

ACTION FICHE FOR SYRIA/ENPI/PUBLIC FINANCE REFORM

1. IDENTIFICATION

Title	Public Finance Reform Programme		
Total cost	Total Amount envisaged for the action: 10 000 000 € EC contribution: 10 000 000 € Beneficiary Contribution: 0		
Aid method / Management mode	Project approach –Decentralised Management		
DAC-code	15120	Sector	Public Sector Financial Management

2. RATIONALE

2.1. Sector context

Syria faces daunting economic challenges. The bulk of the adjustment was achieved by a reduction of almost 5 percentage points of GDP in development expenditure and by an increase of almost 3 percentage points of GDP in the surplus received by the government from a few profitable public enterprises, mainly in telecommunications. However, at 8 percent of GDP in 2007, development expenditures have reached a level where further cuts would hurt growth and social services.

A sizable fiscal adjustment will be needed to preserve fiscal solvency. Reliance has to be placed in further mobilizing domestic taxes and in improving the composition and efficiency of public expenditure. In this regard, the IMF has suggested introducing a VAT, which requires modernizing tax administration, and phasing out petroleum price subsidies as the main pillars of a fiscal reform; energy price subsidies (including gas) are estimated to reach 15 percent of GDP in 2007. It is also necessary that the public expenditure management system be revised and modernised to become more efficient and able to better allocate public resources. This will require strengthening institutional capacity at the Ministry of Finance (MoF) and in all budgetary units. Macroeconomic stability would be at risk if the structural reform drive is not sustained and accelerated.

The government's *Tenth Five-Year Development Plan 2006-2010* sets out objectives and strategies for the medium-term. Reform of the public finances is given prominence. It acknowledges that Syria's public finance policy has been characterised by heavy reliance on oil, which exposes the economy to shocks triggered by the fluctuation in world prices. However, this is not the only factor influencing the government's intention to pursue public financial management reforms. It recognizes that the Syrian economy is entering a critical era with new requirements and challenges. In the context of fostering a social-market economy,

the *Plan* points to a changing role for the government implying the provision of more support to various sectors to enhance economic and human development.

Developing efficient, transparent, and accountable budget management systems and institutions is one of the priorities for reform in the Euro-Mediterranean region (*ref. 2005-2007 Euro-Mediterranean ECOFIN ministerial meetings*). This emphasis on public financial management is reflected in the current *ENPI Syria Strategy Paper 2007-2013* and *NIP 2007-2010*, which identifies support for economic reform and, specifically, support for public finance reform (under Strategic Objective 2), aiming at fiscal consolidation and rationalization of the public expenditure management system. In this context, the paper states that “any support in this area should be coordinated with the IMF and World Bank”.

2.2. Lessons learnt

This project would build on the results and experience of the current EC-funded Modernisation of Ministry of Finance (MMoF) project which aims to support revenue reform, to strengthen tax administration capacity and services, and to modernize the public finance systems, accounting and budgeting. It is well-grounded in the government’s declared objectives as set out in the Tenth Five-Year Plan. The MMoF project has promoted amongst beneficiaries pro-active involvement in training and decision making, widespread understanding of the project’s activities and outputs, and local ownership of project results. Translation of manuals and instructions in Arabic further enhances accessibility and use of results and local ownership.

It complements other EU-funded projects such as the Institutional and Sector Modernisation Facility, which, within its broad compass, has included technical assistance and advice to the MoF; and has played an important role in helping the State Planning Commission (SPC) draft the Tenth Five-Year Development Plan, in which public financial management reform is a salient feature.

A mid-term evaluation is currently underway and its results will be used for the formulation of this project.

However, so far there have been single initiatives that have not been part of a strategic integral plan for reform. A stronger and modern PFM system will result in the much needed increase in the efficiency of the domestic revenue system and would become an enabling factor for the achievement of better fiscal policy outcomes, mainly through a reformed budgetary process. All this would contribute to fiscal consolidation and sustainability.

In this connection, the scope of this project will go beyond the modernisation of the Ministry of Finance and will directly support the Government's Public Finance Reform agenda and enhance public financial management in Syria. It is also worth mentioning that so far the conditions for budgetary support have not been met in Syria and that this project can make a substantial contribution to creating an enabling environment for budgetary support.

2.3. Complementary actions

The EU is the largest donor providing assistance to reform the public financial management system in Syria. This support is provided through the Modernization of the Ministry of Finance (MMoF) project and the Institutional and Sector Modernization Facility (ISMF).

The **MMoF** is an €8 million project aiming at upgrading and harmonising the Syrian institutional framework in taxation and public expenditure management, including customs rules and operations, so as to facilitate the implementation of the EU-Syria Association Agreement and/or other relevant international trade agreements. The MMoF project started in March 2005 and is scheduled to end in August 2008. The overall work programme of the MMoF includes three main components: (i) tax policy and administration, (ii) state budgeting and accounting, and (iii) customs policy and administration. The MMoF's activities are focused on the development and introduction of a new budget classification and chart of accounts, a double-entry accounting systems through the implementation of an integrated financial management information system (IFMIS), and output-based budgeting. In addition, MMoF has provided assistance for the introduction of VAT and the establishment of a large taxpayers unit in Damascus.

