



## EURO-MED PARTNERSHIP

### SYRIA

#### COUNTRY STRATEGY PAPER 2002 - 2006

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#### NATIONAL INDICATIVE PROGRAMME 2002 - 2004



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## **1. EXECUTIVE SUMMARY.**

As provided for in the MEDA regulation (EC No 2698/2000 and EC No 1488/96), the Country Strategy Paper (CSP) provides a strategic framework in which EC MEDA assistance will be provided in the period 2002-2006. It sets out EU co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The national indicative programme (NIP) attached to the strategy sets out the EU response in more detail, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation for the period 2002-2004.

Syria is a full participant in the Barcelona process. After a long period of political stability, it has recently under the new President started a cautious opening of the centrally planned economy to market-oriented reforms. Political reforms are still not on the agenda and the situation in terms of respect for human right and democracy remains very unsatisfactory. While the rise in oil prices since 1999 gives Syria some time to play with, the economic situation is nevertheless showing clear signs of stagnation and of the inadequacies of the economic policies.

The main challenges facing Syria over the medium term are the diminishing oil reserves, rapid population growth, environmental degradation, and the military and political conflict with Israel.

Within that context and taking into account the objectives of the Barcelona process, the EC can most effectively assist Syria in meeting those challenges by focusing on five priority sectors: Institution-building, Industrial modernisation, Human resources development, Trade enhancement, and Human rights/civil society.

## **2. EU POLICY OBJECTIVES.**

The EU's co-operation objectives with Syria are anchored in the Barcelona Process, a proximity policy which reflects the political and strategic importance of the Mediterranean region to the EU. The main goals as set out in the Barcelona Declaration and in the common strategy adopted by the European Council in Feira in June 2000 are

- creating an area of peace and stability based on fundamental principles, including respect for human rights and democracy.
- creating an area of shared prosperity through sustainable and balanced economic and social development, and especially the gradual establishment of free trade between the EU and its partners and among the partners themselves with a view to the creation of the wider Euro-Mediterranean free trade area by 2010.
- the improvement of mutual understanding among the peoples of the region and the development of an active civil society.

This process is underpinned by a network of bilateral relations between each partner country and the EU, embodied in Association Agreements which provide for political dialogue, free trade between each partner and the EU to be established over a transitional period and various forms of co-operation.

The MEDA programme provides financial support for the objectives of the Association Agreements and the Barcelona Process. Taking into account the priority areas identified for Community Development Policy, the MEDA programme concentrates on a few key objectives, supporting

- development of pluralistic democratic society based on respect for human rights and the rule of law
- the implementation of the Association Agreements, with a particular focus on development of the Euro-med market
- the economic and social reform linked to the implementation of the Association Agreements
- sub-regional co-operation, by encouraging South-South development and economic integration initiatives, helping existing Association Agreement signatories to move to free trade between themselves.

Moreover, this country strategy takes into account the Principles and Objectives of Community Development Policy as elaborated in the Joint Council and Commission Declaration on Development Co-operation of November 2000. Indeed, the reduction and eventual eradication of poverty through providing support for sustainable development, the promotion of the gradual integration of partner countries into the world economy and a determination to combat inequality are fully compatible with and supportive to the goals of the Barcelona Process. Refocusing the Community activities in a more limited number of areas and the implementation of measures that ensure a more effective and efficient co-operation are equally objectives that are pursued in the context of this strategy.

### **3. POLICY AGENDA OF THE COUNTRY**

Two major Syrian events of 2000, the nomination of a new government in April and the death of Hafez Al-Assad and his replacement as President by his son Bashar Al-Assad in June, created expectations of a significant change in the Syrian attitude to economic and political reform. However, there is still a lack of a comprehensive policy agenda for modernising economic and political structures. There are also no comprehensive policy documents on development policy available.

#### **Political reform:**

The policy agenda in the areas of political system, human rights and civil society remains extremely modest. Though a gradual opening towards political pluralism is probably envisaged by Bashar Al-Assad, the political reform agenda currently appears to be put on hold. However, a more relaxed atmosphere is accompanied with a certain openness to the concept of human rights and to the idea of a dialogue with the EU on these issues.

In his inaugural address, the new President stressed the importance of the fight against corruption. More generally, administrative reform is a key area among the reforms that Bashar Al-Assad is envisaging. A special ministry is responsible for administrative reform. It has established reform units in key ministries and a comprehensive proposal for reform of public administration has been published. It remains to be seen to what extent this package, which goes beyond the usual gradual approach to reform, will be implemented.

As regards to foreign relations, the President pursues an intensive diplomacy to bring Syria out of its relative isolation and strengthen its links with Europe, while at the same time continuing to promote the idea of Arab unity.

Syria wants close relations with Lebanon on the basis of the current free trade arrangement.

In the conflict with Israel, the new President continues Hafez Al-Assad's line and Syria's main goal remains to regain the Golan. Likewise, Syria also continues to link any peace deal to a regional solution, i.e. to the Palestinian issue.

### **Economic reform:**

In terms of economic reform, Syria has only recently started to come out of 30 years of centrally planned, Soviet-style economic management.

A certain change in the economic and political climate has taken place since the arrival of a new government and the election of Bashar Al-Assad as President in 2000. In his inaugural speech, the new president called for new ideas to improve the situation of the country. At the same time, he made it clear that reforms and changes would be gradual and build on the achievements of the past. An overall concern is not to upset the social stability in the pursuit of increased economic growth.

Industrial Modernisation: The bulk of industrial production takes place in government-controlled companies. The public sector employs 73 % of the work force but only contributes 33% to GDP. A discussion has started on how to "modernise" this sector; privatisation is not yet on the agenda.

In this respect, the overall direction of the policy can be summarised:

Some sectors will be opened for private competition;

Instead of privatisation, public companies will be transformed into joint public-private companies;

Separation of management ( to be guided by market-based considerations) and ownership (to remain public);

Management with budget autonomy; (but without autonomy in labour shedding).

The Syrian government is envisaging a programme which includes the restructuring of the Ministry of Industry and the creation of an Industrial Modernisation Centre to achieve a comprehensive approach in line with the above policy directions.

Private Sector Development: Attempts during the 1990's to stimulate Private Sector Development were half-hearted. The Investment Law No. 10 of 1991 brought some tax breaks for investments above 10 million SP (about € 0,25 million), but in the absence of a more conducive economic and administrative environment, these failed to create a sustained improvement in performance. Since 2000, a certain change in the intellectual climate has taken place and it is now recognized that the economic growth largely has to come from the private sector. A more concerted and forceful attempt to develop this sector seems evident, though an overall strategy is still lacking. Most importantly, the

Investment Law was amended in April 2000. It now permits foreign ownership of real estate used for an investment project, procedures have been simplified, tax grace periods have been prolonged, rules for repatriation of funds have been liberalised, etc.

The liberalisation of the banking sector through a new law in April 2001 will put an end to the state monopoly in this sector. The new law allows the establishment of joint private-public banks, though Syrian public banks or insurances have to hold at least 25 % of the capital and foreigners can hold no more than 49 %. This is expected to attract Arab and in particular Lebanese banks to open operations. However, the regulatory framework is still not in place and the Central Bank needs reform and training to take on a regulatory function.

A new monetary law, unification of the complex foreign exchange system, the establishment of a stock exchange and regulations for the new commercial banks are expected to follow.

There is a general agreement on the need for a reform of fiscal policy, though no comprehensive policy has yet been developed. A number of ingredients generally in line with recommendations made by international experts and including uniformisation of income tax and the introduction of VAT are currently being discussed. In July 2001, a decree abolished taxes on agricultural and industrial export products (except on oil products and phosphates).

In terms of social measures, an important national programme to combat unemployment has been adopted. It will be given a budget of 50 billion SP (€1.2 billion) and considerable administrative independence. This programme is created to take care of the youth entering the labour market, but might include also laid-off personnel from the public sector (though officially there will not be any lay-offs).

#### 4. COUNTRY ANALYSIS

<b>Syria Key Economic and Social Indicators</b>	
Population	16.1 million
Population growth rate	2.6 %
GDP	€ 16.5 billion
GDP per capita	€ 990
UN Human development index (1999)	No. 97 of 162 countries
UN Human poverty index (1997)	19.8 %

UNDP (Human Development Report 2001)

##### *i) Progress in the association process:*

Syria remains unprepared for the Association process. As will be seen below, a whole range of reforms need to be undertaken before the country is prepared for an EU/MED free trade zone.

Syria agreed to the start of negotiations of an Association Agreement as late as 1997 and has been quite reluctant to move forward since. The Syrian government seems to have decided to go ahead with negotiations while remaining unconvinced whether finally to sign an agreement. In an encouraging step, the Syrian government on 30 October 2001 applied to join the WTO. The reforms necessary for this purpose are largely the same as for the Association process.

