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MSME Finance in Syria: Challenges and Opportunities for Recovery

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Abbreviations

AML	Anti Money Laundering
CAPI	Computer Assisted Personal Interviewing
CBS	Central Bank of Syria
CFT	Countering the Financing of Terrorism
DFI	Development Finance Institution
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FI	Financial Institution
FX	Foreign Exchange
GDP	Gross Domestic Product
GNI	Gross National Income
ICC	International Chamber of Commerce
IFC	International Finance Cooperation
ILO	International Labour Organization
KYC	Know Your Customer
MFI	Microfinance Institution
MoE	Ministry of Economy
MSME	Micro Small and Medium Enterprise
OFAC	Office for Foreign Asset Control
SEEP	Syria Electricity Emergency Project
SEZ	Special Economic Zones
SIA	Syrian Investment Authority
SYP	Syrian Pound
TA	Technical Assistance
TAF	Technical Assistance Facility
UAE	United Arab Emirates
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNDP	United Nations Development Programme
US	United States
USD	US Dollar
WB	World Bank

Executive Summary

Syria's political and economic transition following the regime change in December 2024 has opened a cautious window for reconstruction and renewed international engagement. The lifting of most Western sanctions and the creation of a provisional government have revived interest in rebuilding institutions, restoring financial stability, and supporting private sector recovery. Despite these openings, the economy remains fragile, with output less than half its pre-conflict level, high inflation, and a severely weakened banking system.

Micro, small, and medium-sized enterprises (MSME) form the backbone of the Syrian economy and employ the majority of the labour force. Yet their access to finance is extremely limited. Most rely on personal savings or family loans, while formal credit remains constrained by complex procedures, high collateral requirements, and widespread informality. Survey results and focus group discussions conducted in Aleppo, Damascus, and Latakia confirmed that entrepreneurs face persistent barriers including limited product availability, high interest rates, and lack of trust in financial institutions.

Financial institutions operate in an environment of low liquidity, weak risk management, and outdated technology. Microfinance institutions, which are the main providers of credit to small borrowers, remain small in scale and dependent on donor support. Private and Islamic banks show growing interest in MSME lending but lack the systems and expertise to expand sustainably.

Syria's financial sector faces structural weaknesses that limit MSME finance: lending remains collateral-based, risk management and technology are outdated, and there is no credit information infrastructure. Legal enforcement is inconsistent, reinforcing risk aversion, while MSMEs lack formal records and financial literacy, reducing bankability.

Targeted interventions can address these gaps by modernizing regulations, strengthening supervisory capacity, introducing credit registries, and upgrading institutional systems. On the demand side, improving MSME financial capability and promoting formalization will be critical to expand access to finance and reduce default risk.

1 Introduction

1.1 Background and Context

After more than thirteen years of conflict and over five decades of rule by the al-Assad family, Syria entered a new political chapter in December 2024 with the fall of the old regime. The country's transition represents a unique opportunity to rebuild institutions, restore economic stability, and reintegrate the country into regional and international financial systems.

The conflict has left the Syrian economy in a state of profound fragility. Since 2011, cumulative losses have erased more than half of the country's GDP, with destruction of infrastructure, mass displacement of the workforce, and the collapse of productive sectors. The situation was further exacerbated by external shocks, including the Lebanese banking crisis that constrained foreign exchange access, global supply chain disruptions following the COVID-19 pandemic, international sanctions, and the devastating 2023 earthquake in northern Syria. Regional instability in Lebanon and Gaza continues to halt back investor confidence and trade.

Against this challenging backdrop, the new political and economic context offers both opportunities and risks. Macroeconomic imbalances, including inflationary pressures, exchange rate volatility, and a weakened banking sector, pose significant barriers to recovery. At the same time, there is growing momentum to restore market confidence, strengthen financial institutions, and mobilize private investment. Rebuilding a functioning financial system will be central to restore growth, facilitating capital flows, and supporting enterprise development.

The private sector, and particularly micro, small, and medium-sized enterprises (MSMEs), will play a decisive role in rebuilding the economy and generating employment. Revitalizing this segment requires improved access to finance, stronger regulatory frameworks, and a more enabling business environment. Financial institutions will need recapitalization and targeted technical assistance to re-establish credit channels and modernize financial services. The Syrian diaspora, especially its large, skilled, and resourceful community in Europe, represents an additional source of investment, expertise, and cross-border financial linkages that can accelerate recovery.

In this context, the SANAD Fund for MSME, through its Technical Assistance Facility that is responsible for proving tailored Advisory & Capacity Building services commissioned Frankfurt School of Finance & Management to assess the current political, macroeconomic, and financial market environment.

1.2 Methodological Overview

This market assessment employed a multi-layered research design combining field-based primary data collection with targeted desk research. The methodological approach was developed to generate practical, evidence-based insights into the country's current financial landscape.

Given the limited availability of reliable economic and financial data following more than a decade of conflict, the study prioritized direct data collection from market participants and sector stakeholders. This approach was crucial for obtaining up-to-date information and understanding current realities across Syria's fragmented economic geography.

Research Design and Focus

The analysis followed a demand- and supply-side framework:

- **Demand side:** understanding MSME structures, financing needs, access barriers, and business conditions;
- **Supply side:** mapping the financial sector landscape, institutional capacity, available products, and investment constraints.

Primary Data Collection

To compensate for scarce and inconsistent national data, extensive field research formed the foundation of the assessment. Fieldwork was conducted in three major economic hubs - **Aleppo**, **Latakia**, and **Damascus** - to ensure geographical balance and representation of diverse economic contexts.

- An MSME survey with a total of **147 respondents** was carried out to gather quantitative data on enterprise characteristics, financing patterns, and market demand.
- **21 focus group discussions** provided qualitative depth on business experiences, sector-specific challenges, and perceptions of financial services.
- **20 expert interviews** with stakeholders from financial institutions, regulatory bodies, international organizations, and development partners enriched the analysis with sector-level insights and forward-looking perspectives.

Desk Research and International Best Practices

Primary findings were complemented by a comprehensive desk review of available macroeconomic data, regulatory frameworks, and international reports. The desk research also examined Syria's investment climate and enabling conditions regulations, AML/CFT (Anti Money Laundering/ Countering the Financing of Terrorism) and FATF (Financial Action Task Force) compliance status, and the evolution of sanctions regimes. Given the limited reliability of domestic data, the study incorporated international best practices and comparative benchmarks from other post-crisis and transition economies to frame the analysis and validate assumptions

The research was conducted at a time of significant political and institutional transformation in Syria. Ongoing revisions across government, state institutions, and the private economy mean that policies and regulatory frameworks remain in flux and may continue to evolve during or after the study period. Consequently, findings should be interpreted in light of this fluid context.

2 Political and Regulatory Environment

Syria's political transition remains highly uncertain, yet its trajectory will be decisive for the country's economic recovery and investment climate. A credible and inclusive settlement could help ease sanctions, restore regional and international relations, and open the door to reconstruction finance from donors and multilateral agencies.[1] Such progress would also strengthen investor confidence, potentially encourage the return of expatriate capital and stimulate private sector growth in sectors like infrastructure, energy, and services.[2] Conversely, the absence of meaningful political change will sustain a high-risk environment marked by weak institutions, governance gaps, and fragmented markets, deterring foreign investment and limiting donor engagement.[1,2] The political dimension is therefore not only a prerequisite for macroeconomic stabilization but also a critical determinant of whether Syria can mobilize the scale of private and external resources required for sustainable reconstruction.

2.1 Political Transition and Implications for Investment

Syria has embarked on a transitional path under the leadership of President Ahmad al-Sharaa, alongside the ratification of a provisional constitutional framework in early 2025 covering a five-year transition period.[3] While the move opens a rare political entry point, the magnitude of economic, institutional, and regulatory recovery needed remains significant. According to UNCTAD's *World Investment Report 2025* fact sheet, Syria has experienced persistently low levels of foreign direct investment (FDI), with inflows forming only a small fraction of both GDP and gross fixed capital formation, reflecting a deep erosion of investor confidence.[4] The transitional government has signalled ambitions to re-engage with global partners and initiate reforms to restore economic governance. For example, the *Invest Syria 2025* framework introduces institutional reforms and clearer mechanisms for resolving investment disputes through international arbitration.[5] These moves respond directly to investors' concerns about dispute settlement, legal certainty, and sovereign risk.

