



Empowering MSMEs in Syria: Overcoming Operational Challenges

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Introduction

Strengthening the efficiency and empowerment of Micro, Small, and Medium Enterprises (MSMEs) contributes to stability and peacebuilding at the local level by enhancing household livelihoods and promoting growth in productive economic sectors. This policy brief provides practical and targeted recommendations to alleviate the detrimental effects of the Syrian conflict on the operational capacity and economic viability of MSMEs across all regions in Syria.

The analysis is anchored in a [PeaceRep report](#) carried out in collaboration with UNDP Syria, which extensively explores the challenges impeding the ability of Syrian MSMEs to contribute to poverty reduction and peacebuilding efforts. Additionally, it draws from the outcomes of a workshop conducted in November 2023, aiming to generate actionable recommendations to empower MSMEs in Syria. The workshop convened Syrian business figures, academics, representatives from international organisations, and donor countries to deliberate on strategies.

1. A Vital Driver of Economy and Resilience

MSMEs have historically been pivotal in Syria's economy, constituting over 95% of private entrepreneurial ventures (Mehchy et al., 2023). In 2010, they accounted for approximately 65% of the country's GDP; however, the ongoing conflict has caused a substantial decline, with their GDP contribution diminishing by almost 30% as of 2020 (ibid). These enterprises have been vital in creating employment opportunities, with data indicating that private entities employed 73% of the Syrian workforce in 2010. Yet, this percentage dwindled to 47% amid the conflict by 2020 (CBS, 2010-2020). Despite the considerable setbacks experienced by MSMEs due to the conflict, they remain a cornerstone of Syria's economy across all regions. They retain the potential to spearhead economic recovery by addressing poor productivity and profitability. MSMEs also possess the capability to play a pivotal role in mitigating economic, social, geographical, and political fragmentation within Syria.

MSMEs stand out as one of the primary resilience strategies adopted by local communities to navigate severe economic conditions during the conflict. Some of these enterprises have critical role in bolstering food security at the local level through agricultural and agri-food initiatives. Moreover, various service and small-scale industry ventures have revitalized commercial ties across lines set by different de facto authorities (Turkmani et al., 2022). MSMEs contribute significantly to enhancing the resilience of local communities, enabling them to weather security, political, and economic challenges. Entrepreneurs have consistently showcased innovative approaches to counter these challenges (ibid). However, their capacity and adaptability encounter limitations in addressing macro-level issues like sanctions and currency fluctuations.

2. Key Challenges

The PeaceRep report (Mehchy et al., 2023) has identified several overarching challenge categories prevalent across all regions in Syria, irrespective of the de facto authority in place. These encompass MSMEs' interactions with public institutions, the state of business infrastructure, the socioeconomic landscape of the area, and the various types of businesses and their interrelationships.

The institutional challenges facing MSMEs begin with **the registration processes** that vary in complexity, plagued by high costs, bureaucratic hurdles, and influence-based facilitation. Taxation and fees, though efforts towards automation exist in some areas, suffer from subjectivity, manipulation, and opacity, impacting businesses' financial stability. **Rule of law inadequacies** exacerbate disputes, with inefficiencies and biases in formal systems, relying on informal methods or favouring influential figures. **Pricing policies** overlook additional costs, leading to MSME closures and resistance within the private sector. Limited or absent subsidies and support further burden MSMEs, forcing entrepreneurs to rely solely on their efforts to overcome financial difficulties.

The business infrastructure challenges include inconsistent electricity supply and unreliable transportation, resulting in reduced production and disrupted supply chains. **Financial services** are scarce, with limited funding and inadequate credit assessment infrastructure, worsened by sanctions impacting the banking sector's international engagement and deterring foreign investment. However, enhancing access to finance for entrepreneurs has proven to be effective, showcasing a commitment from these entrepreneurs to repay their loans. An example is the revolving credit fund established by the [Near East Foundation](#) in northeast Syria.

