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Evaluating Economic Reforms in Syria

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For the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

Berlin, 2007

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Final Report

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Berlin, December 2007

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Executive Summary

Aims and Approach

This report provides an **overview of Syria's economic reform process** and the **challenges facing the Syrian economy**. It is based on a fact finding mission in May 2007 by researchers of the German Institute of Economic Research (DIW Berlin) during which a series of interviews were conducted with various Syrian government as well as non-government representatives. These interviews have been complemented with a review of most recent reports and the literature of stabilisation and structural reform processes in developing countries, Eastern Europe and the Newly Industrialising countries of South East Asia. In contrast to most other economic reports on Syria, this report attempts not merely to evaluate the current state of reforms but **to analyse the underlying institutional and systemic barriers that could hinder future progress**.

Key Findings

As the report shows, Syria has made great strides towards agreeing and implementing economic reforms. Nonetheless, the Syrian economy faces **three major challenges**:

1. to achieve the **shift from an oil-exporting economy towards a net oil importer**;
2. to **manage the transition from a socialist planned economy towards a liberalised social market economy**; and
3. to **reduce poverty and enhance human development** through targeted interventions which ensure a more equitable distribution of wealth and equal economic opportunities for wealth creation across all segments of the Syrian society.

Even though poverty in Syria decreased in recent years, 30.1 % of Syrians live in poverty (using the upper bound of the poverty line taking into account actual consumption patterns of the poor).

Declining oil revenues which in the past constituted major government revenue are placing a severe constraint on the public budget balance. Deducting oil revenues reveals a **large budget**

deficit which indicates the serious challenge to macro-economic stability if oil revenues cease without serious adjustment of Syria's public revenue and expenditure structure.

According to the findings of the mission, the following factors constitute the main problem for the imbalance between public expenditure and non-oil revenues:

1. Subsidies -**especially energy subsidies-**, **drain public resources**.
2. The **public sector as administrative body is too large** and consequently inefficient.
3. **Non-oil revenues are small**, due to a malfunctioning taxation system.
4. The **remaining scarce public resources are allocated inefficiently**, often favouring non-productive sectors rather than focusing investment on those sectors which will render the highest economic and social returns.

At the same time, several major obstacles hinder the transition of the Syrian economy into a market economy:

1. Here the analysis points specifically to the **challenge of state-owned enterprises** and the **taboo to phase out soft-budget constraints** not to mention the impossibility of their **privatisation**.
2. At the same time, increased private sector involvement is impeded through a sub-optimal business environment which creates disincentives to invest. **Costs of doing business remain high**, due to the prevalence of a number of serious non-tariff barriers but especially due to the high risks to investment arising from arbitrary if at all existing, enforcement of laws.
3. Furthermore, **labour productivity lags far behind international standards**, due to an insufficiently skilled labour force, thin physical and technological infrastructure and limited improvements in production processes.
4. A further important issue is the **economic integration of Iraqis in Syria** which are in part seen as a short-term issue and as a burden in some sectors of the economy - despite the demand impetus that the Iraqis induce. This short term perspective causes lost economic opportunities. Furthermore, the incomplete integration of the Iraqis could in the medium to long term lead to social discontent and political backlashes.

At a more cross cutting level, **varying perceptions about the credibility as well as sustainability of the Syrian reform process create further disincentives** to the economic reform process. In this respect, key variables are not only the degree to which economic reforms are implemented but the overall reform environment which is determined not just by economic but also political variables. The isolated approach with which the Syrian government pursues its economic reform process may contribute to doubts against the credibility and sustainability of the reform process.

Syrian officials appear to recognise many of these shortcomings, yet, several obstacles impede the improvement of the reform process:

1. Especially mid-level **civil servants lack the capacity** if not the willingness to implement often complex reforms that can undermine their own job security and social position.
2. Lack of capacity is aggravated through **limited availability of data** and thus information on the progress and shortcomings of the reform process.
3. There is a **lack of a strategic involvement of donors** in the reform process. Although the role of donors may be contested, they do have a role to play in vital activities (e.g. data collection and M&E) for which the Syrian budget does not suffice.

Recommendations

Building on the key findings derived from the interviews and the available literature, the mission proposes the following recommendations to the **Syrian government**:

1. To address the challenge of macro-economic stabilisation, the government should focus on **reducing the unsustainable budget deficit** through:
 - Aiming to phase out subsidies fully (while in parallel building up a less costly and more effective social safety net to protect the poorest of the poor). The overall aim of the changes should be relief of the fiscal deficit and more effective poverty alleviation.
 - Further limiting recruitment in the public sector.
 - Focusing on enhancing the efficiency of non-oil revenue collection, especially through improving the current tax administration; yet without creating disincentives to the currently large informal sector to enter the formal economy.

- Allocating scarce public finances more effectively, i.e. into the economically most productive sectors.

2. To **foster structural reform and the private sector supply response** through:

- Exposing State owned enterprises to competition thus inducing efficient (financial) management by phasing out currently prevailing soft-budget constraints.
- Rather than training more entrepreneurs, creating a more conducive business environment for existing entrepreneurs by reducing „costs of doing business” especially through ending non-tariff barriers and strengthening the rule of law.
- Maximising the economic benefits that refugees can provide to the Syrian economy.

3. To **enhance the credibility** and thus **sustainability of the reform process** through:

- Recognising that economic sustainability is determined by non-economic factors such as internal and external political stability and that the credibility of economic reforms cannot be detached from internal and external political processes.
- Embracing the involvement of donors in providing technical and financial capacity to support the reform process.

Likewise, the mission proposes the following recommendations to the **international community**:

1. To address the **challenge of macro-economic stabilisation**, donors could:

- Provide financial assistance and expertise in activities critical to the success of the reform process, which surpass the Syrian budget limitations (e.g. data collection).

2. To **foster structural reform and the private sector supply response** through:

- Supporting Syria’s regional and international economic integration e.g. by fostering bilateral and multi-lateral trade agreements.

- Supporting the improvement of internal political constraints, specifically those relating to enforcement of the rule of law.
- Supporting human capital accumulation, importantly not with a short term focus on entrepreneurial training but rather through a comprehensive improvement of the quality and accessibility of education across all levels.
- Supporting the integration of refugees into economic processes.
- Building Syrian analytical capacity through supporting data collection (Panel and household data) and strengthening research institutes such as the National Planning Institute (NIP) to provide analysis and policy advice building on and extending model experiences such as the National Agricultural Policy Centre (NAPC).

3. To **enhance the credibility** and thus **sustainability of the reform process** through:

- Supporting human capital development as mentioned above.
- Recognising the internal political difficulties to implement specific steps of the reform process and supporting the search for adequate solutions to overcome internal political constraints to the reform process.
- Supporting the resolution of external political constraints that jeopardise the sustainability and credibility of the reform process.

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1 Introduction

1.1 Motivation

Since the succession of Bashar al-Asad in 2000, the Syrian government has embarked on a course of economic reform to restructure its economy from a socialist planned into a social market economy while at the same time alleviating poverty and promoting human development. The 10th Five Year Plan (thereafter denoted 10th FYP) sets out the fundamental priorities on which its economic reform programme is based. These stress the need to place the economy on sound fundamentals, revising and reforming macroeconomic policies, linking economic growth to employment and poverty alleviation, introducing a new economic culture and revising social services. Given that these reforms can only be implemented in the long term, the 10th FYP is embedded in a longer term strategy to enhance the efficiency and equity of resource allocation. To achieve its goals, the Syrian government has been introducing stabilising measures and structural reforms, which touch on all aspects of the economy, including the adjustment of fiscal policy, changes to monetary and exchange rate policies, trade and financial liberalisation, and the opening of the previously state dominated productive sectors to the private sector. So far, most emphasis has been placed on stabilisation policies through adjustments to fiscal policy focusing on reducing the budget deficit.

1.2 Aim and Approach

This report provides an overview and an assessment of the current reform process in Syria. Importantly, this report seeks not just to document the progress and limitations of the Syrian reforms but also to examine the underlying barriers to the reform process incorporating lessons learned from the experiences of stabilisation and structural reform programmes in Latin America and Africa as well as the example of the newly industrialising countries (NICs) in Asia. It is necessary to recognise that the main lesson that has been drawn across the various case studies and examples is that there is no blueprint to a reform programme (World Bank 1993). In other words, different economic, political, social and historic contexts as well as different natural and human capital endowments imply that each country faces its own very individual reform path. Nevertheless, across the various case studies certain maxims can be derived that can serve as guiding principles.

The analysis is based on a series of interviews conducted by researchers of the German Institute of Economic Research (DIW Berlin) with various Syrian government representatives as well as non-government analysts during a fact-finding mission from 18 to 25 May 2007 (see Table 1 in the Annex for a list of interviews). The report makes a unique contribution to the literature on Syria and the Arab economies by emphasising the political economy aspects of the reform process, rather than the economic indicators themselves. Furthermore, the report differentiates itself from other critical writings of the Arab economies (such as Noland and Pack 2007) by emphasising the serious budgetary implications of declining oil revenues, which differentiate the situation of Syria from countries with no or larger oil reserves, like Jordan or the Gulf states, respectively. Finally, the report does account for the critical “soft issues” involved in the reform process. However, the report emphasises issues like credibility and commitment rather than issues like religion. In common with other works on the region the report also stresses the critical role of educating the rapidly growing work force (including refugees and other non-nationals).

1.3 Main Findings

The Syrian economy faces three major challenges:

1. To achieve the shift from an oil-exporting economy towards a net oil importer;
2. to manage the transition from a socialist planned economy towards a liberalised social market economy; and
3. to reduce poverty and enhance human development through targeted interventions which ensure a more equitable distribution of wealth and equal economic opportunities for wealth creation across all segments of the Syrian society.

Even though poverty in Syria decreased in recent years, 30.1 % of Syrians live in poverty (using the upper bound of the poverty line taking into account actual consumption patterns of the poor).

Declining oil revenues which in the past constituted major government revenue are placing a severe constraint on the public budget balance. Deducting oil revenues reveals a large budget deficit which indicates the serious challenge to macro-economic stability if oil revenues cease without serious adjustment of Syria’s public revenue and expenditure structure.

