



Prepared by the Syria Independent Monitoring (SIM) team, January 2018

# Understanding Market Drivers in Syria



AKTIS



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## Abbreviations

BMI	Business Monitor International
CFW	Cash For Work
CTP	Cash Transfer Programming
DAESH	Islamic State in Iraq and Syria
DFID	Department For International Development
ESCWA	United Nations Economic and Social Commission for Western Asia
FGD	Focus Group Discussion
FSA	Free Syrian Army
GBP	British Pound
GDP	Gross Domestic Product
HRW	Human Rights Watch
HTS	Hay'at Tahrir al Sham
IDP	Internally Displaced Person
IED	Institute for Economic Development
IFPRI	International Food Policy Research Institute
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
INGO	International Non-Governmental Organisation
KDP	Kurdish Democratic Party of Iraq
KII	Key Informant Interview
KRG	Kurdish Regional Government of Iraq
KSA	Kingdom of Saudi Arabia
LAC	Local Administrative Council
M&E	Monitoring and Evaluation
NASF	National Agenda for the Future of Syria
NGO	Non-Governmental Organisation
PYD	Democratic Union Party
SDF	Syrian Democratic Forces
SIM	Syria Independent Monitoring
SMEB	Survival Minimum Expenditure Basket
SWOT	Strengths, Weaknesses, Opportunities, Risks
SYP	Syrian Pound
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar

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# Understanding Market Drivers inside Syria

January 2018

## 1. Executive summary

The Department for International Development (DFID) has commissioned a research report to provide evidenced recommendations on programmes and policy that can sustain markets inside Syria, as a means to increase food-insecure communities' resilience to the conflict. This report documents the findings of an in-depth assessment of the olive/olive oil and spice/herb market systems in northeastern and northwestern Syria. This specific assessment helps illustrate market and trade patterns and dynamics that are relevant to other food commodities systems in the country.

The key findings of this report are:

- The olive/olive oil market has been disrupted by the conflict. However, trade channels have been sustained through conflict lines, and the potential and will to rebuild the market remain embedded in local communities;
- The production of traditional commodities has disappeared (cotton) or significantly decreased (cereals), whereas farmers have turned to more profit-generating crops such as cumin and coriander, now produced on a larger scale;
- The collapse of central Government control over agriculture has facilitated the emergence of small businesses and agricultural entrepreneurs;
- In some sectors, food production has benefitted from the newly brought know-how of internally displaced persons (IDPs) (e.g. spice processing);
- Overall, food markets have become more localised;
- Agriculture is an important livelihood provider for large numbers of locals and IDPs in northern and northeastern Syria, and wages are kept high due to a relative scarcity of labour;
- Cross-line and cross-border trade is lively, but it has been monopolised by big traders with large financial capacity and ties to local power brokers and armed groups;
- Traders are highly influential and can put pressure on producers to lower prices. The latter are particularly vulnerable due to their limited financial capacity, which is exacerbated by the high cost of agricultural inputs, equipment and fuel, unfavourable weather conditions, and the devaluation of the Syrian pound;
- Farmers and processors lack the capacity to expand and modernise;
- Producers have not received aid to sustain their activities, apart from limited discounts provided by Kurdish authorities on fuel and agricultural inputs. Yet, demand for aid to the agricultural sector is high;
- Regulatory bodies have been set up by the Kurdish self-administration to collect taxes, regulate prices, and support the development of local production. However, producers, traders and consumers suspect the authorities of being partial in the application of their own rules;

## Market Drivers: Executive summary

- No support to production or markets is provided by the local authorities in Opposition-controlled areas. Local Administrative Councils (LACs) only intervene to resolve disputes and negotiate the re-opening of trading routes;
- The impartiality of local authorities in the distribution of aid, whether in Opposition-controlled areas or in Kurdish-controlled areas, cannot be guaranteed;
- Cross-line trade routes are inherently tied to the war economy. The conditions are therefore not ripe to support cross-line market integration.
- owned, organised and managed by the farmers themselves should be promoted. Small groups of business owners could be supported to develop their processing capacity or given advice on how to muster collective bargaining power;
- Support through small loans, accompanied by technical advice, should be provided to producers and processors to expand their capacity;
- In-kind aid should be the exception rather than the rule and, when designing in-kind aid, local procurement should be prioritised;

Based on findings from the field research triangulated with secondary sources, this report proposes the following recommendations:

- Livelihood programming should seek to support existing strengths and opportunities within the market systems, rather than create parallel chains;
- Support to agricultural production should aim at improving the quality of crops rather than solely increasing the size of farmed land, encompassing climate change adaptation and environmental and soil protection;
- Aid agencies willing to support agriculture should seek to empower small business owners and smallholder farmers. Farmers' cooperatives
- The development of renewable energies benefitting groupings of producers or processors should be supported, so as to reduce local economic dependence on expensive fuel imports and, therefore, mitigate one of the key links of the local market with the war economy.

## 2. Introduction

### 2.1. Background

The overall objective of this research is to provide evidenced recommendations on programmes and policy that can sustain markets inside Syria, as a means to increase food-insecure communities' resilience to the conflict. The research was conducted in two stages:

1. A desk-based review of existing evidence and gaps about how market chains function for key commodities demanded or produced by food-insecure communities in Syria, and how they are linked with the war economy;
2. An in-depth assessment, including a detailed market mapping of selected commodities in specific locations, and the drafting of associated recommendations.

This report documents the findings of the in-depth assessment, while integrating elements of evidence gathered through the desk-based review.

The report is organised as follows:

- A summary of the macroeconomic environment relevant to market systems in northern Syria is presented in **Section 3**;
- The main features of markets and trade in northern Syria are presented in **Section 4**, looking specifically at food commodities, through an overview of actors, routes, infrastructures, processes and interactions;
- The olive and herb market systems are specifically analysed in **Section 5**, through a market system mapping approach, drawing on primary data collected in the field. This mapping helps illustrate market and trade patterns, and dynamics that are relevant to other food commodities systems;
- **Section 6** analyses the interactions between market systems – trade in particular – and war actors;
- **Section 7** presents a prospective analysis of linkages between market systems and humanitarian programming, exploring how humanitarian programming could be designed to support the development of markets in a manner that would be both livelihood-supporting and conflict-sensitive;

- A brief set of recommendations for humanitarian programming is presented in **Section 8**.

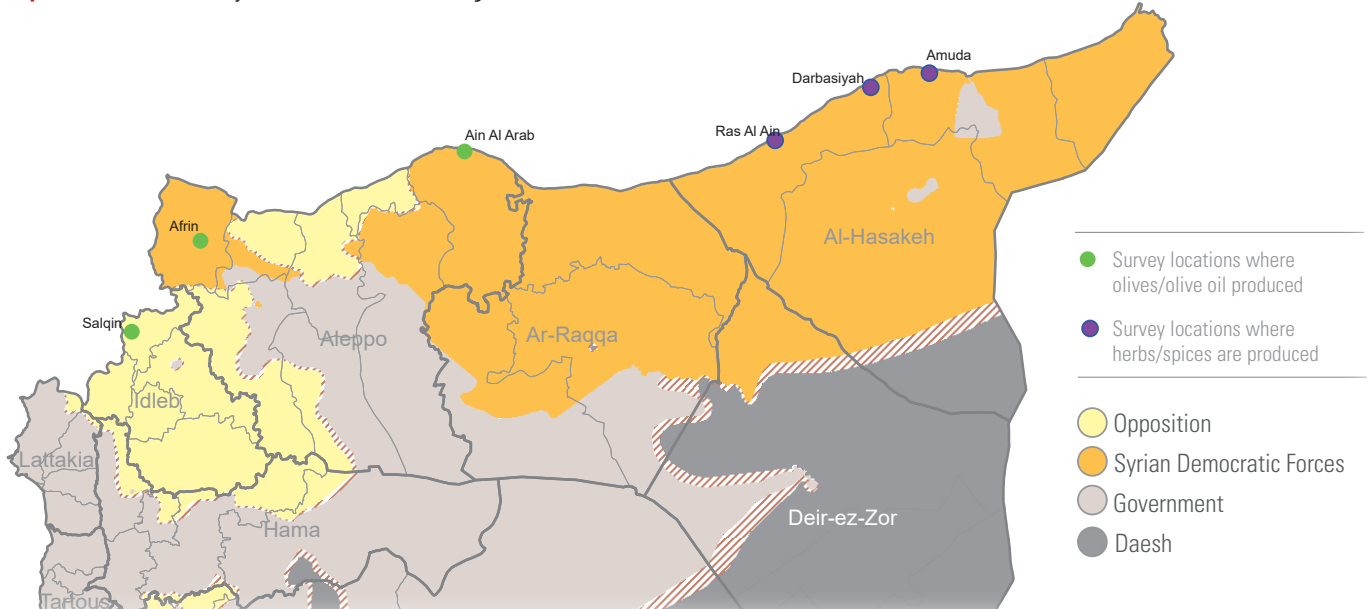
### 2.2. Scope

The scope of this research was defined around three specific objectives, as follows:

1. Understand how market chains function for key commodities demanded by food-insecure populations in Syria – locally produced commodities, imported commodities, commodities crossing conflict lines, and transaction modes;
2. Identify policies and programmes that can help strengthen existing food-related market chains in a way that maximises economic inclusion and market recovery inside Syria;
3. Identify the linkages between the selected food-related market chains and the war economy, and suggest how DFID may mitigate the risk of fuelling such an economy as it supports market development.

### 2.3. Methodology

Primary data collection was undertaken in August 2017 in six locations in Syria, five of which fall under the control of the Kurdish self-administration, and one under the control of Syrian Arab Opposition groups. Interviews were carried out with a range of actors in the market chains of olives, cumin and coriander. Producers, traders, processors and consumers were consulted in each location to better understand how market chains function and how they have been affected by the conflict. A detailed explanation of the research methodology can be found in **Annex 1**.

**Map 1:** Areas covered by the field research (August 2017)

Time and resource constraints limited the extent of the field research. One additional limitation was the lack of statistics on production and trade, due to weak local governance structures and extension

services, especially in Opposition-controlled areas. At national level, statistics were also barely available and representative, as they cover widely different situations and updated data is often lacking.



### 3. Macroeconomic environment

Six years of conflict in Syria have taken a heavy toll on the country's economy. In real terms, the economy has contracted by more than half since 2011. In terms of economic output, the ongoing war has deeply impacted the manufacturing and energy sectors. Agriculture has also been affected and food production has dropped as a result, although 'agriculture has assumed a bigger role in national output in relative terms.'<sup>1</sup>

Neither the International Monetary Fund (IMF), the World

Bank nor the World Trade Organisation are able to report on actual economic indicators in Syria after 2010. Most of the statistics available and used in this report are estimates. Such estimates can vary, depending on the sources' assumptions.

**Table 1:** GDP and inflation estimates between 2010 and 2016<sup>2</sup>

	2010	2011	2012	2013	2014	2015
Real GDP (\$ billion)	60.2	40.3	33.5	29.5	20-27.5	15
GDP growth (%)	3.44	-28.2	-16.7	-11.5	-8.1	N/A
Inflation (% of 2010 prices)	-	37.4	89.6	18.7	43.2	51.1

A World Bank study published in July 2017 estimates that Syria's GDP contracted by 63% between 2011 and 2016.<sup>3</sup> Whereas Government current expenditure increased during the war, capital investment dropped, and Syria's tax base contracted significantly. According to some sources, tax revenue decreased by '58.7% in 2011 compared to 2010, with further falls in 2012 and 2013 of 69.3% and 33.6% respectively.'<sup>4</sup> As a result, Government revenue as a proportion of GDP more than halved in the first three years of the crisis.

According to other data sets, the current account deficit reached 28% of GDP in 2016.<sup>5</sup> Meanwhile, international reserves declined from USD 20 billion at the end of 2010

to USD 1.1 billion by the end of 2015, while the Syrian pound (SYP) depreciated from SYP 47 per dollar in 2010 to SYP 515 per dollar by mid-November 2017.<sup>6</sup> The overall fiscal deficit has increased sharply, reaching 9% of GDP in 2016, with revenues falling to an all-time low of below 7% of GDP during 2014-15 mostly due to a collapse of oil and tax revenues. In response, the Government cut spending in 2015, including on wages and salaries, but this was not enough to offset the fall in revenues and higher military spending.<sup>7</sup> Inflation has been a considerable and ongoing problem inside Syria, reaching almost 90% in 2013,<sup>8</sup> and hovering at around 50.4% in the third quarter of 2017.<sup>9</sup>

<sup>1</sup> Chatham House. 'Syria's Economy: Picking up the Pieces', 23 June 2015, p.2

<sup>2</sup> Data from a combination of: ESCWA National Agenda for the Future of Syria (NAFS) as quoted in 'Syria at War: Five Years On', ESCWA, 2016; Al-Dardari, A., Bechir, M. 'Assessing the impact of the conflict on the Syrian economy and looking beyond', ESCWA, November 2014, p.5; 'Syria Economic Indicators', Trading Indicators, 2017; 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>3</sup> 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>4</sup> Al-Dardari, A., Bchir, M. 'Assessing the impact of the conflict on the Syrian economy and looking beyond', ESCWA, November 2014, p. 4 (no more recent data is available)

<sup>5</sup> 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>6</sup> 'Syrian Pounds', Trading Economics, November 2017

<sup>7</sup> 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>8</sup> Hanke, S. 'Syria's other problem: inflation', Cato Institute, October 2013

<sup>9</sup> 'Syria Economic Forecasts', Trading Economics, 2017

Syria's currency and balance of payments have been placed under further pressure by the collapse in revenue in oil receipts. Oil and gas revenue, which constituted one quarter of Government's total income, fell by 97% between 2010 and 2016.<sup>10</sup> Throughout the conflict, the illicit trade of oil by Daesh continued, including with the Government, which was reportedly heavily reliant on fuel from Daesh-controlled areas in the east.<sup>11</sup> As of July 2017, the Government and Kurdish armed groups started to take over the oil fields. However, the large-scale destruction of infrastructure as a result of the conflict will likely prolong the effect of the conflict on oil production.<sup>12</sup>

According to Business Monitor International (BMI) Research, Syria's exports between 2010 and 2015 dropped by 80 to 92% of their real value.<sup>13</sup> BMI also predicts that, if the conflict continues, annual economic contraction will be around 3.9% in 2019, bringing Syria to the level of 1990.

