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INDUSTRIAL CREDIT IN SYRIA

by

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The writer is solely responsible for the views presented in this study as well as for any inaccuracies that the study may contain.

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## ABSTRACT

During the past two decades Syrian industry experienced a rapid and spectacular growth. The Second World War greatly affected the industrial development of Syria. The sharp curtailment of foreign imports coupled with the large expenditures brought about by the Allied Armies stationed in the country were important stimuli for industrial development. The abnormally large profits earned during the War and the early post-war years provided the incentive, as well as the means, for industrial expansion. Furthermore, the promulgation of a number of Government measures including protective tariff, exemption of imported machinery and raw materials from customs duties, exemption of newly established industries from the income tax, free use of public land for a period of time for building factories, credit facilities, trade agreements, and measures for raising the standard of industrial production gave a further impetus to industrial growth. As a result of these favorable measures the country witnessed an unprecedented development in the industrial sector. The influence of these factors, however, was reduced by some hindering factors including poor management, high cost of energy, smallness of the market, lack of investment credit, and high cost of production credit.

Bank credit for production is available at reasonable cost. Only the small enterprises with unknown credit standing find it difficult to borrow from the banks. Bank credit for investment, however, has been limited. Commercial banks do not lend for investment and are not expected to do so. There are no industrial investment banks in the country except the State Industrial Bank which was established for meeting the investment credit requirements of the industrial enterprises. The investment credit extended by this Bank has been small in comparison with the needs. The chief reason for this situation is the limited investment funds available at the disposal of the Bank.

Some of the deficiencies of investment credit have been met by foreign producers of industrial machinery and equipment for large enterprises, and by local traders in industrial machinery and equipment for small enterprises.

Because of the limited availability of investment credit many industrial enterprises had to depend on accumulated reserves for financing expansion.

Although the Industrial Bank was meant to provide mainly investment credit, in fact the investment credit granted by the Bank constituted only about 24 per cent of its total loans. By the end of 1963, investment loans extended by the Bank

amounted to 29,096,000 Syrian pounds of a total of 120,796,000 Syrian pounds.

The Bank requires mortgage security for investment loans. Many Syrian industrialists hesitate to give a mortgage on their property, fearing that such action would impair their credit worthiness vis-à-vis commercial banks. In granting investment credit the Bank gives little attention to the earning capacity of the applicant.

Finally one may say that the role played by the Industrial Bank in providing investment credit to industry in Syria is quite limited and meets only a minor part of the aggregate volume of investment credit demanded by industry.

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## CHAPTER ONE

### DEVELOPMENT OF THE SYRIAN INDUSTRY SINCE THE BEGINNING OF THE 20th CENTURY, AND PRESENT STRUCTURE

#### A. Industry before World War I

Syria has always been an agricultural country, with more than 60 per cent of its population deriving their income from agriculture and animal husbandry. Industry has been of relatively small importance, especially before World War I. Industry, before World War I, followed mainly the domestic and handicraft system whereby a master and few apprentices (who were in most cases members of his own household), used old fashion methods and primitive equipment. There were, however, a limited number of small factories engaged in cotton and silk spinning, weaving and dyeing. These factories were characterized by restricted use of machinery and of modern equipment.

A number of factors stood in the way of development, chief among which were: political instability, poor means of transport, foreign competition,<sup>1</sup> lack of technical education, lack of indus-

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<sup>1</sup>Capitulations prevented the Turkish Government from adopting any protective tariff policy.

trial engineers, lack of investment credit, and high cost of production credit. As a result of these hindrances the enterprising element of the people drifted to commercial undertakings or emigrated to foreign lands, where they could find more favorable conditions for their industry.

#### B. Industry between the Two World Wars

Following the First World War, Syria was placed under the French Mandate. The Mandatory Authorities did not encourage the industrialization of the country, but rather efforts were exerted to make Syria an exporting center of raw materials especially cotton and natural silk for the French factories in Lille, Lyon and Rouen. This was sought for even before France occupied Syria. During the meeting sponsored by the Chamber of Commerce of Marseilles in 1917 to study the potentialities of Syria, a report was presented stressing the economic potentialities of Syria as a large farm for cotton and silk and as an open market for the French products.<sup>1</sup>

It was natural for the French Mandatory Authorities not to encourage the industrialization of the country, for such a policy would have jeopardized the position of French exports to Syria.

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<sup>1</sup>Ahmad Samman, Muhadarat an al-Iqtisad al-Suri (Translated as: Lectures about the Syrian Economy), (Cairo: The Institute of Higher Arab Studies, 1955), p.40.

In fact these Authorities followed the 'open door' policy which opened, largely and without any restriction or protection, the Syrian market to the Western products in general and the French products in particular. Obviously industry would not flourish under these conditions.

Several years after the First World War the Mandatory Authorities were forced under the pressure of national, political and economic associations, to respond to a number of their demands for protection. Several measures were taken. The Ottoman custom tariff which was imposed on all imports at the rate of 11 per cent was modified in 1924 to exempt all industrial machinery from custom duties by means of refund after installation.<sup>1</sup> In 1926, the general tariff was raised to 25 per cent.<sup>2</sup> In 1928, custom duties on imported raw materials were reduced. A few years later, higher protective duties were levied on certain foreign competitive goods.<sup>3</sup>

These measures contributed to development of Syrian industries. Syrian industrialists were encouraged to renew their machines, and to adopt modern methods and technique. Likewise, Syrian businessmen were encouraged to invest their unused funds in industry. New factories equipped with modern machinery

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<sup>1</sup>G.Hakim "Industry", Economic Organization of Syria, S.B. Himadeh, ed. (Beirut: American Press, 1936), p. 130.

<sup>2</sup>Ibid., p. 130.

<sup>3</sup>Ibid., p. 130.

sprang up and old ones expanded. The Cement National Company was established in Damascus in 1930 with a capital of 5,760,000 Syrian pounds; the Syrian Match Company was established in Damascus in 1931; the Conserved Food and Agricultural Products Company was established in Damascus in 1932 with a capital of 450,000 Syrian pounds; at the same time the National Tannery of Damascus was founded; the Syrian Company for Spinning and Weaving was established in Aleppo with a capital of 5 million Syrian pounds; and in 1937, the Spinning and Weaving Company was established in Damascus with a capital of 7 million Syrian pounds.<sup>1</sup>

### C. Industrial Development Since World War II

The outbreak of World War II offered an excellent opportunity for the growth of Syrian industry. In fact it was the turning point in the economic and political life of Syria. During the War Syrian industries witnessed a period of rapid progress and prosperity. The sharp curtailment of foreign imports coupled with the large expenditures by the allied Armies stationed in the country<sup>2</sup> were an important impetus to industrial growth. Moreover, the Government helped to

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<sup>1</sup> Bureau des Documentations Syriennes et Arabes, Etude sur l'Industrie Syrienne, mimeographed (Damascus: 1955), P. 14.

<sup>2</sup> It is estimated that more than 800 million Syrian pounds accrued mainly from expenditures of the Allied Armies. See Ahmad Samman, op. cit., p. 42.

stimulate production by imposing strict control on raw materials needed for industry and selling them to industrialists at reasonable prices.

From the political side, the most important event was the achievement of the political independence of Syria in 1941. It was thought that this independence could not be safeguarded unless the country was based on sound and strong economic basis. Therefore, efforts were exerted to strengthen the new industries and to accord them protection.

The chief stimulus, however, came from the large profits gained by Syrian industrialists and merchants during the War and the early postwar years. "The abnormally high profits earned in commerce during these years caused merchants to turn to industry as an investment outlet for their surplus capital."<sup>1</sup> A substantial portion of these profits were reinvested in further expansion. However, investment in new industries, not known in Syria before, took place immediately after the War when the import of machinery was resumed. Nine new industrial enterprises were introduced by nine companies during the period 1945 - 1946, with a total capital of 53,526,800 Syrian pounds (See Table I).

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<sup>1</sup>International Bank for Reconstruction and Development, The Economic Development of Syria (Baltimore: The Johns Hopkins Press, 1955), p. 104.

TABLE I

## INDUSTRIAL ENTERPRISES ESTABLISHED DURING 1945-1946

| <u>Company's Name</u>                             | <u>Industry</u>                 | <u>Location</u> | <u>Capital</u><br><u>L.S.</u> | <u>Year of Es-</u><br><u>tablishment</u> |
|---|---------------------------------|-----------------|-------------------------------|--|
| Syrian Industrial Company                         | Oil Production                  | Aleppo          | 5,000,000                     | 1945                                     |
| Syrian Glass Company                              | Glass & Porcelain               | Damascus        | 8,000,000                     | 1946                                     |
| United Trade & Industry Company                   | Textiles                        | Damascus        | 10,000,000                    | 1946                                     |
| Shahba Cement Industrial Company                  | Cement                          | Aleppo          | 9,000,000                     | 1946                                     |
| Sugar & Agricultural Products Company             | Sugar Refining, Alcohol & Oil   | Homs            | 12,000,000                    | 1946                                     |
| Technical Dyeing Company                          | Dyeing of Cloth & Threads       | Aleppo          | 5,000,000                     | 1946                                     |
| Syrian-Lebanese Cinema Company                    | Making Films                    | Damascus        | 1,629,800                     | 1946                                     |
| Oil & Soap Company                                | Extraction of Oil & Making Soap | Damascus        | 2,500,000                     | 1946                                     |
| Syrian Liquid Gas & Mechanical Industries Company | Liquid Gas & Mechanics          | Damascus        | 397,000                       | 1946 (1)                                 |

1. Promoting Factors

The State played a very important role in stimulating

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<sup>1</sup> Syrian Republic, Directorate General of Information, Syria: Economy and Finance (Damascus: The Government Press, 1955), p. 81.

industrial development. Several measures were taken which were on the whole extremely favorable for industry and for private enterprise.

a. Tarif and custom policy

One of the means by which the Government encouraged the development of the industry was the adoption of a protective custom policy. It was on March 1950 that Syria achieved its customs autonomy through the termination of the Customs Union with Lebanon. Consequently, each country adopted its own tariff system. Syria followed a protective policy regarding imports.

The first immediate measure taken just after the termination of the Customs Union was the raising of the tariff on imported goods which competed with local industries from 25 per cent to 50 per cent.<sup>1</sup> The commodities that were subject to this increase were canned foods, jams, fruit juices, candy, glass, cotton and woolen cloth.

Another measure was the introduction of import and export licenses. Licenses were required for the import of all articles in amounts exceeding 350<sup>2</sup> Syrian pounds. A large number

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<sup>1</sup>International Bank for Reconstruction and Development, op. cit., pp. 378 - 379.

<sup>2</sup>Reduced to 250 Syrian pounds as of January 1964.

of important raw materials such as raw cotton, cotton seed, raw wool, fruits and vegetables were made subject to export licenses.

The year 1952 was characterized by a policy of rigorous industrial protectionism. The import of several commodities was prohibited. These commodities fell into four categories:<sup>1</sup> (1) luxury goods; (2) goods locally produced in quantity adequate to meet domestic requirements; (3) machinery which would increase the capacity of an already overequipped industry; (4) goods for which similar local products could be substituted.

b. Credit facilities

Another means of encouraging the industry was in providing credit facilities to Syrian industrial corporations. By virtue of Legislative Decree No. 139, dated June 18th, 1949, the Banque de Syrie et du Liban, a French commercial bank which was performing some of the functions of a central bank, was to provide investment credit guaranteed by the State to Syrian industrial corporations for periods running up to three years at an interest rate of 3 per cent per annum. Eligibility of applicants and their needs were to be determined by a special committee appointed

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<sup>1</sup>Ibid., p. 380.

by the Minister of National Economy.<sup>1</sup>

This measure was of crucial importance towards helping Syrian industrialists to expand their operations. By January 1952, there were 18 loans extended to Syrian industrialists amounting to 23,627,000 Syrian pounds.<sup>2</sup> One large textile corporation in Damascus received two loans totalling 7 million Syrian pounds, and several industrial enterprises were given loans amounting to over a million Syrian pounds each. The industries to which loans were extended were, in order of magnitude, textile, sugar refining, vegetable and fruit canning, glass and liquid gaz.<sup>3</sup>

c. Fiscal privileges

Another form of encouraging the industrial development which the Government undertook was the amendment of the fiscal system in favor of new, as well as already established, industries. On September 27, 1952, a law was passed (Legislative Decree No. 113) stating that starting with the year 1953 the following benefits were to be granted:<sup>4</sup>

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<sup>1</sup> Issam Ashour, Al-Naked wal E'Etaman fi al-Bilad al-Arabia Translated as: Lectures on Currency and Deposits in the Arab Countries, (Cairo: Institute of Higher Arab Studies, 1962), pp. 107 - 108.

<sup>2</sup> International Bank for Reconstruction and Development, op. cit. p. 381.

<sup>3</sup> Ibid., p. 382.

<sup>4</sup> Bureau des Documentations Syriennes et Arabes, op. cit., pp. 29 - 30.

(1) Exemption from customs duties of all imported industrial machinery, tools and equipment. The industries, the products and the quantities benefiting from this provision were to be determined by the Council of Ministers on the recommendation of the Ministry of National Economy.

(2) Exemption for a period of six years from the tax on income from real property for new construction of factories, administrative buildings and housing for workers and employees connected with the establishment.

(3) Exemption from income tax of reserve funds allocated for development purposes, provided that such funds be reinvested within a two-year-period.

(4) Exemption of newly-established factories from the tax known as 'Tamattu'<sup>1</sup> for a period of six years, beginning with the date of the first operation of the factory.

