

**European Neighbourhood and Partnership Instrument**

**Syrian Arab Republic**

**National Indicative Programme 2011-2013**

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## **1. INTRODUCTION**

### **EU-Syria relations**

Bilateral EU-Syria relations remain governed by the 1977 Cooperation Agreement, pending the signature of the Association Agreement.

At regional level, the Euro-Mediterranean Partnership, known as the Barcelona process, was relaunched at the Paris Summit in July 2008 as the Union for the Mediterranean. Syria is one of the 43 partners forming this partnership.

Syria's relations with EU Member States have gained momentum since 2008. A general consensus in favour of EU engagement with Syria emerged in 2009, recognising Syria's key role in a number of critical issues in the region. Rapprochement and renewed engagement are evidenced by the increasing number of high-level visits between Syria and the EU. This has been prompted by a number of positive developments in Syria's regional policies, such as the establishment of diplomatic relations with Lebanon, Syria's engagement in indirect peace talks with Israel during the second half of 2008, and rapprochement with Arab neighbours such as Iraq and Saudi Arabia. The process of negotiating the EU-Syria Association Agreement was re-launched in late 2008. Member States agreed to proceed with its signature in October 2009, Syria is expected to indicate when the Agreement can be signed jointly so that it can enter into force. Pending this decision, technical and financial cooperation remains the main channel for bilateral relations.

### **Developments in the country**

Syria adopted its reform agenda in May 2006, the tenth five-year plan (FYP 2006-2010), which set the priorities and targets for moving from a planned economy towards a social market economy. The FYP focuses mainly on economic growth, underpinned by a more prominent role for the private sector, the creation of social safety nets, and reform of the education and health sectors. It takes into account the need to reform the public administration and to involve local actors and civil society organisations. These objectives have not yet been developed into an executive plan with time-bound and prioritised actions. The details of its review have not been publicly presented, but there are indications that the orientations of the next plan (FYP 2011-2015) will not substantially deviate from the current FYP.

There have been some efforts to advance the decentralisation process, promote local development dynamics and modernise some parts of the administration. Syria has shown commitment to modernising the judiciary and willingness to promote the rights of children and women. Others aspects of the domestic political situation have remained unchanged. Internal stability has been maintained despite regional instability and the presence of a large population of Iraqi refugees. Syria has ensured, including with EU support, a protection space for Iraqi refugees, who enjoy access to the Syrian health and education systems and public infrastructure. UNHRC has registered 224 000 Iraqi refugees. Syrian Government estimates (with the inclusion of non registered Iraqi refugees) exceed the figure of one million.

GDP growth was 5.2% in 2008 despite the decline in oil output. This has been aided by progress in implementing reforms and higher regional demand for Syrian non-oil exports. Syria has introduced a number of new laws and legal revisions, in areas such as trade liberalisation and customs, consumer protection and competition laws, and public enterprise reform. Under the current Basic Finance Law 54/2006, state-owned enterprises will be permitted to retain their liquidity surpluses and a proportion of their post-tax profits. Legislative decree No 61 of 2009 abolishes exclusiveness, limitations and importing commissions for public bodies on all imports. The Ministry of Industry has developed a strategy paper that analyses the problems faced by the industrial sector and sets out recommendations. Furthermore, the Office of the Deputy Prime Minister for Economic Affairs will outsource a six-month comprehensive assessment of the industrial sector and sub-sectors to prepare an industrial development policy. The EC-funded 'Industry for Growth Programme', due to start in 2011, will support the Syrian government in the restructuring of public and private enterprises.

The new Damascus stock exchange opened in January 2009. Reform of taxation is in progress: although the introduction of a VAT system has been delayed several times, it is now foreseen for 2010. The authorities took significant steps to gradually eliminate subsidies by almost tripling the price of oil in May 2008. However, this was partially offset by a 25% increase in government salaries and pensions. Trade has increased as a result of free trade agreements and relaxed foreign exchange controls (a free trade agreement with Turkey has been in force since 2007 and Syria is a member of the Greater Arab Free Trade Agreement). Despite a fall in the share of Syrian trade, the EU remains Syria's main trading partner and the value of trade continues to increase.

The impact of the global financial and economic crisis is relatively moderate due to the low level of Syria's integration within international markets. Growth is expected to slow to 3% in 2009 due to decreased remittances and foreign direct investment from the Gulf region as well as a fall in consumer demand. Business closures were registered in early 2009 (in particular in the textile sector), which prompted the government to adopt a number of protectionist measures.

In addition to diminishing oil resources, Syria is facing increasing energy demand and environmental threats. Addressing climate change challenges and introducing renewable and efficient energy will be a government priority in the coming years.

The reduction in fuel subsidies and the high inflation rates had a negative impact on poverty rates in 2008. The poorest segments of Syria's population (13% living on less than US\$1/day and 30% on less than US\$2/day) are faced with high food prices. The rise in food prices is due to a reduced supply of food in the Syrian market caused by drought. Other factors are the increased demand owing to high population growth (2.7%), the influx of a large population of Iraqi refugees, and increased production costs following reductions in fuel subsidies. Unemployment is estimated to be high (between 10-20%) and may increase further as Syrians working abroad return because of the financial crisis. Rural areas are suffering the most severe socio-economic consequences, aggravated by the drought affecting the agriculture sector, the main source of income.

### **The validity of the response strategy in the CSP 2007-2013**

The CSP strategic priority ‘support for political and administrative reform’ encompasses modernising the administration, pursuing the decentralisation process, strengthening the rule of law and increasing respect for human rights. A number of administrative reforms have been initiated, including with EU-supported projects. These have been instrumental in the reform process through transfer of EU knowledge and skills to Syrian counterparts. EU support should be expanded to reach all parts of the administration, though with special attention to those ministries directly charged with the implementation of the Association Agreement. Efforts to advance the decentralisation process and promote local development dynamics must be pursued. Informed by the EU-funded ‘Municipal Modernisation Programme’ 2004-2008, a subsequent programme to promote decentralisation and local development is due to start in 2010. With regard to the judiciary, a number of steps have been taken in terms of training, recruitment of judges and cooperation in the fight against human and other trafficking. The Syrian judicial system remains hampered by shortcomings in management methods, human resources and insufficient facilities and infrastructure. The EU-funded ‘Judiciary Modernisation Programme’, due to start in 2011, will help address these issues. Syria has shown openness to promoting women’s and children’s rights. Advancing on human rights and democratisation remains a priority. The Association Agreement provides a framework to advance bilateral dialogue and cooperation in this respect.

In the economic sphere, regulation, infrastructure, public finance, and energy and water supply remain key areas for reform. The economic reform process under way in Syria has already brought about important improvements in the trade and investment climate. The financial sector has been opened to private operators. Trade barriers have been significantly reduced, as have customs duties. These steps must be consolidated through measures to diversify the economy and improve the exportability of Syrian products to help reduce the pressure on Syria’s trade balance. Foreign direct investment (FDI) should be encouraged in sectors other than real estate and tourism, such as industry, because of its strong potential for job creation. Promoting alternative sources of revenue to compensate for the declining oil revenues and addressing the challenges to the environment, including those related to climate change and water management, are also pressing issues.

With regard to social reform, there are indications that shifts in policy are beginning to occur and that reforms are more widely perceived as necessary. However, the consequences of the economic liberalisation process for the poorest layers of the population have made it even more urgent to implement reforms in the social area. The EC’s ongoing assistance in the social sector is helping the Syrian authorities to put in place a coherent approach to poverty reduction, upgrade the social safety nets and improve education and training systems. The need to address the problems of regional disparities and poverty remains pertinent given the persisting development gap among the regions and the increased migration flows from rural to urban areas.

### **Overview of the lessons learned since the implementation of the strategy in 2007**

Over recent years, the total ENPI allocation for Syria has significantly increased and the cooperation portfolio almost doubled with the addition of support for Iraqi refugees with

funds from ECHO, the Development Cooperation Instrument and the Instrument for Stability (see Annex 2). In addition, Syria is participating in regional Euro-Mediterranean projects in different areas such as investment promotion, statistics, justice and home affairs, environment, transport, energy and the information society. Several thematic programmes have also included Syria, such as that for Non-State Actors.

