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# ASEZA REVENUE ENHANCEMENT REPORT

**AQABA COMMUNITY and ECONOMIC DEVELOPMENT (ACED)  
PROGRAM**

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## **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development, AECOM International Development or the ACED Program.

## **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
ASYCUDA	Automated System for Customs Data
ATASP	Aqaba Technical Assistance Support Program (USAID)
AUC	Aqaba University College
AZEM	Aqaba Zone Economic Mobilization Project (USAID)
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
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
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
IT	Information Technology
JD	Jordanian Dinar
JIB	Jordan Investment Board
JNA	Jordan National Agenda
JNCW	Jordanian National Commission for Women
JUSBP	Jordan-United States Business Partnership
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
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)
SME	Small and Medium Enterprises
SOW	Scope of Work
STTA	Short-Term Technical Assistance
TA	Technical Assistance
TBD	To Be Determined
TO	Task Order
TOT	Training of Trainers
TP	Technical Proposal
TRIDE	Trilateral Industrial Development
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

The Aqaba Special Economic Zone Authority (ASEZA) faces many challenges in serving the needs of its community and citizens. Eight years into its existence, one of the most significant challenges ASEZA faces is the issue of the generation of revenue and its effective management in a growing economic climate.

To date, ASEZA has funded its success through different sources, including private and business investments and expenditures, and various forms of taxes and fees. Moving forward, the ASEZA Commissioners are challenged to balance existing sources and uses of funds in a way that provides the world-class amenities and services that are expected by visitors, investors and residents. Given an environment with limited traditional funding sources, ASEZA must enhance its revenues and wisely manage its expenditures.

USAID's Aqaba Community and Economic Development (ACED) Program seeks to stimulate discussion among ASEZA leadership on the issues and approaches associated with addressing the current revenue enhancement strategy. This report is intended to facilitate this discussion. The report was prepared for the ACED Program by its consultant, Philip Rosenberg, in his April 2008 mission. During this period, ASEZA commissioners and heads of directorates were interviewed, prior revenue analyses prepared by USAID projects Aqaba Technical Assistance Support Program (ATASP) and Aqaba Zone Economic Mobilization Project (AZEM) were studied, and a review of related existing laws, regulations, policies, budgets and financial reports was made. The objective was to look at revenue enhancement capacity building activities and report on the challenges and opportunities associated with revenue enhancement by ASEZA.

## II. DEFINING REVENUE ENHANCEMENT AND ITS BENEFITS

*Revenue enhancement* means that a government is committed to *optimizing the revenue sources that are legally and administratively available* and explore opportunities to *diversify its revenue where existing revenues are inadequate* to meet the demands of change and growth. It means a commitment to put in place a wide-ranging series of improvements to its policies, procedures, staffing and organizational structure. The intent is to use each one of its revenue sources to its fullest potential in accordance with government goals and priorities.

Adopting an overall program that strives for enhancing revenues has many benefits for ASEZA. Revenue enhancement benefits include:

- Reduces the need to cut programs and service unnecessarily.
- Improves the potential for offering new or improved service.
- Balances current and future capital investment needs with revenue availability.

- Increases visibility and accountability for the staff who are responsible for revenue generation and collection.
- Develops opportunities to make the overall revenue structure more equitable and efficient and less dependent on a just a few revenue sources.
- Exposes fees that may not be covering the cost of service.
- Exposes weaknesses in the ASEZA's financial management procedures or organization.
- Reveals areas of future concern to assist in budgeting and forecasting.

Implementing an effective revenue enhancement strategy does not operate in a vacuum. Revenue enhancement should be part of a larger effort to:

- Improve operating and capital budget practices,
- Apply cost analysis, and
- Enhance the quality of information upon which decisions are made.

The following sections describe: a) the existing environment within which ASEZA operates; and b) opportunities for enhancing revenues.

### III. EXISTING ENVIRONMENT

#### A. *Current Revenue Base*

ASEZA has a diverse operating revenue base that for the purposes of this report is summarized into the following categories:

- Fees and Licenses
- Sales and Special (Excise) Taxes
- Custom Fees
- Income Tax
- Land and Building Tax
- Lease Income
- Other

These revenues may be further defined as:

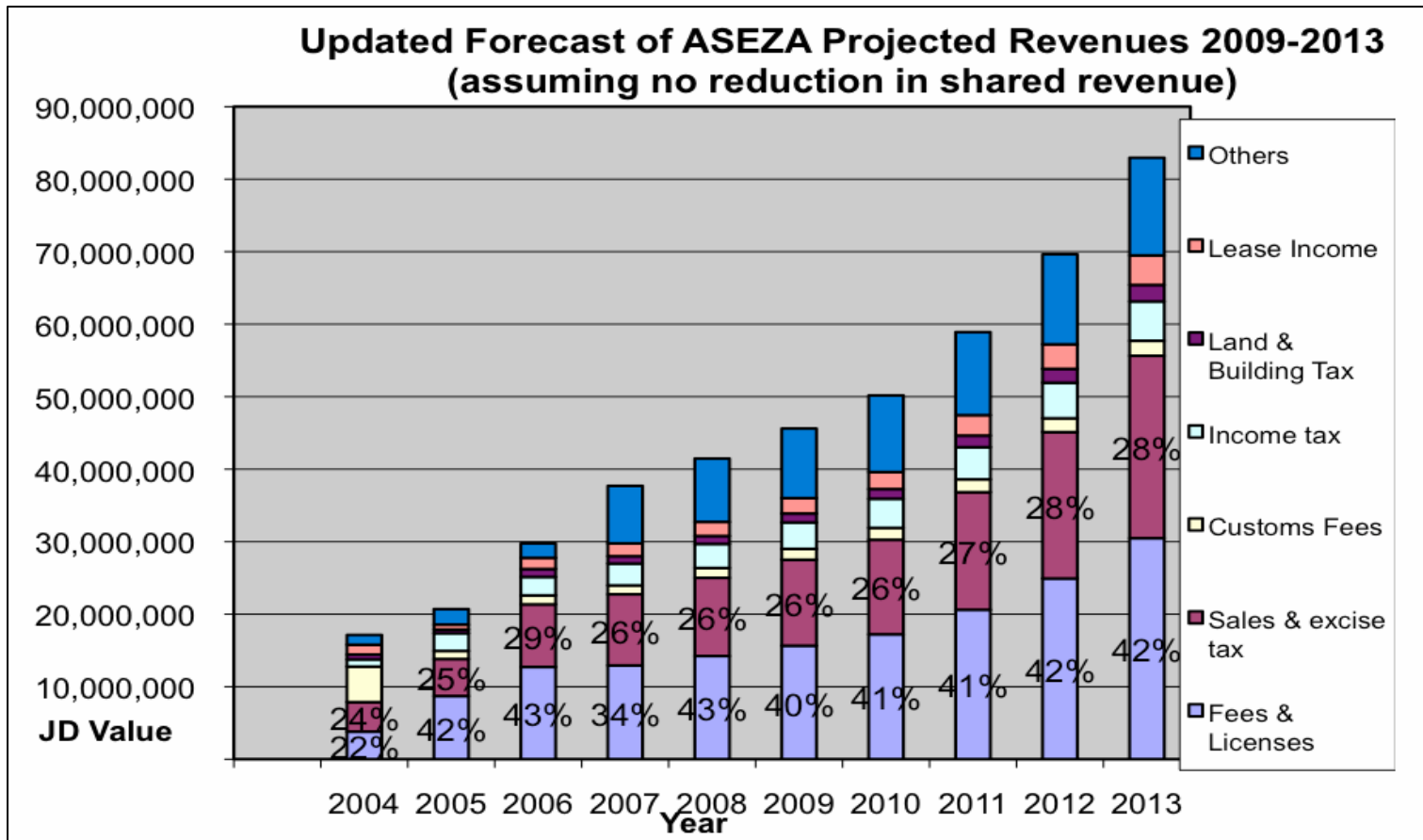
- **Own Source Revenue** – locally derived revenue exclusive to, and collected by, ASEZA including fees and licenses, lease income, custom fees, and other; and
- **Shared Revenue** - revenue shared between ASEZA and the Government of Jordan including sales and special (excise) taxes, income tax, and land and building tax.

