المركز السوري لبحوث السياسات
Syrian Center For Policy Research

Syria

Confronting Fragmentation!

Impact of Syrian Crisis Report

Quarterly based report (2015)

TABLE OF

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ACRONYMS AND ABBREVIATIONS

AG	Armed groups
CBS	Central Bureau of Statistics in Syria
CPI	Consumer Price Index
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
GoS	Government of Syria
HDI	Human Development Index
HDR	Human Development Report
HIES	Household Income and Expenditure Survey
IDP	Internally Displaced Persons
ISIS	Islamic State in Iraq and Sham
LFS	Labour Force Survey
MoE	Ministry of Education
MoH	Ministry of Health
NGO	Non-Governmental Organization
PICC	Planning and International Cooperation Commission
SCPR	Syrian Centre for Policy Research
SOE	State Owned Enterprise
SYP	Syrian pound
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
USD	United States Dollar
WDI	World Development Indicators
WHO	World Health Organization

ACKNOWLEDGMENTS

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EXECUTIVE SUMMARY

This report is part of a series of reports that provide analysis to track and assess impacts of the armed-conflict on the socioeconomic situation and the lives of people in Syria during the current crisis[1]. The report is the fifth in the series and covers the year of 2015. The analysis and projections of SCPR indicate that:

ECONOMIC IMPACT

- During 2015, the Syrian economy became more shattered and fragmented, mainly dominated by the fighting subjugating powers; each of these powers is rebuilding its own independent economic entities and foundations in which resources are being reallocated to serving its objectives and creating incentives and drawing loyalty among their narrow group of followers against people's needs and aspirations.

- The absence of a framework for national dialogue which bring together the Syrian parties, which can represent and unify Syrians to create an inclusive process to overcome the conflict, has aggravated the state of socioeconomic fragmentation and enhanced the conflict economy.

- The prospect for the future growth and development of the Syrian economy is gloomy, taking into account the systematic collapse and destruction of its economic foundations: infrastructure and institutions, human and physical capital, and the wealth of the nation have almost all been obliterated.

- The accumulated total economic loss till the end of 2015 is estimated at USD 254.7 billion. This loss consists of GDP loss (64.1 per cent), damage to capital stock (26.4 per cent), additional government military expenditures (5.7 per cent), armed groups military expenditures (2.3 per cent), and informal production of oil and gas (1.5 per cent). Total economic loss is equivalent to 468 per cent of the GDP of 2010 in constant prices.

- The total volume of GDP loss is estimated at USD 163.3 billion, of which USD 49.7 billion was generated in 2015. GDP contracted by 4.7 per cent in 2015 compared to the previous year. Contracting by 7.9 per cent in first quarter, 1.8 per cent in the second quarter, 6.2 per cent in the third quarter and by 4.4 per cent fourth quarter compared to corresponding quarters in 2014.

- The structure of GDP shows that the agricultural sector accounts for an increasing share of GDP with a projection to reach 28.7 per cent in 2015 compared to 17.4 per cent in 2010. Moreover, the government services share of GDP has declined; reflecting a shift in government policies from an attempt of stimulating demand in local market to a process of shrinking public expenditure

- The average level of household expenditure declined to unprecedented threshold reflecting the severe hardship suffered by people all over Syria. During 2015, private consumption contracted by 0.7 per cent in 2015-Q1, 0.9 per cent in 2015-Q2, and is projected to decline by 3.3 per cent in 2015-Q3, 5.9 in 2015-Q4 compared to the corresponding quarters in 2014. While people had less income to spend, the Consumer Price Index (CPI) continued to rise in 2015, with an increase of 19.8 per cent in the first quarter and by 3.9 per cent in

1. Previous reports [Syrian Catastrophe (June, 2013); War on Development (Oct, 2013); Squandering Humanity (May, 2014); Alienation and Violence (March, 2015)], are available in English and Arabic on SCPR website http://scpr-syria.org/en/

the second quarter. This trend is expected to continue in the second half of the year with a projected CPI increase of 23.2 per cent compared to the same half of 2014.

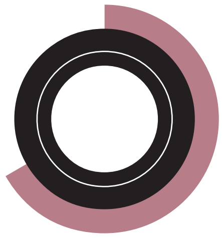
- The year of 2015 witnessed a substantial fall in public consumption by 33.1 per cent compared to 2014. The public consumption share of GDP declined from 46.5 per cent in 2013 to 31.6 per cent in 2015, which in part reflected the government policies to decrease subsidies, and thus, increase the prices of basic food goods and services.

- The report defines "semi-public" consumption is defined as a new expenditure category which is neither public nor private; conducted in areas outside government control, and controlled by different de facto authorities which ruled these regions, and conducted consumption expenditure on wages, goods and services. The share of this consumption has surged from 2.1 per cent in 2012 to 13.2 per cent out of GDP in 2015 reflecting the escalation of the conflict and the multiplicity of actors fighting and taking part in the conflict.

- As the government shifted its priorities to military consumption and public wages, public investment was severely affected. During 2015, public investment contracted by 15.0 per cent in 2015-Q1, and by 23.0 per cent in 2015-Q2, and is projected to contract by 36.0 per cent in 2015-Q3, and by 35.7 per cent in 2015-Q4 compared to the corresponding quarters of 2014. The "semi-public" investment, which was estimated at 0.05 per cent of GDP in 2012, increased to 0.24 per cent in 2013 accounted for 0.42 per cent in 2014, and is projected to reach only 0.41 per cent of GDP in 2015.

- Private investment in 2015 declined by 5 per cent compared to 2014, and forms, along with public investment only 9.2 per cent of the GDP. This ratio is below the normal annual depreciation rate of capital stock, resulting in negative net investment in 2015.

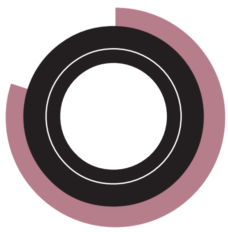
- Exports in 2015 contracted dramatically by 20.9, 27.3, 33.0, and 35.7 per cent in quarters 2015-Q1, 2015-Q2, 2015-Q3, and 2015-Q4 respectively compared to the corresponding periods in 2014. Similarly, imports contracted by 29 per cent compared to 2014 due to the drop in the



The year of 2015 witnessed a substantial fall in public consumption by

33.1%

compared to 2014



The exports in 2015 contracted dramatically by

20%

compared to 2014

effective demand and the dramatic depreciation of currency. However, the trade deficit is still relatively enormous reaching 27.6 per cent of GDP. This exposed the Syrian economy, depleted foreign reserves, and thus, mounted the debt burden on the next generations of Syrians.

- The budget deficit decreased from 41.2 per cent in 2014 to 28.1 per cent in 2015. This reflects the government strategy to increase public revenue based on "subsidies rationalization" policy that reduced dramatically the subsidies. However, this strategy has adversely impacted the economy and contributed to deeper recession as, it increased the cost of domestic production as well as the inflation pressures, and thus, , a depreciation in the currency.

- The unemployment rate surged from 14.9 per cent in 2011 to 52.9 per cent by the end of 2015. An estimated 2.91 million unemployed persons; among which 2.7 million lost their jobs during the conflict, with the loss of income further impacting the welfare of 13.8 million dependents. Tragically, around 17 percent of the Syrian active population is estimated to be involved in the conflict economy.

SOCIAL IMPACT

- The crisis implications continue to shatter the population of Syria in the country and across the world through displacement, migration, asylum, and the mounting toll of conflict-related deaths and injuries. This resulted in a hollowing the country of population as it fell from 21.80 million persons in 2010 to 20.44 million people by the end of 2015. The total population would have reached 25.59 million inhabitants if the conflict had not emerged, therefore, counterfactually the real population decreased by 21 per cent.

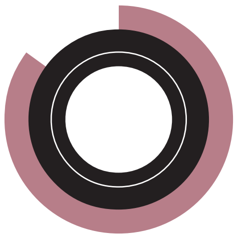
- By the end of 2015, about 45 per cent of the population were dislodged as they left their homes looking for safer places to live or better living conditions elsewhere. Some 6.36 million persons from this population-in-movement continue to live in Syria as IDPs, with many being displaced several times. The hollowing of the population has also resulted in 3.11 million refugees fleeing the country, and 1.17 million Syrians migrating to other countries.

- During 2015, the number of Syrian refugees who managed to reach Europe, both legally and illegally, has increased significantly, and with an increasing number of people who have drowned at the Mediterranean, or have been exposed to violence and abuse by the criminal organized networks. Despite the fact that Syrians have been suffering for about five years, global attention to human rights and dignity for them has intensified only when the crisis has a direct impact on developed countries' societies.

- As the armed conflict continues, along with the economic recession and destruction, the overall poverty rate is expected to reach 85.2 per cent by the end of 2015 compared to 83.5 per cent in 2014. Moreover, 69.3 per cent are living in extreme poverty, unable to secure the basic food and non-food items necessary for the survival. About 35 per cent of the population fell into abject poverty being unable to meet the basic food needs of their households. The poverty level differs across governorates, and increases dramatically in conflict zones and besieged areas.

- The impact of the armed-conflict on the three components of Human Development Index (HDI) in 2015 was similar to 2014, and the HDI itself continued to reflect very low levels of human development. The Syrian HDI would have increased, if the crisis had not occurred, from 0.631 in 2010 to 0.653 by the end of 2015, putting it in the "medium human development" group. However, the crisis caused a drop in Syria's HDI from 0.631 in 2010 to 0.443 by the end of 2015 putting it among the "low human development" country group. The general HDI rank of Syria using the 2010 HDI results indicates a fall from 121st to 173rd place out of 187 countries.

- The education sector continues to face enormous difficulties with 45.2 per cent of school-age children no longer attending school during the 2015-2016. This shall have a dramatic impact on the future of the country. Several conflict-related factors have contributed directly to the loss of education and learning opportunities of Syrian children, affecting the population in the various parts of the country unevenly. These factors include the fear of parents for their children safety and the difficult security conditions, child labour, and the destruction and dysfunction of the educational infrastructure. The loss of years of schooling in all educational level by the end of 2015 represented a human capital debit of 24.5 million lost years, which represents a deficit of USD 16.5 billion in human capital investment in the people education.



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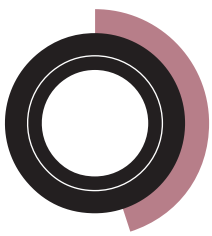


45.2%

of school-age children no longer attending school during the 2015-2016

- The loss of lives due to the conflict remains the most catastrophic visible and direct impact of the ongoing crisis in Syria. By the end of 2015, the death rate is projected to be 10 per thousand, with the number of wounded expected to reach 1.88 million people. This means that 11.5 per cent of the population inside Syria were killed or injured due to the armed-conflict. Taking into account the diminishing health system and services and the deteriorating living conditions, the country faces human catastrophe reflected in the dramatic drop in life expectancy at birth from 70.5 years in 2010 to an estimated 55.4 years in 2015.

- Fragmentation, as the process of drastic shattering in the social, economic, political, and cultural structures within the society, is being ingrained by various internal and external subjugating powers pushing the majority of people to act against their own good and against their aspirations of their society and future. Therefore, there is a need for a new social contract and new development paradigm based on the right for all Syrians in decent living, and this entails real and effective participation of all powers in society to achieve the required developmental shift based on a common agreed vision for the country.

- The new development paradigm requires a new social contract based on justice and respect of human dignity, the new paradigm should decompose the foundations of violence and fostering social solidarity. Moreover, the accountable, transparent, independent, and inclusive institutions are needed to achieve the developmental priorities of Syrians.

INTRODUCTION

In 2015, the Syrian crisis witnessed further complications with the intensification of external interventions represented in direct military operations that are claimed to be against what so called ISIS and other terrorist groups. Moreover, violence-related institutions continue to expand serving as tools to enhance the influence of internal and external powers of subjugation against the population.

Through the last months the dominant narrative of the Syrian crisis across the world was focused on two discourses, the first was the refugees' crisis and the political and socioeconomic implications on the possible receiving countries. The second discourse evolved around terrorism and radicalization and the international security implications of cross borders activities of ISIS. This has pushed the international community to intensify their efforts in solving the conflict through negotiation with external power brokers, which often neglect Syrians' own priorities, and mainly mind the balance of the subjugating powers involved in the conflict.

This report was prepared by the Syrian Centre for Policy Research (SCPR) with the support of UNDP. It aims at estimating, documenting, and analysing the catastrophic socioeconomic impact of the ongoing armed-conflict in Syria. The report uses the results of the population status survey conducted in 2014 to calculate more precise demographic, social, and economic indicators[2]. Moreover, the report adjusts some data related to economic sectors before the onset of the crisis in constant prices, particularly manufacturing, and finance and real estate sectors; these adjustments illustrate the "illusion of reform" during the previous decade as the Syrian economy was shown to be rent-oriented rather than productive.

As with the previous reports in this series, this report applies a comprehensive analytical framework that adopts the concept of inclusive human-centred development; we use both quantitative and qualitative methods to evaluate the impact of the crisis. The report applies a counterfactual methodology that compares the "crisis scenario", or the actual indicators that emerged during the crisis, with the "continuing scenario", or the indicators that would have been achieved had the crisis not arisen. It includes multiple macroeconomic and social performance indicators that were compiled and estimated based on available sources, and in consultation with a number of experts. The report also uses several models, such as financial programming, within a comprehensive developmental framework.

2. The data sources in this report are mainly from the official institutions, UN agencies, and forthcoming population status report. In addition, formal interviews were conducted with independent experts and key informants.

"This report applies a comprehensive analytical framework that adopts the concept of inclusive human-centred development; we use both quantitative and qualitative methods to evaluate the impact of the crisis."

Furthermore, the report includes the analysis of socioeconomic dynamics in the government and non-government control areas. The evidence-based diagnosis of this report can be used as a tool to support and help in building alternative policies that can break the cycle of violence and fragmentation, and lead towards a development process in which human dignity and rights are respected.

By estimating the economic data for the first half of 2015 and projecting the data for the second half, section one of the report examines on the impact of armed-conflict on the basic underpinnings of the economy. This includes a focus on the structure, value, and segmentation of the shrinking GDP; in addition to the scale of economic losses, escalating budget deficit, exchange rate performance, surging prices, labour market distortion, and the scale of unemployment. Moreover, this section highlights the need for an alternative new framework using a critical knowledge-based approach to overcome the shattered economy dominated by the subjugating powers that are fuelling the armed-conflict in Syria.

Section two considers the social impact of the crisis through rapid and continued population forced movement that is remapping the demography of Syria. It also maps poverty in 2015, considering the deterioration of the Human Development Index in Syria, and then looks at the impact of human capital through the increasing deprivation from appropriate education and the continuous collapse in the health system and services. Section three highlights the fragmentation, which is defined as the process of drastic shattering in the social, economic, political, and cultural structures within the society, or between states. Fragmentation represents an outcome of intensive long lasting violence and the related dangerous socioeconomic and political transformations during the conflict. Furthermore, the shattered economy, disintegration social fabric, and disparities in socio-political rules across regions are some characteristics of severe fragmentation. The different subjugating powers have taken advantage of the state of violence and alienation to impose a culture of fear, hatred, and fragmentation. Each one of these powers has created its own institutions that exploits the resources of local communities and dehumanizes the "other" and to ascertain its hegemony. Thus, confronting this process of fragmentation, its roots and implications, is a necessity to overcome the conflict and to achieve a human-centred and inclusive development process.

I. ECONOMIC IMPACT OF THE CRISIS

The report analyzes the current status of Syrian economy and diagnoses its dynamics during the current crisis using the most recent evidence. The analysis sheds light on the shattered Syrian economy: fragmented and mainly dominated by the fighting subjugating powers. Each of these powers is rebuilding its own independent violence-related economic entities and foundations in which all resources are being reallocated, serving these powers' objectives and through the control of population living needs.

Links between these fragmented economies are maintained through brokers and organized violence-related criminal networks that meet interests of all fighting parties' elites'. The report continues the previous work conducted since 2012 in documenting, analysing and understanding the devastating economic impact of the conflict on all aspects of human and economic development in Syria.

This section estimates the economic losses during the first half of 2015, projects these losses through the second half of 2015, and updating the estimations for previous years of the crisis. It also diagnoses economic growth/decline across the different sectors, the structure of the economy, sources of economic growth, fiscal policy and public budget structure, price and exchange rates volatility, trade development, and the job creation situation. Moreover, the section highlights the impact of the current public policies on economy. It uses the same methodologies applied in the previous reports, and updates quarterly estimations to reflect real sector dynamics in all Syrian regions during 2011, 2012, 2013, and 2014. In addition, the section presents the estimates of economic status during the first two quarters of 2015, along with projection for third and fourth quarters of 2015[3]. This was done through using actual quantitative proxy indicators, seasonality analysis, econometric projections, and a financial programming model. The report used the counterfactual methodology to estimate the economic loss, where the "crisis scenario" is the estimation of the actual GDP, and the "continuing scenario" is the projection of GDP during the same period. This methods uses the past data to project what would have been likely had the crisis not occurred.

UNCEASING DESTRUCTION OF ECONOMY

The Syrian economy continued to shrink during the first two quarters of 2015, with projection of further decline in the second half of the year. It is worth mentioning that in 2014 the overall contraction reached 15.2 per cent compared to 2013; while the year 2013 witnessed the highest annual economic decline during the crisis at 36.5 per cent compared to 2012. Economic contraction continued in 2015, but to a lesser extent than previous years of the crisis; it is expected that GDP contracted by 4.7 per cent in 2015 compared to 2014; and quarter-on-quarter decline reaching 7.9 per cent in 2015-Q1, 1.8 per cent in 2015-Q2 compared to the same quarters in 2014. The

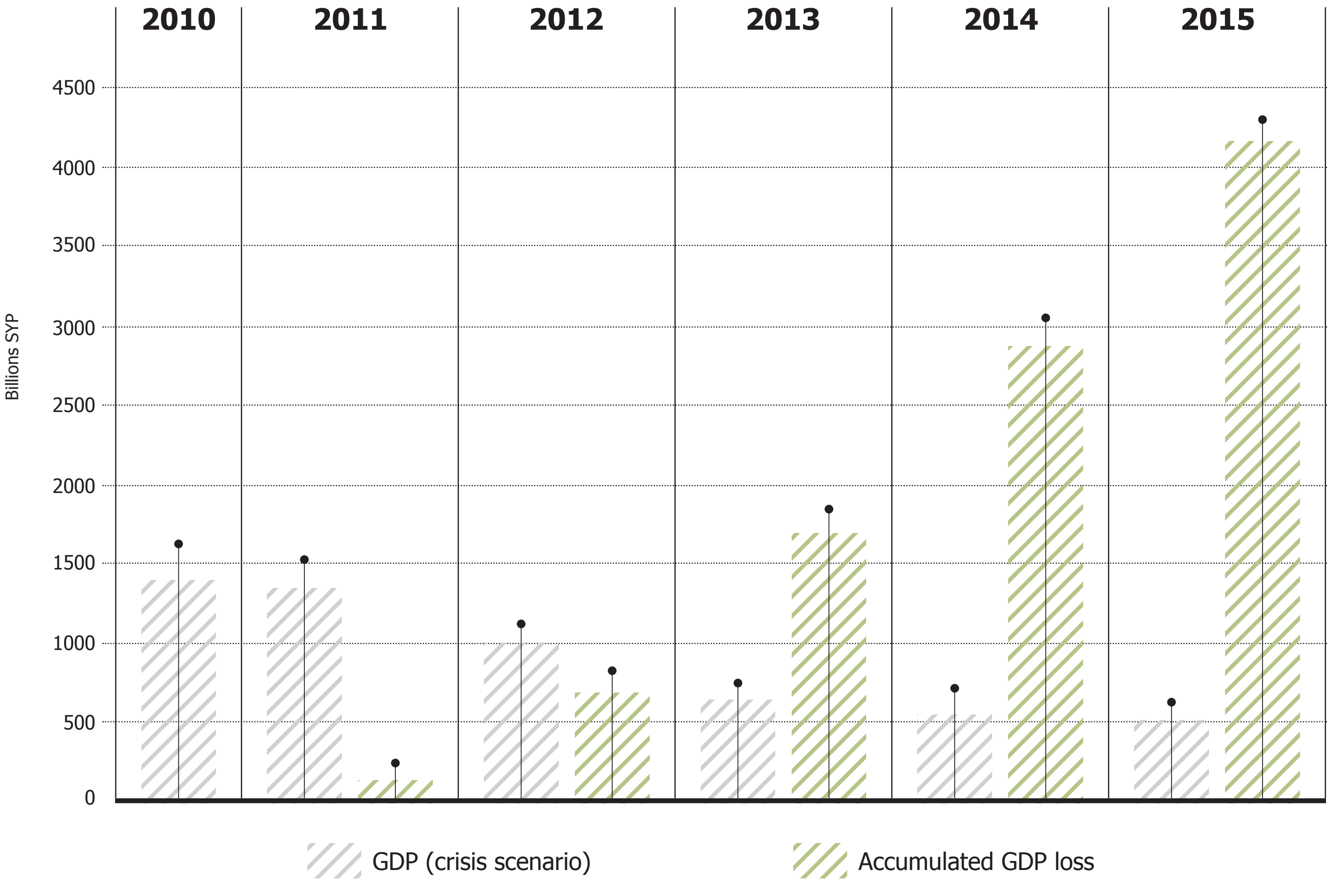
3. Annual growth rates reported for 2011, 2012, 2013, and 2014 with quarter-on-quarter growth rates for 2015-Q1, 2015-Q2, and projected 2015-Q3 and 2015-Q4 compared with the same quarter in the preceding year.

report projects a decline of 6.2 per cent in 2015-Q3 and 4.4 per cent in 2015-Q4 compared to the corresponding quarters of 2014. In terms of the "continuing scenario", the results show that, if the crisis had not emerged, Syrian economy would have achieved an annual GDP growth rate of 6.1 per cent in 2011, 5.4 per cent in 2012, 5.5 per cent in 2013, and 4.9 per cent in 2014. While compared to the same quarters in 2014, this would have resulted in a 5.8 per cent increase in 2015-Q1, 5.6 per cent in 2015-Q2, and around 5.7 per cent in both 2015-Q3 and 2015-Q4.

In the counterfactual scenario, GDP in 2015 would have grown 30.8 per cent compared to 2010. Thus, the results show that the accumulated GDP loss to the Syrian economy due to the crisis, is estimated at SYP 4,159 billion in constant 2000 prices by the end of 2015, with a loss of SYP 304 billion in 2015-Q1 and SYP 363 in 2015-Q2. Furthermore, GDP loss is projected to reach SYP 313 billion and SYP 320 billion in 2015-Q3 and 2015-Q4, respectively.

By the end of 2015 The GDP loss is about three times Syria's GDP in 2010 and around seven times of the projected GDP in 2015 based on crisis scenario (See Figure 1). At current prices, total GDP loss equals USD 163.3 billion till the end of 2015, with an estimation of a GDP loss of USD 12.5 billion in 2015-Q1 and USD 13.8 billion in 2015-Q2. Additionally, a GDP loss of USD 11.6 and 11.7 billion is projected in 2015-Q3 and 2015-Q4, respectively.

Figure 1: GDP crisis and accumulated GDP loss in constant 2000 prices in billion SYP (2010 – 2015)



Source: SCPR, 2015 estimation

The main sectors contributing to accumulating GDP loss: internal trade, which lost SYP 967 billion and accounted for 23.2 per cent of the total GDP loss; the government services sector lost SYP 660 billion and accounted for 15.9 per cent of total GDP loss; the mining sector lost SYP 630 billion, making up 15.2 per cent of total GDP loss; transportation and communication lost SYP 585 billion, accounting for 14.1 per cent, agriculture lost SYP 483 billion, accounted for 11.6 per cent and the finance and real estate sector lost SYP 236 billion, or 5.7 per cent of total GDP loss (See Figure 2) . The structure of GDP loss during 2015 did not change significantly from the pattern established in previous years.

