2	2,200	26,400
12.	Chief cook	2	2,400	28,800
13.	Cook	12	10,800	129,600
14.	Restaurant attendant	20	16,000	192,000
15.	Laundry service attendant	4	2,800	33,600
16.	Accommodation attendant	20	16,000	192,000
17.	Maintenance technicians	5	3,750	45,000
18.	Purchaser	1	900	10,800
19.	Security guards	7	4,900	58,800
20.	Driver	5	3,500	42,000
21.	Cashers	2	1,500	18,000
22.	Room Cleaner	30	18,000	216,000
23.	Out side cleaner	20	13,000	156,000
24.	Store keeper	2	1,400	16,800
25.	Guard	40	28,000	336,000
26.	Cafeteria Attendant	10	6,800	81,600
27.	Gardener	6	3,300	39,600
28.	Laborer	10	4,500	54,000
	Total	247		2,352,600
	Workers benefit (25% of BS)			588,150
	Grand total			2,940,750.00

B. TRAINING REQUIREMENT

Tour operators and the various attendants of the lodge need to get local tailor made training and attachment training at similar centers. The cost of training is estimated at Birr 50,000.

VII. FINANCIAL ANALYSIS

The financial analysis of the outskirts lodge project is based on the data presented in the previous chapters and the following assumptions:-

Construction period	1 year
Source of finance	30 % equity
	70 % loan
Bank interest	8.5%
Discount cash flow	8.5%
Accounts receivable	30 days
Raw material (perishable)	3 days
Raw Material (non perishable)	30 days
Cash in hand	5 days
Accounts payable	30 days
Repair and maintenance	5% of machinery cost

A. TOTAL INITIAL INVESTMENT COST

The total investment cost of the project including working capital is estimated at Birr 25.59 million.. The major breakdown of the total initial investment cost is shown in Table 7.1.

Table 7.1
INITIAL INVESTMENT COST

Sr. No.	Cost Items	Local Cost	Foreign Cost	Total Cost
1	Land lease value	4,580.00	-	4,580.00
2	Building and Civil Work	16,100.00	-	16,100.00
3	Lodge Equipment	2,720.0	-	2,720.00
4	Office Furniture and Equipment	100.00	-	100.00
5	Vehicle	450.00	-	450.00
6	Pre-production Expenditure*	1,433.94	-	1,433.94
7	Working Capital	209.28	-	209.28
	Total Investment cost	25,593.22	-	25,593.22

* *N.B Pre-production expenditure includes interest during construction (Birr 1.28 million), training (Birr 50 thousand) and Birr 100 thousand costs of registration, licensing and formation of the company including legal fees, commissioning expenses, etc.*

B. OPERATING COST

The annual operating cost at full capacity operation is estimated at Birr 6.17 million (see Table 7.2). The major components of the operation cost are direct labour, financial cost and material and input which account for 22.86 %, 18.16% and 16.19% respectively. The remaining 42.79 % is the share of utility, labour overhead, repair and maintenance, depreciation and administration cost.

Table 7.2**ANNUAL PRODUCTION COST AT FULL CAPACITY ('000 BIRR)**

Items	Cost	%
Material and Inputs	1,000.00	16.19
Utilities	42.09	0.68
Maintenance and repair	136.00	2.20
Labour direct	1,411.56	22.86
Labour overheads	588.15	9.52
Administration Costs	941.04	15.24
Land Lease Cost	-	-
Total Operating Costs	4,118.84	66.70
Depreciation	935.00	15.14
Cost of Finance	1,121.44	18.16
Total Production Cost	6,175.28	100

C. FINANCIAL EVALUATION**1. Profitability**

Based on the projected profit and loss statement, the project will generate a profit through out its operation life. Annual net profit after tax will grow from Birr 837.04 thousand to Birr 3.74 million during the life of the project. Moreover, at the end of the project life the accumulated cash flow amounts to Birr 28.34 million.

2. Ratios

In financial analysis financial ratios and efficiency ratios are used as an index or yard stick for evaluating the financial position of a firm. It is also an indicator for the strength and weakness of the firm or a project. Using the year-end balance sheet figures and other relevant data, the most important ratios such as return on sales which is computed by

dividing net income by revenue, return on assets (operating income divided by assets), return on equity (net profit divided by equity) and return on total investment (net profit plus interest divided by total investment) has been carried out over the period of the project life and all the results are found to be satisfactory.

3. Break-even Analysis

The break-even analysis establishes a relationship between operation costs and revenues. It indicates the level at which costs and revenue are in equilibrium. To this end, the break-even point of the project including cost of finance when it starts to operate at full capacity (year 3) is estimated by using income statement projection.

$$\text{BE} = \frac{\text{Fixed Cost}}{\text{Sales} - \text{Variable Cost}} = 27 \%$$

4. Payback Period

The pay back period, also called pay – off period is defined as the period required to recover the original investment outlay through the accumulated net cash flows earned by the project. Accordingly, based on the projected cash flow it is estimated that the project's initial investment will be fully recovered within 6 years.

5. Internal Rate of Return

The internal rate of return (IRR) is the annualized effective compounded return rate that can be earned on the invested capital, i.e., the yield on the investment. Put another way, the internal rate of return for an investment is the discount rate that makes the net present value of the investment's income stream total to zero. It is an indicator of the efficiency or quality of an investment. A project is a good investment proposition if its IRR is greater than the rate of return that could be earned by alternate investments or putting the money

in a bank account. Accordingly, the IRR of this project is computed to be 15.92 % indicating the viability of the project.

6. Net Present Value

Net present value (NPV) is defined as the total present (discounted) value of a time series of cash flows. NPV aggregates cash flows that occur during different periods of time during the life of a project into a common measuring unit i.e. present value. It is a standard method for using the time value of money to appraise long-term projects. NPV is an indicator of how much value an investment or project adds to the capital invested. In principle a project is accepted if the NPV is non-negative.

Accordingly, the net present value of the project at 8.5% discount rate is found to be Birr 10.40 million which is acceptable.

D. ECONOMIC BENEFITS

The project can create employment for 247 persons. The project will generate Birr 6.14 million in terms of tax revenue. The project could be one of the sources for foreign exchange earning by giving services to international tourists.