ASEZA has had the authority to raise own source revenue since it became operational in 2001. Each Commission/Directorate is responsible for administering the collection of the tax or fee that falls within its jurisdiction. The Finance Directorate is responsible for the

accounting of all revenues collected. ASEZA officials report that delinquency and tax/fee avoidance are not a problem due to the use of technology, better coordination and information sharing among Commissions and with the Government of Jordan, and tougher collection practices.

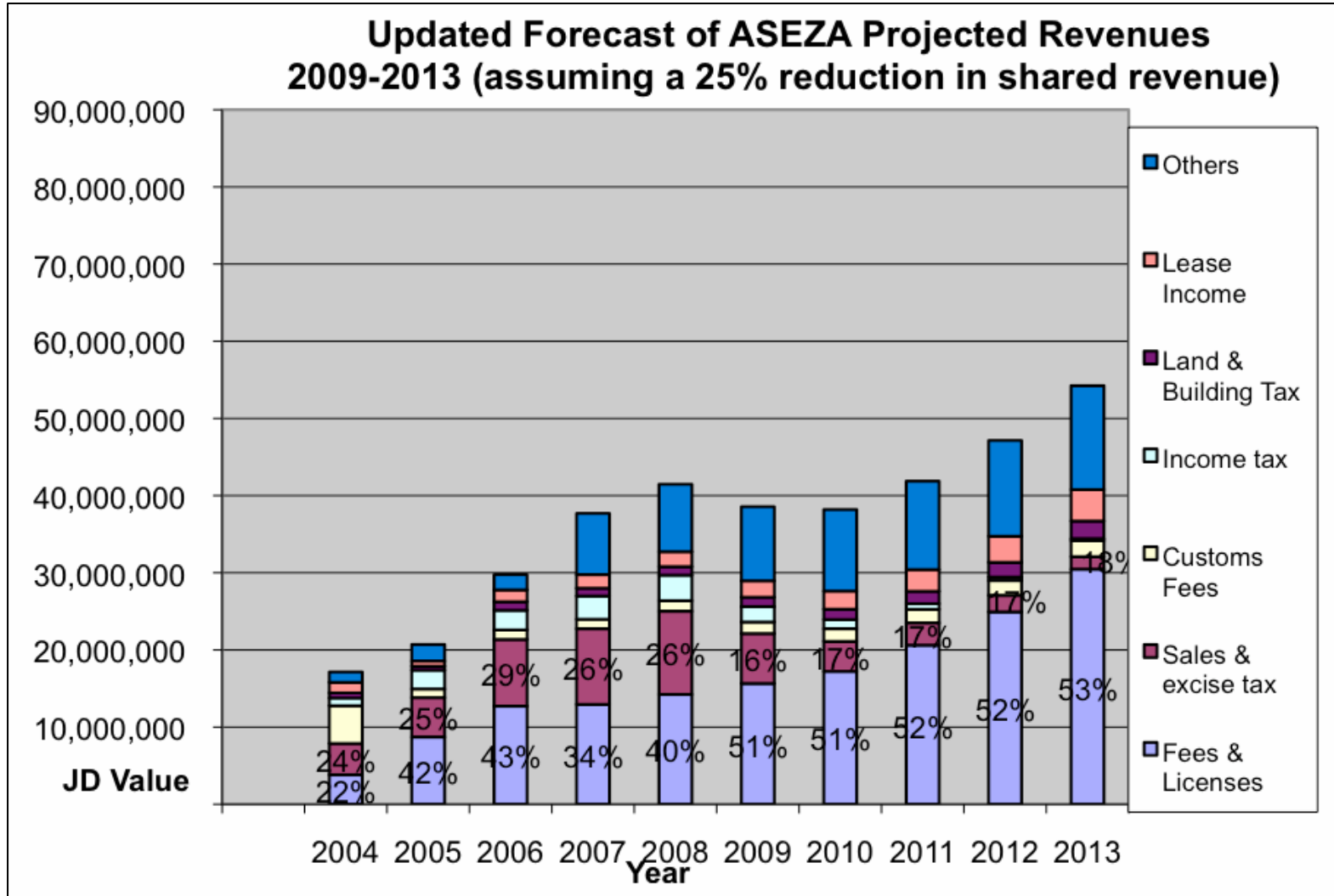
Will the existing revenue structure be inadequate to support growth and development in future years? At their current levels, these revenue sources are adequate to meet current service and capital investment demands. However, if revenues for special (excise) taxes and income tax are increased in favor of the Government of Jordan as planned after FY 2008 from 50% to 75%, (meaning that ASEZA will “retain” only 25% of shared revenues) the consequence is that ASEZA may not have the *fiscal flexibility* to satisfy future service levels or meet capital investment demand (see Appendix A for a detailed breakdown of projected revenues and expenditures under this scenario). As noted in Charts I and II, ASEZA’s own source revenue as a percentage of total operating revenue will increase as a result of its expected reductions in “retained” shared revenue. Any reduction of retained shared revenue plus any increases in operating and capital costs means that ASEZA will need to raise additional funds as the data in Appendix A suggest. A corollary is that an increased reliance on recurrent own source revenue will require ASEZA to explore ways to maximize revenues. Therefore, ASEZA must consider raising rates for existing fees and/or adding new fees.

