



SME SUPPORT PROGRAMME

Project No. (SSP) MED/2005/17542



Programme funded by the European Union and implemented through the SEBC

Assess the Effect of the Tax/Fiscal Reform Process on the SME Sector, and Provide Recommendations for its Improvement

ToR No.: AWP2/037

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December 2009

**PROJECT NO. MEDA/2005/17542
EUROPEAID/122282/C/SV/SY**

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The European Commission funds the SSP based on the financing agreement signed between the European Community and the Syrian Arab Republic, ref.:MED/2005/17542.

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TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	6
2. INTRODUCTION	7
3. OBJECTIVES OF THE ASSIGNMENT	7
4. DESCRIPTION OF PROGRESS AND ACTIVITIES – STATUS	8
5. THE ANALYSIS	10
5.1 THE ECONOMY AND REFORMS: A BRIEF OVERVIEW	10
5.2 SIZE AND DEFINITION OF SMES	13
5.3 SMES IN SYRIA	15
5.4 THE EASE OF DOING BUSINESS IN SYRIA	17
5.5 INSTITUTIONAL CHRONOLOGY FOR SME DEVELOPMENT	19
5.6 AN ASSESSMENT OF PROCEDURE SIMPLIFICATION FOR ENTERPRISES	21
5.7 ACCESS TO FINANCE AND INVESTMENT-FRIENDLY TAXATION	23
5.8 CHANGES IN TAXATION REGULATIONS, 2003-2008:	24
6. RECOMMENDATIONS AND CONCLUSIONS	37

List of Tables

	Page No.
Table 1: Interviewees, affiliation and dates	6
Table 2: Contribution of Public and Private Sectors to the GDP, Fixed Prices	8
Table 3: Domestic Product in Fixed Prices	9
Table 4: Government Budget, 2000- 2009	10
Table 5: Rate of Economic Growth	11
Table 6: The National Definition of SMEs	12
Table 7: Micro and SME Definitions in Various Countries	12
Table 8: Number of Active Private Enterprises Employing Different Numbers of Employees	14
Table 9: Size of Production Units in the Private Industrial Sector by Type of Industry, 1998	15
Table 10: Change in ease of Doing Business in Syria 2007-2009	15
Table 11: Alternative Definition of Micro, Small and Medium Enterprises	17
Table 12: Listing of Standards for Domestic Firms as per Law No.115	23
Table 13: Progressive Rates of Taxation for Corporations	24
Table 14: Progressive Income Tax Structure under Law No. 24 of 2003	25
Table 15: A Comparison of Income Tax Rates (Syria, Morocco, Tunisia, Jordan and Egypt) 2007	28
Table 16: Distribution of Government Revenues by Type of Tax	28
Table 17: Interest Rate on Credit	33

Figures

Figure 1: Rate of Real Economic Growth (2001-2008)	11
Figure 2: Distribution of Employed According to Type of Organization (2006)	14
Figure 3: Enterprise Inspections – Frequency and Requests for Informal Payments	16
Figure 4: FDI inflows 1991-2007	31

1. Executive Summary

Even though marked improvements have been made in the legislative structure regarding SMEs and the business environment in general, Syria is an economy that continues to perform below its potential. It is clear from the analysis that although significant advances have been made regarding the development of SMEs in terms of fiscal reforms, more needs to be done regarding procedure simplification and overall enterprise policy.

While improvements have been made in simplifying procedures, a new wave of advances have to be made; this time focusing upon and benchmarking best practices in order to achieve competitiveness. In other words, a competitive mindset should become the dominant guiding mindset and philosophy of stakeholders. Therefore, current noted improvements should only be viewed as a transient stage to be followed by more streamlined tax legislation to achieve regional if not global competitiveness.

It is also noted that legislation that becomes too detailed, as in the present tax legislation, in an attempt to cover all possible scenarios (see the current income tax law) can also lead to greater complexity, corruption and discretionary power and vagueness arising from complexity enable also corruption, drive away FDI and generate market distortions. Furthermore, there is significant fragmentation in policy design and designation regarding FDI, whereby sectors have varying legislation and incentives based thereon. Most distorting is the fact that the investment promotion authority is not in charge of all sectors and therefore its effectiveness is limited.

Discrimination in terms of incentives favouring large firms should be considered as legislation not favouring the growth of SMEs, which are typically not registered as LLCs or public shareholding companies. The view that such discrimination would help SMEs grow is probably not mindful of the fact that SMEs still face many impediments that should be addressed. The focus should be on limiting discrimination in terms of incentives, while lowering taxes everywhere.

Microfinance companies should be encouraged in all forms since large banks are not interested in this type of activity due to its transactions costs.

A credit bureau should be created as a minimum and within the private sector. The need should be to create two, not one in order to avoid public or private monopolies on credit information.

Incentives to investors are primarily focused on tax incentives. This is not the accepted approach any more. Investors, foreign and domestic, expect low taxes as a necessary threshold and an absolute minimum. Real cost cutting incentives should be focused upon: land grants, fiduciary incentives and a stable, modern business environment will be more effective attractors to foreign and domestic investments.

Revaluing methodologies for listing firms in the stock exchange are creating obstacles to entry and listed firms are generating semi monopoly rents since there are very few firms whose stocks are traded and within two days per week and with an extremely narrow fluctuation margin. The number of firms, number of trading days, and fluctuation margins should be expanded to enable listing of companies and behaviour as a true market. Otherwise, one could claim that a bubble is being created through legislative constraints.

But most significantly at this stage is the issue of creating a competitive business friendly environment in which:

- Businesses can enter and exit the market easily
- Trade internally and externally without bureaucratic impediments
- Policy is united and well coordinated with a designated, fully empowered and properly funded champion
- Focus upon SME/enterprise development in an integrated manner and possibly in a project funded by donors (initially) in partnership with the government to build capacity at the institutional level (government, SMEs and NGOs such as the chambers); access to finance by enterprises with focus on SMEs; support to policy development in a cohesive, comprehensive manner; demand driven and focused, specialized training; and upgrading and modernization of enterprises

Finally, Syria has made admirable strides toward improving the management and operation of the economy. As noted above and in greater detail in this analysis, more needs to be done in a well coordinated and focused manner. SMEs, after all, are the dominant form if not all of private enterprises.

2. Introduction

The following is an expert service provided to the Syrian Enterprise Business Centre (SEBC). The SEBC was formally constituted as an independent national organisation to promote the development of the private sector, and in particular, SMEs, in March 2006, following ten years of support from the EC. The SEBC is a nationally managed organisation in Syria, with a range of programmes to help the country in its overall reform and modernisation programme.

One of the activities managed by the SEBC is the SME Support Programme (SSP), which is receiving funding from the EC under a 3.5 year agreement scheduled to complete in February, 2010, with a value of EURO 15.0 M. The SSP focuses assistance on six areas: improving the efficiency and competitiveness of SMEs; development of local consultancy; access to medium and long-term finance; promotion of exports; institutional strengthening; and promoting the sustainability of the SEBC.

The call for services is facilitated by a consortium of consultancy companies headed by GOPA GmbH, providing experts to the SEBC, under approval of the EC Delegation in Syria. The gradual shift of the Syrian economy to an open market economy presents considerable challenges that will need to be addressed. Among those challenges is the creation of a business friendly legislative and regulatory environment. The creation of new laws and regulations or the revision and adaptation of existing ones is, therefore, vital to create a supportive regulatory environment favouring economic growth.

During recent years, the Syrian Government passed amendments to its taxation and fiscal policy laws to enable the creation of a more relaxed regulatory environment to foster economic development. As a result, and within the objective of assisting the Syrian Government, SEBC/SSP is undertaking a number of studies to assess the current situation of the Syrian economy and thereby identify required intervention to foster economic growth.

The present assignment evaluates the effects of the new tax and fiscal reform process in Syria on the SME sector in particular and the economy, as a whole. It is also required to provide development recommendations to improve the taxation and fiscal reform process to create economic development and attract further investments to the country.

3. Objectives of the Assignment

Global objective

The global objective of the assignment is to assist in increasing the competitiveness of Syrian economy through creating a supportive regulatory environment favouring economic growth.

Specific objectives

The following specific objectives are to be achieved: To improve the taxation and fiscal reform process to create economic development and attract further investments to the country.

Requested Services from the Expert

The objectives of the assignment will be achieved through the following activities:

1. Review and analyze exiting taxation/fiscal laws and their amendments
2. Review related reports and studies (if available) produced by the Syrian Government and/or other donor projects.
3. Meet relevant governmental officials, beneficiaries and stakeholders to view opinion and points of view.

4. Identify effects and impact of the tax/fiscal process on the Syrian economy as a whole, and on SMEs in Syria, in particular.
5. Based on the above and further research, identify the following:
 - Notable improvements in the Syrian economy as a result of tax/fiscal reform process.
 - Effects of this reform on overall investments in the country and that related to Foreign Direct Investment (FDI)
 - Identify mostly benefited sectors from this reform
 - Provide recommendations to improve the tax/reform process so as to foster economic growth and attract investment & FDI

An International Expert, Yusuf Mansur, was recruited to conduct the above activities and mobilized on 28/6/2009. The mission lasted 15 working days from 28/6/2009 to 16/7/2009. The following is expected as an output of this assignment:

1. Comprehensive evaluation and assessment of the effects of the tax/fiscal reform process on the Syrian economy and the SMEs in Syria
1. Evaluation of recommendations & feedback from other Stakeholders and government officials, donor projects and economical experts
2. Present a final version of the recommendations on how to improve the tax/fiscal reform process to foster economic growth
3. Prepare a Power Point Presentation (PPP) for a group of key stakeholders.
4. Final report including analysis, review and recommendations (as per the standard SEBC template).

4. Description of Progress and Activities – Status

During the mission, the expert conducted the following activities:

- Researched and reviewed existing data and literature on the Syrian economy and exports, which also included past work done by SEBC experts.
- Reviewed data and research collected from various governmental, aid agencies and non-governmental sources.
- In addition, the following meetings were conducted.

Table 1: Interviewees, affiliations and dates

Name of Interviewee	Institution	Date
Dr Ghassan Al Habash, Deputy Minister of Economy and Trade	Ministry of Economy and Trade	1/12/2008
Dr Shafiq Arbach Director of Central Bureau of Statistics	Central Bureau of Statistics	1/12/2008
Ihsan Amer Director of Economic Statistics Department, Central Bureau of Statistics	Economic Statistics Department, Central Bureau of Statistics	1/12/2008
Mr Moh'd Khodar AlSaid Ahmad Deputy Minister for Tax and Fees	Ministry of Finance	2/12/2008
Ms Maya Al Ramli	SEBC	28/06/2009
Ms Peggy Rosiak Syria Country Director	Oxford Business Group	28/6/2009
Sulafa Radwan Akili	SME Directorate/ Ministry of Economy and Trade	30/06/2009
Mr Poul Gadegaard, Team Leader, SSP	SEBC	30/ 06/2009
Ibrahim Badran	SME Directorate/ Ministry of Economy and Trade	30/06/2009
Manar Shihadeh	SME Directorate/ Ministry of Economy and Trade	30/6/2009
Mr Ahmad Khalil Smes Development Director	Ministry of Social Affairs and Employment	1/07/2009
Mr Wisam Halabi Director Private Sector Directorate	State Planning Commission	2/07/2009
Ms Amal Dalati Microfinance Manager	State Planning Commission	2/07/2009
Nisreen Karkotli Head of research Department	Central Bank of Syria	6 /07/2009
Maisaa ElBoushi Director	Banking Risk Directorate Central Bank	6 /07/2009
Mohammad Eisa Director International Cooperation Directorate	Ministry of Finance	6 /07/2009
Mohammad Saif AlDein	Syrian Investment Authority	15/07/2009

5. The Analysis

5.1 The Economy and Reforms: A Brief Overview

Syria is a low middle-income developing country with a population of 19.88 million people in 2008¹ and a GDP of US\$42.7 bn in 2008², and thus a per capita GDP of US\$2190. The real GDP achieved an average growth rate of 5.14% during 2004-2008, while the CPI grew on average by 8.24% with the highest inflation rates occurring in 2006 and 2008.³ And while there are no definite estimates, it is recognized that the size of the informal economy is 30-40% of the GDP, which, if formalized, would further increase the growth rate.⁴

The overall ranking of Syria in the Global Competitiveness Report (GCR) shows that the Syria is becoming more competitive. Its ranking in the GCR has steadily improved: from 84th among 129 countries in 2006 to 80th among 131 countries in 2007 and to 78th among 134 countries in 2008.⁵ Equally important is the steadiness of the improvement, which shows that significant positive developments have taken place every year.