The Syrian trade regime contains numerous restrictions on imports as well as on exports. A wide range of products are only allowed to be imported by the government or government agencies upon special permission. Export restrictions have been put in place to ensure access to raw materials for industry as well as to avoid shortage of certain basic products. This system is malfunctioning and will have to be dismantled in order to establish the Association Agreement with the EU.

It has also been difficult to launch the MEDA I co-operation programmes in Syria. A Framework Convention was signed as late as mid-2000. Even though the government that took over in April 2000 has some members who share the new President's reform-mindedness, government and public administration are still dominated by "the old guard".

#### ***(ii) The Political Dimension:***

Since April 2000, Syria has experienced the first important political changes in 30 years. In April 2000, for the first time in 13 years, there was a major government reshuffle and in July 2000, President Hafez Al-Assad died and was replaced by his son, Bashar Al-Assad.

Nevertheless, of the four pillars of the regime built up by Hafez Al-Assad, three remain in place: the Baath Party, the military and the secret service. Only the President is new. The new President does not have the same position as his father and needs to consolidate his position before taking more decisive steps towards political and economic reforms.

The government that took over in 2000 includes a few reform-minded ministers, but is on the whole opposed to any reforms that might threaten the current power structure. Rumours circulate of another government reshuffle, but so far Bashar Al-Assad has not been able to put in more of his men.

As a result, the first post-Hafez Al-Assad year has not lead to political reforms. While during the first months following Bashar Al-Assad's inauguration, a number of promising steps were taken (600 of an estimated 1.500 political prisoners were released, a few independent newspapers were authorised and independent "discussion-clubs" started), by February 2001, these activities were curtailed. In the following months, some further releases of a few prominent political prisoners occurred, though these appeared as gestures towards the international scene (in particular the EU) rather than as part of a real political opening, and were later followed by new arrests of political activists.

A civil society in the usual sense hardly exists in Syria. The local civil society organisations that exist are weak and heavily influenced by government. Syrian authorities closely restrict the operations of local NGO's (they cannot directly access international funds) and the presence of international NGO's is very limited.

It is assumed that the President will continue with political reforms only if and when he has consolidated his position in relation to the other components of the Syrian power structure.

To achieve this, Bashar Al-Assad has adopted a strictly traditional party line on Israel. The little leverage he has in relation to the “old guard” will apparently not be used to make concessions to Israel. Prospects for progress on the Syrian track in the MEPP currently seem remote. Syria continues to link any peace deal to a global resolution of the Arab-Israeli conflict, i.e. to the Palestinian issue, and to a return of all of the occupied Golan to Syria according to international law including Security Council Resolutions 242 and 338.

The Syrian policy in Lebanon is not likely to change significantly in the absence of a solution to the ME conflict. 25,000 Syrian soldiers keep control over the Eastern and Northern parts of Lebanon, and Damascus maintains overall control of internal and external political activities in Lebanon.

In the last two years, Syria has had some success in strengthening relations with other neighbours than Israel. Relations with Jordan improved in the aftermath of King Hussein’s death; relations with Turkey have improved since the low point during the 1998 Ocalan crisis. At the same time, Syria maintains good relations with the Gulf States and Iran. Syria has also recently improved its relations with Iraq, something which has given immediate economic benefit through the re-exportation of Iraqi oil. In case of a military conflict with Israel it might also prove of strategic importance.

Nevertheless, the neighbourhood, as seen from Damascus, remains insecure. The strategic situation in relation to Israel has deteriorated over the years, with the defence cooperation between Israel and Turkey and the failure of the MEPP as the latest significant developments. The constraints of the regional situation reduce the options available to the Syrian leadership in economic policy, both by strengthening the orthodoxy of the traditional line and by reducing the availability of international cooperation and investments.

### ***(iii) Economic and Social Situation;***

Syria's economy remains largely dependent on agriculture, which (including cotton) accounts for close to 30 % of GDP and 25 % of the labour force. The industrial sector – including the oil sector - accounts for just over 20 % of GDP. The oil sector alone accounts for nearly 45 % of total export earnings, and is the largest single contributor to budgetary revenue.

The non-oil industrial sector accounts for about 14 % of GDP. One third of its activities belong to the public sector and relates to heavy industry, chemicals and basic consumer goods. Two thirds of its activities belong to the private sector; 85 % of the production is generated by small and medium sized enterprises.

The service sector accounts for 50 % of GDP. This high figure is largely due to the inclusion of retail trade of oil products, but also includes transport and communication (including tourism). Government services accounts for just under 10% of the total GDP.

More than two thirds of the total labour force is working in the public sector, which only contributes 30 percent to the GDP. The private sector consists mainly of agriculture (almost entirely private) and some light industry, retail trade, transport and communication. The tourism sector is mixed with both public and private operators. The private industrial sector consists of manufacturing in sectors such as textiles, agro-food, wood and furniture. The highly regulated business environment in terms of access to credit, import and export restrictions, access to hard currency, etc. hampers the necessary growth in this sector.

Migrant labour remittances are important at about 3 % of national income, and more than offset the deficit on other external current account transactions. In terms of foreign trade, Syria's position improved significantly in 1999 and in 2000 when a trade balance surplus was registered, mainly thanks to the increase in the oil prices. For the next years, the outlook for Syria's current account balance is more negative, due to the expected downsurge in oil prices and the decline in tourism caused by the Middle East conflict. In the longer run, the terms of trade are deteriorating: Syria's main exports are petroleum products (67,2%), agricultural products, cotton, and textiles.

Syria is one of the few Middle East/North African countries with which the EU runs a bilateral trade deficit<sup>1</sup>. This is due not so much to the limited EU imports (mainly energy and textiles), as to the comparatively small EU exports to the highly protected Syrian economy.

Monetary policy in a conventional sense does not exist in Syria. The government formulates an annual credit plan which establishes guidelines/credit ceilings for the government, for the public sector and to a minor extent for the private sector. Monetary policy is restricted to the role of ensuring financial liquidity. Prices for principal consumer goods are administered, keeping inflation at a fairly low level.

Correspondingly, the financial sector in Syria is strictly centralised. There is a Central Bank, which performs an administrative function under the Ministry of Economy and has no supervisory or regulatory function relation to the Commercial Bank of Syria, which is the only commercial bank. The Central Bank reviews loan applications from private or public businesses. There has been little change in the financial system for decades – organisations, methods, and practices have not kept pace with modern needs, particularly those of the business community. The new banking law, if successfully implemented, could change the situation and provide Syria with a mixed-economy financial sector.

Syria has long operated a complex foreign exchange rate system consisting of three official rates. In January 2001, the system was amended and a fourth official rate, close to the black market rate, can now be applied to certain small-scale non-commercial operations and to tourism-related operations. The government is currently assessing the possibility of unifying the system.

The main source of public finance is oil production; 45% of state revenue comes from oil-related proceeds. Indirect and direct taxes account for about 40% of state revenue, mainly through profit tax. It is estimated that 60% of the economy, including the

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<sup>1</sup> In 2000, the value of EU imports was practically twice as high, at € 3.427 million as exports, at € 1.757 million.

agricultural sector, does not contribute to income tax. Revenue from customs, which have been designed to provide protection rather than to generate income, is falling and was at 1,73% of GDP in 1999.

The lack of transparency of public finance is worsened by the Price Stabilisation Fund, which covers the losses of the sales of i.a. wheat, sugar and rice at prices below guaranteed farmer prices. The losses are covered by budgetary transfers and by domestic credits. Together with similar arrangements for cotton, these quasi-fiscal costs were estimated by the IMF at 5% of GDP in 1999.

Current expenditure had remained constant for many years, when the Government decided in 2000 to launch an expansionary policy and raised salaries in the public sector with 25% across the board. Capital expenditure also increased significantly in 2000, when funds were earmarked for infrastructural investments in railways and energy.

Fiscal policy does not serve as a tool for economic management, as it does not support reform plans nor set any incentives to spur economic activity. There is a strong need for reforms both of fiscal policies and of budgetary management.

GDP growth remains insufficient to take care of the needs of a rapidly growing population and to create resources for development. During the last two decades, GDP/capita growth averaged 1 % per year. In 2000, GDP/capita was less than 1,000 US\$ . Several structural factors account for this performance: low overall factor productivity, low investment and savings ratios, high share of agriculture, large-scale administrative regulation of the economy, the collapse of the Soviet block economies and corresponding trade arrangements. Another factor has been a rather low and diminishing access to foreign savings.

