

Doing Business in Sudan: Investments and Untapped Opportunities

by Johan Burger

Introduction

Sudan has figured prominently in the news the past few months. Amongst the reasons for this phenomenon, was the USA lifting sanctions against the country, although it still kept Sudan on the list of countries sponsoring terrorism. Qatar, Russia, Saudi Arabia, Turkey, and the UAE have all reached out to Sudan in one form or another. The latest news involved Sudan experiencing a serious cash flow problem, to the extent that it is trimming its foreign diplomatic services quite seriously.

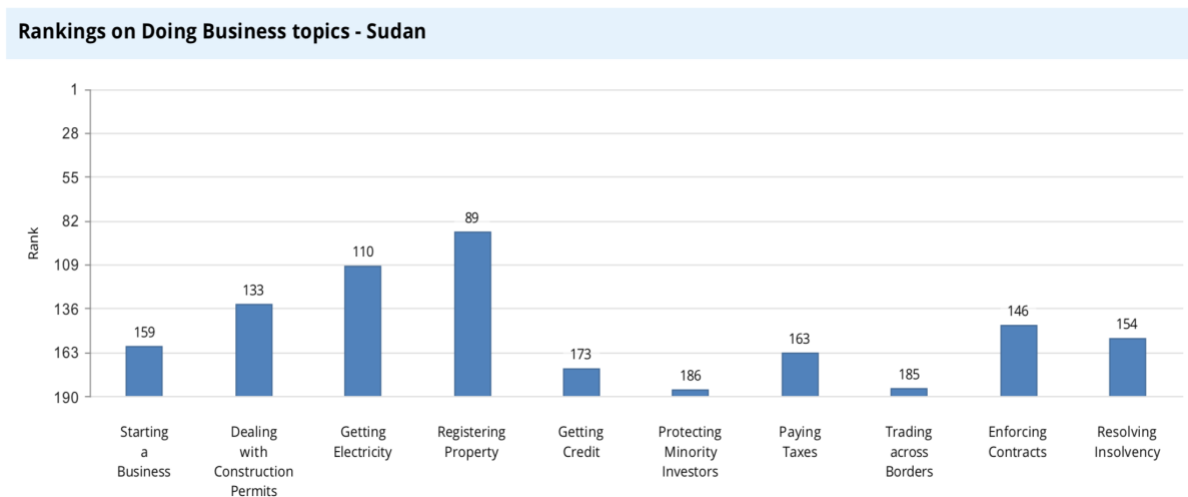
This article looks at the investment environment in Sudan. The article is based on secondary research material and the aim thereof is to gain a macro picture of the investment situation in Sudan. The country has a GDP of US\$96 billion, which is higher than East African favourites of Ethiopia and Kenya, in spite of having had to endure USA sanctions and embargoes. One could therefore ask what this country's economy could have looked like had they not had to endure these economic constraints.

Setting the scene

In spite of the challenges that Sudan is experiencing in the financial services sector, the country presents numerous investment opportunities, several in the financial services sector. Many of these opportunities require funding. This is where Sudan needs serious development. Some of the opportunities can be difficult to tap into given the lack of liquidity, and the challenges in the political sphere are an additional deterrent to investors as well. Still, for the keen investor there is a wealth of opportunity to unlock.

From the World Bank's Ease of Doing Business Rankings for 2018, it is clear that Sudan is not the easiest place to do business. Ranking globally at 170 out of 190 countries, there is scope for a lot of improvement. Figure 1 below provides a breakdown of the elements that constitute the rankings. These are issues that need urgent reforms to entice foreign investors into the country.

Figure 1: Rankings on Doing Business: Sudan



Source: World Bank, 2018¹

¹ <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Profiles/Country/SDN.pdf>

Another macro ranking that is of concern, is Sudan's position on the Corruption Perception Index of Transparency International. Of the 180 countries on the index, Sudan only came in at 175, which is a serious indictment against the Sudanese leadership. It has not succeeded in the 5 years since 2012 to bring about meaningful change. Together with the rather bleak picture on the Ease of Doing Business Ranking, this low ranking on the corruption index is a source of serious concern. See Table 1 for information on Sudan's corruption reality.

