



**EUROPEAN NEIGHBOURHOOD AND PARTNERSHIP  
INSTRUMENT**

**SYRIAN ARAB REPUBLIC**

**STRATEGY PAPER  
2007 – 2013**

**&**

**NATIONAL INDICATIVE PROGRAMME  
2007 – 2010**

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## **EXECUTIVE SUMMARY**

The Country Strategy Paper (CSP) drafted under the European Neighbourhood and Partnership Instrument (ENPI) sets out a strategic framework for European Union (EU) co-operation with Syria over the period 2007-2013. On the basis of an analysis of the challenges facing the country as well as of the impact of EU co-operation so far, the CSP defines the EU's strategic response and priority objectives for future co-operation.

The National Indicative Programme (NIP) presents the framework of co-operation between the European Commission and the Syrian government for the period 2007-2010. Given the difficult relations between the EU and Syria and the delays in adopting the government's agenda for reform, we had to find a specific arrangement with Syria. The NIP details the specific operations planned for 2007 and their expected results, but only outlines priority actions for 2008-2010 – including their budget and sequencing.

Syria is a full participant in the Barcelona Process. In the absence of an Association Agreement, Syria cannot yet benefit from the European Neighbourhood Policy (ENP). However, the aim is to work towards full participation in the ENP. Negotiations on an EU-Syria Association Agreement were concluded in October 2004, but the agreement has yet to be signed and ratified. Current relations are governed by the 1977 Co-operation Agreement.

The country has been politically and economically stable since President Bashar al-Assad took office in 2000. However, the political and economic reforms announced at the beginning of his term are materialising slower than expected, causing frustration among some parts of the population. Syria justifies the slow reform by national security considerations, including the Middle East conflict. Syria's relations with the international community have become tenser over regional issues, in particular the sovereignty of Lebanon.

The Syrian government has presented the 10<sup>th</sup> Five-Year Plan for 2006-2010 as the blueprint for comprehensive economic and social reform and transition from a centrally planned to a 'social market economy'. Political reform is at this stage less prominent on the government's agenda. However, the 10<sup>th</sup> Baath Party Congress of June 2005 has given some orientations in this area, so has the Euro-Mediterranean Work Programme endorsed by Syria and its regional partners at the Barcelona +10 Conference.

The Syrian government's reform efforts represent a major challenge. The EU strategic response is geared to consolidating these efforts and seeks to develop with Syria the modalities for implementing the ENP in the country. This means supporting a mix of political, social and economic reforms, on the basis of Syria's own priorities and in exchange for clear commitments regarding progress in implementing the reforms.

The CSP 2007-2013 identifies three priority areas for action:

1. Support for political and administrative reform, including modernisation of the administration, decentralisation, rule of law and respect for fundamental human rights.
2. Support for economic reform, including implementation of the Five-Year Plan, preparation for the Association Agreement and preparation for accession to the World Trade Organisation.
3. Support for social reform, including human resources development and measures to accompany the economic transition process.

A total of €130 million is currently allocated to the implementation of the first NIP covering the period 2007-2010 to support these three priorities. A revised NIP detailing the contents of operations for 2008-2010 will be presented in 2007 to take into account the government's strategies and executive programmes, which are under preparation.

## 1. OBJECTIVES OF EU CO-OPERATION

### 1.1 EU external policy, the Barcelona Process and the European Neighbourhood Policy

With its external policy the EU strives to promote prosperity, solidarity, security and sustainable development worldwide. It does so using various instruments, encompassing the Common Foreign and Security Policy (CFSP), assistance and trade, and the external dimension of EU internal policies. The 'European Consensus on Development' adopted in November 2005 sets out a common vision that guides the development co-operation of the EU, at both Member States and Community level. This new development policy reaffirms key principles of aid effectiveness: **national ownership, partnership, alignment, and results orientation.**

The Euro-Mediterranean Conference held in Barcelona in November 1995 marked the starting point of the Euro-Mediterranean Partnership, which includes: (i) a political and security partnership; (ii) an economic and financial partnership; and (iii) a social, cultural and human partnership. **Syria is a full participant in the Euro-Mediterranean Partnership.** It approved the Euro-Med Five-Year Work programme for 2006-2010 and the Code of Conduct on Countering Terrorism at the Barcelona 10+ Conference in November 2005.

**Current EU-Syria relations are governed by the Co-operation Agreement of 1977.** Syria has negotiated a far-reaching Association Agreement with the EU, which should pave the way for the country's full participation in the European Neighbourhood Policy (ENP). The Association Agreement provides a comprehensive framework for the economic, political and social dimensions of the EU-Syria partnership. The agreement was initialled in October 2004 but cannot be implemented yet, Member States having deemed so far that the political context did not allow for signature and ratification.

The European Neighbourhood Policy (ENP) was developed in the context of the EU's 2004 enlargement, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and its neighbours and strengthening stability, security and well-being for all concerned. It thus addresses one of the strategic objectives of the European Security Strategy of December 2003: building security in our neighbourhood. With the ENP, **the EU offers its neighbours a privileged relationship based on a mutual commitment to common values:** democracy and human rights, rule of law, good governance, market economy principles and sustainable development.

**Syria will benefit fully from the opportunities offered by the European Neighbourhood Policy,** once the Association Agreement is signed. The EU and Syria will then negotiate an Action Plan of commonly agreed priorities as well as support for its implementation. The Action Plan will translate the provisions of the Association Agreement into concrete priorities for action. This CSP is based on the hypothesis that in the period 2007-2013 the Association Agreement will indeed be signed and ratified. In the absence of signature of the Association Agreement, co-operation will continue to be based upon Syria's participation in the Euro-Mediterranean Partnership and the Co-operation Agreement.

## 1.2 Strategic objectives of EU co-operation with Syria

There is **mutual benefit in a closer relationship between the EU and Syria**. Syria is a key factor in regional stability and plays a pivotal role as a transit country between the EU and the Middle East. Syria and the EU have privileged cultural links and there is strong potential for further strengthening economic relations. Through its co-operation, the EU also wishes to assist Syria in its efforts to improve the welfare of its population.

The aim over the period 2007-2013 will be to build upon the achievements and lessons of past co-operation and to **prepare Syria for full participation in the European Neighbourhood Policy in the medium-term**. While not seeking to impose the pace of reforms, the EU financial engagement will be incremental and will depend on progress in meeting commonly agreed targets. Also, a wider range of co-operation tools could become available, including twinning arrangements, and, if a satisfactory level of accountability is reached in the management of public finance, budget support.

A substantial part of the financial assistance in the period 2007-2013 will be allocated as a variable premium to encourage progress with reform, in particular political reform. **Syria should be encouraged, along with other Southern Mediterranean partners, to take advantage of the ‘Governance Facility’** launched at the Euro-Mediterranean 10<sup>th</sup> Anniversary Summit, which will deliver increased financial assistance to better-performing partners.

To ensure Syrian ownership of the implementation of the National Indicative Programme, the **EU strategy builds upon Syria’s own policy agenda**, in particular the 10<sup>th</sup> Five-Year Plan for 2006-2010. Objectives of the strategy directly target priorities set in Syria’s Five-Year Plan, such as decentralisation, economic and regulatory reform, education, health and the environment.

EU co-operation should **assist the Syrian government with the implementation of its ambitious agenda for transition towards a ‘social market economy’**. The EU value added in this area clearly stems from the experience of new Member States in managing the transition from centrally planned to market economy.

The strategy also **builds upon the provisions of the Association Agreement that can lead to closer integration with the EU**. The Syrian government used the agreement as a reference for developing its reform agenda and continues using it as a guide for the country’s modernisation process, even though it is not signed and ratified.

**The strategy takes full account of the political context of EU-Syria relations**, international obligations under the UN Security Council Resolutions, the relevant EU Council Common Positions and Resolutions and Syria’s commitments spelled out in the Euro-Mediterranean Programme. This includes extending political pluralism and citizens’ participation in political life, improvement of the situation of stateless people, civil society development, decentralisation/local democracy, respect for human rights and the rule of law.

## 2. THE CHALLENGES FACING SYRIA

### 2.1 Political situation

#### *Key political challenges ahead*

- **Internally:** Instigate the process of political reform; achieve good governance and separation of powers; strengthen the protection of human rights and develop democracy, while maintaining the remarkable diversity in society and peaceful inter-religious and inter-community relations.
- **Externally:** Improve relations with Arab neighbours; rebalance relations with Lebanon while consolidating ties with neighbouring countries; limit tensions with the US; deepen relations with the EU by taking steps to make the global political context favourable to signature of the Association Agreement; and work towards a peace agreement with Israel to solve peacefully the Golan issue after reciprocal confidence-building measures.

#### *Domestic policy challenges*

Syria is a socialist republic with a constitution that guarantees a leading role to the Baath Party. Syria has a **strong presidential system** with a powerful executive. The Syrian Parliament (People's Assembly) is elected by popular vote for a four-year term. The last parliamentary elections took place in 2003 and the next elections (parliamentary, presidential and local) are scheduled for 2007.

When President Bashar Al-Assad took office in July 2000 following his father's death, a change in the political landscape was expected by some parts of the population. Over the last five years, however, there has been **little change in the political legacy** Hafez Al-Assad left after his thirty-year term. The Baath Party, which enjoys the support of the military-security elite, still dominates Syrian politics. Decision-taking is in the hands of the President and a small circle of people around him.

At the 10<sup>th</sup> Baath Party Congress in June 2005, certain decisions on **political reforms** were adopted, but without specification of deadlines for implementation. A major cause for concern at the Congress was the potential social cost and unrest which could stem from the process of economic transition, with resultant negative consequences for the legitimacy and popularity of the regime.

The Congress did not order the repeal of the constitutional article that grants the Baath Party leadership of both society and state. Genuine **democratic participation** nevertheless remains a possibility, as a new multi-party law was announced at the highest level. It should allow for the licensing of independent political parties, with the exclusion of those formed on a religious or ethnic basis. In view of the forthcoming elections, the laws on parliamentary and local elections have also been amended. However, at this stage, the laws are only draft texts pending the government's approval.

In principle, the Syrian Constitution guarantees the main **human rights**, including freedom of religion. The latter is generally respected and religious minorities in Syria enjoy security and tolerance. However, problems with minorities do exist (especially stateless Kurds) and the **Emergency Law** in force since 1963 effectively limits citizens in the exercise of their civil and political rights guaranteed under domestic and international law. This includes freedom of speech, association, assembly and press. Economic, social and cultural rights are better protected than political and civil rights.

Though President Bashar Al-Assad mentioned the **right to freedom of speech** at his inauguration, the discussion forums that were subsequently established, notably by human rights activists, intellectuals and political opponents during a period called the 'Damascus Spring', were closed down by the following year.

Despite amnesties that led to the release of several hundreds of **political prisoners** in 2005, the overall policy towards political opponents remains repressive. Syria sometimes uses the fight against terrorism to disregard human rights, especially in the context of combating Islamist opposition (in particular, the Muslim Brotherhood since the 1970s). In July 2005, the UN Human Rights Committee (HRC)<sup>1</sup> recommended Syria to take firm measures to stop the use of incommunicado detention and eradicate all forms of torture and cruel, inhuman or degrading treatment punishment by law-enforcement officials, which are still regularly reported in the country.

The HRC was also concerned at the *de facto* reinstatement of death sentences and executions, the continuing detention of several human rights defenders and the **refusal to register certain human rights organisations**. In effect, since the Damascus Spring, the authorities have usually prohibited meetings of civil society representatives on the grounds that their associations are not officially registered.

The “Baath revolution” produced a **quantum leap in the situation of women** in Syria. Nowadays, women participate to a certain degree in political, judicial, academic, public and business life. However, the HRC notes that some discrimination against women continues to exist in law and practice in matters related to marriage, divorce and inheritance.

Syria is not party to the Geneva Convention and has no asylum procedures at national level. However, the government has a **positive attitude towards asylum seekers** and gives temporary protection to displaced persons. The authorities have not restricted the right of entry for Iraqi nationals since the 2003 US-led invasion (now totalling an estimated 600 000 according to UNHCR), nor did they restrict Lebanese nationals during the conflict of summer 2006 between Hezbollah and Israel. About 400 000 Palestinian refugees are registered with UNRWA in the country. They enjoy the same rights as Syrian nationals, with the exception of citizenship.

Even though the Constitution guarantees the independence of the judicial authority, the **judiciary** remains in practice under the control of the executive power and the security services. Military and state security courts under the Emergency Law coexist with the normal judicial system. The executive power does not respect the immunity of judges, who can easily be removed from their position and be impeached.

**Corruption** hinders the independence of the judicial authority as well as other parts of the administration and business circles. The President recently announced some measures to fight long-established practices, but these measures have not yet materialised in any significant way. Syria’s ranking in the Transparency International Index has deteriorated between 2005 and 2006 from 70 to 93 (out of 163 countries), which places the country below regional standards.

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<sup>1</sup> Syria ratified the International covenant on civil and political rights in April 1969. The UN Human Rights Committee issued its concluding observations on the last periodic report submitted by Syria on 9 August 2005 (reference: CCPR/CO/84/SYR).

## *Foreign policy challenges*

Syria aims as a priority at the recovery of the **Golan Heights** occupied by Israel since 1967 and pleads for the preservation of **Palestinian rights**, with particular emphasis on the right of return and full implementation of **UN Security Council Resolutions 242 and 338**. Despite renewed calls from the Syrian authorities to discuss the Golan issue with Israel, the dialogue between the two countries seems to be deadlocked, and increased tension can be felt on the Hamas/Palestinian issue. In the aftermath of the last conflict in Lebanon and in the new context of **UN Resolution 1701**, Israel and Syria are, however, considering options to resume the diplomatic dialogue.

The Lebanese parliamentary majority of June 2005 indicates that Syrian influence still permeates political life in neighbouring Lebanon, where Syrian troops were present from 1976. Syria's determination to extend Lebanese President Emile Lahoud's term triggered the adoption of **UN Resolution 1559** in September 2004, which called upon both the Syrian army and security forces to withdraw from Lebanon. The resolution also called for the disarmament of militia and the restoration of Lebanon's sovereignty and territorial integrity.

The assassination of former Prime Minister Rafik Hariri in February 2005 speeded up Syria's retreat from Lebanon. The withdrawal of troops was completed by April 2005. This happened in the wake of **UN Resolution 1595**, which called for the creation of an International Independent Investigation Commission under UN auspices (UNIIC) to investigate the killing. Damascus' reluctance to co-operate with the first investigation team headed by Prosecutor Detlev Mehlis has led to increased international pressure in the form of further resolutions. UNIIC interim reports by the new head of investigation, Judge Serge Brammertz, have acknowledged generally satisfactory co-operation by the Syrian authorities.

**Syria-US relations** have been deadlocked since the Iraq war, though a slight opening could be expected in the context of the conclusions of the Iraq Study Group. The US has lobbied to subject Syria to growing international isolation and started implementing sanctions in May 2004. Despite its declared co-operation in the fight against Al-Qaeda, Syria is on the US list of states sponsoring terrorism, because it supports Lebanese Islamist group Hezbollah and harbours radical Palestinian groups. Following Hariri's assassination, relations have further deteriorated.

Lebanon is also at the core of strained **relations between Syria and the EU**. Syria and the EU started negotiating a far-reaching Association Agreement in 1998. The agreement was formally initialled by both sides in October 2004 but has yet to be signed by the Member States among which there is presently no consensus to proceed further. One of the challenges for Syria is to overcome the obstacles that prevent the EU Member States from signing the Association Agreement. Once signed and ratified, a formal political platform for dialogue will be set up to discuss issues such as human rights and democracy, counter-terrorism, regional stability, trade liberalisation, approximation of legislation, cultural co-operation and wide support for economic and social reform.

