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Financing Syria's Recovery Europe's Options to Reduce Risk and Support Stability

Electricity as a test case for project funding and conditional guarantees

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EXECUTIVE JUDGEMENT

Prioritise multilateral grants and defined electricity packages with verifiable delivery and service, then partial guarantees after demonstrating operating viability, contracting integrity and equitable access. Each financing transaction requires separate checks under the applicable European framework. Link payments to delivery and expansion to documented service and repayment capacity. Address breaches while protecting water and health services. Humanitarian assistance follows need. The paper forecasts neither investment returns nor measured political effects.

KEY FINDINGS

- Economic sanctions relief and the cooperation-restoration decision are separate steps; each contract and transfer route still needs review. [1][2]
- National damage estimates establish scale, rather than a detailed electricity budget. [4]
- The World Bank grant funds transmission, substations and capacity; approval does not establish improved service. [5][6]
- Partial guarantees suit a defined coverable risk after operations, cash flows and additional financing are established; project eligibility needs verification.

Europe’s reopening requires a separate funding decision

Europe faces a practical question: which form of funding can restore a useful service for Syrians without entrenching closed networks of beneficiaries or creating obligations that cannot be honoured? This paper, prepared for the European Organisation for Strategic Policy, examines the question through the electricity sector. Its priority is to repair defined assets and connect payments to verifiable delivery. Broader investor guarantees should follow evidence of readiness. The central risk is not simply a shortage of capital: it is financing an asset whose operator lacks fuel, maintenance capacity or a safe route for delivering electricity to the people the project is meant to serve.

On 11 May 2026, the Council of the European Union adopted a decision ending the partial suspension of the EU–Syria Cooperation Agreement. The restored provisions apply from the first day of the month following notification to the Syrian authorities; this paper does not establish that notification date. [1] The decision concerns economic and trade relations. It is distinct from the legal acts adopted on 28 May 2025 to lift economic restrictive measures, except those based on security grounds. [2] Neither decision removes every transaction constraint or automatically clears a particular counterparty, product or banking channel.

On 18 May 2026, targeted measures against individuals and entities linked to the former regime were renewed until 1 June 2027, while seven entities were removed from the list. [3] Each contract, invoice and ownership chain therefore requires an updated check, including security restrictions and other regimes applicable to the transaction. The restored trade framework does not establish that a correspondent bank will process a payment or that an EU guarantee is available for a particular project. Those are separate operational decisions that must be documented before a commitment is made.

Electricity offers a defined bottleneck to repair

The World Bank estimated direct physical damage from the 2011–2024 conflict at approximately US$108 billion, with reconstruction of damaged assets estimated at US$216 billion within a US$140–345 billion range. These rapid national estimates involve considerable uncertainty and do not provide the sector detail needed to prepare an electricity budget. [4] Their purpose here is to establish the scale of the challenge. Selecting and financing a substation or transmission line requires an engineering assessment, operating costs and local information; allocating a mathematical share of the national total cannot substitute for that work.

There is a concrete starting point. On 24 June 2025, the World Bank approved a US$146 million International Development Association grant for the Syria Electricity Emergency Project, covering transmission lines, substations and sector capacity. [5] The project’s design connects transmission rehabilitation with service restoration and recognises distribution repairs, fuel supply and generation as complementary activities. [6] European support can therefore address an identified bottleneck alongside an existing programme. It should not assume that financing the transmission network amounts to financing the entire electricity system.

For the proposed case, a repair package would serve a water facility, a hospital, residential neighbourhoods and economic activities after checking the route of electricity and distribution capacity. This is a selection rule, not a list of surveyed sites or a finding from fieldwork. Repairing a transformer may matter more than announcing new generation capacity when that transformer blocks delivery of available electricity. Conversely, repairing it will be insufficient when fuel or distribution is the binding constraint. Funding decisions need to distinguish these cases before procurement begins.

Benefits should be assessed at the point of service: continuity and quality of supply, the operation of essential facilities, and the cost of access for households and small businesses. Oversight must distinguish an asset completed from a service improved. Electricity can create conditions for local recovery and reduce everyday burdens, but assigning a measured political stabilisation effect to it would require evidence this paper does not possess. Service provision should also remain a public entitlement; it must not become pressure on displaced households to return before conditions for safe and voluntary return are in place.

Comparing grants with project funding and guarantees

Multilateral grants are appropriate for the first stage when the public benefit is clear but revenues are weak or unknown. They can finance repairs, preparation, oversight and training without adding debt for an essential service. Their disadvantages are dependence on donor budgets and limited capacity to scale. To prevent grant funding from becoming repeated expenditure without a sustainable operator, the initial contract should identify the operating entity, maintenance resources and spare-parts plan. It should also disclose why this package was selected over other service needs.

