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Syria

Syria is not an important regional or offshore financial center, due primarily to its still underdeveloped private banking sector and the fact that the Syrian pound is not a fully convertible currency. Despite rapid growth in the banking sector since 2004, industry experts estimate that only eight percent of Syria's population of nearly 20 million people actually uses banking services. Consequently, some 70 percent of all business transactions are still conducted in cash. Additionally, there continue to be significant money laundering and terrorist financing vulnerabilities in Syria's financial and nonbank financial sectors that have not been addressed by legislation or other government action. Syria's black market moneychangers are not adequately regulated and the country's borders remain porous. Regional hawala networks are intertwined with smuggling and trade-based money laundering and raise significant concerns, including involvement in the financing of terrorism. The most significant indigenous money laundering threat involves Syria's political and business elite, whose corruption and extra-legal activities continue unabated. The U.S. Department of State has designated Syria as a State Sponsor of Terrorism.

The Syrian banking sector is dominated by the state-owned Commercial Bank of Syria (CBS), which holds approximately 75 percent of all deposits and controls most of the country's foreign currency reserves. With growing competition from private banks, CBS and the country's four other specialized public banks—the Agricultural Cooperative Bank, the Industrial Bank, the Real Estate Bank, and the People's Credit Bank—have begun offering a broader range of retail services to private customers. However, these state-owned banks still retain a monopoly on all government banking business, and account for some 80 percent of all bank branches nationwide.

In May 2004, the U.S. Department of the Treasury designated CBS, along with its subsidiary, the Syrian Lebanese Commercial Bank, as a financial institution of "primary money laundering concern," pursuant to Section 311 of The USA PATRIOT Act. This designation resulted from reports related to CBS's vulnerability to exploitation by criminal and/or terrorist enterprises, and has been used by terrorists or persons associated with terrorist organizations, as a conduit for the laundering of proceeds generated from the illicit sale of Iraqi oil. In April 2006, the U.S. Treasury promulgated

a final rule, based on the 2004 designation, prohibiting U.S. financial institutions from maintaining or opening correspondent accounts with CBS or its Syrian Lebanese Commercial Bank subsidiary. These prohibitions also apply to foreign intermediary banks that have correspondent relationships with U.S. financial institutions and with CBS or its subsidiary.

The Government of Syria (GOS) began taking steps to develop a limited private banking sector in April 2001, with Law No. 28, which legalized private banking, and Law No. 29, which established rules on bank secrecy. Under Law No. 28, subsidiary branches of private foreign banks are required to have 51 percent Syrian ownership to be licensed in Syria. Bank of Syria and Overseas, a subsidiary of Lebanon's BLOM Bank, was the first private bank to open in Syria in January 2004. There are seven private, traditional banks in Syria, including Bank of Syria and Overseas (BSOM), Banque BEMO Saudi Fransi (French), the International Bank for Trade and Finance, Bank Audi, the Arab Bank, Byblos Bank, and Syria Gulf Bank. Four more traditional, private banks—the Bank of Jordan, the Orient Bank, Fransa Bank and Qatar National Bank—have obtained the necessary licenses and are expected to begin operations in Syria in 2009. In May 2005 a new law was enacted to allow for the establishment of Islamic banking. Al-Sham Islamic Bank began operations in August 2007. Additionally, Syria International Islamic Bank (IIB) opened its doors in September 2008. Al-Baraka Islamic Bank was also officially licensed in 2007.

By mid-2008, the Syrian banking sector reported assets totaling \$34.3 billion and held deposits totaling \$19.9 billion. Syrian banks are playing an increasing role in providing the business sector with foreign currency to finance imports and as a source of credit for businesses and individuals. However, the sector's development is hampered by the continuing lack of human expertise in finance, insufficient automation and communication infrastructure, regulations that limit Syrian banks' ability to make money on their liquidity, and restrictions on foreign currency transactions.

There are eight free trade zones in Syria, which are serviced mostly by subsidiaries of Lebanese banks, including Bank du Liban et d'Autre Mer, Banque Europeenne Pour le Moyen-Orient Sal, Bank of Beirut and Arab Countries, Bank Societee Generale, Fransa Bank, Societee du Banques Arabes, and Basra International Bank. In December 2007, the Central Bank of Syria ordered that these banks either cease operations or begin operating as branches of domestic (Syrian) banks within a period of six months. The Central Bank claimed that the move was necessary to standardize operating regulations for all banks across Syria. All free zone banks complied and operate as majority Syrian-

owned subsidiaries of their parent banks. Four additional public free zones are planned for the cities of Homs, Dayr al Zur, Idleb, and the Port of Tartous. The Al-Ya'rubiyeh free zone in al-Hasakeh province, near the northeastern Syrian-Iraqi border, was officially inaugurated in December 2007.

