

Chapter two

Performance Evaluation of the 9th FYP 2001-2005

2.1 Introduction

The 9th FYP came in the midst of a vital and complicated stage in the Syrian economy which suffered from a long depression resulting in a number of challenges, most importantly lowered growth, investment and productivity levels, in addition to aggravated unemployment problems and a state of disequilibrium in the national economy's various sectors (increasingly depending on mining and agriculture sectors). Moreover, this plan came in the midst of a new phase of economic openness on the outside world and getting into partnerships agreements and free markets which requires good preparedness and proper qualification for all sectors of the national economy.

The 9th FYP constituted an essential transformation in the role and methodology of planning. The first indicative plan was introduced despite that the institutional and legislative structures were not yet complete in order to make policies the main guide to achieve the 9th FYP goals. In addition, the said indicative plan did not receive enough approval and backing from the private sector which was not convinced that there is an enabling environment and state of certitude necessary to extensively take part, which resulted in poor participation in regard to formulating the 9th FYP goals and orientation.

The 9th FYP set its goals taking into consideration the ongoing economic reform process in the country and this was reflected in making it a 2-phase plan; 1st phase 2001-2003 during which the major part of the economic reform program will be implemented, which will pave the way for launching the national economy in the 2nd phase 2004-2005.

The wider objectives of the 9th FYP focus on:

- 1- Tackle slow pace of economic revival and unemployment.
- 2- Improve standard of living of the population.
- 3- Encourage income-generating SMEs which extensively absorb the workforce.
- 4- Shape up and adopt a population strategy for 2001-2020.
- 5- Activate women's role in family and society.
- 6- Develop structures of goods and services production.
- 7- Develop investment structure as benefiting from Syria's economic and geographical location.
- 8- Develop and expand scientific research and research centers.
- 9- Adjust education outputs with labor market requirements.
- 10- Revise the export structure towards exporting finished and semi-finished products.
- 11- Revise the import structure towards focusing on the import capital goods.

12-Protect the environment and achieve sustainable utilization of resources.

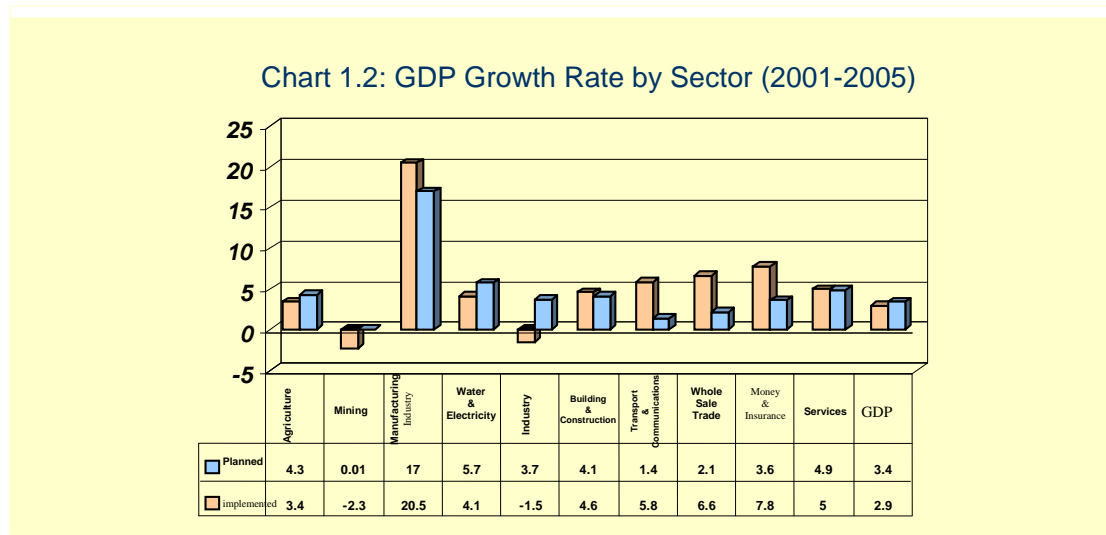
2.1 Specific objectives

The success of the 9th FYP in achieving both its wider and specific objectives can be judged by following up the implementation of its specific objectives.

