

# **Formality, Informality, and the Resilience of the Syrian Political Economy**

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## **The Geneva Centre for Security Policy (GCSP)**

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Published in June 2021  
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## Executive Summary

- An externally induced political transition in Syria is not likely to transform deeply engrained patterns of political economy or the social contract built on patron-client relationships.
- The sanctions have only strengthened the top elites' grip on power by shifting the burden to society and emptying the social realm – especially the middle classes – of any viable points of resistance.
- The periodic purging of some powerful elites and their replacement with new ones is creating new and innovative extractive mechanisms to sustaining financial flows in the economy. This has further entrenched the political order and eliminated potential challengers.
- State collapse would not lead to “regime collapse” but to the creation of very violent political marketplaces where powerful elites use transactional politics without any pretences to formality.
- State failure would lead to social collapse; this outcome would not be favourable to anyone. This may be a last resort, however, it may become a reality should the top elites in Syria fail in their critical balancing act between the formal function of extraction and the informal distribution of political patronage.
- State collapse has not yet happened. It could and should be prevented if the situation in Syria gradually shifts away from being an intractable conflict with severe repercussions on its neighbours.
- Investment in local bottom-up funding is essential to offset the State's central formal extractive powers and the reverse the drive to would informalize the local distribution system. This is a long-term process that needs to start now, before a political transition can take place.
- Aid mechanisms should focus on gradually formalizing local governance as a way to distribute services away from the informal mechanisms used by the top elites to dispense patronage. There is a critical need and perhaps an opportunity to focus services-oriented aid on the interface between local councils and local community solidarity structures, enhancing local value chains and encouraging the creation of economic multipliers.
- The UN's main mission in Syria must gradually focus its attention away from humanitarian aid and toward more sustainable approaches in support of stability and local resilience, shifting the logic of aid from sector-based humanitarian silos to area-based approaches focused on leveraging community capital and resources.
- Aid should move away from creating dependency among NGOs on external resources and focus instead on enhancing different civic actors' ability to generate local economic multipliers and sustainable value chains. This may be the last opportunity to gradually offset dominant patterns of Syria's political economy, reinvigorate civil society and support the social and political forces that may be the backbone of reform over the long run. Yet such move needs to be carefully considered as the looming food shortages and inflation are risking to make most Syrians food insecure.
- To empower civic actors, they need to have access to formal financial transactional channels freeing them from dependency on the hawala system that has reinforced the grip of warlords and radical actors on informal financial instruments. The sanctions debate is not a black-and-white argument and should be nuanced with innovative solutions and considerations of the harmful impacts of bank de-risking strategies.

- While everyone is talking about decentralization as the political starting point for gradually unlocking the Syrian deadlock, the key to decentralization is not to create economic islands with disrupted value chains. No part of Syria can survive by depending on its local resources alone. Such isolated governance outcomes are likely to remain forever dependent on large external patrons for basic survival. Instead, the key is to enable broader value creation and to allow local communities to harvest their value added rather than syphoning value off to Damascus. Fiscal decentralization should be the name of the game.
- Top-down liberal peace-building formulas are likely to fail without lasting changes to both the political economy and the political process. There is little sense in waiting for a political deal that may not come any time soon.

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## Formality, Informality, and the Resilience of the Syrian Political Economy

In times of disorder the interlocking of productive habits breaks down step by step, and society as a whole becomes progressively poor, though robbers of one kind or another may for a while enrich themselves. Even more serious, however, is the failure of the habit of discipline.

Sir Halford John Mackinder, 1919, in *Democratic Ideals and Reality: A Study in the Politics of Reconstruction*.

### Introduction

The conflict in Syria over the past ten years has transformed the country's political economy. While the logic of political patronage and clientelism is still the dominant motor for consolidating power, the changes caused by the war to the structure of patronage networks are revealing long-term impacts. This paper highlights how Syria's political economy was transformed during the war. It analyses in broad lines the factors driving the economy and how new transformations are influencing and being influenced by the emergence of new types of business, societal and political actors. It will argue that the conflict has expanded the informalization of resource distribution to reinforce patronage networks and enable the extraction of resources to remain within the formal scope of State legitimacy. While society and institutions have demonstrated high levels of resilience, these transformations will have lasting repercussions on the country's ability to rise from the ashes and move towards democracy and reform.

Over the four decades preceding the conflict, the State adopted a centralized model of governance built on a critical balance between the formality of the State and its institutions and the informality of the local political patronage systems built around the distribution of public resources to the wider society. Informality was a structural element in an extractive economy that could not generate sufficient wealth to underpin a social contract based on citizenship. Informality was retained as a redistributive mechanism capable of securing the loyalty of a wide segment of the population to the State in a social contract built around clientelism and patronage. The central thesis of this paper is that during the conflict the central State could no longer maintain this critical balance between formal statecraft and the informality of the real economy. Informality was expanded and integrated into formal governance, leading to a new modus operandi where transactional politics became a substitute for formal instruments of statecraft.

The paper begins by reviewing the deep patterns of the Syrian economy to show how they were affected by the war, focusing on how different aspects of both destruction and resilience have emerged. In doing so, the paper traces how new layers of informality are being embedded in the institutional practice of statecraft, leading to new forms of elites and transactional politics. In the second part of the paper, the focus is on the outlook for the emerging ecosystem, the dynamics shaping the political economy today, and likely implications down the road. It

argues that top-down peace processes are unlikely to succeed without the gradual re-normalization of statecraft from the bottom up. This will be the sine qua non for saving the Syrian State from failure and Syrian society from collapse, and it cannot wait for a peace deal.

## **Part 1: The Syrian economy: The war economy and economic resilience**

### **1-1 Statecraft, informality, and deep patterns of the Syrian economy**

The Syrian economy went through several structural transformations since the country's independence in 1946. Despite the centrality of its political system, its administrative and economic institutions demonstrated a high level of heterogeneity. The best efforts of the central government to homogenize statecraft and economic planning notwithstanding, great geographic variances persisted among the different regions and between urban and rural areas. In the first two decades after independence, elected civilian governments failed to forge a social contract built on government accountability to taxpayers in return for universal services and the assurances of a fair distribution of national resources. The administration lacked institutional thickness, and the State's physical control over the territory was wavering. Internal quibbling among the political factions controlling the parliament (mainly urban elites) further undermined the legitimacy of government. This opened the way for the military to intervene through successive military coups and eventually to establish an authoritarian model that promised stability and order.

Since the early 1970s, the central organs of the State fostered a political economy based on the centrality of the State in organizing the economy and society along economic and social lines, limiting the ability of local social forces to challenge the decision-making powers at the centre.<sup>1</sup> The unchallenged centrality of the economy was premised on predictive models of the distribution of national resources through the formal instruments of centrally planned State budgets, funded primarily through public control of the economy. However, this formal model of statecraft was always dependent on the ability of the State to extract resources nationally and attract external subsidies to the economy through a smart balancing of regional politics. The inability of this model to redistribute resources equally to all citizens became apparent after 1979 when the Arab Gulf countries ended their support to Syria as a frontline state against Israel. To compensate for the limited resources available and ensure citizen adherence to the State, deep structural mechanisms of political clientelism were used, capitalizing on traditional and very localized patronage models.<sup>2</sup>

Despite years of strong central regulation and planning of the economy, major parts of the economy remained outside the formal sector. By the end of the 20th century, half of the country's GDP was produced in the informal economy. Even the most formalized sectors of the economy operated outside the strict definitions of formality. The informal economy was the largest employer in the country, effectively employing over 60% of the workforce.<sup>3</sup> State policies kept prices in the formal economy artificially low through a high level of subsidies. The social contract developed in the mid-1960s through the 1990s aimed at providing a broad coverage of services and jobs in return for political clientelism for the benefit of the State.<sup>4</sup> Taxes were kept low, but so was accountability over resource management and distribution. However, as the population grew, demand for public services – and for access to the formal

economy – increased. The inability of the Ba’ath social contract to expand resource extraction through significant taxes created periodic cashflow problems, which were managed through deficits, public debt and artificial monetary policies that choked the circulation of capital in the economy.<sup>5</sup>

Access to public goods became a privilege that the State distributed unevenly in the country.<sup>6</sup> The use of informal redistribution mechanisms opened the back door to corruption and clientelism, which became an eternal barrier to reform.<sup>7</sup> Starting in the mid-1980s, a growing gap emerged between the formal and informal economies. While officially a substantial part of the economy was managed by the State (and the public budget served as leverage on the private sector), the bulk of household income was created outside the formal economy. This reduced the State’s ability to harvest significant taxes, and to use tax breaks as a mechanism for directing and regulating the economy from the demand side. The State’s ability to control the supply side of the economy through public investments was its main lever for regulating the economy. This climate of corruption, an unclear tax regime, and State-run supply-side planning undermined the country’s ability to attract substantial productive investments.<sup>8</sup> Attempts at reform starting in 1990 and then again after 2000 expanded the formal sector marginally and gradually transformed the State’s role in the economy but failed to produce coherent social and political transformations, much less a new social contract.<sup>9</sup> Reform was often hampered by a sense of urgency in order to maintain stability. External and internal factors, invoked in the name of national security, prohibited the transformation of the political patronage framework that the State used to penetrate deeply into social hierarchies.<sup>10</sup> The political economy metastasized around formal instruments of extraction and informal mechanisms of re-distribution.

The shift towards economic liberalization after 2000 required a rigorous examination of the State’s tax base. The State was caught up in a vicious cycle of controlling inflation, balancing its current accounts and sustaining public expenditures.<sup>11</sup> The Ministry of Finance dominated discussions of fiscal policy and indirectly hindered any prospects for economic reform based on incentivizing investments to expand the tax base.<sup>12</sup> Economic reforms between 2000 and 2010 were designed to free economic management from the narrow confines of the Ministry of Finance’s balance sheet and sought to encourage desperately needed investments in order to leverage other economic forces and opportunities. However, in addition to indirectly affecting the mechanisms of welfare and the distribution of wealth in the country, they touched on the very foundation of political patronage and clientelism.<sup>13</sup> The attempt at re-formalizing the relationship of the citizen to the State was incorporated in the State’s new ideology and was promoted through new forms of institutions, including NGOs and GONGO’s. However, deep patterns of informality continued to thrive, hindering any real prospects for reform.

The deeper structures of the Syrian economy thus feature four main characteristics, which have evolved gradually over the years and are likely to remain intact for years to come regardless of subsequent attempts at reform. These characteristics are:

- a) *An extractive economy*: The State absorbed surplus values through hierarchical extractive mechanisms that link all local economies directly to the government (tax collection, fiscal policies, investment programmes, licencing, labour management, etc.). Local institutions deconcentrated central powers but did not decentralize them. Cities extracted surplus values from rural areas; major cities (such as Aleppo) extracted surplus values from smaller cities, especially in the North and East; and



Damascus extracted surplus values from the entire country. These surplus values were often fostered and upgraded with the aim of maximizing yields and not revenues, as long-term economic planning was lacking and state public budgets were managed within the narrow scope of cash flow considerations. Therefore, the redistribution of national wealth was guided by the need to secure the loyalty and patronage of clients and top elites.<sup>14</sup> Local communities were only to be considered at the basic level needed to maintain social order.<sup>15</sup>

- b) *Informality*: The informal sector in Syria, as in many countries in the region, is inextricably linked with the formal sector. It serves as the less expensive supply chain framework for the actual productive processes taking place in the formal economy. More importantly, the informal sector served as the reservoir and depository of surplus labour. Through monetary and fiscal policies, the state was able to keep nominal prices low in the formal sector but, as a result, was not able to provide universal access to public goods.<sup>16</sup> The privilege of accessing the formal sector created gateways for corruption. Informality was the name of the game for the wider re-distributive process in the country, through very broad-based patron-client-type relationships between actors in the formal sector and those in the informal sector.
- c) *Simple and fragile value chains*: as most economic flows were centralized, value chains in the country were streamlined and only small-scale value chains were possible on the local level or between local communities.<sup>17</sup> Economic networks did not encourage or permit any change in institutional thickness at the local level, and most of the country's institutional thickness was in the public sector even after the economy was finally liberalized in the early 2000s.<sup>18</sup>
- d) *Weak trust and solidarity structures*: the simple localized value chains and the informal economy did not allow robust social solidarity structures to evolve. Unions, mutual solidarity social programmes, chambers of commerce and so on were usurped by the State and could no longer act independently to defend their members' interests.<sup>19</sup> Indeed, the state centralized most of these institutions when it saw their power expand after the economic boom of the late 1970s and with the growing challenge to central State authority in 1979–1980.<sup>20</sup> Reducing the scale and power of such solidarity structures reduced resistance to the centralization of the economy but at the same time left society without solid safety nets when the crisis eventually hit in 2011. Weak formal solidarity structures created many informal channels of social solidarity that provided a high level of localized resilience but weakened trust among wider societal groups and geographic areas.<sup>21</sup>