CHART I<sup>1</sup>



<sup>1</sup> Trend analysis was used to prepare the updated revenue forecast for the scenarios presented on Charts I and II. The lack of demographic, socio-economic and environmental data make it impossible to prepare scenarios based on more sophisticated econometric projections. This lack warrants the preparation of sensitivity analysis of ASEZA revenues to help justify future revenue policy changes. See Recommendation I-4.

CHART II



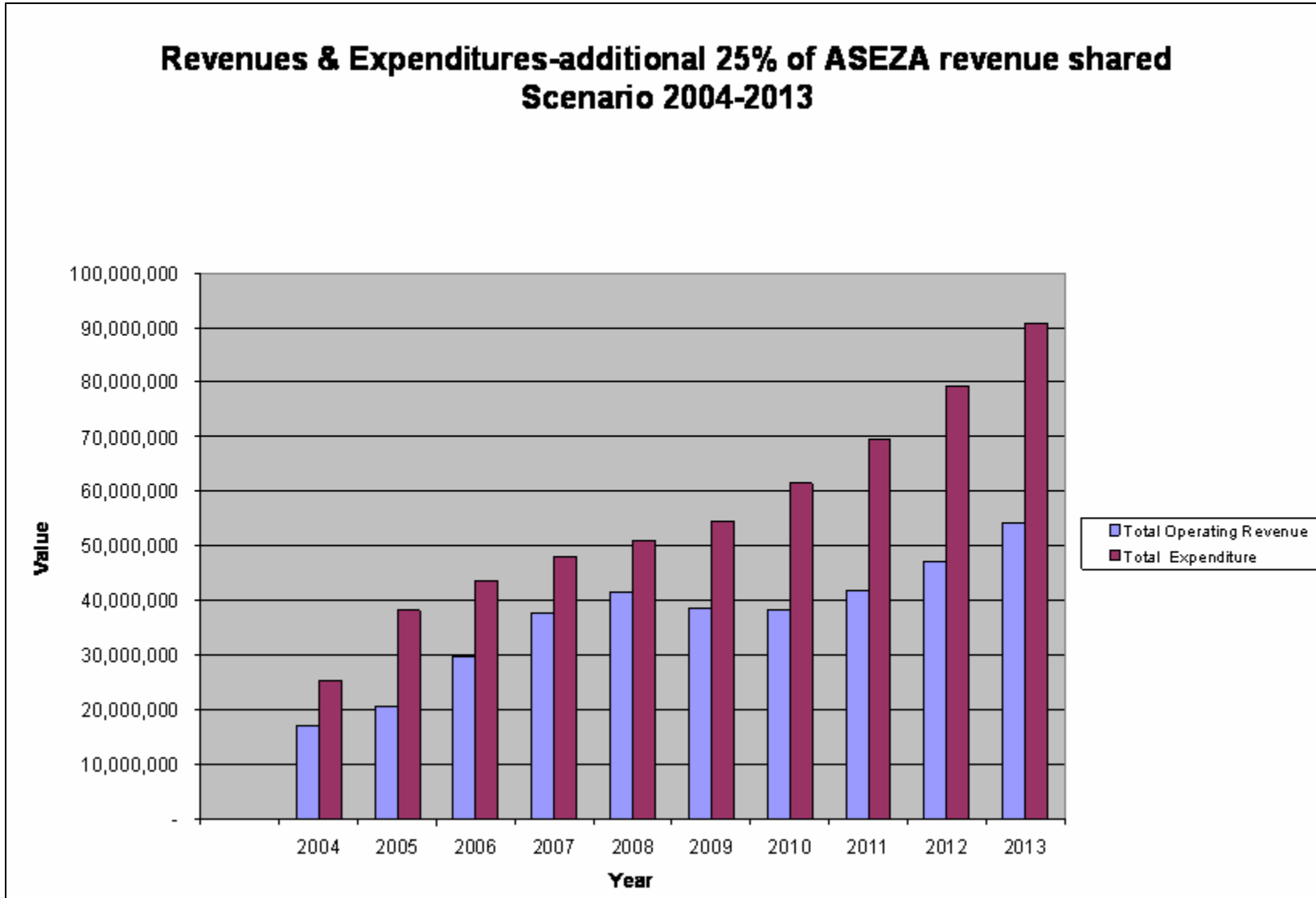
## *B. Current Fiscal Flexibility*

What is the government's ability to adapt its fiscal structure to changing conditions? "Fiscal flexibility" refers to ASEZA's ability to provide services at the level and quality that are required to accommodate the economic growth, health, safety and welfare of the community. Moving away from its reliance on shared revenue and focusing on its own revenue raising capacity forces ASEZA to adapt and develop revenue enhancement strategies that will foster its fiscal independence and flexibility. To undertake this, there must be an assessment of the revenue base in the context of revenue growth, flexibility, elasticity, dependability, diversity and administration in the context of:

- Operating and Capital Expenditures
- Internal and External Economic Conditions
- Community Needs and Resources
- Intergovernmental and Legal Constraints
- Natural Disasters, Emergencies and Economic Disruptions
- Political Culture

Under ideal conditions, revenues would be growing at a rate equal to or greater than the combined effects of inflation and expenditures. They would be sufficiently flexible to allow adjustments to changing conditions. They would be balanced between elastic and inelastic revenue sources in relation to inflation and the economic base; that is, some would grow with inflation and the economic base and others would remain relatively constant. AZEM's prior analysis of ASEZA's balance between revenues and expenditures suggests, "ASEZA's revenue system is not well designed to ensure fiscal sustainability." Chart III illustrates this trend. To avoid the deficits that are illustrated in Chart III, ASEZA must not only generate sufficient revenues to respond to growth and economic opportunities, it also must generate adequate revenues to sustain itself in economic downturns and respond to unforeseen events (natural disasters, emergencies, etc.). The key question for Commissioners is: Does ASEZA have fiscal flexibility? The data presented in Appendix A suggest that ASEZA's fiscal flexibility will be significantly limited if there is a reduction in shared revenue.

CHART III



## C. *Current Revenue Policy and Administration*

Based on the information provided by responsible financial managers and revenue-generating programs, there is no coherent approach to:

- Establishing overall revenue policies,
- Forecasting revenues,
- Rate setting, or
- Costing the services for which fees and service charges are collected.