2.1 GDP growth rate

The average GDP growth rate during 2001-2003 was set to be around 3%, and 4% during 2004-2005 with an average annual growth rate of 3.4% during the whole of its period. The average GDP growth rate during the 9th FYP reached 3.7% in which the growth rate during 2001-2003 phase reached 4% (exceeded the planned average growth rate), while it is estimated to each 3.25% ¹ during the 2003-2005 phase.

2.2.2 GDP growth rate on sectoral level

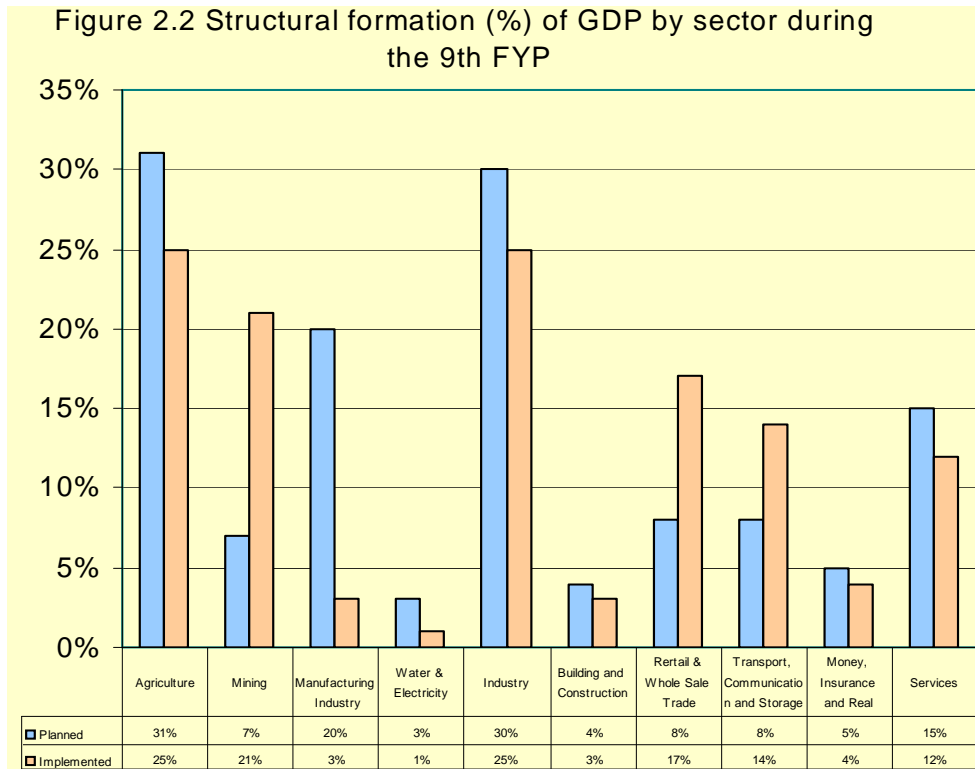


The GDP growth rate in building and services approached the planned rates while the growth was negative in the mining sector. The manufacturing industries achieved higher rates higher than the targeted rates contrary to the agricultural sector whose actual growth rate did not reach the planned rate. The remaining sectors achieved growth rates higher than the targeted rates. Chart (1.2) GDP growth rate by sector 2001-2005

