

ACTION FICHE FOR SYRIA

1. IDENTIFICATION

Title	Business Environment Simplification Programme		
Total cost	€5,000,000		
Aid method / Management mode	Project approach – decentralised management		
DAC-code	25010	Sector	Business support services and institutions

2. RATIONALE

Syria's real potential for sustainable growth and job creation lies with the development of a buoyant private sector and dynamic SMEs. However, private sector development is for the moment stifled by pervasive regulations and administrative procedures. Starting a business is difficult, time consuming and the capital requirements are among the highest in the world. Drastic simplification of business legislation and administrative procedures is a pre-condition for the private sector to play the role of 'engine for economic growth' advocated in the tenth Five Year Plan (FYP). This project aims to support the reform of the legislative and regulatory framework affecting productive and commercial activities in Syria. Assistance will be provided to ensure rapid and uniform application by the administration – including through the introduction of one-stop-shops.

2.1. Sector context

The Syrian government has undertaken a number of reforms to enhance the business environment in recent years (such as income and profit tax reductions for SMEs) but their impact has been limited by the absence of an overarching economic reform structure and sufficient commitment. The tenth **Five-Year Plan (FYP) for 2006-2010**, however, aims to transform the Syrian economy from a centrally-planned economy into a 'social market economy' and envisages the private sector as a motor of economic growth and to create an appropriate environment for private business activities.

One of the three priority areas agreed on in the CSP 2007-2010 is support for economic reform, including implementation of the Five-Year Plan, preparation for the implementation of the Association Agreement and preparation for WTO accession. The main aim of the EC financial assistance proposed for the MIP 2007 is to provide comprehensive support to trade development and investment promotion in Syria. This includes initiatives to improve the business environment in Syria.

Syria signed the Euro-Mediterranean Charter for Enterprise in October 2004 and committed itself to give priority to simple procedures for enterprises, education for entrepreneurship, facilitated access to finance and better market access. A number of programmes in the field of SME development, institutional reform and trade enhancement have been, or currently are being implemented in Syria, but the reform process launched in the 10th FYP is still in its early phases.

2.2. Lessons learnt

Several specificities need to be taken into account for this project:

- Different structures, fees, and procedures apply from sector to sector, and these are covered by different commercial, company or investment laws.
- Although promoting start-ups has been recognised as a major necessity in Syria, there is still lack of willingness or systems in place for the development of venture capital schemes to provide for the financing needs of SMEs/entrepreneurs/start-ups.
- A comprehensive legal bankruptcy framework is missing. Reforms to the legal/administrative frameworks must also consider the operation (including expansion, investment and export) and the exit strategies of a business.
- To ensure and promote the adoption of the recommendations through an Action Plan, the project will have to complement them with appropriate follow-up measures including training, twinning and coaching with the government and relevant stakeholders.
- Measures will have to be taken to ensure a clear institutional framework and that the different stakeholders' roles are respected during the implementation.
- The Steering Committee of the programme could use the institutional framework of the Syrian Enterprise Business Centre (SEBC), because it is accepted by all relevant actors. Also it could be implemented through SEBC as this is a neutral body that combines government representatives/chambers of commerce/banks/other stakeholders.

2.3. Complementary actions

The recently launched **SME Support Programme** (€15 million) works within the Syrian Enterprise and Business Centre (SEBC) to provide technical assistance, policy advice and training in key areas to support SMEs. The **Institutional and Sector Modernisation Facility Programme (ISMF)** (€21 million) aims to help the Syrian government to develop a comprehensive strategy of economic reform and also to work towards the entry into the Euro-Med Free Trade Area by 2010. The **'Banking Sector Support Programme'** (€6 million) backs the ongoing reform and liberalisation of financial system, including facilitating access to funding for the private sector. The EC is already providing assistance to the General Customs Department through its programme on **Modernisation of the Ministry of Finance** (€8 million). Equally, the EC is running a project on **Vocational Education and Training** (€25 million). The EC is working in close coordination with the **European Investment Bank (EIB)** operations in Syria under the Facility for Euro-Mediterranean Investment partnership (FEMIP). Also, the **'SME Fund'** developed by the EIB is providing finance to capital investment projects of Syrian SMEs through local banks (€40 million).

A **'Programme for Strengthening Quality Management, Capabilities and Infrastructure'** (€12 million) starting in 2007 will promote quality at policy,

institutional and enterprise levels. A new **Trade Enhancement Programme** (€15 million) to be started during the second half of 2007 will provide Trade Related Assistance to support trade facilitation, trade and export promotion and the development of a comprehensive trade policy. The programme will support the establishment of an Export Promotion Agency; comprehensive support to the Syrian Customs authorities and to the Syrian WTO accession process. A project for **Corporatisation of State Owned Enterprises and industrial upgrading** (€30 million) is foreseen for 2009.

Due to the complementarities among most of the abovementioned programmes, proper coordination between the various projects is essential.

2.4. Donor coordination

In December 2006, the Delegation organised a round table discussion with representatives from the Syrian government, other donor organisations (UNDP), the private business sector and experts to discuss objectives, obstacles and possible activities of the new programme. It is foreseen to establish a close coordination with the UNDP to ensure that we complement each others activities. **GTZ** is providing targeted technical assistance and capacity building in the field of the economic regulatory framework. **JICA** has been providing TA to MOI for the Modernization of Industry.