Funding tied to a defined project specifies expenditure, contracts, responsibilities and delivery stages. It may take the form of a grant or, where the obligation can be justified, a concessional loan. It does not necessarily mean commercial borrowing supported only by project revenues. Its advantage is traceability and a defined boundary between the package and the general budget. That boundary does not shield the asset from inadequate fuel, weak collection of payments or interference in load allocation. Project accounts should not be used to conceal risks that originate outside the project but determine whether it can operate.

Conditional partial guarantees become useful when a project can operate with plausible cash flows but a specific risk prevents financing. The EU has a general risk-sharing framework through the European Fund for Sustainable Development Plus, implemented by eligible development finance institutions. [8] This establishes the existence of an instrument; it does not establish a Syrian project's eligibility or an available guarantee. The mandate, coverage and implementing institution must be confirmed before a guarantee is included in a financing plan.

The paper recommends a defined risk, exposure ceiling and duration, with the investor retaining a meaningful share of potential loss. Broad coverage can transfer an unviable project to a donor or public balance sheet. Demand, exchange-rate exposure or purchasing obligations should not be guaranteed without examining the capacity to honour them. Each proposal should be compared with the cost of a grant delivering the same service, with contingent liabilities and their bearers disclosed. Where that comparison cannot be made credibly, limited public funding offers a more accountable first step.

Three risks should shape the contract

The first risk is fiduciary: inflated equipment prices, nominal competition, undisclosed beneficial owners and delivery below specification. The World Bank's project report dated 2 January 2026 rated overall and fiduciary risk as high. This is an assessment at that reporting date, not a verified description of implementation in October. [7] The response should combine disclosed procurement and ownership information, conflict-of-interest declarations, price comparison, independent audit and staged payment after inspection. The financier must also be able to exclude a supplier that breaches the agreed rules.

The second risk concerns security and operation. Equipment, workers and transmission routes may face threats, while the operator may lack access for maintenance. Financial cover does not remove

those conditions. The contract needs a site and route assessment, worker-safety arrangements, access and maintenance plans, spare parts and clear responsibilities during an interruption. Implementation must not depend on unlawful payments to secure access or security arrangements that prevent inspection. Where safe, verifiable access cannot be established, the package should be redesigned or deferred rather than treated as a financing problem alone.

The third risk is exclusion. A substation can function efficiently while selected neighbourhoods receive electricity and others remain deprived, or while poor households face unaffordable charges. Priority criteria should be published in terms of need, damage, essential facilities and technical feasibility, with their effects reviewed across places and social groups. A safe complaints mechanism must include households lacking documentation and protect their personal data. Connection requirements or proof of residence should not automatically become instruments of exclusion from an essential service.

These conditions govern finance and service implementation. Humanitarian assistance should continue to follow need; it should not depend on political progress or become a reward for an authority's cooperation with donors. If a contract is corrupt or distribution discriminatory, the compromised component should be halted and the implementing entity or payment route changed, while alternative provision protects water, health and other essential services. Making residents bear the cost of a contractor's breach would undermine the purpose used to justify the funding.

Decision gates should precede financial expansion

The first proposed gate concerns legality and transparency. The financier establishes clearance for the counterparty, bank, transfer route and beneficial ownership, then publishes its decision and basis while withholding details that could endanger people. A readiness review follows: an independent technical body verifies the bottleneck, life-cycle cost, operating and maintenance arrangements, and the route to service delivery. A small preparation grant is justified when missing information can be obtained. Unresolved information gaps should not be converted into a larger financial guarantee.

The third gate is delivery and benefit. The project unit and independent engineer link payments to inspected work, while a separate monitor checks service and beneficiary complaints. Reporting should capture supply hours, interruptions and electricity quality where measurement permits, together with essential-facility performance and distribution equity against a baseline collected before work. Acceptance thresholds should be agreed after the assessment and consultation with beneficiaries, rather than invented from national averages. Unmeasured dimensions should be disclosed so that installed capacity is not confused with a demonstrated improvement in people's lives.

The guarantee gate should open only after reviewing operations, costs, purchasing obligations and repayment capacity, and demonstrating both a specific risk to address and additional financing from the investor that would not otherwise arrive on the same terms. Periodic review, exit clauses and continuity arrangements are necessary. Completed repairs without service data call for better measurement; an ownership dispute calls for suspension of the commitment; proven discrimination calls for corrected distribution. These illustrate possible decisions. They are not scenarios predicting investment returns or measured stabilisation outcomes.

A sequence with named responsibilities

Within the first three months after adoption of this approach, the European Commission and participating member states, working with the World Bank and competent Syrian authorities, should map existing funding and identify complementary electricity packages. This coordination could be

brought to the Syria Partnership Coordination Forum, which met in Brussels on 11 May 2026 to align assistance and recovery efforts. [10] Each package should have a named financier, implementer, monitor and decision timetable. The map should prevent the same invoices from being charged to multiple donor programmes.