**1. Revenue Policies** – There is no statement of overarching revenue policies or organizational unit that guides ASEZA’s revenue strategy. Rather, revenue policies are the sum of individual laws and regulations that limit the taxes and fees ASEZA can institute and their effective rates. Each Commission/Directorate develops its own unique approach to managing the revenues for which it is responsible.

**2. Annual Revenue Forecasting** – As part of the annual budget preparation process, each Commission/Directorate responsible for administering a particular tax or fee prepares its own forecast for the upcoming fiscal year. After preparing the forecast, the unit reviews it with the Financial Affairs Directorate (Finance). With few exceptions, individual revenue forecasts are based on a combination of factors including: a) taking the prior year’s receipts and adding a simple percentage increase; and, b) the Commission/Directorate’s understanding of service demand (for example, anticipated number of work permits to be issued based on construction activity). Finance assembles individual annual forecasts and presents an overall ASEZA revenue plan for the upcoming fiscal year. The consolidated projection is based on inputs from Commissions/Directorates, as described above, tempered by all individual judgmental factors and the need to present a balanced budget.

During the fiscal year, Finance monitors actual revenue collection against the budget plan. For the fiscal year in which data were available, actual revenues collected were typically higher than the forecast with minimal variance.

**3. Long Term Revenue Forecasting** - Finance prepares a projection of revenues for future years (5 years out) using a judgmental approach. Appendix A contains a table that forecast revenues and expenditures for the next five years. USAID-AZEM provided ASEZA with a financial simulator model for forecasting future revenues, but Finance does not use this model because it believes its foundation is built upon questionable assumptions and ignores relevant environmental, demographic and economic variables and projections. As noted later in this report, ASEZA should assemble a comprehensive and reliable data base upon which to build an econometric forecasting model. To illustrate this point, please see the footnote to Appendix A.

**4. Rate Setting** – The authority to create each rate for a tax or fee is established by law (Government of Jordan) or regulation (ASEZA with parliament approval). Depending on the specific activity or service, “pricing” appears to be based on a variety of factors (Government of Jordan sets the rate, affordability, promoting a positive business climate, what does Amman charge? etc.). Fees reflect a flat rate pricing strategy where all beneficiaries are charged a uniform amount although some consideration is being given to initiating incremental pricing for trash collection. While fee-based revenue has increased since 2001, individual rates have not increased since they were first set. ASEZA and the Government resist increasing rates or adding new fees. While there is some thought to increasing service charges (for example, 15 JD for a work permit), these fees have minimal impact on the overall revenue base.

**5. Cost of Service** – Does the fee cover ASEZA’s full cost of service? It is impossible to answer this question. ASEZA does not perform either cost accounting or cost finding that will allow it to identify its cost of service and use cost data as one variable in setting the fee for the goods and services it provides. To the extent that the price of a service is less than the cost of the service, ASEZA is subsidizing that activity.

#### *D. Current Budgeting*

Governments allocate scarce resources to programs and services through the budget process. As a result, it is one of the most important activities undertaken by governments. As the focal point for important resource decisions, the budget process is a powerful tool. The quality of decisions resulting from the budget process and the level of their acceptance depends on the characteristics of the budget process that is used.

In its simplest form, budgeting is a revenue and expenditure forecast for the upcoming fiscal year. Beyond this, the quality of decisions resulting from the budget process and the level of their acceptance depends on the characteristics of the budget process that is used. International best practice identifies four key elements of an effective budget:

- **A policy guide** - a clear articulation of the goals, objectives, and strategies that guide the budget;
- **A financial plan** - identifies revenues and expenditures and the assumptions and trends upon which these financial projections are made. Charts and tables present financial data in a clear, concise and easy to comprehend manner.
- **An operations guide** - blueprint that governs the amount of service provided and how that service is provided. The budget provides approved expectation levels in the form of objectives and performance measures, targets and timetables for projects.
- **A communications tool** - a concise way for a local government’s decision makers to communicate changes in the priorities, rationale for decisions made, and a changed vision for the future.

## **Findings:**

***1. Operating Budget Practices*** - Does ASEZA practice good budget making? Not fully. Currently, the ASEZA operating budget is more an accounting document than a policy statement, operations guide and communications tool. It identifies revenues and expenditures by object of revenue and expenditure. The operating budget is calculated by simply adjusting the previous year's budget for inflation and balancing it against estimated revenues.

Cost-of-service is at the heart of any sustainable revenue enhancement strategy. ASEZA's present form of budgeting, however, does not readily allow for the identification of service cost. A move to a program-based budget structure, together with the use of appropriate costing techniques, would greatly assist in this end. As such, by maintaining a line item budget process and format, ASEZA does not fully respect the budget process improvements that were recommended by AZEM in 2006.

Beyond improving the allocation of resources and diversifying the revenue base, there are a variety of other arguments that support the use of charges and fees. These are listed below.

- ***Encourages efficient use of resources*** - pricing provides limited resources to those willing to pay for them. Those who utilize or benefit from a given service or capital asset should pay for the related service delivery, capital development and maintenance costs. Although there are services and capital assets that benefit the entire community such as air pollution control, certain facilities (water, sewer, sanitation, etc.) benefit specific users or groups of users.
- ***Provides service levels based on adequate knowledge of need and demand*** - The willingness of the public to pay for a service is a good indication of their demand for the service. By pricing goods and services, the local government is demonstrating the need to diversify its revenue base, and provide those services supported by the community, as exhibited by the public's willingness to pay for them.
- ***Brings management orientation to municipal operations*** - fiscal constraints and market economy operation may spur a number of management improvements such as: productivity, time management, better organization and control, and a resource allocation plan for personnel, equipment and resources.
- ***Limits waste and over consumption*** - Setting a fee or charge can lessen inefficient or wasted use of public services and facilities. Fees and charges have a rationing effect on user consumption.
- ***Enhances investment in ongoing maintenance and repair of public facilities*** - The establishment of a charge can improve the level of capital facility maintenance for two primary reasons: (1) it provides an ongoing level of revenue that may be dedicated to maintaining the facility for which it is collected; and (2) the establishment of charge based on capital provision creates a consumer environment wherein the user may no longer make use of poorly maintained facilities.

- **Establishes better understanding of the financial limitations of the local government** - Pricing public goods and services is a strong signal to the public that there are financial limits to what government can provide.

**2. Capital Planning and Budgeting** - While the budget identifies proposed capital expenditures for the fiscal year, there is no long-term capital improvements plan. Such a plan identifies capital projects and categorizes these by magnitude of priority. International best practices recommends governments use a multiyear (usually five to six-year) planning instrument to identify needed capital projects and to coordinate the financing and timing of improvements in a way that maximizes the benefits to the community.

