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ASEZA REVENUE ENHANCEMENT PROJECT- INTERIM REPORT

AQABA COMMUNITY and ECONOMIC DEVELOPMENT (ACED) PROGRAM

March 17, 2009

This publication was produced for review by the United States Agency for International Development. It was prepared by PKF Group Subcontractor for AECOM International Development under the Aqaba Community and Economic Development (ACED) Program.

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ACED Program Frequently-Used Acronyms and Abbreviations

(Not all of the following will appear in every ACED Program document)

ACED Program	Aqaba Community and Economic Development Program (USAID)
ACT	Aqaba Container Terminal
ADC	Aqaba Development Corporation
ADS	Automated Directive Systems
AIDAR	USAID Acquisition Regulation
AIIE	Aqaba International Industrial Estate
APC	Aqaba Ports Corporation
ASEZ	Aqaba Special Economic Zone
ASEZA	Aqaba Special Economic Zone Authority
ASRI	Aqaba Skills Readiness Index
ASYCUDA	Automated System for Customs Data
ATASP	Aqaba Technical Assistance Support Program (USAID)
AUC	Aqaba University College
AZEM	Aqaba Zone Economic Mobilization Project (USAID)
AGDTF	Aqaba Garment Development Task Force
BAFO	Best and Final Offer
BDC	Business Development Center
BDS	Business Development Services
CBO	Community-Based Organization
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CMT	Cut-Make-Trim
CO	Contracting/Contracts Officer
COB	Close of Business
COP	Chief of Party
CP	Cost Proposal
CRM	Customer Relationship Management
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
CTO	Cognizant Technical Officer
D&G	Democracy and Governance

DCA	Development Credit Authority
EG	Economic Growth
EGRA	Early Grade Reading Assessment
EO	Economic Opportunities
EOI	Expression of Interest
EPC	Executive Privatization Commission
ERfKE	Education Reform for a Knowledge Economy (USAID)
EU	European Union
ETF	European Training Foundation
FAR	Federal Acquisition Regulation
FDI	Foreign Direct Investment
FDR	Fixed Daily Rate
FHR	Fixed Hourly Rate
FTA	Free Trade Agreement
FZC	Free Zones Corporation
GDA	Global Development Alliance
GDP	Gross Domestic Product
GEM	Gender Entrepreneurship Markets
GIS	Geographic Information System
GOJ	Government of Jordan (the central governing entity of Jordan)
GPS	Global Positioning System
HR	Human Resources
ICDL	International Computer Driving License
ICT	Information and Communications Technology
INJAZ	Economic Opportunities for Jordanian Youth Program
IPR	Intellectual Property Rights
IQC	Indefinite Quantity Contract
ISP	Internet Service Provider
IS-ASEZA	Institutional Support to ASEZA (EU funded project)
IT	Information Technology
JD	Jordanian Dinar
JITOA	Jordan Inbound Tour Operators Association

JIB	Jordan Investment Board
JNA	Jordan National Agenda
JNCW	Jordanian National Commission for Women
JSCED	Jordan Standard Classifications of Education
JUSBP	Jordan-United States Business Partnership
JUSFTA	Jordan-United States Free Trade Agreement
KOJ	Kingdom of Jordan (the country within its physical boundaries)
LCDD	Local Community Development Directorate (ASEZA)
LECP	Local Employee Compensation Plan
LOE	Level of Effort
LTTA	Long-Term Technical Assistance
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MFI	Microfinance Institution
MIS	Management Information System
MOF	Ministry of Finance
MOL	Ministry of Labor
MOPIC	Ministry of Planning and International Cooperation
MOTA	Ministry of Tourism and Antiquities
MOU	Memorandum of Understanding
MSME	Micro, Small & Medium Enterprises
NCHRD	National Center for Human Resources Development
NDA	Neighborhood Development Activity
NDC	Neighborhood Development Committee
NET	Neighborhood Enhancement Team
NICRA	Negotiable Indirect Cost Rate
NGO	Non-Governmental Organization
NTS	National Tourism Strategy
PACE	Participatory Action for Community Enhancement
PMP	Performance Management Plan
PPP	Public Private Partnership
PR	Public Relations

PSD	Private Sector Development
R&D	Research and Development
QA	Quality Assurance
QC	Quality Control
RFP	Request for Proposal
RFQ	Request for Quotation
SABEQ	Sustainable Achievement of Business Expansion and Quality (USAID)
SIYAHA	The Tourism Project (USAID)
SFU	Satellite Factory Unit
SME	Small and Medium Enterprises
SOW	Scope of Work
STTA	Short-Term Technical Assistance
SWOT	Strength, Weakness, Opportunities and Threads
TA	Technical Assistance
TBD	To Be Determined
TO	Task Order
TOT	Training of Trainers
TP	Technical Proposal
TRIDE	Trilateral Industrial Development
TVET	Technical and Vocational Education and Training
USAID	United States Agency for International Development
VTC	Vocational Training Center
WAEDAT	Women's Access to Entrepreneurial Development and Training
WEPIA	Water Education and Public Information for Action
WTO	World Trade Organization
WTTP	Workforce Technical Transformation Program

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I. INTRODUCTION

Fiscal sustainability is vital to running a city or an institution that is financially and administratively autonomous in nature in order to ensure fulfillment of cash requirements for its financial obligations.

The Aqaba Special Economic Zone Authority (ASEZA) is a financially and administratively autonomous institution. As a result, having a comprehensive revenue strategy becomes vital to meet its financial obligations. Hence the objectives of the assignment are:

- To analyze ASEZA's fiscal capabilities which will focus on the historical (2005-2008) revenue analysis through analyzing all revenue sources of ASEZA?
- To develop a matrix to illustrate the entire portfolio of ASEZA revenue sectors and portray the direction of past and future trends (2009-2013) of these revenue sources.
- To identify potential new or additional revenue sources.
- To develop a matrix to include the total revenue structure including additional probable new revenues.
- To develop a matrix to identify the sensitivity of ASEZA's total revenue structure if the revenue shares of the Government of Jordan (GOJ) increased by 25%.

II. AQABA ECONOMIC OVERVIEW

- **Location**

Aqaba is a coastal town in the far south of Jordan. It is the capital of Aqaba Governorate, located approximately 400km from the capital Amman. Aqaba is strategically important to Jordan as it is the country's only seaport. The town borders Eilat, Israel, and there is a border post where it is possible to cross between the two countries. Both Aqaba and Eilat are at the head of the Gulf of Aqaba.