According to the findings of the mission, the following factors constitute the main problem for the imbalance between public expenditure and non-oil revenues:

1. Subsidies -especially energy subsidies- drain public resources.
2. The public sector as administrative body is too large and consequently inefficient.
3. Non-oil revenues are small, due to a malfunctioning taxation system.
4. The remaining scarce public resources are allocated inefficiently, often favouring non-productive sectors rather than focusing investment on those sectors which will render the highest economic and social returns.

At the same time, several major obstacles hinder the transition of the Syrian economy into a market economy.

1. Here the analysis points specifically to the challenge of state-owned enterprises and the taboo to phase out soft-budget constraints not to mention the impossibility of their privatisation.
2. At the same time, increased private sector involvement is impeded through a sub-optimal business environment which creates disincentives to invest. Costs of doing business remain high, due to the prevalence of a number of serious non-tariff barriers but especially due to the high risks to investment arising from arbitrary if at all existing, enforcement of laws.
3. Furthermore, labour productivity lags far behind international standards, due to an insufficiently skilled labour force, thin physical and technological infrastructure and limited improvements in production processes.
4. A further important issue is the economic integration of Iraqis in Syria which are in part seen as a short-term issue and as a burden in some sectors of the economy - despite the demand impetus that the Iraqis induce. This short term perspective causes lost economic opportunities. Furthermore, the incomplete integration of the Iraqis could in the medium to long term lead to social discontent and political backlashes.

At a more cross-cutting level, varying perceptions about the credibility as well as sustainability of the Syrian reform process create further disincentives to economic agents. In this respect, key variables are not only the degree to which economic reforms are implemented but the overall reform environment which is determined not just by economic

but also political variables. The isolated approach with which the Syrian government pursues its economic reform process may contribute to doubts against the credibility and sustainability of the reform process.

Syrian officials appear to recognise many of these shortcomings, yet, several obstacles impede the improvement of the reform process:

1. Especially mid-level civil servants lack the capacity if not the willingness to implement often complex reforms that can undermine their own job security and social position.
2. Lack of capacity is aggravated through limited availability of data and thus information on the progress and shortcomings of the reform process.
3. There is a lack of a strategic involvement of donors in the reform process. Although the role of donors may be contested, they do have a role to play in vital activities (e.g. data collection and M&E) for which the Syrian budget does not suffice.

The remainder of the report is structured as follows. Section 2 provides a brief overview of the macro-economic situation of Syria. Section 3 sheds light on the state of Syria's reform process. Section 4 discusses underlying obstacles that may hinder the progress of reform as required. Section 5 concludes and presents the main policy recommendations.

2 The Challenges Facing Syria

The Syrian economy faces three major challenges:

- to achieve the shift from an oil-exporting economy towards a net oil importer;
- to manage the transition from a socialist planned economy towards a liberalised social market economy; and
- to reduce poverty and enhance human development through targeted interventions which ensure a more equitable distribution of wealth and equal economic opportunities for wealth creation across all segments of the Syrian society.

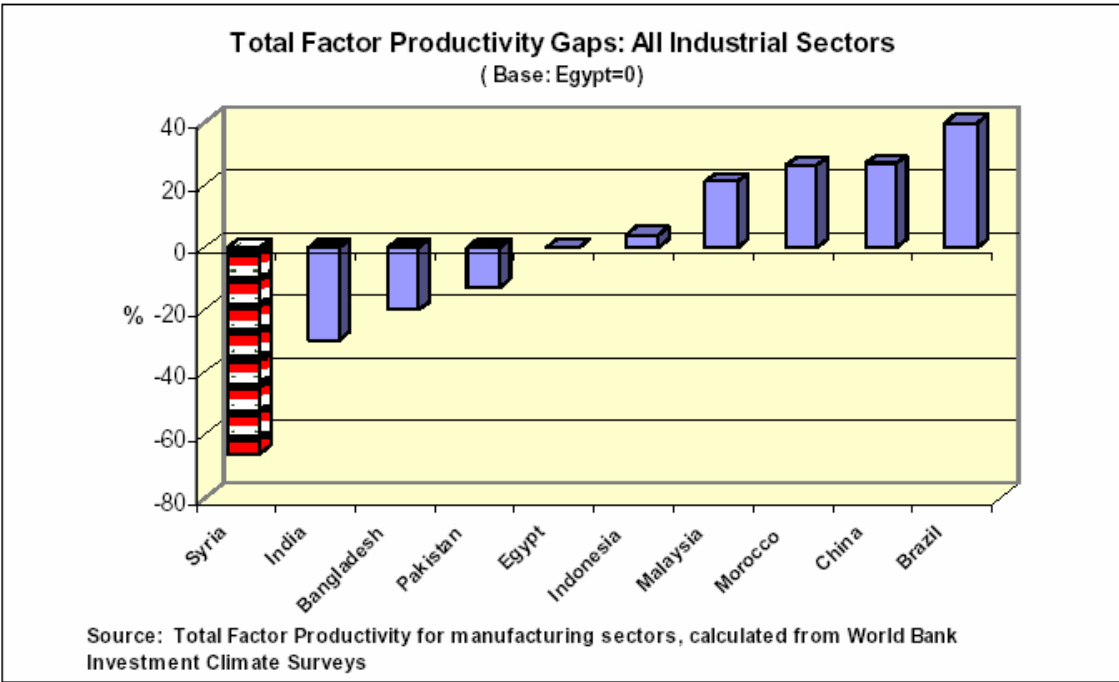
2.1 Shifting from Oil Exporter to Net Oil Importer

The Syrian economy owes its relative macro-economic stability mainly to its oil production and exports. Yet, oil reserves are dwindling rapidly signified. In consequence, declining production and exports are already negatively impacting on key macroeconomic variables. While Syrian non-oil GDP growth has been estimated at 6-7 % in 2006 - actual overall GDP growth amounts only to 4.3 % when making deductions for the decrease in oil based GDP (IMF 2007a). Even though Syria has recorded a trade surplus between 2001 and 2005, this surplus is still largely due to oil exports (10th FYP Chapter 2:7). Last but not least, declining oil revenues have specifically impacted on public budget balance resulting in an overall budget deficit of 5.7 % of GDP in 2006. Yet, deducting oil revenues, the non-oil budget deficit amounted to 10.2 % (2006) (IMF 2007a). In addition, increases in demand for energy in the future could increase the net oil imports to reach about 7-8 % of GDP further eroding the budget balance.

2.2 Transition from Centrally Planned to a Social Market Economy

Since the year 2000, the Syrian government has embarked on an economic reform programme to transform the socialist planned economy into a social market economy (Thießen and Handrich 2006). This transition is outlined in Syria's 10th FYP for the years 2006 to 2010. Even though the economy has experienced a revival since the year 2000, this growth has been primarily based on increases in consumption (not least thanks to the influx of Iraqi refugees) and primary exports, while there is little actual value added within the Syrian economy (IMF 2007a). Private sector investment has responded positively to the liberalisation of the economy, yet, so far no real „take-off“ has been recorded (IMF 2007a).

Figure 1:
Total Factor Productivity Gaps: All Industrial Sectors



Source: World Bank (2005: i).

The growth in labour productivity has at best sharply decreased; at worst labour productivity has in fact fallen (ERF 2006). According to the 10th FYP the decline in labour productivity was particularly severe in the construction and the services sectors while it also fell in the agricultural and in the transport sectors (10th FYP, Chapter 2:6). It has been estimated that overall unit labour productivity in the period 1997 to 2002 experienced a negative average annual growth rate of -1% (ERF 2006: 9). Consequently, in comparison to international standards, Syria’s total factor productivity lags behind many countries (World Bank 2005: i). Expressed as Factor Productivity Gap, Figure 1 shows the extent of Syria’s comparative *disadvantage*.

2.3 The Challenge of Widespread Poverty

Syria currently scores 0.724 in the Human Development Index (UNDP 2007). The absolute value of the Index improved steadily over time from 0.547 in 1975 to 0.628 in 1985 and 0.676 in 1995. However, the current rank of 108 (out of 177 countries) is lower than all other Middle Eastern countries apart from Egypt, which ranks 111. Even though poverty in Syria decreased in recent years, 30.1 % of Syrians live in poverty (using the upper bound of the

poverty line taking into account actual consumption patterns of the poor). In addition, the large influx of refugees from Iraq, which is not accounted for in official statistics, is aggravating the pressures on the social system.

Altogether, this creates challenging conditions for the implementation of economic reforms. In particular, the Syrian government is acutely aware of the danger of reforms having a negative impact on mean income and the distribution of income across the whole population and across distinct population groups (such as urban versus rural residents or employees in different economic sectors) in the short, medium and long terms. These considerations will hence complicate the „internal” constraints that the Syrian economic reforms have to face (as will be discussed below).

3 The Reform Agenda in Syria

As the experiences from stabilisation programmes of Africa, Latin America and Asia show, implementation of these tasks especially coupled with a structural reform programme is highly complex not least as stabilisation and structural reform are tightly interlinked and mutually reinforce or undermine their respective success. On the one hand, even though knowledge on sequencing of reforms is scant, the literature suggests that stabilisation is a necessary precondition for successful structural reform. Private sector investment is dependent on certainty about key macro-economic fundamentals, particularly price stability. Given its relation to inflationary pressures and repercussions on real exchange rates, fiscal stability is a key element to signal to investors a stable macro-economic environment (Rodrik 1990).

On the other hand, successful macro-economic stabilisation is dependent on the development of the private sector, i.e. a supply response to compensate for the reduced public sector spending and secure government revenues, employment and investment. At the same time, the opening of the economy to the private sector may undermine stabilisation, for example if trade tariffs provided significant government revenues or if the liberalisation and subsequent rise of a previously repressed interest rate increases the value of government debts. Thus, stabilisation and structural reform do not constitute two distinct activities but a continuous interrelated process with inherent tensions but also with potentially serious political implications.