*Please refer also to Annex 2 – Political chronology.*

## 2.2 Economy and trade

### *Key economic challenges*

Syria is a **lower-middle-income country** with an estimated GDP per capita of USD 1365, which is low by regional standards.

**The Syrian economy is highly reliant on the oil sector and, despite recent signs of resilience, remains in a precarious balance with major structural deficiencies.** Favourable developments in the international oil market, comfortable foreign exchange reserves and a manageable domestic and external debt have so far mitigated any sense of emergency by allowing the country to maintain a degree of macro-economic stability. However, the inevitable dwindling of national oil reserves leaves no room for complacency, as sustained high international oil prices will soon strongly affect the country, when Syria becomes a net energy importer within the next decade. The government is increasingly aware of its declining energy margin. It has recently focused on boosting the country's hydrocarbons sector through attracting foreign direct investment (FDI) and foreign technologies to improve the productivity of oil and gas fields and substituting oil with natural gas in domestic power generation. Such measures may serve only to delay an inevitable scenario resulting in potentially major fiscal and balance-of-payments shocks for the country.

In this general context, **preserving fiscal and external sustainability represents a complex and urgent macro-economic challenge** for the Syrian authorities.

The national economy is seriously constrained from achieving higher growth rates and remains in need of enhanced economic productivity, export competitiveness and economic diversification. The country has to **promote rapidly an alternative economic development model** based on increasing non-oil fiscal resources and private-sector development, while achieving sufficient economic growth rate to absorb rising job demand and increase living standards. To ensure an efficient transition from centrally planned to social market economy, the business climate and the functioning of labour market will have to be improved, on a par with further progress in structural reforms, particularly at the level of the public administration and the public economic sector. The government will also have to adapt its social safety net to the current changing economic conditions and design an efficient and comprehensive poverty reduction strategy to prevent excessive and chronic impoverishment of the most vulnerable layers of the population during the period of transition.

### *Macro-economic situation, private-sector development and status of reforms*

#### Economic growth

Real **non-oil economic growth proved resilient** in 2004-2005, exceeding 5% compared to 3-4% in 2002-2003. Building on the strong activity of the region, the country has benefited from large inflows of FDI from Gulf countries while improving its national export performances. Expansionary monetary policy has also contributed to this growth achievement with a not inconsiderable increase of domestic credit for private investment and consumption. Consequently, the country witnessed a **worrying inflation trend** with an annual CPI running at 7% at the end of 2005, compared to 4.5% in 2004.

#### Fiscal sustainability

**Syria's external debt stands at around 25% of GDP** with a debt-service to non-oil exports ratio slightly above 15%. Cumulated net foreign assets of the Central Bank and the public Commercial Bank of Syria represent a comfortable amount equivalent to 20 months of national imports. Recent improvements in the non-oil budget balance have partly offset the decline in oil fiscal revenues

stabilising the overall annual budget deficit at around 4.5% in 2005. However, petroleum and petroleum-derived products continue to represent more than two-thirds of exports and oil-related fiscal revenues still account for more than 45% of the total state budget. The surge in international oil prices in 2005 provided the country with a timely but short-term windfall, containing the loss of foreign exchange reserves and delaying the irremediable deterioration of the national oil balance that has already halved in 2005 compared to 2004.

The **low level – by international standards – of the national tax-to-GDP ratio** estimated at 10.5% leaves considerable room to increase taxes without impeding economic development. The government has demonstrated a **strong commitment to a comprehensive fiscal reform and consolidation process**. Priorities focus on upgrading and streamlining tax and customs administration, establishing a large taxpayer unit, simplifying the income tax regime and introducing efficient indirect taxation through the establishment of broad-based VAT by 2008. While these efforts should contribute to widen the tax basis in the medium term, **the bulk of non-oil fiscal resources at present still derive from public enterprises**, for which uncertainties remain regarding long-term economic and financial viability as well as transparency of accounting standards. Consequently, without rapid achievements in the fiscal reform process, the present situation still raises doubts about the sustainability of the country's fiscal position.

### Structural reforms

While being a prerequisite for a successful comprehensive reform process in a context of widespread government intervention in the economy, limited progress was achieved in **streamlining public administration and public expenditure management** as well as in **restructuring state-owned enterprises**.

An overstaffed and inefficient civil service remains a major impediment to effective economic management, regulatory policy and reform implementation by the government institutions. Public expenditure policy is particularly weak, stemming from the absence of clear sectoral policies and the **lack of a medium-term expenditure framework** and activity-based budget management.

State-owned enterprises continue to benefit from a monopoly position in a number of sectors including oil and gas production, utilities and infrastructure and some strategic key supply chains in the agriculture and manufacturing sectors. Facing a **soft budget constraint** and benefiting from preferential credits as well as direct and indirect subsidies, these enterprises drain substantial public resources and often hinder the development of the private sector. The large amount of quasi-fiscal activities is also contributing to the lack of transparency and poor management of the state budget.

**Public enterprises generate around 30% of GDP**, mostly in oil extraction and financial services. Considered as capital-intensive, they employ some 300 000 people (7% of the total national employment), a relatively low figure by regional standards and in comparison with the 900 000 civil servants. Agriculture (35% of non-oil GDP) and non-financial services (45% of non-oil GDP) are now the preserves of the private sector.

The government has recently moved towards **deregulating state-owned companies**. Recent laws grant state-owned enterprises more managerial flexibility and autonomy and introduce principles of corporate governance. A bill introduced in June 2001 allows international companies to take over the management – but not the ownership – of Syria's state-owned industries with a view to making them profitable. In an attempt to reduce further the expansion of the public economic sector, the government has also decided that any new investment in a public company will be assessed according to economic and financial viability criteria.

The existing **blanket price subsidies represent a costly and inefficient system** estimated at around 15% of GDP. While the government has taken some steps to reduce the level of subsidies especially for electricity and gas, the overhaul of such a system should be fully integrated into a comprehensive fiscal reform process. However, this process will give rise to substantial social costs

for the most vulnerable layers of the population. The government has recently delayed further reductions and is increasingly aware of the urgent need to set up a targeted and efficient social safety net.

#### Private sector development and business climate

**Developing the conditions for job creation is one of the main challenges for the Syrian authorities.** Future prospects are worrying in view of the estimated 300 000 new entrants on the labour market every year over the next ten years.

**The absorption capacity of the labour market depends largely on business opportunities,** expansion of the national economic activity and export competitiveness. However, the development of the private sector needed to create the required growth and boost employment in the non-oil sectors is hampered by a **poor business climate.** Enterprises face cumbersome registration procedures, pervasive controls and bureaucracy, high entry and exit costs, a tardy judicial system, poor infrastructures and a persistently unfavourable regulatory framework entailing restrictive and complex trade and exchange regimes, the existence of several non-trade barriers and the weak enforcement of property rights. The latest World Bank Doing Business ranked Syria 121 out of 155 countries. The country performs far below neighbouring countries such as Jordan (74), Turkey (93) and Lebanon (95). Similarly, the 2004 UNCTAD World Investment Report ranked Syria 121 out of 140 countries according to its FDI Performance Index. The FDI stock represents around 10% of GDP, confirming that a more conducive investment climate is urgently required if Syria wants to be competitive by regional standards and integrate successfully into global trade and economy.

Private-sector development is also restrained by **limited access to credit,** due to prohibitive interest-rate conditions and lack of capital market and related capital venture operations. Loans to the private sector remain a small fraction of overall lending, essentially directed to the State. The investment rate by the private sector has been only 9% over the last decade, with bank loans to the private sector accounting for a mere 15% of GDP, against a regional average of 38%. Despite these difficulties, the private sector contributes to 60% of GDP. While the well-established private enterprises have often relied on the Lebanese banking sector and other off-shore financing sources to obtain foreign currency credit at high costs, the emerging SMEs and family-based businesses cannot afford such costs and have had to find alternative sources of funding to create or expand their activities, relying heavily on self-financing.

Access to foreign currency credits to finance trade operations has nevertheless improved with the landmark **changes in the banking sector.** Private banks were established in 2004 and the liberalisation of the financial and insurance sectors has started. A comprehensive restructuring of the public banking sector, the completion of exchange rates unification and full current account convertibility still have to come, though. Delays in establishing an enabling regulatory environment for banking procedures and developing modern and flexible monetary policy instruments still prevent the banking sector from channelling the existing national and offshore savings towards private productive investments. The government has announced a comprehensive restructuring of the public finance sector, the completion of exchange rates unification and full current account convertibility, more autonomy to the Central Bank, the creation of a treasury bonds system, the implementation of international standards (Basel II), and the rise of the minimum capital and foreign ownership ceiling of Syrian banks. In addition, the national monetary authorities are discussing the creation of a stock exchange, but important prerequisites remain as regards the transparency of corporate accounting standards and the business regulatory framework.

Syria signed the **Euro-Mediterranean Charter for Enterprise** in October 2004 and undertook to give priority to simple procedures for enterprises, education in entrepreneurship, easier access to finance, and better market access. This commitment has materialised through the integration into

the Five-Year Plan 2006-2010 of the Charter principles, which provide the government with guidelines for pro-SME and private-sector development policies.

### Trade developments

**Syria's trade balance remains highly exposed to global fluctuations in commodity prices.** Petroleum and petroleum-derived products continue to represent more than two-thirds of exports, while non-oil exports are stagnating at around 15% of GDP. The lack of diversification and competitiveness of the Syrian export industry, the surge in imports arising from the trade liberalisation process and the progressive decline in the export of mineral fuel and oil products resulting from the gradual depletion of the country's oil reserves will continue to put pressure on the national trade balance.

Over the past years, **the government has made trade liberalisation a key element of its reform agenda**, along with Syria's participation in the Great Arab Free Trade Area and the negotiation of an Association Agreement with the EU. Moreover, Syria recently renewed its application for membership of the World Trade Organisation (WTO).

The country has initiated the **modernisation of its customs administration and the simplification of customs procedures**, with support from the EU and the UN. The World Bank and the IMF have provided assistance to streamline the new customs code, which should soon be enacted. Since 2004, the country has dramatically reduced its customs duties with the elimination of prohibitive peak tariffs as well as the number of tariff bands.

However, trade liberalisation needs further progress, if the country is to fulfil its future WTO obligations. Syria's overall **trade regime remains restrictive by international standards**. Syrian traders face pervasive non-trade barriers, restrictions on current and capital transfers and cumbersome trade licensing procedures. In addition, the remaining public trade monopolies affect negatively the trading activities of the private sector. The national trade-related legislation still lacks transparency and is often not publicly available. Trade facilitation should be further enhanced.

The trade liberalisation process will have to be accompanied by **an active national export promotion policy** to unlock the export potential of the Syrian private sector and enhance the trade and investment competitiveness of the country in the region.

**The EU is Syria's main trading partner**, although the share of the EU in Syria's exports and imports has decreased significantly in the past years (respectively, from 60% and 35% in 2001 to 23% and 19% in 2005). Most exports to the EU are oil-related (85%), although cotton exports have increased markedly.

**Syria has developed new markets in recent years** and engaged in bilateral preferential agreements with a more diverse group of economic partners including Turkey, Russia, China, Iran, India and Ukraine. Geographical patterns of trade flows have shown more integration with Arab countries as a result of the full implementation of the GAFTA. These countries represent the primary market for non-oil Syrian exports (35% of total Syrian exports), while accounting for close to 17% of total Syrian imports (Saudi Arabia, Egypt and UAE being the main partners). The Asian countries have considerably strengthened their position as suppliers to the Syrian market, representing around 28% of total Syrian imports.

**A Free Trade Agreement with Turkey** will enter into force in 2007. It may have a significant impact on the economy, since Turkey is Syria's second trading partner after the EU and trade with Turkey represents 11% of Syria's total trade.

### 2.3 Social development

Ranking 106 out of 177 on the global Human Development Index (HDI) of the 2004 Human Development Report, Syria falls within the category of '**medium human development**'.

**In the last four decades, Syria has made significant progress in many areas of human development.** Trends in the HDI for Syria show a steady increase over the last 25 years and, between 1985 and 2003, the country's HDI rose from 0.611 to 0.710. In terms of basic indicators<sup>2</sup> such as life expectancy, primary school enrolment rates, immunisation rates and infant and child mortality, as well as related gender indicators, including women's political participation, conditions in Syria are significantly better than in most developing countries.

**However, these positive developments may not be safeguarded,** as Syria embarks on its economic reform programme and comes to terms with its diminishing oil reserves. There is a risk in both the short and medium term that the most vulnerable will be left behind.

According to the UNDP the incidence of poverty (national poverty line of two dollars a day) has decreased from 14.3% in 1996-1997 to 11.4% in 2003-2004, **but economic growth in Syria has not favoured the poor and has raised inequalities**<sup>3</sup>. 30% of the population are presently just above the poverty line and can satisfy a reasonable level of basic needs.

Poverty is generally more prevalent in rural than in urban areas. The greatest differences are geographic with the **Northern and North-eastern regions being the poorest**. The level of education correlates strongly with poverty risk and unskilled workers or people who are self-employed in marginal and unskilled activities are most likely to be poor.

With a large proportion of the population clustered around the poverty line, **even small changes in growth and income distribution may have a significant impact on poverty figures**. This explains why the removal of the current system of government subsidies for some food commodities and energy prices is a matter of great concern. In addition, the fiscal sustainability of present public policies entailing free education and health-care services is questionable.

**The existing social safety net is costly and inefficient, as it is badly targeted.** It cannot manage the poverty risks deriving from the country's economic transition process. In the absence of efficient targeting mechanisms, a well diversified portfolio of services and appropriate institutional and delivery mechanisms, the official social safety net has been supplemented with an informal system of social protection provided by family, local community and confessional organisations.

**The government will have to design an efficient welfare and human capital policy** to go hand in hand with the economic transition and avoid excessive and chronic impoverishment of the most vulnerable.

**The labour market in Syria faces strong supply pressure.** Unemployment is high, there are many new entrants and reform of the public sector is likely to result in an additional influx of civil servants made redundant. Official estimates put the unemployment rate at around 12% (2004), but 16% is a more realistic figure, with a rising trend especially in youth unemployment. With 35 % of the population younger than 14, the labour force growth rate should average 4% during the next

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<sup>2</sup> Primary education completion rate is estimated at 95% for boys and 88% for girls (UN Millennium Development Goals 2001), while literacy rates for the age category 15 to 24 are 93% for women and 97% for men (MDG 2004). National health indicators such as life expectancy (71.7 years), infant mortality rate (19.3 per 1 000), and maternal mortality (65 per 100 000) illustrate the success of Syria's primary care system.

<sup>3</sup> The Gini coefficient rose from 0.32 to 0.37 between 1997 and 2004. In 2003-2004 the bottom 20 percent of the population consumed only 7 percent of all expenditure in Syria while the richest 20 percent consumed 45%.

20 years. Despite this critical situation, reforms have so far been disappointing. Furthermore, the labour market is rigid. Employers' rights to lay off workers for economic reasons are limited and there are detailed regulations on minimum wages across sectors, and large non-wage benefits in the public sector that discourage mobility. Syria is a labour-exporting country. Skilled workers emigrate mainly to the Gulf countries and non-skilled Syrians often do seasonal work in agriculture in Lebanon and Jordan. The refugee crisis in the region adds to the pressure on the Syrian labour market. If adequate incentives were designed, the Syrian diaspora could help the country's transition to a more open and competitive economy through its remittances, investments and skills.

**The education system**, including vocational and technical training, **must be significantly upgraded to better match the needs of the national labour market** and improve the qualitative skills of the labour force. During the past three decades, education policies in Syria have aimed to offer free and democratic education for all. Despite notable progress, further improvement is required in the enrolment and continuance ratios as well as the quality of education. Better synergy between the education system and the labour market is now needed to enable the work force to acquire more easily and quickly to the skills that are in demand. Participation of the private sector in the reform would make the education system more responsive to the needs of the economy. Raising the qualifications of the Syrian labour force to make it more adaptable and attuned to technological developments is also essential for the competitiveness of the country in the region and its capacity to attract FDI.

