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Islamic Economics and Finance in Sudan: An Overview

Abdurrahman Jemal Yesuf

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ABSTRACT

The main objective of the report is to provide short and key insights on the development and the current status of the Islamic finance industry in Sudan. The report contains basic information that enables readers to understand the development, scope and current status of Islamic finance in this country (Sudan). Islamic finance in Sudan has a long history starting in 1977 when the first Islamic bank, Faisal Islamic Bank, was established. Now, Sudan has a fully fledged Islamic financial system. The financial system includes multiple market players such as banks, takaful companies, and microfinance institutions under the governance of the Central Bank of Sudan (CBoS) and the Insurance Supervisory Authority (ISA). The report, therefore, gives information about Islamic banking, takaful and stock market. It also provides a highlight on the role and current status of Islamic microfinance institutions in socioeconomic developments. It shows the zakah system and its structures, its current status and potential to grow in the future. The country has high Shariah supervision over the financial activities and this report also shows the role of Shariah in these sub components of the Islamic finance.

Keywords: Islamic Finance, Shariah, Sudan, Sukuk, Takaful.

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Abdurahman is an Ethiopian and has received his master's degree in accounting and finance from Addis Ababa University, Ethiopia, in 2009. He has taught at Haramaya University, Ethiopia, in the Faculty of Business and Economics. He has also got post graduate diploma in Islamic banking and Insurance from the UK in 2010. Currently, he is finishing his Ph.D. study in finance at Marmara University with a research on 'The effect of government's economic policy uncertainties on Stock Market Returns-in Emerging Markets'. His research interests include risk management in Islamic finance, capital market, and Sukuk.

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Sudan at a Glance

Official Name:	The Republic of the Sudan 
Location:	Sudan is located in the north-east corner of Africa. It borders 7 countries - Egypt, Eritrea, Ethiopia, South Sudan, Central African Republic, Chad and Libya – and the Red Sea.
Coordinates:	15º 36´N / 32º 32´E
Size:	1,882,100 km^2. Making it the second largest country in Africa.
Climate:	Tropical in south; arid desert in north; rainy season varies by region (April to November). Temperatures reach a maximum of 45 Cº in summer
Population:	40.23 million, 61% under the age of 24; 7.3% above the age of 55,33.3% of the population is urban
Ethnic groups	70% Sudanese Arabs, rest include Arabized ethnic groups of Nubians, Zaghawa, and Copts.
Religion:	97% Sunni Muslim, 3%Christian
Literacy	Total population: 75.9%; male: 83.3%; and female: 68.6% (2015 est.)
Government:	Federal Presidential Constitutional Republic
President:	Omar al-Bashir
Capital City:	Khartoum (5.129 million people (2015 est.))
Administrative Organization:	Sudan is divided into 6 regions (Blue Nile, central Sudan, Darfur, Kassala - Eastern Sudan, Kordofan, and Northern) and 18 States.
Natural Resources:	Minerals: oil, iron, gold, copper, chrome, zinc and mica.
Currency:	The Sudanese Pound (SDG)
Language:	Arabic (official), English(official), Nubian, Ta Bedawie, Fur
Time Zone	UTC/GMT +3

Country Overview

Sudan, officially named as the Republic of the Sudan, is a country in Northeast Africa. The country has international borders with 7 states. It is located on the Red Sea and is bordered by Egypt and Libya to the north, Chad and Central African Republic to the west, South Sudan to the south and Eritrea and Ethiopia to the east. The River Nile traverses the country from South to North while the Red Sea washes about 550 miles of the east coast making Sudan a bridge between Africa and the Middle East. Sudan's terrain is mostly flat plains broken by several mountain ranges. It is dominated by deserts and semi-deserts. Before 2011, Sudan was the largest country in Africa by surface and the fifth largest by population. As a result of the secession of South Sudan in July 2011, Sudan has lost more than 0, 64 million sq km of its territory and about 10 million of its population.

Table 1. Economic and Financial Landscape	
GDP Growth Rate by Years	
2016 (forecast)	4%
2015	4.90% (WB)
2013	4.4%
2014	3.6%
GDP Breakdown by Sectors (2014)	
Services	48%
Agriculture	28%
Industry	24%
Inflation Rates	
Average Inflation (2011 – 2014)	28%
2014	36.9%*
March 2015	23.2%**
Other Indicators	
Largest sector in GDP contributions	Services Sector
There should be a description of the yardstick which indicates so	160th (out of 189 countries)

* The highest in Africa due to drop in exchange rates and lifting of fuel subsidies

** Due to Central Bank of Sudan's (CBoS) policy of curbing liquidity and limiting money supply

Sudan is the Sub-Saharan Africa's second largest country by surface, and the seventh largest by population. It covers an area of 1.88 million sq km. According to the estimates of the World Bank, in 2012, Sudan's population was approximately 40.235million (World Bank, 2015). It consists of both indigenous African ethnic groups and descendants of immigrants from the Arabian Peninsula.The Arabs account for about 70% of Sudan's population. Today most tribes in the country speak Arabic and the Arab culture predominates. Over 97% of the population of Sudan is also Sunni Muslims with a small Christian minority (UNDP, 2014)

Macroeconomic Overview

Post-secession Sudan has the fourth-largest national economy in Sub-Saharan Africa measured by nominal GDP and the fifth-largest measured by GDP at purchasing power parity (PPP) (World Bank, 2013). Sudan's economy is characterized by poor diversification. In 1999, Sudan began to export petroleum and soon its economy became highly dependent on the oil sector. The share of the petroleum sector in Sudan's GDP increased from 2% in 1999 to 21% in 2007 and averaged 9% in 2008–2010. In 2006–2010, the contribution of the oil sector to total exports exceeded 90% (Siddig, 2012). The emergence of the petroleum sector in Sudan, has led to changes in the structural composition of the GDP of the country, which for several decades had remained virtually unchanged despite fluctuations. Traditionally, agriculture and the service sectors were the main contributors to Sudan's economy. From the early 1960s to the late 1990s, the share of industry to the GDP of the country was only around 15%. However, with the start of the oil exploration, the share of the industry to GDP went up and reached an average level of 28.6% between 2005 and 2010. The increase in the contribution of industry to the Sudanese economy has been accompanied by the decline in the share of the agricultural sector to GDP and only a slight change in the contribution of the service sector.

Table 2.
Macroeconomic Overview

Population	40.23 million	2015
GDP	$97.16 billion*	2015
GDP Growth	4.90%	2015
Inflation	16.9%	2015

* World Bank, 2015

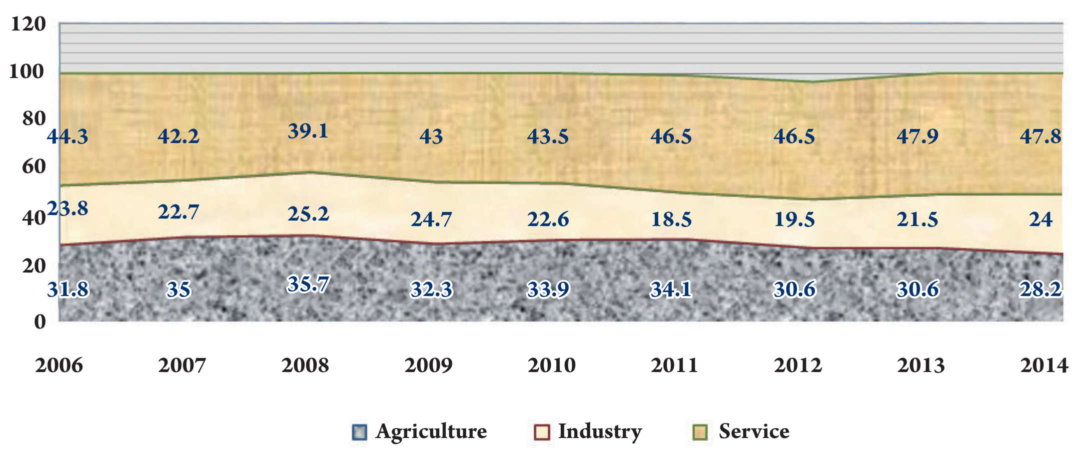
Sudan is classified by the United Nations as one of the least developed countries of the world.[1] The classification is based on three criteria: low-income per capita, weak human development and high economic vulnerability. Sudan also belongs to a group of countries of low human development.The country has experienced protracted social conflict, civil war, and in July 2011, the loss of more than 80% of its oil fields due to the secession of South Sudan.The oil sector had driven much of Sudan's GDP growth since 1999. For nearly a decade, the economy boomed on the back of rising oil production, high oil prices, and significant inflows of foreign direct investment. The interruption of oil production in South Sudan in 2012 for over a year and the consequent loss of oil transit fees further exacerbated the fragile state of Sudan's economy. Sudan is also subject to comprehensive US sanctions. But the country has withstood much of these setbacks and has taken important steps to diversify its economy and fund sources i.e. commercial banks, private and public sector partnerships, etc., in order to bolster its income through other sectors.

Developments in Real GDP

Sudan started oil production in 1999 and went into a period of rapid growth that lasted for more than ten years; the rapid growth however came to an end due to the global financial crises of 2007/08 and the separation of the southern region in 2011. Since the economic shock of South Sudan's secession, Sudan has struggled to stabilize its economy and make up for the loss of foreign exchange earnings. Due to separation of the south, the country's growth rate of real GDP dropped from 5.2% in 2010 to 1.4% in 2012. However, it had been recovering during 2013 and 2014 to 4.4% and 3.6%[2] respectively. The Gross Domestic Product at current prices rose from $12.257 billion in 2000 to $97.16 billion in 2015 and per capita from $394.13 to $1,985.21 during the same period[3]. Sudan's economic growth was also expected to rise above 5% in 2015 and is expected to increase further to above 6% in 2016 and 2017.[4]

Contributions of Major Economic Sectors to GDP

Sudan is attempting to develop non-oil sources of revenues, such as gold mining, while carrying out an austerity program to reduce expenditures. The largest sectors in GDP contributions are the service, agriculture and industry sectors. In order to absorb the shock of losing a high percentage of their oil reserves due to the secession of the south, the Sudanese government has been engaging in strategic partnerships with local and foreign private investors to increase agricultural exports. The major contributions of these three economic sectors to the GDP in 2014 were 28.2% from agriculture, 24% from industry, and 47.8% from service sector.



Source: Sudan Central Bureau of Statistics.

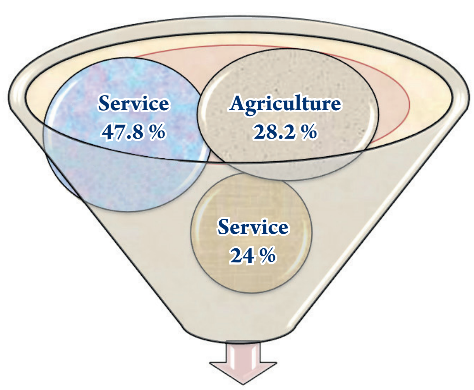


Figure 1. Contribution of Major Economic Sectors to GDP (2006-2014)

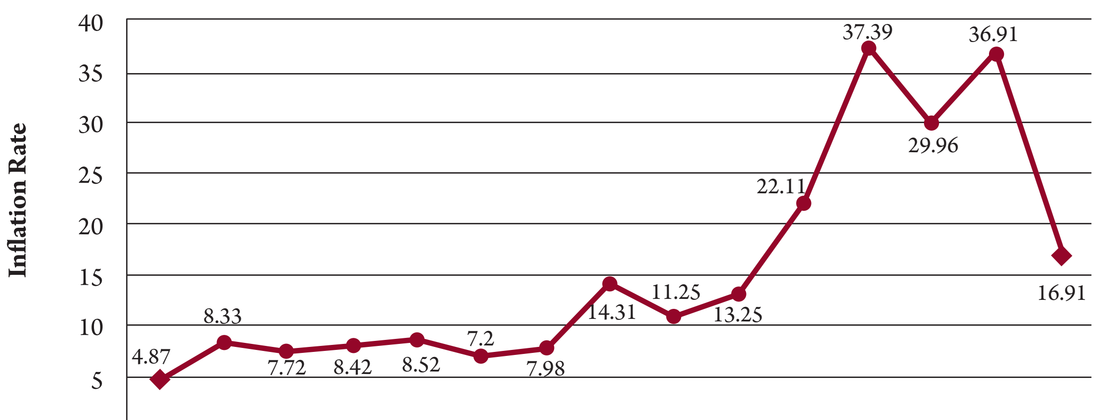
The Agricultural Sector: Sudan is the world's largest exporter of is it gum Arabic?, producing 75-80% of the world's total output. The contribution of the agricultural sector to the GDP dropped from 30.5% in 2013 to 28.2% in 2014. The drop is attributed mainly to the smaller planted area that led to drop in the production food grains cash crops and also as a result of the decrease in the availability of finance to the agricultural sector during 2014.Agriculture continues to employ 80% of the work force. The main agricultural products include cotton, groundnuts (peanuts), sorghum, millet, wheat, gum Arabic, sugarcane, cassava (manioc, tapioca), mangoes, papaya, bananas, sweet potatoes, sesame seeds, animal feed, sheep and other livestock.

The Industrial Sector: The contribution of the industrial sector to GDP rose from 21.6% in 2013 to 24.0% in 2014, and that is attributed to the high oil contribution from 2.5% in 2013 to 3.4% in 2014. Mining and quarrying contributions increased from 0.7% in 2013 to 0.8% in 2014 and manufacturing industries from 15.7% in 2013 to 17.2% in 2014. Notably, contribution by the electric and water sector remained stable at 2.6% between 2013 and 2014.The main industry products are oil, cotton ginning, textiles, cement, edible oils, sugar, soap distilling, shoes, petroleum refining, pharmaceuticals, armaments, automobile/light truck assembly, and milling.

Services Sector: The contribution of the services sector towards the GDP declined slightly from 47.9% in 2013 to 47.8% in 2014 resulting from negative contribution of some sub-sectors. Financial intermediation services contributed negatively to the GDP, while transport and communications contribution dropped from 10.7% in 2013 to 10.4% in 2014. Finance, insurance, real estate and other services sub-sectors followed the same slight drop to reach 12.1% in 2014 from 12.2% in 2013. On the other hand, positive contributions were made by government services which increased slightly from 11.3% in 2013 to 11.4% in 2014, as well as, the contribution of trade, hotels and restaurants which increased from 8.7% in 2013 to 8.8% in 2014. The contribution of all other sub-sectors such as building and construction, community and other social services, private non-profit services, and import duties, remained constant at 3.4%, 1.2%, 0.8%, and 1.6% respectively during 2013 and 2014.

Inflation

Sudan also faces rising inflation, which reached 47% on an annual basis in November 2012, subsiding to37% in 2013. According to the IMFs International Financial Statistics (IFS), the average inflation rate increased from 13.25% in 2010 to 36.91% in 2014. This was attributed to the partial



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rate	4.87	8.33	7.71	8.42	8.52	7.2	7.98	14.3	11.2	13.2	22.1	37.3	29.9	36.9	16.9

Figure 2. Annual General Inflation Rate (%) in Sudan

devaluation of some government related transactions and the removal of subsidies from oil prices, in addition to the increase in the prices of most food items and some imports. The average annual inflation rate from 2001 to 2010 was only 9.18%. However, average inflation between 2011 – 2014 was around 31.59% with a notable increase in recent years. Inflation, however, dropped from 36.91% by the end of 2014 to 16.91% by the end of 2015 and continued to decrease during 2016. This trend is attributed to the Bank of Sudan's policy, which aims at curbing liquidity and limiting the increase in money supply.

Table 3.
Islamic Economy Landscape

Global Islamic Economy Indicator (GIEI) 2015 -2016			**SUDAN'S RANKING 12th GIE Indicator Score 29**		
Islamic Finance	Halal Food	Halal Tourism	Halal/Modest Fashion	Halal Media & Recreation	Halal Pharmaceutical/ Cosmetics
10th	23rd	36th	54th	44th	39th
Islamic Banking Assets 2014: SDG 92,317 million — Takaful contributions income 2013: SDG 1,101 million — Sukuk of US$ 130 million (issued in 2007 for 7 years)	US$ 250,823 thousands Food exports to OIC countries — One certification available for local producer	77.6 Inbound Muslim tourists	No exports, lack of exports to OIC countries — Six labor fairness index	23% access to internet — No media exports, lack of media exports to OIC countries	US$ 53,079 Pharmaceutical export to OIC — US$ 48,110 Cosmetics exports to OIC

Source: www.zawya.com/Global Islamic Finance 2015

Historical Overview of Islamic Financial System in Sudan

Sudan has a long history of Islamic finance starting in 1977 when the first Islamic bank was established (Faisal Islamic Bank). It was one of the few fully-fledged Islamic banks in the world. Following the bank's lead, the government opened five more Islamic banks between 1980 and 1983.

In 1979, due to a lack of Sha'riah compliant insurance services, the Faisal Islamic Bank founded Sudan's first-ever takaful firm, the Islamic Insurance Company. However, it took four years to introduce legislation referring to Islamic insurance. By 1985 there were three more takaful companies operating in Sudan.

In the mid 1980's under President Jaafar Nimeiry, the government made its first attempt to undergo full Islamization of the financial system in parallel with similar endeavors in Iran and Pakistan. This attempt was followed by more successful reforms during the 1990's rule of president Omar al-Bashir, enforcing Sha'riah law upon all financial institutions. This included a 1992 decree on the control and supervision of insurance providers and the establishment of the High Sha'riah Supervisory Board to oversee the progress of reform implementation and to ensure compliance of financial transactions with Sha'riah while working in collaboration with Sudan's Central bank. As a result of the reforms, there were 29 banks operating under the interest-free system in Sudan by 1997.

A year after the signing of the Comprehensive Peace Agreement (CPA) in 2005 ending the Sudanese Civil War, there was an amendment to CBoS Act of 2002 that changed the fully Islamic financial system into a dual one. This meant that the system in North Sudan continued to operate under Sha'riah law, while South Sudan pressured banks to convert to a conventional business model or cease operations there. However, after the secession of South Sudan in 2011, Sudan's financial system became fully Islamic once again.

Table 3.
Islamic Economy Landscape

Islamic Finance in Sudan started in	**First Islamic Bank**	**First Takaful Firm**	**Governing Act**	
1977	Faisal Islamic Bank (1977)	Islamic Insurance Company (1979)	Central Bank of Sudan (CBoS) Act 2002	
Islamic Finance Development Indicator (IFDI) 2014 -2015			**Sudan's Ranking** 11th	
Quantitative Development (QD)	**Knowledge**	**Governance**	**Awareness**	**Corporate Social Responsibility (CSR)**
12th — 37 Banks — 15 Insurance Companies — 30 Microfinance Institutions	**19th** — 1 university — 4 courses/ degrees	**7th** — Moderate regulatory environment — Centralized Shariah Board — 60 Shariah scholars within Sudanese Financial institutions	**10th** — 3 seminars — 2 conferences — 198 news covering Sudan	**13th** — US$ 18.27 million Zakat,Qard Al-hassan and charity fund disbursed by financial institutions

Source: www.zawya.com/islamic-financedevelopment-indicator

Sudan's Move from Secular to Islamic Financial System

The Islamization of the financial system means that all financial institutions have to operate according to the principles of Shariah. The basic Shariah principle applied by Islamic financial institutions is the prohibition of usury(*riba*). Before gaining its independence in 1956, Sudanese financial banks had been subsidiaries or branches of foreign institutions and operated according to the British legal system. The first bank, the National Bank of Egypt, was established in Sudanese territory in 1903. In the following years, Barclays Bank (1913), Ottoman Bank (1949), Misr Bank and Credit Lyonnais (1953) set up their branches in Sudan (Kurt-Gumus et al., 2011). The main purpose of those banks during that time was to finance international trade operations and act as deposit takers for both the foreign and local companies operating in the country (Al-Harran, 2003).