The town is best known today as a diving and beach resort. However, industrial activity remains important to the area, and the town is an exporter of phosphate and potash, both of which are major foreign exchange earners for the country's economy. The town is also an important administrative center within the south of Jordan.

➢ Buildings and population

Aqaba's economic growth over the past two decades has been accompanied by a parallel growth in population. Since 1979, Aqaba has expanded from a small town of 26,999 occupying 4,773 buildings to a city of 95,952 inhabitants in 2007 with 12,012 buildings. By the year 2010, Aqaba is predicted to reach a population of 120,000. Beyond the year 2007, the region's planners anticipate a doubling of the population to approximately 240,000 by the year 2020, taking into account current plans for resort hotels and vacation community development.

The following table represents the number of buildings, houses, households, and Individuals in Aqaba city between 1979-2007.

Table 1: Number of building, households and individuals in Aqaba

	1979	1994	2004	2007
Buildings	4,773	7,756	10,022	12,012
Houses	6,067	13,814	21,298	28,663
Households	4,805	11,100	14,661	18,425
Individuals	26,999	62,773	80,059	95,952
Male	16,456	35,304	44,692	53,847
Female	10,543	27,469	35,367	42,105
Citizen	-	53,048	66,696	78,818
Non citizen	-	9,725	13,363	17,134

Source: Department of Statistics

➢ Investment

Though a town of only 95,952 people, Aqaba is setting an example of how to attract investment. In the past decade, domestic and foreign investment into the Aqaba region has increased dramatically and the town's population is set to double over the next 10 years. Certainly, the town benefits from some natural advantages. Located at the southern tip of Jordan, between Saudi Arabia and Israel on the shores of the Red Sea, the city is close to the Suez Canal, with easy access to key trade centers in both the Middle East and Africa. Aqaba is also Jordan's only deep-water port town, taking up a scant 27 km of coastline. ASEZA has been responsible for most of this development since its formation in 2001. It covers 375 sq km and offers a basket of tax and tariff incentives, as well as full repatriation rights and more flexible operating regulations. There is a 5% flat tax on most economic activities, no tariffs on imported goods, no currency restrictions and no property taxes for corporate land. Additionally, given Jordan's past issues with unemployment – companies based in ASEZ are allowed to employ up to 70% foreign workers in their operations. Jordan's investment profile has been growing nationally, but according to the Jordan Investment Board (JIB), the ASEZ has exceeded investment targets by 33%. By 2006 it had already brought in around $8bn in investments, approximately $2bn more than the original target of $6bn by 2020. ASEZA expects to attract a further $12bn spread across a number of sectors, including tourism, finance and industry. Along with tourism projects, Aqaba has also attracted global logistic companies such as APM Terminals and Agility to invest in logistics, which boosted the city's status as a transport and logistics hub.

➢ Labor force

Discounting students and house makers, the labor force in Aqaba amounts to approximately 30,900 persons (27,958 employed) out of a total population of 95,952 according to the census conducted in December 2007 a labor participation rate of 32.2%. The Jordanian citizens' unemployment rate in Aqaba is estimated is estimated at 11.6%, which is somewhat lower than the national average of 14.4%. On the demand side, the number of additional jobs to be required over the next 5-7 years is likely to be in the order of 20,000, an increase of over 70%.

The following tables and figure illustrate the distribution of population living in Aqaba city with ages of 15+ years, by Economic Activity and Nationality (2007)

Table 2: Distribution of population living in Aqaba city 15+ years of Age by Economic Activity and Nationality (2007)

Economic Activity Status	Number	Percentage
Jordanian		
Employed	20,753	43.9%
Unemployed	2,728	5.8%
Student	7,791	16.5%
House Maker	13,491	28.6%
Others ("With Means," Disabled, etc.)	2,468	5.2%
Total	47,231	100%
Non Jordanian		
Employed	7,205	75.9%
Unemployed	235	2.5%
Student	372	3.9%
House Maker	1,405	14.8%
Others	272	2.8%
Total	9,489	100%
Total		
Employed	27,958	49.3%
Unemployed	2,963	5.2%
Student	8,163	14.4%
House Maker	14,896	26.3%
Others	2,740	4.8%
Total	56,720	100%

Source: Department of Statistics

Table 3: Distribution of employed persons living in Aqaba city 15+ years of age (2007) by occupation.

Current Occupation	Total
Legislators, Senior Officials, and Managers	99
Professionals	4149
Technicians and Associate Professionals	3619
Clerks	2456
Service Workers, Shop, and Sales Workers	3188
Skilled Agricultural and Fishery Workers	121
Craft and Related Trades Workers	5683
Plant and Machine Operators and Assemblers	3266
Elementary Occupations	5369
Unspecified	8

Source: Department of Statistics

➢ Tourism

Aqaba is well known for its beach resorts and luxury hotels, which service those who come for entertainment such as water sports like windsurfing and Scuba diving. It also offers activities which take advantage of its desert location.

Today, the Tourism Directorate of ASEZA has taken an international awareness campaign to different countries of Europe. ASEZA's aim was to encourage those from as far as Sweden and Norway to Spain, UK, Poland and Italy to come to Aqaba. In 2009, Aqaba was announced as the site of a new waterfront building project featuring water structures, new high-rise residential and office buildings, and broadened tourist services. This major new development will place Aqaba on the world visitors' map and challenge other centers of waterfront development throughout the region.

The following table represents Classified, Unclassified Hotels and Suites Indicators, 2004-2006

Table 4: Classified, Unclassified Hotels and Suites Indicators, 2004-2006

Item	2004	2005	2006 (Jan-Jun)
No. of Arrivals	357,223	420,971	215,334
No. of Nights Occupied	820,384	814,668	359,794
No. of Rooms Occupied	462,625	459,501	197,921
Nights Spent by resident	429,067	380,038	219,326
Nights spent by non resident	391,308	434,630	140,468

Source: ASEZA (Tourism Directorate)

Aqaba's economy is skyrocketing because of the economic zone. New resorts are being constructed, but most are still on the leveling stage. New projects like Tala Bay and Saraya al Aqaba will provide high-end vacation and residential homes to locals and foreigners alike. There are numerous hotels that reside in Aqaba but new hotels are also under construction.

Along with tourism projects, Aqaba has also attracted global logistic companies such as APM Terminals and Agility to invest in logistics, which boosted the city's status as a transport and logistics hub.

So much investment has poured into Aqaba by 2008 from Gulf and European investors that Aqaba may shortly overshadow Eilat, the prosperous Israeli Red Sea resort across the border.