The economic reforms of the early 2000s enabled an expansion of new sectors of the economy (such as banking, tourism and real estate).<sup>22</sup> GDP growth was relatively stable but FDI and domestic investment did not create sustainable multiplier effects and value chains. If anything, real wages actually dropped slightly, and inequalities were exacerbated especially among the various regions.<sup>23</sup> Job creation remained well below the natural increase in the labour supply. Most unemployed people went into higher education, migrated or worked in the informal economy. Various policies for absorbing the unemployed in the labour market were put in place after 2004 but could not keep pace with the growing labour supply.<sup>24</sup> Moreover, economic growth in Syria during the first decade of the 21st century did not lead to a major change in social behaviour; household dependency on the main breadwinner remained almost unchanged, widening the rift between youth and their parents as young people stayed home

longer as they awaited job opportunities.<sup>25</sup> The youth bulge (young people aged 20–24) in the latter part of the decade came exactly at the time when the Syrian economy (as well as the global one) was suffering from the impact of the 2008–2009 financial crisis. This culminated in a perfect storm that fed the social unrest in 2011.<sup>26</sup> The eruption of violence can be attributed to many structural problems in Syria’s social, economic and political order. But it reflects deep and unresolved competition among the various interests and the government’s inability to effectively manage the distribution of public goods.<sup>27</sup> The balancing act that the State was able to sustain throughout the 20th century and during the first half of the first decade of the 21st was challenged, and the existing institutional order (legal system, law and order, and administration) was unable to contain the situation without the State resorting to extreme violence.

## **1-2 Structural transformations: Deepening informality and the new political economy**

After ten years of conflict, Syria’s GDP has declined by over 65%, and the war’s deeper impacts on inflation, employment, poverty, human capital and asset accumulation have been documented extensively.<sup>28</sup> This paper will not attempt to restate, dispute or qualify those studies; the focus here will be to address the deeper transformations that took place in how the Syrian society and economy work and how the war economy has changed the country’s institutional framework. New forms of social resilience are being created, and new forms of agency are emerging along with them. These transformations are deepening informality and casting long shadows that will affect the country’s future recovery and reconstruction scenarios.

### The transformation of formal state institutions:

Syria’s national institutions showed a high degree of resilience during the early years of the conflict and even today they still exhibit relative strength when compared to neighbouring Lebanon. Even though many provinces and cities were no longer under the central government’s control, the State was able to maintain a critical mass, or a sort of “gestalt”; the loss of territory did not significantly reduce the State’s ability to assert its institutional territoriality.<sup>29</sup> National institutions lost revenues, human resources and assets but maintained a relatively high level of functionality through a combination of monetary policies (maintained through a mixture of external deposits in Syrian banks and currency manipulations<sup>30</sup>), fiscal policies aimed at reducing consumption to the lowest possible survival level,<sup>31</sup> and a deconcentration of governance and security issues to local proxies.<sup>32</sup> These actions may have reinforced what became known as the war economy, but they relieved the State of certain functions and obligations, shifting that burden to the informal economy.<sup>33</sup> Illicit activities related to the war economy are thought to have directly employed some 17% of the labour force.<sup>34</sup> The indirect, multiplier effect of the war economy is much greater.

This strategy may have contributed directly to the emergence of new types of actors.<sup>35</sup> Many of these new actors operate on the margins of legality, pursuing their interests by artificially maintaining a high level of risk to justify their revenues.<sup>36</sup> This was as true when trade was flowing into besieged areas as it is today with the warlords acting as the main conduits for imports despite the economic sanctions. The ability to sustain these actors' revenues, however, depends on access to remaining State resources and humanitarian inputs into the local economy.<sup>37</sup> The war economy developed into a self-sustaining process. High risks, artificially maintained by local belligerents, increased their yields and their ability to capture direct and indirect revenues. However, this ability to extract revenues requires functioning institutions that ensure aid and basic goods continue to flow to communities.<sup>38</sup> The level of violence needed to be managed carefully to safeguard the process. As the conflict wore on, institutions gradually lost their resilience due to lack of new investments and maintenance, but they never ceased operating. The war economy can only be sustained as long as national institutions are functioning, even minimally. The pivotal calibrating role on the local level was maintained by the provincial governance structures, which gained in importance as the role of smaller municipal structures waned.<sup>39</sup> International aid and local NGOs played into this game of calibration and rebalancing.<sup>40</sup>

Areas that escaped the central government's control lost the central calibrating role mitigating the interests of powerful local elites. More importantly, new types of elites emerged. The credibility of these new elites was based on a combination of factors: access to armed actors, access to donors, revolutionary credentials, reinvigorated tribal relationships and old-fashioned business networks. Donor funds were dispersed and were mainly directed to ensure the loyalty of emerging political structures, as such they did not allow for powerful interests to aggregate centrally or at the provincial level.<sup>41</sup> Provincial quasi-institutions remained a normative tool aspiring to maintain the simulacrum of centrality but with no institutional thickness and more importantly no powerful patron-client networks to support them. In that regard, the main cement ensuring territorial contiguity in opposition-controlled areas were the armed actors and their fragile territorial alliances. The ones with the most funding were the more radicalized ones that had access to international fundamentalist financial networks.<sup>42</sup> Western donor funds were too fragmented to serve as an effective counterweight against the radical groups.

In the Kurdish-dominated Democratic Self-Administration, the centrality of the system was maintained, as the most powerful Kurdish actor, the PYD, assumed the central role of the State through three vertical control systems: the armed and security militias (mainly the YPG and the Assaych); the "Kadro", who were the PKK cadres deployed to promote the implementation of Abdullah Ocalan's communal governance model; and the tev-dem, a political alliance of Kurdish and non-Kurdish actors who were organized along crude ethno-sectarian communitarian lines, which eventually gave way to the emergence of the Syrian Democratic Council with more formal and centralized functions.<sup>43</sup> Despite all apparent decentralization efforts, the tripartite vertical system took over the space previously occupied by the central government, distributing local patronage horizontally by employing a very large number of people directly in the local governance structures.<sup>44</sup> In doing so, it was able to maintain a critical mass of interests directly linked to it using funds generated from the sale of oil in the region. This was further solidified as many of the central government functions could continue to ensure that some central resources were still flowing to the area from Damascus.<sup>45</sup>

Warlords are often perceived as leeches sucking out meagre tithes from distressed communities. However, war profiteering has its own redistributive logic.<sup>46</sup> By some estimates about 17% of Syria's active working population derive their basic income from servicing the war directly.<sup>47</sup> However, as the number of active people has been reduced and their basic income has dwindled, the multiplier effect from income generated by the war is estimated to be allowing as much as half of the population to survive. Communities have different perceptions of local warlords. Warlords may capture surplus values from the community, but they also provide protection and order either by creating alternative institutional orders or by filtering into the existing ones and usurping them. They create some level of predictability for local markets.<sup>48</sup> Predictability is the sine qua non of markets, be it formal or informal. Warlords enable the creation of patronage networks in the local markets that create new forms of entrepreneurship. And like all forms of entrepreneurship, ensuring social legitimacy becomes indispensable once people are able to shift their focus from surviving the hostilities to maintaining the status quo.<sup>49</sup>

Despite all the evils attributed to warlords during the conflict, we have seen militia leaders on all sides supporting community services.<sup>50</sup> They intervene to assert monopolies over basic goods while at the same time mitigating the ability of their constituencies to survive and access resources. In some cases, they are in control of critical long-range supply chains such as oil and cement, while in other cases they may be in control of foodstuffs from shorter supply chains. Revenues from those types of operations are related to the distance and risks taken along the way. But the resources generated are substantive and lucrative, encouraging small warlords to take increasing risks to grow their businesses. Once established, warlords strive for stability and reliable business channels.

In some cases, warlords attempt to stabilize and regulate local markets using their own capital to offset monetary and fiscal conditions on the ground.<sup>51</sup> While the emergence of warlords often challenges existing institutions, once they are in power, they seek to re-legitimize themselves and position themselves for the different scenarios that may emerge as the violence continues or the country transitions towards the post-conflict era.<sup>52</sup> The transition from the war economy to the post-war economy must take into consideration the complex intertwining of the warlords' informal power with the transformed formal institutional functions of the State.

### Emerging business elites and markets:

The Syrian conflict triggered profound structural transformations in the political economy. Institutional players, state and non-state military actors as well as quasi-governmental bodies have all contributed to shaping the country's new economic realities as was demonstrated in the previous section. However, these actors are not the only ones on the scene. Legal constraints, access to markets, and reinvesting money earned through the war (as well as laundering it) require the involvement of another set of actors, mainly in the private sector. Actors in the private sector had to adapt or vanish, opening the door for new stakeholders to emerge.<sup>53</sup> Private sector actors are actively involved in shaping the emerging business environment to suit their needs and expand their opportunities. It is important in this regard to understand how they are shaping the environment around them. This section will focus on key

private sector actors as they are emerging and how they are navigating the threats and opportunities around them.

Before the conflict, the Syrian private sector was in constant flux. State policies had not settled for any one model of economic management for more than 10 to 15 years at a time. Private sector actors have had to navigate difficult pathways in the thicket of contradictory policy and legal regulations. Some opted to align themselves more closely with a myriad of institutional and security officials, carving a space for themselves as part of the formal supply chain of larger government led projects.<sup>54</sup> Their fate was linked to the individual fates of their patrons in the unregulated power struggles within the competing networks of political patronage aspiring to move up the ladder. Others opted to keep out of the process and preferred to play down their private endeavours, protecting their interests by mastering the corruption game to retain access to permits and to negotiate taxes and fees.<sup>55</sup> Yet, it is believed that despite the domination of larger private-sector actors over access to state favours and contracts (especially since 2000), the bulk of the private sector's contribution to the country's GDP was actually created in the SME sphere, especially the informal one.<sup>56</sup>

Most available statistics in the country tend to highlight the contributions to GDP from the various economic sectors and delineate a crude division between public and private components of GDP. But we have little understanding of how different value chains are created in each sector or, for that matter, of the proportion of SMEs and big business within the different economic sectors.<sup>57</sup> Larger businesses in Syria were not a major employer, and SMEs were, and remain, the main job creators. In the decade preceding the conflict, the expansion in GDP spurred by the growth of some sectors such as banking, tourism and real estate was not accompanied by an analogous expansion of the labour market.<sup>58</sup>

Over the last ten years, following the eruption of violence in Syria, the country's economy experienced profound structural transformations. It shrank to around one-third of its pre-war size. While there are pockets of affluence still visible in major cities, especially Damascus, the country, as a whole, is surviving on subsistence level consumption. In the extractive industries, access to government contracts was always restricted to a limited network of suppliers and this network has become even more closed to outsiders.<sup>59</sup> Long-term investments were reduced to a minimum and are almost exclusively limited to securing futures in rent-generating enterprises (real-estate, extractive industries, etc.). Access to profitable long-term rent-seeking investments is not open to all. In the real estate sector, the enactment of restrictive regulations on property transactions to prevent fraud led to the emergence of specialized parasitic networks that seek to bypass regulatory and security checks. People who were no longer able to sell their properties because of such restrictions (e.g. absentee landlords, political opposition, families of detainees and abductees whose fate remained unknown, and people fearing random land expropriation under the guise of new urban planning regulation) resorted to such networks to bypass security regulations.<sup>60</sup>

Given the uncertainties of the markets, the share in GDP of industry, mining, agriculture, and even trade in non-essential commodities has shrunk sharply.<sup>61</sup> However, that decline was unevenly spread across various sectors and geographies. Trade and industry (including extractive mining) shrank to about a tenth of their original values, whereas agriculture declined less. Transportation, on the other hand, gained as a share of GDP, even though it has actually shrunk in absolute terms.<sup>62</sup> Many pre-war enterprises insisted on keeping a foot in the door for future investments in Syria, convinced that withdrawing from the market would jeopardize

their ability to re-engage in the future reconstruction of Syria.<sup>63</sup> Private actors who pulled out completely were branded as “abandoning the State” in its time of need, while those who stayed and continued their investments were branded “patriots”.<sup>64</sup> Reacquiring a lost license or brand name in the future would entail difficult procedures. Some private-sector actors also preferred to maintain their core skilled staff on the payroll for fear of losing them. While the Syrian workforce was overflowing with redundant workers, qualified labour was always in short supply in Syria and will likely remain so for a long time.<sup>65</sup> These types of business actors have for the most part shifted a great deal of their resources (including their human resources) to neighbouring countries. In general, their investments in Syria are losing money, but they are willing to shoulder that burden and retain a nominal presence inside Syria as a guarantee that they will be able to re-enter the market in the future.

