

# The Financial Services Sector in Sudan

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## Introduction

The United States has been imposing sanctions on Sudan since 1997 and listed it as one of the countries sponsoring terrorism. Sudan's president has 3 warrants of arrest against him issued by the International Criminal Court. The country itself has been a hotbed of violence and turmoil, especially in the western part of the country in the Darfur province. In 2011, the southern part of the country seceded and formed South Sudan, taking with it most of Sudan's oil reserves. In 2017 the USA lifted the sanctions. This report investigates various elements in the financial services sector in Sudan, pre and post the sanctions.

## Historical Overview: The Sanctions against Sudan: the Big Picture

In spite of the lack of accurate statistics on Sudan's total loss due to the sanctions, Sudanese sources estimate it at around US\$500 billion, with an indirect loss estimated at about US\$4 billion annually. The U.S. sanctions included a ban on all kinds of commercial and financial dealings with Sudan. The Sudanese banking sector was therefore effectively cut off from the global financial system.<sup>1</sup>

The U.S. sanctions not only severely damaged the Sudanese economy, it also included the freezing of more than US\$7 billion belonging to the banking sector in Sudan. The sanctions have caused heavy losses to foreign investors in Sudan, and added additional restrictions for exporters in commercial transactions. The sanctions also led to a loss of trust between Sudan and financial institutions and donor countries, causing the country to lose predictable resources that were capable of filling in the external gap.<sup>2</sup>

In the transport sector, Sudan Airways has lost its place as a national carrier as the sanctions denied it access to spare parts and regular maintenance for planes, which caused most of its planes to be out of service. Sudan's railway lost 83% of its infrastructure due to the sanctions. In the health sector, the sanctions prevented Sudan from obtaining U.S. medical equipment and medicines, and decreased the efficiency of medical laboratories in the country.<sup>3</sup>

Prior to the lifting of sanctions, Sudan's economy was stricken by very high inflation (31% in March 2017), a fiscal deficit of 17% in 2016 and the sixth-worst ranking in Transparency International's Corruption Perceptions Index. In 2011, South Sudan seceded from Sudan, costing the country 75% of its oil reserves, estimated at 3.5 billion barrels. In 2014, the US tightened sanctions and levied a fine of US\$8.9 billion against BNP Paribas for illegal dealings with Sudan.<sup>4</sup>

The U.S. decision to lift economic sanctions on Sudan constituted a turning point in Sudan's foreign relations, marking its return to the world trade and financial system. The lifting of the sanctions could enable Sudan to restore its trade and economic relations and facilitate banking operations and procedures for exports and imports. It would also ease access to commodities, basic production inputs, as well as health and education services. In addition, the country will now be able to resume its communication with international financial and investment institutions, particularly for the Sudanese private sector.<sup>5</sup>

The lifting of the sanctions represents a new shift in commercial transactions, both with exports and imports. It will also contribute to improving the exchange rate of the Sudanese currency. The private sector could be the biggest beneficiary as there would be greater access to financial sources to obtain funds.

The decision to lift sanctions will have a positive impact on the production sectors in Sudan. The agricultural sector represents the main production base of Sudan's economy, and will benefit from greater access to

<sup>1</sup> [http://www.xinhuanet.com/english/2017-10/11/c\\_136670512.htm](http://www.xinhuanet.com/english/2017-10/11/c_136670512.htm)

<sup>2</sup> [http://www.xinhuanet.com/english/2017-10/11/c\\_136670512.htm](http://www.xinhuanet.com/english/2017-10/11/c_136670512.htm)

<sup>3</sup> [http://www.xinhuanet.com/english/2017-10/11/c\\_136670512.htm](http://www.xinhuanet.com/english/2017-10/11/c_136670512.htm)

<sup>4</sup> <https://www.ft.com/content/b4198a50-e165-11e6-9645-c9357a75844a>

<sup>5</sup> [http://www.xinhuanet.com/english/2017-10/11/c\\_136670512.htm](http://www.xinhuanet.com/english/2017-10/11/c_136670512.htm)

spare parts, fertilizers, seeds and modern technologies, which will increase the productivity and exports. It will also boost the competitiveness of Sudanese agricultural products in foreign markets.<sup>6</sup>

According to the Central Bank of Sudan (CBoS), it was only in October 2017, after the U.S. government lifted its trade sanctions against Sudan, that the country began receiving foreign currency inflows. It confirmed the receipt of international transfers in U.S. dollars to two Sudanese banks, in what was the first signal of the recovery of Sudan's economy.<sup>7</sup>

The country is hopeful that lifting the sanctions will help it regain access to global financial markets, which could help draw in badly needed investments and raise the prospects for a recovery of Sudan's economy.