As discussed further in this report, criminality, extortion and illegal trade have mushroomed in response to the economic crisis. While these dynamics are longstanding hallmarks of the local market, 'the war economy has made these practices ubiquitous, exploitative and violent; it has marginalised some groups and helped a new cohort of cronies, smugglers, mediators and warlords to emerge and thrive in the conflict stalemate.'<sup>14</sup>

In addition, the reliance on aid from multilateral institutions, bilateral support from governments to different power-holders, as well as sanctions, have all worked to disturb the balance and development of the Syrian economy. Similarly, huge demographic shifts within the last six years have seen an outpouring of more

than five million refugees and at least a further six and a half million internally displaced civilians,<sup>15</sup> resulting in a reduced domestic market with lower purchasing power and rampant joblessness. Related to this is the immeasurable loss in human capital that will burden Syria for years to come, not only as a result of the almost half a million dead,<sup>16</sup> but also through the lost generation of Syrian children, many of whom have been excluded from formal education since the outbreak of the crisis. Reports from the World Bank have estimated that in Aleppo, 53% of all education facilities have been at least partially damaged while another 10% have been destroyed.<sup>17</sup>

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<sup>10</sup> 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>11</sup> Taub, B. 'The ISIS oil trade from the ground up', The New Yorker, 4 December 2015

<sup>12</sup> 'Syrian army takes more oil fields from Daesh in Raqqa and eastern desert', Middle East Monitor, 16 July 2017

<sup>13</sup> BMI Research, 2016 as quoted by Holodny, E. 'Syria's civil war has destroyed its economy for years to come', Business Insider, 9 June 2016; 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

<sup>14</sup> Sottimano, A. 'The Syrian business elite patronage networks and war economy', Syria Untold, 24 September 2016

<sup>15</sup> UNHCR. 'Syria Regional Response – Registered Syria refugees', Inter-agency Information Sharing Portal, 2017

<sup>16</sup> Human Rights Watch (HRW). 'Syria', World Report 2017, January 2017

<sup>17</sup> 'The Toll of War: Economic and Social Consequences of the Conflict in Syria', World Bank, July 2017

## 4. Market and trade in the northern areas of Idleb, Aleppo and Hasakeh governorates

While the flow of food commodities has been impacted by the conflict, most are still available on the market, albeit at much higher prices. Markets have proved to be adaptable but have become highly volatile. As a result, food prices vary greatly from one month to the other. To cope with the unstable environment and access difficulties, the market has become much more localised and smaller structures are prevalent.

### 4.1. Main market flows: supply and demand of food commodities

Many food items are still produced in northern Syria, among them wheat and barley (mainly in northeastern Syria), lentils, bulgur, olives, vegetables, legumes, dairy products (yoghurt, cheese), and sweets. By-products, such as animal feed and soap, which derive from the processing of the abovementioned commodities, are also locally produced.

Nonetheless, communities in northern Syria are dependent on imports for many manufactured products. Imports from Turkey make up the largest share of manufactured food items available in markets in Opposition-controlled areas of northern Syria, combined with imports from Iraq for the northeastern part of the country: rice, sugar, tea, lentils, bulgur, margarine, and frozen chicken. Home apparel, clothes, and agricultural inputs (fungicides, fertilisers, and pesticides) are also imported from Turkey, whether produced there or imported via the port of Mersin, where they are repackaged. The quality of agricultural inputs imported from Turkey has long been questioned and reported as damaging to agricultural productivity. Primary sources indicated that agricultural inputs were hard to procure, expensive and often of poor quality.

Turkish imports are mostly brought in through the Bab al Hawa (Idleb governorate) and Bab es Salam (Aleppo governorate) border crossings. This is only a one-way trade: exports from Syria to Turkey have been banned for the past two years. Menbij, an Arab-majority town recaptured by the Syrian Defence Forces (SDF) in 2016,

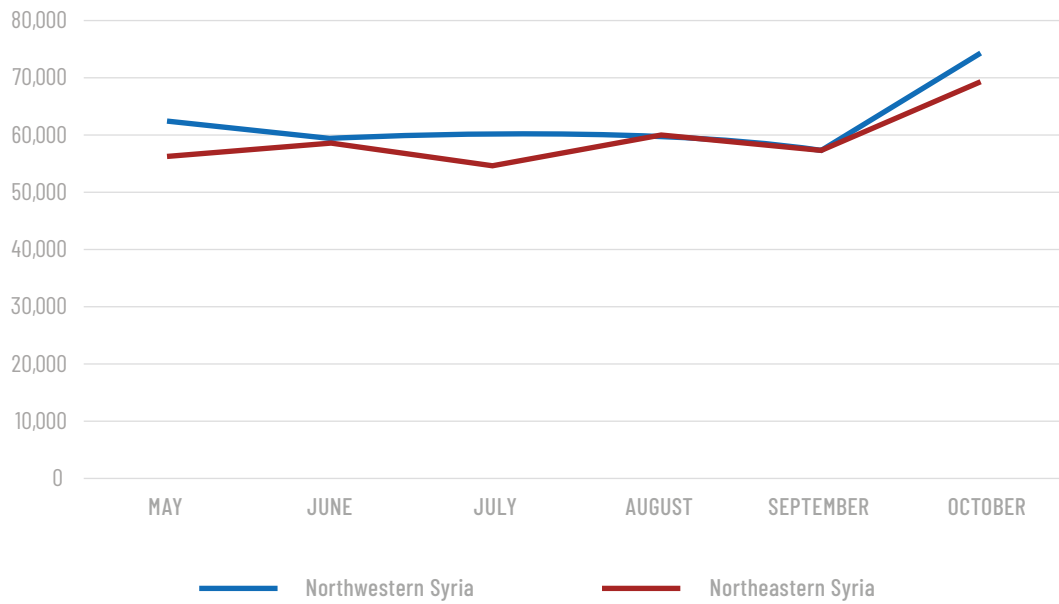
and de facto falling under Kurdish control, is the main hub or gateway for trade of commodities between Kurdish and Government-controlled areas of Syria. Commodities imported from Government-controlled areas include a few food items (e.g. sugar), spare parts, clothes, and electronics.

Cross-line trade, as well as dynamics around checkpoint taxes, are illustrated in greater detail in section 5. Section 6 also illustrates the dynamics around imports/exports between areas of influence and the powers at play.

### 4.2. Price fluctuations

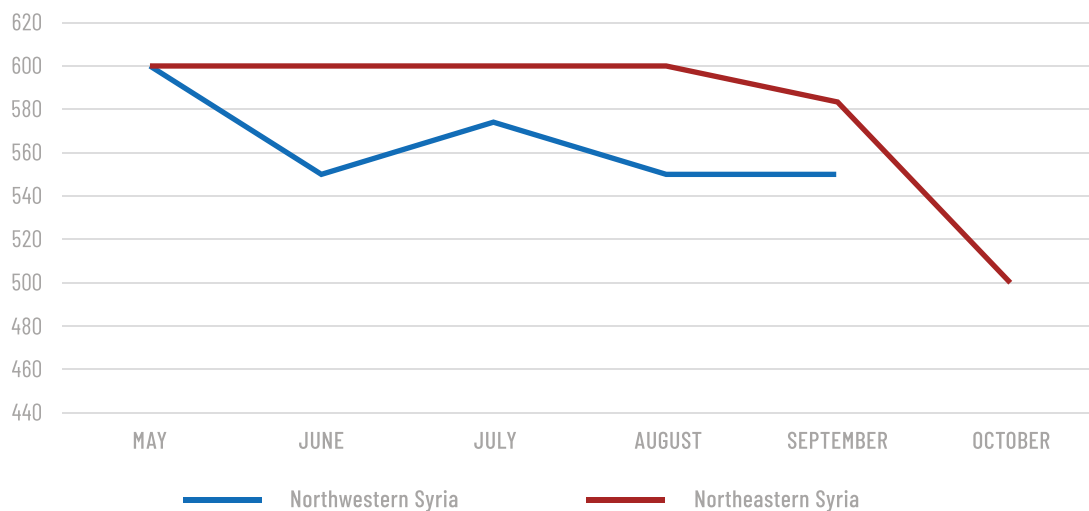
Price monitoring in northern Syria shows that the market is very volatile, and prices can vary greatly from one month to the other. However, multi-month trends show that markets are resilient and supply lines usually ensure that food items are available on stalls. Beyond price instability, one main constraint on peoples' ability to purchase food items on markets is price levels, given households' low purchasing power.

Figure 1 illustrates the evolution of the Standard Minimum Expenditure Basket (SMEB) over the middle six months of 2017. The SMEB is reportedly cheaper in northeastern Syria than in northwestern Syria. Both areas showed an increase in food prices between September and October 2017. In Opposition-controlled areas of northwestern Syria, this trend is likely due to the resumption of airstrikes across Idleb, western Aleppo and northern Hama in late September 2017. In Kurdish-controlled northeastern Syria, the increase in price of food commodities may be a result of increased demand following the large displacement of people caused by the military campaigns in Raqqa and Deir ez Zor.

**Figure 1:** Evolution of median prices of SMEB (in SYP)

The prices of goods covered by the field survey – olives, olive oil, coriander and cumin – are not covered by the REACH regular market price monitoring in northwestern and northeastern Syria, as these goods are not part of

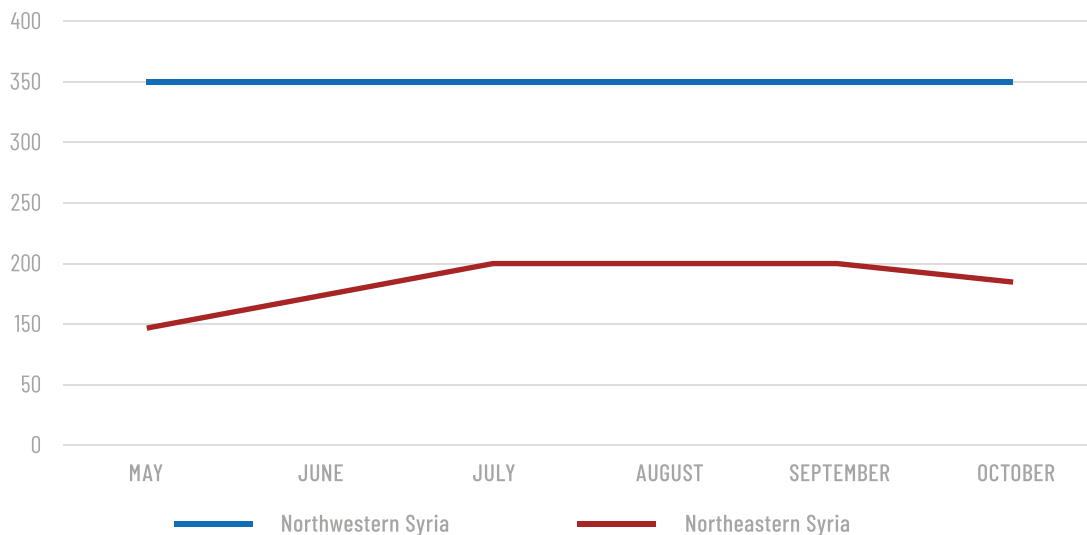
the SMEB. The price of vegetable oil, which is covered by the SMEB, is used here as a proxy to illustrate a relevant trend.

**Figure 2:** Evolution of median prices of vegetable oil (in SYP)

The high price of fuel was said by respondents to be one of the greatest impediments to production. Data collected by REACH show that prices have been relatively stable in Opposition-controlled areas of northwestern

Syria. In northeastern Syria, as Kurdish authorities have gained more and more control over the oil fields further east, fuel prices have begun to fall, but they are also more subject to fluctuation.

**Figure 3:** Evolution of median prices of cheapest kerosene (in SYP)



### 4.3. Market performance and competitiveness

To cope with the conflict, markets in northern Syria have adapted to the limited level of external access and changing security conditions. This new environment has affected their performance and competitiveness. However, they have also proven to be surprisingly resilient and have continued to function.

According to the International Institute for Environment and Development (IIED) 2017 report, micro and small businesses have proliferated – thanks to the removal of a strict bureaucracy and red tape, as well as the subsequent opening of the economy since the conflict began. In Opposition-controlled areas, people no longer need licences provided by the government to operate small businesses. However, although complete deregulation, has facilitated business start-ups, it has also raised new challenges for businesses, as they are no longer protected by regulatory quality-control bodies.

As the IIED 2017 report pointed out: ‘One of the most important dynamics that has emerged in the economies of Darkosh and Salqin has been a strong move away from the public sector and large businesses, towards operating small and microbusinesses. While new businesses have emerged in response to (mainly IDP-driven) wartime demand, doing business is still extremely difficult, with most community members unable to take the risk of investing in any enterprise requiring large amounts of capital.’ Risks and challenges identified were: ‘bombardment and fear of bombardment, necessary infrastructure such as electricity and water has been cut off, with people making do with large electricity generators. Problems in transport have made it difficult to trade between different urban hubs, with associated problems in accessing raw materials, and driving up prices for sale. To manage these and other risks, community members are turning to small, short-term businesses involving minimal capital and quick turn-around.’<sup>18</sup>

Due to the difficulty in trading across conflict lines, except for a group of traders, most economic activities have become more localised. As production, processing

<sup>18</sup> IIED. ‘Fitting aid to context: community experiences of aid delivery in Northern Syria’, July 2017

and consumption take place in a reduced geographical area, urban centres such as Salqin and Darkosh have been better able to adapt than more remote villages, which are less easily connected with roads and transport capacity and often too small for a self-sufficient market.

Before the conflict, a few Syrian products were showing satisfactory competitiveness levels on international markets: durum wheat, olive oil, cotton, legumes, and tomatoes (from southwestern Syria). However, due to the conflict, the decreased quality and quantity produced, the loss of access to historical export channels (e.g. through Turkey) and the lack of quality certification, the competitiveness of these products on international markets has been severely affected.

#### 4.4. Processing capacity

The overall processing capacity of northern Syria has been heavily affected by the conflict, most particularly in Opposition-controlled areas, where infrastructure has been targeted by airstrikes. However, some processors have been able to adapt.

##### Impact of the conflict

Production and trade have been heavily affected by the lack of water at production stage, which was already a prevailing issue before the conflict began. This has led to the almost total disappearance of strategic crops such as cotton and sugar beets, which were still produced pre-conflict despite growing difficulties. Moreover, their production has also been hampered by the fact that the relevant processing factories are all in Government-controlled areas and therefore not accessible.<sup>19</sup>

The once dynamic industrial area on the outskirts of Aleppo has seen many factories (food manufacturing and packaging, textiles) destroyed by the conflict, and their owners and workers leaving the area. Livestock product processing factories have been affected, especially large ones, and have stopped functioning, such as the dairy factory in Idleb and the starch factory in Aleppo. A large proportion of the workforce has migrated abroad, particularly to Turkey, creating a skills gap in many places inside Syria. Economic actors such as factory owners had already established linkages with Turkish traders before the conflict, which made it easier for them to migrate to Turkey. Among those displaced people who have not migrated to Turkey or other foreign countries,

many have moved from Aleppo to Kurdish-controlled areas, bringing technical skills and competencies that allow them to take part in economic activities in their host areas as well as to open new businesses or processing workshops.

##### Remaining processing capacity

In Opposition-controlled areas, the main processing facilities still functioning are mills and bakeries. Most are surviving through support from external aid, especially as bread production facilities have been targeted by airstrikes in the past and cannot function at full capacity. Olive mills are privately owned and are mostly old, traditional presses: these are preferred in the area as the olive oil obtained through traditional stone pressing is considered tastier than oil produced with more modern centrifugation techniques, even though the product contains impurities. Five factories were providing filtering and bottling services in Idleb for export, but all of them have closed, due to destruction or the displacement of their owners.

Local processing facilities in Kurdish and Opposition-controlled areas also have some capacity to process by-products of key food value chains, such as animal feed (with bran and other derivatives from wheat-to-flour processing or spice sieving), soap and alternative heating fuel (remnants of olive milling). However, their capacity is limited by the lack of access to affordable energy and water, particularly in Opposition-controlled areas, as well as the cost of equipment maintenance.

No information could be gathered during the field survey on other processing facilities (e.g. for manufactured food items). However, the fact that the markets rely mostly on imports from Turkey and Iraq for manufactured food items is an indication that the local processing capacity is very limited.