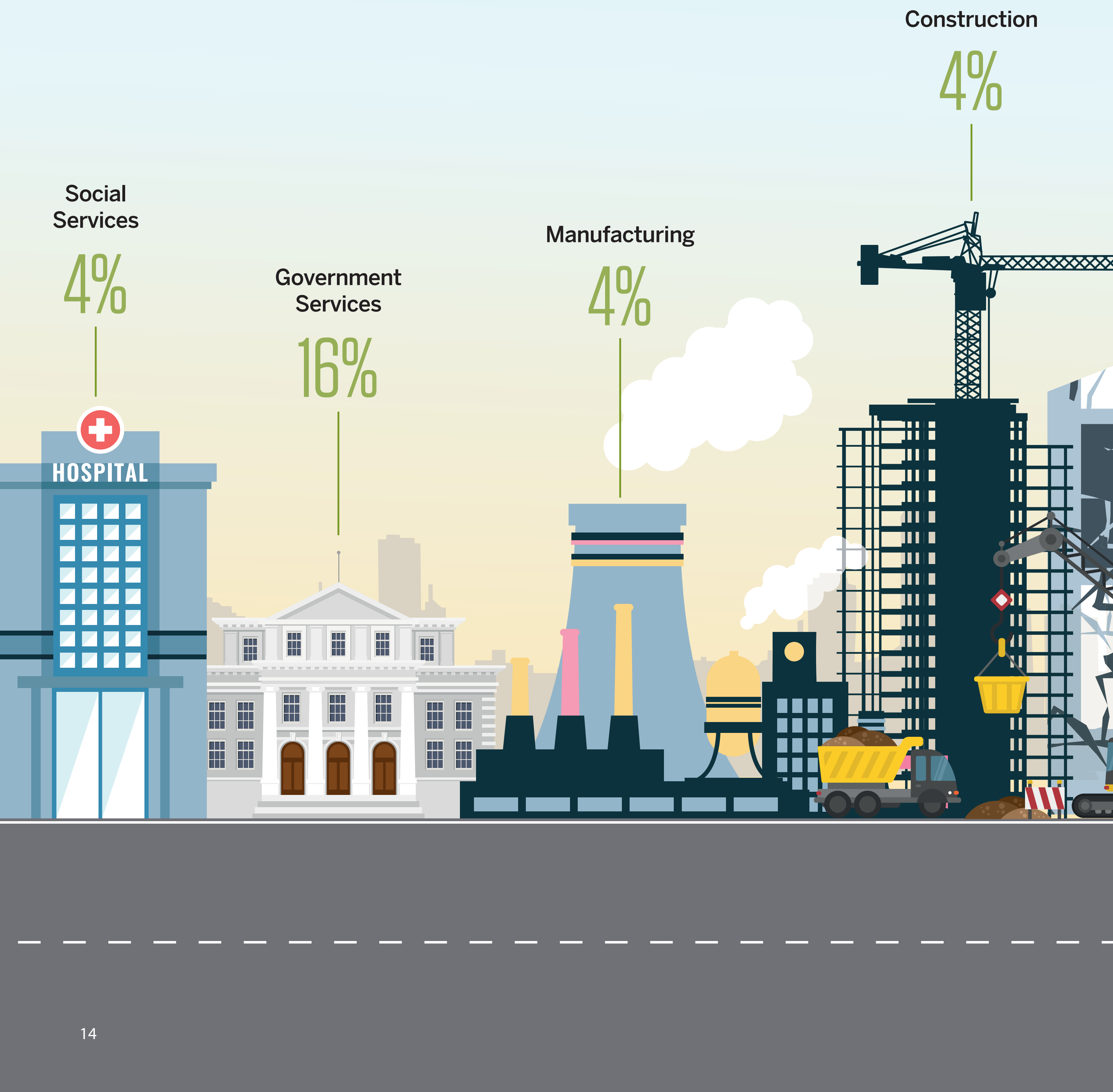


Figure 2: Sector structure of estimated total GDP loss 2011, 2012, 2013, 2014, and 2015

Source: SCPR, 2015 estimation

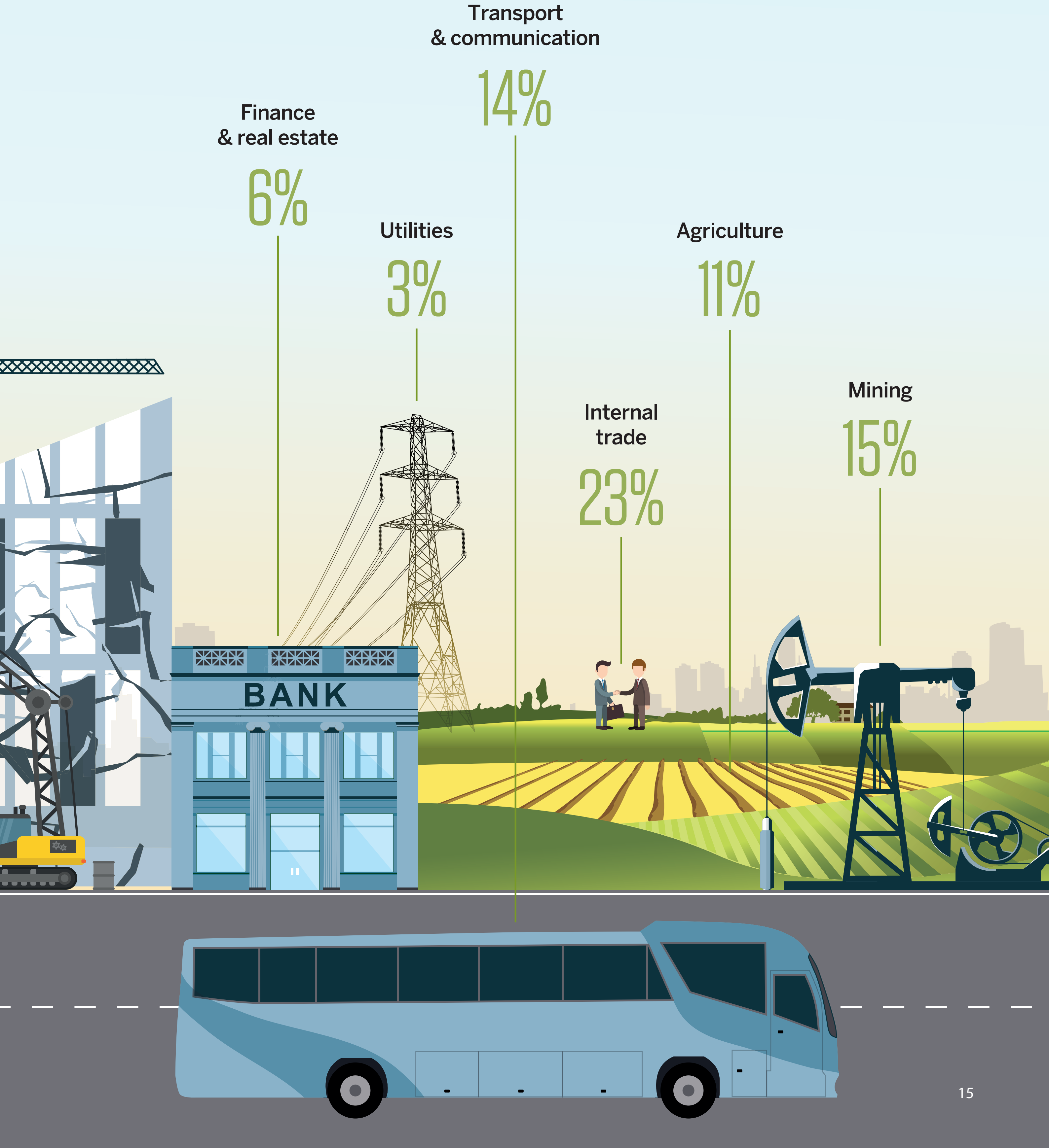
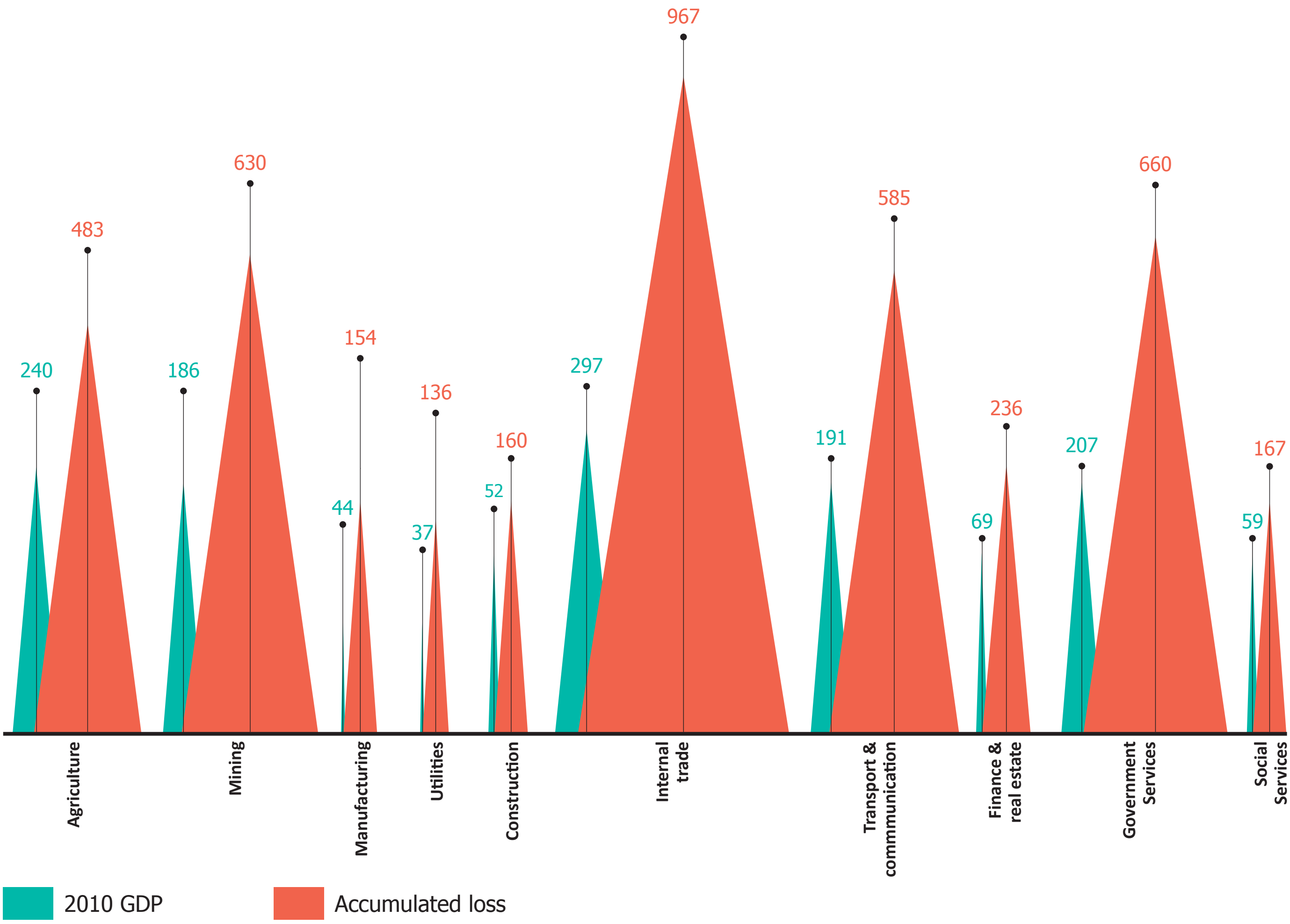


Figure 3 illustrates the magnitude of GDP loss in each sector compared to GDP in 2010. The results show that by the end of 2015, the loss in utilities sector share of GDP accounted for 3.65 times of the sector's GDP in 2010, and the loss in manufacturing was 3.51 times, finance and real estate was 3.40 times, while mining accounted for 3.39 times . The NGO sector was the only sector to grow during the crisis; however, its overall contribution to GDP remained very minor.

Figure 3: GDP accumulated loss by sector by the end of 2015 and real sector GDP in 2010, in billion SYP (constant prices 2000)



Source: SCPR, 2015 estimation

The GDP of several sectors continue to decline during 2015-Q1 and 2015-Q2 compared to the same quarter in 2014, with a projected further regression in 2015-Q3 and 2015-Q4. These sectors include utilities, transport and communication, mining, government services and manufacturing. Agriculture and NGO sectors have witnessed positive growth rates during the first half of 2015, and they are expected to continue the positive trend till the end of 2015. Social services sector GDP has shown a slight decrease in 2015-Q1; however, it is estimated to achieve minor increase during 2015-Q2 with a projection for further increase in 2015-Q3 and 2015-Q4 compared to the corresponding quarters in 2014. (See Table 1)

Table 1: GDP by sector 2010-2015 and estimated crisis impact, billions of SYP (in constant 2000 prices)

		Agriculture	Mining	Manufacturing	Utilities	Construction	Internal trade	Transport & communication	Finance & real estate	Government Services	Social Services	NGO Services	GDP	Non mining GDP
	Actual 2010	240	186	44	37	52	297	191	69	207	59	1	1385	1199
Continuing scenario (Projection)	**2011**	263	185	47	42	55	310	201	76	224	66	1	1470	1284
	2012	276	185	49	47	57	323	212	82	243	73	1	1549	1365
	2013	290	184	52	53	60	337	223	89	263	81	1	1635	1451
	2014	293	183	56	60	63	352	234	97	285	90	1	1714	1531
	2015Q1	32	46	15	17	17	92	62	26	77	25	0	408	363
	2015Q2	158	46	15	17	17	92	62	26	77	25	0	534	488
	2015Q3*	49	46	15	17	17	92	62	26	77	25	0	425	379
	2015Q4*	69	46	15	17	17	92	62	26	77	25	0	445	399
Crisis scenario (Estimation)	**2011**	263	167	38	39	60	263	158	75	215	60	1	1339	1172
	2012	231	86	21	34	33	179	126	54	179	52	3	998	912
	2013	170	18	17	24	18	107	91	32	107	45	5	634	616
	2014	137	10	17	19	17	86	81	26	96	42	7	538	528
	2015Q1	15	3	4	4	3	19	19	6	19	10	3	104	102
	2015Q2	75	2	4	4	4	24	20	7	17	11	3	171	169
	2015Q3*	23	2	4	4	3	20	19	6	16	11	3	112	110
	2015Q4*	33	3	4	5	3	22	19	7	15	11	3	125	123
Crisis Impact	**2011**	0	19	8	3	-5	47	44	0	9	5	0	131	112
	2012	46	99	29	13	24	144	86	28	64	21	-2	551	452
	2013	121	166	35	29	42	230	132	57	157	36	-4	1001	835
	2014	156	174	39	41	46	266	154	71	189	48	-6	1177	1003
	2015Q1	17	43	11	13	14	73	43	21	58	15	-2	304	261
	2015Q2	83	44	11	13	13	67	42	19	60	14	-2	363	320
	2015Q3*	26	44	11	13	13	71	43	20	61	15	-2	313	270
	2015Q4*	36	43	11	12	13	69	42	20	62	14	-2	320	276
	Total*	**483**	**630**	**154**	**136**	**160**	**967**	**585**	**236**	**660**	**167**	**-21**	**4159**	**3529**

Source: SCPR' estimations, 2015.
* Projections

In Syria, the **agricultural** sector is central to the overall economy, and during the crisis, its role became more important in terms of providing food security. The activity in the agricultural sector helped in maintaining the minimum level of living conditions for thousands of Syrian families who are involved directly or indirectly in agrarian labour. However, agricultural sector has witnessed a substantial deterioration due to the continuation of armed conflict which negatively affected production. The ongoing conflict has caused the destruction and pillage of tools and irrigation systems, difficult accessibility to lands in many regions, lack of raw materials including fertilizers, seeds, and fuels, unsafe transportation of agriculture products to markets, and labour shortages. Consequently, agriculture GDP[4] contracted by 19.4 per cent in 2014 compared to 2013, 69.5 per cent of this contraction was due to decrease in plant production, while the remaining 30.5 per cent due to the reduction in animal products.

In 2015, Syria witnessed favorable climate conditions which played an important role in increasing the productivity of agriculture lands. In 2015-Q1, agricultural sector accounted for 14.7 per cent of total GDP, to reach 44 per cent in the second quarter which was the annual peak period of agriculture production. This share is projected to be at 21 per cent, and 26.2 per cent in 2015-Q3 and 2015-Q4, respectively. Overall, the agricultural sector share of total GDP is expected to reach 28.7 per cent in 2015, compared to 25.4 per cent in 2014. Despite the continuous armed conflict, the agricultural sector is projected to achieve a positive annual growth in 2015 for the first time since 2011. The agriculture GDP increased by 7.5 per cent in 2015 compared to the sector output in 2014; this growth is totally accounted to an increase in plant products, as the animal ones declined during 2015.

The favorable climate conditions have increased agricultural outputs of main crops; for instance, in 2015-Q1, citrus production which was the main crop during this quarter, witnessed an increase of about 3 per cent compared to 2014. In addition to better climate, this production benefited from the fact that the majority of production was located in the relatively stable governorates of Lattakia and Tartous. During 2015-Q2, wheat is estimated to have increased by 19 percent compared to 2014-Q2 due to the good rainfall during the quarter, and despite the fragmentation in production and consumption markets run by the different fighting parties. The difficulties in accessing agriculture lands and consumption markets have led to strong abuses of wheat farmers by subjugating powers that control pricing and marketing. The second quarter witnessed a notable increase in potato production by 180 per cent compared to 2014-Q2, however, sugar beet which has already reached a very low production level in 2014, faced a further reduction in 2015. Third and fourth quarter agriculture outputs are expected to increase, for instance, olive production is projected to rise by 35 per cent compared to previous year. Unlike plant production, the livestock sector continued to decrease during 2015, albeit at a slower rate compared to 2014. The value added of sheep and cattle products are projected to fall by 5 per cent and 12.4 per cent, respectively, compared to the previous year. It is worth mentioning that main animal outputs are now produced at household level since most medium and large livestock projects were pillaged or destroyed.

The positive growth of plant productions due to better climate conditions in 2015 has not eased the constraints on farmers in terms of transporting and marketing their goods. These constraints include insecurity and the absence of safety with the continuation of armed-conflict and the domination of different fighting powers. Moreover, the continuation of military operations in addition to pillage still has a huge negative impact on agriculture assets including livestock which witnessed a negative growth in 2015. Many farmers are unable to reactivate their production process and were constantly hindered by financial incapacity, increasing cost of intermediate goods, and lack of supportive public policies. Overall, the agricultural sector is projected to improve by the end of 2015 compared to the previous year, and this is unfortunately resulted mainly from favorable climate conditions, and not from any improvement of the production process or the institutional environment.

The agriculture GDP increased by

7.5%

in 2015 compared to the sector output in 2014

4. Agriculture GDP data, particularly animal production, was updated benefiting from population status survey conducted in 2014 used in the SCPR forthcoming report on Human status in Syria.

The agricultural sector and its mechanism vary across the country according to security conditions and rules implied by the different subjugating powers powers. This fragmentation has hindered farmers from accessing markets freely and forced them to accept the unfair conditions of dominant groups that impoverish both Syrian farmers and society. The fragmented and distorted agriculture market has caused food insecurity in many regions of the country, particularly high intensity conflict and besieged areas. Moreover, local and foreign opportunists supported by different fighting parties have made fortunes by dominating food trade within government and non-governmental controlled areas, which attempts to abuse the gap in food security which reflects another dark side of conflict economy. Finally, some international organizations have tried to provide food aid to needed people, but these attempts suffered of the influence of subjugating powers that negatively affected aid distribution, and the lack of efficient monitoring and evaluation systems within the international organizations.

The **manufacturing** sector has deteriorated notably due to the crisis, as it caused a widespread destruction of firms, industrial equipment, and infrastructure through armed confrontations, looting, and pillage. Enormous number of establishments have closed down and bankrupted, forcing both entrepreneurs and the skilled workers to migrate and reallocate their businesses and expertise in other countries. This flight of entrepreneurs and workers is expected to impact negatively human capital in Syria and, thus, any future development plan. Since the beginning of the crisis, this sector witnessed a continuous contraction with an annual decrease in GDP by 12.6 per cent in 2011, 46.4 per cent in 2012, 17.8 per cent in 2013, and 0.5 per cent in 2014. Taking into account that SCPR adjusted the manufacturing sector GDP in constant 2000 prices between 2001 and 2010, which changed substantially the baseline value added of manufacturing sector (See Box 1).

BOX 1: ADJUSTING MANUFACTURING SECTOR GDP IN CONSTANT 2000 PRICES BETWEEN 2001-2010

The private manufacturing sector GDP in constant 2000 prices between 2001 and 2010 was calculated by Central Bureau of Statistics using the deflator of industrial public sector due to the lack of information about the private manufacturing GDP deflator. Taking into account that the prices of public sector goods were almost fixed; thus, the calculation method has led to an overestimate the private manufacturing sector GDP in constant 2000 prices. SCPR recalculated the manufacturing private sector real GDP by using an adjusted deflator for industrial private sector, this deflator is the average deflator of all economic private sector except manufacturing and real estate. Accordingly, the manufacturing sector real GDP was adjusted based on the new calculations to reach in 2010 about SYP 44 billion instead of the previous number of SYP 118 billion. This reduced the average annual growth rate between 2001 and 2010 for the manufacturing sector real GDP from 15 per cent to 4 per cent. Consequently, the overall GDP economic growth story prior to the crisis has changed with the average annual GDP growth rate between 2001 and 2010 decreasing from 5.1 per cent to 4.5 per cent, making the manufacturing sector a minor contributor to the economic growth during this period.

During 2015, the manufacturing sector outputs decreased after showing some improvement in the second half of 2014. The sector GDP contracted by 5.1 per cent in 2015-Q1 and 10.1 per cent in 2015-Q2 compared to the same quarters in 2014. Further contraction of 7.6 per cent in manufacturing GDP is projected in the second half of 2015 compared to the corresponding half in 2014. Thus, the sector is expected to witness an annual decrease of 7.6 per cent in 2015. The share of manufacturing in the total GDP is projected to decrease slightly from 3.1 per cent in 2014 to 3.0 per cent in 2015 noting that this share was 3.2 per cent in 2010 and reached its lowest value in 2012 at 2.1 per cent. Consequently, by the end of 2015 the manufacturing sector GDP is expected to be at 35.4 per cent of its level in 2010.

By the end of 2015 the manufacturing sector GDP is expected to be at

35.4%

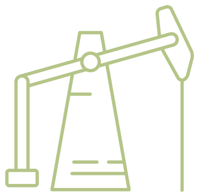
of its level in 2010

The continued decrease in the manufacturing sector GDP has resulted from several reasons related to the crisis including destruction and pillage. However, security conditions have not deteriorated in 2015 compared to the previous years of the armed conflict and many regions, including Adraa, Hessia, and Alsheck Najjar industrial zones, witnessed improvement of security conditions; moreover, many entrepreneurs were able to adapt to the crisis circumstances by reopening their establishments as small workshops in more secure regions and governorates such as Tartous and Damascus city. However, government policies and widespread corruption, in addition to the absence of certainty and rule of law particularity in the non-government areas have played a major role in prohibiting manufacturing sector outputs from improvement.

The government continued to apply neoliberal policies by increasing prices of basic goods including fuel and electricity which are essential for the manufacturing sector. In 2015-Q2, the price of industrial fuel increased from SYP 85 thousand per ton to SYP 112 thousand per ton. Moreover, and due to the shortage of diesel and transportation difficulties, entrepreneurs have forced to buy diesel from black markets at an average price of SYP 170 per litre; whereas the official price is SYP 150 per litre. It is worth noting that the government allowed private sector to import diesel directly, however, with the lack of transparent and efficient institutions, this created a monopolistic price for diesel set by crony capitalists.