Simultaneously, the population growth rate has been around 3 % per year, offsetting much of economic growth. Though recent figures indicate a demographic transition, with rates falling to 2,5 – 2,7 %, it will take 20 years before this has effect on the labour output. At the present, more than 40 % of the population is less than 15 years old. Widespread unemployment and under-employment have emerged, as well as a structural flow of “brain-drain” emigration of skilled labour. Overall unemployment is around 20 %; official sources indicate that the unemployment rate among those aged 15 to 24 may have exceeded 70 % in 1999. In 1999, an estimated 1.5 million Syrian nationals were working abroad, providing a major social safety net and supplementary livelihoods to Syrians residing in Syria.

In terms of poverty and equity, Syria fares better than countries of comparable income levels: life expectancy at birth is relatively high (male 70 years, female 72 years) and infant mortality rate (26 per 1,000 live births) compares to an average of 35 per 1,000 for the Middle East. As of 1999, 26 percent of the population remain illiterate, compared to a regional average of one third.

90 % of the Syrian population are Arabs and the rest are Kurds or Armenians. In particular the religious mix is complicated : whereas 74 % are Sunni Muslims, other muslim sects such as the Alawites, the Shiites, the Isma'ilis and the Druze make up 16 %. The remaining 10 % are Christians. The Alawite minority, in a complex patten of co-operation with the other minorities, dominate government since Hafez Al-Assad took power in 1970. It is questionable if this is sustainable in the long term.

This social situation together with the regional political and military tensions explains the choice of a prudent reform policy. While the absence of real growth and employment creation would justify a more forceful reform policy, a fragile social situation makes more radical economic or political reforms a non-option to the Syrian regime.

Nevertheless, on the whole, there is no alternative to opening towards the international economy. This is probably understood also by most of the Syrian elite, and the real policy choice is therefore only *how* and *how fast*, not *if* a transition to market economy will take place.

In the final analysis therefore, these considerations call for an increased acceptance of the need for economic reform and openness. This will lead to more presence of reform-minded persons in key positions, whether through a major government reshuffle or more gradually, and also to a more comprehensive approach taking form.

The resulting prudent and gradual policy, unsatisfactory as it may be, makes reforms acceptable and therefore likely, while still allowing a certain positive impact on productivity and economic performance.

#### ***(iv) Identification of medium term challenges***

Syria is facing a number of serious economic and political challenges in the medium-term. Most importantly, Syria needs to:

- replace the diminishing oil reserves in terms of export income and budgetary income: it is not expected that Syria can remain a net exporter for more than ten more years. Syrian officials count on a growing role for gas, but it is unlikely that this can match oil export earnings or lost government income;
- create sufficient economic growth to provide employment for labour force growth at very high levels (approx. 350.000 entrants per year) for at least another 15-20 years;
- respond to the environmental degradation - soil degradation, contamination and depletion of water resources, poor air quality, inappropriate solid wastes disposal, growth of illegal settlements - in order to make growth sustainable;
- in a difficult economic and political situation, to settle the conflict with Israel and the involvement in Lebanon in an acceptable manner.

To respond to these challenges, Syria needs above all to formulate and implement policies to put the economy on track for a significantly higher and sustainable growth leading to large-scale creation of high productivity jobs. This requires a growth rate of 6 % per year to absorb the 350,000 or more new entrants in the job market and to maintain acceptable living conditions. The limited response of the economic system suggests however that both the speed and breadth of these reforms are insufficient to reach the high growth rate necessary to allow the creation of employment. Hence, the foremost challenge for Syria is political: to agree on a comprehensive policy agenda putting the economy on the track of market-orientated reforms, and introducing reforms towards better governance.

This new approach should entail deregulation, liberalisation, competition as well as public sector reform including fiscal reform, with a view to increasing overall investment, productivity and competitiveness of the Syrian economy. It will also be necessary to create a more conducive environment for the emerging private sector. Regarding state-owned enterprises, it will become necessary to envisage closing down companies and laying off personnel as well as the currently envisaged measures regarding the introduction of company-based and accountable management. Eventually, it will probably be necessary to take the step beyond corporatisation, to privatisation of public sector enterprises. An Association Agreement with the EU and opening up to the Mediterranean free trade area should be a natural part of this process.

It will also be necessary for Syria to address environmental degradation, in particular the depletion of water resources, if living conditions and agriculture are to be sustained.

Finally, for the reasons given above: this approach needs to be combined with measures to mitigate negative short-term social consequences.

## **5. OVERVIEW CO-OPERATION PROGRAMME**

### **5.1. Implementation of co-operation programmes**

Significant EC activities have been or are currently implemented under EC-Syria financial protocols or MEDA I in infrastructure (telecommunications, electricity, power sector, irrigation and water supply) totalling over € 50 million. The European Investment Bank has also attributed loans totalling over € 200 million in these sectors since 1986. It is therefore not considered a priority to launch new EC programmes in these areas during the next three-year period.

Likewise, the health sector is subject to a Health Sector Support Programme of € 30 million starting in 2001 and lasting until 2006. Follow-up in this area should be considered after an assessment of the implementation of the current programme.

In institution-building, the Financing Agreement for a six-year facility, the Institutional and Sector Modernisation Facility, was signed in 2000. This € 21 million facility should be used to assist the Syrian administration in formulating and implementing a comprehensive economic modernisation programme, in upgrading administrative capacities in key areas and in the preparation of the Association Agreement negotiations.

In private sector development, the Syrian-European Business Centre (€ 12 million) was successfully implemented 1997-2000 and prolonged in 2000 for four years. The Centre provides services to Syrian SME's to improve their competitiveness.

In higher education, the EC since 1988 assist the Higher Institute of Applied Science and Technology (HIAST) in improving its scientific and technological level. This programme will be terminated in 2002. A new programme which will be of particular importance for the development of the private sector is the establishment of the Syrian Higher Institute of Business Administration (HIBA) started in 2001 (€ 14 million).

## 5.2. Overview of the priorities and programmes of other key donors.

Apart from the Commission and EU Member States, the only major donors active in Syria are the UN (UNDP, UNFPA), Arab Funds (mainly Gulf) and Japan. Syria has decided to formulate its economic policy without assistance from the Bretton Woods institutions. Nevertheless, the recent rescheduling of some of Syria's debts have made World Bank assistance possible.

The UN Development Assistance Framework for Syria entails approximately \$ 5 million per year. Priority sectors for the next five years will be training/capacity building, environment/resource preservation, and good governance. UNFPA will continue its work in reproductive health and family planning advocacy.

Arab funds essentially contribute with soft loans in infrastructure (telecom, electricity, water and irrigation).

The Japanese co-operation agency JICA is by far the largest donor in the country. During 1991 – 1999 grants amounted to \$ 244 million, loans to \$ 931 million. From 1993- 1998 JICA accounted for 69% of the total DAC's ODA disbursements to Syria.

Through soft loan schemes JICA mainly supported the water and electricity sector. Grants were mainly used to support the food production and water supply sector, and also covered health and education. Smaller amounts were made available for cultural projects and social actions.

### **EU Member States:**

Water and waste water treatment are areas benefiting from wide support from Member States. Germany will engage heavily in water-related projects, including in the form of policy advice to the Water Ministry and technical cooperation to the college for water management as well as sanitation, while Sweden, NL and France are involved at a smaller scale. As regards infrastructure, Sweden and Italy are also involved in electricity and energy.

Member States fund some 13 activities in agriculture/forestry, mostly small and research-related. Italy is the most active.

There are few directly environment-related projects financed by Member States, though often a component or aspect of projects concern environment issues.

Regarding institution-building, France provides support to Chambers of Commerce and Italy to SME development. Germany has agreed to give technical assistance to the Planning Commission and to the housing and environment ministries.

Social Sector: Support to Health services (Ministry of Health) from Italy (€ 6 million). Germany has agreed to assist with employment-creation.

Democracy/Civil Society: Some minor activities by the UK and Spain, focussing on awareness-raising and NGO-capacity building.

France has a university co-operation training programme and smaller activities in the cultural sector.

Finally, in the tourism sector, Italy has a major cultural heritage restoration programme. Austria, Greece and NL are also planning actions in this sector.

## **6. EC RESPONSE STRATEGY**

### **6.1. Principles and General Objectives**

The EU response to the challenges faced by Syria is provided through overall EU policies related to Syria, including EU's role in the MEPP and political dialogue. EC-Syria co-operation will be centred on the consolidation and the intensification of the Euro-Mediterranean partnership defined by the Barcelona Declaration of 1995 and in subsequent documents, as expressed under section 2 above.

The **general objectives** will be to contribute to:

- The establishment of a comprehensive strategy of economic reforms in order to facilitate the economic transition and the Association process;
- Social and political conditions conducive to reform.

These objectives apply to the EC-co-operation with Syria based on the following principles:

- Provision of the necessary interface with the Association Agreement negotiations, so that the two effectively represent complementary and mutually reinforcing tracks to stimulate and guide economic reform.
- Recognition of the necessary political and social conditions for a comprehensive approach to reforms.
- Support to the integration and co-ordination of donor activities. Continuation of work towards increasing EC and EIB complementarity.