In 1956, Sudan gained independence from Britain. In 1959 the Bank of Sudan was established to succeed the Sudan Currency Board and to take over the Sudanese assets of the National Bank of Egypt. In February 1960, the Bank of Sudan began acting as the central bank of Sudan, issuing currency, assisting the development of banks, providing loans, maintaining financial equilibrium, and advising the government. But the Islamic financial system did not start to emerge in the country until the late 1970s.

The first step towards Islamization was the statement which was enclosed in the 1973 Sudan Constitution – 'Islamic law and custom shall be the main sources of legislation'. So as to bring this statement into life, the President of Sudan Jaafar Nimeiri appointed the committee for the 'Revision of Sudanese laws to bring them into conformity with Islamic teachings (Warde, 2000). The process of Islamization included the financial system, at first mainly banks. It should be stressed that this process coincided with the emergence of Islamic banks in other Muslim countries, mainly in the Middle East. The reasons why such institutions were established across the Muslim world were connected with the neo-revivalist movements among Muslim societies on the one hand and the rising wealth of some Middle Eastern countries. One of the most influential movements was the Muslim Brotherhood, established in Al-Ismailijja (Egypt)in 1928 by Hasan al-Banna. The Muslim Brotherhood criticized interest-based financial system in Egypt and other parts of the Muslim world and argued that since Islam provides its followers with a comprehensive ideological framework for all aspects of life, economic affairs should be also included within that framework. That is the reason why all interest-based activities both in the public and the private sectors should not be allowed (Saeed, 1996). The opinions of Muslim Brotherhood and other Muslim movements found followers in the academic world as well as among market practitioners.

But if it were not the wealth of the Gulf states, which was the result of the oil crisis and the enormous increases in oil prices, the development of Islamic finance probably would have been much slower. Almost all the Islamic banks that were established in the1970s were partly or even totally funded by oil-linked wealth. A group of Faisal Islamic banks belongs to this group of financial institutions (Saeed, 1996), including Faisal Islamic Bank of Sudan which was founded in 1977. The establishment of the bank was based on a special Act of Parliament which gave it some valuable privileges such as tax exemptions on all assets and profits, and also on employees' salaries and pensions and complete freedom to transfer and use its own foreign currency deposits. In a very short time between 1979 to 1982, the bank increased its equity by more than 350% and over the same period its net profit increased from 1 million to 21 million Sudanese Pounds(Stiansen, 2004). As a result, the bank became the second largest bank in Sudan[5].

The success of Faisal Islamic Bank triggered the establishment of other Islamic banks in Sudan in the following years, such as Tadamoun Islamic Bank, Sudanese Islamic Bank, Islamic Co-operative Bank, Al-Barakah Islamic Bank of Sudan and Islamic Bank of Western Sudan (Ahmed, 2008).

In 1983, the first attempt to Islamize the whole banking system was made. The President of Sudan, Jaafar

Nimeiri issued a decree forcing all commercial banks to stop interest-based operations with immediate effect and to negotiate the conversion of their then existing interest-bearing deposits into Shariah acceptable forms. Only foreign transactions were temporarily allowed to continue on the basis of interest. The attempt, however, was not successful. First of all, banks based their operations mainly on murabaha which is considered to be a very controversial, not always Shariah-compliant instrument. Secondly, banks applied Islamic products only formally in their financial statements and reports submitted to the central bank. Also, the policy makers from the central bank considered the transformation process to be not well prepared, rather a mere political decision imposed by the government. The whole Islamization process was stopped in 1985 when the government changed (Iqbal &Molyneux, 2005).

In the next few years, when the policy makers tried to bring more democracy to Sudan, some traditional banks returned to their conventional practices. But after the coming of president Omar al-Bashir in 1989, the idea of Islamization of the Sudanese financial system returned. It was implemented in December 1990, again without significant preparations in the legal and institutional infrastructure. It also did not help because during this transitional moment in the financial framework of the economy the country was facing several challenges which were caused by the civil war, US embargo, and large inflow of refugees from Ethiopia and Chad, all of which coincided with the drought striking the African continent (Chapra, 2000). Nevertheless, since the early 1990s, only Shariah compliant instruments can be offered by Sudanese banks. This is supervised by the High Shari'ah Supervisory Board, which was founded in 1992 (Bekkin, 2009).

Naturally, the Islamization of the whole country was met with protest in that region. As a result, in order to lessen the conflict between the north and the south after the CPA was signed, in 2006 the Central Bank of Sudan Act from 2002 was amended. According to the Section 5 of this Act, in the south only conventional banking was to be allowed. So up to June 2011 when the South Sudan gained independence, there was a dual banking system in Sudan: Islamic in the north and conventional in the south. After the secession of South Sudan, the country returned to a fully Islamic financial system.

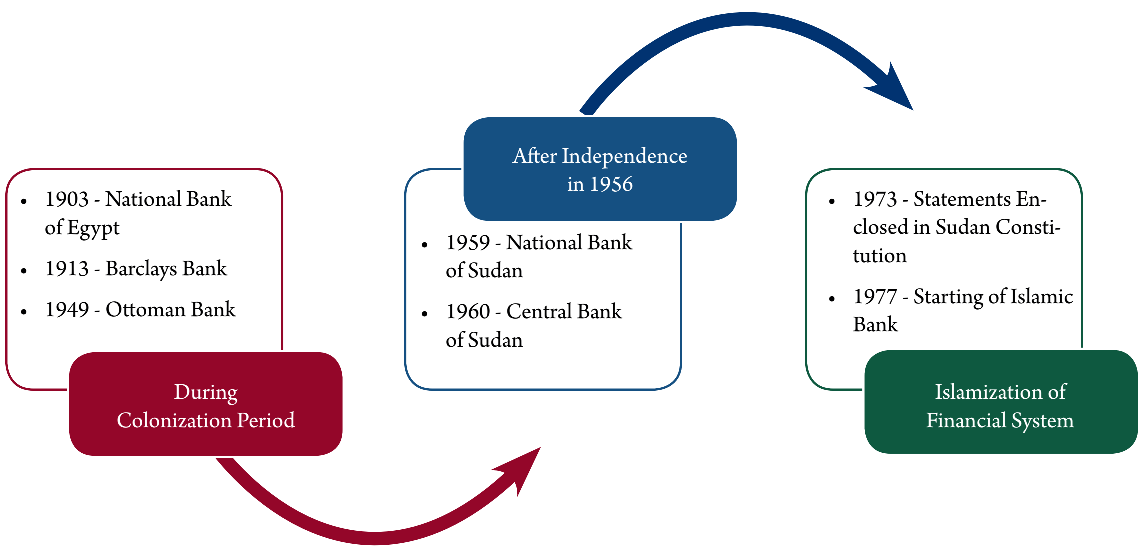


Figure 3. Islamization of Financial System

Banking Sector in Sudan

Islamic Banking Overview
37 Islamic banks hold almost 90% of the financial system
Islamic banking assets reached to SDG 92.3 billion, Financings to SDG 53.1billion, and Deposits to SDG 53.4 billion in 2014
Islamic banking assets grew by 19% from 2013 to 2014
Murabaha is "the model" in Sudan financing transaction, yet prohibits Tawarruq transactions
Banking Business Act 2003 is the backbone of Islamic banking system
Leading position in terms of centralized Shariah commission, since 1992
Transition to Basel III is under revision

Emergence of the Islamic Banking System in Sudan

In Sudan, a system of Islamic banking and finance is in operation at the national level. By the start of the new millennium it became apparent that Sudan was the only country that managed to successfully complete the project of Islamizing its entire financial sector. In Iran, despite the official prohibition of interest (riba), interest-based transactions are quite common within the banking sector and the black market. For example, mudarabah (profit-and-loss sharing) comprises an ample portion of financing instruments in Iran, but in a form that does not really comply with Shari'ah – the profit of the bank is specified in advance and does not depend on the outcome of a project. Meanwhile, in Pakistan, after several attempts to eradicate interest-based banking, it was decided to adopt a dual model, thus giving equal ground to conventional and Islamic financial institutions (Bakin R, 2009).

The banking system in Sudan has experienced dramatic development since independence in 1956. Prior to independence, the Sudanese banking system was characterized as colonial banking. The commercial banks were part of the foreign institutions and there was neither a central bank nor a local currency. Within this environment, there existed a banking and credit system consisting mainly of expatriate banks. The main objectives of those banks were to serve the needs of both export and import trade and act as deposit takers for the expatriate and indigenous firms operating in the country (Al-Harran, p. 181). After independence, the Sudan Currency Board was established in 1957 to issue the new Sudanese currency.

In1959, the Bank of Sudan Act was passed and in the following year, the Central Bank became one of the first operational central banking institutions in Africa. The Bank of Sudan assumed responsibility for the administration of foreign exchange and related currency matters including the regulation of the issuance of notes and coins and the development of a sound credit and banking system, and served as a banking and financial adviser to the government (Al-Harran, p. 182). In May 1970, a fundamental change took place in the banking arrangements in Sudan. The government decided to nationalize the entire commercial banking sector and severely restricted the direct influence of foreign capital over Sudan's banking and insurance sectors and export-import business. Moreover, through nationalizing the entire commercial banking sector, the government tried to develop and improve the banking facilities available to various sectors, especially the traditional sector and the rural areas which desperately needed banking facilities (Al-Harran, p. 182). By the mid-seventies, private foreign banks were allowed to operate in Sudan again, side-by-side with the nationalized banks. These foreign banks included the Bank of Oman, the Arab Emirates Bank, Abu Dhabi National Bank, International Bank of Credit and Commerce, City Bank, the Pakistani-owned Habib Bank, the Bank of America and the Islamic Bank for Finance and Development. However, these banks were prohibited from dealing with Sudanese citizens, but were allowed to open accounts for import-export agents and Sudanese nationals working abroad (Magda, 2005).

During that time, the idea of the Islamization of the modern banking system emerged in Egypt. It consisted of introducing interest-free banking on the basis of profit sharing, as interest is prohibited by Islam (Abdul Gafoor, 1996, pp. 36-37). The first Muslim economist to introduce the concept of 'interest-free banking' was Professor Ahmad El-Najjar, known as 'The Founder of Islamic Banks' (Magda, 2005). His idea was put into practice in a savings bank at Mit-Ghamr in Egypt in 1963. However, this bank was closed due to various political reasons (Çizakça, 1996, p. 195). In the early seventies, many conferences were held regarding these issues in different Muslim countries. After 1973, and owing to the oil boom and massive accumulation of petro-dollar surpluses in the Middle East, the emergence of many Islamic Banks became a fact in some Muslim countries. The first Islamic Bank was the Dubai Islamic Bank (1975)(Ariff, p. 47) followed by the Islamic Commercial Bank of Abu Dhabi(1977) and Faisal Islamic Bank of Sudan (1977). This was soon followed by the establishment of a whole group of Faisal Islamic Banks in many Muslim countries (Magda, 2005).

The first step in applying the idea of Islamic banking in Sudan was in 1966 at the Department of Economics, Islamic University of Omdurman. At that time, the University introduced an article on Islamic Economics as a major subject in the Department of Economics, and this launched the idea of establishing an Islamic Bank in Sudan. But several obstacles nipped this idea in the bud. However, over time, the Sudanese political system changed, and Prince Mohammed Al Faisal Al Saud met Sudanese President Gaafar Nimeiri in February 1976 and asked him to allow the creation of an Islamic Bank in Sudan. As a result, the Faisal Islamic Bank was officially registered in 1977. In May 1977, eighty-six founders who were Sudanese, Saudi, and from some other Muslim countries, agreed on the idea of establishing the bank and together supplied the capital required, which was identified at that time as Paid-up Capital of 600 Million Sudanese pounds. Thus, on August 18, 1977 the Faisal Islamic Bank of Sudan (FIBS) was recorded as a public shareholding limited, in accordance with the Companies Act of 1925. The FIBS commenced operations effectively in May 1978.

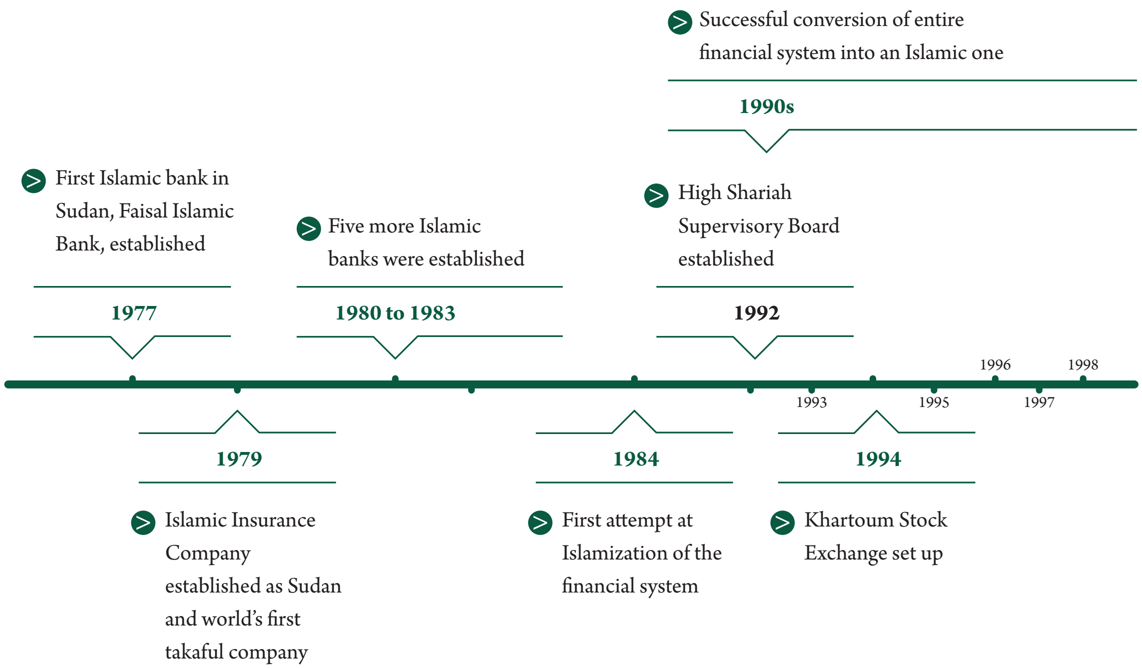


Figure 4. Evolution of Islamic Banking (1977-1994)

The establishment of the Faisal Islamic Bank in Sudan marked the first step to Islamize all Sudanese banks later. During that time, this Islamic bank found great support not only from the government but also from the people, since the majority of the Sudanese were afraid to deal with the previous commercial banks which operated on an interest basis (Magda, 2005). This was clearly proven by the fact that the real paid-up capital of this bank had increased from 0.6 to 2 million Sudanese Dinars in less than 4 years. This increase represented 17% and 30% of the total paid-up capital of 18 commercial banks, both private and national. During that time, the shares were divided between Saudis, Sudanese and other Muslims in the ratio of 4:4:2 respectively (Shaaeldin and Brown, p. 121). The success of the Faisal Islamic Bank in this short period encouraged the government to open 5 more Islamic Banks. Al-Tadamun Islamic Bank, which was opened in 1980, was followed by the Sudanese Islamic Bank and the Islamic Cooperative Development Bank which were opened in 1982. Moreover, Al-Baraka Bank was opened in 1983, followed by the Islamic Bank of Western Sudan (Bashir and Malik, p. 9-10). In 1984, two more Islamic banks were founded; the Islamic Bank for Western Sudan, and the Al Baraka Sudanese Bank. All these banks succeeded in attracting more depositors, and hence, more branches were opened all over the Sudanese states. Shamal Islamic Bank was founded in 1985, and functioned until 1990.

The success of the Islamic banking system encouraged the government to convert the entire financial system into an interest-free system, following the same policy as in Iran and Pakistan (Haron, 1997, p. 6). In 1989, the government decided to change the whole banking system to an Islamic Banking system, in line with the Islamic orientation of the entire country. The first step was changing the regulation of the central bank of Sudan to make it Islamic. The decision took effect in 1991 when the Bank of Sudan issued the Banking Business (Organization) Act, which stated that all banking finance

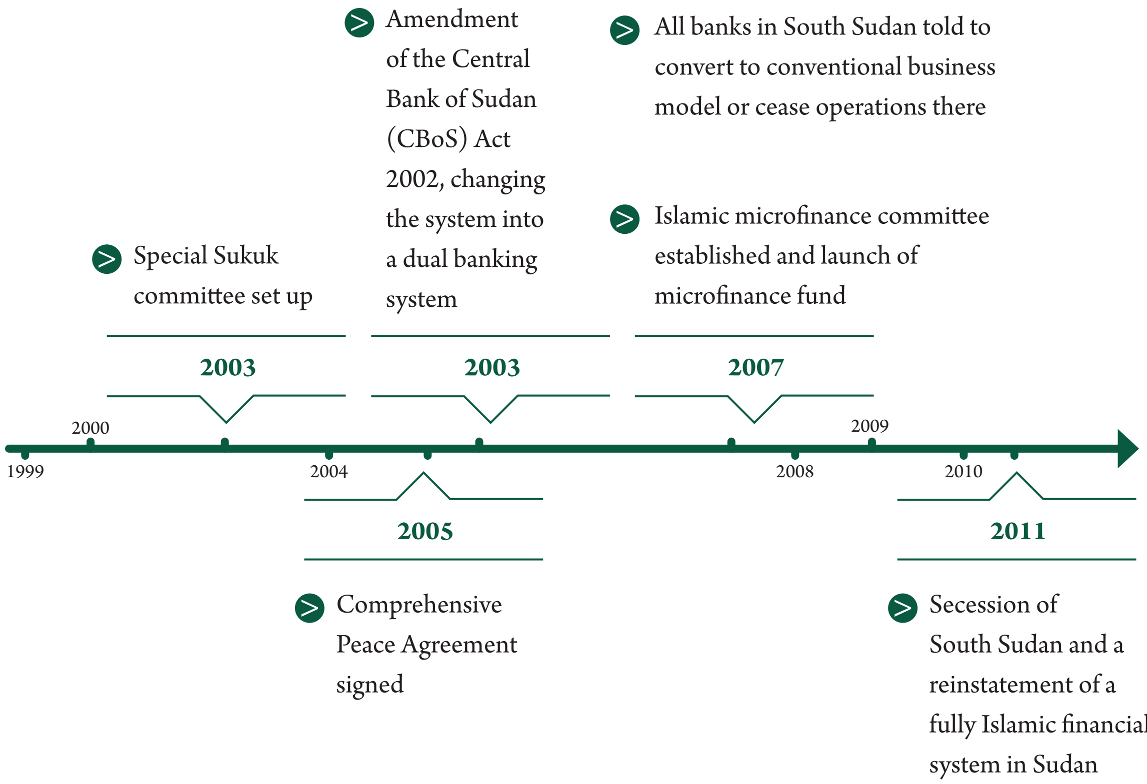


Figure 5. Evolution of Islamic Banking in Sudan (1995-2011)

transactions for all banks in Sudan must be managed according to *Shari'ah*. This, in turn, forced all banks, commercial and foreign, to operate with Islamic financial modes. This conversion increased the number of banks operating as interest-free banks from 6 in the 1980s to 29 in the year 1997. All these banks have succeeded in attracting more depositors. However, after the peace agreement, which stipulated the division of wealth and authority, the southern Sudan banks officially separated from the authority of the central bank and continued operating as conventional banks.