The majority of entrepreneurs are not satisfied with the several decrees issued previously by the government to reactivate the industrial sector. For instance, the government is willing to compensate for building damages only and not for damages in industrial tools and machines; and this compensation should not exceed 10 per cent of the building values in large factories. The decree of rescheduling loans entails entrepreneurs to pay a percentage of the entire loan amount which is not affordable for many of them; thus, less than 7 per cent of SYP 20.7 billion, the total loans in industrial bank, was rescheduled till the mid of 2015. Moreover, the industrial sector is dominated by uncertainty and poor competitiveness with sudden price fluctuations of the Syrian pound against foreign currencies, poor infrastructure that was largely affected by the armed-conflict, and the chaos in the foreign trade market with the influx of smuggled goods.

Industrial public sector is projected to decline with an expected decrease of 14.9 per cent in the production of state-owned enterprises in 2015 compared to the previous year. Similarly, public sector refinery production is projected to witness a contraction of 13.8 per cent in 2015 compared to 2014 level of production. Overall, the manufacturing sector has deteriorated to become either fragmented small workshops with low productivity and lack of competitiveness or scattered industrial establishments that have mutual interests with subjugating powers and, thus, are receiving support and protection from them.



The mining sector is projected to decrease by

4.8%

compared to 2014

The **mining** sector was largely destroyed during the crisis; however, it is one of the main determinants of the crisis dynamics due to its role as a source of finance and energy for all involved parties, including the "Islamic State" that controls the majority of oil wells in the eastern regions. Different parties have extracted oil using primitive techniques to sell it in local and foreign markets despite international restrictions. This has created fragmented production markets for crude oil and oil derivatives; each market has its rules imposed

"The majority of entrepreneurs are not satisfied with the several decrees issued previously by the government to reactivate the industrial sector"

by the dominated power that could cooperate with internal rivals and external parties to market its oil production. The continuation of such unregulated activities is providing an important financial resource for the armed groups to increase their military capacities and, thus, their suppression of local communities.

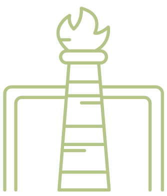
Formal oil production has dramatically decreased during the crisis to reach in 2014 about 2.4 per cent of its level in 2010. In 2015-Q1, oil production dropped to 9.5 thousand barrels per day compared to 10.8 thousand barrels in the same quarter of 2014. The second quarter of 2015 witnessed a slight increase in oil production to reach 10.4 thousand barrels per day compared to 10.1 thousand barrels in the corresponding quarter of 2014. The average production during the second half of 2015 is projected at 7.8 thousand barrels per day compared to 8.2 thousand barrels in the second half of 2014. In general, changes in oil production are related to the security conditions affecting regions with oil wells and pipelines.

The above mentioned production does not include output from oil wells that are beyond government control, with a large part of this output is being used to fuel the armed-conflict. During the crisis, the non-government control oil wells production is estimated at 55.4 million barrels from January till the mid of 2015 and projected to reach 68.2 million barrels by the end of 2015, taking into account that oil production in the non-government control areas is expected to decline during 2015-Q4 due to airstrikes intensification. It is worth noting that about 75 per cent of this oil production is controlled by the "Islamic State", and this is not a loss of national wealth only but it is also an important factor to finance terror and violence across the world.

Gas production declined by 4.1 per cent in 2015-Q1 and 4.5 per cent in 2015-Q2 compared to the same quarters of 2014. The production during the second half of 2015 is projected to fall by 4.3 per cent compared to the second half of 2014. Changes in gas production are related to the security conditions and military operations in the regions of gas field and pipelines. During the crisis, non-government control gas fields are estimated to produce about 1.2 billion cubic meters till the mid of 2015, and it is projected to reach 1.53 billion cubic meters by the end of 2015.

Overall, the mining sector is estimated to decline by 7.8 per cent in 2015-Q1 and by 1.3 per cent in 2015-Q2 compared to the same quarters of 2014. During the second half of 2015, the mining sector is projected to decrease by 4.5 per cent compared to the second half of 2014. This loss in production accompanied large destruction of infrastructure and equipment through pillage, military operations, and airstrikes that are intensified during the second half of 2015. Moreover, mining activities in the non-government control areas are depleting national wealth and causing substantial damages to environment and mining reserves.

The **trade** sector is largely affected by the continuation of the armed-conflict that has caused damages to thousands of commercial outlets. The crisis has limited the availability of goods and services in the domestic markets with huge discrepancy across regions, as blockaded areas and conflict zones suffer the most from scarcity or complete lack of several basic goods. In 2015, the increase in agriculture outputs has a positive impact on the internal trade sector; however, this sector continues to face serious challenges including unstable security conditions, destroyed infrastructure, difficulties in transporting goods, and persistent increase in the prices of goods and services.



The non-government control gas fields are estimated to produce

1.53 BILLION

cubic meters by the end of 2015

In 2015-Q1, the internal trade sector contracted by 5.3 per cent compared to the same quarter in 2014; however, the relative better performance of the agricultural sector affected positively the trade sector which increased 4.4 per cent in 2015-Q2 compared to the same quarter in 2014. The second half of 2015 is projected to witness an increase of 1.3 per cent compared to the same period in 2014. Consequently, trade sector is expected to achieve a positive annual growth rate of 0.6 per cent in 2015; whereas, this rate was negative at 19.6 per cent in 2014. The slight improvement in this sector is not related to better economic or institutional environment, but it is directly due to good climate conditions and, in less extent, to the relatively better security conditions in some areas.

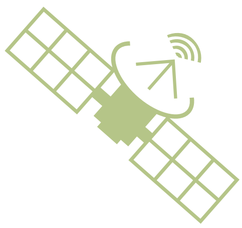
Internal trade markets are fragmented and isolated from each other due to military operations, sieges, and destroyed infrastructure and transportation channels. Several war-traders monopolise internal markets, these traders are protected by the different subjugating powers involved in the crisis and serving their objectives. Moreover, the lack of rule of law and transparent institutions has resulted in wide spreading of informality and economies of violence including smuggling and theft. Small traders and retailers benefit from the market chaos and sell goods with high prices and low quality. The sources of these goods could be illegal; furthermore, a notable share of basic goods distributed by international organisations as a "free" support for Syrians is being sold in internal markets with high profit margin.

The continuation of the armed-conflict has completely destroyed the tourism sector that needs stability and appropriate security conditions. The sector has deteriorated sharply during the crisis since its GDP witnessed an annual decline of 76 per cent in 2013 and 51 per cent in 2014; and it is projected to decrease by a further 9.1 per cent in 2015. Many hotels, in the relatively safe areas, are occupied with financially capable IDPs fleeing from conflict zones; yet, this is not a sustainable income source for hotels since IDPs' savings are depleting with the persistent increase in prices of goods and services including accommodation fees.

By the end of 2015, transport GDP is expected to be

26.8%

of its value in 2010



The communication sector is projected to decline in 2015 by

4.1%

=

55.8%

of its 2010 value

The **transport** sector is affected largely by security conditions, destruction of transportation means and infrastructure, and lack of fuel. In 2014, transport GDP witnessed an annual decline of 11.1 per cent compared to 2013, this trend continues during 2015 but at a slower rate of contraction. The sector GDP decreased by 3.3 per cent in the first half of 2015 compared to the same period in 2014, and it is projected to decline by 11.3 per cent in the second half of 2015 compared to the corresponding half in 2014. Consequently, transport GDP by the end of 2015 is expected to be 26.8 per cent of its value in 2010. Land transportation, which is the main contributor to the sector, is still facing difficulties in terms of security conditions, particularly between and within north and northeast regions. Airport services are suffering from serious challenges including the large destruction of related infrastructure and the lack of needed maintenance of civil airplanes due to sanctions. Shipping and port services have decreased slightly since it is related to the external trade activities which declined in 2015 compared to 2014.

The transport sector links to other economic activities; thus, the negative overall economic performance during 2015 reflected negatively on this sector. Moreover, the destruction of transport infrastructure and the looting of equipment have affected the capability of transport sector to connect and integrate all Syrian regions. The fragmentation of this sector is abused by opportunists allied with different subjugating powers to monopolise transportation business, and this has led to a dramatic increase in the cost of transporting goods between all regions in the country.

The **communication** sector witnessed an annual decrease of 6.2 per cent in 2014 compared to 2013; this decline is expected to continue during 2015 but at a slower pace. In the first half of 2015, communication GDP contracted by 4.7 per cent compared to the same half in 2014, and it is projected to retrench by 3.5 per cent in the second half of the year compared to the corresponding period in 2014. Overall, the communication sector is projected to decline by 4.1 per cent in 2015 being 55.8 per cent of its 2010 value. It is worth mentioning that mobile call prices increased about 20 per cent in April 2015, and

The annual contraction of electricity production is expected to reach

10.3%

compared to 2014

this affected the sector negatively by reducing effective demand.

The continuation of the crisis has created an environment of financial uncertainty and business insecurity; thus, the **financial and real estate** sector GDP witnessed an annual contraction of 19.6 per cent in 2014. It is worth mentioning that, similar to the manufacturing sector, the sector GDP in constant 2000 prices between 2001 and 2010 was calculated using the deflator of financial public sector. Thus, SCPR recalculated the financial and real estate private sector real GDP by using an adjusted deflator for private sector, this deflator is the average deflator of all economic private sector except manufacturing and real estate. Accordingly, the sector real GDP in 2010 reached about SYP 69.5 billion instead of the previous number of SYP 80.3 billion.

In 2015-Q1, the sector decreased by 5.3 per cent compared to the same quarter in 2014; yet, in 2015-Q2 estimation showed an increase in this sector GDP by 4.4 per cent compared to the corresponding quarter of 2014. This increase was due to the relative improvements in local production, particularly the agriculture outputs, which refresh related business activities and, thus, real estate and financial services. The positive trend is expected to continue, but at a slower rate, during the second half of 2015 in which the sector GDP is projected to increase by 1.3 per cent compared to the second half of 2014. The improvement in this sector GDP during 2015 is not related to better economic and institutional performance, thus, it is not expected to be sustainable taking into account the increasing of informal and illegal financial networks protected by subjugating powers in non-government and government areas.

In terms of real estate, the armed-conflict has destroyed a significant part of homes and commercial properties. Moreover, the crisis has caused a destruction of real estate documents in some areas, and this is threatening the right of people in their properties considering the weak and corrupted institutions. Several real estate projects were launched within government control areas; yet, with the crisis environment, these projects are not expected to be effectively realized in the near future, and are dominated by crony capitalists in coordination with the subjugating powers.

The crisis has caused a destruction of real estate documents in some areas, and this is threatening the right of people in their properties considering the weak and corrupted institutions

The crisis has resulted in huge destruction of electricity and water infrastructure which has affected largely the **utility** sector; moreover, the sector continues to have serious difficulties due to the lack of fuel. Electricity production witnessed an annual decline of 21.6 per cent in 2014 compared to 2013, this trend continues in 2015 but in a slower rate. In the first half of 2015, the production contracted by 10.7 per cent compared to the first half of 2014, and by the end of 2015, the annual contraction of electricity production is expected to reach 10.3 per cent compared to 2014. The maintenance efforts have faced major challenges due to security conditions in many regions and to the sanction that prohibits the government from importing necessary parts and equipment for generating stations. With the significant shortage in fuel and poor maintenance, almost all areas suffer from electricity cuts; yet, the different period of these cuts creates inequity between regions.

In 2015, the GDP of drinking water and sanitation is projected to be almost equal to its level in 2014 which witnessed an annual decline of 29.2 per cent compared to 2013. Security conditions hindered maintaining efforts to repair damaged water infrastructure; moreover, the lack of fuel affected negatively the process of pumping water through public networks. Consequently, households in many regions are forced to buy water from traders; that the majority of whom are protected by military groups, particularly in conflict areas. Cutting off water supply on civilians is being used by different parties to force their rivals to implement security-related requests, regardless of the catastrophic impact on the wellbeing of people.

Investment in rehabilitating or building new dwellings needs stability in terms of security and socioeconomic conditions; thus, the armed-conflict continues to have a negative impact on the **construction** sector during 2015. In the first half of 2015, the construction sector GDP contracted by 26.8 per cent compared to the corresponding period in 2014. By the end of 2015, the sector GDP is projected to face an annual decline of 23.3 per cent compared to the previous year.

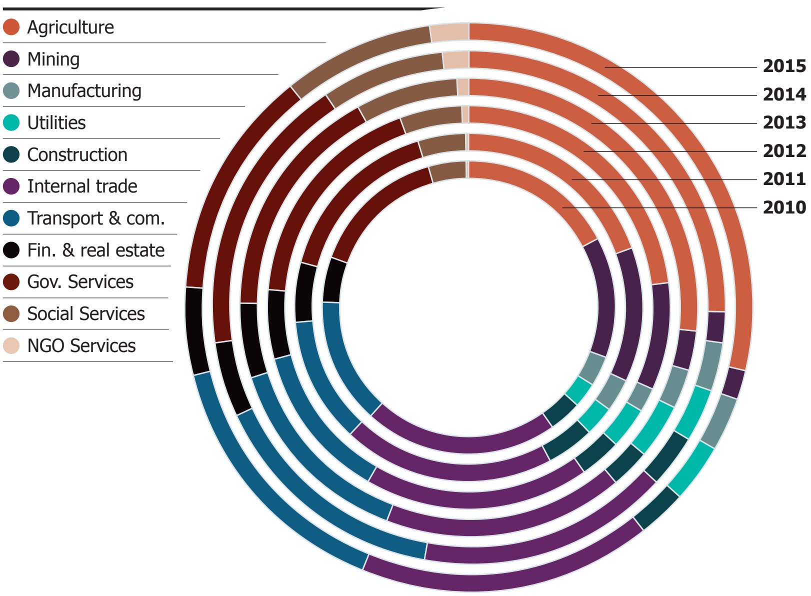
During the crisis, the government attempted to achieve some economic stability by maintaining public sector payroll and spending on current expenditure; thus, the relative importance of the **government services** sector increased. However, the sector faces serious challenges represented in the scarcity of public revenue, the reallocation of a significant part of financial resources to military spending, and the surge in consumer prices that decreases the real wages of public sector. The GDP of government services contracted by 25.4 per cent in 2015-Q1 and by 32.5 per cent in 2015-Q2 compared to the same quarters in 2014. In the second half of 2015, the sector GDP is projected to decline by 32.5 per cent compared to the second half of 2014. Thus, by the end of the year it is projected that the government service sector will retrench by 30.6 per cent in 2015 compared to 2014.

In 2015-Q1 the **personal** and **social services** sector contracted slightly by 0.7 per cent compared to the same quarter in 2014; however, in 2015-Q2, the sector witnessed an increase of 4.1 per cent compared to the second quarter in 2014. The positive trend is expected to continue in the second half of 2015 with a 2.4 per cent growth in the sector GDP compared to the corresponding period in 2014. The increase in health and education services, provided by the government in addition to national and international organizations, has improved slightly social services during 2015.

NGO services sector continues to increase with relatively high annual growth rate which is expected to reach about 50 per cent in 2015 compared to 2014. The persistent increase in this sector GDP is due to widespread civil society organizations, charities, and international institutions that provide social and humanitarian support; however, and despite such growth, the value of the NGO share of GDP remains marginal.

The structure of GDP shows that agricultural sector accounts for an increasing share of GDP with a projection to reach 28.7 per cent in 2015 compared to 17.4 per cent in 2010. It was followed by internal trade and transport and communication sectors at 16.9 per cent and 14.9 per cent, respectively. The government services sector, as a share of GDP, witnessed a notable decline from 17.9 per cent in 2014 to 13.1 per cent in 2015. (See Figure 4)

Figure 4: Sectors' share of GDP during the period 2010-2015



	2010	2011	2012	2013	2014	2015
Agriculture	17.4%	19.7%	23.1%	26.8%	25.4%	28.7%
Mining	13.4%	12.5%	8.6%	2.9%	1.8%	1.8%
Manufacturing	3.2%	2.9%	2.1%	2.7%	3.1%	3.0%
Utilities	2.7%	2.9%	3.4%	3.8%	3.5%	3.4%
Construction	3.8%	4.4%	3.3%	2.9%	3.2%	2.6%
Internal trade	21.4%	19.6%	18.0%	16.9%	16.0%	16.9%
Transport & com.	13.8%	11.8%	12.6%	14.3%	15.0%	14.9%
Fin. & real estate	5.0%	5.6%	5.4%	5.1%	4.8%	5.1%
Gov. Services	14.9%	16.0%	18.0%	16.8%	17.9%	13.1%
Social Services	4.3%	4.5%	5.2%	7.1%	7.8%	8.4%
NGO Services	0.1%	0.1%	0.3%	0.8%	1.4%	2.2%

Source: SCPR, 2015 estimation

> "The collapse of production process shrank the Syrian household's traditional sources of income, which in return substantially reduced private real expenditure"

During 2015, the nature and structure of the economy continues to witness adverse transformation compared to the pre-crisis period. The government services share of GDP has declined reflecting a shift in government policies from an attempt of to stimulate demand in the local market to a process of shrinking non-military public expenditures such as subsidies on basic commodities. The economy is becoming largely dependent on the agriculture outputs which are prone to fluctuations in climate conditions. The share of NGOs and social services sectors continued to grow as a response to the increasing humanitarian needs. It is worth noting that after adjusting the manufacturing sector GDP before the crisis, its share of total GDP has slightly changed in 2015 compared to 2010, despite the dramatic deterioration in its level.

SHRINKING DEMAND POLICIES

Traditional economic processes were destroyed and shattered across the country, as the conflict spiralled out of control. Alongside with the destruction of economic fundamentals, inconsistent economic policies and ad hoc procedures have negatively affected economic demand. The collapse of production process shrank the Syrian household's traditional sources of income, which in return substantially reduced private real expenditure. Moreover, the surge in inflation rate, which significantly varied across the country, led to another fall of real demand.

The government policies till mid 2014 attempted to apply partial counter cyclical policies, through continuing to pay wages and a bill of subsidies. At the same time, public investment expenditure was reduced to very low level. These policies shifted dramatically with the application of "rationalization of subsidies" approach in 2015, which reduced the subsidies bill by increasing the prices of oil derivatives and basic goods. This policy approach hit real demand of the economy, accelerated economic recession, surged prices, and pushed for more devaluation of the Syrian pound. These policies have also increased the cost domestic production which is already struggling, and resulted in a higher burden on poor people, who became the majority of Syrian population. This incredibly difficult economic and living situation has forced many among the population into seeking refuge outside the country, or joining violence related activities, and/or further reduce their low level of expenditures.

The alternative sources of income to compensate the collapse of real demand were savings, and selling properties and assets. Furthermore, the remittances and external financial support contributed to narrow the gap between needs and available income for some of households. This support has different sourcing channels including the remittances from expatriates, and humanitarian support through UN agencies and/or civil society.

Unfortunately, all the above attempts to recover economic demand were humble compared to the dramatic and continuing economic losses. The dark side of the demand process is the role of violence-related powers; as resource shifted to violence-related activities is giving economic and social incentives for people to become involved in these activities. These violence-related economic activities include redistribution of wealth using coercion of people via pillage, blackmailing, theft, and smuggling among other things. Moreover, armed parties recruited people to fight for them providing different incentives in return. Most of the external support went through to serve the conflict economy, and thus, supported the continuation of the armed-conflict instead of helping people survival and eliminated the impact of the conflict. Consequently, the Syrian economy became a black hole that absorbs domestic and external resources to sustain the armed conflict.

This report highlights three types of demand; the first is private expenditure of households, the second is public expenditure of government, and the third is the expenditure of the de facto powers in the out of government controlled regions. The third type of demand is neither private nor public expenditure per se, part of this expenditure is allocated to military expenditure and the other part to services. Thus, the report title this type of demand as a "semi-public" expenditure. Furthermore, the overall projection of expenditure on military aspects is considered as consumption; and it reflects the reallocation of resources to sustain conflict, and towards achieving what the fighting parties' portrait as total "victory".

Private consumption fell by 17.4 per cent in 2014 compared to 2013, and during 2015 private consumption contracted further by 0.7 per cent in 2015-Q1, 0.9 per cent in 2015-Q2, and is projected to decline by 3.3 per cent in 2015-Q3, 5.9 in 2015-Q4 compared to the corresponding quarters in 2014.

The average level of household expenditure declined to an unacceptable threshold reflecting the severe hardship of people across Syria. Furthermore, the fragmented economy and different rules of the game in different regions created enormous inequalities between regions, and within the same region. War lords and influential elite of war have seized substantial profit through monopoly, pillage, royalties, in addition to a politicized usage of humanitarian and external aids and support.

Besides the tragic impact of conflict escalation, the public economic policies executed in 2015 have mounted the pressure on the household ability to purchase and/or have the needed goods and services for survival. These policies have liberalized the prices of basic foods and oil derivatives and to reduce the subsidies bill substantially, which used to be one of the main pillars to guarantee the minimum survival needs for the households. This continued to force households to shift their consumption patterns to most vital goods and services, especially basic food, housing, and health services. This pattern of consumption have substantial skewing impact on the displaced families, and those most economically and socially vulnerable, but especially the impact is skewed towards children. This is to be reflected in levels of malnutrition of children, and their labour and school dropout rates, especially in the most affected regions by the conflict.

This report changed the methodology of estimating the out of budget subsidies used previously in the past reports. This was applied mainly to estimating oil derivatives and electricity subsidies, by adding them to the **public consumption** (this was applied to the data series 1992-2015). In addition, we added the projected increase of the public military expenditure during the crisis to public consumption.

Overall, 2015 witnessed a substantial fall in public consumption by 33.1 per cent compared to 2014. On quarterly basis, public consumption contracted by 32.2 per cent in 2015-Q1, 31.5 per cent in 2015-Q2 and is projected to contract by 35.6 per cent in 2015-Q3, and 33.3 per cent in 2015-Q4 compared to the corresponding quarters of 2014. The public sector real wages dropped, due to the prices increase affected mainly by subsidies rationalization policies. These recent economic policies, were attempted to increase the financial resources to the government by increasing the prices. However, these policies have created inflationary pressures, and thus, contributed to the deterioration of the currency exchange rates. Consequently, the public consumption share of GDP surged from 26.3 per cent in 2010 to 46.5 per cent in 2013 and declined again to reach 31.6 per cent in 2015. The severe recession and the intensification of conflict caused vast losses in resources and raised the prices which reduced the real value of the public consumption.

As mentioned above, the report defines the **"semi-public" consumption** as a new expenditure category in the Syrian economy

2015 witnessed a substantial fall in public consumption by

33.1%

compared to 2014

"The fragmented economy and different rules of the game in different regions created enormous inequalities between regions, and within the same region" which is neither public nor private. This consumption function in the out of government control regions, and controlled by different de facto actors who seized power there. These actors played the role of public authority by imposing royalties and taxes, in addition to reallocate resources and external support according to their needs. It is important to distinguish this expenditure from the public one which was concentrated mostly in the government controlled regions.

Semi-public consumption estimation including military expenditures reached 13.2 per cent of GDP in 2015, increasing from a very low ratio as 0.09 per cent of GDP in 2011, and has surged to 2.1 per cent, 5.9 per cent, 10.1 per cent, and 13.2 per cent in 2012, 2013, 2014, respectively. (See Figure 5) This increased share was mainly caused and driven by the escalation of the conflict and the involvement of multiple internal and external actors in the armed offensives. This has enforced the fragmentation status if the emerging economies in Syria, with different policies and procedures which were mainly fuelling violence. The new allocation of resources and the system of incentives have been established and institutionalized to support de facto actors against other rivals. Moreover, the expenditure of the fighting actors is one of the main tools to maintain their powers during the crisis, and insurance of conflict continuity.

Investment is the engine of the economy in normal situations and it is the first victim of the conflict, as investment is sensitive to political, social, and economic conditions and stability. The armed conflict has caused a deterioration of in the most fundamental aspects of the investment environment. Economic institutions witnessed immense deficiencies and dysfunctions regarding property rights, rule of law, and

Figure 5: (A) Consumption GDP by its components in constant prices 2000, (SYP Billion), (B) Consumption GDP 2010 and accumulated loss till 2015 in constant prices 2000, (SYP Billion)

Source: SCPR, 2015 estimation

accountability. The conflict created violence-related institutions that are ruled using fear and coercion, and it reallocated resources to serve battles and de facto fighting actors. Fragmented institutions in different regions within the country varied substantially in terms of functions and forms; yet, all are acquiring anti-development and violence-centred practices and policies, working within uncertain and insecure environment.