The private sector contributes 60% of the GDP (80% of the non-oil GDP). Table 2 below demonstrates the growing contribution of the private sector in the economy and the diminishing public sector contribution during 2000-2008. With the exception of 2008, a difficult year almost everywhere in the region due to the Global Credit Crisis which necessitated greater government involvement, the contribution of the private sector has been rising.

Table 2: Contribution of Public and Private Sectors to the GDP, Fixed Prices (Million SYP)

Year	Production			Rate of Production Contribution (%)		
	Public Sector	Private Sector	Total	Public	Private	Total
2000	742303	814816	1557119	47.7	52.3	100
2001	722007	908607	1630614	44.3	55.7	100
2002	749017	960752	1709769	43.8	56.2	100
2003	720402	1025040	1745442	41.3	58.7	100
2004	779479	1069296	1848775	42.2	57.8	100
2005	789048	1195162	1984210	39.8	60.2	100
2006	831872	1262670	2094542	39.7	60.3	100
2007*	858575	1374517	2233092	48.4	61.6	100
2008**	939444	1392793	2332238	40.3	59.7	100

Source: Central Bureau of Statistics.

* Preliminary Data

** Predicted

The contribution of agriculture declined to 14.7% of the GDP in 2008 from a high of 24.1% in 2006. Industry (manufacturing, mining, and utilities) 31.8% in 2008, while services comprised almost half of the GDP.

¹ Source: *Third Investment Report, 2008*, Syrian Investment Authority.

² IMF forecast, www.imf.org.

³ The growth rate, albeit at the regional average is substantial given that Syria also hosted 1.5 million Iraqi refugees who are not included in the per capita calculation.

⁴ *The Report Syria 2009*, Oxford Business Group, www.oxfordbusinessgroup.com

⁵ *The Global Competitiveness Report 2009*, www.weforum.org/pdf/gcr/2008/rankings.pdf

Table 3: Domestic Product in Fixed Prices (Million SYP)

Economic Sector	2005		2006		2007*		2008**	
	Value (SYP)	%						
Agriculture and Irrigation	265504	23.1	292457	24.1	262289	20.4	203196	14.7
Strategic Industries	188242	16.3	179765	14.8	164611	12.8	199761	14.5
Manufacturing Industries	77295	6.7	80738	6.7	101123	7.9	135604	9.8
Electricity and Water	20992	1.8	27637	2.3	30513	2.4	37922	2.8
Building and Construction	36438	3.2	50593	4.2	55101	4.3	64828	4.7
Wholesale and Retail Trade	233945	20.3	222230	18.3	262781	20.4	252677	18.3
Transportation and Storage	125464	10.9	136902	11.3	154000	12.0	163974	11.9
Finance, Insurance, and Real Estate	56582	4.9	57088	4.7	70217	5.5	79851	5.8
Community Services	152702	13.3	165080	13.6	206262	16.0	193223	14.0
Fees	-5702	-0.5	-1151	-0.1	-18896	-1.5	47285	3.4
Total	1151462	100	1211339	100	288001	100	1378321	100

Source: Central Bureau of Statistics, Syria

* Preliminary Data

** Predicted

The labour force of 5.5 million is employed primarily in services (60%), followed by agriculture (26%) and industry (14%). Major industries include petroleum, textiles, food processing, beverages, tobacco, phosphate rock mining, cement, oil seeds crushing.

The GDP per capita in current prices expanded by 80% in the 1960s, when major enterprises were nationalized and the government adopted economic policies designed to address regional and class disparities. The economy continued to grow by a total of 336% during the 1970s; however, the growth proved unsustainable and GDP shrank by 33% during the 1980s. In the 1990s the economy grew at a modest total growth rate of 12% (1.1% per year) as a consequence of successful efforts aimed at economic diversification. With the onset of reforms, GDP in current prices grew by 13% while trade grew by 21% annually during 2000-2007.⁶ The peak growth years in the GDP and trade during the period were 2004 and 2005, a direct consequence of the Iraqi War in 2003.

Of Syria's 72,000 square miles (186,000 km²), roughly one-third is arable, with 80% of cultivated areas dependent on rainfall for water. Most farms are privately owned, however, there are significant controls on elements of marketing and transportation. Syria, due to a concerted effort by the government and investment in huge irrigation systems in northern and north eastern areas of the country, has transformed the country from being a net importer of many agricultural products to an exporter of cotton, fruits, vegetables, and other foodstuffs. However, draught and a growing population (2.4% annually) put a strain on water resources and demand that greater emphasis is placed on water management.

In 2006 Syrian oil production averaged about 530,000 barrels per day. The petroleum industry accounts for a majority of the Syria's export income; however, the reserves will run out in a few years, and Syria already became a net importer of petroleum products in 2006, four years earlier than expected. Hence, the government must look into other sources of revenue and trim unnecessary subsidies in order to maintain economic stability and growth.

Since 2000, the government began a reform process that revisited many of the old interventionist policies and loosened its controls on price, trade, and foreign exchange especially in the financial sector, and Syria's trade regime. The economy has undergone significant and successful reforms in the past five

⁶ Real GDP only grew by 3.1% during 2003-2007 with CPI sustaining an average annual increase of 6.9%.

years with a view to maintaining economic stability while improving socioeconomic conditions across the country.

The government, at the beginning of the new millennium, instituted an Economic Reform Program (ERP) to overhaul the economy with a number of objectives to be achieved within a five-year period. The objectives included financial reforms like freeing interest rates, free transfer of funds, unification of exchange rates, full convertibility of the Syrian Pound, independence of Central Bank, revision of income tax, revision of trade laws, modification of custom tariffs, setting up of a Stock Exchange and reform of the judicial system.

Many of the reforms have been initiated already. In the field of monetary policy and banking, a Credit & Monetary Council (CMC) was set up in the year 2002 as the focal point for regulating the monetary policy in the country; the CMC took its first significant decision in 2003 by reducing interest rates on deposits and loans by 1% from 8 and 12%, respectively. A new money laundering law was approved in 2003 to set up an agency for combating money laundering and prescribe offences and punishments. In 2001, Syria legalized private banking and in 2004 four private banks began operations.

Other financial sector reforms have been instituted. In August 2004, a committee was formed to supervise the establishment of a stock market, which is currently underway. The latest changes in the investment environment came in the form of Decrees 8 and 9, issued in 2007. Decree 8 replaces Law 10, the foreign investment law, in effect since 1991.⁷ Decree 9 relates to Syria's investment policies and describes the role of the Syrian Investment Agency.⁸ Beyond the financial sector, the Syrian Government has enacted major changes to the companies, rental and tax laws, and is considering similar changes to other laws, which impact property rights. As a result, government revenues have also been rising at an almost steady pace.

Table 4: Government Budget, 2000- 2009 (Million SYP)

Budget Item	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009*
Total Revenues	245574	305286	301660	320939	342465	356290	434865	459571	407800	458942
Revenues	170872	226325	221583	236122	238242	251509	296625	301350	308497	331324
Investment Rev	74702	78961	80077	84817	104223	104781	138240	158221	99303	127618
Total Expend	246193	274831	314050	353651	405145	431402	493700	520531	600000	685000
Current Expend	151297	164761	178332	200780	248497	277044	317213	325697	370000	410000
Capital Expend	94896	110070	135718	152871	156648	154358	176487	194834	230000	275000
Deficit	-619	30455	-12390	-31607	-62680	-75112	-58835	-60960	-192200	-226058
Grants	3792	0	0	1105	0	0	0	259	0	0
Foreign Loans	15180	11796	11456	9708	11572	14769	14159	13119	10650	12296

Source: Data from the Ministry of Finance

* Estimated,

Foreign direct investment increased 12 fold in 2006 compared to 2001. Furthermore, exports generated by the private sector contributed 55% of total exports in 2006 almost three times their share (18.5%) in 2000. The Table and chart below demonstrate the growth rates of the GDP in real terms during 2001-2008.

⁷ Freeing Syria's Economy, *the Economist Intelligence Unit Views Wire*, Jan 31st 2007.

⁸ Legislative Decree (9 / 2007), Syrian Investment Agency (SIA), www.damascusbar.org

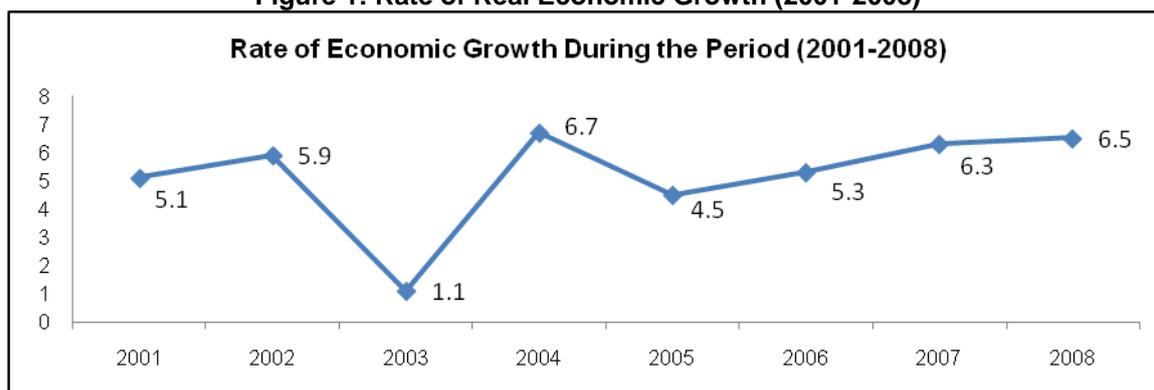
Table 5: Rate of Real Economic Growth (%)

Year	2001	2002	2003	2004	2005	2006	2007	2008
Rate of Economic Growth (%)	5.1	5.9	1.1	6.7	4.5	5.3	6.3	6.5

Source: Central Bureau of Statistics, Syria

It is readily apparent that the growth rate in real terms has been steadily rising since 2005; thus, departing from its past sinusoidal trend. The peak growth in 2004, shown in Figure 1 below, was a result in part of the influx of Iraqi refugees, which increased domestic demand. A steady, increasing growth rate is an indication of rising competitiveness of the Syrian economy.

Figure 1: Rate of Real Economic Growth (2001-2008)



Source: Central Bureau of Statistics, Syria

Despite the reforms and ambitious development projects of the early 1990s, as well as reform efforts currently underway, Syria's economy is slowed by the large number of poorly performing public sector firms, relatively low investment levels, and comparatively low industrial and agricultural productivity.

Moreover, among Syria's foremost challenges is the rate of growth of the labour force (4.4%), which far exceeds that of the population (2.4%). Furthermore, with 65% of the population under 25 years of age, and an unemployment rate of 14% with 60% of the unemployed aged 20-29 years, there is a tremendous pressure to expand the productive base of the economy, which can currently only absorb 200,000 new entrants annually. In addition to the job creation challenge, for a young population where literacy rate is relatively high (81%), there is a need to maintain sustainable high growth rates of the per capita GDP. However, the per capita growth rate of the GDP over the last 20 years has fallen from a high of 3% during 1986-96 to a low of 0.6% during 1996-06 and a growth rate of 2.6% in 2006.⁹ Moreover, the oil trade deficit reached 3.5% of the GDP in 2007, and oil production in 2008 is expected to fall 370000 barrels per day, a fall of 7.8% from the production level of 2007.¹⁰

It is well recognized in development literature that SMEs are a suitable engine for growth and job creation, particularly in developing countries. The following section addresses the status of SMEs in Syria.

5.2 Size and Definition of SMEs

While no recent data exists on the scope, size and contribution of SMEs to the economy, there is a wide agreement that SMEs make up more than 90% of production in the private sector. Furthermore, a significant portion of SMEs is informal and, therefore, has limited growth potential since it cannot access institutional sources of finance and has to rely on family resources. Moreover, as will be delineated later in this study, support provisions for market access, access to finance, training, clustering, venture capital and other activities that are deemed necessary for the development of SMEs in Syria are far less than those developed in neighbouring countries, traditionally viewed as Syria's regional competitors.