Access to internal markets is hindered by high costs, security issues, and low consumer purchasing power. The **external market access** is impeded by sanctions, poor product quality, complex export processes, high insurance costs, expensive transportation, and the impact of narcotics smuggling that discourages regional importers from engaging with Syrian products.

In terms of the **socioeconomic challenges**, the report shows that the division of Syria into different controlled areas has significantly impacted MSMEs, hindering trading activities and disrupting industries at the local level. Informal trafficking networks controlled by warlords further complicate internal trade, while drought affects agricultural productivity. The conflict-induced exodus of skilled individuals has created labour shortages, distorting workforce distribution. Low salaries drive human capital towards illegal activities. While female labour force participation rate increased, there are concerns about unequal pay and added burdens. Integration of people with special needs remains limited due to resource constraints. Civil society organisations have become avenues for aid, generating increased market demand, benefiting select sectors and businesses but leaving others struggling.

In all Syria regions, different types of MSMEs have emerged during the conflict. The results indicate a growing trend in online-based ventures amid efforts to navigate challenges. However, the traditional business model remains dominant, posing limitations beyond conflict-related obstacles. Emerging social enterprises encounter hurdles in financial sustainability and contend with political biases. Collaboration among MSMEs varies, relying on personal connections due to bureaucratic hindrances in formal cooperation. Despite a decrease in the number of MSMEs due to conflict, intensified competition arises from market shrinkage and limited external access. Unfair practices, including monopolies by influential capitalists, further disrupt the market landscape.

Accordingly, the report suggests policy recommendations to uplift MSMEs in Syria. They include the need for trust-building with flexible legal frameworks, reduced fees, and transparent formal processes. Addressing challenges like limited electricity and market access involves advocating for solar energy, improved financial services, and anti-monopoly measures. Supporting national market unity, social cohesion, women's rights, and environmental sustainability is vital. Encouraging cooperative models, investing in remote work, and establishing a diaspora-funded trust for transformative change highlight actionable pathways.

To further elaborate on these policy recommendations and operationalize them, the report's research team organised a workshop in November 2023, gathering Syrian business figures, experts, and pertinent international stakeholders. During this session, participants proposed practical suggestions and outlined mechanisms for their implementation.

3. Operational Recommendations

During the workshop, participants engaged with challenges outlined in the PeaceRep report, aiming to propose pragmatic solutions to alleviate their adverse effects. Most attendees highlighted common challenges encountered by MSMEs, recognizing that the prioritization and implementation mechanisms to address these challenges vary across different regions in Syria. The suggestions encompass operational approaches aimed at empowering MSMEs and mitigating some of the crucial challenges facing them.

a) Addressing sanctions' impact

Empowering MSMEs in Syria necessitates directly addressing the impact of sanctions. Although traders continue operations, correspondent banks and the international financial system systematically avoid any dealings with Syria due to strict overcompliance measures. At the same time, direct engagement with the Syrian regime to discuss lifting sanctions is not feasible for most Western countries. However, there is potential to monitor trade activity procurement processes with Syria through international third-party monitors and audit these transactions. The BRICS (Brazil, Russia, India, China, and South Africa) countries could help facilitate transactions with Syria without being impacted by the sanctions. These procedures entail various technical difficulties that warrant discussions involving bankers, lawyers, and financial experts.

Another suggestion is to assemble a team of experts, including Syrian businesspersons, to collaborate with relevant entities within the Western governments like the UK. The aim would be to approach selected banks, such as Arab banks in London, willing to facilitate transactions with Syria under strict monitoring. By granting these banks a general operating license and offering a form of governmental assurance, they could conduct their work without fear of compliance issues. This approach would enable the selected financial institutions to actively support legitimate businesses within the sanctions' framework. From a banking perspective, despite the inherent risks, Syria presents a substantial market opportunity that most banks avoid due to compliance costs outweighing potential revenue. However, by targeting specific banks interested in this approach and closely partnering with/monitored by regulatory bodies like the Bank of England to address compliance concerns, these banks could become reliable conduits for legally accessible funding in Syria. This practical path offers a more feasible alternative than a complete lifting of sanctions. It's a win-win scenario: there's a market demand and commercial potential, and with a push from Western official government channels, banks could be encouraged to participate rather than merely observe.