Table 1: Corruption Perception Index: Sudan

Ranking (180 countries)	Country	2017 score	2016 score	2015 score	2014 score	2013 score	2012 score
175	Sudan	16	14	12	11	11	13

Source: Transparency International, 2018²

According to Chambers and Partners, Sudan is a country of great economic potential. It has a strategic location, gold reserves, oil & gas fields, other mineral resources, a favourable climate, as well as excellent irrigation and soil conditions.³

Sudan's National Investment Encouragement Act of 2013 promotes foreign direct investment and prohibits discrimination against foreigners in investments. The Act defines three types of investment projects: national, strategic and state. Sudan has put in place an open investment legislative framework with several laws and regulations that are modern and based on best practices. The Act also establishes the National Investment Council, chaired by Sudan's president. The focus and objective of this council is to facilitate investment in all sectors of the Sudanese economy. The Act allows foreign and domestic private entities to establish and own business enterprises and to repatriate capital and profits.⁴

Investment Opportunities in Sudan

Chambers and Partners⁵ have identified the following investment opportunities in Sudan:

- **Natural Resources/Mining:** Natural resources, especially gold, oil, gas, chrome, manganese, zinc, aluminium, cobalt, and nickel. Gold production in Sudan reached 22.3 tons in 2016, ranking it as one of the top producers in Africa.
- **Agriculture:** With the Nile river running through it, Sudan has more than 150 million hectares of arable land. The climate is suitable for all types of crops, and water irrigation is readily available and/or natural. Sudan specializes in cereal production (sorghum, millet, wheat, corn and rice), crops (cotton, sugar, peanuts, sesame, and gum), and tropical fruit and vegetables.
- **Livestock:** Sudan is highly regarded in both the Middle East and Africa for its livestock and animal resources. The country has national animal resources, which include cattle, camels, sheep, goats, poultry, horses, and an annual stock of more than 110,000 tons of fish. The most important animal products in Sudan are milk, meat, poultry, skins, fur and wool.
- **Transport:** As Africa's third-largest country and bordering seven countries, Sudan offers great opportunities for investment in the transport sector. The weakness in the transport network remains one of the greatest constraints to the economy.
- **Industry:** Investment opportunities in industry in Sudan include the following sub-sectors: agri-processing, food, spinning and textiles, leather, chemicals, pharmaceuticals, oil and soap, engineering, building materials and refractories, and printing and packaging.

² https://www.transparency.org/news/feature/corruption_perceptions_index_2017

³ <https://www.chambersandpartners.com/article/2399/doing-business-in-sudan-investment-opportunities>

⁴ <https://www.chambersandpartners.com/article/2399/doing-business-in-sudan-investment-opportunities>

⁵ <https://www.chambersandpartners.com/article/2399/doing-business-in-sudan-investment-opportunities>

Foreign Investment in Sudan

Nevertheless, in spite of the mentioned challenges and constraints, potential investors were already moving into Sudan from the Gulf, Asia, Europe and South America in March 2017, some of them well before this time.

China has invested in various aspects of the industry until it now controls as much as 75% of the Sudanese oil industry. Sudan currently produces 133,000 barrels of oil per day — a fraction of what it produced before the south of the country seceded in 2011, taking most of the country's proven oil reserves with it. Today, Chinese companies are looking for new oil deposits in Sudan as increasing oil production is one of the government's priorities. While China started in oil, they now have other interests in trade, mining, and construction as well. Within the oil industry today, most of the engineers and technical experts in Sudan and South Sudan are Sudanese. They were trained in China. Sudan is the only country in Africa where, over time, more locals have been employed by Chinese companies (Hammond, 2017).⁶

Saudi Arabia and the Saudi private sector are currently investing in maritime transport in Sudan, benefiting from the strategic situation of Sudan, to construct new harbours and ports at the Red Sea. The development of all transport units, particularly maritime transport, and the construction of new ports and harbours are deemed as very important.⁷

The UAE agreed in the beginning of 2017 to provide the Central Bank of Sudan (CBoS) with a \$400 million deposit as a reserve. In addition, the Sudanese government had formed a joint business council with Bahrain to promote investments. A Saudi company was financing an industrial estate north of Khartoum with \$150 million.⁸