### **Sudan's Financial Services Sector: the Status Quo**

Sudan's financial sector continues to be dominated by banks operating under Islamic modes of finance and was composed of 37 banks at the end of 2016. Equity injections to recapitalise weak banks have led to the CBoS and the government fully or partially owning 41% of the banks. Sudan is characterised by weak financial inclusion and depth, which can severely undermine the mobilisation of savings mobilisation and the reduction of poverty. Credit to the private sector dropped by 52.3 percentage points to 6.7% of GDP at the end of 2016 from the maximum score in 2012.

The absence of an interbank market have led to persistent excess reserves. However, the CBoS is in the process of developing an effective Sharia-compliant liquidity management instrument. Sudan's stock exchange and insurance sectors are small, with the Khartoum Stock Exchange being the principal market for stock exchange in the country. Nonetheless, the online trading system introduced in March 2016, with African Development bank (AfDB) support, is expected to enhance domestic resource mobilisation, such as sukuk bonds, on which Sudan heavily depends for financing infrastructure and social services.<sup>8</sup>

Though Sudan's banking system is still weaker than its sub-Saharan African counterparts, it continues to improve. Return on assets is high (4% at the end of 2015); banks' overall capital adequacy ratio was 18.7% at the end of 2015, well above the minimum requirement of 10%. The asset quality continues to improve with the ratio of non-performing loans to total loans trending downwards and reaching 5.1% at the end of 2015, compared to 7.1% the previous year. The easing of US sanctions should enable the CBoS to strengthen the hard-won framework for anti-money laundering and combatting the financing of terrorism. The recovery in correspondent banking relationships should boost private sector activities and enhance access to financial services, especially by the most vulnerable, through remittances, export receipts, and import financing.<sup>9</sup>

Going further back in time, economic, social, and human development prospects in Sudan have significantly improved since the signing of the Comprehensive Peace Agreement (CPA) in 2005. However, conflict continues between the central government in Khartoum and rebel groups in the rural west (Darfur). Poverty remains widespread and social services are inadequate to meet the needs of the vast majority of the population.<sup>10</sup>

Sudan's financial system, while experiencing substantial growth in recent years, remains small relative to its regional peers. Intermediation is low, the equity and foreign exchange markets are shallow, and non-bank financial markets and institutions are small and underdeveloped.<sup>11</sup>

Still, the banking sector forms the backbone of Sudan's financial system and is the primary source of funding for the domestic economy. Public banks dominate the sector and account for around 50% of total banking

<sup>6</sup> [http://www.xinhuanet.com/english/2017-10/11/c\\_136670512.htm](http://www.xinhuanet.com/english/2017-10/11/c_136670512.htm)

<sup>7</sup> <https://af.reuters.com/article/topNews/idAFKBN1CG1JH-OZATP>

<sup>8</sup> [www.africaneconomicoutlook.org/sites/default/files/2017-05/Sudan\\_EN\\_2017.pdf](http://www.africaneconomicoutlook.org/sites/default/files/2017-05/Sudan_EN_2017.pdf)

<sup>9</sup> [www.africaneconomicoutlook.org/sites/default/files/2017-05/Sudan\\_EN\\_2017.pdf](http://www.africaneconomicoutlook.org/sites/default/files/2017-05/Sudan_EN_2017.pdf)

<sup>10</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>11</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

sector assets. Systemic risk is estimated to be low, largely due to low levels of intermediation and the sector's small size and relative isolation from global financial markets.<sup>12</sup>

Despite recent growth in the banking sector, Sudan continues to be under-banked, as most banking and financial institutions are concentrated around the Khartoum area. Only a small share of the population has access to banking services, and enterprises often face difficulties in obtaining funding from banks or capital markets. In efforts to increase access to finance, the CBoS established a microfinance unit in 2007 and has since 2009 required all commercial banks operating in the country to have established microfinance offices and allocate 12% of total loans to microfinance lending operations. The CBoS has also introduced the Private Sector Development Project in 2009, which offers grants to prospective entrepreneurs via a business plan competition.<sup>13</sup>