III. ASEZA REVENUES AND EXPENSES

ASEZA's historical revenues and expenses were identified and analyzed through developing a financial model based on certain historical data obtained from ASEZA officials. The model was developed to analyze the current situation and trends of ASEZA's revenues, along with the contribution of each revenue source to overall revenues. The financial model included all historical revenue sources and their trends over the past four years (32 sources of revenue have been identified). The sources were categorized in four main types as illustrated in Table (5):

Table 5: Revenue Type and contribution

Revenue Category	Number of revenue sources	% Total contribution to overall ASEZA revenue (FY08 Budget)
Total Operational Revenues	22	32.1%
Total Tax Revenues	5	27.4%
Total Capital Revenues (from Assets)	3	28.4%
Grants, and Gov. Support Revenues	2	12.1%

Table 6 below is the portfolio of ASEZA revenue sectors for the period 2005-2008 budgeted. "A" = "Actual" and "B" = "Budgeted" expenditures for each respective year.

Table 6: ASEZA Financial Revenues (2005-2008)

No.	Revenue Source	Shared W Gov. Y:Yes N:No	FY05A and %		FY06A and %		FY07A and %		FY08B and %	
Operation Revenues										
1	Traffic tickets	N	868,143	2%	973,702	2%	1,047,540	2%	1,201,404	2%
2	Rented Property Revenues	N	625,883	2%	1,530,562	3%	1,759,763	3%	1,849,526	3%
3	Rum Revenues	N	0	0%	242,596	1%	342,263	1%	521,974	1%
4	Handcraft Workshop Revenues	N	0	0%	35,316	0%	38,710	0%	75,769	0%
5	Environmental Penalty Revenues	N	0	0%	0	`	18,050	0%	0	0%
6	Sea Park Cafeteria Revenues	N	0	0%	0	0%	32,977	0%	44,321	0%
7	Sea Park Activity Revenues	N	0	0%	0	0%	16,999	0%	20,570	0%
8	Food Inspection Revenues	N	0	0%	0	0%	4,665	0%	433,408	1%
9	Air Inspection Revenues	N	0	0%	0	0%	68,523	0%	77,523	0%
10	Water Inspection Revenues	N	0	0%	0	0%	11,445	0%	35,565	0%
11	Other Inspection Revenues	N	0	0%	0	0%	9,007	0%	33,472	0%
12	Company Registration Fees	N	805,969	2%	767,044	2%	803,554	1%	1,151,886	2%
13	Starting Work Permit Fees	N	0	0%	171,147	0%	144,424	0%	140,127	0%
14	Work Permits and Residence Permit Fees	N	1,768,276	4%	2,108,739	5%	2,155,776	4%	2,883,967	4%
15	Transfer of Public Vehicles	N	0	0%		0%	27,000	0%	0	0%
16	Fines & Penalties	N	4,455,716	11%	1,234,872	3%	1,233,566	2%	1,699,445	2%
17	Storage Revenues	N	0	0%	3,773,335	8%	3,870,862	6%	3,707,851	5%
18	Regulation Project for Entry & Exit of Trucks	N	0	0%	734,133	2%	862,458	1%	490,435	1%
19	Municipal Servicing Licenses & Fees	N	46,840	*0%*	74,593	*0%*	69,469	*0%*	50,821	*0%*
20	Garbage Fees	N	225,598	*1%*	800,602	*2%*	523,982	*1%*	578,569	*1%*
21	Building Permits Fees & Revenues	N	1,780,001	*4%*	3,767,828	*8%*	3,753,969	*6%*	2,776,790	*4%*
22	Other Revenues	N	1,999,609	*5%*	1,251,841	*3%*	7,073,210	*12%*	4,261,863	*6%*
	Total Operation Revenues		12,576,034	31%	17,466,312	39%	23,868,210	39%	22,035,284	32%

(Table 6 continued)

Tax Revenues										
23	Land & Building Tax	N	508,344	*1%*	1,113,337	*2%*	1,012,684	*2%*	545,919	*1%*
24	Sales Tax for Goods	Y	837,777	*2%*	899,891	*2%*	1,131,446	*2%*	1,942,277	*3%*
25	Sales Tax For Services	Y	837,777	*2%*	1,060,377	*2%*	1,210,615	*2%*	1,632,949	*2%*
26	Special Tax	Y	3,773,302	*9%*	6,685,170	*15%*	7,462,154	*12%*	8,965,873	*13%*
27	Income Tax (Individuals only)	Y	2,433,365	*6%*	2,538,803	*6%*	3,008,893	*5%*	5,747,551	*8%*
	Total Tax Revenues		8,390,564	21%	12,297,577	27%	13,825,792	23%	18,834,569	27%
Capital Revenues										
28	Market and Property Sale Installments	N	289,523	*1%*	7,331	*0%*	244,051	*0%*	25,901	*0%*
29	Land Sale Installments	N	11,690,251	*29%*	5,582,479	*12%*	13,534,895	*22%*	14,500,000	*21%*
30	ADC Land Sales Contributions	N	0	*0%*	0	*0%*	0	*0%*	5,000,000	*7%*
	Total Capital Revenues		11,979,774	30%	5,589,809	12%	13,778,946	23%	19,525,901	28%
	Total Revenues Before Grants		**32,946,373**	**81%**	**35,353,698**	**79%**	**51,472,948**	**84%**	**60,395,754**	**88%**
31	Grants and Donations:	N	7,517,188	*19%*	9,657,319	*21%*	9,478,290	*16%*	5,449,229	*8%*
32	Governments Loans and Contributions	N	0	*0%*		*0%*	0	*0%*	2,849,502	*4%*
	Total Revenues ,Grants And Gov. Cont.		**40,463,560**	**100%**	**45,011,017**	**100%**	**60,951,237**	**100%**	**68,694,485**	**100%**

ASEZA Historical Expenses

ASEZA's historical expenses from 2005-2008 have been analyzed, and the analysis revealed that ASEZA's expenses are rising at a higher rate than its revenues. This had led to a deficit in year 2008 by around 10.1 million JD. Table (7) below presents ASEZA expenses and cost for years 2005-2008 (A=Actual; B=Budgeted).