3.1 Fiscal Issues and Subsidies

3.1.1 Overview

So far the Syrian government has maintained relative fiscal discipline (IMF 2007a) yet, the actual extent of its budget deficit is masked by the still existing oil revenues. While a cumulative improvement of 7 percentage points of GDP has decreased the non-oil budget deficit over the period 2004-2006, the non-oil budget deficit still amounted to 10.2% of GDP in 2006 (IMF 2007a: 6). This compares with an expected budget deficit of 7.5 % for Egypt in 2007 (IMF 2007b) and estimated budget deficit of 3.75 % for Jordan in 2006 (IMF 2007c). On the one hand, this signifies that despite fiscal adjustment public sector expenditure is still unsustainably large. On the other hand, it illustrates Syria's dependence on oil production and exports to maintain macro-economic stability.

Given the drastic reduction of oil reserves and oil exports, there is a strong urgency for dramatic fiscal policy changes. In addition, the government will further loose sources of income through the liberalisation of trade and the abandonment of customs and tariff duties. To ensure continued macro-economic stability, the Syrian government will have to diversify its sources of revenues, reduce expenditures and therefore allocate its financial resources more efficiently and effectively. More specifically, the Syrian government as outlined in its 10th FYP and reiterated cumulatively in the interviews, needs to tackle the following key problems on the expenditure side:

1. To abolish quickly explicit and implicit subsidies, which place a heavy burden on the public budget, distort prices and induce inefficiencies in the production system;
2. To reduce the size of the public sector (which should include restructuring of currently state owned enterprises); and
3. To revise budget priorities to allocate limited resources more effectively (for example away from blanket subsidies towards spending on education).

Furthermore, these savings should be complemented on the income side:

4. With the improvement of non-oil government revenues mainly through enhancing the Syrian taxation system.

3.1.2 Large subsidies and huge price distortions

The most costly subsidies that drain the Syrian government finances are implicit energy subsidies. These do not incur an expenditure as such but constitute a loss, as parts of oil and gas are not sold internationally at world market prices but in the domestic market at reduced prices. This problem is further aggravated since Syria switched from a net oil exporter to a net oil importer position. An especially heavy burden on the state budget and the economy is the subsidization of diesel fuel. Because of limited domestic refining capacities, Syria imports significant amounts of diesel fuel, which is domestically sold at prices several times below the import price and the price level in neighbouring countries. This price distortion induces an enormous waste of diesel and the smuggling of significant quantities into neighbouring states.

Until now the government has not received any revenues from its natural gas as this is sold to final consumers and power plants at cost prices (Garzaldeen et al. 2006). (Note that in Syria domestic gas is sold at US Dollar 65 per metric ton.) Together with explicit subsidies (for agricultural products, transfers for water and electricity), these subsidies amounted to 11.6 % of GDP in 2003, and 14.7 % of GDP in 2004 and they have been rising since (IMF 2007a). Moreover, particularly energy subsidies are not only costly, but also inequitable as richer households consume more and therefore take the greatest gain from the subsidies, a fact which has been recognised by technical experts as well as Syrian government officials (Interview 6; Interview 10).

Given their significance for public expenditure, the rapid phasing out of these subsidies should be highest priority on the reform agenda. Indeed, addressing energy subsidies will form one of the corner stones of the reform process from 2007 onwards (Interview 6, 10th FYP). At the same time, the government recognises the political, social and economic difficulties entailed in phasing out subsidies. Most significantly, agriculture which is contributing a significant share to GDP (around 30 %) and forms the most important sector for the poor, is largely dependent on fuel subsidies (World Bank 2005). Phasing out subsidies may contribute to reducing inefficient economic activities. However, interview partners expressed the belief that the government fears that reducing subsidies will also significantly affect sources of rural income and employment and reduce the purchasing power of economic agents across the country.

Consequently, the government appears to have opted to phase out subsidies gradually but also to accompany their reduction with measures to ease the burden especially on the poor (Interview 6; Interview 10; Interview 21). In addition, current plans entail setting up a Social Welfare Fund at the beginning of 2008, which aims to directly support the poor and thus to mitigate the adverse effects of price increases. Ultimately, this is seen by the government as contributing not only to save resources but also to redistribute financial resources more efficiently and equitably, as direct support is provided to the poor, rather than to wealth related consumption.

However, with strong rent seeking groups active in the economy and with a low degree of managerial capacity in the design and implementation of such a scheme (both revealed by our interview partners), it is not unlikely that this new form of subsidy may be controlled and benefiting in the end not the originally intended target groups but better off, regime-supporting groups. The worst outcome from a social planning perspective may hence be the introduction of another inefficient and costly subsidy scheme without the abolition of the inefficient and costly subsidy scheme it was meant to replace. It is necessary for the government to outline a positive programme of economic reforms which will entail actual or expected benefits to enough sections of the population that entrenched opposition to reforms will be weakened.

3.1.3 The oversized public sector

The size of the public sector places another heavy burden on public finances. There are two distinct elements which need to be addressed: first, the size and organisation of the public sector as an administrative body, and second, the costs and risks that state owned enterprises pose.

With respect to the first, the public sector has and still is functioning as pool absorbing surplus labour irrespective of actual needs and uses. In 2003, the public sector accounted for 28 % of employment (Huitfeldt and Kabbani 2006). In addition to the large size of the public sector, payment structures and other benefits are relatively high in comparison to workload and skill level. Further, public sector employees just benefited from two 20 % wage increases in 2002 and 2004, and an increase in 15 % of retirement benefits (ERF 2006). Still, earnings are not sufficient to cover living expenses with the consequence that many public sector employees take on second employment. Limiting the recruitment of civil servants is not only

necessary to reduce public expenditures but also to force new entrants in the labour market to seek employment with the private sector. Currently especially first entrants into the labour market reject private employment in favour of public sector employment given greater security and benefits derived from the latter (Interview 14; Interview 18; Interview 19; Interview 42).

Yet, downsizing the public sector implies foregoing its role as safety net of surplus labour with the likely consequence to increase unemployment at least temporarily until the private sector is able to provide sufficient employment opportunities. Especially low qualified public sector workers and/or those employees who have been hired not based on merit but rather based on connections could face difficulties in a competitive labour market. Our interviews revealed that the government recognises the need to reduce the size of public sector employment, but mainly stresses the difficulty to implement this policy. Possible solutions that were mentioned in an interview with the Institute for National Institute for Public Administration suggested to either provide early retirement or re-education schemes for civil servants made redundant (Interviews 14; Interview 15). The first is recognised to be only a theoretical option given the current rate of pension provisions of the public sector (Interviews 14; Interview 15). Thus, this unresolved policy issue could create a major obstacle to downsizing the public sector, even more so considering that it is civil servants who will be managing and implementing a reform programme which ultimately threatens their own position as well as the position of friends and relatives.

The above problem becomes even more urgent, considering that besides reducing the size of the public sector, Syria's public sector needs to enhance the efficiency of its bureaucratic apparatus. Inefficiencies are incurred not only through the size of the sector but also through the lack of qualified staff. The lack of skills derives mainly from the public sector recruitment structure which in the past had been based more on personal relations and linkages rather than on actual qualifications (Huitfeldt and Kabbani 2006). If the Syrian government does not want to increase its public sector even further, it needs to free space for better qualified staff at least in the short run, again a task with large political implications.

Second, state owned enterprises are a major drain on public finances. Given large inefficiencies and mismanagement of these enterprises, significant parts of the state budget are spent to prevent their bankruptcy. In 2003, the net budgetary contribution to public enterprises amounted to 14.5 % of budgetary expenditures (ERF 2006). Consequently, a

wholesome public enterprise reform would require not only enhancing efficiency but also to remove their monopoly power and expose them to competition, solve their arrears and subsequently prevent any further bad loans. There are some initial attempts to restructure public enterprises to function under a market economy without negatively impacting on employment (Interview 29). Nevertheless, the government currently attaches greater weight to the protection of employment than efficiency or the budget balance. Consequently, the more radical but consistent and inevitable step towards privatisation is still a political taboo preventing to solve one of the ultimate root causes of economic inefficiency in Syria.

3.1.4 Inefficient budget spending

Given tighter budget constraints, a more economically efficient but also a more productive budget allocation is a key to maximising growth. In other words, public spending should account explicitly for market incentives, prices and real growth potentials. Between 1999 and 2003, more than half of the budget was spent on military defence, civilian wages, subsidies and price transfers. The 10th FYP foresees to restructure its budget allocations focusing on increasing investments in infrastructure as well as human development and poverty reduction:

“Due to the great importance of the service sector (education and health) in re-fixing the imbalance in regional development and enhancing human development especially in underdeveloped regions, 28% of total government investment spending will be channelled into these two areas [education and health]” in the course of the 10th FYP (10th FYP, Chapter 4: 4-5).

This adjustment as well as the shift in responsibility of the state providing public goods and social services was reiterated in the interviews (Interview 6; Interview 30; Interview 31). Further, in an interview with Syria Today, the Deputy Prime Minister al Dardari announced planned infrastructure investments of US Dollar 25 billion (Syria Today July 2007). Given the precarious budgetary situation of the government, such promises seem overtly optimistic.

3.1.5 Underdeveloped non-oil budget revenues

Public revenues depended to almost 50 % on oil related proceeds between 1999 to 2003. In contrast, non-oil tax revenues and non-oil non tax revenues amounted to 36 % and 15 %, respectively, in the same period. The small share of non-oil tax revenues is due to the

stagnation of non-oil industries but also due to far reaching tax exemptions as well as significant tax evasion (ERF 2006).

Consequently, the Syrian government is placing large emphasis on improving its taxation system as an important source of government revenues. In this respect, it has reformed the tax system as well as the tax administration (IMF 2007a). With respect to the first, it has placed large emphasis to simplify and reduce tax rates while at the same time increasing the width of the tax base. The latter effect has successfully compensated the first so that in total tax revenues have been increased (IMF 2007a), which is an encouraging sign (though also no solution yet to the challenge of the budget deficit). Further, the Syrian government is introducing a VAT system, which has already been institutionalised in the tourism and restaurant sectors (with a VAT-rate of 11 %) and should be levied on further sectors (Interview 4; Interview 5). However, the improvements especially of tax administration remain contested. In part, the World Bank claims that the Syrian tax administration is riddled by corrupt practices and discretionary actions by tax agents which render the reduced corporate tax rates *de facto* ineffective and thus creates major disincentives to declare taxable revenues (World Bank 2005).