Structure and Operation of Islamic Banking in Sudan

In Sudan, a system of Islamic banking and finance is in operation at the national level. The financial system is dominated mainly by the banking sector which constitutes more than 90% of the assets of the financial system. The financial system has been fully Shariah compliant since 2011. As of June 2015, the financial system in Sudan constituted of 37 banks, 36 non-banking financial institutions (NBFIs), and more than 30 Microfinance institutions.

The Sudanese fully Shariah compliant banking sector is shaped by 37 banks holding assets of SDG 115,503 billion as of March2016 and a steady compound annual growth of 16.64% since the Independence of South Sudan in 2011. In 2012, the government issued a 'Three-year Economic Stability Program' that aimed at restoring economic stability as a result of reduced petroleum revenues in the government budget. Thereafter, the lending to the private sector and financial institutions in Sudan grew notably in 2012 to SDG 27,278 billion compared to SDG 19,830 billion in 2011.

The total assets of operating banks in Sudan have increased by 19% from 2013 to 2014 but Sudan still remains "under-banked" with financial institutions concentrated predominantly in and around the capital

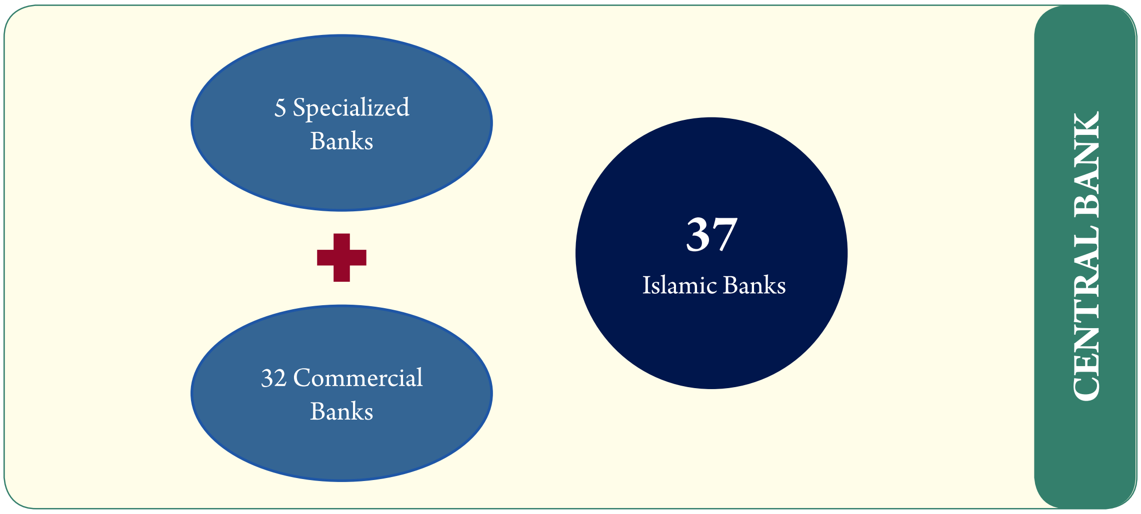


Figure 6. Number of Islamic Banks and Clasiffication in Sudan

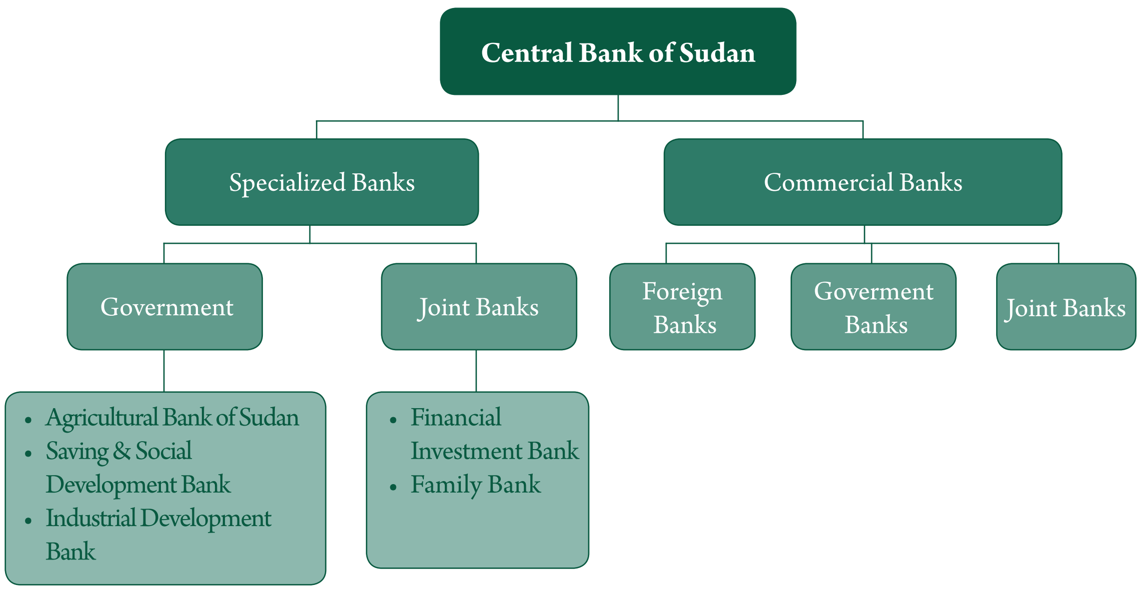


Figure 7. The structure of the banking system in Sudan (in 2007)

Source: Central Bank of Sudan

city of Khartoum. The government has supported microfinance as a means to increase access to finance for the under-banked.

Like other Islamic banks around the world the banks in Sudan had in the past been relying on Murabaha financing. As for the modes of financing, Murabaha was the most popular in 2014 as it takes more than half of total financing and is considered the easiest mode to be applied due to low administrative costs and guaranteed profit. However, the share of other financing products such as Musharaka, Mudaraba, and other operations is on the increase and presently constitutes more than 40 percent of total bank financing. In terms of sectors, other economic sectors that include services received most of the financing followed by construction and agriculture which overtook the industrial sector by a small margin in 2014 and is also reflective of its Three-year Economic Program that also focuses on production of eight agricultural and mining goods.

Table 5.
Flow of finance by Modes of Islamic Finance (2007-2014)

	Murabaha	Musharaka	Mudaraba	Salam	Mugawla	Ijara	Istisna	Qard Hassan	Others	Total
2007	7,315,101	1,631,380	497,619	81,715	-	-			3,061,470	12,587,285
2008	6,899,680	1,769,329	876,420	290,650	-	-			4,845,215	14,681,294
2009	8,186,340	1,641,402	956,036	349,618	1,005,582	24,779			3,496,029	15,659,786
2010	11,474,102	1,981,884	1,480,020	257,586	2,295,556	52,190			4,566,100	22,107,438
2011	14,312,933	1,548,468	1,424,744	174,806	1,952,167	35,795	-	-	3,880,274	23,329,187
2012	12,021,906	2,636,883	1,296,315	459,838	2,160,054	89,594	20,115	125,475	5,292,662	24,102,842
2013	18,012,731	3,740,711	1,772,902	665,257	3,929,456	331,230	32,387	99,619	5,238,195	33,822,488
2014	20,180,433	3,625,294	2,086,517	1,464,259	5,178,257	144,597	43,193	208,716	5,747,359	38,678,626

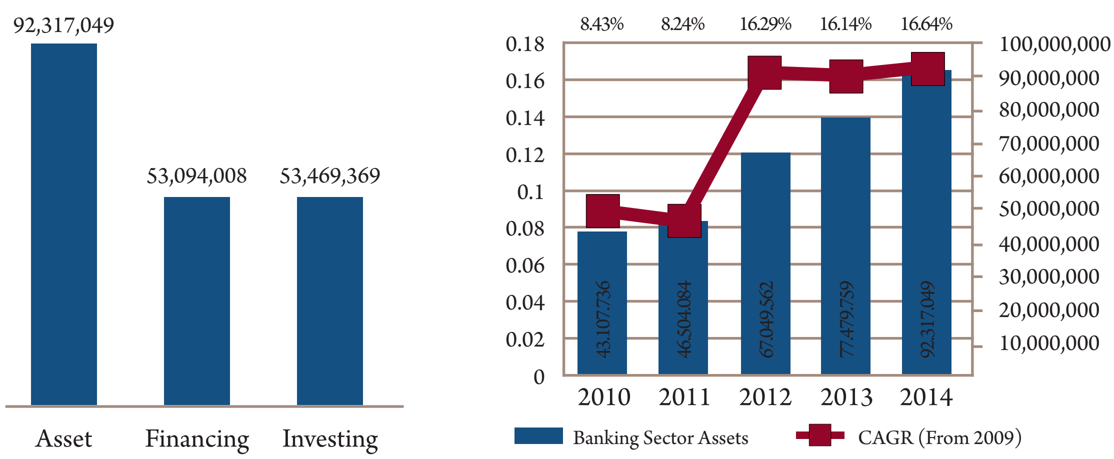


Figure 8. Sudan Banking Sector Proportion (2014), in SDG Thousand)

Source: Central Bank of Sudan, Economic and Financial Statics Review, December 2014

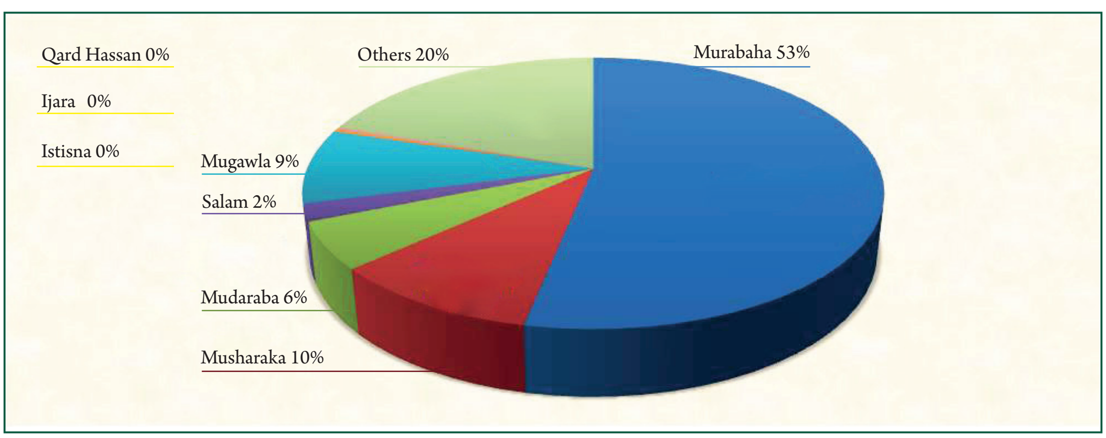


Figure 9. Flow of Finance by Modes (2007-2014)-Central bank of Sudan

Source: Central Bank of Sudan, Economic and Financial Statistics Review

On the liabilities side, private banking deposits, that include individual and private institutions, drove most of Sudan's banking deposits as a result of growing banking services. Private deposits' share of total banking deposits grew since 2010 along with deposits from states and local government totaling SDG 48,751 billion (91%) and SDG 2,057 billion (4%) respectively.

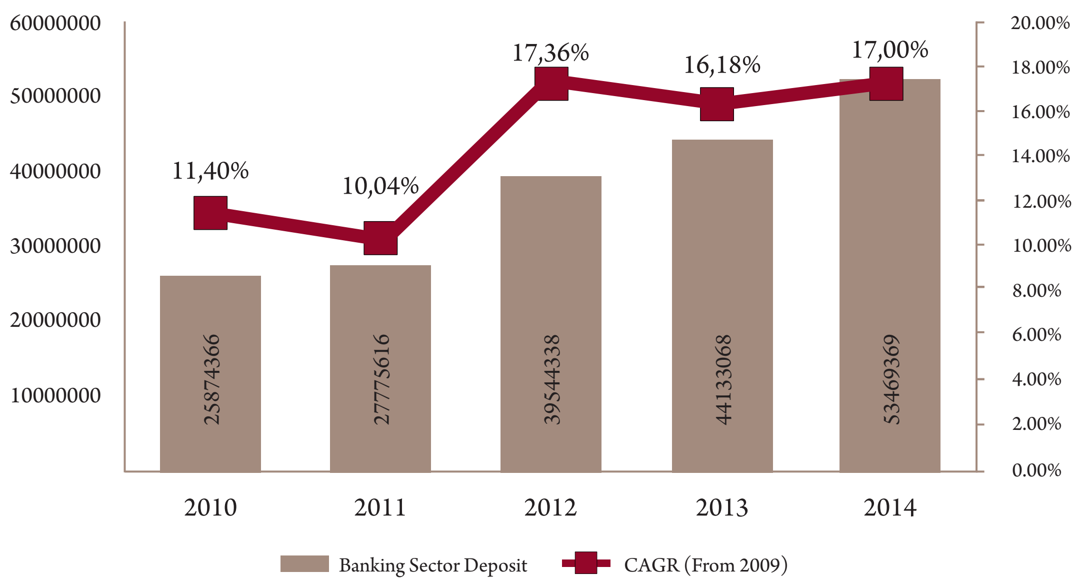
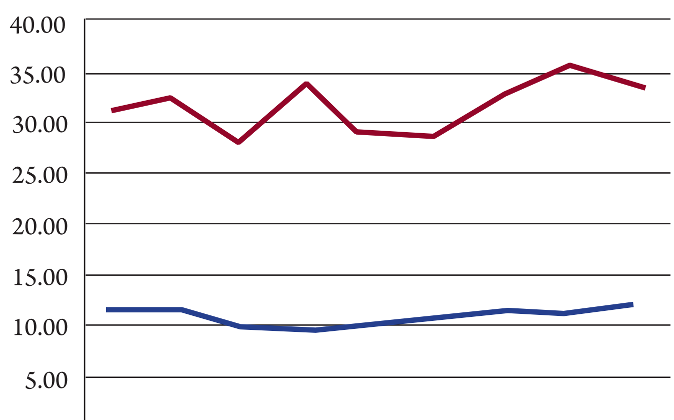


Figure 10. Sudan Banking Sector Deposits



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Musharaka Average Shares %	31.10	32.30	27.70	33.70	28.60	28.20	33.30	36.20	34.50
Musharaka Average Shares %	11.40	11.50	10.20	9.70	10.70	11.30	12.00	11.60	12.80

Figure 11. Murabaha Average Profit Margin and Musharka Average Share (%)

Source: Central Bank of Sudan, Economics and Financial Statistics Review

The Role of the Central Bank of Sudan

In Sudan, the Bank of Sudan or the Central Bank is the leader of all Islamic banks. It emerged as the most prominent institution adhering to those Islamic banks' transactions and operations. The

Central Bank of Sudan has played an active role in promoting the process of Islamization of the banking industry in the country. Amongst regulatory initiatives Banking Law 1992 and Central Bank of Sudan Act 2002 remain significant. The Central Bank of Sudan also introduced financial reforms in the country over the period; 1999-2002, according to which Basel requirements, aligned with the Shariah principles, were initiated in the country. For Shariah harmonization and implementation, the Central Bank established the High Shariah Supervisory Board (HSSB) in 1993 which is the supreme authority with regards to all Shariah matters of the Islamic banking industry in the country (Karim & Azhar, 2015, p. 275).

The central bank helps Islamic banks to control their liquidity by issuing Musharakah certificates. The central bank of Sudan *Musharakah* Certificates, issued against the participation of the central bank in the equity of private banks, as well as *Ijārah* certificates, are used to manage the liquidity of the domestic banking sector through open market operations, though it has been an expensive instrument in practice. Authorities in Sudan also issued government *musharakah* certificates (*Shahama*) and government investment certificates (*Sarah*) to help conduct monetary policy.

In Sudan, banks may hold liquid assets, at a percent not exceeding 25%, out of the outstanding finance portfolio in the form of the Central Bank *Ijārah* Certificates (*Shihab*), Government Musharakah Certificates (*Shahama*), Government Investment Certificates (*Sarah*), and Khartoum Oil Refinery *Ijārah* Certificates(*Shama*). The Government *Musharakah* Certificates and Government Investment Certificates were originally developed for bank liquidity management purposes, but these *sukuk* are also used for public deficit financing. The majority of Islamic financing (70% to 80 %) takes the form of *murâbahah* (Demirgüc-Kunt, Klapper,and Randall, 2013). Recently, Sudan has set a 30% limit to *murâbahah* in banks' financing portfolios.

Corporate Banking Growth Opportunities

Infrastructure development in Sudan has a national focus. It is one of the main areas of focus under the economic sector in Sudan's National Strategic Plan, the Second Five-Year Plan (2012-2016). 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 (represented 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.

However, the country's growing infrastructure needs are beyond the budget capacity of local and central governments. In 2014, the country's overall 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) is essential.

The country has made progress in rehabilitating the infrastructure that was negatively impacted by conflicts and years of civil wars. Going forward, 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.

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. Attractive and innovative infrastructure financing tools and clear marketing strategies are therefore needed by banks. 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.

Agriculture Sector Financing Opportunities

Tackling the agricultural 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.

After South Sudan seceded in July 2011, the Republic of Sudan shifted 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)[6]. The agricultural sector employs 80%[7] 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 regard to financing trade, working capital, and capital expenditures.

Nowadays, 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 offers commercial banks incentives to collaborate in financing productive sectors (Agriculture & industry)[8]. Challenges facing the agricultural sector require numerous initiatives[9]. Such initiatives should be focusedon providing financing opportunities and innovative offerings:

- 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, slaughter houses, 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

Examples of financing the needs for the agriculture sector include:

Working capital: Financing short term needs or day to day expense requirements for crop and non-crop activities. Such as crop production, poultry farming, dairy farming, fish farming, maintenance, etc.

Term Financing: Financing medium to long term financial requirements for crop and non-crop activities. Such as financing the purchase of equipment and machines, transport financing, including tractors and vans, livestock financing, financing the construction of sheds & farms, etc.

Scaling Up Microfinance

Microfinance is considered to be one of the key focus areas for the Sudan government. Sudan's objective is to achieve economic and social development by increasing the share of microfinance projects as a proportion of domestic GDP.

To date, Sudan has made significant progress in microfinance and has implemented strategies for developing and expanding the microfinance sector. A major milestone occurred in 2007 when the CBoS established a 'Microfinance Unit' that is responsible for setting microfinance policies & frameworks and developing socioeconomic banking.

In 2008, the Sudan Microfinance Development facility was established by the CBoS and the Multi-Donors Trust Fund, which is administered by the World Bank. The facility offers financing and financial contributions to banking and non-banking institutions working in microfinance with the goal of creating a viable system for the banking sector, private sector investors, and donors.

In addition, CBoS policies were designed to encourage banks to deploy at least 12%[10] of their financing portfolios for microfinance projects and social dimension financing. With increased government efforts directed towards microfinance, banks should develop strategic plans to more actively serve the increasing demands of this growing market segment. This can be accomplished by offering diversified products that extend beyond credit and include a more comprehensive suite of products and services such as financial and non-financial products as illustrated below.

According to a World Bank survey conducted in urban areas throughout the state of Khartoum[11], the demand for microfinance is high. The survey revealed that 1.5 million people (21%of the total population) expressed interest in microfinance loans. Moreover, 72% of the micro-entrepreneurs' surveyed said they had no access to formal or informal credit services.