**3. Database** – Good budgeting requires timely and accurate data about both the present and the future. There does not appear to be a central database upon which to evaluate community conditions, and analyze future needs and revenue necessary to meet those needs. Data collection and maintenance should focus on: socio-economic and financial factors; demographic trends; social and cultural trends; physical (e.g., community development) and environmental factors; intergovernmental issues; and technological change. (Sample indicators of these variables are presented in Exhibit II at the end of Section IV.)

## IV. RECOMMENDATIONS FOR CHANGE

It is important for ASEZA to review its efforts to increase its level of financial self-sufficiency by accelerating the growth of its own source revenue. This requires viewing revenue enhancement in the broader context of strengthening the craft of budgeting and programming, implementing lower cost methods of service delivery, and long term financial planning to ensure adequate funds are available for future operation, maintenance and expansion of capital infrastructure. This includes budget organization, preparation, developing a data base that includes financial and non financial data upon which to support budget planning and decision making, preparing a long term capital improvements plan and program, implementing a program of cost finding and seeking opportunities to diversify the revenue base.

Presented below are ten recommendations for change presented under three broad categories: a) revenue enhancement; b) budget preparation and management; and c) database development, in priority order.

## *A. Develop A Revenue Enhancement Strategy and Policies*

### **Recommendation 1: Develop a coherent Revenue Enhancement Strategy supported by policies that encourage both revenue growth and diversity.**

All revenue sources have particular characteristics in terms of stability, growth, sensitivity to inflation or business cycle effects, and impact on tax and ratepayers. A diversity of revenue sources can improve ASEZA's ability to handle fluctuations in revenues and potentially help to better distribute the cost of providing services. Adequate and buoyant local revenues are critical to ensuring the viability and sustainability of ASEZA and the quality of services it provides. Where ASEZA is limited by statute or regulation as to the types of revenues it may raise, it should consider options to enhance flexibility within the constraints of available revenue sources.

The strategy should identify approaches that will be used to improve revenue diversification. An analysis of particular revenue sources is often undertaken in implementing the policy. This analysis should address the sensitivity of revenues to changes in rates, the fairness of the tax or fee, administrative aspects of the revenue source, and other relevant issues.

ASEZA is reluctant to increase rates for existing taxes and fees and even more reluctant to consider new taxes and fees. The reasons for this reluctance include: a perception that the existing revenue base is adequate: the Government of Jordan will not approve any request to give ASEZA additional revenue raising authority; it will not promote a positive investment or business climate; citizens can ill afford to pay more for ASEZA services; and, politics. In spite of this reluctance, the Zone faces potential fiscal constraints if there is a 50% decrease in shared revenue, effective in FY 2009.

### **Recommendation 2: Examine carefully each of its service areas and decide for which services, for what purposes, and according to what criteria, certain revenues can be increased and new revenues established.**

Considerations 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. Flat rate charges are regressive in the sense that they represent a larger share of income for the poor than the rich. Develop differential pricing mechanisms designed to reflect these considerations (see discussion of pricing in recommendation 4). The ability-to-pay principle calls for distribution of the tax burden in line with *horizontal and vertical equity*. To obtain horizontal equity, citizens/businesses with equal ability-to-pay should contribute equally. To secure vertical equity, citizens/businesses with unequal capacity should contribute correspondingly different amounts.

- The tax or fee must generate additional revenue.
- The revenue program should be easy to administer (e.g., collectible).

Before one can recommend the advisability of raising rates on individual revenue sectors, or adding new revenue sources ASEZA future Revenue Enhancement Strategy should incorporate the following good government principles.

**1. Principle of Usage** - When setting fees, two principles, of inherent inner contradiction, have to be taken into consideration. The first one is that fees are to be paid in line with the services rendered. This is the principle of usage. Fees established on the principle of usage reflect a horizontal fairness, as the fees apply to all consumers. This method spreads the costs of the service evenly among the consumers.

**2. Principle of Financial Means** - The principle of financial means takes the different incomes of social groups into account (vertical fairness) in the course of setting the fees. Application of this principle is based on the harmonization of economic and social considerations. Hence, the objective is that the social support system should operate in relation to the pricing system developed on economic principles.

**3. Principle of Cost of Service** - The cost recovery ratio is the amount of revenue compared to the cost of providing a service. A service is said to be self-financing if revenues equal or exceed the costs. If a service is not self-financing, then ASEZA must make up the difference, that is, provide a subsidy. If the full cost of a good or service is not recovered, then an explanation of ASEZA's rationale for this deviation should be provided.

Service costs may be subcategorized as direct costs, indirect costs and capital costs.

- **Direct Costs** - all direct costs readily attributable to the activity.
- **Indirect Costs** - those costs not readily identifiable with an activity but are used to manage that activity (e.g., Finance and ASEZA-wide administrative costs allocable to the activity). These costs are commonly referred to as overhead costs.
- **Capital Costs** - buildings, major equipment, etc. that are attributable to the activity. Depreciation or a use charge is used to allocate that portion of the capital assets attributable to the activity.

There are other elements relegated to the cost analysis including:

- **Fixed costs** - those costs that remain constant regardless of changes in the level of activity. Once the cost is incurred, the increases or decreases in the level of activity will not affect the total cost of the activity.
- **Variable costs** - those costs that change directly to changes in activity. For example, in trash collection, the cost for personnel on the truck, fuel consumed, truck maintenance and repair, etc. will vary by the amount of customers served and amount of garbage collected, as well as the distance traveled to complete the route.

ASEZA can benefit from understanding and applying these “best practice” cost principles to its analysis and decision making processes. Its revenue enhancement strategy and policy should state whether ASEZA intends to recover the full cost of providing goods and services. It also should set forth under what circumstances ASEZA sets a charge or fee at equal to, or less than, 100 percent of full cost.

**Recommendation 3: Develop a Methodology for Evaluating the Usefulness of Raising Existing Taxes and Fees vs. Adding New Taxes and Fees.**

Clearly, selecting the right mix of revenues to pay for services and capital investments is a complex issue. To guide ASEZA through this process, it is suggested that the Commissioners develop criteria to evaluate each existing and proposed revenue source. Exhibit I presents a matrix format for this evaluation wherein each revenue is rated - positively or negatively - according to local criteria.