In addition, the significant size of the shadow economy is undermining tax collection with the consequence that total tax revenues only represent 8.5 % of GDP (10.5 % if foreign taxes are considered) (10th FYP, Chapter 5:4). In this respect the 10th FYP proposes to enhance tax efficiency through better controlling and punishing tax evasion. These measures have to be carefully applied as not to create a disincentive for the informal private sector to enter the formal economy. It is important to bear in mind for the government that the shadow economy may be driven large parts of the Syrian private sector – and that it is important to encourage all forms of legal private sector activity. The policy challenge is to set tax rates and to administer taxes in a way it all most or all activities can be conducted openly and legally, thus maximising the tax base. For the time being, the opaque tax administration practices mentioned appear to pose a severe disincentive for currently informal businesses to enter the formal economy (World Bank 2005). Yet, this problem does not seem to have been recognised sufficiently by the Syrian government or our other Syrian interview partners, who almost all failed to discuss this important topic.

3.1.6 Assessment

If any lessons can be drawn from the varying experiences of stabilisation and reform across different countries, it is that these inherent tensions between demand and supply measures require time and resources invested effectively across prioritised activities of a coherent strategy (Killick and Stevens 1991, Rodrik 1990, Toye 2000). In this respect, Syria has the advantage of not being in a state of economic crisis in contrast to the experiences of for example the Eastern European economies. The crisis conditions in which stabilisation had to be pursued in these countries did not leave policy makers time to reflect of adequate timing and sequencing of the overall reform programme (Killick and Stevens 1991). However, the declining oil revenues signal an impending crisis if reforms are not broadened, deepened and accelerated.

Even though the Syrian government has made great advances towards stabilising its economy, there are still several challenges that need to be overcome. The government must increase its revenues through improved tax administration and collection and it must make credible cuts in its expenditures, thus demonstrating to the private sector its commitment to economic reforms.

In this respect, some steps and measures should be absolute priority:

- First and foremost, the costly and inequitable **Diesel subsidies** should be abolished.
- Second, all **off-budget implicit subsidies** should be transformed into on-budget explicit subsidies to account for their real cost.
- Importantly, where subsidies and similar wide measures are employed to support the livelihoods of the poor, these should be abandoned in favour of well targeted effective **social safety nets** which reach the poor rather than subsidise the better off.
- It is important to move towards and encourage **self-reliance** as a new social security paradigm.
- With respect to the **public sector**, the size of its administrative body but especially its role in the economy should be revised.
- New **public sector employment** should be reduced with immediate effect, and the overall downsizing of the public sector should be considered.

- As **state owned enterprises and banks** are not only a large burden on the budget but also a risk due to their inefficiencies and potential default, they should at least be restructured to obtain financial autonomy under private sector management, or be privatised altogether.
- Last but not least, in order to enable accurate monitoring of revenues, expenditures and thus the fiscal situation in the country an improvement in **data collection and administration** is of utmost importance. Currently, the available data appears to be fragmented at best, thus hindering an accurate analysis of the current situation.

3.2 The Private Sector Supply Response

3.2.1 Recent steps to liberalise the private sector

Besides achieving macro-economic stabilisation, the Syrian government aims to transform its socialist planned economy into a social market economy embedded in the international market. The case of the East Asian newly industrialised countries (NICs) provides important lessons, whose growth in a nutshell was based on:

- sound macro-economic policies,
- a managed opening of the economy and
- maximising dynamic competitiveness through selective policy interventions that stimulated technological learning and innovation (Lall 2001).

While businesses drove innovation and investment, the state supported industrial „winners” through selective interventions including human capital formation of the general workforce as well as technical experts through investment in basic as well as tertiary education, mild financial repression to allow investment and the creation of a business friendly tax environment. Importantly, the growth of the NICs rested on a functioning legislative and regulatory basis that ensured businesses their returns on investments (World Bank 1993). Importantly, the so called „East Asian Miracle” challenged the main consensus that liberalisation is a sufficient condition to spur sustainable industrial development as the experience of the NICs showed that given market failures selective state intervention is necessary (World Bank 1993, UNIDO 2002) although not a panacea if state failure replaces market failure (Lall 1995).

During the socialist regime, many key activities of the economy had been closed for private investment and were entirely in the hands of the public sector. Nevertheless, Syria's available entrepreneurial talent which is recognised internationally (World Bank 2005) appears to have flourished even at the peak of socialism, no least in the form of informal businesses (Interview 6). However, this has often been at the price of tacit rent-seeking activities whereby Alawai patrons protect the investments of Sunni capitalists (Henry and Springborg 2006: 126). What remains unclear is to what extent Syrians living abroad are willing and able to contribute to future investment and growth in Syria.

Today about 100,000 small and medium firms and a few very large firms constitute the „private sector“, which cumulatively have grown to produce 61 % of GDP in 2002 (up from 40 % of GDP in 1980) and provide significant employment in Syria (World Bank 2005). Most industry is based in two centres: Aleppo and Damascus with Homs, Hama and Latakia forming important secondary locations for private sector development (World Bank 2005). Within the context of the reform programme, the government recently embarked on a suite of activities to liberalise the economy not only internally but also externally to enable and stimulate private sector investment. These reforms include the liberalisation of trade and investment as well as the liberalisation of the financial sector to enhance financial intermediation and the availability of capital. However, these reforms are not yet old enough to track their impact in the real economy. The main function of the reforms to date have been as a signal that the Syrian government is considering a change in its economic policy.

The Syrian government has placed particular emphasis on opening the economy to foreign trade within and beyond the region to enable the import of necessary factor inputs, expose local producers to international competition but also to expand the market for an increased range of Syrian products. This is an important step towards a more liberalised economy considering that until recently the Syrian government maintained a strong self-reliance mentality (see the section on internal and external constraints below). Until 1990 only the public sector was allowed to trade. Since the year 1990, international trade has been liberalised and opened for the private sector - albeit slowly in order to avoid negative consequences. Hand in hand with this, the number of goods prohibited to trade which initially included 23,000 items has been reduced drastically to include a small list of goods related to health, security and cultural goods (Interview 32). The average tariff rate has been reduced from 20 % to 14.5 %, the maximum rate has been decreased from 225 % to 60 % and customs

procedures have been simplified (IMF 2007a). Apart from tariff reductions and customs simplifications Syria has in 2005 joined the Greater Arab Free Trade Agreement (GAFTA) and implemented in 2007 a Free Trade Agreement with Turkey. Currently the Syrian government has embarked on trade negotiations with Russia, Pakistan, Venezuela, Iran amongst others (Interview 11).

The association agreement with the EU that the Syrian government had negotiated was put on hold by the EU in 2004, yet a visit by Javier Solana in March 2007 has raised hopes that negotiations might be resumed in the future. Currently, the stalled negotiations on the association agreement are costly for Syria to the extent that they prevent an international realignment of the government in the economic sphere.

Last but not least, Syria which has been a founding member of GATT but withdrew one year later for political reasons, has applied to WTO accession in 2005. So far no working group has been established and the process is stalled. However, changes in legislation will be introduced in order to conform to the necessary framework and recently several committees to prepare the accession have been established (Interview 11).

Apart from trade liberalisation, foreign direct investment is now possible in all sectors of the economy – agriculture, manufacturing, textiles, pharmaceuticals, ICT and programming, which creates a more conducive environment for much needed capital to flow into the country and breaks the previous monopoly of state owned enterprises in these sectors. Indeed, the registration of new companies has increased in the past three years (Interview 6) and the private sector is currently contributing more than 80 % to non-oil GDP.

Despite these advances, a real „take-off” does not seem to have materialised (IMF 2007a). The World Bank attributes this to the major challenges that Syria’s three main productive sectors face: the *oil sector* is declining due to dwindling reserves; the *agricultural sector* faces constraints first due to the limited availability of water and second due to its reliance on subsidies, which have distorted its production structure; and lastly, the *industrial sector* faces major gaps in competitiveness due to low productivity and competition from trade liberalisation (World Bank 2005). This is reflected in the dominance of agricultural and energy exports which exhibit little value added. Overall, Syrian exports apart from a few niche products such as olive oil (Interview 11) face difficulties to compete in global markets. Thus, especially the EU association agreement is feared to have negative impacts at least in the short term, if not permanently, when local producers are exposed to competition from

abroad (Interview 5) Nevertheless, overall most interviewees perceive these free trade agreements to provide incentives to private sector development by locking the Syrian government into a market-oriented reform process.

Given the above, it is necessary to identify the underlying barriers that hinder the development and competitiveness of Syria's private sector. Our interviews revealed that, although the government has moved towards opening the economy for both domestic and foreign private investors, major obstacles to private sector development prevail. These include:

1. Non-tariff barriers;
2. high and unpredictable costs of „doing business“;
3. weak human capital;
4. weak financial markets;
5. an underdeveloped technological and physical infrastructure; and
6. the protection of state owned enterprises.

3.2.2 Non-tariff barriers in trade

While great strides have been made towards liberalising international trade, a recent evaluation identifies a number of non-tariff barriers that firms dealing with Syria face (European Union 2007). These non-tariff barriers include certain import restrictions still prevalent, even though the number of restricted items has been substantially reduced. Consular fees are levied as percentage of the contract value rather than at a fixed fee. The Arab League Boycott in which Syria participates prohibits companies to import goods or raw materials originating from Israel. Most importantly, in general, there is an overall lack of transparency and available information on rules and regulations and even though improvements on most of these issues have been taken *de jure* at least EU companies report that amendments in trade rules are not implemented *de facto*. Significantly, neither the issue of non-tariff barriers nor the limited implementation of new policies was discussed or mentioned in any of the interviews. Even after probing for existence of non-tariff barriers, the answer referred back to the reduction of tariffs and restricted goods. Without further information it is difficult to judge the reasons for the silence on these issues, thus, at this point it can only be noted that trade liberalisation appears to be incomplete and the outstanding

barriers are unlikely to form part of an overall economic strategy but appear to be due rather to significant institutional shortcomings.