The severe destruction of physical capital vanished most of the wealth that have been accumulated through generations in the country, including factories, infrastructure, equipment, and buildings. The conflict continued to destroy markets' networks; additionally, the investment environment was affected badly by the loss of human capital represented in the increasing number of IDPs, refugees, and more tragically the number of people who were killed and/or injured. The absence of stability in macroeconomic indicators like the overwhelming unemployment rate, public debt, trade deficit, inflation rates, and depreciation of exchange rates, all drained the real investment expenditure. However, people in some regions tried to adapt coping mechanisms to the situation through small scale enterprises to fulfil their direct and short term demand. The critical issue around these coping strategies is their dependence or independence of the operating economies of violence.

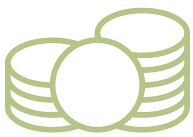
Public investment was severely affected because the government shifted the priority to the military consumption and public wages. During 2015, public investment contracted by 15.0 per cent in 2015-Q1, and by 23.0 per cent in 2015-Q2, and is projected to contract by 36.0 per cent in 2015-Q3, and by 35.7 per cent in 2015-Q4 compared to the corresponding quarters of 2014. Overall, the projected public investment in constant prices equals only 7 per cent compared to its level in 2010.

The de facto actors in the out of government control regions implemented few investment projects to maintain some basic services. This **"semi-public" investment** is estimated at 0.05 per cent of GDP in 2012 increased to 0.24 per cent in 2013, accounting for 0.42 per cent in 2014, and is projected to reach only 0.41 per cent of GDP in 2015. It is considered to be very low compared to the needs of these regions in terms of investment; however, the policies and rules, imposed by the de facto actors, concentrated mainly on maintaining military expenditure as the first priority.

Private investment in 2015 declined by 5 per cent compared to 2014. In the first quarter private investment contracted by 19.3 per cent, and by 5.3 per cent in 2015-Q2, thereafter it is projected to increase by 4.4 per cent in 2015-Q3, and by 0.7 per cent in 2015-Q4. (See Figure 6) The improvement of private investment in some sectors and within the relatively safe areas is hindered by many obstacles related to the conflict circumstances including the closure of most borders with Jordan and Iraq, the intensified battles in many regions. Most importantly, private investment in government controlled areas was affected by the application of government policies that liberalized prices, and thus, increased the economic cost, deteriorated effective demand, and caused foreign exchange rate depreciation and volatility.

Both public and private investment in 2015 formed just 9.2 per cent of the GDP, which is below the normal annual depreciation rate of capital stock, resulting in negative net investment in 2015. Taking into account the destruction and deterioration of capital stock due to the crisis, the negative investment would reach unprecedented rates during the crisis.

Export in 2015 contracted dramatically by 20.9 per cent, 27.3 per cent, 33.0 per cent, and 35.7 per cent in 2015-Q1, 2015-Q2, 2015-Q3, and 2015-Q4 respectively, compared to the corresponding periods in 2014. Exports continued to depend on raw materials like sheep, phosphate, fruits, and vegetables; and it has been affected by the closure of borders, and the impact of ongoing battles. Moreover, recent public policies badly affected exports due the immense increase in the domestic production costs which along with depreciation in the currency, increased the cost of intermediate imported goods.



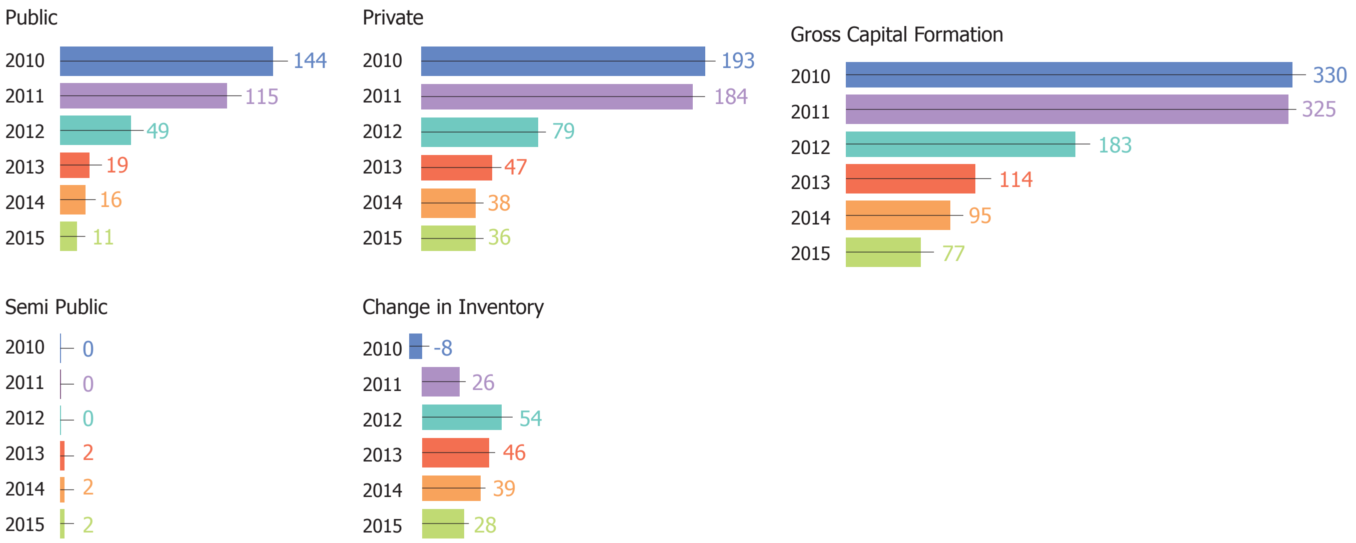
The projected public investment in constant prices equals only

7%

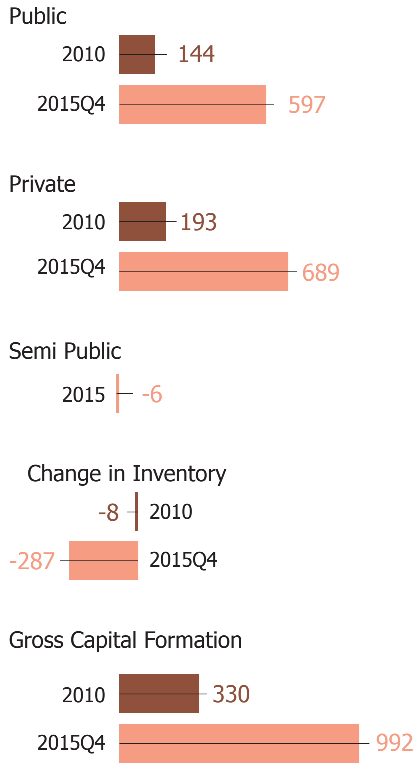
compared to its level in 2010

Figure 6: (A) Investment GDP by its components in constant prices 2000, (SYP Billion), (B) Investment GDP 2010 and accumulated loss till 2015 in constant prices 2000, (SYP Billion)

(A)



(B)



Source: SCPR, 2015 estimation

The economy is increasingly dependent on **imports** due to the collapse in many other sectors, and the increasing needs for specific goods like food, pharmaceuticals, and oil derivatives. Imports in general witnessed many difficulties, including sanctions on institutions, firms, and financial transactions and insurance among other things; and this hindered the ability of importing basic goods. These conditions opened the door for the establishment of a large black market in trading with Syria which raised costs of imports dramatically, and allowed subjugating powers to further control and monopolize the basic goods and services trade. Trade has been affected by the political positions of different trading partners as each warring party depended on its alliances to facilitate its legal and illegal trade interests. Furthermore, the complexity of the conflict illustrated some contradiction cases where rivals develop transnational economic cooperation and networks among each other!

During 2015, imports contracted by 29 per cent compared to 2014 due to the drop in the effective demand and the dramatic depreciation of the Syrian currency. The trade deficit is still relatively vast as it reached 38.9 per cent of GDP in 2014 and declined to 27.6 per cent in 2015.

The Syrian economy is now severely dependent on the external world, by relying to a large extent on imports that are financed mainly through external loans, aids, and financial facilities. The prolonged nature of the conflict diminished the competitiveness of the Syrian economy and undermined its basic foundations of wealth and productivity that were accumulated over decades. This resultant economic dependency has massively depleted assets, increased the balance of payment deficit, which consumed foreign and other reserves and savings, and created mounting public debts for the next generation.

Overall, total consumption accounted for 112.6 per cent of GDP in 2015, indicating a significant and unsustainable drawdown on domestic savings, with **domestic savings** accounting for minus 12.6 per cent of the GDP. Furthermore, imports accounted for 39 per cent of GDP, while the exports accounted for 11.4 per cent. The dependency on external support to finance trade and balance of payment deficits is deepening the fragility of economy, while threatening future recovery and development.

TOTAL ECONOMIC LOSSES REACH USD 254.7 BILLION

Designing the analytical framework to measure the economic loss during conflict is challenging; in this regard, the research team of this series of reports on the impact of Syrian crisis has continuously continuously updated and re-examined the methodology applied in order to identify the more accurate approaches. This also applies to the methods used to estimate social loss and cost, ongoing development of research methodologies is critical in the understanding of such dynamic and constantly changing conflict environment.

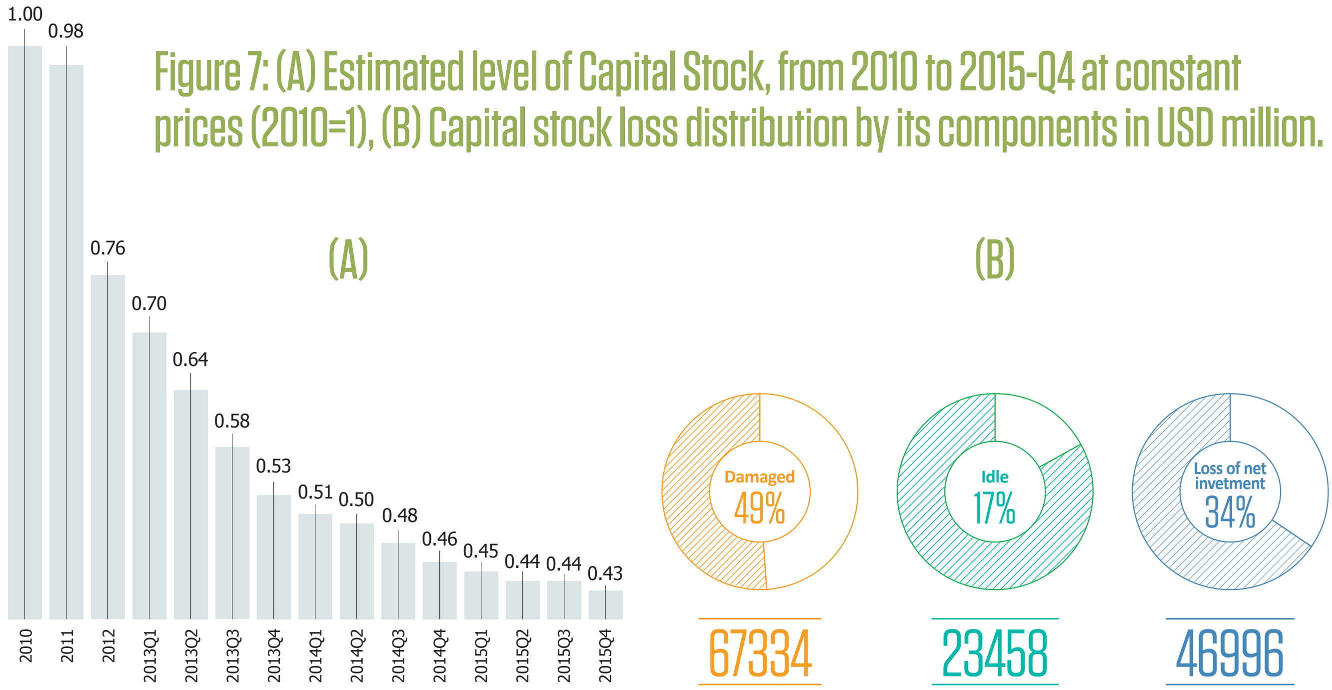
The report has estimated and projected the actual and counterfactual added value of the economic activities across Syria, in both government and non-government controlled areas on a quarterly basis. Moreover, the report estimated the loss depending on the quantity proxies' method to avoid the high fluctuations of prices and foreign exchange rates. It is clear that the Syrian economy has become highly heterogeneous; as different circumstances, institutions, actors, and policies have emerged in different regions[5]. However, it is important to sketch the overall picture of the whole Syrian economy and the common challenges that faces development, currently and potentially in the future.

In this context, GDP loss during the crisis by the end of 2015 is projected to reach USD 163.3 billion, of which the GDP loss during 2015 is projected to be USD 49.7 billion, compared to the counterfactual scenario in 2015. Furthermore, the report considers the increase in the military expenditures, which constitute part of actual GDP, for different parties as a loss to the economy and a reallocation of resources from productive to destruction activities. The increase of the military expenditure of the government is projected at USD 14.5 billion, and of the military expenditure of the armed groups is projected at USD 6 billion during the crisis[6].

The conflict severely damaged the economic activities and the accumulated wealth in the country. This report benefited in calculating the capital stock from the recent population survey conducted in 2014, which included detailed questions about the damaged to the infrastructure, buildings, establishments, and factories among other things;. Therefore, the report re-estimated the damaged capital stock on regional level using the population survey, 2014 data. The projected capital stock losses reached USD 137.8 billion in current prices by the end of 2015, with actual physical capital stock in 2015 accounting for 32.8 per cent of its projected counterfactual level at the same year (See Figure 7). This loss consists of three components including: **reduction in net investment** of USD 47 billion (already accounted for in the estimate of GDP losses); **idle capital stock**, as a result of physical capital ceasing to contribute to production, services and value-added, is projected at USD 23.5 billion (also included in the calculation of GDP loss). The final component is **partial or full damage to capital stock** is estimated at USD 67.3 billion due to the damages incurred from the armed-conflict that includes ruined public and private properties, equipment, and residential and non-residential buildings. This last component was not included in the estimation of GDP loss, and thus it should be added to the total economic losses.

5. SCPR has forthcoming series of reports that elaborate specifically the heterogeneity and inequality between regions across Syria.
6. Calculations made by using results from Collier and Hoeffler in addition to SCPR calculations.

Figure 7: (A) Estimated level of Capital Stock, from 2010 to 2015-Q4 at constant prices (2010=1), (B) Capital stock loss distribution by its components in USD million.



Source: SCPR calculations based on (Nasser, and Mehchy 2012b: capital stock estimation of Syria 1965-2010)

Finally the informal use of oil and gas resources has been considered as a loss to the country wealth as it became part of the violence machine. The estimation of the informal production of the oil and gas is projected to reach USD 5.2 billion by the end of 2015. However, part of this loss that takes into accounts the black market price of oil has been already included in the armed groups' expenditure, within GDP loss, and this leaves the net loss of USD 3.6 billion to be added to the total loss.

Thus, the armed-conflict in Syria generated a total estimated economic loss of SYP 6,483 billion at 2000 constant prices. This is equivalent to 468 per cent of 2010 GDP at 2000 constant prices. In current prices by the end of 2015, the total economic loss is estimated at USD 254.7 billion (See Table 2). GDP loss accounts for 64 per cent of the total loss, damage to capital stock accounted for 26 per cent, while reallocation to increased military expenditure accounted for 8 per cent of total economic loss.

Table 2: Total economic losses in millions of USD (at current prices)

	2011	2012	2013 q1	2013 q2	2013 q3	2013 q4	2014 q1	2014 q2	2014 q3	2014 q4	2015 Q1	2015 Q2	2015 Q3*	2015 Q4*	Total
Total economic loss (billion USD)	12.1	49.9	18.5	17.8	15.3	19.2	14.7	16.9	15.3	15.4	14.8	16.9	13.9	14.0	254.7
GDP Loss (billion USD)	5.4	21.4	9.2	9.8	8.4	10.8	11.7	13.4	11.8	11.9	12.5	13.8	11.6	11.7	163.3
Capital stock damaged (billion USD)	5.7	23.7	8.1	6.4	5.6	6.5	1.8	1.8	1.8	1.8	0.9	1.2	1.0	1.0	67.3
Official Military expenditure increase (billion USD)	0.9	4.3	0.8	1.1	0.8	1.1	0.6	0.9	0.7	0.7	0.6	0.9	0.5	0.6	14.5
AG Military expenditure (billion USD)	0.02	0.58	0.15	0.29	0.26	0.50	0.34	0.56	0.45	0.54	0.48	0.77	0.48	0.53	6.0
Wealth Loss (oil & gas reserves) (billion USD)	0.00	0.00	0.34	0.34	0.38	0.35	0.39	0.47	0.84	0.63	0.37	0.45	0.41	0.27	5.2
Oil revenue AG	0.00	0.00	0.13	0.13	0.13	0.13	0.14	0.16	0.21	0.16	0.14	0.14	0.14	0.09	1.7

Source: SCPR estimations 2015.
*Projections

DEFICIT REDUCTION, RECESSION AGGRAVATION

Fiscal policy is the main tool of economic policy in Syria and reflects, to a large extent, the adopted socioeconomic priorities. The government used the public budget during the crisis to firstly sustain the military expenditure which shifted resources from potential productive activities to destructive ones. Secondly it was used to counter the deep recession and the severe reduction of economic demand by increasing or maintaining the public spending on wages and salaries and on subsidies especially for the oil derivatives, electricity, and basic foods. Public investment has severely dropped due to the crisis priorities and difficulties of implementing investment within insecure environment.

The escalation of the crisis weakened the traditional role of fiscal policy in many regions within the country, as different regions became out of the government control and witnessed new political economy rules. These regions have not been affected directly by the government fiscal policy. This reduced the burden on public budget, but also but undermined dramatically the role of fiscal policy in the Syrian economy.

The out of government control regions have had de facto heterogeneous actors, they militarized the economy and reallocated most of available resources to maintain the conflict. Those de facto actors used their force to reallocate resources and impose new forms of taxes, royalties, and fees. Moreover, they spent domestic and external revenue mainly on military expenditure with minimum expenditure on maintaining basic services within these regions. The report identified this kind of expenditure as a “semi-public” expenditure. They were analysed in the previous section.

The fiscal policy witnessed a shift starting in 2014 and continued during 2015. The government adopted a strategy to increase public revenue based on a policy of “subsidies rationalization”. It reduced dramatically the subsidies by liberalizing the prices of oil derivatives and basic goods like bread, while the international oil prices dropped. At the same time, the government increased its revenue substantially through increasing mainly the indirect taxes like consumption base taxes, customs collection, and fees such as fees on car and real estate. As a result, the government deficit dropped dramatically and in some cases, like the increase in the prices of oil derivatives, the government started to gain “profit”. This policy reduced the public expenditure dramatically.

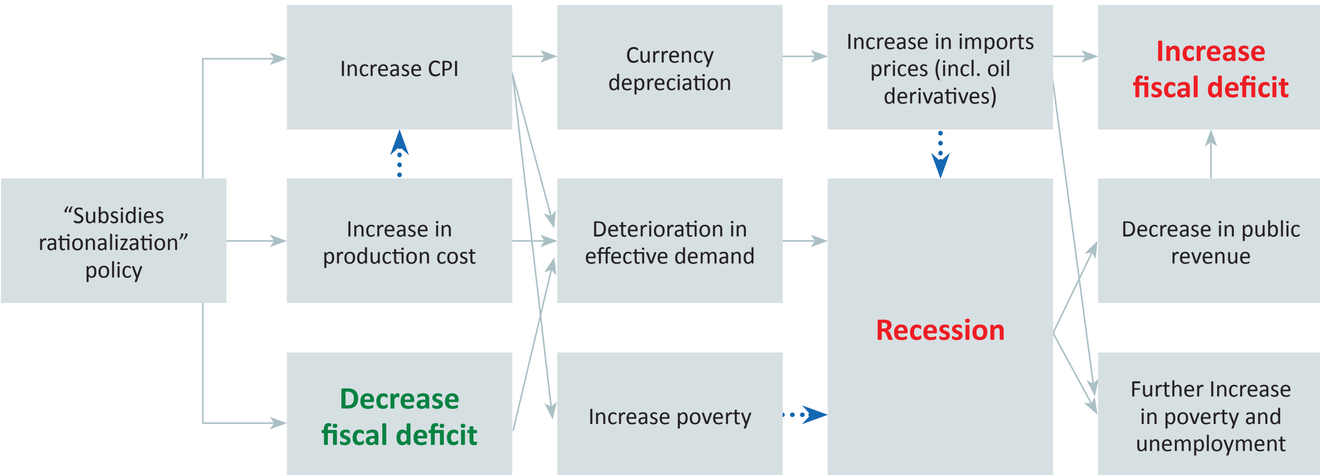
The public expenditure within the budget in 2015 accounted for 16.9 per cent of the current GDP, while it was 23.4 per cent in 2014. The public expenditure, including the off budget subsidies and the increase of governmental military expenditure, dropped from 47.5 per cent of current GDP in 2014 to 33.5 per cent in 2015. This dramatic decrease reflected the new policy of the government which reduced the subsidies bill from 14 per cent of current GDP in 2014 to 5.6 per cent in 2015. Moreover, public wages and salaries ratio decreased from 16 per cent in 2014 to 11.4 per cent in 2015. The increase of military expenditure ratio accounted for 13.2 per cent of current GDP in each 2014 and 2015.

The decrease of public expenditure on subsidies to reduce the public budget deficit has led to an increase in the cost of domestic production and to inflation, and thus, devaluated the currency. This policy harmed the economy through decreasing the local demand and increasing the cost of production and imports which contributed to a deeper recession of the economy. (See Figure 8)

On the revenue side, the government aimed to extract more nominal revenue by increasing fees and taxes especially the indirect taxes and fees; and this became another factor that increased cost of living. The government did not apply an effective direct tax on private business due to the absence of accountable institutions that can fight corruption, crony capitalism, and violence-related rent seekers. On the contrary, the government preferred to raise revenue by reducing subsidies and increasing indirect tax and fees; and this caused a drop in the real public expenditure and revenue. Consequently, the revenue ratio of GDP decreased from 6.2 per cent in 2014 to 5.4 per cent in 2015.

As a result the budget deficit decreased from 17.2 per cent in 2014 to 11.5 per cent in 2015 out of current GDP, while the deficit with off budget subsidies dropped from 28.0 per cent to 14.9 per cent during the same period. The overall deficit with the increase of military expenditure decreased from 41.2 per cent of current GDP in 2014 to 28.1 per cent 2015.

Figure 8: Direct and indirect impact of the “subsidies rationalization” policy



Source: SCPR 2016.