(5) Exemption of newly-established factories from the tax on income for a period of three years starting with the beginning of operation.

d. Facilities with regard to industrial sites

Any Syrian entrepreneur who wanted to establish an industrial enterprise was given the right to use for five years (free of charge) state-domain land within a limit of 25,000 square meters;<sup>2</sup>

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<sup>1</sup>'Tamattu' is a tax levied on the rent of commercial shops, offices and warehouses.

<sup>2</sup>International Bank for Reconstruction and Development, op. cit., p. 385.

with a further right to purchase the land from the state, on conditions to be fixed by the Directorate of State Domain. The beneficiary was not allowed to sell the land or use it for non-industrial purposes.

e. Trade agreements

The State also encouraged the Syrian industry, as well as Syrian agriculture, by negotiating foreign trade agreements with other countries. Several bilateral agreements were made for the purpose of promoting exports. These agreements were concluded with Saudi Arabia, Irak, Japan, Lebanon, Egypt (before the Union), Czechoslovakia, U.S.S.R. and Yugoslavia. Most of these treaties included special privileges for the Syrian industrial exports, either by exempting Syrian products from restrictions or by reducing customs duties. The followings are some of the industrial exports that were to benefit: cotton and woolen threads, cotton underwear, socks and stockings, canned foods, sweets, candies, vegetable oils, glass and leather.<sup>1</sup>

f. Measures for raising standard of industrial production

Both Syrian industrialists and the Syrian Government were concerned with raising the standard of production in order to

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<sup>1</sup>Information secured from the Directorate of Foreign Trade, Ministry of Economy, Damascus.

gain the confidence of consumers. Accordingly, Legislative Decree No. 138, dated August 10th, 1953, was issued approving the principle of specifying 'Minimum Standard' with which each item of national production should conform. The Decree, however, left the door open for free competition aimed at improving the quality of production and lowering prices. Standards were prescribed for the following industries: textiles, underwear, candies and sweets, dyes, socks and matches.<sup>1</sup>

As a result of the foregoing promoting factors, the country witnessed an outstanding increase in the number and capital of industrial enterprises. Two hundred industrial establishments and 19 electric generating companies were established during the period 1947-1960 with an estimated capital of 230 million Syrian pounds.<sup>2</sup> The use of joint-stock company as a type of business organization increased in importance since 1945. In 1945 the total number of joint stock companies in Syria was 5, with an invested capital

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<sup>1</sup>Syrian Republic, Directorate General of Information, op. cit., p. 84.

<sup>2</sup>Bureau des Documentations Syriennes et Arabes, op. cit., pp. 14-19, 127. See also United Arab Republic, Syrian Region, Wazarat al-Sina'a fi Amiha al-Awal (Translated as: The First Year of the Ministry of Industry), (Damascus: The Government Press, February 1960), p. 46.

of 22,055,000 Syrian pounds while in 1960 the number stood at 75, with an invested capital of 188,609,000 Syrian pounds.<sup>1</sup>

## 2. Hindering Factors

There were, however, a number of factors that have stood in the way of a greater development of the industrial sector, chief among which have been: poor management, high cost of energy, smallness of the market, scarcity of industrial credit and other hindering factors.

### a. Poor management

Most of the industrial firms in Syria are run by people with no education in business management and with little experience. As a matter of fact, the majority of the Syrian industrialists were either merchants or artisans before becoming industrialists. Arthur E. Mills, in his book about private enterprise in Lebanon, made the following remark: "Extraders concentrate on the buying and selling aspects of the business and neglect production; ex-artisans are engrossed by production and supervision at the expense of the buying and selling activities. All of them tend to neglect the human aspect of

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<sup>1</sup>Adel Akel, "The Nature of Syrian Production and System of Exchange", Etude Mensuelle sur l'Economie et les Finances de la Syrie et des Pays Arabes, No. 50 (Damascus: February 1962), pp. 63-64.

management."<sup>1</sup> This remark applies as much to Syria as to Lebanon.

b. High cost of energy

Another hindering factor is the high cost of fuel and electricity. Fuel is sold to industrialists at the same price which is offered to the public, which price is relatively high.<sup>2</sup> The rates of electricity for power are high, much higher than in Lebanon.<sup>3</sup> Besides, electric power is not available in adequate quantity. Furthermore, breaks are common resulting in stoppage

<sup>1</sup> Arthur E. Mills, Private Enterprise In Lebanon (Beirut: American University of Beirut, 1959), p. 91.

<sup>2</sup> Fuel oil is sold to consumers as well as to industrialists at 124,70 Syrian pounds per ton. A discount of 4 pounds is given to dealers and station owners only. Information secured from Mr. M. Sawaya, Chief Accountant, Socony Vacuum Oil Company of Syria.

<sup>3</sup> Electricity rates in Lebanon differ according to the consumption place. In Beirut, there are two rates; one for low tension (light industries) and the other for high tension (heavy industry)

The rates for the low tension are:

8 piasters per KWH for 20 hours

11 " " " during peak hours

The rates for the high tension are:

4 piasters per KWH applied 4 hours after sunset until 6.00

6,50 " " " during the day a.m.

10 " " " during peak hours

Information secured from Mr. Jabr, Production Manager, Electricity Company of Beirut.

In Syria, there are also different rates.

The rates for the low tension are:

7 piasters per KWH at night

15 " " " during the day

22 " " " during peak hours

The rates for the high tension are:

7 piasters per KWH at night

8 " " " during the day

22 " " " during peak hours

Information secured from Mr. M. Mahaini, Director, Electricity Company of Damascus.

of production. Consequently, most of the large factories had to install their own power plants which imposed an additional capital burden on them.

c. Smallness of the market

The Syrian industry depends to a very large extent on the home market, which is relatively small. The turbulent nature of Syria's political life since 1949 has been an obstacle to expanding the export markets for Syrian industries. The differences in policy between Syria and the neighboring Arab States as regard national, social and economic matters have always reflected on Syria's exports - a fact which made Syria lose one or more of its natural and traditional export markets at different times.

d. Scarcity of industrial credit

Syria, like most other under-developed countries, suffers from the scarcity of financial institutions to supply medium and long term credit. Commercial banks are numerous, but generally speaking, they grant only short-term credit for production. The Syrian industrialists always depended on their own capital contributions for establishing new industries or expanding the

old ones. Outside the banking system, professional money-lenders grant production credit to a limited extent. Money-lenders' credit generally carries high rates of interest. The Banque de Syrie et du Liban used to extend investment credit to industry, but with the guarantee of the Government. This applied only to a small group of corporations, thus excluding the large majority of Syrian industrial enterprises. At present, the Industrial Bank of Syria is the only banking institution to supply credit for investment. This Bank will be discussed in Chapter 4.

e. Other hindering factors

There are still some factors that are hindering the full growth of industry in Syria. Among the most important are the following: poverty of the country in mineral resources, low productivity of labour, high cost of transport, scarcity of industrial engineers and technicians, lack of technical education, and, recently, lack of confidence resulting from the direct intervention of the Government in the different sectors of the economy.

C. Nationalization

Since the Union with Egypt (February 22nd, 1958), measures

of socialistic nature were imposed in Syria. It was thought that the jump of the Syrian economy approached its culmination, that the capacity of the private individuals reached its climax, and that the Syrian economy would not be able to continue developing without the positive intervention of the State. On July 20th, 1961, President Abdul-Nasser issued a series of Presidential Decrees nationalizing all banks and insurance companies as well as certain key industrial enterprises.<sup>1</sup>

Several Decrees were issued in this regard. Five groups of enterprises either totally or partly nationalized may be distinguished:

1. The first group consisted of three large industrial enterprises, wholly nationalized.<sup>2</sup>

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<sup>1</sup>Before this, Law No. 11, dated March 8th, 1961, was issued reorganizing all commercial banks operating in the Syrian Region. The Organization Law stated that the Syrian Economic Organization (a Government institution) should participate in the capital of the existing banks by at least 35 per cent, and that all banks should be organized as limited companies with a minimum capital of 3 million Syrian pounds each. The justification given for the Organization Law were that the Government should have a control over the saving of the community, with a view to mobilizing them to activities desired by the Government. See al-Jarida al-Rasmia, No. 62, dated 14/3/1961, p. 288.

<sup>2</sup>These were: The United Industrial and Commercial Company Al-Shahba Spinning and Weaving Manufacturing Company, and The Arab Company for the Manufacture of Lumber (Article 1 of Law No. 117, dated 20/7/1961). See al-Jarida al-Rasmia, No. 162, dated 20/7/1961, p. 1046.

2. The second group consisted of 20 commercial banks operating in Syria, wholly nationalized.<sup>1</sup>

3. The third group consisted of 55 insurance companies established in Syria, which were wholly nationalized.<sup>2</sup>

4. The fourth group consisted of 6 industrial enterprises which had to take the corporate form and to have State participation in their capital to the extent of 50 per cent.<sup>3</sup>

5. The fifth group consisted of 12 industrial companies whereby no one person could possess shares in the said companies

<sup>1</sup>These were: the Industrial Bank, the Real-Estate, Commercial and Industrial National Bank, the Lebanese Bank for Commerce, the Saudi National Bank, Intra Bank, the Arab Bank, Banque de Syrie et du Liban, the Middle East British Bank, the National Bank for Commerce and Industry, Compagnie Algerienne de Credit et de Banque, Banco di Roma, the Rafidayn Bank, the Arab Bank, the Arab East Bank, the United Banks Company, the Lattakia Bank, Albert Homsy Bank, the Commercial Bank, Cairo Bank and Misr Bank (Article 1 of Law No. 117, dated 20/7/1961). See al-Jarida al-Rasmia, No. 162, dated 20/7/1961, p. 1046.

<sup>2</sup>Article 1 of Law No. 117, dated 20/7/1961. See al-Jarida al-Rasmia, No. 162, dated 20/7/1961, p. 1046.

<sup>3</sup>These were: Sami saem Al-Dahr Company for Spinning and Weaving, Hadj Ahmad Tatari and Sons, Inc., Karghian and Proghossian Company, the United Arab Company for Industry, the Cotton and Oils Company, and the Arab Company for Cotton Trading, Ginning and Exporting, Inc. (Article 1 of Law No. 118, dated 20/7/1961). See al-Jarida al-Rasmia, No. 162, dated 20/7/1961, p. 1048.

for more than 100,000 Syrian pounds, the ownership of the rest had to go to the State.<sup>1</sup>

On September 28th, 1961, the Union with Egypt was dissolved. The Syrian Government of the new regime wanted to liberate the economy from the majority of the rules and restrictions that were imposed during the years of the Union. The Law of Nationalization of industrial companies issued in July, 1961, was cancelled by virtue of Legislative Decree No. 2, dated February 18th, 1962, which brought some amendments to the organization of the industrial companies. The Law stipulated that every industrial concern with a capital amounting to, or exceeding 2,500,000 Syrian pounds, should take the form of a joint-stock company, and that at least 60 per cent of its shares should be offered to the public for general subscription.<sup>2</sup>

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<sup>1</sup>These were: Al-Ahlia Company for Spinning and Weaving, the Syrian Company for Spinning and Weaving, the Spinning and Weaving Company, the Technical Company for Dyeing, Inc., the Syrian Company for Vegetable Oil, the Syrian Company for the Extraction and Refining of Sugar, the sugar and Agricultural Products Company, the Glass and Porcelain Manufacturing Company, the National Company for the Manufacture of Cement and building Materials, the Shahba Company for Manufacture of Cement and Building Materials, the Syrian Company for the Manufacture of Cement and Building Materials, and the Ahlia Company for the Manufacture of Cement, Inc. (Article 1 of Law No. 119, dated 20/7/1961). See al-Jarida al-Rasmia, No. 162, dated 20/7/1961, p. 1050.

<sup>2</sup>Article 1 of Legislative Decree No. 2, dated 18/2/1962. See al-Jarida al-Rasmia, No. 9, dated 21/2/1962, p. 1471.

The Law also fixed maximum limits for shareholding and included other important amendments.

Likewise, the Law of Nationalization of the Banks was also cancelled and replaced by Legislative Decree No. 12, dated May 28th, 1962, which reinstated to the banks working in the country their former status, except the foreign banks which remained nationalized. The most important clause of this Decree was the section stipulating that every bank working in the Syrian Arab Republic must be established in the form of a joint-stock company and must have a capital of not less than 3 million Syrian pounds, and that the State should subscribe for 25 per cent of the capital.<sup>1</sup>

On March 8th, 1963, another Coup d'Etat took place in Syria. The Government of the new regime promulgated a series of Legislative Decrees renationalizing all commercial banks and the majority of the industrial enterprises. We may distinguish four groups of enterprises either totally or partly nationalized:

1. All commercial banks operating in Syria were wholly renationalized.<sup>2</sup>

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<sup>1</sup>Article 2 of Legislative Decree No. 12, dated 28/5/1962. See al-Jarida al-Rasmia, No. 24, dated 31/5/1962, p. 4266.

<sup>2</sup>Article 1 of Legislative Decree No. 37, dated 2/5/1963. See al-Jarida al-Rasmia, No. 20, dated 9/5/1963, p. 4368.