**The government has already taken steps to develop active labour market policies**, including a labour market observatory, apprenticeship training schemes and upgrading of the national system of technical and vocational education and training. In 2002 it created the Agency for Combating Unemployment (ACU). The ACU provides entrepreneurship training, micro-credits and a guaranteed employment programme. It has also set up public employment offices. The ACU was replaced in September 2006 by the Public Commission for Employment and Projects Development (PCSPD). **However, in the absence of real and comprehensive employment and education strategies, including a strategy for life-long learning, these initiatives cannot fully address the country's daunting employment challenge.**

*Please refer also to Annex 3 – Selected economic and social indicators.*

## **2.4 Energy, transport, environment, information society and media**

### ***Energy***

**Syria is an oil and gas producer.** Oil output and production have been declining steadily since 1996, due to a depletion of reserves and an outdated infrastructure. Production peaked at 590 000 barrels of oil a day (bbl) in 1996 and decreased to an estimated 414 000 bbl in 2005. While domestic consumption rises, Syria may become a net oil importer within a decade. Developing the gas market is at the core of the government's strategy, starting with the substitution of natural gas for oil in power generation to free up oil for exports. Natural gas offers Syria scope for future production and exports – marketed gas production amounted to about 5 billion cubic meters in 2005 and is forecast to reach 10.5 billion cubic meters in 2010 and 11.8 billion cubic meters in 2015.

**Syria is emerging as an energy transit country for natural gas.** Syria is a member of the regional consortium that is developing the so-called 'Arab gas line', an onshore pipeline network that already delivers Egyptian gas to Jordan and will later carry it to Lebanon and Syria. This pipeline could transport gas to Turkey and – provided that the ongoing gas pipelines from Turkey to the EU are completed, in particular, the Caspian/Middle Eastern-European pipeline known as Nabucco – Syrian and Egyptian gas could flow to the Balkans and to the EU. Syria will further become a transit country for natural gas originating from Iraq.

Syria is also part of an EU-sponsored initiative aimed at integrating the gas markets of Egypt, Jordan, Lebanon, and Syria and creating a **Mashrak internal market**, which could at a later stage be integrated into the EU internal gas market.

There is considerable **potential in Syria for the use of renewable energy sources** –wind and solar – **as well as for improved energy efficiency and energy savings.**

### *Transport*

Syria has the strategic **potential to become a regional transport hub.** Its ports could act as Mediterranean gateways for overland routes to Iraq, Iran and Central Asia. Syria is also placed on the north-south route connecting Turkey and Europe to the Gulf. However, massive investment is required to upgrade and modernise facilities. While the ports are being modernised, given the importance of seaborne commerce to the country's foreign trade, serious constraints in the provision of road and rail facilities eastwards hamper the capacity of Syria to become the major conduit for West-East trade. Syria participated in the High Level Group on the extension of the Trans-European Networks to neighbouring countries. Among the priority axes proposed by the group, one links Syria to Turkey and Jordan up to Egypt, including branches connecting Tartus to Homs and Beirut to Damascus.

The government's policy aims at promoting the private sector and developing stronger **public-private partnerships.** The Build-Operate-Transfer (BOT) system is increasingly used for airports and ports as well as for several ambitious infrastructure projects involving railways, highways and the airline. Nevertheless, **deficiencies in the regulatory and legislative environment** still act as a hindrance. The national transport sector is still primarily state-run and the current procedural system is not conducive to the promotion of modern management methods and private-sector involvement.

The Ministry of Transport has prepared a **draft transport strategy running until 2020**, which is currently under review and should use as a reference the EC White Paper on the transport sector. The strategy covers air, maritime, rail, road and urban transport, and gives a prominent place to BOT arrangements for new investments. The document should also acknowledge the need to provide a sound and attractive business environment for private-sector operators to participate in the provision of transport services under the rules set out and monitored by the competent public-sector regulatory bodies. The Five-Year Plan for 2006-2010 seeks also to boost the share of transport in GDP to 15% and should earmark an increasing amount for investments in the sector.

**Syria participates in the Euro-Mediterranean co-operation on transport** (Euro-Med Transport Forum and its working groups) as well as in the various regional projects on transport funded under the MEDA programme. The further development of the transport sector, transport reform and the better interconnection of Syria with Europe as well as with its neighbours are among the priorities. During the first Euro-Mediterranean Ministerial Conference on Transport that took place in Marrakech in December 2005, Ministers adopted the priorities for the transport sector in the coming years, on the basis of the recommendations of the Blue Paper on Transport in the Mediterranean Region and the recommendations of the High Level Group Report. These include: institutional reform, realisation of missing interconnections, maritime reform and maritime safety and security, development of a multimodal transport system, promotion of regulatory convergence and technical co-operation on aviation sector, and involvement of Mediterranean partners in Galileo.

### *Environment*

Syria faces serious natural and man-made environmental problems that need to be addressed immediately. The most pressing ones are related to **water scarcity and contamination, soil degradation, air pollution, inappropriate solid waste treatment and disposal, biodiversity loss and coastal and maritime pollution.**

Economic expansion, urbanisation, the high rate of population<sup>4</sup> growth and changing consumption patterns have led to more industrial activity, higher energy demand and more waste. This in turn has led to **overuse and pollution of the scarce natural resources, especially water**. The disposal of untreated urban and industrial waste water, oil slicks from refineries and oil terminals and the management of solid waste represent major challenges. Environmental degradation is now affecting the health and economic productivity of the population. The incidence of environment-related disease is high and the costs of environmental degradation are estimated at 5% of GDP<sup>5</sup>.

All these increasing pressures on the natural resources and their degradation have pushed the government to take some **legal and institutional measures**, among which the adoption in 2002 of a National Environment Law as well as of a National Environment Strategy and Action Plan prepared in collaboration with the World Bank and UNDP. However, little progress has been made in the adoption and implementation of secondary legislation and sector strategies. This, together with awareness raising of environmental priorities, is the main task of the Ministry of Local Administration and Environment, which was created in 2003 from a merger between the Ministry of State for Environmental Affairs and the Ministry of Local Administration.

Syria has ratified a number of **international and regional conventions**. It acceded the Kyoto Protocol in 2006. Syria needs to design and adopt executive regulations to meet its international commitments.

*Please refer also to Annex 4 for more details – Country Environment Profile.*

### **Information Society and media**

Syria still ranks poorly according to the International Digital Access Index (DAI) but the **country has made real progress in the IT sector** with the strong backing of the President. The Information Society is becoming a reality, with the completion of the Public Data Network at the end of 2005. In mid-2005, the Internet penetration rate was still low at 3.3% but the number of Internet subscribers in Syria was expected to grow by 25% annually over the period 2005-2009. Syria also recorded the highest growth rate of Internet subscribers in the region between 2000 and 2005, as the ruling state monopoly began relinquishing control over the Internet service providers and an increasing number of new licenses were granted to private groups.

While more competition is still required in the sector, **Internet access remains costly for the average Syrian as well as for businesses**. Consequently, the ISDN line penetration remains extremely low, with only 18% of available lines rented to individual consumers.

Despite the promulgation in 2005 of a draft law establishing an independent regulatory body for information and communication technology (ICT), this authority has not yet been created. **Syria's electronic communications sector is still lacking a comprehensive regulatory framework and more competition in the telephony market, which is necessary to foster investment**.

Increasing the telephony density rate to 20% by 2007 and boosting Internet use to 30% by 2013 are among the goals set by the Ministry of Communication and Technology in its **2004 strategic plan**. This would require a large amount of new investment in infrastructure and human resources.

Less than a third of national schools are connected to the Internet, but new certified and licensed ICT training institutes and universities have been established since 2005 with curricula focusing specifically on IT. Plans to set up technology incubators that would provide an impetus for a stronger and home-grown IT industry are also being considered. With a view to improving the **low**

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<sup>4</sup> Over 65% of the population lives in major cities (Damascus, Aleppo, Homs and Hama) located in the west and along the coastline, while the rest of the country is sparsely inhabited.

<sup>5</sup> The cost of environmental degradation in Syria was calculated by UNDP, taking into consideration indicators such as medical care, hospitalization and days off work related to air and waterborne diseases, loss of amenity, costs of water with decline of the aquifers, or loss of agricultural land.

**e-government index**, the national authorities, with the support of the EU, have developed several projects including the ‘**e-Government Gate**’ aimed at offering by 2008 the first public online e-government applications.

Awareness has increased among the government and the private sector about the need to **step up research and innovation-related activities** (currently at a close-to-zero percentage to GDP). The Five-Year Plan envisages measures to foster the creation of innovative firms and R&D centres, including through better involvement of the universities and the development of technology parks and incubators. This will complement current but still insufficient efforts to bring the regulatory framework on intellectual property, trademarks, patents and licences into line with international standards and conventions.

## 2.5 Conclusions

**Reform has become a strategic imperative for Syria.** The challenges facing the country can be summarised as follows:

- Initiate a process of democratisation (starting with local elections); strengthen the rule of law; and increase the protection of human rights.
- Improve institutional governance; build the capacity to implement reforms; improve the performance of public services; and continue the decentralisation of decision-making.
- Improve economic governance; allocate resources more efficiently through better fiscal management and rationalisation of budgetary expenditure; drastically simplify regulations and administrative procedures that impede private-sector development; remove the barriers to trade and investment; promote the diversification of exports; and fight against corruption.
- Manage the economic transition; create the conditions for sustainable, private-led economic growth; restructure state-owned enterprises; and develop a well-targeted and efficient social protection system to accompany economic reforms.
- Pursue the reform of the human resource development system; reduce the mismatch between available skills and the needs of the labour market; foster the use of ICT; increase women’s opportunities to receive higher education; and promote life-long learning.

### 3. THE SYRIAN GOVERNMENT'S REFORM AGENDA

#### 3.1 The Tenth Five-Year Plan (2006-2010)

Syria adopted its reform agenda, the Five-Year Plan (FYP) for 2006-2010, by Law No 25 on 8 May 2006. Approval followed a wide consultation process involving governmental institutions, the Baath Party, non-state actors such as the Chambers of Commerce and Industry, and the People's Assembly (parliament). The government also discussed the draft plan with donors.

**At this stage, political reform does not feature highly on the government's agenda, which focuses almost exclusively on the emergence of local democracy.** The 10<sup>th</sup> Congress of the Baath Party in June 2005 endorsed measures such as the relaxation of the Emergency Law, the adoption of new laws on political parties and on NGOs as well as the granting of citizenship to the 120 000 stateless Kurds, but without specific deadlines for implementation. Moves towards a more open and inclusive political system are ruled out for the moment, owing to security concerns.

The FYP focuses on economic and social reform and **addresses most of the challenges highlighted in point 2.5.**

The FYP contains a number of **innovative guiding principles**, such as the promotion of a partnership between government, the private sector and civil society, the principle of decentralisation of decision-making, and the use of indicative planning.

The FYP is presented as a first step towards implementing the government's vision **for the future of Syrian society**. It proclaims that, in the next two decades, Syrian society should become self-reliant and opened up to the outside world, modernised and democratically mature and should have an effective institutional system and solid enabling environment conducive to achieving sustainable economic development and growth. Long-term objectives include social justice and welfare and empowering women in society.

The FYP departs from its predecessors in that it aims to **mark the transition to a 'social market economy'**. The Syrian government's economic policy has until now been one of centralised and compulsory planning. In the 10<sup>th</sup> FYP, the government sets out to make the transition to a social market economy with an indicative planning policy. The economic policy will fully rely upon **market mechanisms** of supply and demand to achieve a more efficient distribution of resources and economic activities, but will continue to place a strong emphasis on government intervention. The government will no longer dominate or control investment and market activities, but will work towards creating an environment for free activities and competitiveness, while ensuring that market players behave responsibly.

The government acknowledges that this new policy can only be implemented through a partnership between government, the private sector and civil society. The central government must formulate long-term strategies, uphold economic, social and political rights and provide quality services. Abandonment of centralised planning implies **decentralisation of decision-making**.

**Local governments** must participate in the formulation and implementation of local and national development plans and organise local society together with representatives of the private sector and civil society. The **private sector** must increase production, investment, and its contribution to state revenues and must work towards equitable relations between employers and employees. **NGOs and civil society** have an important role to play in the implementation of social reform and training

programmes. To prevent corruption and exploitation they must also monitor market conditions and government officials who provide direct services to the people.

**Promoting the role of the private sector as an engine for economic growth** is a recognised priority of the 10<sup>th</sup> FYP. The FYP aims to create an appropriate environment for private business activities, orient national savings towards effective participation in investment and productivity, attract foreign direct investment and activate the institutional participation of the private sector in economic growth (e.g. through the creation of an export promotion agency).

The prime **economic objectives** are to target an annual economic growth rate of 6-7% and to double per capita income. This is to be achieved by way of industrial modernisation and, by the end of the 10<sup>th</sup> FYP period, the industrial sector should account for 20% of GDP. Economic reform is a major concern in the 10<sup>th</sup> FYP, given the scant progress made since 2001 in opening up the economy to free trade and in giving private enterprise a more prominent role in economic development.

**Macro-economic policies** will seek to maintain foreign exchange at an acceptable level and reduce the commercial deficit and the deficit in the current account by diversifying exports both geographically and in terms of commodity (i.e. increasing non-oil exports). The aim is to provide stability to the exchange rates and to manage the foreign sector in accordance with the conditions of the EU-Syria Association Agreement, WTO and GAFTA.

The FYP takes account of the need to raise economic growth rates and GDP volume but gives priority to the motto 'Human Development First, and nothing less'. The government has stated that the achievement of high growth rates at the expense of social welfare or the environment must not be tolerated and that the **creation of social safety nets** during and after the transition is fundamental and central to its reform strategy.

In line with its commitments to reaching the UN Millennium Development Goals, the government will also give **priority to reforms in the education and health sectors**, aiming to develop and expand general, vocational and technical public education. It wishes to achieve the principle of 'Education for Everyone' and increase women's opportunities to receive higher education. The reform of the education system aims to produce a highly qualified labour force and to adopt teaching techniques that are based on dialogue and are designed to help developing the critical mind.

According to the Syrian authorities, translating the objectives of the FYP into reality requires a **reform of the public administration**. The reform will entail *inter alia* a functional and organisational review of the main public administrations, the establishment of change management plans for key ministries and the shift towards a decentralised government administration. The central government will also consider asking social organisations, NGOs and the private sector to perform some of the tasks it traditionally carries out itself.

The financial resources necessary for implementation of the FYP should become available through a gradual increase in tax revenues from 10% to 16% and through **revamping the budgetary expenditure system** to reduce waste and increase transparency and efficiency.

### **3.2 Constraints on implementation**

While having already initiated incremental reforms since 2003, the government, through the adoption of the Five-Year Plan, has acknowledged the comprehensiveness of the reform process. The FYP paves the way for tackling most of the challenges in the economic and social realms. However, **this broad strategy needs to materialise through time-bound, prioritised and concrete policy actions**. An executive programme is needed to define more clearly projects, budgetary allocations, responsibilities and indicators. Following the adoption of the FYP, the Syrian Cabinet has been discussing the contents of such a programme for 2006-2007.

The **need for baseline data and accurate statistics** will have to be addressed to provide appropriate analytical information for policy-makers. It will help the government monitor the implementation of the plan and communicate about achievements of policies and projects.