**EXHIBIT I  
A MATRIX FOR TAX & FEE EVALUATION**

<b>NAME OF TAX OR FEE</b>	<b>EVALUATION CRITERION</b>	New Revenue Capacity	Ability to Respond to Inflation	Promotes Horizontal Tax Equity	Promotes Vertical Tax Equity	Promotes Positive Business Climate	Promotes Local Control	Promotes Administrative Efficiency and Simplicity	Promotes Public Policy, Recovers Cost	Requires Change in Law	Requires Change in Regulation	Yields Stable Revenues

**Recommendation 4: Develop Analyses to Help Evaluate the Sensitivity of Pricing.**

There are several variables to consider when pricing services. For example, should fees be flat (e.g., charge everyone the same?) or variable (the fee reflects a number of factors related to providing the service to each user). Presented below are various pricing strategies that merit ASEZA consideration.

- **Flat or Average Rate Pricing** - This pricing strategy charges all users a uniform amount. It is the simplest rate structure to establish, and may pose the least citizen/business resistance. To develop a flat rate, simply divide the cost by the number of users to develop a *per unit* cost. However, this type of rate does nothing to support issues of equity and efficiency.

- **Incremental Pricing** - This pricing strategy is based on the level of service provided to the individual customer. This fee is based on such variables as frequency and volume or level of effort. For example, fees related to the use of public property may vary by the type of property to be used (e.g., street vs. park) the planned activity, and the cost to the Zone to oversee the use of the property.
- **Measured Service** - A variation of incremental pricing, measured service provides a means of determining the amount of service rendered either through metering or some other method for accurately gauging how much of a service is being consumed.

Some considerations that might influence pricing practices are the need to regulate demand, the desire to subsidize a certain activity to meet social objectives, creating a positive business climate, administrative concerns such as the cost of collection, and the promotion of other goals.

These considerations include:

- **Cost Oriented** - Prices are generated to recover full or partial costs or revenues in excess of cost.
- **Competition Oriented** - Prices are influenced in part by what the user would have to pay to obtain that service from an alternative available source.
- **Demand Oriented** - Prices vary in relation to the number of persons who want the service in particular ways, during particular times, at particular locations.
- **Convenience Oriented** - Prices vary to reflect the value of the convenience of the service or the manner in which the service is paid.
- **Society Oriented** - Prices are adjusted to reflect societal objectives (lower prices for the poor, higher prices to discourage certain types of activities such as over-consumption of limited resources).

Appendix B presents an example of a pricing strategy that incorporates the pricing concepts described above.

## *B. Strengthen Budget Formulation and Management*

To strengthen its budget formulation and management, ASEZA should take the following steps.

### **Recommendation 5: Implement the “Budget Formulation Process”.**

ASEZA should move quickly towards implementing a program budget approach as articulated in “Proposed Improvements to ASEZA’s Budget Formulation Process” prepared by AZEM in November 2006 and develop and use a database (see C, *Develop a Database*) as one input to more informed budgetary decisions.

A good budget process is far more than the preparation of a legal document that

appropriates funds for a series of line items. Several essential features characterize a good budget process:

- Incorporates a long-term perspective,
- Establishes linkages to broad organizational goals,
- Focuses budget decisions on results and outcomes,
- Analyzes the cost of fee based services and revenue derived from these services,
- Involves and promotes effective communication with stakeholders, and
- Provide incentives to government management and employees.

These key characteristics of good budgeting make clear that the budget process is not simply an exercise in balancing revenues and expenditures one year at a time, but is strategic in nature, encompassing a multi-year financial and operating plan that allocates resources on the basis of identified goals. A good budget process moves beyond the traditional concept of line item expenditure control by providing incentives and flexibility to managers that can lead to revenue enhancement and improved program efficiency and effectiveness. In a period of fiscal uncertainty, more efficient programming, planning, and budgeting is required.

#### **Recommendation 6: Reorganize Budget-Making Administration.**

ASEZA should create an organizational unit responsible for harmonizing budget policy with revenue enhancement and policy, data compilation and analysis, and monitoring, measuring, and evaluating performance. This enlarges the budget function from the role of coordinator of the budget process - keeping the process on schedule, designing standard forms, verifying the accuracy and completeness of budget requests, balancing revenues and expenditures, and monitoring budgetary expenditures - to taking on activities that are closely related to budgeting, such as capital planning, program evaluation, and revenue enhancement analysis. Responsibilities can include: analyzing ASEZA's financial health; econometric modeling; applying analytical techniques, such as cost-benefit analysis and cost finding; developing performance measures and analyzing performance data; and evaluating program work methods, efficiency and effectiveness.

#### **Recommendation 7: Apply Cost Finding Techniques.**

The full cost of providing a service should be calculated in order to provide a basis for setting future fees. Full cost incorporates direct and indirect costs, including operations and maintenance, overhead, and charges for the use of capital facilities. Review all current fee supported activities, train staff on cost finding techniques, cost out the service, determine cost of service and determine if full cost pricing is consistent with ASEZA's revenue raising policies. Once implemented, there should be ongoing monitoring of the costs of delivering fee-based services particularly where additional capital and infrastructure investments are made in fee-based services.

#### **Recommendation 8: Develop a Capital Improvements Planning Program.**

Capital projects are expensive to acquire and maintain, and are a major component of ASEZA's investment and operating cost structure. This makes the linkage between current and future revenue availability and current and future capital needs a vital one. Capital improvements planning (CIP) links the two. It identifies capital needs to be funded over a multiyear period. It identifies each proposed project, the year the project will start, and the proposed method of financing and maintaining the capital asset. As such, it links revenue

planning with investment planning by coordinating physical and financial planning. ASEZA's financial resources for capital projects will be limited and therefore must be considered and allocated in a systematic manner. ASEZA should initiate the formulation of a CIP to plan for, and program, future capital needs to ensure financial stability by helping control taxes and fees, and maximizing alternative financing options.

### *C. Develop a Database*

To support budget planning and decision making, such as preparing a long term capital plan and program, implementing a program of cost analysis, and seeking opportunities to diversify the revenue base, ASEZA should develop a database which will allow effective measurement and evaluation techniques.

#### **Recommendation 9: Develop a Database of Relevant Statistics.**

ASEZA should develop a financial, demographic, socio-economic and environmental database to enhance the use of econometric modeling in its long-term financial forecasts and evaluate its fiscal condition. Evaluating ASEZA's fiscal condition means sorting through a variety of financial, demographic, socio-economic and environmental data (e.g., data on the Jordanian economy, local economy, population level and composition, local business climate, character of local finances, changes in the local population) and identifying both positive and negative trends. Fiscal condition refers to both *cash solvency* (the municipality can pay its bills) and *budgetary solvency* (the governmental body generates enough revenues to meet its expenditures and not incur deficits). Once this database has been assembled, its information can be used to prepare better tools for analysis of revenue and spending administration, as follows.