A considerably higher share of GDP (almost double its pre-war percentage) was locked in transportation and communication, reflecting the increasing transactional costs of circulating goods and information into and between various parts of the country.<sup>66</sup> A considerable number of private-sector actors have developed profitable businesses in circumventing boundaries. Bypassing military lines, borders, political restrictions and sanctions have attracted a new breed of actors to the scene.<sup>67</sup> These actors are involved in facilitating transactions, acting as agents for the bigger warlords or, at times, investing in the trade themselves. However, as the consumption of goods and services has its limitations in a country where over 85% of the population live under the poverty line, the new entrepreneurs have faced considerable difficulty growing their businesses. The dominant business model for supply-chain businesses has a high yield but, as a result, little marginal profit. Emergent actors in this sector have been hard pressed to channel their profits into investments in other sectors.<sup>68</sup> As the territorial barriers to transportation and trade are being reduced with the central government regaining regions it had lost at the beginning of the war, many of the people who made initial profits in this sector are eyeing new investment opportunities. However, these actors have little understanding of other productive sectors and generally have little trust that their status will endure over the long run. They have generally shifted their investments to rent-seeking activities like real estate investments.<sup>69</sup>

In 2017 and 2018, the sharp contraction in Syria’s economy started to show signs of slowing down. There were no overt prospects of recovery, but everyone in the government-controlled area was anticipating a rapid opening up of the market once the situation settled back in favour of the central government, a prospect that was seen as the most likely scenario to emerge then. The government was hard-pressed to explain and quantify this trend.<sup>70</sup> Many private-sector actors were considering whether to reopen their businesses in Syria. Some were driven by a genuine interest in earning money, others by the fear of losing their assets to the State as part of the policy to advance reconstruction schemes based on land pooling and land-readjustments of damaged areas.<sup>71</sup> Even though IDPs and refugees still hesitated to return home, consumption patterns were showing some signs of recovery in parts of the country. While international donor funds were still focused on humanitarian aid, some funds with a focus on stabilization and livelihoods began to flow.<sup>72</sup> This would have likely encouraged increased consumption and that, in turn, would have pushed for more supply.

Meeting new demand patterns was reigniting the age-old competition between private-sector actors invested in import and trade and those invested in local production and industry.<sup>73</sup> Syria had never had a lasting policy regarding supporting local industries. Protecting local industries was a norm for some sectors and at certain times, but the State regularly undermined that

policy through temporary waivers and exemptions.<sup>74</sup> Conversely, protectionism has indirectly favoured import-substituting industries, and little support was provided to export-oriented products. The lack of a clear tax policy has often focused state revenue collection on high-yield (but low-return) taxable vessels.<sup>75</sup> This dilemma was clearly demonstrated in the competition among top-ranking business actors in 2019. Their strategy was aimed at securing their future prospects with minimal initial investments and focusing on quick transactions to generate revenues to survive, while accumulating the assets that would be needed when the political climate improved in the future.<sup>76</sup> The collapse of the Lebanese pound followed by the collapse of Syria's currency foiled many plans. Indeed, we are witnessing the emergence of new business actors who are more adept at exploiting informality (as discussed later in this paper).

### The informalization of value creation:

By all measures, the shrinking of the Syrian economy's formal sectors should have led to considerably higher losses. A substantive level of inputs was maintained despite the ongoing war (i.e. aid, the funding of armed actors by external agitators, remittances, contraband trade and the drug trade).<sup>77</sup> However, this analysis should also focus on new forms of production still possible in the local economy, as the loss of formal State inputs into the economy led to the rise of many informal substitutes. The loss of human resources created an increase in demand for alternative types of skills. The survival economy at the bare minimum level is still an economy that can produce sufficient levels of surplus values and initiate minimal levels of early recovery.<sup>78</sup> Only these values no longer pass through the formal State institutions for redistribution. A sufficient level of value chains and exchange is evident inside Syria and is allowing for significant profits to be created.<sup>79</sup> Until last year, efforts at changing the currency in non-GoS-controlled areas have failed to dislodge the Syrian pound, even though in some areas other currencies also circulated. It took the collapse of the Syrian pound as a result of the banking crisis in Lebanon to finally devalue the national currency to the point Turkey could and would intervene to replace it with the Turkish lira in the north and northwest.<sup>80</sup> Basic local production and exchange were still at work, linking parts of Syria together and allowing some level of value distribution.

The localized value chains across GoS and non-GoS demarcation lines were retained despite the hostilities, and one may even argue that the absence of the centralizing role of the State in these horizontal exchanges may have encouraged new value chains to emerge.<sup>81</sup> A substantial proportion of the value chains is linked to supply chains involving basic foodstuffs and consumables no longer produced in their original localities and, for the most part, no longer produced in Syria. Thus, a minimal level of value added is created and retained locally. The retention of surplus value is captured at the crossing points into Syria and in between Syrian regions. Surplus values are syphoned off by a new type of elites, often referred to in the literature as warlords or war profiteers.<sup>82</sup>

However, these surplus values are not net profits to warlords; to retain a level of social legitimacy they have to provide basic services and favours to the local communities. A substantial portion of profits is redistributed through local patron-client interactions that are

similar to the system in place before the conflict.<sup>83</sup> To that extent, despite grievances about the new elite tapping into the flow of surplus value to formal State institutions, the overall redistributive powers of the Syrian economy's deep structures have not been challenged greatly at the local level. Today's warlords are a new type of flexible value creator/distributor. They are likely to change their outlook when the war ends, but the core function of the local patron-client relationships is hardening at the local level and will likely withstand any political outcome to the conflict.<sup>84</sup>

### Decentralization of the economy:

The centrality of Damascus as the backbone for organizing the economy has been de facto challenged. National value chains are increasingly bypassing the capital city as a node for economic extraction and redistribution. The capital is retaining less of the national surplus value, and peripheral parts of the country are increasingly reorienting their economic activities towards neighbouring countries.<sup>85</sup> This transformation is still very fragile and would not be sustained without external aid coming into Syria from a myriad of competing donor interests. The competition among donor agendas and the continuously shifting demarcation lines have reduced the ability of the emerging value chains to aggregate into a permanent flux.<sup>86</sup> A weakened Damascus may still be able to organize the economy centrally, but only because no other economic motor was able to replace it. In the wake of a series of military victories for the government and its allies, the territories that were returned to Damascus's control were immediately reintegrated into the central State's economic network (particularly as most donors opted not to continue to support these areas for fear of legitimizing a "regime" takeover).<sup>87</sup>

The Syrian State budget is organized in such a way that empowers central institutions. Of the roughly USD 17 billion planned for the year 2010, about USD 7 billion were retained for defence, national sovereign functions and the overheads of line ministries in Damascus. The remaining USD 10 billion or so was used to fund local services and investments.<sup>88</sup> Of those locally spent investments, roughly 80% was listed under line ministries' budgets; local authorities had no direct influence over them. Only around USD 2 billion were spent by local institutions. However, even at that level, things must be further scrutinized. About 75% of local budgets were directly listed under the centrally appointed governors. In other words, they were still deconcentrated, yet not decentralized, local funds. Municipalities managed less than USD 500 million per year, only 35% of which they raised locally, and the rest came from the national budget, subject to transactional approvals by the governors or the central Ministry of Finance. These transactional approvals were subject to informal power struggles between the governors and the larger municipalities in their governorates.



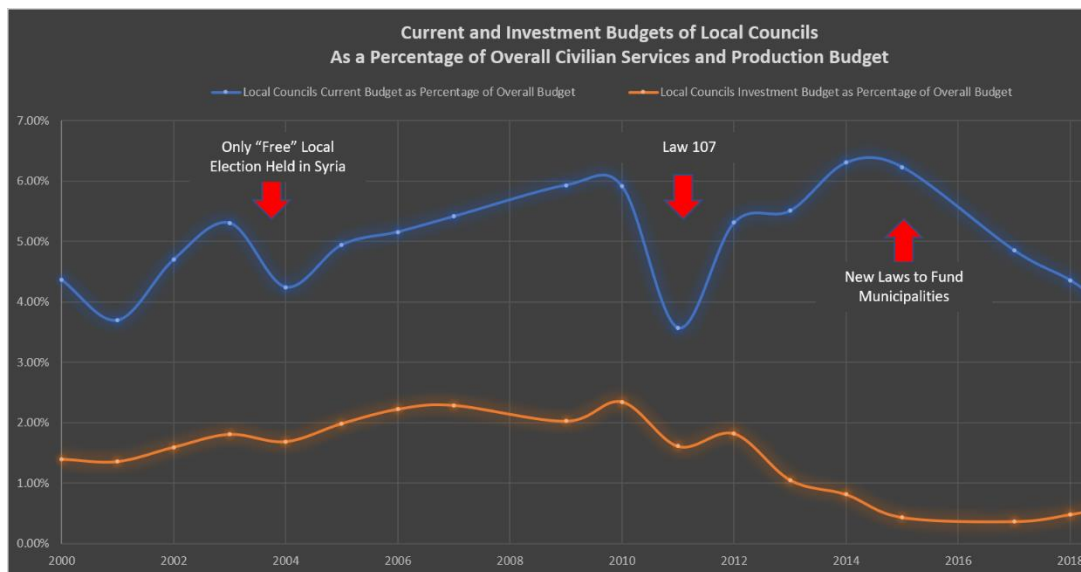


Figure 1: Decentralization as a tool to shift the financial burden to the local authorities: Most policy shifts towards decentralization were matched by budget cuts for local authorities. (Sources: Published Syrian Budgets in the Official Gazette)

The conflict disrupted the ability of the State to further fund local spending. Even basic service provision became rather unaffordable; generating sufficient reconstruction funds was out of the question.<sup>89</sup> The central State officially shifted the burden to local authorities, forcing them to fend for themselves. Laws were enacted to allow municipalities to generate revenues from the management and investment of their properties.<sup>90</sup> But more importantly, municipalities were given the power to change their masterplans and enforce land pooling under the guise of reconstruction in order to create public-private partnerships and generate local revenues.<sup>91</sup> The international media have paid great attention to these structural transformations in the legal framework governing municipal land and the likelihood that they will actively or inadvertently displace more people.<sup>92</sup> However, there is little evidence that these changes are generating, or will ever generate, resources for local municipalities.<sup>93</sup>

Municipalities are left on their own to find creative ways of maintaining minimal services and basic infrastructure because they do not have access to reliable central funding and are unable to generate local funding in a formal manner. To do so they have had to change the way they interact with their local communities. Transactional politics between governors and mayors took on a new dimension. Decentralizing responsibilities without decentralizing resources left the municipalities at the mercy of governors more than they had ever been. Contrary to the letter of the law, governors started to interfere directly in areas that were nominally under municipal jurisdictions, and governors were empowered to push for their favoured land-management schemes, in disregard to communal interests and municipal preferences.<sup>94</sup>

The overlapping land management jurisdictions created by over 55 new laws issued since 2011 left many grey areas in which the governors could operate, taking advantage of uncertain criteria to cherry pick reconstruction proposals and enjoying a broad scope for corruption and shabby deals. Administrative decentralization without fiscal decentralization created new ways of transforming local ordinances into direct transactional deals taking place outside the State's formal accountability frameworks. While such informal transactions had always been

practiced in the shadows in the past, they have been sanctioned by law since 2011. Informality is being incorporated and codified to expand the use of the State and State assets in a transactional manner outside the channels of formal accountability.<sup>95</sup> More importantly this deep informalization of the local resource base is being done under the guise of “treating the problem” of informal settlement areas and formalizing spontaneous housing.<sup>96</sup>

### **1-3 Socio-economic transformations (solidarity, aid dependency, and radicalization)**

While the deep structures of extraction/redistribution may have persisted during the conflict, social structures upholding the social contract at the local level have been dramatically transformed. New forms of socially organized production and consumption have come into play even when the trajectories of value chains have been constrained by geographical limitations. Poverty has increased in depth and breadth. Unemployment has soared and an ever-increasing proportion of the population is dependent on aid to survive. The number of formal jobs has decreased, and those that remain are no longer accessible for most Syrians.<sup>97</sup> Households must diversify their income, tapping mostly into informal and less secure work, child labour, and the gradual inclusion of women in the labour force. Communities can no longer depend on formal local governance structures to deliver public goods and, in most places, they must fend for themselves to maintain basic services.<sup>98</sup> However, despite these major transformations, household dependency levels are still high, and the loss of the main breadwinner (often a male) will likely have a detrimental effect on families.<sup>99</sup>

Social transformations are likely to be deeper and more permanent than economic ones, as informality is not simply related to the degree of economic formality but also to the social interactions surrounding the production of value. The following sections of this paper will examine some deeper social transformations and their long-term implications for societal and economic informalization.