2. Twenty nine industrial enterprises were wholly nationalized.<sup>1</sup>

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<sup>1</sup>These were: Hadj Ahmad Tatary and Sons Company, Inc., Jamil Addas and Partners Company, al-Shahba Spinning and Weaving Manufacturing Company (Article 1 of Legislative Decree No. 54, dated 16/4/1964). See al-Jarida al-Rasmia, No. 17, dated 30/4/1964, p. 4179. The United Arab Company, the Spinning and Weaving Company, Inc. (Article 1 of Legislative Decree No. 56, dated 19/4/1964). See al-Jarida al-Rasmia, No. 17, dated 30/4/1964, p. 4183. The Arab Company for the Manufacture of Lumber, Inc. (Article 1 of Legislative Decree No. 57, dated 20/4/1964). See al-Jarida al-Rasmia, No. 17, dated 30/4/1964, p. 4183. Al-Ahliyah Company for Spinning and Weaving, the Syrian Company for Spinning and Weaving (Article 1 of Legislative Decree No. 1, dated 25/5/1964). See al-Jarida al-Rasmia, No. 24, dated 11/6/1964, p. 5521. The National Company for the Manufacture of Cement and Building Materials, al-Shahba Company for the Manufacture of Cement and Building Materials, al-Ahliya Company for the Manufacture of Cement, the Syrian Company for the Manufacture of Cement and Building Materials, the Cement and Building Materials Manufacturing Company, the Glass and Porcelain Manufacturing Company, the Sugar and Agricultural Products Company, the Syrian Company for the Extraction and Refining of Sugar, the Syrian Industrial Company for Vegetable Oil, the Cotton and Oil Company, the Technical Company for Dyeing, the Modern Industrial Company, Sami Saem al-Daher Company for Spinning and Weaving, the Arab Electrical Company, the United Industrial Company for Wool, the Arab Company for the Manufacture of Porcelain, the Industrial Company for the Manufacture of Textile, the United Arab Company for the Manufacture of Matches, the Syrian Refrigerating Company, the Syrian Beer Company, and Homs Company for Spinning and Weaving (Article 1 of Legislative Decree No. 1, dated 2/1/1965). See al-Jarida al-Rasmia, No. 2, dated 10/1/1965, p. 277.

3. Twenty eight industrial companies in which the State participated in their capital to the extent of 90 per cent.<sup>1</sup>

4. Sixty three industrial companies in which the State

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<sup>1</sup> These were: The Syrian Company for Shirts, the Carpets Manufacturing Company, the Industrial Company for Nylon Threads, the Arab Company for the Manufacture of Lumber, Toufic Khoudair Company, Anis and Dairy Company, Yusef Mouchakes Company, Michel Abdil-Karim Sayegh Company, Haidar al-Khouja and Partners Company, the Syrian Company for Underwear, al-Shark Company for Underwear, Fawzi and Fayçal Haffar Company, Hama Oil Company, the Modern Canning Company, Arabi Katbi and Sarmini Company, al-Ahlia Company for Rubber, Lababidi and Sharaoui Company, Bagdadi and Farra Company, the Canning and Agricultural Products Manufacturing Company, Adib al-Ouf Company for Oil, Camelia Company for Biscuits, and the Arab Porcelain Company (Article 1 of Legislative Decree No. 2, dated 2/1/1965). See al-Jarida al-Rasmia, No. 2, dated 10/1/1965, p. 278. The Arab Soap and Oil Manufacturing Company, Inc., Rodolph Saadeh Company for Vegetable Oil, the Ride Arab Company for the Manufacture of Soap and Chemical Materials, Inc., Nachaoui, Shouman and Kabani Company, Elias Koudsi and Sons Company, and Amin Diab Partners Company (Article 1 of Legislative Decree No. 5, dated 4/1/1965). See al-Jarida al-Rasmia, No. 2, dated 10/1/1965, p. 282.

participated in their capital to the extent of 75 per cent.<sup>1</sup>

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<sup>1</sup>These were: The Arab Medical Company, House appliances Manufacturing Company, Aoua, Halabi and Sons Company, Toufic and Iz-al-Din Hourballi Company, Antoun Haffar Company, Tiozori Makrini Company, Ghaleb Shaar Company, Anouar and Ridwan Akad Company, Balash and Hilwani Company, Khitam and Issa Company, Fouad and Mounir Samman Company, Abdul Karim and Joseph Khayat Company, Kastati Shalhat and Sons Company, Abdil Kader Saem al-Daher Company, Idlibi and Hadri Company, Bakri Mouhamad Jarbou Company, Arabi Soukar Company, Akil and Halwani Company, Mouhamed Ali Saegh Company, Ahmad and Abdul-Latif Akil Company, the Sons of Abdul Karim Taleb-Agha Company, Izzat Rachid Sharif Company, Mouhamed Nouri Dairy and Partners Company, Mouhamed Said Shahadeh Company, Ali and Ahmad Boushi Company, Mouhamed and Abdul-Hamid Hamsho Company, Haj Mahmoud Wali Company, Matouk and Safadi Company, Oubari and Haj Khalil Company, Iftel and Shabarek Company, Houلمي Ourfali Company, Alan Beskides and Abdul-Rahman Hourieh Company, Abdula Abdul-Razak and Brothers Company, Shallah Canning Manufacturing Company, Fawzi and Fayçal Haffar Company, Fouad Fanssa and Sons Company, Ibrahim Naji Company, Moustapha Haddad Company, Taki-al-Din Manufacturing Company for Matches, the Syrian Company for Rubber Shoes, Siaj and Khabaz Company, Imperial Manufacturing Company, the Pasteurized Milk Manufacturing Company, Ohanian, Masarajian and Partners Company, al-Shark Company for Biscuits and Chocolates, Afnadisian Brothers Company for Batteries, the Syrian Company for Liquid Gaz, Inc., Aleppo Manufacturing Company for Liquid Gaz, Kivork Shabilashian Company for Dyeing, Ziki Hashem Hilal Company for Dyeing, Mohamed Badir and Nasib Wattar Company for Dyeing, Ahmad Hababa Company for Dyeing, Karkardian and Yarsoumian Company for Printing, Abdul-Fatah Awa Company for Plastic, Wali Brothers Company for the Manufacture of Plastic, Kanjo Brothers Company for the Manufacture of Plastic, the Kleenex Manufacturing Company, the National Company for Yeast, the Industrial Company for Milk, Mitanios and Michel Jibrán Company for Artificial Silk, Khair-Allah Samman Company for Artificial Silk (Article 2 of Legislative Decree No. 2, dated 2/1/1965). See al-Jarida al-Rasmia, No. 2, dated 10/1/1965, p. 278. Michel and Antoun Zayat Company, and Fayez Simadi and Partners Company (Article 2 of Legislative Decree No. 5, dated 4/1/1965). See al-Jarida al-Rasmia, No. 2, 10/1/1965, p. 282.

Nationalization had serious repercussions on the national economy and particularly on industry. Among the effects were: flight of capital, cessation of expansion of old industries and of creation of new ones, and widespread loss of confidence.

#### D. Present Structure

The following is a brief summary of the present structure of the Syrian industries in term of production, employment and capital investment. Table II reveals the production of the major mechanized industries in Syria; and Table III reveals the general index of production of the same industries from 1956 to 1962.

Table III reveals that the production of the beverage, rubber, chemical and electric generating industries more than doubled from 1956 to 1962. On the other hand, the production of the extractive and paper industries decreased over the same period. On the whole, the general index reveals an increase of 70 per cent in total production of the major mechanized industries from 1956 to 1962.

TABLE II

PRODUCTION OF THE MAJOR MECHANIZED INDUSTRIES IN SYRIA  
FROM 1956 TO 1962

|                          | Unit   | 1956   | 1957    | 1958    | 1959    | 1960    | 1961    | 1962    |
|--------------------------|--------|--------|---------|---------|---------|---------|---------|---------|
| Extractive Industry      |        |        |         |         |         |         |         |         |
| Natural asphalt          | Ton    | 43,031 | 20,858  | 29,323  | 20,691  | 21,462  | 27,516  | 11,543  |
| Salt                     | Ton    | 32,744 | 33,780  | 17,239  | 8,307   | 9,774   | 7,365   | 17,909  |
| Food Processing Industry |        |        |         |         |         |         |         |         |
| Sugar                    | Ton    | 50,391 | 44,598  | 56,667  | 61,064  | 69,631  | 71,720  | 76,876  |
| Vegetable oil            | Ton    | 10,300 | 11,926  | 12,600  | 14,148  | 15,148  | 15,648  | 16,022  |
| Olive oil                | Ton    | 12,370 | 7,392   | 14,585  | 27,714  | 10,100  |         |         |
| Margarine                | Ton    | 2,464  | 2,552   | 2,260   | 2,700   | 3,000   |         |         |
| Canning                  | Ton    | 2,600  | 2,345   | 2,580   | 2,682   | 2,982   |         |         |
| Chocolate                | Ton    | 291    | 350     | 410     | 777     | 800     |         |         |
| Macaroni                 | Ton    | 1,487  | 1,620   | 1,680   | 2,139   | 2,139   |         |         |
| Biscuit                  | Ton    | 510    | 481     | 495     | 821     | 821     |         |         |
| Beverage Industry        |        |        |         |         |         |         |         |         |
| Alcohol liquids          | Ton    | 1,754  | 3,254   | 3,622   | 3,101   | 3,275   | 3,300   | 4,313   |
| Tobacco Industry         |        |        |         |         |         |         |         |         |
| Tobacco & tobac          | Ton    | 3,123  | 2,947   | 2,908   | 3,231   | 3,500   | 3,969   | 3,992   |
| Textile Industry         |        |        |         |         |         |         |         |         |
| Silk & cotton textiles   | Ton    | 18,000 | 21,000  | 22,000  | 23,000  | 25,000  | 25,625  | 26,999  |
| Tricot                   | Ton    | 610    | 613     | 685     | 494     | 494     | 500     | 601     |
| Wool                     | M      | 95,000 | 118,671 | 123,000 | 140,000 | 157,000 | 172,000 | 380,000 |
| Stockings                | Dozens | 671    | 469     | 1,700   | 972     | 1,065   | 1,100   | 1,128   |
| Underwear                | Ton    | 775    | 1,113   | 1,218   | 890     | 1,091   | 1,200   | 1,126   |
| Wool yarn                | Ton    | 221    | 322     | 310     | 320     | 320     | 320     | 35      |

TABLE II (Continued)

PRODUCTION OF THE MAJOR MECHANIZED INDUSTRIES IN SYRIA  
FROM 1956 TO 1962

|                        | Unit       | 1956    | 1957    | 1958    | 1959    | 1960    | 1961    | 1962    |
|------------------------|------------|---------|---------|---------|---------|---------|---------|---------|
| Cotton yarn            | Ton        | 7,952   | 7,965   | 9,327   | 9,500   | 9,737   | 9,937   | 15,324  |
| Silk yarn              | Ton        | 3,478   | 3,201   | 3,000   | 3,000   | 3,000   | 3,000   | 3,823   |
| Paper Industry         |            |         |         |         |         |         |         |         |
| Cigarette papers       | Packs 1000 | 131,324 | 137,382 | 129,383 | 131,324 | 131,324 | 131,324 | 72,000  |
| Rubber Industry        |            |         |         |         |         |         |         |         |
| Rubber shoes           | Pairs 1000 | 789     | 1,125   | 1,198   | 1,673   | 1,700   | 1,870   | 2,323   |
| Chemicals              |            |         |         |         |         |         |         |         |
| Soap                   | Ton 1000   | 11,146  | 17,416  | 18,650  | 25,000  | 25,000  | 25,625  | 26,189  |
| Matches                | Gross 1000 | 662     | 735     | 813     | 775     | 700     | 700     | 1,202   |
| Oxygene                | MS         | 173     | 184     | 203     | 251     | 255     | 259     | 336     |
| Paints                 | Ton        | 500     | 508     | 576     | 1,027   | 1,127   | 1,150   | 1,175   |
| Non-Metallic           |            |         |         |         |         |         |         |         |
| Cement                 | Ton 1000   | 325     | 314     | 408     | 447     | 449     | 540     | 607     |
| Glass                  | Ton        | 10,654  | 6,712   | 12,633  | 10,578  | 15,275  | 10,105  | 14,704  |
| Electric Light & Power |            |         |         |         |         |         |         |         |
| Electricity generated  | KWH 1000   | 164,379 | 262,143 | 292,669 | 334,381 | 368,209 | 430,789 | 502,399 |

Source: For the years 1956 - 1958 see United Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract (Damascus: The Government Press, 1960), p. 258.  
For the years 1958 - 1962 see Syrian Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract (Damascus: The Government Press, 1963), p. 333.

TABLE III

INDEX NUMBER OF MAJOR MECHANIZED INDUSTRIES IN SYRIA, 1956-1962  
(Base Year 1956)

| Industries    | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 |
|---------------|------|------|------|------|------|------|------|
| Extractive    | 100  | 77   | 68   | 75   | 76   | 46   | 65   |
| Food          | 100  | 95   | 115  | 79   | 138  | 150  | 157  |
| Beverage      | 100  | 186  | 207  | 177  | 187  | 188  | 246  |
| Tobacco       | 100  | 94   | 93   | 103  | 112  | 127  | 128  |
| Textile       | 100  | 115  | 123  | 124  | 134  | 139  | 161  |
| Paper         | 100  | 105  | 99   | 100  | 100  | 100  | 55   |
| Rubber        | 100  | 143  | 152  | 212  | 215  | 327  | 294  |
| Chemical      | 100  | 138  | 149  | 189  | 187  | 191  | 217  |
| Non-Metallic  | 100  | 90   | 124  | 130  | 149  | 152  | 173  |
| Electricity   | 100  | 159  | 178  | 203  | 210  | 223  | 202  |
| General Index | 100  | 112  | 125  | 127  | 144  | 155  | 170  |

Source: Syrian Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract (Damascus: The Government Press, 1963), p. 332.