The attendees also propose the establishment of a trust fund outside Syria to provide essential financial support to MSMEs within the country. This fund establishes parallel financial mechanisms to directly engage with entrepreneurs in Syria, thereby mitigating the adverse effects of sanctions and overcompliance. It should be transparent, accountable, and designed to maximize its impact with a diverse board of trustees, including Syrian businesspersons, experts, and representatives of international organisations and donor countries. The fund should collaborate with reputable financial institutions to ensure efficient resource allocation. Establishing clear eligibility criteria and a rigorous vetting process for MSMEs, coupled with a robust application and monitoring system, is essential to enhance effectiveness and prevent any unwarranted benefits to businesspersons associated with the Syrian regime. Regular audits and reporting mechanisms are imperative to uphold transparency and build trust with donor countries and organisations.

All participants concur that lifting sanctions imposed on the Syrian regime by Western countries is nearly impossible, given the current circumstances. However, there is unanimous agreement that addressing overcompliance is critical for private businesses. Besides developing practical mechanisms like those suggested above, there is a crucial need for independent Syrian and non-Syrian civil groups, especially in Western nations, to collaborate with officials, academics, and business communities. Their aim would be to advocate, based on evidence with financial institutions and relevant authorities, emphasizing the importance of managing compliance issues concerning transactions with Syria.

b) Promoting business-centric approach and encouraging localization

There is a growing international support channelled through NGOs and INGOs to empower private businesses in Syria. However, the approach of these organisations has often been humanitarian, neglecting vital aspects such as project sustainability. Hence, there is a pressing call for donor countries to gradually shift their support strategy towards Syria, embracing a more business-oriented approach. This shift entails a crucial recalibration; for instance, financial backing for micro and small projects should prioritize feasibility and market studies rather than solely focusing on vulnerability measures and humanitarian needs.

The current practice of international organisations in Syria, favouring imports over local sourcing due to sanctions and perceived transactional ease, adversely impacts the local economy and undermines opportunities for MSMEs. To address this, localizing procurement holds promise in revitalizing MSMEs. However, this localization process demands specific conditions, including stringent monitoring to prevent preferential treatment for cronies or large corporations and ensure the quality of goods and services from the local private sector. Moreover, diversifying procurements across various small enterprises, rather than engaging in full-scale tenders with one entity, provides opportunities for smaller projects. Collaborative efforts among international organisations, coordinating with independent professional entities, can ensure procurement practices are pro-MSMEs, safeguarding fair opportunities within the market. This approach not only aids the revival of MSMEs but also establishes a more equitable and supportive environment for local businesses to thrive.

c) Protecting expertise and human capital

In a war-torn country like Syria, protecting human capital and expertise stands as a pivotal challenge amid the continuous migration of skilled workers and the poor working conditions in the local markets. Moreover, the allure of higher salaries in NGOs and INGOs further diverts qualified professionals from MSMEs. Individuals trained in specific technical fields opt for roles unrelated to their expertise within NGOs, depleting the country's skilled workforce. Consequently, MSMEs face hurdles in producing competitive goods due to the erosion of specialized knowledge. The lack of skilled labour to handle new technologies leaves most private enterprises lagging years behind in adopting modern advancements.