From the analysis presented above it can be concluded that EC co-operation with Syria should concentrate in the first instance on assisting Syrian reform efforts in key economic areas. It should encompass awareness and capacity building within the administration and the private sector in order to support the enhancement of the idea of economic transition, the Association process as well the capacity to implement the necessary policies. In a second instance, in order to facilitate the political and social acceptance of reforms as well as to enable the productive sectors to adapt to an environment of free trade and competition, support should also be given to a wider range of beneficiaries. Finally, human rights/civil society activities should continue in forms and areas adapted to the Syrian situation.

In terms of responding to the medium-term challenges described above, EC assistance to help Syria will concentrate primarily on creating the economic conditions for substantially increased growth and in this way to creating, in the longer-term, the resources to meet the economic, demographic as well as

environmental and political challenges. Environmental concerns will be taken into account in all activities (mainstreaming), but it will not be a priority area in itself. Water resources will be a priority in Syrian development, but given the wide support in this area from other donors, it is not seen as a priority for EC assistance during the CSP period.

This strategy will be implemented in compliance with the general policy objectives as anchored in the Barcelona Process and taking into account the general and specific guidelines contained in the Joint Council and Commission Declaration on Development Co-operation (November 2000), the Communications on Conflict Prevention (April 2001), on Human Rights (May 2001), on Mainstreaming Gender Issues (June 2001) and on the Strategy for the integration of environmental considerations into development policy (May 2001).

In order to mainstream efforts at all levels in a more effective way, the response strategy in this CSP should be coherent with the Syrian National Strategy for Sustainable Development prepared in other international contexts, such as the UN Commission for Sustainable Development and the Mediterranean Action Plan.

Particular attention will be paid to opportunities for mainstreaming environmental benefits in all development sectors and activities proposed in the NIP 2002-2004. Environmental Impact Assessments (EIA) should be provided prior to the funding of any large infrastructure projects and projects in ecological sensitive areas.

## **6.2. Priorities and specific objectives for co-operation**

A strong priority will be given to create awareness of the need for a economic reform strategy and to support policies contributing to economic modernisation and facilitating the association process.

The second objective, to contribute to social and political conditions conducive to reform, concerns the alleviation of the negative impact on society of economic reform, support to the difficult adjustment to new living and working conditions, and showing to the general public that 'costs' of modernisation can be offset by appropriate programmes. EU programmes in the social field are also meant to address government concerns that modernisation could lead to social disruption. The over-arching EU priority of poverty alleviation will also be particularly relevant in these programmes.

Other conditions of a global nature governing MEDA co-operation, including human rights, environment and gender, will be dealt with primarily through regional cooperation activities. These aspects, as the participation of the poor, should also be taken into account in the preparation of co-operation activities in all areas and sectors, in such a way as to contribute to the overall success of actions (mainstreaming). The environmental dimension will also be taken into account in all development sectors from the outset and participation in regional environmental activities will be encouraged.

Five priorities are identified.

- 1) Institution-building
- 2) Industrial modernisation
- 3) Human resources development
- 4) Trade enhancement
- 5) Human rights/rule of law/civil society.

The nature of aid will be project aid in the form of technical assistance and policy-advice throughout the CSP period. As established in the analysis above, given the lack of a comprehensive reform policy and a clear commitment to reforms, Syria should not be considered for sectoral support.

Given that cooperation in areas related to economic reform, with the exception of private sector support (SEBC), has only started recently, the absorption capacity of Syria in these areas as well as the real political commitment is uncertain. It is therefore important to formulate clear conditionalities for each programme in these sectors.

#### *6.2.1. Institution-building*

Existing institutional structures need to be improved if Syria is to create the wealth and the employment opportunities needed to satisfy the needs of its growing population, to replace the diminishing oil income or to be ready for the Association Agreement with the EU and eventually membership of WTO (integration into world economy). In view of the importance and size of reforms to be undertaken, programmes linked to economic modernisation will remain at the core of EU intervention for the CSP period. They will concern both the performance of the productive sector and the role played by the state in the economy (e.g. addressing the diversity of rules, infrastructure, legal economic framework for the business sector).

The modernisation of the Syrian government's role in the economy should be addressed both at the level of the institutions and that of the policies and instruments of public intervention. Key administrations with direct responsibility in the field of economy need to function effectively. At the same time, these institutions should design and implement economic policies that encourage rather than restrain economic activities.

The specific objectives in the area of institution-building are:

- upgrading the capacity of the central government bodies to conduct policies in line with the evolution towards a more open and liberalised economy, with particular reference to the future conclusion of the Association Agreement with the EU and integration in an EU-MED free trade area;
- modernising legislation and regulations concerning fiscal policy, budget policy and budget execution, and customs tariffs and practices;
- putting the Central Bank and the Ministry of Economy and Trade in the position to conduct appropriate policy making and exerting the necessary supervision tasks of the banking sector;

- providing assistance in the reorganisation of the administration to ensure an efficient implementation of reform policies;
- improving the capacity of urban municipalities to deliver public services.

The last objective is related to the global objective of contributing to social and political conditions conducive to the acceptance of reforms.

It will be very important to formulate and pursue clear conditionalities for the assistance in this area. Regarding the upgrading of the capacity of central government bodies concerned with fiscal and budget policies, these conditionalities should include first steps towards the separation of state-owned enterprises from the public budget, otherwise the usefulness of conducting training in e.g. public accounting can be questioned. Concerning assistance in the area of banking, it needs to be clear that the new banking law will be followed by the by-laws necessary for its effective implementation.

following interventions are proposed as main priorities in this sector:

*6.2.1.a) Support for fiscal, budget and customs reform (Ministry of Finance):*

In Syria, where the State still has an overwhelming presence, the modernisation of the role played by the State in the economy is an essential component of the overall economic modernisation process. Reform requires a fundamental re-thinking of the aims and instruments of public intervention (fiscal and monetary policy, customs, and budget) in the national economy. The Syrian administration should be able to perform a role more appropriate and relevant to the current and prospective economic realities.

*6.2.1.b) Banking Sector Support Programme:*

Implementation of reform of the banking sector is a key component of any approach necessary to provide the increased and sustained growth necessary for the Syrian economy. Syrian banking legislation has been adopted in 2001 to allow the establishment of private banks. This should provide an opportunity for useful assistance to the Syrian banking sector in the form of policy-advice and training and technical assistance.

*6.2.1.c) Municipal Administration Modernisation:*

A third area of intervention within institution-building will be directed towards local administration. The specific objective is to contribute to a modernisation and improvement of the quality of planning as well as technical and administrative service delivery by municipal administrations and hence to improved living conditions of urban dwellers.

It may be argued that the living conditions of the urban population is of particular importance to social stability. Economic reforms, like the recent reduction of sugar and rice subsidies may create social unrest. In this respect, actions that improve the urban living conditions, such as delivery of municipal services, will have a counterbalancing effect and contribute to social conditions conducive to reform.

In order to create a multiplier effect, the project should aim at establishing models for urban municipal administration in a few selected Syrian municipalities.

Possibilities should be examined to combine this programme of MEDA training and technical assistance with infrastructure projects entering into the framework of the programme and its objectives benefiting from loans from EIB.

### *6.2.2. Industrial Modernisation*

Apart from pursuing the negotiations of an Association Agreement implying free trade between Syria and EC and eventually with the whole Mediterranean region, Syria is liberalising its trade towards its Arab partners (AFTA). In order to achieve the necessary sustainable economic growth and to meet the demands of an economy open to competition, modernisation of the industrial sector will be crucial. The productive basis has to be diversified taking into account existing and potential comparative advantages.

A law redefining the role of the Ministry of Industry away from running industrial sectors to provider of policies and institutional frameworks for industry is in preparation in Syria. If this law is adopted, the EC should offer policy advice and training as capacity-building to the Ministry. The industry-related support services also need to be modernised and restructured in many areas: management training, research and development, Chambers of commerce, standards, vocational training<sup>2</sup>, technical (sectoral) centres.

However, the Syrian plans in this area are still rather vague and it is not considered feasible at this stage, to engage in a major, long-term programme accompanying tariff dismantlement within an Association Agreement. We also need a clear Syrian commitment to fundamental reform of the state-owned enterprise sector and to the full implications of the Association process. Our knowledge of the Syrian industrial sector needs to be improved before engaging in such a programme. First, a initial programme should be launched including policy advice and technical assistance to the Ministry of Industry and to central support services, as well as a study of the needs of the sector. On this basis, it could later be decided whether to launch a long-term programme.