Table IV shows the structure of industry according to number of laborers employed, as found by the industrial census which was undertaken in 1960.

The census revealed that at the end of 1960, there were 19,549 industrial establishments in Syria employing one to four workers, 1,895 employing five to nine, 341 employing ten to fourteen, 204 employing fifteen to twenty-four, 106 employing twenty-five to forty-nine, 88 employing fifty workers or more. The census showed that 88.1 per cent of the industrial establishments studied employed less than five workers and 96.5 per cent employed less than ten workers. This reflects the prevalence of small-sized industrial enterprises throughout the country.

Capital investment in the Syrian industries is shown in Table V.

Table V reveals that there is a clear concentration of investment in the textile, food processing and cement industries. The Table shows that the textile industry occupies a very crucial position in the Syrian economy. More than 175 million Syrian pounds were invested in this industry up to 1961. Total investment in the food processing industry amounted to more than 66 million Syrian pounds, and in the cement industry to more than 41 million Syrian pounds.

TABLE IV  
STRUCTURE OF SYRIAN INDUSTRY IN TERMS OF NUMBER OF LABORERS EMPLOYED, 1960

| Industries                  | Number of Industrial Establishments According to Labour Power |       |         |         |         |            |        |
|-----------------------------|---|-------|---------|---------|---------|------------|--------|
|                             | 1 - 4   | 5 - 9 | 10 - 14 | 15 - 24 | 25 - 49 | 50 or more | Total  |
| Textile                     | 4344  | 354   | 108     | 83      | 50      | 42         | 4981   |
| Food                        | 2958  | 742   | 75      | 26      | 11      | 14         | 3826   |
| Shoes and clothing          | 4314  | 123   | 6       | 3       | 2       | 2          | 4450   |
| Furniture                   | 3584  | 236   | 24      | 21      | 2       | -          | 3867   |
| Non-Metallic                | 517   | 134   | 74      | 39      | 25      | 10         | 799    |
| Tanning                     | 638   | 27    | 2       | 3       | 4       | 3          | 677    |
| Wood                        | 603   | 57    | 8       | 2       | -       | 1          | 671    |
| Metallurgy                  | 410   | 35    | 6       | 2       | 1       | 1          | 455    |
| Non-Electric appliances     | 331   | 22    | 2       | 3       | 3       | 1          | 362    |
| Electric appliances         | 309   | 6     | 1       | -       | -       | -          | 317    |
| Printing                    | 133   | 43    | 13      | 7       | 2       | 1          | 198    |
| Beverage                    | 139   | 26    | 6       | 2       | 1       | 1          | 175    |
| Rubber                      | 172   | 8     | 2       | 8       | 2       | 6          | 190    |
| Chemical and pharmaceutical | 69  | 40    | 8       | 8       | 2       | 5          | 132    |
| Electricity                 | 32  | 8     | 2       | 3       | -       | -          | 45     |
| Paper                       | 26  | 13    | 1       | -       | 1       | 1          | 42     |
| Miscellaneous               | 970   | 21    | 3       | 2       | -       | -          | 996    |
| Total                       | 19,549  | 1,895 | 341     | 204     | 106     | 88         | 22,183 |

Source: Syrian Arab Republic, Ministry of Planning, Directorate of Statistics, The Result of the Industrial Census of 1960 (in Arabic), mimeographed (Damascus: The Government Press, 1963), pp. 1 - 3.

TABLE V

## CAPITAL INVESTMENT IN THE SYRIAN INDUSTRIES, 1961

|                          |            |
|--------------------------|------------|
| Extractive Industry      |            |
| Natural asphalt          | 448,000    |
| Food Processing Industry | 66 205 591 |
| Sugar                    | 20,000,000 |
| Vegetable oil            | 26,557,541 |
| Olive oil                | 7,482,750  |
| Candy                    | 2,524,171  |
| Canning                  | 3,875,000  |
| Chocolate                | 2,142,145  |
| Macaroni                 | 812,984    |
| Biscuit                  | 2,711,000  |
| Beverage Industry        |            |
| Alcohol liquids          | 1,615,000  |
| Beer                     | 2,350,000  |
| Textile Industry         |            |
| Cotton ginning           | 35,691,200 |
| Cotton spinning          | 52,272,646 |
| Cotton textiles          | 22,275,000 |
| Silk textiles            | 39,019,250 |
| Wool textiles            | 3,435,515  |
| Stockings                | 8,468,000  |
| Underwear                | 14,149,780 |
| Paper Industry           |            |
| Tissue papers            | 624,000    |
| Rubber Industry          |            |
| Rubber shoes             | 4,500,000  |
| Chemical Industry        |            |
| Soap                     | 11,027,000 |
| Matches                  | 1,255,000  |
| Non-Metallic Industry    |            |
| Cement                   | 41,620,000 |
| Glass                    | 8,150,000  |
| Electric Light Power     |            |
| Electricity generated    | 28,313,512 |

Source: The Arab Office for the Economic, Social and Publishing Affairs, Adwa ala al-Kita'at al-Intajia fi Souria (Translated as: Light on the Productive Sectors in Syria), (Damascus: The Adib Press, 1964), pp. 67 - 70. See also United Arab Republic, Syrian Region, Wazarat al-Sina'a fi Amiha al-Awal (Translated as: The First Year of the Ministry of Industry), (Damascus: The Government Press, February 1960), p. 46.

Capital investment in the other industries - except electricity which is a Government monopoly - is rather limited.

The contribution of the industrial sector, as compared with other economic sectors, to national income over a period of ten years from 1953 to 1962 is shown in Table VI:

TABLE VI

NATIONAL INCOME ESTIMATE IN SYRIA FROM 1953 TO 1962  
(Million of Syrian Pounds)

| Sector        | 1953 | 1954 | 1955 | 1956 | 1957 | 1958 | 1959 | 1960 | 1961 | 1962 |
|---------------|------|------|------|------|------|------|------|------|------|------|
| Agriculture   | 824  | 927  | 636  | 936  | 1067 | 702  | 721  | 636  | 805  | 1217 |
| Industry      | 227  | 246  | 264  | 267  | 288  | 304  | 315  | 341  | 852  | 387  |
| Construction  | 60   | 80   | 95   | 98   | 75   | 90   | 79   | 117  | 120  | 127  |
| House rentals | 116  | 122  | 130  | 137  | 144  | 155  | 163  | 170  | 178  | 184  |
| Finance       | 22   | 37   | 41   | 44   | 48   | 46   | 55   | 45   | 32   | 49   |
| Government    | 114  | 117  | 140  | 150  | 157  | 168  | 178  | 182  | 203  | 222  |
| Transport     | 129  | 142  | 139  | 137  | 124  | 130  | 136  | 140  | 131  | 172  |
| Commerce      | 270  | 349  | 319  | 375  | 386  | 335  | 320  | 308  | 336  | 420  |
| Services      | 130  | 146  | 156  | 159  | 162  | 172  | 176  | 184  | 200  | 209  |
| Total         | 1892 | 2176 | 1920 | 2303 | 2451 | 2102 | 2133 | 2123 | 2357 | 2987 |

Source: Syrian Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract (Damascus: The Government Press, 1963), p. 495.

TABLE VII

THE SHARE OF INDUSTRY IN THE FORMATION OF NATIONAL INCOME  
FROM 1953 - 1962  
(Million of Syrian Pounds)

| <u>Year</u> | <u>Total National<br/>Income</u> | <u>Share of the<br/>Industry</u> | <u>Percentage</u> |
|-------------|----------------------------------|----------------------------------|-------------------|
| 1953        | 1,892                            | 227                              | 12 %              |
| 1954        | 2,176                            | 246                              | 11 %              |
| 1955        | 1,920                            | 264                              | 13 %              |
| 1956        | 2,303                            | 267                              | 11 %              |
| 1957        | 2,451                            | 288                              | 11 %              |
| 1958        | 2,102                            | 304                              | 14 %              |
| 1959        | 2,133                            | 315                              | 14 %              |
| 1960        | 2,123                            | 341                              | 16 %              |
| 1961        | 2,357                            | 352                              | 15 %              |
| 1962        | 2,978                            | 387                              | 13 %              |

The share of industry in the national income progressed slowly over the years 1953 to 1960, ranging from 11 per cent to 16 per cent of the total national income. Table VII shows the share of industry in the formation of national income.

## CHAPTER II

## THE DEMAND FOR INDUSTRIAL CREDIT

A. Credit Requirements

Industry requires capital to get established, grow and prosper. This capital is needed for two purposes. It is needed in short-term form to meet working capital requirements. It is also needed in long-term form for the acquisition of fixed assets such as land, buildings, machinery and equipment.

Short-term credit is mostly needed to finance seasonal purchases of raw materials and to meet other operating expenses. Industrial concerns which depend on seasonal raw materials usually borrow at one point in the course of the year for the purpose of carrying inventories of raw materials. The major Syrian industries that are characterized by seasonality of raw materials are the spinning and the canning industries. Operating expenses comprise salaries and wages, rent, electricity, fuel, taxes, and other current charges. The need to finance these expenses is more or less continuous. Most industrial firms in

Syria depend on loans for financing operating expenses.<sup>1</sup>

In order to finance their seasonal requirements and their operating expenses, industrial enterprises seek short-term production credit from the Industrial Bank of Syria, from the commercial banks operating in the country, from foreign producers of, and local traders in, raw materials, and from local money-lenders (the forms and terms of such credit are discussed in Chapter III).

Medium and long-term credit, or investment credit, is always made for the acquisition of fixed assets. Some machinery and equipment are purchased with plowed-back earnings accumulated in the form of reserves,<sup>2</sup> but most machinery and equipment are bought with borrowed money.<sup>3</sup> Foreign producers of industrial machinery and equipment have been the major source of investment credit. Then comes, in the order of importance, the Industrial Bank of Syria, and local traders in industrial machinery and equipment<sup>4</sup> (the

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<sup>1</sup>Information secured from many Syrian industrialists interviewed.

<sup>2</sup>The Syrian Law regarding reserves stipulates that every industrial concern operating in Syria has to put aside at least 10 per cent of its annual profits for reserve. This obligatory reserve, however, is not to be used unless it exceeds 50 per cent of the paid-up capital and after the approval of the Ministry of Economy. The law also provides for exemption from income tax of all reserve funds allocated for development purposes.

<sup>3</sup>Information secured from many Syrian industrialists interviewed.

<sup>4</sup>Ibid.

forms and terms of such credit are also discussed in Chapter III).

In studying the short and long-term credit requirements of Syrian industries (other than textile, cement, sugar, and canning, which are discussed in the following section) we find the following situation. As regard short-term credit, the majority of firms in the chemical industry expressed need for production credit to carry inventories of raw materials and to meet operating charges. Such credit was available from commercial banks in the form of documentary credit and discounts of promissory note and trade bills to the match, paint, and the large soap firms.<sup>1</sup> Small firms producing soap depend very largely on credit facilities extended by local importers of raw materials. In the beverage industry, firms producing 'arak' depend on their own funds to finance their current operations.<sup>2</sup>

As regard long-term credit requirements, one match factory said to depend wholly on its reserves to finance its renovation projects. The other factory expressed need for

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<sup>1</sup>Information secured from Mr. Ismail Nabilsi, Manager of the Taki al-Din Match factory; from Mr. Ali Zifan, Chairman of the Board of Directors of the United Arab Company for Matches; from Raphael Chagouri, Director of the Chagouri and Silo Company for the Manufacture of Paint; and from the management of several soap producing firms.

<sup>2</sup>Information secured from the management of several 'arak' producing firms.

investment credit to finance the purchase of new packing machines. Such credit was available from the Industrial Bank of Syria for periods running up to 3 years at rates of interest around 7 per cent per annum. The executives of the mechanized paint factory said to have bought the machinery from their own capital. They expressed no need for any investment credit. The manager of a large soap producing firm reported to have been accorded investment credit from foreign producers of industrial machinery and equipment for periods running up to five years.<sup>1</sup> The managers of many small firms producing soap and 'arak' said not to have any source of credit to finance their investment requirements.<sup>2</sup>

Some industrial enterprises seem to be overcapitalized in relation to local supply of raw materials and prospects for export. The most salient example of such overcapitalization is in the cotton textile, the glass and the sugar industries. The capacity in the cotton ginning industry was said to handle between two to three times the present cotton crop. This fact led the Government to prohibit the importation of cotton gins.<sup>3</sup> Likewise, the difficulties which the cotton weaving mills encountered as a result of over

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<sup>1</sup>Information secured from the management of the Ride Arab Company for the Manufacture of Soap, Damascus.

<sup>2</sup>Information secured from the management of several small-sized soap and arak factories in Damascus.

<sup>3</sup>Information secured from Mr. Adnan Jabi, Head of the Cotton Textiles Industries Promotion Fund, Damascus.

production and the lack of export possibilities forced many mills to close down in Aleppo.<sup>1</sup> This situation of the textile industry called forth the establishment of the Cotton Textiles Industries Promotion Fund by the Government in February 1960, with the object of promoting the export of cotton textile. The second example of overcapitalization was the glass industry. The Damascus factory was conceived on too ambitious a scale, aiming at serving most of the needs of the Middle East. Some of its machinery, for instance that for the manufacture of electric bulbs, were never put into operation. A third example of overcapitalization was the large sugar refinery at Homs, which was started without ensuring an adequate local supply of sugar beets.

#### B. Credit Requirements of Some of the Principal Industries

The credit requirements of some of the principal industries in Syria were studied when the majority of the industrial establishments belonged to the private sector. Now, and after the nationalization of the major industrial establishments, the overall picture may differ.