In recent years, both China and Iran announced plans to build free zones in Syria, although Iran later dropped this idea in favor of pursuing a preferential trade agreement with Syria. China's free zone in Adra, however, was officially inaugurated in July 2008 and is expected to provide roughly 200 Chinese companies with a regional gateway for their goods. The volume of goods entering the free zones is estimated to be in the billions of dollars and is growing, especially with increasing demand for automobiles and automotive parts, which enter the zones free of customs tariffs before being imported into Syria. While all industries and financial institutions in the free zones must be registered with the General Organization for Free Zones, which is part of the Ministry of Economy and Trade, the Syrian General Directorate of Customs continues to lack strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. The importation and distribution of counterfeit goods are a concern. There are also continuing reports of Syrians using the free zones to import and export arms and other goods in violation of USG sanctions under the Syrian Accountability and Lebanese Sovereignty Restoration Act of 2003.

Legislation approved in the last few years provides the Central Bank of Syria with new authority to supervise the banking sector and investigate financial crimes. In September 2003, the GOS passed Decree 59, which criminalized money laundering and created an Anti-Money Laundering Commission (Commission) in May 2004. In response to international pressure to improve its anti-money laundering and counterterrorist financing (AML/CTF) regulations, the GOS passed Decree 33 in May 2005, which criminalized the act of terrorist financing and strengthened the Commission empowering it to act as a Financial Intelligence Unit (FIU). The Decree finalized the Commission's composition to include the Governor of the Central Bank, a Supreme Court Judge, the Deputy Minister of Finance, the Deputy Governor for Banking Affairs, and the GOS's Legal Advisor, and will include the Chairman of the Syrian Stock Market once the market is operational. However, the 2006 Middle East and North Africa Financial Action Task Force (MENAFATF) Mutual Evaluation rated the FIU as partially compliant, citing the lack of outreach to financial institutions and banks regarding the reporting of suspicious transaction reports, issues with budgetary independence, weak information protection controls, and overall efficiency.

Decree 33 provides the Commission with a relatively broad definition of what constitutes a crime of money laundering, but one that does not fully meet international standards set by the FATF. The definition includes acts that attempt to conceal the proceeds of criminal activities, the act of knowingly helping a criminal launder funds, and the possession of money or property that resulted from the laundering of criminal proceeds. In addition, the law specifically lists thirteen crimes that are covered under the AML legislation, including narcotics offenses, fraud, and the theft of material for weapons of mass destruction. Terrorist financing is not considered a predicate offense for money laundering crime or otherwise punishable under Decree 33. The act of terrorist financing criminalized by Decree 33 also fails to cover the intention that funds should be used or the knowledge that funds are to be used, in full or in part, by a terrorist organization or an individual terrorist in accordance with international standards.

Under Decree 33, banks and nonfinancial institutions are required to file reports with the Commission for transactions over the equivalent of \$10,000, as well as suspicious transaction reports (STRs) regardless of amount. However, there is no obligation for financial institutions to report STRs related to terrorist financing or attempts to conduct suspicious transactions. Institutions are also required to use "know your customer" (KYC) procedures to follow up on their customers every three years and maintain records on closed accounts for five years. The chairmen of Syria's private banks continue to report that they are employing internationally recognized KYC procedures to screen transactions and also employ their own investigators to check suspicious accounts. Nonbank financial institutions must also file STRs with the Commission, but many of them continue to be unfamiliar with the requirements of the law. The Commission has organized workshops for these institutions over the past three years, but more time is needed for the information to penetrate the market.

Once a STR has been filed, the Commission has the authority to conduct financial investigations, waive bank secrecy on specific accounts to gather additional information, share information with the police and judicial authorities, and direct the police to carry out a criminal investigation. In addition, Decree 33 empowers the Governor of the Central Bank, who is the chairman of the Commission, to share information and sign Memoranda of Understanding (MOUs) with foreign FIUs. In November 2005, the Prime Minister announced that the Commission had completed an internal reorganization, creating four specialized units to: oversee financial investigations; share information with other GOS entities including customs, police and

the judiciary; produce AML/CTF guidelines and verify their implementation; and develop a financial crimes database.

While a STR is being investigated, the Commission can freeze accounts of suspected money launderers for a nonrenewable period of up to eighteen days. The law also stipulates the sanctions for convicted money launderers, including a three to six-year of imprisonment and a fine that is equal to or double the amount of money laundered. Further, the law allows the GOS to confiscate the money and assets of the convicted money launderer. The Commission circulates among its private and public banks the names of suspected terrorists and terrorist organizations listed on the UNSCR 1267 Sanction Committee's consolidated list. It has taken action to freeze the assets of designated individuals, but has not frozen the assets of any Syrian citizens in 2008.

In 2008, the Commission investigated 137 cases involving suspicious transactions, 18 of which were forwarded by foreign jurisdictions. Twenty of these cases were referred to the criminal court system for prosecution. Over the past four years, the Commission has investigated 493 cases and referred 78 of them to the criminal court system. To date, all criminal cases remain pending, and there have been no convictions. Most Syrian judges are not yet familiar with the evidentiary requirements of the law. Furthermore, the slow pace of the Syrian legal system and political sensitivities delay quick adjudication of these issues. The Commission itself continues to be seriously hampered by human resource constraints, although it has increased its staff from six in 2005 to ten in 2008, and hopes to expand to 30 by the end of 2009. Nevertheless, a lack of local expertise—further undermined by a lack of political will—continues to impede effective implementation of existing AML/CTF regulations in Syria.