2.2.3 Structural formation of GDP by sector

¹ Central Bureau for Statistics

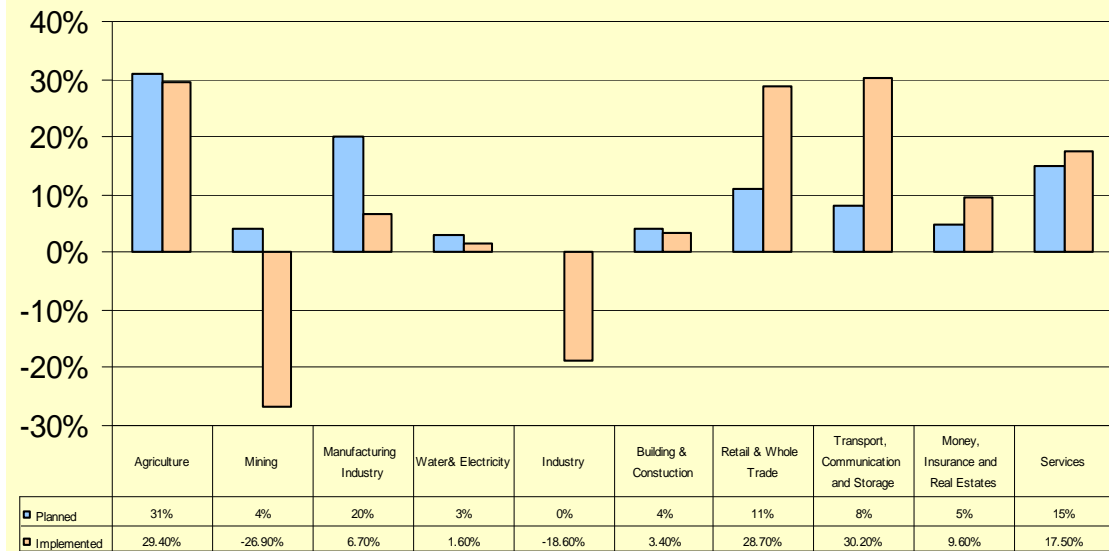
The contribution of producing sectors in GDP fell (with the exclusion of the mining sector). The biggest decline was in the manufacturing industries whose contribution was less than 3%, while the contribution of the services sector in trade and transportation doubled but the contribution of the money, insurance and real estate sector fell as shown in detail in chart (2.2).



2.2.4 Sectoral contribution in economic growth

The contribution of economic sectors in the actual growth rate which reached 2.9% was ranged as follows: 29% for agriculture, 27% for mining, 7% for manufacturing, 2% for water & electricity, 3% for building and construction, 29% for trade, 30% for transport, 10% for money and insurance and 18% for services. It is clear that agriculture, trade and transport sectors were the main contributors in generating economic growth and together they constituted 106% from growth rate compensating by that the negative contribution of the mining sector, chart (2.3).

Chart 2.3 Sectoral contribution in economic growth (%) during the 9th FYP



2.2.5 GDP according to spending

Investment

The average annual overall investment growth rate during the 9th FYP reached 7% which is around 5% short of the planned target and this is due to the declined public investment average growth rate which dropped from 12% (planned) to 6% (implemented), while the actual average private investment growth rate reached 7.8% falling short of the 11% planned target. The percentage of actual investment in GDP reached 21% divided as follows: 8% for private investment and 13% for public investment. So the share of private investment from the overall investment reached 35% and the actual overall investment fell short of the planned target of 24% by the equivalence of three percentage points.

Consumption

The average overall investment growth rate reached 2.6% falling short of the planned 4.1% for 2001-2005. The average private investment growth rate fell from 3.9% (planned) to 2.3% (implemented), and the average public consumption growth rate fell from 5% (planned) to 4% (implemented). The percentage of overall consumption to GDP fell 1% (from 78% [planned] to 77% [implemented]) and this due to the declined percentage of private consumption to GDP from 65% (planned) to 64% (implemented) and this was reflected in the average contribution of consumption in GDP growth rate falling from 3.1% (planned: 0.5% for the public sector and 2.5% for the private sector) to 1.8% (implemented: 0.5% for the public sector and 1.3% for the private sector). Consequently, the average share of overall consumption from GDP fell from 104% (22% for the public sector

and 82% for the private sector) according to the planned target to 63% (16% for the public sector and 47% for the private sector), chart 2.4.

- **Exports and imports:**

The actual average growth rate of exports was less than 3% per year, while the average growth rate of imports was 4% (falling 4% of the planned target). The percentage of imports to GDP fell from 34% (planned) to 31% (implemented), while the average percentage of exports to GDP rose from 32% (planned) to 34% (implemented).

