FINANCING AND PAYMENT ARCHITECTURE IN THE RECONSTRUCTION OF SYRIA'S ENERGY SECTOR: A COMPARATIVE ASSESSMENT AND POLICY PROPOSAL IN LIGHT OF INTERNATIONAL EXPERIENCE

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Abstract

The consolidation of political stability in Syria is closely linked to restoring the functionality of its oil, natural gas, and electricity infrastructure. Achieving this requires a framework that international investors can trust — one in which payments are traceable and fund transfers can be carried out without interruption. This article draws on Farrell and Newman's (2019) theory of weaponized interdependence together with the banking de-risking literature. By comparing the Development Fund for Iraq, the European–Iranian INSTEX mechanism, and the practices used to unfreeze Libyan assets, the study discusses instruments that could be applied to Syria's energy sector. The findings show that the legal lifting of sanctions is not sufficient on its own; escrow accounts, multilateral guarantees, export credit agencies, and the re-establishment of correspondent banking relationships must instead be treated as complementary elements of a single financing architecture.

Keywords: Syria, energy financing, post-sanctions period, weaponized interdependence, de-risking, correspondent banking, escrow account architecture

I. Introduction

One of the central challenges facing Syria after more than fourteen years of civil war is restoring the functionality of economic life. The condition of the oil, natural gas, and electricity sectors sits at the heart of this process. Repairing energy infrastructure matters not only for production and consumption, but also for the continuity of public services and the reconstruction of state capacity. Improvements in electricity supply directly affect everyday life while also serving as a tangible signal of confidence for companies considering investment in the country. Yet the scale of the investment required makes clear that progress will be difficult without international financing and reliable payment channels.

In fragile and developing economies, the barrier to energy investment is not scarcity of resources alone. The high cost of capital and the uneven distribution of risk among investors also constrain investment. The IEA and IFC (2023) note that public resources, guarantees, and risk-mitigating instruments play an important role in attracting private capital to such countries. For Syria, reconstruction should not be understood simply as the resumption of oil and gas production. Repairing power plants and the grid, reducing technical losses, stabilizing local supply, and, where appropriate, incorporating renewable energy options are all part of the same programme. Because these areas differ in the scale of investment required and in payback periods, a single financing model applied uniformly across all projects does not appear realistic.

Since 2025, business gatherings connected to Damascus, London, and Washington have returned Syria's energy sector to the investment agenda. The "Building a Diversified Economy" conference held in Damascus by the Syrian-British Business Council in July 2026 is one such example (SANA, 2026; Arab News, 2026). The concern companies raise is no longer confined to sanctions legislation alone. The limited functioning of banking channels, and uncertainty over how large payments are to be made, continue to matter. Talal Al Hilali, Director of the Syria Investment Authority, has likewise noted that transferring large sums from a European account to Syria remains difficult (The National, 2026). This picture indicates that legal liberalization has not been immediately reflected in investment decisions.

The underlying question is this: while legal obstacles are receding, why has actual financial access not improved at the same pace? The article approaches this question from three angles:

– First, it explains why delays in banking access persist even after sanctions have eased.

– It then assesses what conclusions can be drawn for Syria's energy sector from the experiences of Iraq, Iran, and Libya.

– Finally, it discusses how escrow accounts, guarantee instruments, correspondent banking relationships, and Gulf-sourced financing might be used together.

– The sections that follow set out the theoretical framework and methodology before addressing Syria's legal transformation, the de-risking problem, comparative country cases, policy options, the study's limitations, and the ongoing competition over energy resources.

II. Theoretical Framework

Farrell and Newman's (2019) theory of weaponized interdependence forms the central foundation of this study. States that control central financial infrastructures — such as SWIFT, the dollar clearing system, and the correspondent banking network — can use this position as an instrument of political pressure. The theory explains this through two effects: the panopticon effect, which allows information to be gathered through the network, and the chokepoint effect, which allows certain actors' access to the system to be cut off. The prolonged sanctions imposed on Syria offer a clear illustration of financial networks being used in this way.