Data from the World Bank suggests Syria's economy contracted by 1.5% in 2024, with modest projected growth of around 1% in 2025 under current conditions.[6] The weak growth outlook underscores both the scale of economic damage and the urgency of reforms to unlock expansion, especially for MSMEs, which are widely recognized (in UN/World Bank and ME Council analyses) as central to job creation and social stability. While sanctions easing and new investment initiatives have improved sentiment, the government's reform plans emphasize incentives, regulatory simplification, and legal clarity within the investment framework, which are particularly supportive of MSME recovery.[5] FDI inflows remain constrained, however, by continued perceptions of political and legal risk.[4]

2.2 Legal Framework for Financial Sector Operations

The Syrian financial sector operates under a complex and restrictive legal framework shaped by central bank directives, sector-specific laws, and wider political–economic conditions. This framework defines the permissible scope of banking, microfinance, and investment climate, but also creates substantial obstacles for MSME finance.

[1] (United Nations ESCWA, 2025)
[2] (International Bank for Reconstruction and Development/The World Bank, 2025)
[3] (Gritten, 2025)
[4] (United Nations, 2025)
[5] (L24 Levant, 2025)
[6] (The World Bank Group, 2025)

2.2.1 Core Legislation

Monetary and banking framework

Legislative Decree No. 23 of 2002, the Basic Monetary Law, established Syria's monetary and banking framework and defined the respective roles of the Monetary and Credit Council (MCC) and the Central Bank of Syria (CBS). Legislative Decree No. 21 of 2011 later expanded these provisions and granted the CBS authority over payment and credit information services.

Under this framework, the MCC serves as the highest policymaking body for monetary, credit, and banking affairs, while the CBS acts as its executive arm. The CBS, a public institution with financial and administrative independence, implements policy, manages foreign exchange operations, issues treasury instruments, and represents the state in international financial relations. In practice, the distinction between policy formulation and execution is blurred because the MCC is chaired by the CBS Governor, which concentrates decision-making power within the Bank.

The legislative framework also establishes the basis for regulatory processes for financial institutions and governance of banking and exchange activities. It empowers the CBS to regulate the financial sector, a mandate later expanded through additional laws that permitted the creation of Islamic, private, and investment banks as well as microfinance institutions.

Legal Framework for Microfinance

Microfinance was initially governed by Legislative Decree No. 15 of 2007, later superseded by Law No. 8 of 2021. The law was cited by many interviewees for constraining the lending in foreign currency, despite widespread dollarization in trade. For instance, Article 17(A) states that microfinance banks may "deal in foreign exchange under the applicable FX regime and MCC instructions," but are prohibited from conducting any operational activity in foreign currency. Lending is an operational activity, so loans must be in Syrian pounds. Article 11(A) also limits deposit-taking to Syrian currency**.** Interviewees also expressed concerns regarding the presumed restriction on cross-border credit lines and hard-currency funding. However, the law does not directly impose restrictions on such operations, as Article 12(A)(1) allows banks to borrow funds (including from abroad), though it requires prior MCC approval. Furthermore, Article 10 permits foreign or non-resident shareholders to pay in foreign currency, and Article 17(B) allows certain outward FX remittances, albeit under specific rules. It is worth noting that Article 12(A)(3) implies certain caps or controls on FX positions.

Laws on Foreign-Currency Usage

Decree No. 54 of 2013 prohibited domestic pricing and settlement in currencies other than the Syrian pound (SYP). Penalties for violations were significantly increased under Decree No. 3 of 2020. On 20 January 2024, Decrees Nos. 5 and 6 replaced earlier instruments but reaffirmed the main rule of SYP-only domestic transactions. They introduced a tiered system of penalties with the option of judicial settlement, maintained exemptions for foreign trade and for holding foreign currency, and imposed stricter sanctions on unlicensed exchange and money transfer activities through amendments to Law No. 24 of 2006.

Operationally, the Central Bank of Syria launched an electronic Import Financing Platform that requires importers to obtain foreign currency at platform rates through licensed banks or exchangers. This mechanism widened the gap with the parallel market and led to delays and rationing of foreign currency. In 2025, the new administration began moving toward exchange-rate unification and allowed licensed banks to sell foreign currency from their own resources for both commercial and non-commercial purposes. Although enforcement of older non-SYP cases was relaxed, Decree No. 5 of 2024 continues to mandate that all domestic pricing and settlement be conducted exclusively in Syrian pounds until new legislation is enacted.

Commercial Code and Companies Laws

Under the Commercial Code (Law No. 33 of 2007), Article 10(A) exempts individuals engaged in small-scale trading or simple crafts with modest capital, such as street vendors, peddlers, or small transport operators who depend mainly on personal labour for limited profit, from bankruptcy procedures, commercial registration, and bookkeeping requirements. However, the same law still obliges all traders to be entered in the Commercial Register, a process that many interviewees described as costly and complex for microbusinesses.

The Companies Law (Legislative Decree No. 29 of 2011) is another key piece of legislation governing business activity. It is a comprehensive statute covering company types, incorporation, registration, governance, capital requirements, disclosure, reorganization, and dissolution, all anchored in an official Companies Register maintained in each governorate. The law grants Syrian nationality to any company established and registered in Syria, except those operating in free zones, and authorizes the Minister to determine by decision both the minimum capital and the limits on non-Syrian participation. Article 223 further allows companies to transfer abroad the entitlements of non-Syrian partners or shareholders arising from operations or liquidation, based on duly certified accounts and the instructions of the competent authorities.

Taxation Framework

Syria's tax system is anchored in Income Tax Law No. 24 of 2003, which classifies income by source and sets rules for assessment, applying progressive rates on the net profits of individuals and legal entities. The law has undergone several amendments (2004, 2006, 2011, and 2015). Despite this framework, tax evasion remains a persistent issue. In recent years, the government has introduced stricter enforcement and greater reliance on automated systems; however, these measures have reportedly adversely affected small businesses, prompting some to remain unregistered. Many MSMEs also complain of unfair assessments, as a large portion of their operational expenses are not recognized as deductible for tax purposes.

Investment Law No. 18 of 2021

The Investment Law provides the overarching legal framework for promoting domestic and foreign investment in Syria. It offers broad guarantees of equal treatment, protection against expropriation without compensation, and the right to repatriate profits and proceeds in foreign currency, subject to the instructions of the Central Bank. The law grants tax holidays and customs exemptions for projects in priority sectors such as industry, agriculture, renewable energy, and export-oriented services. It also simplifies licensing through a one-stop investment window and allows disputes to be resolved through amicable settlement or arbitration in accordance with international standards.

Complementing this, the Microfinance Law No. 8 of 2021 provides tax and fee exemptions for licensed microfinance banks and certain client transactions to reduce borrowing costs and expand access to finance for low-income entrepreneurs. Together, these laws signal an attempt to encourage private capital formation and extend financial inclusion, although implementation remains constrained by limited administrative capacity and the broader effects of sanctions and foreign-exchange restrictions.

2.3 Sanctions regime and recent changes

Since late 2024, sanctions imposed on Syria by major economies, including the United States, the United Kingdom, and the European Union, have largely been lifted following the establishment of a new political system. Below is an overview of the key changes, remaining measures, and future outlook for Syria in the context of sanctions imposed by these three major trading blocs alongside other relevant economics.

United States

On 30 June 2025, US President Donald Trump issued Executive Order 14312 *"Providing for the Revocation of Syria Sanctions"*, which took effect on 1 July 2025.[7] The measure terminated the comprehensive United States sanctions program on Syria and lifted restrictions on commerce, finance, and investment. The Office of Foreign Assets Control (OFAC) had already issued General License 25 (GL 25) in May 2025, allowing many transactions that had previously been prohibited.[8] Despite these changes, certain targeted sanctions remain in place. They apply to individuals and entities associated with the former Assad regime, terrorism, narcotics trafficking, and human rights violations. Syria continues to be listed by the United States Department of State as a State Sponsor of Terrorism, which maintains strict export controls and limits on assistance programs.[9]

In practice, United States and international banks still treat Syrian transactions with caution, reflecting the country's status on the FATF list of jurisdictions under increased monitoring.[10] Secondary sanctions under the Caesar Syria Civilian Protection Act, which is valid until 2029, may be lifted early or allowed to expire if political progress continues.[8] The current system has shifted from outright prohibition to risk management, requiring investors and financial intermediaries to verify counterparties against all remaining designation lists.