The study comprises 26 textile enterprises, the four

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<sup>1</sup>K. Grunwald, Industrialization in the Middle East (New York: Council for Middle Eastern Affairs Press, 1960), p. 311.

existing cement establishments, the two existing sugar factories, and the three existing canning factories. Managers or members of the board of directors of these industries were interviewed for the purpose of determining the types and amounts of credit needed in the said industries. The result of the study is summarized in the following section.

### 1. The Textile Industry

The textile industry is considered as the most important industry in Syria in terms of capital investment and number of labourers employed. The capital investment is estimated at about 175 million Syrian Pounds and the volume of employment is estimated about 45 per cent of the labour force.<sup>1</sup> There are 10 large textile factories: one in Homs, four in Damascus, and five in Aleppo. They carry out all successive stages of manufacture from scoring and spinning of raw cotton to the finished fabrics. Between 145,000 and 150,000 spindles and about 1,850 mechanical looms are in operation in these factories.<sup>2</sup> In addition to these ten large factories, there are about 623 small and medium-sized textile factories employing five workers or more.<sup>3</sup>

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<sup>1</sup> Information privately secured from Mr. Adnan Jabi, Head of the Cotton Textiles Industries Promotion Fund, Damascus.

<sup>2</sup> Ibid.

<sup>3</sup> According to the industrial census undertaken in September, 1960. See Syrian Arab Republic, The Result of the Industrial Census of 1960, op. cit., pp. 1 - 3.

These factories are restricted to weaving operations.

A sample of 26 spinning and weaving industrial establishments was chosen at random, and was stratified according to size of establishment and to type of operation. Of the 26 establishments covered by the survey, only five were engaged in spinning and weaving operations. The number of labourers employed by these establishments ranged between 930 and 3,800 workers. In our discussion they are referred to as the integrated cotton textile mills. The remaining 21 mills were engaged in weaving operations. The number of labourers employed by these mills ranged between 9 and 300 workers. In our discussion they are referred to as the non-integrated mills or the cotton weaving mills.

The survey revealed that the capital of the five integrated mills interviewed was absorbed by land, buildings, machinery and equipment, leaving little or nothing for working capital. This working capital, it was said, was provided mainly from the Industrial Bank of Syria and the commercial banks operating in the country. Managers of these mills generally arrange for lines of credit with the Industrial Bank or the commercial banks to finance their seasonal purchases of cotton. These mills generally buy their yearly need of cotton during the period October to December.

The executives of the five integrated mills said that they have been able to secure loans up to 300 days from both the Industrial Bank and the commercial banks to finance their seasonal purchases of cotton. These loans, called 'seasonal industrial credit', are advanced against promissory notes bearing a minimum of two signatures from members of the board of directors of the borrowing mill who are of high credit standing. These notes are generally drawn up according to the production schedule of the mill.<sup>1</sup> The interest rates charged on seasonal industrial credit was said to be around  $6\frac{1}{2}$  per cent per annum. Over the last three years these mills depended mostly on the Industrial Bank for their seasonal financing. About 75 per cent of their seasonal loans were granted from the Industrial Bank and the remaining 25 per cent from the commercial banks.

Besides the financing of the seasonal purchases of cotton, the integrated mills arrange also for lines of credit with commercial banks to meet general operating expenses such as salaries and wages, fuel, electricity, rent, etc. The executives of the five mills said to have been accorded facilities by banks to overdraw

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<sup>1</sup> Together with the loan application, the borrowing mill usually submits its production schedule showing the expected quantities to be produced and sold every month. If the loan application is accepted, promissory notes will then be drawn up with maturities fixed in accordance with the production schedule, the last usually matures within a period of 300 days or less.

their current accounts up to a certain limit determined by their respective lines of credit. Two mills said they were charged interest rates around 7 per cent, one around  $7\frac{1}{2}$  per cent and the remaining two around 8 per cent per annum. Also, the five mills said to have been accorded facilities by the Industrial Bank and commercial banks to discount bills generated by the sales of their products. The discount rates charged by both the Industrial Bank and the commercial banks was said to be around 7 per cent per annum.

As to their need for investment credit, the five integrated mills said to have relied in the past mainly on their retained earnings and accumulated reserves and on credit facilities accorded to them by foreign producers of machinery and equipments. Investment credit was sought mostly for the purpose of expanding the productive capacity of the mill, and for renewing machinery and equipment. Our investigation has revealed that the five integrated mills have been able to purchase a great part of their machinery and equipment from foreign producers on credit for periods running up to five years. The method of financing was said to be conducted mainly on the basis of a contract fixing the payment schedule. Investment credit has also been secured from the Industrial Bank on medium and long-term basis. Two mills said that investment credit from the Industrial Bank was sought mainly for the construction

of buildings and for the purchase of land. The remaining three mills said that investment credit from the Industrial Bank was sought partly for the purchase of machinery and equipment and partly for the construction of buildings and the purchase of land. Investment credit from the Industrial Bank was secured by mortgage on the physical assets of the borrowing mill and was charged interest rates around 8 per cent per annum.

As to the non-integrated mills, or the cotton weaving mills, it was found that almost all of them buy their need of cotton threads on credit either from the integrated mills or from local importers of cotton threads. Of the twenty-one non-integrated mills interviewed, only one reported to pay in cash for its purchases of cotton threads, making use of the 5 per cent cash discount. The other twenty mills buy on credit for short periods ranging from two to six months on a promissory note basis.

The twenty one cotton weaving mills in the sample expressed need for short-term credit to finance operating expenses. Such credit was available from commercial banks and professional money-lenders. Eight mills said to have had access to short-term accommodations from commercial banks in the form of discounting trade bills and promissory notes arising from sales, and advances on current account. The discount rate was

said to be around  $7\frac{1}{2}$  per cent, and the interest rate on advances on current account around 8 per cent per annum. Three other mills had to resort to money-lenders to secure the necessary production credit. The term of credit was said to run up to one year at interest rates around 12 per cent per annum. Of the remaining ten mills, seven said that they were not in need of any production credit since their sales were generating enough cash to meet working capital requirements. The remaining three mills said that only rarely they were confronted with difficulties owing to shortage of production credit. They said to have resorted to relatives and friends to provide them with the necessary funds.

Investment credit, as was asserted by eight of the cotton weaving mills interviewed, was sought mostly to modernize machinery, and only in some cases, to acquire new machinery and equipment. This type of credit was secured from foreign producers of and local traders in industrial machinery and equipment, and from the Industrial Bank. Two mills said they were able to purchase their mechanical looms and knitting machines from foreign suppliers on credit for periods running up to three years. The interest was said to be included in the price of the machinery. Four mills said they were able to secure investment credit from local importers of industrial machinery and equipment for periods

of three years at rates of interest around 9 per cent per annum. Two mills said they were able to secure investment credit from the Industrial Bank for periods running up to five years at rates of interest around 7 per cent per annum. The mortgage security provided to the Industrial Bank was said to be equal to three or four times the value of the loan. The remaining mills expressed no need for investment credit.

## 2. The Cement Industry

In terms of capital investment the cement industry stands out as the second most important industry of the country. It comprises four large factories: two in Aleppo, one in Damascus and one in Homs (See Table VIII). They produce together about 685,000 tons per year.<sup>1</sup> The cement industry, however, does not provide much employment opportunity. The four factories engage together about 1,500 workers.

The cement industry does not require much working capital since it has no seasonal needs and its operating expenses are paid from proceeds of the cash sales of its product. Only rarely, it was said, the industry resorted to short-term commercial

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<sup>1</sup>At the end of 1963 total production of cement amounted to 684,730 tons, of which, the National Company of Damascus produced 298,304; Al-Shahba Company of Aleppo 154,891; Al-Ahlia Company in Aleppo 115,402; and the Syrian Company of Homs 116,133 tons. See Syrian Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract (Damascus: The Government Press, 1964), p. 252.

TABLE VIII

## THE CEMENT FACTORIES IN SYRIA

| <u>Name</u>   | <u>Date of Establishment</u> | <u>Location</u> | <u>Capital</u> |
|---|------------------------------|-----------------|----------------|
| The National Company for the Manufacture of Cement and Building Materials | 1930                         | Damascus        | 11,520,000     |
| Al-Shahba Company for the Manufacture of Cement and Building Materials    | 1946                         | Aleppo          | 10,800,000     |
| Al-Ahlia Company for the Manufacture of Cement                            | 1956                         | Aleppo          | 7,500,000      |
| The Syrian Company for the Manufacture of Cement                          | 1956                         | Homs            | 7,500,000      |

Source: Personal interview.

bank credit. Only one factory (al-Ahlia Company for the Manufacture of Cement) arranged for a line of credit with one of the commercial banks to discount bills generated by the sales of its product. The remaining three mills said that bills generated by sales are usually deposited at commercial banks for collection.

As for their need for investment credit, the survey has revealed that expansion and modernization were financed with plowed back earnings. The cement industry is by far the most profitable industry in Syria. The four factories have generated enough profits over the years to build up substantial reserves to finance their expansion and renovation projects. A large part of these reserves was said to be regularly maintained in highly liquid investments which might be quickly converted into cash. This is particularly the case with the National Company of Damascus and Al-Shahba of Aleppo. The National Company of Damascus was able to increase its capitalization from 6 million Syrian pounds to 11,520,000 Syrian pounds at the end of 1963 out of accumulated reserves. Likewise, Al-Shahba Company of Aleppo was also able to increase its capitalization from 8 million Syrian pounds to 10,800,000 Syrian pounds at the end of 1963 out of accumulated reserves.

### 3. The Sugar Industry

In terms of capital investment the sugar industry stands out as one of the very important of the food processing industry. The capital investment is estimated at about 20 million Syrian pounds. The sugar industry comprises two large factories: one in Homs and the other in Damascus (See Table IX). They produce

TABLE IX

## THE SUGAR FACTORIES IN SYRIA

| <u>Name</u>   | <u>Date of Establishment</u> | <u>Location</u> | <u>Capital</u> |
|---|------------------------------|-----------------|----------------|
| The Sugar and Agricultural Products Company                 | 1946                         | Homs            | 12,000,000     |
| The Syrian Company for the Extraction and Refining of Sugar | 1957                         | Damascus        | 8,000,000      |

Source: Personal interview.

together about 83,000 tons per year.<sup>1</sup> The two factories are engaged in the refining of raw sugar and in the extraction of sugar from sugar beet. The extractive season usually lasts between two and three months. Three-fourth of their total production consist of refining imported raw sugar, and one-fourth is derived from the extraction of sugar beet. The two factories engage together about 1,300 labourers during the refining season and about 2,100 during the extraction season.<sup>2</sup>

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<sup>1</sup> At the end of 1963, total production of sugar amounted to 83,234 tons, of which, the Sugar and Agricultural Products Company of Homs produced 50,203 tons; and the Syrian Company for the Extraction and Refining of Sugar of Damascus produced 33,031 tons. See Syrian Republic, Statistical Abstract, op. cit., p. 247.

<sup>2</sup> Information secured from Mr. Mohamed Ajjan, Manager of the Sugar and Agricultural Products Company, Homs; and from Mr. Assad Bakri, Director of the Syrian Company for the Extraction and Refining of Sugar, Damascus.

The two factories expressed need for production credit for the import of raw sugar from the West Indies and South America. Such credit was available from commercial banks in the form of establishing a letter of credit in favour of the foreign supplier.

Other operating expenses are usually paid from the proceeds of the cash sales of sugar and from the proceeds of advances on current account extended by commercial banks. The rates of interest charged on advances on current account was said to be around 7 per cent per annum.

The two sugar factories provide the sugar-beet grower with advances, which are interest free, to enable them to finance the planting of sugar-beet. The factories usually guarantee to buy all the produce at prices fixed in advance. They said to depend in their turn on commercial banks' credit in the form of advances on current account, and on seasonal industrial credit accorded to them by the Industrial Bank to finance this process.

As regard investment credit, the Sugar and Agricultural Products Company of Homs said to have purchased its machinery and equipment from its own capital funds. Renewal of machinery and equipment was said to be financed mainly from plowed back earnings. The Syrian Company for the Extraction and Refining

of Sugar of Damascus said to have purchased its machinery and equipment from a mill in Czechoslovakia (Techno Export) on credit for periods running up to seven years. The method of financing was said to be conducted on the basis of a contract fixing the payment schedule. Other investment requirements are usually financed from plowed back earnings.

#### 4. The Canning Industry

The canning industry is one of the important of the foodstuff industry in Syria. The principle center of this industry is Damascus, which is located near an important fruit and vegetable growing area, namely, the Ghouta. This industry comprises two large factories and a smaller one (See Table IX), employing together about 1,500 workers during the canning season. Total production is estimated between 3,000 - 3,500 tons a year.<sup>1</sup> The three factories are equipped with modern machinery, and produce their own cans from imported tin plates.

Owing to the seasonality of its raw material supply and to the increasing demand for laborers during the canning season, the canning factories generally seek short-term production

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<sup>1</sup>At the end of 1962 total production of the canning industry amounted to 3,308 tons. See Syria Arab Republic, Ministry of Planning, Directorate of Statistics, Statistical Abstract, op. cit., p. 333.

TABLE X

## THE CANNING AND PRESERVING FACTORIES IN SYRIA

| <u>Name</u>   | <u>Date of Establishment</u> | <u>Location</u> | <u>Capital</u> |
|---|------------------------------|-----------------|----------------|
| The Canning and Agricultural Products Manufacturing Company | 1931                         | Damascus        | 975,000        |
| Shallah Canning Company                                     | 1933                         | Damascus        | 600,000        |
| The Modern Canning Company                                  | 1952                         | Damascus        | 2,300,000      |

Source: Personal interview.

credit to finance their large inventory and payrolls. Seasonal industrial credit is accorded by the Industrial Bank for a maximum duration of 300 days at rates of interest ranging from  $6\frac{1}{2}$  to 7 per cent per annum.

