SUDAN
ISLAMIC FINANCE 2016

NEXT PHASE OF DEVELOPMENT

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General Council for Islamic Banks And Financial Institutions

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ISLAMIC RESEARCH AND TRAINING INSTITUTE
A MEMBER OF THE ISLAMIC DEVELOPMENT BANK GROUP

Content

EXCLUSIVE INTERVIEWS

President of Islamic Development Bank (IDB) Group Ahmed Muhamed Ali speaks during the "Third IDB 1440H Vision Commission Meeting" in Kuala Lumpur March 23, 2006. REUTERS/Zainal Abd Halim

ABOUT THE ISLAMIC RESEARCH AND TRAINING INSTITUTE

A MEMBER OF

Research and Training Institute (IRTI), a member of the Islamic Development Bank Group (IDBG), was 1401H (1981). The principal aim of IRTI is to undertake research, training and advisory activities in Islamic and Islamic Finance to facilitate the economic, financial and banking activities in IDB member countries to Shari'ah. A knowledge-based organization, IRTI, is considered to be one of the pioneers and key centers of around the world in promoting and supporting the development and sustenance of a dynamic and com- Islamic Financial Services Industry (IFSI), which supports the socio-economic development of IDB member countries and Muslim communities across the globe.

VISION To be the global knowledge center for Islamic Economics and Finance by 1440H (2020)

MISSION To inspire and deliver cutting edge research, capacity building, advisory and information services in the area of Islamic Economics and Finance

IRTI SERVICES

ADVISORY AND CONSULTANCY

IRTI provides comprehensive advisory and consultancy services in the fields of Islamic Finance and Economics with global outreach to the public and private sectors. Backed by over three decades of industry experience, IRTI's advisory and consultancy services add real value to the clients' businesses. In addition to IRTI's renowned experts, IRTI utilizes industry experts, affiliate partners and IDB Group members entities' experts to provide advisory and consultancy services to clients. IRTI's consultancy services include (but not limited to): setting up regulatory framework, developing new Islamic financial products and services to cater to the market needs, Shari'ah research, Shari'ah toolkits, Shari'ah guidelines, introduction of Islamic banking windows in conventional banks, conversion to Islamic banking, Shari'ah auditing exercises, Shari'ah advisory and technical support for sukuk issuance etc.

RESEARCH

IRTI is a catalyst in the advancement of the Islamic Economics and Islamic Finance fields. Currently IRTI's research agenda is focused on five clusters, namely: Islamic Financial Institutions and Financial Sector Development, Islamic financial products development, Financial Stability and Risk Management, Economic development in OIC member countries, and Human development in light of Maqasid Al Shari'ah.

INFORMATION AND KNOWLEDGE SERVICES

IRTI effectively and efficiently creates, captures and disseminates knowledge using traditional and modern information systems and programs. These programs include, but not limited to; the internet, social media, e-learning, distance learning, voice and video conferences.

ISLAMIC FINANCIAL INDUSTRY INFORMATION CENTER (IFIIC)

IFIIC is a portfolio of online applications and databases with relevant data about the Islamic Financial Industry. Components of the IFIIC are the following: Islamic Banking Information System (IBIS, www.ibisonline.net), Shariah and Who's Who Databases.

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General Council for Islamic Banks And Financial Institutions

CIBAFI

المجلس العام للبنوك والمؤسسات المالية الإسلامية

About CIBAFI

General Council for Islamic Banks and Financial Institutions (CIBAFI) is a non-profit institution that is the umbrella for Islamic financial institutions worldwide. It was founded by the Islamic Development Bank (IDB) and a number of leading Islamic financial institutions, CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC). Established on 16 May 2001, in the Kingdom of Bahrain, today CIBAFI is recognised a key piece in the international architecture of Islamic finance.

CIBAFI was established with the objectives of developing the Islamic financial services industry (IFSI) and promoting the industry in various fields through information and financial analysis, communication, awareness, human resources and rating of Islamic financial products.

CIBAFI was founded by Islamic Development Bank and 30 members. Now, after 13 years of operations, CIBAFI has 111 members. Membership is spread across 28 jurisdictions in the Middle East, Africa, Europe as well as South and Central Asia and includes Islamic financial institutions, multilateral banks, international standard setting organisations and other professional services firms.

To this extent, initiatives of CIBAFI include:

1: Policy, Regulatory Advocacy

2: Research and Publications

3: Awareness and information sharing

4: Professional Development

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Executive Summary

A fully Shariah-compliant system following Shariah standards in all aspects, Sudan is considered one of the rich countries in North Africa, with fertile lands, abundant natural resources of livestock, crops and manufacturing. The economic stability of Sudan, as measured by Gross Domestic Product (GDP), shows favorable trends and the republic's economy is expected to gradually moderate in 2016, after experiencing economic downturn in 2014/2015 caused by the drop in financial services sector. The country also faced difficulties to abandon the negative vibes associated with the financial crisis and the domestic losses caused by oil shocks following the secession of South Sudan in 2011. However, GDP growth is showing a recovery after reaching 3.6% in 2014 and 2015, forecasted to jump to 4% in 2016.

The business environment in Sudan is quite weak, attributed to the sanction imposed by the United States, and high inflationary levels reaching up to 36.9% in 2014 — the highest in Africa. Other constrains include political instability, economic uncertainty and infrastructure inadequacy. This poses a serious threat to Sudan's economy in terms of exports and imports, especially in agriculture reserves and will require extensive plans and studies to attract foreign investors.

The country has made notable progress by lifting the personal communication sanction in February 2015, which opens the market to external communication and technologies. Sudan is still emerging with stable and flourishing economic outlook, especially in terms of gradually lifting more sanction areas, which if handled well, can lead to the flowing in of foreign investments.

Islamic Finance in Sudan: A Growing Base

The financial system of Sudan has maintained a growing base, while depending solely on Shariah compliant transactions since 2002. Multiple market players including banks, insurance companies and microfinance institutions are expanding, under the governance of the Central Bank of Sudan (CBoS) and the Insurance Supervisory Authority (ISA). By the end of 2014, banking assets reached SDG 92 billion, showing a compound growth of 16.64% between 2009 and 2014. Total contributions by Sudan's insurers reached to SDG 1.1 billion in 2013, and are dominating the sovereign short-term Sukuk market after Malaysia (2014).

Sudan's President Omar al-Bashir gives an address at the opening of the eighth session of Parliament in Khartoum. REUTERS/Mohamed Nureldin Abdallah

SUDAN ECONOMIC & FINANCIAL TRENDS

01

An economy that operates under a fully Shariah compliant system, back to 1989.

02

Recovery from economic downturn caused by separation from South Sudan, resulted in heavy oil losses.

03

New growth pathways leading Sudan to build markets' respect toward traditional knowledge.

ECONOMIC AND FINANCIAL LANDSCAPE

GDP growth in 2015
3%

GDP growth in 2013
4.4%

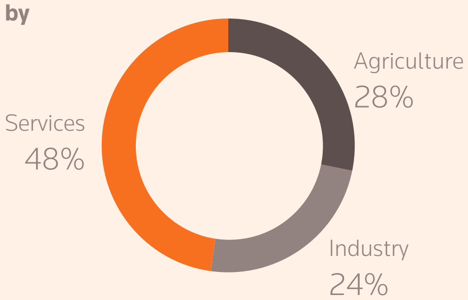
GDP growth in 2014
3.6%

GDP growth in 2015 (forecast)
3%

GDP growth in 2016 (forecast)
4%

Largest sector in GDP contributions
Services Sector

GDP Breakdown by sectors (2014)



Average inflation (2011 – 2014)
28%

Inflation (as of 2014)
36.9%
—
The highest in Africa due to drop in exchange rates and lifting fuel subsidies

Inflation (as of March 2015)
DECLINED TO
23.2%
—
Due to Central Bank of Sudan (CBoS) policy in curbing liquidity and limiting money supply

Doing Business in Sudan (as of 2015)
160th (out of 189 countries)

ISLAMIC FINANCE LANDSCAPE

Islamic finance in Sudan started in
1977

First Islamic bank
Faisal Islamic Bank (1977)

First Takaful firm
Islamic Insurance Company (1979)

Governing Act
Central Bank of Sudan (CBoS) Act 2002

Islamic Finance Development Indicator (IFDI) 2014 -2015

SUDAN'S RANKING
11th

Quantitative Development (QD)
12th
—
37 Banks
—
15 Insurance Companies
—
30 microfinance institutions

Knowledge
19th
—
1 university
—
4 courses/ degrees

Governance
7th
—
Moderate regulatory environment
—
Centralised Shariah Board
—
60 Shariah scholars within Sudanese Financial institutions

Awareness
10th
—
3 seminars
—
2 conferences
—
198 news covering Sudan

Corporate Social Responsibility (CSR)
13th
—
US$ 18.27 million Zakat,Qard Al-hassan and charity fund disbursed by financial institutions

For more information click here: http://www.zawya.com/islamic-finance-development-indicator/

ISLAMIC ECONOMY LANDSCAPE

Global Islamic Economy Indicator (GIEI) 2015 -2016

SUDAN'S RANKING
12th

Islamic Finance
11th
—
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)

Halal Food
23rd
—
US$ 250,823 thousands Food exports to OIC countries
—
1 certification available for local producer

Halal Tourism
36th
—
77.6 Inbound Muslim tourists

Halal/Modest Fashion
54th
—
No exports, lack of exports to OIC countries
—
6 Labour fairness index

Halal Media & Recreation
44th
—
23% access to internet
—
No media exports, lack of media exports to OIC countries

Halal Pharmaceutical/ Cosmetics
39th
—
US$ 53,079 Pharmaceutical export to OIC
—
US$ 48,110 Cosmetics exports to OIC

For more information click here: https://www.zawya.com/ifg-publications/Global_Islamic_Economy_2015-230915060918U/

Back to 1977, Sudan established its Islamic finance base with the opening of the first Islamic Bank — Faisal Islamic Bank. It took the lead in the Insurance market as well, with its intention to alleviate poverty, and started the operations of the Islamic Insurance Company in 1979 — the world's first Islamic insurance company. The government is always supportive in enhancing financial inclusion and increasing market liquidity, and also committed to attracting foreign investors looking for a growing financial base and economic exposure.

New pathways to enhance traditional Knowledge

The windfalls in Sudan will require new pathways of investments, including investment in human development, economic diversification and private sector promotions. Although it is considered one of the oldest and only fully Shariah compliant market, and possess traditional knowledge in the same field, it still lags behind a number of new market entrants in terms of access to data, and financial inclusion.

KEY INSIGHTS

01 Islamic Banking

- 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
- 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 centralised Shariah commission, since 1992
- Transition to Basel III is under revision

02 Takaful

- 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

03 Retail Consumers' Insights

- Awareness is still a hurdle for engaging banking and takaful users
- Activating educational campaigns through road shows, advertisements, universities, knowledge centers and TV channels would increase financial inclusion
- Building customer-focused environment through frontline staff
- Uninsured customers' segment represents a large untapped potential for micro insurance.
- Improve the simplicity in transactions through digital transformation
- Technological infrastructure in Sudan requires heavy investment; currently suffering from slow internet connections and weak security

Awareness is the biggest hurdle in Sudan, due to the negative impact of deep swath of poverty, besides lower banking penetration in rural areas such as Darfur and Kurdufan states (6%) compared to the highest in Khartoum of 41%. Human development remains low (based on UNDP Human development index), which in turn affects consumer knowledge about financial services and push the country behind in terms of product innovation, customer services skills, competitiveness and advanced techniques in attracting new investors.

Also, plans should be devoted toward mobilizing public-private partnerships, in line with government development plans to dedicate greater attention to infrastructure development, agriculture and livestock investments, and expanded micro financing abilities.

04

Islamic Capital Markets

- 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 154.1% to reach SDG 301.9 billion
- Major players: telecommunications companies and financial institutions
- Top Investors: Commercial banks, contributing 22.3% of the inventor base.
- Only one Corporate Sukuk issued in to 2007, 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)

05

Islamic Social Finance

- 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

1 Sudan at a Glance

A sunset view of river Nile in Khartoum, Sudan.

INSIDE THIS CHAPTER

Country Overview

INTERNATIONAL DIALING CODE
+249

PRESIDENT
Omar Hassan Ahmad al-Bashir

(IMF) OCTOBER 2014	(THE WORLD BANK) 2015 FORECAST
GDP US$ 159.5 Bn	**GDP** US$ 168.48 Bn
GDP PER CAPITA US$ $4,522	**GDP PER CAPITA** US$ 4,655

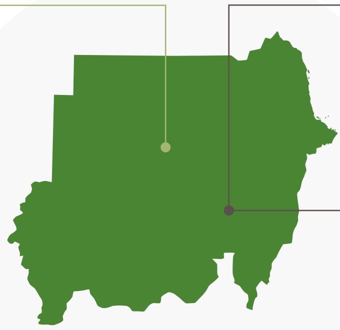
INTERNET DOMAIN
.sd

FULL NAME
Republic of the Sudan

CAPITAL
Khartoum

LIFE EXPECTANCY
61 years
Male
(CIA World Factbook 2015)

65 years
Female
(CIA World Factbook 2015)



AREA
1,886,068 km^2

MAIN RELIGION
Islam

MONETARY UNIT
Sudanese Pound

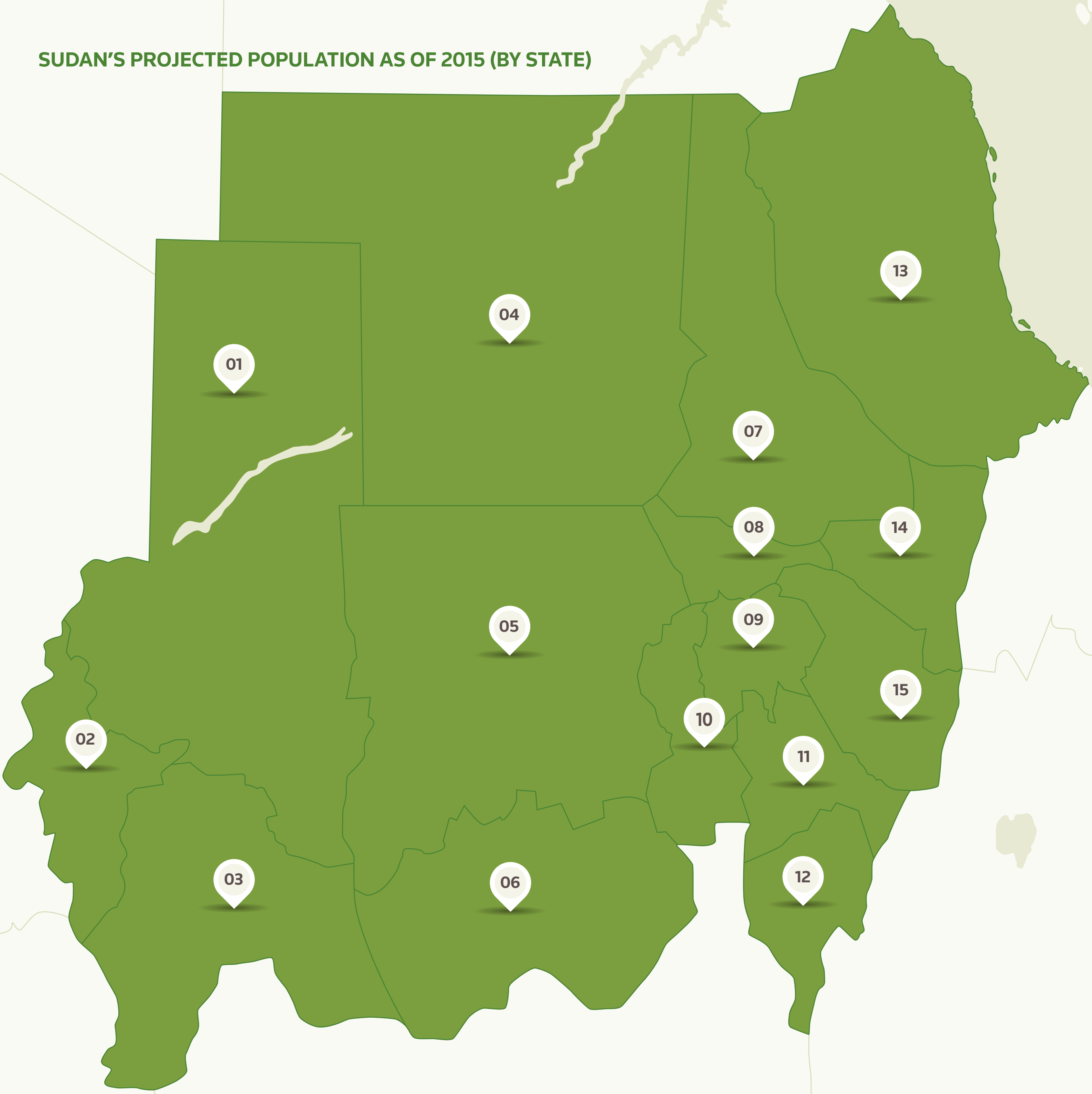
LARGEST CITY
Omdurman

MAJOR LANGUAGE
Arabic, English

MAIN EXPORTS
- Cotton
- Peanuts
- Arabic gum
- Sesame seed

POPULATION (UN)
40,235,000

SUDAN'S PROJECTED POPULATION AS OF 2015 (BY STATE)



01.
NORTH DARFUR
2,267,680
—
02.
WEST DARFUR
1,625,811
—
03.
SOUTH DARFUR
4,958,148
—

04.
NORTHERN
860,950
—
05.
NORTH KURDUFAN
3,120,942
—
06.
SOUTH KURDUFAN
1,925,606
—

07.
RIVER NILE
1,387,513
—
08.
KHARTOUM
7,095,148
—
09.
AL GEZIRA
4,600,700
—
10.
WHITE NILE
2,244,619
—

11.
SINNAR
1,710,369
—
12.
BLUE NILE
1,022,378
—

13.
RED SEA
1,414,417
—
14.
KASSALA
2,283,054
—
15.
AL GEDARIF
1,917,919
—

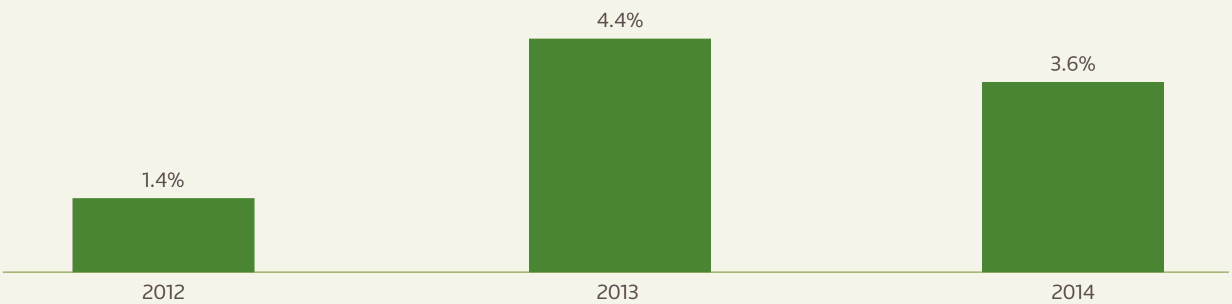
Source: Central Bureau of Statistics, Republic of Sudan

Macroeconomic Overview

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 and the separation of the south in 2011. During this period 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%[1]. The Gross domestic product at current prices rose from US$ 12.257 billion in 2000 to US$ 70.03 in 2014 and per capita from US$ 394.125 to US$ 1985.21 during the same period[2]). The IMF's World Economic Outlook projects GDP growth rate of around 3% in 2015 and above 4% in 2016.

GDP GROWTH RATES (2012 - 2014) IN PERCENTAGE



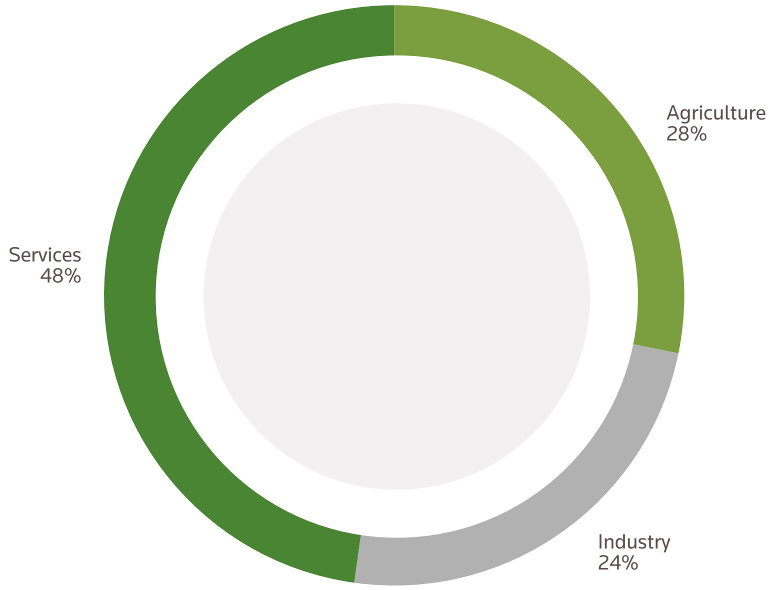
Trends in Growth and Structure of GDP (%) Sector

	2006	2007	2008	2009	2010	2011	2012	2013	2014
REAL GDP GROWTH RATES (%)									
Agriculture	8.4	6.0	7.8	4.9	5.7	3.4	5.7	4.0	-4.1
Industry	12.5	22.7	0.5	4.3	4.5	-3.6	-6.8	10.4	15.2
Services	10.3	5.7	10.7	3.2	4.6	4.4	3.2	2.1	3.2
Overall GDP	9.9	10.9	6.4	4.5	5	2.5	1.4	4.4	3.6
STRUCTURE OF GDP (%)									
Agriculture	31.8	35	35.7	32.3	33.9	34.1	30.6	30.6	28.2
Industry	23.8	22.7	25.2	24.7	22.6	18.5	19.5	21.5	24
Services	44.3	42.2	39.1	43	43.5	46.5	46.5	47.9	47.8

Source: Sudan Central Bureau of Statistics

Contributions of major economic sectors to GDP (recent development)

CONTRIBUTIONS OF ECONOMIC SECTORS TO GDP (2014)



The agricultural sector

The contribution of the agricultural sector both plant and animal 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.