European Union

On 24 February 2025 the European Union suspended a broad range of sectoral sanctions on Syria through an amendment to Council Regulation (EU) No 36 of 2012, easing restrictions in the energy, transport, and banking sectors and reducing limitations on the Central Bank of Syria.[11]

On 20 May 2025 the EU adopted Council Regulation (EU) 2025/1098, which formally lifted most economic restrictions while maintaining targeted measures concerning terrorism, dual use goods, and human rights violations. Twenty-four entities were delisted, including several major financial institutions.[11]

[7] (The White House, 2025)
[8] (Sidley Austin LLP, 2025)
[9] (US Department of State, 2025)
[10] (Financial Action Task Force (FATF), 2025)
[11] (Council of the European Union, 2025)

The EU has indicated it will maintain a conditional approach to Syria, retaining or reinstating targeted sanctions in response to human rights abuses or similar security threats. The extension of listings of certain individuals until at least June 2026 signals a cautious stance, with sanctions expected to remain a central instrument for influencing the transitional government's behaviour.[12]

The removal of most economic restrictive measures, including the delisting of major state and financial institutions such as the Central Bank of Syria, has created opportunities for improved financing, access to international banking, and foreign direct investment. Priority sectors are expected to include infrastructure, oil and gas, telecommunications, and construction. Nonetheless, investors will need to navigate ongoing risks, including compliance with residual EU sanctions regimes, political instability, and the potential re-imposition of restrictions.

United Kingdom

Through the Syria (Sanctions) (EU Exit) (Amendment) Regulations 2025, effective 25 April 2025, the United Kingdom lifted or relaxed a wide range of sectoral sanctions, removed asset freezes on several state institutions, and recalibrated its sanctions regime to emphasize peace, stability, democracy, and human rights rather than broad economic restrictions.[13]

Key areas affected include financial services, energy (crude oil, natural gas, electricity production), transport, and construction. Several Austrian and regional entities, along with Syrian government bodies, were delisted. However, prohibitions remain in place with respect to Assad-era bonds, including over 300 individuals and entities, namely certain military and dual-use goods, luxury products, and equipment associated with internal repression.**Error! Bookmark not defined.**

Most UK sectoral sanctions have now been lifted, though some remain, leaving room for potential further easing. However, the UK government has not indicated any plans to do so. Under recent amendments, UK authorities also have expanded powers to sanction individuals linked to serious human rights abuses, violations of international humanitarian law, obstruction of humanitarian aid, or any actions seen as undermining stability, governance, or the rule of law in Syria.**Error! Bookmark not defined.**

Gulf States

Since the regime change, Gulf states have shifted toward a more supportive stance on Syria. Saudi Arabia, the UAE, and Qatar have publicly advocated for the lifting of sanctions, emphasizing that restrictions impede reconstruction and stability.[12,14,15,16]In parallel, Saudi Arabia and Qatar recently settled Syria's outstanding arrears of approximately US$15 million with the World Bank, enabling renewed access to certain aid and financing channels.[17] Diplomatic engagement has also intensified, with reports of meetings between Saudi and Syrian foreign ministers to advance cooperation in oil, infrastructure, telecommunications, and agriculture.[18]

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[12] (Atlantic Council, 2025)
[13] (Barker, et al., 2025)
[14] (Atlantic Council, 2025)
[15] (Triche & Hamzawy, 2025)
[16] (Jansen, 2025)
[17] (Reuters, 2025)
[18] (AlSayed, 2025)

Despite these moves, significant Western measures remain in place, including US, EU, and UK sanctions targeting regime-linked actors, export controls, financial restrictions, dual-use goods, and UN measures tied to terrorism and war crimes. Gulf states themselves have not imposed sweeping sanctions but have largely focused on advocating for their removal, clearing arrears, and preparing for future economic engagement.[15] It is important to note, however, that Gulf investors partnering with Syrian institutions that are still connected to residual designations may face secondary sanctions risk or compliance scrutiny under U.S. and international regimes. Even if primary bans are lifted, banks and regulatory authorities may deem transactions with those counterparties too risky, triggering de-risking, blocking, or punitive measures (e.g. under U.S. Global Magnitsky or counterterrorism laws).

Gulf states are likely to expand economic engagement as international sanctions continue to ease, particularly in reconstruction, energy, utilities, and public infrastructure. Their role as a bridge for Syria's reintegration into regional trade and finance networks is expected to grow, though deeper investment will depend on assurances from the Syrian transitional government regarding political stability, transparency, human rights, and counter-terrorism commitments.

2.4 AML/CFT status and regulatory compliance

Anti–Money Laundering and Countering the Financing of Terrorism obligations in Syria are guided by frameworks issued by the Central Bank of Syria, although their implementation is often considered burdensome and inconsistent. Banks and microfinance institutions are required to apply strict Know Your Customer (KYC) and due diligence procedures, including proof of identity, commercial registration, tax documentation, and financial statements. Many micro, small, and medium enterprises, particularly those operating informally, are unable to comply with these requirements.

Interviewees stressed that while such compliance is *"necessary to align with global standards"*, it has the side effect of excluding large portions of the MSME sector from formal finance. The rules are applied rigidly, with little flexibility for small borrowers who lack formal records. As one banker noted, *"AML rules are written for large corporates, not for a seamstress or a carpenter".*

Moreover, sanctions and international isolation mean Syrian institutions face additional scrutiny, often leading to de-risking by global correspondent banks. This compounds compliance costs and isolates local FIs from international financial networks. In practice, AML/CFT compliance is both a regulatory shield and a market barrier, reducing inclusion without effectively attracting foreign confidence.

3 Macroeconomic and Financial Sector

3.1 Macroeconomic trends and indicators

Syria's economy has undergone a dramatic transformation over the past decade, marked by collapse in output, widespread poverty, severe inflationary pressures, and the erosion of state capacity. What was once a lower-middle-income country with diversified production has been reduced to an economy surviving on limited trade, shrinking revenues, and heavy reliance on humanitarian aid. The following sections highlight the main macroeconomic trends and indicators shaping this trajectory.

Economic Contraction and Growth Outlook

Syria's economy has suffered an unprecedented contraction since the onset of conflict. Real GDP, measured in constant 2015 US dollars, fell from a peak of around US$ 38 billion in 2010 to below US$ 15 billion by 2022, representing a decline of roughly 64 percent since 2011. Night-light data suggest an even deeper fall of about 83 percent in overall activity between 2010 and 2024. In 2023, output contracted by 6.8 percent, with only a modest rebound of about 0.5 percent projected for 2024.[Error! Bookmark not defined.] The collapse in national income has been equally severe: Gross National Income (GNI) per capita dropped from roughly US$ 2,400 in 2010 to under US$ 900 by 2022, placing Syria below the World Bank's lower-middle-income threshold and close to low-income status.[2]

These figures highlight the erosion of productive capacity and fiscal revenues. What was once a diversified, lower-middle-income economy has been reduced to one sustained largely by humanitarian aid, remittances, and limited domestic trade, with recovery remaining highly dependent on regional reintegration and political stability.

Currency, Inflation, and Fiscal Position

The Syrian pound has lost nearly all its value, falling from 47 per U.S. dollar in 2010 to around 14,800 in 2024.[Error! Bookmark not defined.] Inflation surged to an estimated 40% in 2024, severely weakening purchasing power and deepening poverty levels. The fiscal deficit expanded from 2% of GDP in 2019 to around 6.5% in 2023, with only a slight improvement anticipated due to subsidy reductions. Debt remains relatively low compared with GDP- rising from 10% in 2019 to a projected 15% in 2024- but fiscal space is constrained by collapsing revenues and limited investment capacity.[1]

Trade and External Sector

International trade has collapsed, with imports down 70% and exports 84% from pre-war levels.[1] Between 2021 and 2023, imports averaged about $5 billion per year and exports just above $1 billion.[1] Oil, once a cornerstone of revenues, has largely vanished due to conflict and sanctions, while agricultural goods and basic food items dominate today's exports.[2] Trade partners have shifted from Europe and Asia to neighbours such as Türkiye, Jordan, and Lebanon, with Türkiye supplying nearly half of imports.[1]

Poverty, Human Development, and Social Impact

Development outcomes have deteriorated sharply. Around 25% of Syrians live under the extreme poverty line of $2.15/day, and two-thirds under the lower-middle-income line of $3.65/day.[2] Nearly half the population also falls below the national poverty threshold.[1] Food insecurity is widespread, with over half the population affected, while more than 7 million remain displaced internally and millions more are refugees abroad. Public services in education and health are severely weakened, with millions of children out of school and health facilities partly or non-functional.[1]

3.2 Exchange rate dynamics and inflation

The Syrian pound has experienced persistent volatility, reflecting both political uncertainty and structural economic weaknesses. Years of conflict, sanctions, and the erosion of productive capacity have sharply reduced foreign-exchange inflows, causing sustained depreciation and maintaining a wide gap between the official and parallel-market rates. During the recent transition period, the currency initially depreciated rapidly but later showed a temporary rebound against major currencies, partly due to a shortage of cash in circulation. Exchange-rate movements remain a key driver of inflation, directly influencing the prices of imported goods and services.

