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INVESTMENT PROMOTION IN SYRIA
Assessing The Capacity Of Investment Promotion Agencies

REPORT OF THE UNIDO MISSION TO SYRIA
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Backstop Off: A. Suzuki

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List of Commonly Used Abbreviations

CoC	Chamber of Commerce
CoI-D	Chamber of Industry -Damascus
EPZ	Export Production Zone
GCEA	General Commission for Environmental Affairs
IE	Industrial Estate
IO	Investment Office
MoI	Ministry of Industry
MoP	Ministry of Planning
UCD	UNIDO Country Director
UNDP	United Nations Development Program
UCC	Union Chambers of Commerce
SOE's	State Owned Enterprises

Introduction :

Syria is a middle-income developing country with an estimated population of 14,4 million inhabitants in 1994. The population is very young, 42% under 15years, growing at 3.31% one of the highest in the world ¹.

During the past few years , the Syrian economy has undergone significant changes mainly at the manufacturing level. These were the results of the introduction of a series of measures aiming at the creation of an appropriate environment for private sector investment.

The promulgation of investment Law 10 ,may 1991 granting incentives to promote private sector investment ,has significantly increased private investment.

The Presidential Decree 20, September 1994 , granting more autonomy to the state owned enterprises SOE's , opened the possibilities of restructuring and performance improvements .

As part of UNIDO's activities in the promotion of investment in industrial projects, and as a way to support the government of Syria in its efforts to promote investments, and in view of Unido's capability to render services including promotion programmes, feasibility studies as well as to mobilize funds for direct investment , a mission was carried out aiming at assessing the role and Capacity of investment promotion agencies in Syria.

This report contains the findings of the UNIDO mission and some recommendations deemed to be of importance in putting investment promotion on the right track.

¹ 1994 Human Development Report

Present situation :

The Syrian Arab Republic has a centralized administration, command and centrally planned economy. The main characteristics are the following :

Government controls and is directly involved in most of the nation's economy, it sets national policy and implements much of it through its own agencies. The result of this approach is that government-run operations have no competition and therefore inefficient economy and exports which cannot stand up to open competition ².

Compared to other developing countries Syria offers good crisis free environment and relatively economic stability .

The Syrian economic base is fairly diversified, with a dynamic industrial sector employing 29% of the labor force and accounting for 22% of the GDP ;an agriculture sector employing 23% of the labor force and accounting for 31% of the GDP ³.

The industrial sector

The estimated number of industrial enterprises/establishments in Syria is 40 000 in addition to 80 000 handicrafts⁴.

As to the geographic location / distribution of industries, Damascus accounts for almost 55% of the total , Aleppo 20% and the remaining between Homs, Ladiquieh and Hama .

The industrial public sector accounts for more than 60 % of the total industrial production capacity ,and almost 50 % of the work force .During the last decade , due to its low productivity from one side and the development of the private sector from the other side , the contribution of the industrial public sector in export dropped from 90% to 40 % in 1995 the equivalent of 20% non-oil exports.

The low productivity of the industrial public sector was the result of certain policies / measures mainly:

- SOE's are away from being in competition with the private sector,
- SOE's detain monopolies of procurement , processing and direct sale,
- High employment security of public servants ,
- Shortage in qualified people in key positions,
- Absence or inadequate application of norms and standards for export purposes

² MDP mission report June 96

³ 1994 HDR

⁴ Handicraft is not really limited to pure artisanal ,in 30%of the cases it is a small size industry, a concrete example is a small family printing press

Findings:

During discussions with senior officials and key persons involved in the industrial sector (see annex 1 for listing) it was clearly stated that Law 10 of may 1991 was an important turning point in the Syrian economy. It was a sign of recognition from the government that promotion of the private sector is a primary engine for growth .

Incentives provided by Law 10

The main incentives brought by Law 10 are the followings:

- * No discrimination whatsoever between national investor , Arab or foreigner as to the assets characteristics and the property (ownership) of a project.
- * Capital investment in foreign currency brought to Syria for investment purposes can be repatriated after five years.
- * All necessary equipment, machinery ,tools, raw materials, transportation means are exempt from any taxes.
- * Opening of a bank account in foreign currency is allowed but limited to 100% of estimated investment.
- * 5 years tax free , starting production date , for private companies and 7 years for mixed companies (minimum 25% public sector).The tax free period will be extended 2 more years in case the revenues of exported goods and /or services in foreign currency transferred to Syria, trough proper channels, exceed 50% of the total production.

Field of application and Restrictions of Law 10

Law 10 is applicable to almost all industrial activities. In practice three activities are excluded : Mineral water bottling , Brewery and TV assembly. As to the knitting it is conditioned by a full production line (lacework -finished product) . It was noticed that so far no participation of the private sector in the cement industry, petroleum and related activities.

High Council for Investment

Created by article 5 of Law 10 the HCI is composed of:

The Prime Minister	-----	President
Deputy Prime Minister for Economic Affairs	-----	Vice-President
Deputy Prime Minister for Services Affairs]-----	Members
Minister of Agriculture and Agriculture Reforms		
Minister of Transports		
Minister of Procurement and Internal Trade		
Minister of Economy and Foreign Trade		
Minister of Industry		
Minister of State for Planning Affairs		
Minister of Finance]-----	Reporter
Director of Investment Bureau		

The HCI meets on a monthly regular base in order to:

- Approve and transmit projects ,making sure that they tally with Law 10 objectives, to concerned ministries / institutions to issue necessary licenses,
- Grant permits for the establishment of mixed, share holding and limited liability companies by Prime Minister's decision,
- Define the state contribution in mixed companies capital,
- Approve foreign currencies exchange rate .