#### **Community capital:**

The informal economy is often decried by economists as choking the potential of the formal economy. But informality has its own logic and cannot be understood simply as the absence of formality; that logic is likely to persist in the post conflict.<sup>100</sup> The informal economy may provide less job safety and weaker protection, but it reduces transactional costs and maximizes dependency on social capital to cover social protection gaps.<sup>101</sup> Economic logic is immersed in social networks and local solidarity, as game theory is more concrete at the local level and less abstract than in the formal economy.<sup>102</sup> Historically over the last five decades, the national government tried to centralize social solidarity support (healthcare, social benefits, etc.),<sup>103</sup> yet it failed to provide these benefits to all.<sup>104</sup> The informal economy wove local solidarity

principles into the ethical codes of economic transactions. Local value chains and local social solidarity networks have always been closely intertwined in Syria.

The breaking down of larger nationwide value chains has often been circumvented by re-wiring economic flows at the local level. Displacement has created two types of geographies in Syria: settlements where communities hosted a very large number of new IDPs and became more heterogeneous; and communities that repelled refugees and IDPs, becoming more homogeneous but more hostile to others.<sup>105</sup> Both relied on new communitarian social networks to survive, albeit in different ways. In each case, the traditional mode of using local resources was put to the challenge. Local governance institutions were no longer capable of generating local revenues or tapping into national revenues.<sup>106</sup> Communities across the board have had to revisit their local resources and reorganize them in more adaptable forms.<sup>107</sup> The most readily available resources were State assets and the assets left behind by people who were displaced from a given area. The misuse of these assets is likely to have long-term repercussions on the ability of refugees and IDPs to return and of State institutions to get up and run again.

However, from another perspective, the dwindling of formal resources has led communities to seek resources elsewhere. Self-help, collaborative projects, community-funded infrastructure, charity and remittances are on the rise. The State's semblance of domination of the commons is markedly weakened, and new forms of commons are emerging. Communities under siege have learnt to produce their own agriculture and organize basic services for themselves.<sup>108</sup> While the need for many of these resilience alternatives may no longer be critical in the post-conflict period, their impact on communities may have a much longer-lasting effect than the symbolic political structures that generated them. New experiments in local governance sprung up across the various geographies and under different modes of political control.<sup>109</sup> Some will survive, others will not. However, the legacies they will leave behind, with communities more aware of how local authorities access resources and how the communities can hold these authorities accountable, may well survive. As a result, local authorities will need to pay more attention in the future to their communities to gain legitimacy.<sup>110</sup>

The collective working space below the local government level is often structured around social entrepreneurship, local CBOs, informal initiatives and temporary commons.<sup>111</sup> New practices are taking hold, and no formal governance entity is willing or can afford to ignore them. These practices, centred on social networks, are concrete and more accessible than those of the State.<sup>112</sup> Whatever centralized social security systems may emerge after the war will be challenged to provide as concrete a service as the informal economy has been able to provide.

However, these patterns of community resilience are also susceptible to abuse and coercion by warlords. Many local warlords are already being incorporated into local governance structures.<sup>113</sup> Some are able to use the formality of their new positions to advance the informality of their networks on the ground by developing new forms of patronage and directly engaging local solidarity networks. This interconnectedness of formal and informal structures in providing services and meeting the basic survival needs of local communities is likely to hinder the emergence of viable formal local governance functions for years to come. This will have indirect implications for the ability of communities to freely elect independent representatives or to elect local leaders to national-level governance structures. With or without a political deal to end the conflict in Syria, the first step in any political reform is to break the cycle from the bottom, at the local community level, where local leaders have

legitimacy and can in turn contribute to supporting the political quests of more influential national leaders.

### Aid, social dependency and chipping away at the State's formal role

Aid flowed into Syria from the onset of the conflict and has grown steadily, diverting development-oriented to humanitarian uses.<sup>114</sup> However, when the conflict stretched into its second and third years, a whole humanitarian system was deployed to deal with the magnitude of the humanitarian crisis. How necessary, neutral, accessible, effective and relevant that aid was goes beyond the scope of this paper. However, its long-term economic impact was devastating. Designed in many cases to achieve economies of scale for humanitarian operations, large-scale procurement resulted in external sourcing competing with local supply chains and often driving them out of business. Moreover, aid delivery was carried out based on disaggregated need-assessment processes codified in the Humanitarian Needs Outlook (HNO) and the Humanitarian Response Plan (HRP). The HNO was not recognized by the government of Syria, which only negotiated the mechanisms of aid distribution highlighted in the HRP. Delivery was asymmetrical and often reflected outdated priorities or needs assessed on a national or regional level, creating redundancies in certain areas or sectors and shortages in others. The surplus was not sustained, and the gaps not normalized (overall, aid failed to cover more than 20% of lost public spending and had far fewer multiplier effects in the local economy).<sup>115</sup> At the local level, this created competition for aid resources and for lucrative deals to implement aid programmes. It also created indirect disputes between aid delivery and local markets. The aid was eventually usurped by local markets through corruption networks, in which aid delivery was bought from recipients, collected and sold to wholesalers, and sometimes sold back to the aid agencies themselves.<sup>116</sup>

A culture of dependency slowly stifled viable local markets and production processes.<sup>117</sup> In addition to distorting local markets, aid often served to corrupt local solidarity networks and turned people in need into “beneficiaries”. Social capital built on civic or communitarian values was gradually overtaken by more robust but less sustainable structures, such as professional NGOs and humanitarian agencies.<sup>118</sup> Social capital indicators have shown dramatic drops across the board as early as 2014.<sup>119</sup> This includes indicators related to volunteerism, despite the rise in the number of NGOs (those registered in Damascus or those operating without a license in the different parts of the country). Moreover, many business leaders complained that their salary scales could not compete with aid packages delivered by some humanitarian organizations.<sup>120</sup> This often affected the lower end of the salary scale. Finally, a significant proportion of the remittances sent by Syrians from abroad was used for humanitarian purposes rather than asset accumulation and/or investments in the local economy.<sup>121</sup>

United Nations discussions on humanitarian access wasted important political and policy space that should have focused on sustaining livelihoods.<sup>122</sup> Livelihood support came too little too late after 2015 and often as a temporary substitute for humanitarian donations at first (such as temporary work-for-cash programmes).<sup>123</sup> Donors often driven by a concern to “do something” but constrained by fears of “doing harm” thought of humanitarianism as the safest

political bet for their interventions. In doing so they ignored the opportunity costs that humanitarianism creates in societies. Important donor leverage could have been used to avoid violence, enhance stability and support recovery. Opportunities were wasted because donors feared the reputational risks of working with a long-term developmental perspective in a way that could be misconstrued as supporting full-fledged reconstruction before a political resolution to the conflict was reached. Funds aimed at “stabilization” and “resilience” were late to the game and often managed by the same delivery structures that had initially managed humanitarian aid. Dispensing these funds often followed the same supply-side logic of aid distribution. In doing so, aid played a devastating role by deepening dependency and fragmenting local agency rather than supporting it.<sup>124</sup> That being said, there is little alternative to UN channels today to transform aid mechanisms and refocus international donor funds on formal service structures such as fixing water lines rather than trucking in water.

By dissociating aid from formal economic processes, aid organizations indirectly contributed to the informalization of society. Aid is often delivered through partner NGOs or via direct delivery by the UN and international organizations. To manage the logistics of aid in a way that would not legitimize or support the Syrian government and the warring actors, the aid was delivered through a limited number of gatekeepers: a select number of NGO, vetted by the Syrian government in government-controlled areas,<sup>125</sup> and vetted by UN sector-specific “clusters” in non-government-controlled areas.<sup>126</sup> New economies are created around the delivery of aid and new actors are emerging. These may be registered and vetted actors, but they are acting outside the realm of public accountability. They may be contributing to life-saving activities, but they are undermining the formal act of statecraft. More importantly, they are enabling the substitution of activities that generate economic multipliers with ones that produce none. Aid patterns built on closed supply chains are likely to create gatekeepers rather than scalable enabling environments.<sup>127</sup> Also, they are syphoning human resources away from the formal sector to a point at which it will be impossible to redirect these resources back to their sources in the future. Moreover, as a new humanitarian crisis is looming with food shortages and inflation reducing food security for the overwhelming majority of the population, the transition from humanitarian aid to development aid needs to be carefully considered. The need for aid will continue to reinforce local political economies fixated on dependency on outside aid. The implication of this deep pattern of informalization will be felt for years to come after the war.<sup>128</sup>

### The economic logic of radicalization

The conflict in Syria has deep historical roots along with some more recent ones. The secular/religious debate that erupted in the post-Ottoman era was never resolved through a sustained political dialogue.<sup>129</sup> The secular tendencies of most of the country’s modern history have alienated many conservative voices and driven a few towards radicalization. Social and religious leaders as well as some of their followers found refuge in some Gulf countries with which they nurtured political and economic ties. These networks were often used to support conservative and ultraconservative social agendas back home, and a small minority deployed resources to sponsor more radical armed formations. The links between some of the informal and black-market businesses to terrorist networks were formed before the Syrian conflict and

will certainly outlast it.<sup>130</sup> If anything, the conflict has solidified these networks and provided them with more radical sectarian overtones.<sup>131</sup> In the reverse direction, the secular state used various sectarian-based social forces and institutions.<sup>132</sup> It encouraged religious elites to become brokers of political patronage and clientelism.<sup>133</sup>

Accusations abound that the Syrian State instrumentalized sectarian militias and turned a blind eye to their radical ideologies in the fight against its opponents.<sup>134</sup> However, the blame game of who drew blood first is of little relevance to understanding the economic impact of radicalized networks on the local economy. Economic networks that support and sustain radical agendas (and in many cases terrorist operations as well as radical military non-state actors) have evolved complex systems for laundering their funds and in some cases invested their funds in lucrative short term financial endeavours.<sup>135</sup> They use multiple funding streams and manage risks by diversifying their surplus funds into both short-term high-yield opportunities and more long-term, low-risk opportunities using highly globalized networks.<sup>136</sup> In both cases they flourish in informal markets with weak regulatory oversight. Sectarian militias often carried out armed action and terrorist attacks to destabilize formal markets. However, their aversion to formality does not negate their preference for stable and predictable markets to sustain themselves in intractable conflicts. Their funds often follow the same transactional routes as those from other illicit activities like the drug trade and contraband smuggling.<sup>137</sup> This allows them to foster patron-client relations of their own and enables them to establish negative social capital by sponsoring social programmes that might be of relevance to some community groups to the exclusion of others.<sup>138</sup>

In Syria, radicalized actors on all sides channel substantial resources back and forth and thrive on informal money transfer systems (hawala). These informal systems do not actually move money physically; they just enable the bartering of money across borders.<sup>139</sup> Humanitarian inputs into the hawala system on one side will be transformed into transfers on behalf of radical armed actors on the other. In the absence of a transparent banking system (which was made impossible under the sanctions regime), the hawala system created an important loophole to fund radical actors.<sup>140</sup> Turkey has recently instituted formal money transfer institutions in the Euphrates Shield area partly because of international concerns.<sup>141</sup> However, the whole system remains poorly regulated, and across other borders (and in areas controlled by the GoS), the weak regulatory nature of money transfer operations has played into the hands of different radical actors (both loyalist and opposition-leaning non-state actors bypass the sanctions using the hawala system). The transfer of money into Syria involves considerable transaction costs, exchange-rate losses and mechanisms to allow laundered funds to leave the country while remittances are being sent in. This works to the direct advantage of actors that are incentivized to continue the war. In net macro-economic terms, the remittances are effectively offset by the flow of money out of the country through the hawala system or through poorly regulated money transfer channels.<sup>142</sup>

## **Part 2: The informalization of the political economy and its impact on peace and stability in the future**

As noted above, the conflict in Syria has deepened informal, pre-conflict patterns in the national and local economies. This is not only a question of magnitude. The profound changes to the political economy will be felt for years to come with or without a formal end to the conflict. The informalization of the economy and the politics of resilience have not yet degraded the State to the point of collapse. Indeed, what we are witnessing is a coupling of formal and informal instruments of governance, economic extraction and redistribution.