Empowering MSMEs in Syria necessitates the improvement of human capital through vocational and technical training programs. However, these programs must be market-oriented, grounded in comprehensive studies assessing labour market demand, and aimed at enhancing enterprise competitiveness by strengthening their current human resources. It is imperative that international organisations do not view training programs as mere checkbox activities to appease donors; instead, these initiatives should actively address labour market needs and foster the growth of the productive sector. Such approach needs an efficient platform facilitating knowledge exchange and collaboration among pertinent stakeholders, such as the private sector, international organisations, and research entities. This platform should facilitate consistent virtual, or hybrid meetings centered around evidence-based discussions on labour market needs and dynamics.

d) Supporting business diversification

Donor countries, often via international and local organisations, commonly direct their support towards specific MSME sectors, particularly agriculture. Supporting agriculture is undeniably vital for Syria but insufficient to foster robust local economies. To enhance this support, a participatory approach involving these organisations, local business figures, and experts becomes crucial. This approach aims to diversify businesses while still prioritizing core activities like agriculture. For instance, these organisations could initiate a project call, providing financial and technical backing for selected projects. However, proposals must adhere to specified conditions encompassing profitability, sustainability, integration with other sectors and areas, considerations for food security, job creation, value chains with backward and forward linkages, incorporation of new technologies, and market competitiveness. A committee comprising local experts, business figures, and organisation representatives would then evaluate proposals meeting these conditions, thereby providing opportunities for locals to establish enterprises of their preferences. Yet, this process necessitates preparatory training courses for aspiring entrepreneurs, focusing on crafting business proposals and understanding essential considerations.

Additionally, supporting MSMEs in Syria should encourage collaboration among entrepreneurs through formalized cooperatives or informal partnerships. Emphasis should also be placed on nurturing business opportunities that emerged from remote work, targeting clients beyond Syria's borders. This can be achieved by allocating funds to establish co-working centres equipped with uninterrupted electricity and internet connectivity to accommodate such businesses. Within this context, establishing a mechanism ensuring the unhindered financial flow to workers in these centres from relevant entities in donor countries becomes imperative. This mechanism should navigate around overcompliance measures, safeguarding the financial transactions. Addressing this issue can be linked to the practical suggestions outlined earlier, specifically targeting ways to mitigate the impact of sanctions.

e) Facilitating the essential role of diaspora

The Syrian diaspora holds a critical position in empowering MSMEs in Syria. Their support could take various forms, including lobbying efforts aimed at reducing the impact of overcompliance in coordination with relevant authorities in donor countries, financing small and micro-level projects within Syria, investing in larger projects that positively influence MSMEs, facilitating connections between Syrian entrepreneurs and external markets, advocating and promoting Syrian products in international markets, introducing new technology and innovative business approaches tailored to the emerging market's needs, and offering technical support to local human resources based on their experience gained while working outside the country.

The Syrian diaspora is actively engaged in various forms of support for businesses within Syria. Yet, this support remains fragmented, lacking coordination across institutional and individual levels within the diaspora. Additionally, there's a necessity for more structured relations with authorities in their respective countries, particularly those addressing Syrian issues such as sanctions and overcompliance. Therefore, it is essential for the diaspora in each country to align their approach when engaging relevant authorities. Establishing an informal platform to coordinate discussion points and evidence-based suggestions to support MSMEs within Syria would be beneficial. Simultaneously, Western authorities should highlight their openness to engaging with the Syrian diaspora, fostering discussions on supporting mechanisms for MSMEs in Syria, among other critical matters.

These operational recommendations are interconnected, meaning progress in one area could facilitate the implementation of others. Therefore, any strategy to empower MSMEs in Syria is better to be comprehensive, addressing these recommendations concurrently for more effective outputs. Institutionalizing efforts to support MSMEs is crucial, both within and outside Syria, rather than having disparate, fragmented individual endeavours. These institutions/entities could encompass independent business chambers within Syria, safeguarding business interests and promoting robust business governance. Expert groups operating outside Syria could also be established, focusing on various recommendations and effectively coordinating between stakeholders, including the diaspora and relevant authorities.

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About Us

PeaceRep is a research consortium based at Edinburgh Law School. Our research is rethinking peace and transition processes in the light of changing conflict dynamics, changing demands of inclusion, and changes in patterns of global intervention in conflict and peace/mediation/transition management processes.

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