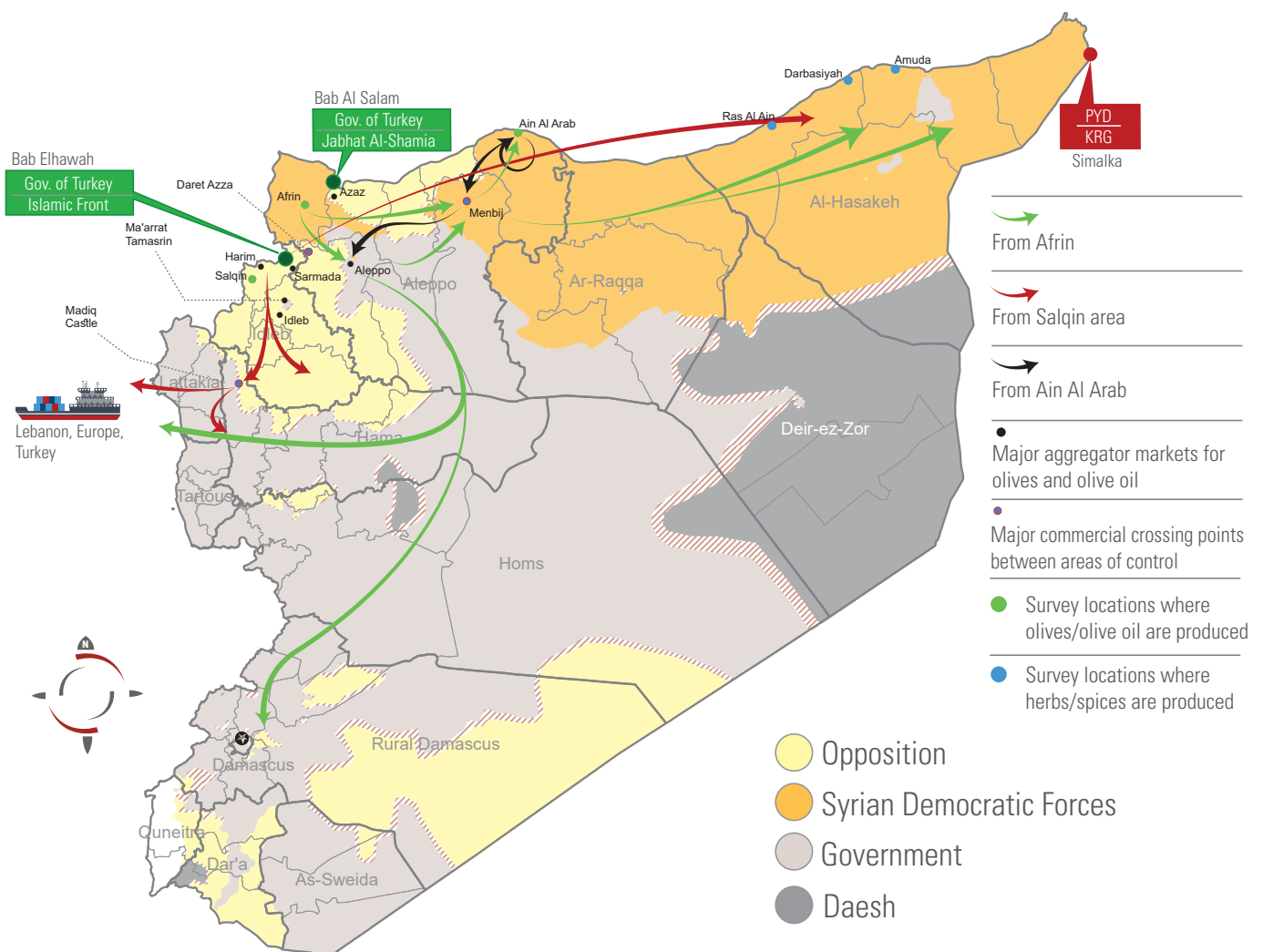
<sup>19</sup> Sugarbeet factories are located in Sal Hab (northwestern Hama), Deir Ez Zor, Maskane (southeastern Aleppo) and Homs.

## 5. Mapping of olive/olive oil and herb/spice market systems

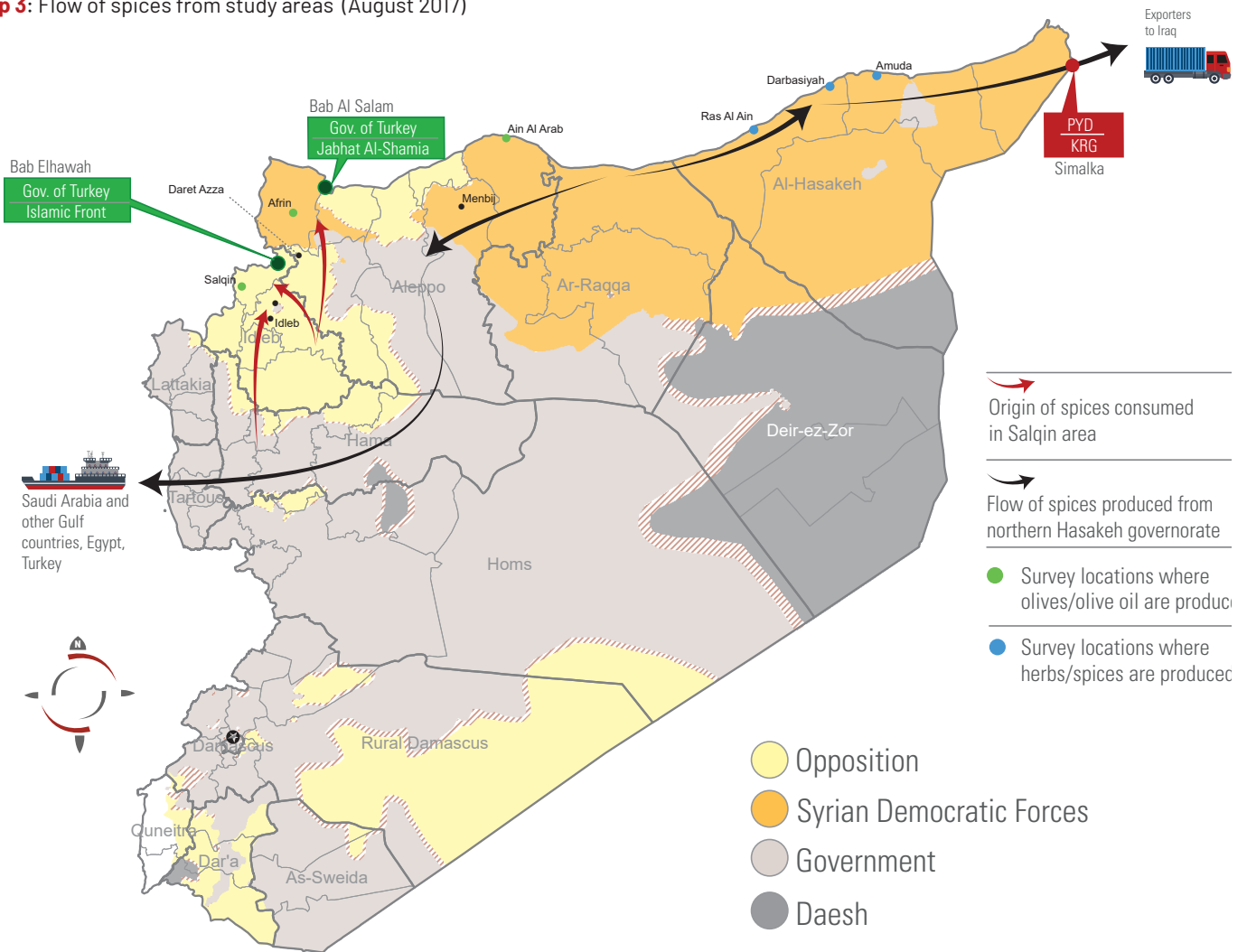
The analysis of the olive and herb/spice market systems aims to provide insight into the differences and mutual advantages of food crop and cash crop production and marketing in a conflict-affected economy. The objective of this section is to illustrate how actors, throughout the value chains, cope with the consequences of war, in a way that can be representative of dynamics in other livelihood-related market systems. It also attempts to capture how commodities cross frontlines, highlighting

the important role of intermediaries in trade channels. Both sets of crops are key to the Syrian economy as well as the livelihoods of local communities, and are therefore of strategic importance for actors involved in the conflict. They are also widely traded across borders and could therefore be representative of trends in cross-border trade which affect other commodities (for both import and export).

**Map 2:** Flow of olives and olive oil from study areas (August 2017)



Map 3: Flow of spices from study areas (August 2017)



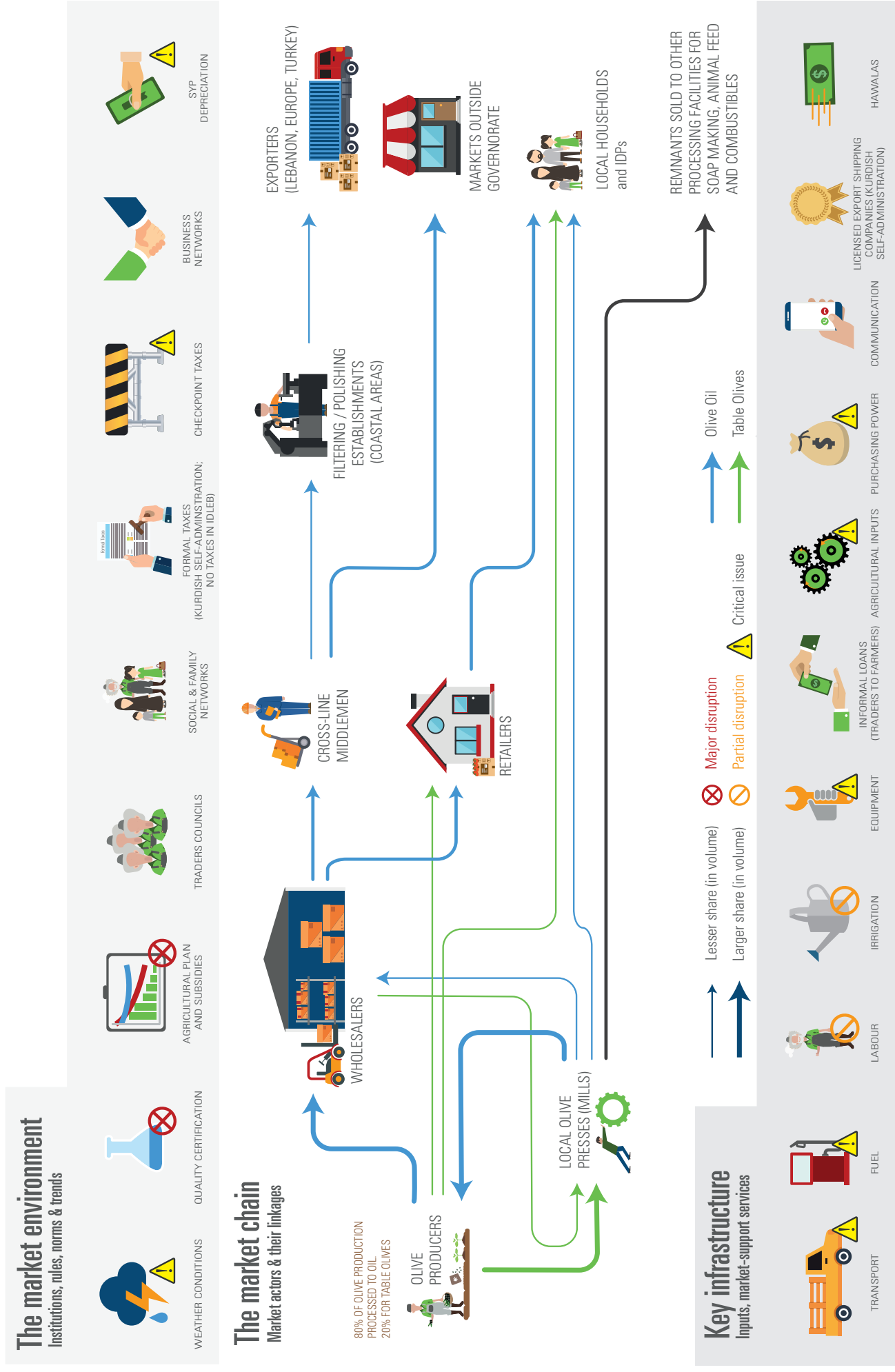
### 5.1. Overview of the spice and olive market systems in northern Syria

The following charts represent the market systems maps for olives/olive oil and spices (cumin and coriander) in the areas of coverage of this study as they were functioning in August 2017. Market system maps have three layers:

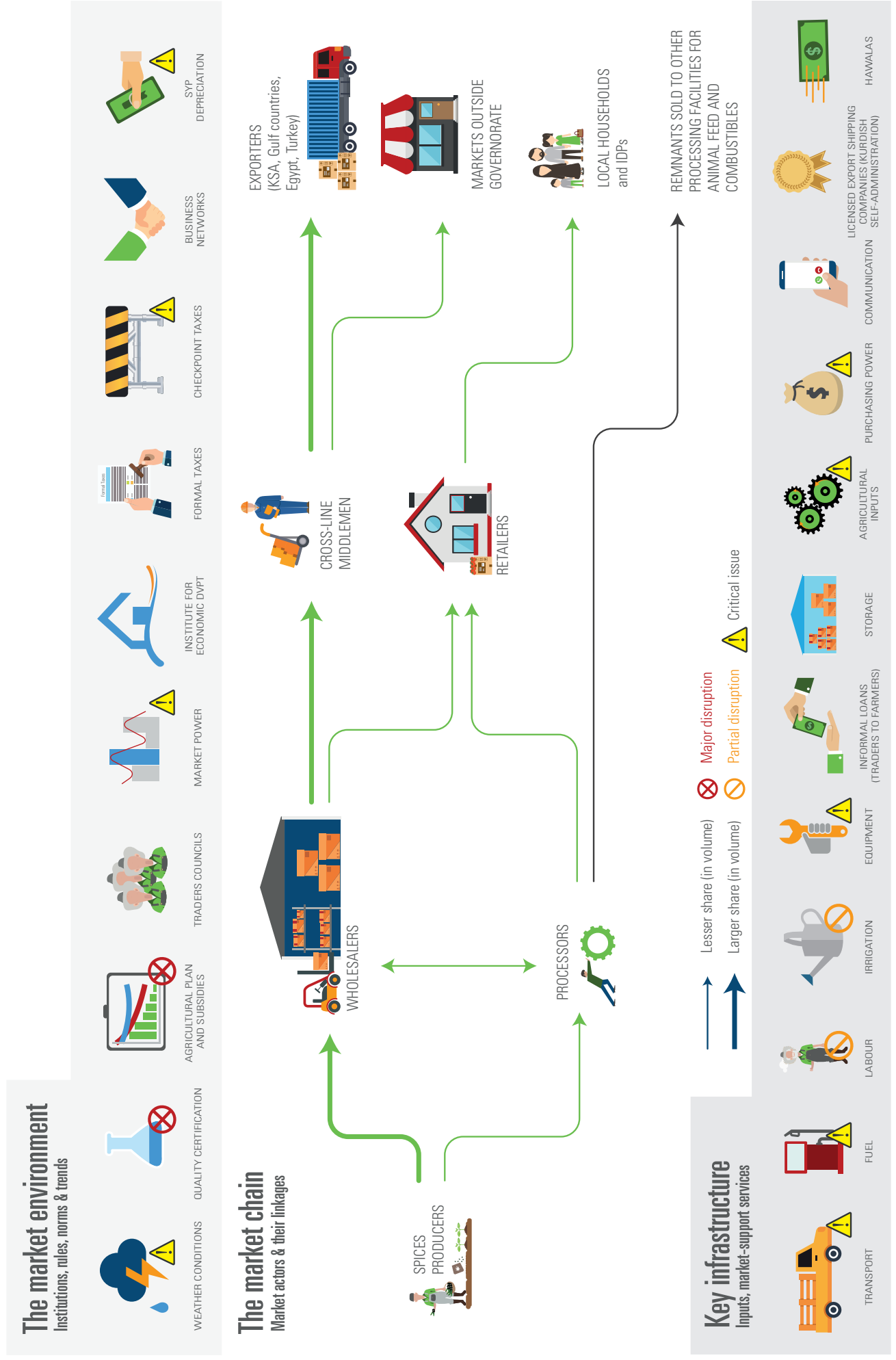
- The central layer illustrates the market chain: the chain of actors who are involved in producing, processing, trading and consuming the commodity;
- The top layer represents the market environment or context: all regulations, rules, norms and factors that influence the way the actors interact within the market chain;
- The bottom layer shows key inputs, support services and infrastructures that support a good functioning of the market chain.