3.2.3 Costs of „doing business”

One of the main consequences of the above mentioned non-tariff barriers are significant costs of „doing business” which create disincentives for the private sector. Yet, non-tariff barriers are not the only factor to inflate the costs of doing business: an opaque tax system, bureaucratic discretion, corruption, and an outdated legal framework for contracts, property rights and ownership contribute to (transaction) costs, uncertainty and risks that deter investment (Noland and Pack 2007; World Bank 2005; Interview 41).

Although the Syrian government has placed great emphasis on improving its tax system by reducing tax rates and widening its tax base, the tax administration is still not functioning well due to institutional barriers and human capacity constraints. As one survey shows, a major factor is the number of informal payments demanded by tax administrators (World Bank 2005) which increase the *de facto* tax rate above the officially stated rates. Coupled with bureaucratic discretion these uncertainties and costs significantly stifle business development. Further uncertainties are added due to an incomplete legal framework and due to the weak implementation of existing or new laws, particularly with respect to contracts, collateral and ownership.

Even though the 10th FYP recognises the need to enhance the legal framework and its implementation it seems that currently little emphasis is placed on removing administrative barriers, fully adapting the legislative framework to suit a market economy and to strengthen the rule of law. Legislation and the rule of law do not appear to feature greatly on the reform agenda not least reflected in the scarce mentioning it received in our interviews with Syrian government officials. This is not only seen as a critical issue by foreign eyes but also by some individuals within Syria. In fact, one interviewee contents that no actual reform has happened since the reform process has fallen short of addressing the above topics (Interview 7). Yet, even if the problem is recognised by a few, it appears to remain distant from the policy agenda.

3.2.4 Skills and labour markets

Weak factor markets, which include labour as well as financial markets, create a third significant barrier to business development in Syria. The low productivity of Syrian businesses and the resulting lack of competitiveness are recognised not only by the World Bank (2005) but also across the interviews as well as Syria's 10th FYP. This low productivity is attributed to socio-economic and technological factors, the first referring to an insufficiently skilled labour force and the second to an insufficient technological base, which will be discussed further below. Syrian workers have on average a lower level of education than in many other countries (World Bank 2005) which is one of the main factors attributed to the deterioration of labour productivity (10th FYP, Chapter, 2:6). In contrast, wages are relatively high (World Bank 2005) not least due to the high expectations that public sector employment sets. Given substantial benefits that public sector employment provides and certain distrust towards the private sector, most graduates seek employment in the first, leading to bottlenecks for the private sector. As mentioned above, unit labour productivity has been declining at an average rate of -1% in the period of 1997-2002 (ERF 2006: 9). Low labour productivity as well as rigidities and bottlenecks in the labour market have been recognised as key constraints in our interviews, yet, so far there does not seem to be a coherent strategy to improve the flexibility of labour markets and the level of training of the workforce. Most projects to enhance skills appear to be targeted at graduates and university students, i.e. focus on the already higher qualified rather than attempting to enhance the overall education and skills level of the workforce (for example Interview 42). In other words, policies focus strongly on short-term gains rather than on long-term structural changes.

3.2.5 Financial markets

Apart from labour markets, financial markets are so far not sufficiently developed and the country is financially repressed (Glain 2004). The Syrian financial sector consists of the Central Bank of Syria (CB), six specialised public banks, six private banks, the Syrian Insurance Company and the Public Debt Fund. Further, the Damascus Stock Exchange is expected to re-open after 40 years of closure (IMF 2007a). Especially the development of the private banking sector is considered to have led to financial growth (IMF 2007a). Still the provision of efficient financial services is rather limited not least due to the small number of (foreign) banks and the absence of stock markets. Just as with foreign direct investment

(FDI), foreign ownership in the banking sector has been restricted to 49 %, which is not attractive to foreign banks, though there have been continued discussions surrounding the lifting of this limit to 60 % (Interview 4; Interview 5; Interview 21).

Apart from the insufficient range of financial services, technical obstacles slow down financial transactions. Syria is still a predominately cash based economy. Most importantly, however, insufficient information on the share of bad debts in the overall portfolio of banks creates uncertainty about the vulnerability of the financial system (Interview 23). To avoid the accumulation of bad debts and prevent a potential financial crisis the regulatory framework will have to be strengthened. The interviews showed that the Syrian government is aware of the limitations in the financial system and the need to introduce especially tighter regulation and supervision of banks by the Central Bank. However, and in line with the lack of commitment to privatisation, the closing of the soft budget constraints in the state-controlled will be the lackmus test of the financial market liberalisation.

3.2.6 Infrastructure

A further barrier to private sector development is the lack of a sufficiently developed physical infrastructure, including not only transport and port facilities but also telecommunications, power and water supply. According to a World Bank report „electric power supply was the third most commonly identified constraint for surveyed Syrian firms” (World Bank 2005: xiii). In information and communication technology, Syria ranks last in the region for its rate of internet connectivity and 7th (out of 9) for its mobile phone density (World Bank 2005: xiii). Syrian representatives are well aware of the lack of infrastructure which has been cited as a problem in various interviews and which may prevent Syria from exploiting its potential as a regional trading centre and transport hub. The 10th FYP recognises the role of the state to overcome this problem and is planning to allocate savings from phased out subsidies towards infrastructure development (Interview 30). According to a more recent interview the Syrian government is planning to invest approximately US Dollar 25 billion into infrastructure development and has opened the previously state monopolised infrastructure and transport sector to private investors (Syria Today 2007).

Apart from physical infrastructure, a factor that seems to be entirely neglected in the Syrian reform process is research and development, i.e. „technological infrastructure”, to create and maintain competitive advantages not only through product innovations but also through

improved production processes. In the experience of the NICs technological innovation has been identified as key factor to secure a place in international global value chains (Lall 2001). Yet, the protection of Syrian businesses from competition stalls private sector innovation. In addition, there appears to be a lack of experts to drive research and development. For example, Syria appears to develop a significant pharmaceutical industry, which would require strong skills to be expanded further (Interview 39). Our interviews revealed that the government is placing too large an emphasis on developing business, economic and managerial skills neglecting that an innovative economy also requires scientists and engineers for innovation (part from the human capital needs of the state itself). Foreign direct investment plays a critical role for technological learning, while at the same time a certain level of technological capabilities is prerequisite to attract foreign direct investment. Worryingly, neither our interview partners nor the 10th FYP seem to place much emphasis on the creation of technological learning.

3.2.7 State owned enterprises

The focus of the government on state owned enterprises maintains a disadvantage for private investments. Even if public sector monopolies have been relaxed across sectors, the subsidies to inefficient state owned enterprises creates unfair competition against the private sector. As mentioned above, the restructuring of state owned enterprises seems to be driven mostly by considerations of job security and political convenience. Consequently, the necessary restructuring and privatisation of state owned enterprises remains an extreme political taboo.

3.2.8 Refugees

A seriously neglected topic in the reform programme and in general government programming is the situation of the Iraqi refugees. This seems, in part, due to the unrealistic expectation that the influx of refugees from Iraq is a temporary phenomenon. Given the regional politics, however, this is highly unlikely. Either way, data on the number of refugees and their livelihoods is practically non-existent. According to the IMF (2007a), the number of refugees grew by 40 % in 2006 to about 1.3 million (7 % of Syrian population). Out of these, less than 80,000 had registered at UNHCR by 1 May 2007 (UNHCR 2007).

Refugees from Iraq seem to have settled mainly in urban areas. As a consequence, rental and real estate prices have risen dramatically, inducing inflationary pressures. They also put a

high pressure on the governmental budget in view of energy and food subsidies, social spending and infrastructure. Paradoxically, there appears to be no supply-side response to this high demand for housing, at least in downtown Damascus (as opposed to informal construction activities in the suburbs). The refugees also boosted domestic demand and are thus perceived as the main driver for the Syrian economy in the last two years. This holds especially for the first wave of relatively wealthy refugees. Two issues remain crucial:

1. The Syrian government must prepare for the likely scenario, i.e. that the Iraqi refugees continue to stay in Syria indefinitely.
2. The Syrian government should receive greater international help in tackling the adverse effects in order to prevent further instability in the region, perhaps as part of a regional strategy on refugees and reconstruction.

Apart from their impact on the economy, the high number of refugees from Iraq was seen by several interview partners as having the potential to lead to a rise of religious tensions in Syria, which currently is less problematic than in almost all neighbouring countries. Having said that, many of our interview partners perceived the political development in Syria's neighbouring countries – especially in Iraq and Lebanon – as greater threats.

3.2.9 Assessment

The success of the Syrian reform programme rests crucially on a swift switch from oil-based state consumption to creating wealth in the private sector. Generating such a private sector supply response hinges on several key policy issues, which were identified above. This suite of systemic, institutional and capacity barriers will not be addressed by mere liberalisation on its own. In fact, as experiences from previous countries show liberalisation, especially capital account liberalisation, without having addressed these structural problems, could lead to serious negative repercussions either if domestic enterprises wither in international competition or if macro-economic instabilities lead to large scale capital outflows. Yet, apart from the hard issue of competitiveness of Syrian private sector production and the lack of physical infrastructure, soft barriers due to governance, rule of law, and technological capabilities do not seem to attract much attention of Syrian reformers. Especially skills and technological competitiveness become even more important factors as the global market place has changed rapidly with the emergence of global value chains that are starting to dominate

previously simple agricultural production processes even in the least developed countries of Africa (Weatherspoon and Reardon 2003).

While the examples of the NICs is illustrative about the importance of institutions, technological capabilities and macro-economic stability as being key drivers for economic growth. However, the case of the NICs cannot provide lessons of how to attain these prerequisites as these are strongly contextual and path-dependent, i.e. have evolved over history rather than being simply instituted. Furthermore, globalisation requires a more stringent adherence to certain reforms than was the case for the NICs in the 1960s and 1970s. Consequently, Syrian reformers should, on the one hand, take a closer look at the success story of the NICs but, on the other hand, critically assess the present requirements of the international as well as the domestic economy before identifying its own reform strategy. In particular, comparisons to China and other South-East Asian tiger economies is probably on balance not helpful for finding Syria's own development path given the differences in starting conditions and circumstances between these countries and periods.