EC aid has mainly taken the form of technical assistance, capacity building and policy advice, and has in many cases been instrumental in the reform and modernisation process. A road map for the gradual introduction of sector budget support in Syria is envisaged, once the conditions for fiscal transparency are met and relevant sector strategies have been developed.

Overall, the results of cooperation have been satisfactory, although they have at times been hampered by the complexity of the programmes as well as by deficiencies in national coordination and ownership on the part of some the beneficiaries. Syrian counterparts often find it difficult to cope with complex EC procedures and requirements. The EC has therefore developed a more integrated and focused approach with a limited number of action plans, tendering procedures and pilot activities. Contacts between the EC and beneficiaries have been stepped up. The lessons learned, and the rationale behind the choices made, are further explained under each priority area.

## **2. NATIONAL INDICATIVE PROGRAMME FOR 2011-13**

### **2.1 Main priorities and goals**

Discussions with the Syrian authorities and consultations with stakeholders have confirmed the validity of the strategic objectives of the Country Strategy Paper for the years 2007-2013: support for political and administrative reform, support for economic reform and support for social reform. In line with these priorities, and taking into account EU policy objectives in areas such as climate change, aid for trade, Syria's reform agenda and donor activities in Syria, it is proposed to support the following sub-priorities:

#### *Support for political and administrative reform*

- Supporting implementation of the Association Agreement
- Strengthening the capacity of civil society organisations

#### *Support for economic reform*

- Fostering entrepreneurship and the competitiveness of enterprises
- Support for energy efficiency and the use/development of renewable energy sources

#### *Support for social reform*

- Sustainable development of targeted rural areas
- Reforming the education sector

The NIP provides a certain flexibility regarding the implementation of sub-priorities. The identification process for Annual Action Programmes provides an opportunity to assess the suitability and timeliness of addressing a particular sub-priority and to adapt the proposed measures to the evolution of EU policies and sector developments.

## **2.2 Indicative budget**

The overall budget for bilateral EU-Syria assistance under the NIP 2011-2013 will amount to €129 million, or an average of €43 million a year. This represents a 32.3% increase in comparison to the programming period 2007-2010, where a total of 130 million or €32 million a year have been earmarked (see Annex 2). This illustrates the EU's willingness to step up its support to advance Syria's reform agenda and provide adequate means to facilitate implementation of the Association Agreement upon its entry into force.

If, as a result of the financial and economic crisis, Syria is in need of macro-financial assistance loans, and if other means of provisioning the guarantee fund for such loans prove to be insufficient to meet needs, a contribution to the fund from the NIP can be considered.

## **2.3 PRIORITY AREA 1: Support for political and administrative reform**

### **Strategic context/justification**

Upon signature of the EU-Syria Association Agreement, the Agreement's articles relating to trade liberalisation and cooperation will apply provisionally in a wide range of sectors. This will represent a challenge for the Syrian administration. To this end, a programme is proposed to support the implementation of the Association Agreement, along the lines of those developed with most Mediterranean partners. This will translate the commitments and cooperation objectives of the Association Agreement into concrete priorities for action. The Tenth Syrian Five-Year Plan, in its 23<sup>rd</sup> chapter, stresses the importance of public administration reform.

The lessons learned from the Institutional and Sector Modernisation programme (2000-2008), which aimed to modernise Syrian institutions, point to the need to ensure strong commitment from the ministries and to address both the preparatory phase of reform

### **SUB-PRIORITY 1: SUPPORT FOR IMPLEMENTATION OF THE ASSOCIATION AGREEMENT (SAAP)**

#### **Description of the sub-priority**

The overall objective of the programme is to improve the capacity of Syrian institutions to meet the objectives laid down in the Association Agreement. This will in turn facilitate the reforms embodied in Syria's reform agenda, the Tenth Five Year Plan 2006-2010. A Programme Assistance Office will be established to coordinate with line ministries the identification, design and implementation of activities for the implementation of the Association Agreement.

The programme will include legislative alignment, institutional and capacity building, studies and awareness raising activities. The programme will be demand-driven and could indicatively address the following areas: trade, customs, rules of origin, standardisation and

technical regulations, competition, anti-dumping and safeguard procedures, intellectual property rights, right of establishment, sanitary and phyto-sanitary measures, transport, energy, environment, agriculture, research, telecommunications, statistics, public health and justice.

### **Specific objectives**

- Reinforcing the capacity of the Syrian administration to implement the Association Agreement;
- Facilitating the transition to a free trade area.

### **Expected results**

- Modernised and revised legislative and regulatory framework;
- Strengthened capacity of the services directly dealing with the implementation of the Association Agreement;
- Capacity to draw up and implement strategies and national policies is developed;
- Increased trade (goods, agriculture as well as services).

### **Indicators of achievement**

- Increased proportion of legislation and regulatory framework gradually aligned with EU and international standards;
- Number of civil servants acquainted with the provisions of the Association Agreement;
- Number of sectors/areas subject to a comprehensive reform strategy;
- Percentage increase in trade flows between EU and Syria and in direct investment.

## **SUB-PRIORITY 2: ENHANCING THE ROLE OF CIVIL SOCIETY ORGANISATIONS**

### **Description of the sub-priority**

The Tenth Five-Year Plan (2006-2010) encourages the contribution of civil society to social and economic development, the mobilisation of popular participation in collective plans for local development, and the extension of good governance practices.

The Syrian Trust for Development, a Syrian NGO umbrella, has developed with the UNDP a project to create, as from 2009, an independent and registered NGO platform, open to Syrian CSOs working in the field of socio-economic development. The platform will mainly seek to 1) build and strengthen CSO capacities; 2) create a network of CSOs to communicate and share experience; 3) support CSOs in stronger cooperation with the government.

With the proposed programme, EU support will strengthen civil society and other key actors in their active participation in Syria's development process. This will complement and widen the scope of current EU support for CSOs and local authorities under the thematic programme 'Non State Actors'. The programme will come under the supervision of the Ministry of Social Affairs and Labour, which has responsibility for these matters. Other key actors, including the Family Affairs Commission, could be involved in order to reach the objectives described below.

### **Specific objectives**

The expected long-term impact is the creation of more independent, strategy-oriented and needs-oriented CSOs with the vision and skills needed to participate in the socio-economic development of the country. The specific objectives of this action will include:

- The strengthening of key actors involved in social/human development;
- The development of the organisational and operational capacity of CSOs.

### **Expected results**

- Organisational and operational capacity of CSOs is improved;
- CSO interaction with national authorities is increased;
- Improved coordination and cooperation among Syrian CSOs.

### **Indicators of achievement**

- Number of services offered to CSOs;
- Number of successful projects implemented by CSOs;
- Network of CSOs created and operational;
- Number of CSO strategies and positions proposed to the authorities to influence reforms.

## **2.4 PRIORITY AREA 2: Support for economic reform**

### **Strategic context/justification**

To sustain growth, Syria will need to diversify its economy beyond the oil sector, improve private sector development, and increase its exports, including market access for industrial products. Much has already been done, including the opening of banking and finance to private investors, the unification of the exchange rate, and the removal of many barriers to trade. Also, reforms are currently being initiated to create a business environment conducive to the development of a diversified, competitive and export-oriented private sector. However, more needs to be done to encourage entrepreneurship and to increase the competitiveness of Syrian companies, in particular by introducing a number of reforms at company, business-sector and national levels.

A comprehensive programme dealing with entrepreneurship and the competitiveness of Syrian companies would be in line with the Tenth Five-Year Plan (FYP), in which the Syrian government clearly articulates its intension to modernise the economy at three levels: the company, business groups and the overall business environment<sup>1</sup>. This will help strengthen the position of Syrian companies in local and foreign markets and would be a powerful motor for driving diversification of the economy.