⁹ World Bank database

¹⁰ *The Report: Emerging Syria 2008*, Oxford Business Group, www.oxfordbusinessgroup.com.

Thanks to recent efforts that were lead by the SEBC in cooperation with national stakeholders, including the Ministry of Economy and Trade, Syria has a definition of SMEs.¹¹ Toward the end of 2008 a definition of SMEs has finally been decreed.¹² The definition combines three factors for classifying an enterprise: number of employees, annual turnover, and capital. Eloquently, the definition avoids setting ranges and enables for classifying firms given that they meet one or two of the classification factors into the next size.

Table 6: The National Definition of SMEs

Size	No. of Employees	Annual Turnover (SYP Million)	Capital (SYP Million)
Micro	≤ 10	≤ 3	--
Small	≤ 50	≤ 50	≤ 50
medium	≤ 250	≤ 250	≤ 250

The following is a comparison of various definitions of micro, small and medium enterprises in various countries. In comparison, the definition of SMEs in Syria can be viewed as modern and flexible allowing for the multidimensionality of the problem of classification and providing enough flexibility to safeguard proper policy design.

Table 7: Micro and SME Definitions in Various Countries

Country	Micro Enterprise Definition	Small Enterprise Definition	Medium-sized Enterprise Definition
EU ¹³	Less than 10 employees, max annual turnover ≤ €2 mil. or annual balance sheet ≤ €2 mil.	10 to 50 employees, max annual turnover ≤ €10 mil. or annual balance sheet ≤ €10 mil.	50 to 250 employees, max annual turnover ≤ €50 mil. or annual balance sheet ≤ €43 mil.
Russia	1 to 15 employees, max annual turnover €1.64 mil., annual balance sheet not defined	15 to 100 employees, max annual turnover €10,94 mil., annual turnover not defined	101 to 250 employees, max annual turnover €27,34 mil., annual balance sheet not defined
USA	No standard definition. Under 10 employees is considered a small office/home office (SOHO) or micro business	According to the Small Business Administration SBA SMEs are firms with fewer than 500 employees	USA still uses the term "small businesses" , defined as having less than 500 employees ¹⁴
Australia ¹⁵	Less than 5 employees	5 to 19 employees	20 to 200 employees
United Kingdom ¹⁶	Less than 10 employees	11 to 50 employees	51 to 250 employees
Canada ¹⁷	Fewer than 5 employees	Fewer than 100 employees for good-producing firms and less than 50 employees for service-producing firms	Above than the 100 number up to 499 employees
New Zealand ¹⁸	Fewer than 5 employees	6 to 49 employees	50 to 100 employees

Source: Various databases

¹¹ Meeting with Sulafa Akili, Director, SME Directorate, MOET, 30 July 2009, and decision of the Council of Ministers No. 94710/1, dated 4 November 2008.

¹² The definition is not wholly without detractors. In an interview with a government official he showed preference to the old definition and critiqued the current definition in that it covers virtually all enterprises.

¹³ European Commission, The new SME definition: user guide and model declaration

¹⁴ Acs and Audretsch, Handbook of Entrepreneurship Research, Springer 2003

¹⁵ Australian Bureau of Statistics

¹⁶ UK Small Business Service

¹⁷ Industry Canada, Small Business Research and Policy: Key Small Business Statistics

¹⁸ New Zealand Centre for SME Research

Not having data at any level of desegregation on SMEs has been viewed as an obstacle to the inclusion of the SMEs in the 11th Five-Year Plan.¹⁹ However, an empirical study is currently in the design stage to determine the characteristics of SMEs, which may include number, sector distribution, number of employees, formal vs. informal, capital, year of establishment, type of ownership, turnover, value added, internationally traded vs. non-traded production, geographic distribution, etc. Whether such study materializes or not will depend on the availability of funding, this is most likely to emerge from donor funded programmes.

Given the recently adopted definition of SMEs in Syria and based on the data in Table 8 in section 5.3 of this analysis, it becomes apparent that almost all (99.8%) of private sector enterprises fall within the definition of SMEs. Therefore, the purview of any SME directed policy covers the whole private sector. And while this rate is higher than in other countries, it also demonstrates that almost all of businesses in the private sector require development and upgrading efforts and are thus a fertile ground for well focused policies and strategies aimed at upgrading and modernization of enterprises to their level of competitiveness.

The observation may be significant: It is possibly prudent to rename the SME Directorate at the Ministry of Economy and Trade as the Enterprise Development Directorate to avoid the seeming disagreement over its roles and responsibilities and to shift focus toward improving all enterprises (which are de facto SMEs). Re-establishing the SME Directorate at the Ministry of Economy and Trade as the Enterprise Development Directorate will fill a void that currently exists since there is no enterprise policy and development strategy in Syria. Current efforts at setting a strategy for SMEs can easily adapt to an overall enterprise strategy without any loss of content or contribution.

5.3 SMEs in Syria

Syria enjoys a rich history of private entrepreneurship due to it being a centre of trade in the Middle East. A policy of central planning started in the 1960s, causing economic activity to be highly influenced by government regulation, price controls, control of banking and distribution, and direct involvement in other aspects of input supply and product markets. This was also the case in the agricultural sector, in which private ownership had prevailed. In the 1980s, the dominant policy was inward-oriented, import-substitution with the aim of protecting domestic industry from foreign competition. Since 1991, a series of steps have been undertaken to manage the transition towards a liberalized social market economy, gaining momentum in recent years.

Between 1992 and 1997, the private sector accounted for an estimated 51% of GDP, 72% of employment, 57% of gross capital formation, 69% of non-oil exports and 58% of imports. The private sector as a whole contributed 61 percent of GDP in 2002, compared to 40 percent in 1980, and provided the great majority of employment.

Notably, most enterprises in Syria operate as family businesses with the most common form of corporate entity being the joint liability company, a form of formal partnership. Since joint stock and limited liability companies require a high level of capital, they are not common in Syria. Available data is old, but formal SMEs present a significant potential for future growth. Arguably, informal sector, estimated to be producing 20% of GDP, remains smaller than some comparator economies.²⁰

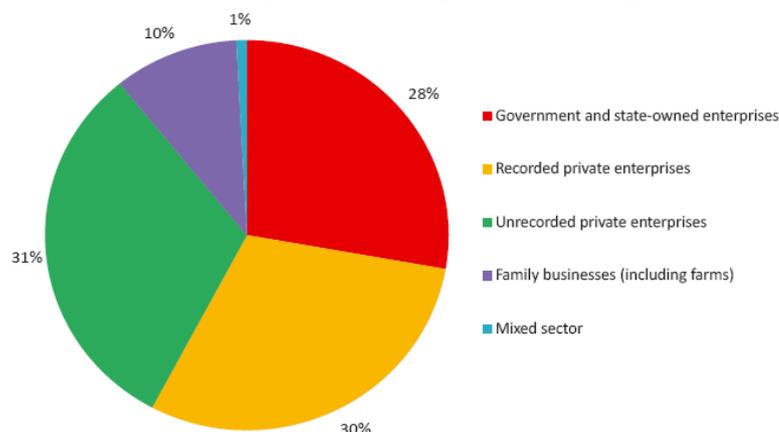
Figure 2 depicts the distribution of the employed population in 2006 according to the sector of employment. It shows that the private sector as a whole contributes to 78% of total employment.²¹

¹⁹ Source: government internal memos

²⁰ World Bank. Syrian Investment Climate Assessment: Unlocking the Potential of the Private Sector, 2005

²¹ The Institutional and Sector Modernization Facility, Syrian Economic Trends Bulletin, Vol. 1 Issue 1, Nov. 2007

Figure 2: Distribution of Employed According to Type of Organization (2006)



Source: CBS Data and authors calculation from The Institutional and Sector Modernization Facility, Syrian Economic Trends Bulletin, Vol. 1 Issue 1, Nov. 2007

The number of active private enterprises employing different numbers of employees is depicted in Table 8 below.²²

Table 8: Number of Active Private Enterprises Employing Different Numbers of Employees

Number of Persons in Firm	Number of Active Private Enterprises	% of Active Private Enterprises
1	346134	65.9
2	106999	20.4
3	35755	6.8
4	16126	3.1
5 to 9	16604	3.2
10 to 14	1982	0.4
15 to 19	586	0.1
20 to 29	472	0.1
30 to 49	251	0.0
More than 50	207	0.0
Total	525116	100

Source: CBS data and author's calculations

In Table 9 below, the size of production units in the private industrial sector by type of industry is shown. Note that the garment sector, followed by textiles and agro food industries are the largest in terms of enterprise number and make up almost two thirds of all enterprises. Furthermore, enterprises employing more than 100 employees are only 0.1% of all enterprises, an extremely small percentage.

²² The Institutional and Sector Modernization Facility, Syrian Economic Trends Bulletin, Vol. 1 Issue 1, Nov. 2007

Table 9: Size of Production Units in the Private Industrial Sector by Industry, 1998 (%)

Sector Number of Employees	1-9	10-50	51-100	>101	Total (%)
Agro-Food	87.22	12.43	0.27	0.08	15.44
Textile	91.7	7.93	0.24	0.13	19.22
Garments	94.19	5.69	0.08	0.04	43.24
Leather	95.68	4.21	0.11	0	11.72
Wood and wooden products*	98.63	1.22	0.08	0.07	5.31
Paper and paper based products	48.49	42.42	6.06	3.03	0.13
Chemical industries	73.06	24.8	1.6	0.54	1.51
Non metallic products	79.81	15.79	1.76	2.64	0.46
Non essential Ores	86.6	12.72	0	0.68	1.18
Machineries	82.83	15.94	0.92	0.31	1.32
Electrical instruments	89.92	10.08	0	0	0.48
Total	92.34	7.37	0.19	0.1	100

*Excluding furniture

Source: Central Bureau of Statistics, Industrial Survey for the Private Sector 1998; Damascus 2000) and writer's own calculations

5.4 The Ease of Doing Business in Syria

A business environment that has obstacles to investing impedes increased private sector involvement. The costs of doing business remain high, due to a number of serious non-tariff barriers but especially due to the high risks to investment arising from arbitrary if existing, enforcement of law.²³

Syria's First National Competitiveness Report (2007) recognises that there is an enduring "group of barriers facing domestic and foreign business people and investors; most of these are attributed to widespread corruption, regulatory routine, too many licensing institutions, negligence of the institutions in charge and misapplication of new regulations and institutions". The Report underscored that bureaucracy was the most serious impediment to doing business in Syria, which of course applies especially to SMEs.

According to the Ease of Doing Business Report, Syria has regressed overall in the past several years.

Table 10: Change in ease of Doing Business in Syria, 2007-2009

Ease of	Doing Business 2009 rank	Doing Business 2008 rank	Doing Business 2007 rank	Change in rank 2007-2009
Doing Business	137	137	134	-3
Starting a Business	124	169	148	+24
Dealing with Licenses	132	86	83	-49
Employing Workers	122	126	98	-22
Registering Property	71	89	87	+16
Getting Credit	178	158	156	-22
Protecting Investors	113	107	105	-8
Paying Taxes	99	98	97	-2
Trading Across Borders	111	127	119	+8
Enforcing Contracts	174	171	171	-3
Closing a Business	84	77	77	-7

Source: Compiled from the *Doing Business Report*

Note: *Doing Business 2009* and *2008* rankings have been recalculated to reflect changes to the methodology and the addition of three new countries each year.