Apart from their seasonal need for funds, these factories seek short-term loans from commercial banks operating in the country to finance their purchases of tin plates. For other operating expenses the three factories arrange for lines of credit with commercial banks or the Industrial Bank to discount the bills generated by the sales of their products. The discount rate charged was said to be around  $7\frac{1}{2}$  per cent per annum.

A further need for short-term credit, as has been asserted

by the Canning and Agricultural Products Manufacturing Company, arises in certain cases when this factory advances funds on seasonal basis to vegetable growers before they start planting, and guarantees to buy their produce at prices fixed in advance. This factory depends in its turn on commercial bank credit in the form of loans on current account to finance this process.

As regard their investment requirements, the Canning and Agricultural Products Manufacturing Company said that investment credit was sought mainly for the purpose of expanding the productive capacity, and for renewing machinery and equipment. A new factory was said to be under construction in the Ghouta area to replace the old one. This factory was able to secure investment credit from the Industrial Bank for periods running up to four years at interest rates around 7 per cent per annum. Investment credit from the Industrial Bank was said to be secured by a mortgage on real estate property. Of the remaining two factories, one said to have been accorded investment credit by the Industrial Bank for periods of three years at interest rates around 7 per cent per annum for renewing some machinery. This credit was said to be secured by a mortgage. The third factory, which is a small one, said to depend wholly on its plowed back earnings for renewing machinery and equipment.

## CHAPTER III

## AVAILABILITY OF INDUSTRIAL CREDIT

A. Sources of Production Credit

The main sources of supply of production credit in Syria are: commercial banks, the Industrial Bank of Syria, foreign producers of, and local traders in, raw materials, and money-lenders.

1. Commercial Banks

Syria has experienced since the end of World War II a rapid expansion in the number and activity of commercial banking institutions. Before the War, commercial banks consisted of a few branches of foreign banks the operations of which were directed largely to finance foreign trade and, to a lesser extent, to advance short-term credit to stronger merchants and landowners. Following the War, an expansion in the commercial banking business occurred in Syria. The planting and harvesting of the cotton crop as well as its export, on the one hand, and the construction boom and expansion

in industrial production, on the other hand, were important stimuli for the growth in commercial banking business.<sup>1</sup> Foreign banks established branches in the major trading centers of Syria. Local banks organized by Syrians or by nationals of neighboring Arab countries were also established, especially after 1950. The Banque de Syrie et du Liban, a French commercial bank, which was until August 1956<sup>2</sup> performing some of the functions of a Central Bank, handled a great part of the banking business.<sup>3</sup> The other banks were at the end of 1955 twenty in number, of which, five were Syrian, four were French, one British, one Italian, four Lebanese, two Jordanian, one Egyptian, one Iraqi and one Saudi Arabian.<sup>4</sup>

Since 1955, no significant increase in the number of commercial banking institutions took place in Syria. On the 20th of July, 1961, Decree No. 117, was promulgated nationalizing all commercial banks operating in the country. Few months later, another coup d'Etat took place in Syria and the Union

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<sup>1</sup>Edmund Y. Asfour, Syria: Development and Monetary Policy (Cambridge: Harvard University Press, 1959), p. 62.

<sup>2</sup>On the first of August, 1956, the Central Bank of Syria started its operations.

<sup>3</sup>Asfour, op. cit., p. 62.

<sup>4</sup>Ibid., p. 62.

between Syria and Egypt was dissolved. The Government of the new regime promulgated Legislative Decree No. 12, dated the 2nd of May, 1962, which reinstated to the banks their former status, except the foreign banks which remained nationalized.

Shortly, however, and after the last Coup d'Etat of 8th of March, 1963, the Government renationalized all commercial banks by virtue of Legislative Decree No. 37, dated the 2nd of May, 1963. Furthermore, the Government merged every three or four banks together which ended up with only five large banks to handle all the commercial banking business in the country. These banks are: (1) the Arab Unity Bank; (2) the Arab World Bank; (3) the Arab Orient Bank; (4) the Omayad Bank; and (5) Bank of Syria and the Overseas (Banque de Syrie et d'Outre-Mer).

The operations of commercial banks in Syria have always concentrated on financing foreign and domestic trade and, to a lesser extent, on providing short-term credit to the industrial and agricultural sectors. The proportion of credit granted to industry has, however, been on the increase. Table XI shows the distribution of the commercial banks' credit granted to the different economic sectors throughout the years 1956 to 1963.

TABLE XI

DISTRIBUTION OF THE COMMERCIAL BANK'S CREDIT GRANTED TO THE  
DIFFERENT ECONOMIC SECTORS FROM 1956 TO 1963  
(Million of Syrian Pounds)

| Year | Trade  | Agriculture | Industry            | Service | Financial Institutions | Miscellaneous | Total  |
|------|--------|-------------|---------------------|---------|------------------------|---------------|--------|
|      | Amount | Amount      | Percentage of Total | Amount  | Amount                 | Amount        | Amount |
| 1956 | 296,8  | 38,1        | 55,8                | 10,2    | 13,3                   | 30,8          | 445,0  |
| 1957 | 310,8  | 58,9        | 64,8                | 9,8     | 7,0                    | 13,1          | 464,4  |
| 1958 | 270,3  | 60,8        | 71,8                | 10,1    | 6,9                    | 11,4          | 431,3  |
| 1959 | 352,7  | 54,7        | 85,1                | 16,6    | 6,5                    | 6,3           | 521,9  |
| 1960 | 434,4  | 62,5        | 126,1               | 19,3    | 7,7                    | 18,0          | 668,0  |
| 1961 | 380,2  | 52,0        | 141,0               | 12,8    | 4,6                    | 27,0          | 617,6  |
| 1962 | 490,5  | 59,7        | 144,5               | 12,2    | 3,8                    | 21,8          | 732,5  |
| 1963 | 539,6  | 66,1        | 168,9               | 8,8     | 2,3                    | 31,9          | 817,6  |

Source: Banque Centrale de Syrie, Bulletin Periodique, Vol. 2, No. 5  
(Damascus: 1964), p. 63.

The Table reveals a gradual increase in the amounts of credit granted by all the commercial banks in Syria to the industrial sector over the years 1956 to 1963. Out of the total credit granted, 12.5 per cent were granted to industry in 1956, 13.9 per cent in 1957, 16.6 per cent in 1958, 16.3 per cent in 1959, 18.8 per cent in 1960, 22.8 per cent in 1961, 19.7 per cent in 1962 and 20.6 per cent in 1963. The amounts granted to industry included investment credit as well as production credit. The proportion of production credit, however, varied between 70 and 80 per cent of the total amounts granted to industry.<sup>1</sup>

Production credit is granted by commercial banks to Syrian industrialists to finance the seasonal purchases of raw materials and to meet other operating changes. Production credit is usually available to all Syrian industrialists of high credit standing. The usual forms of production credit are: loans, discounts, advances on current accounts, advances on securities, and documentary credit.

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<sup>1</sup>Information secured from Mr. Pierre Cachecho, Director at the Arab Orient Bank; from Mr. Jean Turk, Vice General Manager of the Arab World Bank; from Dr. Chafic Akhras, General Manager of the Omayad Bank; and from Mr. Fouad Bassit, Administrative Assistant and General Secretary of the Board of Directors of the Arab Unity Bank.

Loans are granted mainly to finance the seasonal purchases of raw materials. Unsecured loans are granted to firms of good credit standing.

Discounts consist of discounts of promissory notes and trade bills. These are generally of liquid nature arising from the sales of industrial products and running for periods of no more than three months. Banks generally grant definite lines of credit to Syrian industrialists to discount notes and bills in their possession. The size of the line depends upon the credit standing of the industrialist. The discount rates are normally between 7 and  $7\frac{1}{2}$  per cent per annum.<sup>1</sup> Banks generally rediscount trade bills and promissory notes at the Central Bank of Syria at a rate of  $5\frac{1}{4}$  per cent per annum.<sup>2</sup>

Advances on current account are granted to well established firms on the basis of a line of credit. The size of the line varies from one industrialist to another depending on his credit worthiness. The line of credit is given for a period of one year and may be renewed if the financial conditions of the industrialist continue to be in good standing. Advances on current account are granted at rates of interest varying from

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<sup>1</sup>Information secured from Dr. Chafic Akhras, General Manager of the Omayad Bank; from Mr. Jean Turk, Vice General Manager of the Arab World Bank; from Mr. Zuhair Darwaza, Vice General Manager of the Arab Orient Bank; and from Mr. Fouad Bassit, Administrative Assistant and General Secretary of the Board of Directors of the Arab Unity Bank.

<sup>2</sup>Ibid.

6½ to 8 per cent per annum, depending on the credit standing of the industrialist. In the peak season of sales, the industrialist is supposed to clear up his indebtedness and build up a credit balance in his account on which he is allowed an interest rate, ranging from 3 to 3½ per cent per annum.<sup>1</sup>

Secured loans are made mainly on the basis of the collateral of stocks and bonds. Advances against the collateral of stocks and bonds have declined in importance since the nationalization of the major joint-stock industrial companies. Commercial banks have since then refrained from accepting stocks of industrial national companies as security owing to the difficulty of assessing their present and future values.<sup>2</sup>

Commercial banks operating in Syria provide short-term credit to finance the import of raw materials. This type of financing is conducted mainly on the basis of establishing a letter of credit in favour of the foreign supplier.

On establishing a letter of credit for a customer, banks in Syria usually require the customer to pay a part of the value of the order (deposit margin). Before their nationalization, the size of the deposit margin required by banks on establishing a

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<sup>1</sup>Ibid.

<sup>2</sup>Ibid.

letter of credit used to be affected mainly by the credit evaluation of the importer, by the general economic and political situation, by the state of competition among banks, and by the nature of raw materials imported. The size of the margin varied between 15 and 50 per cent of the value of the order.<sup>1</sup>

Since early 1964, the Minister of Economy in Syria issued a Law<sup>2</sup> fixing the minimum deposit margin for the import of raw materials at 15 per cent of the value of the shipment. The Law, however, left the door open for banks to increase the margin over and above the minimum required by law depending on the personal judgement of the bank's management.

Our investigation has revealed that banks are rarely satisfied with the 15 per cent margin on establishing a letter of credit for the import of raw materials. They usually demand a higher margin, ranging between 25 and 50 per cent of the value of the shipment. The margin may rise even to 60 per

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<sup>1</sup>Information secured from Mr. Jean Turk, Vice General Manager of the Arab World Bank; from Mr. Joseph Batareik, ex-Manager of the Compagnie Algerienne de Credit et de Bank; and from Mr. Pierre Cachecho, ex-Administrative and Financial Manager of the Crédit Foncier d'Algerie et de Tunisie.

<sup>2</sup>Law No. 5, issued by the Minister of Economy on January 6th, 1964. See Al-Ba'ath (January 7, 1964), p. 1.

cent, especially in the case of perishable raw materials.<sup>1</sup>

The minimum commissions charged by banks on establishing a letter of credit for the import of raw materials amount to  $1\frac{1}{2}$  per thousand of the value of the shipment for the first three months of the credit period. An additional  $\frac{1}{2}$  per thousand is added for every subsequent month or part thereof.<sup>2</sup> To these, banks usually add the commissions of the correspondent banks and interest on the balance from the time payment is made by the correspondent bank to the supplier until the importer settles his account. The interest rates charged is around 7 per cent per annum.<sup>3</sup>

## 2. The Industrial Bank of Syria

The Industrial Bank of Syria is discussed separately in Chapter IV.

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<sup>1</sup>Information secured from Mr. Jean Turk, Vice General Manager of the Arab World Bank; from Mr. Hashim Wafai, Branch Manager of the Arab Orient Bank; and from Mr. Fouad Bassit, Administrative Assistant and General Secretary of the Board of Directors of the Arab Unity Bank.

<sup>2</sup>According to the Agreement which was concluded on the 31st of October, 1960, among all commercial banks operating in Syria.

<sup>3</sup>Information secured from Mr. Zuhair Darwaza, Vice General Manager of the Arab Orient Bank; and from Mr. Fouad Bassit, Administrative Assistant and General Secretary of the Board of Directors of the Arab Unity Bank.

### 3. Foreign Producers of, and Local Traders in, Raw Materials

Production credit may be extended in the form of trade credit by foreign producers of raw materials against the acceptance by the industrialist of a three to nine months draft in which the industrialist promises to make payment. Credit of this type has been available in Syria to the large industrial concerns of well-known standing in the woollen and silk textile industry.<sup>1</sup>

Local traders in imported raw materials also extend credit facilities to Syrian industrialists in the form of promissory notes and trade bills. These are usually discounted at the commercial banks operating in the country. Local traders usually pass on the credit accommodations which they obtain from their foreign suppliers to the local industrialists. This has been the case with many importers of raw materials in the food processing, chemical and textile industries. The majority of Syrian industrialists who depend on raw materials imported by local traders have access to this type of financing.<sup>2</sup>

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<sup>1</sup>Information secured from Mr. Farouk Hamaoui, Chairman of the Board of Directors of the nationalized woollen textile factories in Syria; and from Mr. Adnan Jabi, Director of the Cotton Textiles Industries Promotion Fund, Damascus.