**Chart 1:** Olive and olive oil market system



**Chart 2:** Spice market system



The following subsections aim at detailing the structure, conduct and performance of both market systems.

## 5.2. Current market structure

### 5.2.1. Market environment

The market environment of both commodities has seen major modifications, especially because the pre-conflict system of governmental support to agricultural sector has disappeared.

#### Regulation in Opposition-controlled areas

In Opposition-controlled areas of Syria, there have been attempts at replicating the previous support and control structures, but the lack of financial means and technical expertise has been a challenge. Currently, in Idlib, the olive oil market system is not supported in any similar way (i.e. subsidised inputs, quality control and certification), and the market is virtually solely reliant on private sector liberal dynamics. No taxes are imposed either by local authorities, the only taxes being informal fees levied at checkpoints. As explained in subsection 4.3, the lack of a licensing system has allowed people to open new businesses without regulation limitations.

#### Regulation in Kurdish-controlled areas

The self-administration has put support and control systems in place. The support provided is valuable, as it includes fuel subsidies (for details, see sections 5.4.2 and 5.4.6). However, the self-administration has not gone as far as replicating the previous system of agricultural planning by which the Government imposed specific crops to be planted in specific areas. The disappearance of central planning has therefore opened opportunities for many farmers and actors to switch from growing strategic crops (wheat, barley, cotton) to planting more profitable, higher return ones, such as spices.

A key institution set up is the Institute for Economic Development (IED), whose main task is to develop projects for modernising agriculture and industry in the region, and to set and manage rules and regulations. The IED regulates trade (both imports and exports), mostly by issuing trading licences to individuals. Local consumption needs are prioritised: exports are not allowed when local production falls short of meeting local needs.

The self-administration has also set a minimum wage for labourers (SYP 200 (GBP 0.30) per hour per worker, or SYP 3,000 (GBP 4.43) per dunum or per day). However, due to the lack of labourers, producers try to pay more attractive salaries (see section 5.4.5).

Regulatory bodies also exist at the local level. In Afrin, the Agriculture Committee (consisting of experienced farmers and agricultural engineers) sets rules, such as the ban on farmers selling products to the Government. In Jezirah (Kurdish-controlled areas of Ain al Arab, northern Ar Raqqa, northern Hasakeh), the self-administration delivers licences for businesses to operate (similar to the licence system through municipalities that was in place before the conflict). Economic Committees are responsible for enforcing regulations on prices and prohibiting the sale of expired goods from the producers. A minimum-maximum price range is also set for some commodities. In Afrin, informants reported a 'violation fee' for people who sell at a higher price than the determined maximum.

In case of dispute, traders and producers first turn towards a tradesmen council, or reconciliation committee, as is customary in Syria. If the case is not solved, it is taken to the court affiliated with the self-administration – although this happens only rarely. Similar councils are found in Opposition-controlled areas, where a council of elders, other traders/experts or the LAC can intervene to find a mutually beneficial solution.

#### Quality control

One key feature of the current market environment is the weak quality control systems in place. An office of the Directorate of Olives in Idlib used to provide quality control and certification services, but it was closed due to the conflict. Most practices are now informal or manual, which poses problems when commodities are meant for export. For example, Turkey bans imports of olive oil from Syria due to the lack of quality and origin certification.

Olives and olive oil are controlled mostly through taste and odour. Acidity testing needs equipment that is still available in Afrin, Idleb and Opposition-controlled Aleppo, but not in Ain Al Arab. Quality checks for spices mostly use visual techniques: cleanliness, size, and colour.

### 5.2.2. Trade routes from/into the areas of study

Unsurprisingly, import routes were affected by the division of areas per actor in control. Olives and olive oil used to be imported mostly from the governorates of Idleb and Aleppo, as well as to a lesser extent from the coastal areas, towards northern and northeastern areas of Syria. Imports of olives and derivatives from the coastal areas have stopped, but small quantities are still imported from Afrin and Idleb to the northeastern areas under Kurdish control, although the disruption of road networks is often an obstacle. Most of the olive oil imported into the Hasakeh governorate seems to be bought from the Fishkhabour/Simalka border crossing between Syria and Iraq.

Coriander used to be imported in small quantities from Idleb through Aleppo to Darbasiyah. Most of the herb imports originated from the southern and eastern outskirts of Idleb (such as Saraqeb) and took the direction of northern Idleb (Salqin) and northern Aleppo (Afrin).

Exports to Turkey have stopped for the past two years, officially because export clearance (quality and origin certification) could not be provided from governmental regulatory bodies. It was reported that the decision by Turkey to ban imports from Syria was actually led by a desire to protect Turkey's own domestic production, and possibly also due to political reasons. This is a critical issue for market actors in northern Syria, as before the conflict there used to be a very dynamic trade across the border, and Turkish demand for Syrian products was very high. While the Kurdish self-administration is reported to have made smuggling into Turkey illegal, some retailers in Ain Al Arab mentioned smuggling of olive oil from Syria to Turkey, but at a very low level (no information could be found on the Turkish side of the border on this activity). Smuggling activities and the influence of conflict actors on cross-border trade are analysed in more detail in section 6.

## 5.3. The market chain: actors, linkages and trade patterns

### 5.3.1. Producers

Many pre-conflict farmers had to drop out, mostly due to the high production costs (superior to selling prices sometimes), lack of land for leasing, inability to replace looted or destroyed equipment, or displacement. As was found in a 2015 CARE livelihoods assessment, and confirmed through this survey, farmers who dropped out were mostly smallholders, the most vulnerable ones. Remaining farmers are therefore primarily those who were less vulnerable initially, but they have seen their volumes of production decrease.<sup>20</sup>

All farmer respondents to the survey had more than 15 years of experience in farming (most of them up to 30 years or more). In Salqin, some of them had to stop in 2012–2013 due to clashes. In Ain Al Arab, some stopped in 2012–2014 due to clashes and the subsequent take-over by Daesh. They then found their trees burned when they regained their lands. Similarly, in Ras Al Ain, some stopped around 2012–2013 due to the Daesh take-over. In Darbasiyah, Amuda and Afrin, however, all respondents reported having continuously farmed throughout the conflict.

In terms of challenges to production, weather-related constraints were the most commonly reported across all respondents for both crops (increasing occurrences of irregular events such as a lack or surplus of rainfall, frost and heat waves, wind storms). Other main constraints cited were the disruption of subsidised provision of inputs (and energy in Idleb and Afrin, but not in Kurdish-controlled areas as local authorities still support the provision of fuel at subsidised prices), lack of certified and good quality seeds and inputs, high labour wages, and lack of available labourers due to displacement and road closures.

### Olives

The total land cultivated with olives in each of the surveyed areas has been relatively stable since the beginning of the conflict (Ain Al Arab 1,000–1,500 dunums, Afrin 2,500–3,000, Salqin 25,000).

<sup>20</sup> CARE. 'The Forgotten South: Food Security and Livelihoods Assessment in Southern Syria', November 2015

Olive producers generally harvest all their trees, as they fear that neglecting some of them, or focusing only on part of them, could result in the spread of diseases. Olives are harvested and sorted by size: the large ones, more suitable for oil, are brought to processors. The oil is then sent back to the producers who sell it to traders and wholesalers. Table olives are directly sold to traders.

Each farmer generally deals with a very small number of traders (up to three). This number has decreased in Ain Al Arab as a result of the conflict, since traders from other areas no longer come to collect. For olives, in terms of access to trade routes, Ain Al Arab seems to be more isolated than Idleb and Afrin.

### Spices

Spice producers used to grow cotton, wheat, barley and lentils. Now most of them have dropped cotton, and some have also dropped cereals. Instead, they have expanded or diversified to spices because of the prospect of high returns. This has led to a large increase in areas planted with spices in northeastern Syria (five to 15 times larger than prior to the conflict).

Areas cultivated per farm with spices are larger than with olives. The average land cultivated for olives is around 30 dunums, with peaks at 100 dunums, whereas it is between 200 and 1,000 dunums for spices. Farmers plant spices on the large plots of land that used to be planted with cereals. Spice production is usually large-scale and mechanised (farmers use combine-harvesters), and intended for commercialisation.

Once harvested, spices are dried and piled for the sorting machine and then sold to traders (or first sent for sieving and cleaning and then sold to traders).

### 5.3.2. Processors

#### Olives

Farmers cover transport costs to and from processors. Processors typically retain 6 to 7% of the olive oil that is produced. The principle was already common before the conflict, but the proportion then was 3-5%. The increase is due to the rise in production costs (mostly energy costs).

As mentioned in section 4.4, olive presses are mostly privately owned, and use traditional techniques (pressing). Filtration or bottling factories are no longer available in the Opposition-controlled areas surveyed, as they are only located in Government-controlled coastal areas (Lattakia). Bottled and high-quality purified olive oil is mostly destined for export. Local households have always preferred buying 16-litre containers of unfiltered oil from local producers. Customers of olive oil processors (when they sold it) before the conflict were mostly traders. In Afrin, this has changed to being an increasing share of local households. Oil processors in Afrin also process olives coming from other governorates, such as Hasakeh and Ar Raqqa.

Presses are located within the same district as producers in Afrin and Salqin, as they were prior to the conflict. In Ain Al Arab, presses are rare. Olives are then processed in Afrin, Menbij, Idleb and Aleppo, although the oil remains sold in Ain Al Arab (as it was before the conflict). Nevertheless, Ain Al Arab suffers from decreased opportunities for accessing processing facilities, as the conflict dynamics have affected access to Menbij, and the remaining presses have not been maintained and have seen their equipment stolen. As a consequence, part of the production is lost as fresh olives are being wasted before they can be pressed (due to 'waiting lists' or 'queues' at processing facilities).

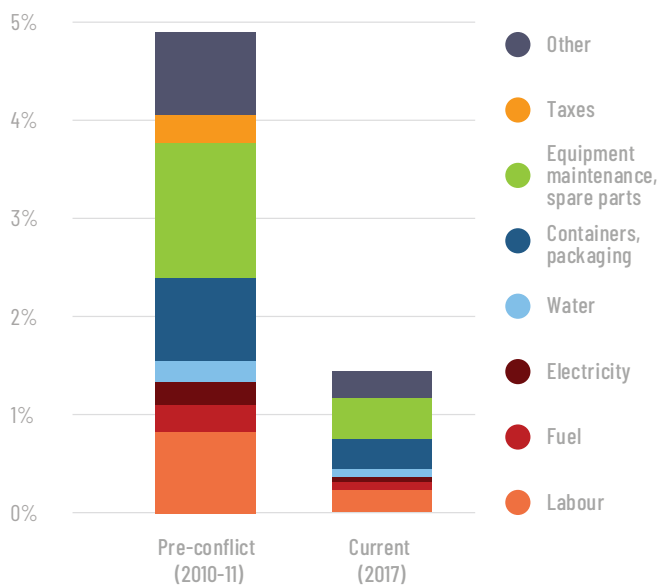
As regards input costs for olive processing, analysis from one location (Ain Al Arab) shows that, currently, processing costs represent less than 1.5% of the selling price of olive oil, whereas they used to be around 2.5 to 4% before the crisis.<sup>21</sup> Comparing this with the percentage that processors retain from producers at the processing stage (see above), it appears that processors are now taking a larger margin than prior to the conflict. Figure 4 below illustrates the components of processing costs. Equipment maintenance and spare parts, packaging (containers, etc.) and labour make up the largest shares of those costs. However, it has to be remembered that in Ain Al Arab, water and energy (fuel, electricity) are supported by the self-administration. These would otherwise represent a significant share of the costs. While these costs are based on a very small sample (two processors) and should not be taken as

<sup>21</sup> Detailed analysis could not be made from the data collected in other locations.

strictly significant, they are consistent with other data collected and were corroborated by key informants outside Syria.

Practices to reduce processing costs were reported, explaining the drop in these costs compared to prior to the conflict. Respondents stated that some processors mixed different qualities of olive oil or used alternative technical procedures (such as time in separators, varying temperatures). Such practices have been facilitated by the disruption of quality testing mechanisms as well as the shrinking competition among processors. In Ain Al Arab, the few remaining processors seem to be taking advantage of the scarcity of presses and the producers' limited capacity to transport their olives to other areas (such as Menbij) to be processed. The limited processing alternatives and increased market power have therefore enabled processors to increase their profit margin, whilst keeping pressure on producers and benefiting from high selling prices.

Challenges faced by olive processors are the dependency on diesel due to the lack of electricity, as well as the high price of fuel itself, transportation costs, labour costs, the lack of water, and the difficulty to access spare parts.



**Figure 4:** Share of processing costs per tonne of olive oil in Ain Al Arab

## Spices

Processing facilities for herbs used to be found in Aleppo and Ain al Arab mainly – no facilities existed in Darbasiyah and Ras Al Ain. With the conflict and division of areas of control, processing facilities started to be created in Darbasiyah, driven by IDPs from the Ain al Arab area, to meet an increased demand. These facilities are located in villages such as Tal Tashrin (near the border crossing) and Qarmani. Then came processing facilities to sieve herbs in villages of the Ras Al Ain area, such as Tal Halaf (near the border crossing), Alouk and others

One key informant interviewed outside Syria indicated that, before the conflict, the area was merely a supplier of raw materials and agrarian products, as the Government had deliberately prevented local industry from developing. This had pushed many young people from Kurdish-controlled areas to migrate to other regions of Syria for employment. Potentially, with the collapse of the Government planning structure, people saw a new window of opportunity to expand into transformation as they could obtain more value from processed outputs.

Unsurprisingly, the number of suppliers that spice processors deal with has largely increased since the beginning of the conflict, since processing capacity has now been relocated locally. Each spice processor now deals with 10 to 40 traders. One of them (in Darbasiyah) reported dealing in USD with his customers (traders).

Processors pay taxes to the Kurdish administration in areas under its control (licensing fees, income tax). In return, access to facilities with sieves and fuel is facilitated.

For spices, processing and cleaning appear to represent around 2% of the selling price, with the processing of cumin at SYP 15,000 (GBP 22.13) per tonne and of coriander at SYP 5,000 (GBP 7.38) per tonne.