II.I. The Residual Chokepoint Effect

The Syrian case shows that the chokepoint effect does not disappear the moment sanctions are eased. The internal control rules, country risk classifications, and correspondent bank preferences that banks have built up over the years may not adjust immediately to a new legal situation. This article terms this persistence the "residual chokepoint effect." The concept is connected to the discussion of overcompliance, but the emphasis here falls less on the posture of any single bank than on the repetition of cautious behaviour across different links in the payment chain. Insufficient verification of the beneficial owner, the end use of funds, or the counterparty further reinforces this tendency.

II.II. Information Asymmetry and the Cost of Financing

This delay can also be explained through the information asymmetry and credit rationing framework found in the finance literature. According to Stiglitz and Weiss (1981), when banks cannot adequately assess the risk of a borrower or a project, they may not simply respond by charging a higher interest rate; they may instead reduce the amount of credit extended or decline the transaction altogether. In Syria-related energy projects, insufficient information about ownership structures, beneficial owners, asset title, and contracting parties can produce a similar outcome. The lifting of sanctions therefore does not, by itself, render a project creditworthy in the eyes of banks. Independent auditing, transparent reporting, and the traceability of fund flows matter not only for governance but also for access to financing.

The high upfront cost and long payback period typical of energy investments amplify the effect of country risk on financing terms. Difficulties in transferring foreign exchange, uncertainty over contract enforcement, and doubts about political stability can all be reflected in the risk premium lenders demand. The IEA (2024) identifies the high cost of capital as one of the principal obstacles to energy investment in developing economies. Escrow accounts, guarantees, and independent oversight therefore do more than regulate how payments are made; they can also reduce the uncertainty borne by both investors and banks.

II.III. De-risking in Banking

The second pillar of the theoretical framework is the banking de-risking literature. El Taraboulsi-McCarthy (2022) shows that the difficulties surrounding fund transfers to the Middle East and North Africa do not stem from sanctions rules alone, but also from the inconsistent ways in which banks interpret the concept of risk. Research conducted by Gordon et al. (2018), based on eleven workshops and a survey of 297 participants, quantifies the consequences faced by organizations delivering humanitarian aid to Syria. According to the study, the amount of usable cash falls by at least 35 percent at any given time, and funds remain unavailable for three to five months longer than under previous practice.

Research on weaponized interdependence has tended to focus on how states use financial networks, while de-risking research has largely examined the problems faced by humanitarian and civil-society organizations. Commercial energy investment sits at the intersection of these two fields and has received comparatively little attention. The aim here is not to treat banks' willingness to transact as something that can simply be mandated, but to examine which instruments can reduce information gaps, payment risk, and compliance costs.

III. Method

The study employs a qualitative comparative case study method. Iraq, the Iran–Europe INSTEX experience, and Libya share certain features with Syria: the importance of hydrocarbon revenues, exposure to international financial constraints, and the need to reconnect with the external financial system. At the same time, each case represents a distinct institutional arrangement. Iraq established a revenue account under international oversight; INSTEX tested an alternative payment channel; and in Libya, assets were released in stages. This diversity makes it possible to observe both where such instruments work and where they fall short.

Primary documents used in the research include UN Security Council Resolution 1483, U.S. Department of State statements, OFAC general licenses, and the text of the 2026 NDAA, alongside academic studies, institutional reports, and current news coverage. Legal or time-sensitive information has, wherever possible, been cross-checked against more than one source. Data collection was closed on 10 July 2026. The study therefore reflects conditions from a period in which the process of removing Syria from the State Sponsor of Terrorism list had not yet concluded.

IV. The Transformation of Syria's Sanctions Regime: From Legal Uncertainty to Institutional Normalization

IV.I. Repeal of the Caesar Act

Following the collapse of the Assad regime in December 2024, the Washington administration pursued a gradual policy of sanctions relief. The process began with General License 24 in January 2025, continued with General License 25 and the 180-day suspension of the Caesar Act in May 2025, and the comprehensive sanctions programme was ended by the Presidential Executive Order of 30 June 2025 (U.S. Department of the Treasury, Office of Foreign Assets Control [OFAC], n.d.). The decisive step came on 18 December 2025, when the Caesar Act was repealed outright under the Fiscal Year 2026 National Defense Authorization Act (NDAA) (Alpert & Salzman, 2025; Curtis, 2025). This step substantially removed the secondary sanctions risk applicable to third-country companies and financial institutions.