For a successful implementation of the FYP, **a true national commitment of both the authorities and civil society is indispensable.**

#### **4. THE LESSONS LEARNT FROM EC CO-OPERATION IN SYRIA**

##### **4.1 Overview of past and ongoing EC co-operation programmes**

###### *Priorities of EU assistance to Syria in the period 2000-2006*

**The EU is the main donor in Syria.** A total of €97.5 million was committed to bilateral co-operation with Syria under MEDA I (1995-1999) and €189 million under MEDA II (2000-2006). In addition, since 2000, a total of €925 million in loans of the European Investment Bank (EIB) has been committed for Syria.

Most **EIB loans** run in parallel with major EU-funded technical assistance projects. EC projects have worked as loan catalysts, making synergies and inter-institutional co-operation possible and productive. The EIB's focus is mainly on large infrastructure projects, but as of 2004 it also began extending loans to SMEs.

The Country Strategy Paper for 2002-2006 identified **five priorities**: (i) institution building; (ii) industrial modernisation; (iii) human resources development; (iv) trade enhancement; and (v) human rights / rule of law / civil society. The assistance provided has focused on the first three priorities.

Aid has taken the form of **technical assistance and policy advice**. Sectoral support was not envisaged for lack of a clear commitment to reform. Budget support is not yet possible in view of the inadequate public expenditure management.

In view of the all-embracing Barcelona Process, co-operation covers a very wide range of policies. In addition to the bilateral co-operation programme, Syria is participating in several **MEDA regional projects**, although its participation is cautious and not systematic. Syrian officials sometimes fail to be present at meetings because of political sensitivities, especially concerning the host country of meetings.

Regional co-operation has addressed political and economic research, investment promotion, statistics, internal market mechanisms, justice and home affairs (migration, police and judiciary), environment, transport, energy, maritime safety, information society, inter-university co-operation under TEMPUS, audio-visual, cultural heritage protection and development of youth exchanges and cooperation in the youth field and technical and vocational education and training (ETE MEDA programme) in the Mediterranean region. Several thematic programmes have also reached Syria, such as the European Initiative for Democracy and Human Rights.

**Regional projects help increase coverage of the policy mix** in key sectors where there are no ongoing bilateral projects, including in the areas of justice, investment promotion or innovation.

###### *Ongoing co-operation*

The ongoing co-operation already provides support for the policies the Syrian government has set out in its 10<sup>th</sup> Five-Year Plan.

The EU is providing assistance to support **public administration reform**. The 'Institutional and Sector Modernisation Facility' (ISMF) assists ministries in the development of reform programmes and sectoral policies. ISMF provided extensive support for the preparation of the Five-Year Plan.

The 'Municipal Administration Modernisation' (MAM) project supports the devolution process and capacity-building in the Ministry for Local Administration and Environment and the municipalities.

The EU has been supporting **private-sector development** in Syria for over ten years, with the objective of increasing SME competitiveness and the efficiency of business support institutions. This support is an essential element of the transition toward a market economy and the integration of Syria into the Euro-Mediterranean Free Trade Area. The EU has funded the establishment of a 'Syrian-European Business Centre' (SEBC) in Damascus and Aleppo, which has provided useful services to SMEs for 10 years. The EC will ensure its sustainability through transformation into a fully-fledged SME agency under the 'SME Support Programme'. The 'Banking Sector Support Programme' backs the ongoing reform of the financial system and aims at facilitating access to finance for the private sector. The 'Programme for Strengthening Quality Management, Capabilities and Infrastructure' will promote quality at the policy, institutional and enterprise levels. Finally, the 'SME Fund' developed by the EIB will finance capital investment projects for Syrian SMEs through local banks.

With its assistance to **education**, the EU puts emphasis on higher education and vocational education and training (VET). It is shifting from the project approach, with the 'Higher Institute for Business Administration' (HIBA) aimed at establishing a national and regional centre for management education, to a sectoral approach through a programme supporting the reform of higher education. Preparation of the 'Upgrading the Higher Education Sector' project led to capacity-building exercises in the Ministry of Higher Education, with a high level of participation from the different directorates. The 'Modernisation of Vocational Education and Training' will improve the responsiveness of the VET system to labour market needs. This programme has initiated co-ordination between the different line ministries concerned and also triggered dialogue and co-operation between the VET providers in the public and private sectors. The Tempus programme has provided considerable support to the modernisation and the reform of the higher education system in Syria through the funding of co-operation projects with EU higher education institutions.

The EU also provides assistance for reform and capacity-building in the **health** sector. The 'Health Sector Modernisation Programme' has helped with the development of a national health strategy, which addresses key issues such as sustainable health financing and health insurance, human resource development and management in the Ministry of Health, and the introduction of a system of quality management and accreditation. In 2004, the EIB provided a loan of €100 million in a €333 million programme prepared by the Ministry of Health for the construction, equipment and functioning of 18 hospitals across Syria.

The country's **infrastructure** receives considerable support through a combination of technical assistance projects and EIB loans. Overall, projects emphasise a need for technical assistance for ministries and authorities to transform their role from managers of networks into regulators. For example, the 'Telecommunication Sector Support Programme' has produced a restructuring plan for Syrian Telecom, which will pave the way for its corporatisation and for the creation of an independent regulator in the telecommunications sector. The EIB has provided €100 million to expand the telecom network in rural areas. The 'Power Sector Action Plan' launched a comprehensive reform of the financial management and accounting of the authorities in charge of electricity generation and distribution. The project also laid the groundwork for EIB involvement in €400 million financing of two new power plants and an additional €190 million for upgrading of existing equipment.

In the area of **energy**, assistance is also provided through regional projects managed from Syria, which have expanded the bilateral energy dialogue to natural gas and energy efficiency. It includes the creation of a 'Euro-Arab Mashrak Gas Market' with a Financing Agreement signed by the Syrian authorities on behalf of Egypt, Jordan, Lebanon and Syria. This project provides for the preparation

of a gas master plan, develops studies on key infrastructure, contributes to the harmonisation of the legal and regulatory framework and establishes a regional co-operation centre in Damascus for information exchange in the gas industry. MED-ENEC is a project associating all Mediterranean partners and aimed at promoting energy efficiency in the building sector.

The 'Water Supply and Sanitation in Palestinian Refugee Camps' is a project, which promotes healthy living conditions in two Palestinian refugee camps, by integrating the camps into the regional water supply and **water treatment** system. The EU has also made available a €5 million interest-rate subsidy for a €45 million EIB loan to build water supply installations and waste water treatment plants integrating these two Palestinian refugee camps into the regional water system.

In the area of the environment, limited assistance is also provided under the **Life-Third Countries** programme – which assists with the development of environmental policies and action programmes in countries bordering the Mediterranean and Baltic Seas. A small project started in 2004 is supporting the introduction of Agenda 21 at rural level. Another project selected as part of the 2006 budget aims at helping the Syrian Environment Protection Society implement a strategy for sustainable solid waste management in Syria.

*Please refer also to Annex 5 – EC co-operation with Syria – and Annex 6 – EIB co-operation with Syria.*

## **4.2 Key lessons learnt from the 2002-2006 Syria Country Strategy**

Overall, the Syrian government has improved its **absorption capacity** during the period.

However, several constraints<sup>6</sup> have hampered the effective implementation of projects and caused delays. These related to:

- the **lack of a consistent strategy** for economic reform (e.g. this was the case at the stage of preparation of the banking sector support programme and the modernisation of the Ministry of Finance);
- the **over-ambition and complexity of some programmes** (e.g. the Health Sector Modernisation Programme);
- the **lack of co-ordination** that has caused difficulties in the implementation of programmes requiring cooperation between Ministries or between the central and the local levels;
- the **lack of experience of the Syrian administration in managing international co-operation projects**;
- the **lack of responsiveness of Syrian operators to local tenders**, leading to the use of international tenders, which are time-consuming.

The Delegation is trying to solve administrative difficulties by organising specific training and information sessions in project management and tendering practices.

There are also **difficulties in finding good experts**, especially long-term ones. Several projects had to reshape their technical assistance and/or lacked continuity. In the identification of new programmes this issue has been addressed by limiting the number of long-term experts. In addition, local expertise is scarce.

For all the above-mentioned reasons, **particular attention needs to be paid to the institutional settings of the programmes.**

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<sup>6</sup> Most of these constraints are analysed in an 'Evaluation of economic co-operation between the European Commission and Mediterranean Countries' conducted in 2003 by ADE in association with IBM and EPU-NTUA– See Country Report: Syria in Volume 2: Annexes.

Despite all the difficulties, through its wide-ranging assistance portfolio, the Commission has laid the groundwork for a wide **debate within the public administration about the options for reform**. EC assistance has even contributed directly through ISMF to the preparation of the economic reform agenda. Other projects such as SEBC have contributed indirectly to the reform process. By developing the management capacities of the private sector, SEBC has familiarised entrepreneurs with market economy practices and has generated a demand for institutional and legal changes.

Evaluations have also shown that EU co-operation has **contributed substantially to capacity-building**. Some Ministries (State Planning Commission, Ministry of Finance, Ministry of Health, Ministry of Culture) have gained a lot of expertise in the framework of the current programmes and future co-operation should build on this expertise.

In general, **our past co-operation has targeted the right priorities**. However, implementation has not always met expectations, sometimes due to overambitious objectives and complex programmes. Future co-operation should assist with the implementation of the reform agenda, giving priority to reform-minded institutions.

### **4.3 Co-ordination with the programmes of EU Member States and other donors**

The European Community and its Member States are by far the **largest donors to Syria**, followed by Japan and UNDP. Since major donors are all active in the same areas co-ordination and harmonisation in their sectoral support is essential. *(Please refer to Annex 7 – Donors Matrix – for more specific information on the activities of other donors.)*

**Co-ordination between donors** has improved considerably, but **remains ad hoc and ineffective**. This is mainly due to the insufficient investment of major donors in the co-ordination process and the lack of strategy of the Syrian government.

**Co-ordination subgroups based on sectors** need to be established, since they allow for the participation of a more selective group of donors that are engaged in a particular area. The reports of these subgroups' meetings could be circulated for advocacy and information purposes.

The 2005 Paris Declaration on Aid Effectiveness provides an excellent basis on which to develop donor co-ordination in Syria. Accordingly, all main donors agree that the **Syrian government needs to assume leadership**. In 2005 progress was made, with the government organising two donor co-ordination meetings and the State Planning Commission developing a donor matrix with the help of UNDP: the Aid Management Information System (AMIS). However, data are not updated regularly by the State Planning Commission and cannot be used easily for analytical purposes. It is essential that all parties provide input, as the database is becoming the official source of donor information in the country. All other systems should be merged into AMIS.

## **5. THE EU RESPONSE STRATEGY FOR 2007-2013**

### **5.1 General principles of the EU strategic approach**

The following principles have guided the definition of priorities for EU intervention in the period 2007-2013:

- **Compliance with broad EU interests in the region**

EU interests lie in a strong, democratic, stable and prosperous Syria, well integrated in its region.

- **Effective implementation of policies** in areas covered by the Barcelona Process, the Association Agreement and, - in the future - the European Neighbourhood Policy

The working hypothesis is that the Association Agreement should be signed and should start being implemented at some stage during 2007-2013. Prospects for launching negotiations on an ENP Action Plan remain open for Syria and the goal is to work towards full participation in the ENP in the medium term. Our strategy should also help Syria implement the commitments made at the Barcelona +10 Conference, including in the field of democracy promotion.

- **Syrian ownership**

The strategy should build on the objectives for economic and social development of the Syrian 10<sup>th</sup> Five-Year Plan and focus on areas where institutional changes are most needed.

- **Building on past experience**

The CSP should focus on assisting government efforts in key political, economic and social areas, where there is a reform drive. The EU has already laid the groundwork for reform in several areas. In these areas, our assistance will only make a difference if sustained in the medium term.

- **Adding value**

The strategy should target areas where the EU has a comparative advantage and can achieve results through complementary action with other donors, starting with the Member States and the European Investment Bank.

## 5.2 Priority objectives

Following these principles, the main strategic objectives towards Syria in 2007-2013 include:

- 1/ **Support for political and administrative reform** – Modernising the administration, pursuing the decentralisation process, strengthening the rule of law, and increasing the respect for fundamental human rights.
- 2/ **Support for economic reform** – Implementing the economic reform agenda and preparing for the Association Agreement and for WTO accession.
- 3/ **Support for social reform** – Developing human capital and taking measures to accompany the transition process.

In all three priority fields, **capacity-building** will be the main aim of EC co-operation.

Various projects will support the objective set out in the Five-Year Plan to **increase women's empowerment** in society.

On another cross-cutting issue, they will promote the **development of partnerships between public institutions at central and local level, the private sector and civil society** (including professional organisations, trade unions, research and academic institutions, local organisations and NGOs, consumer organisations, women's and youth organisations, charities and the media).

**The present strategy should be reviewed and adapted where necessary, when an ENP Action Plan has been agreed with Syria.**

***Strategic objective 1: Support for political and administrative reform – Modernising the administration, pursuing the decentralisation process, strengthening the rule of law, and increasing the respect for fundamental human rights***

- Modernisation of the administration

Limited capacity and rigidity of the Syrian administration have proven major barriers to the implementation of reforms. The EU co-operation will continue putting emphasis on technical assistance and **training**. When the Association Agreement is in force, twinning arrangements will also contribute to capacity-building in the administration.

Public administration personnel are caught in a mix of regulations, mandates, procedures and lack of financial resources. **Administrative simplification** is therefore a horizontal objective that will enable them to provide services to the citizens effectively and efficiently and to cope with the challenges spelled out in the national agenda.

The work started under the ongoing Institutional and Sector Modernisation Facility (ISMF) should be taken one step further. The generalisation of ICT across government institutions and the introduction of **e-government** will contribute to the reduction of bureaucratic procedures and to the fight against corruption.

- Decentralisation

Syria is currently preparing the necessary **legal framework to accelerate the decentralisation process**, delegating more powers to the regional and local authorities. Governance will be strengthened by transferring some political, fiscal and administrative responsibilities to the regional and local governments. This will be one step towards the promotion of local democracy.

The current Municipal Administration Modernisation (MAM) project is laying down the basis for the next phase of Syria's decentralisation programme. Further support for **capacity-building in the regional and local authorities** is needed to allow them to exercise their newly acquired powers in an accountable and transparent manner as well as to cope with the additional responsibilities. The local authorities will have to enhance their economic and social analytical capabilities to better understand the comparative advantages of their regions and contribute to a more efficient use of investment.

*Fiscal decentralisation*

Transfer of responsibilities must be accompanied by a **transfer of resources through fiscal decentralisation**. Fiscal decentralisation and capacity-building for the local administration will increase efficiency in the mobilisation and management of resources and will lead to better provision of public services. This devolution should be done in parallel with a reform of public finance (*see priority II*), in order to increase transparency and efficiency in budgetary transfers from the central to the local level.

*Local development*

Decentralisation of decision-making to the local level will consist in administrative reform and the development of economic and social plans by each governorate. Participation of local stakeholders (in particular, professional groupings and women organisations) in the decision-making process will be increased by involving them in the design of these **local development plans**.

There are already successful initiatives in the country to **catalyse social and economic development** around projects in the health, culture and rural development sectors with the involvement of local communities. These should be stepped up and expanded to other sectors.

## *Environment*

Although environmental legislation is the responsibility of the central government, implementing measures to protect the environment are profoundly linked to decentralisation. Regional and local governments perceive that the responsibility for **incorporating the concept of sustainable development in development plans** is now theirs. Ongoing assistance to decentralisation through MAM and ISMF could therefore be accompanied by a programme focusing on the environment, with a view to accompanying the transfer of responsibility and authority for environment protection to the governorates. This may require updating the 2002 National Environment Strategy and Action Plan and would complement the assistance provided by German bilateral co-operation at both central and local levels in the field of water sector reform.

In addition, **interest-rate subsidies** and other ways of blending grants and loans could leverage investments by international financing institutions in the field of the environment, in particular in water management, waste management and industrial pollution.