About a decade ago, authorities embarked on a series of reforms to strengthen the financial system and improve the performance of the banking sector. Supervisory and legal and regulatory frameworks were improved, particularly in the areas of corporate governance, risk management, and provisioning. Restructuring processes were also implemented for two banks, including the Omdurman National Bank, to improve their financial position.<sup>14</sup>

Sudan's fixed income market is based on Islamic Sharia fundamentals. Government Musharaka Certificates and Government Investment Certificates, similar to conventional treasury bills and government bonds, as well as Central Bank Igarah Certificates (additional Islamic certificates), are regularly issued by the Ministry of Finance and National Economy. As of April 2011, Sudan received no long-term sovereign rating by any of the 3 major credit rating agencies.<sup>15</sup>

A corporate bond market is also present but, as of mid 2010, only 3 corporate entities have been issuing debt instruments. The primary market, largely composed of the Sudan Financial Services Company (Ltd) (which markets and trades all government securities), does not feature a minimum competitive bidding amount and, instead, imposes restrictions on purchasing amounts when demand exceeds available supply. Security instruments are also traded on the Khartoum Stock Exchange, and around 40 brokerage firms operate in the market. Secondary market activity is limited to over-the-counter trades, and is largely dominated by government securities. Access to securities markets is open to local and foreign investors, including banks, corporate entities, financial institutions and individuals, with the exception of Igarah Certificates that are restricted to banks.<sup>16</sup>

The insurance sector in Sudan is small and penetration is limited. Factors contributing to low levels of penetration include low per capita income, a missing middle class, political instability, and the prevailing rate of financial illiteracy. The state is heavily involved in the sector: it accounts for some 40% of total insurance market premiums and owns the largest company, Sheikan. Even though the authorities have strived to upgrade the regulatory framework, most of the insurance market still does not comply with principles set by the International Association of Insurance Supervisors (IAIS), and the powers of the Insurance Supervisory Agency (ISA) are relatively weak.<sup>17</sup>

As for corporate banks, the Bank of Khartoum is the largest bank in Sudan.

## The Banking Scene in Sudan

According to the CBoS, there are currently 34 Banks in Sudan. Of these, there are a number of foreign banks, which include the following:<sup>18</sup>

- Abu Dhabi National Bank

<sup>12</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>13</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>14</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>15</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>16</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>17</sup> <https://www.mfw4a.org/sudan/financial-sector-profile.html>

<sup>18</sup> <https://cbos.gov.sd/en/content/operating-banks-sudan>

- Qatar National Bank
- National Bank of Egypt (Khartoum)
- Aljazeera Sudanese Jordanian Bank
- Sudanese Egyptian Bank
- Saudi Sudanese Bank
- Byblos Bank (Africa)

According to Abdul Rahim Hamdi (2015), the commercial banking sector in Sudan is weak and small by international standards. In addition to the commercial banks, the CBoS plays an active and sometimes a very direct role in financing the economic activities in the country. It strictly controls and directs the commercial banks through pervasive interventionist policies.<sup>19</sup>

There is hardly any non-bank financing sector in Sudan; in 2015 only 2 leasing companies operated in the country, mainly in the field of equipment leasing. The big commercial banks almost never financed such endeavours in the extractive industries, with the exception of a few who have entered the field of gold prospecting as investors. Constrained by their lack of size and the restrictive credit policies of the CBoS, there is hardly any financing role in the prospecting field for oil, gas and mineral activities.<sup>20</sup>

The Sudanese banks have no capital sharing in any of the oil and gas blocks or concessions. These are financed by the foreign investors who share with the government through production sharing agreements (PSA) in consortia of 3 or 4 foreign companies, the government being one of them with free carried shares held by Sudapet on behalf of the Sudan government. The PSA's seem to work to the satisfaction of both parties. This is manifested by the foreign parties undertaking other associated activities like financing the building of pipelines and refineries and not only prospecting for oil.<sup>21</sup>

By the end of 2015, the local banking sector played no role in the financing of oil and gas prospecting; instead they were content with providing traditional banking services to some of the local contractors serving the oil industry. These included providing bank guarantees, letters of credit and sometimes murabaha (cost-plus) financing for equipment and machinery needed for effecting some contracts. In financial terms, this comes a distant second to the sums spent on oil and gas prospecting and infrastructure.<sup>22</sup>