UNIDO has recently launched an Industrial Modernisation Programme co-financed by the Italian Ministry of Foreign Affairs aimed at upgrading and improving the competitiveness of the industrial sector.

3. DESCRIPTION

3.1. Objectives

The **overall objective** of the programme is to assist in the economic reform process through the simplification and improvement of the regulatory environment related to business in Syria. .

The **specific objectives** of the project are:

- To remove the most stringent regulatory and administrative barriers to doing business and to replace them with transparent, efficient, and predictable procedures
- To establish and implement a detailed Action Plan for improving the business environment by removing bottlenecks, lightening the burden of unnecessary red tape, broadening participation by small enterprises and promoting transparent and fair practices which meet international norms.
- To facilitate access to finance and support start-ups.

3.2. Main activities and expected results

The programme will include the following **main activities**:

- Design and implementation of an Action Plan to improve the business environment
- Design and implementation of a training programme for the personnel of all institutions covered by the plan.
- Design of a mechanism to monitor results and update the plan on a yearly basis.
- Setting-up of a mechanism to consult the business community and social partners.
- Strengthening of the commercial legal system.
- Assistance to the government to create a one-stop-shop for company registration.
- Development of measures to facilitate access to finance and venture capital, in particular for SMEs.

The **expected results** are:

- Action Plan for the improvement of business environment designed and implemented
- Significant simplification of procedures for doing business (including procedures to enforce contracts). reduced time to register new businesses
- improvements in the legal structure for enterprises, including in competition and investment
- Creation of a one-stop-shop for company registration.
- Access to finance for start-up business facilitated

3.3. Stakeholders

The main stakeholders at the Government institutions are: State Planning Commission (SPC), Ministry of Economy and Trade, Ministry of Industry, Governorates and Municipalities. The main stakeholders at the private sector are Chambers of Commerce, Chambers of Industry, the Syrian Enterprise Business Centre (SEBC) and other SME organisations.

3.4. Risks and assumptions

Key risks underlying the programme intervention can be summarised as follows:

- Further economic reforms do not take place or the reform process slows down.
- Regional and/or national instability.
- Overlap with projects of other donors.
- Lack of inter-ministerial co-ordination.

Key assumptions underlying the programme intervention can be summarised as follows:

- Interest of Syrian government in economic reform and liberalisation is maintained.
- The main stakeholders will make available managerial, human and physical resources necessary to ensure a smooth implementation of the Programme.

3.5. Crosscutting Issues

Through reform and modernisation of the Syrian authorities and institutions involved, the project will have a positive impact on Good Governance practices in Syria. Human Rights impact of the programme will be indirect.

4. IMPLEMENTATION ISSUES

4.1. Implementation method

The implementation method for the project will be decentralised management. The authorities responsible for the programme will be the European Commission, the State Planning Commission (SPC) as national coordinator and the Ministry of Economy and Trade (MoET). The EC Delegation in Syria will be the Contracting Authority for service contracts, including audit, monitoring and evaluation contracts. MoET will be the contracting authority for supply contracts. The Commission controls *ex-ante* supply contracting procedures for contracts over €50.000 and *ex-post* for contracts equal or less than €50.000 €

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

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

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. No grants are foreseen in the programme.

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. Indicative budget and calendar

Heading	EU Contribution €	Beneficiary Contribution ⁴	% of total
1. SERVICES			70%
2. SUPPLIES			4%
3. RUNNING COSTS PMU			16%
4. AUDITS, MONITORING AND EVALUATION ⁵			5%
5. CONTINGENCIES			5%
TOTAL	5,000,000		100%

The programme will have a duration of four (4) years (48 months) following the signing of the financing agreement.

4.4. Performance monitoring

Performance monitoring will be ensured by the European Commission Delegation in Syria. Performance indicators will be reviewed during the inception phase of the Programme in order to establish the baseline at the outset of the Programme. The indicators will be monitored through the Programme internal 6-monthly progress reports and/or by external monitoring missions. They will be further developed in together with the 2007-2008 work programme on Euro-Mediterranean industrial cooperation and the Euro-Med Charter for Enterprises.

Performance Indicators should envisage:

- Better ranking in the Doing Business report published by the World Bank over the implementation of the programme
- Reduction of the time lead, number of steps and costs to start a business
- Action Plan adopted
- Improved access to finance and venture capital for business.

Project impact and result indicators will be developed at a later stage and integrated into the financing agreement.

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 Work Plan budgets will be audited. The EC Delegation will prepare the terms of reference and select the contractors for the financial audits and evaluation missions according to internal procedures. In

⁴ Although there is no formal financial contribution from the Beneficiary to the Programme itself, the implementation of the programme is conditional to the participation of the Syrian side in its running costs and in securing sufficient office space and facilities for it.

⁵ The budget for audits, monitoring and evaluation is directly managed by the European Commission.

addition, the European Commission may send specific missions at any time to assess programme progress.

4.6. Communication and visibility

The programme will be implemented in such a way that the best visibility will be given, at all times, to the support of the European Commission for the programme, the achievements of its objectives and the results obtained. The European Commission Visibility Guidelines⁶ shall be used as guidelines for the programme. All involved institutions 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.

⁶ http://ec.europa.eu/europeaid/visibility/pdf/europeaid_guidelines_en.pdf