2.2.6 Distribution of national income

- **GDP per capita**

The average growth rate of GDP per capita reached 0.44% while the planned target was 0.6% during the duration of the 9th FYP. So the average growth rate of GDP per capita reached 1.56 during 2001-2003. The GDP per capita in absolute value in 2002 was (SYL 58753), which indicates that it is bigger than average GDP per capita in the following three years (2003-2004-2005) amounting to SYL 57433. So the GDP per capita did not reach the SYL 57052 figure as targeted by the 9th FYP.

- **Bad distribution of national income**

Despite the falling GDP per capita, the share of salaries and wages from national income maintained its status during the 9th FYP where it reached around 44% of GDP in 2005 and 38% during the 9th FYP, and with the falling private consumption per capita (the average private consumption per capita reached 1.8% during 2001-2004, and it is expected that this figure will not increase during 2001-2005). The average share of saving from available income reached 35% during 2001-2005, thus the incomes of categories capable of saving rose while the incomes of categories that have high tendency for spending rose.

According to poverty analysis studies, and based on the family subsistence spending survey conducted in 2004, around 11.4% of the population live under the lower poverty line and those are unable to provide their basic needs of food and non-food materials, while 30% of the population live under higher poverty line (using the spending lines of poverty pertaining to subsistence families, that is in addition to the unfair distribution of national income. The Jennie rate rose to 37%, so economic growth gains benefited the non-poor rather than the poor.

2.2.7 Long-term economic growth resources

- **Marginal productivity of capital**

The average marginal productivity of overall investment reached 20% during 2001-2003, 5.1% during 2004-2005 and 14% during 2001-2005, while the average marginal productivity of public investment reached 3% and 35 for private investment during the 9th FYP.

- **Job creation ability**

In 2005, the population reached 17,793,000², around 12.1% of which are in the 10-14 age category (around 2,153,000), and 11.78% are in the 15-198 age category (around 2,082,000). Supposing that the number of people aged 14 is around 430,000, the number of newcomers into the labor market was around 196,000 job seekers (revised participation rate is 45.6%), the national economy has managed to create around 1450 jobs during the 9th FYP, thus the number of jobless people increased around 56,000 annually.

- **Labour Productivity**

The average labour productivity growth rate during the 9th FYP was 1.8%: 3.5% for 2001-2003 and 0.6% for 2004-2005, and the labour productivity in the public and private sectors did not go beyond 1% during the 9th FYP.

- On the sector level, labour productivity during the same period reached 2.4% in agriculture, 2.4% in industry, 6% in construction, 4% in trade, 4% in transport and 5% in services including finance and insurance. The decline in worker's productivity was severer in the construction sector since it was 16% during 2001-2003 and dropped to 9% during 2004-2005 while in the services sector it fell from 11% to 3% during the 1st and 2nd phases. In the agricultural sector, worker's productivity fell from 3.5% to 0.6%, while in the transport sector it fell from 7% to 4%, while in the commercial sector it rose from 3% to 4% and that during 2001-2003 and 2004-2005 respectively.

The declined productivity is undoubtedly due to different socioeconomic and technical reasons, but the most alarming element is the deteriorating level of skills where the education level of workers deteriorated during the 9th FYP. Percentage of workers who have elementary school education and below reached 66% from the overall workers, while 12% have preparatory school education and 7% have university education and that is for 2003. This combination can not enter the competition race with the rest of the world since many nations have surpassed us in investing in science and scientific research, in addition to the fact that high-technology industries can not be created in such circumstances, which gives highest priority for education both in quantity and quality, in addition to constant training and qualification.

- **Total factor productivity (TFP)**

The TFP represents the qualitative source of economic growth (quantitative source is the material investment and number of workers) where it reflects the technical aspect in the production process in addition to human capital and efficiency of administration or institutions. Thus increasing the economic growth in a sustainable way can not be obtained via accumulative increases in

² Statistical Abstract 2005 (manpower and labor force)

quantitative growth sources given that those sources are limited on the one hand, and they are subject to the declining profits law on the other. As for the growth that is based on epistemic production generated from high investment in human capital, it is reflected in the production process via technological advancement which leads to the creation of high added values. Therefore, state investment in health, education and scientific research is a real investment not a subsidy. Epistemic production takings are not subject to the decreasing return law due to its creative capacity. Table (2.5) shows that the TFP dropped substantially during 2004 and 2005.