Qatar has also been positioning itself in a meaningful way in Sudan. Qatari investments in Sudan represent a large proportion of foreign investment in this country, through Qatari institutions such as Qatar National Bank (QNB), Diar Real Estate Investment, Widam, Hassad Food Company, Barwa Real Estate Group and Qatar Mining, in addition to Silatech, Education Above All and Qatar Museums projects, as well as Qatar Charity, Qatar Red Crescent, the five Darfur projects and the UN Development Fund for Darfur projects. The current Qatari investment in Sudan amounts to more than \$2 billion and is expected to rise with the introduction of new sectors such as Qatar Mining Company (QM), which will invest more than \$1 billion in its field.⁹

Turkey's investment footprint in Sudan has become quite visible. Sudan needs an investment of approximately \$500 billion in various sectors, amongst others in its significant gold and copper mines. Given its lack of proper mining technology, Sudan has certain limitations. Turkish businesspeople were urged to establish a system to process those metals and integrate them with Turkey's gold exchange market to provide overseas finance for Sudan. Five consortiums were created with Sudanese and Turkish businesspeople in the fields of construction, energy, mining, agriculture and machinery. The construction consortium includes building roads, bridges, hotels, schools and infrastructure works.¹⁰

In 2014, Turkey and Sudan signed an agreement to rationalize resources and agricultural potential and contribute to sustainable food objectives. Under the agreement, around 780,000 hectares across 5 regions were earmarked for investment by Turkish entrepreneurs. Talks were concluded for establishing livestock laboratories based on international standards in Sudan, which is one of the largest animal-breeding countries in Africa. Turkey's exports to Sudan totalled \$395.2 million in 2017, while imports from Sudan stood at \$86.2 million.¹¹

⁶ <https://thediplomat.com/2017/06/sudan-chinas-original-foothold-in-africa/>

⁷ <http://sdeconews.com/story-z18846366>

⁸ <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

⁹ <http://www.gulf-times.com/story/568527/Qatari-Sudanese-ties-years-of-co-operation-and-exc>

¹⁰ <http://sdeconews.com/story-z18729003>

¹¹ <http://sdeconews.com/story-z18729003>

In February 2018, agreements totalling \$50 million in the fields of water and energy were signed, including the construction of a dam on the Nile river. Turkey also offered Sudanese officials cooperation in software education by providing a turnkey system for schools in the country. The Turks were willing to increase this investment if Sudan was prepared to remove bureaucratic hurdles and improve its financial infrastructure. A further indication of Turkey's support for Sudan, is the announcement of a bilateral trade volume target of \$10 billion by President Erdogan during his visit to Sudan in December 2017.¹² During this visit of President Erdogan, Turkey and Sudan agreed to establish a strategic Cooperation Council and to enhance trade agreements between the two countries.¹³

Turkey also supported Sudan in its banking sector. A Turkish company will support the Central Bank of Sudan with \$2 billion, which will be used for the import of petroleum products and wheat. The amount is to be paid back within two years. In addition, two shipments of petrol have been sent to Sudan, along with four shipments of cooking gas.¹⁴

In another venture, a Turkish company, Summa, will build the new Khartoum international airport at an estimated cost of \$1.15 billion.¹⁵

Russia has agreed to supply Sudan with a small-capacity floating nuclear plant to produce electricity, and will endeavour to complete the technical studies to build Sudan's nuclear power plant within 8 years. The project is part of a plan to generate more than 5000 megawatts by 2020 (Anon, 2018).¹⁶

In a recent development, Sudan invited Russian companies (Rosneft, Gazprom, Lukoil, and Tatneft) to take part in the development of its oil industry. The Sudanese government offered Russian energy companies several oil sites, including both producing and untapped ones, as well as fields that are currently being developed by other foreign companies, whom the Russian players would help to increase production.¹⁷

Several years ago, foreign direct investment (fdi), although low in value, was still visible in Sudan. Foreign direct investment fell from \$2.3 billion in 2010 to \$1.3 billion in 2014, before recovering to \$1.7 billion in 2015. In 2010, a German petroleum company made a \$1.6 billion investment in a lubricant plant, and in 2015 there were two investments worth \$1.1 billion by an Egyptian pharmaceutical company.¹⁸