In terms of informal practices, there were reports of actors mixing spices and cheating on quality to gain more profit, but these reports could not be further verified.

Challenges faced by spice processors include increased labour wages and shortage of workers, mainly due to displacement and migration, but also the high cost of machinery maintenance, and the high prices and low availability of fuel.

## Recycling

The percentage of waste generated through the processing cycle has remained relatively unchanged for both commodities: olives at 20–25%, cumin: 45–50%, and coriander: 20–35%. Waste is usually recycled to feed into other value chains. Remnants of pressed olives are sold to specific factories used to make soap. Olive kernels and pomace are turned to combustibles. Olive and olive oil recycling factories are available in Idleb, Afrin and Aleppo, but not in Ain Al Arab, so processes there require the Menbij road to be open to recycle. For spices, most of the waste is sold to animal feed factories or traders. Some of it is sold to traders to be mixed with thyme, while a small share is also recycled to be used as a combustible.

### 5.3.3. Wholesalers

#### Olives

Like processors, all olive oil wholesalers interviewed have been involved in this trading activity for decades. In Ain Al Arab, they stopped their activities in 2014 when the area was taken over by Daesh, but they have been resuming them since the situation stabilised. In Afrin, they never stopped. In Salqin, some had to stop for a few weeks but quickly resumed, albeit with a reduced activity (as export routes are severely disrupted).

For olive wholesalers surveyed in this study, the volume of olive oil traded has decreased by 40–60% in Afrin and by 75% in Salqin compared to before the conflict. In the last high season (November–December 2016), 20 to 30 tonnes of olive oil per month were sold on average per wholesaler. Interestingly, the number of exporters has increased from 10 to 15–25 in Afrin, while in Salqin it has remained stable, around 10–15, despite the lack of opportunities for export from Idleb.

#### Spices

Spice wholesalers mostly started trading spices during the conflict, and their production has grown significantly in the area. In Darbasiyah and Amuda, they never stopped trading throughout the conflict. In Ras Al Ain, some of those who were already active had to stop between 2011 and 2013, and resumed as soon as the city was retaken. These trends are found in many places, where market actors are ready to resume their activity as soon as the situation stabilises, even without external support.

Volumes sold by spice wholesalers increased sharply. The present survey found a 700 to 1,200% increase in exports of cumin from Ras Al Ain and Amuda, with 100–200 tonnes traded per month. The number of exporters increased three to four times in Ras Al Ain, with more exporters of cumin than of coriander. Currently, there are 12 to 20 exporters of cumin, and 8–15 of coriander. In Darbasiyah, this number doubled or tripled, with up to 50–70 exporters of cumin, and slightly less of coriander (coriander exports are a new trend for this area, where it was not grown before). The same trend can be seen in Amuda.

Analysis shows that export power is apparently not highly concentrated in these areas for the spice market systems. Many traders have seized the opportunity to engage in trading increased volumes of these highly marketable crops. Exporters obtain licences from the local Kurdish authorities. Some respondents reported that good connections to Kurdish institutions were a key asset for accessing such licences. Exporters then deal with other traders based in the coastal area, where spices are shipped to Saudi Arabia, Egypt and the Gulf countries.

### 5.3.4. Retailers

#### Olives

The number of olive oil retailers in all three areas has evolved in line with that of the wholesalers. While this number decreased in Ain Al Arab, from seven-nine to five-six, it remained relatively stable in Salqin (around 10) and increased in Afrin (from five to 10-15). These trends are in line with the available marketing channels and actual flows of olive oil from these three areas: Ain Al Arab area has limited access to the main trading roads, especially to Menbij and Al Bab; the Salqin trade has re-located locally and only a small proportion is still exported cross-line; and Afrin is still supplying areas beyond the district borders (onto other Kurdish-controlled areas, and also to Government-controlled areas).

The customer base of olive oil retailers has generally decreased by one third to one half in all three zones. In terms of diversification, retailers in Ain Al Arab have suffered most from market contracting, as they can no longer rely on exports, as a result of the conflict and disrupted supply lines.

As regards local demand for olive oil, the decrease in the number of customers is due to a combination of reduced purchasing power and migration. Some households now buy olive oil directly from producers, as many of them have shifted to a lower, less preferred quality, due to their low financial capacity. Displacement and influx of IDPs in those areas, and limited return movements, tend to mitigate the revenue loss due to foreign migration. However, this trend has not covered the drop in demand, which remains well below its pre-conflict levels.

The volume of olive oil sold by retailers has therefore decreased by half compared to pre-crisis levels. In the past peak season (November–December 2016), volumes traded by retailers averaged 100 l/month in Ain Al Arab, 160–320 l/month in Salqin, and 400–1,000 l/month in Afrin.

#### Spices

Opposite trends can be observed with spices. Spice retailers now get their supplies from wholesalers in Hasakeh and Qamishli, whereas before the conflict, they used to obtain them from other parts of Syria, including Aleppo and Damascus. Retailers now deal

with three to six wholesalers. In Amuda and Ras Al Ain, the decreased customer base due to outward migration has been replaced and balanced, thanks to an increase in the number of new customers who migrated into the area. In addition, some refugees abroad are still demanding spices from 'inside' through their relatives who have stayed in Syria.

In terms of volumes of spices sold by retailers, these have multiplied by two to five times for cumin; for coriander, volumes have remained relatively stable or increased by 50%, depending on location. On average, retailers sell 150 to 200 kg of cumin per month.

### 5.3.5. Export share

Divergent trends have been found between areas as regards the proportion of local production being exported to other governorates or abroad. Key informants in Ain Al Arab noted an increase in this proportion for table olives (from 5% of local production being exported in 2010–2011 to 20% in 2017, with a 25% peak in 2016) and olive oil (from no exports before the conflict to 25% in the latest season, with a 30% peak in the previous one (2015)). However, an opposite trend can be observed in both Afrin and Salqin, previously large exporters of olives and olive oil. Afrin still exports a large yet decreased proportion of its local production (40–60% of table olives, and 50% of olive oil, against 70–75% prior to the conflict). Most exports from Salqin have stopped: olives were mostly sold within the Idlib governorate in the latest season, whereas more than half of the local production used to be exported.

Herbs have seen different export trends. Thanks to an increase in production due to the crops finding effective marketing channels, especially through the ports of Tartous and Lattakia, there has been a great increase in the exported proportion of cumin (mainly) and coriander from northern Hasakeh to other governorates and abroad. Export volumes have gone from negligible before the conflict to 60% to 90%, depending on the area of origin.



### 5.3.6. Consumption

Most local households buy olives and spices from markets and shops when these commodities are not produced locally. When they are, local households access them from their own production or from relatives' production, or they buy them on the local market. These commodities can be found in town and village markets and shops, or through specific spice aggregator markets (*el hal*). Sources of supply for consumers have not changed through the conflict, except for some mobile traders of olive oil, which reportedly existed in northern Hasakeh before the conflict but have now disappeared.

In Afrin, the proportion of households buying olive oil directly from producers or processors has increased compared to before the conflict. During the high season, many households buy the total amount of olive oil they need for the whole year, so as to benefit from more advantageous prices.

There is no direct link between spices produced in northeastern Syria and consumption in Afrin and Idleb, as spices bought and consumed in those two locations come from eastern Idleb and Hama, which are geographically closer. All the spices exported from northeastern Syria are destined for international export. Local consumers prefer green large coriander seeds, as well as processed (clean, free of dirt) and green, raw, clean cumin. Low-income households prefer ungrounded cumin as it is cheaper (they grind it themselves).

### 5.3.7. Means of payment

Producers pay for olive processing services in-kind (as mentioned previously, 6 to 7% of the production is retained by mills). For both types of products, all farmers trade in cash directly with traders. It was reported that traders and farmers sometimes arrange informal loans among themselves, i.e. some traders provide informal loans to producers in exchange for receiving part of their production at the time of harvesting. Producers sometimes allow deferred payments when they sell directly to local households, but in this kind of relationship, customers are usually friends or relatives of the farmer.

Exporters and middlemen use hawalas to transfer funds. Orders are often placed using Internet-based messaging services (e.g. WhatsApp), and transactions through

hawalas are made between individuals who know each other.

Between wholesalers and retailers, direct cash is the only payment method. Before the conflict, some traders would give loans, but this is no longer the case, due to a lack of confidence in the current situation.

Between retailers and local households, cash payment is by far the preferred method. Before the conflict, payment was done either through cash or through deferred payment. Now the latter option is only rarely used, and mostly among relatives.

No other formal credit or loan services are available to market actors and households.

## 5.4. Key infrastructures, support services, inputs

With the disruption of the previously state-supported service and input provision system, market actors have had to adjust to new economic realities, since the new authorities have not always been successful at supporting them and helping them to adapt.

This subsection explores how market actors are currently accessing services and inputs needed for the market chain to operate. Although the case studies focus on olives and spices, findings are representative of trends and constraints observed in other food market systems.

### 5.4.1. Financial services

In the absence of an actual banking system, hawalas have filled a void by expanding their operations. Traders use their services for most payments. In fact, the current economy of Opposition-held areas in northwestern Syria is almost entirely dependent on the hawalas' cross-border networks.

In Kurdish-controlled areas, it was reported in one location (Darbasiyah) that the self-administration provides financial services for international trade. Remittance companies registered with the self-administration provide domestic services. However, no further details are available.

No insurance system was tracked in any of the areas surveyed.

### 5.4.2. Production inputs

In Kurdish-controlled areas, the self-administration supplies producers with several important commodities.

**Table 2:** Commodities supported by the Kurdish self-administration

	Ain Al Arab	Afrin	Darbasiyah	Amuda	Ras Al Ain
Seeds	No	No	No	No	No
Chemical inputs	Yes	No	Yes	Yes	No
Organic input	No	No	No	Yes	Yes
Tools	No	No	N/A	No	No
Fuel <sup>22</sup>	Yes	No	Yes	Yes	Yes
Water	No	No	N/A	No	No

It was unclear how and at what cost, if any, some of these products were procured by the Kurdish self-administration. One producer in Afrin mentioned that he had received aid in the form of discounted fertilisers. Similarly, producers in Ras al Ain said that the self-administration sold fuel at a discounted price. This has a positive impact on market prices. Focus group discussions (FGDs) in Afrin explained that the price of fuel negatively affected the prices of goods, and processors in Salqin reported that their fees had increased from 3% of the crop profit to 6%, due to the

increased price of diesel as well as power cuts since the beginning of the conflict.

FGDs also mentioned that the quality of fuel and agricultural inputs was particularly poor, impacting the production of food commodities. They did not specify whether there were differences between inputs supplied by the self-administration and those available in the market. Eligibility criteria to receive subsidised inputs were also unclear.

**Table 3:** Production inputs: availability and sources

	Seeds	Chemical inputs	Organic inputs (manure, etc.)	Tools	Fuel	Water
Spices	Usually available	Usually available (used to be provided by Government)	Usually available	Usually available	Usually available	Mostly available
	From farmers or traders	Traders, or supported by self-administration	Livestock owners, self-administration through agro-dealers	Traders	Local authorities	Wells
Olives		Not always available	Usually available	Usually available	Sometimes available in Kurdish-controlled areas; rarely available in Salqin	Usually available; Rained in Salqin
		Agro-dealers (agricultural 'pharmacies') and traders	Livestock owners	Traders	Traders	Wells in Afrin and Ain Al Arab

<sup>22</sup> See further details on fuel costs section 5.4.6.

Costs of inputs are mostly not shared with other producers. However, transport is commonly shared to split the cost between farmers, and make the best use of the available trucks and cars.

Regarding processing activities, respondents in Salqin and Afrin reported that inputs were available and accessible. In Ain Al Arab, spare parts were difficult to access. For spices in Kurdish-controlled areas, no issues were reported in terms of accessing inputs. There was one exception to this: the processors interviewed in Ras Al Ain mentioned 'water and diesel', whereas other respondents said that inputs were supported or provided at a reasonable level. This mismatch might have been influenced by the degree to which the respondents were close or opposed to the self-administration.

#### 5.4.3. Storage

Processors and wholesalers usually have their own storage. Some traders rent storage, especially during the peak season. At that time, olive oil wholesalers fill and empty their storage on a daily basis, while this happens every two to three weeks throughout the rest of the year.

#### 5.4.4. Transport services and cost of crossing lines

For transport within local boundaries (at the city level or slightly beyond), traders use their own trucks or cars. Over longer distances, they rent the services of private transport companies. In Kurdish-controlled areas, those take the form of shipping companies licensed by the authorities. Transport is generally paid by the receiving end: the trader pays for the transport of the goods purchased from the supplier, and the price paid by the client includes the cost of transport incurred by the trader. When there is transport between two traders, cost sharing depends on the agreement between them, but they only occasionally share the costs. Traders from the coast generally pay for the transport of goods from northeastern Syria.

Overall, transportation costs have increased, as have many other inputs, by roughly 10 times. In Salqin, traders mentioned transport costs of SYP 800-1,000 (GBP 1.18-1.48) per 16-litre olive oil container within the Opposition-controlled areas (this represents roughly 3% of the price). If the product is exported through to Government-controlled areas, the costs rise up to

SYP 2,500 (GBP 3.69) per container (up to 10% of the price), to which must be added the checkpoint fees on the Government side: as some reported, these fees can reach 10 or 100 times what is paid on the exporting side. In light of this, smuggling olive oil to Turkey is reportedly cheaper than going through the Government checkpoints. Exporting from Afrin costs SYP 2,000 to 2,500 (GBP 2.95-3.60) per container.

In Ain Al Arab, informants reported that it cost SYP 10,000 (GBP 14.75) to transport one tonne of olives to processing factories, i.e. around 2% of the price of a tonne of olives. This represents a tenfold rise from SYP 800 to 1,000 (GBP 1.18-1.48) per tonne compared to before the conflict.

At the Menbij crossing, tax for cumin amounts to around SYP 10,000 (GBP 14.75) per tonne (1% of the selling price) on the Kurdish side only. To this must be added custom fees payable to the Syrian Government side. No further detailed or consistent information could be found, although one processor in Darbasayah said that Government customs impose expensive fees of SYP 200,000 (GBP 295.1) per tonne of merchandise, without specifying the type of merchandise.

Transporting cumin from Darbasayah to Ras Al Ain costs 50,000 SYP per tonne (which is approximately 5% of the selling price of cumin). Transporting cumin to the coastal areas costs around SYP 75,000 (GBP 110.65) per tonne, which is paid by the receiving end (exporter in Lattakia).

The Kurdish self-administration also applies customs fees at the Simalka border crossing to Iraq, as well as on the Ain al Arab road.

#### 5.4.5. Labour

At production level, labourers are women and men from the local areas as well as IDPs. The large majority of workers in spice production are females (up to 90%). Women also work on olive farms, but what proportion of the workforce they represent is not clear. Wages average SYP 1,000 to 1,500 (GBP 1.48 to 2.21) per day in Afrin and Salqin. In other Kurdish-controlled areas, producers pay a minimum of SYP 3,000 (GBP 4.43) per day (up to SYP 5,000 (GBP 5.90)): this is sometimes above the minimum wage set by the self-administration, as they have difficulties finding labourers.