2.2.8 Foreign trade

- The 9th FYP attempted to:
 - Transform the Syrian economy from an economy of relatively low productivity to a competitive economy by modernization of the production structure, improvement of investment environment and technology transfer in order to renew production structure, develop trade with Arab and foreign countries, open new markets and equilibrate the balance of payments with all its accounts. The following objectives have been determined to achieve:
 - Diversify structure of exports instead of depending on oil.
 - Develop service exports (tourism and transport).
 - Attract direct capital flows and direct them towards the producing sectors and technology transfer.
 - Transform the structure of imports so that capital and intermediate goods are focused on, reduce consumer imports via producing local alternatives.

However, the 9th FYP results show that the surplus in the balance of payments, especially in the balance of trade, has many shortcomings, most importantly:

- Weak production and service basis and inability to compete on the local and international stage.
- Increasing dependence on oil and other raw material imports.
- Declined service revenues (tourism and transport).
- Increased import of tourism, transport, money and insurance services.
- Weak DFI and orientation towards the energy sector (oil and gas).
- The existence of customs and non-customs barriers which hampered foreign trade movement.
- Concentration of exports in a limited number of goods, in addition to limited foreign markets.
- Increased imports of consumer goods and inability of capital and intermediate goods import to increase finished goods export.

The 9th FYP aimed in that field to raise relative weight of the foreign trade sector, especially exports in the GDP composition. However, the measures taken so far

to increase and diversify exports were not enough to fulfill that goal since export is based mainly on oil and raw materials in addition to the fact that exported items are still limited and going to specific markets given that the said policies have not been implemented (open new markets, turn the relative advantage to a competitive one, improve investment climate, diversify products and benefit from the experience of other countries).

- **Export promotion and control**

Most policies and measures that have been set to achieve that goal during the 9th FYP were not implemented (especially development of financial system, export promotion agency, formulating an export strategy, rationalization of tariffs, development of temporary entry system and the establishment of one-stop-shop system to streamline procedures).

It is obvious that the main goal in the import plan is to change the import focus from consumer goods to intermediate and capital goods and attempt to produce local alternatives and transfer and employ modern technologies according to the local needs to develop the national economy. However, the required measures are yet to be taken to achieve that goal especially using tariff as a key mean in addition to the non-customs barriers which contributed in raising the prices of inputs. As for efforts to improve investment climate, experiments showed that granting exemptions and advantages is not enough to attract investments, so efforts must be exerted to create the proper environment for investment (streamline procedures, develop the infrastructure and the judiciary, and speed up economic and financial reforms).

2.2.9 Financial policy

The financial policy in the 9th FYP aims to cut the budget deficit as a portion of GDP, achieve economic equilibrium and better proportionality between local resources and state spending and its effect on GDP. The policy aims also to improve standard of living of state employees and focus on the development process via increasing the allocations for investment projects, rationalizing current spending especially administrative spending, curb squandering, increasing local revenues especially tax revenues, diversify local revenue resources, concentrate on permanent resources of revenue and increase budget revenues via the following measures:

1. Update the legislations regulating qualitative taxes imposed on income, wealth and capital and review social exemptions, rates and progressive taxation.
2. Make taxation cover the overall income according to a specific timetable.
3. Review tax exemptions.
4. Tackle rations and oil derivatives shortages and restrict them to those eligible for.

5. Develop health and education services.
6. Enhance efficiency of tax management, information and collection.
7. Connect the Central Authority for Financial Control with the People's Council.

However, and after following up the implementation of the 9th FYP, it is found that the financial policy, although relatively succeeded in cutting budget deficit, increasing salaries and wages, rationalizing administrative spending, increasing local revenues and increasing allocations for investment projects, in-depth analysis shows that the increased revenues are temporary and due basically to oil revenues which are in constant decline and are not generated from the diversification of revenues as planned.