Table 3: Revenue, expenditure and government budget deficit (% of GDP), 2010-2015

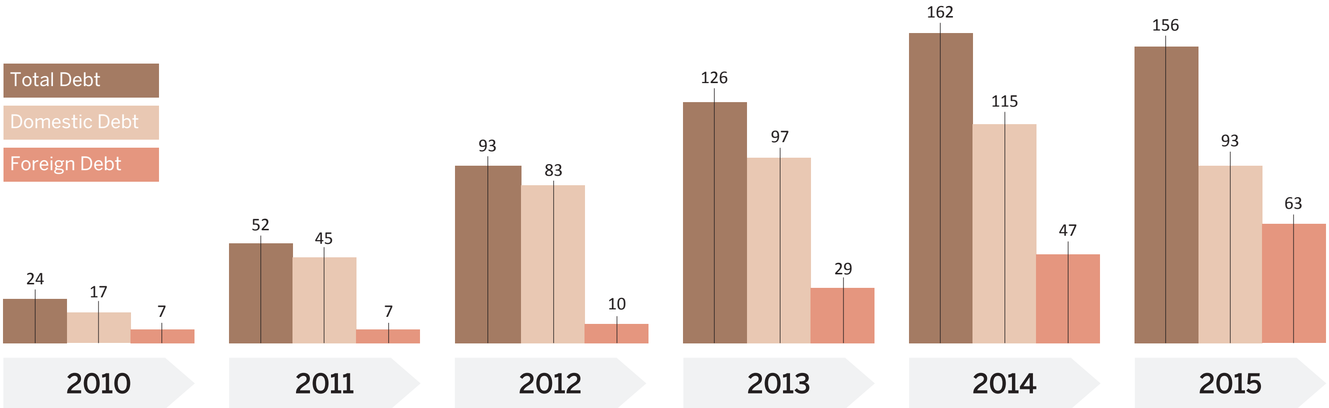
	2010	2011	2012	2013	2014	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015
Revenue	24.1	19.3	11.7	7.4	6.2	7.7	4.2	6.0	4.9	5.4
Oil-related proceeds	7.5	5.3	3.3	1.1	0.6	0.9	0.5	0.7	0.5	0.6
Non-oil tax revenue	9.9	8.8	5.1	3.9	3.2	4.3	2.4	3.4	2.7	3.1
Non-oil non-tax revenue	6.7	5.1	3.3	2.4	2.4	2.5	1.4	2.0	1.6	1.8
Expenditure	27.2	28.7	27.3	23.3	23.4	21.9	12.8	19.3	16.5	16.9
Current expenditure	17.9	21.4	23.1	20.5	20.8	21.1	11.6	16.6	13.8	15.0
Wages and salaries	11.3	14.2	16.0	14.6	16.0	16.1	8.9	12.7	10.2	11.4
Goods and services	1.3	1.4	1.5	1.5	1.5	1.5	0.8	1.2	1.4	1.2
Interest payments	0.8	0.9	0.6	0.5	0.3	0.3	0.2	0.3	0.2	0.2
Subsidies and transfers	4.4	4.8	5.0	4.0	3.1	3.1	1.7	2.5	2.0	2.2
Development expenditure	9.2	7.3	4.2	2.8	2.6	0.8	1.2	2.6	2.7	1.9
Budget balance	-3.0	-9.4	-15.6	-15.9	-17.2	-14.3	-8.6	-13.2	-11.6	-11.5
Budget balance with off budget subsidies	-11.4	-26.5	-28.5	-25.1	-28.0	-19.1	-11.3	-17.0	-14.7	-14.9
Plus military	-11.4	-28.1	-39.5	-41.4	-41.2	-32.3	-24.5	-30.2	-27.9	-28.1

Source: ibid

The enormous public budget deficit increased the nominal public debt in 2015. However, the excessive increase of the domestic prices reduced the real value of the domestic debt from 115 per cent of current GDP to 93 per cent in 2015. While the external public debt went in the opposite direction as the devaluation of the currency caused a surge in the burden of the external debt. Figure 9 shows that the external debt increased from 47 per cent of the current GDP in 2014 to 63 per cent in 2015. The domestic financing without coverage alongside with high inflation rates changed the structure of public debt. The losses due to increasing local cost and deteriorating local demand will affect negatively the ability to sustain debt at this level.

Overall, the public fiscal policy was partially able to decrease the deficit and subsidies and to reduce public deficit; but at the same time it harmed the economic demand, increased production cost, surged prices, and thus, increased poverty and inequality. It is also worth mentioning that the performance in managing public budget became weaker in terms of transparency, efficiency, and accountability.

Figure 9: Total debt by domestic and foreign component (% of GDP), 2010 – 2015



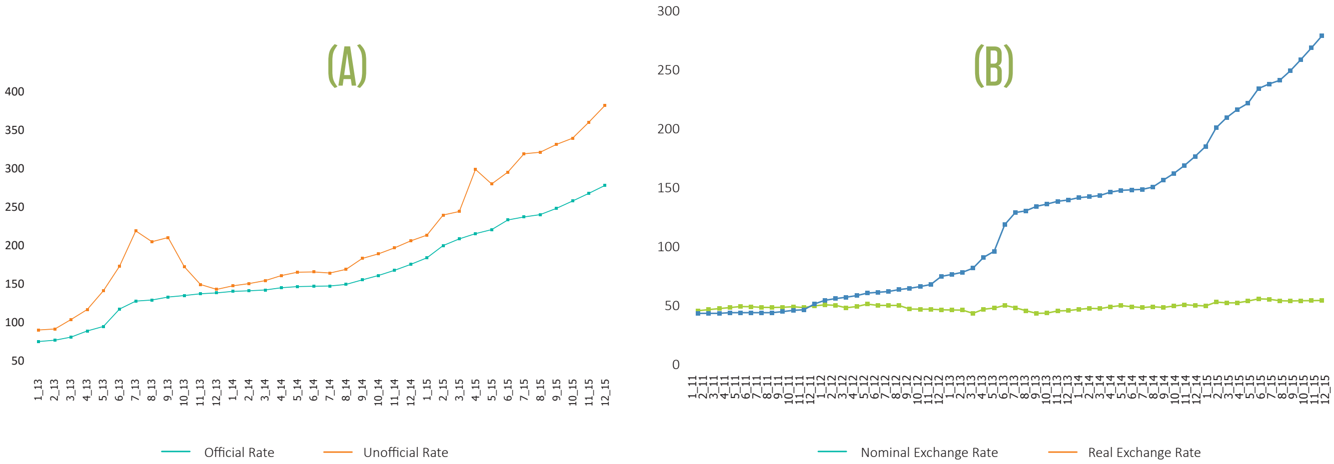
Source: SCPR estimations, 2015

COLLAPSE IN EXCHANGE RATES

In 2015, the Central Bank direct and indirect interventions in the foreign exchange market continued to have limited impact in preventing more deterioration of the Syrian pound. The ongoing armed-conflict has dried up sources of foreign currencies including exports, tourism, and FDI. Concurrently, the Central Bank insisted on the policy of selling hard currencies from reserves, financial external supports, and money transfers several times in 2015 to local foreign exchange companies in order to mitigate the impact of the crisis on the exchange rate of the Syrian pound. However, these money transactions are depleting the scarce foreign currencies resources without refraining the continued deterioration of Syrian currency. Moreover, the monetary authority and formal and informal financial institutions lack of transparency and accountability as huge financial transfers went through corrupted and violence related institutions.

By the end of 2015-Q1, the average exchange rate of the Syrian pound depreciated against the US dollar in the unofficial market by 15.3 per cent, compared to its average rate in December 2014 and by 15.5 per cent in the official market. During the first quarter of 2015, the market witnessed an increase in the prices of basic goods including bread and energy, and this affected negatively the exchange rate. During the second quarter of 2015, the military operations were intensified in many regions across the country contributing to a further depreciation of the Syrian pound. In June the average monthly rate depreciated, against US dollar by 17 per cent in the unofficial market and 10.3 per cent in the official market compared to its level in March of 2015.

Figure 10: (A) Official and unofficial exchange rate from January 2013 till December 2015 in SYP for one USD, (B) Nominal and real exchange rate from March 2011 to December 2015 in SYP for one USD



Source: Central Bank of Syria and SCPR calculations, 2015

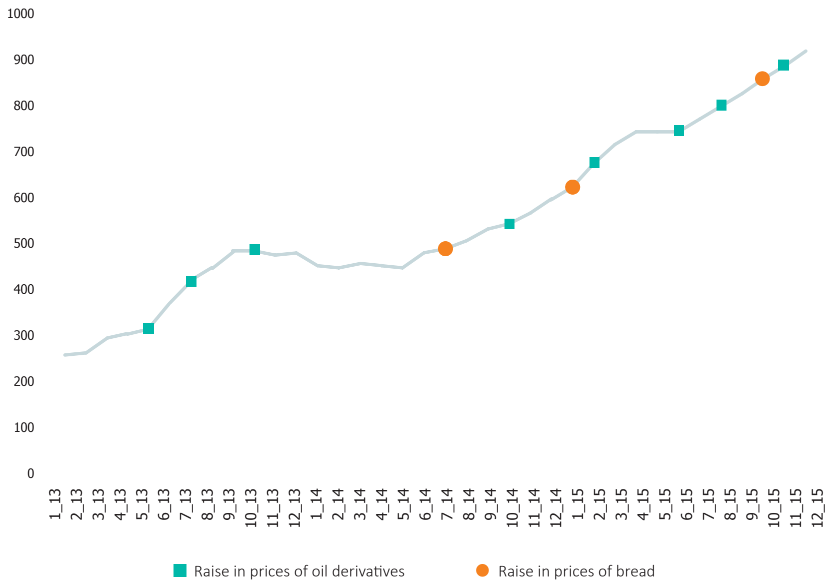
During 2015-Q3, the exchange rate continued its sharp depreciation due to several factors including the attempts of replacing the Syrian pound with the Turkish Lira and/or US dollar in some out of government controlled areas; this represents one of the aspects of shattering the economy by using different currencies. In September the average monthly rate depreciated compared to its level in June of 2015, against US dollar by 10.7 per cent in the unofficial market reaching SYP 332 to one US dollar, and 5.9 per cent in the official market accounting for SYP 250 to one US dollar. Currency depreciation continued in the fourth quarter of 2015 due to the continuation of the crisis, speculations, and the government policy of increasing the prices of basic goods and services. In December, the average monthly exchange rate in the unofficial market against US dollar is projected to depreciate by 13.1 per cent compared to its level in September, and by 10.5 per cent in the official market.

By the end of 2015, the Syrian pound is projected to witness an annual depreciation of 45.5 per cent in the unofficial market to reach SYP 382 to one US dollar, and 36.2 per cent in the official market to account for SYP 279 to one US dollar (See Figure 10 (A)). Moreover, the decrease in the value of the Syrian pound was accompanied with an almost stable real exchange rate due to the increase in domestic prices. (See Figure 10 (B)) It is worth noting that during 2015 the gap between the official and unofficial exchange rate has notably increased. This had created more incentives to deal with foreign currencies in the black market and reflects inefficient monetary public policies.

COST OF LIVING: UNBEARABLE SURGE

During 2015, Central Bureau of Statistics has issued the consumer price index (CPI) from January till May; however, the index underestimated the increase in the prices of basic goods that occurred in January. Thus, SCPR research team recalculated the official CPI till May 2015 and projected the index for the remaining seven months. During 2015-Q1, the consumer price index witnessed a sharp increase reaching 19.8 per cent in March compared to December 2014. This surge was driven by the increase in the prices of fuel for households by 56 per cent, bread by 40 per cent, and household gas by 45 per cent. This trend continued during the second quarter but in lower rate as CPI increased 3.9 per cent in June compared to its level in March 2015. During the second half of 2015, the CPI is projected to witness a further increase of 23.2 per cent till December compared to its level of June. (See Figure 11) Moreover, prices in conflict zones and besieged areas are much higher than elsewhere in the country, and this boosts profit margins for war traders who monopolize the markets of these regions.

Figure 11: CPI in Syria (January 2013 to December 2015) (2005=100)



Source: Central Bureau of Statistics and authors' calculations till May 2015, authors' projection from June till December 2015

By the end of 2015, the consumer price index is projected to witness an annual increase of 53.4 per cent compared to 25.8 per cent in 2014. This is a result of several factors including the devaluation of the Syrian pound, the government policies of increasing basic goods prices as an attempt to bridge the budget deficit, and the scarcity of many commodities and services due to the security conditions. In general, the surge in the cost of living in 2015 has reflected in further deterioration in the welfare of households; particularly the poorest families who became unable to sustain their basic needs.

WORKERS FOR VIOLENCE

Households in Syria have applied and experienced different coping strategies during the conflict. However, the long lasting crisis surfaced many factors that hindered people living standards like instability, loss of properties, equipment, and job opportunities, alongside with the increase of the cost of living. These factors forced many people to depend on humanitarian support and subsidies from their local community, relatives who lives abroad, public sector, and international agencies. This hardship is causing feelings of shame and is degrading people their human dignity and security. Taking into account that the institutions providing this support themselves suffered from poor performance, and from hegemony of the armed parties as they abused the humanitarian assistance to increase their control over people and to fuel violence machines.

The severe economic recession and intensive conflict left few job opportunities for people. Working in public sector within government controlled areas is giving many households a source of income to partially face crisis circumstances and maintain minimum level of surviving. The public sector employees faced many obstacles like the low productivity and high disguised unemployment rate, the poor quality of the public work during the crisis, the deterioration of real income due to the vast increase of prices, and the difficult accessibility to places of public employment.

It is fortunate that agriculture seasons were good during the crisis, as it depends mainly on rain fall, which gave an opportunity for people to work in agriculture in spite of all insecure circumstances. The agricultural sector provided an important channel to face food insecurity which became a key challenge for Syrians families.

In this environment the main surging sector is violence, which restructured the economy based on its related activities. The subjugating powers tried directly to recruit people to be part of the armed bodies, or indirectly through "organizing" illegal activities like smuggling, monopoly, theft, pillage, weapons trade, and people trafficking. These illegal activities attracted around 17 per cent of the active population inside Syria in 2014 (SCPR, 2016).

The previous publications of this report concentrated on the wide spread of the "Organized Transnational Violence-related Networks" that have created new interests inside and outside Syria, and have gained more influential as the conflict escalated. These new structures of incentives have been developed to institutionalize violence by developing new political, social, and economic rules that abused and alienated people and maintained the conflict.

Different internal and external subjugating powers imposed rules within the regions under their control, which created fragmented working environments and conditions. The common features of these environments are lack of job opportunities, absence of decent work conditions, low real wages, and the spread of informal services sectors. It is worth mentioning that female participation in labor force dropped sharply as conditions of labor have deteriorated sharply against their security.

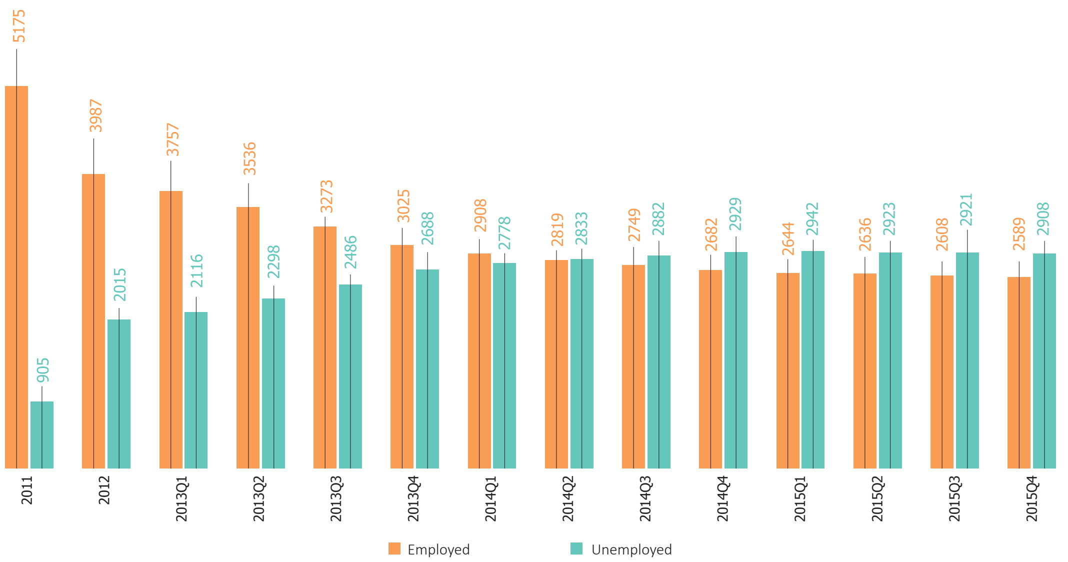
The report revisited the projections of previous versions, based on the new survey of population status which has been conducted in 2014 (SCPR, 2016). The estimation of population in Syria changed according to the survey, which also gave detailed picture about work environment across regions in Syria.

The employment ratio is expected to decrease slightly from 23.5 per cent in 2014 to 22.2 per cent by the end of 2015. Furthermore, the unemployment rate increased from 48.9 per cent in 2014-Q1 to 52.2 per cent by the end of 2014 to reach 52.7 per cent during 2015. The status quo of unemployment rate, in spite of the economic recession, is explained by the public sector employment regardless productivity, and the flourishing of violence related activities.

By applying the counterfactual analysis and comparing between "continuing" and "crisis" scenarios, the labor market lost 3.52 million job opportunities from a total estimated labor force till the end of 2015. (Figure 12); while the actual loss compared to the pre-crisis employment status (in 2010) is 2.69 million job opportunities.

The loss of job opportunities reflected immensely on workers and their dependents within families. Assuming that dependency ratio of 4.13 persons for each employed person of 2010 still applies, 13.8 million Syrians lost their work-related source of livelihood, of which 9.5 million still inside the country.

Figure 12: Impact of the crisis on the labour market (in thousands)



Unemployment Rate	
2011	14.9%
2012	33.6%
2013Q1	36.0%
2013Q2	39.4%
2013Q3	43.2%
2013Q4	47.1%
2014Q1	48.9%
2014Q2	50.1%
2014Q3	51.2%
2014Q4	52.2%
2015Q1	52.7%
2015Q2	52.6%
2015Q3	52.8%
2015Q4	52.9%

Source: SCPR estimations based on LFS (2006 – 2011), CBS

"The economy lost its sovereignty, and the violence economy built its own relationship across the world with different countries and/or violence related organised networks"

SHATTERED ECONOMY

The conflict has largely destroyed the economic structure, foundations, and institutions. This destruction has severely depleted tangible and intangible resources and capital, human capital, social capital, and economic governance. However, more drastic impact of the crisis on the Syrian economy can be summarized as follows:

- The economic structure shifted to different goals and priorities as all subjugating powers reallocated resources to fuel violence and its related activities. This environment came along with the absence of rule of law, property rights, and accountability, in addition to the surge of corruption. It generated new actors and/or change the behaviour of previous actors to be part of new rules of game: that of imposing hegemony by force and building up new political economies to sustain the conflict. Furthermore, effectiveness and equity, as goals of the economic policies, diminished, and the authorities sacrificed the core development goals and/or the historical development achievements to serve the new "development in reverse" dynamics.

- The armed conflict created multiple de facto actors who depends mainly on coercion, fear, and fanaticism to hold power in their regions. Consequently, the Syrian economy became shattered with different resources and powers and "rules of game". The common characteristics across all regions are the lack of security, the allocation of all resources to the fighting, the creation of violence-related job opportunities, and imposition of authority by force. Different currencies, different economic relations with neighbouring countries and different systems of incentives have prevailed within Syria in 2015. All regions have suffered from the absence of economic rationalization in terms of maintaining the economy and respecting human rights and dignity.

The economy lost its sovereignty, and the conflict economy built its own relationship across the world with different countries and/or violence related organised networks. The current structure exposed the economy to benefit different actors except for the Syrian people. In this regard, the external support to different armed actors concentrated on the violence-related activities which fuel the battle.

Moreover, major economic sectors have been shattered and are facing difficulties in terms of reacceleration and sustainability. Agriculture depends largely on rainfall; what increases the economic uncertainty for many people who already are in abject poverty. Trade is mostly informal and it is being distorted through the dominance of violence-related activities. Nevertheless, the role of government services' sector to counter cyclical the drop in the demand and production was diminished notably as the government decided to substantially reduce subsidies on oil derivatives and basic food goods. These new policies increased the cost of production and prices, and deteriorated exchange rate. The results of these policies have further enforced economic recession, and increased the burden of the crisis on poor people who are suffering to survive under such circumstances.

II. SOCIAL IMPACT OF THE CRISIS

A FRAGMENTED POPULATION

The armed-conflict have had a drastic impact on the demographic status in Syria; the numbers of internally displaced people, migrants, refugees, and conflict-related deaths, and injured have continued to increase hollowing out the residential population and, thus, changing the demographic structure significantly. Hundreds of thousands of people, particularly male breadwinners, have being killed, injured, arrested, and kidnapped, enormously endangering their lives and the living conditions of their families. The widespread insecurity and unbearable economic conditions and hardship, have forced millions of Syrians to resettle inside or outside the country and to depend completely on local and international humanitarian aids. This loss of security in all its forms has compromised human rights and dignity of the Syrian population.

During 2015, the number of Syrian refugees who managed to reach Europe, both via legal and illegal routs, has increased significantly. The absence of safe routs to safety caused many lost lives through their displacement journey, with an increasing number of people who have drowned in the Mediterranean, or who have been abused and violated by criminal and human trafficking networks. This issue has raised world concerns of refugees and immigrants. It accelerated the political efforts to solve the Syrian crisis. It is only when the crisis had an international consequences, specifically on Western countries the political leaders started to address the issue of the Syrian crisis. However, the narrative for addressing the crisis remain limited to interventions mitigating the refugees' crisis, and denying the humanitarian causes of the population displacement.

By the end of 2015, the population is projected to fall to

20.21 million

The crisis implications continue to shatter the population of Syria through displacement, migration asylum, and the mounting toll of conflict-related deaths and injuries. While the population of Syria was 21.80 million in 2010, by the mid of 2015 it is estimated to have declined to 20.44 million inhabitants. By the end of 2015, the population is projected to fall to 20.21 million. The population growth during 2015 was negative; declining by 1.8 per cent in 2015-Q1, by 1.7 per cent in 2015-Q2, by 1.8 per cent in 2015-Q3, and by 2 per cent in 2015-Q4 compared to corresponding quarters in 2014. By the end of 2015, the total population would have reached 25.59 million inhabitants if the conflict had not emerged, thus, counterfactually the real population decreased by 21 per cent. (See Box 2)

BOX 2: ADJUSTING THE POPULATION DATA OF SYRIA BEFORE AND DURING THE CRISIS

SCPR has reviewed demographic indicators in Syria before the crisis, including recalculating the total number of population using adjusted mortality rate, life tables, and fertility rate. These indicators, in addition to the estimation of the numbers of migrants, were reviewed based on the analysis of vital records. Consequently, the population growth rate between 2005 and 2010 was changed and, thus, the number of population reached 21.79 million inhabitants in 2010, instead of the used official number at 20.87 million (SCPR, 2016). Moreover, the population status survey conducted in 2014 covering all Syrian regions, produced estimations of demographic indicators for Syria including population growth rate, mortality rate, birth rate in addition to the estimated number of migrants and refugees between 2011 and 2014. The survey results show that the population of Syria in 2014 was 23.91 million persons, of them 2.13 million refugees and one million migrants. The average annual population growth rate was estimated at 2.3 per cent between 2011 and 2014. The demographic indicators during 2015 were projected based on the population status survey of 2014.

"The main reasons behind the dramatic increase in migration during the crisis are the deterioration in socioeconomic situation, the widespread of violence and insecurity, and above all loss of hope in a fair and just solution for the conflict"

The survey's results indicate that the highest percentage of IDPs to the total population

45%

By the end of 2015-Q1, the total number of Syrian refugees, and based on the population status survey conducted in 2014, reached 2.58 million. During 2015-Q2, the Syrian refugee population increased by about 164,000. The number of Syrian refugees is projected to increase during the second half of the year due to the intensification of military operations, particularly in the northern regions of the country. Thus, the number of refugees is expected to increase by 177,000 during the third quarter of 2015, and to grow by a further 187,000 during 2015-Q4. Therefore the estimated the total refugee population should reach 3.11 million persons by the end of 2015.

The population status, 2014 survey results show that Turkey is the main host of Syrian refugees, with 37.5 per cent of all refuge sheltering there by the mid of 2014. Following closely behind, Lebanon has hosted a significant number of Syrian population, accounting for 35.6 per cent of Syrian refugees. Another 14.1 per cent of Syrian refugees were hosted in Jordan, and about 4.8 per cent and 4.6 per cent of them have found shelter in Egypt and Iraq, respectively (SCPR, 2016). The distribution of Syrian refugees across the neighbouring countries is expected to witness a change during 2015; with more refugees fleeing to Turkey from northern region due to the intensification of the armed-conflict and close geographic proximity. Moreover, the number of Syrian refugees in Lebanon is expected to decline by the end of 2015 after the Lebanese government deciding to ban the inflow of Syrian refugees except for cases approved by the Ministry of Social Affairs in October 2014. It is worth noting that an increasing number of Syrian refugees are heading to Europe. However, this number is overestimated by different parties, and data shows that the total number of the first time asylum applicants from Syria in the EU-28 has reached about 73,000 persons during the first half of 2015 (Eurostat, 2015).