Mining is a relatively recent activity in the country. With a single notable exception, the local banks were never persuaded to finance prospecting operations. They focused on financing, on a murabaha (cost-plus) basis, some of the needed equipment and machinery and have yet to provide export facilities or services.<sup>23</sup>

The CBoS can initiate and participate in investment funds to undertake mining for minerals or oil. It can persuade or reward banks who finance prospecting, which is a risky business. The Ministry of Finance can give guarantees and assured rebates on money spent on oil, gas and mining prospecting. This is done in most countries of the world. The Ministry's perspective is that Sudan should develop the requisite policies to avoid its extractive industries from falling into foreign hands.<sup>24</sup>

Sudanese banks had opened branches in Arab, Asian and European countries to allow the easy movement of hard currency and to re-establish banking relations in anticipation of the decision by the U.S. to permanently lift economic sanctions. Agreements had been reached to restore links with international banks, especially in the UAE, Germany, and Belarus. For investments to flourish, it was essential that workable financial exchange systems were in place. The United Arab Bank had approved the Bank of Khartoum's final license to practice banking and open branches in the UAE.<sup>25</sup>

<sup>19</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>20</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>21</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>22</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>23</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>24</sup> <http://unctad.org/meetings/en/Presentation/17OILGASMINE%20Abdelrahim%20Hamdi%20S5.pdf>

<sup>25</sup> <https://www.middleeastmonitor.com/20170910-sudanese-banks-ready-to-open-foreign-branches-on-lifting-of-us-sanctions/>

An exclusive brokerage group of US companies in Sudan and the Middle East had given approval for hard currency transfers to be facilitated through Sudan's Agricultural Bank. The approval by US banks of hard currency transfers, especially in dollars, will largely result in a revitalisation of the trade between Sudan and the US, as well as enable American investment in Sudan, particularly in the fields of agriculture and mining.<sup>26</sup> This still seems to be future music, as there is currently very little evidence of such trade between Sudan and the US.

In July 2017, the Bank of Khartoum, which already has a branch in Bahrain for hard currency transfers, received a long-term AA rating and a short-term rating with a stable outlook from the International Islamic Rating Agency.<sup>27</sup>

According to Yacoub Al-Alem, head of the Corporate Banking Group of the Bank of Khartoum, in 2016, in terms of finance, corporate clients in Sudan enjoyed a broad range of well-structured Shariah-compliant products. Islamic finance products in Sudan are considered to be one of most diverse among countries with predominant Shariah compliant banking practices.<sup>28</sup>

In terms of non-finance products and in particular, cash management and electronic transactions, the banking sector in Sudan still needed considerable development and improvement. This would include the following:<sup>29</sup>

- Enhancing the existing electronic infrastructure to allow straight through payment processing between banks, is a crucial requirement.
- Developing flexible cash management products to meet the increased volume of bank notes caused by monetization of the deficit.
- Improving corporate customer services to meet the increasing expectations of corporate clients.

As the banks are aware of these challenges, they have started to address them. There is still a lot of work to be done.

The Bank of Khartoum adopted a number of strategies at the time to deal with these challenges. Their key strategies in financing government infrastructure include developing deep relationships with key people at federal and state level. The bank also played a pioneering role in the developing and marketing of sukuk in Sudan, which are essential instruments for infrastructure finance. Some of the challenges in financing such products include the substantial budget deficits and debt burdens in federal and state levels limiting the ability of the government to raise additional finance. There were also limited opportunities to diversify project risk as a limited number of syndications were executed. High interest rates also rendered many long-term projects unprofitable.<sup>30</sup>

The Bank of Khartoum believes that there will be great opportunities in agricultural finance over the next few years. The agricultural and livestock sector is benefiting greatly from the devaluation of the Sudanese Pound and the resulting enhanced competitive positioning of agricultural exports in foreign markets. They plan to get involved in financing all stages of the value chain, from farming activities, warehouse financing to industrial processing and pre-export finance. Their focus is not only on financing large agribusiness and trading companies, but also includes the financing of communities and small farms through microfinance and commercial finance for the youth simultaneously.<sup>31</sup>

<sup>26</sup> <https://www.middleeastmonitor.com/20170910-sudanese-banks-ready-to-open-foreign-branches-on-lifting-of-us-sanctions/>

<sup>27</sup> <https://www.middleeastmonitor.com/20170910-sudanese-banks-ready-to-open-foreign-branches-on-lifting-of-us-sanctions/>