So far, the results of Sudan's microfinance initiatives have been encouraging. According to the CBoS, microfinance extended by banks increased to SDG 2,055 million in 2014 from SDG 1,546million in 2013, representing an increase of 33%. In addition, the total number of microfinance beneficiaries from banks and other microfinance institutions increased from 614,000 in 2013 to1,108,454 in 2014[12].

In general, wide spread poverty (around half of Sudan's population lives below the poverty line)and a deteriorating economic environment has forced many individuals to pursue microfinance alternatives. Given the rapid growth of microfinance,Sudan has a significant opportunity to pursue global microfinance providers thatwant to establish a foothold in the country and throughout the region.

Penetrating the SMEs Market

Although Sudan has made strong progress in expanding financial inclusion throughout the country, SMEs (Small and Medium-Sized Enterprises) continue to face constraints regarding access to financing compared to larger enterprises.

The SME sector is a key driver to the economic development and GDP growth of most countries. A well-functioning SME sector contributes to poverty reduction, job creation, and macroeconomic stability. From a banking sector perspective, market players play an important role in creating financing opportunities for the SME sector given their growing demand for financings options.

Regulatory Framework for Islamic Banking

The Bank of Sudan was established in 1959, its role has been developing gradually to strengthening the banks performance, maintaining confidence in the banking system, maintaining the stability of the banking sector and reinforcing the role of the banking sector in achieving economic stability.

Banking institutions are segregated into 26 joint venture banks, 7 foreign banks and 4 government/ development banks. It shows that the banking sector is the backbone of the Sudan's financial system and will continue to play an important role as financial intermediary and primary source of financing for the domestic economy. Hence, there is a need to assess the regulatory framework of Islamic bank in Sudan.

General Assessment on Legal and Regulatory Frameworks

The original law of 1984 provided for all banking to be Shariah compliant was superseded by separate laws in 1993. The country has established High Shariah Supervisory Board in 1993 with the Central Bank, and in 2003 by the Business Banking Act.

Table 6.
The Governing Acts

The Act	Targeted İnstitutions/Activities	Purpose
The Banking Business (Organization) Act, 2003	Company registered under the provisions of the Companies Act, 1925, or an institution, or corporation, established by this act, or any foreign bank, licensed to practice banking business	Govern the practice of banking business
Foreign Exchange Dealing Act 1981	n.a.	n.a
The Property Mortgaged to Banks (Sale) Act 1990	Customers own mortgaged property as underlying assets in murabahah financing	To sell the mortgaged property
Anti-Money Laundering & the Financing of Terrorism Act 2010	Financial and Non-financial Institutions	Combating Money Laundering and Terrorism Financing
The Electronic Transactions-Act 2007	Person involves in financial transactions	Safeguarding the relations, financial disposals, personal status and all legal matters including individual disposals or contracts as may be concluded or executed totally or partially through electronic data message
Deposit Guarantee Fund Act 1996	n.a	n.a

The banking system in Sudan is regulated and supervised by CBOS as provided under section 6(c) of the Bank of Sudan Act, 2002.[13] The Act states that one of the objectives of CBOS is to *"regulate, control and supervise banking activity and act to develop and enhance the effectiveness of banking activity, so as to achieve balanced economic and social development."* Currently, CBOS administers the acts and regulations as reported in the table below. Sudan has also adopted Islamic international regulatory standards. Banks are required to adhere to AAOIFI standards and to adopt a number of IFSB guidelines, including the definition for HQLA. The AML/CFT laws have been strengthened, as a result of which Sudan was removed from the Financial Action Task Force (FATF) "grey list" in October 2015. However, some gaps remain in the prudential framework. These include that the banking law contains restrictions on lending to individual directors and shareholders of the bank, but there is no restriction on aggregate financing of such connected parties (IMF, 2017).

Shariah Ecosystem in Sudan

Sudan tops Shariah governance. The country has a centralized Shariah board at the national level and Shariah scholars are not members of multiple boards. Bahrain would have topped Sudan but for its Shariah scholars on multiple boards. The issue of Shariah scholars sitting on multiple boards is still a pressing one for the Islamic finance industry. The concerns are twofold: potential conflicts of interest, and multiple commitments resulting in scholars unable to carry out their supervisory roles effectively. Malaysia and Sudan are the only countries in the top 10 that have stopped Shariah scholars from sitting on multiple boards within a sector. Shariah scholars are free to sit on more than one boards in different sectors, for example in banking and takaful. Scholars working in Malaysia and Sudan are the only ones in the top 10 with no multiple board memberships. Number of Shariah scholars in 2013 was 58 in Sudan.

The Shariah ecosystem in Sudan is regulated and governed by several enactments, administrative instructions and laws. However, the Banking Business Act 2003 can be considered as the backbone of the Islamic Banking system.

Upon the introduction of Islamic banking in Sudan, Shariah governance was solely regulated by the internal Shariah committees of the Islamic banks. This began with the establishment of the first Is-

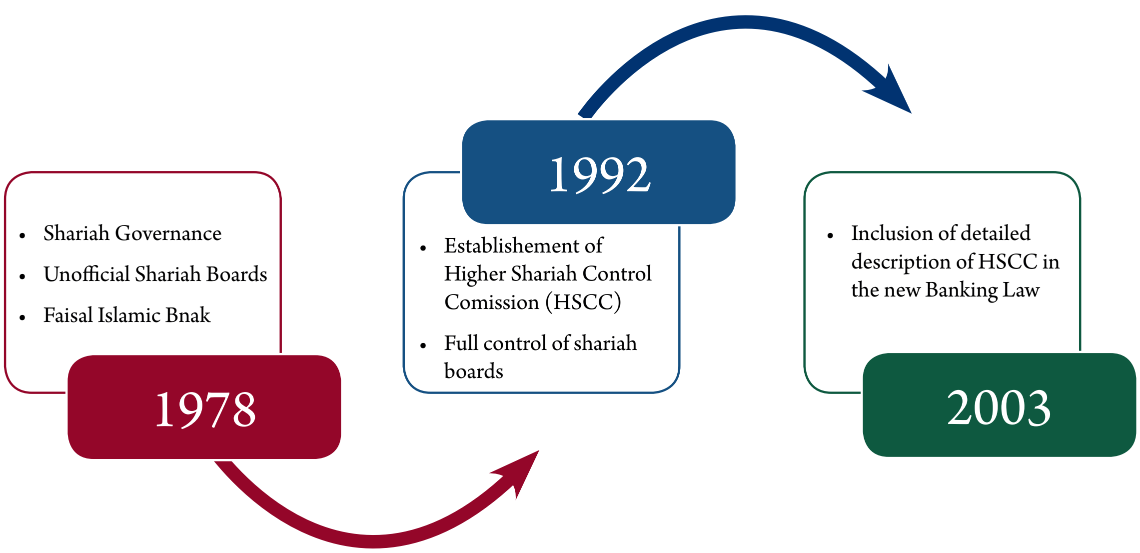


Figure 12. Shariah Ecosystem Development Progress in Sudan

lamic bank in Sudan in 1978 and continued up to 1991.However in 1992, the Sudanese government created a Higher Shariah Control Commission (HSCC) – an independent body, as a regulatory body to supervise the development of the banking system and its compliance with Islamic law (IMF, 2017). Later, Sudan became the first country in the world to form a Supreme Shariah Council within the Central Bank. Subsequently, the entire financial system has come under Shariah oversight. As a result, all financial institutions need to be compliant to the rules and principles of Shariah law.

The body also assists private Shariah boards to overcome any challenges, directing, guiding and leading the whole industry to comply with Shariah regulation.

As per the Article 2 of the law, the HSCC has ten members, half of whom must be Shariah scholars and the rest can be scholars from other disciplines such as economics, banking, law and/or accounting.

From its initial establishment through an administrative instruction issued by the Finance Minister in March 1992, up until 2003, the HSCC has worked on a regular basis without full authorization. However, in 2003 with the new law, HSCC was included in chapter 2 of the Banking Regulation Act and became fully authorized in accordance with the laws and regulations relevant to the banning of all interest-based banking and economic transactions in the country.

Apart from its supervisory role, the HSCC is entrusted in an advisory capacity to suggest and advise on Shariah related issues upon the request of the Central Bank or other Islamic banks, and study Shariah issues facing the central bank and indeed other banks or financial institutions. Furthermore, the HSCC issues Fatwas on matters referred to it and revise laws, regulations and policies of the central bank and other banks and financial institutions in the country to ensure their compliance with Shariah.

Shariah boards of the Islamic banks and other Islamic financial institutions are obliged to coordinate and communicate with the HSCC in order to be updated on its decisions and directives. CBoS, Islamic Banks and other Islamic financial institutions have to abide by the fatwas, which are issued by the HSCC on Jurisdictional Disputes related with banking or finance. CBoS oversees Islamic banks and other Islamic financial institutions and it may also penalize them financially or administratively for any violation of Shariah rules.

Insurance Sector in Sudan

One of the distinct parts of Insurance system in Sudan is known as Takaful. It is a system of Islamic insurance based on the principle of cooperation as voluntary or mutual assistance where the risk is shared collectively by the group contributing to the Takaful against any risk.

Takaful Overview
15 insurance companies contributing to market premiums of SDG 1.1 billion in 2013
High outflow of premiums caused by lack of reinsurance capacity, with only 2 re-insurance companies
General insurance is driving the sector with 62% of contributions
Health insurance is the most demanded product

The Islamic insurance System in the Sudan dates back to the year 1979. The country started Islamic Insurance in 1979 when Faisal Islamic bank established the first Islamic Insurance Company in the world.

The system started when the Faisal Islamic bank in Sudan encountered the problem of insuring its assets and operations. The bank's Shariah Supervisory Board prohibited the bank to use the commercial insurance companies which existed in the Sudanese market at that time. This was because the insurance system of the commercial insurance companies did not comply with the Shariah principles and provisions.

Faisal Islamic Bank (Sudan) established the Islamic Insurance Company in 1978, starting its operations in January 1979 as the first Islamic Insurance Company in the world. That was followed by Al Baraka Insurance Company established by Al Baraka Bank in 1985 followed by the National Cooperative Islamic Insurance Company (now renamed Taawuniya) established by the Islamic Cooperative Development Bank in 1989 followed by El Salama Insurance Company established by the Sudanese Islamic Bank in 1992.

As may be noticed, all these companies were established by Islamic banks which indicate the important role played by Islamic banks in the promotion and development of the Islamic Insurance Industry.

Shiekan Insurance and Reinsurance Company, established in 1983, voluntarily converted to an Islamic insurance company in 1990. All the other companies were converted by law in 1992 following the Ministerial Decree of the Minister of Finance No. 219 for the year 1992 which mandated the conversion of all the conventional insurance companies to Islamic companies.

Table 7.
List of Sudanese Insurance & Reinsurance Companies

Name	Year of Establishment	Remarks
Shiekan & Re Co.	1983	Voluntarily converted to an Islamic Insurance Company in 1990.
Islamic Insurance Co.	1978	Started operations in 1979 as the first Islamic Insurance Companyin the world.
Juba Insurance Co.	1984	Converted to an Islamic Insurance Company by lawin 1992.
Middle East Insurance Co.	1981	Converted to an Islamic Insurance Company by law in 1992.
United Insurance Co.	1968	Converted to an Islamic Insurance Companyby law in 1992.
EL Baraka Insurance Co.	1985	Started operations as an Islamic Insurance Company.
EL Salama Insurance Co.	1992	Started operations as an Islamic Insurance Company.
Savanna Insurance Co.	1989	Converted to an Islamic Insurance Company by law in 1992.

EL Nelein Insurance Co.	1980	Converted to an Islamic Insurance Company by law in 1992.
General Insurance Co.	1961	Converted to an Islamic Insurance Company by law in 1992.
Sudanese Insurance & Reinsurance Co.	1967	Converted to an Islamic Insurance Company by law in 1992.
Taawuniya Insurance Co.	1989	Started operations as an Islamic Insurance Company.
BlueNile Insurance Co.	1965	Converted to an Islamic Insurance Company by law in 1992.
National Reinsurance Co.	1973	Converted to a Re-takaful Company by law in 1992.
P.T.A-Sudan.	2002	Re-takaful window of ZepRe

Market Performance of Insurance Sector in Sudan

The financial sector in Sudan operates through many different finance vehicles including insurance. Sudanese Islamic Insurance continues to be the most acceptable Shariah compliant insurance offering with the longest track record. Currently, the insurance sector consists of 15 companies, including 9 general insurance companies, 4 composite insurance companies, and two re-insurance companies.

Despite sanctions on Sudan, the insurance sector continues to strengthen its foundation and has performed well over the past few years from 2010 to 2013. The continuous growth in insurance sector can be measured by high contributions accompanied with a rewarding surplus.

From an institutional perspective, the insurance sector is governed by the CBoS and the Insurance Supervisory Authority (ISA). From 2011 to 2013, the insurance sector in Sudan experienced strong growth with contributions growing by 21.7% CAGR to reach SDG 1,007 million by 2013. The composite insurance business, represented by only 4 insurers, accounts for 62% of the insurance contributions in Sudan by the end of 2013 and it continues to account for the modest proportion of the insurance sectors.

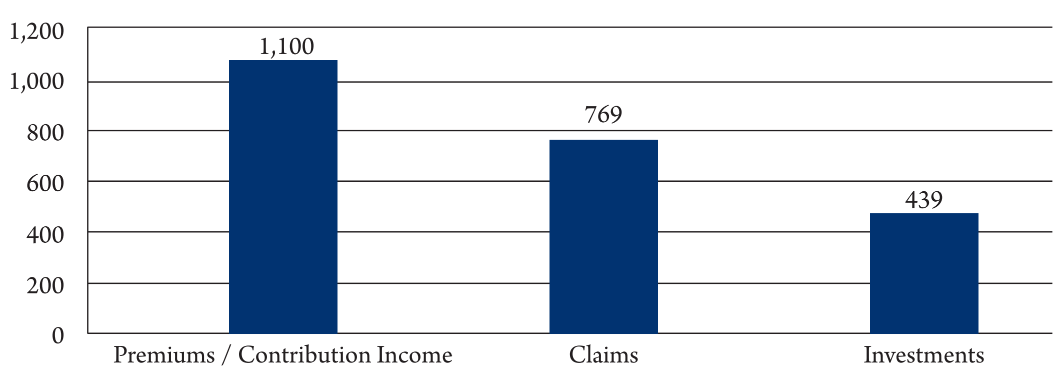


Figure 13. Sudan's Insurance Sector Proportion (2013)

Source: Bank of Khartoom (BOK)

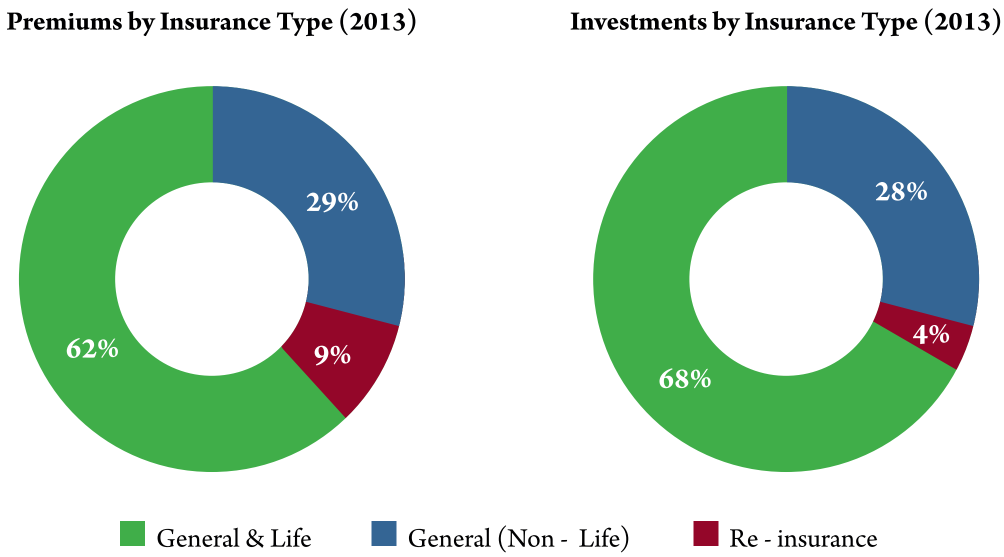


Figure 14. Premiums and Investments by Insurance Type (2013)

Source: Bank of Khartoom (BOK)

Corporate Insurance Growth Opportunities

The insurance sector in Sudan is still relatively small with limited penetration. This creates plenty of growth opportunities in light of the current economic climate driven by the government's First Five-Year Plan (2007 – 2011) and the Second Five-Year Plan (2012 – 2016).

The growth in infrastructure development requires substantial funding beyond what the government is able to finance. As a result, the private sector will need to play a key role in infrastructure funding and risk protection. Currently, the Sudanese government is heavily involved in the insurance sector. However, the rapid expansion of higher risk infrastructure projects will drive increased demand for more attractive protection plans than what the government can currently offer.

In response, insurance companies, both state-owned and private, will have an opportunity to play a major role in the future of infrastructure development. However, in order to be successful, insurers will need the government to consider strengthening its partnership with the private sector and NGOs through Public Private Partnership(PPP) mechanisms.

With increased funding needs for such infrastructure projects, the insurance sector will play a vital rolein providing risk protection, as well as in bearing mortgage risk from project funding. Engineeringin surance, property insurance and personalized products should be also utilized across the different phases of infrastructure projects.

Insurance Potential in Agriculture Development

At the state level, the agricultural sector was made a top priority in addition to infrastructure development. In Sudan, the agricultural sector accounts for approximately 16% of bank financing and employs almost 80% of the country's workforce[13]. This creates a strong need for both financial default insurance and workforce insurance.

As part of the agricultural development policy, agriculture insurance is at the top of the President

Omer El-Bashir's agenda. In particular, the government is always keen to support the growth of the industry and promote policies that help alleviate wide spread poverty. Currently, 50% of insurance premiums are subsidized by the state to provide coverage for small farmers, especially in the states of the Blue Nile, Upper Nile, South Kurdufan and Northern State[14]. From 2003 to 2008 government support for insurance premium subsidies increased by 37% to reach SDG 13.13 million in 2008.

Sudan is endowed with enormous agricultural resources, including more than 200 million feddans[15] of arable land, 279 million feddans of rangeland and forests, and more than 140 million heads of livestock. Therefore, extending insurance to this sector is a key factor in enhancing agricultural development in Sudan and fostering economic growth. To achieve this goal, future plans should be taken into consideration:

a. Due to shortage of rain in Sudan, offering sthat provide coverage to such rural areas should be introduced by insurance companies. This may require the support of thegovernment and cooperative companies to participate as policy holders in such funds, as well as, the support of scientists to utilize remote sensing mechanisms to assess the impact of the weather.

b. Academy that is obliged to train and prepare the personnel in insurance related fields, including operational, technical, Shariah compliance and investment professionals.

c. Convince the local insurance companies to provide agriculture coverage and seek the support of the international insurance companies within the same field especially in Africa.

d. A call for regional and international financial institutions to provide financial support as an investment in agriculture fund, which is a growing segment in the coming years.

e. Shariah compliant re-insurance capacity should be put in place to improve the progress of Islamic insurance experience.

Micro Insurance as an Impulse for Microfinance

As part of the financial inclusion policy, the CBOS promoted the use of microfinance by establishing the "Microfinance Unit" to improve socioeconomic banking. To date, the unit has been effective in providing people from low income backgrounds with greater access to financing facilities. In addition, micro insurance should be promoted as a key driver for further improvement.