The programme will draw on the lessons learned from past and ongoing EC-supported economic reform programmes in Syria. These indicate that each economic sector faces specific problems. Therefore, reforms should be carried out at the micro, meso and macro levels on a sector-by-sector basis. The ‘institutional and sector modernisation facility programme’ (2000-2008) showed the importance of addressing the actual issues of reform implementation beyond analytical tasks.

Another asset for the Syrian economy, but also a challenge, is the energy sector. The government has taken important steps to reduce subsidies on petroleum, in response to the increasing deficit in the state budget and falling oil resources. However, based on population growth rates and increasing per capita consumption of energy, average energy demand is expected to continue to increase at a rate of not less than 4 % per year. Meeting this increased demand for energy poses a major economic, financial and environmental challenge. A policy of decreasing subsidies on petroleum should therefore be complemented by sound energy policies that place greater emphasis on improving energy efficiency and on developing and applying renewable energy resources. Promising renewable sources include wind, sun and biomass.

## **SUB-PRIORITY 1: PROMOTING ENTREPRENEURSHIP AND THE COMPETITIVENESS OF SYRIAN ENTERPRISES**

### **Description of the sub-priority**

During the 2007-2010 period, EU cooperation in the economic sphere has included support to enhance trade, simplify the business environment and reform public finance. Moreover, a project to upgrade enterprises, including the restructuring of state-owned enterprises, is due to start in 2010. Building on the lessons learned from these projects, a comprehensive programme with the overall objective of increasing economic growth and employment could tackle the remaining challenges targeted by the 10<sup>th</sup> FYP at company, business-sector and national levels:

- At the level of individual companies, priority would be given to the development of knowledge and know-how with a view to introducing modern technical skills, management methods (such as production efficiency) and international standards, including environmental ones.
- At the level of business sectors, the focus would be on supporting reform of sector-specific regulation or supporting sector-specific training centres. The

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<sup>1</sup> Tenth Five-Year Plan, Chapter 6.5, point 4.

institutional organisation of business sectors could be further supported through business associations or chambers.

- At national level, the programme would address cross-cutting themes such as education and training, research and innovation, the promotion of entrepreneurship (including business incubators and young and female entrepreneurship), access to finance, and the promotion of foreign direct investment.

The project will establish synergy with the work undertaken under the Euro-Mediterranean Charter for Enterprises, and seek to follow up on the relevant recommendations formulated in the framework of the implementation of the Charter.

### **Specific objectives**

- Improving the competitiveness and growth of targeted economic sectors in Syria;
- Improving the skills and know-how of the Syrian labour force, in line with market demand;
- Developing business-friendly legislation and procedures in Syria.

### **Expected results**

- Business start-ups stimulated;
- Employment increased within targeted economic sectors;
- Increased exports and sales within targeted economic sectors;
- Increased inflows of FDI to Syria.

### **Indicators of achievement**

- Number of new business start-ups created by the programme and share of those carried out by young and female entrepreneurs;
- Percentage increase in employment in targeted economic sectors;
- Percentage increase in exports and sales from targeted economic sectors;
- Percentage increase in FDI to Syria.

## **SUB-PRIORITY 2: ENERGY EFFICIENCY AND THE USE AND DEVELOPMENT OF RENEWABLE ENERGY RESOURCES**

### **Description of the sub-priority**

The overall objective is to give further impetus to the development of the energy sector reform in Syria, which would help bring about energy efficiency improvements and energy savings across all the sectors of the economy and would favour the development of the market for renewable energies in Syria. This programme should support the development and implementation of a comprehensive long-term strategy in Syria, based on an appropriate legislative and regulatory framework. It should in particular address barriers currently hampering the development of renewable energy in Syria and improvements in energy efficiency and energy savings: lack of a long-term strategy; dominance of the public sector, subsidies to the conventional energy sector, limited awareness of the benefits of renewable energy, lack of favourable tariffs and incentives, limited human resources, needs in terms of research and innovation and inadequate official assistance.

In 2009, Syria adopted laws on energy efficiency criteria for home applications and energy conservation, mainly aimed at reducing electricity consumption. The programme should support the implementation of such laws, and provide assistance to expand energy efficiency and renewable energy measures. In designing and implementing the programme, regional aspects will be taken into consideration, including the ongoing integration/interconnection of regional electricity and gas markets. Close cooperation and coordination will be ensured with relevant regional energy projects (EAMGM, MED-ENEC, MED-EMIP) and institutions (MCREEE, MEDREG) as well as with the Mediterranean Solar Plan endorsed in 2008 with the aim of developing renewable energy and a green electricity market in the Euro-Mediterranean region.

### **Specific objectives**

- Development of a national long-term energy strategy (policy mix), including legislative/regulatory aspects such as strengthening/creating regulators and agencies;
- Promotion of energy efficiency across all sectors of the economy, including buildings and industry;
- Development of renewable energy in Syria, notably through wind and solar power.

### **Expected results**

- Development of an appropriate master plan and legislative framework in the electricity sector;

- Energy efficiency and energy savings measures are expanded, at both household and industry level;
- Legislative framework in place for involving the private and public sector in energy efficiency and energy saving measures as well as renewable energy generation and distribution;
- Use of solar and wind energies is increased.

### **Indicators of achievement**

- Existence and implementation of a comprehensive energy sector strategy, covering the aspects of energy efficiency and energy savings and renewable energy;
- Perception of access to information on good practices, training materials, financing and market opportunities on energy efficiency and renewable energy;
- Number of incentives in place to promote energy efficiency, energy savings and renewable energy sources;
- Share of public and private actors applying energy efficiency and energy saving measures;
- Share of energy produced from renewable sources.

## **2.5 PRIORITY AREA 3: Social development**

### **Strategic context/justification**

Addressing the social effects of the economic transition remains a challenge. To date, the EU has financed a number of programmes in the areas of health, education and vocational training and the reform of social protection, which will run until 2012 or 2013. Most EU intervention is concentrated in the region of Damascus. Through support for Iraqi refugees, the EU has been able to extend its intervention to other regions. Very few donors have started operating in the Northern Eastern region. The NIP 2011-2010 will therefore address the problems of regional disparities and poverty, through targeted interventions in the poorest rural areas. This is in line with Syria's 10<sup>th</sup> FYP. Poverty is much higher in the North-Eastern region and is more prevalent in rural than in urban areas (62% versus 38%), resulting in significant rural to urban migration and associated social, economic and environmental problems.

In rural areas, almost 50% of the labour force is employed in agriculture. For the last three years, drought has particularly affected the North-Eastern region, the largest and most arid region of Syria, which has most of the country's livestock. Combined with soaring global food prices, the droughts have severely affected socio-economic conditions in the region. Another challenge is environmental and natural resource sustainability. Most water basins are under stress, and water deficits are expected to worsen, due to large and unsustainable water usage in agriculture and an expected increase in urban water demand.

In line with commitments to reach the UN Millennium Development Goals (MDGs), the reform of the education sector remains a top priority for the Syrian authorities. Syria has entered a period of transformation and modernisation of its economy and society, which must be underpinned by the development of human resources. Despite important achievements, the educational system still needs to be more productive and responsive to the labour market and future needs. Support for education, where the EU has emerged as the main donor, must be continued in order to enable the sector to keep pace with this evolution. Particularly important is improving the management, effectiveness and quality of education and developing more professionally oriented education. Drawing on the experience of EU cooperation in this field, notably the ‘Modernisation of Vocational Education and Training Programme’ and the ‘Secondary Education Support Programme’ (2004/09), it will be important to identify one single ministry and one specific sector of education for the smooth running of the programme.