During the same period, the Ministry of Energy and the transmission and distribution entity should provide asset records and operating plans. Independent teams should establish the baseline and verify ownership and access. The Ministry of Finance should identify direct and contingent obligations and the implications of any proposed loan or guarantee. Municipalities, essential-service operators and community representatives should help set service priorities and complaints arrangements. These tasks require funded resources within the project; otherwise institutional capacity becomes an expectation without the means to fulfil it.

Over the following three months, the implementing entity should tender packages that have passed review, while the financier publishes award decisions, criteria and disbursement stages. Payments should follow verified progress and technical acceptance, with the monitor providing intelligible service reports in Arabic. A material breach or loss of access should trigger immediate review of the package. This is a proposed timetable for preparation and decisions, not a promise that every repair can be completed within six months.

After the first documented operating cycle, financiers and development finance institutions should assess whether a limited guarantee for a subsequent project is warranted. Time elapsed is not sufficient grounds to move forward. The assessment should compare service results, maintenance costs, complaints and contingent-liability risks with the grant-funded alternative. The financier with the relevant mandate should decide on expansion and publish its reasons. If the test fails, the weakest link should be addressed before increasing financial exposure.

Evidence and decision limits

The paper uses public primary sources from the EU, World Bank and IMF available by 4 October 2026. It contains no interviews, field survey or information from private discussions. On 3 August 2026, the IMF reiterated gaps in the availability and quality of essential economic data, despite progress in compiling debt information, and the importance of better statistics for resuming Article IV consultations. [9] The paper therefore offers no numerical forecast of Syrian growth, investment returns or debt sustainability.

National figures describe the scale of destruction; project documents establish a particular financing design rather than certify the success of electricity projects generally. The recommendations are analytical judgements to be tested against current engineering, social and financial information. Before any financing commitment, implementing institutions should verify the latest information on project implementation, applicable sanctions, institutional responsibilities and local conditions.

POLICY RECOMMENDATIONS

- Within the first three months of adopting the approach, the European Commission and participating states should map existing funding and identify complementary electricity packages with the World Bank and Syrian authorities.

- Within the first three months, the Ministry of Energy and the transmission and distribution entity should provide asset and operating records, while the Ministry of Finance identifies direct and contingent obligations.
- Within the first three months, municipalities, facility operators and community representatives should help set service priorities and complaints arrangements, with independent teams verifying ownership and access.
- Over the following three months, the implementer should tender ready packages, while the financier discloses awards and links disbursement to inspection and service reporting.
- After the first documented operating cycle, financiers and development finance institutions should compare a limited guarantee with a grant before expansion and publish their reasons for the decision.

DECISION AND MONITORING MATRIX

Evidence of progress	Decision horizon	Priority
Counterparty, ownership, bank and transfer-route clearance	Before commitment	Complete legal checks and document the decision basis before funding the contract
Bottleneck diagnosis, operating costs, maintenance and access	During preparation	Use a limited preparation grant to complete information and approve the ready package
Inspected delivery and service data against the baseline	At disbursement and operation	Link payments to delivery and independently verify benefits
Verifiable cash flows, obligations and additional financing	After a documented operating cycle	Compare a partial guarantee with a grant and specify exposure limits and exit
Material breach, proven discrimination or inaccessible site	Immediately on failure	Halt the compromised component and correct implementation or distribution while protecting essential services

INDICATORS TO WATCH

- Supply hours, interruptions and electricity quality against the baseline where measurable.
- Operating continuity of water and health facilities served by the package.
- Household and small-business access costs and equitable distribution across places and groups.
- Complaints, corrective action and maintenance costs in the documented operating review.

SOURCES AND METHOD

Desk review of public EU, World Bank and IMF primary sources available by 4 October 2026. No interviews, field survey or project audit. Recommendations are analytical choices requiring current data; national damage estimates offer limited detail. The paper makes no quantified forecasts of growth, returns or stability.

- [1] Council of the European Union — Syria: Council restores full application of EU–Syria Cooperation Agreement. 2026-05-11.
- [2] Council of the European Union — Syria: EU adopts legal acts to lift economic sanctions on Syria, enacting recent political agreement. 2025-05-28.
- [3] Council of the European Union — Syria: Council renews restrictive measures targeting the former al-Assad regime for one year and de-lists certain entities. 2026-05-18.
- [4] World Bank — Syria's Post-Conflict Reconstruction Costs Estimated at US$216 billion. 2025-10-21.
- [5] World Bank — Syria: US$146 Million Grant to Improve Electricity Supply and Support Sector Development. 2025-06-25.
- [6] World Bank — Syria Electricity Emergency Project, Project Appraisal Document, PADHI01 216. 2025-06-09.
- [7] World Bank — Syria Electricity Emergency Project: Implementation Status and Results Report, ISR05 645. 2026-01-02.
- [8] European Commission — European Fund for Sustainable Development Plus. accessed 2026-10-04.
- [9] International Monetary Fund — IMF Staff Concludes Staff Visit to Syria. 2026-08-03.
- [10] European Commission — EU coordinates international support for the recovery of Syria's economy and reconstruction process. 2026-05-11.

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