The GOS has not updated its laws regarding charitable organizations to include strong AML/CTF language. A promised updated draft law is still pending. The GOS decided at the end of 2004 to restrict charitable organizations to only distributing nonfinancial assistance, but the current laws do not require organizations to submit detailed financial information or information on their donors. While the Commission says that it is seeking to increase cooperation with the Ministry of Social Affairs and Labor, which is supposed to approve all charitable transactions, this remains a largely unregulated area.

Although Decree 33 provides the Central Bank with the legal basis to combat money laundering, most Syrians still do not maintain bank accounts or use checks, credit cards, or ATM machines. The Syrian economy remains primarily cash-based. Syrians

use moneychangers, some of whom also act as hawaladars, for many financial transactions. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between \$15-\$70 million per day. (The GOS admits that it does not know the amount of money that is in circulation.) The GOS has begun issuing new regulations to entice people to use the banking sector, including offering high interest certificates of deposit and allowing Syrians to access more foreign currency from banks when they are traveling abroad. In 2006, the GOS passed a Moneychangers Law requiring that moneychangers be licensed. However, there were significant delays in the issuance of implementation instructions. To date, 25 moneychangers have applied for licensing, and just ten are now operating legally. The Commission does have the authority to monitor the sector under Decree 33, but the GOS has not yet begun investigating illegal money-changing operations. Consequently, hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

While the GOS maintains strict controls on the amount of money that individuals can take with them out of the country, there is a high incidence of cash smuggling across the Lebanese, Iraqi, and Jordanian borders. Most of the smuggling involves the Syrian pound, as a market for Syrian currency exists among expatriate workers and tourists in Lebanon, Jordan, and the Gulf countries. U.S. dollars are also commonly smuggled in the region. Some of the smuggling may involve the proceeds of narcotics and other criminal activity. In addition to cash smuggling, there also is a high rate of commodity smuggling, particularly of diesel fuel, prompted by individuals buying diesel domestically at the low subsidized rate and selling it for much higher prices in neighboring countries. The regional smuggling of stolen cars, counterfeit goods and cigarettes are also areas of concern. There are reports that some smuggling is occurring with the knowledge of or perhaps even under the authority of the Syrian security services.

The General Directorate of Customs lacks the necessary staff and financial resources to effectively handle the problem of smuggling. And while it has started to enact some limited reforms, including the computerization of border outposts and government agencies, problems of information-sharing remain. In September 2006, the Minister of Finance issued a decision stipulating the establishment of a unit specializing in AML/CTF within the General Directorate of Customs. Customs also lacks the infrastructure to effectively monitor or control even the legitimate movement of currency across its borders. The Commission and Customs have reportedly implemented a form asking individuals to voluntarily declare currency when entering or exiting the country, although consistency of implementation and any action resulting from enforcement are

unknown. These shortfalls pose terrorist financing and money laundering vulnerabilities through trade-based money laundering and cash-based smuggling.

The Syrian FIU is a member of the Egmont Group of FIUs. In 2008, the Commission signed cooperation agreements and memoranda of understanding with the FIUs of Turkey and the Ukraine. These memoranda covered money laundering and terrorism financing. Syria is a member of the MENAFATF.

Syria and the United States do not have a mutual legal assistance agreement in place. Syria is a party to the 1988 UN Drug Convention and in April 2005, it became a party to the International Convention on the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, both the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. Syria is ranked 147 out of 180 countries on Transparency International's 2008 Corruption Perception Index.

While the Government of Syria has made modest progress in implementing AML/CTF regulations that govern its formal financial sector, the continuing lack of transparency of the state-owned banks and their vulnerability to political influence reveals an absence of political will to address AML/CTF in the largest part of the banking sector. In addition, nonbank financial institutions and the black market continue to be vulnerable to money laundering and terrorist financing. To build confidence in Syria's intentions, the Central Bank should be granted independence and supervisory authority over the entire sector. To enhance the implementation of Syria's AML/CTF legislation and private sector internal controls, the GOS should strengthen and train its FIU and should also grant it a degree of independence. Additionally, Syria should continue to modify its AML/CTF legislation and enabling regulations so that they adhere to international standards. The General Directorate of Customs, the Central Bank, and the judicial system in particular continue to lack the resources and the political will to effectively implement AML/CTF measures. Although the GOS has stated its intention to create the technical foundation through which different government agencies could share information about financial crimes, this mechanism still does not exist. Syria's shortfalls in its anti-terrorist financing controls poses grave threats given that U.S. designated foreign terrorist organizations, including HAMAS, Palestinian Islamic Jihad (PIJ), the Popular Front for the Liberation of Palestine (PLFP), and the Popular Front for the Liberation of Palestine-General Command (PFLP-GC), among others, all have offices in Damascus and operate within Syria's borders. Syria's provision of safe haven for these groups poses significant terrorist financing risks to both the Syrian and regional financial sectors. It remains doubtful that the GOS has the political will to punish

terrorist financing or to address the corruption that exists at the highest levels of government and business. All of these issues remain obstacles to developing a comprehensive and effective AML/CTF regime in Syria. Syria should become a party to the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.