### **SUB-PRIORITY 1: SOCIO-ECONOMIC DEVELOPMENT OF TARGETED RURAL AREAS**

#### **Description of the sub-priority**

The EU will support an integrated programme to foster the socio-economic development of a targeted rural area. The area will be selected in partnership with the Syrian authorities, giving priority to the least developed parts of the country. The programme should be community-based, participatory, and demand-driven, and implemented in a decentralised way. Under the programme, support would be provided to herders, poor and small scale farmers and their families to improve the productivity of their land, increase their output and incomes by introducing good agricultural practices and mitigate the impact of drought. This will include appropriate use of land, water and recommended technologies. Due consideration will be given to mitigation of and adaptation to climate change and adherence to international environmental standards. The programme should also assist in job creation and improving access to education, health and social services. Further, it should be closely linked with national policy developments on inter-regional and social transfers, in order to remain in line with the Syrian policy context and to ensure its long term sustainability.

The overall objective of this programme is poverty reduction and socio-economic development in the poorest rural areas of the country.

#### **Specific objectives**

- Increasing income generation from farming, secondary and tertiary rural activities;
- Introduction of efficient water management methods;
- Strengthening the institutional capacity of local stakeholders to address community needs, including access to education, health and social services.

#### **Expected results**

- Employment and income-generating opportunities are increased;
- Production and marketing quality standards in agriculture are developed;

- Strategies for sound management of water (for agriculture and households) are designed and implemented and environmental degradation is reduced;
- Better interaction between the rural communities and local authorities.

### **Indicators of achievement**

- Increase in volume and value of farmer production;
- Increased number of low-income families receiving social assistance benefits;
- Access to drinkable water is increased;
- Water deficits are decreased;
- Plans to address the social needs of rural communities are implemented by local authorities.

## **SUB-PRIORITY 2: REFORMING EDUCATION**

### **Description of the sub-priority**

At present, a Sector Policy Support Programme (first SPSP pilot in Syria) is being implemented following EU-specific procedures to support higher education reform. The programme aims to put in place the conditions needed to allow for future budget support. Important challenges still need to be addressed to ensure a well-performing education system. Based on the results of the ongoing SPSP Programme, and if the conditions are met (see section 2.6), support for education could be continued through sector budget support. There are still major shortcomings in the education sector: the still highly centralised decision-making process; the complex relations and roles of the different stakeholders; general inefficiency due to volume, capacity and infrastructure factors; poor definition of quality standards and quality control mechanisms; and the need to develop professionally oriented education.

### **Specific objectives**

To support reform of the education system to make it more responsive to the needs of the Syrian labour market and economy in particular:

- Making education more relevant to the needs of the economy and society;
- Improving governance and accountability procedures within the institutions.

### **Expected results**

- Development of innovative and relevant modes of learning and teaching;
- Improved access to the different levels of the education system;
- Strengthened links between the education system and the labour market.

## **Indicators of achievement**

- Curricula and teaching methods updated.
- Increase in admission and transfer rates at the different levels of the education system.
- Decrease in repetition and dropout rates at the different levels of the education system.
- Increased employment of school-leavers

## **2.6 Implementation**

At present, EU cooperation in Syria is implemented mainly through technical assistance. The development of a sector budget approach in Syria is currently under assessment subject to the eligibility criteria of article 15(2)e of the ENPI Regulation. The ongoing Public Finance Reform (2009-2013) is expected to improve public finance management by increasing budgeting transparency, accountability and predictability. A planned PEFA will provide further information in this area. The implementation of the special policy support programme 'Upgrading Higher Education Sector' (2007-2011) could provide a clear sector policy and strategy. Capacity building and legislative and regulatory alignment will form an important component of EU cooperation.

The implementation of projects under this NIP will ensure synergy, complementarity and consistency with relevant EU-funded regional projects. These include, inter alia, regional projects in the fields of enterprise (the Euro-Mediterranean Charter for Enterprises), energy and statistical cooperation (the MEDTAT II and MEDSTAT III programmes) and the Public Health Programme.

Interest rate subsidies can leverage investment by international financing institutions in the environment, energy and transport sectors, as explained in the Country Strategy Paper.

In the implementation of this indicative programme, considerations regarding climate change causes (mitigation) and effects (adaptation) will be taken into account within relevant areas of intervention. Available climate risk screening methodology will be used. Relevant stakeholders (including CSOs) will be consulted on the design of the programmes and (where relevant) will be involved in the monitoring process. Gender as a cross-cutting issue will be mainstreamed in all assistance measures.

## **2.7 Risks and assumptions**

The implementation of the National Indicative Programme will be closely linked to the evolution of EU-Syria relations. These are expected to enter a new stage with the signing of the EU-Syria Association Agreement, which will strengthen bilateral dialogue and cooperation on a wide range of subjects. Conversely, the failure to conclude the Association Agreement would lead to the stagnation of EU-Syria relations and prevent progress in certain aspects of cooperation.

Deterioration in the regional security situation may have a negative political and economic impact on Syria, and could prompt the government to redirect its priorities. Another risk is that the negative social consequences of reforms (notably under the economic priority) will hinder progress. For some beneficiaries, the lack of operational experience or insufficient institutional capacity will have to be mitigated through the provision of training and capacity building.

The key assumptions underlying this NIP is that the Association Agreement will provisionally enter into force in early 2010. Should this not be the case, the programme to support the Association Agreement would need to be adapted, to provide capacity building for the Syrian administration to carry out its reform agenda. Another assumption is that the various beneficiaries will remain committed to the reform process and that sufficient managerial, human and physical resources will be made available to ensure smooth implementation of the NIP. The latter will also be subject to consolidation of the steps already taken by Syria to improve inter-ministerial and donor coordination (see point 2.8 below).

## **2.8 Alignment, harmonisation and consultation**

The present NIP is in line with the Paris Declaration and EU commitments on aid effectiveness, covering a wide range of principles, in particular the strengthening of national development strategies and associated operational frameworks, effective coordination and complementarity with other donors, building on existing structures and systems, broad consultation with stakeholders, enhancing cooperation between civil society, and addressing coordinated and coherent reforms.

To prepare this NIP, a number of Brussels and Damascus-based CSOs were consulted. In order to stimulate discussion on the document, the Commission posted a concept note on the EU Delegation's website in March 2009 for comment, outlining the main assumptions for programming. A number of entities, Syrian CSOs and international organisations based in Syria provided contributions. The main recommendations resulting from this consultation stressed the need to provide support to NGOs, strengthen decentralisation, support social and political reforms, and ensure wider participation of young people and women in development and the mainstreaming of environmental issues.

Two formal rounds of discussions took place in March and May 2009 with the Syrian authorities to define the priorities for intervention. A workshop organised by the State Planning Commission on 4 May 2009, involving line ministries and the EU, provided an opportunity for a thorough discussion on the needs and priorities for assistance in the period 2011-13.

The EU Delegation has been very active in advancing donor coordination and the aid effectiveness agenda. In 2009, the Syrian authorities established a Donor Coordination Unit under the National Coordinator, the State Planning Commission (SPC). There have been some positive signs of improvement in the efficiency of the National Coordinator following the appointment of a new Deputy Head of the SPC in charge of international cooperation. The SPC has started holding regular meetings and contacts with the donor community. The coordination process is strongly supported by the UNDP and the EU Delegation, which leads coordination among the EU Member States (MS). A comprehensive EU MS donor

coordination matrix has been prepared (summary in Annex 5). Priorities for assistance under the NIP 2011-2013 were discussed with Member States in March and May 2009. Discussions aimed to improve complementarity and synergy among the different donors and open the possibility for potential areas of joint EU/MS activity.

Consultations were also held with EU MS and key international actors, including the European Investment Bank and the UNDP. Coordination has been particularly fruitful with some EU MS (DE, FR, IT), which have increased their bilateral cooperation in areas related to the EU strategic priorities. With regard to the EIB, most of its loans in Syria have been underpinned by technical assistance funded under the FEMIP TA Support Fund. Complementary action by the EU and the EIB will continue over the period 2011-2013. It will target as a priority projects in the field of private-sector development, human capital, transport, energy and the environment. In the environmental sector, the EIB will continue its interventions in the water and wastewater sector, and will become active in solid waste, renewable energy and energy efficiency projects. Regarding private sector development, in September 2009 the EIB signed the first private sector project in Syria (Syrian Cement) and will continue to support small and medium-sized enterprises through global loans. Once the Syrian legislation and regulatory framework is adapted to enable public-private partnerships (PPPs), the EIB will be active in this field as well.