### - Justice and security matters

**Reform** aiming at independence of the judiciary, integrated border management, financial intelligence and the fight against corruption should be the vectors of our support for strengthening the rule of law.

Syria is part of the political and security partnership of Barcelona and will continue participating in the **regional programme on justice, police and migration**.

With the European Neighbourhood Policy in mind, EU funds should also assist Syria in developing appropriate national legislation to ensure compliance with UNSCR 1373 on the **fight against terrorism**. The main areas of assistance would include integrated border management, transport security, compliance with international agreements on ports and airports, financial intelligence and financial investigations (anti-money laundering, in particular).

### - Human rights

Respect for fundamental human rights and development of civil society are key internal issues that will have a **positive impact** on regional stability.

EU assistance will be available for **strengthening the culture of respect for human rights** and fundamental freedoms and the capacity and effectiveness of all competent institutions. Syria's plans to set up a **national institution for human rights** (National Human Rights Council) could be supported, on the basis of experience gained in neighbouring countries e.g. Egypt.

One of the objectives of the Five-Year Plan is to empower women in society. The EU could support the government in the establishment of a comprehensive **gender mainstreaming strategy** as well as in initiatives that enhance women's participation in political, economic and social life as agreed in the framework of action adopted in November 2006 at the Istanbul Ministerial Conference on Strengthening the Role of Women in Society.

## ***Strategic objective 2: Support for economic reform – Implementing the economic reform agenda, preparing for the Association Agreement and for WTO accession***

### - Public finance reform

The analysis of economic challenges in chapter 2 shows that Syria's macro-economic stability, which is currently underpinned by favourable developments in the oil market, is at risk. Major fiscal and balance of payments shocks can be expected within the next decade, when Syria might evolve from an exporter to a net importer of oil. Public finance reform is therefore necessary. It is also a

prerequisite for the success of decentralisation. The new state budgeting and accounting system must be implemented throughout the various ministries, governorates and municipalities.

Public finance reform should aim at **fiscal consolidation and rationalisation of the public expenditure management system**. It should include the development and implementation of an overall government policy and legislative framework, as well as administrative systems, methodologies and standards on public internal financial control. Public finance reform should allow for external oversight by a Supreme Audit Institution and should be accompanied by capacity-building of the Parliament's Budgetary Committee. Any support in this area should be coordinated with the IMF and the World Bank.

Rationalised management of public expenditure would enable Syria to benefit from budget support in the future.

- Improvement of the business environment

Syria's real potential for growth and job creation lies in the development of a buoyant private-sector and dynamic SMEs. However, private sector development is for the moment stifled by pervasive regulations and administrative procedures. **Drastic simplification of the business legislation** is a pre-condition for the private sector to play the role of 'engine for economic growth' advocated in the Five-Year Plan. It is also a pre-condition for attracting the levels of foreign direct investment which are needed for modernising the economy.

Support should be provided to **reform the legislative and regulatory framework** affecting productive and commercial activities. This would include removing restrictions on market entry and exit, facilitating investment, developing an appropriate competition framework, ensuring effective investment promotion and protection, strengthening the commercial legal system (including civil courts), better protecting intellectual property, and streamlining layoff procedures. In addition, assistance should be provided to ensure rapid and uniform application by the administration – including through the introduction of one-stop-shops – and to assess the impact of existing SME incentives.

Emphasis should also be put on **facilitating access to finance for SMEs**, with particular attention being paid to women entrepreneurs, in collaboration with other donors and the European Investment Bank.

- Trade enhancement

For a number of years, **trade liberalisation and enhancement** have been at the core of the government's reform agenda and progress has been made. However, Syria's trade regime remains restrictive by international standards and its export capacity relies too heavily on the oil sector.

Co-operation should aim at **supporting a more open, modern and competitive trade regime** in Syria, thus paving the way for the implementation of the Association Agreement and, at a later stage, preparing for Syria's accession to the World Trade Organisation. It should also aim at boosting the **export capacity** of Syrian businesses.

Our co-operation should encompass at the same time policy and regulatory aspects as well as institution- and capacity-building, including stimulating the dialogue between relevant government institutions, the private sector, civil society, and the academic community. Close collaboration with UN agencies in this area is essential.

- Corporatisation of state-owned enterprises and promotion of entrepreneurship

Progressive disengagement of the state from the economy, through restructuring and deregulation, is essential in order to boost the competitiveness of the Syrian economy.

The **restructuring of state-owned enterprises** will be one of the major challenges facing the government in the transition to a social market economy. This is also one of the most politically

sensitive challenges in the light of the existing high pressure on the labour market. **Innovative solutions** such as promoting self-employment and micro-enterprise as well as appropriate financing schemes will need to be developed. The EC gained extensive experience in this area during the enlargement process. Pilot initiatives could serve as a basis to help the government devise a fully-fledged strategy for restructuring and future privatisation. The EIB could complement EC technical assistance by loan financing for joint ventures and private-sector undertakings.

The **business community and social partners** should be closely associated with activities related to improving the business environment, trade enhancement, corporatisation of state-owned enterprises and entrepreneurship promotion.

- Public-private partnerships

Syria could better exploit its geographical position as a key transit country and integrate into regional energy markets and transport and electronic communications networks. This would mean improving planning and efficiency and attracting investment, ideally through public-private partnerships. However, deficiencies in the regulatory environment act as a hindrance and should be addressed. International financing institutions are willing to intervene in these areas. Our added value to their intervention could be to help the government **develop the necessary regulatory framework and establish independent regulatory authorities.**

**Interest-rate subsidies** and other ways of blending grants and loans can leverage investments by international financial institutions in the fields of energy and transport. For energy, possible areas include renewable energy resources and energy efficiency. Energy infrastructure/network investments should in principle be commercial operations given their financial return. In exceptional circumstances, though, where specific EU interests are involved (notably, security of energy supply) and it appears difficult to get a project started, targeted interest-rate subsidies or other ways of combining grants and loans might also be considered for particular investment projects. Regarding transport, interest-rate subsidies or other blending schemes would focus on catalysing funds for critical infrastructures of strategic importance, such as cross-border measures on the priority axes or the missing links necessary for their completion. Whenever interest-rate subsidies are considered, their relevance must be assessed on a case-by-case basis and care should be taken to avoid significant market distortions.

***Strategic objective 3: Support for social reform – Developing human capital and taking measures to accompany the transition process***

The poorest and most vulnerable segments of the population have not been the beneficiaries of economic growth and the transition to a market economy will further accentuate social inequalities. In addition, unemployment is high and the entry of 250 000 young people on the labour market every year over the next 20 years as well as the mismatch between their education and the demands of the labour market will further exacerbate the problem.

In the Five-Year Plan, the government has expressed its determination to mitigate the negative social consequences of the transition process. It also made commitments in the context of the **UN Millennium Development Goals.**

Poverty alleviation and labour market inclusion will have to be realised through **human capital development, welfare and active labour market policies.** Such combination will aim not only at reducing the effects of poverty but also at removing its causes. While a welfare approach would consist of ensuring direct assistance to the poorest and appropriate health care, the active labour market and human capital approach would focus on increasing the employability and earning potential of the active population, through appropriate and efficient employment services,

entrepreneurship capacity building, upper secondary and vocational education and training programmes.

Our assistance should help the country **implement a coherent approach to poverty reduction, upgrade the social safety nets, and improve the education system**, building upon previous support in the areas of education and health.

- Human resources development

The EC is the main donor in education and has so far focused its support on the development of higher institutes. The Ministry of Higher Education and the State Planning Commission are willing to develop a long-term strategy for the education sector. We can assist the Syrian government in the development and implementation of this **sector-wide approach to education policy**, in co-operation with other donors.

To better prepare young people for entry into the labour market, we already provide support to improve the quality of the vocational education and training (VET) system and of higher education. In the future, we should put further emphasis on **upgrading the VET, reforming upper secondary education and enhancing in-service training**, and make sure that this is done in partnership with the private sector.

Interventions in the areas of education and training could be further enhanced, with the **possibility under the ENP to foster people-to-people contacts and encourage the mobility of students and researchers**. This includes increased participation in the 7<sup>th</sup> R&D Framework Programme, and the Tempus and Youth in Action programmes; increased exchange opportunities for Syrian nationals through participation in the Erasmus Mundus programme; and the introduction of the new ENP scholarship system for higher education students. This people-to-people strand will be treated as complementary action of the core reforms.

- Health

The State Planning Commission, the Ministry of Health, the Ministry of Higher Education and the Ministry of Finance are developing a strategy for the health sector, with the support of our Health Sector Modernisation Programme. The overall goal is to **improve the health delivery system**, through a shift from normative to need- and demand-oriented planning. The system for delivery of primary care is already well developed.

Like in education, we can assist the government in the implementation of its **sector programme in health**, in co-operation with other donors. A joint sector review will make it possible to identify areas where quality, sustainability and equity of health care delivery can best be improved. Based on this identification process sub-sectors or health problems that can be targeted with EU support will be addressed (e.g. establishing a health insurance scheme and improving statistical and financial data like Management Information Systems and National Health Accounts).

The EU will co-ordinate with other donors to ensure a **transparent and separate management of social insurance and social assistance**. Though the EU does not intend to get involved in the overall reform of the national insurance system, its ongoing activities in the health insurance sector will contribute to more transparency in the management of a future national social insurance fund.

- Social protection and development

The EU is supportive of the transition to a social market economy and should therefore **assist the Syrian government in the design of poverty alleviation programmes and welfare policies**.

As socially painful measures are introduced (removal of subsidies and price control, public administration reform and disengagement of the State from the economy), this intervention could be coupled with the reinforcement of social safety nets targeted to the most vulnerable segments of the population (e.g. women) by reassessing their needs. Further down the line, **appropriate delivery and monitoring mechanisms** could be designed. Assistance could be provided to develop local capacities through training of social workers and local representatives of the Ministry of Social Affairs and Labour (MOSAL). The Commission will ensure that these mechanisms will take into account the private welfare assistance delivered by local civil society and the private sector.

Whereas social assistance schemes aimed at mitigating the social costs during the country's economic transition are benefiting from the assistance of other donors such as the World Bank and UNDP, the EU may concentrate its support on the **consolidation of active labour market policies**. These are expected to improve the functioning of the labour market by better matching labour demand and supply needs. The EU could assist MOSAL and the recently established Public Commission for Employment and Projects developments (which replaces the former Agency for Combating Unemployment) in the promotion and design of active labour market policies and programmes. This assistance would create valuable synergies with the EU supported reform of the vocational and education training system by extending the intervention to in-service training (managers and employees within existing enterprises). The latter is crucial given the fact that Syria will soon approach a phase of industrial restructuring.

The EU will consider its assistance in the social area in the wider context of increasing transparency in public expenditure management.

### 5.3 Consistency of EC interventions in Syria

#### *Policy mix*

Relations with Syria in the context of the Barcelona process are driven by a number of Community policies, which are increasingly building on coherence between their internal and external dimension. This concerns in particular trade, energy, transport, environment, research science and technology, good governance, gender issues and the protection of human rights. The coherence of this policy mix is reflected in the EC response strategy in chapter 5.

When the EU is able to negotiate an Action Plan with Syria under the European Neighbourhood Policy, it will offer further support for the implementation of these policies in an integrated way as well as a platform for dialogue on joint priorities and achievements.

#### *Regional Strategy Paper and other ENPI programmes*

The **regional ENPI programme for the South neighbourhood** will contribute to the achievement of objectives outlined in this strategy. Activities implemented at the regional or sub-regional level will complement bilateral operations:

- On political development issues, regional activities will include support for the creation of regional networks and platforms for civil society organisations and media networks.
- The dialogue between cultures will be promoted at regional level under the aegis of the Anna Lindh Foundation.
- Co-operation on justice and security issues is a shared priority for the EU and Southern partners. Regional activities will include judicial co-operation on cross-border issues, networks of organised crime, trafficking of human beings, as well as exchange of best practices. This will be

complementary to action undertaken bilaterally with Syria, which will focus on institutional strengthening and implementing national strategies.

- To usefully complement bilateral assistance on trade and private-sector development, regional co-operation will contribute to developing south-south trade and regional co-operation initiatives, including support for the implementation of the Agadir agreement.
- Regional action on transport and energy will concentrate on transnational activities (south-south and north-south connections), while bilateral assistance can emphasise regulatory reform.
- Regional co-operation on the environment will include collaboration with the European Environment Agency, the Barcelona Convention (UNEP/MAP) and others. Activities undertaken through the Horizon 2020 regional environmental initiative under the Euro-Med Five-Year programme may also be relevant for Syria.

Alongside the bilateral and regional operations, **three new instruments** will be available to Syria:

- The ENPI-inter-regional programme will include activities, which will be implemented in the same way for all the neighbouring countries. This programme will in particular finance TEMPUS and the new Scholarship Programme, as well as TAIEX activities.
- The ENPI-CBC Mediterranean Sea Basin Programme will allow Syria's coastal regions to co-operate with coastal regions of the EU Member States through joint projects.
- Syria may also benefit from the thematic programmes established under the Development Co-operation Instrument, in particular those on 'Migration and asylum', 'Investing in people' and 'Environment and sustainable management of natural resources', which could usefully reinforce bilateral co-operation. The new Instrument for Human Rights and Democracy (ex-EIDHR) will also be available to support thematic activities in that area.

Where appropriate, Syria will receive support for **participation in Community programmes, agencies and networks**, insofar as these are open to the country. In due time, the clearer framework provided by the ENP Action Plan will contribute to ensuring the consistency of EU assistance within specific sectors.

### *Specific issue of refugees*

The EU may also consider support for the **Palestinian and Iraqi refugees** currently living in Syria, through its ECHO programme as well as through regional projects including Jordan and Lebanon – as already exists in the case of Palestinians. The massive influx of Iraq refugees starts becoming a burden to the Syrian economy, more particularly to the healthcare and education services. Iraqis have no clear refugee status in Syria and live in precarious conditions. International agencies (UNHCR, UNICEF, and World Food Programme) have drawn the attention of donor organisations to the deterioration of their living conditions and have called for increased levels of assistance.

## **5.4 Donors' co-ordination**

Our **comparative advantage** is based on a track record of successful interventions in the field of economic reform and private-sector development. In the health and education sectors, where we are lead donors, this will allow us to promote **sectoral approaches** and catalyse the contribution of other donors. Sectors where other donors are most active include the environment, private-sector development, infrastructure, education and health (*see Annex 6 for more details*).

Increased co-ordination with other donors will be actively pursued. The EC could facilitate meetings of local donor groups. However, it will be up to the Syrian government and the lead ministries to **strengthen synergies between donor activities** around the implementation of the Five-Year Plan. Whenever relevant, main donors (EC/Member States, UNDP, JICA, Aga Khan Foundation) should participate in joint steering committee meetings.

## 5.5 Risks and conditions

In the forthcoming period, the main obstacle to the strategy implementation will be related to **political developments**, in particular regional stability. Any worsening of the security situation may have a negative political and economic impact. It could affect the investment climate and threaten current macroeconomic stability. It could also prompt the government to change its priorities and bring the reform agenda to a halt.

The **future development of our political relations with Syria** will also have an impact on the size and scope of the programme. Deterioration of relations may result in a reduction of our co-operation programme. Conversely, the entry into force of the Association Agreement may give Syria access to additional ENP-related incentives and funding.

**Other constraints** on the implementation of our strategy may include a lack of adequate financial resources to implement the Five-Year Plan or a lack of popular support for reform.

The main obstacle to the efficient delivery of EC technical assistance so far in Syria has lain in the **structural weakness of the Syrian administration**. This has caused bottlenecks and delays in project implementation. Although the situation has improved, in the absence of resolute administrative reform, this will remain a risk for future co-operation.