Syria continues to struggle with high inflation and steep currency depreciation despite its recent positive trends. From March 2024 to February 2025, inflation averaged 36.8%, a sharp deceleration from ~120.6% the prior year; in February 2025, annual inflation was ~15.2%, while monthly inflation fell ~8%.[19] In parallel with this, the Syrian pound has persistently weakened: the 2025 budget assumes ~13,500 SYP/USD (up from ~11,500), while parallel market rates remain much weaker, driving a wide and destabilizing spread.[20]

These dynamics stem from chronic foreign-currency shortages, supply chain disruptions, heavy import dependence, and monetary expansion outpacing real output. The Central Bank of Syria maintains an official exchange rate and intervenes periodically to stabilize the pound, but its capacity is constrained by limited reserves and restricted access to foreign-currency markets. Foreign-exchange reserves are estimated at roughly USD 200 million as of late 2024, leaving the Bank with minimal room to defend the currency or facilitate convertibility.[21] As a result, depreciation directly translates into higher prices for imported food, fuel, and consumer goods, amplifying inflationary pressures already fuelled by disrupted trade networks and production bottlenecks.

Recent statements by CBS officials highlight an awareness of the need to redesign monetary policy and strengthen coordination between money supply management and exchange-rate control. The Bank has announced plans to unify multiple exchange rates, abolish unauthorized money changers, and redenominate the currency by removing two zeros by December 2025.[22] These measures aim to improve transparency and restore confidence in the Syrian pound, but implementation risks remain significant.

3.3 Structure and Dynamics of Syria's Financial Sector

Although inflation has eased from hyperinflationary levels, price growth remains high enough to erode real returns on local-currency lending and complicate long-term financial planning. Persistent divergence between the official and parallel rates, coupled with strict currency controls and limited convertibility, continues to inject uncertainty into cost projections, debt servicing, and capital flow management.

The banking sector in Syria comprises state-owned, private conventional, and Islamic banks. State banks continue to dominate in terms of assets, particularly in large corporate lending and servicing government obligations, while private and Islamic banks hold smaller shares but are viewed as more flexible.

The broader financial landscape also includes a microfinance sector and a small number of emerging non-bank financial actors such as digital payment firms, and limited remnants of former government support programmes. Together, these entities form a fragmented ecosystem where

[19] (Syrian Arab News Agency, 2025)
[20] (The Syrian Observer, 2025)
[21] (Reuters, 2024)
[22] (Anwar, 2025)

commercial banks focus on large corporates and government clients, Islamic banks show growing interest in Sharia-compliant MSME finance, and MFIs remain the main channel for reaching smaller enterprises. Further institutional details and an overview of key actors in the Syrian financial system are provided in Annex 5.

Table 1: Key institutions in Syria's Banking and Microfinance Sectors

Public Banks	Conventional Private Banks	Islamic Private Banks	Microfinance
▪ Commercial Bank of Syria ▪ Savings Bank ▪ Agricultural Cooperative Bank ▪ Industrial Bank ▪ Popular Credit Bank	▪ Bank of Syria and Overseas ▪ Shahba Bank ▪ Arab Bank ▪ Syrian Gulf Bank ▪ International Bank for Trade and Finance ▪ Al-Sharq Islamic Bank of Syria ▪ Banque BEMO Saudi Fransi ▪ Qatar National Bank ▪ Fransabank ▪ Bank of Jordan	▪ Syrian International Islamic Bank ▪ National Islamic Bank ▪ Al Baraka Bank ▪ Cham Islamic Bank	▪ First Microfinance Institution ▪ BEMO Microfinance Bank ▪ Al-Ibdaa Bank ▪ Syrian Microfinance Fund ▪ Al Watanyia Microfinance Bank

Despite the difficult operating environment, the banking sector has shown a degree of resilience. Private and Islamic banks have continued to seek modest regulatory relaxation to allow gradual expansion, including approvals for additional branches and permission to conduct digital and distance banking. Commercial lending remains largely limited to short-term working-capital and trade-finance facilities, typically under one year, reflecting inflationary and currency risks.

“Most banks focus on financing working capital and raw materials for one production cycle; short-term loans are most common due to the high risks of long-term finance.”
Senior banker at a Syrian private commercial bank

The range of lending products across Syrian financial institutions remains narrow and largely short-term. Commercial banks mainly offer working-capital and trade-finance credit lines with maturities typically under one year, reflecting inflationary and currency risks. As a senior banker in a private bank explains, *“Projects are often unable to prove their true income, forcing banks to use alternatives like on-site inventory checks.”* Islamic banks rely primarily on Murabaha asset-based financing, which channels funds through suppliers rather than direct cash disbursement, helping to control misuse but limiting flexibility for MSMEs Demand for Islamic banking products remains particularly strong among MSMEs, which is encouraging banks to broaden their Islamic product lines and consider innovative Sharia-compliant structures.

International sanctions and isolation continue to hinder cross-border transactions, restrict access to trade finance and correspondent banking, and limit inflows of foreign capital. Domestic regulation further constrains activity: Law No. 8 of 2021 limits some operations of microfinance banks, and the ban on foreign currency lending reduces flexibility for both banks and clients. These restrictions amplify a persistent structural mismatch: lenders price risk high, offer only short maturities, and require heavy documentation even for small loans. The legal and supervisory environment is seen as rigid, with high compliance costs, procedural uncertainty, and slow approvals discouraging banks from extending MSME credit.

Capital adequacy and liquidity remain weak, particularly among state-owned banks, where inflation has eroded real asset values and access to wholesale funding is scarce. Operational inefficiencies compound these problems. Digital services remain nascent. Entrepreneurs express strong demand for mobile wallets and e-payments, yet credit-linked digital products are virtually absent. According to a Syrian fintech executive., *"Weak internet infrastructure and regulatory complexity limit the reach of firms like us."* Many institutions rely on outdated systems and manual processes, with limited digital capacity and inadequate credit-assessment tools. Interviewees noted that incomplete financial reporting by MSME clients further raises screening costs and perceived risk, reinforcing the sector's cautious lending behaviour.

Lending rates remain high across all institutions. Deposit rates average 15 - 16%, pushing borrowing costs to around 25% annually in commercial banks and only slightly lower in MFIs, levels many entrepreneurs view as prohibitive. Both banks and MFIs typically demand immovable collateral or cash guarantees, which most MSMEs lack. Amer Kharboutli of the Damascus Chamber of Commerce noted that *"most small businesses operate in the shadow economy and don't have fixed assets to pledge as collateral, while over 60% of microenterprises lack formal financial records."*

3.4.1 Microfinance Sector

Syria's microfinance sector consists of a small group of specialised institutions that play an important role in providing financial services to low-income households and microenterprises that are not reached by commercial banks. The main actors include the First Microfinance Institution, part of the Aga Khan Agency for Microfinance, which is licensed to take deposits and has the widest outreach in the country. Other key institutions are Al Ibdaa Bank, which serves vulnerable groups, small farmers, low-income individuals and MSMEs, Al Wataniya Microfinance Institution, and Banque Bemo Saudi Fransi Microfinance.

Most microfinance products are small, short-term loans designed for working capital or micro-enterprise activities. Reported annual interest rates generally range between 18% and 24%. Several institutions, particularly the First Microfinance Institution, also offer savings and deposit services under their deposit-taking licenses, including current and savings accounts as well as fixed deposits. Nevertheless, overall outreach remains limited and geographically uneven. Services are concentrated in government-controlled and relatively stable urban or semi-urban areas, while rural and conflict-affected regions remain underserved.

Microfinance institutions face persistent challenges that constrain their ability to grow. Capitalisation and funding are major obstacles. Most institutions depend heavily on donor support and struggle to raise sufficient capital or borrow from abroad because of regulatory barriers and ongoing sanctions. Achieving financial sustainability at scale is difficult, and portfolio quality often weakens during periods of economic or security stress when clients' repayment capacity declines. Licensing under the current legal framework is complex and costly, and compliance with Central Bank, anti-money-laundering and customer due diligence requirements creates a heavy administrative burden. On the client side, many small borrowers lack formal records or collateral, financial literacy remains limited, and the cost and distance of reaching microfinance branches restrict effective access.