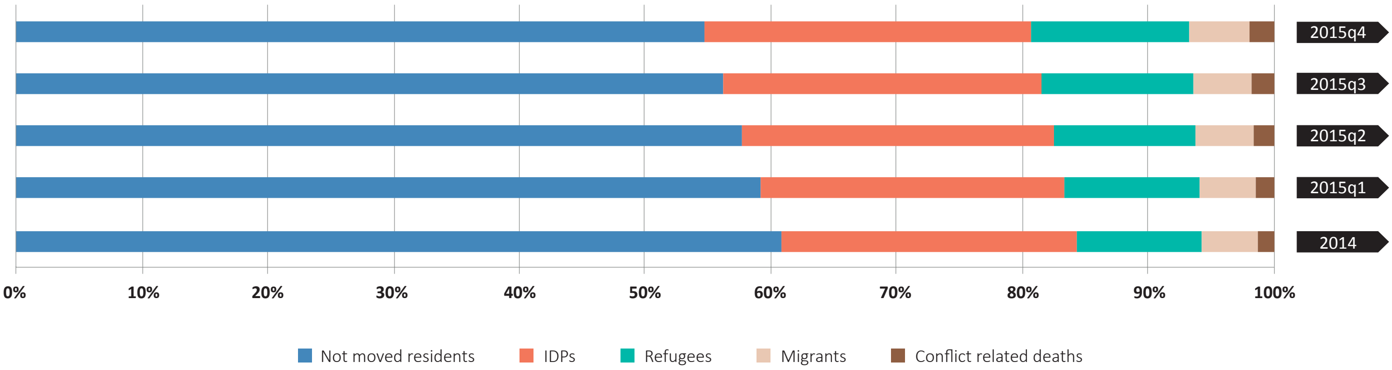
The number of non-refugee migrants continues increased during 2015 but in a slower pace compared to the early years of the conflict, as the majority of those who were able to travel had already left. The main reasons behind the dramatic increase in migration during the crisis were the deterioration in socioeconomic situation, the widespread of violence and insecurity, and above all loss of hope in a fair and just solution for the conflict. By the end of 2015, the total number of migrants is projected at 1.17 million departing Syrians[7], with about 112,000 persons departing during 2015. The population status, 2014 survey shows that by the mid of 2014, about 32 per cent of the migrants travelled to Lebanon, 18 per cent to Turkey, and 16 per cent to gulf countries.

At the end of 2015, the number of internally displaced persons (IDPs) in Syria is estimated at 6.36 million people, [8]increasing from 5.65 million at the end of 2014. The population status survey shows that in the mid of 2014, 57 per cent of IDPs are females. As for the living arrangements for those displaced within Syria, 48.2 per cent of IDPs live in rent houses, about 30 per cent of them were received by relatives and friends, and 13.5 per cent reside in official and unofficial shelters. About 80 per cent of IDPs were displaced for more than one year. The longer period of displacement is presenting both the displaced and hosting communities population to multiple pressures, especially those related to financial and infrastructure restrains. Moreover, the results show that 63 per cent of IDPs prefer to return to their homes; whereas 33 per cent of them favour to resettle in places other than their original place of residence (SCPR, 2016). In terms of IDPs distribution by governorates, the survey's results indicate that the highest percentage of IDPs to the total population was Quneitra at 45 per cent, followed by Dara'a with 43 per cent, and 38 rural Damascus per cent.

7. The authors estimated non-refuge migration based on the results of the population status survey conducted in 2014 taking into account 2015 changes in terms of security conditions and socioeconomic situation.

8. ibid

Figure 13: Structure of total counterfactual Syrian population across conflict related categories during 2011 - 2015



Source: SCPR estimations based on population status survey, 2014

By the end of 2015, about 45 per cent of the population had moved or fled in search of safety and better security conditions as a result of the armed-conflict. Approximately 60 per cent of the population in flux continued to live in Syria as IDPs, while 29 per cent fled the country as refugees and 11 per cent migrated to other countries (See Figure 13). The movement population is mainly driven by the armed-conflict and violence, this movement which is for some of the population is recurrent, is separating families and communities and causing increasingly fragmented communities. The suffering of Syrian people is constantly and systematically being used and abused by all national and international subjugating powers involved in the armed-conflict as a tool to achieve financial, political, and military gains.

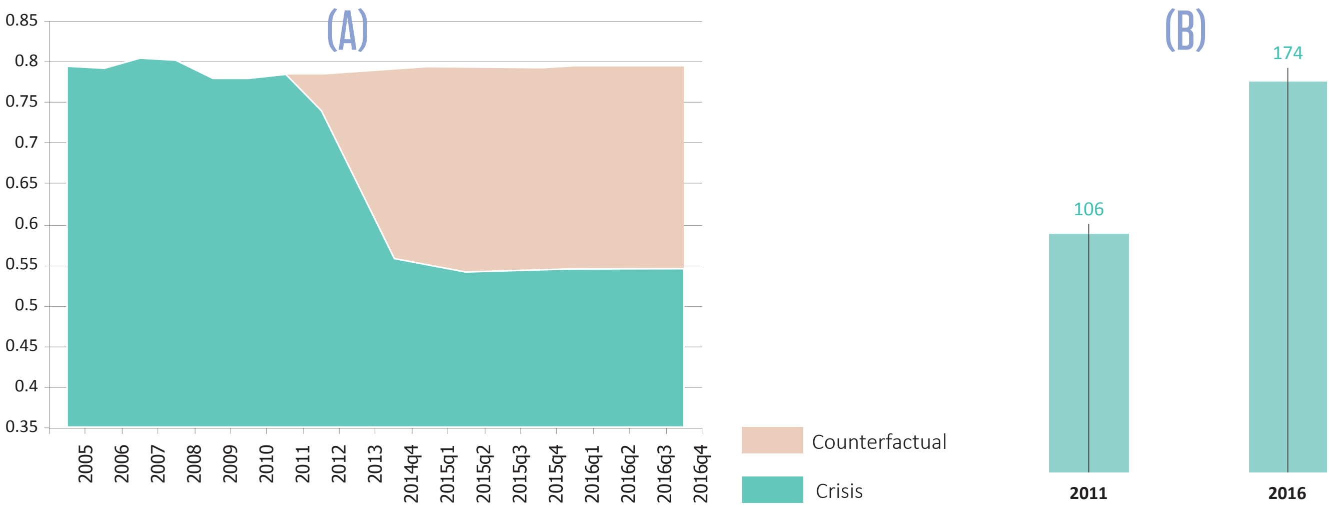
HUMAN DEVELOPMENT RECORD COLLAPSE

The comprehensive revision of demographic indicators conducted by SCPR research team before and during the crisis indicated that pre-crisis records need to be revisited in some indicators like life expectancy at birth, where the team used vital records and available surveys to construct life tables (SCPR, 2016). Therefore, this report revisited United Nations Human Development Index (HDI) calculations before the crisis using the same methodology of human development reports (UNDP, 2013).

The report used HDI to measure the scale of human development and compare it across time and countries. Although the index does not capture all aspects of development such as an expansion or limitations of human choices, especially in terms of cultural and institutional development; the report attempted to cover these gaps in other sections. In this report, the counterfactual approach is applied to estimate the index in both the "continuing" and "crisis" scenarios to measure the impact of the crisis on the human development status of the country. It is worth mentioning that the results of HDI in this report differ from those reported by the Human Development Report (UNDP, 2015); as SCPR adjusted the pre-crisis calculations based on updated demographic indicators (SCPR, 2016), and calculated the HDI during the crisis using the population survey of 2014.

The three dimensions of HDI are health, education and income, all of which have deteriorated significantly during the conflict. By the end of 2015, the health index decreased by 30.3 per cent compared to 2010. The estimation is based on the newly calculated life tables that estimated life expectancy at birth in 2010 at 70.5 years (SCPR, 2016). In 2015, and based on the population survey of 2014, the estimation of life expectancy at birth is projected at 55.4 years in 2015. This has brought down the ranking of the health index in Syria, from 106th to 174th from 195 countries, placing Syria among the worst countries in the world in terms of the health dimension of HDI (See Figure 14).

Figure 14: (A) HDI-Health Index for Syria, 2005-2016[9], (B) Syrian rank in Health Index (using 2010 HDI results, out of 195 countries)

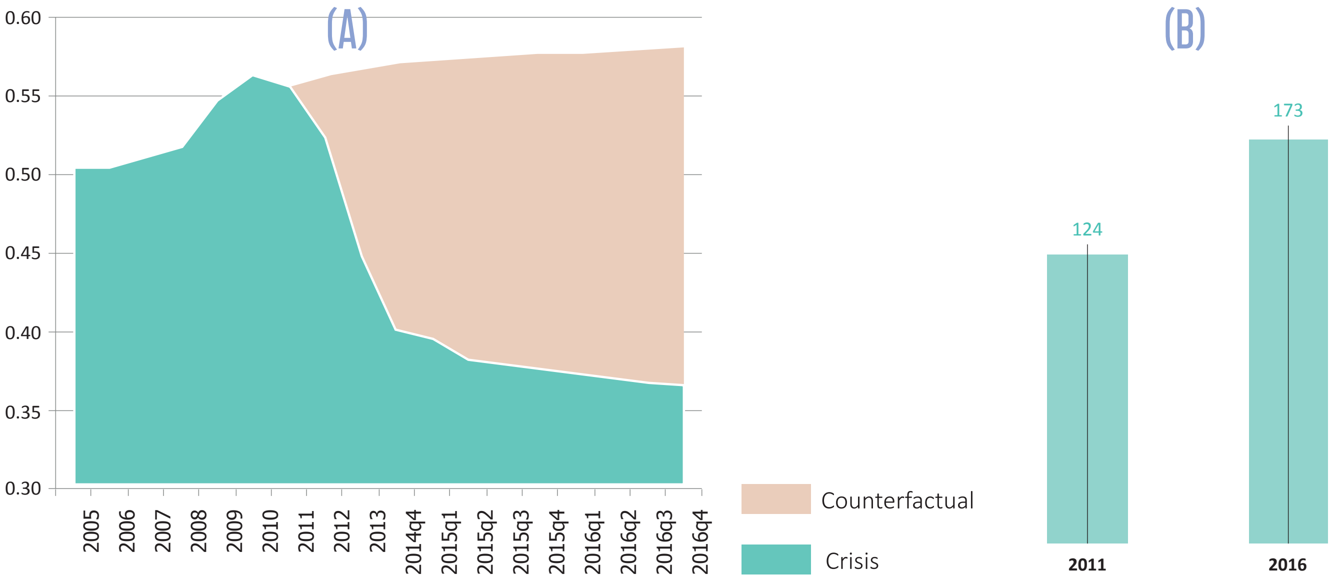


Sources: HDR till 2011 and SCPR estimations (for HDI of 2012 – 2016

9. HDI measures human development indicators in the previous year, this applies only in figures and tables; while the narrative is describing the actual year.

The education index fell by 34.3 per cent compared to 2010, driven down by collapsing school attendance rates and a drop in the expected years of schooling. Almost half of the children in the age of basic education were out of school since 2014. Students at higher education levels dropped out as well, leading to 24.6 per cent decrease in the average years of schooling when compared to "continuing" scenario. Moreover, in 2015, the ranking of the education index in Syria dropped from 124th to 173rd out of 187 countries. (See Figure 15)

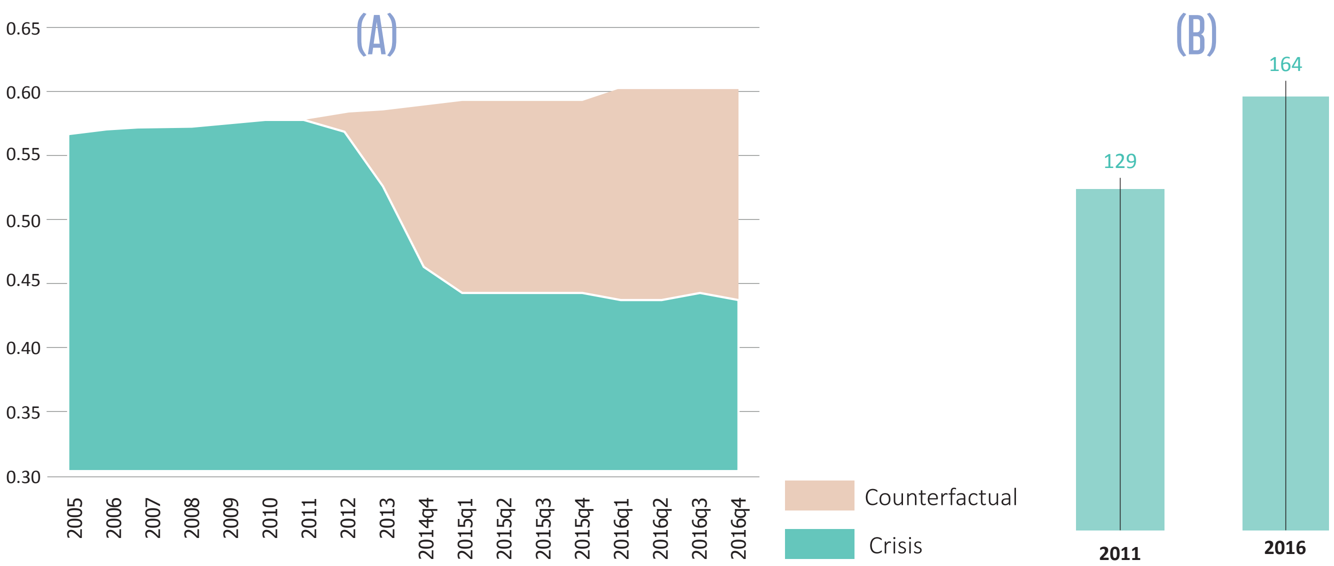
Figure 15: (A) HDI-Education Index for Syria, 2005-2016, (B) Syrian rank in Education Index (using 2010 HDI results, out of 187 countries)



Sources: HDR till 2011 and SCPR estimations (for HDI of 2012 – 2016)

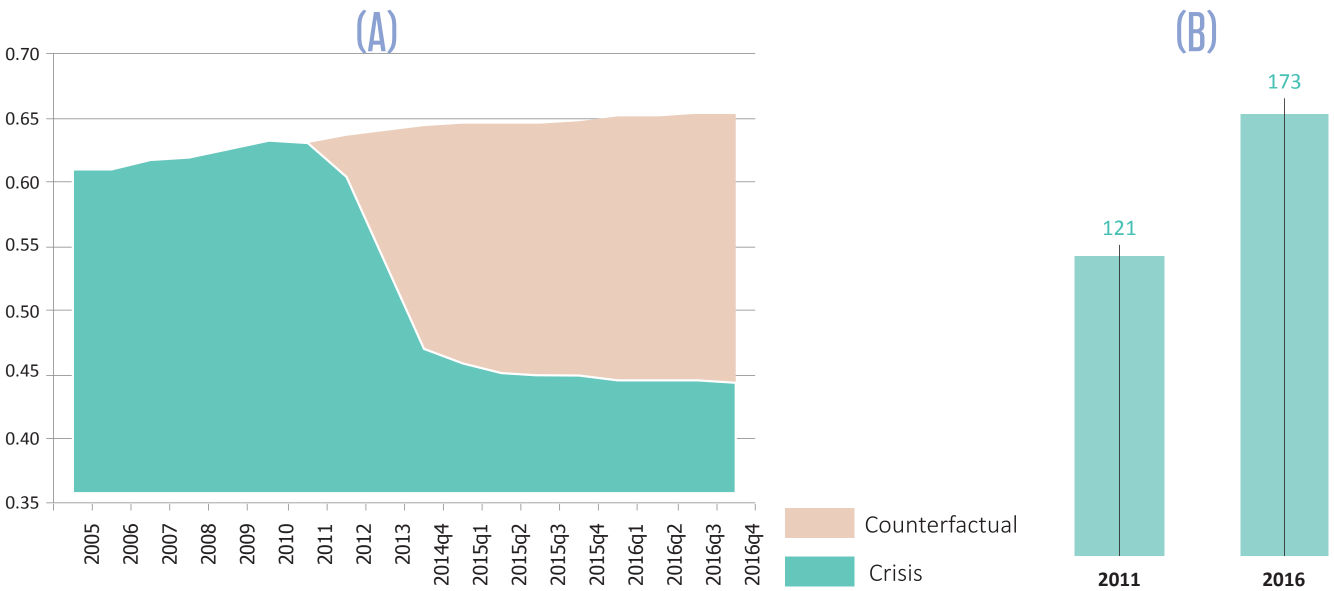
In 2015, the income index decreased by 24.3 per cent compared to 2010, thus the ranking of Syria in the income index fell from 129th to 164th position out of 190 countries (See Figure 16). This drop in income per capita reflected the recession and the collapse in wealth during the conflict.

Figure 16: (A) HDI-Income Index for Syria, 2005-2016, (B) Syrian rank in Income Index (using 2010 scale, out of 190 countries)



Sources: HDR till 2011 and SCPR estimations (for HDI of 2012 – 2016)

Figure 17: (A) HDI for Syria, 2005-2016, (B) Syrian rank in HDI (using 2010 scale, out of 187 countries)



Sources: HDR till 2011 and SCPR estimations (for HDI of 2012 – 2016)

The impact of the armed-conflict on the three components of HDI in 2015 was similar to 2014; and it continued to be at an extremely low level of human development record. The results show that in the "continuing scenario" the Syrian HDI would have increased from 0.631 in 2010 (after adjusting the overestimation in the pre-crisis data) to 0.653 by the end of 2015, putting Syria in the "medium human development" group. The "crisis scenario" indicated a projected drop in Syria's HDI from 0.631 in 2010 to 0.443 in 2015-Q4 putting it among the "low human development" group. Consequently, the HDI of Syria in 2015 is estimated to have lost 29.8 per cent of its HDI value compared to 2010, and 32 per cent from its potential until the end of 2015. The general HDI rank of Syria using the 2010 HDI results, indicates a fall from 121st to 173rd place out of 187 countries. (See Figure 17)

The relative share of the HDI components in the reduction (loss) of the overall index during the crisis until 2015 was close to each other. Education index contributed 39 per cent of the total HDI loss, with a dropout rate in 2015 of 45 per cent in basic education. The poor performance of the health index significantly worsened the HDI, due to the dramatic increase in the number of mortalities due directly and indirectly to the armed conflict. This contributed 33 per cent of the difference in the HDI between the "continuing" and "crisis" scenarios in 2015-Q4. The dramatic collapse in income during the crisis contributed 28 per cent to the deterioration of the HDI.

IMPOVERISHMENT POLICIES

As in the previous versions of this report, the incidence and severity of poverty were estimated using the national poverty lines across governorates. The projections used in this report are based on the Household Income and Expenditure Surveys (HIES), augmented by using the counterfactual methodology through a micro-simulation technique in order to project real private per capita consumption growth in the period 2010-2015.

The recession of the economy continued in 2015, as the armed conflict intensified and destroyed major parts of the country's wealth, infrastructure, establishments, and natural resources. The conflict hindered the traditional economy dynamics, drained the productive activities and job opportunities, and crowded out the human capital. Furthermore, the violence-centred economy diverted national income and wealth redistribution for the benefit of subjugating powers and rent seeking actors. This was mainly accomplished by direct and indirect tools like taxes, monopoly, pillage, trafficking, and smuggling among other things. These factors in addition to loss of household's sources of income, prices surge, and lack of basic goods and services have forced most of Syrian people into the poverty trap struggling to survive.

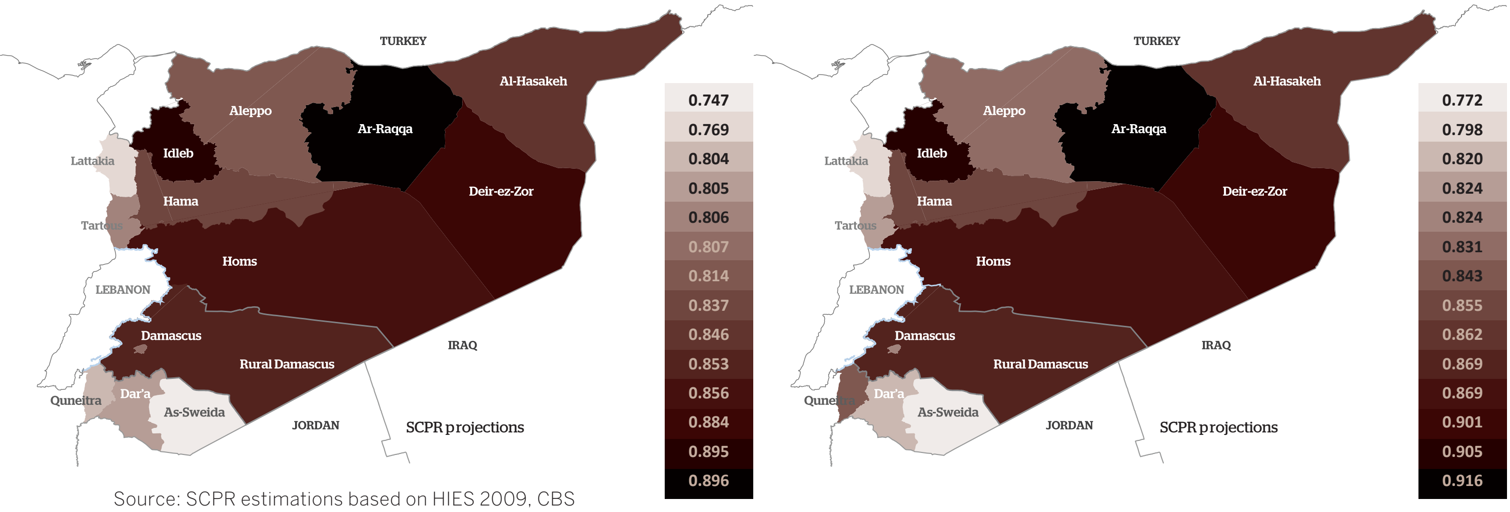
The year 2015 is characterized by the shift in government economic policies towards more neoliberal policies, a direct example was the dramatic increase of prices of bread and other basic food items and oil derivatives in addition to the raise of fees and indirect taxes. These policies surged, starting from 2014, the prices and mounted the pressure on the foreign exchange rates, which led to increase in the cost of living for most Syrians affecting the welfare of people, particularly the poor. By the end of 2015, most Syrians have been trapped in poverty, suffering from multidimensional deprivation and not just the money metric one.[10]

Assuming no change in expenditure distribution within each governorate, and taking into consideration the change in structure of the prices between governorates compared to 2009, it is projected that the overall poverty rate reached 85.2 per cent by the end of 2015. This is compared to 83.5 per cent in 2014, and 73.3 per cent in 2013. On the regional level, the governorates where intensive conflict and violent activities are taking place and where there were originally higher historical rates of poverty continue to suffer the most from poverty through 2015. Thus, people in Al-Raqqa were the poorest with 91.6 per cent of residents falling below the overall poverty line. In addition, the highest overall poverty levels among the population were registered in Idleb, Deir Ezzor, Homs, and Rural Damascus. While the poverty rate increased in all Syrian governorates since the last reporting period, and with the lowest rate was in Sweida at 77.2 per cent, followed by Lattakia (See Map 1).

10. Three indices of consumption deprivation are used to measure the depth and incidence of poverty. These include: "overall poverty" based on the upper poverty line, which is the minimum necessary goods and services that a household requires to survive; "extreme poverty" based on the lower poverty line, which is the very basic food and non-food items that a household requires to live; and, "abject poverty" based on the food poverty line, which are the minimum basic food needs of a household.