### *6.2.3 Human Resources Development*

#### *6.2.3. a) Vocational Education and Training Programme:*

In addition to the industrial modernisation, attention needs to be given to the development of human resources including the improvement of the skills and performance of the private business sector as well as personnel from public enterprises. Technological development and opening of trade and industry to international competition will rapidly modify the type and nature of skills required, and will increase the need for a training system responding to labour market needs. In this respect, human resources development, and in particular vocational education

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<sup>2</sup> Actions in the areas of standards and vocational training will need to be coordinated with actions in other priority areas (human resources development, trade enhancement).

and training (VET), needs to be a programming priority during the CSP period. Modernisation of the VET system will be important to create a more efficient productive structure, i.e. to increase growth, but it will also be crucial to reduce negative short-term effects of economic transition on employment and to respond to the growing output of labour.

The programme on vocational education and training could include the tourism sector and could in this respect build on the achievements and experiences of the two current MED programmes in cultural tourism development and cultural heritage training.

Since the current structure of political responsibility for VET is part of the problem in this sector, an important condition for launching a major programme in this area, will be to have a clear commitment from the Ministry of Planning as well as from the Ministry of Education to ensure that necessary reforms of the VET structure can be implemented.

#### *6.2.3. b) TEMPUS programme for higher education:*

In recognition of the important role of higher education in the field of human resource development and of educational exchange in promoting understanding between cultures in the Euro-Mediterranean region, the reform of the higher education system is a priority area. In 2002 the Commission intends to propose the extension of the Tempus programme to the non-candidate countries of the Mediterranean region. This programme which is already operating in the Western Balkans and NIS regions, and funded by the national envelopes of the CARDS and TACIS programmes, entails co-operation between eligible countries and EU institutions. The programme aims at the development of the higher education system with a view to better responding to the socio-economic needs of the partner country and to promoting understanding between cultures.

#### *6.2.4. Trade Enhancement*

Towards the end of the strategy period, i.e. in 2005-2006, as the entry into force of an Association Agreement comes close, a programme tailored to support the adaptation to the trade provisions of the Association Agreement should be introduced. This programme should accompany the transition phase of the Agreement to alleviate the transition costs, in i.a. tax income, and improve the capacity of Syria to meet the obligations of the Agreement and other trade agreements.

Activities in this area will need to be coherent with and complementary to the activities in the regional programme.

The overall objective in this area is to boost trade and economic growth.

A condition for launching a programme in this sector should be the conclusion of the negotiations of the Association Agreement.

#### *6.2.5. Human Rights/the Rule of Law /Civil Society*

Given the difficult political context for human rights initiatives in Syria, activities of international as well as local NGO's have been and still are very limited. The

regional MEDA Democracy programme has focused on non-controversial issues (women empowerment activities, disabled, institutional capacity-building for local NGO's etc.). The assumption is that in the long run this will gradually promote human rights and democratisation in Syria.

Over the next few years, the European Initiative for Democracy and Human Rights (EIDHR) will be the horizontal programme instrument for EC actions in this area. It will replace the MEDA Democracy programme. As activities under this programme do not need to be agreed with the partner country, it is better suited for human rights-related activities in Syria.

For the next years, EIDHR actions in Syria should focus on support to democratisation, good governance and the rule of law (thematic area 1). It should initially cover the same type of issues as MEDA Democracy, though a gradual opening towards issues with a more direct bearing on good governance and rule of law as well as democratisation should take place. In the context of support to the rule of law, the EC should assist in the modernisation of the judiciary, primarily through training and the exchange of information. The EC should also strengthen co-operation with Syria in other areas relevant to the rule of law, namely the fight against drugs and organised crime, and the management of migration and refugees. In this context, it will be important to raise awareness and exposure to human rights principles and to improve skills and capacity in related areas.

### **6.3 Coherence with other EU policies.**

The suggested strategy is in the first hand based on the EU Mediterranean policy as expressed in the Barcelona Declaration, the EU Common Strategy adopted at the Feira European Council in June 1995 and the Conclusions of the Marseilles meeting of Foreign Ministers of November 2000. On this basis, the Strategy is applied to Syria, which is a partner country at the beginning of economic transition and which has not yet embarked on political reforms. Therefore, the focus of the strategy is on support to economic reforms. The overall EU development policy's focus on poverty alleviation is taken into account in the measures suggested to alleviate the social consequences of reforms.

The EIDHR programme will support actions in line with the EU human rights/democratisation policy in forms and areas adapted to the Syrian situation as discussed above.

Other complementary horizontal instruments of cooperation that will be of relevance for Syria are: "Rehabilitation with a focus on improvement of living conditions of refugees", "Environment with a focus on renewable energies" and Demography to reduce the high population growth".

### **6.4 Complementarity with activities of Member States and other donors.**

The interventions of other donors are comparatively small in Syria and the EC is the only donor capable of making the necessary interventions in terms of institution-

building and support to economic reforms to have significant impact on policies. However, efforts will be made to ensure coordination and complementarity between activities financed under this NIP and projects funded by Member States and other donors in the country.

Several other donors are heavily involved in infrastructural projects, in particular in water issues, and the EC therefore, for the next years, will not give priority to this.

## **6.5. Risks**

The principal external factors which could jeopardise the above strategy are related to the conflict with Israel and its potentially undermining effect on the stability of the Syrian regime. The analysis, which is based on the assumption that economic reforms will continue and slowly be enhanced, has taken these risks into account; they are considered small, but they would, if they came into effect, necessitate a reconsideration of the strategy.

The effects of the 11 September events increases uncertainty regarding the future relations between Syria and the West. Cooperation against islamist terrorism might strengthen relations, but eventually positions taken on armed anti-Israeli groups supported by Syria will be decisive.

The continuing uncertainty and risk of escalating conflict in the region threatens the commitments of the authorities to economic reforms.

There is also internally some risk that the reform process simply does not take off. This could be caused by a change in power in Damascus, or more likely, through bureaucratic blockages resulting from different actors acting against each other or vested interests acting against the reform policy.

Since all five priorities are related to economic or political reform, a complete blockage of reforms would of course make implementation of programmes difficult if not impossible. This is also reflected in the conditionalities made for the programmes in the NIP 2002-2004. The Municipal Administration Modernisation programme, the TEMPUS programme, and some actions to support civil society in the same way as has been done in the past, could probably be implemented also under these circumstances. The other actions would suffer considerable delay. However, as has been discussed in section 4, this is not the more likely scenario and not the basis on which the Strategy has been prepared.

## 7. NATIONAL INDICATIVE PROGRAMME (NIP) 2002-2004

### 7.1. Introduction

The sectoral priorities build upon the response strategy presented in the Country Strategy Paper for 2002-2006.

In view of the importance and size of reforms to be undertaken, programmes linked to economic modernisation will remain at the core of EU intervention for the programme period. Programmes aiming at sustainable development will concern both the performance of the productive sector and the role played by the state in the economy (e.g. addressing the diversity of rules, infrastructure, legal economic framework for the business sector).

Two global objectives are identified. To contribute to:

- The establishment of a comprehensive strategy of economic reforms in order to facilitate the economic transition and the association process; and to
- Social and political conditions conducive to reform.

€ 93 million is the indicative volume of resources available for the bilateral cooperation programme with Syria under MEDA for the programming period 2002-2004.

For the programming of these resources, three priorities are identified:

- Priority 1 : Institution-building
- Priority 2 : Industrial modernisation
- Priority 3 : Human resources development

The nature of aid will be project aid in all three sectors.

### 7.2 Contents of the NIP

#### **PRIORITY 1: INSTITUTION-BUILDING**

##### **Context and justification:**

Existing institutional structures need to be improved if Syria is to create the wealth and the employment opportunities necessary to satisfy the needs of its growing population, and to be ready for the Association Agreement with the EU and for the EU-Mediterranean free trade area.

The modernisation of the Syrian government's role in the economy should be addressed both at the level of institutions and that of policies and instruments of public intervention. Key administrations with direct responsibility in the field of economy will be supported in a way to improve their functioning.

For the programming period, programmes already launched under MEDA I will cover activities directed towards to private sector (SEBC II) and public institutions (ISMF). However, special attention needs to be addressed to the Ministry of Finance (fiscal, budget and customs reform) as requested by Syria and to the banking sector, where a new law introducing private participation in the banking sector has been adopted.

**n.b.**

Initial activities in the three areas of Institution building should be started under the Institutional and Sector Modernisation Facility (2000-2006), if this allows an earlier start of activities.