Recent policy measures show a modest effort to improve outreach. The Central Bank has authorised microfinance banks to open offices in malls, universities and service centres in order to reduce overhead costs and increase visibility. Donors and policymakers have also demonstrated greater interest in supporting the sector through enabling regulations, subsidised credit lines and guarantee schemes, although most of these initiatives are still at an early stage.

For MSMEs, microfinance provides an entry point to formal finance but remains limited in both scale and flexibility. Loan sizes are small, maturities are short, and the effective cost is high compared with bank lending. Commercial banks can provide larger loans and more diversified products but remain cautious, constrained by regulation and largely inaccessible to informal or very small firms. Strengthening links between banks and microfinance institutions through guarantee mechanisms, co-lending arrangements or more flexible collateral and documentation rules could help bridge this gap.

3.4 Institutional Capacity and Investment Readiness

From an institutional capacity perspective, Syrian financial institutions show uneven levels of investment readiness. Liquidity across the sector remains tight, and inflation has eroded the real value of assets. As a Syrian microfinance institution executive, explained, *"Financial challenges are a major obstacle… banks struggle to secure liquidity, and limited funding channels constrain their ability to expand lending."* Banks lack central bank rediscounting facilities and rely heavily on deposits, while microfinance institutions operate with small balance sheets that restrict their potential for scale.

Risk management practices remain largely conventional and rely on formal documentation and collateral-based assessments that are poorly suited to the characteristics of MSMEs. Few institutions have introduced alternative credit scoring methods such as cash flow or behavioural analysis, which limits portfolio diversification and excludes many viable borrowers. According to an executive from a private bank, *"The new MSME classification could improve assessment, but adoption is limited; specialized models and staff training are needed, and this is not happening fast enough."*

Human resource capacity also poses a constraint. Banks and microfinance institutions frequently lose experienced credit officers to larger or foreign entities, and the shortage of MSME-focused staff reduces their ability to design and manage tailored financial products. Technological modernization lags behind regional peers. Although digital tools such as point-of-sale systems, electronic billing, and mobile payments are starting to appear, progress remains slow because of regulatory inertia and weak infrastructure. Most institutions still depend on manual, paper-based systems that increase processing time and costs.

Despite these limitations, institutional appetite for MSME finance is gradually increasing. Competition for small business clients is intensifying, particularly among Islamic banks and microfinance institutions, which see untapped potential but require regulatory reforms and risk-sharing mechanisms to expand responsibly. As a senior microfinance executive observed, *"Microfinance banks are best positioned to serve these businesses given their wide footprint and large networks."*

In comparative profiling, microfinance institutions stand out for their outreach and adaptability to MSME realities, yet they remain constrained by limited balance sheet depth. Commercial banks possess stronger capital bases but show limited willingness to innovate, while emerging financial technology companies offer promising solutions but continue to face infrastructure and regulatory barriers. As a fintech entrepreneur remarked, *"Fintech faces infrastructure weakness and regulatory hurdles."*

3.5 Donor Activity in Financial Sector Support

International donor engagement in MSME finance in Syria remains minimal and fragmented, constrained by sanctions, limited access to financial channels, and restrictive domestic regulations. A detailed mapping of donor programmes and technical-assistance initiatives supporting the financial sector is presented in Annex 6. In the past, the SME Development Agency played a coordinating role in capacity building and loan facilitation, but its suspension created a significant gap in institutional support.

Current initiatives are modest in scale. The United Nations Development Programme operates limited interest support schemes that reach roughly 400 clients per governorate, covering part of loan interest payments to reduce borrowing costs. These programmes are geographically restricted and temporary, offering short-term relief rather than systemic change.

Other international actors, including GIZ, the International Finance Corporation, and the Aga Khan Foundation, continue to provide technical assistance, institutional capacity building, and occasional subsidy mechanisms. However, they avoid direct lending activities due to the constraints of Law No. 8 of 2021 and broader sanctions-related compliance barriers. Their engagement remains primarily advisory and pilot-based, with limited reach.

No donor-funded credit guarantee scheme is currently functioning effectively. The national risk guarantee institution is described as largely inactive and excludes Islamic banks, leaving lenders without protection mechanisms that could enable more flexible MSME financing. Subsidized credit lines and blended finance facilities are absent, further limiting the scope for scaling MSME lending.

There is nonetheless clear potential for renewed donor coordination. Future engagement could focus on reviving guarantee schemes under simplified operational frameworks, supporting the development of digital finance platforms to reach underserved entrepreneurs, and promoting Islamic-compliant products aligned with domestic market demand. As a senior official at the Central Bank stated, *"There is an urgent need to reform the risk guarantee institution and to consider a standalone credit guarantee fund co-financed by government, the private sector, and international institutions."*

The current donor landscape is thus characterized by limited, fragmented, and short-lived interventions, leaving a structural gap in systemic financial sector support. As a Central Bank representative further emphasized, *"Strengthening coordination and partnerships and leveraging international technical and financial support would help establish effective credit guarantee programmes and transfer know-how."*

4 MSME Landscape and Demand-Side Analysis

4.1 Structure and segmentation of MSMEs

In 2023 the Ministry of Economy and Foreign Trade, working together with the SME Development Authority and other public and private stakeholders, issued the National Guide for Defining MSMEs. The guide establishes a unified national framework for identifying and classifying enterprises by size and sector, including agriculture, industry, commerce and services. It aims to harmonize definitions across institutions, improve statistical consistency and support evidence-based policymaking for MSME development.

The classification is based on three quantitative criteria: number of workers, value of sales and invested or working capital, with weightings that vary by sector. Enterprises are divided into four groups: micro, small, medium and large.

Table 2: National Classification of MSMEs in Syria[23]

Sector	Category	No. of Workers	Capital (SYP)	Annual Sales (SYP)
Agriculture	Micro	≤ 5	≤ 50 million	≤ 75 million
	Small	5 - 20	≤ 750 million	≤ 900 million
	Medium	20 - 70	≤ 2.25 billion	≤ 3 billion
Industry	Micro	≤ 5	≤ 75 million	≤ 110 million
	Small	5 - 100	≤ 1.5 billion	≤ 2.25 billion
	Medium	100+	≤ 6.75 billion	≤ 7.5 billion
Commerce	Micro	≤ 3	≤ 60 million (working capital)	≤ 150 million
	Small	3–30	≤ 600 million	≤ 1.5 billion
	Medium	30+	≤ 2.25 billion	≤ 3 billion
Services	Micro	≤ 5	≤ 110 million	≤ 150 million
	Small	5–40	≤ 1.5 billion	≤ 1.5 billion
	Medium	40–100	≤ 7.5 billion	≤ 4.5 billion

Based on expert interviews, the MSME segments in Syria are characterized as follows:

- **Microenterprises:** Predominantly informal, often operated from home workshops, basements, or shared spaces. Their informality is driven less by tax evasion and more by structural barriers such as high registration costs, restrictive zoning rules, and rigid licensing

[23] (Ministry of Economy and Foreign Trade, 2023)

systems that fail to reflect their operating realities. Many trades are legally confined to industrial areas that are either unaffordable or unavailable, forcing entrepreneurs to operate informally.

- **Small enterprises:** A smaller share with modest potential for expansion, typically employing a few workers and requiring working capital financing. These enterprises face challenges accessing credit due to the absence of audited accounts, standardized bookkeeping, and adequate collateral, leaving most dependent on personal savings or family loans.
- **Medium enterprises:** The smallest segment numerically but relatively more formalized and resilient. Concentrated in urban centres, they are better positioned to access semi-formal banking services and maintain a degree of operational stability despite economic and regulatory pressures.

Understanding the present state of MSMEs in Syria requires recognizing how nearly fifteen years of conflict fundamentally reshaped the country's economic and institutional landscape. The war disrupted production networks, displaced labour, and fragmented markets, but it also forced a structural transformation in how enterprises survive and adapt. As highlighted in recent studies the sector became the primary engine of local livelihoods, absorbing the majority of the labour force amid the collapse of formal industry and public employment.[24] MSMEs evolved from being primarily productive and growth-oriented before 2011 to becoming survival-oriented, informal, and locally confined during the conflict.