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; 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.

Services sector

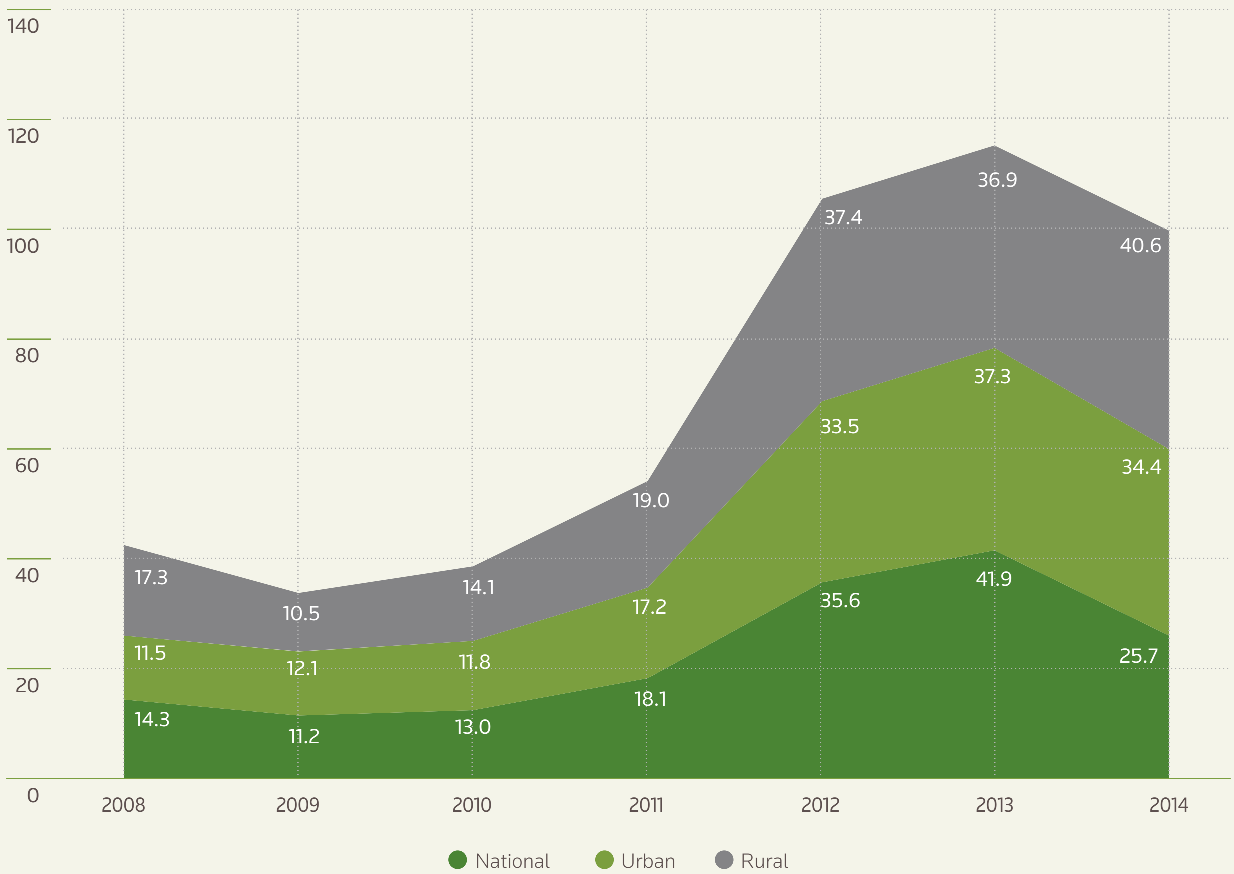
The contribution of services sector in GDP declined slightly from 47.9% in 2013 to 47.8% in 2014 resulted from negative contribution of some sub-sectors. Financial intermediation services contributed negatively to the GDP, while transport and communications contribution dropped from 10.7% in 2013 to 10.4% in 2014. Finance, insurance, real estate and other services sub-sector follow 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

Average Inflation increased from 13.1% in 2010 to 36.9% in 2014. This is attributed to the partial devaluation for some government related transactions and the removal of subsidies from oil prices, in addition to the increase in the prices in most food items and some imports. Average inflation during 2011-2014 was about 28% with a notable increase in recent years; Inflation however, dropped from 41.9% by the end of 2013 to 25.7% by the end of 2014 and continues to decrease during 2015. This trend is attributed to the Bank of Sudan's policy, which aims at curbing liquidity and limiting the increase in money supply.

INFLATION BY URBAN AND RURAL AREAS (%)



Annual General Inflation Rate (%) in Sudan by Rural and Urban Areas

	2008	2009	2010	2011	2012	2013	2014
National	14.3	11.2	13	18.1	35.6	41.9	25.7
Urban	11.5	12.1	11.8	17.2	33.5	37.3	34.4
Rural	17.3	10.5	14.1	19	37.4	36.9	40.6

Source: Sudan Central Bureau of Statistics

Balance of payment

The current account decreased from US$ 5,397.7 billion in 2013 to US$ 4,848.8 in billion in 2014, which represents a drop of 10.2%. Furthermore the overall balance of payment position indicates a drop in the overall balance from US$ 17.6 to US$ 15.5 million.[3]

Total debts decreased from US$ 44.4 billion in 2013 to US$ 43.7 billion, a drop of 1.8% which is attributed mainly to the movement in the exchange rates, especially the USD /EURO exchange rate which resulted in a drop in the indebtedness to countries under Paris Club[4] which represents 31.1% of total indebtedness.

Sudan and the IMF

Sudan's Staff-Monitored Program SMP is an informal agreement between country authorities and IMF Fund staff to monitor the implementation of the authorities' economic program. The latest statements by the IMF indicated the desire of the Sudanese authority and the IMF to renew the SMP for 2015/2016. The statement indicated that the Sudanese economy has made very good progress towards stability and economic growth following the shock of separation from Southern Sudan. Specifically the report cited the fiscal discipline and the tight monetary policy that have helped to reduce inflation to less than 20% by May 2015, narrowing the deficit in the external account and supporting economic growth during 2014 to reach 3.7%.

The IMF also welcomed the government reforms taking place during 2015. Nevertheless the IMF warned of challenges ahead particularly due to the negative impact of low oil prices on the government's revenues and the conflict in the south which may increase both the internal and external deficits. Sudan is still experiencing difficulties with regards to international money transfers which could have negative impact growth. Moreover, the expansionary policies in support of agriculture have increased the liquidly in the economy and could lead to upward inflationary pressure and downward pressure on the exchange rate or the value of the Sudanese pound.

Sudan: Doing Business Environment

Below are the most important areas to consider when measuring Sudan's ease of doing business environment. Overall, Sudan dropped in its ranking from 149th to 160th in 2015 (out of 189 countries) as most it's of Ease of Doing Business indicators dropped.

Since 1989, Sudan has completely transformed its economy to an Islamic one and this transformation imposed more challenges to a country that inherited a deteriorated economic situation at the end of the twentieth century long with civil war and political instability. The new business policy and regulation that is based on the Islamic theory required better basic trade infrastructure that Sudan lacks such as electricity, cheap transportation, paved roads and warehouses. Moreover, Sudan is a conflict country that sustained long civil wars which led to loss of many resources including 75% of its oil output after the secession of South Sudan in 2011.

Hence, despite of the existence of many opportunities of doing business in Sudan (e.g. agriculture, livestock, minerals, oil and gold) through linkages with OIC member countries, the ongoing challenges make it very costly and difficult.

SUDAN'S DOING BUSINESS ENVIRONMENT RANKING

#	Ease of Doing Business Indictors	2015	2014
1	Starting a Business	139	131
2	Dealing with Construction permits	160	167
3	Getting electricity	136	113
4	Registering property	46	41
5	Getting credit	165	170
6	Protecting minority investors	174	157
7	Paying Taxes	139	108
8	Trading across borders	162	155
9	Enforcing Contracts	163	154
10	Resolving insolvency	156	89
Overall		**160**	**149**

Source: World Bank's Doing Business 2015 and 2014

DR. MUDATHIR ABDUL GHANI ABDUL RAHMAN

Minister — Ministry of Investment, The Republic of Sudan

This interview was originally conducted in Arabic and was translated into English

DR. MUDATHIR is the current Minister of Investment in Sudan. Prior to this position, he has held several positions including the Minister of Agriculture and Livestock for the State of Khartoum and the Minister of Finance and Investment for the State of the River Nile. Dr. Abdul Ghani has also held managerial positions in Garri (Al-Gaili) Free Zone as well as in the Saudi Duty Free.

Dr. Mudathir has held several ministerial roles and managerial positions in Sudan and Saudi Arabia. He has participated in numerous management and marketing related workshops and conferences in Sudan and globally.

Dr. Mudathir obtained his PhD, Masters and Bachelors Degree in Business Management from Alzaiem Alazhari University in 2015, American University in London in 2003 and the University of Khartoum in 1994 respectively.

1. Growth of Sudan's gross domestic product (GDP) has been estimated at 3.4% in 2014 and is projected at 3.1% and 3.7% in 2015 and 2016. What are the key drivers of the GDP growth? What are the key sectors contributing to the GDP and which sectors do you forecast the potential economic growth to come from?

There are several factors to be relied upon to achieve the expected growth of GDP in 2015 and 2016, all of which were included in the general policies of the Five-Year Plan (2015 – 2019), namely:

- Encouraging investment in minerals, petroleum and agriculture sectors.
- Legalisation of traditional mining activities and linking the exportation of gold to the Khartoum Gold Refinery.
- Linking production to exportation to reduce the pressure on the demand of hard currencies and importation.
- Encouraging the contribution of small and medium enterprises (SMEs) to the economy through widening the umbrella of microfinance.

These sectors (petroleum, minerals and agriculture) are deemed to be among the largest growth drivers of Sudan's economic growth. The Plan aims at reinvesting the revenues of petroleum and minerals in further developing the infrastructure of the agriculture sector. The agriculture sector has a relative advantage for Sudan, one which has led the country to be nominated amongst the leading contributors in achieving world food security (Canada, Australia, and Sudan).

2. Sudan has been consistently pursuing creating an eco-friendly investment environment for foreign investors; however the WorldBank ranks Sudan as 159 in ease of doing business in 2016. What future policy reforms will Sudan be adopting to further improve their investment environment?

We admit that there are real corporate issues which affected Sudan's international ranking in Ease of Doing Business. However, through the State reform programs announced in the current Presidential Session, and the new agreement with the World Bank for facilitating a program to create a healthy business environment, we believe that we will be able to improve Sudan's ranking within the middle range of the countries list.

3. Sudan is actively boosting bilateral trade, economic relations and business development with several countries and regions, including Arab States, Russia and China. Also recently, Polish and Italian companies have expressed their desire to invest in the industrial field. What has been the most unique achievements in this space, and what future initiatives will Sudan be targeting in the short to medium term?

Sudan has economic and distinct relations, especially in the field of investment, with China, Malaysia, India and Arab countries. These countries are ranked high in terms of foreign direct investment in Sudan across different economic sectors. For example:

- China is one of the top investors in Sudan's petroleum sector, followed by Malaysia and India.
- Arab countries are the top investors in agricultural, industrial and service sectors, excluding petroleum.

On the other hand, the European countries are affected by US sanctions on Sudan, despite their recognition of the feasibility of investment opportunities in Sudan. The success of China, India and Arab countries had an influential impetus for Russia, Poland and Italy to invest in the mining sector. There is also an ambitious promotional plan that targets the European countries during the remaining period in the Five-Year Plan (2016 – 2019).

4. Given the growing opportunities in sukuk to fund infrastructure projects, particularly in ICT, transport, water supply, electric power and communication network, are there any intentions to utilize sukuk to attract foreign investors to fund Sudan's infrastructure projects?

There are serious intentions to attract large investments for infrastructure development by utilizing the BOT (Build, Operate, and Transfer) construction system — especially given that Sudan is a vast and expansive country — alongside energy (whether from water regeneration, or solar and wind energy) and railway projects as well as rehabilitation of the industrial areas. However, the finance mechanisms are still being studied to reach the optimal options which will be agreed upon between the Ministry of Finance and the Central Bank of Sudan.

5. Sudan has a full Sharia compliant banking system. How supportive or facilitative has this system been for Sudan, when engaging in partnerships or transaction with other countries that may not have an understanding or expertise in Islamic finance? Has this been a hindrance, and if so, what initiatives is the government adopting to address these challenges?

The prohibition of interest by the Islamic banking system in Sudan has caused many obstacles in signing a number of bilateral agreements with China, Russia, Belarus, Switzerland, Vietnam, Azerbaijan, Korea, Iraq and Nigeria. All these agreements were discussed with the Higher Islamic Shariah Supervisory Board to be revised and re-drafted in a Shariah compliant manner and this point was tackled in several meetings.

ISLAMIC FINANCE OVERVIEW

Islamic finance major historical milestones

1977
- First Islamic bank in Sudan, Faisal Islamic Bank, established

1979
- Islamic Insurance Company established as Sudan and world's first takaful company

1980 to 1983
- Five more Islamic banks were established

1984
- First attempt at Islamization of the financial system

1990s
- Successful conversion of entire financial system into an Islamic one

1992
- High Shariah Supervisory Board established

1993

1994
- Khartoum Stock Exchange set up

1995

1996

1997

1998

2003
- Special Sukuk committee set up

2005
- Comprehensive Peace Agreement signed

2006
- Amendment of the Central Bank of Sudan (CBoS) Act 2002, changing the system into a dual banking system

2007
- All banks in South Sudan told to convert to conventional business model or cease operations there
- Islamic microfinance committee established and launch of microfinance fund

2011
- Secession of South Sudan and a reinstatement of a fully Islamic financial system in Sudan

1999 2000 2004 2008 2009 2010

History of the 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 first 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 Shariah 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 Shariah law upon all financial institutions. 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.

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 Shariah 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.

"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.

Overview of recent activity

Banking and Microfinance

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

Sudan has had considerable microfinance initiatives due to the large proportion of the population living in poverty (46.5% of the population in 2009, according to the World Bank). In 2014, microfinance reached 4.6% of total banking finance reaching to SDG 2,055 million[5].

Historically, although there was some activity before the civil war, the Central Bank's efforts really began after the signing of the Comprehensive Peace Agreement (CPA). The Central Bank, jointly with the World Bank, launched a US$ 50 million microfinance fund to support micro financing initiatives. Since all banking activities are by law on an interest-free basis, microfinance too had to adhere to Shariah law. The Central Bank thus created a Microfinance Unit and directed all Sudanese banks to allocate a 12% of their finance portfolios to micro and small finance, albeit with limited success.

Capital market

Sudan has a relatively active domestic sukuk market. Since 1999, the CBoS through the Sudan Financial Services Company (which was established by the Central Bank with Sudan's Ministry of Finance and National Economy (MFNE) in 1998) has been mandated to trade and market all government securities. It has been regularly issuing quarterly short-term sukuk, called Government Musharakah Certificates, for managing macroeconomic and banking liquidity [as a form of Shariah-compliant monetary policy]. As a result, Sudan is the second largest sovereign short-term sukuk issuer after Malaysia (as of July 2014).

Historically Sudan has not been active on the international markets, primarily due to continuous sanctions denying it access. Between January 2001 and July 2014, Sudan had only one international issuance which contributed a small 0.11% to the global market of internationally issued sukuk (IIFM Sukuk database). A notable contribution is a corporate sukuk issued by Berber Cement Company in 2007 raising $120 million with a 7-year tenor.

Domestically, sukuk 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.

Takaful

Takaful has a long and established history in Sudan yet still there are significant areas of opportunity and growth.

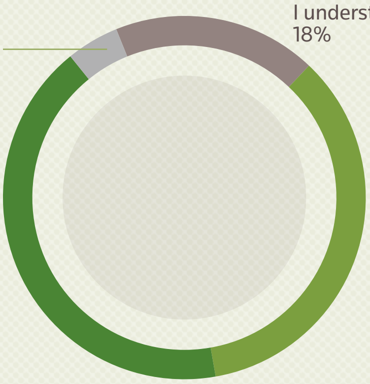
Between 2012 and 2013, total contributions grew 30.2% and gross surpluses expanded by an impressive 61%. Although there is a regulation in place governing the Islamic insurance, local firms are displeased that "mega projects" with high risk like the oil and energy sector are not insured domestically causing an outflow in premiums. An example is Zain, a telecommunications provider attained by Kuwaiti investors and is insured by a GCC-based insurer. This may be reversed with new insurance regulations expected to be passed, among other issues addressing the insurance of foreign investments.

Takaful companies have been addressing the needs of its customers with products such as crop insurance and protection against war risks. Microtakaful is another area with great potential, which the government is also expected to turn its attention to with its upcoming insurance regulations[6]. These changes coupled with relatively low insurance penetration in Sudan, especially among lower income households, highlight strong potential in this segment going forward.

Current Awareness and Perceptions about Islamic Finance

It is important to assess Islamic finance awareness and perception of retail customers based on Sudan Consumer Financial Services Insight Survey .

LEVEL OF UNDERSTANDING OF THE ISLAMIC BANKING AND INSURANCE PRODUCTS AND SERVICES



Awareness and understanding: call for educational campaigns

Despite Sudan being a Muslim majority country which applies Shariah to its financial system, a large number of our survey respondents are unfamiliar with the Islamic scope of banking and insurance products and services while only 35% have limited knowledge.

It is necessary to educate existing and potential customers about the uniqueness of Shariah compliant products offered by Sudanese banks and insurance services operators in order to increase Islamic financial inclusion. Banks and insurance companies can highlight the Shariah compliant features of different products whether they are savings, financing or protection products while utilizing multi-channels. The government collaboration with financial institutions in this matter would assist in spreading awareness to a wider audience and lower cost through:

1. Road show campaigns and advertisement.

2. Collaboration with ministry of information to reach most of the population through TV channels.

3. Collaboration with national universities and knowledge/advisory centers to organize workshops for different communities other than students to educate the people about the value of financial institutions in general.

Islamic Finance Perception: Lack of awareness creates a barrier to form a view on Islamic finance

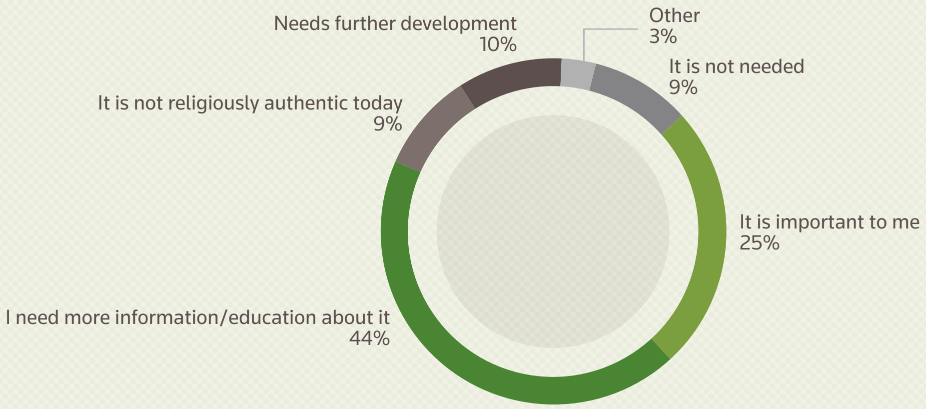
When asked about their views of Islamic finance, most of them insist on receiving further knowledge before reaching to a conclusion about the industry. 25% view Islamic finance as important while 10% call for further development and 18% formed negative views by saying it is not needed or not religiously authentic today. This suggests significant work is required to educate the population of Islamic Finance, and indeed improve current perceptions.

Shariah Compliance Perception: Most of respondents take a further step before committing with a financial services provider highlighting lack of trust

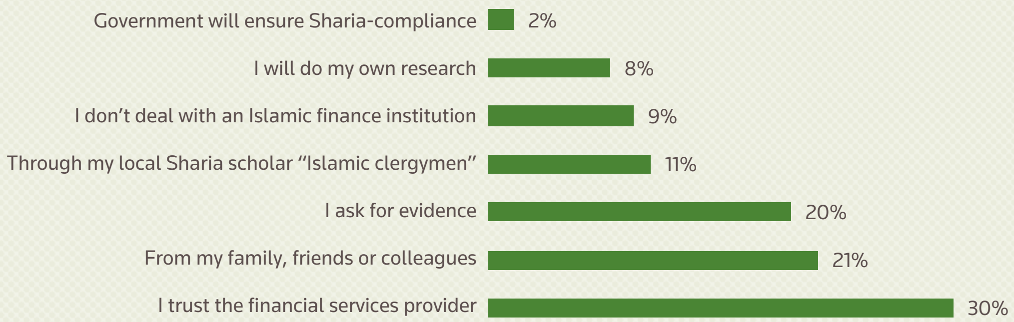
30% of respondents have trust in their Islamic financial services provider but this share could be higher especially given that Sudan financial system is based on full Shariah compliance governed by its Central Bank. Surprisingly, only 2% chose the government as their number one source of trust for Shariah compliance. In order for the customers to base their trust on the government, in-depth education campaigns and circulars on compliance aspects of Islamic finance should be spread from the government through different channels as highlighted earlier.