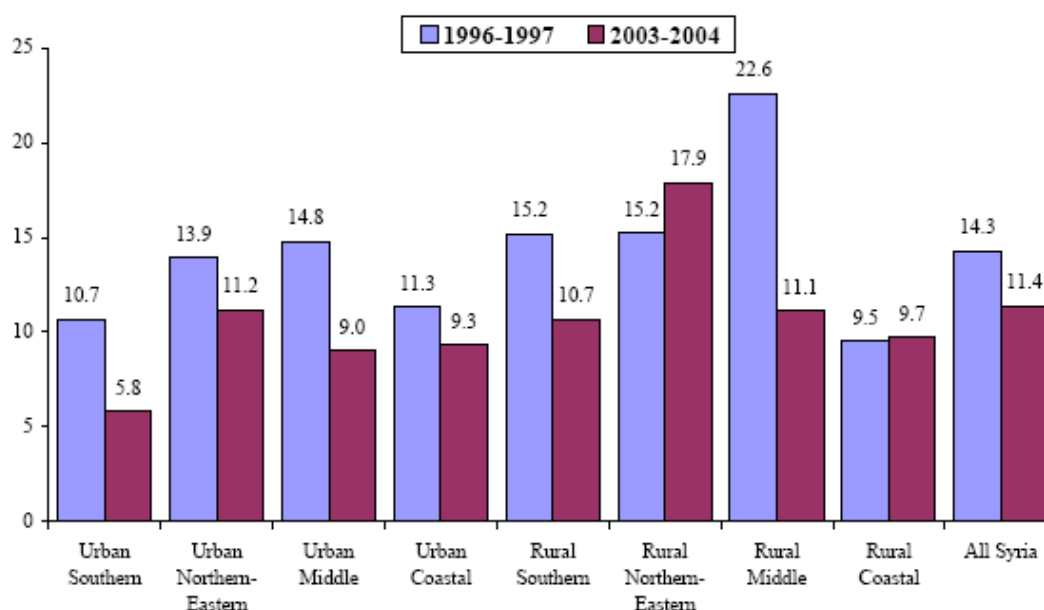
3.3 Poverty and Social Protection

3.3.1 Poverty trends

During the last decade, poverty decreased in Syria. Using a (lower) household-specific poverty line reflecting the essential food and non-food requirements, 11.4 % of the population (2.2 million persons) was found poor in 2004. (Note that all figures in this section are taken from Laithy and Abu-Ismaïl (2005).) However, based on an upper poverty line taking into account actual consumption patterns of the poor, 30.1 % (almost 5.5 million persons) are considered poor. Similarly to the head count ratio, the poverty gap and the poverty severity indices declined (indicating that a typical poor person became less poor in that period).

Poverty in Syria is comparatively shallow, i.e. the majority of the poor is clustered just below the poverty line. Small changes in growth thus have relatively strong effects – positive as negative – on the number of poor. This high elasticity of poverty to growth is, once again, less pronounced in the rural North-Eastern and the Coastal region where poverty is relatively deeper. However, there are rural-urban and – even more severe – regional disparities. As can be learned from Figure 2, poverty is the highest in the rural North-Eastern region and has increased there and in the rural Coastal region over the period 1997 – 2004.

Figure 2:
Poverty Incidence by Region in 1996-1997 and 2003-2004



Source: Laithy and Abu-Ismaïl (2005: 36).

Looking at the characteristics of the poor, education has the strongest correlation with the incidence of poverty: 81.3 % of the poor have only a primary level of education or no education at all. Consequently, they are more likely to be engaged in the informal sector – particularly in agricultural and construction activities – with a high percentage of self-employment. Given the apparent low degree of construction in the city centre of Damascus observed during our fieldwork (despite the refugee influx apparently pushing up rents), there appear to be large dividends for pro-poor growth to be harvested from relaxing legal or other supply constraints in the construction sector.

3.3.2 Social protection policies

The importance of enhancing human development has been acknowledged by the Syrian government. More specifically, it ratified the Millennium Development Goals and centred the 10th FYP (2006-2010) on human development whereby an active role of the private sector and civil society is envisaged. In addition to policies increasing education levels and creating employment opportunities, a core initiative is the planned establishment of a nation-wide social security net, the so-called Social Welfare Fund (SWF) (Government of the Syrian Arab Republic et al. 2007). The purpose of the programme is to substitute the present,

unsustainable energy and food subsidy system. The SWF is going to provide a subgroup of those below the poverty line, namely those who are not able to work (the so-called „vulnerable ultra poor”), aged persons, widowed, divorced and separated women, orphans up to 15 years of age, disabled persons and families of prisoners, with cash assistance. After a pilot phase in 2007, the program is to be implemented early 2008 under the auspices of the Ministry of Social Affairs and Labor (MoSAL) (Government of the Syrian Arab Republic et al. 2007). In addition, a program is planned by UNDP and MoSAL to strengthen women empowerment in order to mitigate gender inequity outlined in the Initiation Plan for Poverty Alleviation and Women Empowerment in Syria published by the government. It remains to be seen, though, which steps the Government will undertake in the next months, including the time frame for scaling down the subsidies. In the worst scenario from a fiscal and social welfare point of view, old subsidies are not (yet) phased out while new subsidies will be introduced but will not be well targeted.

Apart from better targeting and supporting the already poor, the government will need to institute measures especially in its legislation and regulatory framework to ensure to meet the criteria of a *social* market economy. This implies revising the legislative system to adapt the current organisation of social security to the new structure of the economy. While the poor are covered under the Social Welfare Fund mentioned above, an additional framework has to be instituted to cover employees. In this respect, a private approach to individual insurance should be encouraged and the private sector being made responsible without placing unnecessary burdens which will impact negatively on competitiveness.

3.3.3 Data sources and analytical capacities

One major obstacle the Syrian Government and international organizations currently face is the lack of good data on welfare and coping strategies of all residents in Syria, particularly at the household level. While some cross-sectional data exist, there is not yet a panel of households – that is repeated observations across years for a representative sample of households – which would allow much more interesting and powerful analyses. Moreover, if micro data are available, Syria currently lacks the capacity – with respect to both researchers and facilities – to analyze them in-depth. Hence, under the present circumstances, simulations of the potential impact of alternative policy measures can barely be conducted. Finally, the sparse analytical capacities that exist in this area in Syria are insufficiently connected across

different branches of government. Likewise, donors do not appear yet to view poverty reduction as an overarching or cross-cutting theme driving assistance strategies. (Interview 1; Interview 41; Interview 43).

3.3.4 Assessment

The importance to support poverty alleviation becomes even more urgent in times of stabilisation and structural reform which involve a severe change in relative prices, and thus a redistribution of incomes especially of the poor through cuts in welfare systems and subsidies. One key lesson to be drawn especially from structural adjustment programmes that were implemented in LDCs in the 1980s is that poverty reduction and wealth creation should not be handled as an added issue but form integral part of any structural reforms themselves (Cornia et al. 1987)

For example, given that the agricultural sector absorbs a large number of disguised unemployed, strengthening the supply response of the agricultural sector could serve the double function to enhance the diversification of the economy on the one hand and embark on pro poor growth on the other. Thus, rather than establishing a system of unemployment benefits, support should focus on farmers and informal micro-entrepreneurs directly for example through establishing a system of appropriate micro-finance schemes. So far microfinance has currently not a very big volume. There is cooperation between the KfW and the Syrian Bank (Interview 4; Interview 5). Further, law 15 introduces banks for micro credits, which in contrast to the KfW and Aga Khan foundation provide credits at lower, presumably subsidized, interest rates (Interview 18). A concern is that micro finance programmes should not provide a pretext for the introduction or continuation of further subsidies.

Although the challenges of poverty and employment (including self-employment) are of utmost urgency especially in the light of the influx of refugees as well as stabilisation and structural reform measures, poverty and employment are not yet key concerns of most analysts outside of the inner reform circle. This stands in striking contrast to the general concern about low real wages and potentially declining subsidies. The lack of systematic knowledge of the extent of the social situation of the various resident groups in society (including Iraqi, Palestinian and Kurdish refugees) could be one reason for this phenomenon,

the solution of which should receive urgent attention (see also the section below on internal constraints).

Last but not least, planning for the continued presence of Iraqis in Syria should be a top policy priority and should be mainstreamed in policy processes including housing, health, education, etc. Considering the circumstances in Iraq, it is more than likely that the Iraqis are going to remain in Syria for a long period of time. Depending on the developments in the neighbouring country, even more people may come. While the government recognises the urgency with which it needs to address this problem it importantly further acknowledges that Iraqis in Syria do not only place a burden but could also provide economic opportunities, not least by expanding the domestic market. Yet, more explicit strategies, which are also feasible from a political economy perspective, how to integrate Iraqis in Syria productively into the economy without competing with Syrian businesses and reducing the financial drain that they might incur should be developed.

4 Evaluating the Reform Process

The above section has provided a brief overview of the Syrian government's progress towards implementing its reform programme, pointed towards obstacles and gaps in the process and provided a brief evaluation about prospective actions of the Syrian reformers. At the same time, the above section has shown that some obstacles and barriers to the reform process are related less to the reform programme but rather to the reform process itself and to the context in which Syrian reforms are being implemented. The statement of one of the interviewees summarises the situation succinctly: the reform programme of the 10th FYP has been a breakthrough, but it may be a little bit overambitious, considering the level of skills and the problem that people may resist reform (Interview 35). In fact, as the experiences of LDCs, Eastern Europe, and the NICs have shown, it is not just the contents of reforms but a suite of contextual factors that determine the success of the reform programme (Lall 2001; World Bank 1993).

Based on these experiences and our interviews conducted in Syria, three critical factors emanate:

1. the capacity and knowledge of the civil service and their ability to monitor and manage the process;

2. the credibility of the reforms which is vital to instil confidence of domestic and foreign private sector into the economy; and
3. the internal and external political economy.

4.1 Capacity, Knowledge and Evaluation

There are at least two factors that determine the capabilities of policy makers to manage the economic reform process:

1. the skills and technical capacity of policy makers; and
2. the available information, i.e. data, to monitor the reform process and make informed decisions.

