

Islamic Banks Enter the Syrian Market

By Hussein Khaddour

Last month, Syria saw the launch of Sham Islamic Bank, the steps to whose creation did not begin in 2005 until a special legislation pertaining to Islamic banks, Law No 35/2005, was issued. Sham Islamic is the first Islamic bank in the country's history to have operated with a capital of up to US\$100 million.

Following on its heels was Islamic International Bank of Syria, which has completed its subscription-for-shares exercise and is preparing to start up in the market with a capital similar to Sham Islamic Bank's. Al Baraka Islamic Bank is also gearing up to offer its bonds for subscription shortly.

In addition, the Central Bank of Syria has received several applications for the creation of other Islamic banks, said its governor Dr Adib Mayaleh.

Subsequent to launching four private traditional banks in the market, there was talk about the necessity of creating Islamic banks in Syria. First, opinion veered towards the possibility of adding new text to the executive list of the Act of Creation of Private (conventional) Banks that need not have legislation issued for the creation of Islamic banks.

But the need to create Islamic banks of high volume of capital nullified that and on the contrary, leaned towards increasing the capital of conventional private banks, hence the issuance of Act 35 of 2005 governing Islamic banks.

Wanted: Islamic investment banks

Many Syrian officials have not curtailed their objective to allow Islamic banks to operate in the domestic market, as seen by the opening of new investment channels, particularly in view of the failure of private conventional banks to achieve their purpose.

Mayaleh expressly said: "We need the Islamic banks to be investment companies and not institutions of lending and borrowing like traditional banks, on the principle that currency does not give birth to currency but rather grows by its investment." In his opinion, this is a strategic need for the Syrian market in order to further push the economic growth wheel forward.

He built his conviction on the theory that the essence of Islamic banks' operation lies in the partnership with their customers. This leads to the optimal allocation of resources through directing the capital of feasible development enterprises or the Islamic bank of technical expertise becomes a partner in the production process.

Social role required

Mayaleh adds that Islamic funding bears participation in the social dimension through managing to tackle the problem of unemployment and reduce the poverty phenomenon.

This came to be consistent with the components of social market economy, which is considered a methodology of the 10th five-year plan in Syria.

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Islamic Banks Enter the Syrian Market (continued..)

In the same vein, the Islamic banks of Syria are considered one of the important tools of currency policy. "In this respect, resort on the part of Islamic banks to invest in the bonds of the companies, seeking to create investment funds and offer Islamic instruments may contribute to the activation of financial market and continuity of attraction of accumulated funds to be utilized in the investment process — hence enabling Central Bank to achieve its goals in the field of liquidity management and control of offered cash in order to ensure the stability of the exchange rate adopted by monetary policy as an anticipated objective on the medium term," says Mayaleh.

Islamic banks in Syria have received official and Shariah blessings. Dr Ziad Eddin Ayoubi, Syrian Minister of Religious Endowment (Waqf), has classified Syria as the twelfth state that issued legislations encouraging the operation of Islamic banks.

He said Islamic banks must work to move the savings of millions of people of limited income as deposits and prepare channels into which those deposits can be invested.

Enthusiasm

On the other hand, many experts and officials expect Islamic banks would be met with appreciation by popular categories. In this regard, Dr Mohamad Al Hussein, Minister of Finance, expects that Islamic banks will meet the approval of Syrians due to the various services and methods of funding provided by those banks.

It is hoped that these Islamic financial institutions will work hand in hand with the Syrian public and private banks to serve consumers as well as the Syrian economy by providing the best services.

Moreover, on more than one occasion, Al Hussein pointed out that there is a plan by the monetary authority of Syria to estimate the needs of market and grant approvals for creation of new banks based on the needs of Syrian economy. The Minister of Finance repeated the wishes of the Syrian government that Islamic banks would aim to support investment activities in the Syrian market.

It seems that the Syrian success of attraction of financial institutions has provided an important indicator of the investment success in Syria. Adnan Al Mussalem, chairman of the board of Sham Islamic Bank (which started up in the market) described investment in Syria as a draw that was different from that of many other economies.

Al Mussalem renewed his interest in any opportunity that would be available for working in any Islamic bank due to the availability of expertise in this field; Syrians are educated and have large human resources that are important for any service activities.

Wahbeh Al Zuhayli, head of the Shariah board (religious code) at Sham Islamic Bank, pointed out that starting an Islamic bank in general begins with the decisions

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Islamic Banks Enter the Syrian Market (continued..)

of the Shariah board, which are binding on all bank managers, staff and its various activities. This makes the monitoring board of great importance in the study of issues so that there would be alternatives for whatever is familiar to the traditional banks.

According to Zuhayli, the role of the Shariah board is to find alternatives for the traditional jurisprudence which is different from the contemporary jurisprudence and therefore, the objective is to maintain Islamic Shariah and its provisions.

In this respect, many monetary and finance experts have visited Damascus and came away with their own views as to the primary foundations of the creation of Islamic banks in the Syrian market. Dr Riyadh Salameh, governor of the Central Bank of Lebanon (who is considered an authority in the region), said: "We consider the spread of Islamic banks and financial institutions in our region as a positive issue and openness."

Salameh gave the final say for the terms of reference of operation of Islamic banks to the jurisprudence of formalities and the Shariah provisions which govern the principles of contracts and commercial and financial dealing in the Islamic funding sector.

The opinion derived from Shariah and edicts emerging from the Shariah boards are the first and last reference to add the legitimacy of any Islamic funding instrument with full independence.

Introduction of public banks

Within the atmospheres of discussion about Islamic banks in the Syrian market, I would like to highlight an important point mentioned by the governor of Central Bank of Syria, namely creation of Islamic banks with the participation of Syrian governmental banks. The following idea is based on the hypothesis that there are large non-interest bearing deposits at the Syrian governmental banks.

It is common sense that these deposits be transferred to the created Islamic banks. Some of the financial expertise houses in Syria have been aware of that and are trying to arrange partnerships between the Syrian public banks and Islamic banks coming to the market subsequent to the approval of the mandatory bodies which have likely agreed on the principle. In this respect, the governor of Central Bank of Syria has emphasized that there are at least six Islamic banks that had applied and there are governmental partnerships in those applications.

In a related context, it is imperative to point out that introduction of Islamic banks to the Syrian market with large capital (US\$100 million per bank) and offering a portion of their capital to public subscription will encourage a considerable segment of society who accumulated their money in foreign currency to participate in subscription to Islamic banks which took place recently.

Subscription to the offered bonds (shares) by Sham Islamic Bank, which represents

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Islamic Banks Enter the Syrian Market (continued..)

25% of its capital amounting to US\$100 million at the rate of 525%, has been covered. Also, subscription to the bonds offered by Islamic International Bank of Syria which represent 51% of its capital amounting to US\$100 million, at the rate of 336% with a number of shareholders of over 15,300 shareholders.

Joint Liability Insurance (Islamic)

On par, the joint liability insurance (Islamic) is met with a clear acceptance in the market, as ascertained by the Minister of Finance it is expected that the joint liability insurance will cover a large portion of the Syrian market.

Sheikh Badrudin Hassoun, grand mufti, thinks that joint liability insurance dates back to the early days of Islam. He believes

Muslims' Financial House was the first to have created the joint liability insurance fund.

People used to deposit their alms (zakat) in that fund and when a group is subject to a calamity, an amount would be withdrawn to be distributed to those participants and non-participants. Thereafter, the idea developed so that the fund would be for participants and out of its profits an amount would go to non-participants. This is the joint liability cooperative fund of insurance.

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