The rest of respondents are willing to take a further step before committing with a provider as 21% are seeking advice from their family, friends or colleagues; 20% seek evidence of Shariah compliance and the rest either refer to their scholars or do their own research.

VIEWS ABOUT ISLAMIC FINANCE



WHEN DEALING WITH AN ISLAMIC FINANCIAL SERVICES PROVIDER, HOW WOULD YOU ENSURE THE SHARIAH-COMPLIANCE OF THE PRODUCTS AND SERVICES YOU BUY?



Regulations and sharia ecosystem overview

Islamic Banking regulatory environment

The Bank of Sudan was established in 1959, its role have 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.

The Sudanese 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. 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 banking system in Sudan is regulated and supervised by CBoS as provided under section 6(c) of the Bank of Sudan Act, 2002.[7] 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.

THE GOVERNING ACTS

The Act	Targeted institutions/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

In addition, the following regulations are also part of the responsibilities of CBoS.

- Foreign Exchange Dealing Regulation
- Regulation governing the Business of Foreign Exchange Bureaus
- Regulation governing Licensing for conducting Banking Business
- Rules for conducting business & licensing of Representative Offices of Foreign Banks
- Regulation governing the business of Financial Investment Institutions
- Regulation governing the Business of Financial Leasing Institutions "Lil-Ijara"
- The Informatics Offences (Combating) Act

Under Chapter VI of the Bank of Sudan Act, 2002, the CBoS has been given the power to issue circulars and directives (for example, classification of financing, capital requirement, and new entry) governing all aspects of banking operation. The following discussion will focus on the few regulations related to banking industry.

Regulation on Capital Requirement. Starting in 2000, the CBoS has increased the minimum absolute capital requirement in stages to the equivalent of US$12 million with the aim of encouraging consolidation and the realization of economies of scale. To meet this requirement, capital has been injected into four state-owned banks. The capital of private and mixed public/private banks has been increased through a combination of retained earnings, asset re-evaluations and realization, and rights issues (the latter being more frequent in the case of banks with foreign participation). Two banks have been merged to reach the minimum paid up capital requirement. The CBoS intends to announce a further increase in minimum capital to the equivalent of US$ 25 million by December 2005.

CBoS requires banks to comply with the 8 percent risk-weighted capital adequacy requirement. However, while most of the banking institutions have complied with the requirement, the 8 percent minimum risk-weighted capital adequacy requirement may not be adequate given the inherent vulnerabilities of a developing economy dependent on the production of primary commodities. The CBoS' plan to increase the minimum capital adequacy ratio to 12 percent —which would be in line with levels in other countries of the region—is therefore appropriate. From a prudential perspective, this may be more important than the announced process of increasing the required absolute minimum capital.

The definition of regulatory capital allows banks to include relatively illiquid fixed assets. This reduces the effectiveness of capital as a buffer against shocks, and adds uncertainty to the valuation of capital, especially given the recent rapid upward revisions in real estate prices. Therefore, the CBoS may need to consider limiting the inclusion of fixed assets in regulatory capital. Introducing such limitations could be partially offset by a reduction in the minimum capital requirement.

Regulation on New Entry. The CBoS sets criteria for establishment of a new bank.[8] Evaluation on proposal to set-up a new bank is made among others, by reviewing ownership structure, assessing the operating plan, and evaluating proposed directors and management. For prudential purposes, a large shareholder is defined as one holding at least 7 percent of shares.

Regulation on Financing to Directors and Shareholders. Banks are required to obtain approval from CBoS when providing *financing to directors and shareholders* of the bank. It is recommended that financing to directors and shareholders' related companies should also be subject to CBoS approval. While the banking law contains restrictions on lending to individual director and shareholder of the bank, there is a need to introduce a restriction on aggregate financing of such connected parties. Currently, only financing to members of the bank's board of directors is subjected to the limit which at anytime should not exceed the total of the whole capital and the bank's reserves or 10 percent of the financing portfolio whichever is greater. It is recommended that financing exposures to directors or large shareholders should be aggregated with that to their related companies and be subject to a limit set by the CBoS.

Regulation on Corporate Governance. Corporate governance is one of the areas that require improvement. To improve corporate governance and enhance board effectiveness, the CBoS should consider expanding the number of qualified non-shareholders to sit on the board of banking institutions as independent directors. In addition, CBoS should consider discontinuing its practice of appointing CBoS staff to sit on bank boards. This is to avoid actual or apparent conflicts of interest. Moreover, the appointed senior government officials may not be able to devote sufficient attention to their duties as board members.

Regulation on Classification of Financing. Classification of non-performing loans and required provisioning rates for non-performing financing (NPF) are differentiated between murabaha financing and non-murabaha financing.[9] Murabaha financing is considered non-performing if the installment is one month overdue; non-murabaha financing is considered nonperforming if three months overdue.Details of the classification of financing and provisioning rates are illustrated in the table below.

At the same time, the CBoS should gather the necessary data to study default rates and estimate expected loss in case of default under different circumstances. On this basis, the provisioning rates may need to be revised. In addition, the CBoS may also need to review its asset valuation methods regarding fluctuations in the prices of underlying contracted commodities that expose banks to risk. In addition, the absence of penalty interest (or gharamah and ta'widh) in repayment time, as it have been tied with proving the inability to pay.

Regulation on On-site and Off-site Examination. The Bank of Sudan uses off-site surveillance and on-site inspection. The on-site inspections are carried through two types of inspections: limited scope inspection and comprehensive inspection. These inspections are conducted to ensure that banking institutions are sound and that the banks comply with rules and regulations issued by CBoS. While, the off-site surveillance depends upon the periodic returns and reports that are required by law and circulars from the banks. Both inspections are also aimed to assessing the soundness of bank from risk point of view rather than compliance-based.

Regular and formal contacts between the CBoS and management of banks are part of the CBoS's coordinated on and off-site supervisory activities. As part of the CBoS's efforts to strengthen its supervision function, a meeting with the board of directors and senior management of banks is held on a monthly basis. The performance of banks and policy direction is communicated to the banks at the meeting.

CLASSIFICATION OF FINANCING

Classification	Murabahah Financing	Non-murabahah Financing	Provisioning Rate
Ordinary	No overdue installment	No overdue installment	2 percent
Substandard	Installment overdue from 1 to 3 months	Installment overdue from 3 to 6 months	20 percent
Doubtful	Installment overdue from 3 to 6 months	Installments overdue from 6 to 12 months	50 percent
Bad	Installment overdue for more than 6 months	Installment overdue for more than 12 months	100 percent

> “MUCH EFFORT HAS ALSO BEEN MADE TO RESTRUCTURE THE BANKING SECTOR THAT INCLUDES PLANS TO MERGE THE BANKING INSTITUTIONS. COMPLIANCE IS ENFORCED THROUGH APPROPRIATE OFF-SITE SUPERVISORY ACTIVITIES AND REGULAR ON-SITE INSPECTIONS.

Challenges

Prudential regulation and supervisory by the CBoS have improved significantly in recent years. The CBoS has also made progress toward enhancing banking supervision system and has achieved a degree of compliance with the Basel and IFSB Core Principles. Much effort has also been made to restructure the banking sector that includes plans to merge the banking institutions. Compliance is enforced through appropriate off-site supervisory activities and regular on-site inspections. Supervision and regulations have been adapted to incorporate Islamic principles. However, challenges remain.

Firstly, upgrading and strengthening a framework (such as CAMEL or FIMS) in assessing the overall performance of the bank is important. Under this framework, each component is assessed based on quantitative and qualitative factors. A rating ranging from 1 to 5 is assigned to each component (1-strong, 2-satisfactory, 3-fair, 4-marginal and 5-unsatisfactory). Each institution is then assigned a composite rating (1 to 5) after taking into consideration the rating of each component. In performing its function, CBoS has the legal right of full access to all bank records and information. CBoS also can request information as and when it needed, apart from regular reports that banks have to submit to CBoS. In addition, micro prudential policy formulation and implementation, implementation of stress tests and macro stress tests may be difficult due to data constraints problems. An effort should be done to improve the quality of financial reporting by banks to ensure the safety and soundness, and monitoring liquidity, as well as credit and other risk management in banks.

Secondly, there is a need to strengthen supervisory capacity that includes providing adequate resources to perform on-site inspections and upgrade the technical skills of inspectors. The scarcity of inspectors in the Banking Inspection Department has resulted in the inability of the department to perform inspections on all banking institutions. The difficulty in finding highly qualified and knowledgeable personnel who possesses adequate knowledge of both Shariah and economic aspects of banking business has to a certain extent reduced the efficacy of on-site supervision.

Thirdly, Sudanese banking law provides the CBoS with a wide range of corrective measures to ensure the safety and soundness of banking institutions. Such measures include, depending on circumstances: imposition of a directive, removal of the director and senior management, cancellation of the license, and liquidation of the bank. Penalties are also provided in the regulation to deal with infringement of legislation and regulation. Hence, the challenging task is to install and build up a capable and sound system of internal control, effective risk management, adequate transparency and enhanced corporate governance.

Fourthly, cross-border cooperation is an area that needs to be enhanced. CBoS should develop cooperation with the home country supervisory authorities; moreover with foreign entry becomes more universal. The existing law does not provide CBoS with the express power to share confidential information with the home country supervisory authorities, which is needed for effective cooperation. Nevertheless, local branches of foreign banks are still subject to the same prudential, inspection and reporting requirement as domestic banks. In addition, the local banks need to keep up with the rapid changes and developments in the banking systems globally taking in consideration the lack of products and the nature of the capital market.

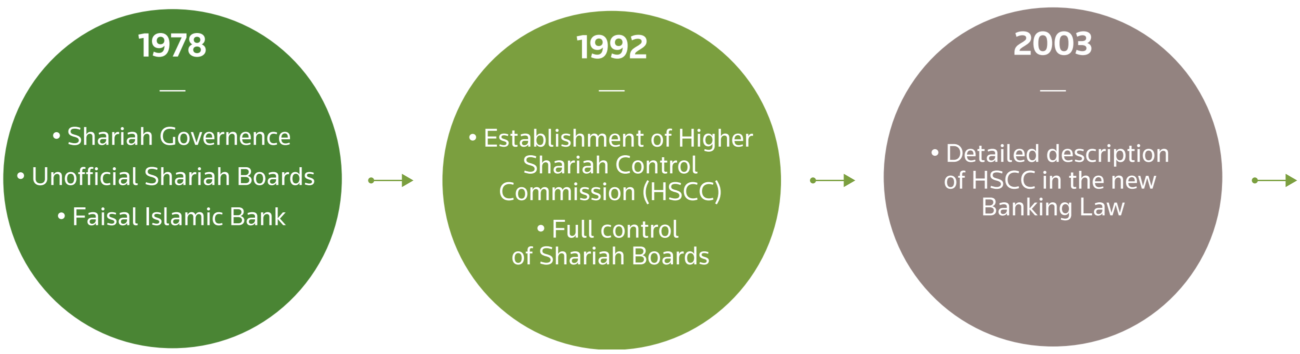
Finally, the implementation of the liquidity standard of Basel III is important because of the non-active capital market in Sudan.

Shariah ecosystem in Sudan

While the world continues to be dominated by a global financial system based on "Riba" or interest, some countries have quietly and exceptionally being working on developing and adopting a financial system closer to the principles of Islamic finance and Shariah. Sudan is one of these, which from the 1970s has been working on what it claims now to be a fully Shariah compliant system of financial intermediation.

Despite being relatively less known globally for its achievements in Islamic finance, Sudan is one of the true pioneers of Islamic financial industry development. Sudan has many firsts in its financial history emanating from its conversion to Islamic economic system. When CBoS licensed Faisal Islamic Bank in 1977, it became the first Islamic bank on the African continent and the second in the World. Over time, all interest-based transactions were banned and by the early 1990s, the entire financial system was converted into a Shariah compliant one. The transition has not been without hurdles but unlike the issues faced by Sudan in the 1980s, the renewed efforts under the new President from the 1990s have been well received and adopted by the country. In fact, great strides have been made to improve and internalize a fully-fledged Islamic financial industry.

By the end of 1997, 29 banks had converted all their operations into the interest-free model. Currently, all contracts for various Islamic modes of finance have to adhere to Shariah Law. As per most recent law, CBoS no longer discriminates



Objectives of the HSCC

- Supervise and ensure the full compliance of the central bank, other banks and financial institutions with the rules of Shariah pertinent to their operations.
- Purify the financial system of all interest-related elements and ensure its full adherence to Shariah.

<
A man counts notes after receiving the new Sudanese currency at a central bank branch in Khartoum. REUTERS/ Mohamed Nureldin Abdallah

between an Islamic bank and any other financial institution, which was previously operating on a conventional basis. All institutions now need their financial instruments to be reviewed and approved by the CBoS.

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 Islamic bank in Sudan in 1978 and continued up to 1991.

However in 1992, the Sudanese government created a Higher Shariah Control Commission (HSCC), as a regulatory body to supervise the development of the banking system and its compliance with Islamic law. 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.

The formation of the HSCC triggered a new wave of Shariah related unity and cooperation in the country and paved the way for the other countries such as Pakistan, Malaysia, and Bahrain to follow suit by establishing their own versions of similar bodies within their jurisdictions. After minor changes and transformations, these countries have adopted their own councils as a clear indication of the creativity and advancement of the Sudanese model and experience.

HSCC in detail

- The commission shall consist of a number, not less than seven, and not more than eleven Shariah experts who have experience in economics and finance.
- The term of membership of the commission shall be five years, subject to renewal.

A labourer walks home after work in Khartoum.
REUTERS/Mohamed Nureldin Abdallah

From its initial establishment through an administrative instruction issued by the Finance Minister in March 1992, up until 2003, the HSCC 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.

In early 2000, Sudan underwent banking transformations, which introduced the banking sector to the international regulatory framework such as Basel and its alignment with Shariah related standards.

Sudan is also exceptional regarding the impermissibility of Tawarruq transaction in Islamic banking. As it became very common and overwhelmingly used to boost the liquidity level of the Islamic banks, Tawarruq is not being accepted by most of the Shariah scholars. Hence Sudan has sided with caution and not allowed Tawarruq transactions in the country.

Over the past four decades, Sudan has been testing the Islamic Banking model in a pure and holistic manner. It is true to say that, this model has successfully replaced the conventional system as the core banking system. The Sudanese experience also shows us the value of a High Council, which regulates Shariah related banking and finance activities at the national level. Hence, it has proved the case for the existence of a supreme council that can bring unity and prevent Islamic financial institutions from conflicting fatwas from different Shariah boards.

Overall Sudan, its scholars, industry players and regulators have demonstrated the feasibility and practicability of a countrywide interest free economic system. However, it is to be noted that the Sudan's experience has not been documented and evaluated extensively, to highlight how it was able to overcome certain problems arising from the transition to a fully-fledged Islamic financial system. Compliance with interest-based international standards, addressing the issue of risk management products with inefficient Islamic modes and the lack of Shariah-compliance on the dominant conventional products and transactions with the outside world are just examples of the obstacles encountered by the Sudanese experience along the way.

2 Banking Sector in Sudan

Employees of Sudan's central bank walk out of the bank. Reuters/Mohamed Nureldin Abdallah

INSIDE THIS CHAPTER

BANK OF KHARTOUM

Established in 1913, Bank of Khartoum (BOK) is the leading Islamic financial institution in Sudan and the country's longest-established bank, with operations spanning more than 100 years. With its roots deeply integrated in the country, BOK has been a primary supporter and driver of the nation's economic and social development over the past century. Today, BOK is the bank of choice in Sudan for local corporates, multinational corporations, the United Nations, non-governmental organisations, embassies and consumers. Its global correspondent banking partnership network comprises international and regional banks from the UK, Europe, the Middle East and Asia.

A brief history of the emergence of commercial banks in Sudan:

1903 to 1959

Sudan has witnessed the opening of foreign bank branches in the country since 1903. National Egyptian Bank was the first bank to open its branch, followed by Barclays Bank in 1913, Ottoman Bank in 1949, Bank of Egypt in 1953, Kurdish Lionyeh Bank in 1953 and Arab Bank in 1959.

1960 to 1969

This period was marked by control of the banking business in Sudan by branches of foreign banks, with no clear vision for the viability after Sudan's independence in 1956. Development and commercial banks were established in this year, working side by side with branches of foreign banks and the central bank, which was founded in 1959. Due to the modernism of its composition, it did not perform its role in achieving the goals of economic and social development of the ten-year plan 1960 - 1969.

1 970 to 1975

The period 1970 — 1975 saw significant developments in the banking system including:

1. Nationalization of branches of foreign banks as a result of socialist features in government.

2. Issuance of organizing banks and savings law for 1973 under which the Sudanese Savings Bank been established.

3. Mergers and consolidation in the banking sector changed the landscape of the banking system, which now consisted of five commercial banks and four specialized banks owned by the State.

We also note that during this period, elements of the Islamic experience began in some countries, such as the experience of the Domestic Savings Bank in Northern Egypt becoming mature, or the establishment of the Islamic Development Bank in Jeddah in 1974.

Dubai Islamic Bank was established in 1975, Faisal Egyptian Islamic Bank and Kuwait Finance House were established in 1977 and Jordan Islamic Finance Bank was established in 1978. This experience also spread to Bahrain, Qatar and other countries of the Islamic world.

1 976 to 1982

During the period 1976 – 1982, the banking system saw a policy of liberalization and economic openness, after the nationalization tend. Under that policy, the following was done:

1. Law issued to encourage investment in 1976.

2. Foreign banks allowed to open branches in Sudan. This was done to raise the spirit of competition among banks in order to improve and upgrade banking services, enrich the banking experience through the introduction of technology and attract foreign investors.

3. In 1978 Faisal Islamic Bank (Sudan) opened as a nucleus for the first Islamic banking experience in Sudan. This was enabled by a special law of the State, and was followed by the establishment of the Islamic Solidarity Bank and the Islamic Bank of Sudan.

4. This period also saw the first sign of integration in the banking sector, where the Cooperative People's Bank is integrated in the Bank of Khartoum in 1982. This period was followed by the declaration of the Islamic law.

1984 Onwards

Islamization of banks from 1984 onwords:

1. Due to the sustained growth of Islamic Banks, it was decided in 1984 to oblige all banks to deal in accordance with the formulas of the Islamic finance. This was the result of the declaration of work, in accordance with Islamic law in Sudan, in all walks of life and the Civil Transactions Act of 1984 that forbid all forms of interest-based deals for economic, banking and individual transactions in Sudan.

2. In 1989, the Islam banking was further embedded in Sudan through various initiatives. This included the organization banking work by issuing the reorganization of the banking business law in 1991, and a list of administrative and financial sanctions for banking irregularities in 1992. Sudan also establishment the Supreme Sharia Board in 1992. The tripartite program to improve the economy has implemented which recommended the privatization of state owned banks, and issued a comprehensive national strategy in 1992.

3. Banks were ordered to apply the decisions of Basel Committee in 1994 and were given three years to adjust their positions. Khartoum Stock Exchange Act was issued in 1994 and Bank Deposits Fund in 1995.

4. Other infrastructures assistance was provided in 1994, including the clearing of foreign exchange, establishment of the federation of Sudanese banks, improvement in the Institute of Banking and Financial Studies. A permanent committee was also established for consolidating economic activity in 1997, modifications were made to the Bank of Sudan Act, the Sudanese Currency Printing Press Company was established, and the Sudan Financial Services Company establishment(1998) for the purchase and sale of shares, according to the requirements of monetary policy.

5. With respect to the structural, technical and training reforms, privatization and merges have changed some state-owned banks to strengthen and improve their financial positions and to target certain productive sectors. It also allowed banks to open branches without reference to the Bank of Sudan, and introduced non-banking financial institutions under the supervision of the Bank of Sudan. Apermanent technical committee has been formed by Bank of Sudan and the Council of Chartered Accountants to consider working in the accounting systems and the Commission Committee began to draft the unification of the accounting system. The State investment banks were also established.

BANK OF KHARTOUM INTERNATIONAL (BOK- I)

The Bank of Khartoum, a multinational enterprise, has obtained a license to operate in Bahrain as an Islamic wholesale bank on 9 November 2015.

Corporate Strategic Objectives

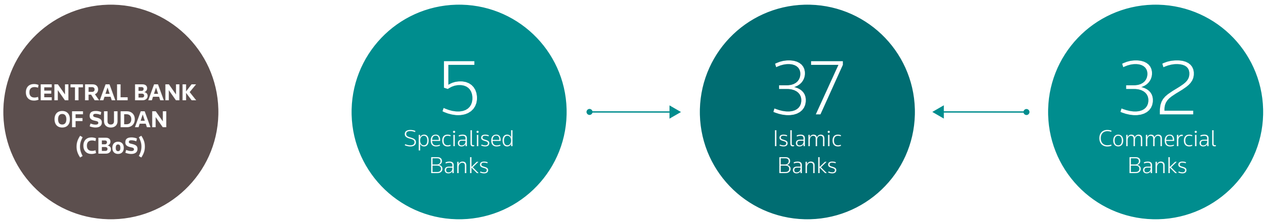
BOK's Bahrain based branch operations are intended to achieve the following strategic objectives:

- Become a key wholesale banking solutions provider in Bahrain;
- Be recognized as an innovative Shari' a compliant solutions provider;
- Focus on profitability: target ROA of 1.2% by Year 3 and a cost-to-income ratio of 20% by Year 3;
- Grow BOK's corporate banking business, targeting to grow BOK Sudan's corporate balance sheet by 20% by Year 3;
- Grow a substantial deposit base, based out of Bahrain, targeting $70m in deposits by Year 1 and $ 300m in deposits by Year 3;
- Establish market credentials.