## 6. THE NATIONAL INDICATIVE PROGRAMME FOR 2007-2010

### 6.1 A four-year framework for EC intervention under the ENPI

To pursue the strategic objectives set out in Section 5.2, we are planning a **balanced programme of activities** in the period 2007-2010 through the ENPI bilateral allocation for Syria. As in other Mediterranean partner countries, the NIP is designed to support the reform process in the political, administrative, economic and social realms.

The **global allocation for Syria for the period is €130 million**, with provision for a gradual increase of the financial allocation over the four years. Syria will be encouraged to take advantage of the 'Governance Facility'.

The **co-operation framework agreed with the Syrian government** puts emphasis on the implementation of the economic reform agenda, but also includes a substantial social package as well as measures to improve institutional governance and human rights.

Priorities for action are as follows:

#### **Strategic objective 1: Support for political and administrative reform**

1. Promoting decentralisation and local development (including interest-rate subsidies for EIB loans in the environment sector)
2. Reforming and modernising the judiciary

3. Building capacity for human rights, in relation to the creation of a national institution

### **Strategic objective 2: Support for economic reform**

4. Trade Enhancement Programme
5. Business Environment Simplification Programme
6. Supporting public finance reform
7. Promoting business development (including assistance with the corporatisation of state-owned enterprises and industrial upgrading – in collaboration with the EIB)

### **Strategic objective 3: Support for social reform**

8. Reforming social protection and improving the efficiency of the health financing system
9. Reforming upper secondary education
10. Upgrading the vocational education and training system and promoting in-service training

The Trade Enhancement Programme, the Business Environment Simplification Programme, and interest-rate subsidy for an EIB loan operation in the water sector correspond to **well-defined projects, which will be implemented as of 2007** (see 6.3 below).

The sequencing of other priority actions is based on the Syrian government's schedule for implementing the Five-Year Plan as well as on the timetable for completing the key reform-oriented projects initiated under the previous NIP (see bar chart – implementation timetable of ongoing projects – in Annex 5 for more detail). The **detail of EC interventions corresponding to these priorities will be defined at a later stage** in a revised National Indicative Programme for 2008-2010, in the light of further work to be undertaken with the Syrian government.

An **appropriate monitoring system** will be put in place to review progress in implementing the various planned operations. It is thus necessary to define **indicators** and to address the need for **baseline data and accurate statistics** (e.g. on trade and investment, social indicators, the use and quality of water). It will help the government monitor the implementation of reforms, measure progress towards the targets of the Five-Year Plan and communicate about achievements.

In line with the 10<sup>th</sup> FYP, a **strategy for the enhancement of the statistical capacity** in Syria was set up at the end of 2005 with support from the World Bank and UNDP. It stresses the key role of the Central Bureau of Statistics. MEDSTAT II, the Regional Statistical Programme in operation since January 2006, co-ordinates efforts with all other donors to maximise the impact of this support, while optimising the use of local resources and ensuring full ownership by Syria. Positive developments in terms of statistical production are expected.

## **6.2 Collaboration with the European Investment Bank**

As pointed out in the Country Strategy Paper, most EIB loan operations in Syria have been underpinned by technical assistance funded under the MEDA programme. **Complementary action between the EC and the EIB will continue** over the period 2007-2010. It will target as a priority projects in the fields of private-sector development and the environment.

The Syrian government has a keen interest in a **large programme aimed at promoting business development, which could leverage EIB finance**. This programme will involve the design of schemes to promote SME development, industrial restructuring (thus facilitating the

'corporatisation' of state-owned enterprises, including through the introduction of international financial reporting standards in the public sector) and upgrading.

**Interest-rate subsidies** will also leverage EIB investment in the field of water and waste water. The EIB was active in these sectors in 2002-2006, with one loan signed at the beginning of 2006 – which connected two Palestinian refugee camps to the regional water system – and several technical assistance operations financed under the FEMIP TA Support Fund. Further FEMIP TA operations could be implemented in the water sector under the 2007-2010 programme. Interest-rate subsidies will target investments outside Damascus, so as to accompany the decentralisation process.

The FEMIP TA Support Fund could also be used to fund **feasibility studies for loans in the transport and energy sectors** aimed at implementing the priorities defined at the Marrakech Transport Ministerial Conference in December 2005, the recommendations of the High Level Group on the extension of the Trans-European Networks to neighbouring countries and regions, as well as the energy projects of common interest and the priorities agreed by the Rome Energy Ministerial Conference in December 2003.

### **6.3 Details of 2007 operations**

The main aim of the EC financial assistance proposed for 2007 is to provide comprehensive support for trade development and investment promotion in Syria. The general objective is to create an environment, which is conducive to business development and job creation.

#### **Trade Enhancement Programme**

##### ***a) Justification***

It is a declared goal of the Syrian government to integrate into the world economy and enhance the country's capacity to trade, with a view to stimulating entrepreneurial activity in the non-oil sector in Syria and creating jobs. With this objective in mind, Syria signed on to the Greater Arab Free Trade Area, negotiated an Association Agreement with the EU and applied for WTO membership. It is also taking steps to engage in bilateral preferential trade agreements with economic partners such as Turkey, Iran, Russia, China and India.

The government has already taken a number of steps towards trade liberalisation: simplification of the customs tariff, modernisation of the customs administration (in particular, of the General Customs Department) and review of the trade legislation. In parallel, it is in the process of setting up an Export Promotion Agency. These efforts should be continued and supported, especially with regard to upgrading customs procedures and valuation according to international practice, and reviewing import and export procedures. The next steps to facilitate trade should also include moves to liberalise the constraining exchange rate system and remove some public trade monopolies.

The EC is already providing assistance to the General Customs Department through its programme on the modernisation of the Ministry of Finance. It is also a long-standing partner in private-sector development, which has included helping Syrian SMEs increase their international competitiveness through the advisory and training services of the Syrian-European Business Centre. However, it has never supported a global programme for trade enhancement, which would complement its overall action to help the government liberalise the economy.

##### ***b) Specific objectives and short description of the programme***

The Trade Enhancement Programme will take into account a Trade Needs Assessment, which is currently under preparation.

It will also complement a technical assistance project for trade policy and WTO pre-accession sponsored by UNDP, which should start in January 2007. This project is expected to have two main components: (i) trade policy reform, with an emphasis on assessing the impact of Syria's trade strategy on the economy and revising the trade-related legislation; and (ii) awareness-raising and capacity-building as regards GATT/WTO rights and obligations.

The specific objectives envisaged at this stage would be to promote the seamless movement of goods through secure international trade supply chains, in line with the World Customs Organisations (WCO) Framework of Standards to Secure and Facilitate Global Trade, while simultaneously enhancing the export capacity of Syrian SMEs through competitive upgrading and a better sectoral targeting of export markets. The programme would generally support trade facilitation, liberalisation and enhancement in Syria in respect of its global trade relations. It would therefore facilitate the implementation of the EU-Syria Association Agreement, when in force.

The programme could operate at two levels:

1. Trade facilitation (supply side)

It should aim at removing the major legal and administrative barriers to trade in the country (including cumbersome customs procedures, a restrictive regulatory trade regime and trade-related aspects of intellectual property rights and sanitary and phytosanitary measures) and building the necessary capacity in the relevant institutions.

2. Trade promotion (demand side)

It should help Syrian business to benefit from improved market access to third countries, in particular to the EU market.

The programme could include three components:

- Trade facilitation, including: facilitation of transit procedures; modern customs release procedures including risk assessment and acceptance of international standards such as the WCO Framework of Standards, introduction of automated systems and one-stop-shops; customs valuation; rules of origin; enforcement of measures against piracy and counterfeiting; and establishment of customs information and complaints offices. This component would consist of institutional capacity-building and pilot actions through the delivery of technical assistance, training and twinning arrangements. It may also tackle the improvement of transport and trade logistics and procedures, through an updated transport strategy.
- Trade and export promotion, including: development of an export promotion strategy (based on a study of the comparative advantages of the Syrian industry); and support for the creation of an Export Promotion Agency and export promotion schemes. This component would consist of institutional capacity-building and technical assistance to develop the services provided to Syrian enterprises for improving their access to foreign markets.
- Support for the prospective WTO accession process, including: revision of Syria's trade regime in respect of import and export regulations, non-tariff barriers to trade and relevant economic legislation in the field of investment and intellectual property; and establishment of WTO-compatible mechanisms, procedures and institutions. This component would consist of policy advice, institutional capacity-building and technical assistance.

It should be implemented with the active participation of all stakeholders, including a panel of local and foreign traders and investors. It should also complement concurrent programmes financed by other donors.

*c) Expected results*

- A more modern, less and better regulated trade regime.
- Stronger trade and export policy institutions.
- Diversified and more competitive export sectors.
- Improved export promotion services for enterprises.
- Streamlined and non-discriminatory transit procedures closer to international standards.
- Better enforcement of intellectual property rights.

*d) Performance indicators*

- Syria adopts and implements trade liberalisation and facilitation policies and regulations compatible with the Association Agreement and the WTO.
- Transaction costs for SMEs diminish.
- Trade between Syria and the world, and especially Syria and the EU, increases.
- An increased number of Syrian SMEs exports.
- Syrian products gain foothold in new markets.

*e) Indicative budget*

A **budget of €15 million** is earmarked for this programme.

### **Business Environment Simplification Programme**

*a) Justification*

Private-sector development lies at the core of the government's economic reform agenda and several measures were taken in the last three years to improve the conditions for doing business in Syria. However, these are not sufficient and the country still ranks very low in surveys on the business and investment climate. A complete revamping of the institutional, financial and regulatory framework is needed, as well as a change of mindset in the administration, to remove the most pervasive barriers to business development.

The EC and other donors have already provided a lot of support in this area. While achievements should not be minimised, it seems that recommendations have only been implemented partially. The time has now come to gather all the existing reports and studies, to transform recommendations into an action plan defining specific measures, resources and time frames and to implement it.

*b) Specific objectives and short description of the programme*

The main thrust of the programme will be to remove the most stringent regulatory and administrative barriers to doing business in Syria and to replace them with transparent, efficient, and predictable procedures.

The programme will have to build upon the achievements and experience gained through MEDA projects – notably SEBC and ISMF - and other donor programmes as appropriate. The project identification phase should highlight all the relevant studies, which can help identify the main obstacles to be tackled. It should also examine how to integrate in an efficient way all the existing initiatives to simplify the business environment, including the monitoring process of the implementation of the Euro-Mediterranean Charter for Enterprise in Syria. The implementation phase will put emphasis on building the capacity of the Syrian administration to adopt best international practice.

The programme could include the following components:

- Design and implementation of an action plan to improve the business environment, in association with all relevant institutions and organisations.
- Design and implementation of a training programme (including twinning and coaching) for the personnel of all institutions covered by the plan.
- Design of a mechanism to monitor results and update the plan on a yearly basis.
- Setting-up of a mechanism to consult the business community and social partners (including representatives of foreign investors).
- Strengthening of the commercial legal system.
- Assistance to the government to create a one-stop-shop for company registration.

*c) Expected results*

- Procedures for doing business significantly eased (including procedures to enforce contracts)
- Central unit (one-stop-shop) for company registration established
- Action Plan to improve the business environment implemented

*d) Performance indicators*

- Better ranking in the Doing Business report published by the World Bank over the implementation of the programme
- Reduction of the lead time, number of steps and costs required to start a business

*e) Indicative budget*

A budget of **€5 million** is earmarked for this programme.

**Interest-rate subsidy for a water supply project in Aleppo**

In 2007 the EC will also make available a €5 million interest-rate subsidy for a water supply project in Aleppo, co-funded by the EIB and KfW/GtZ. This loan operation will complement capacity-building activities to improve urban management carried out under the Municipal Administration Modernisation programme.

## 6.4 Budget and phasing of the programme

Priorities of the Country Strategy Paper	2007	2008	2009	2010	Budget (in m€)	% of total budget
<b><u>Support for political and administrative reform:</u></b>					<b>30</b>	<b>23%</b>
Building capacity for human rights ( <i>linked to the creation of a national institution</i> )			(*)			
Promoting decentralisation and local development				20		
Reforming and modernising the judiciary				10		
<b><u>Support for economic reform:</u></b>					<b>60</b>	<b>46%</b>
Trade Enhancement Programme	15					
Business Environment Simplification Programme	5					
Supporting public finance reform		10				
Promoting business development ( <i>including corporatisation of state-owned enterprises and industrial upgrading – in collaboration with the EIB</i> )			30			
<b><u>Support for social reform:</u></b>					<b>30</b>	<b>23%</b>
Reforming social protection and improving efficiency of the health financing system		10				
Reforming upper secondary education		10				
Upgrading the vocational education and training system and promoting in-service training				10		
Interest-rate subsidies for EIB loans ( <i>to accompany decentralisation</i> )	5		5		<b>10</b>	<b>8%</b>
<b>Total</b>	<b>25</b>	<b>30</b>	<b>35</b>	<b>40</b>	<b>130</b>	<b>100%</b>

(\*) Additional resources will be made available for this priority

## LIST OF ABBREVIATIONS AND ACRONYMS

AA	Association Agreement
ACU	Agency for Combating Unemployment
AMIS	Aid Management Information System
BOT	Build Operate Transfer
CEP	Country Environment Profile
CFSP	Common Foreign and Security Policy
CSP	Country Strategy Paper
DAI	International Digital Access Index
EC	European Commission
ECHO	Humanitarian Aid Office of the European Commission
EIB	European Investment Bank
EIDHR	European Initiative/Instrument for Democracy and Human Rights
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FEMIP	Facility for Euro-Mediterranean Investment and Partnership ( <i>managed by the EIB</i> )
FEMIP- TA Support Fund	Technical assistance funded by MEDA to help prepare and implement EIB investment projects
FDI	Foreign Direct Investment
FYP	Five-Year Plan
GAFTA	Great Arab and Free Trade Area
GDP	Gross Domestic Product
GtZ	Gesellschaft für Zusammenarbeit ( <i>German co-operation agency</i> )
HDI	Human Development Index
HIBA	Higher Institute for Business Administration ( <i>ongoing MEDA-funded project</i> )
HSMP	Health Sector Modernisation Programme ( <i>ongoing MEDA-funded project</i> )
ILO	International Labour Organisation
ISDN	Integrated Services Digital Network
ISMF	Institutional and Sector Modernisation Facility ( <i>ongoing MEDA-funded project</i> )
ICT	Information and communication technologies
JICA	Japan International Co-operation Agency
KfW	Germany's development bank
MAM	Municipal Administration Modernisation ( <i>ongoing MEDA-funded project</i> )
NGO	Non-governmental organisation
NIP	National Indicative Programme
PCSPD	Public Commission for Employment and Projects Development
PPP	Public-private partnership
PSAP	Power Sector Action Plan ( <i>ongoing MEDA-funded project</i> )
R&D	Research and development
REMEP	Euro-Mediterranean energy platform ( <i>ongoing MEDA-funded project</i> )
SEBC	Syrian-European Business Centre ( <i>MEDA-funded project</i> ) / Syrian Enterprise and Business Centre ( <i>new national institution for SMEs</i> )
SMEs	Small and medium-sized enterprises
SPS	Sanitary and phytosanitary measures

TAIEX	Technical Assistance Information Exchange Unit ( <i>EU programme</i> )
TEMPUS	Trans-European mobility scheme for university studies ( <i>EU programme</i> )
TSSP	Telecommunication Sector Support Programme ( <i>ongoing MEDA-funded project</i> )
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP/MAP	United Nations Environment Programme / Mediterranean Action Plan
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNIIC	United Nations International Independent Investigation Commission
UNSCR	United Nations Security Council Resolutions
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
VAT	Value added tax
VET	Vocational Education and Training Programme ( <i>ongoing MEDA-funded project</i> )
WCO	World Customs Organisation
WTO	World Trade Organisation

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**Annex 1: MAP OF SYRIA**



## **Annex 2: POLITICAL CHRONOLOGY**

**1918**

**October**

Arab troops led by Emir Faysal and supported by British forces capture Damascus, ending 400 years of Ottoman rule.