Processors mostly employ local youth and IDPs, mostly males. During the high season, processors employ up to 10 times more labourers than off-season (up to 30 against two to three throughout the year). Wages are slightly above those at production stage. For olive picking and sorting, they vary between SYP 2,000 and 3,000 (GBP 2.95-4.43) per day, up from SYP 250-300 (GBP 0.37-0.44) before the conflict; for spice sieving and cleaning, between SYP 1,500 and 4,000 (GBP 2.21-5.90) per day or per tonne processed, up from SYP 300-500 (GBP 0.44-0.74) before the conflict. Most labourers in processing factories get extra in-kind benefits, especially in high season, in the form of free produce.

Some of the processors – especially in Ain Al Arab, Darbasiyah, and Ras Al Ain – also offer on-site lodging to accommodate for long hours in peak season, and sometimes meals as well.

#### 5.4.6. Fuel

The Kurdish authorities have been supporting the provision of fuel at subsidised prices, as reflected in Table 4 below. However, this support does not reach Afrin, where communities rely on private traders to bring fuel from the Deir Ez Zor and Ar Raqqa areas. Similarly, Idleb diesel supply relies on private traders from eastern areas.

**Table 4:** Diesel cost and sources

	2017	Source	2016	Before the conflict
Salqin	SYP 250-400 / L GBP 0.37-0.59 / L	Traders in eastern areas	SYP 200-350 / L GBP 0.29-0.52 / L	SYP 10-20 / L GBP 0.01-0.03 / L
Afrin	SYP 250-300 / L GBP 0.37-0.44 / L	Traders in Deir Ez Zor and Ar Raqqa	SYP 200-250 / L GBP 0.29-0.37 / L	SYP 10-20 / L GBP 0.01-0.03 / L
Ain Al Arab, Darbasiyah, Amuda, Ras Al Ain	SYP 45 / L GBP 0.07 / L	Traders and self-administration	SYP 45 / L GBP 0.07 / L	SYP 10-20 / L GBP 0.01-0.03 / L

Processors in Afrin and Salqin mentioned potential alternative energy sources, such as wind turbines and solar panels, but installation costs are too expensive

for individuals (a cost of USD 10,000 to 30,000 was mentioned, but with no indication of unit or exploitation size).

## 5.5. Changes in market conduct, power and competition

### The case of middlemen

One type of actor was consistently mentioned in interviews, but given different names. 'Middlemen' act as facilitators of trade between areas of influence. They are called: 'big traders', 'crisis traders', 'wholesalers', 'exporters', 'middlemen', 'intermediaries', 'brokers', 'smugglers', or even 'whales' (underlining their perceived capacity to 'swallow' the market). These different names highlight the critical yet unclear role middlemen play in trade as part of the conflict dynamics. Some of them are reported to have little previous experience in trading. They hold their legitimacy from having connections on both sides of conflict lines, as well as the financial capacity to arrange and cover checkpoint passages.

In most cases, those powerful businessmen are new actors who emerged as a result of the crisis. In fact, it was reported that many pre-conflict large traders migrated abroad, leaving space for smaller actors to expand, especially for those with connections in different areas of control. As mentioned earlier, some new actors have also emerged, who had no previous experience in trading. In some instances, these new actors were involved with controlling groups in the first years of the conflict, expanded their financial capacity as a result of their activities, and then started engaging in trade.

All respondents said that the biggest traders with connections were the ones who set the trading and negotiation rules for prices and volumes. As explained by one producer in Salqin: ‘Wholesale retailers can monopolise the olive and [olive] oil market. They play a big role in the raising and reduction of prices. When they do not buy from the farmers, the farmers are pressured into selling their products much cheaper.’ The same power of the big traders over the farmers was mentioned in Darbasiyah. Indeed, even in areas under Kurdish control,

big traders have a major influence on price setting (see section 6.2 for details). In Opposition-controlled areas, no respondent mentioned any regulatory body which could prevent these monopolies.

**Market information**

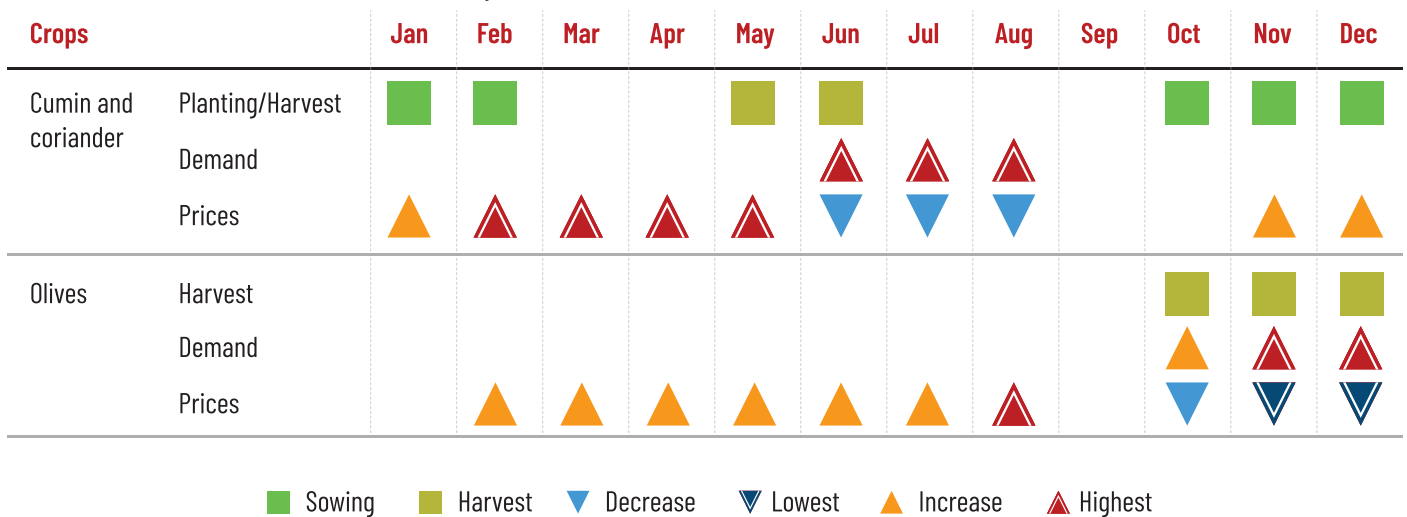
Survey respondents pointed out that traders and processors have the best access to market information on prices, volumes, availability, level of demand, etc. Producers mostly know prices practised in the area where they are located, but not across lines. They rely on the information given by traders, which further illustrates their lack of negotiating power with traders.

**5.6. Impact on market performance outcomes**

**5.6.1. Seasonality of production and trade**

Table 5 shows the seasonal calendar for planting and harvesting the selected crops, as well as how prices and demand evolve throughout the year. It is valid for all study areas.

**Table 5:** Prices and demand across seasonal cycles



**Cumin and coriander**

In northeastern Syria, cumin and coriander are planted from October to February, and harvested in May and June. From June to August, demand is at its highest, and prices are low due to the higher availability of both products. From September until the next harvest season,

the spices are stored by traders to be sold throughout the year, when demand remains quite stable, with available volumes typically progressively decreasing until just before the next peak season. Long-term storage is made possible by the low perishability of the products, and appropriate handling and packaging. Most of what

is produced goes for export (especially for cumin); local demand is well-covered, as it is very small compared to available quantities. However, production volumes of coriander may not always be sufficient to extract a surplus for export.

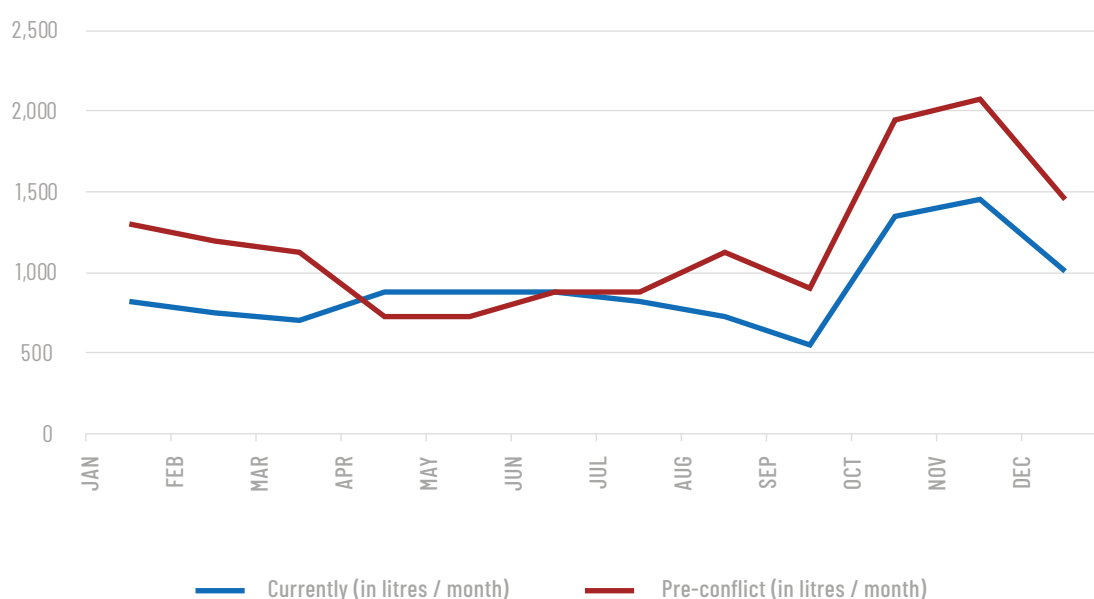
### Olives and olive oil

Olives in Idleb, Afrin and Ain Al Arab are harvested from October to December. They show similar, typical trends in terms of prices and demand. Demand is at its highest

at the end of the harvest season, when a good proportion of local households buy the volumes they will require throughout the year. Remaining volumes are stored, although demand is much lower off-season.

Figure 5 shows how volumes of olive oil traded in Ain Al Arab evolve throughout the year. It also reflects findings from other areas (Afrin and Salqin), although no consistent volume figures could be collected from there.

**Figure 5:** Estimated average volume of olive oil traded in Ain Al Arab (Source: Wholesaler and retailer surveys)



### 5.6.2. Prices

Besides typical seasonal variations, prices may be affected by a range of factors – including the devaluation of the Syrian pound, increased production costs, transportation costs and road closures. The latter are a major problem in Ain Al Arab, which is highly dependent on the status of roads to Menbij, the main gateway from and to Government-controlled areas. Prices of olives and olive oil are also highly dependent on: (i) weather conditions, which affect the quality and quantity produced; (ii) pests and diseases (in areas with a heavy concentration of olive trees, diseases spread much faster than in mixed farming areas); (iii) increased poverty and migration (affecting purchasing power and level of demand); (iv) lack of labourers; and (v) the dependency on diesel for olive presses and water pumps

(the latter when fields need to be irrigated to compensate for low rainfall). Spice prices are specifically impacted by the concentration of traders and monopolisation of markets, as well as by costs related to taxes, customs and licences.

Between 2010 and 2017, olive oil prices saw the highest increase (by 900%), while table olive prices increased by 750%, and coriander and cumin by 700% each. In the space of just 12 months, between January 2016 and January 2017,<sup>23</sup> the price of olive oil increased by almost 50% and that of olives and coriander by 30%, while cumin prices remained quite stable (2% increase). For olive oil, the significant increase can be explained by decreased production and tighter volumes.

<sup>23</sup> Data for the study was collected in August 2017, before the 2017 harvest season (starting end of October, until December 2017-January 2018). Prices were therefore collected for the latest season (January 2017) and compared with the previous season (January 2016)

Olives are generally cheaper in Ain Al Arab, but olive producers sell at different prices depending on their customers – households or traders. The product is sold at a higher price to traders (SYP 400–550 (GBP 0.59–0.81) per kg in Afrin and Salqin, SYP 200 (GBP 0.30) per kg in Ain Al Arab), than to local households, who buy directly from the farm.

Cumin from Darbasiyah (at SYP 1,300 (GBP 1.92) per kg) is more expensive than in Ras Al Ain or Amuda (SYP 900 (GBP 1.33) per kg), as it is considered of better quality.

Even if prices rise at production level, end consumer prices cannot always follow the same pattern of increase, as demand is greatly constrained by consumers' purchasing power. As documented in previous studies,<sup>24</sup> traders have had to adopt different strategies, among which:

- Reducing supply to match the reduced demand;
- Buying only from wholesalers to keep prices down;
- Reducing their profit margin;
- Continuously adjusting prices, especially when they buy their goods in USD from producers and wholesalers and 'need to ensure that they do not suffer from exchange-rate losses';<sup>25</sup> and
- In times of extreme exchange rate fluctuation, close their shops and wait for prices to stabilise.

When the exchange rate goes down, prices do not necessarily decrease. As documented by this and other studies, the larger shopkeepers are 'in a position to manipulate the situation to their benefit, due to their higher purchasing power.'<sup>26</sup> Traders indeed have the capacity to decide to stop buying from producers when they consider that prices are too high, and to start re-supplying when prices go down.

### 5.6.3. Margin analysis (large traders)

Olive oil traders in Ain Al Arab and Afrin have seen their profit margin decrease on the buying price, as compared to before the conflict. This is less remarkable in Salqin, where margins have remained stable in terms of proportion of the buying price, following the increase of the latter. Overall, margins currently represent between

6 and 18% of the buying price. Margin trends must be analysed in the context of each of the three areas.

- In Ain Al Arab, traders have to deal with a decreased customer base and a related fall in demand, which encourages them to compromise on their margins to keep trade flowing. In parallel, transaction costs such as fuel are supported by the authorities, and transportation is eased (by comparison with Opposition-controlled areas) by the shipping companies licensed with the Kurdish self-administration. This explains their potential capacity to absorb a decreased margin;
- In Afrin, historically large traders have had greater financial capacity to operate than those in Ain Al Arab. Even though transaction costs (including fuel) are not supported as they are in Ain Al Arab, this greater financial capacity may explain why they are able to absorb constrained demand by reducing their margin;
- In Salqin, transaction costs are not supported either. However, the influx of IDPs may explain why traders did not compromise on their margins, as they expected that these new arrivals would sustain demand (even though, as explained earlier, these influxes have not compensated for the decreased customer base after migration abroad).

A similar margin analysis is not possible for spices, due to a certain lack of consistency across results from the survey. However, from the small sample of traders interviewed, results indicate a margin of 20–30% of the buying price for locally produced cumin. This margin appears to have remained relatively stable compared to the pre-conflict period.

<sup>24</sup> CARE. 'The Forgotten South: Food Security and Livelihoods Assessment in Southern Syria', November 2015; IIED. 'Fitting aid to context: community experiences of aid delivery in Northern Syria', July 2017

<sup>25</sup> Ibid.

<sup>26</sup> Ibid. See also section 5.4.7 above

#### 5.6.4. Capacity of market to expand if demand increased

Generally speaking, several factors affect the performance of the market of agricultural goods and its capacity to expand. These include the poor and changing weather conditions, high production and transaction costs, and the limited financial capacity of actors (especially smaller actors along the chain, such as smallholder farmers and small retailers).

It appears that the capacity to increase olive production in Afrin is limited, as olive trees already cover most available land. Opportunities to increase volumes produced therefore do not lie in increasing planted areas, but in improving the quality of production. This also applies to Ain Al Arab and Salqin, where poor climatic and soil conditions can

be better overcome by improving the care given to existing trees rather than planting new ones.