<sup>28</sup> <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

<sup>29</sup> <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

<sup>30</sup> <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>

<sup>31</sup> <https://ceif.iba.edu.pk/pdf/ThomsonReuters-SudanIslamicFinance2016NextPhaseofDevelopment.pdf>



Currently, the Bank of Khartoum declares it offers “well-structured and customized finance solutions needed to facilitate management of your working capital and expenditure, including: Mudaraba, LC Against Mudaraba, Musharaka (Partnership), Qard Hasan (Grant), Istisna/Mugawala (Made to order), Salam (Purchase with deferred delivery), Ijarra (Leasing), Murabaha (Cost-plus sale ), Bai’ Muajjal (Deferred Sale).”<sup>32</sup>

With its large number of correspondent banks and its international branches in both the Kingdom of Bahrain and the United Arab Emirates, the Bank of Khartoum’s corporate clients have the capacity to transfer funds globally.

The Bank of Khartoum identifies the following trade products on its website:<sup>33</sup>

- **Letters of Credit (LCs):** LCs are geared to handle all customer requirements for imports/exports drawn up under strict Shariah principles. They customize the most appropriate service type whether Sight, Acceptance, Transferable, Revolving, Standby LCs or others.
- **Letters of Guarantee (LGs):** The Bank of Khartoum prepares and issues all kinds of financial instruments, including letters of guarantee drawn up under strict Shariah principles. The range of requirements covered includes bid bonds, performance bonds, advance payment bonds, and guarantees for retention monies, maintenance, labour, customs duty, or others.
- **Documentary Collections:** The Bank of Khartoum provides different types of documentary collections for imports and exports, such as:
  - Advanced Payment (ADV)
  - Deferred Acceptance (DA)
  - Cash Against Documents (CAD)

The Islamic Trade Finance Corporation (ITFC) from Saudi Arabia creates tailor-made Shariah-compliant solutions. In this way, ITFC managed to harness a diversified portfolio with sugar as one of the major commodities. It lent its support to the private sector in Sudan by financing a significant sugar deal, which helped in advancing the private sector’s role through a sustained commitment to improve access to value-added and competitive financing.<sup>34</sup>

The ITFC was able to design the first co-financed operation provided by the Islamic Development Bank Group (IDB) to the private sector in Sudan. By extending such financing to Sudan, ITFC supported the sugar manufacturing industry in order to get Sudan recognized once again as the biggest and the only sugar exporter in the region. The ITFC has not only creatively designed this operation; it has also supported, along with the other co-financers, the biggest agri-industrial company in Sudan, and by this, the co-financers supported the Agricultural sector (representing 27% of Sudan’s GDP), as well as the Industrial sector (representing 36% of Sudan’s GDP). ITFC believes that this financing operation is a step forward on the way of its strategies to support and develop the economy of Sudan.<sup>35</sup>

However, in spite of signs of improvement and despite the US ending a trade embargo, banks across the world still seem wary of working with Sudan.<sup>36</sup>

## Introducing Mobile Financial Services in Sudan

Mobile financial services took off in East Africa more than a decade ago. In Sudan, however, it took quite a bit longer before this phenomenon entered the market. In August 2014, Zain Sudan launched Sudan’s first mobile Mobile Financial Service called ‘Hassa’, in partnership with the Bank of Khartoum.

<sup>32</sup> <http://bankofkhartoum.com/corporate-banking>

<sup>33</sup> <http://bankofkhartoum.com/corporate-banking>

<sup>34</sup> <http://www.itfc-idb.org/en/content/itfc-entices-private-sector-sudan>

<sup>35</sup> <http://www.itfc-idb.org/en/content/itfc-entices-private-sector-sudan>

<sup>36</sup> <https://www.alaraby.co.uk/english/news/2018/1/3/banks-reticent-to-work-with-sudan-admits-finance-minister>

The service allows all Zain customers in Sudan to complete a wide range of financial transactions and operations, including money transfers and various other transactions, such as paying bills and withdrawing cash from Automated Teller Machines (ATM) without the requirement of opening a bank account. The Hassa service will be made available in 95% of Sudan's populated areas and will provide many benefits for the users specifically and the Sudanese society in general. The Sudanese government supported this venture, as the extension of financial services to the unbanked in Sudan would have a significant impact on the economic development and social enhancement of many communities across Sudan. In addition, the CBoS supported the initiative given the envisaged economic and social gains that are likely to accrue from extending banking services to the unbanked, as well as for the potential to attract more national savings through formalized channels.<sup>37</sup>