The ISMF is a €2.5 million programme under the management of the State Planning Commission. It aims at assisting the government of Syria in the formulation and implementation of an institutional modernisation programme, and in the preparation and implementation of the Association Agreement with the EU. It supports the formulation and the implementation of reforms within key Syrian institutions, covering the ministries of transport, electricity, economy and trade, industry and finance. The project started September 2003 and is scheduled to end in September 2008.

Its key interventions include assistance in improving the planning process through the assistance provided for the development of the *Tenth Five Year Development Plan 2006-2010*, improving government procurement systems, developing e-government technology, and restructuring State-owned enterprises. In addition, ISMF is running the Institutional Modernisation and Capacity Building Project (IMCB). The IMCB, with an allocation of €2 million, is a two-year project providing technical assistance to the MoF, SPC, and the Ministry of Economy and Trade, aimed at institutional modernization.

These are complemented by other multilateral agency interventions: *e.g.*, in the field of customs reform, UNDP's assistance in implementing the ASYCUDA system, and the IMF's technical assistance and advisory missions and reports on public financial management reform. The EU, the IMF, and the World Bank will almost certainly be the main future providers of technical assistance and advice in the field of PFM reform. Given the relative proximity of the IMF's Middle East Technical Assistance Center (METAC), located in Beirut, the establishment of productive coordination and contacts between the EC Delegation, the management of the future project, and METAC will be of high importance.

The IMF has reinforced its technical assistance on PFM to the MoF since 2004 through a number of TA missions. These included a multi-sector statistics mission in

June 2004; TA missions on VAT and tax administration in July 2004, March 2005, and August 2007; a joint TA mission with the World Bank on PFM in May 2006 and a mission on budget modernization in June 2007. The mission was told by the Budget Department staff that the MoF will receive TA from the IMF on medium-term fiscal frameworks in 2008.

2.4. Donor coordination

The TA provided by the EC and the IMF complement each other and stronger collaboration between these two donors is envisaged. While the support of the IMF is in the form of “conceptual TA” through technical advice and recommendations, the EC technical assistance supports and assists the daily development and implementation of reforms.

3. DESCRIPTION

3.1. Objectives

The overall objective of this project would be to support public finance reform in Syria, aiming at fiscal consolidation and rationalisation of Public finance.

As **specific objectives**, the project will include the following identified elements:

- Review, simplification and streamlining of tax legislation and also the preparation of secondary legislation to provide a basis for strengthening public expenditure management;
- Support to the Reform of the tax system and administration;
- Support a comprehensive and well-sequenced plan to modernize the Syrian public financial management system and procedures that would create an enabling environment for budgetary support;
- Elaborate a road-map for a comprehensive reform of public finance management could be one of the main components of the EC support in the field of public finances.

3.2. Expected results and main activities

Expected results encompass:

- Expansion of the tax base and increased efficiency of revenue collection;
- Better coherence between the strategic and sectoral priorities of the government and budget allocations;
- More efficient, effective, and economic use of fiscal resources;
- Improved in-year monitoring of budget implementation;
- Closer alignment between budget appropriations and out-turn;

- Improved cash management;
- Improved fiscal transparency and dissemination procedures.

The main activities include (subject to the findings of the formulation mission):

- To support the initial VAT operations, supporting large and medium taxpayers operations, designing training programmes and training the staff of the tax administration department, and designing and establishing a new small business taxation regime, among other activities;
- To assist in moving from pilot-based implementation at the MoF to a full roll-out to all budgetary entities in the areas of new chart of accounts, budget classification, accounting system, output-based budgeting, and information management system;
- To support for budget formulation, preparation, and execution; public procurement; cash management; payroll system; budget reporting; and internal controls and auditing;
- To support the implementation of a full PEFA assessment, if such an assessment has taken place before the start of the project;
- To assist in designing a road-map setting out a prospectus for future public financial management reform.

3.3. Stakeholders

The main stakeholder of this PFM reform project will be the MoF, including its many different departments such as the Budget Department, the Treasury Department, the Legal Department, the forthcoming Tax Administration Department, and the Planning and Statistics Department. The MoF is mandated with the responsibility of managing the budget and with designing and implementing fiscal policy. Thus, the MoF plays a strong central role in tax policy, tax administration, and public expenditure management, including budget preparation, management of the budget expenditure process, budget monitoring, cash management and treasury functions, debt management, internal controls, etc.

As mentioned above, the MoF has embarked on several reforms within the past two to three years of which some were implemented and others are still in the process of preparation or implementation. The MoF's senior management as well as technical staff express high interest and commitment to furthering these reforms although their efforts are obstructed by the lack of a well-designed strategy and action plan.

The MoF has been receiving technical assistance from the EU since 2005 through the MMoF project in the areas of tax policy and administration, customs policy and administration, and state budgeting and accounting administration. The MoF has also received technical assistance from the IMF since 2004.