4.1.1 Skills and technical capacities of reformers

The importance of technical capacity of reformers should not be underestimated. While especially the IMF and the World Bank like to describe stabilisation and adjustment as a simple, well delineated two step process, in reality both types of reforms are highly complex. This was shown already in the stabilisation and structural adjustment processes of the 1980s (Killick and Stevens 1991). The changing role of the state in an environment of market failures requires a high degree of understanding of the underlying economic processes. The successful interventions of the state in the NICs were only possible due to their high competency (World Bank 1993).

In the case of Syria, there is a small number of highly qualified and well trained high level policy makers who are well equipped to plan and guide the reform process; yet there is some need for more capacity in this area. The main problem appears to lie at the level of policy implementation where mid-level civil servants lack the necessary skills and motivation to implement the reforms (Interview 14; Interview 15). The Syrian government is well aware of these insufficient skills. In fact, the related lack of implementation of agreed reforms has been partly attributed to this lack of sufficient human resources (Interview 6). The National Institute of Public Administration, which was established in 2002, trains qualified civil servants by providing courses in economics, management and foreign languages (Interview 14; Interview 15). However, the deeper problems remain to be the low quality of schools and universities, the low degree of international exchange and return migration as well as the low

FDI and the skill transfer these would entail (Interview 42). To bridge skills gaps in the short run, the government is seeking support from international experts through close cooperation with e.g. the World Bank, the IMF, the European Union and the GTZ.

4.1.2 Collection and dissemination of information

These remedial actions will not succeed if better qualified staff do not have the necessary information to work with. Apart from insufficient domestic skills, the absence of systematic information and data to monitor the reform process in particular and trends in the Syrian economy in general hinders informed decision making. Again, this problem is not unknown to Syrian policy makers as complaints about lack of data in various interviews showed.

Apart from the general lack of data, three priority areas were identified which require more information:

1. Economic statistics on private sector activity. So far economic statistics are mostly available on the public sector, while hardly any information exists about private sector activity.
2. Panel household data as argued above.
3. Data on the status, coping strategies and welfare of the Iraqi refugees in Syria is not available as they are currently not covered in any household survey.

As the reform process is still quite young, the introduction of an adequate monitoring and evaluation system is even more worthwhile. Furthermore, rigorously evaluating the impact of policy measures will have save scarce resources and accelerate the delivery of welfare and output enhancing policies to the entire population, thus raising the political acceptance of the economic reform programme.

So far no steps appear to have been instituted to establish a coherent data collection and policy monitoring system. Such task could involve the State Planning Commission (SPC), Central Bureau of Statistics (CBS) and a reformed National Planning Institute (NPI). The NPI in particular should be tasked to provide analysis and policy advice and to be a forum for domestic economic policy debates. It should be independent from government and donors and have a clear long term mandate and perspective to ensure the meaningful long term monitoring of reform processes. This centre should provide training at Western master-level, as an entry into Western PhD programmes, and have a strong visitors programme to foster the

international transfer of skills and technologies. This centre could be modelled after the National Agricultural Policy Centre (NAPC), which fulfils some of these conditions for the fields of agriculture, rural development, poverty alleviation, and international trade in an admirable way.

Last but not least, capacity also refers to the financial ability to pay for the stabilisation and reform process but especially to pay for supplementary activities which will help to reduce the short to medium costs of reform. Even though a range of donors have been involved in various aspects of the reform process, the overall role of donors is not clearly spelt out and coordinated, neither with respect to financial nor technical support. On the one hand, external support could not only ease the financial burden of the reform but could also ensure a smoother reform process which is informed by the lessons and experiences that other countries provide. On the other hand, experiences with previous stabilisation and adjustment programmes have shown that the involvement of donors is not necessarily unproblematic. The value of financial assistance can be undermined by contradictory policies of donor countries (Killick and Stevens 1991) especially in cases where they pursue objectives which are not aligned with objectives of the recipient country. Nevertheless, given the need to buffer negative repercussions of the poor, to decrease the burden on interest groups that could potentially stall the full implementation of the programmes, to gain credibility and to signal commitment the Syrian government should seriously consider a more strategic involvement of foreign donors in the planning and implementation of its economic reform process.

4.2 Credibility of the Reforms

As the above analysis has shown, liberalised markets although necessary are not sufficient to trigger the desired private sector response. Additional factors such as connectivity to the world market through transport and information infrastructure, labour productivity and technological capabilities play a critical role. Given their public good nature, these factors warrant a certain degree of state intervention to overcome coordination failures in investment. Apart from these „technical” components, lessons from previous stabilisation and structural adjustment programmes in developing countries show that confidence in the sustainability of the reform process in the long run may be a „more important desideratum in this process” (Rodrik 1990: 933f). Investors require certainty that reforms will not be reversed in the medium to long run. Especially in the context of an economy in transition, which does not

have a proven track record of stable macro-economic variables, the credibility of the reform process constitutes an even more important indicator for future economic stability (Rodrik 1990).

In this respect, political statements such as the President's explicit commitment to the reform process in his speech to the Ba'ath party that was pointed out as symbol of commitment by the Deputy Prime Minister al-Dardari are necessary but not sufficient to demonstrate commitment (Interview 6). In Syrian eyes this commitment may weigh significantly given that the president usually does not voice his opinion on these issues (Interview 6), yet to outsiders unfamiliar with Syrian political traditions and concerned with impacts rather than political statements a verbal commitment may lack weight. What counts for investors and economic agents are impacts, which are difficult to assess due to the lack of strategic data collection, evaluation and information dissemination that could demonstrate progress factually. As already mentioned above, establishing a sound monitoring and evaluation framework through appropriate legislation should be an utmost priority on the one hand to be able to demonstrate observers of the credibility of the reforms and on the other to enable reformers to identify strengths and weaknesses and adjust policies accordingly. The implementation of the reforms then requires the right personnel, appropriate administrative processes, sound data on the status quo and the impact of reforms and processes to adjust policies if necessary.

The perceptions on the reform process vary because different agents use different points of references to evaluate the reform process, which in turn is related to the absence of strategic data collection and dissemination. Although recognising that there are still challenges, the latest IMF report is overall very optimistic about the Syrian government's commitment to the reform process (IMF 2007a). Similarly, the World Bank appears to acknowledge that, even though the process has been piecemeal, it has been continuous and determined (Interview 28). In contrast, other interview partners argued that the still apparent gaps in the reforms which have been spelt out above signal a lack in commitment. Yet, it is questionable whether speed of reform or the degree of implementation is actually a good indicator for reform sustainability given that the reform programme is still in its early phase. Especially those reforms which may cause negative economic impacts such as the phasing out of subsidies warrant a more gradual approach in order to ensure commitment across all levels. A „big bang” approach that jeopardises internal stability could undermine credibility more rather

than a gradual approach would. Nevertheless, it appears necessary to enhance the transparency of the reform programme both domestically as well as internationally. Importantly, this should also help to overcome the prevailing sense of a „boycott economy” (i.e. an economy that should be self-sufficient even under strong external pressure) that is still too apparent to external observers.

Another factor that undermines the credibility of the Syrian reform process is the isolated approach within which economic reforms are being implemented. Apart from stabilising and transforming an economy, credibility of a reform process requires enhancing transparency and the rule of law, as was discussed above. Yet, institutional and systemic reform which transforms the role of the state from an active participant in the economy into a provider of security to investment and future returns is not visibly incorporated in the reform process. Critique about this omission is not only levelled by foreign consultants and experts but also by some Syrians (Interview 5; Interview 7). Although improving governance is explicitly mentioned in the 10th FYP, this appears to be more related to enhanced administration than political rule. Further, issues of governance were hardly acknowledged across the interviews, suggesting that the economic reform process was chosen to be narrow and technocratic in its approach.

A sustainable policy environment does not only constitute stable macro-economic policies, a credible set of microeconomic incentives but also the absence of political shocks that might trigger a reversal in the reform process (Rodrick 1990). Political instability that may lead to disruptions of economic activity and thus threatens returns on investment in a given country or region are just as important factors determining the decision making of foreign and domestic investors. Especially a country considered to be an aggressor by some parties is unlikely to be given confidence, due to the risk that economic growth and property rights of individual investors will be valued less than geo-political objectives of the country at large.

4.3 The Internal and External Political Context

Internal and external political dynamics are important determinants of reform processes. In the case of Syria two factors play a decisive role in determining the success of Syria’s reform programme: external boycotts of moves towards liberalisation and internal resistance against reform.

With respect to the first, Syria loses benefits of its economic liberalisation due to several unresolved foreign policy issues, including the Golan Heights, its role in Lebanon and the international sanctions applied by the United States, which prohibit companies from investing in Syria. A further obstacle is the delay in the agreement of an EU association agreement by the European Parliament and by some member states. As Deputy Prime Minister al-Dardari recognised in a recent interview, these sanctions place severe restrictions on the possibility of attracting foreign direct investment especially from US companies with negative repercussions especially on the energy as well as the IT sector. Important in this respect, these sanctions imply not only lost capital but also missed opportunities for technological transfer and skills development which Syria urgently requires (Syria Today July 2007). It is beyond the scope of this report to argue about the justification of these sanctions or to discuss Syria's geo-political stance in the Middle East. Still, reformers have to consider – and as the interview with al-Dardari shows, seem to be aware – that foreign relations and policies do influence economic decision making, especially the decision making of foreign investors.

Probably more significant, internal political dynamics play a critical role for the sustainability of the reform process. As has been mentioned throughout the report, both stabilisation measures and structural reform with the consequent liberalisation of markets, institutional restructuring and legislative changes induce not only a redistribution of economic resources but also transform power relations and hierarchies across all levels. Especially political and economic „losers” may attempt to stall the reform process, leading „at best” to incomplete implementation and at worst to the destabilisation of the existing political system if not complete overthrow of the ruling elite in power. As previous experiences especially in Latin America have shown, a government whether democratically elected or authoritarian that lacks legitimacy is unlikely to be able to sustain reforms which are unfavourable with the public or influential power elites, such as the military (Killick and Stevens 1991). Estimating the potential for political resistance against the Syrian reform process requires a much more in-depth analysis how reforms will impact on power relations and different interest groups which surpasses the scope of this report. Nevertheless, arguments and statements made in the interviews show that internal political factors and the fear of a negative political backlash are critical determinants of the reform process. In this sense, interviews identified mid-level civil servants as well as the powerful economic elite or even small groups of urban consumers as actors who could play a role in stalling the reform (Interview 14; Interview 15; Interview 6).