Today, the MSME landscape remains highly uneven. Many enterprises operate informally, disconnected from financial systems and formal registration, yet they continue to provide the backbone of household income and local supply chains. Rebuilding this sector will therefore require not only physical and financial recovery but also the restoration of institutional trust, market linkages, and fair governance. Against this backdrop, several structural shifts have shaped the evolution of MSMEs throughout the conflict and its aftermath. The following points highlight some of these key dynamics and their lasting implications for MSME recovery in Syria:

- **Collapse of Industrial Zones**
  Before 2011, Syria had functional industrial zones in Aleppo, Damascus, Homs, and other cities. While not fully modernized, they provided basic infrastructure such as electricity, roads, and utilities, and a framework for registered SMEs to operate semi-formally. During the conflict, many zones were destroyed or turned into battlegrounds; Aleppo's Sheikh Najjar Industrial Zone was particularly devastated and looted. Today, these zones operate at fractional capacity, as electricity shortages, security challenges, and damaged facilities continue to hinder recovery. This collapse has had a severe impact on MSMEs, disrupting production chains, increasing costs, and forcing many small businesses either to downscale or cease operations altogether.

- **Shift of SMEs Outside Syria**
  Thousands of SMEs relocated to Türkiye, while others moved their operations to Egypt. Syrian entrepreneurs established businesses in textiles, food processing, furniture, and

[24] (Mehchy, Turkmani, & Gharibah, 2023)

small-scale manufacturing, often transporting their machinery and equipment across borders. This relocation trend has continued over the years, with several clusters, especially in textiles, successfully integrating into Turkish export value chains. This large-scale displacement created a dual dynamic: a significant loss of industrial capacity inside Syria, but also the emergence of a productive Syrian diaspora that could, in the future, play a key role in reconstruction, reinvestment, or cross-border trade once conditions stabilize.

- **Fragmented and Shifting Political Map**

  During the conflict, Syria's fragmented and shifting political landscape made formal business registration and regulation nearly impossible. Different actors controlled various territories at different times, and competing governments and de facto authorities imposed their own licensing, taxation, and registration systems. In many war-affected areas, civil registries and commercial courts were destroyed or became non-functional, while checkpoints, sieges, and shifting frontlines severely disrupted trade routes and supply chains.

  This environment forced many businesses to downscale, relocate, or operate informally, resulting in the near collapse of unified commercial governance. The absence of a consistent legal framework eroded trust in institutions, weakened contract enforcement, and entrenched informal networks as the default mode of doing business. Today, the situation is gradually improving as Syria moves toward a more unified administrative and regulatory system under the new government. However, achieving full national integration, particularly the north-eastern region still outside central control, remains a key challenge. Restoring a coherent national business registry and harmonizing taxation, licensing, regulatory and supervisory procedures will be critical to reintegrating MSMEs into the formal economy and reviving nationwide economic activity.

- **Inaccessible Banking Sector**

  Throughout the conflict, Syria's banking sector progressively lost its intermediation role, particularly over the past five years, as macroeconomic instability and restrictive monetary policies compounded systemic weaknesses. Inflation and sharp currency depreciation, combined with the regulatory framework and Central Bank procedures, including reserve requirements, restrictive FX controls, and excessive approval layers, further constrained liquidity and discouraged risk-taking, making long-term lending nearly impossible. These measures tightened financial exclusion, especially for MSMEs that lacked formal guarantees or political connections.

  By 2024, prior to the regime change, private-sector credit had virtually collapsed, with financing largely confined to state-linked corporations and politically connected borrowers. Recent investigations revealed a concentration of loans among a limited number of corporations, mostly connected to a small network of individuals, exposing governance failures and widespread connected lending practices. In such a banking and business environment, MSMEs were at a clear disadvantage. For those operating in regions outside government control or in recently reintegrated areas, the situation was even worse, with access to finance almost non-existent.

- **Unfair Tax Treatment and Rigid FX Regulations**

The unfair and non-transparent tax system, coupled with rigid foreign exchange regulations, further constrained the operating environment for MSMEs. Many small business owners were compelled to formally close their enterprises as their daily operations required transactions in U.S. dollars, exposing them to serious non-compliance risks under restrictive FX laws. Others shut down after being subjected to arbitrary or lump-sum tax assessments, often disconnected from actual revenues or business capacity. These practices not only undermined trust in public institutions but also pushed many entrepreneurs into informality, where they could continue operating with lower risk and fewer obligations. Over time, this deepened the dual structure of the Syrian economy, a shrinking formal sector alongside a growing, largely untaxed informal economy, further weakening fiscal stability and distorting competition for compliant MSMEs.

As a result, MSMEs increasingly relied on informal financing channels, personal savings, family loans, or unregulated credit markets, often at prohibitive cost. This dependency entrenched informality: businesses avoided registration and taxation to minimize exposure to opaque regulation and limited benefits.

Informality dominates across the sector, driven not only by tax evasion incentives but also by restrictive zoning rules, rigid licensing, and the absence of fit-for-purpose regulatory categories. Many sectors (e.g. artisanal trades) are legally confined to designated industrial areas that are either unavailable or unaffordable, reinforcing informality.

"These small businesses remain unregistered not only to avoid taxes and fees, but because licensing itself doesn't fit their operating reality… Some trades are legally confined to designated industrial zones that are unavailable, pushing owners into informal locations. When they actually sell goods, they need a commercial registration to issue invoices… These 'start-of-business' procedures are difficult for this segment."
Representative of a national chamber of commerce

From a legal and financial standpoint, most MSMEs lack audited accounts, standardized bookkeeping, or sufficient collateralizable assets. As a result, *"Most business owners rely on their own savings or loans from relatives and friends to finance their projects",* according to a banking sector representative. Thus, the vast majority remain excluded from formal financial channels, as *"the high cost of obtaining a commercial registration—up to 10 million SYP—blocks applicants even when they're seeking a 20-million SYP loan",* a representative of a national chamber of commerce states.

4.2 Geographic and sectoral distribution

Geographically, MSMEs are widespread but show concentration patterns:

- **Aleppo and Damascus**: Traditional commercial and industrial hubs, hosting manufacturing (notably textiles, food processing, artisanal industries) and services.
- **Latakia and coastal regions**: Greater openness to credit given fewer cultural objections to interest-bearing loans, but businesses are smaller in scale and skewed towards services and trade.

- **Rural hinterlands (e.g., Rif Dimashq, Homs, southern governorates)**: Dominated by agriculture and handicrafts, often operating entirely informally.

"In Rural Damascus and Aleppo, agricultural and environmental projects are widespread… One must identify each geographic area and its differing requirements — the type of intervention and the kinds of projects vary accordingly."
Projects manager at a local development association

Sectoral, textile industries hold the largest share, followed by small-scale food production and light manufacturing (soap, household goods). Agriculture remains important in rural and peri-urban areas, though relatively underfinanced. Service MSMEs (e.g. salons, petty trade, repair shops) are widespread but often excluded from official lending due to the production-focused bias of current credit regulations.

4.3 Access to finance: Sources and Gaps

This section presents findings from the MSME online survey conducted with 147 entrepreneurs, complemented by insights from focus group discussions held in Aleppo, Latakia, and Damascus. It examines how Syrian entrepreneurs finance their activities, the key obstacles they face in accessing credit, and how these constraints influence business behaviour and growth. The focus group discussions provided qualitative depth to the survey, capturing the day-to-day experiences of entrepreneurs and their perceptions of formal finance, Islamic products, and digital channels.

The survey sample is concentrated mainly in the country's principal commercial centres, Aleppo and Damascus, with additional representation from other governorates. The sample is predominantly male (63.9%) and highly educated, with 85.7% holding a university degree or higher.

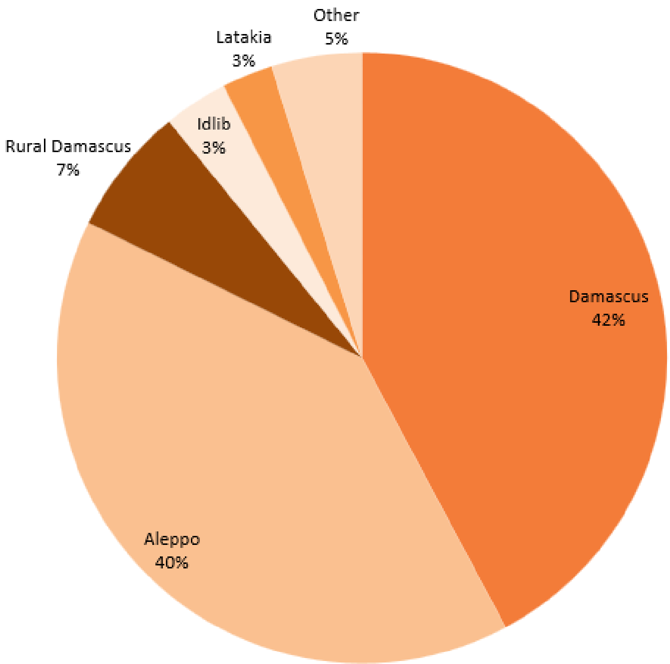

Figure 1: Geographic distribution of survey participants

4.3.1 Sources of Finance

Self-finance remains the dominant mechanism among Syrian MSMEs. Nearly 78% of entrepreneurs surveyed fund their businesses through personal savings, while 45% reinvest retained earnings. Family and social networks also play an important role, with about 29% borrowing from relatives and friends, reflecting the persistence of informal trust-based systems.

