

Reform Plans for Public Sector Firms

Loss-making enterprises face overhaul or closure as free market gains ground. The Syrian government is examining ways to overhaul ailing public sector enterprises that place a heavy burden on the national budget, as the country moves from an economy tightly controlled by the state to one that is more market-oriented.

While the public sector will still play an important role in the economy, experts and officials believe that a large number of state-owned companies, especially in the manufacturing and industrial sectors, can no longer compete with a growing number of private factories and cheaper products entering an increasingly liberalised market.

In an interview with state television in late December, finance minister Mohammad al-Hussein said that the government had written off 11 billion US dollars in loans to some public companies, thus admitting indirectly that some of these enterprises were draining the state's financial resources.

The minister, however, said that not all of the 260 state-owned firms lose money. Twenty of them generate a profit and contribute around 3.6 billion dollars to the treasury from areas like oil, banking and tobacco.

The rest either break even or make a loss.

Critics say that many of the state-owned enterprises continue to lose money because their operations are based on unsuitable systems inspired by the former Soviet Union, where production goals and prices do not follow market needs and production costs but rather five-year plan targets.

Mohammad al-Atassi, a Damascus-based economic expert, said that public companies mainly suffer from "corruption, embezzlement of public money ... slack management as well as unqualified and untrained personnel".

He added that at the technical level, most of these companies were lagging behind because of old and ineffective equipment and facilities.

He said that the administration of these companies lacked the authority to make the necessary decisions to adjust production to the needs of the market.

State-owned enterprise directors have their hands tied by the bureaucracy and have to refer to government officials before making decisions, he said.

Atassi suggested that one solution would be to reform the management structure of these companies by giving them more autonomy and devising effective units for marketing and sales to increase competitiveness.

Now the government is looking for realistic formulas to support loss-making firms without relying on dwindling state resources, observers say.

The state cannot afford to bail these companies out as it used to because oil revenues are decreasing and the population is growing, they add.

Officials are specifically studying the possibility of using the resources and expertise of local and international private entities to stem the losses without resorting to full privatisation, an option that meets internal resistance in a country where socialism is still deeply rooted.

A delegation of experts appointed by the government is currently studying draft laws that would govern and organise cooperation between private investors and state-run companies, officials say.

These laws are being examined by the ministry of economy in collaboration with Syria's official investment body and are set to be issued this year, according to statements by the vice-premier for economic affairs, Abdallah al-Dardari.

A high-profile economic conference in Damascus concluded its meetings in November with a number of recommendations to boost the partnership between the private and the public sector as an "effective way" to reform the Syrian economy.

The focus, according to statements issued by officials at the conference, was on build, operate and transfer, BOT, type of projects whereby the government provides support to private firms to establish or refurbish enterprises and then transfers their management back to the state after a certain period of time.

The government has recently decided to cede the building of new power plants to private investors in an effort to increase the output of the power sector to match the growing needs of the population.

Imad Ghalyoun, a member of parliament who sits on its budget committee, told IWPR that the government is currently studying ways to liquidate public enterprises that lose money or are no longer functioning, like some power plants and dyes factories.

He said that the government could be planning to sell the premises of loss-making companies and use the money to invest in more lucrative projects.

Ghalyoun said that a factory producing dairy products in Aleppo was recently closed down because it registered losses of nearly half a million dollars in 2008.

He said the reasons for the factory's lack of competitiveness were high production costs, corruption and a shortage of raw materials because milk producers preferred to sell to private factories, which paid more.

He added that some state-owned enterprises could start generating a profit if they were to be restructured and get more support from the government, like the construction enterprise in charge of erecting buildings and paving roads.

Another problem facing some of these companies was that they cannot use the profit they generate for the development and improvement of their own infrastructure and equipment, Ghalyoun said.

He cited the example of the state-owned cement factory, which has to sell to the government at less than the cost of production but the government then resells the cement, keeping the profit for the general budget.

Focus: Syria

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