In order to improve the efficiencies of Hassa, RedCloud's ICENI platform, a customisable solution for m-commerce, was contracted to provide Hassa customers access to essential financial services. These would include the easy transfer of money, doing cash in and cash out transactions, and the tracking of accounts. After a few months, the service has been upgraded and will offer electricity payments, mobile payments, bank transfers and purchasing mobile airtime from phone. Additionally, customers will be able to use Hassa Shops or Bank of Khartoum ATMs to deposit cash and make withdrawals directly from their mobile accounts.<sup>38</sup>

### **The Role of the Sudan Financial Services Company (SFSC)**

The SFSC was established by the CBoS in May 1998, owning 99% of the company, with the Ministry of Finance and National Economy (MFNE) owning the other 1%.

The main functions of the SFSC are as follows:<sup>39</sup>

- Providing financial services related to the management, dealing and allocation of the shares owned by the Sudanese government, its corporations and institutions through the issue of Sukuk in accordance with Shariah.
- The company may provide financial services related to the management and dealings in issuing any Sukuk representing financial assets owned by any other holders as requested by them.
- Coordination with specialized departments in the MFNE, CBoS, Khartoum Stock Exchange (KSE) and any other regional and international markets in order to promote Islamic financial instruments and their issue.

The SFSC have used Government Investment Certificate financing (GICs) to finance development projects in Sudan worth more than one billion Sudanese pounds in the sectors identified below:<sup>40</sup>

- Domestic medical care projects importing advanced medical equipment for various advanced medical procedures.
- Importing very advanced medical equipment for Medical Supplies Corp.
- Constructing hostels in all states of Sudan.
- Rehabilitating river transport and the Railways Network to the value of SDG 140 million.
- Importing laboratories, chemicals and laboratory bottles for all Sudanese universities.
- Importing computers and accessories which were distributed to all the schools of Sudan.
- Infrastructure projects in Sudan's states.

Kuwait-based Path Solutions, an international core banking system provider for Islamic banks and financial institutions, signed a licence agreement with SFSC to deploy its iMAL Enterprise Islamic & Investment

<sup>37</sup> <https://www.developingtelecoms.com/tech/apps-services-devices/71-mobile-finance/5402-sudan-s-first-mobile-financial-service-launched.html>

<sup>38</sup> [http://www.pressbox.co.uk/Telecoms/RedCloud\\_enables\\_Bank\\_of\\_Khartoum\\_to\\_bring\\_Mobile\\_Financial\\_Services\\_to\\_all\\_of\\_Sudan\\_1544580.html](http://www.pressbox.co.uk/Telecoms/RedCloud_enables_Bank_of_Khartoum_to_bring_Mobile_Financial_Services_to_all_of_Sudan_1544580.html)

<sup>39</sup> <http://www.shahama-sd.com/en/content/about-company>

<sup>40</sup> <http://www.shahama-sd.com/en/content/about-company>

System across SFSC's business. SFSC sees this as an important step towards accelerating its operational efficiency and achieving growth targets. This would enable them to accelerate their business performance and help to boost the delivery of Sharia-compliant financial services. The solution will also help them eliminate various manual processes, enhance productivity, reduce errors and ensure 24/7 availability.<sup>41</sup>

### **CBoS Policies for Foreign Bank Dealings Post-Sanctions**

The CBoS recently set new controls, following the lifting of the economic sanctions imposed on Sudan, to enable Sudanese banks to deal with their foreign counterparts.<sup>42</sup>

According to its Assistant Governor, the CBoS is aiming at encouraging exports, increasing the competitiveness in new markets and creating a conducive environment for the entry of investors in the fields of production and exports. He urged the banks to complete dealings with the international banks, stressing the importance of removing barriers preventing benefiting from the payment systems and Arabic and non-Arabic facilities.<sup>43</sup>

The Secretary General of the Union of Arab Banks underlined the partnership between the public and private banks to finance small and medium enterprises and to create jobs for the youth to fight unemployment. He stated that governments and Arab Central Banks should combat unemployment, hoping that banks would encourage the financing of some projects for the benefit of society development.<sup>44</sup>

### **Dealing with the Liquidity Crisis Post-Sanctions**

Given the sanctions and embargoes against it, Sudan has been short of hard currency for years. After Dollar rates on Sudan's parallel forex market began to rise rapidly in 2010, the CBoS announced that the lack of hard currency, required for importing basic commodities such as wheat or medicines, was becoming acute. The secession of South Sudan in July 2011, with which Khartoum lost more than two-thirds of its oil revenues, exacerbated the crisis.<sup>45</sup>