In addition, it is noted that the increased allocations for various projects were not calculated via an economic feasibility and did not achieve the desired goal because the resources have not been efficiently allocated. On the other hand, the follow-up of implementation was material and results were neglected together with accountability, but most importantly, many policies and measures recommended by the 9th FYP were neglected and not implemented such as reviewing tax exemptions in order to serve the economy's developmental goals since the too many exemptions became a burden on the national economy. The 9th FYP also did not tackle the problem of rations and oil derivatives shortages and target subsidies to the most needy.

During the course of the 9th FYP, the Ministry of Finance issued many tax legislations, most important of which is the issuance of Law 24: Integrated taxes on income where horizontal expansion was resorted to instead of tax increases to boost revenues. Decree 25 pertaining to tax information and combating tax evasion was issued in addition to a number laws and decrees most important of which Decree 56 pertaining to the abolition of inheritance tax, and Decree 60 pertaining to expatriation duty, Decree 319 pertaining to tariff modification, Decree 68 of 2004 stipulating the establishment of an insurance control body in order to promote the insurance industry in Syria, in addition to imposing the consumer spending duty as an attempt to curb tax evasion and expand the taxation basis, which is yet to bear fruit and this indicates the need for reforming the taxation management and employ the accountability principle.

Increasing tax revenues via the diversification of local resources comes basically from enhancing the efficiency of taxation management and the transparency of information and tax collection, which is something that has not been properly observed through the 9th FYP in order for tax revenues to become the main reserve of state budget, especially in the light of falling oil revenues.

Based on available data, table (2.6) shows that tax revenues collected in the first half of 2005 reached SYL 143972 million, which is 40% of estimated revenues.

Table (2.6) the increase in tax revenues collected during the 9th FYP

Item		2000	2001	2002	2003	2004	2005
Revenues	planned	239000	284000	304000	295000	306000	356000
	implemented	245574	306288	301658	332044	306000	356000
	%	102.75	107.8	109.2	112.6	100	100
Expenditures	planned	275400	322000	356389	420000	449500	460000
	implemented	264928	289161	324361	353651	449500	460000
	%	96.2	89.8	91	84.2	100	100
Investment costs	planned	132000	161000	184000	211000	217000	180000
	implemented	94895	110070	135718	152871	217000	180000
	%	71.9	68.4	73.8	72.5	100	100
Current spending	planned	143400	161000	172389	209000	232500	280000
	implemented	170033	179091	188643	200780	231500	280000
	%	118.6	111.2	109.4	96.1	99.6	100
Deficit		2.1-	1.8	2.2-	2-	12.4-	8.9-

Figure 2.1: Tax revenues during the 9th FYP (million SYL)

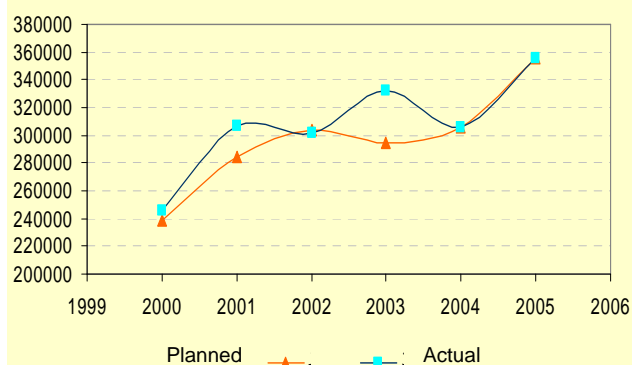
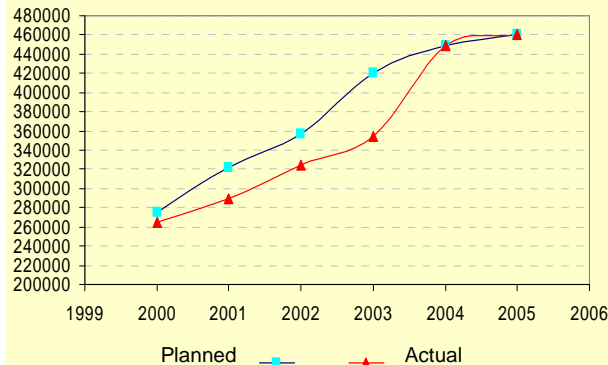


