

Action Fiche for Syrian Arab Republic

1. IDENTIFICATION

Title/Number	Industry for Growth and Employment Programme (IGEP)		
Total cost	EUR 20 420 000 EUR 20 000 000 EU contribution EUR 420 000 Government of Syria contribution		
Method of implementation	Project approach – <i>Centralised management and joint management for component 3</i>		
DAC-code	32120	Sector	Industrial Development

2. RATIONALE

2.1. Sector context

Syria faces considerable challenges as it seeks to re-orient its economy from a state-dominated economy into a social market economy. In order to achieve a sufficient economic growth rate to increase living standards and absorb rising job demand, the country has to promote an alternative economic development model, based on increasing non-oil fiscal resources through private sector development and reform of state-owned enterprises (SOEs). The restructuring of SOEs and the move from a production-oriented to a market-oriented approach is one of the major and most politically sensitive challenges nowadays in Syria. Further, and in the context of the European Neighbourhood Policy, the foreseen signature of an Association Agreement (AA) between Syria and the EU will increase the pressure to reform the Syrian industrial sector to better compete and integrate into the international market.

The Syrian government's 10th Five-Year Plan (FYP) 2006-2010 recognises the need to make changes to an industrial sector that lags behind neighbouring countries, including the need to reform SOEs. Chapter 5 of the 10th FYP specifically mentions the government's intention to "restructure the SOEs and give them financial and administrative autonomy so that they introduce market rules and ensure self-financing".

The main problems for the industrial sector are centred on issues that include lack of a comprehensive industrial policy framework, a non-conducive business environment, inefficient public and private industrial enterprises and a lack of awareness and support for reform. Together, these factors result in insufficient levels of investment in the industrial sector, low competitiveness and consequently low growth and employment generation.

2.2. Lessons learnt

IGEP will build on lessons learnt by the EU and other donors from past actions in the field of industrial upgrading. Other industrial reform programmes dealing with SOEs have highlighted the need to simplify *corporate governance* structures of SOEs, which are often complicated with various levels of supervision by multiple

government ministries or other bodies. Also, the *management of SOEs* has proved to be one of the most important obstacles to SOE reform and changes and/or capacity building of management staff is essential.

Another important lesson learnt is that the *choice of SOEs* to restructure is essential. Studies suggest that manufacturing firms do better than infrastructure/network industries or natural monopolies; further, smaller firms are easier to restructure. Testing on selected *pilot projects* with quick and visible results may ease the resistance to change and they can be an essential component for a successful programme. Finally, trying to *ease resistance to change* is key to a successful programme and putting in place various initiatives such as awareness campaigns, the development of enterprise-level incentives to reform, as well as systems to deal with potential negative social consequences of reform, are essential.

2.3. Complementary actions

IGEP will avoid duplication and will boost synergies with other economic reform programmes in Syria, including EU-funded programmes like the "SME Support Programme", the "Trade Enhancement Programme (TEP)", the "Business Environment Simplification Programme (BESP)", and the "Quality Management Programme". Also, other donor-funded programmes will be taken into account, such as the EIB's EUR 80 million SME Fund, the UNDP's competitiveness and trade enhancement programmes (worth approximately EUR 1 million over three years), Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) programme on Support to Economic Reform in Syria, as well as UNIDO's extensive work in Syria since 2002 on industrial modernisation and SOEs reform, through the Industrial Modernisation and Upgrading Programme, funded by the Italian government.

2.4. Donor coordination

Donor coordination in Syria is under the responsibility of the State Planning Commission (SPC). The absence of coordination in recent years resulted in the EU Delegation to Syria organising informal donor coordination meetings in 2008-09 in order to avoid overlap of ongoing and planned donor activities. In late 2009, the State Planning Commission revived official aid coordination meetings with international donors, grouped by major areas of assistance. Besides the Delegation's day-to-day coordination efforts, the continuity of such meetings will ensure the ongoing coordination of economic reform programmes in Syria.

IGEP will be compliant with the EU Backbone Strategy in terms of ownership by the beneficiary and, given the size and scope of ongoing EU assistance to reform in Syria, it is considered that the EU would be in a position to play a leading coordination role, in line with the principles of the Paris Declaration, the European Consensus on Development and the EU Code of Conduct on Complementarity and Division of Labour in Development Policy.