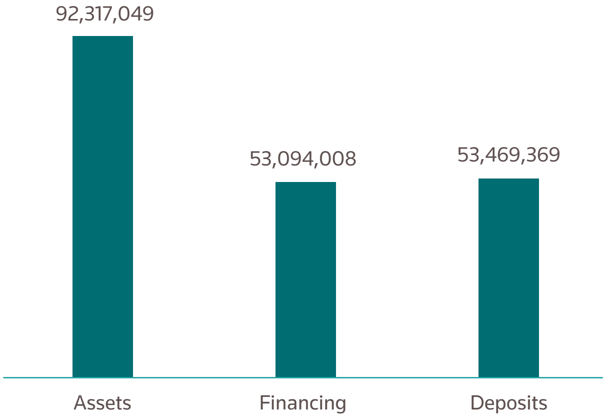
Strategic Priorities

1. BOK-I will predominantly focus on these business areas:
    - Trade finance solutions
    - Treasury solutions.
    - Deposit generation
    - Syndicated lending.
    - Correspondent banking services.
2. Pricing
3. Exceptional service quality
4. Business development strategy
    - Acquire new customers
    - Up sell to existing customers

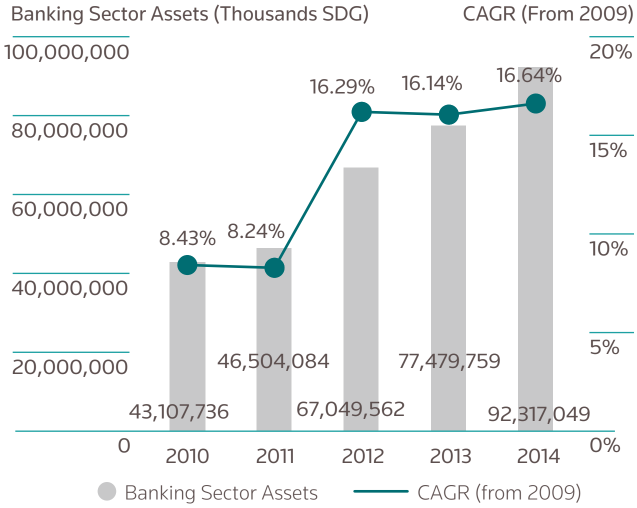
Banking sector overview



SUDAN'S BANKING SECTOR PROPOSITION (FYE 2014) (IN SDG THOUSANDS)

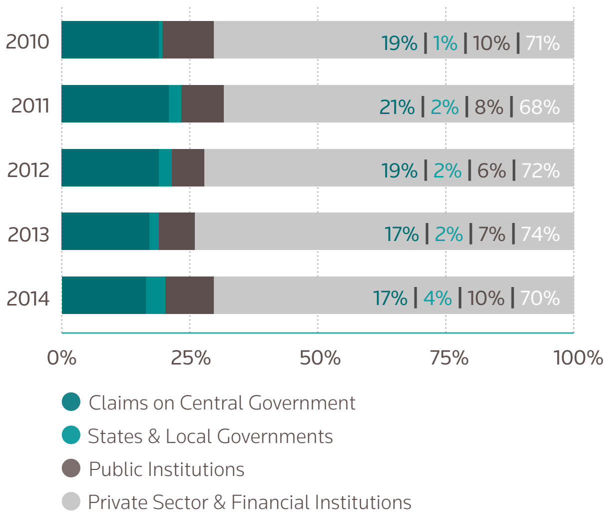


SUDAN BANKING SECTOR ASSETS

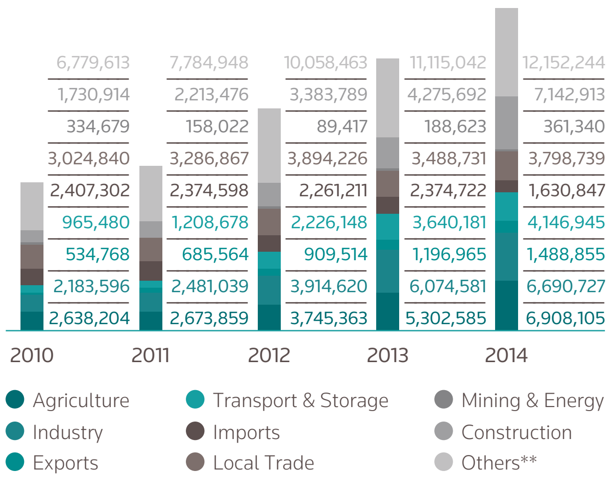


Source: Central Bank of Sudan, Economic and Financial Statistics Review, December 2014

FINANCING BY SUDANESE BANKS



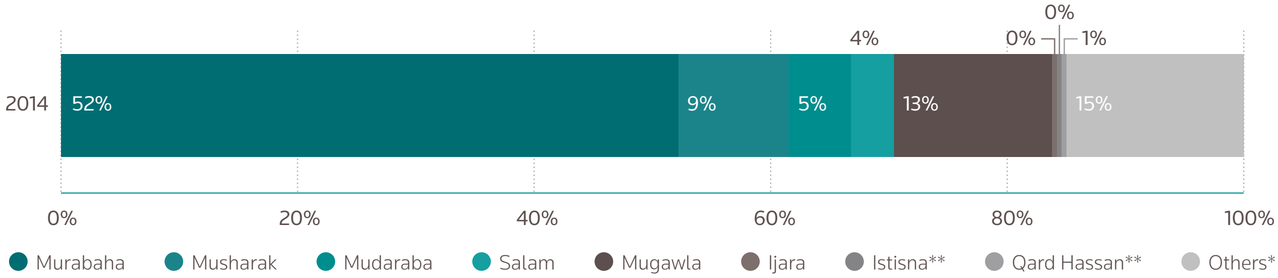
BANKING FINANCE BY ECONOMIC ACTIVITIES* (IN SDG THOUSANDS)



* Excludes government finance ** Includes banks financing to services sector

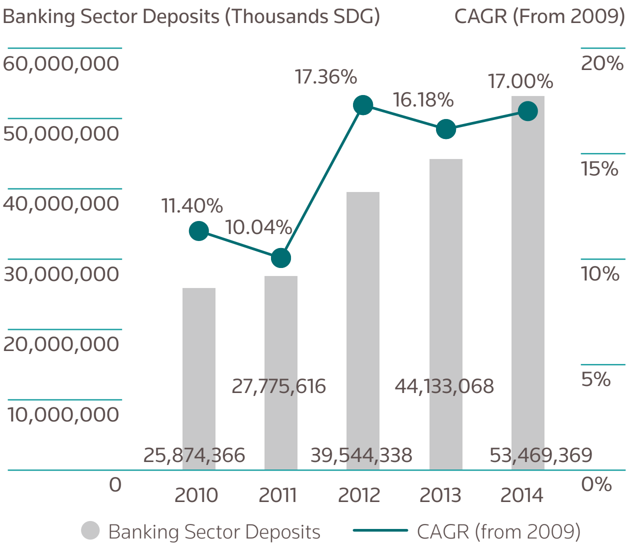
Source: Central Bank of Sudan, Economic and Financial Statistics Review, December 2014

FLOW OF FINANCE BY MODES (2014)

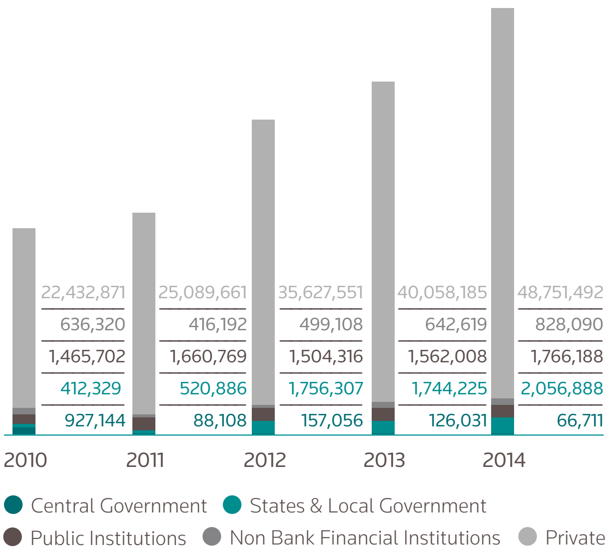


Source: Central Bank of Sudan, Economic and Financial Statistics Review, December 2014
* Excludes government finance ** Qard hassan & Istisna retrieved from Others

SUDAN BANKING SECTOR DEPOSITS



BANKING DEPOSITS BY SECTOR (IN SDG THOUSANDS)



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

Steady growth for Sudan's Islamic banking sector measured by financing and deposits

The Sudanese fully Shariah compliant banking sector is shaped by 37 banks holding assets of SDG 92,317 billion as of December 2014, and a steady compound annual growth of 16.64% since 2009. 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.

As for the modes of financing, Murabaha was the most popular in 2014 as it takes more than half of total financing and it is considered the easiest mode to be applied due to low administrative costs and guaranteed profit. In terms of sectors, other economic sectors that include services received the most financing followed by construction and agriculture which overtook industry 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.

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.

Underlying growth drivers for banks

KEY IMPROVEMENT AREAS FOR SUDANESE BANKS

We have identified four areas in order for Islamic banking in Sudan to develop and grow.

KNOW YOUR CUSTOMERS (KYC) — INSIDE AND OUT

- Market segmentation
- Customized offerings
- Empower customers contact team
- Knowledge about different sectors

MAKE BANKING EASY AND CLEAR

- Technological enhancement
- Need for more security
- Overhaul existing legacy systems
- Transparency in fees

BE COMPETITIVE

- Depth and breadth of product and service offerings
- Price competitiveness & product quality
- Multi distribution channels
- Building agility in operations

BUILD RELATIONSHIPS

- Improve customer loyalty
- Stay connected after sale
- Build branding that deliver trust — Build trust with customers
- Ask for referrals

Know your customers — Inside & Out

Knowing and understanding customers' needs can help banks in providing quality services to their customers and maximize their lifetime value. The more you know your customers, the better you can cater their needs, cross sell products more effectively, simplify marketing and sales process and increase customers' revenues.

Sudanese banks can capture further growth opportunities by devoting efforts in getting to know their target audience. This can be achieved through, market segmentation, empowering customer contact teams and providing customized offerings.

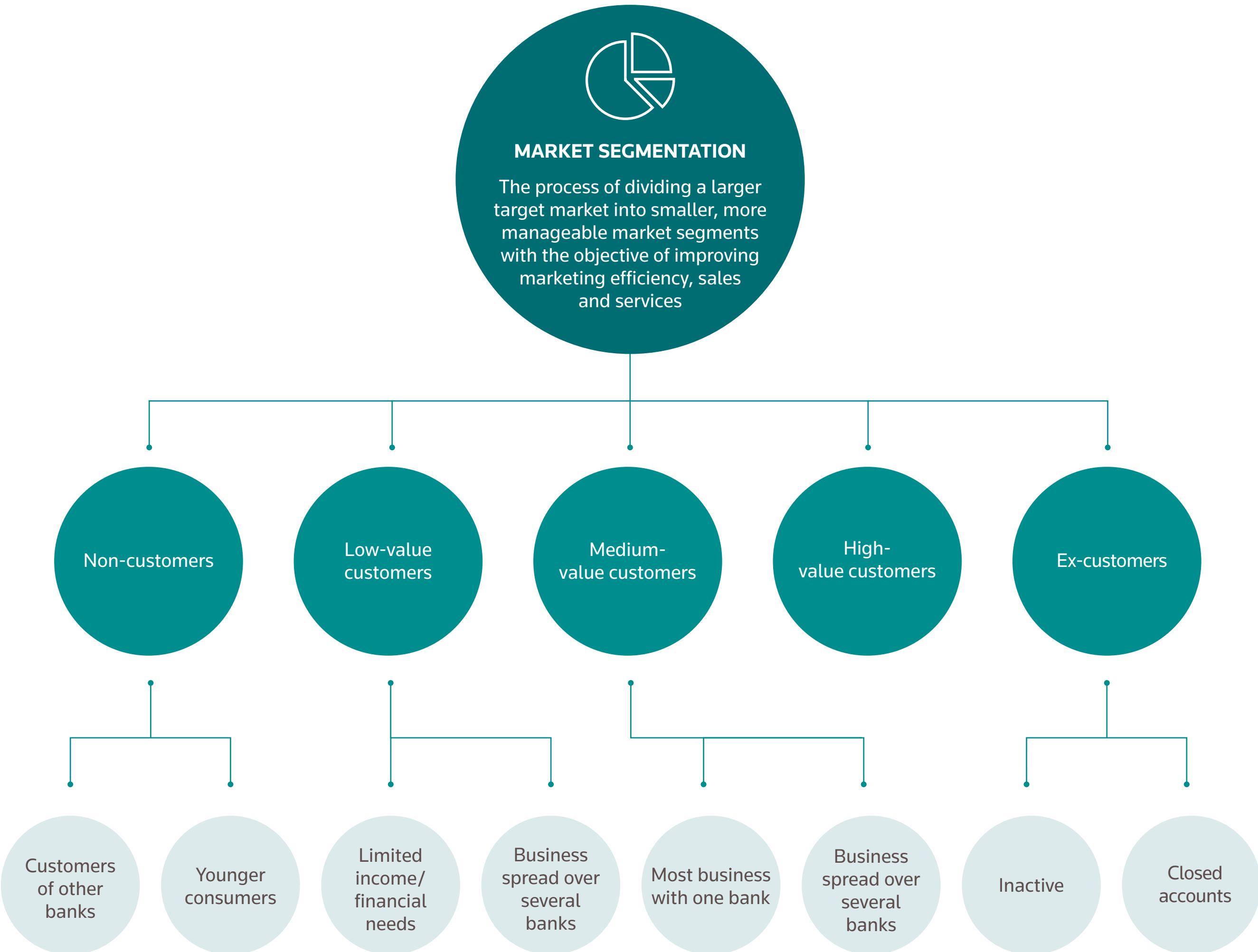
Build a "customer- focused" environment

Creating a "customer-focused" culture is greatly dependent on having front-face talents who can grasp what your customers want.

Banks in Sudan should:

1. Hire employees with strong communication skills and sales experience.
2. Provide training programs that focus on understanding and addressing customers' needs.
3. Train customer contact teams in being able to roll out/ suggest customized products to meet the demand of target customers.

DIGGING THE MARKET DEEPER BY SEGMENTING IT — EXAMPLE FOR BANKS:



Full interview transcript can be found in the Appendix

MOHAMED SEED AHMED WARAG

Manager — Marketing and Planning Management, Faisal Islamic Bank

Market segmentation is an effective marketing practice to improve sales and services. How does Faisal Islamic Bank (Sudan) segment its market base? Has this strategy been effective in serving the Sudanese market and reaching a wider customer base?

Faisal Islamic Bank's marketing strategy always advocates good understanding of the market's needs and tries to meet these needs better than its competitors. The bank also aims to constantly improve its products and services, complying with international standards, in order to better suite the demands of its customers. However, customer preferences have major differences and it is difficult to please all customers through implementing a single set strategy or offering the same product for all. In order to overcome this problem, Faisal Islamic Bank's retail banking administration and planning and marketing department insists on developing and innovating its products and services frequently to meet the customers' demands in order to expand its offerings to the market's various segments. As it is not possible to have a "one size fits all" strategy, we categorized the market's sectors into segments and identified each segment's needs and preferences based on their buying behavior. There are various ways in which the market can be segmented; the most important ways, however, include:

1. Geographical segmentation: as it is certain that there are differences in the needs and preferences of customers based on their geographical location, we take into consideration the factors that create these differences when we offer these markets our products and services.

2. Demographical segmentation: we segment demographics into several markets in order to help the bank target its customers more accurately. This also allows the bank to categorize the needs of its customers in order for the bank to meet the demands of the customers and for the customers to benefit from the banks offerings.

We are well aware of the importance of marketing to the success of the Bank, both locally and globally. Therefore, marketing is one of the most important activities that aim to increase our profit and enhance the general influence of all marketing activities in public and private sectors. This strategy has been embedded in the Bank's activities for decades; this includes the efforts to establish, connect and deliver services that are of value to our customers and achieve the Bank's objectives.

On the basis of the modern marketing philosophy discussed above, the Bank's management introduced several administrative units in the marketing department. These include marketing the bank's innovative electronic banking services that allow for online banking and reaching new horizons of an efficient cooperation between the Bank and its customers and the various institutions that use our innovative banking services that meet the demands our current and future customers.

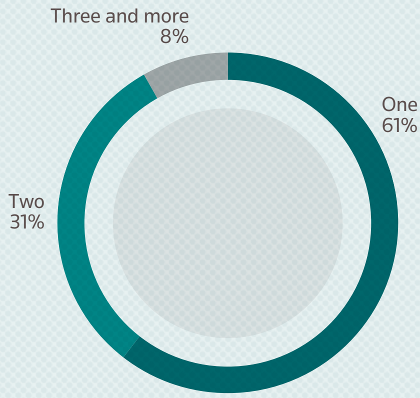
Our customer service center became an important interface for the Bank, as it is the link between the Bank and its customers and an important channel to execute our strategy of offering premium services to our customers, market our products and services and help our customers keep up with the technological developments that aim to improve customer services. This is why the center seeks to develop and improve the performance, capabilities and qualifications of its staff and work to resolve all the problems facing our customers without having any difficulties.

THE FIRST OVERSEAS BRANCH ESTABLISHED BY BANK OF KHARTOUM - SUDAN

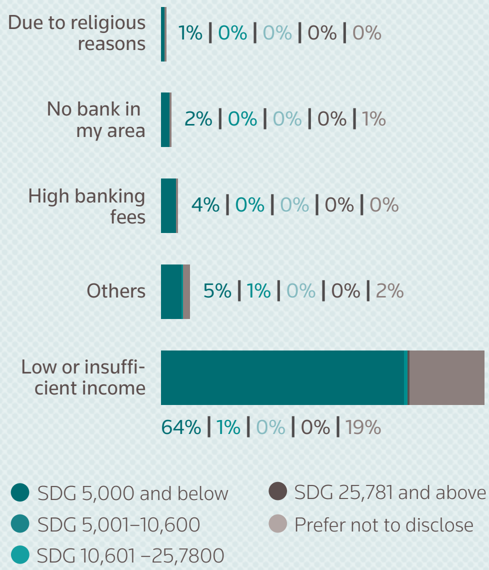
Licensed as a Wholesale Islamic Bank by the Central Bank of Bahrain

DO YOU HAVE A BANK ACCOUNT?

HOW MANY BANKS DO YOU CURRENTLY DEAL WITH?



REASONS FOR NOT HAVING BANK ACCOUNT ARRANGED BY INCOME BRACKETS



By segmenting the market, unbanked population represents 42%

By segmenting the market into different groups, banks will be able to identify and grasp areas of growth. Majority of survey respondents (58%) have bank account at which 62% of respondents deal with single provider, and noticeable proportion (39%) deal with multiple banks. This would trigger positive competitive market for both; existing providers and new investors in terms of easy access to the market and simple ways to know their customers. Loyal customers with only one bank account should be handled well by their single bank and KYC tools should be enhanced much more to retain existing clients and attract new ones. Multiple users are a ready market to be grasped by new banks as well as existing ones by defining new innovative tools to reach customers.

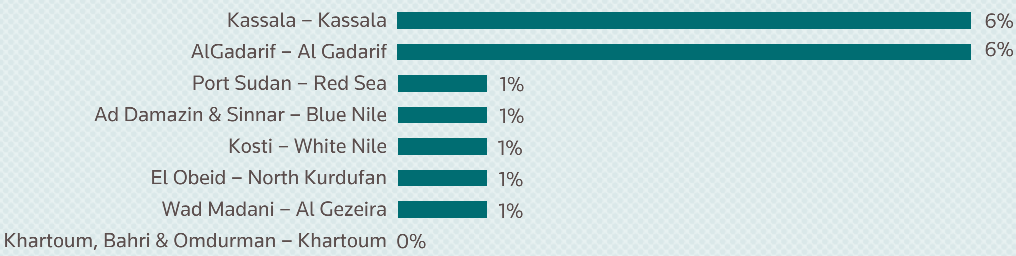
POPULATION BELOW POVERTY LINE AS % OF TOTAL POPULATION (2009 ESTIMATE)

Khartoum	26%
Central	54.4%
Eastern	46.3%
Northern	33.7%
Kurdufan	58.7%
Darfur	62.7%
Average	**46.5%**

BANKING PENETRATION (%)

Khartoum	41%
Central	20%
Eastern	12%
Northern	11%
Kurdufan	6%
Darfur	6%
Average	**16%**

FINANCIAL INCLUSION BY LOCATION



*Expressed out of total respondents in the area whether they have bank accounts or not

Microfinance plays a big role to bank the unbanked

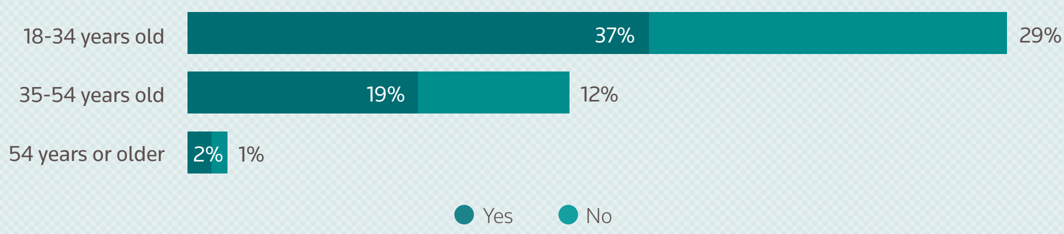
As for the handful unbanked portion of the respondents, low income is the biggest hurdle in terms of opening a bank account that is caused by high banking fees. Most of the respondents' income is equal or below SDG 5,000 reflected by 46.5% of Sudan's population who are below the poverty line (2009 estimate)[10]. Therefore, banks located in areas with high percentage of non-bankable people due to poverty such as Darfur, Kurdufan and Central states should work harder in reaching customers and defining affordable plans up to their ability.