Processors reported having the capacity to expand volumes processed in Afrin and Salqin, as they were not working at full capacity. However, they reported being constrained by costs of labour, equipment and fuel. Spice processors reported lacking the financial means to expand their volume of production: they would also need improved access to better equipment and sorting devices.

The capacity of retailers to expand is mostly limited by their financial capacity and frequent or long-lasting road closures.

#### 5.7. Brief conclusion on market mapping

**Table 6:** SWOT analysis for both market systems

STRENGTHS	WEAKNESSES
<p>Resilience and flexibility of market actors (especially traders)</p> <p>IDPs established new businesses in areas, importing their skills</p>	<p>Lack of experience in private sector, non- government subsidised</p> <p>Lack of negotiating power for producers in front of traders</p> <p>Lack of market linkages for a majority of market actors</p> <p>Very few actors with connections are controlling the market</p> <p>Lack of stable and reliable sources of energy and water in some areas</p> <p>Lack of systematic market system analysis</p> <p>Fragmentation of the markets due to closures and areas controlled by different forces</p>
OPPORTUNITIES	THREATS
<p>Increasing localisation of the economy can be beneficial, compared to a heavily centralised system where decisions are made elsewhere and where local market actors are merely executing orders. Locals can work for their own communities</p> <p>IDPs establishing new businesses: good for sharing experience and skills</p> <p>Invest in alternative energy supply (too expensive at individual level)</p> <p>Aggregation of producers to combine and share production requirements and improve negotiating power</p> <p>Support extension services</p>	<p>Reinforcing power of some actors which could distort markets (a small number of people only)</p> <p>Brain drain: abroad or to international NGOs (INGOs)</p>



## 6. War actors and the market chain

### 6.1. Overall war economy trends

Across the regions surveyed, the effect of the war was said to have severely impacted the economy. The displacement of people and the destruction of farmland, as a result of shelling, have negatively affected the production of both olives and spices and the ongoing security situation remains the main factor affecting trade and the transport of goods.

Yet cross-line trade within Syria is still very active. Importantly, trade with Government-controlled areas has been conducted from/to Opposition and Kurdish-controlled areas throughout the war.

Cross-line trade is often the result of negotiations between armed groups. The terms of these negotiations may include allowing certain products to be imported, but only on the condition that others are exported, or decreasing cross-line border fees in exchange for access to water or electricity, when power plants or water dams are located in another area of control.

Closures of roads are common due to clashes, but they are generally only temporary (a couple of days, not more than a week). In most areas, key informants mentioned that whenever roads closed, local authorities immediately set out to negotiate their reopening. In the meantime, prices of goods that are imported from other areas of control increase – as traders and intermediaries have to use alternative roads or pay bribes at checkpoints to bring in goods. For exported goods, prices decrease at farmers' level, as traders use their negotiation power to justify paying less to keep selling prices constant despite the higher fees they will have to pay when crossing checkpoints. The traders' bargaining power is increased due to the lack of nearby markets where producers can sell directly.

#### Trade with Government-controlled areas

Most of the trade with Government-controlled areas is facilitated by traders with connections on the other side of the frontline. As seen in section 4.1, Menbij is the main hub for trade of commodities between eastern Kurdish-controlled areas and Government-controlled

areas. In Salqin, one producer stated that 'the actors [responsible for trade to other areas of control] are traders that have connections with the regime and agreements with the checkpoints.' As a result, the fees collected were said to differ from official taxes collected prior to the conflict.

In Darbasiyah, processors explained that these fees ranged between SYP 30,000 and SYP 200,000 (GBP 44.26-295.07). This scale was corroborated by one Amuda-based producer, who stated that 'transportation costs SYP 50,000 (GBP 73.77) to Lattakia.' One retailer in Salqin explained that 'so-called taxes are paid at the checkpoints, but these are just bribery payed to the officers of the Syrian regime to transport the goods.' According to most respondents, only big traders were able to access this type of privilege. One trader in Darbasiyah explained: 'I do not have access to crossing conflict lines, but the bigger tradesmen are the ones who export and import because they have connections and the financial capacity to pay their way through the roads. They have private brokers who deliver the goods to points determined by traders.' Several respondents also noted that while goods were exported to Government-controlled areas, fuel was often brought back. One producer in Salqin explained that 'the same car that transports the products to the regime brings back fuel.' It is unclear whether this type of exchange also occurred with Kurdish-controlled areas.

#### Trade between Opposition and Kurdish-controlled areas

As described in section 5.2.2, prior to the conflict, olives and olive oil used to be imported mostly from the governorates of Idlib and Aleppo, as well as to a lesser extent from the coastal areas, towards the north and northeast, now under Kurdish administration. Although most of this trade has stopped, traders and retailers in Salqin and Afrin explained that the road between Afrin and Idlib was one of the three most active trade routes in their area. One FGD in Salqin also indicated that spices were brought from Afrin, whilst both FGDs in Afrin stated that cumin and coriander were imported from Idlib to Afrin. Primary data did not provide much detail about the modalities of the exchanges of goods

between both areas but one retailer in Afrin said that ‘militias agree among each other on how to export.’ Reports also indicated that Opposition-controlled areas near Al Bab levied only low taxes for goods coming from Kurdish-controlled areas, as the main water and electricity sources are located inside Kurdish-controlled areas. However, the recent incursion of Turkish forces in Idlib, which occurred after primary data collection, may jeopardise this trade. Secondary data from October 2017 indicated that the road to Afrin had remained open to civilians only, under close Turkish scrutiny.<sup>27</sup>

Trade between Opposition-controlled areas and the rest of Kurdish-controlled areas (eastern Aleppo, Raqqa and Hasakeh) seem to have mostly stopped. Coriander, which used to be imported in small quantities into Darbasiyah from Aleppo, is now produced locally.

### Protection issues

Most respondents explained that the conflict had not fundamentally impacted the habits of the community when going to the market. However, FGDs in Darbasiyah and Salqin noted that the war has led to an increase of female-headed households, so more women were now going to the market. They said that since purchasing power has decreased, women could now more easily carry all purchases home. In the past, men were traditionally charged with going to the market. A few respondents from FGDs also indicated that women at times tended to avoid markets for fear of harassment and because armed fights could erupt.

## 6.2. War economy trends in Kurdish-controlled areas

### Role of the self-administration in the market chain

In Kurdish-controlled areas, where the self-administration has set out to regulate markets, linkages with the war economy are common and multifaceted.

Firstly, trade monopolies have not been eliminated. One producer in Ain al Arab stated: ‘There is no accountability enforced by the local authority and this leads to the monopolisation of the farmers’ production’. Several

respondents said that big traders were aided by their links to the self-administration. This contradicts the engagements taken by the self-administration in Article 42 of the Social Contract of Rojava, which specifically states that ‘the economic system in the areas of democratic management works on an equitable and sustainable global development [...] and prevents monopoly and applies social justice.’<sup>28</sup> Nonetheless, one key informant in Ras al Ain contradicted this claim, saying: ‘if the product is monopolised or raised in price, then the self-administration intervenes to control and fix the price, including the taxes on exported goods.’ It was unclear whether this diverging opinion was due to political affinities, reluctance to express criticism of the self-administration, or whether it reflected a geographic difference in the way rules are applied.

Secondly, the self-administration seemed to instil fear rather than trust among respondents, which may compromise the efficiency and reliability of the systems put in place. Several facilitators deployed to Kurdish-controlled areas explained that respondents were reluctant to speak of the self-administration, for fear of being detained. This was particularly the case in Ras al Ain, but also mentioned in Amuda. Processors in Amuda also mentioned that military service was in place and this prevented some of the youth from participating in economic activities.

Thirdly, however, fraud is apparently not prevented by fear of the self-administration or by the regulation of the market. In fact, the high taxes collected by the self-administration were said by one FGD in Hasakeh to push farmers to hide their products. Similarly, in Ain al Arab, FGDs said that fraud on food prices was not uncommon. A retailer in Amuda stated that the level of cheating and fraud in the spices trade in particular had increased since the beginning of the conflict. Another respondent compared the situation with pre-conflict times, saying that monopolisation and stealing formerly did not exist. One key informant in Ras al Ain indicated that when some commodities were not available, traders sometimes sold goods on the black market, setting the prices themselves and thus circumventing self-administration regulations.

<sup>27</sup> Humanitarian Access Team. ‘Weekly Report 10–16 October 2017’, Mercy Corps, October 2017, <https://www.humanitarianaccess.org/weekly-report/weekly-report-1010-101617>, Peter Luskin

<sup>28</sup> ‘Charter of the Social Contract in Rojava’, Kurdish Institute of Brussels, 7 February 2014. In December 2016, the reference to Rojava was dropped from the name of the self-administration, which renamed itself ‘Democratic Federation of Northern Syria’

### Impact of economic sanctions taken by neighbouring countries

As indicated above (section 5.2.2) and according to secondary sources, Ankara has been enforcing a strict embargo of aid and trade on Kurdish-controlled areas of Syria since 2013. This embargo has been followed by the Kurdish Democratic Party (KDP)-led Kurdish Regional Government of Iraq (KRG).<sup>29</sup>

In 2014, the KRG was even criticised for digging a trench which would physically separate Iraqi Kurdistan from Kurdish-controlled areas of Syria.<sup>30</sup> However, the border had apparently re-opened for trade between Kurdish-controlled areas and Iraqi Kurds in 2016.<sup>31</sup> This was confirmed by several respondents interviewed as part of the primary data collection who stated that trade with the KRG was still ongoing via the Simalka crossing. For instance, most of the cumin exported from the Hasakeh governorate seems to go into Iraq through that crossing. One trader in Darbasiyah stated 'I export to Iraqi Kurdistan and pay the required customs. My partner in Kurdistan takes the products and distributes them to the market there. [There is] no problem exporting to Iraqi Kurdistan through the border crossing.' This trade was also mentioned by key informants in Ras al Ain, Amuda and Ain al Arab. They suggested that the trade was not illegal: on the contrary, several respondents explained that the self-administration fixed fees at the border crossing, as mentioned in section 5.4.4.

Respondents also mentioned illegal smuggling activities between Kurdish-controlled areas and Turkey. One key informant explained that locally produced spices were commonly traded with Turkey through the crossing controlled by the Free Syrian Army (FSA) in Jarablus. According to one key informant in Ras al Ain, because of the work of smugglers, the roads to Turkey were never completely closed for trade. However, according to a processor in Ras al Ain, smuggling was risky: 'We would pay [the smuggler] for all the costs and it is risky. Sometimes the products would go through, other times we would lose the products.'

### 6.3. War economy trends in Opposition-controlled areas

#### Role of local authorities

Unlike in Kurdish-controlled areas, the governance system in Opposition-controlled areas appears to be very weak. While LACs can act as facilitators and mediators within the market chain, their ability to regulate and intervene appears to be limited. Key informants in Salqin said that there were no laws enforced regarding the market and no mention was made of licensing process, taxation or other regulation. The LAC was mostly mentioned in relation to the re-opening of closed roads, during which it was said to negotiate with armed forces. Key respondents also said that the LAC may sometimes intervene to resolve disputes, alongside a 'council of elders'.

#### Role of armed groups

Armed groups within Opposition-controlled areas were very seldom mentioned by respondents. While the security situation was said to impact trade routes and shelling disrupted the economy, they did not seem to play any significant role. According to secondary sources, the control of trade routes by Hay'at Tahrir al Sham (HTS) has remained 'contained' by threats of 'increased resentment from the local business community and tensions with other armed Opposition groups'.<sup>32</sup> As a result, local traders and producers were said to have some great power to 'stabilise' markets in an area. Although HTS was not mentioned by field respondents, the statement above matches the findings of this study on the power of traders and the efforts of local authorities to keep trade channels open. However, HTS has also reportedly increased scrutiny of hawala offices since May 2017, establishing the General Institution for Cash Management and Customer Protection.<sup>33</sup> While most hawala offices complied and registered, the new regulations appear to have had little impact on their operations.

<sup>29</sup> Van Wilgenburg, W. 'Syrian Kurdish party calls on Turkey, KRG to end embargo', *Al Monitor*, 25 November 2013

<sup>30</sup> Tastekin, F. 'KRG trench divides Syrian, Iraqi Kurds', *Al Monitor*, 21 April 2014

<sup>31</sup> Goran, B. 'Trade exchange between Kurdistan region, Rojava increased', *Kurdistan 24*, 1 October 2016

<sup>32</sup> Humanitarian Access Team. 'Preliminary Impact Assessment: Consolidation of HTS's control in Opposition-controlled northwestern Syria', *Mercy Corps*, September 2017, <https://www.humanitarianaccesssteam.org/reports/preliminary-impact-assessment-consolidation-of-hayat-tahrir-al-shams-control-in-opposition-controlled-northwestern-syria>, Peter Luskin

<sup>33</sup> Humanitarian Access Team. 'Situation report: hawala registration in Idleb Governorate', *Mercy Corps*, 15 June 2017

<https://www.humanitarianaccesssteam.org/reports/situation-report-hawala-registration-in-idleb-governorate>, Peter Luskin

### Trade with Turkey

In Salqin, some traders explained that olive oil was traded with Turkey, stating that trade with Turkey was in fact 'much cheaper than going through regime checkpoints'. However, trade with Turkey was not mentioned by other respondents in Opposition-controlled areas. Secondary sources consulted for this report indicated that trade between northwestern Syria and Turkey mainly flowed through the Bab al Hawa border crossing, which is an official crossing.<sup>34</sup>

Bab al Hawa was closed by Ankara between August and October 2017 following clashes between Ahrar al Sham and HTS.<sup>35</sup> As the field research took place during this period, this closure may be the reason why trade with Turkey was not mentioned as a main trading route. It is unclear whether processors who did mention Turkey had access to smuggling routes or were referring to times when the crossing was open.

### Impact of de-escalation agreements

De-escalation agreements were not mentioned by respondents, but increased security was said to be beneficial to trade by traders and producers in Salqin. However, secondary data also indicate that de-escalation and the formalisation of commercial trade with other areas of control (such as Government-controlled areas) may paradoxically increase the prices of commodities – as tariffs at checkpoints are often more expensive than the costs resulting from smuggling and cross-border trade.<sup>36</sup> Traders confirmed that Government checkpoints were much more expensive than trade with other areas, including, as stated above by a Salqin trader, when smuggling fees have to be paid.

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<sup>34</sup> Humanitarian Access Team. 'Preliminary Impact Assessment: Consolidation of HTS's control in Opposition-controlled northwestern Syria', Mercy Corps, September 2017

<sup>35</sup> 'Ankara reopens Idlib border crossing as Turkish soldiers build presence in northern Syria', Syria Direct, 18 October 2017

<sup>36</sup> Humanitarian Access Team. 'De-escalation areas: update on implementation and impact', Mercy Corps, September 2017

## 7. Implications for humanitarian aid

Most respondents said that more aid should be targeted at the agricultural sector in order to stimulate the market. According to them, very little aid has focused on supporting the market chain of olives and spices.

### 7.1. Existing aid

Respondents in Opposition-controlled areas generally seemed to be receiving food aid more often from international aid agencies than those in Kurdish-controlled areas. For example, in Salqin, FGDs could remember aid being provided six times during the last three years, whereas in Darbasiyah FGDs mentioned three distributions and in Ain al Arab only one. Local authorities generally served as facilitators, although it appears that the self-administration itself may provide relief from time. One FGD in Ain al Arab mentioned that olive oil had been included once in a package provided by the relief office of the self-administration over the past three years. Olives and olive oil, or spices were reportedly not included in aid packages otherwise, although many FGD respondents said they could not afford them without aid. Respondents – both FGDs and key informants – further indicated that no aid had targeted the agricultural sector in their communities. They considered such aid as particularly important, as the cost of fuel and agricultural inputs was a constant challenge for the production of food commodities.