#### **Recommendation 10: Incorporate “Measurement and Evaluation” Techniques into budget-making.**

Worldwide “best practice” financial management has developed the understanding that results can be more clearly expressed in numerical terms, commonly expressed as “indicators.” Numerical indicators represent a way to quantify changes and trends within the governmental body. In developed policy-oriented governmental units, a budget analyst pulls together information from a government's budgetary and financial reports, combines it with economic and demographic data, and creates a series of indicators that, when plotted over time, can be used to monitor changes in financial condition and alert officials to future problems. Once assembled, these data can be re-calibrated with the now unused USAID-AZEM model thus forming a more complete database.

Exhibit II presents a sample list of indicators of relevance to ASEZA.

**EXHIBIT II**  
**SAMPLE ASEZA FINANCIAL INDICATORS**

<b>Name of the Indicator</b>	<b>Formula</b>
Revenues Per Capita	$\frac{\text{Net Operating Revenues Adjusted for Inflation}}{\text{Population}}$
Restricted Revenues	$\frac{\text{Restricted Operating Revenues}}{\text{Operating Revenues}}$
Central Transfers	$\frac{\text{Central Operating Transfers}}{\text{Gross Operating Revenues}}$
Flexible Tax Revenues (revenues controlled by the ASEZA)	$\frac{\text{Flexible Operating Revenues}}{\text{Operating Revenues}}$
One-Time Revenues	$\frac{\text{One-Time Operating Revenues}}{\text{Operating Revenues}}$
User Fees for Services	$\frac{\text{User Fee Revenues}}{\text{Expenditures for Related Services}}$
Income Deficit	$\frac{\text{Income Deficit}}{\text{Operating Revenues}}$
Expenditures Per Capita	$\frac{\text{Operating Expenditures Adjusted for Inflation}}{\text{Population}}$
Employees Per Capita	$\frac{\text{Number of Employees}}{\text{Population}}$
Regular Expenditures	$\frac{\text{Regular Expenditures}}{\text{Operating Expenditures}}$
Benefits	$\frac{\text{Expenditures for Benefits}}{\text{Wages and Salaries}}$
Operating Balance	$\frac{\text{Operating Deficit}}{\text{Operating Revenues}}$
Reserves	$\frac{\text{Share of Reserves Not Earmarked}}{\text{Operating Revenues}}$
Current Liabilities	$\frac{\text{Current Liabilities}}{\text{Operating Revenues}}$

## V. SUGGESTIONS FOR HOW TO USE THIS REPORT

This report is intended to help ASEZA Commissions/Directorates discuss issues related to enhancing the Zone's revenue capacity. Its purpose is to facilitate discussion by small groups, facilitate consensus, and develop a revenue enhancement solution for ASEZA's policymakers. Recommendations contained in this report focus on:

- Revenue Enhancement
- Budgeting and Organization of the Budget Process
- Financial Forecasting
- Cost Analysis
- Fiscal Condition Analysis
- Capital Improvements Planning and Programming

Discussion can focus on ASEZA's current policies and practices relative to these topics and the reforms necessary to strengthen its policies, procedures and practices. Once there is a consensus among the participants, ASEZA's directorates should develop an action plan identifying:

- Areas for change and the methodologies for bringing change about;
- Implementing organization(s) and their detailed work plans;
- Expected outcome(s);
- Implementation strategy;
- Anticipated completion date; and
- Any potential obstacles.

Supporting any action plan should be a training component that provides ASEZA's implementing Commissions/Directorates with personnel resources possessing knowledge on the concepts, practices and skills required to bring about change in the recommended topical areas. The ACED Program Municipal Finance Expert has presented training materials on budgeting, fiscal condition analysis and cost analysis to the Finance Directorate staff for review and consideration. The ACED Program intends to work with Finance staff to further the understanding of these materials and help guide their implementation by selecting targets of opportunity for reform.