As the situation continued to push the black market rate of the US Dollar upwards in 2016, the Sudanese government decided in October of that year on an economic reform programme, "to avoid the collapse of the country." In December 2017, the Sudanese government decided to implement a new austerity policy in an attempt to solve the financial crisis in the country. The customs rate of the US Dollar was raised from SDG 6.7 to SDG 18, to halt the weakening of the Pound on the black market.<sup>46</sup>

The measures were implemented in the first week of January 2018, leading to the doubling, and in some cases tripling of the prices of basic commodities. The sudden raising of the Dollar rate also led to the halting of incoming and outgoing traffic at the Port Sudan harbour, as suppliers refused to have their goods cleared.<sup>47</sup>

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<sup>41</sup> <https://www.finextra.com/pressarticle/70763/path-solutions-signs-sudan-financial-services-co>

<sup>42</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-cbos-develops-new-controls-to-enable-banks-to-deal-with-their-counterparts-abroad.html>

<sup>43</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-cbos-develops-new-controls-to-enable-banks-to-deal-with-their-counterparts-abroad.html>

<sup>44</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-cbos-develops-new-controls-to-enable-banks-to-deal-with-their-counterparts-abroad.html>

<sup>45</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>

<sup>46</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>

<sup>47</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>



The Dollar rate, however, continued to rise. The price of gold witnessed a major leap as well. On 5 February 2018, Khartoum increased the exchange rate of the US Dollar again, from SDG 18 to SDG 30. The prices of wheat and sorghum jumped. On 7 February 2018, the CBoS banned any import operations by banks using their own foreign currency without obtaining its prior approval.<sup>48</sup>

In early March 2018, the Dollar rate on the black market was at SDG 32, after it sold at a high of SDG 42 in early February. The National Chamber of Importers in Sudan planned to submit a protest memorandum to the CBoS about its policies concerning import procedures, stating publicly in the press that the bank's current policies were damaging imports and importers. In addition, they also criticised the ban on a number of goods by the Ministry of Commerce.<sup>49</sup>

These actions by the CBoS caused an initial collapse of liquidity. Bank customers complained that they at first could not withdraw more than SDG 3,000 (\$160). Later in February and early March 2018, banks raised the withdrawal ceilings from SDG 10,000 (\$550) to SDG 100,000. Each bank is now allowed to define its own limits, depending on the number of customers and the available funds.<sup>50</sup>

Sudan's liquidity challenges, due to the sanctions and embargoes, needed external support in order to solve it. Given the good economic relations and trade and economic cooperation between Sudan and Turkey, the country signed an agreement on 8 March 2018 with a Turkish company to provide banking facilities for the CBoS to the amount of US\$2 billion. This facility will be used to import petroleum products, wheat, and other agricultural inputs. The funding will be repaid over a period of 2 years. The company has already started providing gasoline and cooking gas; 2 shipment of gasoline have already been sent, along with 4 shipments of cooking gas.<sup>51</sup>

The liquidity situation is still a source of major concern. President Omar al-Bashir fired Sudan's Foreign Minister Ibrahim Ghandour on 19 April 2018 after he said that Sudanese diplomats abroad had been unpaid for months. Ghandour, who negotiated the lifting of decades-old sanctions with Washington in October 2017, said his ministry had also been unable to pay the rent of several Sudanese diplomatic missions due to a government cash shortfall. According to Ghandour, the situation had turned dangerous, which was why he had taken the issue into the public domain.<sup>52</sup>

Due to the Sudanese pound falling sharply against the US Dollar, the CBoS has devalued it twice since January 2018, as indicated above. After the USA lifted the trade embargo, it was expected that Sudan would experience a quick economic revival. However, it seemed the situation had not changed at all as international banks continued to be wary of doing business with Sudanese banks. In spite of the USA lifting sanctions against Sudan, it kept the country on its list of "state sponsors of terrorism", which makes it difficult for Sudan to access international loans and aid.<sup>53</sup>

These events created a situation in which a surging inflation rate of 56%, regular fuel shortages and rising prices of food items often triggered sporadic anti-government protests in Khartoum and some other towns. Protests erupted in January 2018 after prices of food items, mainly bread, more than doubled. These protests were quickly suppressed by security forces and several top opposition leaders and hundreds of protesters were arrested. Most of them have now been freed after Bashir ordered their release.<sup>54</sup>