Many western observers and policy makers are asking when and if the Syrian regime will fail? This section of the paper will try to demonstrate how misguided that question is. The intertwining of formal governance with informal resilience mechanisms will ensure that the old and emerging elites will continue to dominate the deeper patterns of the political economy. The State may eventually collapse into what Alex de Waal calls the “violent political marketplace” where governance becomes transactional and wealth and resources are distributed among top elites and their patronage networks.<sup>143</sup> However, so far, the main indicators are pointing to a strong consolidation of State formality by coupling it with informal processes, an instrumentalization of informality that is deeply engrained in the political economy. Transforming this situation will require weighty investments to support the emergence of alternative mechanisms. This predicament is not addressed in the international debate, and most external actors prefer to pay the marginal cost of sustaining the conflict rather than making the investments needed to transform it.

### **1-4 2-1 The Caesar Act and the deepening of informality**

The Syrian economy’s tailspin was already apparent in the latter half of 2019. The collapse of the Lebanese banking system deprived the Syrian economy of its final formal outpost, and by the end of the year the passing of the Caesar Act in Washington sent ripple effects through the Syrian economy and its small and medium-sized private-sector networks.<sup>144</sup> The banking sector in Syria shrank considerably in the initial years of the conflict, and the few banks that have survived are maintaining only skeletal operations. While some banks have expanded to a limited extent (to fill the space left vacant by the bigger banks pulling out and reducing their risky portfolios), the banking sector as a whole was risk-averse, and over-compliance with external sanctions widespread.<sup>145</sup> Some banks focused on small-scale banking services to survive.<sup>146</sup> Apart from State-run banks, most of Syria’s private banks are co-owned by outside (mainly Lebanese) banks. Many of these banks put in place strict firewalls between their operations in Lebanon and those in Syria. But the banking collapse in Lebanon and the fear that the Syrian central bank would be slapped with new and more aggressive sanctions were the last straw.<sup>147</sup>

The Lebanese and Syrian currencies collapsed simultaneously. But in Syria the State was able to slow foreign exchange through an iron fist and strict capital controls, while easing conditions on remittances flowing into the country. However, to ensure their monetary policies

were obeyed, the central authorities called on top business elites to show a greater commitment than in the past to the stability of the Syrian economy.<sup>148</sup> A lukewarm commitment to the economy became less and less acceptable in Damascus. Top businesses were gently reminded that they needed to show a direct commitment to stabilizing the economy by repatriating much of their extracted profits. When these gentle calls for solidarity brought about only token contributions, the State adopted a more aggressive stance. Auditors were sent to businesses, and tax assessors were given a broad mandate to seek back taxes. Public-private partnership agreements were renegotiated, and when some private-sector actors refused to change the terms of their agreements, the contracts were taken away and given to the next bidder.<sup>149</sup> This move was interpreted from the outside as a changing of the guards, especially as some of the cases covered most widely by the media involved key regime figures, including the president's own cousin.<sup>150</sup>

Many of the top business opportunities were given to new investors willing to provide the State with a higher share of revenues. This is creating wide rumours of who is in favour and who has fallen out of favour at the upper echelons of the economy in Syria.<sup>151</sup> Many of the new names seem to have some connection to the Gulf countries.<sup>152</sup> These rumours have proven accurate, as many of the old business elites lost their seats in the parliamentary race of 2020 or “voluntarily” pulled out in the last minute.<sup>153</sup> The last parliamentary election shows the endurance of some old elites alongside the emergence of a new crop of business figures. These new elites have surfaced both at the top level as well as among the rank and file of the Ba’ath party, which was trying to reinvigorate its presence on the ground.<sup>154</sup> This latest election was telling not in terms of its democratic standards but in terms of understanding the new faces of political patronage. The first round of internal Ba’ath party “consultations” to name the party’s candidates featured new names with substantial wealth that was lavishly used to influence the outcome of the local consultations.<sup>155</sup>

In many authoritarian political systems, elections have distinctive political functions even if these functions are not democratic.<sup>156</sup> Elections in Syria are hardly a manifestation of a fair and transparent process, and they were often used to reinvigorate the legitimacy of the political system by acclamation, demonstrate the system’s ability to impose order on society and announce the mode of political patronage deployed at the time. Independent candidates often had to fund their campaigns in order to get enough votes and ensure that key central authority figures supported their candidacy. However, it was not very common for Ba’ath party members to do the same in their internal elections. The 2020 parliamentary election thus ushered in a new norm.<sup>157</sup> At both the top level and the lower levels of the political system, the state is making it clear that you can only benefit from the war economy if you show a constant commitment to the State and its central authority. The laissez-faire approach that characterizes the war economy is slowly being recentralized, as the centre recalibrates its economic defences and bunkers down in order to survive over the long run.<sup>158</sup>

This new logic of survival will have long-lasting impacts on the future of politics in Syria. The sanctions are the cause for a great deal of debate, and their humanitarian impact and the harm they are causing to everyday Syrians is a subject of lively debate.<sup>159</sup> However, regardless of the arguments being put forward on either side of the debate, one thing is clear: the central authority in Syria has perhaps been somewhat weakened by ten years of war and sanctions, but the relative power of that authority vis-à-vis the rest of the society has expanded greatly. The Syrian political system had a distinct pyramid shape, unlike most other Arab countries where the pyramid was very narrow at the top. In Syria, the power pyramid had very wide



shoulders, where patronage and resources could be easily distributed to its bases. This created a sizable stratum of clients,<sup>160</sup> including a substantial middle class that emerged in the wake of economic reforms since 2000 and was directly linked to the State.<sup>161</sup> After ten years of war the power pyramid is narrowing at the top and its ability to distribute wealth and favours through its broad stratum of upper elites is diminished. This weakens direct demand on the top of the pyramid and renders the centre relatively more powerful than ever.

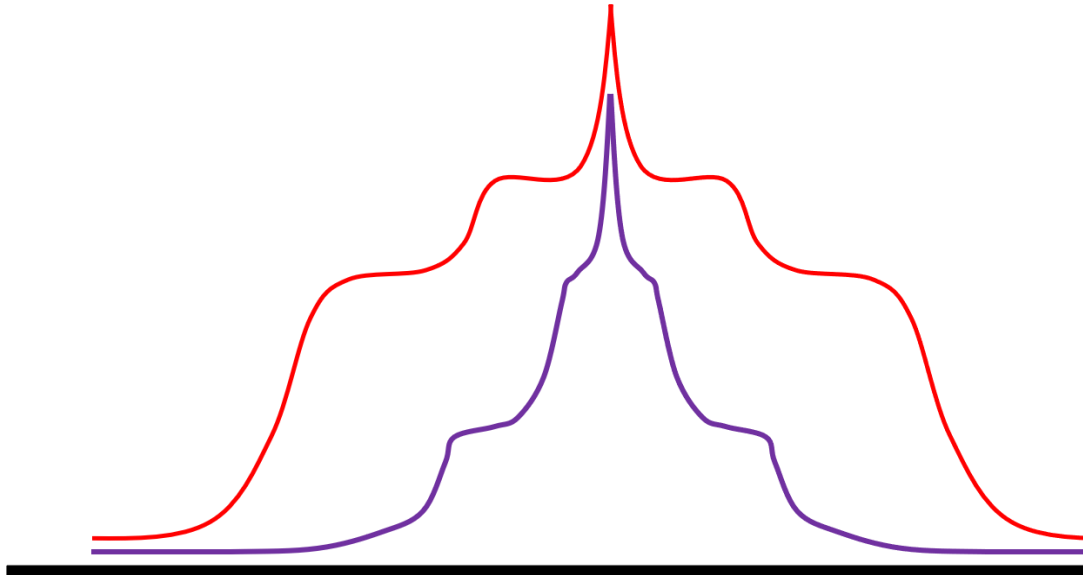


Figure 2: A sketch to explain the changing hierarchy of power between 2010 (red) and 2021 (purple). <https://sp-today.com/news/8091>

The sanctions have done little to challenge the survival of the political order in Syria. Through a mixture of the reformation of the extractive instruments of resource accumulation and the increased informalization of the redistribution of wealth, Syria's political order proved to be highly resilient. Expendable actors were replaced when necessary, ensuring the system as a whole could maintain its grip on the deep structures of the economy. Those structures will not be affected by the sanctions. Though some of the elite nodes of power may have their privileges challenged, the fine calibrations of formal and informal instruments of statecraft will not greatly alter the stability of the political economy as a whole.

### 1-5 2-2 Deepening the informalization of the society and the risk of state failure

As was discussed in the previous section, during the conflict, the power pyramid has gradually changed shape. By narrowing at the top and depending on a less prominent class of elites, which effectively reduced the ability of the old elites to challenge the State in its moment of weakness, the centre of the pyramid is today relatively stronger. The old political/bureaucratic/military/security system and its clients and partners in the business sector have lost considerable power to new actors that have emerged particularly in the last

two years. This provides the centre with new forms of allegiance and resources needed for its survival. This was enabled directly and indirectly by extracting maximum resources from the local economy, thus shifting the burden of the sanctions to the middle class and the poor.<sup>162</sup> Regardless of the logic of the sanctions and its declared exemption of humanitarian aid, the fact of the matter is that the segments of society that may impose any challenge and drive demands for reform from the bottom up are today weaker than ever, with many having been displaced, driven into poverty or forced into higher levels of dependency on elite patronage.

Even the most ardent of authoritarian systems are dependent on a careful calibration of the social forces around them to ensure their survival. The sanctions and the war have weakened society's ability to achieve viable forms of political and social agency in the future. Regardless of whether the political process will eventually materialize or if open and free elections are likely to take place in Syria, the social forces needed to coalesce and viably call for reforms and concessions from the centre in return for their loyalty have been obliterated for years to come. Douglas North et al. speak of the close link between democracy and open-access orders capable of wide redistributive functions in order to control violence.<sup>163</sup> The transformation from a natural state to an open-access order are arduous and depend on the transformation of the social order. In a post-conflict situation, policy reforms are not the most effective means for alleviating poverty and distress.<sup>164</sup> Indeed, liberal peace-building theories built on resolving conflict and supporting reconstruction through reformed institutions are not a norm backed by strong evidence from other post-conflict situations. Avoiding a return to conflict often depends on a careful balance of power in the emerging post-conflict order.<sup>165</sup> Stability in the post-conflict period is often valued more than reform.

The Syrian conflict is far from reaching a resolution in line with liberal peace-building principles, as the balance of power on the ground among Syrian political factions is greatly dependent on external stakeholders and forces. Yet, the theory of change proposed in Security Council Resolution 2254 is based on an externally calibrated political transition among unequal political forces in accordance with a liberal peace-building model. Assuming the careful calibration of external political interference in Syria reaches some level of maturity so that SC 2254 can be implemented, the balance of power is not likely to endure afterwards. As this paper has indicated, the country's political economy reflects deeply engrained patterns of extraction and redistribution through a resilient system of formalization and informalization. This will render the emergence of new social forces to challenge the system and demand reform almost impossible without greater inputs into the economy that can incentivize not only peacebuilding but also the transformation of the social order. Many of these inputs are a priori conditions to a transition to peace.

The reform process in Syria has a long way to go. Society must be empowered from the bottom up to organize and extract concessions from the top. However, society has been weakened and is holding onto the last vestiges of a social contract under which the formal instruments of State are able to extract surplus values in return for increasingly informalized mechanisms of distribution that are being gradually incorporated into the legal corpus of the State. This social contract tolerates corruption and accepts the narrative that the sanctions are the main reasons behind the country's economic degradation. This will not change so long as the alternative is State failure. There is no viable alternative being created, as international efforts are only focused on the top of the pyramid and not on the political economy sustaining it. The State may be saved through a political deal that would enable its elites to sustain their critical

balancing role; hence the insistence by Damascus on linking the fate of the State to the fate of its elites in any discussion about sanctions.