Table 7: ASEZA Historical Expenses (2005-2008)

Expenditure item	FY05A	% FY05A	FY06A	% FY06A	FY07A	% FY07A	FY08B	% FY08B
Current & Operation Expenses	14,459,395	35%	18,104,973	48%	21,151,889	38%	27,894,225	35%
Capital Expenditures "Self Funded"	18,258,620	45%	8,654,206	23%	23,404,019	42%	45,482,139	58%
Capital Expenditures Grants Funded"	8,128,008	20%	10,877,554	29%	10,833,263	20%	5,449,229	7%
Total Expenses and Costs	40,846,023	100%	37,636,733	100%	55,389,170	100%	78,825,593	100%
Surplus / (Deficit)	(382,463)		7,374,284		5,562,067		(10,131,108)	

If these expense projections are valid, actions should be taken by ASEZA to ensure an increase in total revenues. Identifying ways to accomplish this is the main objective from PKF ProGroup's assignment. Furthermore, ASEZA is advised to conduct an analysis of its costs and prepare itself to answer whether increases are justified.

IV. FORECAST OF REVENUES AND EXPENSES

All forecasting models have either an implicit or explicit error structure. To minimize the errors in forecasting, an in-depth diagnostic analysis based on statistics is required for each revenue type/source. Therefore, PKF ProGroup developed an initial methodology, namely to develop a base-line forecast that based on an analysis of the current situation. PKF ProGroup's initial methodology included identified each revenue driver and estimated its revenue generation volume (e.g., number of units). However, such a reliable, in–depth method of forecasting could not be achieved due to lack of data from ASEZA.

Alternatively, PKF ProGroup developed another solution based on the following "trend analysis" method:

- The consultant team tabulated ASEZA's revenue sources into 32 items. Subsequently, a trend analysis of past revenue values was conducted for each item separately. This revealed an average of the increasing/decreasing rates of revenues for the past five years (sometimes three years). Forecasts were made accordingly on the rate of future revenue generation.
- In the case of exceptions where no trend has been identified (due to fluctuating revenue amounts of some revenue items), assumptions were made as shown in Table (8). Other exceptions were made where a dramatic increase/decrease in revenues was spotted, such as "company registration fees".

This method of forecasting produces a minimal error factor for two reasons:

1. The forecast is based on trend analysis for each type of revenue, and not trend analysis of the total sum of revenues.
2. The forecast is a method that suits the type of statistics such as taxes (which is important because taxes contribute around 27% of total revenues).

A) ASEZA Revenue Forecast 2009-2013

Following Table 8 is a summary of revenues as forecasted for 2009-2013

Table 8: ASEZA Historical Revenues (2005-2008) and Forecast for each Source "Without Enhancements"

Revenue Source	Historical Data				Forecast for 2009 through 2013				
	FY05A	FY06A	FY07A	FY08 (Budget)	FY09F	FY10F	FY11F	FY12F	FY13F
1.Traffic tickets	868,143	973,702	1,047,540	1,201,404	1,339,287	1,492,995	1,664,344	1,855,359	2,068,296
Revenue	868,143	973,702	1,047,540	1,201,404	1,339,287	1,492,995	1,664,344	1,855,359	2,068,296
% Growth	*0%*	*12%*	*8%*	*15%*					
2.Rented Properties									
Revenue	625,883	1,530,562	1,759,763	1,849,526	2,035,180	2,239,469	2,464,265	2,711,625	2,983,816
% Growth	*0%*	*145%*	*15%*	*5%*		*The average of increasing rates for the last 2 years*			
3.Rum Revenues									
Revenue	0	242,596	342,263	521,974	600,270	690,311	793,857	912,936	1,049,876
% Growth	*0%*	*0%*	*41%*	*53%*	*15% is an assumption substituted for the unrealistic average of 31% realized for the last 3 years*				
4.Handcraft Workshop									
Revenue	0	35,316	38,710	75,769	87,892	101,955	118,268	137,191	159,141
% Growth	*0%*	*0%*	*10%*	*96%*	*16% was substituted for the average of the last 3 years (35%) which is considered excessive on which to base a forecast*				
5. Environ. Penalty									
Revenue	0	0	18,050	0	0	0	0	0	0
% Growth	*0%*	*0%*	*0%*	*0%*					
6.Sea Park Cafeteria									
Revenue	0	0	32,977	44,321	51,944	60,877	71,348	83,619	98,001
% Growth	*0%*	*0%*	*0%*	*34%*					
7. Sea Park Activity									
Revenue	0	0	16,999	20,570	22,730	25,116	27,754	30,668	33,889
% Growth	*0%*	*0%*	*0%*						
8.Food Inspection									
Revenue	0	0	4,665	433,408	*21%*			898,715	1,078,458
% Growth	*0%*	*0%*	*0%*	*9190%*					
9.Air Inspection									
Revenue	0	0	68,523	77,523	82,614	88,039	93,821	99,982	106,548
% Growth	0	0	0	13%					
10.Water Inspection									
Revenue	0	0	11,445	35,565	42,677	51,213	61,456	73,747	88,496
% Growth	*0%*	*0%*	*0%*	*211%*	*20% was substituted for the unrealistic average for the last 2 years of 105%*				

11.Other Inspection									
Revenue	0	0	9,007	33,472	40,167	48,200	57,840	69,408	83,290
% Growth	*0%*	*0%*	*0%*	*272%*	*20% was substituted for the unrealistic average for the last 2 years of 136%*				
12.Company Registration Fees									
Revenue	805,969	767,044	803,554	1,151,886	1,276,518	1,414,634	1,567,695	1,737,316	1,925,290
% Growth	*0%*	*-5%*	*5%*	*43%*					
13.Starting Work Permit Fees									
Revenue	0	171,147	144,424	140,127	142,930	145,788	148,704	151,678	154,712
% Growth	*0%*	*0%*	*-16%*	*-3%*	*2% was substituted for the average for the last three years (-6%)*				
14.Work/ Residence Permit Fees									
Revenue	1,768,276	2,108,739	2,155,776	2,883,967	142,930	145,788	148,704	151,678	154,712
% Growth	*0%*	*19%*	*2%*	*34%*					
15.Transfer of Public Vehicles									
Revenue	0	0	27,000	0	0	0	0	0	0
% Growth	0	0	0	0					
17.Storage Revenues									
Revenue	0	3,773,335	3,870,862	3,707,851	3,782,008	3,857,648	3,934,801	4,013,497	4,093,767
% Growth		*0%*	*3%*	*-4%*	*2% was substituted for the average of the last 3years (-1%)*				
18.Regulation of Entry & Exit of Trucks									
Revenue	0	734,133	862,458	490,435	500,244	510,249	520,454	530,863	541,480
% Growth		*0%*	*17%*	*-43%*	*2% was an assumption as the average for the last 3years was (-9%)*				
19.Municipal Serv. Licenses & Fees									
Revenue	46,840	74,593	69,469	50,821	54,065	57,517	61,189	65,096	69,252
% Growth	*0%*	*59%*	*-7%*	*-27%*					
20.Garbage Fees									
Revenue	225,598	800,602	523,982	578,569	665,354	765,158	879,931	1,011,921	1,163,709
% Growth	0%	255%	-35%	10%	2% was substituted as the average for the last 4 years was 58%				
21.Building Permits									
Revenue	1,780,001	3,767,828	3,753,969	2,776,790	3,221,076	3,736,449	4,334,281	5,027,765	5,832,208
% Growth	0%	112%	0%	-26%	The average for the last 4 years was 21%;, however the trend is decreasing , therefore an assumption of 16% was substituted				
22.Other Revenues									
Revenue	1,999,609	1,251,841	7,073,210	4,261,863	4,688,049	5,156,854	5,672,539	6,239,793	6,863,772
% Growth	0%	-37%	465%	-40%	10% was an assumption due to fluctuating amount of revenues. The average of rates over the past 4 years was 97%.				
23.Land & Building Tax									
Revenue	508,344	1,113,337	1,012,684	545,919	633,102	734,209	851,462	987,440	1,145,135
% Growth	0%	119%	-9%	-46%					
24. Sales Tax for Goods									