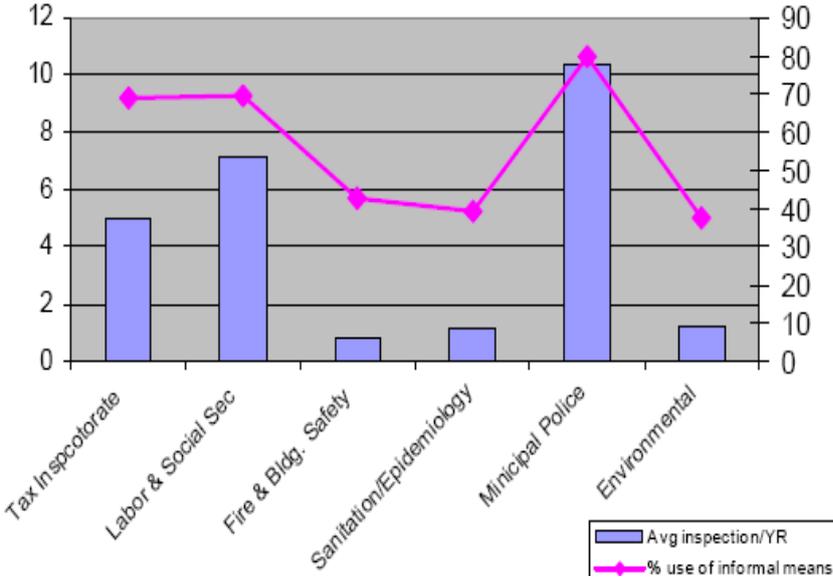
²³ Source: DIW Berlin (Deutsches Institut fuer Wirtschaftsforschung), Evaluating Economic Reforms in Syria, 2007

Based on the above, significant improvements are needed in the areas of “Getting Credit” (178), “Enforcing Contracts” (174), “Dealing with Licenses”, “Starting a Business” (124), and “Employing Workers” (122). “Starting a Business” has seen the most improvement over the past three years, while “Dealing with Licenses” had the greatest decline and “Getting Credit” suffered the second greatest decline—the last places Syria among the least credit friendly countries in the world. The rank of Syria in all categories needs to improve considerably if SMEs are to flourish and competitiveness is to be achieved. Most surprising, the Getting Credit category worsened in spite of the introduction of private banking services.

Additionally, even though the Tenth Five-Year Plan is considered a comprehensive reform agenda with detailed recommendations at the sector level, it is widely believed that the level of implementation of the recommended reforms is still below potential. However, it is also believed that the level of implementation of the Plan has been greater and farther reaching than in previous plans.²⁴

Most new regulations seem very complex and not sensitized to the needs of private firms through slow or discretionary procedures. "Doing Business" indicators suggest that procedures for business registration, firing workers and other routine business activities are either slow or costly or both. Moreover, business inspections are frequent and intrusive. Bureaucratic discretion imposes high and unpredictable costs on formal businesses, making investments riskier. In one survey, sampled Syrian enterprises reported an average of 25 inspections a year, consuming a vast amount of the time and energy of firm managers. A majority of these encounters involved the expectation of informal payment. This is depicted in the figure below.²⁵

Figure 3: Enterprise Inspections – Frequency and Requests for Informal Payments



(Source: World Bank. Syrian Investment Climate Assessment: Unlocking the Potential of the Private Sector, 2005)

Furthermore, firms estimated that 70% of interactions with tax inspectors involved demands of payment, 68% of labour inspections, almost 60% for fire and building inspections, and 80% of municipal police inspections demand payment. Responses also indicated that 75% of firms believe that informal payments are needed for electricity connection, 75% for phone connections, 68% for operating licenses and 67% for building permits. This presents a high cost for businesses, indicates that the government is likely losing revenue, and is not enforcing its rules and regulations. This has led to a highly distrustful and often collusive relationship between firms and government bureaucracy, in which public officials often seek personal interest at the expense of economic and public interests. Firms, in response hide income and workers from government. Firms estimated that there is substantial hiding of income and workers' wages to escape labour regulation and taxes.²⁶

²⁴ Interviews by the consultant with various officials.

²⁵ Source: World Bank. Syrian Investment Climate Assessment: Unlocking the Potential of the Private Sector, 2005

²⁶ World Bank. Syrian Investment Climate Assessment: Unlocking the Potential of the Private Sector, 2005

5.5 Institutional Chronology for SME Development

It is important from a policy perspective to delineate the decisions taking in recent years to create an institutional set up for developing SMEs. The decrees underscored and delineated below show the chronology of this development. There is a clear fragmentation and fuzzy turfs regarding who is in charge of SME development. The situation can be remedied only when an overall policy framework that designates responsibilities, activities and allocates resources among the various agencies.

1. **Ministerial Council Decision, Correspondence 1/3356 dated 17/5/2005:** The Ministerial Council approved the decision of the Economic Committee issued at Session No. 16. on 23/4/2005 making the ministry of Economy and Trade the focal point regarding SMEs.
2. **Decree No. 39 for the Year 2006** established the General Commission for Employment and Enterprise Development to replace the Unemployment Combating Commission established in 2001 within the Ministry of Social Work and Employment. Within the mandate of this Commission, which is extremely wide, is to provide support to start ups in poverty pocket areas, encourage entrepreneurship, conduct studies and field surveys, develop SMEs in terms of planning and marketing activities, linkages, incubators, financing, microfinance, promotional campaigns, and training, among others.

It provided training to 250,000 people, financing to 83,000 entities/person at an average loan funding amount of SYP 500,000 per intervention through the four main sectoral banks of government. Agriculture loans have the highest default rates. The Commission has 14 branches in 14 municipalities. In 2004, the State Planning Commission in cooperation with UNDP conducted an assessment of the Commission and determined that it does not spend its annual budget.

The SME Development Directorate within the Commission has assisted 2800 establishments listed as micro enterprises and SMEs. It has its own definition for micro and SMEs, which it continues to utilize as per official communications from the Prime Minister.

Table 11: Alternative Definition of Micro, Small and Medium Enterprises

Company Type	Capital	No. of Employees
Micro	SYP 1.5 million	-
Small	SYP 1.5-5 million	>6
Medium	SYP5-15 million	>16

It is worth noting that the overall support culture within the Commission and the SME development Directorate stem from a corporate culture and mandate of poverty reduction and employment generation, which is most likely due to it being located within the Ministry of Social Work. It is, therefore, most likely that assistance is given to enterprises based primarily on humanitarian not economic development and upgrading and modernization criteria. Therefore, in many cases, the support is given to enterprises that have no proper mindset aimed at enhancing the competitiveness of the enterprise. Although no records of success/failure of the initiatives have been shared, it was stated that of 2800 enterprises that received support in recent years, only 8 remain in business. It is doubtful that assistance is provided to SMEs with an eye to enhancing competitiveness and in accordance with international and regional best practices in upgrading and modernization.

3. **Legislative Decree No 21 for the year 2007:** The Decree, which was issued on 22/3/2007, stipulated, among other things, that the MOET is to participate with other stakeholders in the design of economic and commercial policy to achieve economic development; and participate with designated bodies in the oversight of SMEs and the making of legislation required for its development.

However, there is a need to specify a champion for policies related to enterprises/SMEs. This would be accompanied by performance indicators, budgetary allocations and benchmarks.

Otherwise, the whole process of developing SMEs will continue to be fragmented and lacking in effectiveness as non-synergistic practices, turf war-like behaviour, and dissipated capacities could derail the process and prevent the change management process necessary for SME development in a country that is in transition.

4. **Decision No.252 for the Year 2007:** This decision established within the Ministry of Economy and Trade, the SMEs Directorate, comprised of the Business Simplification Department; Access to Finance Department; and Support to creativity and Innovation Department. The directorate is to conduct the following
 1. Studies and research on SMEs;
 2. Participate in upgrading SMEs in the various sectors in cooperation with the stakeholders
 3. Devise an overall strategy to govern the development of SMEs in Syria
 4. Participate in the preparation and development of legislation related to SMEs
 5. Participate in the study of moving toward e-government to reduce government procedures
 6. Participate in developing a culture of innovation and creativity
 7. Supply SMEs with the most recent studies on knowledge management
 8. Continuously evaluate quality of government services
 9. Develop and deepen the partnership between the private and public sector
 10. Liaise between the MOET and the SEBC
 11. Assist in reengineering SMEs
 12. Participate in the design of legislation that would improve access to finance
 13. Encourage SMEs to develop the knowledge content of their production and investment
 14. Coordinate with stakeholders on issues related to aid management related to SMEs;
 15. Encourage SMEs to develop their competitiveness
 16. Avail data and information that would benefit SMEs
 17. Conduct studies on issues presented to it by the Minister of Economy and Trade.
5. **Decree No. 4090 for the Year 2008** established the National Committee for SMEs headed by the Minister of Economy and Trade with membership by the Minister of the Social Affairs and Labour, Minister of Industry, and the Chairman of the State Planning Commission. The National Committee reports to the Prime Minister. The SME Directorate at the MOET acts as a secretariat to the National Committee.

The Decree stipulated the establishment of a technical Committee for SMEs headed by the Deputy of the Minister of Economy and Trade and representation from various organizations.

The role of the National Committee is to devise policies, definitions, frameworks and outline the roles and responsibilities of the various stakeholders in the development of SMEs.

The Committee meets regularly and can establish work teams for various tasks. It can benefit from outside expertise and consultancies according to need.

6. **Decision of the Ministry of Economy and Trade (No. 2734 dated 16/10/2008)** formed the Technical Committee for SMEs at the MOET, headed by the Deputy Minister of Economy and Trade and with participation from the private sector comprising one third of total membership and the public sector making up the majority (two thirds) of the technical Committee. The SMEs Directorate is designated as executive secretary to the Committee.

However, the Directorate remains understaffed and in need of resources. Furthermore, the language of the Decision does not specify roles and responsibilities, especially since there are many other decision makers that were established before the Directorate with greater access to funding and resources.

7. **Ministerial Council Decision, Correspondence 1/9471 dated 4/11/2008**
Approved, based on the recommendation of the Economic Council, session No.38, on 27/10/2008, approving the definition of SMEs as a general national definition, taking into consideration the specific provisions of the General Commission for Employment and Enterprise Development.

However, the meaning of this decision is that while the SME definition applies to all organizations, General Commission for Employment and Enterprise Development continues to abide by its own definition in addition to its continuing to benefit from the new definition. Clearly, the non-specificity of the Ministerial Decision creates derogation of the approved definition and, indirectly, recognizes the role of existing institutions while not granting enough authority to the SMEs Directorate. Having the SMEs Directorate continuously compete for establishing its mandate does not lead to effective contributions by this promising entity.

The result of the lack of championing and coordination of policy is that procedure simplification for enterprises, possibly the most important element in the formalization process of all enterprises, remains dependent on initiatives that are met at times with significant resistance and non-uniform implementation among the various stakeholders. While movement toward a social market economy may be somewhat slowed down by the need to change the mindset of the stakeholders, one could easily assert that procedure simplification, under a market or socialist economy, is an absolute necessity that should be conducted without delay.

5.6 An Assessment of Procedure Simplification for Enterprises

1. **Delegation of responsibility for formulating and administering enterprise policy:** Several institutions are simultaneously responsible for different areas of enterprise policy elaboration, which does not encourage responsibility for such a policy. The Ministries of Economy and Trade, Industry, and Social Affairs and Labour have responsibilities for enterprise policy with Ministry of Economy having the prime responsibility. No mechanisms are in place to identify overlapping and inconsistencies.
2. **Co-ordination with other ministries, stakeholders, and civil society:** Enterprise policy co-ordination meetings and information exchanges occur on an ad-hoc basis and only when specific issues arise. The Ministry of Economy has been entrusted with the job of setting up a mechanism for co-ordinating actions and responsibilities of relevant Ministries and other stakeholders. There are plans to introduce co-ordination mechanisms.
3. **Enterprise development strategies:** Enterprise development strategies, including sector strategies, are under elaboration. Review of expired enterprise strategies is currently under way. The Ministry of Economy and SEBC are taking the lead in elaborating an enterprise policy, improving business environment, and upgrading enterprises.
4. **Clear task assignment to legislation drafting and implementation:** The SEBC, supported by EU funding, is taking the lead in enterprise policy implementation and in supporting SMEs. It is active mainly in upgrading, training and export promotion. The steering committee of SEBC committee consists of representative of the Government and the Private Sector.
5. **Delegation of responsibility for regulatory reform and the simplification of administrative procedures:** Several institutions are simultaneously responsible for administrative simplification. The Ministry of Economy is responsible for the administrative simplification, but the activity is not fully functional. Also, there is a joint EU-Syria program (Business Environment Simplification Program) that has been designed for this purpose that has recently been bid and is expected to commence operation in 2008.
6. **Strategy for the simplification of legislation, and administrative procedures:** A strategy for the simplification of legislation and administrative procedures is currently under elaboration. The Ministry of Economy is entrusted with simplifying the legislation and administrative procedures. The Ministry will be assisted by the EU through SEBC in terms of funding and technical assistance, but no strategies have been elaborated yet. The strategy is in the second draft stage.
7. **Review and simplification of current legislation:** There have been ad-hoc activities to simplify current enterprise legislation and the government has plans for a systematic review of current legislation related to enterprise policy. During the past few years there have been ad hoc reviews of legislation, especially with respect to taxes, trade, property rights and competition, but there are no plans for a systematic review of legislation pertaining to business enterprise policy.