Microfinance reached SDG 2,055 million or 4.6 % of total financing in 2014 and given the outcome of this survey, microfinance comes out as a big opportunity for this segment of consumers especially given that the number of beneficiaries of microfinance (with a limit of SDG 20,000) increased to more than 400,000 by November 2015 according to the central bank[11].

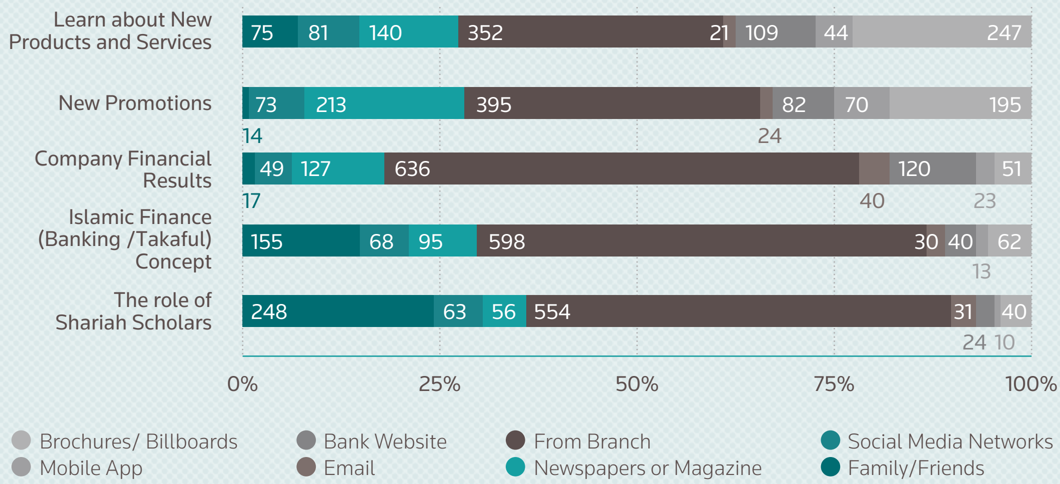
Lack of banks in some areas hinders performance

Another cited reason is the lack of bank representation in their area. According to a survey conducted by the central bank[12], Darfur and Kurdufan states have the least banking penetration of 6% compared to the highest in Khartoum (41%). Respondents in Eastern states like Al Gadarif and Kassala mostly chose lack of banks in their area as the reason for not having a bank account.

FINANCIAL INCLUSION BY AGE



MOST PREFERRED CHANNEL FOR OBTAINING INFORMATION ABOUT



Youth to drive growth

Sudan's median age stands at 19.3 years for both male and females (CIA 2015 estimate) and millennials in the age group 20 to 34 year olds represent 12% of total population as of 2015 (United Nations World Population Prospects — 2015 Revision).

66% of our survey respondents are from the age group 18 – 34 years and 29% of such demographic is unbanked, hence it represents the most valuable opportunity for banking sector growth.

Frontline employees in banks' branch play bigger role in transfering information and knowledge to customers

This is where building a "customer focused" environment comes in, as customer contact teams need to devote face-to-face capabilities to communicate information between both bank management and potential clients to serve at best benefit at both ends.

A large group of survey respondents prefer to obtain key information by interacting with the bank's branch. But when it comes to new products, services and promotions; advertising mediums like brochures, billboards, newspapers or magazines also play a big role. Using technology like mobile apps, social media, website, or emails still plays a small role for most of the items.

Make banking easy and clear

"Making banking easier" is the most effective measure of attracting new clients and maintain existing ones. In banking arena, customers whether retail or corporate, are looking for simplicity and clarity in conducting their banking transactions.

One of the most valued features in easy banking is the digital transformation. Banks now are increasingly driven by the technology that is used to enable and deliver services to end customers. Technology is regarded to be an essential enabler for banks to continuously innovate and optimize performance. However, for this technology to succeed, it should be complemented with a high level of security.

The overall technological development in Sudan could be measured in three aspects: urbanization, internet usage, as well as mobile and smart phone usage.

SUDAN'S DIGITAL SNAPSHOT

URBANISATION[1]

13,391,000
Urban Population

34%
Percentage of Population Residing in Urban Areas

INTERNET USAGE[2]

9,307,189
Sudan's Internet Users

24%
Internet Penetration

15%
Internet User Growth (2013 - 2014)

MOBILE AND SMART PHONE USAGE

72%
Mobile-cellular subscriptions per 100 inhabitants[3]

27%
Active Mobile Broadband Subscriptions per 100 Inhabitants[3]

26%
Sudan's Smartphone Adoption (% of Connection)[4]

1. United Nations World Urbanization Prospects, the 2014 version
2. Internet Live Stats (www.InternetLiveStats.com), 2014
3. ITU World Telecommunication/ICT Indicators database, 2014
4. GSMA Intelligence, the Mobile Economy – Arab States 2015

Brokers discuss price offers and deals at the Khartoum Stock Exchange. REUTERS/ Mohamed Nureldin Abdallah

In general, technology and banking technology in Sudan are still in their development stage. Banking technological infrastructure requires a lot of investments before being able to fully implement technological methodologies. The country is still suffering from slow internet connections and weak security. However, several measures have been taken by the country to improve and speed banking technological development, such as:

1. A comprehensive banking policy circular was issued by the Central Bank of Sudan (CBoS) in 2002 that emphasized on adopting banking technology.

2. All banks were required to consider the implementation of technology as part of the Central Bank's policy.

3. Electronic Banking Services Company (EBS) was established as the technical arm of the CBoS in the implementation and operations of the banking technology projects.

4. An IT department was established by the Central Bank to undertake the duties of developing the banking technology and issuing relevant policies and procedures.

After laying the foundations, Banks in Sudan should now take further steps and continuously look for new products/services to automate and adopt into processes which customers can easily access online. A strategy should be developed by banks to allow the migration of customers towards online banking. This can be achieved through different incentives plans and educational workshops as illustrated below.

The need for more transparency with regards to banking products'/services' fees or information about what is being offered is also an important consideration to make banking activities easier and clear. Improved transparency will result in greater customers' confidence, in which they will tend to value the product more.

Identifying customers who are open to use the internet to conduct their financial services

Plan incentives to use such technology

Educating customers who want to learn about the new processes and assure the reliability and security of online banking

KASHIF NAEEM

EVP & Group Head — Retail, SME & Microfinance, Bank of Khartoum

1. How did Bank of Khartoum launch retail Banking in Sudan and what has been the role of innovations in the success story of Bank of Khartoum?

Striving to be a benchmark for innovations in the financial sector in Sudan and region, Bank of Khartoum has developed a wide range of Islamic banking products and service that were developed for the 1st time in the country. When Dubai Islamic Bank took over the bank in 2006, there was no Retail banking in BOK. All the banks in Sudan were predominantly corporate banks. Though most of the banks offer basic retail products and services to fulfil the requirements of corporate customers on case-by-case bases, none of the banks offered structured retail products.

We launched retail banking in 2006 from scratch and within a short time span we are now known to be the market leader and trend setter in retail banking. We started with basic savings plus account, launched our 1st ATM in 2006 and now we have the largest branch network, largest ATM/CDM (Cash Deposit Machines) network, largest customer base, largest deposit base, full Islamic products and service offering Auto Finance, Home Finance, Education Finance, Durable Finance, Wedding Finance, Takaful, only banks with 24 hour Call Centre, Internet Banking, Mobile Banking, SMS alerts, Loyalty Program, AlNukhba — Priority Banking etc). We are also catering to the financial needs of Sudanese living aboard (NRS — Non Resident Sudanese) and our products are available to NRS across the globe. Home remittance is another business we focus on. Biggest NRS community is in Saudi Arabia and we have our staff, stationed in the embassy/ consulate in KSA to provide products & service of BOK to NRS in KSA. We will be further expanding our network and will be placing our staff in other embassies in the region.

2. What is the future of mobile payments in Sudan?

Africa in general is largely unbanked and banking penetration is around 20%. Sudan is no different as we have just 0.27 bank branches per 1000km^2 and have about 18% banking penetration but over 75% mobile phone penetration. Mobile payment is the way forward. We are very focused on offering e-banking solutions to our customers as well as mobile banking (mBOK). You can use mBOK to transfer funds and also use mBOK to buy electricity and do mobile top-ups.

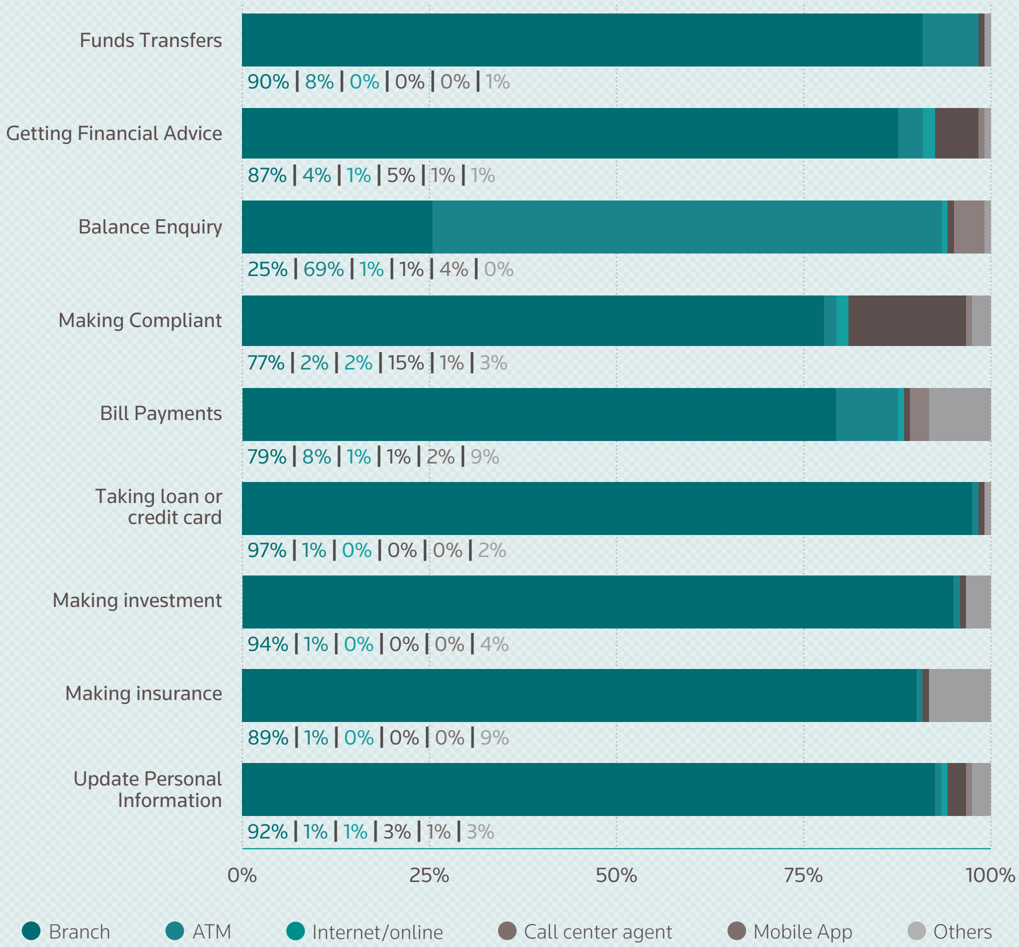
Central Bank of Sudan (CBoS) is working on launching Mobile Money — we will be part of it and will support this initiative. Mobile money has huge potential in Sudan due to its size in terms of land and it's not easy for banks to open branches and install ATMS in remote locations especially in rural areas. Mobile Money is very popular and widely accepted in Africa and we have successful examples from Kenya (m-PESA) and other neighboring countries.

Interaction with online banking channels lag behind

Online banking and mobile apps have not made considerable progress when it comes to banking services channel preferences as non-online methods dominate preferences. With regards to obtaining information about the bank; branches remain the favorite channel to conduct different activities except for balance enquiries that is preferable through ATMs as chosen by 69% of respondents.

The burden now rests on branches to become less crowded. Customer services employees can play an important role in reducing branch congestion by promoting their online services to their customers while assuring safety in online services. Some servicing-centric activities like lodging complaints, updating personal information, bill payments or fund transfers could be served online while branches production capacity should be more devoted to revenue-generating activities like new loans, credit cards or assisting customer in making informed investment decisions. The latter could also be communicated online in terms of fees or documentation required by the customer to speed up the process.

MOST PREFERRED CHANNEL FOR CARRYING OUT THE FINANCIAL SERVICES AND ACTIVITIES



Be Competitive

Banking sector in Sudan continues to be affected negatively by the impact of international sanctions and the country is just emerging from decades of civil wars that left the country underdeveloped. Sudanese banks need to stay competitive in order to position themselves clearly in the market and ultimately grow and expand.

To be positioned for potential growth, banks should concentrate on the following areas:

DEPTH AND BREADTH OF PRODUCT AND SERVICE OFFERINGS

- Innovation in banking products and services is seen as the driver to growth and competitive differentiation. It increases customer's loyalty and enhance cross-selling.
- Although Sudan is a pioneer country in the Islamic finance space, its banking sector has been focusing on the main modes of finance, which are: Murabaha, Musharaka and Mudaraba. According to the Central Bank of Sudan, the flow of finance by the previously mentioned modes of finance accounted for 67% in 2014.
- Banks should dedicate greater efforts to introduce new Islamic modes and widen their use of other Islamic finance modes such as Salam, Mughawala, Ijarah and Istisna'a, which in total accounts for only 18% of the flow of finance in 2014.

MULTI DISTRIBUTION CHANNELS

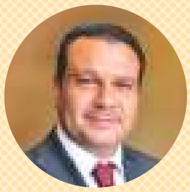
- Investing in and innovating multi-distribution channels enables banks to meet the changing needs of customers and their various preferences.
- Banks can then optimize their distribution networks by providing the right products to the right customer segment through a preferred channel. As a result, banks can achieve cost savings and enhanced customer experience.
- Banks in Sudan are dependent on traditional channels such as branches, ATMs and call centers and with the growing technological innovations, newer direct channels should be used such as social media and mobile banking.

Accompanied by competitiveness in pricing, consistent high quality experience across channels and operational efficiency

Full interview transcript can be found in the Appendix

YACOUB AL-ALEM

EVP, Head of Corporate Banking Group, Bank of Khartoum



How do you evaluate the depth and breadth of banking products and services available to "corporate customers" in Sudan?

It is essential to differentiate between finance and non-finance products and services in order to provide a thorough evaluation. In terms of finance, corporate clients in Sudan enjoy a broad range of well structured Shariah compliant products. Islamic finance products in Sudan are considered to be one of most diverse among countries with predominant Shariah compliant banking practices. In terms of non-finance products and in particular, cash management and electronic transactions, the banking sector in Sudan still needs considerable development and improvement including (a) enhancing the existing electronic infrastructure to allow straight through payment processing between banks is a crucial requirement; (b) developing flexible cash management products to meet the increased volume of bank notes caused by monetization of the deficit (c) and improving of corporate customer services to meet the increasing expectations of corporate clients. Fortunately, the banking sector is well aware of these issues many banks are tackling these challenges. The future seems to be very promising and it is expected that corporate clients will be enjoying the fruitful results of these effort very soon.

Respondents first seek customer service excellence when choosing a bank

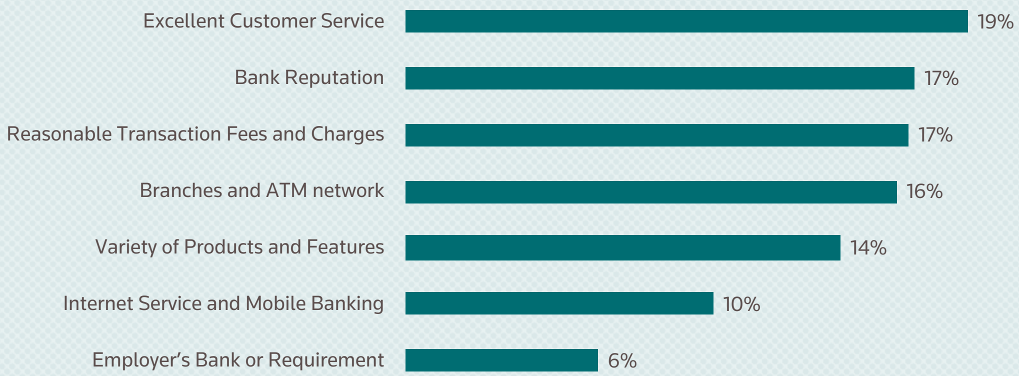
Sudanese Islamic banks' can gain a sustainable competitive edge by enhancing their customer service experience. This, in turn, can boost a bank's reputation which is the second most important factor for a customer when choosing a bank. In addition to bank reputation, reasonable transaction fees and charges is also considered equally important since many of the survey respondents come from low income backgrounds (76% of respondents have income of SDG 5,000 or below).

Digital transformation presents an opportunity

In Sudan, respondents' indicated that physical branches are the most preferred distribution channel for receiving banking information and carrying out banking services. However, the dependence on a physical location could change as electronic banking services are pursued aggressively throughout Sudan for several reasons. First, electronic services are meant to encourage the unbanked and limited income populations to adopt banking services. Second, banks believe electronic services will help them manage costs and increase their relative competitiveness.

One example is the Electronic Purse (e-purse) national initiative between Sudanese banks and telecommunication companies, launched in 2013. This resulted in wider spread adoption of electronic payments and mobile banking as these transactions were considered more user-friendly and safer. In addition, it did not require the customer to open a bank account. At the same time, national level security was maintained under the control of the CBoS that allows individuals to conduct transactions within banking networks.

RANKING OF FACTORS THAT ARE CONSIDERED OR WOULD BE CONSIDERED THE MOST IMPORTANT WHEN CHOOSING A BANK

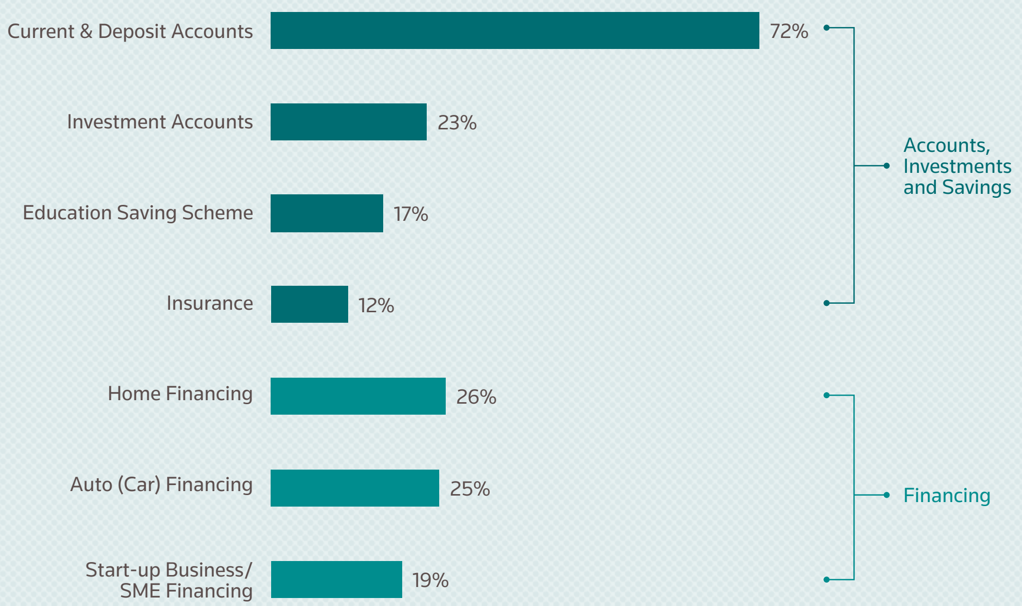


Innovation is vital to attract accounts

The most popular product or service that survey respondents desire are current & deposit accounts in the form of 'Wadiah', or safekeeping of a desposit. In response, banks could market different accounts to different customer demographic segments by providing saving solutions with low charges for opening an account. According to the survey, 66% of respondents who do not have a bank account chose current & deposit accounts as the most demanded products.

In terms of financing, mortgage or home financing is considered the most demanded product or service, followed by auto financing. It is clear that Islamic banks need to be more competitive on both of these fronts.

MOST PREFERED BANKING PRODUCTS AND SERVICES BASED ON CUSTOMERS' NEEDS



Build Relationships

Having successful relationship with customers, either retail or corporate, is vital for banks to succeed. Establishing and maintaining these relationships will allow banks to grow its customer base through future cross-selling and marketing activities. The foundation for establishing strong relationships starts with a bank's branding strategy, which should convey trust in both the bank and its staff.

The stronger the bank's relationships with customers are, the better positioned the bank will be to serve its customer's needs and provide them with appropriate advice. Building these relationships can generate loyalty. This is important as loyal customers are more likely to use additional products and services, and generate new businesses for banks through customer referrals.

To deliver the ultimate customer experience, relationship building should not only be practiced while onboarding new customers, but also maintained after the initial sale.

"THE STRONGER THE BANK'S RELATIONSHIPS WITH CUSTOMERS ARE, THE BETTER POSITIONED THE BANK WILL BE TO SERVE ITS CUSTOMER'S NEEDS AND PROVIDE THEM WITH APPROPRIATE ADVICE. BUILDING THESE RELATIONSHIPS CAN GENERATE LOYALTY.