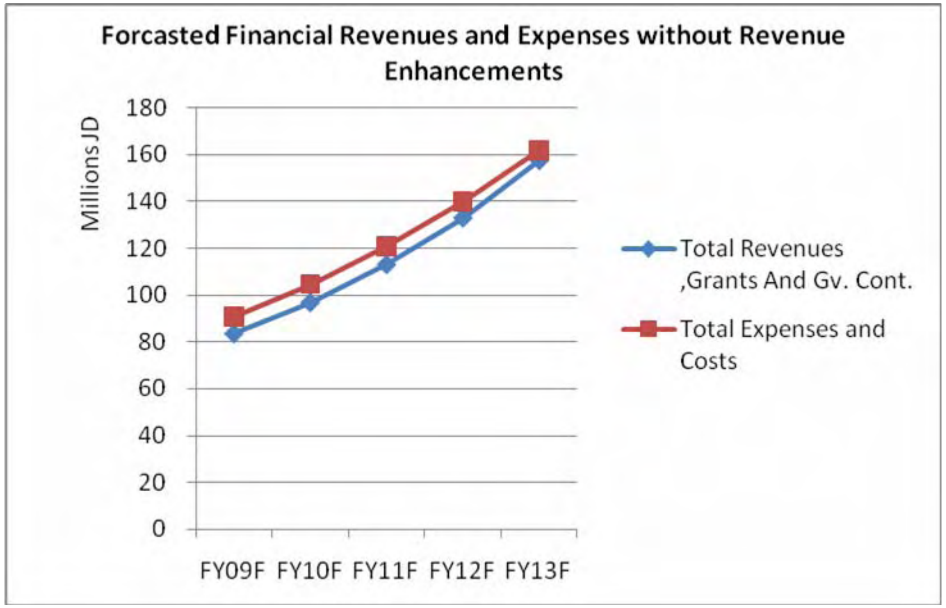
Revenue	837,777	899,891	1,131,446	1,942,277	2,451,197	3,093,465	3.904,022	4,926,962	6,217,935
% Growth	0	7%	26%	72%					
25. Sales Tax for Services									
Revenue	2,433,365	2,538,803	3,008,893	5,747,551	7,383,707	9,486,627	12,185,900	15,654,860	20,111,329
% Growth	0	4%	19%	91%					
26.Special Tax									
Revenue	3,773,302	6,685,170	7,462,154	8,965,873	11,407,820	14,514,856	18,468,124	23,498,106	29,898,055
% Growth	0%	77%	12%	20%					
27.Income Tax (Individual)									
Revenue	2,433,365	2,538,803	3,008,893	5,747,551	7,383,707	9,485,627	12,185,900	15,654,860	20,111,329
% Growth	0%	4%	19%	91%					
28.Market and Property Sale Installments									
Revenue	289,523	7,331	244,051	25,901	27,196	28,556	29,984	31,483	33,057
% Growth									
29.Land Sale Installments									
Revenue	11,690,251	5,582,479	13,534,895	14,500,000	16,675,000	19,176,250	22,052,688	25,360,591	29,164,679
% Growth	0%	-52%	142%	7%	15% is an assumption. The Average for the last 4 years was 24%				
30.ADC Land Sales Contributions									
Revenue	0	0	0	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
% Growth				It was assumed that the same amount of ADC sales contribution will form the annual forecasted revenues of this item					
31.Grants and Donations									
Revenue	7,517,188	9,657,319	9,478,290	5,449,229	5,449,229	5,449,229	5,449,229	5,449,229	5,449,229
% Growth	0%	28%	-2%	-43%	It was assumed that grants and donations will be constant				
32.GoJ Loans and Assistance									
Revenue	0	0	0	2,849,502	2,849,502	2,849,502	2,849,502	2,849,502	2,849,502
% Growth	0%	0%	0%	0%					
					It was assumed that loans and contr butions will be constant				

B) ASEZA Expense Forecast 2009-2013

Table 9: Summary of ASEZA forecasted Expenses (2009-2013)

Expenses	FY09F	FY10F	FY11F	FY12F	FY13F
Current & Operation Expenses	33,048,904	39,156,135	46,391,944	54,964,885	65,122,052
Capital Expenditures "Self Funded"	52,304,460	60,150,129	69,172,648	79,548,545	91,480,827
Capital Expenditures Grants Funded"	5,449,229	5,449,229	5,449,229	5,449,229	5,449,229
Total Expenses and Costs	90,802,592	104,755,492	121,013,821	139,962,659	162,052,108
Growth Rate %	15%	15%	16%	16%	16%
Surplus / (Deficit)	(7,152,268)	(7,888,177)	(7,978,849)	(7,086,611)	(4,751,556)

Figure 1: Forecast of ASEZA Revenues and Expenses (2009-2013) "Without Revenue Enhancement"



As has been mentioned earlier, ASEZA's expenses are expected to increase at a greater pace than its revenues, leading to a deficit in ASEZA's treasury during the next five years. Regardless of the revenue-generating remedies it pursues, ASEZA is advised to conduct an in-depth analysis of the expenses and costs associated with each revenue source and to perform cost/benefit analysis so as to be informed whether any increase is justified or not.