Map 1: Overall poverty incidence in Syria by governorate (2014, 2015)

Overall Poverty Syria 2014 Overall Poverty Syria 2015

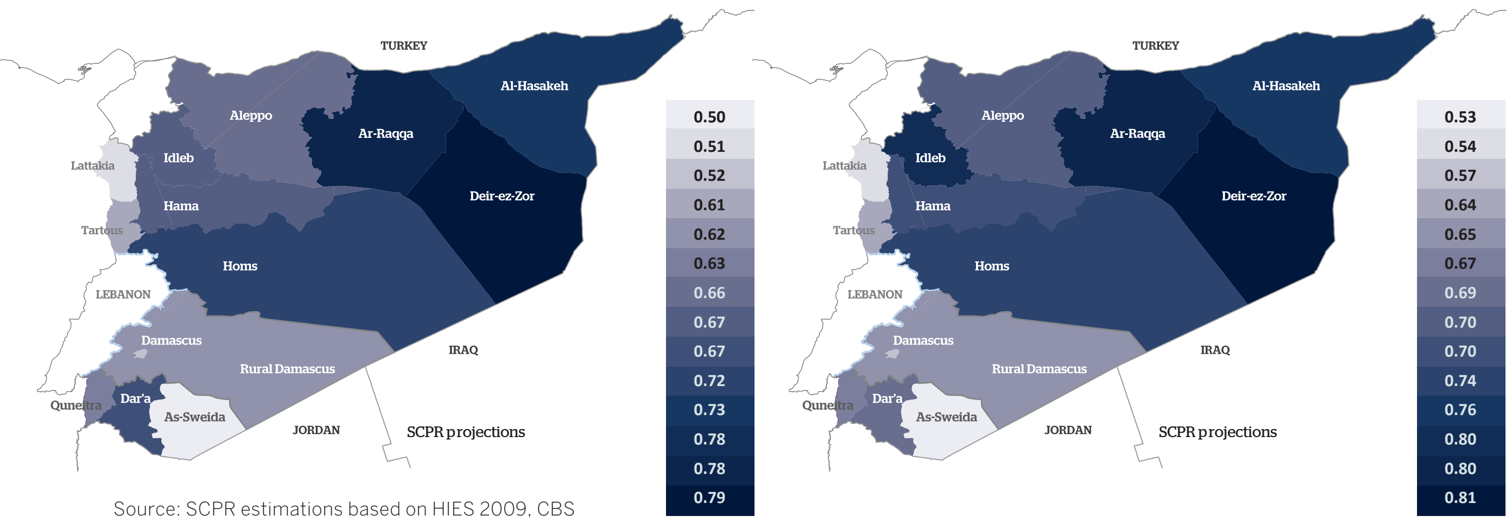


Source: SCPR estimations based on HIES 2009, CBS

A subset of the overall poor is the set of those extremely poor, defined by using the lower national poverty line. It is estimated that those living in extreme poverty reached 69.3 per cent of the population by the end of 2015 compared to 66.5 per cent in 2014, and 51.6 per cent in 2013. The most affected governorates' population by extreme poverty unable to meet the very basic needs to survive in 2015, were in Deir Ezzor, Raqqa, Idleb, and Hassaka, with 80.9, 80.3, 79.5, and 75.8 respectively . The lowest rates of extreme poverty were in those areas of the country which had been least affected by direct military actions. Thus, both Lattakia and Sweida witnessed the lowest incidence of extreme poverty, which affected 53.1 per cent and 54.1 per cent of the population respectively (See Map 2).

Map 2: Extreme poverty incidence in Syria by governorate (2014, 2015)

Extreme Poverty Syria 2014 Extreme Poverty Syria 2015



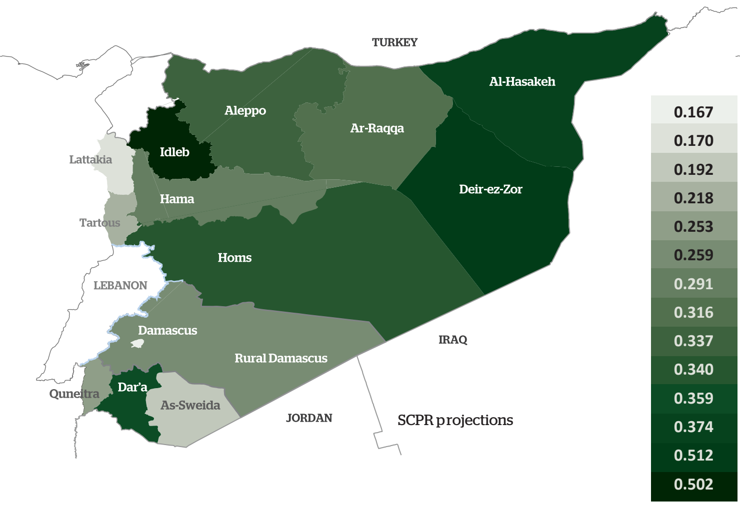
Source: SCPR estimations based on HIES 2009, CBS

Prior to the crisis, Syria was characterized by relatively low poverty incidence and medium level of expenditure inequality. The conflict has made the country population as one of the most deprived countries in the world using the projected national poverty lines. The conflict deprived people of food security, so that the abject poverty in Syria which was 0.07 per cent in 2010, became 35.1 per cent in 2015. The increase in terms of abject poverty lagged the two first years of the conflict, and escalated since 2013, and the increase of food prices in 2014 and 2015 deteriorated the ability of people to consume enough sources of calories and thus have pushed more people into poverty. At this level of poverty people find great difficulty to consume non-food items required by a household, including education and basic health services.

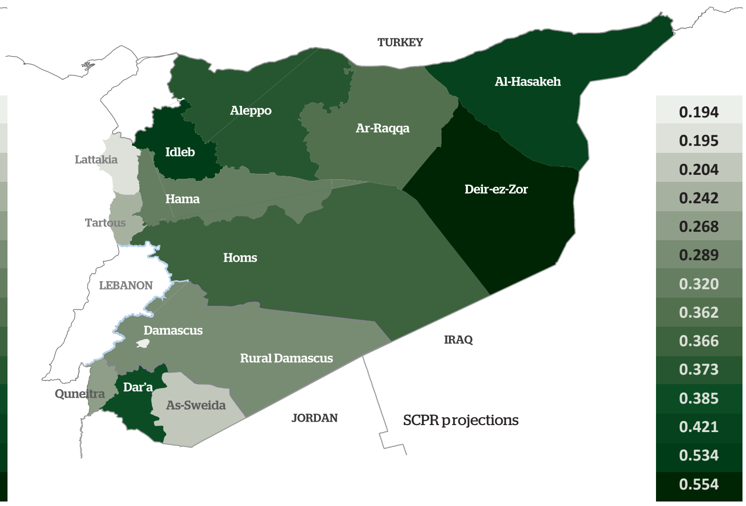
The people of Syria who are experiencing such conditions will be affected in terms of their ability to live now and in the future, particularly the children who were deprived from proper food, health, and education which are necessary for their survival and development. This is a process of de-humanizing and de-empowerment of people; and it has current and future dangerous consequences on the quality of people lives in all dimensions lives and the proper nature of the Syrian society. People in Deir Ezzor, Idleb, and Hasakeh were the poorest with the highest rates of abject poverty; with households finding great difficulty to meet the basic food needs required to sustain bare life. Households in the safer areas of Damascus, Lattakia, and Sweida experienced the lowest incidence of abject poverty (See Map 3).

Map 3: Abject poverty incidence in Syria by governorate (2014, 2015)

Abject Poverty Syria 2014



Abject Poverty Syria 2015



Source: SCPR estimations based on HIES 2009, CBS

Supporting people in Syria who are suffering hardship and poverty is a complicated process due to the high polarization environment fuelled by the conflict. Severe poverty cannot be solved through humanitarian assistance alone, the design and support of a development strategy shall be a key factor to help people to overcome the poverty situation in a sustainable manner. Moreover, the challenge for current humanitarian assistance is that all involved parties are giving the priority to military gains and fuelling the conflict on the expense of humanitarian needs of the population. In fact, population access to food and water among other things are used systematically as a tactic of war by all parties in the conflict have intensified population suffering and poverty.

The civil society institutions that attempt to intervene in order to support affected people are still weak in terms of governance. Moreover, the UN organizations have had difficulties in terms of delivering assistance to the most affected people during the conflict, and they have endured weak monitoring and evaluation system, in addition to the huge administrative cost and dominance of donors' agenda. Additionally, the available resources for the Syrian crisis' UN organizations interventions are far below the urgent needs. Overall, it is crucial to address a participatory-based development strategy that enhances Syrians recovery and resilience, and establishes fair and efficient institutions to alleviate poverty and deprivations.

TEETERING HUMAN CAPITAL

The continuation of the armed-conflict had a dramatic direct impact on education in terms of school enrolment and deterioration in human capital. Moreover, the crisis has an indirect and long term impact on education, as shown by the tireless efforts of the subjugating powers in the conflict to substantially change the mission of the educational institutions towards provoking violence and spreading hatred against the "other". There are many examples of education being used to fuel the conflict (Harber, 2002). The propagandistic use of formal and informal education can act detrimentally by misrepresenting history and misusing curricula for political purposes, and by restricting access and deepening inequality of education opportunities (Bush and Salterelli, 2000).

This report adjusts previous estimations of school age non-attendance rates based on the population status, 2014 survey and experts' information. Thus, during the 2013-2014 school year, 42.7 per cent of school-age children did not attend school. This rate has worsened in the 2014-2015 school year with 45.2 per cent of the school-age children still residing in the country not attending school. It is projected that in 2015-2016 school year will have almost the same rate of the current year in terms of school attendance. Thus, almost half of school-age children are not attending school, and this has a catastrophic impact on the current and future human capital of the country.

Several conflict-related factors have contributed directly to the loss of education and learning opportunities for children in Syria; and these had an uneven impact on the children across the country. The population status, 2014 survey results show that reasons behind not attending school as follows: about 35 per cent of non-attending children did not attend school due to fear of parents for their children safety and difficult security conditions. While 21 per cent of them did not attend school due to financial difficulties and the increase in child labour rate as a coping strategy for families that lost their breadwinners during the armed-conflict. In addition, 19 per cent of them did not attend school due to the destruction and dysfunction of the educational infrastructure in their place of residence. Moreover, the educational system lost staff and students through refugee flight, population displacement and migration, as well as killing and kidnapping and other violence incidents. (SCPR, 2016)

Educational opportunities have dramatically declined as millions of children no longer attend or were unable to access schools. Such deprivation of educational opportunities is affecting a whole generation of school children who are being denied of their right and ability to gain and develop the capacities and resources they need for a productive future. On another level, and as education sector serve as a medium for social cohesion and interaction, the loss of education mediums for children have a larger impact on the society and its existence and security. The increase in school age non-attendance rate has affected negatively other functions of schooling, such as cultural innovation and socialization (Ballentine, 2012); tearing up social cohesion and aggravating social exclusion and polarization within the society.

The widely different attendance rate between the different regions of the country continues to increase inequality. During the 2014-2015 school year, the school-age non-attendance rate was highest in Raqqa and Deir Ezzor where it reached 95 per cent. This dramatic decrease in school attendance in both cities was a result of a decision taken mainly by so called ISIS, to close schools in regions under their control. School non-attendance in Aleppo was around 74 per cent, followed by Rural Damascus at 49 per cent, and Idleb at 48 per cent. This situation reflects the continuing intensification of military operations in these regions. In the relatively safer governorates, the school-age non-attendance rate was relatively low to be at about zero per cent in Tartous, 16 per cent in Damascus, and 17 per cent in Lattakia (See Figure 18).

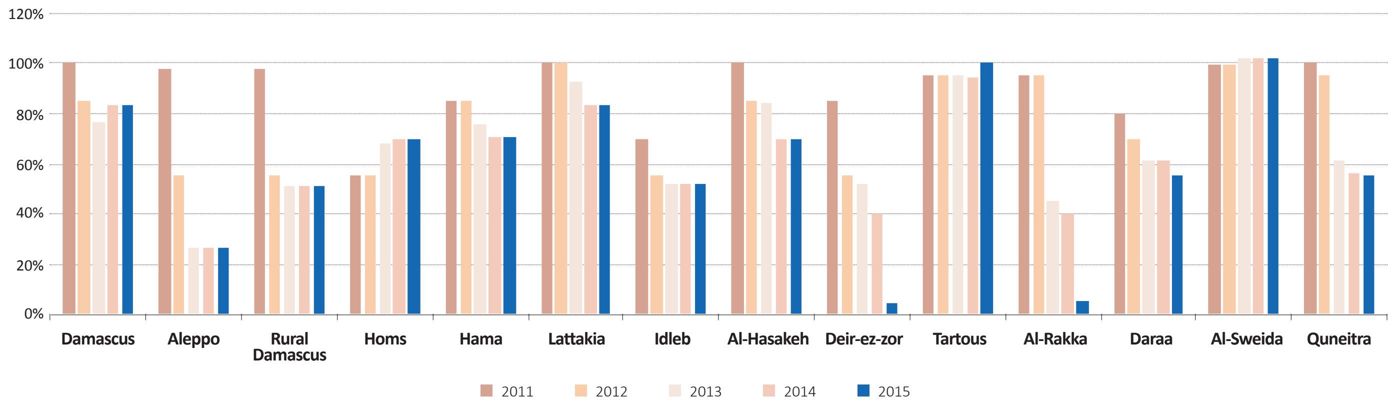
Educational opportunities were dramatically declined as millions of children no longer attend or were unable to access schools

During the 2014-2015 school year

45.2%

of the school-age children did not attend school

Figure 18: School-age Attendance Rates by governorates



Source: SCPR estimations and projections based on Ministry of Education data.

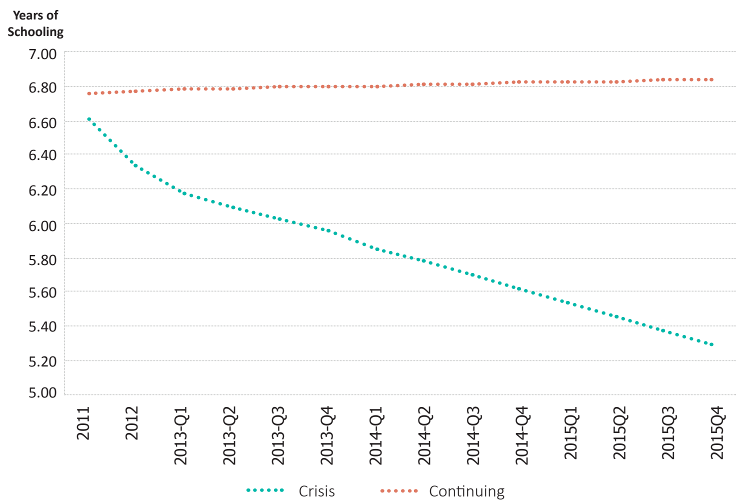
Regional inequality was accompanied inequality of opportunities, as children who became IDPs or refugees are often deprived of adequate educational opportunities and resources both inside and outside the country. Even in the relatively stable regions, many children are forced to work to support their families who are facing economic hardship and deprivation; some of them are involved in illegal and violence activities. Moreover, security conditions and extremist authorities in many regions in the country have increased gender inequality in school attendance. Many parent refused to send their female children to schools in response to insecurity and fear, and female children and young girls are banned from attending schools in some regions across the country.

The report also measures the loss in human capital through the loss in years of schooling. Based on calculating each year of schooling as a factor of GDP, each year of schooling is valued at USD 680 per student. The counterfactual loss of "years of schooling" by 2015-Q4 is projected to reach 10.7 million years for basic education during the crisis. The cost of this loss in human capital during the crisis is estimated at USD 7.2 billion, with a loss of USD 2.1 billion in 2015 alone. For all educational levels, the counterfactual loss of "years of schooling" by the end of 2015 is projected to reach 24.5 million years during the crisis. The cost of this loss is estimated at USD 16.5 billion, with a loss of USD 4.6 billion in 2015 alone. The projection of this loss is based on the counterfactual methodology results in a reduction of average years of schooling by 2015-Q4 from 6.8 in the continuing scenario to 5.3 in the actual crisis scenario. (See Figure 19)

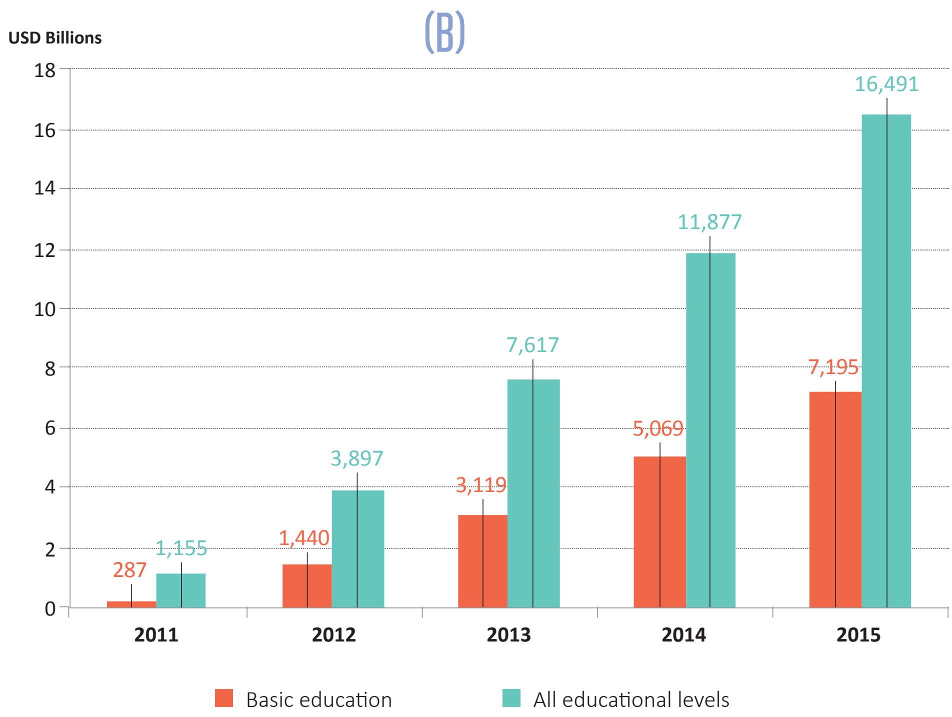
11. The SCPR methodology determined the value of each school year calculated as an average between 2006 and 2010 by dividing the GDP at current prices over the total number of years of schooling. The result produced a value of USD 680 per year of schooling, which was then applied to the dropout rate.

Figure 19: (A) Average Years of Schooling, (B) Accumulated estimated cost of lost schooling years

(A)



Source: SCPR 2015



Source: SCPR 2015

The continuation of the armed-conflict has affected negatively the educational infrastructure including buildings and equipment. According to the population status survey 2014, the damage in total education sector buildings reached 28 per cent in the mid of 2014, and it is projected to reach about 35 per cent by the end of 2015, taking into account the intensification of military operations in some regions. This percentage differed across governorates following the trend of intensity of violence, as it scored the highest value in Aleppo, followed by Homs; whereas the lowest value was scored in Al-Sweida and Tartous which are relatively stable governorates. Moreover, the survey results show that the damage in total educational equipment reached 35 per cent in the mid of 2014, and it is projected to reach 43 per cent by the end of 2015. In terms of educational staff, they suffered of forced displacement and some of them have been killed, injured, kidnapped or detained. (SCPR, 2016)

The educational system has witnessed a loss of stewardship as it has fragmented as an institution across the country. This has resulted in the establishment of new curricula and promotion of values and attitudes that are serving the ideologies of the different fighting parties. Each fighting party has involved children as part of their machinery of violence and deprived them of key life chances and development. However, few civil societies' initiatives have aimed at providing minimum teaching by providing basic learning activities and psychosocial support to the children and young people in conflict areas and among IDPs population.

The alternative curricula is available for 13 per cent of the total population in the mid of 2014, and it was applied relatively at a high level in Aleppo, Rural Damascus, and Homs where intensified military operations took place. (SCPR, 2016) It is expected that, during 2015, this percentage has not changed significantly taking into account the prohibition of all normal learning activities in many regions, particularly those dominated by so called ISIS. Overall, the educational system is being exploited, by all subjugating powers involved in the armed-conflict, to create a culture of fear, polarization, and hatred against other people. The loss of current and potential human capital and the disputation of identities across the country make the future of Syria, as a national entity, gloomy and frustrating.

DIMINISHING HEALTH SYSTEM

The armed-conflict has significantly damaged the Syrian health system through destruction of healthcare infrastructure, flight and killing of healthcare professionals, and the collapse of the pharmaceutical industry. During 2015, one of the most visible impact is the fragmented authorities across the country. As the different fighting parties created their own institutions which are of weak governance, yet, highly based on violence. These poor institutions affected negatively the overall health system and services, since poor governance causes diminish of resources of health services, and thereafter, a collapse in health sector (Sousa, 2013).

The rate of loss of lives due to the conflict remains the most catastrophic visible and direct impact of the ongoing crisis in Syria. The results of population status, 2014 survey show that 1.4 per cent of the Syrian population lost their lives, among those 11.4 per cent of the mortalities were children. Bringing the rate of mortality up from 4.4 per 1000 in 2010, to 10.9 per 1000 in 2014 (SCPR, 2016). By the end of 2015, the death rate is projected to be 10 per thousand[12], with the number of wounded expected to reach 1.88 million people[13]. This estimates that 11.5 per cent of the population inside Syria were killed, injured or maimed due to the armed-conflict in 2015.

The epidemiological picture of the Syrian population before the crisis indicates that the main morbidity and mortality drivers among adults are non-communicable diseases (CBS, 2009), the collapse of social determinants of health, loss of safety, social alienation, increase stress and uncertainty all are expected to contribute in increasing incidence on non-communicable diseases, especially those related to cardiovascular, diabetics, and mental illnesses. Loss of health infrastructure, is another significant driver for deterioration of health among chronic diseases patients. Community-based services that enable primary health care are one of these severely damaged as their disrupted prevent close monitoring and follow-up. With restriction of movement on patients, medical staff, and medications, suffering will be raised specifically in conflict zones and besieged areas.

MoH and WHO 2014 data, as suppliers of health services, indicate an increasing use of public health centres for out-patients' services and access to medications for chronic and non-communicable diseases. The population status survey results show that about half of the adult population showed a 10-20 per cent of incidence of those diseases compared to the 10 per cent national rate of incidence before the crisis. These results are key for two main reasons, first as they represents the population side, not the supply side, therefore representing actual wider health needs. Second, they are critical for targeted intervention as non-communicable and chronic diseases and conditions usually get neglected in the prioritization of urgent humanitarian interventions dealing with the direct impact of the armed conflict.

The disability rate is on the rise, as mortality and morbidity rates increase. The population status, 2014 survey results were shocking as 34 per cent of the population reported disability rates between 2-5 per cent, with an increase of 130 per cent compared to the rate before the conflict. The higher rates were reported especially in the chronic conflict areas with high intensity of violence. These areas are also the most deprived from health care and have major accessibility problems to patients, health staff, and humanitarian aid.

Child morbidity was driven mainly by loss of sanitation infrastructure, deteriorating housing conditions and displacement, loss of primary health care, and restriction of mobility. Many attempts are being employed toward improving vaccine coverage rates in the country. The increasing vulnerability of children to communicable diseases should drive and prioritize public health interventions. Poor water quality and limited availability is becoming the norm across the country, as the water supply is increasingly used as a weapon of war by the fighting parties. . Moreover, food security is compromised all across the country, as food availability, quality, and accessibility deteriorated immensely all over the country (SCPR, 2016). The high mobility

12. Based on population status survey, 2014, and SCPR calculations

12. This is based on the assumption that the number of mortalities to wounded persons is estimated on a conservative ratio of 1:4.

"The fragmentation of institutional capacity is the main persistence theme across the country. This is reflected in the loss of capacity of public services due to the ongoing offensives, or their use by the fighting parties as tools of war, or in the weakened capacity of services in safer areas due to the collapse of general public services and the limited resources"

of the population due to the violence, loss of safety networks, and limited access to food both economic and physical are driving the abject poverty level, which was estimated at 35.1 per cent. This will force and spread a status of malnutrition among children, especially those under 5 years old, with different exposure and risk of lifelong health and development impacts.