<
Traders work at the electronic trading bourse at the Khartoum Stock Exchange. REUTERS/ Mohamed Nureldin Abdallah

KASHIF NAEEM

EVP & Group Head — Retail, SME & Microfinance, Bank of Khartoum

1. When discussing the banking industry as a whole, differentiation is now a key word. Many have argued that banks need to shy away from the one-size-fits-all approach, and that customers should have the flexibility to customise products and services to fit their individual needs. To what extent do you agree or disagree with this approach? Does Bank of Khartoum offer, or plan to offer, such customisation services to its clientele?

BOK always offers new products and services to its customers, which makes it the number one bank in Sudan. The main reason BOK is a leading institution is due to its customized products and services based on its customer needs as well as the periodical customer feedback.

2. Another key word is loyalty. Many believe loyalty can directly translate into better financials. To what extent do you agree or disagree and why? Currently, what are the available loyalty programmes in the market, and based on your experience, how successful are these in rewarding customer loyalty and translating it into profits?

I agree — A well-designed and run loyalty programme can return the best financials. The theory of customer loyalty is quite simple: a business that retains its customers for longer usually makes more money from them at a lower cost than one that is constantly paying to acquire new customers. The basic principles are simple, too: know your customers, and only reward them for behaving in the way that you want. Through a loyalty programme, customer and transactional data can be collected, and the intelligent use of that data will provide a much clearer picture of the customer base — and this will lead to more profits from the beginning.

In our banking sector, the only available and unique Loyalty Program is "Discount Plus service" presented by Bank of Khartoum. The product philosophy is built on the idea of 'no frills banking' where the product has the minimum features compared to normal banks products. The product is targeting BOK & non-bank of Khartoum customers.

The service allows BOK ATM card(s) holder(s) to shop through the Point Of Sales in a selected retail business with a discount. The discount varies according to the agreement between Bank of Khartoum and the retail business. Discount Plus Service provides discount on different types of outlets, within many Sectors: restaurants, coffee shops, fashion outlets, supermarkets, hotels, cosmetic's shops, etc.

The service enhanced the concept of customer's loyalty as it has succeeded in increasing Bank of Khartoum Customer's loyalty to its current products and services as well as stakeholder's satisfaction.

Hence, Bank of Khartoum benefits from Discount Plus Service through direct links with departments by increasing:

- Direct sales: increasing number of new opening accounts and activation of dormant accounts "the customer base for BOK new and current accounts".
- Indirect Sales: Sales of assets.
- Salary transfer: increase BOK Customers.
- Increase the rate of using BOK ATM card(s).
- Call Centre: increasing call volumes and activities associated with each call "Leads Complain forms".

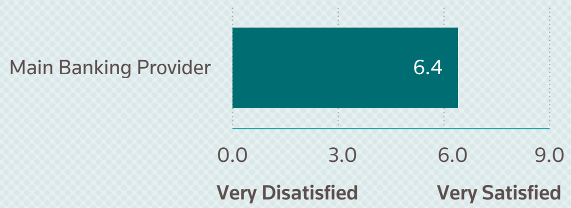
Despite high satisfaction level, banks emphasize should be on customer loyalty

As discussed, excellent customer service is the most important factor for a customer when choosing a bank. Therefore, banks should devote efforts towards building relationships through enhanced customer service in branches, call centers, and through online banking. High customer satisfaction will in turn lead to more loyal customers.

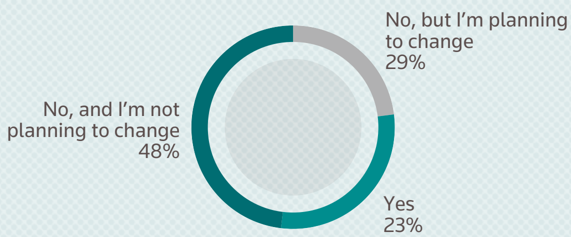
Currently, respondents appear relatively satisfied with their main banking provider based on an average satisfaction rating of 6.4 out of 9.0. However, customers seem to be increasingly more demanding as less than half of survey respondents (48%) have remained absolutely loyal to their main banking service provider.

In order to build customer loyalty, banks need to focus on enhancing customer satisfaction within the branches, introducing products with reasonable pricing, and offering a more competitive suite of products and services.

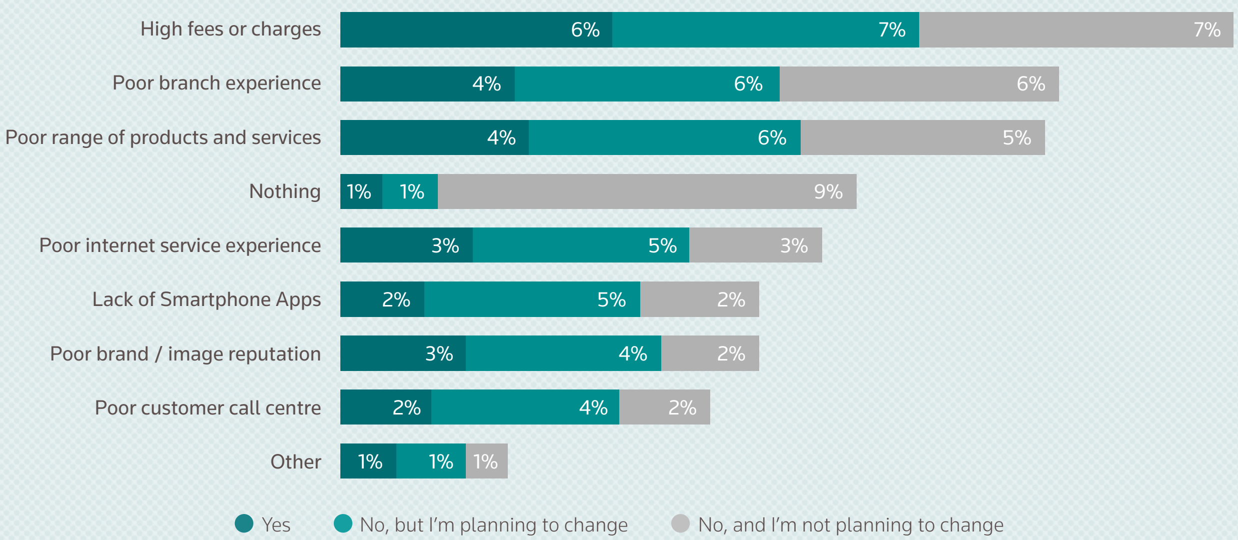
SATISFACTION LEVEL OF MAIN BANKING SERVICE PROVIDER



HAVE YOU EVER CHANGED YOUR MAIN BANKING SERVICE PROVIDER?



WHAT MADE YOU OR WOULD MAKE YOU CHANGE YOUR MAIN BANKING SERVICE PROVIDER(S)?



Corporate banking growth opportunities

Infrastructure development 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.

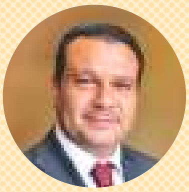
Backed by government initiatives, Sudan's banking sector has several growth opportunities to stimulate current economic development through infrastructure enhancement. The role of banks in financing infrastructure projects need to be increased. **Attractive and innovative infrastructure financing tools 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.**

Furthermore, skilled human resources (e.g. specialized account managers) with deep knowledge in the infrastructure sector are also necessary in order to better serve the needs of government and corporate investors.

Full interview transcript can be found in the Appendix

YACOUB AL-ALEM

EVP, Head of Corporate Banking Group, Bank of Khartoum



What has the Bank of Khartoum devised in terms of strategies to sustain the government's infrastructure development plan? What are some of the challenges in financing such projects?

Our key strategies in financing government infrastructure include developing deep relationships with key people at federal and state level. We have granted several states substantial limits and many of our key clients are state owned government companies and utilities. The bank is also playing a pioneering role in the developing and marketing of sukuk in Sudan which are essential instruments for infrastructure finance.

Some of the challenges in financing such products include the substantial budget deficits and debt burdens in federal and state levels limiting the ability of the government to raise additional finance. There are also limited opportunities to diversify projects risk as a limited number of syndications are currently executed. High finance profit rates also render many long term projects unprofitable.

Agriculture sector financing opportunities

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

After the South Sudan secession on 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)[13]. The agriculture sector employs 80%[14] 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 accounts 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)[15]. Challenges facing the agriculture sector require numerous initiatives[16]. **Such initiatives should be focused on providing financing opportunities and innovative offerings:**

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

EXAMPLES OF FINANCING NEEDS FOR THE AGRICULTURE SECTOR:

1. 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.

SUGGESTED MODES OF FINANCING:

Murabaha, Musawamah, Salam and Muzara'a.

2. 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.

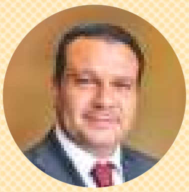
SUGGESTED MODES OF FINANCING:

Murabaha, Ijarah, Diminishing Musharaka, Salam, Istisna'a.

Full interview transcript can be found in the Appendix

YACOUB AL-ALEM

EVP, Head of Corporate Banking Group, Bank of Khartoum



The government has plans to boost exports in the agricultural sector. What is your outlook for agricultural financing and how is the bank supporting this government-led initiative?

We believe that there will be great opportunities in agricultural finance over the next few years. The agricultural and livestock sector is benefiting greatly from the devaluation of the Sudanese Pound and the resulting enhanced competitive of agricultural exports in foreign markets. We plan to get involved in financing all stages of the value chain from farming activities, warehouse financing to industrial processing and pre-export finance.

Our focus is not only on financing large agribusiness and trading companies but also includes the financing of communities and small farms through microfinance and commercial finance. The bank was a top 3 finalist on the World Bank Microfinance Challenge on the Abu Halima Project. The Abu Halima project is an agricultural microfinance project financed by a participatory structure with the co-operative of the employees of the project. The project was created on a brown field site and was a model on how to increase agricultural production and provide opportunities for the youth simultaneously.

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 socio-economic 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%[17] 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[18], **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 1,546 million 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 to 1,108,454 in 2014[19].

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 that want to establish a foothold in the country and throughout the region.**

MICROFINANCE DIVERSIFIED PRODUCT OFFERINGS

FINANCIAL PRODUCTS

- Micro savings
- Micro insurance
- Micro leasing
- Money transfer

NON-FINANCIAL PRODUCTS

- Building technical skills and micro-entrepreneurs' skills
- Support services – such as marketing
- Facilitate linkage with microfinance communities
- Micro franchising for innovative products
- Business development services

Competitive pricing and efficient distribution channels

KASHIF NAEEM

EVP & Group Head — Retail, SME & Microfinance, Bank of Khartoum

How is Microfinance doing in Bank of Khartoum and what are the bank's future plan in this regards?

We launched micro finance (MF) in 2009 and started with a fund called AL AMAN FUND where a consortium of banks contributed — including SDG 150 Million and ZAKAT with SDG 50 Million (Around 60 Million USD in total) — we then started our 1st green house project called Abu Halema which became an international success.

While we do individual lending, we believe more in group lending and focus towards doing a project where we have our stake as well. Abu Halima is a perfect example. We did also do a project with World Food Program (WFP), which linked farmers to market.

In 2014, we won the Ethical Finance Innovation Challenge Award (EFICA), organised by Thomson Reuters and Abu Dhabi Islamic Bank. In its second year, EFICA received over 200 entries from all over the world including USA, UK, UAE, Bahrain, Pakistan. Competition was particularly intense for the $50,000 Ethical Finance Initiative Award, which recognizes initiatives that show how ethical delivery of financial services can produce a positive impact on society.

After initial screening of over 200 submission, the top 5 submissions were shortlisted and asked to present their projects to the Advisory Board which consisted of CEOs, MD's and top Islamic scholars of international repute, who selected the final top 3 presentations for an event held in Abu Dhabi in September 2014.

On the final night, in a ceremony held at the Westin Hotel in Dubai, UAE, a final round of presentations were conducted by all 3 finalists to the advisory board and over 250 distinguished guests. Open voting was done after the presentation and Bank of Khartoum came out as a deserved and proud winner!

Banks tend to shy away from Microfinance due to the heavy and long-term investment required, lack of collateral and low return with high risk due to the huge number of individual beneficiaries involved. Also, the portfolio takes a long time to start performing, as it's a social learning curve for the beneficiaries as these are poor people and they may be used to taking money but definitely not used to returning money. To overcome this, BOK focus more on group lending than individual lending and we have been doing MF for over 5 years and focus more on establishing projects for beneficiaries than doing individual lending.

Bank of Khartoum Microfinance is setting a new standard in the region and we are recognized for our MF and known to be the best Islamic MF in Africa. Islamic Development Bank Jeddah, who also have shareholding in BOK, have joined hands with us to form a separate identity called IRADA; BOK owns 80% of the shareholding while IDB — Jeddah owns 20%. Central Bank approval is in place and from 2016; all microfinance related projects will be done by new entity/ subsidiary of BOK. IRADA is also allowed to accept deposits, apart from doing MF lending.

Central Bank of Sudan is encouraging banks to offer microfinance and made it mandatory to have 12% of the bank's investment in the field of microfinance. With regard to microfinance target strategies, special emphasis is being made in order to identify needs for the targeted groups and analyze the business environment and marketing potential within targeted regions. As a result BOK microfinance strategy "Doing Business with underprivileged" has manifested that Agricultural production has a very high potential in the majority of poor groups living in rural and semi rural zones.

Penetrating the SMEs market

Although Sudan has made strong progressed 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.**

An effective SME banking value chain should have the following activities:

UNDERSTAND THE SME MARKET

1. Understand the SME market
2. Identify SME needs and priorities
3. Sub-segment the market

DEVELOP PRODUCTS AND SERVICES

1. Design financial and non-financial products
2. Develop SME-specific business models and banking technologies
3. Ensure the potential profitability of serving SMEs

ATTRACT AND SCREEN SME CLIENTS

1. Adopt SME specific approach to customer acquisition
2. Build marketing strategies to offer products and services to customers
3. Dedicate staff (or even branches) to serve SME customers
4. Build depth and breadth in products' offerings
5. Classify profitable and unprofitable customers

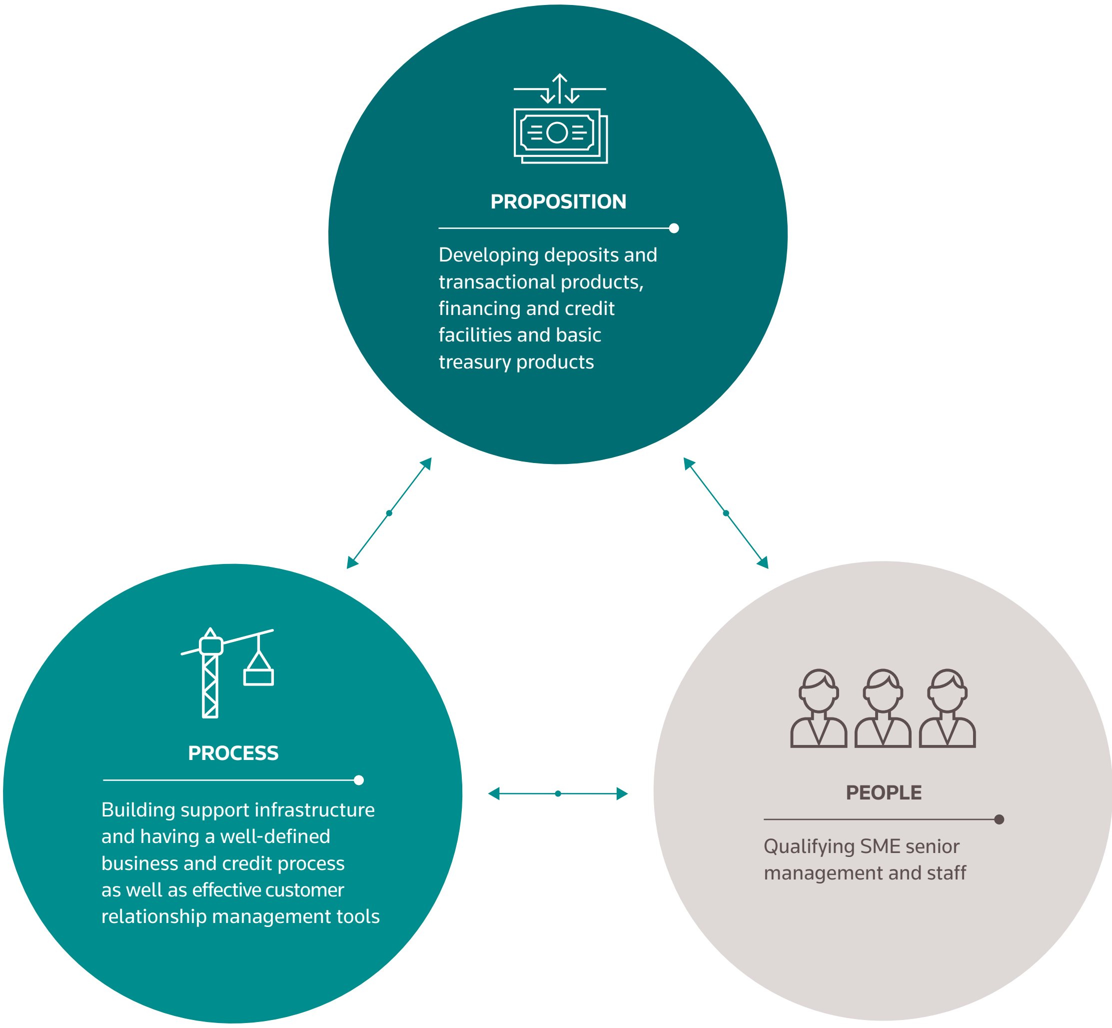
SERVE THE SME MARKET

1. Meet SMEs unique demand
2. Turn demand into opportunities through cross-selling
3. Use direct delivery channels

USE OF AVAILABLE INFORMATION AND KNOWLEDGE

1. Utilize available information to adopt new service models
2. Analyze information in relation to profitability at different levels (i.e. customer, product and segment level)

KEY ENABLERS OF SUCCESSFUL SME BANKING

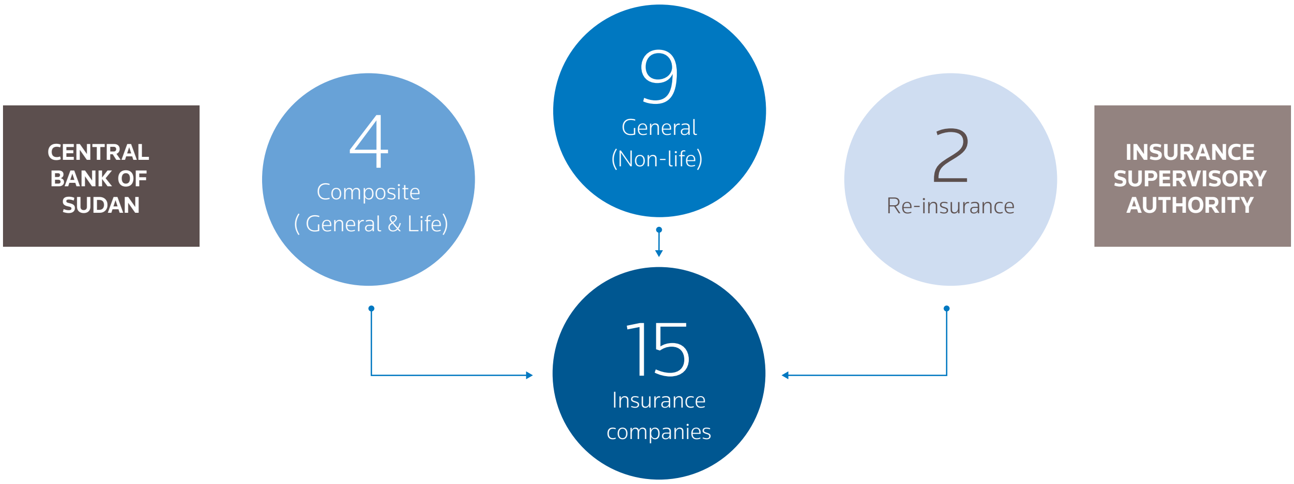


3 Insurance Sector in Sudan

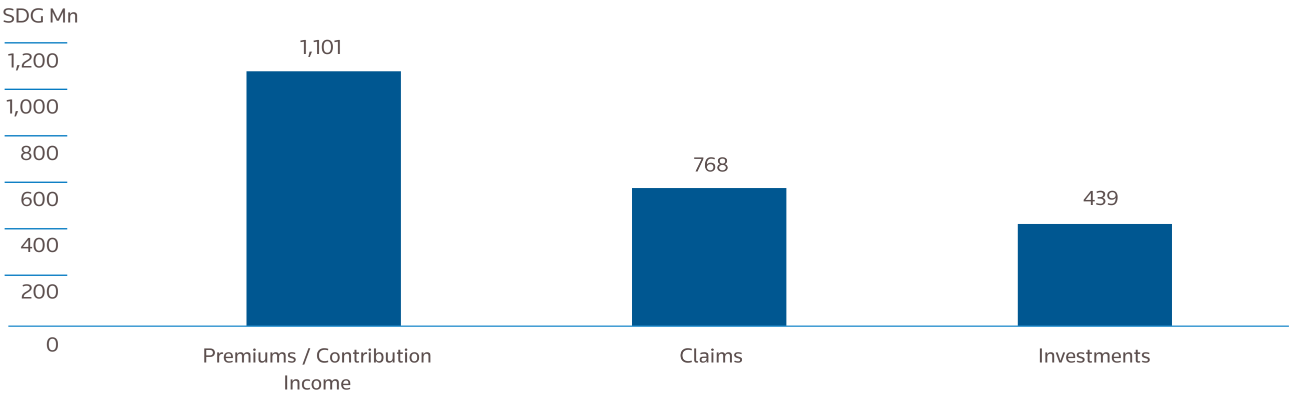
A closeup of the top of a mosque minaret with a cupola dome and an Islamic crescent moon. Nonlani / Shutterstock.com