**1920**

**July**

French forces occupy Damascus and proclaim the establishment of a new state of Greater Lebanon.

**1946**

Last French troops leave Syria.

**1947**

Michel Aflaq and Salah-al-Din al-Bitar found the Arab Socialist Baath Party.

**1958**

**February**

Syria and Egypt join the United Arab Republic (UAR). Egyptian president Gamal Abdul Nasser becomes leader of the new state. Nasser orders the dissolution of Syrian political parties to the dismay of the Baath party, which had campaigned for union with Egypt.

**1961**

**September**

Rising Syrian discontent with Egyptian domination of the UAR prompts a group of army officers to seize power in Damascus and dissolve the union.

**1963**

**March**

Army officers seize power. A new cabinet dominated by Baathists is appointed and Amin al-Hafez becomes president.

**1966**

**February**

Salah Jadid leads an internal coup against the civilian Baath leadership, overthrowing Amin al-Hafez and arresting Salah al-Din al-Bitar and Michel Aflaq. Hafez al-Assad is appointed minister of defence.

**1967**

**June**

Israeli forces seize the Golan Heights from Syria and destroy much of Syria's air force.

**1970**

**November**

Hafez al-Assad overthrows president Nur al-Din al-Atasi and imprisons Salah Jadid.

**1971**

**March**

Hafez Assad is elected president for a seven-year term in a plebiscite.

**1973**

Rioting breaks out after Assad drops the constitutional requirement that the president must be a Muslim. Assad is accused of heading an atheist regime. The riots are suppressed by the army.

**October**

Syria and Egypt go to war with Israel to retake the Golan Heights and Sinai seized during the 1967 Arab-Israeli war.

**1974**

**May**

Syria and Israel sign a disengagement agreement.

- 1976** **June**  
 Syrian army intervenes in the Lebanese civil war to ensure that the status quo is maintained and the Maronites remain in power.
- 1980** **September**  
 Start of Iran-Iraq war. Syria backs Iran, in keeping with the traditional rivalry between Baathist leaderships in Iraq and Syria.
- 1981** **December**  
 Israel formally annexes the Golan Heights.
- 1982** **February**  
 Muslim Brotherhood uprising in the city of Hama. The revolt is suppressed by the military.
- 1983** **May**  
 Lebanon and Israel announce the end of hostilities. Syrian forces remain in Lebanon.
- 1990**  
 Following the Iraqi invasion of Kuwait, Syria joins the US-led coalition against Iraq. This leads to improved relations with Egypt and the US.
- 1994**  
 Assad's son Basil, who was likely to succeed his father, is killed in a car accident.
- 2000**  
 Israel withdraws its troops from southern Lebanon, ending a 22-year occupation. Syrian-backed Hizbullah guerrillas move to Israeli border and resume sporadic attacks, ostensibly to recover the disputed Shebaa Farms.
- June**
- President Hafez al-Assad dies after 30 years in power. His 34-year-old son, Bashar, is immediately sworn in as successor and enters office pledging wide-ranging economic reforms.
- 2001**  
 A clampdown on the short lived Damascus spring puts an end to the spread of free discussion forums.
- 2003** **October**  
 Israeli jets attack an alleged Palestinian training camp outside Damascus. The raid is the first Israeli offensive action on Syrian territory since the October 1973 war.
- December**
- US president George W Bush signs into law the Syria Accountability and Lebanese Sovereignty Restoration Act. This is followed in May 2004 by the application of US sanctions on the basis of this act and two other bills designed to counter 'international terrorism'.
- 2004** **September**  
 United Nations Security Council adopts resolution 1559 calling for the withdrawal of all foreign forces from Lebanon. Syria dismisses the move.
- 2004** **September**  
 Lebanese Parliament votes to extend President Lahoud's term by three years. Weeks of political deadlock end with the unexpected departure of Rafik Hariri - who had at first opposed the extension - as Prime Minister.

**2005****February**

Rafik Hariri and 22 other individuals are killed in a massive blast in central Beirut. The cabinet of Prime Minister Omar Karami resigns after two weeks of anti-Syrian rallies sparked by the assassination. There are growing calls for Syria to withdraw its troops.

**February-March**

Tensions with the US escalate after the killing of former Lebanese PM Hariri in Beirut. Washington cites Syrian influence in Lebanon. Damascus is urged to withdraw its forces from Lebanon.

**April**

Under huge pressure, Syria withdraws all of its military forces from Lebanon ending a 29-year military presence.

UN Security Council adopts Resolution 1595 establishing an International Independent Investigation Commission (UNIIC) to assist Lebanon in the investigation into Beirut bombing that killed former Lebanese PM Hariri. Detlev Mehlis from Germany nominated to head the Commission.

**September**

Four pro-Syrian generals charged in connection with the assassination of former PM Rafik Hariri and arrested.

**October**

Interior Minister and Syria's former Head of Intelligence in Lebanon, Ghazi Kanaan, commits suicide.

United Nations Security Council adopts resolution 1636 acknowledging Mehlis interim report and freezing assets and limiting mobility of suspects involved in Hariri's assassination.

**December**

Mehlis second interim report confirms finding of interim report.

United Nations Security Council adopts resolution 1644 calling for Syria's unconditional and immediate co-operation with UNIIC and granting the commission a six-month prolongation until June 2006. Mehlis leaves, replaced by Belgian Judge Brammertz.

On 30 December, Abdul Halim Khaddam – Syria's Vice-President from 1984 to June 2005 – backed allegations of the Syrian leadership's involvement in the killing in press interviews.

**2006****March**

Third government reshuffle since 2000, marking President Bashar al-Assad's willingness to have greater control over the Cabinet. Former Minister for Foreign Affairs Farouk Sharaa promoted to Vice-President.

Syria's First Female Vice-President Najah Al-Attar sworn in as second vice-president in charge of cultural policy.

US Treasury issues final rule against Commercial Bank of Syria, requiring US financial institutions to terminate all correspondent accounts involving CBS.

United Nations Security Council adopts resolution 1664 on the setting up of an international tribunal to try all those involved in the Hariri case.

**May**

Syria adopts the 10<sup>th</sup> Five-Year Plan, marking the transition from planned to 'social market economy', by law.

United Nations Security Council adopts resolution 1680, following the release of UN Envoy Terje Roede-Larsen's third semi-annual progress report on Resolution 1559. Resolution calls for Syria to respond to the Lebanese requests of establishing full diplomatic relations and demarcating borders between the two countries and urges Syria to take measures to stop movement of arms into Lebanese territory.

**June**

Judge Brammertz issues his second report and acknowledges Syria's general co-operation with UNIIIC.

**July-August**

Conflict between Israel and Hizbullah.

**November**

Syria resumes diplomatic relations with Iraq after 24 years.

United Nations Security Council gives its support to the establishment of a special tribunal for Lebanon to judge those alleged responsible for the assassination of PM Hariri (and the 22 other cases).

### **Annex 3: SELECTED ECONOMIC AND SOCIAL INDICATORS**

<b>Land area</b> 185 180 sq km	<b>Population</b> 18.6 million (2005)	<b>Population density</b> 0.11 per sq km
<b>Population of Damascus</b>	3.99 million (2003)	
<b>Annual population change (% per year)</b>		
1981-1994: + 3.3%	1995-2000: +2.7%	2000-2005: +2.45%

#### **1. Economic indicators**

<b>Indicators</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005*</b>	<b>2006**</b>
<b>GDP per capita</b> (USD millions)	1324	1286	1365	–	–
<b>Real GDP growth</b> (annual percentage change)	3.7	1.0	3.1	2.9	3.2
<b>Real non-oil GDP growth</b> (annual percentage change)	3.0	3.9	5.0	5.5	5.5
<b>Consumer Price Index</b> (annual average)	-0.5	5.8	4.4	7.2	5.6
<b>External debt</b> (in % of GDP)	16.9	18.1	19.7	25.0	22.6
<b>Government debt</b> (in % of GDP)	24.2	25.2	29.2	38.2	37.9
<b>Official net foreign assets</b> (in months of imports of goods and services)	29.3	31.1	24.6	20.9	21.4
<b>Fiscal Operations (in % of GDP)</b>					
<b>Total revenue</b>	26.2	28.5	27.4	26.5	27.9
<b>Oil proceeds</b>	12.5	14.6	11.2	8.8	11.1
<b>Non-oil tax revenues</b>	10.3	10.4	11.6	10.4	10.1
<b>Total budgetary expenditure</b>	28.2	31.1	31.6	30.7	30.7
<b>Current expenditure</b>	16.2	17.5	19.1	18.8	18.2
<b>Defence</b>	4.2	5.2	5.9	4.8	4.1
<b>Wages and salaries</b>	4.7	5.3	5.5	6.0	5.5
<b>Subsidies</b>	2.9	2.6	2.4	2.5	2.3

<b>Development expenditure</b>	12.0	13.6	12.5	11.8	12.4
<b>Overall balance</b>	-2.0	-2.6	-4.2	-4.2	-2.8
<b>Balance of payments</b>					
<b>Current account balance</b> (% of GDP)	7.1	4.7	0.0	-2.2	-1.9
<b>Trade balance (USD billion)</b>	0.7	0.0	-1.3	-1.8	-1.7
– <b>Oil</b>	3.0	2.5	1.3	0.7	1.0
– <b>Non-oil goods and services</b>	-2.3	-2.5	-2.6	-2.5	-2.7
<b>Non-oil exports of goods and services</b> (USD billion)	4.0	3.5	5.0	5.2	5.6
<b>Non-oil imports of goods and services</b> (USD billion)	6.3	6.1	7.5	7.6	8.4
<b>Oil balance</b> (% of GDP)	13.1	10.7	5.3	2.5	3.4
<b>Foreign Direct Investment</b> (% of GDP)	0.5	0.7	1.1	2.0	2.5

(\*) Preliminary

(\*\*) Projection

*Source: IMF Country Report – August 2006*

## 2. Social indicators

	1990	2000	2004	Region*
<b>Life expectancy at birth</b>	<b>66</b>	72	<b>74</b>	69
<b>Maternal mortality rate</b> (per 100 000 live births)	...	160	<b>160</b>	...
<b>Births supervised by trained personnel</b> (%)	...	70	...	72
<b>Infants &lt;1 fully immunised</b> (%)	<b>87</b>	99	<b>99</b>	...
<b>Children &lt;5 mortality rate</b> (per 1 000 live births)	<b>44</b>	28	<b>16</b>	...
<b>Child malnutrition</b> (% underweight children <5)	...	7	<b>7</b>	13
<b>Households with access to safe water</b> (%)	<b>79</b>	82	<b>93</b>	89
<b>Adult literacy rate</b> (% population aged 15+)	<b>65</b>	...	<b>80</b>	72
<b>Youth literacy rate</b>				
– <b>Male</b> (% boys aged 15-24)	<b>92</b>	...	<b>94</b>	...
– <b>Female</b> (% girls aged 15-24)	<b>67</b>	...	<b>90</b>	...
<b>Primary school enrolment</b> (% relevant age group)	<b>92</b>	93,5	<b>94,5</b>	89
<b>Secondary school enrolment</b> (% relevant age group)	<b>43</b>	36,5	<b>58</b>	...

<b>Female participation in labour force</b> (% total labour force)	<b>26</b>	29	<b>30</b>	27
<b>Telephone lines</b> (per 1 000 people)	...	103	<b>132</b>	118
<b>Mobile subscribers</b> (per 1 000 people)		2	<b>141</b>	88
<b>Personal computers</b> (per 1 000 people)		15	<b>19</b>	30
<b>Internet users</b> (per 1 000 people)		2	<b>45</b>	47
<b>Households with television</b> (%)	...	72	<b>80</b>	88

(\*) Region = Middle East and North Africa

*Italic: Most recent data available*

**Source: World Bank**

## **Annex 4: COUNTRY ENVIRONMENT PROFILE**

### **1. State of the environment**

The key environment issues in Syria relate to water quality, waste management, nature protection, soil degradation as well as coastal and marine pollution.

In major cities, air pollution is becoming serious due to the increasing levels of traffic. Emissions often exceed the allowable limits in Syrian **air quality** standards as well as those by the World Health Organization – in particular in highly populated urban areas (Damascus, Aleppo) and in industrial centres (Baniyas, Homs).

As regards **water quality**, water resources in Syria are limited. Nevertheless, there has been a gradual increase in water use over the years as a result of subsidies to households as well as increasing living standards, cheap water for industries and water use within the agricultural sector. Insufficient sewage systems in urban and rural areas, illegal industrial discharge of wastewater and inappropriate use of pesticides and fertilizers are the main causes of water pollution.

**Waste management** constitutes a challenge, including prevention, collection, treatment, recovery and final disposal. Some initial collection and disposal activities are taking place. However, urban areas are quickly expanding and the suburbs are particularly hard to service.

Concerning **nature protection**, many categories of biological and genetic resources are being depleted and endangered. Biodiversity is threatened by anthropogenic and natural factors and loss has been particularly severe in the steppe and in the forest land. Some protected areas have been established.

Concerning **coastal and marine pollution**, the Syrian coastal area represents only 2% of the country's surface but hosts 11% of its population. Coastal urbanization, due to housing needs and industrial development has led to serious environmental problems. Pollution sources include disposal of untreated urban and industrial wastewater, oil slicks from the oil refinery and the oil terminal, and solid wastes.

As regards **land use**, there are pressures from urbanisation particularly along the coastal strip. Desertification is a serious problem affecting over half of the country. Reasons include both climatic factors as well as suboptimal management of land and water resources.

With regard to **industrial pollution** in the coastal zone, industrial plants including a petroleum refinery and a power generation plant entail severe pollution in the areas of Tartus-Baniyas and Lattakia.

A key **trans-boundary environment issue** affecting Syria is the shared use and protection of the Mediterranean Sea.

As regards **global environment issues** and climate change in particular, Syria acceded to the Kyoto Protocol in 2006 and therefore needs to implement the relevant provisions and, where appropriate, implement concrete policies and measures to reduce greenhouse gas emissions, including in the energy and heavy industry sectors.

## 2. Environment policy

The Ministry of State for Environmental Affairs, in coordination with World Bank and UNDP, developed the **National Environmental Strategy and Action Plan** in 2002. The strategy identifies environment priorities for the country and sets up a general framework for environmental planning until 2010.

## 3. Environment legislation and its implementation

The **Environmental Protection Law** was adopted in 2002, making provisions for several environment issues, including on environmental impact assessment. The secondary legislation (executive regulations) to implement this law is incomplete.

Old legislation subsists on air quality and water quality. The government plans to adopt new laws in these areas.

Plans have been developed in the fields of waste and air quality. However, **sector strategies** are in general missing.

## 4. Administrative Capacity

Syria established the Ministry of State for Environmental Affairs in 1991. The Ministry was merged in 2003 with the Ministry of Local Administration, becoming the **Ministry of Local Administration and Environment**. It ensures co-ordination between the national authorities and the regional and international organizations. The Ministry is also responsible for identifying current problems, setting national policies and quality standards, and providing necessary legislative and institutional support.

The Ministry operates through two agencies: the **General Council for Environmental Affairs** and the **Scientific and Environmental Research Centre**.

To ensure strategic planning as well as implementation and enforcement of the environment legislation, it is essential to **strengthen administrative capacity**, including co-ordination between the relevant authorities.

## 5. Participation in regional and international processes

Syria has ratified the relevant **international and regional conventions**, to which it is signatory, with the exception of the new Emergency Protocol to the Barcelona Convention. Syria has also not accepted the amendments to the Dumping Protocol and the Land-Based Sources Protocol to the Barcelona Convention. The lack of executive regulations affects the ability of Syria to meet the requirements of these international commitments.