3. DESCRIPTION

3.1. Objectives

The Overall Objective of the IGEP is to support building a competitive industry that contributes to Syria's economic growth and employment generation. The project purpose is to assist the Government of Syria in upgrading the competitiveness of selected industrial sectors/clusters, while at the same time alleviating the possible social costs of reform.

3.2. Expected results and main activities

Component 1. Industrial Policy and Strategy

Expected Result: Increased institutional capacity to formulate and implement a comprehensive and coordinated industrial policy

The main activities planned to achieve this result are to provide coaching, training and expert technical assistance to relevant governmental institutions in:

- Designing and implementing an industrial development policy and strategy in line with the FYP (incl. policy options for addressing labour and social issues);
- Coordinating policies and reform activities between all concerned stakeholders and line ministries;
- Developing and implementing systems to monitor and evaluate the implementation of the industrial development policy.
- Drafting regulations and procedures related to SOE reform and corporate governance;

Component 2. Enabling Environment

Expected Result: Enhanced enabling environment for industrial activity

The main activities planned to achieve this result are:

- Mapping of the enabling environment for Syrian industry (institutional, legal, infrastructure, etc), identifying needs and implementing policies
- Developing new mechanisms for involving the industrial sector in policy and law making and enhancing its advocacy capabilities
- Developing and/or strengthening business support institutions

Component 3. Enterprise Upgrading

Expected Result: Increased competitiveness of public and private companies from selected industrial sectors

The main activities planned to achieve this result are:

- Assessment of viability of and future options for SOEs and selected private sector enterprises in line with the industrial strategy developed and adopted by the government
- Assistance in upgrading of selected public and private industrial enterprises on a case-by-case basis. Assistance could include:
 - Hands-on, in-company capacity building in design & product development, budgeting and accountancy, production planning, quality and environmental management systems, etc;
 - Management training;
 - Export promotion;
 - Technological upgrading, incl. access to finance

Component 4. Awareness Building

Expected Result: Increased awareness of modern social market principles and practices, advantages of reform and reform options

- Assisting in the development and implementation of a comprehensive public awareness strategy and campaign.

Component 5. Social Fund

Expected Result: Adaptability of employees, enterprises and entrepreneurs increased to alleviate social consequences of economic and structural changes in industry.

The Social Fund (SF) will be modeled upon the principles of the European Social Fund (ESF), which aims at re-deployment of unemployed into the labour market. Under the IGEP, the SF will support actions seeking to upgrade the skills of employees in order to increase job mobility, foster innovation and productivity in enterprises and encourage entrepreneurship. Special attention will be paid to projects targeting job mobility and adaptability of SOE employees. The Social Fund will work via a grant scheme, and will aim at supporting actions –to be implemented through selected partner organisations- such as:

- (1) Providing employees with career guidance, education and training to maintain employability and/or to promote job mobility.
- (2) Promotion of entrepreneurship and innovation to provide new job opportunities, e.g. via business incubators.
- (3) In conjunction with point 2 above, providing micro-finance (risk capital) for start-ups.

A more detailed assessment of needs, as well as concrete selection criteria will be defined at the beginning of the inception phase.

3.3. Risks and assumptions

The main risks related to IGEP are related to the willingness and capacity of the Syrian government to effectively implement change within the SOE sector, capacity to coordinate the SOE reform process, resistance to change and potential negative social impact of economic change and restructuring. The working assumptions of IGEP include continued government commitment to reform and adoption of appropriate practices including SOE upgrading and corporatisation principles and participation by the private sector.

3.4. Cross-cutting Issues

The programme will contribute to increased awareness about environmental sustainability and impact through capacity building of the industrial sector in quality and environmental management systems and social standards. Upgrading enterprises, specifically SOE reform, will also contribute to good governance in Syria. Indirectly, increased employment generation could help addressing gender issues.

3.5. Stakeholders

The main stakeholders of this project are the Syrian Ministry of Industry (MoI), State Planning Commission (SPC), the Office of the Deputy Prime Minister for Economic Affairs (ODPM), Labour Unions (LUs), relevant line ministries (LMs), Business Support Institutions (BSIs) as well as the business community at large.