**Specific objectives:**

The specific objectives in the area of institution-building are to

- upgrade the capacity of the central government bodies to conduct policies in line with the evolution towards a more open and liberalised economy, with particular reference to the future conclusion of the Association Agreement with the EU and to Syria's integration to the EU-MED free trade area;
- modernise legislation and regulations concerning fiscal policy, budget policy and budget execution, and customs tariffs and practices;
- achieve an efficient, market-oriented banking system including a Central Bank and Ministry of Economy and Trade able to conduct appropriate policy-making and to exercise the necessary supervision and regulation tasks of a liberalised banking sector as well as international accounting standards throughout the sector;
- improve the capacity of urban municipalities to deliver public services. This objective is related to the global objective of contributing to social and political conditions conducive to the acceptance of reforms.

**Expected results:**

- *Modernisation of the Ministry of Finance:* :
  - Increased fiscal revenue and better management of fiscal resources;
  - Fiscal and budget authorities should be able to perform a more appropriate role in a context where state-owned enterprises are independent from the State budget.
  - The private sector should benefit from the revised fiscal policy.
  - Facilitated customs procedures and reinforced competence in terms of valuation and origin verification. Customs authorities should be able to comply progressively with international standards.
  - The Ministry should be able to conduct the technical reforms necessary for these objectives.
- *Banking Sector Support Programme II:*

## Creation of

- well staffed, properly trained regulatory and licensing functions at the Central Bank of Syria;
  - an efficient payments and clearing system ;
  - an independent supervisory and inspection function ; and the
  - introduction of international accounting standards throughout the banking system.
- *Municipal Administration Modernisation:*
    - Modernised and improved urban planning as well as technical and administrative service delivery in three to four selected municipal administrations.
    - Increased environmental awareness in municipal administrations.

## Performance indicators:

- *Modernisation of the Ministry of Finance:*  
Increased fiscal revenues in relation to GDP, reduced delays in customs procedures, effective implementation of reform policies.
- *Banking Sector Support Programme II*  
  
Increasing number of banks established in Syria. Increased number of loans and of lending to the private sector.  
  
Licensing: an increase in private investment in the banking sector, speed and accuracy of processing of license applications  
  
International Accounting Standards: Degree of introduction of IAS throughout the banking sector ;  
  
Supervision: Degree of regularity, independence and transparency of inspections of licensed banks.
- *Municipal Administration Modernisation*  
  
Depending on the exact services addressed ; decreased traffic congestion, improved waste collection, improved recycling ratios, etc.

## Short description of programmes:

### **Modernisation of the Ministry of Finance Programme:**

The Commission adopted a project in 1996, but as for other MEDA I-projects it could not be implemented in the absence of an EC-Syria Framework Convention. The project was de-committed in 2000. Making use of the preliminary work and given the interest of the Syrian authorities, it should be possible to identify a new project and to launch the project in 2003.

The Ministry of Finance will be the main beneficiary of a programme directed at fiscal, budget and customs reform.

The activities of the programme should consist of:

- assistance with fiscal policy reform ;
- budget management, public accounting, management of public debt and investment ;
- adaptation of tariffs structure and customs regulation to new trade agreements ; assistance in the reorganisation of the Ministry and training of its personnel.

The programme could contain a component of equipment when justified and linked to the needs for implementation of the programme.

Beneficiary: Ministry of Finance

Other donors: -

Specific conditions: 1. In order to justify the training in budget management and accounting, some of the state-owned enterprises from State budget should be separated from the public budget.

2. Progress in the Association Agreement negotiations.

Budget indication: € 8 million

### **Banking Sector Support Programme II**

The early implementation of reform of the Banking sector in Syria is necessary for the private sector. A new banking law has been adopted that allow the establishment of a mixed banking sector (minimum participation of state-owned financial institutions at 25 % and maximum foreign participation of 49 %) in a country that has had a completely state-controlled financial system.

The programme should provide capacity-building addressing the changes in the main responsibilities of the Central Bank, notably in banking licensing, regulation and supervision. It should also address the needs created by changes in accounting standards for banks and businesses. Other issues to be considered include payment and clearance systems, banking taxation, banking security and the development of general and specific skills and understanding appropriate for a modern banking and financial sector.

The programme could also address other issues that have an impact on the development of a fully functioning financial sector. It could contain a component for equipment when justified and strictly linked to the needs for implementation of the programme.

Beneficiaries: Ministry of Economy and Foreign Trade, Central Bank of Syria, possibly also commercial banks.

Other donors: France is giving policy advice to the Central Bank. Arab Gulf banks are also involved in training.

Specific conditions:

1. Project identification should await the results of audit and evaluation of the Banking Sector Support I programme.
2. Effective implementation of the new law; adoption of necessary by-laws.

Budget indication: € 6 million

**Municipal Administration Modernisation**

The programme should address institutional capacity-building in the following areas:

- institutional development (local administration);
- urban and transport planning, and
- technical services

in three to four Syrian municipalities. In order to create a multiplier effect, the project should aim at establishing models for urban municipal administration in three to four selected Syrian urban municipalities. Municipalities will need to be selected on the basis of:

- capacity to absorb assistance;
- commitment to the objectives of the programme;
- assessed role as effective models;
- as well as on their role for social stability.

Environmental concerns should be taken into account in all activities and constitute major criteria when selecting activities. Environmental awareness-raising in the municipal administrations is to be a component of the programme.

The programme could contain a component of equipment when justified and linked to the needs for implementation of institution-building.

Beneficiary: three-four Syrian local administrations (municipalities).

Other donors:

Possibly EIB : The possibilities to combine this programme of MEDA training and technical assistance with infrastructure projects benefiting from loans from EIB and entering into to the framework of the programme and its objectives, should be examined.

Specific conditions: Local administrations as beneficiaries.

Budget indication: € 18 million

**Total budget Priority 1 :** € 32 million

## **PRIORITY 2: INDUSTRIAL MODERNISATION**

### **Context and justification:**

In order to achieve sustainable economic growth in Syria at levels necessary to meet the needs of a growing population and in order to meet the demands of an economy open to competition within the framework of the Mediterranean free trade area, modernisation of the industrial sector will have to be a priority in Syrian economic policy for the next years. This implies preparing the Syrian economy for competing with external players, including addressing problems of over-staffing and inefficient management, in order to improve skills and performance in the productive sector.

The area of industrial modernisation is Syria's first priority in its cooperation with the EC. In 1999, Syria presented a proposal to the EC for a 12-year programme. However, there are too many unknown factors to allow the EC to engage at this stage in a programme of the proposed magnitude and duration. It is also a concern, that the role of the private sector industry is still quite small, and that major actions in this area today would necessarily involve large-scale re-training of management in the state-owned enterprise sector.

Therefore, while recognizing that industrial modernisation is a major priority for the CSP period, it will be more appropriate to start with a shorter, initial programme over three years, concentrating on policy-advice and institutional capacity-building directed at the Ministry of Industry and at industrial support services, and on a study of the sector in order to prepare a second programme.

### **Specific objectives:**

- To help establish the policies needed to create the environment for an internationally competitive Syrian industrial sector, including the private sector, through assistance to the Ministry of Industry and other involved ministries;
- To put strengthened support services in a position to provide the services necessary for modernised industry.
- To to establish a programme for support to industrial modernisation throughout the association process through an investigation of the situation of Syrian industry, including Syrian priorities and the conditions necessary to put Syrian industry in a position to compete in a free trade environment.

### **Expected results:**

- The ministries should be able to establish policies and legislation.
- The private sector will grow in significance.
- Support services should perform in a more demand-driven fashion answering to the needs of industry.

- The basis for deciding on a comprehensive programme for EC support to the industrial modernisation of Syria for the period of the association process.

**Performance indicators:**

- Improved policies and legislation issued by ministries.
- Size of the private sector within the industrial sector.
- Responsiveness by support services to demand from industry.

**Short description of programme:**

**Industrial Modernisation Programme – Phase I:**

An initial programme over three years, preparing continued support throughout the association process, and concentrating on:

- (1) the Ministry of Industry; policy-advice and capacity-building related to the private sector as well as to the restructuring and redeployments within the public sector;
- (2) Other ministries as justified by their role in the regulatory framework;
- (3) Industrial support services, which should be modernised and restructured in many areas: management training, research and development, Chambers of commerce, quality control, standards, vocational training<sup>3</sup>, technical (sectoral) centres.

This initial programme will include a major study of Syrian industry, including Syrian priorities and the conditions necessary to put Syrian industry in a position to compete in an EU-MED free trade area. This study will serve as a basis for a programme for support to industrial modernisation during the association process, i.e. during the period of tariff dismantlement. Depending on the results of the study and of the experiences of the initial programme, it will be decided whether to move on to a major programme (phase II).

Up until September 2004, assistance to the private sector, strengthening individual businesses, including women entrepreneurs, to perform more efficiently, especially when confronted with international competition, will be provided in the Syrian-EU Business Centre II programme. A component of the Industrial Modernisation Programme should be devoted to the continued support in these areas.