3.4. Risks and assumptions

The key assumptions underlying the project intervention can be summarised as follows:

- The government remains committed to reform, particularly in the area of PFM.
- The government continues to show interest in and support for PFM reforms, facilitating their development and implementation through appropriate structural changes and the allocation of adequate human and financial resources; structural changes (*e.g.*, functional and staff changes relating to the unification of the current and capital budgets) are effected smoothly.
- National stakeholders agree and co-operate on the priorities for, and timing of reform within the scope of PFM and implement them accordingly.
- National stakeholders and TA co-operate effectively in the development and implementation of reforms.
- Government officials are made appropriately available for participation in project activities, including training.
- There is effective coordination and co-operation between external partners in the field of PFM reform, especially between the EC and the IMF.
- Political, economic, and social conditions in Syria and the region remain stable, or at least do not deteriorate in such a way as to impair project implementation.

3.5. Crosscutting Issues

Since this project targets the efficiency and transparency with which the government's resources are utilized, it helps to address issues related to poverty, access to basic needs, and gender. At the same time, a more transparent and accountable PFM system can help to support democratic aspirations. The limits of what can be achieved by, and attributable to, a single TA project, must be recognized. Nonetheless, within these limits it can complement the kind of higher-level objectives (and the inherent opportunities) signaled under the Barcelona initiative and its Association Agreements.

Also parts of the project like improved fiscal transparency and dissemination procedures will be contributing to good governance in Syria.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

Decentralised management through the signature of a financing agreement with State Planning Commission.

The authorities responsible for the programme will be the European Commission, the State Planning Commission (SPC) as national coordinator and the Ministry of Finance (MoF).

The EC Delegation in Syria will be the Contracting Authority for service contracts, including audit, monitoring and evaluation contracts. MoF will be the contracting authority for supply contracts and implementation costs.

The Project Implementation Unit (PIU), to be placed in the MoF, will work in close collaboration with the MoF and other stakeholders. The PIU will be responsible for the Programme at the operational level.

The PIU will implement the activities in conformity with the objectives of the Programme and according to the Overall and Annual Work Plans which need to be approved by the responsible authorities through Steering Committee meetings. Discussions will take place with the Syrian Government to define the location of the PIU.

The Commission controls *ex ante* the contracting procedures for procurement contracts >50.000 EUR and for all grant contracts, and *ex post* for procurement contracts ≤50.000 EUR.

Through the programme estimates, payments are decentralised for operating costs and contracts up to the following ceilings:

Works	Supplies	Services	Grants
< 300.000 EUR	< 150.000 EUR	< 200.000 EUR	• 100.000 EUR

The Authorising Officer ensures that, by using the model of financing agreement for decentralized management, the segregation of duties between the authorising officer and the accounting officer of the decentralized entity will be effective, so the decentralization of the payments can be carried out within the limits specified above.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. The maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Implementing Rules of the Financial Regulation where financing in full is essential to carry out the action in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question

4.3. Budget and calendar

Figures included in the following budget are indicative and will be confirmed at a later stage.

1.	<i>Services</i>	7 000 000 €
2.	<i>Equipment</i>	2 000 000 €
3.	<i>Non-salary running costs</i>	300 000 €
4.	<i>Audit, monitoring and evaluation</i> ⁸	350 000 €
5.	<i>Contingencies</i> ⁹	350 000 €
	<i>Total</i>	10 000 000 €

The foreseen operational duration is 48 months from the signature of the Financing Agreement to the end of project activities.

- Presentation of project for adoption to ENPI Committee in July 2008;
- Financial Decision in September 2008;
- Signature of the Financing Agreement with the government by end- 2008;
- Start of the implementation at the beginning of 2009;
- End of the implementation at the beginning of 2013.

4.4. Performance monitoring

The indicators will be reviewed during the inception phase of the project in order to establish an initial baseline. The indicators will be monitored throughout the project's internal biannual progress reports and/or by external monitoring missions.

4.5. Evaluation and audit

The project will be subject of a mid-term review, a final ex-post evaluation and a final financial audit. The use of the budget for implementation costs will be audited annually. In addition to the above-mentioned evaluations, the EC may send specific missions at any time to assess project progress. The mid-term review and the final evaluation will compare the design and implementation of project through an analysis of the relevance, efficiency, effectiveness, impact and sustainability of the project. Independent evaluators will be contracted by the Commission services in accordance with its internal procedures.

⁸ gérés directement par la Commission. Les contrats afférents à l'audit et à l'évaluation peuvent être conclus ultérieurement à la date limite de contractualisation indiquée ci-dessus.

⁹ à mobiliser aux fins de la convention de financement selon les procédures qui y sont prévues.

4.6. Communication and visibility

The programme will be implemented in such a way that the best visibility is given, at all times, to the support of the European Commission for the programme, the achievements of its objectives and results obtained.

The European Commission Visibility Guidelines¹⁰ shall be used as guidelines for the programme. All involved stakeholders will take appropriate action in order to avoid any confusion between the present Programme and those supported by other international donors so as to ensure the best visibility to the co-operation between EU and Syria.

¹⁰ http://ec.europa.eu/europeaid/visibility/pdf/europeaid_guidelines_en.pdf