The Syrian Network for Human Rights (2025) emphasizes that this repeal contains no automatic snap-back mechanism, and therefore points to a lasting legal transformation. Yet the removal of the legal sanctions architecture does not mean that banking channels open automatically. The residual chokepoint effect defined in Section II is precisely what comes into play here: the risk appetite of financial institutions follows an adjustment curve that is far slower than legal liberalization.

IV.II. The Process of Removal from the State Sponsor of Terrorism List

The most recent development in this process occurred as this article was being written. On 8 July 2026, U.S. Secretary of State Marco Rubio announced that he had formally notified Congress of President Trump's intention to remove Syria from the State Sponsor of Terrorism (SST) list; the notification initiates a 45-day pre-notification period (U.S. Department of State, 2026; Semafor, 2026). This step, which would remove the last major structural layer of sanctions that has hung over Syria since 1979, holds particular significance for energy companies: the agreements signed between companies such as Chevron and ConocoPhillips and Syria's state oil company have been shaped precisely by the expectation of legal clarity that this removal would bring (Semafor, 2026).

Jacobson (2025), of the Washington Institute, notes that the legal mechanism through which removal from the SST list proceeds matters greatly: a "six-month review" provision — as in the cases of Cuba and North Korea — is relatively easy to reverse, whereas a "fundamental change" provision — as in the case of Iraq in 2004 — confers a far more durable status. This distinction is critical to investors' risk assessments, since perceptions of legal permanence directly affect banks' long-term credit allocation decisions. That the process remains, at the time of writing, in its 45-day pre-notification stage, and that congressional approval has not yet been finalized, constitutes a limitation addressed in Section VIII.

V. The Underlying Problem: De-risking Beyond Sanctions

Even though the sanctions regime has been legally dismantled, the cautious posture banks display toward Syria-related transactions persists. In the words of the Syrian Network for Human Rights (2025), years of secondary sanctions pressure have built an institutional risk culture among banks that might be characterized as a set of "hidden sanctions." Given the structure of correspondent banking relationships, a bank's inability to fully verify the ultimate use of funds or the true beneficiary means that even a single violation can trigger severe consequences — OFAC penalties, reputational damage, or the loss of dollar clearing access.

It is not enough to explain de-risking simply as banks being slow to change established habits. The World Bank Group's eight-country study shows that some correspondent banking relationships generate low revenue while carrying high compliance and reputational risk (World Bank Group, 2018). When transaction volume fails to cover the expected cost, withdrawal from the market can become a rational commercial choice for banks. Accordingly, the purpose of the architecture proposed here is not to alter risk perception through administrative fiat, but to reduce transaction costs and potential losses through transparency, oversight, and guarantees.

This calculation affects not only whether credit is available, but also the terms on which it is offered. Short maturities, high collateral requirements, compliance costs, and a political risk premium can all make it difficult for a technically viable project to reach financial close. In electricity projects in particular, revenues are earned in local currency while debt is serviced in foreign currency, creating an additional layer of exchange-rate and tariff risk. Reopening banking channels therefore matters, but it is not sufficient on its own unless long-term financing, revenue certainty, and the management of currency risk are also clarified.

This structural caution is consistent with the Belfer Center's (2025) assessment that lifting sanctions does not automatically free up capital, repair infrastructure, or create employment. As Al Hilali put it (The National, 2026), transferring large sums from a European account to Syria remains a serious difficulty; isolated initiatives — such as the euro account opened by the Bank of Syria at Europe Arab Bank — only partially fill this gap. At the same time, tangible progress has been made in payment infrastructure: Mastercard's memorandum of understanding with the Central Bank of Syria in September 2025 was followed by a partnership with QNB Group in January 2026 (Iacovcich, 2026), and Visa and Mastercard networks completed trial transactions in Syria in May 2026 (The Middle East Observer, 2026) — developments that point to meaningful normalization at the level of retail payments. These developments remain confined to consumer-scale transactions, however; the correspondent banking bottleneck facing the large-scale, project-based, multi-year capital flows the energy sector requires has not yet been resolved.