Environmental concerns, in terms of strengthening capacity for assessing environmental impact, should be taken fully into account in all capacity-building and training activities.

The programme may contain a component of equipment when justified and linked to the needs for implementation of institutional capacity-building.

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<sup>3</sup> Actions in the areas of standards and Vocational Training will need to be coordinated with EC actions in other priority areas (human resources development, trade enhancement).

Beneficiaries: Syrian Ministry of Industry and other ministries. Support services including Chambers of Commerce and Industry.

Other donors: Italy/UNIDO (SME support programme)

Specific conditions: Continuation and reinforcement of the Syrian policy of restructuring, including corporatisation of the State enterprise sector and of better conditions for the private sector. Adoption of a law redefining the role of the Ministry of Industry.

Budget indication: € 6 million

**Total budget of Priority 2 :** € 6 million

### **PRIORITY 3: HUMAN RESOURCES DEVELOPMENT : MODERNISATION OF VOCATIONAL EDUCATION AND TRAINING**

#### **Context and justification:**

The establishment of a free-trade area between the EU and Syria, as well as the perspective of more open regional markets and intra-regional trade, will expose Syria with its protected economy and labour market to increased competition. Technological development and globalisation of trade and industry will rapidly modify the type and nature of competencies required by employers. An effective training system will be crucial to respond to changing labour market needs, in particular in the context of an extremely high labour growth.

The Syrian VET system - developed to support a large public sector under a centrally planned economy- suffers from a very complex, inefficient, supply-lead and school-based institutional structure, unrelated to economic and social demand. No single ministry has the control of policy-making in the area - training policy is dispersed among sectoral ministries. Methods and curricula are outdated. Involvement of enterprises and other social partners in the management, design and delivery of training is scarce. Capacities in analysis and forecast of new skills and occupations are absent. Follow-up training of the workforce, which is generally considered as a key element for countries in economic transition, is almost non-existent.

An EC programme for VET reform prepared in 1999 was not launched, in spite of a favourable opinion in the responsible Ministry (Education). However, this Ministry does not have full control over VET in Syria, which is dispersed among a number of ministries. Instead, the European Training Foundation launched a small pilot phase programme designed to raise awareness of the needs for reform of VET and to further investigate the situation. This technical assistance programme includes awareness-raising seminars, introduction of apprenticeship training methods at three schools, development of the Syrian capacity to identify labour market needs, and an overview report on the Syrian VET system. In establishing a modernisation programme in Vocational Education and Training, the Commission should build *inter alia* on experiences and lessons from the ETF pilot programme.

In the VET activities related to the tourism sector, the programme should build on the achievements and experiences of the current MED programmes in that area: Cultural Tourism Development, and Cultural Heritage Training.

Close coordination with other donors will be important in identification and implementation.

Finally, the extension of the TEMPUS programme of higher education to Syria is justified by the important role of higher education in developing human resources and occupation skills and of exchange in promoting understanding between cultures. The particular need for closer EU-Syrian co-operation in this field was agreed at the meeting of President Prodi and President Al-Assad in February 2001.

### **Specific objectives:**

- A comprehensive VET system involving enterprises and social partners in management, design and delivery;
- Capacity for analysis and forecasting of needs for VET (an observatory function);
- The establishment of VET as a tool in support of the emerging private sector with SMEs as well as the restructuring of the public enterprise sector;

Reform and development of the higher education system.

### **Expected results and Performance Indicators:**

1. Training system able to respond to needs of individuals and of enterprises through an increased adaptation of training supply, including:
  - Updated initial training schemes,
  - New models for training of teachers and trainers,
  - New curricula and training standards reflecting labour market demand.
2. Training demand expressed by the productive sector and translated into training provision:
  - Increased involvement of socio-economic partners in the management, design and delivery of VET.
  - Reinforced capacities of public and private enterprises in training needs analysis and continuing training design, management and provision.
  - Reinforced policies and instruments for transition from school to work and for the re-integration of unemployed.
3. Management tools developed and used by public institutions, in support of reform strategies in co-ordination with socio-economic stakeholders:
  - Adequate and updated legal and regulatory frameworks.
  - Reinforced capacities for labour market analysis and medium-term forecast of new skills and occupation.
  - Strategic planning and programming methodologies, quality and performance control systems.

- Efficient management of financial resources.
4. Support for the reform of higher education, including:
- development and reshaping the curricula in priority areas;
  - reform and development of higher education structures and establishments and their management;

development of training leading to qualifications needed in the context of economic reform (improvement in the links between industry and the educational system).

VET Performance indicators:

- Improved job insertion rates of school-leavers,
- Increased percentage of enterprises offering continued training,
- Decreased drop-out rates,
- All training programmes developed on the basis of expressed demand for new qualifications by the end of the programme,
- A critical mass of training centres working under new organisation models in co-operation with the productive sectors by the end of the programme,
- A number of training needs analysis programmes in support to professional Chambers, public firms and SMEs.
- Management system tools in operation. Decisions on investments to VET, taken on the basis of economic and financial assessment in co-operation with socio-economic partners.

**Short description of programmes:**

**Modernisation of Vocational Education and Training :**

A gradual VET system reform programme articulated around three main axes focusing on:

1. Improvement of the relevance, effectiveness and efficiency of training supply, better adapted to the emerging labour market needs for new skills and occupations.
2. Establishment of mechanisms and instruments to integrate the training demand from the productive sectors into the VET policy making process and related training supply.
3. Enhancement of institutional capacities to support a more dynamic management of the VET system.

The programme may contain a component for equipment as justified by the needs to implement the policy and management reforms.

Beneficiaires: Ministry of Education and other ministries or public agencies involved in VET in all sectors of the economy..

Other donors: Germany is planning to introduce apprenticeship training methods.

Specific conditions: Clearly stated political will and commitment to embark upon structural and comprehensive reform of the VET system. Successful implementation of the ETF pilot phase programme 2001-2003.

Budget indication: € 21 million

### **TEMPUS Programme for Higher Education**

Participation in the Tempus III programme involving Joint European Projects (joint education and training actions, measures for the reform and development of higher education, the promotion of co-operation between universities, industry and institutions, the development of mobility for teachers, administrative staff of universities and students); structural or complementary measures, individual grants to teachers, researchers, trainers, university administrators, senior ministerial officials, education planners and other experts for visits to promote the quality, development and restructuring of higher education and training.

Beneficiaires: Ministry of Higher Education and institutions of higher education

Other donors: France.

Specific conditions: -

Budget indication: € 4 million (2 million/year starting in 2003).

**Total budget of Priority 3 : € 25 million**

### **7.3 Budget and Phasing of the NIP 2002-200**

The indicative budget for the period 2002 to 2004 amounts to € 93 million. This indicative allocation will cover the commitment of the following programmes:

	<b>2002</b>	<b>2003</b>	<b>2004</b>
Modernisation of the Ministry of Finance		€ 8 M	
Banking Sector Support Programme II		€ 6 M	
Industrial Modernisation Programme Phase I		€ 6 M	
TEMPUS Higher Education Programme		€ 2 M	€ 2 M
Municipal Administration Modernisation			€ 18 M
Modernisation of Vocational Education and Training			€ 21 M
<u>Non committed Programme carried over from PFN 2001:</u>			
Health Sector Programme	€ 30 M		



## Background economic and social data

### 1. General

	Unit	Year / Period	
Population	mln	2000	16.1
Average annual population growth	%	1996-2000	2.6
Average labour force growth	%	1990-1999	4
Female economic activity as percentage of male rate	%	1999	36
Unemployment rate	%	2000	20

### 2. Living standards

	Unit	Year / Period		
GDP	Bln US\$	2000	16.5	
GDP per capita	US\$	2000	990	
MEDA beneficiaries population weighted GDP per capita	US\$	2000	1,512	
Real GDP growth per annum	%	1996-2000	2.8	
Real GDP growth 1990-99	%	1990-1999	5.7	
Real GDP growth lower middle income countries	%	1990-2000	3.1	
Human development index rank among 162 countries	Rank	1999	97	
			Male	Female
Life expectancy at birth	Number of years	1999	70	72
Expected schooling	Number of years	1998	10	9
Adult illiteracy	% of population age 15+	1999	13	40

### 3. Macro-economic trends

	Unit	1990	2000
GDP structure			
Share agriculture	%	29	29
Share industry	%	24	22
Share services	%	48	49
Domestic savings / GDP	%	16	18
Of which : public sector	%	6	9
Domestic investment / GDP	%	15	29
Of which : public sector	%	6	9
Exports of goods and services	%	28	31
Imports of goods and services	%	28	32
External resource balance / GDP	%	0	-1
PM: External resource balance / GDP of lower middle income developing countries	%	-1	5
Inflation (average annual increase in consumer price index)	%	1996 - 2000	
		4.0	

**4. Balance of payments**

		1990	1999
Merchandise exports	Mln US\$	4,222	3,464
Of which : to EU	%	42	50
Of which : manufactured exports	%	36	7
Merchandise imports	Mln US\$	2,400	3,832
Of which : from EU	%	40	33
Net current transfers	Mln US\$	90	490
Current account balance	Mln US\$	1,760	201
Share foreign direct investment in domestic investment	%	3.5	1.5
External debt	Bn US\$		22.4
External debt/GDP	%		136.
External debt service : interest plus principal / exports goods and non-factor services	%		23

**5. Government finance**

		1990	1998
Current revenues / GDP	%	21.8	24.2
International trade taxes / current revenue	%	8.2	8.8
International trade taxes / imports of goods	%	12.2	11.4
Current expenditure / GDP	%	16	15.5
of which: social expenditure	%	12.6	16.4
of which: interest payments	%		7.4
Capital expenditures / GDP	%	5.8	9.1
Overall budget balance / GDP	%	0.3	-0.2
PM: overall budget balance Middle East and North Africa region	%	-7.5	-4.8

Sources: WB, World Development Indicators,  
IMF, Article IV Consultation Reports,  
EuroStat ( for EC-Syria trade),  
UNDP Human Development Report 2001.