V. FORECAST OF ASEZA REVENUES (AFTER SHARING 25% OF REVENUES WITH GoJ)

ASEZA and the Government of Jordan (GoJ) have agreed to share certain Aqaba-generated revenues with a larger share (75%) in favor of the GoJ. In the face of this larger diversion, PKF ProGroup have prepared forecasts of ASEZA's retained revenues assuming the implementation of this agreement in order to fully analyze ASEZA's fiscal capability in the future.

The following table identifies the categories of revenues that are shared between the GoJ and ASEZA, currently (50%) and likely in the future (25%):

Table 10: Categories of revenue that are shared

Source of Tax Revenue	Current ASEZA Share %	Probable ASEZA share in future %
Sales Tax for Goods	50	25
Sales Tax For Services	50	25
Special Tax	50	25
Income Tax (on Individuals)	50	25

Table 11: Tax revenues forecast in year 2009 with two scenarios (50% and 25% ASEZA retained)

ASEZA Income from Tax Revenue	ASEZA share at 50%	ASEZA share at 25%
Total tax revenues	29,259,532 JD	14,946,317 JD
Contribution of tax revenues to total ASEZA revenues	34%	22%

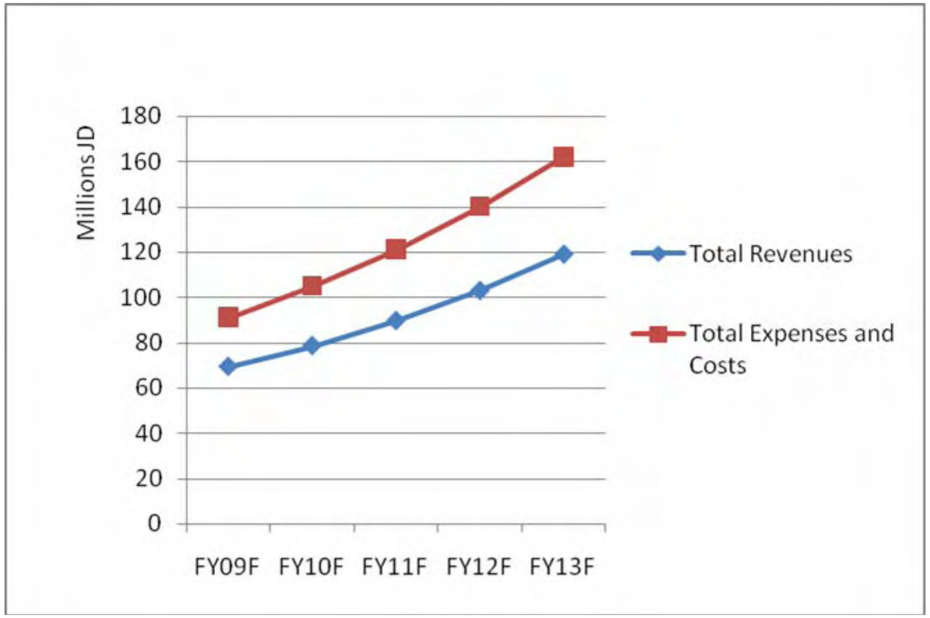
Table (12) below forecasts ASEZA's revenues and expenses after deducting the additional 25% from the shared tax categories in favor of the GoJ.

Table 12: Forecast of ASEZA revenues and expenses after deducting 25% without Enhancements

Revenue Source	FY09F	FY10F	FY11F	FY12F	FY13F
Operating Revenues	24,389,865	27,049,996	30,058,162	33,463,015	37,320,301
% of Total Revenues	*35%*	*34%*	*34%*	*32%*	*31%*
Tax Revenues	14,946,317	19,023,996	24,223,435	30,854,835	39,314,459
% of Total Revenues	*22% (table 12)*	*24%*	*27%*	*30%*	*33%*
Capital Revenues	21,702,196	24,204,806	27,082,671	30,392,073	34,197,736
% of Total Revenues	*31%*	*31%*	*30%*	*30%*	*29%*
Grants and Donations	8,298,731	8,298,731	8,298,731	8,298,731	8,298,731
% of Total Revenues	*12%*	*11%*	*9%*	*8%*	*7%*
Revenue Enhancements	0	0	0	0	0
% of Total Revenues	*0%*	*0%*	*0%*	*0%*	*0%*
Total Revenues	69,337,109	78,577,528	89,662,998	103,008,654	119,131,227
Total Operating Expenses and Capital Costs	90,802,592	104,755,492	121,013,821	139,962,659	162,052,108
Projected Surplus / (Deficit)	(21,465,483)	(26,177,964)	(31,350,822)	(36,954,005)	(42,920,881)

Figure 2 below shows these results graphically.

Figure 2: Forecast of ASEZA revenues and expenses after deducting additional 25% without Revenue Enhancements



From these exhibits, it is clear that ASEZA will face a serious financial deficit if the agreement to change the percentage share in favor of the GoJ is implemented with additional sharing of revenues. Beginning in 2009, a deficit of 21.4 million JD is possible and ASEZA may experience a deficit of as large as 43 million JD in year 2013. Realizing offsetting fiscal effects (more revenues, less expenses, or a combination of the two) is an enormous challenge. Enhancing revenues will help ASEZA to perform essential local services as well as operate effectively in its legal status as a special economic zone. Consequently, the following choices should be pursued:

- Postpone the implementation of additional revenue sharing for a few years, or
- Implement the changes gradually, for example, start with sales tax in the first year, income tax in the second, and special tax in the third.

Failing this, creative, serious revenue enhancement strategies should be pursued by ASEZA.

VI. REVENUE ENHANCEMENT

Under ideal conditions, ASEZA revenues should grow at a rate equal to or greater than the combined effects of expenditures and inflation. But at the current level of GoJ-ASEZA tax sharing, total revenues will not be adequate. In fact, ASEZA could experience a deficit in 2009 even without sharing an increased 25% with the GoJ; but, if the agreement were implemented this year, ASEZA revenue could drop by as much as 17%, resulting in a deficit of as much as 21.4 million JD.

Given this challenging situation, ASEZA's objective should be to look at revenue enhancement activities. Revenue enhancement means *to optimize the revenue sources that are legally and administratively available, especially by way of increased taxes.* Revising taxes, utilizing new sources or adjusting fees to cover specific operating costs are all useful practices.

ASEZA's revenue enhancement strategy should target those who gain benefit most from ASEZA's services, e.g., those who own properties, visit as tourists, or operate businesses within the special economic zone. Focus on these "Target Segments" was a driving principle in suggesting suitable revenue enhancement techniques. A second important principle was to focus on revenue streams that are independent of operating costs and which would be easy to administrate, calculate, and collect.