INSIDE THIS CHAPTER

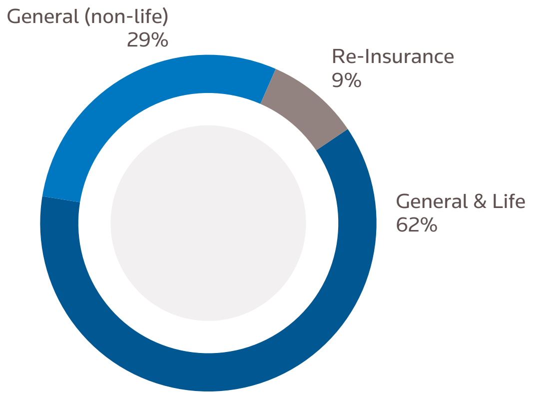
Insurance sector overview



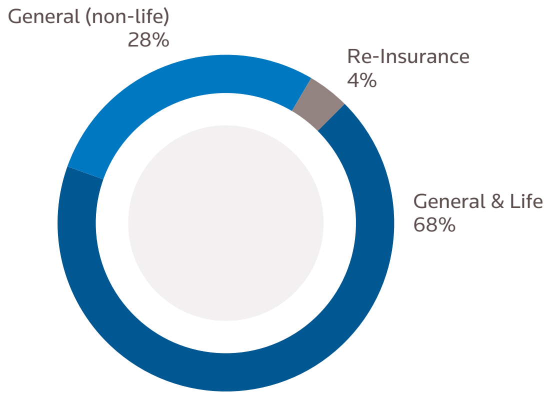
SUDAN'S INSURANCE SECTOR PROPOSITION (FYE 2013)



PREMIUMS BY INSURANCE TYPE (FYE 2013)



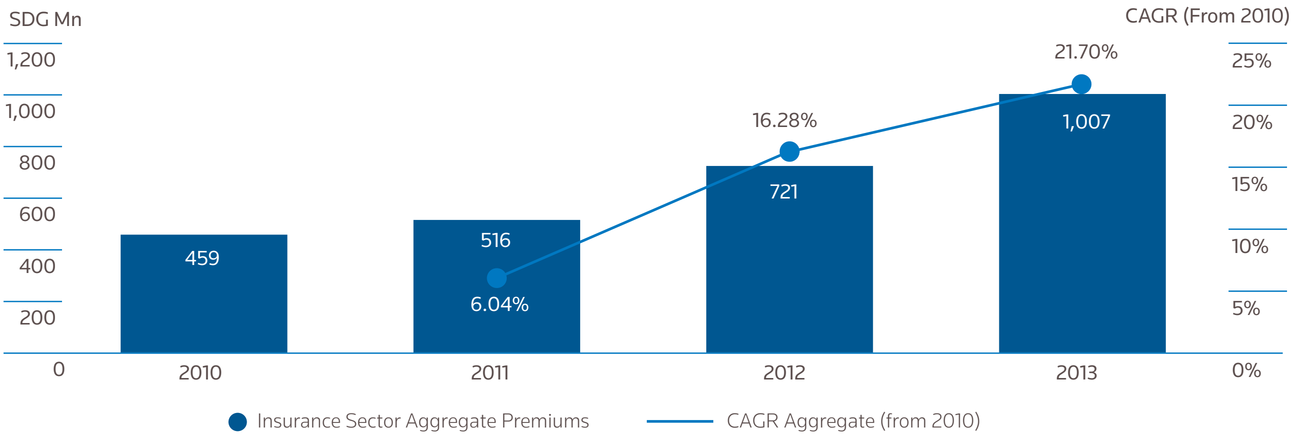
INVESTMENTS BY INSURANCE TYPE (FYE 2013)



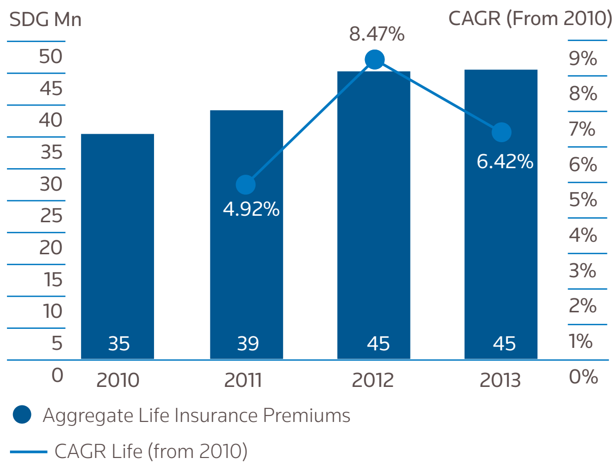
Source: Bank of Khartoum (BOK)

*All of the below charts exclude re-insurance company figures

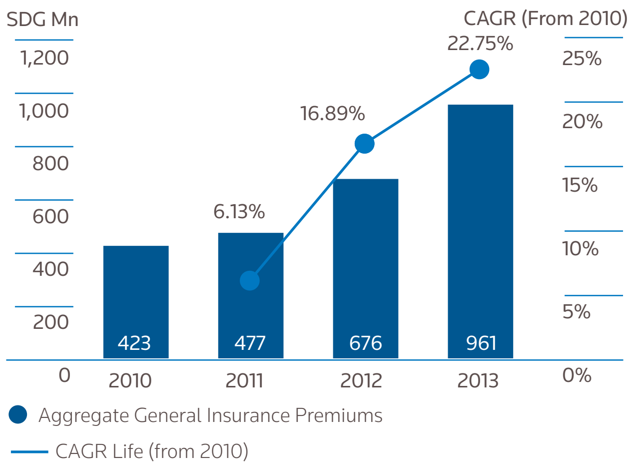
INSURANCE SECTOR CONTRIBUTIONS GROWTH EXCLUDING REINSURANCE (2010 – 2013)



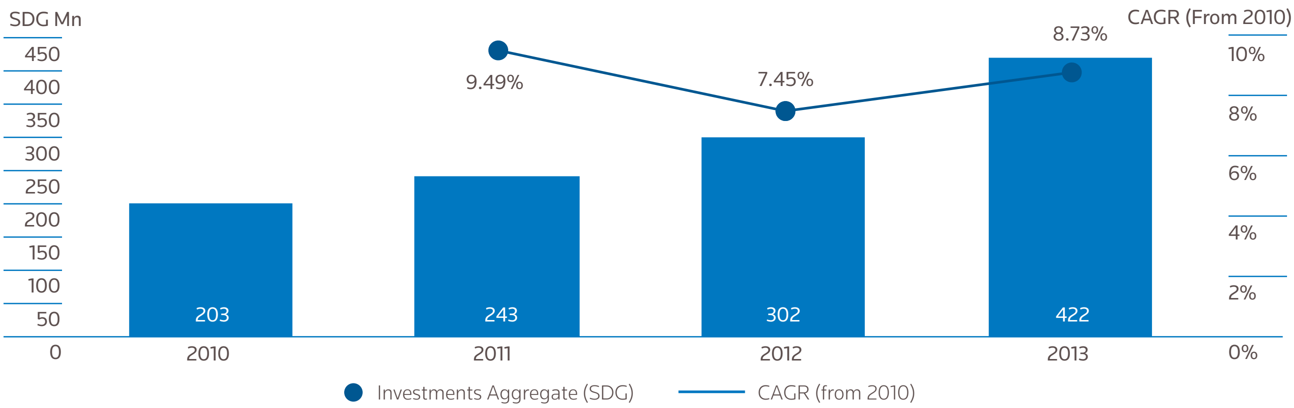
LIFE INSURANCE CONTRIBUTION GROWTH (2010 – 2013)



GENERAL INSURANCE CONTRIBUTION GROWTH (2010 – 2013)

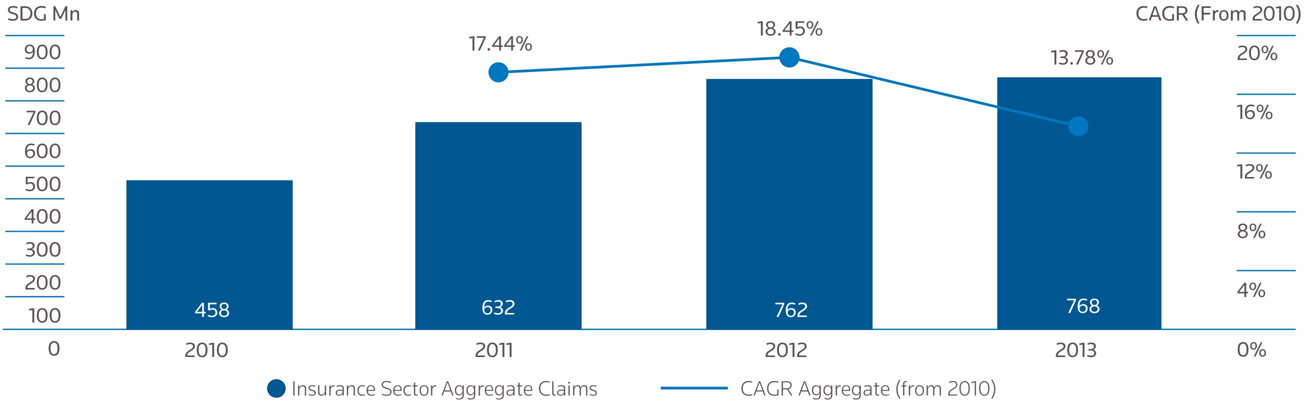


INSURANCE INVESTMENT FUND GROWTH (2010 – 2013)

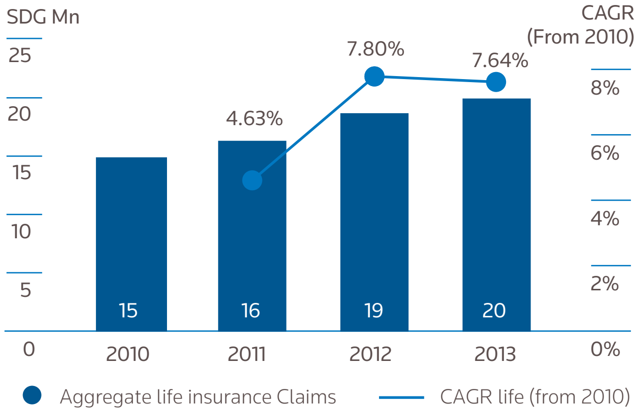


Source: Bank of Khartoum (BOK)

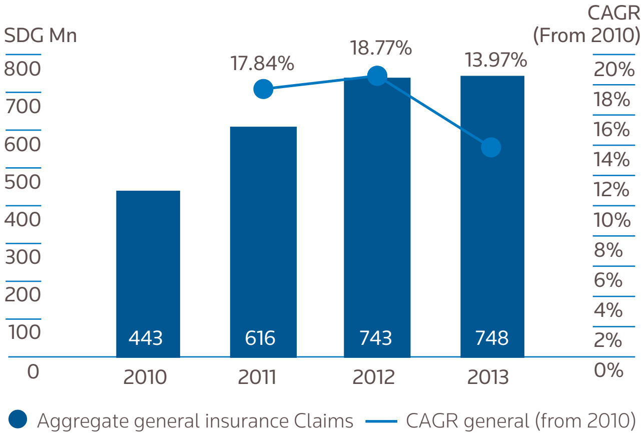
INSURANCE SECTOR CLAIMS GROWTH (2010 – 2013)



LIFE INSURANCE CLAIMS GROWTH (2010 – 2013)



GENERAL INSURANCE CLAIMS GROWTH (2010 – 2013)



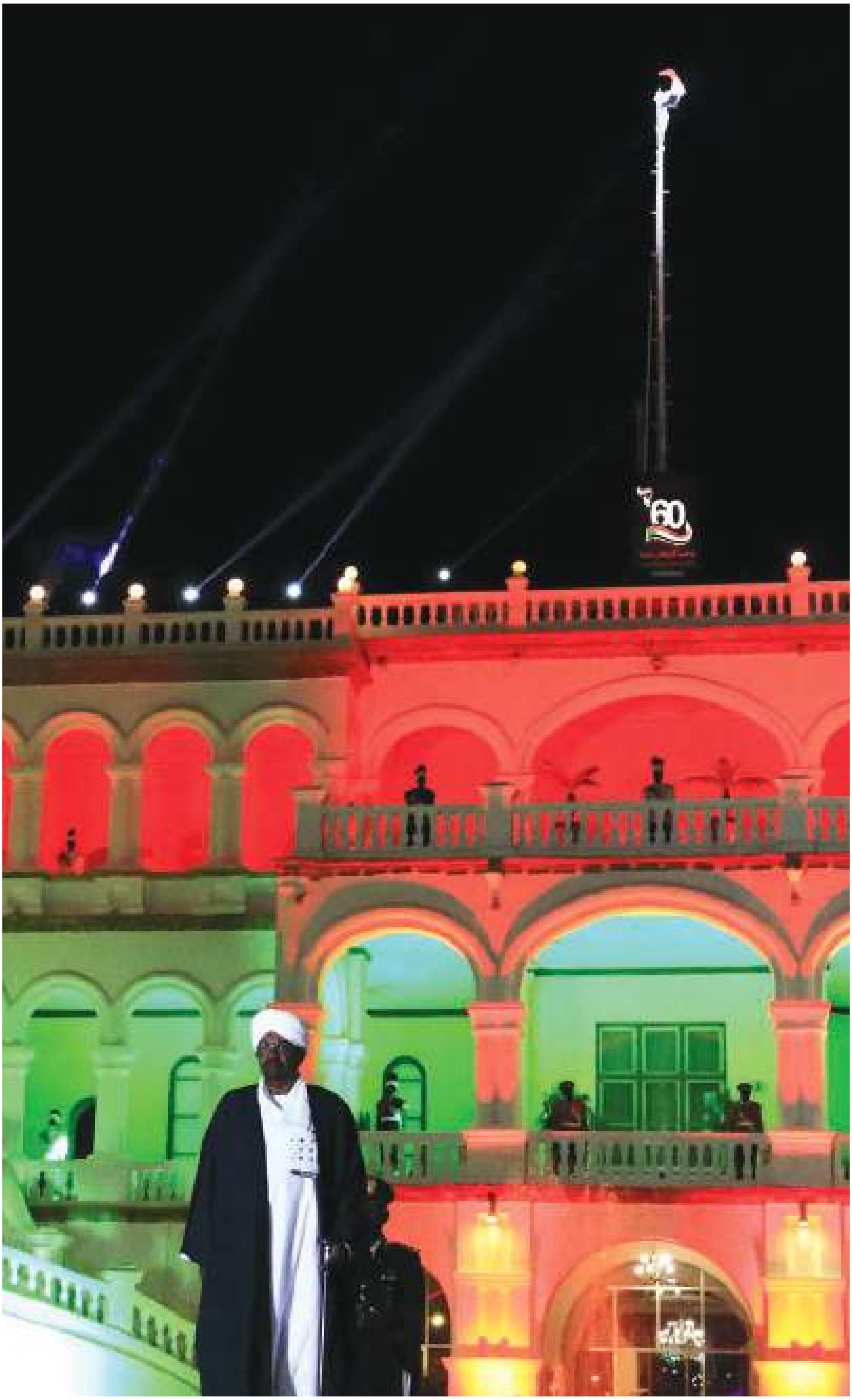
Source: Bank of Khartoum (BOK)

Continuous growth in insurance sector measured by high contributions accompanied with rewarding surplus

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.

Despite sanctions throughout Sudan, the insurance sector continues to strengthen its foundation and has performed well over the past few years from 2010 to 2013. Currently, the insurance sector consists of 15 companies, including 9 general insurance companies, 4 composite insurance companies, and two re-insurance companies. 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 at a 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 end of 2013 and it continues to account for the modest proportion of the insurance sectors.



Sudan's President Omar al-Bashir arrives to address the nation on the eve of the anniversary of the nation's 60th Independence Day at the presidential palace in Khartoum, Sudan. REUTERS/ Mohamed Nureldin Abdallah

Underlying growth drivers for insurance operators

KEY IMPROVEMENT AREAS FOR INSURANCE COMPANIES IN SUDAN

We have identified four improvement areas in order for insurance companies in Sudan to further develop and grow:

KNOW YOUR CUSTOMER (KYC)

- Talent improvement
- Market segmentation
- Personalized offerings

SIMPLIFY INSURANCE TRANSACTIONS

- Technological enhancement
- Need for more security
- Enhanced transparency

BE COMPETITIVE AND EASY TO ACQUIRE

- Depth and breadth of product & service offerings
- Price competitiveness & product quality
- Multiple distribution channels
- Operational efficiency

BUILD RELATIONSHIPS

- Improve customer loyalty
- After-sale services
- Branding that builds trust

Know Your Customer (KYC)

In order to effectively develop new products and services that meet market needs, insurers need to develop a deep understanding of the end customer. This will require insurance companies to adopt a customer-centric model and accelerate investment in people, tools, and technology.

"Investment in people" paradigm

A customer-centric model involves delivering products and services to customers that are simple, transparent and fair. To successfully implement this new model, insurers should strive to be targeted in their customer approach, responsive to customer needs, and adaptive to change.

CUSTOMER CENTRICITY JOURNEY

- Define target customers and their needs
- Define the company's proposition, and solutions to deliver such needs
- Generate customer engagement through different channels
- Use detailed customers' test to generate insights and act accordingly
- Reward and recognition programs to retain customers

"Investment in tools and technology" paradigm

Delivering customer-centric insurance solutions require insurers to invest in tools that are designed to improve the level of engagement with both customers and partners, such as brokers.

To win in the "KYC" environment, insurers must focus on tools and technologies that optimize sales strategies and execution capabilities. Sudanese insurance companies can take advantage of growth opportunities in the market by enhancing their ability to better serve their target audience. This can be achieved through the implementation of the Broker Engagement Model. In addition, adoption of Customer Engagement Models, including market segmentation and CRM tools, will enhance an insurer's ability to identify and communicate with its target customers.

AREAS OF INVESTMENT IN TOOLS AND TECHNOLOGY

FOCUSING ON CUSTOMERS' BEHAVIORS AND CULTURAL CHANGES

Use advanced analytics, internal and external data sources to build detailed customer analysis based on demographic and lifestyle characteristics.

Improve outbound communications as a tangible way to shift consumer perceptions about insurers' ability to deliver value.

Predict the behavioural changes that lead to policy closures and in identifying consumers that can be stopped from switching.

FRONT-LINE STAFF AND MANAGERS IMPROVEMENT

Become more innovative — moving beyond website design and data, to create innovative services for improved customers' attraction.

Improve the capabilities of the contact center to retain and create relationships with customers and brokers.

Enhanced retention management capabilities.

BROKER ENGAGEMENT MODEL

SEGMENTATION PROCESS

1. Scan the available brokers in the company's market

2. Group brokers into segments of: unique positioning, offerings, partnerships goals and customer-related criteria (like number of accounts, type of customers, revenue, etc).

MANAGEMENT AND TRAINING PROCESS

1. Communicate clearly the sweet spot (customers' segment) of the company

2. Provide the broker co-marketing support and access to underwriters to build trust

3. Facilitate broker participation in product innovation

CUSTOMER ENGAGEMENT MODEL

EFFECTIVE CRM

Implement a strategy based on customer experience through collecting customer details and activities and then embrace analytics capabilities to allocate the right customers to the right channels for real time interaction.

Develop strategies to engage customers across digital channels, aligned with innovative digital products and services.

Digitise back-office processes fore more agile and flexible operations by digitally-enabled employees.

IMPROVED MARKET SEGMENTATION MODEL

In terms of segmentation, insurers should embark new customer centric model based on 1. Awareness level, 2. Affordability and 3. Accessibility, features and plans.

Develop segmentation strategies to engage customer based on their segment and act accordingly.

1. Awareness: engage the disconnected customers who are likely uninsured due to their education, level of income, lack of trust, etc. This could be done through building trust by educational and marketing initiatives especially with regards to saving, safety and claims promises.

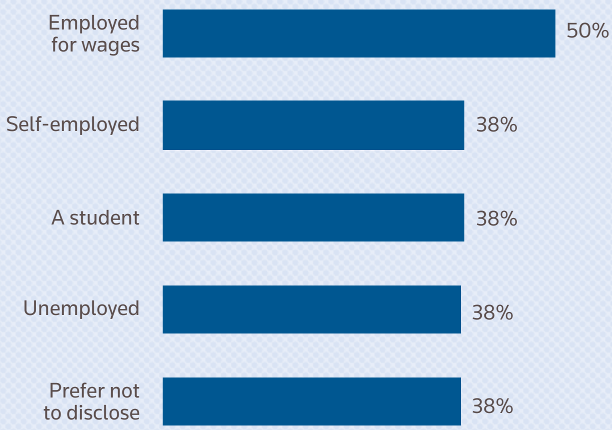
2. Affordability: cost or price is the main concern especially for the traditionalist, and insurers could engage such group through promoting the most affordable rates

3. Accessibility: distribution channels, technology, innovative plans and features are the most important factors to choose the insurer, therefore this group should be engaged

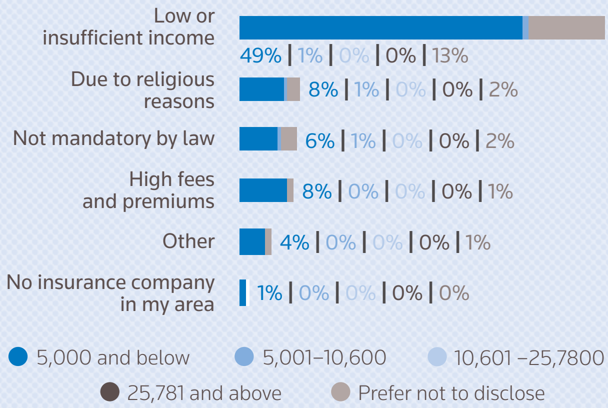
A youth lies on the grass as he looks at his phone in the National Park in Khartoum. REUTERS/ Mohamed Nureldin Abdallah

DO YOU DEAL WITH AN INSURANCE SERVICE PROVIDER?