Cooperation with UN agencies has also been boosted, in particular with UNICEF, UNDP, IMO and UNRWA, which implement a number of EU-funded projects.

## 2.9 BUDGET AND PHASING OF THE NIP 2011-2013

| Priorities of the National Indicative Programme                         | Budget (2011-13 in €m) | % of total budget |
|---|------------------------|-------------------|
| <i><u>Support for political and administrative reform:</u></i>          | 25                     | 19 %              |
| Supporting implementation of the Association Agreement Programme (SAAP) | 20                     |                   |
| Strengthening the capacity of civil society organisations               | 5                      |                   |
| <i><u>Support for economic reform:</u></i>                              | 57                     | 44 %              |
| Promoting entrepreneurship and the competitiveness of enterprises       | 37                     |                   |
| Energy efficiency and renewable energy sources                          | 20                     |                   |
| <i><u>Support for social reforms:</u></i>                               | 47                     | 37 %              |
| Sustainable development of targeted rural areas                         | 23                     |                   |
| Education   | 24                     |                   |
| <b>Total</b>  | <b>129</b>             | <b>100 %</b>      |

## ANNEXES

## ANNEX 1 LIST OF ABBREVIATIONS

|              |   |
|--------------|---|
| AAEU         | Syria Association Agreement   |
| CEP          | County environment profile  |
| CSP          | Country Strategy Paper  |
| CSOs         | Civil Society Organisations   |
| EAMGM        | Euro-Arab Mashreq Gas Market project, EU-funded   |
| EE           | Energy Efficiency   |
| EIB          | European Investment Bank  |
| ENP          | European Neighbourhood Policy   |
| ENPI         | European Neighbourhood and Partnership Instrument   |
| FDI          | Foreign Direct Investment   |
| FYP          | Five Year Plan (2006-2011)  |
| MED –EMIP    | EU project on Euro-Mediterranean energy market integration                                |
| MED – ENECEU | project on energy efficiency in the construction sector in the Mediterranean              |
| MCREEE       | Middle East and North Africa Centre for Renewable Energy and Energy Efficiency, EU funded |
| MEDREG       | Association of Mediterranean Energy Regulators, EU-funded                                 |
| MTR          | Mid-Term Review   |
| NGO          | Non-Governmental Organisation   |
| PEFA         | Public Expenditure and Financial Accountability   |
| RE           | Renewable Energy  |
| SAAP         | Support for implementation of the Association Agreement Programme                         |
| SPC          | State Planning Commission   |
| UNDP         | United Nations Development Programme  |

**ANNEX 2 A. BUDGET AND PHASING OF ASSISTANCE IN THE NIP 2007-2010**

| 2007   | 2008 | 2009 | 2010      | 07-10      | % of total   |
|--|------|------|-----------|------------|--------------|
| <b><i>Support for political and administrative reforms</i></b>   |      |      |           | <b>30</b>  | <b>23.1</b>  |
| Building capacity for human rights (linked to the creation of a national institution)  |      | *    |           |            |              |
| Promoting decentralisation and local development   |      | 20   |           | 20         |              |
| Reforming and modernising the judiciary**  |      |      | 10        | 10         |              |
| <b><i>Support for economic reform</i></b>  |      |      |           | <b>50</b>  | <b>38.5</b>  |
| Trade Enhancement Programme  | 15   |      |           | 15         |              |
| Business Environment Simplification Programme  | 5    |      |           | 5          |              |
| Supporting public finance reform   |      | 10   |           | 10         |              |
| Promoting business development (including corporatisation of state-owned enterprises and industrial upgrading — in collaboration with the EIB)                       |      |      | 20        | 20         |              |
| <b><i>Support for social reform</i></b>  |      |      |           | <b>40</b>  | <b>30.8</b>  |
| Reforming social protection  |      |      | 5         | 5          |              |
| Health Sector Modernisation Programme II   |      |      | 15        | 15         |              |
| Reforming upper secondary education  |      | 10   |           | 10         |              |
| Upgrading the vocational education and training system and promoting in-service training   |      |      | 10        | 10         |              |
| Interest-rate subsidies for EIB loans (to accompany decentralisation)  |      |      |           | 10         | <b>7.7</b>   |
| <b>TOTAL</b>   |      |      | <b>20</b> | <b>20</b>  | <b>40</b>    |
|  |      |      | <b>50</b> | <b>130</b> | <b>100 %</b> |
| * Additional resources will be made available for this priority  |      |      |           |            |              |
| ** The budget could be reduced to €5 million to provide for a €5 million programme to support implementation of the AA provisionally due to enter into force in 2010 |      |      |           |            |              |

## ANNEX 2 B. EU ASSISTANCE TO SUPPORT SYRIA IN DEALING WITH THE INFLUX OF IRAQI REFUGEES

| Title   | Source of Funding | Budget (€mil.) | Duration                     |
|---|-------------------|----------------|------------------------------|
| Support for Syria's primary and secondary health facilities in areas affected by the influx of Iraqi refugees   | DCI-MED           | 9              | 2008 – 04/2010               |
| Support for education in areas affected by a large influx of refugees from Iraq (Phase I + II)  | Phase I, IfS      | 3              | 10/ 2007 04/2009             |
|   | Phase II, DCI     | 4              | 04/2009 03/ 2012             |
| Direct assistance to Iraqi female-headed families and victims of trafficking in Syria   | IfS               | 1.48           | 10/2008 04/2010              |
| Emergency support for the education sector affected by a large influx of Iraqi refugees   | DCI               | 10             | 05/2009 04/2012              |
| Support for Syria's solid and medical waste management in Iraqi refugee areas   | DCI               | 10             | 48m from signature of the FA |
| <i>Pipeline: 'Preventing marginalisation, radicalisation and conflict through empowerment and enhanced employability for refugee youths in the Syrian Arab Republic'.</i> | IfS               | 4,7            | 18m from signature of FA     |

### EIB loans in 2000-2009

The European Investment Bank (EIB) has been very active in Syria, especially since the year 2000. With a total loan amount of approx. EUR 1.4bn between 2000 and 2009, the Syrian lending portfolio is EIB's second largest portfolio in the Near East region

| Project title            | Signature Finance Contract | EIB loan amount (EUR m) |
|--------------------------|----------------------------|-------------------------|
| Electricity Transmission | 14/12/2000                 | 75                      |
| Electricity Distribution | 05/02/2001                 | 115                     |
| Syrian Healthcare        | 15/06/2002                 | 100                     |
| Port of Tartous          | 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    | 100         |
| Damascus Rural Water & Sanitation            | 31/05/2006    | 45          |
| SME Fund II                                  | 06/12/2007    | 80          |
| Deir Ali II                                  | 08/12/2008    | 275         |
| Syrian Cement Company                        | 29/09/2009    | 105         |
| Syria Municipal & Environment Infrastructure | Expected 2009 | 50          |
|  | <b>Total:</b> | <b>1435</b> |

**Ongoing supporting technical assistance from the FEMIP TA Support Fund**

| <b><u>Project</u></b>                        | <b><u>EC funding<br/>(EUR m)</u></b> |
|--|--------------------------------------|
| ME Fund II                                   | 2.8                                  |
| Rural Telecoms                               | 3.0                                  |
| Damascus Metro                               | 2.5                                  |
| Damascus Rural Water & Sanitation            | 5.9                                  |
| Syria Municipal & Environment Infrastructure | 0.2                                  |
| Aleppo and Homs cancer centres               | 1.3                                  |
| Syrian Healthcare II                         | 0.2                                  |
| Aleppo WWTPs                                 | 2.1                                  |
| Banias City WWTP                             | 0.2                                  |
|  | .....                                |
|  | <b>18.2</b>                          |

**Risk capital**

On 18 December 2008, the EIB signed a commitment to participate in a capital increase of approx EUR 2 m for the First Microfinance Institution Syria. This project is the first ever FEMIP risk capital operation in Syria.