Only 18.4% of survey respondents reported receiving any external financing. Among these, just five out of twenty-seven identified a bank or microfinance institution as the source, while the rest relied mainly on programmes supported by NGOs or donors that provide grants. Microfinance institutions and smaller banks offer some tailored lending, but outreach remains low and conditions restrictive. Loan ceilings range from 15 million to 300 million Syrian pounds, yet documentation and collateral requirements often remain prohibitive.

Informal moneylenders are rarely used. Only 4% of respondents said they would consider them, although such channels are reportedly more common in rural areas that were not covered by the survey.

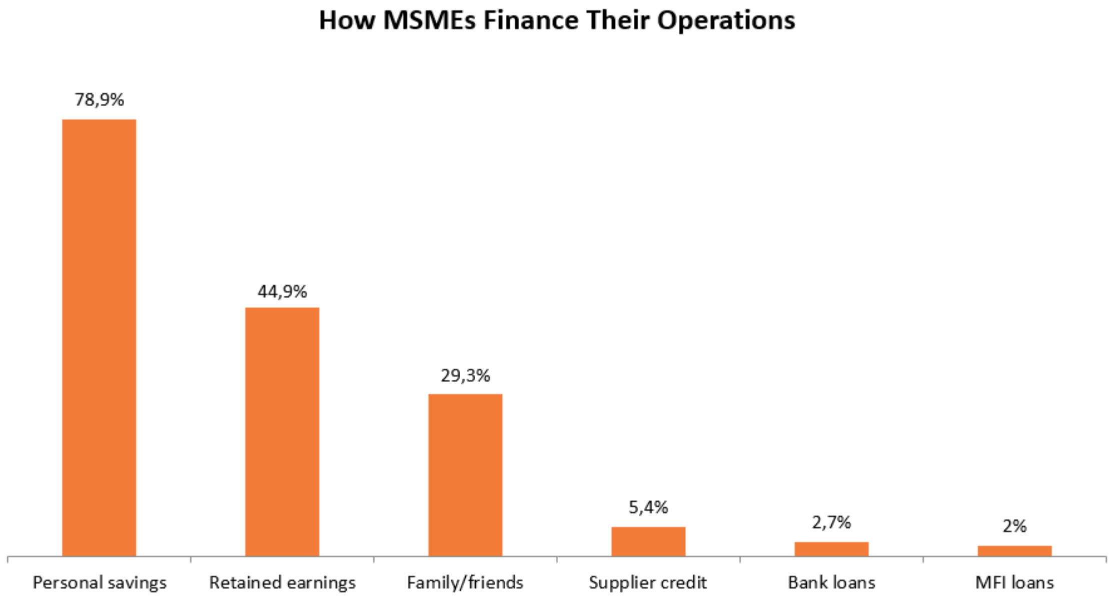

Figure 2: Sources of funding used by MSMEs to finance their operations

4.3.2 Key Gaps and Barriers

Access to formal finance remains limited because of a combination of procedural, structural, and regulatory constraints. According to the survey, 40.8% of MSMEs identify bureaucratic loan procedures as a critical hurdle. Extensive documentation requirements, detailed business plans, and lengthy processing times exclude many small and informal operators. As a project manager at a local development association explained, *"Fear of administrative complexity and bank requirements drives many to avoid dealing with formal banks."*

A further 38.1% of respondents report that existing Islamic-compliant products do not meet expectations, while 36.1% note that even where such products are available, the absence of clear information on how they comply with Sharia discourages their use. Geographic accessibility is also a major issue, with 34.7% citing the absence of nearby finance providers as a barrier. Microfinance activity is concentrated mainly in secure urban areas, leaving many entrepreneurs in other regions without access to formal financial services. High interest rates represent another constraint. 30.6% of MSMEs consider lending costs, which can reach 25% per year, to be prohibitive for productive investment. Collateral requirements also limit borrowing. Around 27.2% of respondents point to the lack of suitable collateral, since most MSMEs do not possess registered assets that banks are willing to accept as security. Focus group participants across all three cities confirmed that collateral remains the single most binding constraint. Property-based guarantees were described as unrealistic and misaligned with MSME asset profiles and cash flow dynamics.

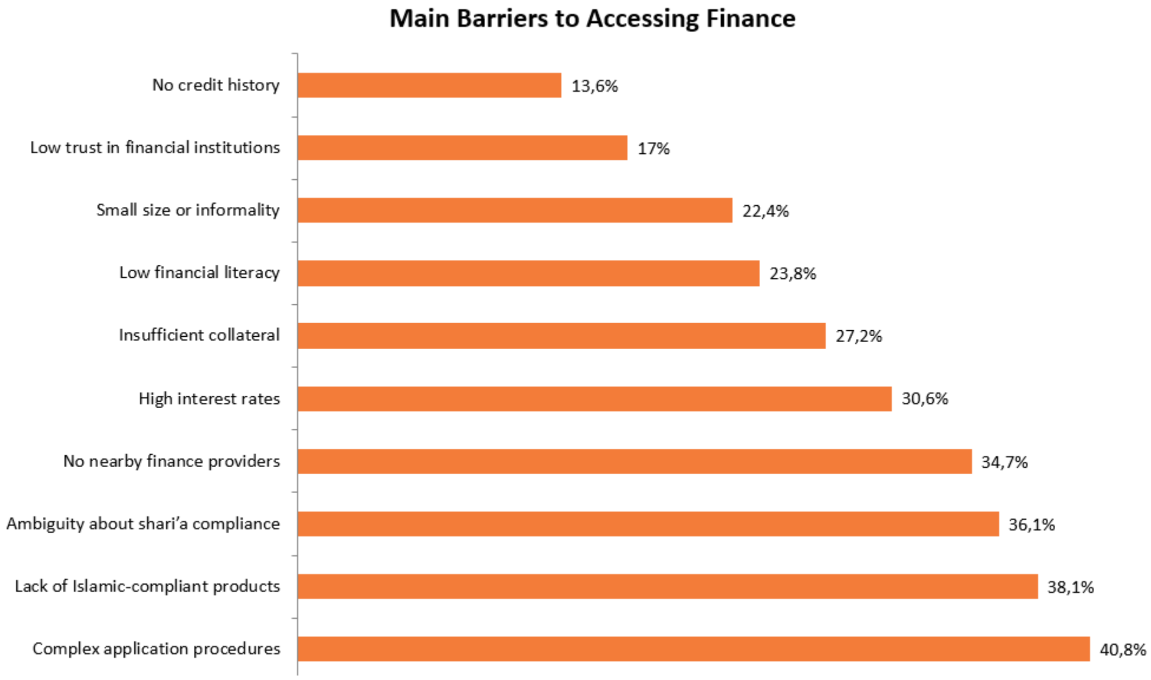

Figure 3: Main barriers faced by MSMEs in Accessing Finance

Expert interviews confirm these findings. Complex registration and taxation procedures further discourage formality and limit eligibility for credit. In addition, regulatory and compliance frameworks discussed earlier continue to constrain the flexibility of financial institutions. Risk guarantee schemes remain weak and non-inclusive of Islamic banks. According to a Senior Official of the Central Bank, *"The loan-risk guarantee institution operates with minimal effectiveness and has not included Islamic banks due to differing Sharia mechanisms." The* absence of effective risk-sharing mechanisms continues to discourage banks from extending credit to MSMEs and reinforces the structural barriers that restrict financial inclusion. A widespread lack of trust in banks further discourages formal borrowing. Entrepreneurs described the system as unpredictable and burdensome, preferring self-finance and family support despite clear working-capital needs.

4.4 Financial Preferences and Credit Behaviour

The financing constraints described above have shaped both the attitudes and the preferences of Syrian entrepreneurs. Most MSMEs remain cautious about borrowing, relying primarily on self-finance and informal arrangements. Limited trust in financial institutions, high transaction costs, and strict collateral requirements reinforce a tendency to stay small, reinvest profits gradually, and avoid formal debt. At the same time, the survey and focus group discussions reveal clear patterns of demand for financial products that are simple, transparent, and aligned with business realities.