Micro insurance would play a major role in providing protection coverage against a variety of operational and financing risks. Coverage against large-scale losses incurred by banks from small-scale farm financing facilities will require insurance companies to develop innovative new product offerings that can mitigate this financial burden.

Since 2008, micro insurance in Sudan has witnessed solid growth driven by the CBOS introducing the Micro insurance pilot project from 2008 to 2011 to insure against the risk of microcredit operations. The project generated a total of SDG 6.3 million in insurance premiums.

Currently, the country is working on establishing a micro insurance pool in collaboration with insurance companies and the central banks of Sudan that will foster wider adoption.

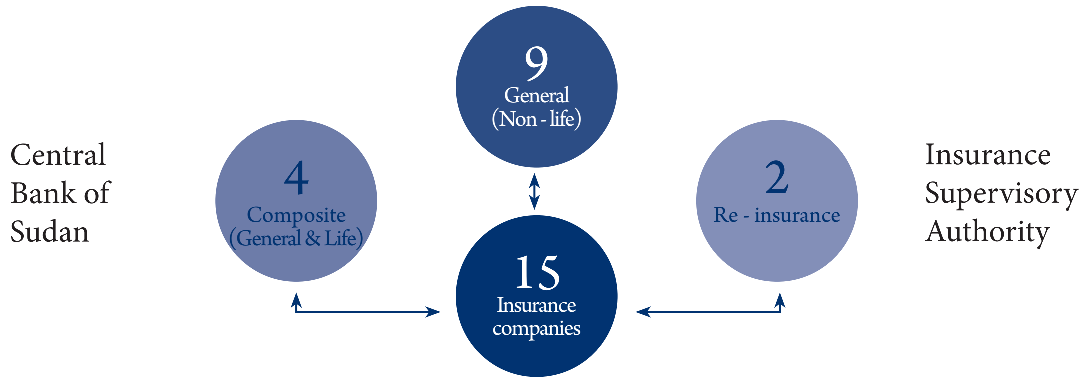


Figure 15. Insurance Companies Classification

The Legal Framework for Insurance Companies

Formation and Registration

In Sudan, the formation and registration of companies is governed by rules prescribed in the Companies Act, 1925. Any two persons or more can incorporate a private company while a minimum of seven is required for the formation of a public company.

Basic Principles for the Formation of an Islamic Insurance Company

To fit in the legal framework of the formation and registration of a new company as outlined above, the Shari'ah Supervisory Board of Faisal Islamic Bank dictated the following principles;

a. The formation of a Shari'ah Supervisory Board to govern and guide the practice

b. Segregation of funds of the shareholders and the policyholders by maintaining two distinct and separate accounts, an account for each party

c. Investment of funds in Shari'ah compliant instruments

d. Underwriting surplus (if any) is to be distributed to the policyholders only in the manner decided by the Board of Directors and approved by the Shari'ah Supervisory Board and the Policyholders General Assembly

The Regulatory and Supervisory Framework

Insurance Supervisory Authority (ISA)

The Insurance industry throughout the world is regulated and supervised by governments with the primary objective of protecting the interests of insurance consumers. In many countries in the region insurance supervision and control is carried out by units within government ministries. Insurance supervision and control in Sudan rests with the Insurance Supervisory Authority (ISA) which falls under the direct supervision of the Minister of Finance and National Economy.

Until 1992, the insurance industry in Sudan was regulated by the Controller of Insurance Act, 1960 which remained in force and applicable to all conventional and Islamic insurance companies. This act was repealed in 1992 following the adoption of the Supervision and Control Act, 1992 which in turn repealed following the introduction of Insurance Control Act, 2001.

All these changes were made so as to accommodate the changes involved the entire economy of Sudan, including the insurance industry, which was governed by the provisions and principles of Islamic Shariah since 1992.

The Insurance and Takaful Act, 2003 was introduced to define the scope, subject and parties of insurance and takaful contracts so as to be used as a reference in courts. It is worth mentioning that the term takaful is used in Sudan to refer to life insurance as distinct from general insurance.

The High Shari'ah Supervisory Board (HSSB)

In accordance with Article 7 of the Supervision and Control Act, 1992 and consistent with the resolutions and decrees issued by the government to free the entire economy from non-Islamic transactions, the Minister of Finance and National Economy issued the Ministerial Resolution No. 219 for the year 1992 to form the High Sharia' Supervisory Board (HSSB) of the Insurance Supervisory Authority (ISA) with the following primary objectives;

a. To issue fatwa on matters raised by the Insurance Supervisory Authority (ISA)
b. Purify insurance operations from non-Islamic transactions
c. Unify and harmonize the vision of the Shariah Supervisory Boards of the different insurance companies operating in the market

The HSSB has the authority to look into and scrutinize any documents, records or correspondence pertaining to the Supervisory Insurance Authority or any other body regulated by the Insurance Supervisory Authority. It has also the authority to inspect and monitor the operations of all the companies operating in the market to ensure their compliance with the Shariah rules and principles.

Fatwas issued by the HSSB on Shariah matters are obligatory and overrule any fatwa issued by any of the Shariah Supervisory Boards of the companies operating in the market.

Licensing and Registration

Despite any conditions contained in the Companies Act 1925 to the contrary, no insurance company is allowed to commence or continue operation without obtaining a license from the Board of Directors of the Insurance Supervisory Authority (ISA). Besides, it is not allowed to register at the Commercial Registrar General before the applicant obtains the provisional approval of the Board of Directors of the ISA to this effect.

It is worth mentioning that the license can be obtained to transact all classes of insurance as delineated in Schedule A, General Insurance and Schedule B, Takaful (Life) annexed to the Insurance Control Act,2001.

Islamic Capital Market

An Overview of Islamic Capital Market in Sudan
Second largest sovereign short-term Sukuk issuer after Malaysia in 2014
Governed by Financial Services Company (FSC) since 1998
Mostly issued type is Government Musharaka Certificates (GMCs), known as Shahama
Trading of Sukuk started in 1994, through the Khartoum Stock Exchange (KSE)
New electronic trading system (2013) has led to increase in trading volumes by 125.45% to reach SDG 301.9 billion
Major players: telecommunication companies and financial institutions
Top Investors: Commercial banks, contributing 22.3% of the inventor base.
Only one Corporate Sukuk issued in 2007, for a tenure of 7 year
Untapped potential in retail sukuk market, especially by agriculture companies through salam contracts
New liquidity management tool introduced by CBoS in 2014 through an open-end fund, amounted to SDG 750 million (US$ 125 million)

Khartoum Stock Exchange (KSE) is a fixed place where sale and purchase of Securities and Sukuk (Islamic Bonds) are carried out according to supply and demand mechanism; these operations are governed by specific regulations and laws, which oversee the operations of the new issuing (Primary Market) and the transfer of ownership of securities (Secondary Market).

There are two types of markets: Primary and Secondary

Primary market in KSE means the market where the issuance of securities is offered for public subscription under the prevailing laws and regulations. The primary market started in October 1994 with the aim of keeping watch on the newly established companies' issues or the established companies interested to increase their capital.

Secondary market, on the other hand, means the market place where trading of securities previously issued in the primary market and the transfer of ownership. Securities and transfer of ownership are traded in the secondary market where selling the holder's rights in the public shareholding companies or investment funds for an investor without prejudice to the origin of wealth and without prejudice to the rights of others who may not wish to sell their shares; and this market is easier for the investor to enter directly to the public.

KSE works in accordance with the principles of Islamic laws where there is a legitimate oversight body in KSE which oversees the legitimacy of the deals; and therefore, the securities or financial instruments by a dealer.

Market Overview

The Khartoum Stock Exchange (KSE) has come a long way in terms of development and progress. The establishment of the KSE took place in 1994 after the Transitional National Assembly passed the Khartoum Stock Exchange Act, after which KSE acquired its independent legal status. Since its establishment, there has been remarkable progress in terms of both governance and market engagement. By 1997, there had been a sizable increase in the market value of listed companies, rising from US$31 million to US$139million.

Table 8.
Issuance and Listed Companies in KSE (2004-2013)

Activity	2004	2008	2009	2010	2011	2012	2013
Primary Market							
Value of Issues	2,170,000,000	5,887,484,225	7,498,649,587	11,578,950,168	13,232,042,415	15,284,968,555	15,171,000,000
Secondary Market							
No. of Listed Company	48	53	53	55	56	59	60
No. of Mutual Funds Listed	6	28	34	25	25	26	27
No. of Traded Certificates	42	28	34	45	45	42	45
Market Capitalization	3,689,881,596	8,131,776,590	7,589,316,950	6,391,200,061	7,062,982,659	9,634,88,645	11,188,777,913
No. of Shares Traded	2,185,994,488	281,609,805	164,712,836	166,548,512	106,512,121	172,580,585	80,857,419
No. Sukuk traded	30,790	4,977,907.00	4,228,900.00	1,791,114.00	7,333,445.00	5,793,575	1,447,341
No. of Certificates	102,108	2,421,055	3,417,714	4,056,906	3,892,066	5,116,623	6,983,324
No. (Certificates + Funds) Traded	132,898	7,398,962	7,646,614	5,848,020	11,225,511	10,910,198	8,430,665
Volume traded	447,722,927	1,879,185,955	2,246,552,029	2,422,315,002	2,562,626,975	3,073,607,167	3,885,405,658
No. of Contracts Executed	3,534	8,569	8,069	8,266	7,870	12,719	16,435
No. of Shares	791,922,370	12,600,742	3,473,469	3,803,710	41.306.712	259,497,440	22,633,359
Market Value	9,872,305	18,449,709	4,465,403	6,660	147,201,836	107,928,150	7,293,785,384

Source: Khartoum Stock Exchange, Annual Report (2013)

The Financial Investment Bank (FIB) was also established to assist in activating the KSE. Additionally, in 2014, KSE was accepted as a full member of the association of Africa & Middle East depositories (AMEDA) and participated in the annual meeting held in Bahrain.

Market Size Overview

Market capitalization (or market value) of the Companies is the number of outstanding shares multiplied by their market value at the end of the specified period of time. The market value of companies listed in Khartoum Stock Exchange SDG was (11.188) billion pounds by the end of 2013, compared to (9.63) billion in 2012.

Table 9.
Classification of Companies listed in the secondary market and Market values of their Shares in 2013.

Sector	Market Value	%
Banks	7,124,851,067	64%
Insurance	194,206,937	2%
Commercial	343,775,377	3%
Industrial	151,667,489	1%
Agricultural	223,200,974	2%
Communication & Media	2,875,663,344	26%
Financial Services	108,986,682	1%
Investment & Development	166,449,042	1%
Total	11,188,777,913	100%

Source: KSE annual report

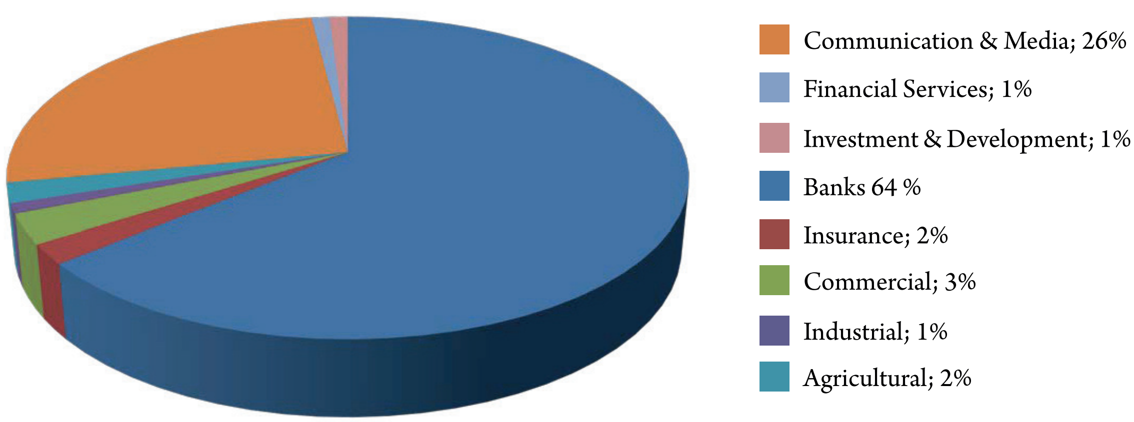


Figure 16. A Chart Showing the Capitalization Market for Companies Listed in 2013 Scrotal

The Khartoum stock exchange (KSE) market regulates and supervises the financial markets in Sudan, in addition to playing the intermediary role to facilitate buying and selling of securities. It is also responsible for ensuring fair treatment among the dealers in terms of readabilities. The trading rates in KSE have been on the rise in 2013 and 2014 following the implementation of the electronic trading system in 2013. The implementation of the new trading system has revamped the local market in terms of market activation and engagement. With the new system, the volume of trading increasedby 154.1% in one year, from SDG 133.9 millionin 2013 to SDG 301.9 million in 2014 which indicates KSE is becoming a more active market with higher liquidity. Telecommunication and financial institutions were the two sectors that were significantly active in the secondary market in 2014, which together made up 98.1% of the total trading volume. However, the case was slightly different in 2013, which was mainly telecommunication at 71.6% followed by financial services at 17.6%.

Table 10.
Khartoum Stock Exchange tradability volume (by sector)

Sectors	2013				2014			
	No. Shares traded (‘000)	Trading Volume (SDG ‘000,000)	No. of executed Contracts	(%)	No. Shares traded (‘000)	Trading Volume (SDG ‘000,000)	No. of executed Contracts	(%)
Financial Institutions	12,525	9.9	285	7.4	92,550	141.5	366	46.9
Insurance	1,715	1.6	32	1.2	109,702	0.1	11	0
Commerce	66,025	0.5	40	0.4	20,964	0.2	11	0.1
Industrial	30,820	0.01	2	0	109	0	2	0
Agriculture	-	0	0	0	2,858	2.9	2	1
Telecommunications	43,841	95.9	239	71.6	66,110	154.5	165	51.2
Financial services	5,264	23.6	16	17.6	2,507	1	11	0.3
Investment & Development	17,420	2.4	61	1.8	10,881	1.7	31	0.5
Total	177,420	133.91	675	100	305,681	301.9	599	100

Source: Khartoum Stock Exchange (KSE)

The KSE is keen to further develop the trading system to eventually enable all market players to execute deals from their premises withou thaving to physically attend KSE premises. In addition, following the substantial increase in tradability in 2014, officials in KSE are considering adding new markets that were not present in the past such as real estate, foreign exchange, and commodities such as gold to the trading platform to serve a larger investor base.

KSE Index

The objective of the index is to measure the change that occurs on the prices of shares of companies listed in Khartoum Stock Exchange during a certain period, KSE was amounted by the Arab Monetary Fund[16] which set up equations and the formula that calculated the Khartoum Index and was announced in October of 2003, which started by 1,000 points until it reached 3161.6 points at the end of December 2014.

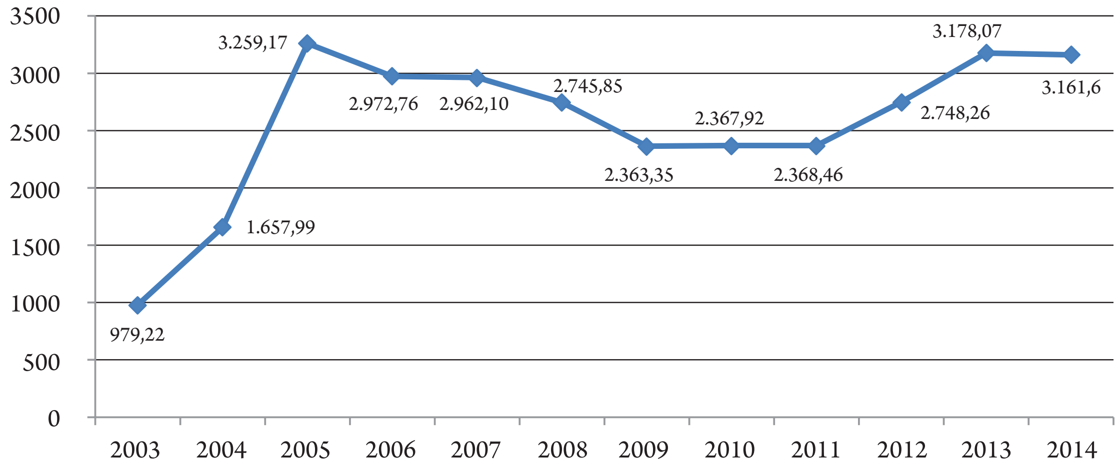


Figure 17. KSE Index (2003-2014)

Source: KSE Annual Report (2014)

Sukuk Overview

Background Information

After implementation of the Islamic banking system in Sudan in 1983 the monetary authorities found themselves restricted to the direct tools for liquidity management (administrative and quantitative tools), so there was an urgent need for alternative Islamic instruments instead of the traditional ones. Thus, after great effort which continued for a year and a half, the Higher Shari'ah Supervisory Board and experts from the IMF found the first generation of Sukuk, Central Bank Musharakah Certificates (CMCs) and Government Musharakah Certificates (GMCs). GMCs are issued by the Ministry of Finance and National Economy on behalf of the Government of Sudan. Their marketing is carried out by Sudan Financial Services Company.

To manage the issuance of these Sukuk the Central Bank of Sudan was having two options either to manage it through one of its departments or establish a company to do the job, and eventually established Sudan Financial Services Company in 1998.

Sukuk Issuance and Structure

The Sudanese government, through the Khartoum Stock Exchange (KSE) and CBoS, is quite active in the capital markets with yearly sukuk issuance since 1998. The majority of investors are local; however, there is a clear lack of a foreign investor base. There are three types of certificates that are regularly being issued by the government to inject liquidity into the market. The most active type is the Government Musharakah Certificates (GMCs), also known as shahama, which is issued every three months and is structured as musharakah. The GMCs are issued for the purpose of government lending to cover the budget deficit as well as for liquidity management. The two other types of certificates are Government Investment Certificates (GICs) and Central Bank Ijarah Certificates (CICs).

The Government GMCs are issued with a maturity of one year. The Certificates are issued in a denomination of SDG 500. The investor can purchase any number of certificates of such denomination.

Method of Payment for Certificate "Shahama"

Payment is made in cash, by a certified check or by a transfer from an authorized bank in Sudan.

- In case of payment in cash, payment shall be made to the vault of the Central Bank of Sudan on the basis of a payment letter from Sudan Financial Services Company (Ltd.) for payment of the cited amount.
- In case of payment by a certified check, the check shall be issued in the name of Messers / Sudan Financial Services Company Ltd. The officer in charge has to deliver a receipt to the investor confirming receipt of the check.