Chinese companies, which control 75% of foreign investment in Sudan's oil sector, may now face fierce competition. Executives at oil companies in the UAE say they are surveying oil-rich areas in the south of the country for potential business, assessing political stability and security concerns.¹⁹

Sectoral Investment Opportunities in Sudan

Infrastructure development in Sudan has a national focus and is directed in 5-year plans. Based on results of the First Five-Year Plan (2007-2011), Sudan has already invested heavily in infrastructure development, with total government spending on infrastructure of SDG 5.4 billion (representing 27% of total spending under the First Five-Year Plan). Key areas of investment included transport, water supply and sanitation, electric power and communication networks.²⁰

However, the country's growing infrastructure needs are beyond the budget capacity of local and central governments. This is not unique to Sudan and is the case for all of Africa. In 2014, the country's overall

¹² <http://sdeconews.com/story-z18729003>

¹³ <http://sdeconews.com/story-z18773311>

¹⁴ <http://sdeconews.com/story-z18773311>

¹⁵ <http://sdeconews.com/story-z18852807>

¹⁶ <http://sdeconews.com/story-z18766927>

¹⁷ <https://oilprice.com/Latest-Energy-News/World-News/Sudan-Extends-Invitation-To-Russian-Oil-Explorers.html>

¹⁸ <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

¹⁹ <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

²⁰ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

budget deficit amounted to SDG 4.4 billion. In order to bridge the funding gap, long-term funding provided by commercial banks and the private sector through public private partnerships (PPP) was essential.²¹

Investment in infrastructure will be important as Sudan looks to increase the competitiveness of domestic trade and facilitate national integration. Currently, areas with poor infrastructure are isolated, resulting in high costs of goods and services and limited investment from reluctant capital providers.²²

Backed by government initiatives, Sudan's **banking sector** has several growth opportunities to stimulate current economic development through infrastructure enhancement. The role of banks in financing infrastructure projects needs to be increased. Banks therefore need attractive and innovative infrastructure financing tools and clear marketing strategies. Currently, infrastructure projects are complex and have several distinct phases that require different banking instruments. To capture the potential growth of infrastructure financing, banks in Sudan should design products for each distinct phase of an infrastructure project, including planning, construction, and operations.²³

In the **agriculture sector**, Sudan has a lot of uncultivated arable land. According to foreign investors in agriculture, should Sudan have a sound strategy and an effective agriculture structure, it would be able to not only feed itself, but the entire MENA (Middle East and North Africa) region.²⁴ As it is, Africa as a whole is a potential target market, given that the continent is a net importer of food to the tune of US\$35 billion annually.

Tackling the agriculture sector is a key priority as its growth is directly linked to improving Sudan's infrastructure environment. Today, agricultural lands are not well utilized in Sudan mainly due to inadequate roads, insufficient water supply, and a lack of electric power in these isolated areas.²⁵

After the South Sudan secession on July 2011, Sudan changed the focus of its economic plan to revive the agriculture sector given that Southern oil production accounted for over 75% of the country's total production (representing nearly 36% of Sudan's revenues). The agriculture sector employs 80% of the country's workforce and accounts for nearly one-third of GDP. In general, the agriculture sector represents a business line that banks should focus on, especially with regards to financing trade, working capital, and capital expenditures.²⁶

Sudan is looking to the agriculture sector as an important source of growth and diversification for the economy. However, the proportion of agriculture financing accounted for only 16% of banks' finances in 2014, despite the fact that the CBoS offered commercial banks incentives to collaborate in financing productive sectors (agriculture & industry). Challenges facing the agriculture sector require numerous initiatives. Such initiatives should be focused on providing financing opportunities and innovative offerings:²⁷

- Development of technical and functional capacity for policy and planning.
- Enhancement of agriculture productivity and production.
- Agricultural research and development.
- Reforming land tenure and land-use systems.
- Investment in rural infrastructure, e.g. irrigation systems, slaughterhouses, agro- processing facilities and markets.
- Rehabilitation of rangelands (i.e. pastures and water supplies) and facilitation of fair resource sharing.
- Expanding disaster risk management to include challenges arising from climate change

²¹ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

²² <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

²³ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

²⁴ <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

²⁵ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

²⁶ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

²⁷ <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

It seems that various European companies are interested in the agri-sector in Sudan. While much of the country is desert, it also has an estimated 20 million hectares of arable land - nearly as much as Mexico.²⁸