### 7.2. Cash distribution assistance

Several key informants suggested that in-kind assistance would actually have negative effects on the resilience of communities. They recommended a shift to livelihood support, especially targeted at smallholder farmers and small business actors. One key informant in Salqin mentioned that there should be less emergency aid and more support to production, stating: 'There needs to be more financial support for farmers for the production of olives.' The request for financial support to producers was one of the most recurrent pleas from respondents and was echoed by other olive farmers in Salqin and Afrin, as well as cumin producers in Darbasiyah. In Ain al Arab, one farmer mentioned that he would need access to loans for the purchase of a tractor and to dig a well. Another farmer mentioned that support was needed

for irrigation. The former added that farmers should be supported financially during years when they were not able to produce.

Cash Transfer Programmes (CTP), such as voucher programmes, could support producers. This is particularly the case in the procurement of fuel, which was said to be expensive and consequently negatively impacted production, although the risks associated with some voucher programmes in northern Syria<sup>37</sup> should be mitigated. One common shortcoming of voucher programmes is that they encourage the concentration of traders around areas of distribution, meaning that traders move away from more remote, less accessible areas where communities are not targeted by humanitarian assistance. Voucher programmes have also been criticised for contracting with too few traders, empowering only a small proportion of them, and even sometimes being biased in favour of traders with connections within the aid community. Voucher programmes should therefore aim at diversifying their vendor base. One key to this would be to enable more traders to meet standards required by tenders (quality, financial capacity), or finding compromises attuned to local consumption habits.

As some respondents recognised, there is a risk that aid could make people less productive and distort the market. Cash-for-work (CfW) programmes would potentially be appropriate to sustain agricultural activities, if they could address the need for cheaper labour or additional labourers, as mentioned by producers in Amuda or Ras al Ain. However, the risk that CfW programmes would depress wages at the expense of vulnerable individuals – who have no alternative to working in agricultural production or transformation – would have to be mitigated.

Secondary data demonstrates that any CTP or livelihood intervention requires prior systematic market system analysis. While there is a wide system for monitoring market prices as well as related demand and offer through NGOs and UN agencies, monitoring of conflict dynamics and their impact on market linkages remains anecdotal and unsystematised. At the same time, needs

<sup>37</sup> IIED. 'Fitting aid to context: community experiences of aid delivery in Northern Syria', July 2017

assessments and feasibility studies should not come at the expense of project implementation, as a 'survey fatigue' is perceptible: people would like to see more support rather than studies. As a result, market system analysis should be part of project design and not a standalone exercise. In border and tension-prone areas, project-focused market analysis would also more easily capture the rapid changes in market actors' behaviour, as observed throughout this study.

Considering the emphasis placed by many respondents on the need to shift the power balance that puts producers at the mercy of bigger traders in price negotiations, one area CTP programmes could focus on is developing small businesses along existing value chains. This could support processing, marketing and demand through relevant cash-based programming. Such a recommendation was made by the CARE 2015 assessment<sup>38</sup> and its validity is confirmed by the present research. Among other possibilities, responses might include the development and support of cooperatives, as well as of small-scale service provision companies that have farmers as shareholders.

### 7.3. Smart procurement strategies

While CTP offers numerous advantages to sustain the livelihoods of market actors and the dynamism of the market, several respondents expressed the need for facilitated access to the procurement of certain goods, including agricultural inputs and seeds.

Respondents insisted on the importance of local procurement in assistance interventions in order to preserve local markets. According to secondary sources, many NGOs have already started to shift to local procurement, at least for food items distributed in parcels.<sup>39</sup> However, issues have arisen regarding quality control and the difficulty for local suppliers to meet the quality standards set by international donors and agencies. Here, a distinction may need to be made between inputs, such as fuel or seeds, the quality of which determines production quality and volume, and produce for consumption, where local habits may differ from international standards. Whereas quality standards

have to be developed across the board, distinctions may have to be made between: (i) certification systems for inputs; (ii) certification systems for the local consumption of locally produced goods; and (iii) certification systems meant to help local producers to overcome the barrier to export clearance. Skills development and training in these different areas could be part of market support programmes. Certification systems for local consumption could be integrated into approaches that support the integration and growth of more localised economies.<sup>40</sup>

Support for processing and packaging could be developed for commodities that are not produced locally, such as rice or sugar. One solution would be to procure such goods in bulk from abroad and to package them inside target areas, thereby encouraging the creation of small transformation workshops, and supporting income generation for local communities.

Nevertheless, there are barriers to shifting towards local procurement in the areas surveyed. In Opposition-controlled areas, issues around accountability and the monitoring of funding limit the willingness of agencies to move to local procurement, as many agencies fear the diversion of aid. By contrast, in northeastern Syria, International Non-Governmental Organisations (INGOs) report that traders are more professionalised and markets more responsive, which facilitates local procurement. However, the political dynamics of relations between Turkey on the one hand and Opposition and Kurdish groups on the other probably constitutes the biggest challenge to assistance, in the form of procuring inputs and developing export certificates in the short term.

<sup>38</sup> CARE. 'The Forgotten South: Food Security and Livelihoods Assessment in Southern Syria', November 2015

<sup>39</sup> UNDP. '365 Days of Resilience Inside Syria, UNDP Syria Annual Report 2016', December 2016

<sup>40</sup> IIED. 'Fitting aid to context: community experiences of aid delivery in Northern Syria', July 2017

## 7.4. Risks

### Inflation

Any type of aid, whether in-kind or CTP, can potentially have a negative impact on market prices, which remain highly unstable in the areas of data collection. This risk was a particular concern of the Kurdish self-administration. Processors in Ain al Arab explained that the self-administration regulated trade to Ar Raqqa and within Hasakeh and it might stop trade if there were risks of damage to the local production.

This risk is higher for in-kind aid, when procurement is sourced from outside the area of intervention. However, some respondents said they thought local procurement could have a positive impact on the market (see section 7.3).

Indirect support to market systems is sometimes seen as a way to meet the needs of the population (both for income and supply needs), as it introduces a resilience-oriented approach that promises to avoid consolidating the dependency on humanitarian assistance. Yet this type of intervention seems ill-suited to the situation in northern Syria. Even though cross-line trade is functioning, as documented by the field research done for this study, it does have a great impact on prices at the consumer end of the chain. Trading across three or four different areas of influence would have a devastating impact on prices, because of the accumulation of fees and taxes. Supporting market linkages for cross-areas trade (for example, between southwestern and northeastern areas of the country) would therefore not only be challenging, but more likely strengthen the worst features of the war economy rather than benefit consumers. Moreover, perishable commodities may suffer from long distance travel, as the required cooling conditions are unlikely to be met.

### Diversion

Humanitarian agencies providing aid to Kurdish and Opposition-controlled areas should be wary of any control demanded by local authorities that goes beyond just information sharing. Kurdish authorities appear to be channelling aid strategically, rather than

on a needs basis. It was for instance reported that the self-administration imposed a tighter control on humanitarian aid in areas that were in early recovery phase, like Amuda, rather than on hotspots with greater needs, such as Ain al Arab or Menbij. Practices noted within Kurdish-controlled areas also suggest risks of diversion. Existing assistance already seems to create some resentment, due to the perceived unfairness of distribution. One producer in Darbasiyah stated: 'The self-administration is the one distributing aid discriminately, and to those who don't need and deserve it.' This was echoed by one key informant in Ras al Ain, who said that those close to the self-administration were favoured in the distribution of aid. Producers in Ain al Arab also claimed that they had not received aid, although they needed it and had been promised it by local leaders. One key informant in Amuda said that aid was being sold and did not reach those in need.

In Opposition-controlled areas, armed actors do not seem to play an important role in the market, nor do they seem to prevent the implementation of assistance projects (with the exception of the nominal control exerted by HTS on hawala offices). However, the interests of LACs and their potential ties to local armed groups should be taken into consideration during project design. On the one hand, LACs are compulsory partners in gaining the acceptance of the local community. On the other hand, their margin of manoeuvre vis-à-vis powerful political or military actors may be limited. Understanding thoroughly the local context and dynamics is therefore essential.

## 8. Recommendations

Market drivers in northern Syria seem to be able to sustain increased demand and should therefore be supported to stimulate the local economy. Recommendations for implementation are listed below:

- **Humanitarian agencies as facilitators.** Humanitarian agencies should play a role as facilitators rather than market actors, to ensure sustainability. To that end, livelihood programming should aim at supporting strengths and opportunities that already exist within the market systems, rather than creating parallel chains, which could distort existing resilience mechanisms;
  - **Support the agricultural sector.** The agricultural sector appears to be one of the most dynamic in northern Syria despite having been affected by the conflict. While few programmes have focused on supporting this sector, there appears to be both demand and potential for increased involvement of humanitarian operators in the market systems of food commodities, such as cumin and olives, which could lead to improved livelihoods throughout the market chain. Support to agricultural production should aim at improving the quality of crops, rather than increasing the size of cultivated areas. As other research has demonstrated, interventions focused on climate change adaptation and environmental and soil protection will eventually have more sustainable impact than heavy short-term, chemicals-based input support;
  - **Focus on small business owners and smallholder farmers.** Because the economy has shifted through the conflict towards a greater number of small actors in the market chains, interventions should seek to focus on sustaining those with little financial capacity. Small business owners or smallholder farmers should be empowered to compete with bigger businesses. Aid agencies willing to support the livelihoods of smallholder farmers could therefore facilitate their aggregation, for example through the creation of cooperatives that are owned, organised and managed by the producers themselves (rather than by the authorities). Small groups of business owners could be supported to develop their processing capacity or through advice on how to muster collective bargaining power;
  - **Maximise the use of CTP.** CTP, including voucher distribution, is preferred to in-kind aid by local communities. However, specific measures should be implemented in order to mitigate traders' concentration risks associated with voucher programming. Giving access to loans and favouring modalities (revolving funds, microfinance) that depend on the productivity of beneficiaries are good ways to sustain the market as a whole, while targeting individuals. Small cooperative groups of producers or business owners (processors) could also be supported through microfinance;
  - **Favour local procurement for in-kind aid.** While cross-border procurement can easily disrupt commodity prices and create competition to local production, local procurement has a positive effect on the health of the local economy. To ensure that local procurement is up to standards, efforts should be made to support quality control processes, while taking into consideration that strictly enforcing international quality standards may exclude local producers from local procurement approaches, when households typically prefer consuming locally produced goods;
  - **Invest in alternative energy supply.** Fuel is currently too expensive for small-scale economic actors and, even when available, it is of poor quality. More should be done to develop alternative energy supplies, for instance solar power water pumps for irrigation. As was reported, such alternative infrastructures are too costly for individuals, but there are opportunities to encourage energy investments targeting groupings of producers or processors.
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## Annex 1: Methodology

### Research team

The present report was produced under the Syria Independent Monitoring (SIM) contract by a team composed of:

- Emmeline Saint, lead researcher (iMMAP <http://immap.org>), initially under the auspices of a joint project with FAO (RFSAN, the Regional Food Security Analysis Network, <http://rfsan.info>);
- Baptiste Grandon (Aktis Strategy <http://aktisstrategy.com/#presence>); and
- Catherine Guicherd, project director (Transtec [http://www.transtec.be/website20/fields\\_of\\_activity](http://www.transtec.be/website20/fields_of_activity)).

Field research was carried out by RMTeam (<http://rmteam.org/>).

### A. Evidence review

The evidence review considered third-party literature about market chains and commodities in Syria. It was largely Internet-based and focused on English-language<sup>41</sup> materials from commercial, journalistic and humanitarian implementers' sources, alongside academic literature about Syrian agriculture, trade, and war economy. These were complemented by academic studies and available market studies.

The evidence review enabled the research team to highlight existing knowledge gaps mainly in five areas:

1. Market systems of non-essential food commodities have been understudied;
2. Key steps in market chains, such as procurement, production, or processing, have been disregarded;
3. The impact and potential impact of humanitarian interventions on livelihoods and market failures have not been a focus of research;
4. Interaction of food commodities market systems with the war economy has not been analysed;
5. Macro-level, or national-level, market systems are largely outdated or inexistent.

Further field research was conducted to attempt to partially fill the first four gaps. Considering the limited resources at hand, the study did not intend to fill gaps in knowledge related to macro-level or national-level market systems.

### B. Field research

The field research focused on the market systems of two commodities: olives/olive oil and herbs (cumin/coriander). Both crops are key to the Syrian economy as well as the livelihoods of local communities, and are therefore of strategic importance for actors involved in the conflict. They are also widely traded across borders and could therefore be representative of trends in cross-border trade which affect other commodities, whether for import or export. The analyses of these market systems aimed to provide insight into the differences and mutual advantages of food crop and cash crop production and marketing in a conflict-affected economy. The research has good potential to illustrate how actors, throughout the value chains, cope with the consequences of war, in a way that can be representative of dynamics in other livelihood-related market systems. It also captures how commodities cross frontlines, highlighting the important role of intermediaries in trade channels.

Due to limited time and resources, the field research was not meant to survey a statistically significant sample, but rather focused on specific, qualitative research methods through the selection of 60 key informants interviewed across the selected locations as detailed below.

The selection of location for field data collection was done by the lead research team in collaboration with RMTeam, on the basis of safety, access and relevance to the subject matter. Six locations were chosen, representing areas where the selected commodities are both produced and consumed:

#### Olives:

- Afrin (northwestern Aleppo Governorate);
- Ain al Arab (northern Aleppo Governorate);
- Salqin (northern Idleb Governorate).

<sup>41</sup> French and Arabic-language resources were considered, albeit to a lesser extent

**Herbs/spices:**

- Amuda (northern Hasakeh Governorate);
- Darbasiyah (northern Hasakeh Governorate);
- Ras Al Ain (northwestern Hasakeh Governorate).

Data collection tools were adapted from various value chain analysis methodologies, and tailored to the specific experience and perspective of each key informant.

In addition, FGDs were conducted with consumers in Syria. To ensure cultural sensitivity, most were gender-segregated. Outside Syria, key informants were selected among agricultural experts, and UN and NGO (Syrian and international) staff. They were asked, among other subjects, about the degree of consideration of market factors in programming (i.e. procurement policies, cash distribution choices, value chain promotion, etc.).

**Table 7:** Field research interviews (inside Syria)

<b>Functions in market system</b>	<b>Actors interviewed</b>	<b>Total # of interviews conducted</b>
Consumers (to assess local demand of selected crops)	Households (8 mixed women and men, 2 women only and 2 men only)	12 FGDs
Producers	Farmers with a good overview of the situation of olive or spice farmers in the area, or representatives of a farmers' group	12 individual key informant interviews (KIIs)
Processors	Olive mills (presses for olive oil), spice processing factories	12 individual KIIs
Traders (large, wholesalers) or intermediaries	Large traders, exporters, intermediaries trading large volumes	12 individual KIIs
Traders (medium and small, retailers)	Small and medium retailers	12 individual KIIs
Key informants (for specific market systems)	Agricultural engineers, experts within LACs, agronomists, etc.	12 individual KIIs