

Syria: Promoting Non-Oil Sources of Growth

1. Objective(s) of the proposed work:

The central medium-term economic challenge for Syria is how to respond to the dramatic change underway in the composition of its endowment of natural resources. More specifically, declining oil production (and eventual depletion of oil reserves) is already having a major fiscal and balance-of-payments impact. After peaking at 650,000 bpd in 1995, crude oil production has plummeted to about 380,000 bpd in 2007. With declining output and rising consumer demand for petroleum products, Syria's overall oil balance has turned negative in 2007. Oil production is expected to decline further over the coming years and eventually leading to depletion of recoverable reserves by 2030.

This phenomenon poses a dual problem for the Syrian authorities: The need to offset the economic impact of falling oil production while searching for new revenue sources. In the absence of an appropriate policy response, Syria's balance of payments and fiscal stance are likely to continue to deteriorate over the medium term.

The objective of the CEM is to help the Syrian Government identify (i) the most important constraints to economic growth in Syria; and (ii) the key potential sources of growth in Syria outside the oil sector. *In so doing, and in line with the DFSG call for proposals, the CEM would help identify the main elements of a more inclusive and broad-based growth strategy for Syria, to be enshrined in the next Five-Year Plan.*

2. Technical and innovative aspects of the proposed work:

The proposed methodological framework for this study will draw on the growth diagnostics approach to identify key constraints to growth.¹ This approach focuses on the determinants of private investment and involves looking at the following issues:

- Access to finance and the cost of capital;
- Appropriability of private returns;
- Degree of social returns;
- Enabling market mechanisms.

In addition to macroeconomic constraints to growth, microeconomic constraints can act as important barriers to growth. This approach would focus on industry-specific policy and enforcement issues in sectors such as:

- Agriculture and agro-processed goods;
- Cotton and textiles;
- Mineral fuels and natural resources;
- Travel and tourism.

¹ Hausmann, Ricardo, Dani Rodrik & Andrés Velasco (2005), "Growth Diagnostics", Mimeograph, Cambridge, MA: Harvard University. See Annex 2.

Furthermore, the CEM will rely on the available household budget survey (and associated poverty assessment), the recently-completed FSAP, the ongoing Investment Climate Assessment, and other sector-level ESW already underway. The first phase of the CEM will be more restricted to a more macro-level growth diagnostics framework, drawing whenever possible on available sectoral work. More detailed sector-level work would be undertaken in a second phase.

Data collection is underway and will require close collaboration with the Syrian authorities. Some of the key data requirements are outlined below:

- Calculation of real return to capital
 - GDP, GDP deflator, total labor force, average monthly wage, gross fixed capital formation, capital stock
- Calculation of access to finance
 - Proxy for spread between sovereign/domestic bond and U.S. Treasury rate, size of black market in forex, spread of black market forex rates, size of export gap (from mirror data)
 - Firm ease of access to finance, Herfindahl for banking competition, size of black market in trade finance, domestic credit to private sector/GDP.
- Calculation of appropriability
 - Relative capital and income taxation rates, cash use in business transactions, ICA indicators on problems in business operation, WGI measures of institutional quality
- Calculation of social returns
 - Regressors and regressands in Mincer regressions: (Individual-level) wages, years of schooling, labor market experience.

3. Relevance to country priorities:

A key motivation for this proposed exercise is to provide analytical and technical support to the Government of Syria in the design of the 11th Five Year Plan. The Government of Syria (GoS) has requested the Bank to prepare an economic report on how to accelerate growth based on non-oil sectors of the economy. The GoS has recently expended significant effort to improve the methodology and planning approaches underlying national strategic policymaking, starting with the 10th FYP. The proposed CEM has the potential to inform and influence the 11th FYP, which is currently in the early stages of design by the State Planning Commission

The CEM will also bring together in a consolidated package several strands of ongoing or planned analytical work conducted by the Bank and other donors. This includes a Trade Policy Review, an Investment Climate Assessment Update, a Public Expenditure Programmatic ESW, a possible follow-up to the Syria FSAP and, most notably, the implementation of the MILES approach, to be managed by MNSHD.

4. Linkages with knowledge sharing, dissemination, and capacity building:

The CEM will be conducted in close cooperation with a national counterpart team headed by the Deputy Prime Minister's Office (see below). A joint CEM/MILES workshop – involving the Deputy Prime Minister's Office, the Ministry of Economy and Trade, the State Planning Commission, the Ministry of Finance, the Central Bank and other government institutions – is being held on June 2, 2009. Subsequent workshops – involving Syria officials, the international community and other stakeholders such as private sector associations – will be held at different stages of preparation of the CEM.

5. Client and donor engagement:

The CEM will be conducted in close collaboration with the Government of Syria. The key focal institution for the CEM is the Deputy Prime Minister's Office, which coordinates a national counterpart team that will include the Ministry of Economy and Trade, the State Planning Commission, the Ministry of Finance, and the Central Bank. The CEM team has already started coordinating very closely with the donor community on issues that have a direct bearing on Syria's growth process, including trade (European Commission, UNDP), private sector development (EC, UNDP), macroeconomic policies (GTZ) and poverty (UNDP).