Relaxing the sanctions may alleviate the flow of external resources and allow the top elites to maintain their balancing act and the current social contract for a while longer. However, while Damascus is desperately insisting on such a flow of external resources, the political order will survive with or without them because of its ability to play emerging elites against each other and to replace dispensable elites periodically. But as the ability to maintain the social contract weakens, we are likely to see society collapse along with all the associated risks. The careful balancing act between formality and informality will not last forever, but when it finally collapses, it is not the top political elites who will disappear. Syria will be a Somalia redux, reverting to a violent political marketplace based on the complete informalization of public institutions.

### **1-6 2-3 Consequences of informality? Is there a way forward?**

So far, the Syrian State has managed to secure its grip on the balance between the formal and the informal, but the more it is put under pressure, the more it has been willing to rely on informality to deal with its shrinking resources and legitimately extract resources. The point of no return is not the collapse of the “regime” but the collapse of formal State functions. That point may not be far in the future. At that stage, the ruling elites are likely to completely link their survival to informal power dynamics. In that scenario, the forces opposing Syria’s political order will be the biggest losers, as they have not mustered sufficient clientelism and have little social capital and social patronage to capitalize on in creating a viable opposition to the top ruling elites. The deep patterns of extraction will continue within an open but violent political marketplace according to the definition of the term offered by de Waal et al.<sup>166</sup> It will be an intractable conflict that challenges its neighbour’s stability for decades.

Political marketplaces may best be managed through increased investments in the “civiness” of humanitarian and resilience actors,<sup>167</sup> but such marketplaces cannot be resolved per se. Civic actors in Syria have played an important role in holding Syrian society together, but they are increasingly affected by the shifting patterns of the political economy. The impact of the sanctions on their work may not be direct, but bank de-risking strategies are hindering their ability to move funds outside the hawala system,<sup>168</sup> thus indirectly out of the reach of the local warlords’ powers. The focusing of aid on one specific type of actor, mainly NGOs, has created deep habits of aid dependency. The delivery of aid resources in Syria is not creating net gains in the country, as the net input of aid is offset by external transfers. The civic actors’ main contribution should not be evaluated in terms of how much aid they move, but how much value added they create. This refers to where aid needs to be redirected to stabilize society and protect it from total collapse, the failure of the State, and the transformation of elite politics into a direct transactional political marketplace.

Syria is not there yet but is heading in that direction very quickly. An investment now in civic bodies operating at the intersection between local communities and their local governments in order to support society and prevent its collapse may provide the only leverage to sustain society and perhaps reverse course towards a gradual refocusing of the economy on formal

channels of distribution as opposed to informal channels of distribution. Over the long run this may facilitate the transition to a social order that is less violent and, perhaps, to a gradual transformation of formal governance structures. There are no magic solutions, no liberal peace-building formulas, just the building blocks of the political economy to create social forces capable of challenging the top elites' extractive processes. This will require a new political economy, new aid mechanisms and new urgency to engage with society from the bottom up and stop hoping to change the system solely from the top down.

## 1-1 Endnotes

<sup>1</sup> Perthes, Volker. (1995). *The Political Economy of Syria under Assad*. I.B. Tauris: London. P. 203 ff.

<sup>2</sup> Matar, Linda. (2016). *The political Economy of Investment in Syria*. Palgrave: New York. P. 65 ff.

<sup>3</sup> Al Laithy, Hiba and Abu-Ismaïl, Khaled. (2005): *Poverty in Syria, 1996–2004: Diagnosis and Pro-Poor Policy Considerations*. United Nations Development Programme: Damascus. P. 48.

Aita, Samir. (2009). Labour Markets Policies and Institutions, with a Focus on Inclusion, Equal Opportunity and the Informal Economy, National Background Paper: The Case of Syria. ILO. P. 83.

<sup>4</sup> Perthes, P. 94 ff.

<sup>5</sup> Hinnebusch, Raymond. (2009). "The Political Economy of Populist Authoritarianism". In Raymond Hinnebusch and Soren Schmidt, *The State and the Political Economy of Reform in Syria*. The University of St. Andrews Center for Syrian Studies: Fife, Scotland. P. 15 ff.

<sup>6</sup> See for instance:

Abu-Ismaïl, Khaled, Abdel-Gadir, Ali and El-Laithy, Heba. (2011). *Poverty and Inequality in Syria (1997–2007)*. United Nations Development Programme: New York.

<sup>7</sup> Ghrawi, Amer N. (2015). *An Elusive Hope: State Reform in Syria, 2000–2007*. Klaus Schwarz Verlag: Berlin P. 221 ff.

<sup>8</sup> Matar, 91 ff.

<sup>9</sup> Abboud, Samuel. (2002). *Afkar hawla qadiya al mousharakah al sha'biyyah bi al tanmiyah fi souria*. Reda Publishing Press: Damascus. P 38 ff.

<sup>10</sup> Abboud, Samer. (2009). "The Transition Paradigm and the Case of Syria". In Samer Abboud and Ferdinand Arslanian, *Syria's Economy and the Transition Paradigm*. The University of St. Andrews Center for Syrian Studies: Fife, Scotland. P. 29.

<sup>11</sup> See for instance:

Al-Siyoufi, Qahtan. (2008). *Al siyasah al maliyyah fi souriyyah: adawatouha wa dawrouha al 'iqtisadi*. The General Syrian Commission for Books: Damascus. P. 81 ff.

<sup>12</sup> See for instance:

<http://www.mafhoum.com/syr/articles/jlaylati/jlaylati.htm>

Sou'aifan, Samir. (2009). *Qadhaya al 'iqtsad al souri: 2003–2008*. Atlas: Damascus. P. 279 ff.

<sup>13</sup> Ghrawi. P. 145 ff, P. 195 ff.

<sup>14</sup> Haddad, Bassam. (2012). *Business Networks in Syria: The Political Economy of Authoritarian Resilience*. Stanford University Press: Stanford, California. P. 84 ff.

<sup>15</sup> Statcher, Joshua. (2012). *Adaptable Autocrats: Regime Power in Egypt and Syria*. Stanford University Press: Stanford, California. P. 120 ff.

<sup>16</sup> Perthes. P. 94 ff.

<sup>17</sup> For some examples of Syrian value chains see:

[http://scbdi.com/uploads/Presentation-for\\_Skype\\_meeting\\_with\\_Cairo\\_1.pdf](http://scbdi.com/uploads/Presentation-for_Skype_meeting_with_Cairo_1.pdf)

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<https://europe.mercycorps.org/sites/default/files/2020-01/FINAL%20Mercy%20Corps%20Lebanon%20Tomato%20Value%20Chain-%20Branded.pdf>

Last visited November 20<sup>th</sup>, 2020.

<sup>18</sup> Ghrawi. P. 204.

<sup>19</sup> Abboud, Samuel. P. 75 ff.

<sup>20</sup> Abboud, Samer. (2016). *Syria*. Polity Press: Cambridge. P. 40.

<sup>21</sup> See for instance:

Rey, Matthieu. (2013). "La révolte des quartiers: Territorialisation plutôt que professionnalisation". In François Burgat and Bruno Paoli, *Pas de printemps pour la Syrie*. La Découverte: Paris.

<sup>22</sup> See for instance:

Matar. P. 107 ff.

<sup>23</sup> Abu-Ismaïl, Abdel-Gadir and El-Laithy. P. 13 ff.

<sup>24</sup> Aita. (2009) P. 54 ff.

<sup>25</sup> Hallaj, Omar Abdulaziz. (2015). *The Balance-Sheet of Conflict: Criminal Revenues and Warlords in Syria*.

[Hallaj NOREF Clingendael The balance-sheet of conflict criminal revenues and warlords in Syria Apr 2015 FINAL.pdf](#)

Last examined November 20<sup>th</sup>, 2020.

<sup>26</sup> Syria had one of the highest rates of youth 20–24 years old in the population in the Arab region peaking at above 10% in the three years preceding 2011. United Nations Population division:

[World Population Prospects - Population Division - United Nations](#). Last visited November 20<sup>th</sup> 2020.

<sup>27</sup> Ghrawi. P. 221 ff.

<sup>28</sup> See for instance:

The World Bank. (2017). *The Toll of War: The Economic and Social Consequences of the Conflict in Syria*. The World Bank Washington, D. C.

<sup>29</sup> Hallaj, Omar Abdulaziz. (2017). "Geographies of Absence: Radicalization and the Shaping of the New Syrian Territoriality," *New England Journal of Public Policy*. Vol. 29: Iss. 1, Article 10. <http://scholarworks.umb.edu/nejpp/vol29/iss1/10>.

Last visited November 30<sup>th</sup>, 2020.

<sup>30</sup> See for instance:

Baczko, Adam, Dorransoro, Gilles, and Quesnay, Arthur. (2016). *Syrie: Anatomie d'une guerre civile*. CNRS Editions. P. 313.

Daher, Joseph. (2018). *The Political Economic Context of Syria's Reconstruction: A Prospective in Light of a Legacy of Unequal Development*. European University Institute: San Domenico di Fiesole, Italy.

<sup>31</sup> Abu-Ismaïl, Khaled, et. al. (2016). *Syria at War: Five Years on*. UN ESCWA and the University of St. Andrews: Beirut and Fife, Scotland. P. 14 ff.

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<sup>32</sup> Hallaj, (2017).

<sup>33</sup> Abdel Samad, Ziad, et. al. (2016). *Informal Employment*. Arab NGO Network for Development. P. 173.

<sup>34</sup> Aita, Samir. (2017). *Informal Labor in the Arab Countries: Facts and Rights*. Arab NGO Network for Development. P. 55.

<sup>35</sup> Daher, (2018).

<sup>36</sup> Hallaj, (2015).

<sup>37</sup> Broad claims were made as to how the State was able to coopt humanitarian aid. While many of the claims made were substantive, there has not been a comprehensive study on the cumulative effect of State funding and humanitarian aid on the prospects of the war economy. See for instance:

Human Rights Watch. (2019). *Rigging the System: Government Policies Co-Opt Aid and Reconstruction Funding in Syria*. [Government Policies Co-Opt Aid and Reconstruction Funding in Syria | HRW](#).

Last visited November 20<sup>th</sup>, 2020.

However, many of these studies fail to see the universality of the war economy patterns across the whole Syrian geographies with all State and non-state armed actors.

<sup>38</sup> Syria has always had a problem with its tax policies. The taxes were not congruent with the country's economic potentials and carrying capacity.

<http://www.mafhoum.com/syr/articles/jlaylati/jlaylati.htm>

Last visited November 20<sup>th</sup>, 2020.

<sup>39</sup> Hallaj, (2017).

<sup>40</sup> Turkmani, Rim, et. al. (2015). *Countering the Logic of the War Economy in Syria; Evidence from Three Local Areas*. London Scholl of Economics: London. P. 30.

<sup>41</sup> Hallaj, (2017).

<sup>42</sup> Ibid.

<sup>43</sup> For more information see:

Allsop, Harriet and van Wilgenburg, Waldimir. (2019). *The Kurds of Northern Syria: Governance, Diversity and Conflicts*. I. B. Tauris: London.

<sup>44</sup> Ibid. P. 101.

<sup>45</sup> Ibid. P. 182.

<sup>46</sup> Baczko, Dorronsoro and Quesnay. (2016). P. 295 ff.

<sup>47</sup> Syrian Center for Policy Research. (2016). *Syria Confronting Fragmentation: Impact of Syrian Crisis Report*. Syrian Center for Policy Research. P. 37.

<sup>48</sup> Daher. (2019). P. 241 ff.

<sup>49</sup> Hallaj. (2017).

<sup>50</sup> Daher. (2019). P. 243.

<sup>51</sup> Ibid.

<sup>52</sup> Brio, D. (2015). "Warlords Governance: Transition Toward – or Coexistence with – the State?". In N. Radford and A. Trabulsi, *Warlords, Inc.: Black Markets, Broken States and the Rise of the Warlord Entrepreneur*. North Atlantic Books: Berkley. P: 51–65.

<sup>53</sup> For an interesting firsthand account on how one of the largest banks in Syria adapted and grew during the conflict, see:

Al Roumani, Louai. (2020). *Lessons from a War Zone: How to be Resilient in Times of Crisis*. Penguin: London.

<sup>54</sup> For more information refer to:

Haddad. (2012).

Perthes. (1995).

<sup>55</sup> The author had many discussions with private sector operators as part of his consulting work in Syria from 1993 to 2002, and as part of his work on developing youth entrepreneurship from 2010 to 2012. The comments made here reflect first-hand reflections and are not empirical in nature.