The fragmentation of institutional capacity is the main persistence theme across the country. This is reflected in the loss of capacity of public services due to the ongoing offensives, or their use by the fighting parties as tools of war, or in the weakened capacity of services in safer areas due to the collapse of general public services and the limited resources. This impact is extended to the private sector that was a major provider of services, especially for elective surgeries and maternity services before the crisis (CBS, 2010). The state of fragmentation is unfortunately enforced by the multiplicity of humanitarian assistance and its politicization. The subjugation and alienation of the communities and their social spheres are demonstrated through the captivation of control over public services, and as a result their subsequent deformations and distortion. This is obvious in Raqqa, Der Ezzor, Aleppo, and Idleb, as strong drop in availability and access to health services was registered by the end of 2014, and the first quarter of 2015 (WHO, MoH, and MoHE, 2015a and b). This evidently demonstrates barriers and limitations of accessibility and use of services by the population; even in areas where functional services are present, barriers include financial, security, and lack of fairness and discrimination were reported by the population (SCPR, 2016).

The first half of the year 2015 signalled the collapse of health system in Idleb and Hassaka, as military offensive extends between the fighting parties. Total number of out of service hospitals reached: 31 hospitals in June 2015, compared to 19 hospitals by January 2015 (WHO, MoH, and MoHE, 2015a). The three months of April, May, and June of 2015 witnessed an immense increase of violence in targeting hospitals and health clinics. Moreover, by mid-2015, 645 health workers, mainly medical doctors, were killed by direct attacks on them or health services (PHR, 2015). Health workers are increasingly fleeing the country, latest data indicate that this is especially impacting emergency doctors, who are expectedly to be the most targeted by the fighting parties. The medical doctors, mainly specialists are concentrated in safer governorates, as great lack of human resources is documented in North and North Eastern regions of the country. It is worth noting that the functional hospitals and health centres are very vulnerable to disruptions due to the compromised infrastructure across the country, as majority of hospitals depend on alternative power and water resources like in Der Ezzor, Hassaka, and Aleppo.

The disintegration of the health system as a public service network have caused a great lack of highly needed services to the population. Moreover, the lack of information on health situation and alternatives created by the conflict, in addition to the poor and corrupted dominant institutions have led to a fall in social support to an increasingly vulnerable population.

III. CONFRONTING FRAGMENTATION

The report adopts a working definition of fragmentation as the process of drastic shattering in the social, economic, political, and cultural structures within the society, or between states. Fragmentation becomes evident in deterioration of existing formal and informal institutions including disintegration of sovereignty and disputing over authority between many actors, squandering of social and cultural capital, and dispersion of the economy. The armed conflict is common phenomenon within fragmented societies.

TOWARDS FRAGMENTATION

Many internal and external factors lead to the fragmentation process that fuel chaos and clashes of social values, relationships, and interests.

One of the main internal factors is authoritarian regimes in the region that depend on military and intelligence, and on ideology and media (Alnaqeeb, 1996), in addition to the distribution of economic rents in an incentives based system that ensures the continuation of their power. Human development resources, economic and social, were systematically utilized to enforce subjugation and control of the population. Against the aspired development of societies and especially young people, the power and structures of the authoritarian regimes have crippled the struggle of forming modern state institutions. In addition, this abuse of human development resources have disrupted the struggle against the colonial legacy in the region.

The authoritarian institutions within these regimes succeeded in enforcing structures of subjugation and squandering of development foundations through political exclusion and monopoly of authority. It uses, to achieve these goals, structural violence and hegemony over tangible and intangible resources. Additionally, it abused socialization and indoctrination processes through formal and informal institutions including religious, educational and civil ones to guarantee a social acceptance of subjugating and unjust situations (Deutsch, 2005). The alliance between the political oppressors and the traditionally conservative institutions led to the alienation and subordination across society and hinder progressive change (Barakat, 2006).

The continuation of "institutional bottleneck", which distorted the social development in the Syrian society over the last decades. This has widened the gap between people rightful aspirations and changing expectations, and the formal and informal institutions. This deepened cleavages between internal subjugating powers (political oppression, fanaticism, and fundamentalism) and the society, which led to a phenomenon of profound alienation of people from dominant institutions (SCPR, 2015). Institutional bottleneck has been associated with weak productivity and participation, the spread of corruption, crony capitalism and the deterioration of independence of the judiciary. As a result, alienated people forced to migrate, or to indifference status, or to be identified with the oppressors.

Insisting on maintaining the de facto situation of these institutional settings has led to worsening of popular frustration. This frustration was especially mounting among individuals who have increasingly access to information through the communication revolution means, and developing their own expectations of institutions. This was coincided with partial reform projects, limited to certain sectors that avoided crucial institutional reform. These reforms had caused increasing social and economic inequalities, and undermined the ability of the population to take initiatives to improve their opportunities.

Many external factors contribute to fragmentation, as the internal subjugating powers are not isolated from the international dominant powers. In this regard the report argues that some contradictions created on the international level are driving the status of fragmentation on national level:

- The first is the contradiction between the normative values of the UN Universal Human Rights Declaration, and the positive (actual) values that are established on market-based economy. For example, the Sustainable Development Goals were established for 2030, focusing on fostering equality and justice. However, SDGs adopted institutional and economic policies and concepts that increase inequality. The nature of the market economy which is largely based on disparity, cannot alleviate disparity and inequities at the same time. In spite of widespread criticism to the global economic structures and policies after the latest global financial crisis, there were no significant changes to the international economic order.

- The second contradiction is between the adoption of the human rights, and the hegemony of international subjugating powers culture, like "creative destruction", that led to deep disintegration of some social values and norms. The devalue of human values and ethics in many models of the international rivalry has led to the erosion of the ethical commitment to the universal human values, and enforced the use of cultural diversity by the different international powers as a way to fragment societies.

- The third contradiction lies in the policies of the external subjugating powers, as they distort standards in international relations to serve their interests. . "Israel" represents an extreme example of occupation and oppression, supported by the dominant international powers. For decades Israel had disseminated extremist ideology in the region by establishing religious and discriminative institutions, yet, it is significantly supported politically and economically by many global powers. Another example is the American invasion of Iraq in 2003, and the consequent wide spread of chaos and violence which enforced the environment of fanaticism and fundamentalism in the region.

FRAGMENTATION AGGRAVATION

"Institutional bottleneck" had led to the eruption of social movements in several Arab countries. Beginning in Tunisia and then in Egypt, and reaching through to Syria which paid a terrifying price for its uprising, the demands of change in a deadly conflict. The conflict aggravated by local, regional, and international powers of subjugation, and dragged the country into a violent armed confrontation. Hence, rather than making an institutional transformation towards freedom, dignity and the value of justice; violence has become the core of political, social, and economic structures. Many actors invested culturally and financially in fanaticism which enforces tyranny and brutal transnational terrorism.

The report reveals several aspects of fragmentation during the crisis including institutional, social, and economic fragmentation. Each of the armed conflict parties imposed its rules and policies; and violated country sovereignty together with external subjugating powers. Furthermore, armed conflict deteriorated human capital through forcing people to flee their homes in search for security leaving behind their family members, jobs, and properties. Many children were deprived of basic education, while others were subjected to altered educational systems. The health sector was damaged drastically and the efficiency of health services varied widely across the country. In addition, the Syrian economy has shattered and lost substantial part of its foundations including capital, labor, resources, security, stability, and economic networks. Therefore, different economies have emerged with different conditions, foundations, and restrictions between each other, and between them and the external economies.

The Syrian society has been fragmented due to the armed conflict between different political oppressors supported by regional and international forces that are opposing to Syrians to achieve justice, freedom, and social cohesion. The armed conflict has struck the integrative power and distorted the common vision among Syrians about their future. New forms of institutions have emerged based on violence and using fear and coercion as tools for domination, exploiting and using people for meaningless conflict, among people.

Fragmented structures created in the Syrian conflict have far deviated the social and economic settings from the path of human rights and sustainable development; and have planted oppression, destruction and violence. The conflict attracted external formal and informal external political actors, and alienated communities and individuals to be involved in the conflict. In addition, they have reinforced fanaticism that is used to provoke primitive instincts and destroy social and cultural capital. The fragmentation in Syria has become a black hole that turns local and international human and material resources to sabotage and chaos engines. This fragmentation status, if not confronted, can last for more time to come and settle as viable inevitable institutions.

The results of the population survey of 2014 in Syria show many examples of state of fragmentation such as: the division on country vision in the future, the fragmentation of the armed and political forces, the deterioration in trust, widespread of violence, kidnapping and looting, the domination of different armed groups on different regions, the geographic isolation of regions and communities within the country (SCPR, 2016).

CONFRONTING FRAGMENTATION

This section is normative, it is based on the results of this report and other research projects, and concentrated on drawing some features of the preferable normative vision of Syria. Each of those features needs a substantive research and dialogue efforts to be developed to alternative policies that overcome the current and continuing disaster.

Confronting fragmentation starts with the formation of a national vision that is based on surpassing the roots of the crisis. This includes the addressing of the institutional bottleneck and external hegemony, and entailing the consideration of the Syrian people as equal citizens, being themselves the major players in the future of Syria to end the crisis, after being marginalized by the subjugating powers. This confrontation also requires working on a new development model that acknowledge and challenge inequality and exclusion that the Syrian population has been enduring for so long.

A study on the Syrian crisis scenarios (SCPR, 2013) has shown that the negotiations scenario with external influence is the most likely scenario, while it has shown that negotiations scenario with internal influence is the most preferable by Syrians as it is expected to lead to the desired future for Syria. It should be noted that this proposed vision (SCPR, 2013) has been prepared in a participatory manner with a large number of Syrian experts inside and outside the country. The vision includes the proposed goals like social justice, equal citizenship, human rights respect including freedom and dignity, and global civilized integration, and fostering creativity, innovation, knowledge-based culture, using inclusive and effective institutions. (SCPR, 2013c)

Therefore, the report proposes that the way out of the crisis is by restoring the role of the society through allowing the establishment of participatory visions for new social, economic, cultural, and political structures by Syrians themselves. These agreed on structures would be capable of challenging and overcoming the effects of fragmentation and rebuild gradually the institutions based on accountability and active participation. The report proposed some dimensions that can be emphasized in preparation for the new structures (SCPR, 2016):

Economic dimension

Short term approach:

- Institutionalizing and activating of a civil society economy that supports equal opportunities in ownership and investment, and imposes collective control over economic activities. This economy would contribute in accelerating the process of rehabilitating of infrastructure and basic services and guaranteeing a substantial participation of people.

- Constructing a flexible, comprehensive, and participatory plan that regulates the economic recovery and guarantees the most appropriate use of the scarce of resources; the implementation needs a crucial and transparent roles of state, private sector, and civil society.

- Applying effective and accountable policies to alleviate poverty giving the priority to the most deprived and affected regions, to reduce discrepancy in economic participation and incentives among regions, and to dismantle the institutions of violence and networks of war lords.

- Creating job opportunities through public and civil work programs that attract labor force to productive economic activities and facilitate the inclusion of vulnerable groups.

- Improving living conditions by diversifying the sources of income, transparent and developmental administration of humanitarian aids. In addition to enhancing social capital, and providing energy, basic services and appropriate housing, taking into account the diverse needs and capabilities of local communities.

- Supporting local production process in all sectors through different financing sources, and activating effective monetary policies for price stability.

Long term approach:

- Achieving an independent, efficient, and just economic policy.

- Increasing the effective labor force participation to include youth, females, with special concern on IDPs, disabled, and all vulnerable groups.

- Decomposing the foundations of violence and rent-oriented economy, and build towards productive economy, and adopting strategy that employ and rehabilitate persons involved in violence activities.

- Guaranteeing economic participation at local and sector levels, and providing fair job opportunities; this contributes in providing incentives for people outside the country to return to their homes and regions.

- Achieving an inclusive growth that guarantees the investment of all available sources, and the alleviation of poverty, deprivation, and inequality.

- Increasing productivity by enhancing the role of knowledge and technology, which requires extensive investment in human capital; in addition to creating the appropriate investment environment.

- Building a developed infrastructure that takes into account people needs, crisis impact, and environment dimensions.

Social dimension

Short term approach:

- Restoring social fabric and trust, and dismantling the tools of fragmentation, hatred, and fanaticism.

- Enhancing the values of cooperation and voluntary participation, and investing in the positive experiences of social cohesion that emerged during the crisis.

- Confronting displacement through applying programs for temporary housing and by providing safe and appropriate environment to work and cooperate within communities.

- Activating the role of NGOs and civil society organizations to participate in rebuilding social capital and to face the negative social phenomena emerged due to the crisis.

- Building trust between polarized groups based on rights and principles of respect and freedom.

- Strengthening the mutual values in the common culture based on the respect and equality of all.

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- Providing social protection by guaranteeing health and educational services for all and without discrimination.

- Respecting the right to life, ceasing the killing, detention, and kidnaping; and ensure the appropriate treatment and rehabilitation of all affected and victims of violence without discrimination.

- Improving security conditions and decomposing factors that enhance the culture of fear and oppression.

Long term approach:

- Building a new social contract based on the culture of rights, equal citizenship, justice, and collective national identity through open public dialogue.

- Enhancing structures and institutions for social justice and equity as a right for all.

- Strengthening social solidarity and cohesion, and consolidating the positive social values such as trust, respect of others, and collective and voluntary work.

- Considering knowledge as a core for sustainable development and competitiveness; and this should be ensured through empowered human capital, protecting fair opportunities, and safeguarding the environment of freedom of speech and intellectual production.

- Investing in health and wellbeing for all, on individuals and society levels.

- Preserving natural resources and reducing pollution.

Institutional dimension

Short term approach:

- Activating the role of de facto nonviolent institutions towards resolving the crisis

- Expanding the participation of all men and women regardless of their political, social, cultural, and economic backgrounds in all institutions and public life.

- Raising the level of accountability and integrity in dealing with public issues through assuring participation and freedom of speech, and build efficient institutional channels that allow for accountability.

- Developing national political tools to resolve the crisis through developing a shared vision at national level.

- Decomposing the institutional foundations and powers associated with the violence and oppression.

Long term approach:

- Building a development-oriented state that protect and develop institutions through knowledge, scientific and cultural production, technology, and investment in sectors that fulfil people needs and aspirations.

- Constructing efficient institutions through strengthening the values of work, participation, accountability, and respect the role of civil society, elected entities, and judicial authorities.

- Achieving the political and developmental independency as a cornerstone for national priorities based on Syrians' vision, taking into account that these priorities differ substantially from those of subjugating powers. This independency will assure and safeguard the freedom of the Syrian society and people to manage their choices and resources.

CONCLUDING SUMMARY

The armed-conflict continues to destroy the social and economic fabric of the country with the intensification of international interventions that deepen the polarization among Syrians. Moreover, the state of fragmentation is being solidified as each of the fighting subjugating powers is rebuilding its own independent entities and institutions in which cultural, social, and economic resources are being reallocated to serve its objectives regardless of people's needs and aspirations.

Human development, rights, and dignity have been comprehensively ruined, creating an environment where anti-development and violence institutions dominate and drive present and future generations to additional conflicts, thus leading to more poverty and misery.

This report shows that the economy continued its downward cycle, with total economic losses till the end of 2015 reaching USD 254.7 billion, which is equivalent, at 2000 constant prices, to 468 per cent of GDP in 2010. GDP loss over the period is estimated at USD 163.3 billion through contraction of 36.5 per cent in 2013, 15.2 per cent in 2014, and 4.7 per cent in 2015. But this is about 64.1 per cent of the total economic loss, with loss of capital stock due to damage and destruction valued at USD 67.3 billion accounting for 26.4 per cent of total economic losses. Additional military expenditures accounts for 8 per cent of this loss, with USD 14.5 billion for the government and USD 6 billion for the armed groups, these amounts are being redirected from the public purse to pursue the war. Moreover, the estimation of the informal production of the oil and gas is projected to reach USD 5.2 billion till the end of 2015. Yet, part of this loss has been already included in the armed groups' expenditure, within GDP loss, and this leaves the net loss at USD 3.6 billion to be added to the total loss accounting for about 1.5 per cent.

During 2015, the economy has become largely dependent on the agriculture outputs which are highly fluctuated with changes in climate conditions. The structure of GDP shows that agricultural sector account for an increasing share of GDP with a projection to reach 28.7 per cent in 2015 compared to 17.4 per cent in 2010. Moreover, the government services share of GDP has declined, unlike its positive trend during the previous year of the crisis. This reflects a shift in the government policies from an attempt of stimulating demand in local market to a process of shrinking non-military public expenditure such as subsidies on the basic commodities.

“In the midst of economic and social destruction, the state of alienation and fragmentation is being ingrained by various internal and external subjugating powers pushing the majority of people to act against their own benefit and in contrary to the aspirations of their community”

In this context, the government adopted a policy of decreasing public expenditure on subsidies by a dramatic increase in the prices of basic foods and oil derivatives, and this has led to reducing the public budget deficit from 17.2 per cent in 2014 to 11.5 per cent in 2015 out of current GDP. However, this economic policy has increased in the cost of domestic production and the inflation pressures, and thus, devaluated the currency. This policy harmed the economy and people's welfare, contributing to the increasing number of individuals living in poverty as the overall poverty rate reached 85.2 per cent by the end of 2015 compared to 73.3 per cent in 2013. Moreover, 35.1 per cent of the population have descended into abject poverty where households struggle to meet the basic food needs to sustain bare life necessities.

During the conflict, the population of Syria has decreased from 21.8 million in 2010 to 20.21 million inhabitants by the end of 2015. Counterfactually, the total population would have reached 25.59 million inhabitants in 2015 if the conflict had not emerged, thus, the real population decreased by 21 per cent. At the end of 2015, it is projected to have 3.11 million Syrian refugees in addition to 1.17 million persons who migrated to in search of work and a safer life. Within the remaining population of Syria, some 6.36 million people had been internally displaced from their homes and neighbourhoods due to violence, fear, intimidation and homelessness. About 13.8 million Syrians lost their work-related source of livelihood; and comparing between “continuing” and “crisis” scenarios, almost 3.5 million job opportunities by the end of 2015; and the actual loss, compared to the pre-crisis employment status in 2010, is 2.69 million job opportunities. The armed conflict badly harmed human development in Syria where the fatalities in 2015 reached about 470,000 deaths, the life expectancy at birth estimated at 55.4 years, and the school age non-attendance rate projected at 45.2 per cent; consequently, the HDI of Syria is estimated to have lost 29.8 per cent of its HDI value in 2015 compared to 2010.

In the midst of economic and social destruction, the state of alienation and fragmentation is being ingrained by various internal and external subjugating powers pushing the majority of people to act against their own benefit and in contrary to the aspirations of their community. Therefore, there is a need for a new development paradigm adopting the right of all Syrians to a decent living, and this entails real and effective participation of all powers in society to achieve the required developmental shift based on a common agreed vision. In this context, Syria requires an independent and efficient economic policy that decomposes the foundations of violence and rent-economy toward productive economy and inclusive growth. Moreover, there is a need for a new social contract based on justice and considered knowledge as a core for development, focusing on human capital empowerment, fair opportunities, and free thinking environment. Finally, the accountable, transparent, independent, and inclusive institutions should be the incubator for achieving the developmental priorities of Syrians based on their vision and taking into account that these priorities differ substantially from those of dominant and developed countries.

METHODOLOGY

This series of quarterly-based reports take into account seasonality to estimate the quarterly GDP in Syria, especially for the agricultural sector which fluctuates across the seasons. The pattern of seasonality of agriculture production depends on 2011 actual data. The estimation of GDP real growth/contraction in 2012, 2013, 2014, and 2015 depends on a production approach to estimate the supply-side dynamic of different economic sectors. This approach faces three main challenges in Syria: first, National Accounts usually releases the annual output of different economic activities of a specific year in the second half of the following year; second, official statistics have never published a quarterly GDP; and, third, there is a lack of surveys and secondary data due to the difficulty of conducting such work under the prevailing circumstances.

The dynamics of crisis have increased the need of various stakeholders for updated estimation of the economic situation. In order to overcome the above challenges, the report used changes of production quantities of key goods and services as proxies to the growth/contraction of GDP by sectors. For instance, changes in the production of main crops are used as a proxy to estimate the growth of the agricultural sector, and changes of daily oil and gas production are used to estimate the growth/contraction in the mining sector. Moreover, sub-sector categories are being weighted based on their level and share of production in the previous year. In several cases, econometric models were applied to estimate GDP. The team consulted sector experts to diagnose the main challenges for each sector and to check the reliability of GDP estimations. Annual growth rates of GDP in 2015 quarters are now compared with GDP in the parallel quarters in 2015.

Moreover, the report used the financial programming, which is an integrated system of macroeconomic accounts that includes national accounts, balance of payments and fiscal and monetary accounts, which provide the information needed to assess the impact of the crisis on the Syrian economy and the options for policy adjustment. The tool also provides a framework for policy analysis and indicates key consistency checks. SCPR integrated capital stock calculations, money-metric poverty at the household level and labour market performance, with standard financial programming. The financial programming tool has been chosen over macroeconomic time-series and CGE models as these do not efficiently account for dramatic changes in economic variables. The financial programming model more efficiently reflects the current situation of the Syria economy in a time of dramatic change.

In terms of the GDP components from the demand-side; the public consumption and investment elements are based on estimations of the public budget components, private investment is estimated by the changes in private output in real sectors, and exports and imports are estimated using the gravity model for Syria and checked with the quantities of imports and exports through ports. (Mehchy et al, 2013)

The estimation of capital stock and depreciation rates are based on the 2013 SCPR report (SCPR, 2013a). The total loss of capital stock is calculated on the loss of residential buildings (using updated estimations) and the loss in non-residential buildings, while equipment and tools are estimated using the output capital ratio. This loss consists of three main components: reduction in net investment due to the crisis; idle capital reflecting the cessation in production process; and, partial and total damages of the capital stock. The last component is not included in GDP loss and is thus added to overall economic loss.

The GDP in current prices is computed using the projections of GDP deflator which depends primarily on the Consumer Prices Index (CPI). During 2015, Central Bureau of Statistics has issued the consumer price index (CPI) till May; however, the index underestimated the increase in the prices of basic goods that occurred in January. Thus, SCPR recalculated the official CPI till May 2015 and projected the index for the remaining seven months taking into account the surge in prices of basic goods and services. Within the framework of the financial programming model linking real sector, public budget, external sector, monetary sector, employment and poverty, the report estimated the number of lost jobs and unemployment rates until fourth quarter of 2015, using the elasticity of GDP with respect to employment.

The report projected public budget items depending on government decisions related to public expenditure in terms of wages, subsidies, and public investment, while the revenue projections depended on oil production, tax collection, and State Owned Enterprises performance. Consequently, the report computed the fiscal deficit which reflected an increase in public debt.

In terms of poverty, using national lower and upper poverty lines (based on poverty research from HIES surveys in 2009) the report estimated poverty rates in Syria until December 2015 across governorates.

It should be noted that the estimation of losses in GDP, capital stock, employment, and poverty indices are the difference between the crisis scenario (real indices) and the continuing scenario, which include indices as if the crisis did not happened. That helps in estimating direct and opportunity loss of the conflict.

The report used results and methodology from a forthcoming SCPR report on the human development in Syria that is based on a comprehensive survey conducted in the mid of 2014 and covered all regions in Syria. The survey divided Syria into 698 studied regions and questionnaire three key informants, with specific criteria that guarantee inclusiveness and transparency, from each region. Moreover, the survey applied a strict system of monitoring and reviewing to ensure the correctness of responses. About 300 researchers, experts, and programmers participated in this survey.

Accordingly, and based on the survey's results, SCPR adjusted the demographic indicators during the crisis. These indicators include the total number of population, number of refugees, number of migrants, life expectancy (through death rates and death incidences), and population growth rate as well as birth and fertility rates. It is worth mentioning that the report used adjusted total number of population before the crisis; this adjustment is made by SCPR using vital records and national censuses. Moreover, SCPR benefited from the analysis of this survey in calculating the impact of crisis on capital stock and several economic sectors, in addition to estimating several health, educational, and employment indicators (it is mentioned within the text when the survey results were used).

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