At regional level, Syria participates in the **Council of Arab Ministers for the Environment and the Mediterranean Action Plan**.

In November 2005, the Euro-Mediterranean partners, including Syria, collectively committed to 'endorse a feasible timetable to de-pollute the Mediterranean Sea by 2020'. Successful achievement of the goal to reduce pollution levels will require a combination of both regional and national actions with the support of all actors in the Mediterranean. The key goals of the **Horizon 2020 Initiative** are to tackle major sources of pollution including industrial emissions, municipal waste and urban waste water.

Syria is also participating in the **Mediterranean component of the EU Water Initiative**, a regional component of the **EU Water Initiative** as announced at the 2002 World Summit on Sustainable Development. The initiative aims to promote better water governance and coordination between stakeholders.

At bilateral level, co-operation agreements on environmental issues exist between Syria and neighbouring countries such as Egypt and Jordan.

## **6. Key areas where action is required**

**Syria faces significant challenges in the field of environment protection. Key areas include: water quality, waste management, nature protection, soil degradation as well as coastal and marine pollution.**

**With regard to climate change, Syria needs to implement the relevant provisions of the Kyoto Protocol to the UN Framework Convention on Climate Change. Syria has possibilities to use flexible mechanisms under this Protocol.**

**The institutional and administrative capacity requires strengthening, in particular as regards co-ordination, implementation and enforcement. Promotion of public awareness is important for the implementation of environment policy.**

## Annex 5: EC CO-OPERATION WITH SYRIA

### 1. EU grants to Syria in 1995-2006 (in €million)

MEDA I	MEDA II							TOTAL 1995-2006
1995-1999	2000	2001	2002	2003	2004	2005	2006	
35.0	49.7	8.0	36.0	2.0	55.0	24.5	25.0	235.2

### 2. Breakdown of funds under MEDA I (1995-1999)

Project title	Decision No	Signature Financing Agreement	EC funding (in €million)
SEBC I – Syrian-European Business Centre	5-746	29.06.2000	12.0
ISMF – Institutional and Sector Modernisation Facility	3-381	19.10.2000	21.0
Preservation of Cultural Heritage Training Programme	3-295	30.12.2000	2.0
<b>TOTAL</b>			<b>35.0</b>

### 3. Breakdown of funds under MEDA II (2000-2006)

Project title	Decision No	Signature Financing Agreement	EC funding (in €million)	
EIB – Interest-rate subsidy for electricity transmission loan	3-297	30.01.2000	11.6	2000
PSAP – Power Sector Action Plan	4-581	10.02.2001	11.0	
HIBA – Higher Institute of Business Administration	3-294	10.02.2001	14.0	
TSSP – Telecommunications Sector Support Programme	3-293	10.02.2001	10.0	
Cultural Tourism Development Programme	3-287	10.02.2001	3.1	
Water Supply & Sanitation for Palestinian Refugee Camps	5-697	19.12.2002	8.0	2001

<b>HSMP – Health Sector Modernisation Programme</b>	3-290	30.04.2002	<b>30.0</b>	<b>2002</b>
<b>SEBC II – Syrian-European Business Centre</b>	5-746	23.07.2003	<b>6.0</b>	
<b>Tempus 2003</b>	n/a	n/a	<b>2.0</b>	<b>2003</b>
<b>MAM – Municipal Administration Modernisation</b>	6-264	08.12.2004	<b>18.0</b>	<b>2004</b>
<b>BSSP II – Banking Sector Support Programme</b>	6-226	23.06.2005	<b>6.0</b>	
<b>Support to the Ministry of Finance</b>	6-250	08.12.2004	<b>8.0</b>	
<b>Modernisation of Vocational Education and Training</b>	6-252	08.12.2004	<b>21.0</b>	
<b>Tempus 2004</b>	n/a	n/a	<b>2.0</b>	
<b>Civil Society Development Programme</b>	17202	at the latest by 31.12.2006	<b>2.0</b>	<b>2005</b>
<b>SME Support Programme</b>	17542	26.06.2006	<b>15.0</b>	
<b>EIB - Water Sector Interest Rate Subsidy</b>	17546	at the latest by 31.12.2006	<b>5.0</b>	
<b>Tempus 2005</b>	n/a	n/a	<b>2.5</b>	
<b>Quality and Standards Programme</b>	18364	At the latest by 31.12.2006	<b>10.0</b>	<b>2006</b>
<b>UHES – Upgrading Higher Education Sector in Syria</b>	18365	At the latest by 31.12.2007	<b>12.0</b>	
<b>Tempus 2006</b>	n/a	n/a	<b>3.0</b>	
<b>TOTAL</b>			<b>200.2</b>	

#### 4. Ongoing projects: implementation timetable

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013		
<b><u>Institutional and Sector Modernisation Facility</u></b> Starting date: 19.10.2000															
			<b><u>Municipal Administration Modernisation Programme</u></b> Starting date: 05.12.2004												
			<b><u>Water Supply and Sanitation for Palestinian Refugee Camps</u></b> Starting date: 19.12.2002												
						<b><u>EIB water sector loan – Interest-rate subsidy</u></b> Starting date: 15.08.2005									
						<b><u>Support to the Ministry of Finance</u></b> Starting date: 12.12.2004									
						<b><u>Banking Sector Support Programme</u></b> Starting date: 12.06.2005									
<b><u>Syrian-European Business Centre</u></b> Starting date: 11.06.2000															
						<b><u>SME Support Project</u></b> Starting date: 02.07.2006									
							<b><u>Quality Management and Standards Programme</u></b> Starting date: n/a								
	<b><u>Higher Institute of Business Administration</u></b> Starting date: 11.02.2001														
						<b><u>Modernisation of Vocational Education and Training</u></b> Starting date: 05.12.2004									
							<b><u>Upgrading Higher Education Sector</u></b> Starting date: n/a								
		<b><u>Health Sector Modernisation Programme</u></b> Starting date: 30.04.2002													

<b><u>Power Sector Action Plan</u></b> Starting date: 11.02.2001													
<b><u>Euro-Arab Mashrak Gas Market (sub-regional programme)</u></b> Starting date: 27.06.2005													
<b><u>MED-ENEC Energy efficiency (regional programme)</u></b> Starting date: 01.01.2006													
<b><u>Promoting citizenship in Syria (thematic programme)</u></b> Starting date: 31.12.2002													
<b><u>EIDHR micro-projects</u></b> Starting date: 31.12.2005													
<b><u>Civil Society Development Programme</u></b> Starting date: ?													
<b><u>Cultural Tourism Development Programme</u></b> Starting date: 11.02.2001													
<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>

## **Annex 6: EIB CO-OPERATION WITH SYRIA**

### **1. EIB loans in 2000-2006**

<b>Project title</b>	<b>Signature Financing Agreement</b>	<b>EC funding (in €million)</b>
Electricity transmission	14.12.2000	75
Electricity Distribution	05.02.2001	115
Syrian Healthcare	15.06.2002	100
Port of Tartus	22.05.2003	50
SME Fund	10.09.2003	40
Deir Ali Power Plant	01.11.2004	200
Deir Azzour Power Plant	25.11.2005	200
Rural Telecoms	16.12.2005	200
Damascus Rural Water and Sanitation	31.05.2006	45
<b>TOTAL</b>		<b>925</b>

### **3. Supporting technical assistance from the FEMIP TA Support Fund**

<b>Project title</b>	<b>EC funding (in €million)</b>
SME Fund	2.0
Port of Tartus	2.0
Private sector support	0.5
Syrian Healthcare	0.3
Water Sector	0.9
Rural Telecoms	2.0
Damascus Rural Water & Sanitation	6.5
Deir Azzour Power Plant	4.0
Damascus Metro	2.5
<b>TOTAL</b>	<b>20.5</b>

#### 4. **EIB priorities**

As foreseen in the framework of the European Neighbourhood Policy, the European Investment Bank (EIB) can contribute to the financing of projects and programmes concerning investments in infrastructure and productive sectors. **Priority is given to projects that help to create a favourable environment for private investment and for development of the private sector.**

The amounts and modalities of financing are determined on the basis of a detailed prior assessment of each project carried out in line with the Bank's procedures. Coherence of these projects with the objectives and external policies of the European Union is part of this assessment, as is also linking the EIB contribution to that of the European Commission.

In this context, the Bank mobilises all its available instruments, in particular loans on own resources, risk capital and technical assistance.

Since 2000, EIB interventions in Syria have concerned the following sectors:

- **Energy** (electricity generation, transmission and distribution)
- **Transport** (port infrastructure)
- **Environment** (water and wastewater projects)
- **Human capital** (healthcare)
- **Telecoms** (rural fixed infrastructure), and
- **Private sector development** (global loan for financing capital investment projects undertaken by small and medium sized enterprises).

Most of these operations are being underpinned by technical assistance funded under MEDA and the FEMIP TA Support programme.

In the future, the Bank will continue to actively **pursue opportunities to contribute to development of the Syrian private sector**, including SMEs (diversifying global loan intermediaries). New operations are also likely to focus on **investment projects in the environmental sector as well as on infrastructure projects serving Euro-Mediterranean interests**.

With regard to EIB operations on risk capital resources (equity, quasi-equity and participating loans in local currency), the Bank draws on funds made available from the Community budget. All operations are geared towards private sector development. Due to local market circumstances, the Bank has not been active in Syria in the past. Pending satisfactory market developments, the Bank may seek to close one or more transactions in the future, in particular in the following fields:

- Support to the **development of the private equity practice**, in collaboration with local intermediaries, through investment funds (national or regional). The EIB will give particular attention to the application of best governance principles in any initiative it will support.
- The Bank has successfully supported the development of **Micro-Credit Financial Institutions** in other MEDA countries as a way to support local private sector development. Although still in a very preliminary stage, possibilities may exist to support micro-finance in Syria. Substantial work will, however, need to be undertaken before concrete investment initiatives are identified.

## **Annex 7: DONORS MATRIX**

### **1. Overview of by sector**

#### **Strategic planning**

UNPD has contributed to the preparation of the Five-Year Plan and will assist in its monitoring. It has also provided assistance to the preparation of the new law for local elections. Germany has become the largest EU bilateral donor for development co-operation for Syria in the last years. A GtZ expert is working in the State Planning Commission on its institutional reorganisation and the 10<sup>th</sup> Five-Year Plan.

#### **Business development**

The Italian government is the main EU bilateral donor for private and industrial sector development. The Italian assistance in cooperation with UNIDO focuses on strengthening of institutions and providing policy advice for SMEs. In the pipeline is a credit line to buy equipment for upgrading the assessed companies. The Japanese International Co-operation Agency (JICA) is also a large donor in Syria. One of JICA's areas of activity is Modernization of the Social and Economic System. JICA provides senior volunteers and experts to assist in the modernization of industry, by the restructuring of chambers and the strengthening of the Institute of Textile Industry in Damascus and Aleppo. UNDP is co-funding the computerization of the customs administration and the introduction of ASYCUDA.

#### **Environment / Water**

Several donors are active in the environment realm. Since 2002, Germany has been making grants and loans available for water and sanitation. There is close co-ordination with KfW and GtZ in order to ensure a common position in areas such as sustainability. Over the past few years, JICA was active in this sector concentrating on water supply and urban water distribution projects. The Netherlands has provided technical assistance to the Higher Institute for Water Management in Raqqa. Spain has financed the modernization of a pilot area of the Palmyra Oasis irrigation network and is considering a soft loan scheme to finance the modernization of the remaining area under irrigation. France finances feasibility studies on how to extract drinking water from Syrian underwater sea areas.

#### **Urban management**

For the past twelve years Germany has financed an integrated local development project for the rehabilitation of the old city of Aleppo. Close consultations have taken place in order to create synergies between this project and the EU-funded Municipal Administration Modernization Programme. Spain started in 2006 a programme of Municipal Administration Support focusing on simplification procedures in the North-East governorates.

#### **Poverty reduction**

UNDP and the Aga Khan Development Network are the main providers of micro-credits schemes for poverty reduction.

Aid in the form of subsidized loans from Gulf countries such as Kuwait and Saudi Arabia, has been important since the Gulf Crisis of 1990-91. It has been partially responsible for the high rate of foreign fixed investment – both in the public and private sector. This support has declined in recent years, as low oil prices in 1998-99 forced the Gulf States to reduce their aid budgets and investment programmes.

## **Energy**

The electricity sector benefited from UNDP contributing some technical assistance related to energy efficiency and demand-side management with the production of a national renewable energy master plan. JICA has co-operated with the Ministry of Electricity to upgrade the skills of operation and maintenance staff in power plants and to develop an electric power policy. The Arab Fund for Economic and Social Development finances HV-MV transformer stations, the Syria-Lebanon Power Grid Interconnection and the National Control Centre. The Kuwait Fund for Arab Economic Development and the Saudi Fund for Development fund projects for power station rehabilitation and the Islamic Development Bank finance transformers stations in Damascus Governorate.

## **Transport**

JICA has prepared a Railway Master Plan for the rail network as well as expansion plans for the two existing maritime ports of Tartus and Lattakia. Arab funds are providing loans for highway extension programmes. The Kuwait Fund for Arab Economic Development finances a number of infrastructure projects such as Lattakia-Ariha Highway, Ar Raqqa-Deir Az Zor-Al Hassaka Road Project. France has supported a number of studies relating to urban transport in Damascus and Aleppo. The Swedish International Development Agency (SIDA) has provided technical assistance on road network maintenance management, i.e. installation of HDM-4 computerised planning and management tools with associated staff training and road traffic safety.

## **Education**

UNDP is giving support to the State Planning Commission for the development of the 10<sup>th</sup> FYP, with a particular focus on education. UNICEF supports children's education through different projects. JICA is planning to support teachers' training in mathematics and sciences. GtZ supports the Vocational Educational Training (VET) sector.

## **Health**

The World Health Organisation (WHO) works with the Ministry of Health on eleven priority areas including: health policy and strategic planning; human resource planning; biomedical information; national drug policies; promotion of healthy lifestyle; reproductive health and family planning; water supply and sanitation; vaccination; HIV/AIDS, malaria and tuberculosis. UNICEF supports health through different projects, including Integrated Management of Childhood Illness, women's and adolescent health, HIV/AIDS and nutrition. The UNFPA programme focuses on reproductive health. UNRWA is the main health care provider for the Palestinian refugee population.

The Ministry of Health prepared a €333 million investment programme in 2004, in which the EIB participated through a loan of €100 million. The remaining balance was financed by the Ministry of Health (€209 million) and with soft loans from Spanish and Italian government co-operation (€24 million). Spain also concluded agreements with Spanish NGOs to provide assistance – mainly in the North-East Governorate – in the fields of mother-child health, special care for disabled children and nurse training.

## 2. Breakdown of financial allocations by donor and sector (in million euros)

Donor	Sector													
	Monetary / Banking	Government & institutions	Rural development	Energy	Transport	Education	Health	Water	Industry	Urban development	Gender	Environment	Private sector & NGOs	Culture / Youth
<b>Multilateral</b>														
• UNDP		1.8							0.1		0.3	0.5		0.2
• UNFPA							5.2							
<b>Other</b>														
• Japan			40.0				3.2	25.7						
• EU														
• Germany		0.8						63.8		10.0		2.7		
• France		0.8				14.0	0.3	21.5				9.7		5.0
• Spain				5.0			28.0	6.5	0.2			11.8	0.0	
• Italy			14.5				15.5		5.7			1.2		
• Sweden					0.5									
• UK								0.0				0.0		
• Finland														
• Netherlands														
• EC - MEDA - Other	6	29		11		35 Tempus	30	8		18		LIFE	21 EIDHR	13 Youth

Source: AMIS database (managed by the State Planning Commission with the support of UNDP)