### **EU programmes by intervention sector**

Budget line, date signature & date expiration CdF	Title programme incl. Description areas of intervention	Amount  (M €)	Status (under preparation / ongoing) Implementation period	Observations / co-ordination
<b>III. Sector :</b>				
<b><i>PUBLIC SECTOR: Modernisation; Public finance; tax system; state enterprises reform/ privatisation; local government reform</i></b>				
B7-4100 FA signed: 19/10/00 expiry date: 18/10/06	Institutional and Sector Modernisation Facility (ISMF)	21,00	En cours	Modalités pour l'élaboration des TdR proposés aux Autorités Syriennes.
<b>IV. Sector :</b>				
<b><i>PRIVATE SECTOR DEVELOPMENT : SMEs, economic cooperation</i></b>				
B7-4100 29/06/2000	Syrian-European Business Centre II	12,00	ongoing 4 years duration until 2004	PMU arrived in October 2000, inception phase over. Good start. Many requests.
<b>VI. Secteur :</b>				
<b><i>TRANSPORTS, INFRASTRUCTURES, EAU, ENERGIE</i></b>				
B7-4100 10/02/2001 31/12/2004	Telecommunication Sector Support Programme	10,00	en cours	Technical assistance to start in Jan. 2002
B7-4100 10/02/2001 10/02/2005	Cultural Tourism Development Programme	3,00	en cours	Tender for PMU launched in September 2001
B7-4051 06/02/1993 31/12/2003	Hama and Bseira Water Supply Project	9,60	en cours	
B7-4100	Power Sector Action Plan (PSAP)	11,00	en cours	Terms of Reference for technical assistance in final phase of approval.
B7-4051 29/11/1994 31/12/2002	Electricity Sector Support Programme (ESSP)	11,00	en cours	
Not available	Environmental Health Khan Dannoun, Khan Eshieh (water & wastewater management)	8,00	en préparation. Pipeline 2001	

Budget line, date signature & date expiration CdF	Title programme incl. Description areas of intervention	Amount  (M €)	Status (under preparation / ongoing) Implementation period	Observations / co-ordination
<b>VII. Sector :</b>	<b>SOCIAL DEVELOPMENT : education, health, social policy/social safety net, community development</b>			
B7-4050 17/05/1988 No limit	Higher Institute of Applied Science and Technology (HIAST) (SEM/02/608/007/A)	8,25	Ongoing 01/01/1990 - No limit	- Contrat d'AT terminé le 28/02/2000. - A clôturer (Workplan approuvé jusqu'au 31/12/2002).
B7-4100 10/02/2001 31/12/2007	Higher Institute of Business Administration (HIBA) (SYR/B7-4100/IB/97/0593)	14,00	Ongoing 10/02/2001 - 10/02/2007	- Préparation de la mise en oeuvre. - AT à court terme.
B7-4051 15/06/1996 30/06/2001	Demographic Sector Support Programme (DSSP) (SEM/03/608/012/A)	2,00	Ongoing 30/11/1998 - 30/06/2001	Programme to be extended to June 2002.
B7-4100	Cultural Heritage Training Programme	2,00	ongoing 2001 - 2004	Project Management Unit tender to be launched.
N.A.	Health Sector Modernisation Programme	30,00	Under preparation Pipeline 2001	-
<b>XI. Sector :</b>	<b>RURAL DEVELOPMENT</b>			
B7-4051 08/06/85 31/12/2002	Lower Euphrates Drainage and Irrigation Programme; Agriculture (irrigation, drainage); Civil works; Technical Assistance; Training	2,00	Ongoing, activities finalised (to be closed 2002)	Contract dispute with supplier
<b>TOTAL</b>		<b>143,85</b>		

### Donor Matrix by intervention sector

Donor	Title programme incl. description of intervention	Amount	Status (under preparation/ongoing) implementation period	Observations/Co-ordination
<b><u>III. Sector :</u></b>	<b>Public sector modernisation : public finance; tax system; state enterprises reform/privatisation; local government reform</b>			
<b>France</b>	Training of senior officials			at ENA and ITAP
<b>Germany</b>	Policy advice; Institution-building	€ 2 million	In preparation	Ministries of Planning, Environment, and Housing
<b><u>IV. Sector :</u></b>	<b>Public sector : modernisation : public finance; tax system; state enterprises reform/privatisation; local government reform</b>			
<b>Spain</b>	Syrian Development Agency	€ 5,5 million	under discussion	
<b>Italy</b>	Institutional strengthening and policy advice for SME's	€ 2,5 million	In preparation	
<b><u>VI. Sector :</u></b>	<b>Physical Infrastructure</b>			
<b>Sweden</b>	Technical assistance to the road sector	€ 0.5 million	under discussion	Road information system
<b>Italy</b>	Electricity transmission	€ 10 million	works in progress	soft loan
<b>Sweden</b>	Electricity management system, Phase I	€ 0,4 million	completed	
<b><u>VII. Sector :</u></b>	<b>Social development : education, health, social policy/social safety net; community development</b>			
<b>Spain</b>	Hospital equipment	€ 35 million credit		MoU foresees € 50 million, so far € 35 million for equipment
<b>Germany</b>	Employment creation		in preparation	
<b>UNFPA</b>	Reproductive health	€ 8 million	in preparation	

Donor	Title programme incl. description of intervention	Amount	Status (under preparation/ongoing) implementation period	Observations/Co-ordination
Austria, Greece, NL	Cultural Heritage Restoration		In preparation	
UNDP	Rural community Development, Jabal Al-Hoss	€ 1,8 million	ongoing	
Italy	Cultural Heritage restoration		ongoing	
Italy	Healthy villages	€ 1 million	study completed	
Italy	Hospital equipment, nurse training	€ 4,5 million	in preparation	soft loan € 4 million
<b><u>VIII. Sector :</u></b>	<b><u>Human resources development (training, capacity building)</u></b>			
France	University co-operation	€ 1,1 million	ongoing	
France	Renovation of Institut Moyen, Damascus	€ 23,000	ongoing	Vocational training
<b><u>IX. Sector :</u></b>	<b><u>Human rights / civil society / gender issues and equality</u></b>			
Spain	NGO support		ongoing	
UK	NGO capacity building	€ 32,690	ongoing	Bunian
<b><u>X. Sector :</u></b>	<b><u>Environment; water</u></b>			
Sweden	Ind. pollution prevention. Baroda Basin	€ 0,5 million	works in progress	With Ministry of Environment
Sweden	Protection of ground water	€ 0,3 million	agreement in progress	With Ministry of Irrigation
Sweden	Water supply (snow water)	€ 0,2 million	agreement in progress	
France	Sewage stations	€ 12 million	agreed	loan
France	Al Sawar	€ 11 million	works started	Loan

<b>Donor</b>	<b>Title programme incl. description of intervention</b>	<b>Amount</b>	<b>Status (under preparation/ongoing) implementation period</b>	<b>Observations/Co-ordination</b>
<b>Germany</b>	Water and sanitation, Aleppo and Damascus	€ 30 million	in preparation	
<b>Italy</b>	Gas conversion of Banja power plant	€ 7 million	in preparation	
<b><u>XI. Sector :</u></b>	<b>Rural development / Agriculture</b>			
<b>Italy</b>	Dairy production improvement (Al Ghab)	€ 1,5 million	study	
<b>Italy</b>	Rationalisation of water use (Ras el Aen)	€ 9 million	study	soft loan
<b>Sweden</b>	Development of forestry research centre	€ 0,1 million	cancelled	