<sup>48</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>

<sup>49</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>

<sup>50</sup> <https://www.mfw4a.org/news/news-details/article/2/sudan-liquidity-returning-after-banks-raise-withdrawal-limit.html>

<sup>51</sup> <https://allafrica.com/stories/201803110022.html>

<sup>52</sup> <https://www.nation.co.ke/news/africa/Bashir-sacks-Sudan-foreign-minister/1066-4490052-33wca/index.html>

<sup>53</sup> <https://www.nation.co.ke/news/africa/Bashir-sacks-Sudan-foreign-minister/1066-4490052-33wca/index.html>

<sup>54</sup> <https://www.nation.co.ke/news/africa/Bashir-sacks-Sudan-foreign-minister/1066-4490052-33wca/index.html>

On 22 April 2018, Sudan's Acting Finance Minister Abdul Rahman Derar called on the international community to totally lift the economic sanctions imposed on the country. He requested that Sudan also be removed from the State Sponsors of Terrorism list, that its debt problem be solved and that the sanctions' negative impacts be dealt with. He reiterated that sanctions had badly affected Sudan's vital sectors, including health, education, productive sectors, and infrastructure.<sup>55</sup>

In the latest moves to deal with Sudan's liquidity challenge, on 2 May 2018, President al-Bashir ordered the closure of 13 diplomatic missions and most of Sudan's trade offices abroad, in a bid to cut government spending amid serious economic challenges. Bashir ordered the foreign ministry to implement a "foreign representation restructuring plan". Sudan will shut all its trade and economic offices abroad, apart from the one in Abu Dhabi, which was kept open to finalise arrangements for Sudan's participation at Dubai's Expo 2020. Administrative staff will be cut by 20%, in addition to a previous decision to cut staff by 30%. Diplomats were instructed to handle administrative duties.<sup>56</sup>

## Conclusion

Given the lifting of sanctions against Sudan, the country offers unique investment opportunities and a welcoming business climate for the natural resources/mining industry, the agricultural industry, the livestock industry, as well as several others. Sudan is an emerging investment opportunity, offering access to one of the few untouched markets in the world. It is important for the normalisation of Sudan, however, that the US removes it from the list of countries sponsoring terrorism.

The financial services industry is important for the development of Sudan. It is clear that the banks in the sector make extensive use of Shariah compliant products. However, there are still various challenges for the optimal functioning of the industry. One of the most serious challenges facing Sudan currently, is the liquidity crunch it is facing. The scarcity of cash is causing countless challenges, amongst others the inability to fund its diplomats and embassies.

At an operational level, the development of mobile cash applications will stand the country in good stead. It will provide the means for the country to increase the number of consumers included in the formal financial system.

The article has identified a number of investment opportunities in various sectors. Financing these opportunities with internal funds is problematic. Getting funding from abroad is also still a problem. Sudan therefore finds itself in the proverbial Catch-22 situation. The banking system in Sudan, in spite of the lifting of sanctions, still needs to develop more comprehensively. The dominant role of the CBoS as far as ownership is concerned, needs to be reduced to that of other central banks, i.e. policy direction and supervision and not ownership.

Amongst the investment opportunities, one aspect that is primarily a government function, is that of the development of infrastructure. The financing of infrastructure development is government's responsibility. The country's lack of a well-functioning financial services sector places a lot of pressure on this sector. PPPs is one strategy used by other countries to address the deficit in their expertise and financing requirements of their infrastructure projects. It will be a while before Sudan can utilise this strategy with any measure of success given the challenges facing both the country at large and the financial services industry specifically.

In addition to the liquidity problem it is facing, Sudan must address the unacceptably high inflation rate. While the liquidity crunch is playing havoc with its exchange rate, the effect thereof is exacerbated by this very high inflation rate.

Investors with the requisite risk appetite have several opportunities to select from, should they be interested in targeting Sudan. The challenges facing the financial services industry should not detract from this.

<sup>55</sup> <https://www.egypttoday.com/Article/2/48428/Sudan-urges-to-be-lifted-from-State-Sponsors-of-Terrorism>

<sup>56</sup> <https://www.iol.co.za/news/africa/sudan-closes-diplomatic-missions-in-deep-spending-cuts-14778853>

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