8. **Elimination of redundant legislation and regulations:** There has been ad hoc activity to carry out elimination of redundant legislation and regulations, a guillotine. The government is planning to carry out this exercise as in the previous point and SEBC is currently working on this project.
9. **Cost-benefit analysis of new enterprise legislation and regulation:** No systematic cost-benefit analysis targeted at draft enterprise legislation and regulation exists or is being carried out. Thus, legislation emerges with no systematic analysis of its impact in terms of costs and benefits to enterprises.
10. **Number of days for obtaining a company registration certificate:** Registration requires 43 days of follow up.
11. **Number of administrative steps for obtaining the company registration certificate:** Registration requires 13 administrative steps.
12. **Official costs for obtaining the company registration certificate:** According to the World Bank Doing Business Report 2008, the cost for obtaining a company certificate is more than 55% of GNI per capita (US\$1570).
13. **Administrative identification numbers:** More than 5 registrations and identification numbers in dealing with: Ministry of Economy, Chambers of Commerce/Industry, Syrian Customs, Ministry of Industry, and municipalities.
14. **Number of days required for obtaining compulsory company identification number(s):** The number of days is 21 days divided as follows:
 - 5 days in the General Authority for Investment;
 - 3 days in the Ministry of Industry;
 - 3 days in the Ministry of Economy;
 - 3 days in the Custom's Department; and
 - 7 days in the Municipality.
15. **Number of days for completing the overall registration process, including compulsory licences for standard business activities:** Registration requires a total of 128 days.
16. **Number of steps for completing the overall registration process, including compulsory licences for standard business activities:** Registration requires 21 administrative steps.
17. **Silence is consent applied to company registration procedures:** The rule, "Silence is Consent" which implies that if registrants do not hear from a certain authority, consent of the authority is considered automatic, is not applied anywhere in the implementation of legislation relating to enterprises.
18. **Costs connected with registration for limited liability companies as % of GNI per capita:** The registration cost of a limited liability company is 55.7% of the GNI per capita.
19. **Minimum capital requirements for limited liability companies as % of GNI per capita:** The minimum capital requirement for establishing a limited liability company is SYP 3 millions which is more than 40% of the GNI per capita.
20. **One-stop-shop (regional investment centres, etc ...):** The one stop shops system is applied in the industrial cities only.
21. **On-line registration:** The government has not taken steps towards the introduction of on-line registration; on-line registration as a service does not exist in Syria so far.
22. **Time required for closing a business:** The required time for closing a business in Syria is 5 years.
23. **Cost required for closing a business:** The cost required for closing a business is 9% of the GNI per capita.

5.7 Access to Finance and Investment-Friendly Taxation²⁷

The Euro Med Charter, which conducted a detailed analysis of the Syrian economy vs. enterprises two years ago and published its widely circulated report last year, underscored the following categories as necessary for the development of the enterprise in terms of access to finance and investment friendly taxation. Each of the categories has been reviewed during the mission to note development and assess changes since the Euro Med Charter Report was published.

1. Credit Guarantee Schemes/facilities

A Credit Guarantee Scheme is under preparation, with assistance from KfW with the stakeholders being: The Central Bank of Syria, private and public banks, the Ministry of Finance and it will be funded by the Ministry of Finance and banks.²⁸

2. Collateral and Provisioning Requirements

Collateral requirement ranging between 150% to 200% of loan value, which is too high and can be viewed as highly restrictive. In addition, collateral definition is restrictive and there are rigid provisioning requirements for uncollateralized loans. However, for small loans (under €20,000), the collateral requirements are more flexible. Furthermore, the Central Bank of Syria forced the commercial banks to hold provisions for non-performing loans, which should somewhat temper this rigidity. However, this is not enough for SMEs to access loans without collateral and hence many good entrepreneurial ideas are either squandered or delayed.²⁹ The proper response lies in establishing a credit database whereby banks and entrepreneurs rely on their credit history instead of real estate wealth. It is feasible that there is not enough land holdings in Syria to finance the capital requirements for developing the Syrian economy.

3. Cadastre

Property titles on the real estate assets are fully documented with easy, low-cost access to registration and information. Property titles are documented at the General Directorate of Real Estate which falls under the purview of the Ministry of Agriculture. However, property titles are not easy to obtain and require lengthy steps; an effort is underway with the help of UNDP and under the guidance of the Deputy Prime Minister for Economic Affairs, enlisting the expertise of Hernando De Soto to simplify registration of property.³⁰

4. Laws and procedures on distressed companies, receivership and bankruptcy

Bankruptcy procedures are in place, but are not in line with international standards. It takes far too long to file for bankruptcy and close a business. Estimates are it takes 4.1 years to properly close a business, and the cost of closing a business is 9% of the Syrian GNI per capita,³¹ which does not enable entrepreneurs to redirect their resources at new ventures.³²

5. Credit Information Services

Credit information system has been put in place at the Central Bank of Syria, but access is not available to the public; only to financial institutions.³³ Enabling public access can serve three purposes, among others: derogate the possibility that private banks monopolize own data on clients

²⁷ This section is based on an earlier analysis by the consultant under assignment then with the OECD to conduct the Euro Enterprise Charter in 2008. It has been updated by the consultant during the current mission.

²⁸ Source: Central Bank of Syria

²⁹ Source: Central Bank of Syria and commercial banks

³⁰ Source: General Directorate of Real Estate

³¹ Source: Ministry of Economy. World Bank, (Doing Business Report, 2008)

³² Source: Ministry of Economy and Trade

³³ Source: Central Bank of Syria

and thus prevent them from changing banks in search of better quality and terms³⁴; enable banks to merge in the future as credit information becomes a common source;³⁵ and prevents development of credit-history based lending. Therefore, it is vital that a credit information database is established at the national level. Opponents to the availing of the data base to credit companies should be assured that privacy is protected. This is achieved by having the applicant for a credit facility fill an application enabling the credit company to provide the seller or creditor with her history of credit for that one transaction. Such a waiver would also stipulate the confidentiality and the availability of the info o the seller for the specific transaction. Credit scores are compiled nationally and in time a credit data base enables entrepreneurship to thrive ad grow without the need for collateral.

6. Access to capital markets

The present legal framework is in line with international standards, and the Stock Exchange has started operations already in late 2008. Daily trading is about SYP 28 million on average, with only 6 companies listed in the bourse, and trading is available only for 2 days.³⁶ Clearly, trading should be expanded to five days and as economic development increases, SMEs can grow to become public shareholding companies and trading volume will expand.

7. Micro-finance facilities

Pilot micro-finance institutions are being established such as the Aga Khan Fund, FARDOS Fund, and MAWRED. However, they remain at the level of pilot projects with limited impact. New Decree No. 15 of 2007 was issued regulating development of micro finance institutions; however, it is still being commented upon regarding the legal status of such companies, which the decree stipulates as closed, non-traded, public shareholding companies.³⁷

8. Leasing

Leasing law is under preparation at the Central Bank of Syria and remains in draft form.³⁸

5.8 Changes in Taxation Regulations, 2003-2008:

Syria tax reforms started toward the end of 2003 with the Income Tax Law (Law No.24 for the Year 2003) which replaced Law No.85 for the Year 1949; and Law No.25 for the Year 2003 to Counter Tax Fraud. More than 34 new laws and decrees related to taxes and fees followed since. The following is a list of the legislative changes:

1. Income Tax Law No. 24 for the year 2003.
2. Law No. 25 for the Year 2003, against Tax Fraud.
3. Law No. 18 for the Year 2004, abolishing livestock fees.
4. Legislative Decree No. 51 for the Year 2004, exempting certificates of origin and commercial bills from council charges
5. Legislative Decree No. 52 for the year 2004 reversing machinery taxes
6. Legislative Decree No. 60 for the year 2004 abolishing expatriation fees
7. Legislative Decree No. 56 for the year 2004reducing inheritance tax to a minimum amount
8. Legislative Decree No.61 for the year 2004 concerning consumption spending fees
9. Law No. 39 for the year 2004 regarding rent taxes on estates rented to non-Syrians
10. Law No. 60 for the year 2004 attaining to imposing income tax on contracts

³⁴ This is known in economics as “Adverse Selection”, whereby an agent does not do the right thing by leaving an inefficient bank to another and remains with her bank because the bank has a monopoly on the customer’s credit history. The “moral hazard” created is to encourage inefficient banking practices by banks as they hold a monopoly on own-clients’ credit history.

³⁵ Bank mergers and entry of new banks are stalled by the lack of an available data base on credit. Each bank retains its own information on clients and does not share it with other banks; thus has little incentive to merge. This also prevents new banks from entering the market since credit information is not so readily available.

³⁶ Source: The Syrian Commission on Financial Markets and Securities.

³⁷ Source: Ministry of Social Affairs and Labour and the Central Bank of Syria

³⁸ Source: Central Bank of Syria

11. Legislative Decree No.44 for the Year 2005 regulating stamp duties
12. Legislative Decree No. 197 reducing customs duties on rental cars amongst other things
13. Legislative Decree No. 67 for the year 2005 concerning the exit fee
14. Legislative Decree No. 41 for the year 2005 concerning consumption spending fees
15. Legislative Decree No. 42 regarding environment fees
16. Legislative Decree No. 44 for the year 2005 amending the stamp custom law
17. Legislative Decree No. 45 for the year 2005 regarding interest, fines and penalties
18. Law No. 41 for the year 2005 relating to taxes on estate sales
19. Legislative Decree No. 9 abolishing Takaleef
20. Legislative Decree No. 10 for the Year 2006 regarding fees, reimbursements, compensation
21. Law No. 10 relating to estates for permanent or seasonal use
22. Legislative Decree No. 49 for the Year 2006 regarding the amendment of stamp fees
23. Legislative Decree No. 50 for the Year 2006 concerning personal liabilities
24. Legislative Decree No.51 for the Year 2006 amending Law No. 24 of the Year 2003
25. Legislative Decree No. 52 for the Year 2006 amending Law No. 41
26. Legislative Decree No. 53 for the year 2006 regarding estate revenues
27. Legislative Decree No. 54 concerning the essential financial law
28. Legislative Decree No. 55 establishing Damascus Securities Exchange
29. Legislative Decree No. 56 for the year 2006 exempting poultry
30. Legislative Decree No. 61 for the year 2007 authorizing re-evaluation of enterprises fixed assets as well as mergers
31. Legislative Decree No. 151 for the year 2007 enabling the establishment of microfinance institutions
32. Legislative Decree No. 31 for the Year 2008 regarding exit fees
33. Law No. 115 of 2008, defined listing standards at the Damascus Securities Exchange (DSE)
34. Law No. 34 of 2008 abolished Legislative Decree No. 151 of 1952 and its amendments

The following is a detailed assessment of the contribution of the main legislation.

1. Law No. 115 of 2008, defined listing standards at the Damascus Securities Exchange (DSE), which started operation in February 2009, for local companies and non-Syrian companies; the latter that desire to be listed in the DSE need approval from the Securities Exchange Commission and must be from a country that has a special agreement between its supervisory body and the Syrian Securities and Financial Markets Commission. The figures for profitability mean an average of 5% is paid capital for at least two years as a condition of regular listing. As of the time of writing this report, 10 companies have been listed on the DSE and trading is for two days a week. Maximum stock price fluctuations can not exceed 2%.

Family businesses can be listed given that they amend their legal status and place a value on tangible assets according to Law No. 61 of 2007. Listing enables the family businesses to benefit from lower tax liability on declared capital as the law has reduced the amount due on the difference between the market and book value to 1% in case of revaluation, given that there is no change in the type of the business entity; and 2% in case of sale/transfer of the re-valued assets.