Investment Bureau

Established by Prime Minister's decision the Investment Bureau acts only as a coordinator . With its very limited human resources and equipment, the I.B. collects data and projects documents /appraisal from concerned institutions, receives claims , prepares the HCI's meetings agenda and disseminates its decisions for implementation .

Achievements under Law10

The table in annexe2 give relatively accurate figures on achievements under Law10.

It must be stated that ,in the absence of official written data the content of the table , based on what has been provided from different sources of information (meetings, newspapers interviews) , was carefully studied ,screened and analyzed.

Due to lack in updated information (late feedback) ,mainly for technical reasons, It is obvious that concerned authorities are not in a strong position to propose actions or measures to enhance the good performance of the first 3years of law 10 implementation.

Preliminary Analysis:

- * The total investment in industry as shown in the table amounts to approximately SL 142 billions equivalent to US\$ 2.85 billions.
- * The primary sub-sectors are Chemicals, Engineering, Food Industry and Knitting.
- * The rate of implementation is dropping drastically 9% in 1993 compared to 33% in 1992 and 52% in 1991. The period 1994-1996 should be discarded in the absence of on the ground follow-up and feed back .
- * The average investment by project is decreasing from US\$ 32 millions in 1991, US\$ 1 million in 1992 and US\$ 0.6 million in 1993 .

Problems encountered by the private investors

1. Investment process is long , tasks are spread over several ministries and institutions (conflict of interest, burden of administrative formalities,..)
2. Industrial zone are either unavailable or inaccessible , no proper urban planning .
3. High cost for providing necessary infrastructure added to the investment, Government cannot and will not insure any kind of contribution ,in some cases the cost may reach 20% of total investment.
4. No money market , banking sector is purely public ,no specialized credit institutions, ..
5. Huge disparities in foreign currencies exchange rate ,at the time of the mission the official rate on the American dollar was 15 % less then traded 43 against 50 (measures to remedy are under examination).
6. In the absence of guidance as where and how to invest huge investments in number and amount went to the food industry boosting the production in a saturated market.

Recommendations / Proposed Actions :

- 1- An investors guide consolidating information on investment climate and incentives, investment procedures, policy, regulations and Laws, taxation and foreign exchange implications and financial mechanism,....
- 2- The existence of reliable data and statistics is an highly important issue to be addressed.
Unido may help the counterpart institution in data collection, generation, analysis and dissemination through the modernization of equipment, improved work methods, technical advise and training.
- 3- Restructuring and strengthening the role and capacities of the investment bureau. Setting up of a databank for investment promotion (DIPP) is an essential tool for storage, management of project implementation and project evaluation.
- 4- Introducing COMFAR (Computer Model for Feasibility Analysis and Reporting) to enhance the capability of relevant institutions in the appraisal of investment studies, thus improving the quality of these studies and rendering them acceptable to investors.
- 5- Assistance to the concerned government agency (investment bureau / high investment commission) in the identification and promotion of specific industrial partnership opportunities in Syria.
- 6- Technical assistance in identifying suitable industrial zones (export free zones), in planning ,design and operation .
- 7- General assessment of vocational and technical education system (programmes structure and specialization)

Annex 1

Listing of Individuals & Organizations Visited

UNDP

Mr. AKTOUF Boalem	Resident Representative a.i.
Mr. DARDARI Abdallah	National Program Officer
Mrs.KOUKAZ Nadia	Program Officer

Ministry of Industry

Dr. AL-SAMMAQ Mohammad	Advisor to the Minister
Dr. ADWAN Souleiman	Director of Investment Department
Ing.CHAHINE Barakat	Director Industrial Private Sector

Investment Bureau (Presidency Council of Ministers)

Dr. SARAKBI Mohammad	Director
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Damascus Chamber of Industry

Dr. AL-HINDI Yahya	Chairman
Mr. HASSANEIN Adel	Treasures

State Planning Commission

Dr. AL-NOURY Walid	Director Industrial Planning
Mr. SIBAII Bassam	Director Scientific & Technical Cooperation

Damascus Chamber of Commerce

Dr. SHALLAH Rateb	President
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General Commission for Environmental Affairs

Mr. KLALY Khaled	Coordinator National Ozone Unit
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Annex 2

SECTORIAL PROJECTS INVESTMENT BY NUMBER, RATE AND YEAR

	1991	1992	1993	1994	1995	1996	TOTAL
CHEMICALS	1,835,611,000	1,933,577,000	831,137,000	86,034,000	98,010,000	0	4,784,369,000
ENGINEERING	3,570,773,000	2,001,889,000	90,968,000	392,771,000	0	0	6,056,401,000
FOOD	125,608,563,000	2,332,384,000	780,825,000	382,771,000	0	0	129,104,543,000
KNITING	532,709,000	1,264,103,000	122,513,000	0	0	0	1,919,325,000
TOTAL IN SYRIAN LIRA	131,547,656,000	7,531,953,000	1,825,443,000	861,576,000	98,010,000	0	141,864,638,000
APPROVED INDUSTRIES	99	214	163	171	96	74	817
REGISTERED / LICENCED INDUSTRIES	51	70	14	5	1	0	141
DOCUMENTED INDUSTRIES	29	100	59	40	6	0	234
% OF TOTALLY IMPLEMENTED PROJECTS	51.52	32.71	8.59	2.92	1.04	0.00	17.26
EXECUTION RATE	0.81	0.79	0.45	0.26	0.07	0.00	0.46