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A view of Umayyad Square in Damascus, Syria. Photo by: Mohammad Daher via Reuters Connect

Throughout its civil war, Syria was subject to one of the most comprehensive array of sanctions in the modern era. Nearly two years after the fall of former President Bashar al-Assad, most of these restrictions have been lifted — but analysts warn that the chilling effect can linger long after the policy shift, dampening post-war recovery efforts.

“Sanctions have a lasting effect even after you lift them. They tarnish the reputation of the country,” explained Vittorio Maresca di Serracapriola, the lead sanctions analyst at Karam Shaar Advisory, a consulting firm that specializes in Syria’s economy.

In August, the Trump Administration lifted the last remaining major sanctions on Syria when it removed the country from the list of state sponsors of terrorism and a terrorism designation from Hay’at Tahrir al-Sham — the rebel group whose former members now hold key roles in the government, including the presidency. The European Union, United Kingdom, and others have removed similar restrictions over the last two years.

Sanctions are designed to stop support from reaching blacklisted groups, which included a broad range of players throughout Syria’s civil war, including the Assad regime, various rebel factions, and the Islamic State group.

Although governments usually offer exemptions for aid and some development operations, many businesses refrain from working where sanctioned players are active to avoid the complex web of regulations and fears of aid diversion to blacklisted groups. The dynamic is known as “de-risking,” which compounds operational challenges for NGOs that depend on private sector services such as banking.

Yet, even as the restrictions have been largely lifted, Unblock Syria, an advocacy group that tracks business engagement in the country, reports that over 600 major service providers — including much of the financial sector and many software companies — remain unavailable.

“Nobody can force them to go back,” explained Hana Attia, a sanctions scholar and assistant professor of international politics at Georgetown University in Qatar.

“Those are independent risk decisions made by often public traded companies,” explained Alex Zerden, a former U.S. Treasury Department official who consults on financial risk compliance. Even beyond legal clearances, businesses consider “reputational consequences as well as the profitability” when deciding to enter a market, he said.

But “the elephant in the room” is uncertainty over the political stability of the country, now led by a president who once fought for al-Qaida but has since renounced radical ideologies, explained Attia. If the new government finds itself at policy odds with the United States or others, sanctions could be reimposed.

While much of the private sector hesitates, NGOs in Syria that have transitioned from delivering aid to development report new opportunities due to sanctions relief. But for many, old challenges around financial access remain, and barriers to private sector partnership have wide-ranging consequences for their work and the recovering communities they serve.

Expensive, slow, and cumbersome

Due to continued banking access challenges in Syria, the Aga Khan Foundation often has to transfer its international funds to Lebanon, then rely on its bank to carry the cash over the border.

“It's more expensive, it's a lot slower, it's a lot more cumbersome,” Matt Reed, the foundation’s global director of institutional partnerships and CEO of Aga Khan Foundation UK, said. “It's a real logistical hassle for our finance people,” estimating that these challenges inflate the cost for their transfers up to 20% and can slow the delivery of their post-war recovery projects.

Meanwhile, the lack of access to mainstream office software platforms such as Salesforce has meant that the foundation’s local teams are often disconnected from their global databases, eating time by requiring staff to transfer data between software providers for their projects.

“It’s like hand-copying your notes,” he said. “They know it’s inefficient, but they’re stuck because they’ve got to be compliant.”

The Carter Center reports similar banking challenges, according to Nancy Azar, a senior program associate working on conflict resolution programs: “A single transfer to one of our Syria-based consultants engaged to conduct research took months of effort and ultimately was not successful,” she explained via email. “Banking practices and risk perceptions have not necessarily caught up yet” to the policy shift.

Unequal opportunities

Last month, the World Bank announced a trust fund for Syria, estimating it will require $216 billion to rebuild the country. But while financial institutions are likely to support “mega-projects” such as the Qatar-led effort to rebuild the Damascus airport, worth $4 billion, “banks are less interested” in facilitating transfers for smaller, lesser-known businesses seeking access to global markets, di Serracapriola said.

“You would need to conduct a lot of due diligence — and due diligence is really costly,” which often outweighs the benefits of conducting the transaction, he explained.

Lack of financial access at the grassroots level undercuts the work of NGOs as they try to help Syrians gain a foothold in the fragile economy.

Bleak grassroots work opportunities also threaten to undermine reconciliation efforts in fragile, post-war communities according to Abir Haj Ibrahim, a Syrian activist who founded Mobaderoon, a local peacebuilding NGO that operates across the country.

She said many Syrians who left during the civil war are returning with better financial stability compared to those who stayed throughout the conflict, which inflames tensions and jealousy. Then there are the ex-regime fighters, who are largely unemployed and have few job prospects, partly due to the stigma of association with Assad.

“They know nothing except to fight to get salaries,” and could easily return to crime or violence if they are unable to find work, she said.

Positive signals

Despite ongoing banking challenges, lifting sanctions has had several immediate impacts for NGOs looking to partner with the previously blacklisted entities, including the Syrian government.

Today, the Aga Khan Foundation is working with the government on infrastructure projects, including plans to establish a solar utility that would sell electricity to an energy grid on a public-private partnership basis, Reed told Devex.

“We could not do that kind of work at this scale without the sanctions having been lifted,” he said, given that utility groups were also previously blacklisted. “Maybe the lifting of the sanctions has not helped the money flow immediately, but it has substantially changed the ability of us all to help rebuild the country in a proper way.”

Stephan Sakalian, the International Committee for the Red Cross’ head of delegation in Syria, echoed these sentiments, explaining that lifting sanctions allows them to better coordinate with the local authorities’ recovery plans on water, electricity, and health projects.

According to Sakalian, there has also been an appreciable shift in appetite among vendors to export material they need for projects such as building a DNA laboratory to help identify the remains of missing people from the war.

“A few years ago, importing such material would have been almost impossible,” said Sakalian.

Analysts believe that while it is still early to judge the effectiveness of lifting the sanctions, there are indicators that further improvements lie on the horizon.

U.S. export controls restrict imports of certain items — such as those that could also be used as weapons — and continue to chill private sector engagement. But di Serracapriola believes those restrictions could soon be lifted, as the rationale for imposing them is gone following Syria's removal from the state sponsor of terrorism list.

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Meanwhile, this August, the World Bank announced a $100 million investment to help Syria modernize its financial sector, including regulations to better combat crime, which could provide more confidence for banks to operate there.

Reed hopes that investing in infrastructure projects with the government will send a signal to the private sector and spur confidence to invest in the country. But investment from the U.S. and other governments that had previously imposed sanctions would amplify this signal that Syria is safe to reengage.

While the Trump administration has said the sanctions relief gives Syria a "chance at greatness" as it rebuilds, whether that rhetoric will translate into a meaningful investment is yet to be seen.

"Does an 'America First' administration — that is very skeptical of foreign assistance — want to actually put up capital to invest in Syria?" Zerden questioned. "That would signal very strongly to the marketplace that the US is not just rhetorically committed, but is financially committing."