VI. Comparative International Experiences

VI.I. The Iraqi Model: The Development Fund and Escrow Account Architecture

Established in 2003 under United Nations Security Council Resolution 1483, the Development Fund for Iraq (DFI) built an architecture in which oil and gas export revenues were pooled into a single, auditable escrow account, independently overseen by the International Advisory and Monitoring Board (IAMB) (United Nations Security Council, 2003; U.S. Government Accountability Office [GAO], 2004). The model's function was to ensure that international buyers made payments not directly to the state treasury, but to an account whose transparency was guaranteed. The model was not without flaws: the IAMB's oversight process failed to function fully in its early months owing to procedural disputes, and a significant volume of funds was criticized as having been spent outside the bounds of accountability during that period (GAO, 2004). The lesson is clear — an escrow architecture only acquires meaning when it operates simultaneously with an independent and operationally robust oversight board.

VI.II. The European–Iranian Experience: The Structural Limits of INSTEX

Established in 2019 by France, Germany, and the United Kingdom (the E3), INSTEX was a government-backed special purpose vehicle designed to sustain trade of a humanitarian nature with Iran without exposure to U.S. secondary sanctions (European Council on Foreign Relations, n.d.). Rather than operating through direct cross-border payment, it functioned on a barter logic, netting a European importer's debt against an exporter's receivable. The result was underwhelming. Over the more than four years between its establishment and its liquidation in March 2023, only a single transaction was completed; the Iranian side's failure to fully operationalize its counterpart mechanism, STFI, together with insufficient volumes and a lack of political trust, left the mechanism effectively dormant (Bourse & Bazaar Foundation, 2025). INSTEX should not be read as a success model directly transferable to the Syrian context, but rather as a cautionary case demonstrating that institutional architecture alone is insufficient without political trust and transaction volume.

VI.III. The Libyan Model: The Phased Unfreezing of Assets

In Libya, state assets frozen under UN Security Council resolutions after 2011 were released in a phased, supervised, and sectorally prioritized manner. The decisive factor was not a one-off unfreezing but a normalization timetable that expanded outward from humanitarian needs and basic public services. The Libyan experience suggests that financial liberalization proceeding through sectoral prioritization and gradual trust-building produces more sustainable outcomes than a single, comprehensive opening.

VI.IV. Comparative Assessment

Table 1 summarizes the comparison of the three cases across their principal dimensions.

Dimension	Iraq (DFI)	Iran–Europe (INSTEX)	Libya	Lesson for Syria
Legal basis	UNSCR 1483 (2003) — multilateral, Chapter VII	E3 intergovernmental agreement — regional/bilateral	UNSC sanctions resolutions — multilateral	A multilateral basis strengthens the legitimacy of oversight
Institutional structure	Escrow account + independent oversight board (IAMB)	State-backed SPV + counterpart STFI	Phased asset release + UN Sanctions Committee	Independent oversight is essential; a unilateral structure carries risk
Outcome	Partially successful; early-stage accountability problems	Largely unsuccessful; one transaction in four years	Phased, relatively sustainable	A phased, supervised approach is preferable

Table 1. Comparative summary of the Iraqi, Iranian–European, and Libyan experiences (compiled by the authors).

VII. Applicable Financial Architecture Options for Syria's Energy Sector

The lessons distilled from these comparative experiences can be organized around six mutually reinforcing, non-exclusive components. This list is illustrative rather than exhaustive; sector- and firm-specific customization will be required in practice.

VII.I. Phased Escrow Accounts and Milestone-Based Payment Models

The principal lesson drawn from the Iraqi case is that, in large energy projects, payment can be routed not directly between the parties but through escrow accounts held at a trusted third-party bank and subject to independent oversight. Releasing funds only once a defined stage of work is completed, delivery is verified, or expenditure is documented reduces the trust problem between the parties. Such an account does not by itself create credit, but it does make the operation of cash flow considerably more transparent to banks.

VII.II. Export Credit Agencies and Multilateral Guarantee Mechanisms

The export finance programme the United Kingdom announced during Al-Sharaa's visit to London, covering British companies trading with Syria, is a notable example in this respect (The National, 2026). Guarantees provided by political risk insurers such as MIGA, together with those offered by national export credit agencies, can share certain country and payment risks that commercial banks are unwilling to bear alone. This is particularly important for electricity, oil, and gas projects that will require substantial imported equipment and technical services.