Figure 2.2: Expenditure during the 9th FYP (million SYL)



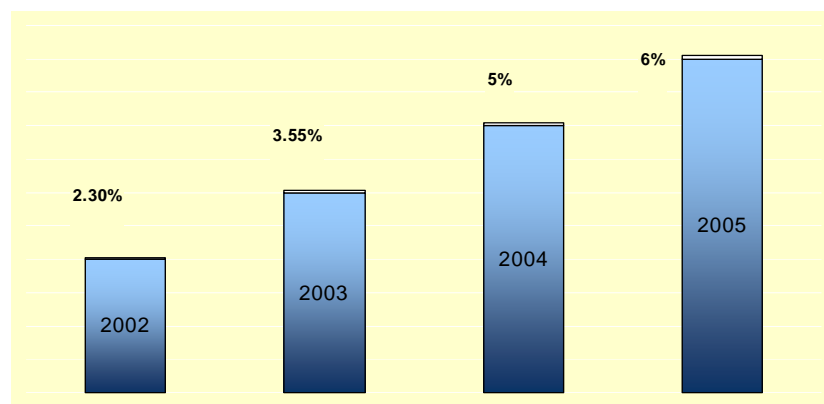
The total actual spending during the same period reached SYL 165598, which is 36% of the allocations set aside for the overall spending (current spending SYL 110429, which is 39% of the allocation set aside for current spending, while investment spending reached SYL 55169, which is 30 of the allocation set aside for investment projects.

2.2.10

The strategic goals of the 9th FYP included achieving economic equilibrium between cash flows and commodity flow. This objective reflects interest in price stability via targeting inflation and reducing inflation rate. Table (2.7) below shows the increase in inflation rates in Syria during the 9th FYP.

Table (2.7)

Year	2000	2001	2002	2003	2004	2005
Inflation rate	%0.90-	-0.45 %	%2.30	%3.55	%5	%6



The data in the above table shows that the inflation rate tends to rise but the average inflation rate during the 9th FYP fell compared to the previous 5 years, which indicates that the financial and monetary policies employed to achieve equilibrium between commodity flow and cash flow have achieved their goals in maintaining relative price stability, keeping inflation rates at certain limits and maintaining SYL purchasing power.

The 9th FYP set amongst its goals consolidating hard currency reserves and succeeded in achieving that since the coverage rate reached 29 months of imports and 65% of cash mass. Those reserves are among the highest in the world but this was resulted in freezing of deposits without trying to find proper investments.

As for the strategic goals in regard to financial and monetary reform, the 9th FYP set a number of goals one of which being unifying the exchange rate and making it closer to the real value of SYL. So exchange rates have been reduced to three:

1. Exchange rate of state and public sector operations, which came very close from the real exchange rate (SYL 49.85 – 50.00 against the dollar). This rate is applied on returns from imports and exports of public sector bodies, budgetary revenues, oil revenues, returns from some duties, taxes and

compensations and services operations with the exception of those on which the free exchange rate is applied on.

2. Free foreign exchange rate: determined by the Syrian Central Bank based on the true value of SYL. It now ranges between 53.75 selling and 53.55 buying in regard to the Syrian Commercial Bank.
3. Official exchange rate: SYL 11.20 -11.25 against the dollar: this rates is applied on payment of installments and interests of pay bilateral agreements in addition to subscriptions and contributions in international organizations .

On another level, the 9th FYP aimed at reforming the financial and monetary system by issuing a number of laws and legislations such as the Banking Secrecy Law, the Money Laundering Law and the Syrian Bonds and Financial Markets Law in order to crate the proper environment for establishing private and joint banks, which resulted in opening three private banks and issuing the Insurance Control Law to regulate the insurance market and encourage the creation of private joint stock insurance establishments.

The 9th FYP concentrated on indirect means in running the national economy, especially monetary policy means. So the interest rate has been used to affect the economic changes by moving it in various directions according to market needs and economic conditions, but this method did not achieve the desired results since investment growth rate failed to rise as desired, and this evident if the movement of credits and banking investments of the industrial sector is monitored, which did not increase significantly, while the share of the real estate sector from the overall credits rose.