Islamic Finance

Two-thirds of surveyed MSMEs (67%) express a preference for Sharia-compliant products. Demand is strongest in conservative and rural areas but is also evident in more diverse regions such as Latakia, where participants voiced interest in understanding Islamic finance mechanisms. This shows that Islamic finance is increasingly viewed not only as a religiously specific model but as a system based on fairness, transparency, and shared risk. Participants noted that in some locations, suitable products remain limited, while in others, unclear information about compliance reduces confidence. Focus group participants in Latakia in particular called for greater education and outreach on Islamic finance, explaining that trust could be strengthened through clearer communication and practical guidance from financial institutions. Expanding product variety, improving disclosure standards, and raising awareness will help Islamic finance become a more credible and inclusive part of Syria's financial recovery.

Digital Finance

More than 70% of survey respondents indicated readiness to use digital financial services if available. The most requested features include electronic payments, digital banking, and mobile account access. Focus group discussions, particularly in Damascus, confirmed a strong interest in digital tools that save time, reduce paperwork, and improve record keeping for small enterprises. Participants agreed that digitisation could simplify access to finance and shorten loan processing times if accompanied by assisted onboarding and visible security controls. Many entrepreneurs also voiced concern about cyber security and potential loss of funds, emphasising that visible safeguards, user education, and a gradual approach to introducing new platforms are essential to building trust in digital finance.

Loan Size and Tenor

Most MSMEs seek small, short-term loans to finance working-capital needs rather than long-term investments. Entrepreneurs reported that existing loan ceilings are either too low to meet operational requirements or too expensive to service given prevailing interest rates. This mismatch between financing terms and business needs reinforces underinvestment, as firms prefer to recycle cash quickly rather than take on longer-term obligations.

Trust and Risk Aversion

Across both the survey and focus group discussions, a persistent lack of trust in formal finance was identified as a major barrier. Entrepreneurs often associate banks with heavy documentation, unpredictable decisions, and hidden costs. Fear of indebtedness and limited financial literacy discourage borrowing and promote reliance on personal savings, family contributions, or supplier credit. Participants in Aleppo emphasised the need for simpler procedures, lower costs, and dedicated MSME service units within banks. Participants in Damascus called for greater transparency, faster end-to-end digital processes, and visible consumer protection measures to rebuild confidence. Across locations, participants also highlighted limited financial literacy as a key obstacle. Many requested practical guidance on repayment planning, record keeping, and documentation to feel confident engaging with formal providers.

Figure 4: Focus Group Discussions in August and September 2025

5 Opportunities for Technical Assistance

5.1 Identified sector and institutional capacity gaps

Earlier sections clearly indicate that Syria’s financial sector continues to face deep structural weaknesses that limit the capacity of banks and MFIs to expand MSME finance or absorb new investments. The analysis shows that weak governance and risk frameworks persist: most institutions lack robust audit, compliance, and risk-control systems capable of functioning under hyper-inflation, sanctions constraints, and exchange-rate volatility. Supervisory gaps further undermine financial sector stability, as the Central Bank and regulators struggle to update prudential standards, monitor system-wide risk, and enable product innovation.

Research findings confirm that lending in Syria remains predominantly collateral-based due to institutional weaknesses across the credit lifecycle. Financial institutions lack modern tools for MSME product development, cash-flow–based assessment, and forward-looking risk analytics, leading to rigid eligibility criteria. Limited capacity in portfolio monitoring, remedial strategies, and collections further constrains their ability to manage default risk or maintain asset quality.

These challenges are compounded by the absence of a credit bureau or data-sharing infrastructure, restricting visibility into borrower behavior and hindering risk evaluation, portfolio diversification, and outreach to first-time, informal, youth- or women-led businesses.

Operational and technological capabilities also remain severely constrained. Many institutions rely on outdated core systems with limited automation of lending processes, KYC, or reporting, while cybersecurity vulnerabilities and staff turnover raise operational costs, slow innovation, and impede digital financial-services expansion.

Legal and market-enabling weaknesses further reinforce risk aversion. Contract enforcement, collateral execution, and arbitration remain inconsistent, deterring investment and slowing credit expansion. On the demand side, MSMEs often lack financial literacy, digital records, and business-planning capacity, resulting in poor bankability and higher default risk. Limited experience in inflation-hedged or FX-indexed lending leaves institutions and borrowers heavily exposed to macroeconomic shocks.

5.2 Regulatory and supervisory framework strengthening

A critical enabler for sustainable MSME finance growth is a clear, modern, and confidence-building regulatory framework that ensures predictability for financial institutions and investors alike. Technical assistance in this area is a top priority and should therefore support the Central Bank of Syria and other relevant regulatory bodies in aligning financial-sector governance with international good practices, while enabling the gradual modernization of financial intermediation.

Regulatory Framework Modernization

Provide advisory and technical assistance to review and update outdated banking and microfinance regulations, including capital adequacy, provisioning, and liquidity standards, in line with Basel Core Principles and proportionate, risk-based supervision tailored to Syria's context.

Microfinance and MSME Regulatory Reform

Support the revision of microfinance and non-bank financial institution laws to expand permissible activities, enable digital delivery channels, and introduce tiered licensing frameworks that allow smaller providers to innovate safely and reach underserved segments.

Supervisory Capacity Building

Strengthen the Central Bank's capacity for on-site and off-site supervision of banks and MFIs through training in risk-based approaches, early-warning systems, and prudential stress testing; promote the establishment of a dedicated MSME finance supervision unit.

Credit Information and Consumer Protection

Assist regulators in developing the legal and operational foundations for a national credit registry or bureau, supported by sound data privacy, consumer protection, and fair-lending standards that build market trust and transparency.

Legal and Institutional Enablers

Support reforms in collateral, insolvency, and contract-enforcement frameworks to facilitate secured transactions and faster recovery processes; enhance institutional capacity for alternative dispute resolution to reduce judicial bottlenecks and mitigate investor risk.

Investor Confidence and Market Transparency

Facilitate the development of clear regulatory guidance on foreign participation, profit repatriation, and foreign-exchange management for financial institutions to improve predictability and encourage reinvestment.

Policy Coordination and Dialogue

Establish a structured platform for policy dialogue among regulators, financial institutions, and development partners to harmonize standards, share lessons from other fragile and post-conflict contexts, and align regulatory reforms with investment priorities.

5.3 Institutional strengthening

Targeted institutional support is essential to build resilience and operational capacity within the financial sector.

- Governance and Risk Management: Support banks and MFIs in upgrading governance, risk management, and compliance frameworks, including internal audit and credit review systems aligned with prudential norms and stress-testing requirements.

- Lending Methodologies and Product Design: Develop cash-flow–based lending methodologies, simplified appraisal tools, and tailored MSME product design capacity.

- Portfolio Management and Recovery: Strengthen portfolio monitoring, remedial management, and recovery systems, enhancing early-warning and restructuring processes.

- Digital and Operational Infrastructure: Upgrade core banking and digital systems to automate loan origination, monitoring, and reporting, and to improve cybersecurity and operational resilience.

- Supervisory Capacity: Build capacity among regulators through training on MSME finance standards, risk-based supervision, and digital financial inclusion oversight.

5.4 MSME-side technical assistance and market development

- Financial Capability and Bankability: Train MSMEs in basic accounting, financial planning, and cash-flow management; promote the adoption of simple digital record-keeping tools to improve transparency and credit readiness.

- Formalization and Compliance: Help informal businesses meet basic registration, tax, and KYC requirements to become eligible for financing; develop templates and guidance for documentation and reporting.

- Advisory and Non-Financial Services: Establish SME advisory desks within banks and MFIs to provide pre- and post-loan support, mentoring, and business diagnostics; link MSMEs to incubators, chambers of commerce, and business development service providers.

- Digital and Green Transition: Support MSMEs in adopting digital payment, e-commerce, and management tools; pilot green finance products for energy efficiency or climate adaptation, paired with training on sustainable business practices.

- Alternative Data and Credit Information: Introduce alternative credit-scoring models using transaction, supplier, or mobile payment data; build sector-level borrower databases to improve credit analytics and outreach.

- Product Innovation and Risk Mitigation: Assist financial institutions to develop gender- or sector-focused loan products, and design FX-indexed or inflation-linked products to hedge macroeconomic risks.

- Policy Dialogue and Representation: Support MSME associations and chambers to collect data, articulate financing needs, and engage in policy discussions; create platforms for public–private dialogue on access-to-finance reforms.

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