VII.III. Blended Finance and Political Risk Insurance

In fragile states these instruments are typically deployed not in isolation but within blended finance structures, in which grants, concessional public or development finance, commercial credit, and private capital each absorb different layers of risk within the same project. Basile and Neunuebel (2019) note that as fragility increases, the ability of official finance to mobilize private investment declines, and that design must therefore be tailored to country conditions. In Syria, part of the early-stage risk in core projects such as electricity generation or grid rehabilitation could be absorbed by grants or concessional funds, with commercial banks participating in a lower-risk tranche.

Political risk insurance is a complementary part of this structure. Certain risks beyond an investor's direct control — transfer and currency convertibility, expropriation, breach of contract, war, or civil unrest — can be insured under defined conditions. Such coverage does not remove the requirement that a project be commercially sound, but it can make lenders more willing to think in longer time horizons. The future fiscal burden that guarantees place on public finances must also be calculated up front: guarantees based on unrealistic revenue projections, or not transparently reflected in the budget, can create a new fiscal problem rather than attracting investment.

VII.IV. Correspondent Banking Relationships and Digital Payment Infrastructure

For Syrian banks to resume working with international correspondents, AML/CFT capacity must be strengthened. The Bank of Syria's opening of a euro account at Europe Arab Bank is a limited but concrete step in this direction (The National, 2026). The reliable disclosure of beneficial-owner information, the traceability of transactions, and the emergence of shared risk metrics among banks could accelerate this process. While the Mastercard–QNB partnership and Visa's trial transactions are encouraging for retail payments, classical correspondent banking channels remain decisive for the high-value, long-term financing that energy investment requires (Iacovcich, 2026; The Middle East Observer, 2026).

VII.V. Phased Prioritization of Energy Investments

Because financing available in the early years will be limited, the sequencing of which projects are addressed first matters considerably. Focusing solely on large-scale generation facilities risks prolonging the electricity outages and grid problems that directly affect daily life. The IEA (2021) notes that faster-yielding investments — energy efficiency, grid improvements, and distributed generation — can have a rapid effect on economic activity and energy security. Beginning with urgent maintenance and repair work, before moving to new generation capacity and longer-term transformation projects, therefore offers a more workable sequence.

VII.VI. Political Gulf Financing

Beyond the components above, a further channel is emerging in Syria's financing equation: the direct and, to a considerable degree, politically motivated involvement of Gulf capital. Through the close political ties they have built with the Damascus government — often at Washington's explicit encouragement — Qatar and Saudi Arabia are financing Syria's priority strategic projects. The nature of this financing departs from conventional commercial credit logic: some projects are structured as debt, carrying a repayment obligation, while others are structured as outright grants.

This is precisely where it differs fundamentally from mechanisms such as escrow accounts or ECA guarantees discussed earlier: what governs this channel is not an independent oversight board, but interstate political trust. Gulf financing accordingly carries both an opportunity and a vulnerability: it is an opportunity because it offers a channel that bypasses the correspondent banking bottleneck, flowing directly from state to state; it is a vulnerability because its continuity depends not on market conditions but on political alignment along the Washington–Riyadh–Doha axis. A concrete illustration of this vulnerability is discussed in Section X below.

For Gulf-sourced financing to translate into a durable contribution, transparency over how the funds are used is essential. Keeping project accounts separate, opening procurement and expenditure to independent audit, and clearly disclosing credit terms can also build confidence among subsequent investors. Rather than treating all such support as sovereign debt, a more prudent approach would balance grants, long-term concessional credit, and commercial finance according to project characteristics. In this configuration, political support functions less as a continuous substitute for private capital than as a bridging instrument that facilitates the transition to market-based financing.

VIII. Limitations

– Temporal volatility: At the time of writing, the process of removal from the SST list remains in its 45-day pre-notification stage; how the process concludes may affect some of the findings.

– Source balance: Some sources consist of current news and institutional material; this is, to some extent, unavoidable given the topicality of the subject, and an effort has been made to balance it with peer-reviewed academic sources (Section II).

– Limits of contextual transferability: Iraq, Iran, and Libya differ in regime type and in the degree of international governance involved; this may limit the direct transferability of the lessons proposed here to Syria.

– Absence of primary data: The study is desk-based; it does not include bank-level transaction volumes or interview data. Future research could fill this gap through interviews with Syrian and international bank representatives.