Food made up 16% of exports in 2017 from a country that lies close to markets with rapidly expanding or wealthy populations, such as in Egypt and the Gulf. In 2016, the UAE and Saudi Arabia were Sudan's second and third biggest overall export markets respectively, behind China.²⁹

Table 2 provides an indication of the supply and demand of some agricultural products. It is clear that there was insufficient supply in 2017 of the following products: maize, wheat and rice. These therefore constitute significant investment opportunities to meet internal demand. However, there is always the potential to export into the rest of MENA, as well as into Sub-Saharan Africa.

According to Ahmed Amin Abdellatif, the president of Khartoum-based CTC Group, given consumption patterns and population growth, agriculture is going to be, strategically, a very important sector over the next few decades.³⁰

Table 2: Supply and Demand of Selected Agricultural Products in Sudan, 2017

	Sorghum	Millet	Maize	Wheat	Rice	Total
Availability	4 584	954	16.72	763	32	6 340
- Opening stocks	650	0	0	290	0	940
- Production	3 743	954	17	463	32	5 209
- Food aid (WFP)	191					191
Total utilization	4 584	949	47	2 879	91	8 555
- Food	3 218	687	43	2 489	86	6 522
- Feed	374	48	1	0	0	423
- Seed	68.4	15.2	0.3	21.1	0.6	106
- Post-harvest losses	561	143	3	69	5	782
- Closing stocks	362	61	0	300	0	723
Estimated import requirements	0	0	30	2 126	59	2 216
Anticipated commercial imports			30	2 126	59	2 216
Estimated gap	0	0	0	0	0	0

Source: FAO, 2018³¹

Sectors like **aviation**, reduced to rundown and aged planes, could be on the brink of revival. Sudanese aviation companies have had approaches from global companies to begin trading spare parts. A new flight path from Port Sudan to Jeddah, Saudi Arabia, was set to start operating in early April 2017, indicating potential plans for tourism investment in Sudan's untouched Red Sea reef.³²

General

According to Sudan's State Minister of Investment, the profit margins in Sudan were higher than elsewhere in the region or the rest of the world, due to the high demand. In December 2017, his aim during his trip throughout Europe was to attract fdi inflows of \$10 billion a year, compared with the UN's estimates of \$1

²⁸ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>

²⁹ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>

³⁰ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>

³¹ <http://www.fao.org/3/i8566en/i8566EN.pdf>

³² <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

billion in 2016. He stated that he had already seen a surge in interest in Sudan's agricultural, energy and mining sectors, as well as power generation projects.³³

The World Bank's estimates of Sudan's GDP at \$96 billion is considerably higher than two African countries more open to foreign investors, i.e. Kenya and Ethiopia. These countries have GDPs of about \$70 billion each, despite larger populations and no sanctions. The removal of sanctions against Sudan would hopefully create a strong attraction for Sudan for foreign investors. Should Sudan's circumstances normalise, there would be considerable growth potential.³⁴

According to the Minister of Investment, Sudan's first big projects are already on the horizon, with plans to sign mining concessions with European, Canadian and Russian companies. Oil concessions are also being discussed with Turkish companies and a big Norwegian group was in talks over a renewable energy project.³⁵ Russian companies have also been invited to participate in the oil industry.

The Sudanese government must come to the party by instituting reforms to gain improvements in the World Bank's Ease of Doing Business rankings. Various other countries have committed themselves to bring about substantial changes and reforms. The same goes for their ranking on Transparency International's Corruption Perception Index. Ranking at 175 out of 180 countries is a serious deterrent. Linking with its poor position on the Ease of Doing Business ranking (170 out of 190), makes it a double whammy.

Having said all of the above, there is clearly significant investment potential in Sudan. With the lifting of sanctions and embargoes, it will not take too long for the more adventurous to move into Sudan. As a matter of fact, these are already in Sudan. Late movers will be left to pick up the crumbs, if anything.

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³³ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>

³⁴ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>

³⁵ <https://www.reuters.com/article/us-sudan-investment/out-of-u-s-sanctions-sudan-tries-to-lure-back-investors-idUSKBN1E91KL>