<sup>56</sup> Aita. *The Unintended Consequences of U. S. and European Unilateral Measures*. P. 39.

<sup>57</sup> Ibid.

<sup>58</sup> Nasser, Rabie and Mehchi, Zaki. (2012). "Role of Economic Factors in Political Movement the Syrian Case". [Role-of-Economic-factors-in-political-movement\\_The-syria-case\\_En.pdf](#). Last visited in November 20<sup>th</sup>, 2020. P. 13.

Last visited November 30<sup>th</sup>, 2020.

<sup>59</sup> Daher. (2019). P. 244 ff.

<sup>60</sup> Personal experience of author as well as discussions with a myriad of people who underwent such processes from 2010 onwards. Also see:

Hallaj, O. A, et.al. (2017). "Urban Housing and the Question of Property Rights in Syria". Syrian Echoes:

<https://syrianechoes.com/2017/12/21/urban-housing-and-the-question-of-property-rights-in-syria/>.

Last visited November 20<sup>th</sup>, 2020.

<sup>61</sup> Syrian Statistical Abstract 2018.

[المكتب المركزي للإحصاء \(cbssyr.sy\)](#). Last visited. November 20<sup>th</sup>, 2020.

<sup>62</sup> Ibid.

<sup>63</sup> Round table discussions facilitated by the author with different business leaders in 2019.

<sup>64</sup> See for instance:

[بعد «عقانة الدعم».. الحكومة تطلق شعار «إعادة هندسة الاقتصاد» ... الحكومة أمام «الشعب»: ولادة الجيل الثالث من الاقتصاد](#)  
[\(alwatan.sy\)](#) ضرورة تاريخية ... الحلقي لـ«الوطن»: حالياً.. لا زيادة على الرواتب - صحيفة الوطن

Last visited November 20<sup>th</sup>, 2020.

<sup>65</sup> Discussions with business actors operating in government-controlled areas, 2019.

<sup>66</sup> Syrian Statistical Abstract 2018.

[المكتب المركزي للإحصاء \(cbssyr.sy\)](#).

Last visited. November 20<sup>th</sup>, 2020.

<sup>67</sup> Daher. (2019). P. 241.

<sup>68</sup> Ibid.

<sup>69</sup> Ibid. P. 247 ff.



<sup>70</sup> See for instance:

[فنّ شراء التعافي! - صحيفة الوطن \(alwatan.sy\)](http://alwatan.sy).

Last visited November 20<sup>th</sup>, 2020.

<sup>71</sup> Daher. (2019). P. 247 ff.

<sup>72</sup> See for instance:

United Nations Development Programme in Syria. (2018). *Leaving No One Behind: Annual Report 2018*. UNDP: Damascus.

<sup>73</sup> See for instance:

<https://aliqtisadi.com/1266979-%D8%A7%D9%84%D8%A7%D9%82%D8%AA%D8%B5%D8%A7%D8%AF-%D8%AA%D9%86%D9%88%D9%8A-%D8%A5%D8%AD%D9%84%D8%A7%D9%84-%D8%A7%D9%84%D9%85%D8%B3%D8%AA%D9%88%D8%B1%D8%AF%D8%A7%D8%AA/>

Last visited November 20<sup>th</sup>, 2020.

<sup>74</sup> For more information on fiscal and trade policies see: Sou'aifan (2009).

<sup>75</sup> Ibid. P. 279 ff.

<sup>76</sup> While the Damascus Governorate owned holding company, known as the Damascus al Sham Holding, was announcing new investments in the millions in its flagship project of Marota City, there was not a clear vision on how much the final project would cost and no published detailed feasibility study. The figures announced as investing in the project albeit in the millions of US Dollars would not be sufficient to construct the stipulated structures. Accusations kept going back and forth between the investors and the Holding company about the reasons for the delay. In reality the project is still stuck in doing basic infrastructure on site and funds for construction are not forthcoming. Most investors could not expect immediate returns given the current market conditions. A pre-feasibility analysis on the implementation of law 10 done by the author revealed its low profitability in the current context. Investors in the project must have ulterior motives for investments. These could range from staking a claim on future speculation opportunities, securing political capital and money laundering among other reasons.

Hallaj, O. A. (2019). "Beyond Law 10: Economic and Social Challenges of Housing and Land Management in Post Conflict Syria". Lecture summary. In R. Turkmani, M. Theros and S. Hadaya eds. *Political Economy and Governance in Syria: Presentations from the Political Economy and Governance Conference Organized at LSE 3–4 December 2018*. Conflict Research Programme, London School of Economics and Political Science: London.

<sup>77</sup> Daher, Joseph. (2019). *Syria after the Uprising: The Political Economy of State Resilience*. Pluto Press: London. P. 232 ff.

<sup>78</sup> See for instance:

Ibid.

Tallaa, Maen et. al. (2019). *Economic Recovery in Syria: Mapping Actors and Assessing Current Policies*. Omran Center for Strategic Studies: Istanbul. P. 108 ff.

<sup>79</sup> [The war economy amid the Syrian chaos – How inter-cities and foreign trade fuel the war – Syrian Echoes](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>80</sup> <https://www.google.com/amp/s/amp.france24.com/en/20200615-syria-s-idlib-adopts-turkish-lira-in-place-of-plummeting-pound>

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Last visited November 20<sup>th</sup>, 2020.

<sup>81</sup> [The war economy amid the Syrian chaos – How inter-cities and foreign trade fuel the war – Syrian Echoes](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>82</sup> See for instance:

<https://www.google.com/amp/s/amp.ft.com/content/525ec4e4-e4a3-11e9-9743-db5a370481bc>

Last visited November 20<sup>th</sup>, 2020.

<sup>83</sup> See for instance:

Aita, Samir. (2020): *The Unintended Consequences of U.S. and European Unilateral Measures on Syria's Economy and Its Small and Medium Enterprises*. The Carter Center: Atlanta, Georgia. P. 19 ff.

Hallaj. (2017).

<sup>84</sup> For more information consult:

Khaddour, Kheder and Mazur, Keven, eds. (2019). *Local Intermediaries in post-2011 Syria Transformation and Continuity*. Friedrich-Ebert-Stiftung: Beirut.

<sup>85</sup> Aita. *The Unintended Consequences of U. S. and European Unilateral Measures*. P. 17.

<sup>86</sup> Hallaj. (2017).

<sup>87</sup> Personal discussion conducted by the author with officials from various donor European agencies held in 2018 and 2019.

<sup>88</sup> Syrian National Budget 2010.

<sup>89</sup> Daher. (2019). P. 247ff.

<sup>90</sup> Legislative decree 19 of the year 2015.

<sup>91</sup> Law 23 of the year 2015 and law 10 of the year 2018.

<sup>92</sup> See for instance:

Aita, Samir. (2020). *Urban Recovery Framework for Post-Conflict Housing in Syria*. Cercle des Economists Arabes: Paris.

Said, Salam and Yazigi, Jihad. (2018). "The Reconstruction of Syria: Socially Just Re-Integration and Peace-Building or Regime Consolidation". Friedrich-Ebert-Stiftung: Berlin.

<sup>93</sup> Preliminary investigations by the author into the feasibility of land pooling laws (in the way they have been formulated) and applying prevailing land prices in different cities and local contexts demonstrate poor feasibility in most cases and limited profitability as the law of diminishing returns kicks in. While some profits could be generated from long term speculation and perhaps money laundering, the actual intended returns to support local municipality to generate local funding are virtually non-existent. See:

Hallaj. (2019).

<sup>94</sup> It is not unheard of in the official news to see central government officials and governors announcing the promulgation of land management and reconstruction schemes that are nominally under the jurisdiction of the municipality and to take credit for them. See for instance:

[\(news.sy\) وضع حجر الأساس لأول منطقة تطوير عقاري في حمص – صحيفة تشرين](#)

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Last visited April 4<sup>th</sup>, 2021.

<sup>95</sup> See for instance:

Clerc, Valerie. (2015). "Informal Settlements in the Syrian Conflict: Urban Planning as a Weapon". Built Environment, Alexandrine Press, 2014, Arab cities after 'the Spring', 40 (1), p.34–51.

Also see:

[Valerie Clerc presentation from "Reconstruction as Violence: The Case of Aleppo" - YouTube.](#)

WWW. youtube.com/watch?v=Ca8j9lQcGbw

Last visited April 4<sup>th</sup>, 2021.

<sup>96</sup> [وزير الإدارة المحلية.. القانون رقم 10 الذي أصدره السيد الرئيس بشار الأسد اليوم مكرمة تتزامن مع الإجراءات التي تقوم بها الدولة لإعادة تأهيل المناطق المدمرة بفعل الإرهاب. \(pministry.gov.sy\)](#)

Last visited May 10<sup>th</sup> 2021.

<sup>97</sup> Aita. (2017). P. 55.

<sup>98</sup> The central State recognized its inability to provide infrastructure and services and the President ordered mayors in his discourse in February of 2019 to seek the participation of their local communities directly and not to relay on central government organs for their action.

[كلمة الرئيس الأسد خلال استقباله رؤساء المجالس المحلية من جميع المحافظات السورية - YouTube](#)

Last visited April 4<sup>th</sup>, 2021.

<sup>99</sup> <https://reliefweb.int/sites/reliefweb.int/files/resources/UNFPA%20Syrian%20women-%20headed%20households%2C%20hoping%20to%20survive%20and%20move%20on.pdf>

Last visited April 4<sup>th</sup>, 2021.

<sup>100</sup> Daher. (2019). P. 241 ff.

<sup>101</sup> Little anthropological research has been done inside Syria on the informal economy and its social organization. However, some field work has been conducted in refugee camps that point to new modes of leveraging social capital for survival and wellbeing. See for instance:

Davies, Richard. (2019). *Extreme Economics: Survival, Failure, Future, Lessons from the World's Limits*. Bantam Press: London. P. 42 ff.

Owaishek, Alina. (2016). "Al Bi'a al Mi'mariyyah wa al laji'a al souri/iyya". In Hassan Abbas ed. *Abhath li ta'miq thaqafet al ma'rifah: kham awraq 'an asi'let al rahen al souri*. Masmdouh Adawan Publishing: Damascus.

<sup>102</sup> Baczko, Dorronsoro and Quesnay. (2016). P. 277 ff.

<sup>103</sup> Perthes. P. 80 ff.

<sup>104</sup> For more information on inequalities in Syria see:

Abu-Ismaïl, Abdel-Gadir, and El-Laithy. (2011).

<sup>105</sup> Hallaj, Omar Abdulaziz et. al. (2018): *State of Syrian Cities*. UN Habitat.

<sup>106</sup> For more information see:

United Nations Economic and Social Commission for Western Asia. (2020): *Mapping Local Governance in Syria A Baseline Study*. United Nations: New York.

<sup>107</sup> See for instance:

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[CARE Understanding Resilience Perspectives from Syrians 2020.pdf \(care-international.org\)](#)

Last visited November 30<sup>th</sup>, 2020.

Said, Salam. (2019). *Local Economies in Syria Divisions and Dependencies*. Friedrich-Ebert-Stiftung: Beirut.

<sup>108</sup> See for instance:

Med-Chain Mediterranean Governance & Public Policy Institute. (2019). "The Olive Sector in Syria: Significance, Losses and Wartime Trajectories". In Said, Salam ed. *Local Economies in Syria Divisions and Dependencies*. Friedrich-Ebert-Stiftung: Beirut. P. 53 ff.

<sup>109</sup> Khalaf, Rana. (2015). "Governance without Government in Syria: Civil Society and State Building During Conflict". In Rashad al-Kattan, Rana Khalaf and Ferdinand Arslanian, *Semblance of Order and Institutional Layers of the Syrian Uprising*. Syria Studies, Vol 7, No 3 (2015).

<sup>110</sup> See for instance:

UN Economic and Social Commission for Western Asia. (2020).

<sup>111</sup> See for instance:

Khalaf, Rana et. al. (2014). *Activism in Difficult Times: Civil Society Groups in Syria 2011 – 2014*. Friedrich-Ebert-Stiftung: Beirut.

<sup>112</sup> Mazur, Kevin. (2020). "Networks, Informal Governance, and Ethnic Violence in a Syrian City". *World Politics*, Vol 72, Issue 3, July 2020. P. 481–524.

<sup>113</sup> Favier, Agnes and Kostrz, Marie, 2019. *Local Elections: Is Syria Moving to Reassert Central Control?* European University Institute: San Domenico di Fiesole, Italy.