Types of Sukuk Structures

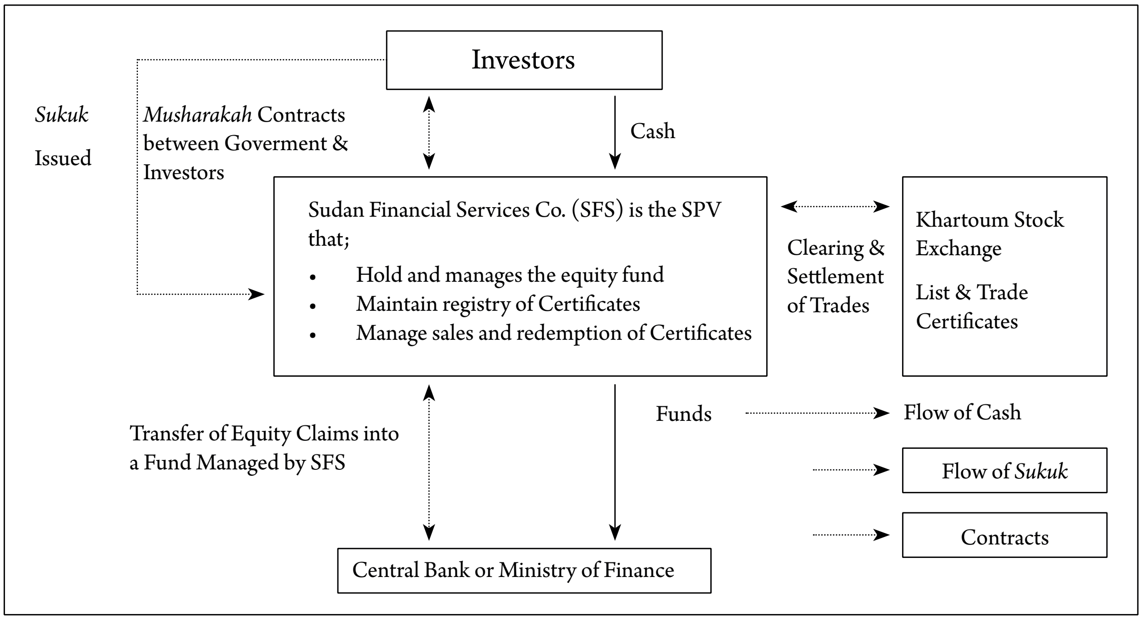


Figure 19. Central Bank Musharakah Certificate & Government Musharakah Certificate

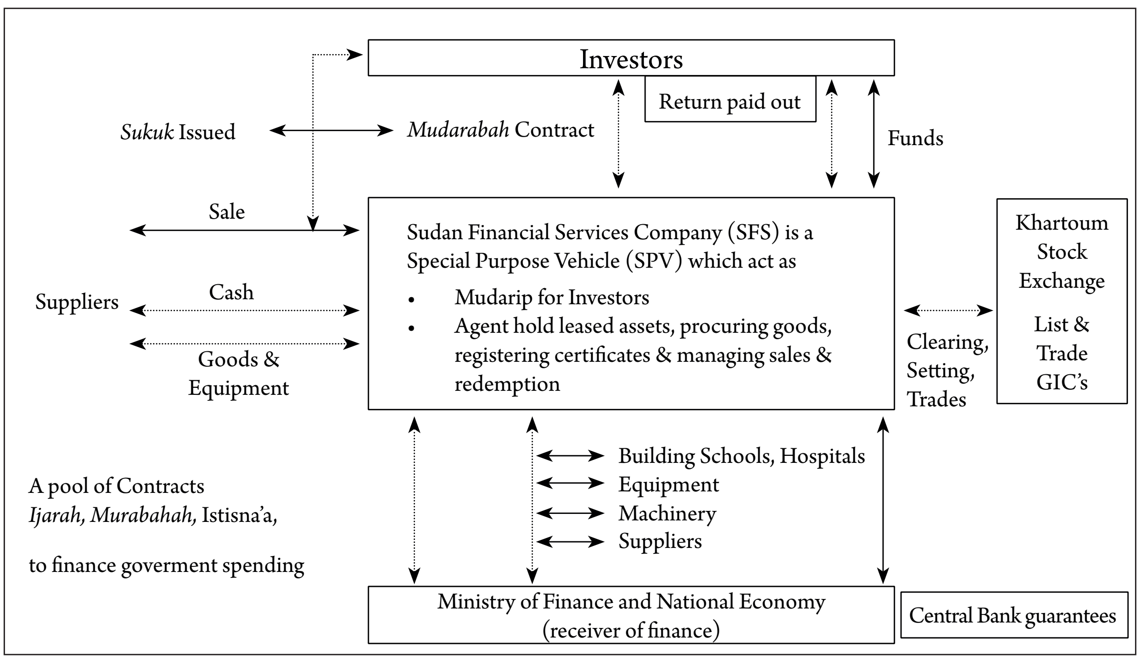


Figure 18. Government Investment Certificate

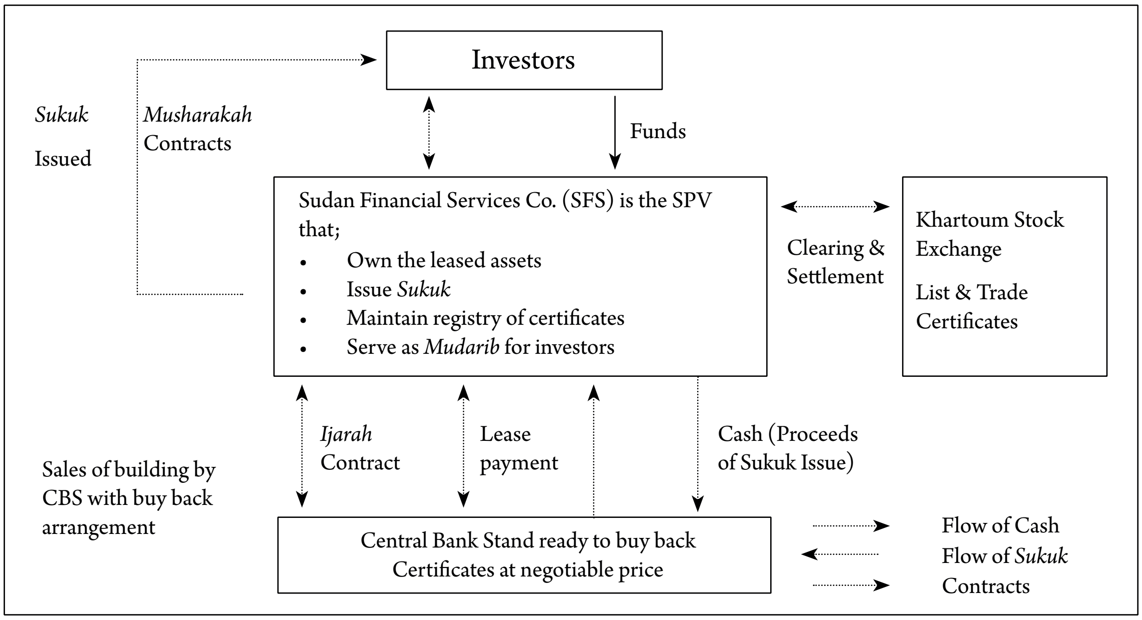


Figure 19. Central Bank Ijarah Certificates

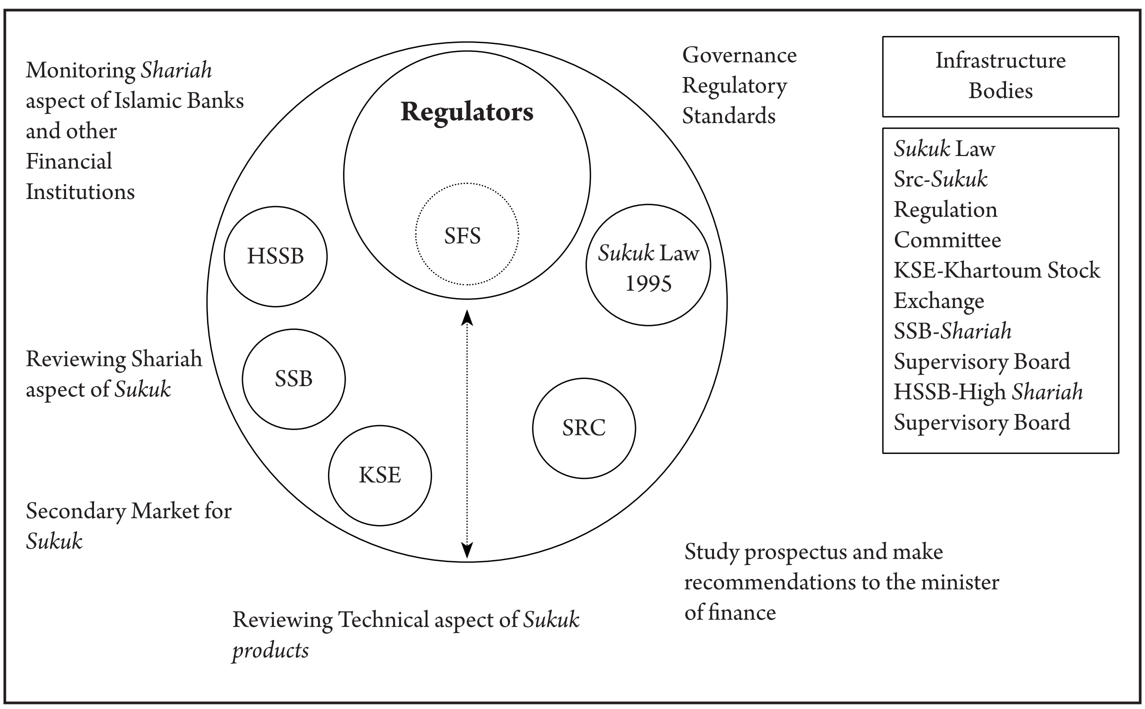


Figure 20. Legal and Regulatory Framework for Sukuk in Sudan

Source: International Islamic Finance Market (IIFM), Sukuk Report, March 2016

Secondary Market Activity

The total value of traded Sukuk in Khartoum Stock Exchange (KSE) during the year 2014 amounted to 5,455.8 SDG million i.e. represent 94.7% of total value traded, as the number of executed transactions for Islamic Sukuk during the year 2014 reached 22,002 deals which represented 97% of total executed deals, and table (1) below shows some other indicators.

Table 8:
Traded Sukuk: Secondary Market Indicators

Item	2014
Number of Traded Shares	175,035,760
Number of Traded Sukuk	10,686,716
Total Value Traded	5,761.7 (SDG Millions)
Number of Transactions	22,670
Number of Listed Companies	65
Market Capital	13,501.1(SDG Millions)
Primary Market	23,948.09 (SDG Millions)

Source: Khartoum Stock Exchange

In 2014, 29% of the country's budget deficit was financed through GMC and GIC issuances, and another 4% was financed by CIC issuances. There is a significant concentration of banks investing in the sukuk issued by the government. By 2014, almost half of the investors in GIC were commercial banks, with the Central Bank making up 22.3% of the investor base. Although both GMC and GIC are issued every three months, there is a clear lack of retail activity in the GIC market,as opposed to the GMC market where retail engagement stood at 13.3% in 2014. Retail sukuk investors have a few key merits, mainly 1) tapping into a new investor base which is usually overlooked, 2) creating a new investment opportunityfor the people, and 3) utilizing people's moneyto more effectively develop the country instead of placing their funds in fixed deposit accounts.

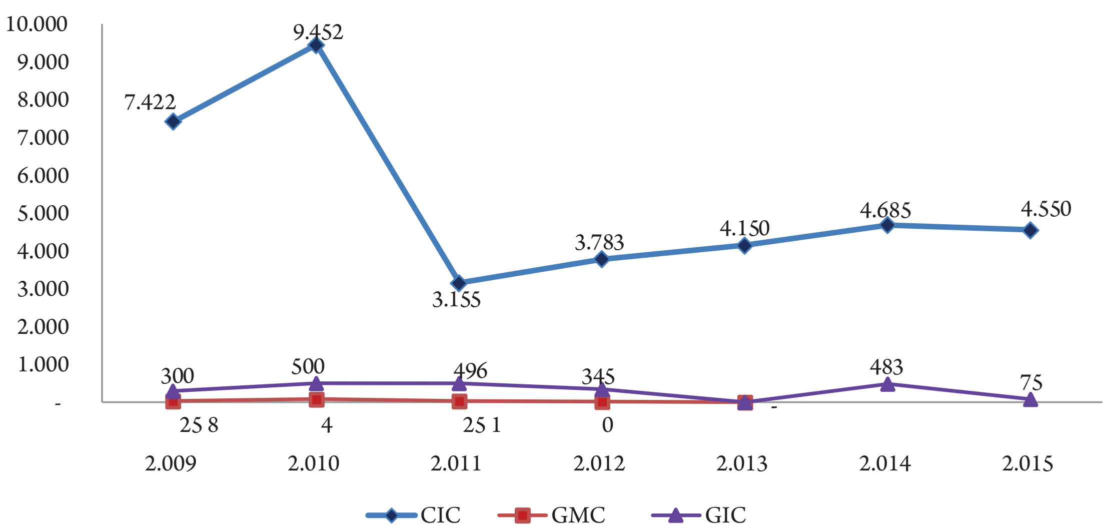


Figure 21. Legal and Regulatory Framework for Sukuk in Sudan
Source: Khartoum Stock Exchange

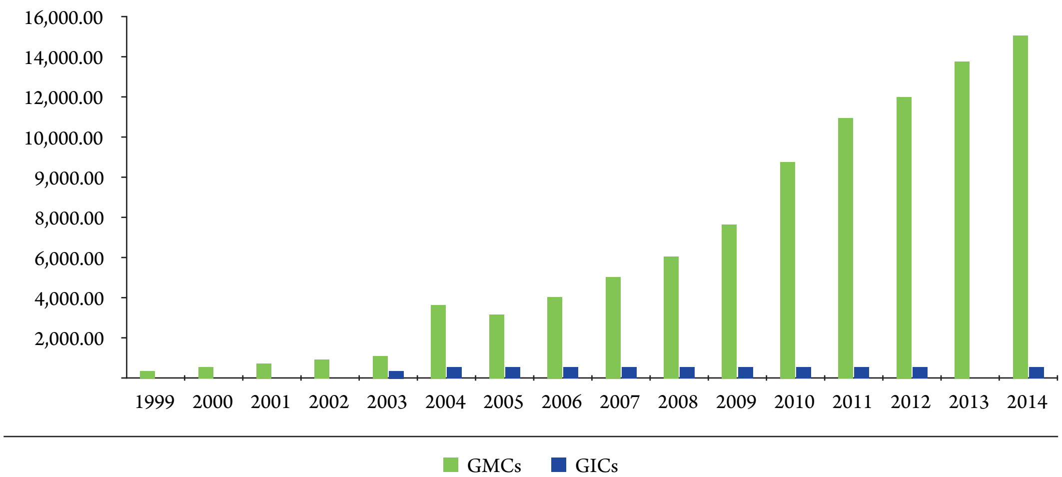


Figure 22. Development of Sukuk Issuance

Since the first issuance in 1999, the Government Musharakah Certificates (GMCs) have been growing rapidly, the demand depends on high profitability, free risk, short- term maturity (one year), in addition to high liquidity, which is a match with the objectives of investors. On the other hand, growth of Government Investment Certificates (GICs) is not as favorable as (GMCs) and showed sluggish development due to long-term duration (2-6 years) and stability of profit. In 2013, the (GMCs) outstanding increased by 8.5 % from previous year, reaching SDG 14,131 million, while the (GICs) outstanding decreased due to zero issuance while some of the Sukuk has reached its maturity.

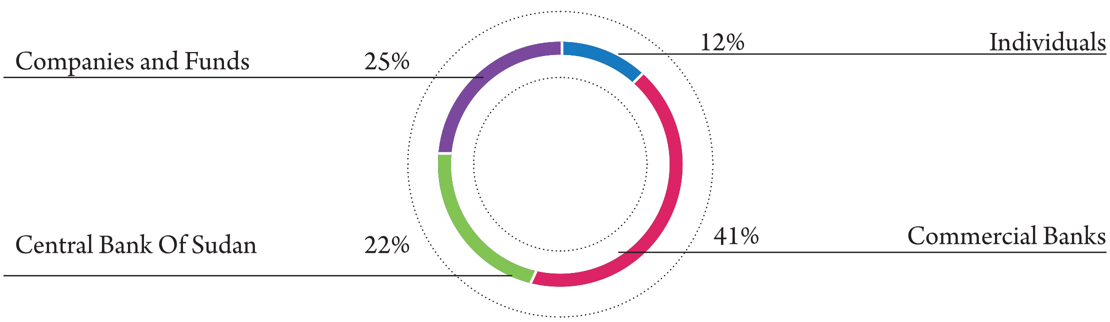


Figure 23. Government Sukuk Ownership: Value in Million SDG

From the above diagram, it is clear that the commercial banks have the largest share of the Sukuk at a rate of 41%, followed by companies and funds by 25%, the Central Bank of Sudan by 22%, and finally 12% of individuals.

High Inflation,, High Yields

The return on GMCs, GICs and CICs has been skyrocketing on the back of high inflation. Inflation in Sudan was the highest in Africa averaging 36.9% in the years 2013 and 2014.The high inflation was caused mainly by the drop in the exchange rate and by the government decision in late September 2013 to lift fuel subsidies which triggered prices of gasoline to double. However, the inflation rate has stabilized in 2015 hitting 23.2% in March as the one-off effects of the September 2013 fuel price increase dissipated. The slight drop in inflation was driven by the development of a new budget program directed by Salimal-Safi Hajeer, Chairman of the Economic Subcommittee in the Sudanese Parliament. The program aims to bring down inflation overtime and stabilize the exchange rate of major currencies against the Sudanese pound. However, despite the recent drop, inflation is still considered high.

Untapped Potential

The Sudanese sukuk market remains significantly untapped on the corporate side. As of today, there has only been one corporate sukuk issuance in Sudan despite regular issuances by the government. The assortment of sukuk structures can play a key role in developing the sukuk corporate market. As per available data in Zawya, the only corporate sukuk issuer was Berber Cement Co. who made an issuance in 2007 before the separation from South Sudan. The company raised US$ 130 million using a musharakah structure with a tenure of seven years. The sukuk was fully subscribed by regional banks mainly from the GCC indicating strong investor appetite to invest in Sudan corporate issuances.

According to the CIA World Factbook (2013), the Sudanese market revolves around three main sectors, services (39%), industrial (33.6%), and agriculture (27.4%). The separation from South Sudan in 2011 has triggered a number of economic shocks in the country including the loss of oil revenues which comprised nearly 36% of the government's revenues and accounted for nearly 95% of the exports. The economic shocks resulted in significant macroeconomic and fiscal challenges, including double digit inflation. Sudan is now more dependent on agriculture and livestock to diversify its economy. The agriculture sector requires more investment and governance in order to contribute to macroeconomic stability. Companies engaged in the agriculture business can tap into the retail sukuk market to grow their business using the Salam structure.