Table 12: Listing Standards for Domestic Firms as per Law No.115

Type of Listing	Primary	Secondary
Paid-up Capital	SYP300 million	SYP100 million
Existence Prior to listing	3 years	1 year
No. of Shareholders	300	100
Average net profit prior to Listing	5% (2 years)	10%
Free shares for public offering	20%	10%
Availability of Financial Reports	2 years prior	1 year prior

While this is an important development, still more needs to be done such as:

1. Increase the number of trading days: currently (because mainly financial companies are listed and trading is only permitted for two days a week) the demand outpaces supply and prices of stocks rise to the limit, which is too narrow (2% up or down), almost every day. Prudence, according to

the Chairman of the SEC, is warranted at this stage and more trading days will be added as the market matures and more companies become registered.

2. Currently, only tangible assets are evaluated as part of the capital of the company that desires to be listed. Intangible assets should be evaluated in order to allow businesses, particularly those with value added generated through creativity and competitiveness drivers, reap the benefits of innovation.

Most of the legislation seems to have been based on neighbouring country legislation, particularly Jordan, with some derogation and adjustments to fit the Syrian development model. However, in spite of the seemingly arguably slow developments in the stock market, the progress is steady and Syria seems determined to find its own approach toward having a stock market. As more companies convert to become publicly traded the very increase in the supply of stocks will necessitate commensurate changes in regulations.

2. Law No. 34 of 2008 abolished Legislative Decree No. 151 of 1952 and its amendments. The law delineates the rules and provisions of registering foreign companies, establishments and commissions based outside Syria.

It covers commercial and intermediation agencies, in addition to regional, temporary and representative offices and branches. It was conceived in the framework of the economic reforms and encourages foreign investors through simplified registrations and procedures.

It also stipulates that no company may operate in Syria or have a branch or agency without the necessary permissions and approvals. The law also requires foreign offices and branches to maintain accounting records according to international accounting standards.

Financial statements should be audited by a locally certified auditor and submitted to the Ministry of Economy and Trade within three months of the year end and to the Ministry of Finance within periods specified by the Syrian Trade Law.

3. Value Added Tax (Vat) Draft Law, The Ministry of Finance is finalizing a draft law on VAT, which is expected to be issued at the end of 2009 and applied in 2010, once capacity is established.

Care must be paid, however, in the introduction of such a tax, which albeit beneficial in reducing the size of the informal economy as producers have more incentive to bill correctly, capacity within government institutions and public awareness of consequences and scope of the tax must be enhanced and addressed with a sense of necessity.

4. Legislative Decree No. 51 of 2006, income tax was reduced from about 90% to 63% and then to 35% to reach 28% after issuing Legislative Decree No. 51 of 2006. It is believed that the amendments and lower tax brackets will help reduce the informal economy and tax evasion.

Tax under Law No.51 is imposed on net profit at a rate that depends on the legal nature of the company and not the sector it operates in. Some companies, such as private entities, are subject to progressive rates and others, such as shareholding companies and limited liability, are subject to a fixed rate of tax on profit. The following rates show the progressive rates of taxation as of 2007:

Table 13: Progressive Rates of Taxation for Corporations

Tax Rate (%)	Net Profits (SYP)
10	Min. exempt to 200,000
15	200,001-500,000
20	500,001-1,000,000
24	1,000,001-3,000,000
28	>3,000,000

Rates are applicable to all types of companies with the exception of the net profits of shareholding companies and limited liability companies (LLCs), which are subject to a fixed tax rate of 22% as per Law No. 51 of 2006.

The net profits of shareholding companies that offer more than 50% of their shares for public trading are subject to a fixed tax rate of 20%. This rate was decreased by Law No. 60 to 15% and later to 14% as per Legislative Decree No. 51 of 2006.

This is a considerable improvement in terms of lowering the tax burden over the stipulations of Law No. 24 of 2003, which are provided below for comparison purposes.

Table 14: Progressive Income Tax Structure under Law No. 24 of 2003

Basic Rate	Cumulative Rate	Income bracket (syp)
10%	10.40%	Min exempt- 200,000
15%	15.60%	200,001 - 400,000
20%	20.80%	400,001 - 700,000
23%	23.92%	700,001 - 1,000,000
26%	27.04%	1,000,001 - 2,000,000
29%	30.16%	[2,000,001 - 3,000,000
35%	36.40%	3,000,001 and above

Source: Law No. 24 of 2003

Note that Cumulative Rate of Law No. 24 consists of the basic rate plus a 4% local administration tax surcharge for corporate entities operating in Damascus. In other words, the cumulative rate is the basic rate times 1.04. Furthermore, for a natural person, an amount of SYP 50,000 is deducted from the net profit and is exempted from the tax. The exemption applies to every partner in a partnership and to every partner with an unlimited liability in a limited partnership. However, a person may only benefit once from the exemption. Additionally, flat tax rates are imposed on the net profits of the following entities:

- 20% in the case of corporations that issue at least 50% of their shares to the public,
- 25% in the case of industrial shareholding companies,
- 25% in the case of industrial limited liability companies with a capital investment in machinery and plant of more than SYP 5 million.

Under **Legislative Decree No. 51 of 2006**, the following income categories are exempt from business profit tax:

- Cooperatives and investment and consumption associations whose business is limited to gathering the requests of their members and distributing materials, products requested from their stores;
- Profit of investors in agriculture and agricultural cooperatives, which arrange the sale of a member's crop or purchase machinery or equipment for use on a member's land;
- Artists and musicians (persons participating in one of the following businesses: composing, playing a musical instrument, musical composition, hand drawing and sculpture);
- Kindergartens;
- Foundations and institutions for people with special needs;
- 100% of revenue arising from air and sea transportation;
- 50% of revenue from poultry and bovine projects;
- Industrial establishments for a period of three years from the date of their establishment;
- Deluxe, international, third- and second-class hotels, restaurants, night clubs and tourist services operating within the field for a period of seven years;
- Funds intended for expanding the business and taken out of profits by industrial establishments, provided they do not exceed 10% of annual profits after deduction of general expenses and before the deduction of any reserve amount; and
- Profits realised from the sale of a residential home by an individual.

Also, **Legislative Decree No. 51 of 2006** stipulates the following:

1. Deductible Expenses: Net profit consists of gross taxable income after deducting all expenses necessitated by the business or inherent to the nature of the work. The following expenses are deducted from taxable income:

- Rent of premises in which the business is carried out or its rental estimated value if the premises are the property of the taxpayer
- Salaries, wages and other allowances and incentives
- Insurance premiums paid on behalf of employees and workers
- Employer portion paid as social security
- Reserved amounts for paying the end of service indemnities, retirement pensions and emergency compensations as per the Labour Law
- The normal and acceptable rates of depreciation of assets, except depreciation of real estate
- Taxes and fees imposed on the taxpayer in the Syrian Arab Republic, paid during the year which the profits were achieved
- Donations paid by the taxpayers against official receipts to an officially recognised private and public welfare with an amount not exceeding 3% of net profits
- Head office administration expenses within a rate of 5% of net profit
- Interest payable on loans taken out for the business

In addition to these specified deductions in the Income Tax Law, all general expenses necessary for conducting the business are deductible.

Note that the permissible deduction of donations remains too low. Furthermore, given that the activities and number of recognized private and public welfare organizations are limited by registration hurdles and lack of legal status of many types of welfare bodies, it is important that this donation be increased as a percentage and registration obstacles relaxed to motivate a greater role of the private sector in the economy.

2. Non-Deductible Expenses: The following expenditures and charges are not deductible

- Capital expenditures that would increase the value of the assets
- Personal expenses and salaries for owners and their partners for managing the business
- Reserves and provisions, except those made in accordance with the Labour Law

This practice, however, needs to be revised as salaries of owners/managers and expenses should be considered as part of normal business expenditures. Ceilings may be imposed on expenses of owners and defined to limit bloating of expenditures. However, their total curtailment leads to creative types of tax evasion in addition to the obvious potential of weakening the drive to travel to attend conferences, trade shows, training, business meetings etc., especially since no government subsidies exist, which is in contradiction with current practices in regional competitors. Owner/managers who do not charge salaries are more costly to enterprises than those who do.

3. Salaries and Wages: This tax is levied on salaries, special assigned amounts, returns, wages, compensations and bonuses, and all benefits earned by any employee or worker. The tax is due on all employees and workers whether they are Syrian or expatriate. Income tax is calculated in a progressive manner depending on the salary amount.

The first SYP 5000 is exempted from tax, while the remainder is subject to the following rates:

- 5% of the monthly income above the minimum exempted limit (SYP5000) and up to SYP8000
- 7% of the part of the monthly net income between SYP 8,001 and SYP12,000
- 9% of the part of the monthly net income between SYP12,001 and SYP16,000
- 11% of the part of the monthly net income between SYP16,001 and SYP20,000
- 13% of the part of the monthly net income between SYP20,001 and SYP30,000
- 20% of the part of the monthly net income exceeding SYP 30,000
- Every fixed one-time payment is subject to a fixed percentage of 5%.

The following amounts shall be deducted from the gross salary to define the taxable net salary:

- Employees' contribution deducted from their salaries against the social security system or security and pension
- The compensation of job costs and travel compensation, and in general, compensation of every cost endured for business purposes
- Representation costs not exceeding 25% of the fixed monthly salary

Each employer has to deduct the personal income tax from his employees' salaries on a monthly basis; then prepare the employees' salary income tax schedule and submit it to the revenue department every six months as follows:

- From January till June to pay it within 15 days (July1-July 15)
- From July until December to pay it within 15 days (January 1-January 15).

The following categories are exempted from tax on salaries and wages:

- Accredited ambassadors in the Syrian Arab Republic and other diplomatic bodies, consuls, consular bodies and their foreign staff in case of reciprocity.

This exemption shall include only what the persons are paid in relation to their jobs;

- Syrian army and police salaries;
- Mosque and church custodians;
- Local staff employed by Syrian missions abroad and non-Syrian;
- Pensions and family allowances paid together, discharge or dismissal compensations and all amounts paid upon termination of services.
- Compensation paid to victims of work accident(s);
- Wages of domestic servants in private houses;
- Grants by the President of Syria.

4. Income Tax on Movable Capital Assets: A unified tax rate of 7.5% is levied on income from movable capital assets. Income derived from the following sources is subject to tax on income from movable capital assets: interest from bonds and loans granted by Syrian institutions; dividends from companies not situated in Syria; interest from bonds issued by Syrian or foreign governments; secured liabilities; deposits; cash guarantee; and lottery prizes of more than SYP1m. However, 80% of the following items are exempt from taxation on movable capital assets:

- Interest payments on savings deposits deposited in public banks or public savings institutions
- Interest and gains derived from investments bonds
- Dividends paid by Syrian shareholding companies

5. Capital gains are subject to the same tax rates as operating profit. Capital gain is subject to a maximum rate of 23%.

6. Non-Resident tax: This tax is withheld and levied on income derived in Syria by foreign persons or companies, whether they have a branch in Syria or not, and their foreign subcontractors for all services and works executed in favour of the public, combined and cooperating Syrian sectors or in favour of themselves. The profits, wages and salaries tax is collected by deduction and shall be taken off when paying the amounts subject to tax. The rate is based on the subject of the contracts.

- If there is a clear split between the value of pure supply and services, then 5% of total value of on shore services is income tax. However, this rate becomes 7% if the services are provided to oil and gas companies.
- 2% of the total value of onshore services as to wages and salaries tax. However, this rate becomes 3% if services are provided to oil and gas firms.
- In the absence of a clear split between the value of services and supply, the percentage will be 3% + 1%. Offshore services and supply are tax exempt.
- 5% of total value of services and fees paid for films and equipment, machineries and patents, names and industrial and trademarks, and others against profit tax.
- 2% of value of services and the fees paid for films and equipment, machineries and patents, names and industrial trademarks and others against the taxes on wages and salaries.

Withholding tax rates on Syrian subcontractors providing services to foreign companies are subject to the same rates applied to the foreign company. Moreover, they are subject to profit tax (withheld) on food supplies (equals 1%) and supply of materials (equals 2%) as it is not subject to salary tax.

7. Documentation for Tax Purposes and Tax Reporting: All taxpayers must maintain detailed accounting records in Arabic and in Syrian pounds according to Law No. 24 of 2003. All of the original supported documents including accounting documents, inventory lists, collecting and payment vouchers, and purchasing and sales invoices should be kept in Syria as they are going to be subject to tax duties by Ministry of Finance assessors.