<sup>114</sup> There is very little literature on the adverse impact of aid on the economy in Syria. Aid organizations have lobbied effectively to advocate for their work and minimize its harmful downside effects. In the absence of literature, most of the information in this section is drawn from conversations conducted with different aid organizations throughout the conflict. These were not formal interviews and as such this section could be construed as a firsthand account by the author.

<sup>115</sup> This is reflected in the latest report of the Humanitarian Needs Assessment Programme, where the median family income was 20% less than the family expenditure. Indicating a gap that the international aid is thought to cover, roughly 1.2 billion USD per year.

See:

Humanitarian Needs Assessment Programme. (2021). *Spring 2021 Report Series: Socio-Economic and Shelter Conditions*. Humanitarian Needs Assessment Programme, Syria.

<sup>116</sup> Informal discussions with officials involved in aid distribution. See also:

<https://npasyria.com/en/58270/>

Last visited May 12<sup>th</sup>, 2021.

<sup>117</sup> See for instance:

<https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620630/bp-syria-recovery-120319-en.pdf>

[www.theguardian.com/global-development/2016/jan/12/syria-entire-population-dependent-aid](http://www.theguardian.com/global-development/2016/jan/12/syria-entire-population-dependent-aid)

Last visited April 4<sup>th</sup>, 2021.

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<sup>118</sup> While the literature abounds regarding funding for resilience, most of it focuses on supply side thinking and little concerning outcome level and impact. And even this level of input oriented logic is a new comer to the game. Initial attitudes within the UN staff was adverse to resilience planning for the longest time. See for instance:

United Nations Development Programme in Syria. (2018). *Leaving No One Behind: Annual Report 2018*. UNDP: Damascus.

<sup>119</sup> Ismail, Ramia et. al. (2017). *Social Degradation in Syria: The Conflict Impact on Social Capital*. Syrian Center for Policy Research. P. 24 ff.

<sup>120</sup> Private dialogues with different business operatives in the different parts of Syria.

<sup>121</sup> See for instance:

[Value of Annual Remittances to Syria at \\$1.5 Billion - The Syrian Observer](#). Last visited November 20<sup>th</sup>, 2020.

Dean, Roger. (2015). "Remittances to Syria: What works, Where and How?". Norwegian Refugee Council.

<sup>122</sup> Author's observations from different meetings on HRP and 3RP reports.

<sup>123</sup> UNDP livelihood programs were scraped to a minimum in 2011 and were gradually re-initiated in 2015, but till today they cover only a small fragment of the actual pledges requested by the UN in Syria. See for instance:

United Nations Development Programme. (2019). *Supporting the Resilience of Local Communities: Annual Report 2019*. United Nations Development Programme in Syria: Damascus.

[www.unocha.org/sites/unocha/files/2021%20Needs%20and%20Response%20Summary.pdf](http://www.unocha.org/sites/unocha/files/2021%20Needs%20and%20Response%20Summary.pdf)

Last visited April 4<sup>th</sup>, 2021.

<sup>124</sup> Hallaj. (2017).

<sup>125</sup> Human Rights Watch. (2019). *Rigging the System: Government Policies Co-Opt Aid and Reconstruction Funding in Syria*. Human Rights Watch. New York. P. 35 ff.

<sup>126</sup> Alzoubi, Zedoun et. al. (2019). *Reinventing State: Health governance in Syrian Opposition-Held Areas*. Friedrich Ebert Stiftung: Beirut. P.34.

<sup>127</sup> Zwitter, Andrej. (2018). *Humanitarian Intelligence: A Practitioner's Guide to Crisis Analysis and Project Design*. Rowman and Littlefield: New York. P. 126–135.

<sup>128</sup> The argument for the expediency and efficiency of aid through extra state hierarchies will be strong in the post-conflict as it is during the conflict. There is very little correlation between aid delivery mechanisms and democratization. See for instance:

Hoeffler, Anke. (2011). "Aid, Policy and Growth in Post-Conflict Societies". In Paul Collier ed. *Conflict, Political Accountability and Aid*. Routledge: London. P. 100 ff.

Sorensen, Jens Stilhoff. (2019). *State Collapse and Reconstruction in the Periphery: Political Economy, Ethnicity and Development in Yugoslavia, Erbia and Kosovo*. Berghahn Books: New York. P. 57.

<sup>129</sup> For more on the subject, see:

Thompson, Elizabeth F. (2020). *How the West Stole Democracy from the Arabs: The Syrian Arab Congress of 1920 and the Destruction of its Historic Liberal-Islamic Alliance*. Atlantic Monthly Press: New York. P. 315 ff.

<sup>130</sup> For more information see:

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Ahmad, Aisha. (2017). *Jihad & Co.: Black markets and Islamist Power*. Oxford University Press New York.

<sup>131</sup> Hallaj. (2017).

<sup>132</sup> For more information on the issue of how the State instrumentalized Islamic institutions and networks see:

Pierret, Thomas. (2013). *Religion and State in Syria: The Sunni Ulama from Coup to Revolution*. Cambridge University Press: Cambridge. P. 212 ff.

<sup>133</sup> Donker, Teije Hidde. (2013). "Islamic Social Movements and the Syrian Authoritarian Regime: Shifting Patterns of Control and Accommodation". In Steven Heydemann and Reinoud Leenders, eds., *Middle East Authoritarianism: Governance, Contestation and Regime Resilience in Syria and Iran*. Stanford University Press: Stanford, California. P. 118.

<sup>134</sup> See for instance:

[How Syria's Assad Helped Forge ISIS \(newsweek.com\)](#)

[Assad fanned the flames of extremism: The Syrian dictator is already responsible for more deaths than Isis | The Independent | The Independent](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>135</sup> Literature on Syria is still lacking basic data to complete provide a strong analysis on how the war economy is interlinked with radicalization. Yet the logic in other parts of the world is now more solid. For more information on Syria, see:

House Homeland Security Committee Majority Staff. (2016): "Cash to Chaos: Dismantling Isis' Financial Infrastructure". Homeland Security Committee: Washington DC.

Hallaj, (2015).

Hallaj. (2017).

<sup>136</sup> Ahmad. P. 16 ff.

<sup>137</sup> Ibid.

<sup>138</sup> Brio, D. (2015). "Warlords Governance: Transition Toward – or Coexistence with – the State?". In N. Radford and A. Trabulsi, *Warlords, Inc.: Black Markets, Broken States and the Rise of the Warlord Entrepreneur*. North Atlantic Books: Berkley. P: 51–65.

<sup>139</sup> See for instance:

[Islamisches Hawala-System: Der geheimste Geldtransfer der Welt - WELT.](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>140</sup><sup>140</sup> See for instance:

[Hawala: The Ancient Banking Practice Used to Finance Terror Groups \(newsweek.com\).](#)

Last visited. November 20<sup>th</sup>, 2020.

<sup>141</sup> [Islamic State's money transfer network busted in Turkey - Al-Monitor: the Pulse of the Middle East \(al-monitor.com\).](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>142</sup> See for instance:

[Bribes, Graft And The Cost Of Moving Cash In Syria's War Economy - Al Shahid \(alshahidwitness.com\).](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>143</sup> For a discussion on the political marketplace see:

De Waal, Alex, et al. (2020). *A Theory of Change for Violent Political Marketplaces*. London School of Economics, Conflict Research Programme: London.

<sup>144</sup> Aita. (2020): *The Unintended Consequences of U. S. and European Unilateral Measures*. P. 39 ff.

<sup>145</sup> Ibid. P. 53.

<sup>146</sup> For more information on banks survival techniques see: Al Roumani. (2020).

<sup>147</sup> Aita. *The Unintended Consequences of U. S. and European Unilateral Measures*. P. 53 ff.

<sup>148</sup> See for instance:

[النظام السوري يجدد الضغوط على التجار لدعم الليرة \(alaraby.co.uk\)](http://alaraby.co.uk)

Last visited November 20<sup>th</sup>, 2020.

<sup>149</sup> The most recent incidence took place in the telecommunication sector where the two main cellular phone operators were subjected to legal guardianship by the state and their infrastructure was prepared to serve a new operator. See:

<https://sp-today.com/news/8091>

Last visited April 4<sup>th</sup>, 2021.

<sup>150</sup> See for instance:

[Special report: A collapsing economy and a family feud pile pressure on Syria's Assad | Reuters](#)

Last visited November 20<sup>th</sup>, 2020.

<sup>151</sup> See for instance:

[خضر طاهر.. الاقتصادي الصاعد الذي أجبر وزير الداخلية السوري على التراجع - عنب بلدي \(enabbaladi.net\)](http://enabbaladi.net)

Last visited December 20<sup>th</sup>, 2020.

<sup>152</sup> See for instance:

[أحد أبرز رجال أعمال سوريا يعود لواجهة الاستثمار \(shaamtimes.net\)](http://shaamtimes.net)

Last visited December 20<sup>th</sup>, 2020.

<sup>153</sup> Center for Operational Analysis and Research. (2020). "Potemkin Parliament: Baathists Consolidate Control as Access to Power Shifts". *Syria Update*: Vol 5. No. 29.

<sup>154</sup> Yonker, Carl, and Solomon Christopher. (2021). *The Banality of Authoritarian Control: Syria's Ba'ath Party Marches on*. Carnegie Endowment for International Peace.

[https://carnegieendowment.org/sada/83906?utm\\_source=rssemail&utm\\_medium=email&mkt\\_tok=MDk1LVBQVi04MTMAAAF7mAZluLO\\_wzZMO3tTPchRFwOhy13OpZETXarxSqbFGgO4dHQ--wG17n6BWHyWRPcS4s-h8TEYUHI-\\_lhm3XMMCvFRhyp5cARxoi4RRzxVdeE](https://carnegieendowment.org/sada/83906?utm_source=rssemail&utm_medium=email&mkt_tok=MDk1LVBQVi04MTMAAAF7mAZluLO_wzZMO3tTPchRFwOhy13OpZETXarxSqbFGgO4dHQ--wG17n6BWHyWRPcS4s-h8TEYUHI-_lhm3XMMCvFRhyp5cARxoi4RRzxVdeE)

Last visited April 4<sup>th</sup>, 2021.

<sup>155</sup> Al Mustafa, Muhsen. (2020). *Dimoqratiyet al ba'th: Intikhababat 2020, wa moqarabat takrees al madah al thaminah*. Omran Center: Istanbul. P. 7 ff.

<sup>156</sup> Svoblik, Milan W. (2012): *The Politics of Authoritarian Rule*. Cambridge University Press: Cambridge: P. 116.

<sup>157</sup> <https://al-akhbar.com/Syria/290804>

Last December 20<sup>th</sup>, 2020.



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<sup>158</sup> Daher. (2019). P. 268.

<sup>159</sup> Aita. (2020). *The Unintended Consequences of U. S. and European Unilateral Measures*. P. 68.

Also see:

Mehchy, Zaki. (2020). *Punishing the Regime, Protecting Syrians: The Dilemma of Sanctions on Syria*. Arab Reform Initiative: Paris.

<https://www.ispionline.it/en/publicazione/dilemmas-debate-syria-sanctions-29626>

Last visited April 4<sup>th</sup>, 2021.

<sup>160</sup> For more information see Statcher (2012).

<sup>161</sup> Ibid. P. 120 ff.

<sup>162</sup> The estimation of taxes in the 2021 budget is almost three folds those in 2020. Accounting for inflation this is still a considerable increase. Income taxes for state employees increased by 50% while property taxes increased by a factor of 4 and income taxes for free trades and industries increased by a factor of 3.6.

Syrian Official Gazette (2021). *Law 23*. Directorate of Publication and the Official Gazette: Damascus. 2021, Issue 1.

<sup>163</sup> North, Douglas C., Wallis, John Joseph and Weingast, Barry R. (2009). *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. Cambridge University Press: New York. P. 110 ff.

<sup>164</sup> Hoeffler, Anke. P. 100.

<sup>165</sup> Richmond, Oliver P. (2009). "Beyond Liberal Peace? Responses to Backsliding". In Edward Newman et. al eds. *New Perspectives on Liberal Peace Building*. United Nations University Press: Tokyo. P. 59 ff.

<sup>166</sup> De Waal, et. al.

<sup>167</sup> De Waal, et. al.

<sup>168</sup> Damascus Based INGO's (DINGO), 2021. *Understanding the Operational Impacts of Sanctions on Syria II: DINGOS and Bank De-risking*. Damascus.