The MoI is mandated with planning, developing and organising the industrial sector but currently lacks policy-making capacity and it is weak in change management capability. The MoI is directly responsible for the management of the SOEs. LUs are strong in protecting interests of SOE employees and are represented at high levels in government. Finally, the various BSIs and the business community could provide valuable guidance to the Government on devising a clear and coherent industrial strategy.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The programme is implemented via direct centralised management through the signature of a Financing Agreement with the Syrian Arab Republic. The Commission carries out all the procurement procedures and payments except for Component 3.

According to the outcomes from the identification and formulation mission, the foreseen official beneficiary of the project is the Ministry of Industry (MoI). The project will be directly coordinated with the Office of the Deputy Prime Minister for Economic Affairs to build capacity in policy formulation (including the FYP), implementation and monitoring and evaluation.

Component 3 of the project will be implemented via a joint management through the signature of a Contribution Agreement between the European Commission and UNIDO. The Syrian Government, based on their positive experiences with this organisation in the implementation of the Industrial Modernisation and Upgrading

Programme, has expressed its wish that component 3 is implemented by UNIDO. The potential cooperation of UNIDO in this programme was already foreseen in the National Indicative Programme for Syria 2007-2010.

A **Project Task Force (PTF)** located inside the institutional structure of the Syrian government will be established to manage the implementation of the project. This PTF will be staffed by employees provided by the beneficiary and supported by Technical Assistance staff. The government will provide the needed office space in its own premises. In line with the provisions of the Backbone Strategy, the management rules for the PTF will be designed in a way that appropriation, ownership and leadership of the project will be ensured by the Syrian administration.

Specific mechanisms will be put in place to ensure close coordination of component 3 implemented in cooperation with UNIDO with the overall programme. It is foreseen that UNIDO staff will be based in the PTF premises and under the authority of the Programme Director.

A Steering Committee will be established for the implementation of the Programme, involving the EU Delegation and senior representatives of the major stakeholders.

Potential beneficiaries of the Social Fund envisaged in Component 5 (semi or non-governmental, non-for-profit entities) are those organizations active in the field of employment and social inclusion.

4.2. Procurement and grant award procedures / programme estimates

(1) Contracts

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. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in art. 21(7) of ENPI Regulation.

(2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): 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 Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.

- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

- (3) for Component 3: joint management with UNIDO through signature of a contribution agreement

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the relevant International Organisation.

4.3. Indicative budget and calendar

The indicative breakdown of the budget is as follows:

Categories	EU contribution	Government contribution	Total
	EUR	EUR	EUR
Services	8,200,000		8,200,000
Supplies	2,000,000		2,000,000
Operating Costs	3,400,000	420,000	7,820,000
Social Fund	4,000,000		4,000,000
Visibility & Communication	400,000		400,000
Contingencies*	1,500,000		1,500,000
Monitoring, External Evaluation and Audit	500,000		500,000
TOTAL	20,000,000	420,000	20,420,000

* Contingencies may be used only with prior agreement of the European Commission

The programme will have an indicative duration of 72 months following the signature of the financing agreement. The operational implementation phase is 48 months and the remaining 24 months are allocated for the closure phase.

4.4. Performance monitoring

Day-to-day technical and financial monitoring will be a continuous process as part of the Beneficiary and EU Delegation responsibilities. To this aim, a permanent internal, technical and financial monitoring system for the programme will be developed during the Inception Phase and will be included as part of the Inception Report. Regular monitoring missions from EU Headquarters will also be undertaken in order to measure progress of project implementation.

4.5. Evaluation and audit

The programme will undergo a mid-term review, a final ex-post evaluation and a final financial audit. The use of the Annual Programme Estimate budgets will also be audited. The EU Delegation to Syria will prepare the terms of reference and select the contractors for the financial audits and evaluation missions according to internal procedures. All audit and evaluation reports will be communicated to the Syrian Government by the EU Delegation to Syria. In addition to the above mentioned evaluations, the European Commission may send specific missions at any time to assess programme progress and adherence to EU procedures.

4.6. Communication and visibility

Communication and public awareness activities are key to programme success and are grouped as a specific element in the programme description under Result 4. Resources and efforts will be provided in order to gain the support of policy makers, ministry officials, the private sector and civil society at large. At all stages of the programme, visibility will be given to the role of the European Union in the programme and to the results obtained by the programme. This should be done in accordance with EU visibility guidelines in force at the time of implementation.