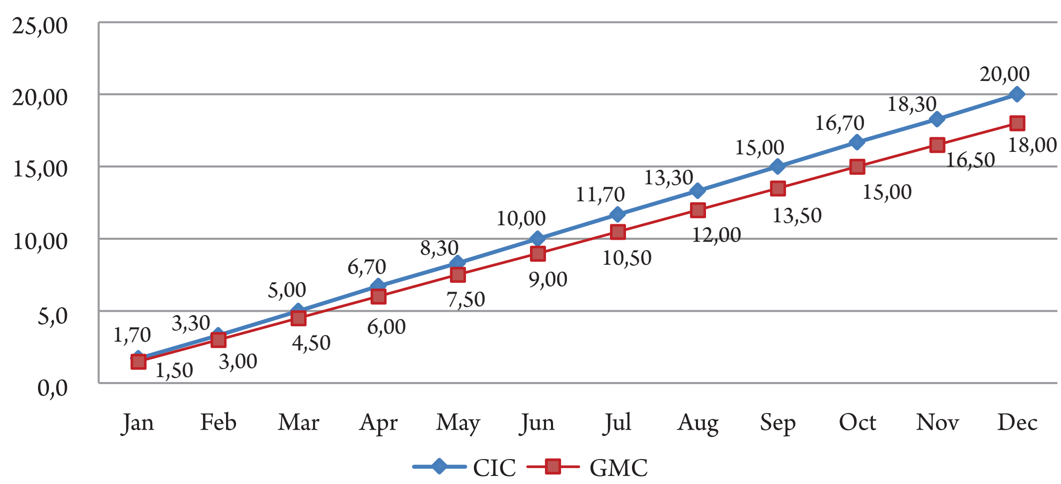


Figure 24. CIC & GMC Sukuk Yield Curve

Salam, in particular, works well for the agriculture sector given the delivery of goods happens in the future following the harvest season while cash is paid in advance. Retail sukuk has been significantly-overlooked in the global sukuk market except for a few countries including Indonesia and Pakistan. Similarly, Sudanese banks can benefit from sukuk as they are confronted with several challenges with regards to liquidity requirements and capital adequacy. One of the requirements of Basel III, should the CBOS comply, is that all Islamic banks must boost their capital position by placing higher quality capital, which would allow the Islamic financial institutions (IFIs) to better absorb financial shocks. It also requires IFIs to maintain a higher amount of liquidity, which would make them less reliant on money market instruments. In terms of ratios, one of the changes under theBasel III requirements is that all IFIs must maintain a minimum capital adequacy ratio of 4.5% for tier 1 common equity capital, previously 2% under Basel II. Sukuk remains a valid option for Sudanese financial institutions to capitalize on to meet these requirements.

US Sanctions Pose Serious Threats

The sanctions imposed by the United States pose a serious threat to Sudan's economy especially on its wheat reserves which have declined significantly due to rejection by a number of banks in western countries and the GCC to provide letters of credit for importing wheat. Historically, BNP-Paribas, France's largest multinational bank, ran into difficulties after processing transactions for clients in Sudan and other sanctioned countries. In March 2014, multiple banks in Saudi Arabia and Europe made the decision to stop doing business with Sudanese banks due to pressure from the United States. Once the sanctions are lifted, Sudan would be able to attract foreign investors. This would help diversify the investor base and support the sukuk market given demand for sukuk is expected to further increase with the gap between supplyand demand expected to reach US$ 90 billionby 2016[17].

The sanctions are an issue that both the existing and the new government in Sudan plan to solve in order to increase the flow of foreign direct investment into the country. In addition, the lifting of sanctions will also release US$ 48.2 million currently held by the United States as disclosed by Sudan's Ministry of Foreign Affairs. So far, the only area where Sudan has received sanction relief is on personal communication. In February 2015, the United States Department of Treasury's Office of Foreign Assets Control(OFAC) announced that Sudan is allowed to export personal communications hardware and software including smart phones and laptops. It is considered a move to promote freedom of speech through communication tools.

The Role of Islamic Finance in Social Development in Sudan

This section presents the historical trends, future challenges and prospects for the various segments of the Islamic social finance sector such as zakat, waqf and Islamic microfinance in Sudan. It examines the broad regulatory and policy environment at a macro level as well as good and bad practices at a micro level.

Islamic Social Finance Overview
Establishment of Zakat Fund in 1980, under Zakat Diwan based on the Zakat Act 2001

Zakat collection in 2013 reached SDG 1.2 billion
Zakat mostly collected in form of crops and trade inventory
Waqf governed by Islamic Endowment Corporation (IEC) and Waqf Law 2008
Islamic microfinance driven by CBoS initiative in 2007, setting up policies and frameworks
Microfinance Development Facility established in 2008
IRADA microfinance initiative by Bank of Khartoum established in 2009
CBoS imposes all banks to deploy at least 12% of financing portfolio to micro financing
In 2014, micro finance reached SDG 2.1 billion, up by 33% from 2013, spreading to 1.1 million beneficiaries in 2014

Zakat

Zakat is essentially a compulsory annual levy on the wealth of an adult and sane Muslim individual who might possess wealth beyond a prescribed minimum. For wealth to become liable for zakah, it must remain in the ownership of the individual for one Hijri calendar year (Hawl) and must exceed a minimum threshold (Nisab). Zakat is not levied on income which is used for consumption, and items of wealth which are used for personal and family utilization. Zakat is levied on savings that are transformed into wealth of an individual and added to his stock of wealth, and on agricultural output. It is also levied on forms of wealth that are characterized as stocks (e.g., gold, silver, the inventory of trade and livestock). Zakat is not levied on wealth that is in the nature of means of production, such as tools and equipment, machinery etc. Islamic law provides for elaborate rules relating to estimation of Zakat base (amount of wealth on which Zakat is levied) and the rates of levy that vary with forms of wealth. With most forms of financial assets, the rate is two and a half percent.

Any asset that falls within zakat requirement must fulfill the following conditions:

- Absolute right of ownership of wealth with exclusive right of disposition.
- Growth or potential of growth in wealth.
- Wealth above the minimum threshold (Nisab).
- Passage of a year (Hawl) applicable on livestock, money, and business assets.

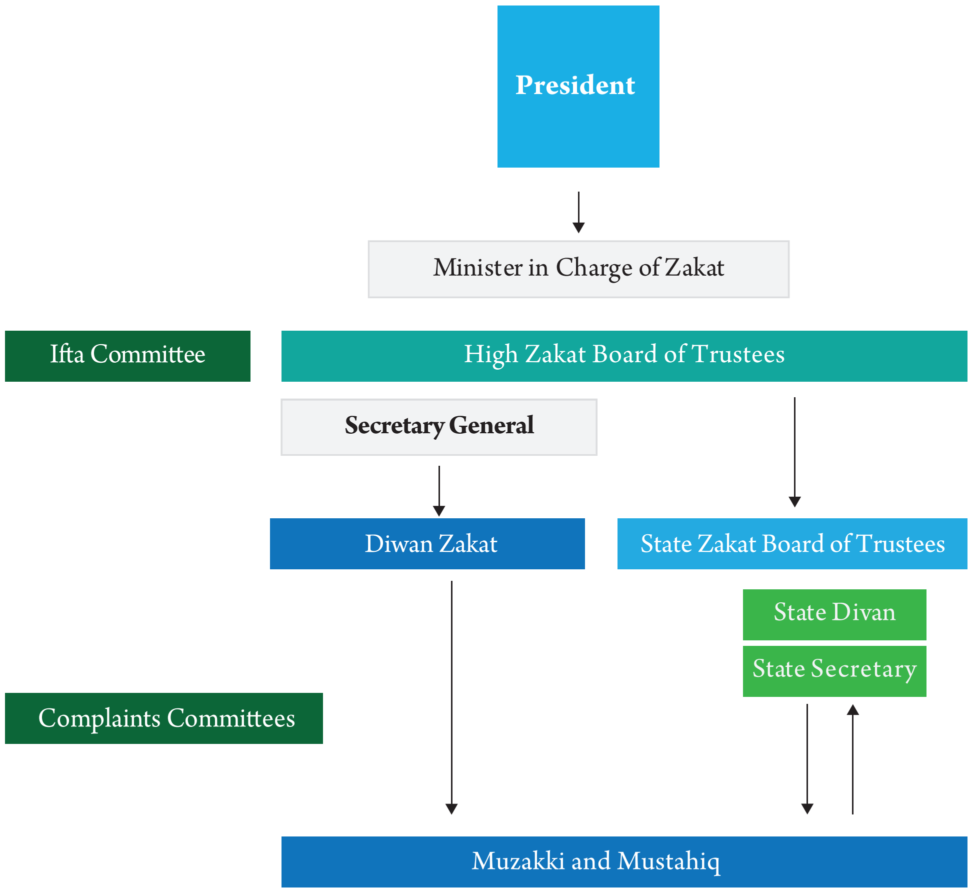


Figure 25. Sudanese Framework for Zakat Management

Zakat Mobilization

The zakat system in Sudan has evolved overtime. The system has been fine-tuned over the years with proactive changes in the legal and regulatory framework. The formal organization of zakat in Sudan began in the 1980s with private foundations collecting zakat in accordance with Shariah law. This formed the basis of successive laws of zakat in Sudan.

Observers find the following stages in the evolution of the Sudanese zakat system:

- The first phase relates to creation of zakat law in the year 1980 (1400H) that established the Zakat Fund. The law at this stage targeted a voluntary revival of the institution of zakat without any element of coercion.
- The beginning of phase two is marked by introduction of the law of zakat and taxes in the year 1984 (1404H). The law made zakat payment compulsory and placed zakat and taxes under a single authority.
- Further reform in zakat law was undertaken two years later. In the year 1986, zakat was separated from taxes and the new law established an independent chamber or the Diwan Zakat (phase 3).

- Phase 4 began in1990 with further reforms in the zakat law that essentially sought to fill gaps. Finally, in 2001, the current zakat law was put in place that firmly established zakat as a socio-economic institution that could play a major role in economic uplift of the masses.

In Sudan, zakat as a national institution has the following major policy goals:

- To provide a safety net against drought, desertification ,disasters and epidemics
- To mitigate poverty by providing cash and in-kind support
- To directly establish and participate in various projects for the poor and needy
- To tackle unemployment by making training compulsory for grants for small projects

The apex zakat body, in Sudan, is the Diwan Zakat. It is an independent corporate body with the right to undertake all necessary measures to assess and collect zakat liability. It is also solely responsible for distribution of zakat among eligible beneficiaries in compliance with Sha'riah in accordance with realizing the social objectives of zakat. It is also responsible for creating public awareness about the institution of zakat. The Diwan carries out its functions under the supervision of the High Zakat Board of Trustees, which is the supreme authority in the matter. The structure at the central level is repeated at the state level and the state apparatus is linked to the Diwan Zakat. Complete decentralization is attempted by extending the infrastructure down to the village level.

Zakat Collection

Table 9.
Growth in Zakat Collection in Sudan (2004-2013)

Year	Amount ('000 SDG)	Growth Rate (%)	Amount ('000 USD)	Growth Rate (%)
2004	271,352	12.0	117,978	12.0
2005	314,483	16.0	157,242	33.3
2006	357,141	14.0	178,573	13.6
2007	404,486	13.0	183,858	3.0
2008	445,281	10.0	202,400	10.1
2009	497,439	12.0	198,976	-1.7
2010	592,637	19.0	219,495	10.3
2011	807,801	36.0	183,592	-16.4
2012	1,198,636	48.0	210,289	14.5
2013	1,299,678	8.0	220,286	4.8

Source: Islamic Social Finance Report 2015, IRTI

Creation of a country-wide decentralized infrastructure backed by a good system of accountability and governance has ensured that zakah collected has steadily been growing. The time-series behavior of zakah collection in Sudan over the last 10 years is presented in Table 5.1. Indeed, it increased from SDG (Sudanese Pounds) 119.1 million in 2000 to about SDG 1,299.7 million in 2013 at an annual average growth rate of 19 percent. In US dollar terms, the growth has been less spectacular, at about 7.2 percent per year, thanks to devaluation of Sudanese pound against dollar over these years. The conversion rate for Sudanese pound against US dollar was 2:1 on July 01, 2007 (when it replaced the Sudanese Dinar that was exchanging at 200:1). It then depreciated to 2.5:1 on 31 Dec 2010, 2.67:1 at the end of 2011, 4.4:1 at the end of 2012 and end of 2013 and further to 5.85:1 towards the end of 2014. The effective growth rate in zakat in USD plateaued due to such extreme adverse currency movement. The growth was particularly impressive during 2011 and 2012 at 36 percent and 48 percent respectively. It, however, moderated to 8 percent in 2013, due primarily to a decline in zakat from crops due to crop failure.

Table 13.
Sources of Zakat Collected (Time-Series Behavior)

Year	Crop	Livestock	Trade Inventory	Self-Em-ployment	Assets on Lease	Salaries/ Fees	Minerals	Total
2004	115,118	19,100	103,075	1,953	12,784	19,322	-	271,352
2005	124,393	22,293	133,142	2,406	14,694	17,555	-	314,483
2006	121,369	22,925	178,407	2,745	15,216	16,479	-	357,141
2007	141,125	24,648	199,430	3,201	18,823	17,259	-	404,486
2008	147,256	24,021	232,985	3,611	14,734	22,674	-	445,281
2009	151,362	27,983	274,848	3,732	19,179	20,335	-	497,439
2010	208,417	39,384	295,761	4,231	20,472	24,372	-	592,637
2011	362,090	64,190	318,638	4,734	22,359	35,790	-	807,801
2012	597,394	104,687	407,229	6,679	30,892	50,880	875	1,198,636
2013	546,587	124,912	505,725	8,706	37,916	59,146	16,686	1,299,678

Source: Islamic Social Finance Report 2015

While the realized growth in zakat collections in the past appears to be quite impressive, there is a long way to go. A 2013 study of the Institute of Zakah Sciences Sudan, estimated that in view of the current economic growth of Sudan and the developments in the economic front, the zakat base has widened to SDG 193 billion on which the zakah is estimated at about SDG 5.8 billion. Given that the actual zakat collected in 2013 stood at about SDG1.2 billion, four in every five pounds of zakah due remain uncollected. In order to identify the reasons and major challenges to zakat collection, we disaggregate total zakat into its components based on the sources or the nature of zakat base. The

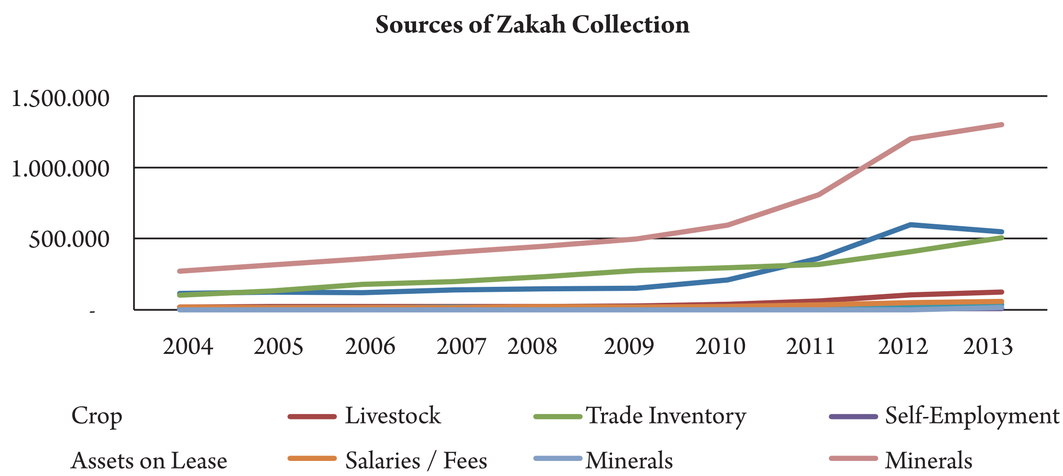


Figure 26. Growth in Sources of Zakat collection in Sudan

Source: Islamic Social Finance Report 2015

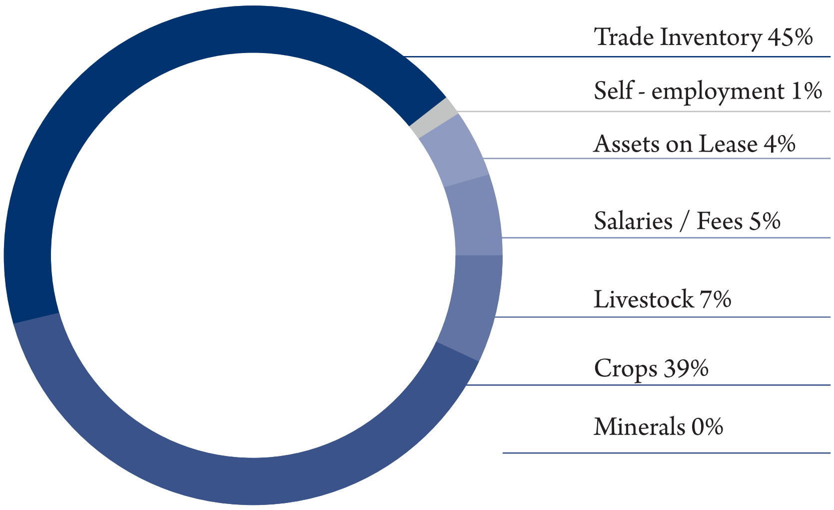


Figure 27. Average Percentage of Contribution to Zakat by Different Sources

Source: Islamic Social Finance Report 2015

composition of zakat in Sudan has its uniqueness. A large chunk of zakat comes in the form of crops from the agriculture sector. This is because of the agrarian nature of the country. Table 3.2 disaggregates the annual zakat collected in terms of the sectors that contributed to zakat collection.

Zakat Distribution

Shariah mandates that zakat can be distributed to specified categories of beneficiaries. The eight eligible beneficiaries that have been stipulated in the Quran are fuqara (poor), masakin (needy), ameleen-a-alaiha (those who are in charge thereof), muallafat-ul-quloob (those whose hearts are to be won over), fir-riqaab (human beings in bondage), al-gharimun (those who are over-burdened with debts), fi-sabeelillah(for every struggle) in Allah's cause, and ibnas-sabil (for the wayfarer).

However, the definitions of these beneficiaries, or asnaf, vary from country to country. The Sudanese law defines a faqir (poor) as one 'who does not own food enough for one year, or, head of a family who does not have source of income, the student who failed to meet his school'. On the other hand, a miskeen (needy) refers to one 'who does not own food for one day; this includes those unable to gain, due to permanent handicap, also the patient who cannot meet cost of his medical treatment, and victims of calamities.' Notwithstanding these definitions, the Diwan has opted for treating both fuqara and masakin as one category, and has broadly defined both as those who are not able to meet the basic needs of life and live their life with dignity and without any kind of embarrassment in society. A broader definition is called for on practical grounds.

In line with growth in zakat collection, the distribution of zakat has also experienced a steady growth over the last decade. The number of beneficiaries has also steadily grown by about 70 percent over 7 years. It may be noted that the distribution ratio of zakah – the ratio of zakat distributed to zakah collected in a given period – has been hovering around 'one'. This is very healthy scenario and indicates the absence of any "zakat holding".