<sup>2</sup>Information secured from Mr. Hicham Jaffan, local importer of raw materials for candy and chocolate; from Mr. Emile Chaoui, local importer of woollen and silk threads and dyes; and from Mr. Abdul-Majid Murad, local importer of nylon fibers.

#### 4. Money-Lenders

Money-lenders have been an important source of production credit to industry in Syria. Small industrialists including artisans generally seek short-term credit from local money-lenders because their credit worthiness is unknown to banks. The term of credit may run up to one year. The industrialist signs a promissory note for the amount of the loan plus the interest.<sup>1</sup> In case when the credit standing of the borrower is not known to the money-lenders, or when the amount of the loan is large, the industrialist is usually required to give a real estate mortgage.<sup>2</sup>

#### B. Sources of Investment Credit

The sources of supply of investment credit to industry are: the Industrial Bank of Syria, commercial banks and foreign producers of, and local traders in, industrial machinery and equipment.

##### 1. The Industrial Bank of Syria

Although one of the primary functions of the Industrial

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<sup>1</sup>The rate of interest charged by money-lenders is always above the legal rate, which is 9 per cent per annum. The amount of interest is added to the principal and a promissory note is drawn up and signed for the whole amount, in order to escape the penalty of the law.

<sup>2</sup>Information secured from Mr. Adel Tasbahji, a local money-lender in Damascus.

Bank was to promote, or help in the promotion of, new industrial ventures, and to help existing enterprises to expand their operations, yet, the Bank did not undertake to an appreciable extent the provision of investment credit to industry. Investment operations of the Bank is discussed in Chapter IV.

## 2. Commercial Banks

As was said at the beginning of this Chapter, the proportion of investment credit granted by commercial banks to Syrian industrialists was estimated to be between 20 and 30 per cent of the total amounts granted to industry.

Despite the growth in local deposits, commercial banks operating in Syria continue to have the bulk of their deposits on demand basis (See Table XII) which limits their capacity to extend investment credit to industry. Only Syrian industrialists of high credit worthiness have been able to get investment credit from commercial banks. Such credit is contracted on a yearly renewable basis.<sup>1</sup> Several industrial establishments, especially the cotton textile mills, made use of this type of renewable credit

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<sup>1</sup>Information secured from Mr. Pierre Cachecho, Director at the Arab Orient Bank and ex-Manager of the administrative and Financial Affairs of the Crédit Foncier d'Algérie et de Tunisie; from Mr. Joseph Batareik, ex-Manager of compagnie Algérienne; and from Mr. Jean Turk, Vice General Manager of the Arab Orient Bank.

TABLE XII

GROWTH OF TIME, SAVING AND DEMAND DEPOSITS OF THE  
 COMMERCIAL BANKS IN SYRIA  
 FROM 1952 TO 1963  
 (Million of Syrian Pounds)

| <u>End of Period</u> | <u>Demand Deposit</u> | <u>Time and Saving<br/>Deposits</u> |
|----------------------|-----------------------|-------------------------------------|
| 1952                 | 65,5                  | 6,9                                 |
| 1953                 | 80,8                  | 10,9                                |
| 1954                 | 104,5                 | 16,2                                |
| 1955                 | 108,2                 | 21,0                                |
| 1956                 | 112,5                 | 24,7                                |
| 1957                 | 135,1                 | 26,6                                |
| 1958                 | 143,7                 | 29,3                                |
| 1959                 | 188,7                 | 40,0                                |
| 1960                 | 246,8                 | 62,5                                |
| 1961                 | 217,0                 | 51,2                                |
| 1962                 | 256,7                 | 59,8                                |
| 1963                 | 195,8                 | 51,3                                |

Source: Banque Centrale de Syrie, Bulletin Periodique,  
op. cit., pp. 52-53.

to finance their expansion and renovation projects.<sup>1</sup> One local bank used to grant (when it was privately owned and managed), to a very limited extent, investment credit for periods of two years, on the understanding that the credit line would be renewed at maturity for a similar period. This type of credit was always secured by a mortgage on real estate property. The amount of credit advanced against such mortgage varied between 40 and 65 per cent of their market value. The interest rates charged was said to be around 9 per cent per annum.

The Banque de Syrie et du Liban provided a significant volume of investment credit to industry. By virtue of Legislative Decree No. 139, dated June 18th, 1949, the Banque was to provide Syrian industrial corporations with investment credit guaranteed by the State. The amount of investment loans to a corporation was limited to half its paid-up capital, and the period of repayment was not to exceed three years. Shortly, and by virtue of Legislative Decree No. 89, dated January 26th, 1952, the period of repayment was extended for five additional years.<sup>2</sup> Eligibility of applicants and their

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<sup>1</sup>Ibid.

<sup>2</sup>Issam Ashour, op. cit., pp. 107 - 108.

needs were to be determined by a special committee appointed by the Minister of National Economy. The rate of interest charged on all these loans was lower than those prevailing in the market, being only at 3 per cent per annum.<sup>1</sup>

By January 1952, 18 loans were granted to Syrian industrial corporations amounting to 23,627,000 Syrian pounds. The great majority of these loans were granted during the period 1949 - 1950.<sup>2</sup> The sectors of industry to which loans were made were, in order of magnitude, textiles, sugar refining, canning and glass.

In 1954, the scheme was revived and even extended to include loans for the financing of big hotels, provided that the total amount of the loans outstanding to industry and hotels should not exceed 15 million Syrian pounds.<sup>3</sup>

In early 1955, however, the scheme was suspended with the aim of establishing an industrial bank in Syria.

### 3. Foreign Producers of, and Local Traders in, Industrial Machinery and Equipment

One of the main sources of investment credit has been the

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<sup>1</sup>International Bank for Reconstruction and Development, op. cit., p. 382.

<sup>2</sup>Issam Ashour, op. cit., p. 108.

<sup>3</sup>International Bank for Reconstruction and Development, op. cit., p. 382.

purchase on credit accorded to some Syrian industrialists by foreign producers of, and local traders in, industrial machinery and equipment. Strong industrial firms in Syria have been able to purchase industrial machinery and equipment from foreign suppliers on credit for periods running up to five years.<sup>1</sup> The method of financing is conducted mainly on the basis of a contract fixing the payment schedule. This has been the case with many large industrial concerns in the textile, cement, and food processing industries.<sup>2</sup> The greatest difficulty that faces industrialists is one of providing a bank guarantee, since the guarantee has to be for a period equivalent to that for which the credit is extended, and commercial banks in Syria hesitate to grant guarantees for a period exceeding one year.<sup>3</sup>

Local importers of industrial machinery and equipment have also been a source of investment credit to Syrian industrialists. Local importers usually pass on the credit accommodations which they obtain from their foreign suppliers to the

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<sup>1</sup>Information secured from Mr. Abdul-Kader Shabareik, Chairman of the Board of Directors of al-Shahba Company for the Manufacture of Cement and Building Materials; from Dr. Abdul-Ghani Hamour, Vice Chairman of the Board of Directors of the National Company for the Manufacture of Cement and Building Materials; from Mr. Adnan Jabi, Director of the Cotton textiles Industries Promotion Fund; and from Mr. Farouk Hamaoui, Chairman of the Board of Directors of the nationalized woolen factories in Syria.

<sup>2</sup>Ibid.

<sup>3</sup>Information secured from all the bankers interviewed and from several Syrian industrialists.

local industrialists. These importers usually require the industrialists to pay a down payment ranging from 25 to 40 per cent of the value of the capital goods purchased. The balance is usually settled within periods ranging from 12 to 36 months.<sup>1</sup> This has been the case with many concerns in the food processing industry. Local importers ordinarily charge the industrialist a higher interest rate than that which they pay to their foreign suppliers to cover the interest they pay plus a certain margin for risk.<sup>2</sup>

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<sup>1</sup>Information secured from Mr. Hicham Jaffan, local importer of machinery and equipment for candy and chocolate; and from Mr. George Zakar, local importer of machinery and equipment for vegetable and olive oil.

<sup>2</sup>Ibid.

## CHAPTER IV

## THE INDUSTRIAL BANK OF SYRIA

The First attempt for the establishment of an industrial bank in Syria was made in 1929, when the Prime Minister of the State of Syria issued a decree on June 7, 1929, authorizing the Minister of Agriculture and Commerce to form an industrial bank with a capital of 500,000 Syrian pounds, in which the Government was to participate.<sup>1</sup> A committee was appointed to study the feasibility of establishing this bank. The report of the committee was in favor of establishing the bank. The Minister of Agriculture and Commerce referred the report as well as the plan of organization to the Delegate of the High Commissioner in Damascus for approval. This bank, however, did not materialize.<sup>2</sup>

In February 1954, a mission was organized by the International Bank for Reconstruction and Development at the

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<sup>1</sup>Sa'id B. Himadeh, Monetary And Banking System of Syria (Beirut: The American Press, 1935), p. 130.

<sup>2</sup>Ibid., p. 130.

request of the Syrian Government to undertake a general review of Syria's economic potentialities and to submit recommendations. In its report, submitted in March 1955, the mission attached great importance to the establishment of an institution capable of furnishing both technical and financial assistance to industry.<sup>1</sup> This institution, it was suggested, was to be capitalized at 15 million Syrian pounds, of which 10 million might, if necessary, be paid up in installments within a few years.<sup>2</sup> This capital was to be subscribed for by private individuals and institutions and was to be matched by contribution from the Government in the form of a long-term advances.<sup>3</sup> The report, however, stressed on the fact that this institution should be privately owned and managed in order to inspire confidence in the business community.

The bank, was to provide technical help in the form of advising existing factories on improving their methods of operation and of appraising the soundness of new industrial ventures. For this purpose, a certain number of technical staff were recommended, including a cost accountant, an economist and a

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<sup>1</sup>International Bank for Reconstruction and Development, op. cit., p. 111.

<sup>2</sup>Ibid., p. 113.

<sup>3</sup>Ibid., p. 113.

few engineers who could advise on plant layout, work flow, requirements for new machinery and equipment, and the like.<sup>1</sup>

The bank was to help existing enterprises to secure long-term credit to purchase new machinery and equipment where this is necessary to improve efficiency and reduce cost. The bank was also to help in the promotion of new industrial ventures judged by its expert staff to be economically and technically feasible.

This proposed bank, it was believed, could play an important role in the economic development of the country, not only by stimulating and directing private investment but also by attracting foreign capital into Syria.

This was the project of establishing an industrial bank as proposed by the mission of the I.B.R.D. The Syrian Government wanted also to benefit from the experience of the Industrial Bank of Egypt before establishing this bank in order to avoid any possible failure. Therefore, a conference took place in Cairo on the 2nd of September, 1956, between the Syrian and Egyptian representatives to study the possibility of co-operation between the two countries in industrial matters and particularly, in the creation of a Syrian industrial bank with the participation of Egyptian capital. In October 1956, and after a long meeting of the representatives of the two countries,

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<sup>1</sup>Ibid., p. 112.

it was decided to establish the Syrian Industrial Bank, whereby the Syrian Government would participate for at least 51 per cent and the Industrial Bank of Egypt for 10 per cent of the capital of the bank. The balance was to be obtained from private individuals and business concerns.<sup>1</sup>

It was not until late 1958, and after the Union between Syria and Egypt, when Decree No. 177, dated October 8th, 1958, was promulgated authorizing the establishment of an industrial bank in the Syrian Region of the United Arab Republic. The Bank was to be named "The Industrial Bank in the Syrian Region - A Joint Stock Company". In our discussion it is referred to as the Industrial Bank.

#### A. Objectives Of The Bank

The statutes of the Industrial Bank set forth its purposes in the following terms: "the main purpose of the Bank is to enhance industry in Syria within the framework of the State's economic and industrial policy, as well as to engage in the banking business for that purpose. This was to be achieved through:

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<sup>1</sup>Négib Haddad, "Analyse du Projet de Creation de la Banque Industrielle dans la Province Syrienne," Etude Mensuelle sur l'Economie et les Finances de la Syrie et des Pays Arabes, No. 9 (Damascus: October 1959), pp. 24-25.

1. Granting medium-term loans for periods not exceeding five years, and long-term loans for periods not exceeding ten years, for the purpose of expanding already existing industrial enterprises, and helping in the promotion of new ones. Such loans were to be secured by mortgages, or by any other acceptable collateral.

2. Granting short-term loans for working capital purposes.

3. Participating in the promotion of domestic industrial corporations and investing in stocks and bonds of national industrial companies which the State wished to encourage, provided that the total participation did not exceed half the Bank's capital and reserves. The Bank was given the right to keep these shares and bonds or sell them in the free market.

4. Providing technical advice to the different industrial firms after conducting the necessary research."<sup>1</sup>

#### B. Financial Resources

The Bank's financial resources were to consist particularly of the following:

1. "The Bank's capital
2. The Bank's reserves.

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<sup>1</sup>Article 4 of Decree No. 177, dated October 8th, 1958. See The Statutes of the Industrial Bank in the Syrian Region (in Arabic), (Damascus: Al-Hashimia Press, 1959), pp. 4 - 5.

3. Proceeds of sale of bonds.
4. Loans and advances extended from the Central Bank of Syria.
5. Deposit which the Bank receives in accordance with its rules and regulations."<sup>1</sup>

#### 1. The Bank's Capital

The capital of the Industrial Bank was limited to 12,5 million Syrian pounds<sup>2</sup> divided into 500,000 nominal shares, with a par value of 25 Syrian pounds per share. The State, represented by the Public Debt Fund, was to subscribe obligatorily for 25 per cent of the Bank's capital; the Central Bank of Syria was also to subscribe for not less than 8 per cent of the Bank's capital; the remaining shares were to be offered for general subscription by the public.<sup>3</sup> The State was to subscribe also for all the shares that remain unsubscribed for by the public. The State was given the right to choose between retaining the

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<sup>1</sup>Article 6 of Decree No. 177, dated October 8th, 1958. See Ibid., pp. 5 - 6.