### ANNEX 3 MILLENNIUM DEVELOPMENT GOALS

| Millennium Development Goals  |      |      |      |      |
|---|------|------|------|------|
|   | 1990 | 1995 | 2000 | 2007 |
| <b>Goal 1: Eradicate extreme poverty and hunger</b>   |      |      |      |      |
| Employment to population ratio, 15+, total (%)  | 47   | 49   | 48   | 45   |
| Employment to population ratio, ages 15-24, total (%)   | 38   | 41   | 40   | 33   |
| GDP per person employed (annual % growth)   | 8    | 0    | -6   | 3    |
| Income share held by lowest 20 %  | ..   | ..   | ..   | ..   |
| Malnutrition prevalence, weight for age (% of children under 5)                                 | ..   | ..   | ..   | ..   |
| Poverty gap at \$ 1.25 a day (PPP) (%)  | ..   | ..   | ..   | ..   |
| Poverty headcount ratio at \$ 1.25 a day (PPP) (% of population)                                | ..   | ..   | ..   | ..   |
| Prevalence of undernourishment (% of population)  | 5    | 5    | ..   | 5    |
| Vulnerable employment, total (% of total employment)  | ..   | ..   | 42   | ..   |
| <b>Goal 2: Achieve universal primary education</b>  |      |      |      |      |
| Literacy rate, youth female (% of females aged 15-24)   | ..   | ..   | 93   | 92   |
| Literacy rate, youth male (% of males aged 15-24)   | ..   | ..   | 97   | 95   |
| Persistence to last grade of primary, total (% of cohort)                                       | 93   | ..   | 89   | 95   |
| Primary completion rate, total (% of relevant age group)  | 89   | 84   | 86   | 114  |
| Total enrolment, primary (% net)  | ..   | ..   | 96   | ..   |
| <b>Goal 3: Promote gender equality and empower women</b>  |      |      |      |      |
| Proportion of seats held by women in national parliaments (%)                                   | 9    | 10   | 10   | 12   |
| Ratio of female to male enrolments in tertiary education  | ..   | ..   | ..   | ..   |
| Ratio of female to male primary enrolment   | 90   | 91   | 92   | 96   |
| Ratio of female to male secondary enrolment   | 73   | ..   | 92   | 97   |
| Share of women employed in the non-agricultural sector (% of total non-agricultural employment) | 10.6 | ..   | 11.2 | ..   |

|   |     |     |     |     |
|---|-----|-----|-----|-----|
| Goal 4: Reduce child mortality  |     |     |     |     |
| Immunisation, measles (% of children aged 12-23 months)                                 | 87  | 90  | 96  | 98  |
| Mortality rate, infant (per 1000 live births)   | 30  | 24  | 19  | 15  |
| Mortality rate, under-5 (per 1000)  | 37  | 28  | 22  | 17  |
| Goal 5: Improve maternal health   |     |     |     |     |
| Adolescent fertility rate (births per 1000 women aged 15-19)                            | ..  | 61  | 52  | 35  |
| Births attended by skilled health staff (% of total)                                    | ..  | 77  | 70  | 93  |
| Contraceptive prevalence (% of women aged 15-49)  | ..  | 40  | 45  | 58  |
| Maternal mortality ratio (modelled estimate, per 100000 live births)                    | ..  | ..  | ..  | 130 |
| Pregnant women receiving prenatal care (%)  | ..  | 51  | 71  | 84  |
| Unmet need for contraception (% of married women aged 15-49)                            | ..  | ..  | ..  | ..  |
| Goal 6: Combat HIV/AIDS, malaria, and other diseases                                    |     |     |     |     |
| Children with fever receiving antimalarial drugs (% of children under age 5 with fever) | ..  | ..  | ..  | ..  |
| Condom use, population aged 15-24, female (% of females aged 15-24)                     | ..  | ..  | ..  | ..  |
| Condom use, population aged 15-24, male (% of males aged 15-24)                         | ..  | ..  | ..  | ..  |
| Incidence of tuberculosis (per 100000 people)   | 61  | 46  | 35  | 24  |
| Prevalence of HIV, female (% aged 15-24)  | ..  | ..  | ..  | ..  |
| Prevalence of HIV, male (% aged 15-24)  | ..  | ..  | ..  | ..  |
| Prevalence of HIV, total (% of population aged 15-49)                                   | ..  | ..  | ..  | ..  |
| Tuberculosis cases detected under DOTS (%)  | ..  | 16  | 84  | 80  |
| Goal 7: Ensure environmental sustainability   |     |     |     |     |
| CO2 emissions (kg per PPP \$ of GDP)  | 1.3 | 1.0 | 0.9 | 0.9 |
| CO2 emissions (tonnes per capita)   | 2.8 | 3.0 | 2.9 | 3.6 |
| Forest area (% of land area)  | 2   | 2   | 2   | 3   |
| Improved sanitation facilities (% of population with access)                            | 81  | 83  | 87  | 92  |
| Improved water source (% of population with access)                                     | 83  | 83  | 86  | 89  |

|   |      |      |      |      |
|---|------|------|------|------|
| Marine protected areas (% of surface area)                                    | ..   | ..   | ..   | ..   |
| Nationally protected areas (% of total land area)                             | ..   | ..   | ..   | 0.7  |
| Goal 8: Develop a global partnership for development                          |      |      |      |      |
| Aid per capita (current US\$)   | 54   | 24   | 10   | 4    |
| Debt service (PPG and IMF only, % of exports, excluding workers' remittances) | ..   | ..   | ..   | ..   |
| Internet users (per 100 people)   | 0.0  | 0.0  | 0.2  | 17.4 |
| Mobile cellular subscriptions (per 100 people)                                | 0    | 0    | 0    | 31   |
| Telephone lines (per 100 people)  | 4    | 7    | 10   | 17   |
| Other   |      |      |      |      |
| Fertility rate, total (births per woman)                                      | 5.4  | 4.4  | 3.7  | 3.1  |
| GNI per capita, Atlas method (current US\$)                                   | 890  | 880  | 960  | 1.78 |
| GNI, Atlas method (current US\$) (billions)                                   | 11.3 | 12.9 | 15.9 | 35.3 |
| Gross capital formation (% of GDP)  | 16.5 | 27.2 | 17.3 | 19.8 |
| Life expectancy at birth, total (years)                                       | 68   | 71   | 72   | 74   |
| Literacy rate, adult total (% of people aged 15 and above)                    | ..   | ..   | 83   | 83   |
| Population, total (millions)  | 12.7 | 14.6 | 16.5 | 19.9 |
| Trade (% of GDP)  | 56.3 | 69.0 | 64.0 | 81.9 |