# **APPENDICES**

## APPENDIX A<sup>2</sup>: Total Projected Revenues and Expenditure 2008-2013

Item		Actual	Actual	Actual	Actual	Projected	Projected	Projected	Projected	Projected	Projected
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Operating Revenues</b>											
Buildings and land tax	19%	661,061	514,907	1,113,337	1,012,684	1,113,952	1,225,348	1,347,882	1,606,387	1,914,469	2,281,636
Traffic tickets	14%	659,714	910,572	973,702	1,047,540	1,152,294	1,267,523	1,394,276	1,586,085	1,804,281	2,052,495
rented lands settlements	20%	1,369,968	674,000	1,530,562	1,759,763	1,935,739	2,129,313	2,342,245	2,815,610	3,384,643	4,068,677
rum revenue	18%	0	0	242,596	342,263	376,489	414,138	455,552	536,508	631,850	744,135
handcraft workshop revenue	10%	0	0	35,316	38,710	42,581	46,839	51,523	56,625	62,232	68,395
environmental violation	10%	0	0	0	18,050	19,855	21,841	24,025	26,427	29,070	31,977
Aqaba marine park cafeteria revenue	10%		0	0	32,977	36,275	39,902	43,892	48,282	53,110	58,421
Aqaba marine park revenue	10%	0	0	0	16,999	18,699	20,569	22,626	24,888	27,377	30,115
food inspection revenue	10%	0	0	0	4,665	5,132	5,645	6,209	6,830	7,513	8,264
air quality inspection revenue	10%	0	0	0	68,523	75,375	82,913	91,204	100,325	110,357	121,393
water quality inspections revenue	10%	0	0	0	11,445	12,590	13,848	15,233	16,757	18,432	20,276
other inspections revenue	10%	0	0	0	9,007	9,908	10,898	11,988	13,187	14,506	15,956
company registration fees	9%	667,703	836,716	767,044	803,554	883,909	972,300	1,069,530	1,161,770	1,261,964	1,370,799
Labor permits and certificates fees	5%	0	0	171,147	144,424	158,866	174,753	192,228	201,840	211,932	222,528
work permit and residence fees	13%	1,367,229	1,759,847	2,108,739	2,155,776	2,371,354	2,608,489	2,869,338	3,255,608	3,693,878	4,191,149
taxi transformation fee	0%	0	0	0	27,000	29,700	32,670	35,937	35,937	35,937	35,937
Goods sales tax	16%	639,141	763,112	899,891	1,131,446	1,244,591	1,369,050	1,505,955	1,739,508	2,009,281	2,320,894
Services sales tax	14%	739,850	883,355	1,060,377	1,210,615	1,331,677	1,464,844	1,611,329	1,835,853	2,091,662	2,383,116
special tax	27%	2,688,077	3,460,118	6,685,170	7,462,154	8,208,369	9,029,206	9,932,127	12,639,457	16,084,759	20,469,193
Income tax	11%	994,458	2,425,947	2,538,803	3,008,893	3,309,782	3,640,761	4,004,837	4,430,697	4,901,842	5,423,086
Custom and fines	8%	4,897,972	1,123,064	1,234,872	1,233,566	1,356,923	1,492,615	1,641,876	1,772,733	1,914,020	2,066,567
storage fees	10%	0	3,222,058	3,773,335	3,870,862	4,257,948	4,683,743	5,152,117	5,664,177	6,227,129	6,846,033
trucks traffic and control project	12%	0	0	734,133	862,458	948,704	1,043,574	1,147,932	1,284,191	1,436,623	1,607,150
municipality fees	11%	59,469	44,943	74,593	69,469	76,416	84,057	92,463	102,430	113,472	125,703
trash collecting fees	27%	91,035	242,809	800,602	523,982	576,380	634,018	697,420	885,920	1,125,368	1,429,534
buildings and organizational fees	38%	965,355	1,699,447	3,767,828	3,753,969	4,129,366	4,542,302	4,996,533	6,890,094	9,501,266	13,102,008
others	8%	1,341,432	2,138,236	1,251,841	7,073,210	7,780,531	8,558,584	9,414,443	10,166,735	10,979,142	11,856,467
<b>Total Operating Revenue</b>		<b>17,142,464</b>	<b>20,699,131</b>	<b>29,763,888</b>	<b>37,694,004</b>	<b>41,463,404</b>	<b>45,609,745</b>	<b>50,170,719</b>	<b>58,904,859</b>	<b>69,646,116</b>	<b>82,951,903</b>
<b>Operating Revenue</b>											
Fees & Licenses		3,810,505	8,716,392	12,714,902	12,939,215	14,233,137	15,656,450	17,222,095	20,613,688	24,929,675	30,475,118
Sales & excise tax		4,067,068	5,106,585	8,645,438	9,804,215	10,784,637	11,863,100	13,049,410	16,214,817	20,185,703	25,173,203
Customs Fees		4,897,972	1,123,064	1,234,872	1,233,566	1,356,923	1,492,615	1,641,876	1,772,733	1,914,020	2,066,567
Income tax		994,458	2,425,947	2,538,803	3,008,893	3,309,782	3,640,761	4,004,837	4,430,697	4,901,842	5,423,086
Land & Building Tax		661,061	514,907	1,113,337	1,012,684	1,113,952	1,225,348	1,347,882	1,606,387	1,914,469	2,281,636
Lease Income		1,369,968	674,000	1,530,562	1,759,763	1,935,739	2,129,313	2,342,245	2,815,610	3,384,643	4,068,677
Others		1,341,432	2,138,236	1,985,974	7,935,668	8,729,235	9,602,158	10,562,374	11,450,926	12,415,765	13,463,617
<b>Total</b>		<b>17,142,464</b>	<b>20,699,131</b>	<b>29,763,888</b>	<b>37,694,004</b>	<b>41,463,404</b>	<b>45,609,745</b>	<b>50,170,719</b>	<b>58,904,859</b>	<b>69,646,116</b>	<b>82,951,903</b>
<b>Expenditure</b>											
Total salaries, leases and allowance	12%	6,013,917	6,591,532	7,697,753	10,376,729	10,943,531	11,808,654	13,225,692	14,812,776	16,590,309	18,581,146
Total Operating expenditure	31%	3,661,015	4,592,946	7,886,822	6,968,233	7,393,536	7,807,522	10,227,854	13,398,489	17,552,020	22,993,146
Total transformation expenditure	17%	1,664,792	1,682,945	2,520,398	3,064,588	3,359,010	3,144,010	3,678,492	4,303,835	5,035,487	5,891,520
Others	22%	235,246	285,867	391,059	433	246,000	181,500	221,430	270,145	329,576	402,083
<b>Total Operating Expenditure</b>		<b>11,574,970</b>	<b>13,153,290</b>	<b>18,496,032</b>	<b>20,409,983</b>	<b>21,942,077</b>	<b>22,941,686</b>	<b>27,353,468</b>	<b>32,785,244</b>	<b>39,507,392</b>	<b>47,867,895</b>
Total Capital Expenditure	10%	13,808,459	25,041,196	25,177,913	27,695,704	29,076,550	31,580,670	34,098,461	36,868,032	39,775,687	42,933,754
<b>Total Expenditure</b>		<b>25,383,429</b>	<b>38,194,486</b>	<b>43,673,945</b>	<b>48,105,687</b>	<b>51,018,627</b>	<b>54,522,356</b>	<b>61,451,929</b>	<b>69,653,276</b>	<b>79,283,079</b>	<b>90,801,649</b>

<sup>2</sup> Trend analysis was used to prepare the updated revenue and expenditure forecast for the scenario presented in Appendix A. The lack of demographic, socio-economic and environmental data make it impossible to prepare scenarios based on more sophisticated econometric projections. This lack warrants the preparation of sensitivity analysis of ASEZA revenues and expenditures to help justify future revenue policy changes.

## Appendix B: Sample Pricing of Garbage Collection

	MULTI-FAMILY	SINGLE-FAMILY	COMMERCIAL	INDUSTRIAL	OTHER
A. # of customers	20,000	5,000	4,000	500	100
B. Average collection time per pickup (minutes)	1	1.5	.5	1	2
C. Collections per week	2	2	2	3	5
D. Total collection time (B x C)	2	3	1	3	10
E. Total collection time per week - all customers (A x D)	40,000	15,000	4,000	1,500	1,000
F. % of total collection time (E as a % of 61,500)	65%	24%	7%	2%	2%
G. Allocation of collection costs (total annual costs of FT 800,000 x F)	JD 520,000	JD 192,000	JD 56,000	JD 16,000	JD 16,000
H. Annual collection costs per customer (G/A)	JD 26	JD 38	JD 14	JD 32	JD 160
I. Estimated average kilos per customer per week	.025	.025	.025	1	4
J. Total kilos per week (A x I)	500	125	100	500	400
K. % of total kilos (J as a % of 1,625)	31%	7%	6%	31%	25%
L. Allocation of hauling & disposal costs (total annual costs of JD 500,000 x K)	JD 155,000	JD 35,000	JD 30,000	JD 155,000	JD 125,000
M. Annual hauling & disposal costs per customer (L/A)	JD 8	JD 7	JD 8	JD 310	JD 1,250
N. Fixed administrative costs per customer (JD 200,000 / total customers in A of 29,600)	JD 7	JD 7	JD 7	JD 7	JD 7
O. Annual estimated sanitation fee (H+M + N)	JD 41	JD 52	JD 29	JD 349	JD 1,417