<sup>2</sup>Article 2 of Decree No. 177, dated October 8th, 1958. See Ibid., p. 4.

<sup>3</sup>Article 3 of Decree No. 177, dated October 8th, 1958. See Ibid., p. 4.

shares it subscribed for or selling them in the free market.

In order to ensure private subscriptions, it was necessary to enact a special law under which the Ministry of Finance guaranteed a minimum annual dividend of 5 per cent per annum. This guaranteed annual dividend, however, was not to apply to the shares of the Public Debt Fund and the Central Bank. In addition, the Government and the Central Bank had to bring pressure on commercial banks and private individuals to subscribe to the bulk of the shares. The initial subscribers, besides the Government and the Central Bank, were 12 commercial banks, which subscribed for 10.07 per cent; 10 industrial firms, which subscribed for 6.05 per cent; and many private individuals, who subscribed for 30.38 per cent of the Bank's capital.<sup>1</sup>

## 2. Loans and Advances Extended from the Central Bank

Loans and advances extended from the Central Bank of Syria to the Industrial Bank constitute the major source of funds to the Bank. These amounted at the end of 1963 to 15,196,000 Syrian pounds.<sup>2</sup> Out of this total, 9,356,000 Syrian pounds were for short-term not exceeding 300 days, and

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<sup>1</sup>Information secured from the management of the Industrial Bank of Syria.

<sup>2</sup>The Industrial Bank of Syria, Fifth Annual Report (Damascus: 1963), p. 3.

5,840,000 Syrian pounds were for medium-term not exceeding 5 years.

### 3. Other Financial Resources

Next in the order of importance among the Industrial Bank resources are deposits and accumulated reserves. These amounted at the end of 1963 to 3,706,757 and 823,186 Syrian pounds respectively. Table XIII shows the growth of the Bank's deposits and accumulated reserves over the years 1959 - 1963.

TABLE XIII

GROWTH OF THE BANK'S DEPOSITS AND ACCUMULATED RESERVES  
FROM 1959 TO 1963  
(In Syrian Pounds)

| <u>End Of Year</u> | <u>Deposits</u> | <u>Accumulated Reserves</u> |
|--------------------|-----------------|-----------------------------|
| 1959               | 1,067,660       | 0,054,000                   |
| 1960               | 338,323         | 0,120,837                   |
| 1961               | 722,066         | 0,339,887                   |
| 1962               | 2,983,433       | 0,626,122                   |
| 1963               | 3,706,757       | 0,823,186                   |

Source: Annual Reports of the Industrial Bank of Syria.

It is to be noted that until now the Bank has not resorted to issue of bonds.

On the 15th of August, 1960, an agreement was concluded between the Development Loan Fund (DLF) - the name of which has since been changed to Agency of International Development (AID) -, and the Industrial Bank of Syria, by which the former agreed to grant loans up to \$ 5 million to private industrial establishments in Syria through the Industrial Bank. (DLF) loans were to be granted under the following conditions:

1. Loans were to be granted only to private industrial establishments in Syria in the form of medium- and long-term loans.

2. Proceeds of the loans were to be used to buy industrial machinery and equipment from the United States, as well as the necessary technical services for their installation.

3. Repayment were to be made in Syrian currency at the highest rate of exchange of the U.S. \$ prevailing on the day of settlement.

4. The interest was to be at the rate of 7 per cent per annum payable semi-annually.

5. The total loans made to a single person or to a single industry were not to exceed \$ 500,000.

6. The borrower had to provide maintenance for the machinery and equipment acquired by use of the proceeds of the

loan, had to use an adequate accounting system, and had to submit financial statements periodically.

#### D. Internal Organization

At present the Bank is divided into six departments.<sup>1</sup>

1. The Credit Department. The main function of this department is to receive loan applications, to verify data and information submitted by prospective borrowers, and to grant the loan after the approval of the General Manager and the Board of Directors.

2. The Accounting Department. The function of this department is to keep accounting records of all transactions, to calculate the interest, and to prepare the balance sheet and the income statement.

3. The Research and Appraisal Department. This department studies the economic and technical aspects of the projects submitted by the prospective borrowers. The Bank hopes that in the near future this department will be in a position to offer technical, financial and economic advice to the existing industrial enterprises upon request.

The above mentioned departments are supervised by a manager.

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<sup>1</sup>Information secured from Mr. R. Kallas, Chief Accountant of the Industrial Bank of Syria.

4. The Administrative Department. This department handles personnel matters and makes the necessary supervision to see whether daily transactions are in order or not.

5. The Treasury Department. This department handles the cash money and keeps the ledgers of the deposit accounts.

6. The Inspection Department. This department inspects whether or not the granted loan is being utilized in accordance with the previously declared object.

These three departments are also supervised by another manager. Both managers report directly to the General Manager who is also the Chairman of the Board of Directors.

The Bank has thirty-two employees, fifteen of whom are staff members including the General Manager. The remaining seventeen employees are mostly clerks, stenographers or assistants to key personnel.

#### E. Operations of the Bank

The Bank started its operations on the 9th of February, 1959, depending on the assistance of the Central Bank of Syria which provided the Bank with the necessary facilities and the required professional personnel.

The Bank grants short-term loans for working capital purposes for a term not exceeding one year. Such loans are

to be backed by a personal guarantee from a person of high credit standing, by the collateral of movable assets such as goods and the like, or by a mortgage on immovable property. The general rule applied in short-term lending is that the maximum amount granted to any one customer should not exceed either 60 per cent of the customer's networth, or 10 per cent of the Bank's aggregate financial resources, whichever is smaller. Short-term loans are charged interest rate at  $6\frac{1}{2}$  per cent per annum.<sup>1</sup>

The Bank grants also medium-term loans for periods running up to five years and long-term loans for periods running up to ten years for the acquisition of machinery and equipment, for the construction of buildings and for the purchase of land. All medium and long-term loans must be fully secured by a mortgage on the physical assets of the borrowing firm, the margin of risk being 40 to 65 per cent of the market value of the mortgaged property, depending upon the nature of the mortgage. The maximum amount granted to any one firm cannot exceed 25 per cent of the firm's paid-up capital. Medium-term loans are charged interest rates around 7 per cent, and long-term loans around 8 per cent per annum.<sup>2</sup>

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<sup>1</sup>Information secured from Mr. Nazir Abdin, Head of the Credit Department of the Industrial Bank of Syria.

<sup>2</sup>Ibid.

From the beginning of operation to the end of 1963, the Bank received 360 loan applications totalling 231 million Syrian pounds. A large proportion of these applications were rejected, generally because the applicants did not submit enough information, or their credit standing was not good, or the submitted projects were not feasible from the technical, economic and financial standpoints.

From the 360 loan applications, 190 loans were granted for a total of 120,796,000 Syrian pounds. Table XIII shows the total loans extended by the Industrial Bank throughout the years 1959 to 1963.

Table XIV reveals that almost 76 per cent out of the total loans granted (120,796,000 Syrian pounds) were for short-term not exceeding one year, to provide working capital mainly for seasonal financing; 20.7 per cent for medium-term ranging from one to five years; and only 3.3 per cent for long-term exceeding five years.

It is important to note here that although the primary function of the Bank was to grant investment credit to promote, or help in the promotion of, new industrial ventures, and to help already established enterprises to acquire more efficient machinery and equipment, yet, the Bank concentrated on granting short-term loans to provide working capital mainly for seasonal financing. Investment credit amounted to only 24 per cent of

TABLE XIV

TOTAL LOANS GRANTED BY THE INDUSTRIAL BANK  
FROM 1959 TO 1963  
(In Syrian Pounds)

|                   | 1959       | 1960       | 1961       | 1962       | 1963       |
|-------------------|------------|------------|------------|------------|------------|
| Long-term loans   | -          | -          | 3,926,000  | 0,120,000  | -          |
| Medium-term loans | 5,830,000  | 4,079,000  | 3,185,000  | 4,128,000  | 7,828,000  |
| Short-term loans  | 13,710,000 | 15,565,000 | 19,020,000 | 18,030,000 | 25,375,000 |
| Total             | 19,540,000 | 19,644,000 | 26,131,000 | 22,278,000 | 33,203,000 |

Source: Annual Reports of the Industrial Bank of Syria.

its total lending.

The largest volume of the Bank's loans went to the textile, food processing, chemical, building materials and metallic industries. Table XV shows the amounts that were granted by the Bank to the different industries in Syria throughout the years 1959 to 1963.

In general, the loans of the Bank were given primarily to well established industrial concerns of high credit standing and to those that could provide a mortgage security equal to two or three times the loan. As a matter of fact, many Syrian industrialists hesitate to give a mortgage on their property, fearing that such action would impair their credit standing vis-à-vis commercial banks.

Since 1960, the Bank started to widen its activities by encouraging Syrian industrialists to discount bills in their possession. The line of credit for discount varies from one industrialist to another depending on his credit worthiness. The maximum acceptable maturity for discount runs up to 300 days. In the majority of cases, however, industrial bills run for periods ranging from 90 to 180 days. The Bank charges discount rates around 7 per cent for bills with maturity that does not exceed 90 days, and around  $7\frac{1}{2}$  per cent for bills with maturity that does not exceed 180

TABLE XV

DISTRIBUTION OF THE BANK'S CREDIT GRANTED TO THE  
DIFFERENT INDUSTRIES FROM 1959 TO 1963  
(In Syrian Pounds)

| Industry                   | 1959       | 1960       | 1961       | 1962       | 1963       |
|----------------------------|------------|------------|------------|------------|------------|
| Spinning and weaving       | 8,595,000  | 8,685,000  | 14,985,000 | 11,170,000 | 16,893,000 |
| Foodstuff                  | 5,640,000  | 6,335,000  | 4,980,000  | 5,860,000  | 10,800,000 |
| Chemical                   | 3,635,000  | 3,850,000  | 3,941,000  | 0,938,000  | 2,013,000  |
| Wood and building material | 0,670,000  | 0,774,000  | 1,525,000  | 3,650,000  | 2,175,000  |
| Metallic                   | 1,000,000  | -          | 0,700,000  | 0,660,000  | 1,322,000  |
| Total                      | 19,540,000 | 19,644,000 | 26,131,000 | 22,278,000 | 33,203,000 |

Source: Annual Reports of the Industrial Bank of Syria.

days.<sup>1</sup> Table XVI shows the growth of the discount activities of the Bank throughout the years 1960 to 1963.

TABLE XVI

GROWTH OF THE DISCOUNT ACTIVITY OF THE  
BANK FROM 1960 TO 1963  
(In Syrian Pounds)

| <u>Year</u> | <u>Bills<br/>Discounted</u> | <u>Percentage<br/>Of Increase</u> |
|-------------|-----------------------------|-----------------------------------|
| 1960        | 6,594,000                   | -                                 |
| 1961        | 7,777,000                   | 18 %                              |
| 1962        | 10,373,000                  | 33 %                              |
| 1963        | 14,418,000                  | 39 %                              |

Source: Annual Reports of the Industrial Bank of Syria.

Table XVI reveals that the total value of the discounted bills amounted to 6,594,000 in 1960, 7,777,000 in 1961, 10,373,000 in 1962 and 14,418,000 Syrian pounds in 1963.

At the end of 1959, the Bank's participation in the equity of industrial enterprises amounted to 550,000 Syrian pounds. Thereafter, the Bank reduced this type of activity on the ground that such operations should wait until the Bank

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<sup>1</sup> Information secured from Mr. Nazir Abdin, Head of the Credit Department of the Industrial Bank of Syria.

had aquired some experience and had built up some reserves. Table XVII shows the Bank's participation in the equity of industrial firms in Syria over the years 1959 to 1963.

TABLE XVII

EQUITY PARTICIPATION OF THE BANK  
FROM 1959 TO 1963  
(In Syrian Pounds)

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 1959        | 0,550,000     |
| 1960        | 0,015,000     |
| 1961        | 0,028,000     |
| 1962        | 0,000,000     |
| 1963        | 0,025,000     |

Source: Annual Reports of the Industrial Bank of Syria.

The use of the (DLF) funds was severely limited. Only one loan for \$ 100,000 was granted in 1962; two loans for \$ 130,000 in 1963 and one loan for \$ 30,000 at the beginning of 1964. The total amount extended out of the \$ 5 million agreed upon was only \$ 260,000 which represents 5.2 per cent of the \$ 5 million line of credit. The reasons given for the

limited use of the (DLF) funds are:<sup>1</sup>

1. The higher cost of American machinery and equipment as compared with European counterparts.

2. The obligation to pay in Syrian currency the borrowed funds at the highest rate of exchange of the U.S. \$ prevailing on the day of settlement,<sup>2</sup> a condition which impedes the true assesement of the cost of imported machinery and equipment.

3. The Nationalization Laws affected severely the use of the fund since this fund was available only to private industrial enterprises and not to enterprises owned by the Government or enterprises which have Government participation in their capital. Furthermore, the demand for investment credit declined after the issuance of these Laws since industrialists have been afraid of further nationalization.

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<sup>1</sup>Information secured from Dr. Nasib Shouekani, General Manager and Chairman of the Board of Directors of the Industrial Bank of Syria.

<sup>2</sup>Whether the official rate or the rate of the free market, whichever is higher.

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