Other principles should include:

- The tax or fee must be equitable and legal.
- The tax or fee must be understandable to the payer and the collector.
- The tax or fee must be affordable. Pricing must reflect the individual user's ability to pay.
- Revenue enhancement should not impair ASEZA's positive investment climate or its attractiveness as a special economic zone.

Implementing these principles requires: (1) careful examination of each service category and (2) determination of which services, for what purposes, and according to what criteria, can support revenue increases, and (3) recommendation of what new revenue sources might be established.

Data limitations restricted a more comprehensive investigation. Lacking certain important information, consultants:

- Focused on Tax Revenues, because these sources comprise 27% of ASEZA revenues; changes in taxes therefore would have the largest enhancement impact.
- Deferred work on Operational Revenues, for two reasons;

    (1) Individually, each category comprises a small contribution to ASEZA's overall revenues,

    (2) Service-based operations have not been analyzed as to actual costs.

- Disregarded Grants and Government support because these revenues are neither predictable nor reliably sustainable for ASEZA in the future;
- Disregarded Capital Revenues, for two reasons:

    (1) Income from land and property sales or rental income is diminishing as the amount of ASEZA- owned land and property is decreasing;

    (2) Sales and rental income fluctuates, and therefore is difficult to forecast

Accordingly, consultants focused on those sources of revenues that will at least cover ASEZA's deficit; by analyzing new sources of revenues by drawing from the practice of regional and international free zones and municipalities

Potential new sources of revenues arising from this analysis included the following:

1. "City" Tax
2. Tourism/Accommodation/Lodging Tax
3. Tourism Property Tax
4. Entry/Arrival Tax

Below is a detailed description on each of the above taxes:

1. "City" Tax

City taxes target all business entities and individuals in a municipality. These taxes are given different names in different countries, e.g., municipal tax, state tax, or county tax. This type of tax is practiced in most developed and developing regions.

Most cities and local municipalities taxes are based upon ownership of property, sales, or and local income. It is charged and set locally for the municipality. The city tax that is suggested for ASEZA revenue enhancement would be based on a combination of sales tax, income tax, and special tax. A percentage surcharge of 10% of sales tax, income tax, and special tax is suggested. If such a City tax were in effect now, revenues would equal 2,862,643 JD in the year 2009.

2. Tourism Lodging Tax

A "Tourism Tax" might be called an accommodation tax, lodging tax, café tax or even a temporary dwelling tax. It targets those visitors who benefit from occupying a room in a hotel or/and use their facilities (as hotel guests). This tax is collected by the owner of the accommodation and is paid by visitors in their hotel bill, restaurant bill, or other facility bill.

This type of tax is found in many places throughout the world, especially tourist destination cities. In France, visitors usually pay a flat-rate tourism tax which is fixed by the local authority and varies from € 0.15 to € 1.07 per person per day of accommodation, depending on the quality and standard of the accommodation. Children under 4 years of age are exempt and children under 10 are charged half the rate. In Yemen(as a developing country example) hotels in Sana'a collect a 5% tax on room bill plus a 5% municipality tax, a 5% sales tax, and a 5%, "service fee"). In Egypt a 2% of the hotel bill is charged on each guest as well as a 5% sales tax and 12% "service charge."

For ASEZA, it is suggested that a tax could be based on 8% on the room bill, restaurant bill, and/or other facility bill. Under one hypothetical scenario, this tax initiative might generate 2,088,000JD (assuming 522,000 tourists each spend 50JD on taxable tourist services in 2009.

3. Tourism Property Tax

Property taxes are a pillar of the revenue system for local governments across the world. In a region experiencing rapid growth, like Aqaba, property taxes can be a highly dynamic revenue source, because property values normally rise rapidly in the face of strong demand. These taxes are levied on land area or value, building area or value, or a combination of both land and buildings.

Referring to table(6) in this report, the tax on land and buildings accounted for only 2% of ASEZA's revenue in 2007; in fact, this category's importance declined in year 2008 to account for only 1% of local revenues. Given this low performance, an increase should be considered, especially from tourism properties, such as hotels, motels and transient club/apartment rooms.

As noted in the first paragraph, there are different ways for imposing a tourism property tax. For Aqaba, the simplest approach would be to assess a flat levy on the area of land or buildings. By adjusting hotel and café rates, the tourism property owners would collect the money to pay for these taxes through tourist bills. Under one hypothetical scenario, this tax initiative might generate 273,000JD/year (assuming an existing tourism property taxable area of 546,000 m2 and a tax rate of 50JD/m2 per year).

4. Entry/Arrival Tax

Entry tax is sometimes called "Arrival tax." The payers are visitors, and the tax would be collected whether they arrive through sea port, airport, or automobile.

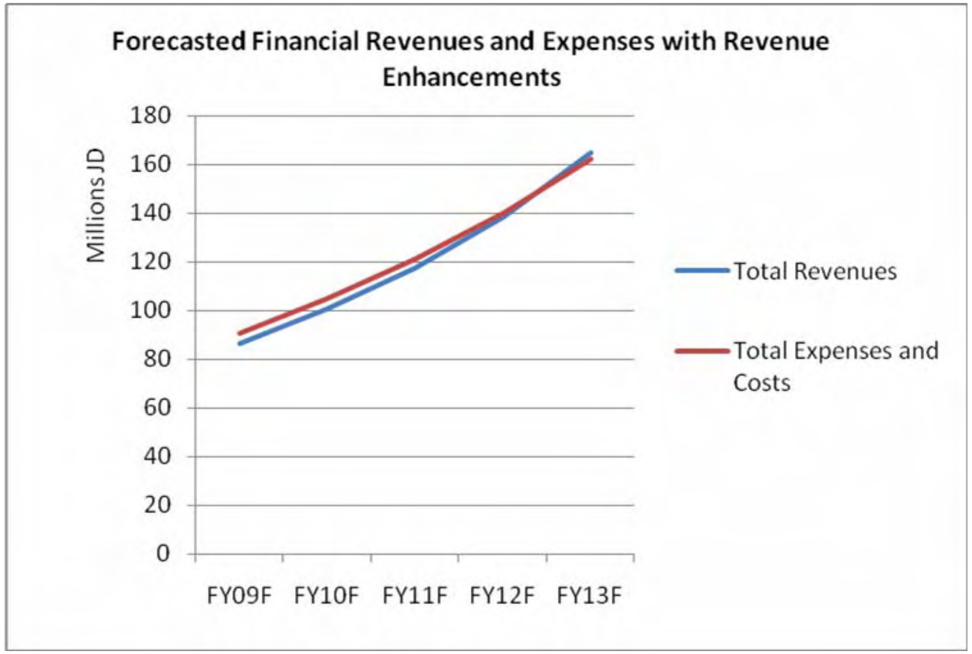
Jordan foreigners' visa fees are JD10 for a one time visit and 20JD for multiple visits to the country. However, visitors to Aqaba, regardless of their arrival through the port, the airport or the land crossing from Israel or Saudi Arabia, are granted free passage into Jordan without a visa, provided that they leave the Special Economic Zone within one month. Visitors arriving to Aqaba must report to authorities and register with Visa Residency Division at ASEZA to receive a free visa.