All taxpayers have to submit their financial statements to the Finance Department. JSCs and limited liability companies (LLCs), should attach the following to their tax returns:

- A balance sheet signed by a certified public accountant
- A profit and loss statement
- A copy of the operating account for the industrial plants
- A detailed depreciation statement

Taxpayers outside the industrial and commercial professions, in case they do not have a balance sheet or a profit and loss account, have to submit evidence supporting them, including the total amount of income and all costs related to their profits during the previous year. Taxpayers have to present all documents and entries issued manually or by using the computer upon request. Failure to provide the finance department's assessors with the necessary documents that support the financial statements can increase the volume of tax and reject a good amount of expenses.

The fiscal year starts on January 1 and ends on December 31. Taxpayers may obtain approval from the Ministry of Finance to follow a different fiscal year. The ministry issues the tax return forms and the attached financial statements. However, taxpayers must have their tax return information signed by a licensed auditor. All taxes that have been declared must be paid within 30 days of submitting the return. According to law No. 51 of 2006, the following dates are deadlines for filing:

- May 31 of each year for all JSCs, LLCs and public establishments
- March 31 of each year for all other taxpayers

A fine of 10% of the assessed tax is imposed in case of delay in filing the returns. All of the submitted financial statements should be stamped and audited by a local certified accountant who is a member of the Syrian Association of Certified Accountants.

As a consequent of these tax reforms Syria is positioned well vis. regional comparators as shown in Table 15 below, whereby Syria imposed lower corporate taxes in 2007 than Morocco and Tunisia, considered leaders in industrial modernization and upgrading of SMEs and higher than Egypt, one of the most reformed economies in this area in the past two years.

Table 15: A Comparison of Tax Rates on Income in Syria, Morocco, Tunisia, Jordan and Egypt (2007)

Country	Tax Rate on Companies	Tax Rate on Individuals
Syria	0 - 28%	0- 28%
Morocco	35%	0- 42%
Tunisia	35%	0- 35%
Jordan	15 - 35%	5- 25%
Egypt	20%*	0- 20%

Source: Congress Budget Office, 2007

* Egypt recently lowered the tax rate to 10%.

Table 16 below shows the distribution of government revenues as per direct taxes, indirect taxes and other taxes ad fees. Syria scores well in that the majority of its tax revenues are generated from direct taxes, which indicates that income tax reforms have been successful. Morocco, Tunisia and Jordan rely more heavily on indirect taxes such as the sales tax and customs. However, Syria is yet to introduce the VAT, which can graduate into a sales tax. This probably better explains how direct taxes weigh heavier in Syria than in comparator economies. Note that although Syria recently introduced a consumption tax, this type of tax is applied mainly to luxury items and is not widely spread in application.

Table 16: Distribution of Government Revenues by Type of Tax

Country	% of Direct Taxes	% of Indirect Taxes	% of Other Taxes	Total
Syria	57.63	18.92	23.45	100%
Morocco	39.4	43.6	17	100%
Tunisia	36.4	57.1	6.5	100%
Jordan	16	66.7	17.3	100%
Egypt	49.4	36.4	14.2	100%

Source: Congress Budget Office, 2007

While Legislative Decree No. 51 of 2006 has significantly improved the tax structure in Syria relative to its predecessor and lowered taxes. More work needs to be done in terms of reducing distortions such as waivers, tax bands, varied filing dates, and different treatment of companies.

Unless the laws are simplified to be used by investors without having special expertise, they remain an obstacle to the formalization of businesses. Transparency and ease of payment are important factors in reducing the size of the informal economy, which remains in spite of these improvements outside the purview of legislation.

On the other hand, procedure simplification has taken place and speed of tax collection encouraged payment and collection, however it remains extremely cumbersome. Tax Commission was established in 2007 but not activated yet.

Furthermore, unless tax collection is improved significantly, increases in tax collection will remain modest. It is believed that current increases in tax collection are mainly due to increased economic activity, not improved taxation legislation.³⁹ Whether this view is correct should be subject to a special investigation. Furthermore, Legislation development has not reached the required level of the 10th Five-Year Plan.⁴⁰

5. Legislative Decree No. 40 for the Year 2003

Decree No. 40 was issued to ratify the new Free Zones Investment Regulation to encourage investment in the designated free zone areas in Syria and provide investors with greater incentives and facilities. Many commercial activities have been covered by the Decree, especially those related to the services sector. Activities conducted in the free zones are exempted from all tax and duties including income tax, customs and stamp duties, and are not subject to restrictions related to import and export of finished goods. In addition, the employees of free zones are exempted from income taxes. The companies established in the free zones have the right to operate warehouses and import duty free required vehicles and private cars for their own use. Businesses can enter 25% of the product to the local market as imports under conditions that exempt them from foreign trade regulations.

6. Legislative Decree No. 61 for the Year 2004

Decree No. 61 imposed consumption tax on the services and goods as follows:

- The consumption tax is imposed on luxury hotels, restaurants and tourist transportation services. It is levied when the services are rendered.
- The consumption tax rates are calculated as a percentage of the value of the service invoice and vary between 2% and 30%, according to the type of service.
- The tax is levied as a percentage of the total value of the product.
- The consumption tax rate varies depending on whether the good or service is imported or not. In the case of an imported product the tax is levied on the value of the product that has been used for determining the Customs duties in addition to the Customs duties paid and other fees imposed on the product. The tax should be levied upon the receipt of the product from the Customs department or when selling the product to merchants as the value defined in the invoice.
- Consumption tax is transferred to the tax authorities within 10 days of start of the following month using forms approved by the tax authorities.

7. Legislative Decree No.44 for the Year 2005

Stamp duty in Syria is regulated by Decree No.44 of 2005. All documents such as contracts, deeds, insurance premiums and many others are subject to stamp duties as a proportion to their value varying between 0.001% and 3%, or set at a fixed fee as specified in a separate schedule.

³⁹ Meeting with Mr Moh'd Khodar Al Said Ahmad Deputy Minister for Tax and Fees Ministry of Finance

⁴⁰ Meeting with Dr Shafiq Arbach, Director of Central Bureau of Statistics. He also asserted during the meeting that he had no specific data on taxes and collection, all available data was of aggregates

All contracts, receipts, documents and other papers concluded with the private sector are subject to stamp duty fees. The fee becomes due within 30 days upon signature and payable within four days following signature date. The contractor is responsible to pay the due fee on behalf of the public when the contracts are concluded with it. Failure to affix a stamp of lesser value or non- payment of a fee within the due period incurs a penalty of 200% of the stamp fee.

8. Legislative Decree No. 34 for 2008 abolished legislative Decree No.151 of 1952 and its amendments on the rules and provisions of registering foreign companies, establishments and commissions based outside Syria. The law assigned and classified all contracting conditions that should be applied between agents and partners, as well as between foreign companies and arbitrators. It includes many articles to organise the necessary permits for foreign companies and organisations to open temporary representative or regional offices in Syria.

Moreover, this law has identified the acceptable processes and activities to be followed by those offices in addition to the conditions of conducting business and periods of each type of registration. A list of registration fees that vary between SYP25,000 and SYP50,000 are identified by this law together with the requested fees for any other amendments and closing of activities in Syria.

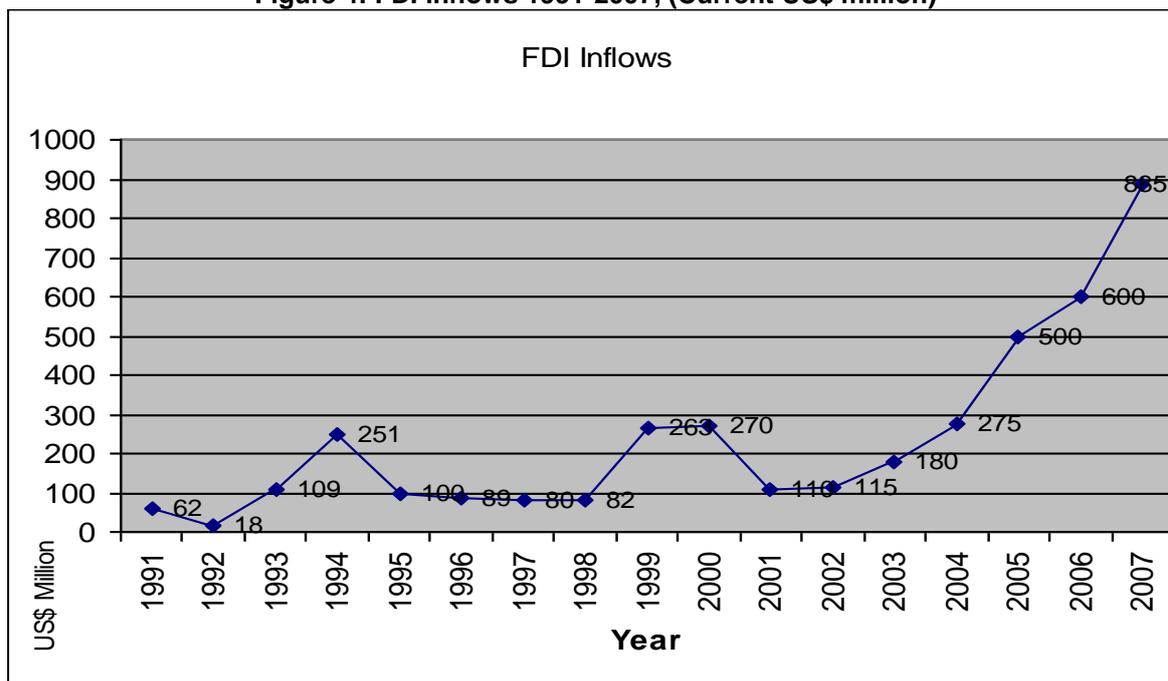
Many penalties have also been identified in the case of any manipulation of the conditions and requirements of this law. The duties of the foreign office and branch operating in Syria have been identified as the following:

A branch has to maintain accounting records according to international accounting standards and prepare its financial statements including balance sheet, profit and loss statements, according to the local Commercial Law; the branch has to nominate one certified auditor from registered and accredited companies and offices in Syria according to local regulations; it has to submit its audited financial statements annually to the Directorate of Economy within 90 days of the year end; a copy from the financial statements has to be submitted to the finance departments as per the periods defined by the executed regulations; and accounting books and documents must be kept for five years after closing a branch.

8. Investment Laws

The investments laws in Syria were first introduced in 1991 by Issuing Law No.10 of 1991, which was abolished by Law No. 8 in 2007. As shown in the figure below, FDI rose from US\$62 million to US\$251 million and then dipped during 1995-1998, a generally depressed era, to rise again during 1999 and 2000. Fluctuations were more a result of regional events such as the start of the first uprising in the Occupied Palestinian Territories and a conservative Israeli mindset toward peace. Law 10 was amended through Legislative decree No. 7 of the Year 2000 to allow, among other things, for the establishment of holding companies.

Figure 4: FDI inflows 1991-2007, (Current US\$ million)



Legislative Decree No 8 for the Year 2000 was issued delineating sectors and expanding investment into those sectors, while still allowing the Higher Council for Investment to include other projects that may be recommended by the Board of Directors of the Syrian Investment Authority. It also eased restrictions on currency flows and further liberalized capital and profit flows while still maintaining a restriction upon the dissolution of the investment on the repatriation of capital which can only occur after six months from closure of business and after settlement of all due fees and taxes. The Higher Council could decide additional tax incentives among others beyond those stipulated in the law.

Legislative Decree No. 9 for the Year 2000 delineated the role and tasks of the Syrian Investment Authority and its independence. It also introduced the One-Stop-Shop at the Investment Promotion Commission and endowed its members with all the vested powers of their representative organizations and institutions.

Investment Dispute Settlement: An amicable settlement is requested in the case of a dispute between any parties, investors, Syrian public bodies or institutions. The failure to reach a solution to after three months from the date of submitting a written notification for an amicable settlement by one of the disputing parties, each of them shall have the right to take the case to one of the following:

- Arbitration;
- Competent Syrian courts;
- The Arab Investment Court created pursuant to the Unified Agreement for the Investment of Arab Capital in the Arab States in 1980;
- Investment Insurance and Protection Agreement signed by Syria and the investor's country
- Any Arab or international organisation.

All investment-related disputes will be considered by the Competent Court as summary proceedings.