IX. Institutional Policy Implications: The Role of Intermediary Institutions

In transition periods where legal clarity has increased but institutional trust has yet to settle, neither market actors alone nor formal diplomacy alone can fill the resulting trust gap. Intermediary institutions — think tanks, chambers of commerce, and development agencies — can play a complementary role by combining information brokerage, compliance-capacity building, and financial-structuring advisory functions. The contribution of such an intermediary institution can be expressed concretely in four components: a reporting function that monitors the current legal status of the sanctions regime; AML/CFT compliance training for financial institutions and energy companies; project-based advisory work on escrow architecture and ECA financing; and networking activities that bring international companies together with local counterparts.

Such an institutional role is not an intermediation that operates outside, or circumvents, the existing legal framework; it is a trust-building function centred on transparency, accountability, and compliance capacity. That said, the objectivity of such proposals may be inherently limited; this limitation is set out explicitly in the declaration below.

Conflict of Interest Statement

In preparing this study, the fact that the authors' affiliated institution is active in the field of energy policy advisory may constitute a potential conflict of interest with respect to the institutional example presented in Section IX. The theoretical framework, empirical findings, and comparative analysis presented in Sections II–VIII were produced independently of this institutional relationship, following the method set out in Section III.

X. The Ongoing Competition over Energy Resources

The international competition over Syria's energy resources is not merely a commercial contest; it also constitutes a new front in the broader struggle over spheres of influence. While Washington works to strengthen the position of its own companies — Chevron and ConocoPhillips foremost among them — in Syria's oil and gas fields, it has also sought to constrain, through open political pressure, the access of British, French, Chinese, and Russian-origin companies to the same fields.

This pressure is not confined to rhetoric; it is also reflected directly in licensing and permitting processes. Indeed, the cancellation of licenses held by certain Qatari-registered companies financing Syria's reconstruction can be read as a concrete manifestation of this political pressure. This development also directly confirms the vulnerability of the Gulf financing channel discussed in the preceding section — however strong the political will and good faith behind Qatari capital, it ultimately remains subject to Washington's strategic preferences.

In short, Syria's energy financing question is not merely a technical banking problem; it is an indirect but consequential reflection of great-power competition. For this reason, none of the proposed financial architectures — whether escrow accounts, ECA guarantees, correspondent banking capacity, or Gulf financing — can operate independently of this geopolitical tension.

XI. Conclusion

This article has examined the relationship between stability in Syria and the reconstruction of its energy sector through the lens of weaponized interdependence theory and the de-risking literature. The cases of Iraq, INSTEX, and Libya show that the legal removal of sanctions does not, by itself, secure financial normalization. Iraq's accounting and oversight arrangement offered a certain framework of trust, while INSTEX demonstrated just how limited alternative payment mechanisms can remain without adequate political backing and transaction volume. The Libyan experience, in turn, shows that financial opening is more realistically pursued in stages, guided by priorities, rather than all at once.

For Syria, a solution resting on any single instrument does not appear sufficient. Escrow accounts can improve payment security; export credit agencies and multilateral guarantees can reduce the country risk borne by banks. Durable normalization, however, depends on the development of AML/CFT capacity and the re-establishment of correspondent banking relationships. Financing from Qatar and Saudi Arabia may fill an important gap in the short term, but the continuity of this channel is subject to regional political dynamics. It is therefore important that Gulf support be channelled through structures that are more transparent, auditable, and project-based.

In fragile economies, private capital does not decide on the basis of expected return alone. Contract enforcement, the reliability of project revenues, and how risks are shared among the parties matter just as much as returns. Measuring success for Syria solely by the volume of external capital entering the country can therefore be misleading. In the short term, grid repair and the rehabilitation of existing facilities; in the medium term, reliable generation capacity; and further ahead, a diversified and efficient energy system may be pursued as sequential goals. Such a sequence would bring financing opportunities into closer alignment with the needs of energy policy.

The central issue in reconstructing Syria's energy sector is not simply securing funds, but ensuring that those funds can be used safely and traceably. Think tanks, chambers of commerce, and development agencies can contribute by providing up-to-date legal information, building compliance capacity, and connecting local institutions with foreign companies. Future research involving interviews with bank representatives, investors, and public officials would help to assess more rigorously how the instruments discussed here perform in practice.

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