ASEZA could charge a modest Entry Tax for a visa to remain inside the zone for the allowable time period. If JD 2.5 were charged for each such arrival, the tax would generate revenues of approximately JD 1,080,000 per year. This figure is based on the number of visitors arriving to Aqaba in 2007 (around 432,000 people).

In the case of those visitors who enter Aqaba by car, an amount of JD2 could be charged on each vehicle entering Aqaba. Tourism buses that make multiple entries per month could be exempted or charged entry fees at reduced rates. Also, visitors who stay less than 24 hours "in transit" could be exempt from the tax.

[Note: The ACED Program confirms that no Final Recommendation will be made in favor of an "Entry/Arrival Tax" within ASEZ.]

Figure 3: ASEZA forecasted revenues and expenses with revenue enhancement



From the above, if identified revenue enhancement forecasts are implemented, a surplus could be experienced by year 2013.

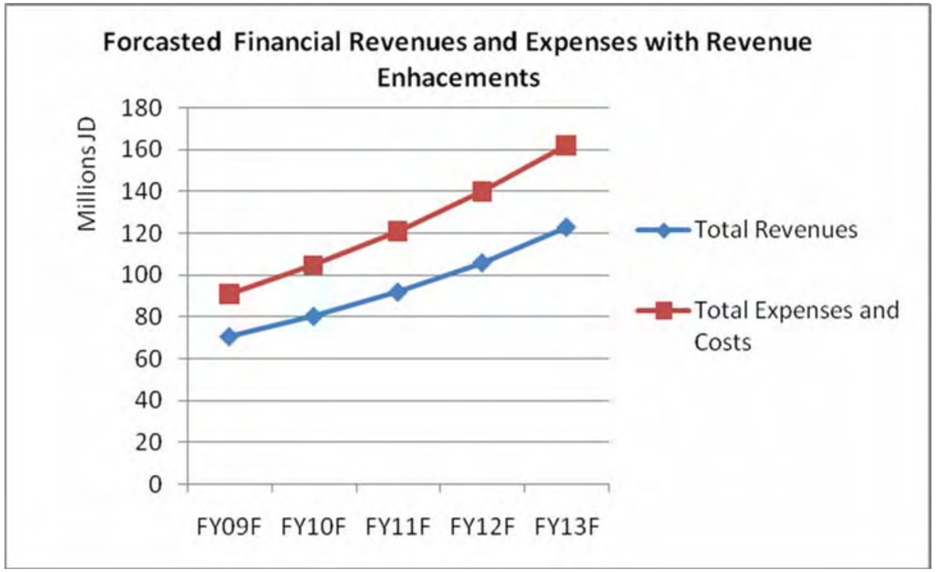
VII. ASEZA REVENUE FORECAST WITH REVENUE ENHANCEMENT (AFTER DEDUCTING 25% OF REVENUES TO GOJ)

The below table is ASEZA forecasted revenues after deducting 25% of shared revenues including new enhancements. It shows that an additional 25% (to a total of 75%) of tax revenue are shared with the GOJ, ASEZA would still incur a fiscal deficit.

Table 13: ASEZA fiscal forecast "with enhancement" after deducting 25% of shared a tax revenues

Revenue Source	FY09F	FY10F	FY11F	FY12F	FY13F
Operation Revenues	24,389,865	27,049,996	30,058,162	33,463,015	37,320,301
Contribution % of Total Revenues	*34%*	*34%*	*33%*	*32%*	*30%*
Tax Revenues (net retained by ASEZA)	14,946,317	19,023,996	24,223,435	30,854,835	39,314,459
Contribution % of Total Revenues	*21%*	*24%*	*26%*	*29%*	*32%*
Capital Revenues	21,702,196	24,204,806	27,082,671	30,392,073	34,197,736
Contribution % of Total Revenues	*31%*	*30%*	*29%*	*29%*	*28%*
Grants and Donations	8,298,731	8,298,731	8,298,731	8,298,731	8,298,731
Contribution % of Total Revenues	*12%*	*10%*	*9%*	*8%*	*7%*
Revenue Enhancements (conservative; only "Item One" is forecast)	1,431,321	1,828,979	2,337,197	2,986,739	3,816,932
Contribution % of Total Revenues	*2%*	*2%*	*3%*	*3%*	*3%*
Total Revenues	70,768,431	80,406,507	92,000,196	105,995,393	122,948,160
Total Expenses and Costs	90,802,592	104,755,492	121,013,821	139,962,659	162,052,108
Surplus / (Deficit)	(20,034,161)	(24,348,986)	(29,013,625)	(33,967,266)	(39,103,948)

Figure 4: ASEZA forecast after deducting 25% of shared tax revenues including enhancements.



VIII. RECOMMENDATIONS FOR FURTHER ACTIONS

A. Implementing an effective revenue enhancement strategy for ASEZA should combine both an enhancement of its revenues and a prudent management of its expenditures. Suggestions for the former were summarized in Chapter VII. Making recommendations on the latter will require a time-consuming detailed cost analysis for each operational revenue category. To accomplish this, ASEZA should develop a database of individual program cost information. Supplementing this cost information database, ASEZA should develop a financial, demographic, socio-economic and environmental database to allow the use of econometric modeling to help develop its long-term financial forecasts and evaluate its fiscal condition.

B. One major administrative problem today for many governments is their inability to collect fully the revenues due to them. In most cases there are huge gaps between reported and projected revenues. Recent studies conclude that this is affected by:

(1) Administrative capacity to assess the revenue base;
(2) Administrative capacity to enforce collection of eligible taxes and fees;
(3) External pressure on finance departments to provide optimistic projections; and
(4) Political pressure on the local tax administration to "relax" revenue collection.

Considering the above, fundamental issues to be addressed in the context of ASEZA fiscal reforms are to: (1) re-align the current revenue structure through tax initiatives and fee re-structuring and (2) to strengthen financial management.

[Note: The ACED Program confirms that additional material will be added to "Recommendation" in the Final Report"]