Source: World Development Indicators database

**ANNEX 4 MAIN ECONOMIC INDICATORS (COMPILED BY EU — DG ECFIN)**

| <i>Main economic indicators – Syria</i> | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Real sector                             |             |             |             | prel.       | proj.       |
| Real GDP growth (% change)              | 4.5         | 5.1         | 4.2         | 5.2         | 2.9         |
| Real non-oil GDP growth (% change)      | 7.5         | 6.9         | 5.8         | 6           | 4.7         |
| GDP nominal (SYR £, billion)            | 1491        | 1709        | 2025        | 2567        | 2477        |
| GDP nominal (EUR, billion)              | 25.2        | 28.9        | 34.3        | 43.5        | 41.9        |
| GDP nominal (USD billion)               | 28.6        | 33.5        | 40.6        | 55.2        | 50.7        |
| GDP per capita (EUR)                    | 1306        | 1417        | 1649        | 2042        | 1922        |
| GDP per capita (USD)                    | 1482        | 1642        | 1952        | 2592        | 2326        |
| <b>Inflation (period average)</b>       | 7.2         | 10.4        | 4.7         | 14.5        | 8           |
| <b>Social indicators</b>                |             |             |             |             |             |
| Unemployment (officially registered)    | 8           | 8.3         | 8.4         | 9           | 8.5         |
| Life expectancy at birth (years)        | 73.6        | 73.9        |             |             |             |
| Adult literacy (% aged 15 and older)    | 80.8        | 82.5        |             |             |             |
| Population (annual growth rate %)       | 2.2         | 2.2         | 2.2         | 2.2         | 2.2         |
| Poverty (HPI %)                         | 13.6        | 13          |             |             |             |
| Human development index                 | 0731        | 0736        |             |             |             |
| Population (million)                    | 19.3        | 20.4        | 20.8        | 21.3        | 21.8        |
| <b>Fiscal sector</b>                    |             |             |             |             |             |
| Total revenues (% GDP)                  | 24          | 25.5        | 22.3        | 21.4        | 19          |
| Oil-related revenues                    | 7.1         | 7.3         | 4.9         | 4.7         | 3           |
| Non-oil revenues                        | 16.9        | 18.2        | 17.3        | 16.7        | 16          |
| Total expenditure (% GDP)               | 28.5        | 26.6        | 25.7        | 24.9        | 27.6        |
| Current expenditure                     | 18.1        | 16.3        | 16.1        | 15.4        | 16.5        |
| Development expenditure                 | 10.4        | 10.3        | 9.6         | 9.5         | 11.5        |
| Central govt. balance (% GDP)           | -4.5        | -1.2        | -3.4        | -3.5        | -9          |
| Non-oil budget balance                  | -11.6       | -8.5        | -8.4        | -8.2        | -11.3       |
| Gross public debt (% GDP)               | 35.9        | 36          | 28.9        | 22          | 37          |
| <b>Monetary sector</b>                  |             |             |             |             |             |
| Credit to private sector (% change)     | 45.9        | 17.9        | 20.2        | 25.8        | 18          |
| Credit to private sector (% of GDP)     | 14.5        | 14.9        | 15.1        | 15          | 18.3        |
| Broad money (M2) (% change)             | 11.5        | 9.4         | 9.8         | 19          | 13          |
| Broad money (SYR £ billion)             | 1101        | 1205        | 1323        | 1575        | 1780        |
| Degree of monetisation (M2/GDP, %)      | 73.8        | 70.5        | 65.3        | 61.4        | 71.9        |

| <b>External sector</b>                              |       |       |      |       |       |
|---|-------|-------|------|-------|-------|
| Current account balance (% GDP)                     | -2.2  | -2.8  | -3.3 | -4.1  | -4.5  |
| Balance of goods and services (% GDP)               | -3.1  | -4.8  | -6.1 | -5    | -6    |
| Non-oil exports of goods and services (% GDP)       | 26.9  | 27.2  | 27.6 | 24.5  | 28    |
| Non-oil imports of goods and services (% GDP)       | -36.4 | -35.5 | -34  | -28.3 | -32.9 |
| Oil balance (% GDP)                                 | 2.1   | 0     | -2.4 | -2.6  | -2.7  |
| Remittances (% of GDP)                              | 2.7   | 1.8   | 2    | 1.5   | 1.5   |
| Foreign direct investment (% GDP)                   | 2.7   | 2.6   | 2.8  | 3.8   | 3.7   |
| Import cover of reserves (months)                   | 16.4  | 13.7  | 11.6 | 9.4   | 10.5  |
| <b>External vulnerability</b>                       |       |       |      |       |       |
| External public debt (% GDP)                        | 23.4  | 19.2  | 14.5 | 10.4  | 12.1  |
| Debt service to exports ratio                       | 4.7   | 5.4   | 7.3  | 7.5   |       |
| Gross reserves (excl. gold, USD billion)            | 6.1   | 6.7   | 6.4  | 6.7   | 6     |
| <b>Financial sector</b>                             |       |       |      |       |       |
| Lending rate  | 8     | 7.5   | 7.5  | 7     |       |
| Weighted avg. of nominal exch. rate (per USD, avg.) | 52.2  | 51    | 49.9 | 46.5  |       |
| Real effective exchange rate (1990=100)             | 59.8  | 66    | 67.9 |       |       |
| Real effective exchange rate (in %)                 | 1.7   | 10.7  | 4.9  | 9     |       |

Sources: Syrian authorities, IMF and EIU.

**ANNEX 5 SYNTHETIC SUMMARY OF THE DONOR COORDINATION MATRIX FOR SYRIA**

| <b>Sectors</b>                       | AT          | BE          | CY               | CZ               | DK          | FR          | DE                    | EL                  | IR          | IT                   | NL          | ES                  | SW          | UK                | EC                    | <b>Total</b>          |
|--------------------------------------|-------------|-------------|------------------|------------------|-------------|-------------|-----------------------|---------------------|-------------|----------------------|-------------|---------------------|-------------|-------------------|-----------------------|-----------------------|
| Agriculture/<br>Forestry             | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 14 386 000.00        | 0.00        | 0.00                | 0.00        | 0.00              | 0.00                  | 14 386 000.00         |
| Business/<br>Private sector/Trade    | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 12 000 000.00         | 0.00                | 0.00        | 2 200 000.00         | 0.00        | 250 000.00          | 0.00        | 0.00              | 47 000 000.00         | 61 450 000.00         |
| Civil Society/<br>Human Rights       | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 523 603.00          | 0.00        | 869 548.84           | 0.00        | 0.00                | 0.00        | 305 318.69        | 3 058 563.41          | 4 757 033.94          |
| Communication<br>/Information        | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 0.00                 | 0.00        | 100 000.00          | 0.00        | 0.00              | 0.00                  | 100 000.00            |
| Culture                              | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 93 334.00           | 0.00        | 6 887 460.00         | 0.00        | 25 940.00           | 0.00        | 0.00              | 234 272.00            | 7 241 006.00          |
| Education                            | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 1 568 370.00          | 0.00                | 0.00        | 0.00                 | 0.00        | 0.00                | 0.00        | 0.00              | 34 000 000.00         | 35 568 370.00         |
| Energy                               | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 500 000.00            | 0.00                | 0.00        | 7 963 030.00         | 0.00        | 0.00                | 0.00        | 0.00              | 0.00                  | 8 463 030.00          |
| Environmental protection             | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 600 000.00           | 0.00        | 0.00                | 0.00        | 0.00              | 358 820.00            | 958 820.00            |
| Governance                           | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 7 000 000.00          | 133 333.00          | 0.00        | 0.00                 | 0.00        | 1 030 000.00        | 0.00        | 43 880.90         | 63 000 000.00         | 71 207 213.90         |
| Health                               | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 722 327.00          | 0.00        | 15 413 332.00        | 0.00        | 1 132 974.00        | 0.00        | 0.00              | 39 728 648.33         | 56 997 281.33         |
| Multisector/<br>Cross-cutting        | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 2 418 400.00         | 0.00        | 0.00                | 0.00        | 0.00              | 0.00                  | 2 418 400.00          |
| Other                                | 0.00        | 0.00        | 20 000.00        | 39 800.00        | 0.00        | 0.00        | 8 000 000.00          | 0.00                | 0.00        | 1 000 000.00         | 0.00        | 650 000.00          | 0.00        | 0.00              | 200 000.00            | 9 909 800.00          |
| Poverty reduction                    | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 0.00                 | 0.00        | 0.00                | 0.00        | 0.00              | 10 000 000.00         | 10 000 000.00         |
| Tourism and antiquities              | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 355 000.00            | 225 000.00          | 0.00        | 1 340 800.00         | 0.00        | 0.00                | 0.00        | 0.00              | 0.00                  | 1 920 800.00          |
| Water supply and sanitation          | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 156 650 000.00        | 267 000.00          | 0.00        | 0.00                 | 0.00        | 157 631.00          | 0.00        | 0.00              | 13 000 000.00         | 170 074 631.00        |
| <b>Total</b>                         | <b>0.00</b> | <b>0.00</b> | <b>20 000.00</b> | <b>39 800.00</b> | <b>0.00</b> | <b>0.00</b> | <b>186 073 370.00</b> | <b>1 964 597.00</b> | <b>0.00</b> | <b>53 078 570.84</b> | <b>0.00</b> | <b>3 346 545.00</b> | <b>0.00</b> | <b>349 199.59</b> | <b>210 580 303.74</b> | <b>455 452 386.17</b> |
| Debt relief                          | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 85 790 431.36         | 0.00                | 0.00        | 0.00                 | 0.00        | 0.00                | 0.00        | 0.00              | 0.00                  | 85 790 431.36         |
| Regional/<br>Sub-regional programmes | 0.00        | 0.00        | 0.00             | 0.00             | 0.00        | 0.00        | 0.00                  | 0.00                | 0.00        | 1 155 000.00         | 0.00        | 1 259 819.00        | 0.00        | 124 997.00        | 49 838 411.00         | 52 378 227.00         |