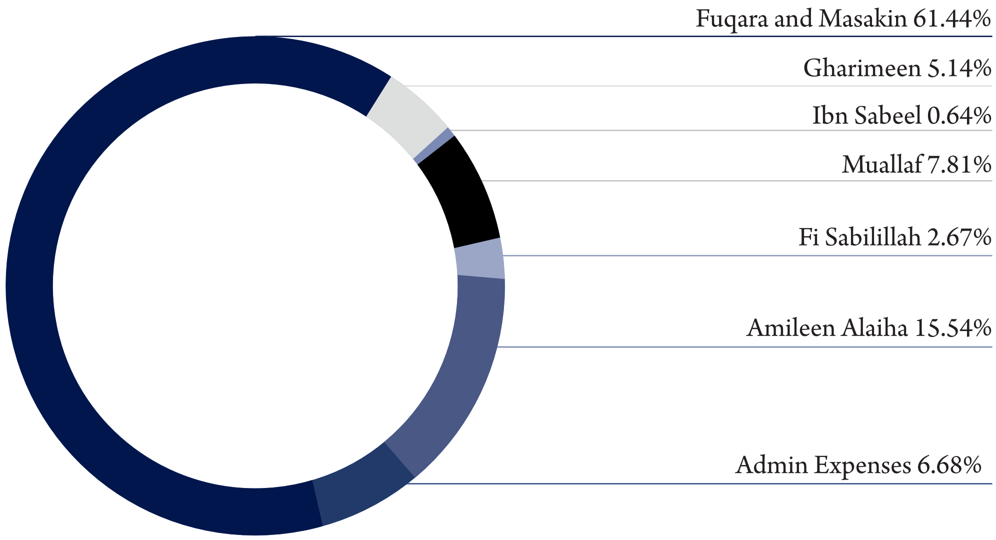


Figure 28. Average Zakat Allocation among Beneficiaries (2004-2013)

Table 14.
Growth in Zakat Distribution (2004-13)

Year	Collection ('000 SDG)	Growth Rate (%)	Distribution ('000 SDG)	Growth Rate (%)	Distribution Ration	No. Beneficiaries ('000)
2004	271,352	12.0				
2005	314,483	16.0				1,801
2006	357,141	14.0				1,893
2007	404,486	13.0				1,573
2008	445,281	10.0	428,365		96	1,021
2009	497,439	12.0	478,191	12%	98	1,517
2010	592,637	19.0	597,739	28%	101	1,926
2011	807,801	36.0	718,538	20%	89	2,198
2012	1,198,636	48.0	1,093,709	52%	91	3,112
2013	1,299,678	8.0				

Source: Islamic Social Finance Report 2015, IRTI

Institutional and Regulatory Environment for Zakat

Zakat management in Sudan has evolved overtime in four distinct phases. The first milestone relates to the establishment of the Zakat Fund in 1980 that essentially sought to revive the institution of zakat by emphasizing zakat as an important Islamic obligation. The second milestone is the establishment of the Chamber of Zakat and Taxation in 1984 when zakat became a mandatory obligation to be collected by the state. This phase is also characterized by a lack of clarity between zakat and tax related liabilities that led to a huge shortfall in state revenues (a forty percent budget deficit). The third milestone relates to the establishment of the Diwan Zakat as a dedicated body for zakat management in the country, especially to ensure that the social objectives of zakat are fulfilled. The fourth major development relates to development of a legal and regulatory framework for zakat.

The first version of the zakat law was put in place in 1990. It was subsequently amended to become a comprehensive law, known as the Zakat Act 2001. According to the Zakat Act 2001:

Nature of Zakat Obligation: Compulsory. In Sudan, Section 16-1 of the Zakat Act 2001 makes it mandatory to pay zakat on the part of every Sudanese Muslim — resident as well as non-resident — who owns funds that mandate zakat. It also prohibits double payment of zakat.

Incentivize Zakat Payment: Sudanese law does not impose any physical penalty on defaulters, but provides for forced recovery of due and unpaid zakat.

Waqf

Waqf is distinct from ordinary sadaqah in the sense that the benefits flowing from waqf are sustainable by definition. In addition, unlike ordinary sadaqah, zakah and infaq (forms of charitable spending) that are usually in the nature of specific financial flows, a waqf provides for flow of benefits on a sustained basis. Waqf is thus, a mechanism for institutionalization of charity. The history of waqf is no different from the history of Islam. Historically, waqf has thrived in all Muslim communities. In many societies, waqf-based institutions were the sole providers (with no state intervention) of education, health care, water resources, and support for the poor.

Awqaf or Islamic endowments have a long history in the Sudan. The earliest Sudanese waqf was a mosque in Dongala al Aguz dating back to the ninth century. Another historically important waqf that exists even today is the *waqf-al-Sinnariah* that was established in 1880s by the Sultan of Sinnar in Mecca and Medina for the service of Sudanese pilgrims. Some historians have argued that a wqaf in Sudan have been traditionally weak and were enhanced only after the joint Ottoman-Egyptian occupation. However, most of these awqaf were destroyed due to a variety of reasons.

The resurgence of the waqfs in Sudan is a relatively late development. More recently, the central mosque of Khartoum built in 1904, was largely financed by Egyptian awqaf. The institution of waqf in Sudan, similar to its counterparts elsewhere, steadily deteriorated with changes in the political system. However, a major change in the status of waqf in the post-independence Sudan was the establishment of the Ministry of Awqaf and Religious Affairs and the enactment of the Awqaf and Religious Law, 1980 that conferred on the Minister the general trusteeship of all the awqaf in Sudan. These administrative changes, however, had no significant effect until the onset of Islamic revolution in 1989.

A federal waqf institution as a corporate body was established in 1987 that received legal backing by the waqf law of 1406H (1986). The structure continued under new waqf laws that came into force in 1996 and in 2008.The Waqf Institution called Islamic Endowment Corporation (IEC) has played a central role in the management and development of waqf assets. It is the sole trustee of all waqf assets and has been in the forefront of waqf development using many innovative mechanisms. A selected list of awqaf in Sudan is presented below.

Institutional and Regulatory Environment for Awqaf

Similar to the State Islamic Councils in Malaysia the Waqf Corporation in Sudan encourages the different sects of people to contribute to cash waqf through issuing waqf-shares valued from SP1, SP5 and SP10.[18] The process flow of this scheme is as follows:

- The waqf-shares are issued by the Sudanese Waqf Corporation, as the trustees.
- Founders purchase the waqf-shares in return they get waqf certificates showing their contribution to a specified project.
- The Waqf Corporation then invested the accumulated fund in mudharabah mode through Islamic bank.
- The revenue generated from this investment is then channeled to the charitable area specified by the Waqf Corporation (Magda Ismail Abdel Mohsin, 2003).

The law governing awqaf in Sudan is titled the law of Islamic Endowment (1996). The current version of the law is an outcome of a long evolution. The Shariah Courts Law was promulgated in 1902. The bylaw of this law, issued in 1903, regulated these courts and Article 53 set forth that the Sudanese waqf system would hence forth be subjected to the Hanafi code. The next major development in the Sudanese waqf system occurred with the promulgation of the Islamic Charity-Waqf Law, 1970, according to which, the Ministry of Religious Affairs obtained the right to manage the waqf system and reserved the right to appoint a nazir. This law remained in power until 1980 when the promulgation of a new law; al-Awqaf and the Religious Affairs introduced further centralization. Accordingly, the Minister of Religious Affairs was appointed the General Administrator, nazir 'am, for the waqfs.

A federal waqf institution as a body corporate was established in the year 1987 that received legal backing by the waqf law of 1406H (1986).The Waqf Institution called Islamic Endowment Corporation (IEC) has been playing a central role in the management and development of waqf assets. A comprehensive piece of legislation, the Islamic Waqf Authority Act of 1996, was enacted that retained the federal structure of awqaf management in the country. This was replaced in 2008 by a new law called "the Diwan of the National Islamic Endowments Act of 2008".

Islamic Microfinance

Sudan is the first country in Africa to have Islamic microfinance. The Islamic microfinance experiment in Sudan has been described by the World Bank's Consultative Group to Assist the Poor (CGAP) as "a laboratory for Islamic microfinance delivery where developments could shed light on effective Islamic microfinance practices"[19]. According to the above study, Sudan was observed to represent "a unique story of Islamic microfinance market development"

In terms of client outreach via Islamic microfinance and among nineteen countries offering Islamic microfinance, Sudan was ranked second after Bangladesh. Sudan also ranked 4th (after Bangladesh, Indonesia & Lebanon) in terms of outstanding microfinance portfolio. This rapid expansion of the Sudanese market, according to the study, is largely due to an active Central Bank that prioritized microfinance lending by banks through a dedicated unit. Moreover, the growth of the Islamic microfinance sector in Sudan reflects the government's push to provide financial services to the underserved[20]. A recent International Monetary Fund (IMF) Report, the IMF Article of Consultation, 2013 (Sudan), has similar views about the sector in Sudan. According to the report, "the microfinance sector is small but growing rapidly, thanks to the authorities' active promotion. The results of this push have been impressive to date. The number of microfinance (MF) borrowers went from 49,000 at end of 2007 to 494,000 by 2012. In terms of active clients, Sudan and Bangladesh are easily the global leaders in Islamic microfinance, with Sudan likely to take top spot given current growth rates."[21]

In Sudan, the microfinance sector comprises informal finance providers, semi-formal providers (NGOs, civic associations, social funds, and rural development projects), and formal providers (microfinance institutions and MF specialized banks, and commercial banks). A recent study by Badr El Din A. Ibrahim[22] describes several types of informal finance providers in Sudan. These include: *istigrar,* or the grocer credit for household consumption guaranteed by salary; *dalalia,* or the provision of utensils for a short-term installment and premium installment; *shail,* or the sale of part of expected crops to village traders; and s*andouk,* which is the saving and borrowing informal system in which a payment of a predetermined amount of money is periodically given to each member of the group to be used to cover the cost of marriage, give birth, tuition fees etc. In addition, there is *nafeer,* which is a social *takaful* system in cash or in-kind when villagers mobilize efforts to meet the social needs of individuals or a family.

In Sudan, microfinance has been practiced since the 1970s, and throughout the 1980s and 1990s. However, the real beginning was in 2007 when the Microfinance Unit was established at the CBoS as a regulator and promoter of microfinance in Sudan. Currently, in Sudan, there are currently 29 MFIs: 7 MFIs are federal (Al-*Amal, Al-Shabab, Al-Ebdaa', Al-Mashien, Al-Watania, Al-Osra, and Iradaa*'); 20 state MFIs (6 are in Khartoum states, 2 in the Red Sea State and 2 in South Kurdufan State, in addition to one in other states, except Western Kurdufan and Central Darfur); and 2 local MFIs. The MFIs are organized as: public entities as a state arm to combat poverty and that rely on respective regional governments for funding; NGOs transformed MFIs e.g. Port Sudan Association for Small Enterprise Development (PASED); MFIs with clients as shareholders (e.g. *Al Mithal* and *Baraa'* and *Al-Garra* in Sudan); and private sector for-profit MFIs.

Microfinance Policy

Central banks usually limit their activities to monetary policy, the prudential regulation and supervision of licensed financial institutions, and not to promotional activities to encourage the development of the financial system, including microfinance. However, in Sudan, CBoS sees itself as an instrument for achieving the national government's objective of poverty alleviation, through financial sector development. CBoS is leading now developmental activities by virtue of its role as an apex body for its financial systems, which equips it to exercise leadership and provide coordination.

The Sudanese regulatory framework to establish MFIs was issued in 2011. Since then the microfinance institutions (MFIs) in Sudan are guided by the regulatory framework of 2011. Any applicant to establish an MFI has to satisfy the requirements to get the operation license, including capital requirement, the premises, business plan, and market study. Applicants are also required to constitute a Board of Directors to be approved the CBoS. Moreover, policies on reserves, profit distribution, classification of assets and accounting policies, liquidity, depositors' safety, auditing and transparency are also specified by the regulatory framework in accordance with CGAP and IFSB principles.

The regulatory framework covers MFIs, but the CBoS also give directives and annual policies for banks to extend MF in a certain ratio out of a bank's total portfolio to MF clients. In 2008, financing policy directives were issued to encourage banks to use mobile banking and specialized branches and MF institutions in accordance with the 2006 framework for licensingMFIs (amended in2007).

In 2008, CBoS financing policies directed banks to allocate at least 12% of their banking portfolio to MF. This policy continues even today. Moreover, the CBoS encouraged banks to establish MFIs, undertake training activities, and to encourage MF guarantee funds, simplify procedures and guarantees, search for alternative guarantees and extend the third party guarantee via civil societies associations and workers unions. Over subsequent years, banks were directed to keep the allocation ratio of microfinance at the same level. Banks were allowed to establish their own MFIs in accordance with the framework to establish non-banking microfinance institutions. MFIs capitalized by banks, social funds & civil societies were encouraged to diversify MF products (saving & transfers), ease lending procedures and guarantees, and use guarantees of civil societies, associations, unions and MF guarantee networks.

In 2011, CBoS financing policies specified that the CBoS would establish MF units at each CBoS branch. Moreover, the policy specified that efforts would be made to establish solidarity institutions to guarantee MFIs. The 2012 policy mentioned the establishment of a wholesale guarantee institution, and the need to contribute in order to upgrade the program.

The 2013 policy allocated funds to MF and social dimension finance (infrastructure, women empowerment, electricity and water, cheap housing, housing maintenance, financing associations, and unions). This allocation, the policy mentioned, should be encouraged through various means including: extension of comprehensive micro insurance documents as a guarantee; use of income and pension guarantees; regulation of the wholesale market via the Wholesale Guarantee Agency; and, establishment of partnerships with the private sector to attract wholesale funds for social responsibilities. In addition, this policy ensured financial inclusion via e-transfers and mobile banking, encouraged the establishment of Business Development Centers (PDCs), and made it a priority to finance productive projects for graduates, women and youth.

The 2014 policies maintained the continuity of regulations while directing finance to productive sectors and to finance graduates, rural women, artisans, youth, and vocational training graduates. The policies also extended the Comprehensive Insurance Documents as a guarantee. Moreover, for the first time, this policy specified that *murabaha*-sales-based lending should not exceed 70%. It directed banks to set reasonable *murabaha* margin, use non-traditional guarantees, ensure clients protection, promote saving, and build a micro insurance culture among MF clients, associations, cooperatives, agricultural unions, and animal productions unions.

The 2015 policies encouraged MFIs to increase their capital and consolidate their governance relationship with banks. The policies also encouraged MFIs to engage mediators, enhance Comprehensive Insurance Documents as a guarantee, and ensure client protection through the issuance of the Clients' Protection Manual. Moreover, the policies sought to establish the second generation of MFIs directed to youth, graduates, women, and small enterprises and crafts. Finally, the policies encouraged MFIs to use the services of Registry Agency, and specified that the CBoS would apply directives of the High Council for microfinance directives.

Regulatory Framework

In conformity of the MF policies in Sudan, a major goal of which have been to create and nurture an enabling environment in which microfinance institutions may grow and play an effective role in poverty alleviation, the CBOS issued different regulations at regular intervals to support the sector.

Licensing: A regulation relating to licensing of MFIs and banks was put in place in 2006-07, which encouraged investors to establish MF specialized banks and MFIs in state capitals in accordance with the minimum capital specified. A modified regulatory framework to establish deposit-taking and non deposit-taking or credit-only MFIs in Sudan was put in place in 2011.

Prohibited Areas: A few other prohibitions have also applied to MFIs in general. They are restricted from dealing in foreign exchange, accept deposits from government or public (without prior approval from the CBOS), accept deposits (applies to non-deposit taking MFIs only), engage in real estate ownership or trading, and invest reserve money in the financial market without the approval of the CBoS.

Clients: A Microfinance client in Sudan as defined by the CBoS is one aged between 18-70, and with a monthly income of less than double the minimum wage, or has productive assets less than SDG 20 thousand and, above all, has not benefited from any official lending sources, is described as economically active poor. Thus, the term includes many targeted clients in different microfinance categories such as productive families, craftsmen, technical and vocational training graduates, university graduates, professionals, rural women, pensioners, craftsmen etc.

Products: As mentioned earlier, the CBoS has included MF as a priority sector for banking finance, with a minimum allocation of 12% of the banking portfolio & project finance of 20 thousands SDG (Sudanese pound; approximately US$ 4000) as a fund ceiling. It has identified several Islamic lending modes of microfinance. Considering specific products like murabaha, it has set a reference margin of around 15%. The MFIs can set their own rate working around this margin that is suitable for clients in a given. The rate hovers in the range of 15%-18%. There is no interference with the sharing ratios in case of partnership based modes like musharaka and mudaraba. Remittance services and mobile banking are yet to take-off in a big way. The CBOS also identified 15 types of guarantees/collateral suitable for microfinance. Islamic micro-insurance in Sudan is dominant. There are presently 13 micro-insurance providers in the country. The concept is gaining further momentum because of the CBoS issuance of the Micro Comprehensive Insurance Document. Sudan has a relatively long history of micro-takaful and the present comprehensive takaful which covers credit, assets, physical disability or death is a step forward.

Summary and Conclusion

Sudan was one of the rapidly growing countries in Africa after starting oil production in 1999. However, due to the 2007/08 global financial crisis and the separation of the South Sudan in 2011, the growing period did not last for more than ten years. During these periods growth rate of real GDP dropped from 5.2% in 2010 to 1.4% in 2012, before recovering during 2013 – 14 to 4.4% and 3.6%. The business environment in Sudan is quite weak due to many constraints including the sanctions imposed by the United States and its allies, political instability, economic uncertainty, and infrastructure inadequacy. The country has seen the highest inflation rate in Africa in 2014 which was 36.9%. This all imposes a serious threat to the country's economy by affecting its exports and imports.

In terms of Islamic finance, the country has a long history which started in 1977 when the first Faisal Islamic bank was established. The bank was not only for Sudan, it was also one of the few first fully-fledged Islamic banks in the world. In Sudan, the first attempt to undergo full Islamization of the financial system was initiated by the government in the 1980s. This attempt was followed by more successful reforms such as enforcing Shariah law upon all financial institutions during the 1990s. This included a 1992 decree on the control and supervision of insurance providers and the establishment of the High Shariah Supervisory Board to oversee the progress of reform implementation and to ensure compliance of financial transactions with Shariah while working in collaboration with Sudan's Central bank. As a result of the reforms, there were 29 banks operating under the interest-free system in Sudan by 1997.

The financial system of the country has maintained multiple market players including banks, takaful companies, and microfinance institutions under the governance of the Central Bank of Sudan (CBoS) and the Insurance Supervisory Authority (ISA). Currently, the country has a total of 37 fully fledged Islamic banks out of which 5 are specialized and 32 are commercial banks. The assets of these banks have been growing from time to time. The total assets of the banks have been growing for the past decades.

Takaful has also a long and established history in Sudan. The country got the first-ever takaful firm after two years of the establishment of the Bank of Faisal in 1979. Due to a lack of Shariah compliant insurance services, the Faisal Islamic Bank founded the Islamic Insurance Company. By 1985 there were three more takaful companies operating in Sudan. Takaful companies have been addressing the needs of its customers with products such as crop insurance and protection against war risks. Although there is a regulation in place governing the Islamic insurance, local firms are displeased that "mega projects" with high risk like the oil and energy sector are not insured domestically causing an outflow of premiums. Still there are significant areas of opportunity and growth for the takaful industry in Sudan.

Sudan has a relatively active domestic Sukuk market. The country has been regularly issuing quarterly short-term Sukuk, called Government Musharakah Certificates. This type of Sukuk is used as a form of Shariah-compliant monetary policy to manage macroeconomic and banking liquidity. In 2014, Sudan was the second sovereign short-term Sukuk issuer after Malaysia. Since the country historically has not been active on the international markets, primarily due to continuous sanctions denying it access, issued Sukuk were not international Sukuk. Domestically, Sukuks are traded on the Khartoum Stock Exchange (KSE) set up in 1994, which is overseen by its own Shariah Board. Since KSE requires full information disclosure and the products are approved in a conservative manner by the Shariah Board, there is no speculation on the market.

Islamic microfinance institutions and zakat institutions are actively working in the country. Since the large proportion of the Sudan's population is living in poverty, the country has had considerable micro-finance initiatives. The government also supports Islamic microfinance institutions as a means to increase access to finance for the under-banked societies. Since all banking activities are by law on an interest-free basis, microfinance too had to adhere to Shariah law.

In general, the report has clearly shown that government in Sudan is always supportive in enhancing financial inclusion and increasing market liquidity, and is also committed to attracting foreign investors looking for a growing financial base and economic exposure. Even though there are sanctions the financial system of Sudan has maintained a growing base, whilst depending solely on Shariah compliant transactions since 2002. Therefore, if the country get access to international markets to sell its products and import raw materials it will boost the business activities in the country. An increase in business activities will open more opportunities to the Islamic financial institutions operating in the country and it will be a new destination for interested investors and institutions who are interested to invest in Islamic financial institutions.

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