It has been argued that due to these forces old entities and institutions have actually not been abolished but rather a parallel system has been created (Interview 28).

Economic reform cannot be successfully implemented in isolation from politics as the stability of an economic system, and the confidence into it, is not only determined by economic but also by political factors. Previous stabilisation and adjustment programmes in other countries have often overlooked these political factors, especially to restore confidence of the private sector. Our interview partners suggested that the Syrian government's main strategy to overcome internal resistance against reforms is to slow down the pace of reforms. However, the question remains whether this is sufficient to buy-in actual support or whether additional measures should be employed. Increased transparency and information dissemination about reform plans, their impacts and ways to mitigate the costs could be an important signal to the public (Interview 21). In short, it may be necessary to pursue a more open reform rhetoric to achieve the aims of the reforms.

5 Conclusions and Recommendations

In conclusion, while the progress of the Syrian reform process has been commended especially by the International Financial institutions (IMF and World Bank), much remains to be done to overcome the three challenges that Syria's economy faces: to achieve the shift from an oil-exporting economy towards a net oil importer; to manage the transition from a socialist planned economy towards a liberalised social market economy; and to reduce poverty and enhance human development through targeted interventions which ensure a more equitable redistribution of wealth and equal economic opportunities for wealth creation across all segments of the Syrian society.

As Section 3 has shown, Syria has made great strides towards implementing reform. Nevertheless, key problems remain in the process of stabilisation and structural reform. Regarding the first, explicit and implicit subsidies and an oversized and inefficient public sector continue to drain the public budget. At the same time, given declining oil revenues, public revenues have been and continue to dwindle as non-oil revenues from especially from taxation remains small.

With respect to structural reform, several key barriers hinder an adequate private sector supply response that could replace the role of the state in the economy. First and foremost,

state owned enterprises still enjoy government protection through soft-budget constraints. At the same time, the private sector faces stiff non-tariff barriers to trade, high costs of „doing business” and an arbitrary system of law enforcement which create disincentives to doing business. Lack of a skilled labour force (leading to above mentioned low productivity), a shallow financial system and underdeveloped physical and technological infrastructure create further obstacles to successful private sector development. At the same time, the Syrian government loses potential private sector participants as the large stream of refugees is not fully integrated into the Syrian economy.

Importantly, while most reports on the Syrian government’s reform process focus on these respective gaps, this report has attempted to provide an insight of the barriers that may hinder the Syrian government to proceed with its reforms. In this respect the most important obstacles appear to be:

1. The capacity of public sector and civil servants to implement the reforms;
2. the credibility of the economic reform programme and thus its ability to raise the necessary supply response both domestically and internationally; and
3. the external and internal political economy, that even if as such relatively stable is already hindering or slowing down the process of the reform programme.

As the interviews have shown the Syrian government is partly aware of these factors yet, so far no sufficient strategies to overcome these barriers have been designed. Even though Syria is a relative latecomer regarding its reform programme, in contrast to the countries of Africa, Latin America and Eastern Europe who faced severe crisis situations when implementing their reform programmes Syria enjoys relative economic stability. The Syrian government should fully build on this advantage and use the available time to devise an integrated strategy addressing both these obstacles as well as the remaining measures necessary to complete the reform process. In this respect, the Syrian government should take full advantage of available financial and technical aid that is available to it.

Building on the key findings derived from the interviews and the available literature, the report proposes following recommendations to the Syrian government.

To address the challenge of macro-economic stabilisation, the government should focus on reducing the unsustainable budget deficit through:

- Aiming to phase out subsidies fully (while in parallel building up a less costly and more effective social safety net to protect the poorest of the poor). The overall aim of the changes should be relief of the fiscal deficit and more effective poverty alleviation.
- Further limiting recruitment in the public sector.
- Focusing on enhancing the efficiency of non-oil revenue collection, especially through improving the current tax administration; yet without creating disincentives to the currently large informal sector to enter the formal economy.
- Allocating scarce public finances more effectively, i.e. into economically most productive sectors.

To foster structural reform and the private sector supply response through:

- Exposing State owned enterprises to competition thus inducing efficient (financial) management by phasing out currently prevailing soft-budget constraints.
- Rather than training more entrepreneurs, creating a more conducive business environment for existing entrepreneurs by reducing „costs of doing business” especially through ending non-tariff barriers and strengthening the rule of law.
- Maximising the economic benefits that refugees can provide to the Syrian economy.

To enhance the credibility and thus sustainability of the reform process through:

- Recognising that economic sustainability is determined by non-economic factors such as internal and external political stability and that the credibility of economic reforms cannot be detached from internal and external political processes.
- Embracing the involvement of donors in providing technical and financial capacity to support the reform process.

In this respect, donors could support the Syrian through the following activities.

To address the challenge of macro-economic stabilisation, donors could:

- Provide financial assistance and expertise in activities critical to the success of the reform process, which surpass the Syrian budget limitations (e.g. data collection).

To foster structural reform and the private sector supply response through:

- Supporting Syria's regional and international economic integration e.g. by fostering bilateral and multi-lateral trade agreements.
- Supporting the improvement of internal political constraints, specifically those relating to enforcement of the rule of law.
- Supporting human capital accumulation, importantly not with a short term focus on entrepreneurial training but rather through a comprehensive improvement of the quality and accessibility of education across all levels.
- Supporting the integration of refugees into economic processes.
- Building Syrian analytical capacity through supporting data collection (Panel and household data) and strengthening research institutes such as the National Planning Institute (NIP) to provide analysis and policy advice building on and extending model experiences such as the National Agricultural Policy Centre (NAPC).

To enhance the credibility and thus sustainability of the reform process through:

- Supporting human capital development as mentioned above.
- Recognising the internal political difficulties to implement specific steps of the reform process and supporting the search for adequate solutions to overcome internal political constraints to the reform process.
- Supporting the resolution of external political constraints that jeopardise the sustainability and credibility of the reform process.

Annex

Table 1: List of Respondents

Nr of Interview	Name	Institution
1	Kraft, Dr. Alfred	GTZ Syria, Project Director
2	Krauspe, Sven	German Embassy, Representative of the Ambassador / Deputy Head of Mission
3	Bernardy, Helmut	The Syrian Consulting Bureau For Development & Investment (SCB), Senior Project Analyst
4	Al-Ghraoui, Omar	The Syrian Consulting Bureau For Development & Investment (SCB), Senior Project Analyst
5	Sukkar, Dr. Nabil	The Syrian Consulting Bureau For Development & Investment (SCB), Managing Director
6	al Dardari, Dr. Abdullah	Deputy Prime Minister
7	Raddawi, Dr. Tayssir	State Planning Commission (SPC), Head
8	Ali, Nader Sheikh	State Planning Commission (SPC), International Cooperation General Director
9	Khoury, Dr. Nabil	Planning Institute for Economic and Social Development
10	Garzaldeen, Fadlala	State Planning Commission (SPC), Macroeconomic Division
11	El Hindi, Atieh	National Agricultural Policy Centre (NAPC), Director
12	Haydar, Firas	National Agricultural Policy Centre (NAPC), Head of Division of Rural Development
13	Perri, Pirro-Tomaso	FAO, Technical Advisor
14	Dalla, Prof. Sam	National Institute of Public Administration (INA), Dean
15	Canler, Jean-Christophe	National Institute of Public Administration (INA), Technical Expert
16	Kilani, Ahmad	State Planning Commission (SPC), Director of Human Development
17	Zintl, Tina	Syrian-German Cooperation for tertiary education – Research Project
18	Harb, Dr. Bian	Former Agency For Combating Unemployment (AUC), General Manager
19	Aboud, Dr. Talal	Higher Institute of Business Administration (HIBA), Dean
20	Hasan, Dr. Taisir	Higher Institute of Business Administration (HIBA), Advisor to the vice Dean
21	Mayaleh, Dr. Adib	Central Bank of Syria, Governor
22	Monetary policy team	Central Bank of Syria

23	Hafez, Basmah	Ministry of Finance, Banks & Insurance Office, Manager
24	Ali, Dr. Ibrahim	Central Bureau of Statistics (CBS), Director
25	N/A	Institutional and sectoral modernisation facility (ISMF), EU-Project
26	Rostum, Dr. Ali	Population and Economics Studies Center, Director
27	Mohammed, Mutasem	Population and Economics Studies Center, Deputy Director of Computer Directorate,
28	Shaban, Radwan Ali	World Bank, Poverty Reduction and Economic Management MENA, Lead Economist
29	El-Yafi, Prof. A. Haytham	Minister of Industry, Vice Minister - Private Sector
30	Maldaon, Dr. Issa	Ministry of Social Affairs & Labour, Deputy Minister
31	Aziz, Linda Abdul	UNDP Projects Syria, „Strengthening Strategic Capacity of the Ministry of Labour and Social Affairs“
32	Salloutah, Khaled Mahmoud	Ministry of Economy and Trade, Deputy Minister
33	Dashash, Dr. Mahmoud	EU, Health Sector Modernisation Programme, Director of Planning and International Cooperation, Deputy National Co-Director for Technical Affairs
34	Al Jondi, Shaza	UNDP, Poverty Reduction Team Leader
35	Al-Hassani, Rima	UNDP, Social Development Team Leader
36	Eljord, Mazen	UNDP, Business Development Programme Associate
37	Al-Sayed, Rawd	UNDP, Governance and Business Development Team, Programme Assistance
38	Al Imady, Mohammed	Syrian Commission on Financial Markets and Securities / Arab-European University - Chairman of the Board of Trustees
39	El-Yafi, Prof. A. Haytham	Minister of Industry, Vice Minister - Private Sector (also board member of HIBA)
40	Zeinab, Dr. Hassan	Deputy Minister of Petroleum and Mineral Resources
41	Wenzel, Volkmar Karl	German Ambassador, Damascus
42	Arbash, Dr. Shafik	Education Advisor to the Government and Professor at Damascus University
43	Weiter, Prof. Matthias	German Ministry for Economic Cooperation and Development

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