## ANNEX 6 SUMMARY AND RECOMMENDATIONS OF THE COUNTRY ENVIRONMENT PROFILE, MARCH 2009

Syria faces serious natural and man-made environmental problems that need to be urgently addressed. The most pressing are water scarcity and contamination, soil degradation, air pollution, inappropriate solid waste treatment and disposal, biodiversity loss, and coastal and maritime pollution. Environmental degradation is now affecting the health and economic productivity of the population. The incidence of environment-related disease is high, and a recent World Bank study came to the conclusion that the annual costs of environmental degradation are 2.3% of GDP. Undesirable environmental changes are driven by many factors, including economic growth, population growth, urbanisation, intensification of agriculture, and rising energy use and transportation. However, with better understanding and management there is scope to improve the current situation. Poverty still remains at the root of several environmental problems. The fact that environmental issues have ranked low in state planning over a long period is a major reason for Syria's relatively weak performance on environmental issues. Syria is now in the process of catching up with regional and international environmental standards.

### Conclusions and recommendations

Syria was relatively late to engage with environmental issues. Despite some early efforts, it only recently began to build up a full range of capacities for environmental management, which will still need considerable time to become fully effective. In line with the *National Environmental Action Plan* (NEAP) issued in 2003, major environmental challenges and priorities are the depletion and contamination of water resources, soil degradation and land contamination, air pollution, degradation of urban areas, and loss of natural resources and biodiversity. The highest priority, however, is the creation of conditions conducive to effective environmental management. Among other factors, this includes responding to the following issues:

**Institutional Capacities.** Syria has an adequate institutional setup for the environment with a well-established environment ministry, provincial environment directorates, an *Environmental Studies Centre* as the scientific arm of the environment ministry, and environment directorates in almost all sectoral ministries. However, the State is often not able to provide attractive conditions for highly qualified expertise and to train staff to the degree necessary.

**Public Participation.** Environmental protection is still largely understood as a government task, not as a task of society as a whole. Civil society plays a relatively small role in environmental management. Participation by the various stakeholder groups in environmental decision-making is still only beginning. The Tenth Five-Year Plan covering the period 2006-2010 is the first to open the door for strengthening civil society, aiming to establish it as a third power alongside the government and private sector. This is expected to have a great influence on the management of environmental issues in future.

**Legislative Framework.** With the Environmental Law (Law No 50) issued in 2002, the Syrian government laid the foundations for the comprehensive regulatory framework necessary to improve the environmental situation in the country. A number of executive orders, decrees, regulations, environmental standards, by-laws, etc. have since been issued, but the process is still far from being complete.

Environmental Monitoring and Knowledge Management. It is often difficult to obtain updated information on the environmental situation. An information-sharing culture is not well developed in Syria's environmental institutions. Environmental information and knowledge are often still regarded as the government's domain, with environmental information not being freely disclosed to the public. Although the situation has changed considerably in recent years, shortages in information-sharing still hamper effective environmental management. The capacities of institutions such as the *Environmental Studies Centre* (ESC), which is the central institution for collecting and evaluating environmental information and developing concrete policies for implementation by the environment ministry, need to be strengthened.

Awareness of Environmental Issues. Awareness of the environment has increased a lot in recent years, among both decision-makers and the broader public. Environmental concerns are now taken into consideration in many decisions. The Tenth Five-Year Plan and the introduction of EIAs are good examples of the enhanced role that the environment now plays in Syrian development policy. However, environmental awareness is still in its infancy in Syria, as can be shown by the sometimes incautious handling of environmental problems. Environmental awareness campaigns are conducted mainly on a small scale and only a few campaigns reach the broader public.

Mainstreaming the Environment. The environment as a cross-cutting issue has to be tackled by many sectors and sub-sectors. The overall environmental authority in Syria is the *Council for Environmental Protection and Sustainable Development*, which comprises representatives of all ministries and other relevant stakeholder groups to ensure that environmental issues are integrated into their work. In addition, most ministries have environmental directorates, which are interlinked with the *Ministry of Local Administration and Environment* through a number of committees and working groups. *Strategic Environmental Assessments*, a system of incorporating environmental considerations into policies, plans and programmes, are at the early discussion stage in Syria. Not being legally enforced is a clear deficit of mainstreaming the environment in national planning.

## Recommendations

Syria is a modestly industrialised country, classified as a *Lower Middle Income Country*. Not only the lack of financial means sometimes hampers the implementation of environmental protection: it is rather a lack of knowledge, institutional and personal capacities and awareness of environmental concerns. To allow Syrian institutions to become more efficient and self-sufficient, donor-funded operations should combine the provision of financial means with Technical Assistance (TA).

Priority should therefore be given to projects and operations that are innovative for Syria and include aspects such as technology transfer and the use of approaches that are otherwise not available or not widely applied in Syria. At the same time, projects should include capacity building for strengthening environmental institutions, and should build on the reform agenda of the Government of Syria as laid down in the Tenth Five-Year Plan, covering aspects such as decentralisation, strengthening civil society, etc. Projects should also adhere to the polluter-pays principle and strengthen the responsibility of the private sector and state-owned companies. Especially in the fields of solid waste management, sewage treatment and water supply (drinking water and irrigation), investment should go hand in hand with efforts to overcome the currently poor cost-recovery of investment and operational costs, in order to increase sustainability. Priority should be given to projects that yield significant global

environmental benefits, in addition to local and national benefits, and which expressly contribute to achieving the *Millennium Development Goals* (MDGs), in particular poverty alleviation. Financial instruments that leverage additional national funds for the environment (such as subsidies for environmental loans) should be regarded as an important asset.

This CEP study has shown that consideration should be given to the environmental issues noted. It reflects the fact that the water sector ranks high among the environmental problems, and also takes into account Syria's obligations under international environmental conventions (e.g. climate change, biodiversity, combating desertification). In the light of the current environmental situation and tendencies in Syria, as well as the political, legislative and institutional framework governing environmental management, the following recommendations can be made:

- Mitigation of climate change through promotion of energy efficiency and renewable energy, building on the initial experiences of Syrian institutions in implementing pilot measures;
- Adaptation to climate change combined with combating desertification in areas of high urgency, such as the semi-desert badia region of central and eastern Syria;
- Development and introduction of decentralised sewage treatment systems, possibly combined with biodiversity conservation, to create a model for integrated natural resource management in rural areas and smaller municipalities, where 45 % of the Syrian population lives;
- Support for the establishment of municipal and industrial sewage treatment facilities in pollution hot-spot areas identified in the Tenth Five-Year Plan and the Horizon 2020 initiative;
- Integrated watershed management for preserving groundwater resources, and for conserving biodiversity at the same time. The water sector is regarded as the top national priority in the Tenth Five-Year Plan and other strategies and policies;
- Municipal pollution control, e.g. in the fields of sanitary landfill sites, air pollution control, and waste water treatment, as a priority identified by the Tenth Five-Year Plan, the Horizon 2020 initiative and other strategies and policies;
- Air pollution control and management programmes in air pollution hot-spot areas, including those identified by the Horizon 2020 initiative.

We recommend that the European Union strengthens its interventions in these domains, thus building on existing Syrian national plans, policies and efforts.