Any investor in an approved enterprise will have to:

- Inform the Syrian Insurance Company (SIC) in writing, as soon as the assets are installed and prepared, of the commencement date of the enterprise's operation or actual production;
- Keep systematic accounts for the enterprise in accordance with the International Accounting Standards and provide the SIC with a copy of the enterprise balance sheets ratified by a licensed accountancy auditing company or office;
- Keep detailed records of the enterprise assets; and

- Submit any information, data or documents required by the SIC and allow any officer authorised by the SIC to compare the data and information.

While, the consequence of these institutional developments is well noted in the data, which shows a steady rise in FDI inflows after the year 2000 and through 2007. However,

- Syria like many of other countries in the region is still below its potential in attracting FDI.
- It is important to note that the One-Stop-Shop is only an intermediate step in investment promotion. In fact, having such an apparatus is an admission that the business environment has deficiencies. Therefore, it is no substitute to improving the overall business registration and licensing procedures. Furthermore, advanced economies do not have investment promotion laws which are introduced in developing economies to leapfrog or sidestep investment diverting red tape and bureaucratic hurdles.
- Moreover, emphasis remains on tax incentives where it is a world wide given that taxes should be low as a necessary condition to attract investors (domestic and foreign)—Egypt lowered corporate taxes to 10%. Other types of incentives as in the Tunisian investment promotion model could prove more useful whereby the state decreases the cost of the investment through land grants, waivers of social security contributions by the employer, and reimbursement of training costs of local staff.
- The One-Stop-Shop is not effective. Almost all the parties (Sector representatives, customs, ministry of Finance, fees and taxes, administrative licensing, ministry of labour, trade licenses, company registration, and recently immigration and visa services are being considered as an inclusion) represented there do not provide final authorizations or licenses. Even the representative of the free zones does not provide registration and licensing. Thus, all simply receive the applications, which render the One-Stop-Shop useless.
- Tax incentives utilize a dynamic tax exemption structure that is complicated. Companies that benefit from the Investment Law pay 22% corporate tax; however, this rate is lowered for those located in one of the free zones/industrial cities by 1%, Deir Ezzor location grants the investor a further lowering of an additional 1%. Additional incentives are granted for higher numbers of labour employed. However, there is no focus on value added under this structure, simply the creation of employment opportunities. Competitiveness is generated through the creation of high paying, value-added employment.
- Data is dispersed and fragmented, which makes its collection cumbersome, which also underscores an important point. The Syrian Investment Authority does not have purview over all sectors, some sectors such as tourism has its own investment promotion law.
- On the positive side, an investment map was launched on 20/12/2008.

9. Law No.51 of 2006

This piece of legislation was issued to establish industrial cities in Syria. The four industrial cities are in Damascus, Aleppo, Homs, and Deir Ez Zour. All industrial projects that are established in these cities will benefit from 1% tax reduction to be added to the other exemptions; Establishments in Deir Ez Zour receive an additional incentive of 1% in terms of tax exemptions

10. Law No.51 of 2006

This piece of legislation was issued to establish industrial cities in Syria. The four industrial cities are in Damascus, Aleppo, Homs, and Deir Ez Zour. All industrial projects that are established in these cities will benefit from 1% tax reduction to be added to the other exemptions stipulated in the effective Income Tax Law and its amendments, as well as all advantages and guarantees stipulated in Law No.51 of 2006, according to the following:

- 1) The project area: 2% additional tax exemptions for projects established in remote areas.

2) Number of employees:

- 1% for projects employing 25 or more workers registered with social security
- 2% for projects employing 75 or more workers
- 3% for projects employing 150 or more workers

11. Law No.28 of 2001

Law No. 28 allowed for the establishment of private banks on condition that they operate as joint stock companies and under the supervision of the Central Bank of Syria. To acquire the necessary approvals, the law also delineated the required steps and conditions to follow for establishing a bank:

- Identify the bank capital, which has to equal SYP1.5 bn at minimum
- Arab and foreign banks and individuals have the right to a share of 49% of the new bank's capital after getting the required approval from the council
- The share value of non-Syrian partners has to be transferred in foreign currencies
- Upon licensing, 10% of the bank capital has to be deposited in a frozen account without interest in the Central Bank of Syria which will be considered a part of its fixed assets until liquidating it in the future
- International Accounting Standards have to be followed by private banks together with some related rules that are locally applied.

The law also stipulated a special fixed tax rate of 25% to be applied to the profits of the banks' net profits.

Table 17: Interest Rate on Credit⁴¹

CURRENT ACCOUNTS	1% ±1
	7-9% ±2
TIME DEPOSITS	Lower rate on time deposits offered by bank should be at least 3% less than the highest rate offered
Saving Deposits (account limited to SYP 1 million)	6% ±2
Children Saving Deposits (account limited to SYP 1 million)	Same at one year time deposit
Investment Certificates	7%

Interest on saving accounts is calculated on a monthly basis, interest is accrued semiannually. Each person can hold only one saving account.

The banking sector has the following registered and operating banks (government specialized sector banks are in bold):

1. Commercial Bank of Syria
2. Industrial Bank
3. Agricultural Cooperative Bank
4. Popular Credit Bank
5. Real Estate Bank
6. Saving Bank
7. BEMO Saudi Fransi
8. Bank of Syria and Overseas
9. The International Bank for Trade & Finance
10. Audi Bank
11. Byblos Bank
12. Syria and Gulf Bank
13. Jordan and Syria Bank
14. Syria International Islamic Bank
15. Fransi Syria Bank
16. Middle east Bank

June 2000: foreign banks were allowed to operate in free zones.

April 2001: Law No. 28 was passed ending state monopoly over the banking industry.

April 2001: Law No. 29 was passed to ensure banking secrecy and encourage foreign investment.

March 2002: Law No. 28 was adopted establishing the Credit and Monetary Council.

⁴¹ Source: <http://www.banquecentrale.gov.sy/main-eg.htm>

17. Arab Bank Syria
18. Cham Bank

Private banks have captured 25% of private deposits and 14% of loans to the private sector. All types of public JSCs, including banks and insurance companies and other companies, intending to be listed in Damascus Securities Exchange, should prepare their financial statements in accordance with International Standards on Auditing in addition to the International Financial Reporting Standards. The companies are audited by one of the auditors accredited by the Securities and Financial Markets Commission.

However, the interest rate policy is too restrictive as does not permit for competition in rates among banks, which can distort the banking sector. Furthermore, such restrictions on interest rates do not allow for dynamism. For example, with inflation a SYP1 million savings account will decrease in real terms and thus becomes less useful for a child's education, which means that the regulations will have to change. Most importantly, such limits are unnecessary as they promote inefficiencies in banking services as banks become unable to develop products to satisfy existing and future demand, particularly in retail banking. There is indication that interest rates will be fully liberalized in the future.⁴²

12. Law No.43 of 2005

The law allowed the insurance companies to operate in Syria under the supervision of the Syrian Insurance Supervisory Commission, which gives all necessary approvals and issues the related rules and conditions. It also defined the minimum capital requirement for insurance companies:

- SYP700 million for companies that solely partake in general insurance activities;
- SYP850 million for companies that only provide general and life insurance services;
- SYP1.2 billion for reinsurance companies.

The law defined a special tax rate of 25% on the profits of insurance companies, which is reduced to 15% for insurance companies that offer at least 50% of shares for public trading.

13. Legislative Decree No.186 of 1985

The Syrian government has taken steps to encourage the channelling of capital into upgrading the country's facilities for tourists. Among these measures is the Supreme Council for Tourism's Decision No.186 of 1985, which has identified investment in the tourism sector as follows:

- Building, extension, modernisation, furnishing, management and utilisation of facilities to accommodate tourists, as well as hotels, furnished apartments and camping sites, restaurants, nightclubs and mineral baths, which are deemed by the Ministry of Tourism to be of touristic value;
- The restoration of dwellings of archaeological significance, as well as buildings that should be preserved to convert into accommodations, hotel units, restaurants or night clubs, provided that there is no infringement of the Archaeological Monuments Protection Law; and
- The purchase of installations whether completed, half-completed or already in use – for use by a buyer for touristic purpose.

Special advantages and benefits have been given to tourism establishments offering international or deluxe standards. Tax exemptions and privileges:

- Exemption from all taxes and municipal duties in connection with the construction of such establishments;
- Exemption from all fiscal taxes, duties and supplements for a period of seven years during the time of investment.

⁴² Source: Directive Number 298, Interest rates, credit and Monetary Council, Syria, 2007.

The exemptions are granted for deluxe, international, third- and second-class hotels, restaurants, night clubs and tourism services operating in this field.

14. Legislative Decree No. 151 for the year 2007 enabling the establishment of microfinance institutions

The decree was issued in 2007 authorizing the Credit and Monetary Council to allow the establishment of microfinance institutions to provide financial services to small and micro enterprises in addition to other financial and banking services. An instruction, recently issued by the Credit Council, requires that such establishments be registered as public shareholding companies, and imposes several other restrictions on the transfer of ownership.

However, if these companies are to participate quickly in the microfinance delivery scheme in Syria and provide benefits to SMEs, there is a need to allow such companies be established as LLCs, not only as public shareholding companies.

6. Recommendations and Conclusions

Even though marked improvements have been made in the legislative structure regarding SMEs and the business environment in general, Syria is an economy that continues to perform below its potential. It is clear from the above analysis that although significant advances have been made regarding the development of SMEs in terms of fiscal reforms, more needs to be done regarding procedure simplification.

While improvements have been made in simplifying procedures, a new wave of advances have to be made; this time focusing upon and benchmarking best practices in order to achieve competitiveness. In other words, a competitive mindset should become the dominant guiding mindset and philosophy to policy. Therefore, current noted improvements should only be viewed as a transient stage to be followed by more streamlined tax legislation to achieve regional if not global competitiveness.

Legislation that becomes too detailed, as in the present tax legislation, in an attempt to cover all possible scenarios as seen in the current income tax law can also lead to greater complexity, corruption and discretionary power and vagueness arising from complexity enable also corruption, drive away FDI and generate market distortions.

Discrimination in terms of incentives favouring large firms should be considered as legislation not favouring the growth of SMEs, which are typically not registered as LLCs or public shareholding companies. The view that such discrimination would help SMEs grow is probably not mindful of the fact that SMEs still face many impediments that should be addressed. Therefore focus should be on limiting discrimination in terms of incentives.

Furthermore, there is significant fragmentation in policy design and designation regarding FDI, whereby sectors have varying legislation and incentives based thereon. Most distorting is the fact that the investment promotion authority is not in charge of all sectors and therefore its effectiveness is limited.

Microfinance companies should be encouraged in all forms since large banks are not interested in this type of activity due to its transactions costs.

A credit bureau should be created as a minimum and within the private sector. The need should be to create two, not one in order to avoid public or private monopolies on credit information.

Incentives to investors are primarily focused on tax incentives. This is not the accepted approach any more. Investors, foreign and domestic, expect low taxes as a necessary threshold and an absolute minimum. Real cost cutting incentives should be focused upon: land grants, fiduciary incentives and a stable, modern business environment will be more effective attractors to foreign and domestic investments.

Revaluing methodologies for listing firms in the stock exchange are creating obstacles to entry and listed firms are generating semi monopoly rents since there are very few firms whose stocks are traded and within two days per week and with an extremely narrow fluctuation margin. The number of firms, number of trading days, and fluctuation margins should be expanded to enable listing of companies and behaviour as a true market. Otherwise, one could claim that a bubble is being created through legislative constraints.

But most significantly at this stage is the issue of creating a competitive business friendly environment in which:

- Businesses can enter and exit the market easily
- Trade internally and externally without bureaucratic impediments
- Policy is united and well coordinated with a designated, fully empowered and properly funded champion
- Focus upon SME/enterprise development in an integrated manner and possibly in a project funded by donors (initially) in partnership with the government to build capacity at the institutional level (government, SMEs and NGOs such as the chambers); access to finance by enterprises with focus on SMEs; support to policy development in a cohesive, comprehensive manner; demand driven and focused, specialized training; and upgrading and modernization of enterprises

Finally, Syria has made admirable strides toward improving the management and operation of the economy. As noted above and in greater detail in this analysis, more needs to be done in a well coordinated and focused manner. SMEs, after all, are the dominant form if not all of private enterprises.