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Development in brief

Stablecoins in Syrian microfinance project

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Discussions on the payment channels for development cooperation are rare, as they are considered to be a technical issue. However, efficient and reliable payment systems are a prerequisite for effective cooperation. In fragile contexts, this often becomes a bottleneck:

In Syria, fourteen years of war and sanctions have largely cut off the banking sector from international payments. Although reconstruction has begun, the Near East Foundation (NEF) still faced the challenge of building up an elaborate cash system for disbursements and repayments – with significant security risks and costs of around 8% of the fund's volume.

In a pilot project that was facilitated by KfW, NEF has now implemented microloans in Syria completely digitally via so-called e-money tokens ("EMTs", often called stablecoins) for the first time in 2025/26. The experience gained is extremely promising.

But first: What is e-money tokens or stablecoins?

They are digital values stored on a public blockchain – a decentralised, tamper-resistant digital ledger. In contrast to volatile cryptocurrencies, they are backed by reserves of the reference currency (currently mostly US dollars) and can be redeemed against this currency at any time.

The technology is maturing rapidly alongside the adoption of comprehensive regulatory frameworks, such as the EU's Markets in Crypto-Assets Regulation (MiCAR) and the US's GENIUS Act. Its importance is currently growing rapidly, with market volumes worldwide increasing from USD 130 billion at the beginning of 2024 to USD 300 billion in mid-2026. International payment service providers, most recently Visa, for example, are integrating stablecoins into their payment systems.

The pilot: a digital payment method for microfinance offers

NEF has been providing microloans in Syria for years, now for the first time by digital means for 74 borrowers: euros were exchanged into the USDC stablecoin and transferred directly to the borrowers' digital wallets via the Stellar network. They were then paid out using a Syrian fintech and Money Transfer Operators (MTOs) licensed by the Syrian Central Bank. Repayments were made in the same locally anchored way. Identity checks using biometric methods and money laundering (AML), terror financing (CFT) and sanctions checks are an integral part of the process, as in the procedures used hitherto.

And the experience from this pilot project is very encouraging: transfer costs have fallen from around 8% to around 2%; the risks of physical cash transports for the pilot customers have largely disappeared. With an appropriate design, access to customers can be obtained which are difficult to reach with previous methods. Above all, however, the flow of funds from the donor to the borrower is digitally documented for the first time – a transparency that traditional procedures cannot provide.

Looking beyond the pilot application

Three points are important beyond this specific application:

- From the authors´ perspective, stablecoins are not a substitute, but an additional option to the correspondent banking system. Especially in fragile contexts, where banks are holding back for risk considerations despite relaxed sanctions ("de-risking"), a second, independent payment method increases resilience. Both approaches can complement one another and support the development of local financial infrastructure, rather than competing with it.
- It is believed that there is considerable potential for efficiency gains, particularly when funds flow through several intermediaries: digital traceability in almost real time can reduce reporting and review effort.
- The dominant stablecoins are US dollar-based, which means that their regulatory anchor is also in the US. The EU has a globally competitive framework, MiCAR, but has so far made little use of it. If that remains the case, part of the payments infrastructure for Syrian reconstruction – and other fragile contexts – will emerge under non-European regulatory supervision.

Conclusion

The pilot project has shown that EMTs are a better way to implement the project than traditional methods. NEF therefore plans to extend the use of EMTs. This should also be examined in other projects where functioning banking systems are lacking. Projects where the complexity of institutional structures results in a particularly high level of verification and documentation requirements for payment transactions are also suitable candidates.

Finally, a European perspective is also needed: when e-money tokens or stablecoins become part of a payment infrastructure for reconstruction, Europe should actively contribute MiCA-regulated and euro-based tokens to a partnership-based collaboration. ■

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