INSURANCE FINANCIAL INCLUSION BY EMPLOYMENTSTATUS



REASONS FOR NOT HAVING INSURANCE RELATIONSHIP ARRANGED BY INCOME BRACKETS



Large untapped potential as most survey respondents do not interact with insurance providers

Sudan has a relatively low insurance penetration. In 2013, insurance premiums represented only 0.99% of GDP[20]. In addition, 57% of survey respondents do not currently use insurance products in Sudan, driven mainly by low or insufficient income. Unsurprisingly, most of the respondents who deal with insurance service providers are employed at a company or self-employed. Although students and the unemployed have lower incomes, both groups still deal with insurance providers just at a lower frequency.

The uninsured market segment represents a large, untapped opportunity for micro insurance similar to the opportunity identified with microfinance, which is one of the fastest growing business lines in Sudan. In particular, micro insurance can significantly benefit populations living in rural areas or areas below the poverty line, especially in places like such Darfur, Kurdufan, and the Central states.

POPULATION BELOW POVERTY LINE AS % OF TOTAL POPULATION (2009 ESTIMATE)

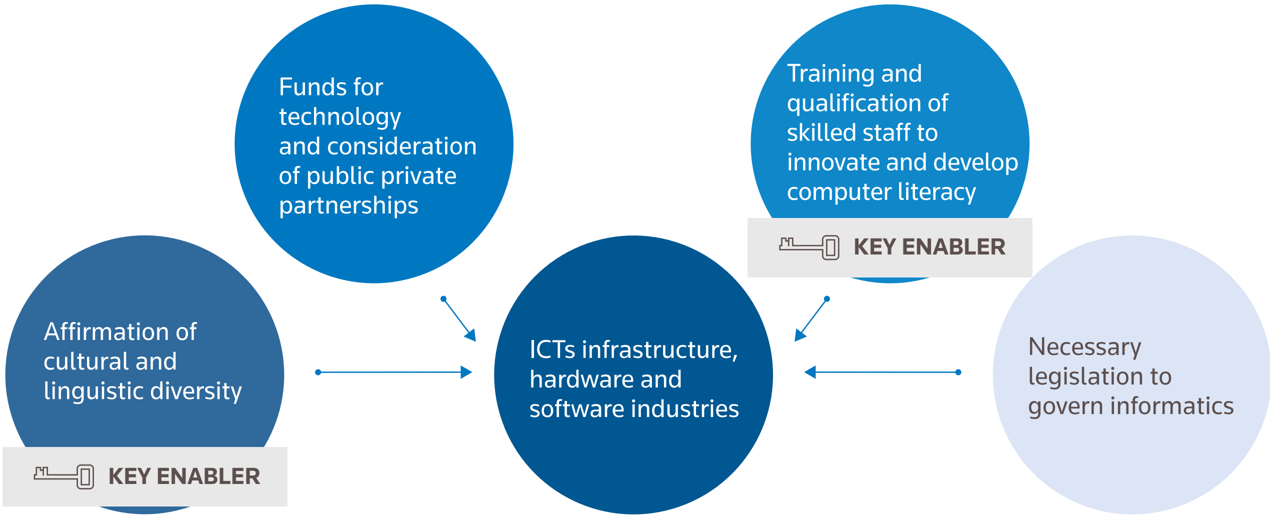
Khartoum	26%
Central	54.4%
Eastern	46.3%
Northern	33.7%
Kurdufan	58.7%
Darfur	62.7%
Average	**46.5%**

Simplify Insurance transactions

Simplifying the customer-facing environment is a key strategy to grow the customer base across the insurance sector. Making insurance transactions clear, simple and easily accessible are important factors to increasing customer acceptance.

Many of the solutions designed to enhance operational efficiency in the insurance sector are highly dependent on the Information Technology revolution. Many insurance companies are moving online in order to reach new potential customers and improve the services provided to existing customers. Moving to a digital environment requires insurers to provide top-notch online security to spur customer engagement.

The movement toward a digital environment in Sudan relies heavily on government support and investment from the public and private sectors. In Sudan, information and communication was a key priority in the First Five-Year Plan (2007 – 2011), and emphasized investment in the following areas:



Source: The Five-Year Plan (2007 – 2011) — National Council for Strategic Planning

In recent years, Sudan's penetration of Internet users, as a percentage of the population, grew from 17.3% in 2011 to 24.6% by 2014.[21] In an increasingly digital environment, insurance companies in Sudan should continue to develop innovative digital products that meet customer needs.

In addition, insurers should also strive to improve and automate their processes. Customers demand a high level of transparency, especially on fees, and in the digital arena real-time engagement is key priority for companies to focus on.

Insurance companies can enhance transaction visibility for customers by adopting various services such as online chat, claims processing solutions, real-time quotations, underwriting and rating services, agency interfaces, and access and actuarial services for corporate clients.

Insurers should also embrace the mobile and social media wave with efforts devoted toward migrating customers into the online environment. Insurance companies should adopt strategies that can promote these customer behaviors by:

1. Preparing a skilled front-line and contact center workforce to train the pre-defined high-tech customers on the online services

2. Collaborating with distributors, agents, and telecommunication companies in promoting such services

3. Planning offers and incentives through using technology

Full interview transcript can be found in the Appendix

TARIG KHALIL OSMAN

Managing Director, United Insurance Company

How widely are you looking to see how the takaful industry could be disrupted in Sudan? And how are you assessing the impact of increased competition, distribution channels and new technologies to your organisation?

We have no concerns of disruption from international entrants to the market yet. Local players can cause short term disruptions by creating a price war and /or providing inferior services resulting in the lack of trust in insurance companies. In our organization, we are embracing change by first instilling the right principles of Takaful insurance. We also believe that the insurance market is too vast for serious competition and there is more room for collaboration and creation of shared value rather than competition.

For the past three years, our customers have decided to annually distribute 40% of our insurance surplus as a bonus to our staff and as reimbursements to our customers. In regard to competition, we believe in alliances and are focused on creating strategic relationships between our competitors.

As the nature of our business involves reinsurance that is mainly conducted internationally, we have fostered special relationships where we distribute work locally.

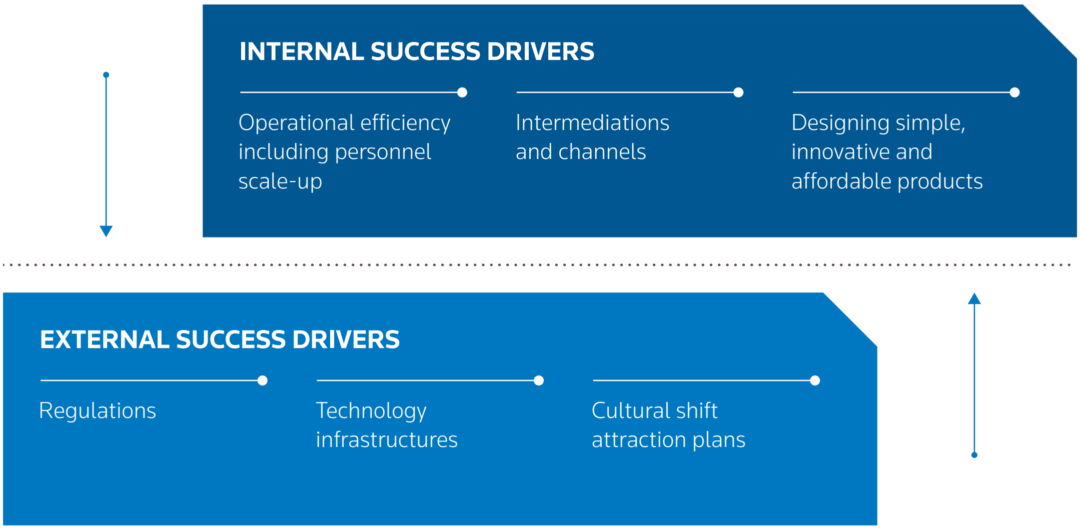
Be Competitive and easy to acquire

The insurance market in Sudan is fragmented and has been negatively impacted by the challenging economic environment driven by years of international sanctions and wide spread regulatory and cultural changes. However, the time is now right for insurance companies to take advantage of an emerging economy and compete more effectively over the long-term.

Operational processes, underwriting effectiveness, and channel management are areas ripe for transformation. The insurance sector is also in need of wider spread adoption of customer-centric values such as retention, high quality products and services, more reasonable pricing, and broader diversity of product and service offerings.

In response, Sudanese insurance companies need to develop strategies that take advantage of these opportunities for future growth:

EXTERNAL AND INTERNAL DRIVERS (SUCCESS FACTORS)



Externally, improved competitiveness depends on effective regulation, continued infrastructure development, and shifts in cultural behaviors. Internally, insurers need to develop and manage a low-cost and operationally efficient business model. This will require robust governance and risk management procedures, as well as efficient training processes that promote the development of innovative solutions at affordable rates.

Overhauling the business model while require insurers to make major changes to their business strategy, investor education, and internal systems and controls. Hence, to successfully compete in the modern insurance environment, insurers will need to develop a culture of operational excellence:

OPERATIONAL EXCELLENCE

PROCESS AND TECHNOLOGY

- Identifying end-to-end processes, across different areas including the procedures of new businesses and post sale services
- Flexibility in changing processes
- Use of technology solutions such as mobile apps, social media and other smart solutions

BUSINESS OPERATION MODEL

- Develop governance, operational targets and Key Performance Indicators (KPIs)

SKILLS AND CAPABILITIES

- Define new sales techniques
- Identify the capabilities gap and ways to improve skills needed for specialised team in contact center to cross-sell products

CULTURE AND BEHAVIORS

- Identify the issues in behaviors and roadblocks
- Empower the communications and interaction with customers
- Coach the management team to prepare the mindset of the front and back-end staff

Full interview transcript can be found in the Appendix

DR. KAMAL JAD KAREEM

Managing Director, Islamic Insurance Company

How do you see the future of the takaful industry in Sudan? And how will the Islamic Insurance Company remain a strong player in the increasingly competitive takaful industry?

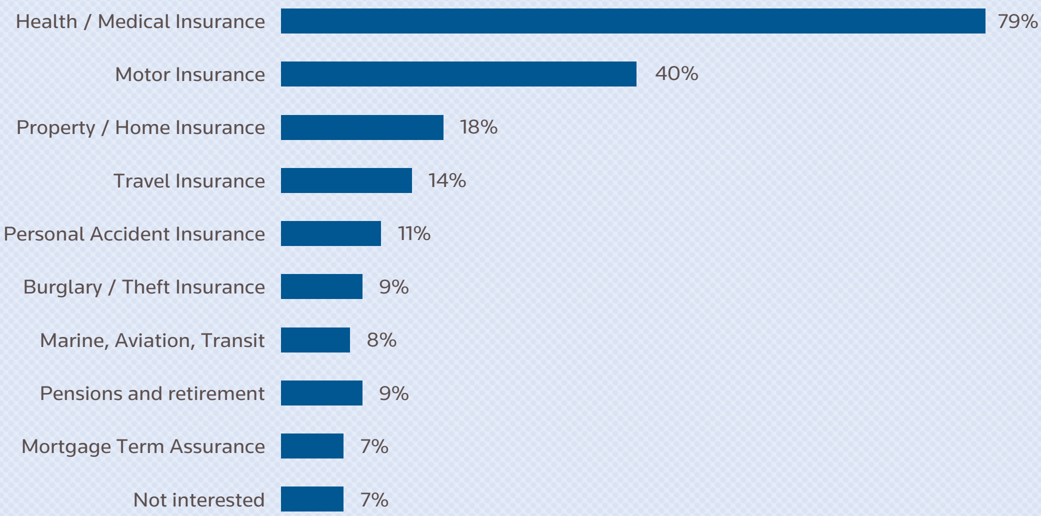
The takaful insurance industry is continuously flourishing and is widely expanding among other industries. Within this environment, the Islamic Insurance Company Limited (Sudan) has developed a five-year strategy (2016 – 2020) that focuses on providing proper qualification and training for human resources, improving the company's solvency through increased investments and fixed assets along with opening up to both Arab and African markets, increasing customer-service distribution channels, and implementing total-quality management and corporate excellence systems.

Health insurance is the most demanded

Many survey respondents greatly value health / medical insurance and consider it an important priority as evidenced by Sudan's improved total life expectancy from 60.3 years in 2006 to 62 years in 2013. Also, there is rising demand for health services as evidenced by health expenditures as a percentage of GDP which increased from 4.9% in 2006 to 6.5% in 2013.[22]

For general insurance business lines, 40% of respondents chose motor insurance followed by property / home insurance (18%). Given the low income nature of most survey respondents, insurance companies need to be price competitive in these general insurance business lines.

MOST PREFERED PRODUCTS AND SERVICES BASED ON CUSTOMERS' NEEDS



Build Relationships

Fees, benefits, and coverage are not the only important factors in the insurance dome. In addition, communication, engagement and service-related factors are important sources of differentiation among insurers. Hence, insurers should focus on relationship management not only during the initial sale, but also maintaining the relationship over time.

Insurance clients, whether corporate or individual, value proactive communication, wide spread access to information, and targeted recommendations. However, at a macro level, insurers are currently doing an insufficient job interacting with customers after the initial sale.

To date, agents / brokers have been more effective than the direct channels of insurance companies in actively engaging with clients. Hence, it is important that insurers better collaborate with the agent / broker distribution channel.

To promote customer retention, and to attract new customers, insurers should focus on implementing a robust relationship management cycle as illustrated below (RELATIONSHIPS MANAGEMENT CYCLE).

Maintaining a healthy relationship with clients requires insurers to proactively interact with them through a variety of methods including:

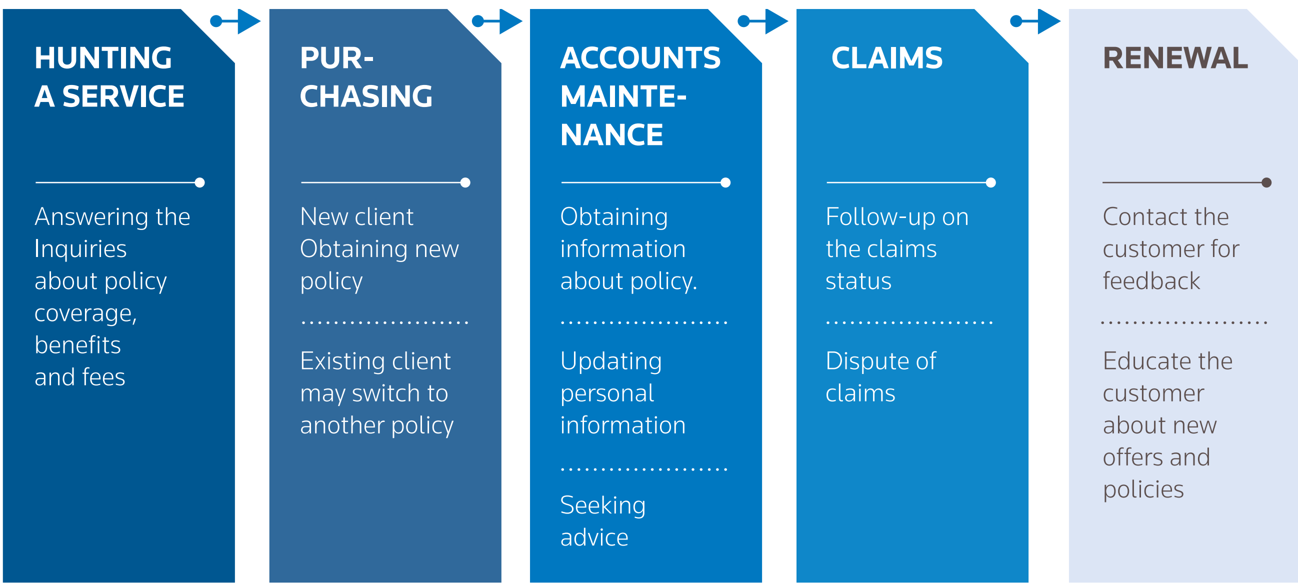
1. Developing system triggers that differentiate between self-service inquiries and complex issues to automatically route customers to the best service channel

2. Broadening opportunities to connect through establishing affinity groups, customers' club or rewards club for specific segments

3. Deriving a clear customer value-based segmentation to directly link each customer to marketing campaigns, loyalty programs and contact channels, based on their preferences

4. Embracing the benefits of customer experience in digital channels

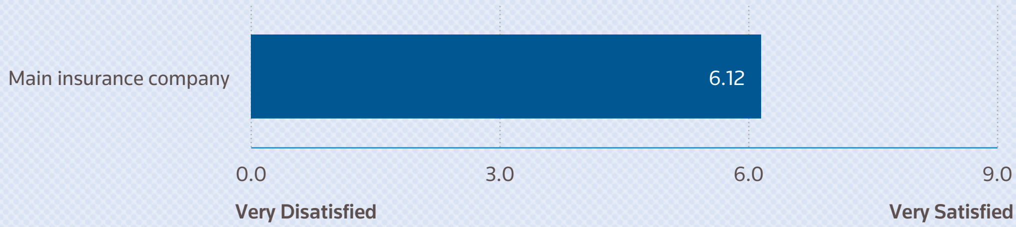
RELATIONSHIPS MANAGEMENT CYCLE



Respondents that deal with insurance are satisfied with their provider in Sudan

Similar to banking services, maintaining an excellent customer service experience by proactively interacting with customers will lead to higher levels of satisfaction. On average, customers in Sudan gave a satisfaction rating of 6.1 out of 9.0 indicating a slightly better than average level of satisfaction with room for improvement. Only 4% of survey respondents rated their experience as 9.0 (very satisfied) and 17% rated their experience as 8.0 (between satisfied and very satisfied).

HOW SATISFIED ARE YOU WITH YOUR MAIN INSURANCE SERVICE PROVIDER?



Corporate insurance growth opportunities

Infrastructure development 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 Sudan 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 role in providing risk protection, as well as in **bearing mortgage risk from project funding. Engineering insurance, property insurance and personalized products should be also utilized across the different phases of infrastructure projects.**

In order to meet strong demand from corporate clients for infrastructure insurance, insurers should adopt the following model to widen its penetration of this segment:

Insurance potential in Agriculture development

At the state level, the agricultural sector was as 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[23]. This creates a strong need for both financial default insurance and workforce insurance.

As part of the agriculture development policy, agriculture insurance is at the top of the President Omer El-Bashir's agenda. In particularly, the government is always keen to support industry growth and promote policies that help alleviate wide spread poverty. Currently, 50% of insurance premiums were subsidized by the state to provide coverage for small farmers, especially in the states of Blue Nile, Upper Nile, South Kurdufan and Northern State[24]. From 2003 to 2008, Government support for insurance premium subsidies increased by 37% to reach SDG 13.13 million in 2008.

	Subsidy (SDG)
2002	342,882
2003	920,767
2004	2,315,791
2005	2,558,536
2006	7,726,228
2007	6,583,390
2008	13,135,965

Sudan is endowed with enormous agricultural resources, including more than 200 million feddans[25] 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:

1. Due to shortage of rain in Sudan, offerings that provide coverage to such rural areas should be introduced by insurance companies. This may require the support of the government and cooperative companies to participate as policyholders in such funds, as well as, the support of scientists to utilize remote sensing mechanisms to assess the impact of the weather.

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

3. 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.

4. 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.

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

ENHANCING AGRICULTURE INSURANCE IS A BENEFIT FOR DIFFERENT PARTICIPANTS:

COUNTRY LEVEL

Protection against natural disasters, aligned with companies' effort in collaboration with scientist will create good conditions for settling in country-side

Reducing emigration to urban centers and improve the development in rural areas

CORPORATE LEVEL

Insurance considered a guarantee to banks and other financial institutions against financing and facilities

As a growing sector, Corporate clients can consider such insurance funds as a new secure investment line

INDIVIDUAL LEVEL

Security for farmers against perils of flood, shortage of rain, fires, pests and diseases

Encourage individual farmers to invest in agriculture if such protection is provided and new technologies offered

A labourer carries sacks near the port in Port Sudan at Red Sea State. REUTERS/ Mohamed Nureldin Abdallah

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.

MICRO INSURANCE FRAMEWORK

PRODUCTS OFFERINGS:

Credit protection, Micro financing credit risk guarantee, Material Damage protection, Production-risk guarantee, catastrophic risk guarantee, Life loss Protection, Family takaful, Co-operative funds

LAYING THE FOUNDATION:

1. Educating personnel to train the poor and micro enterprises about micro Insurance
2. Provide training to small entrepreneurs on risk hedging techniques for different business lines such us avoiding farming losses through providing training on selecting the appropriate seeds, fertilizer usage, rainfall and water harvesting techniques, etc.
3. Learn from expertise in the developed market to help promote such offerings
4. Communicate with cooperatives and communities as a mean of distribution channel
5. Government financial support through subsidies or PPP plans with local re-insurance companies specialise in micro-insurance offerings

BENEFITS:

1. Credit guarantee and safer financing environment
2. Policyholders' entitlement to surplus through the application of Shari'ah compliant offerings
3. Economic waste reduction
4. Poverty alleviation

4 Capital Markets Industry in Sudan

An engineer stands in front of a new electronic trading board at the Khartoum stock exchange. REUTERS/ Mohamed Nureldin Abdallah

INSIDE THIS CHAPTER

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$ 139 million. 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.

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 securities. It is also responsible for ensuring fair treatment among the dealers in terms of readabilities.

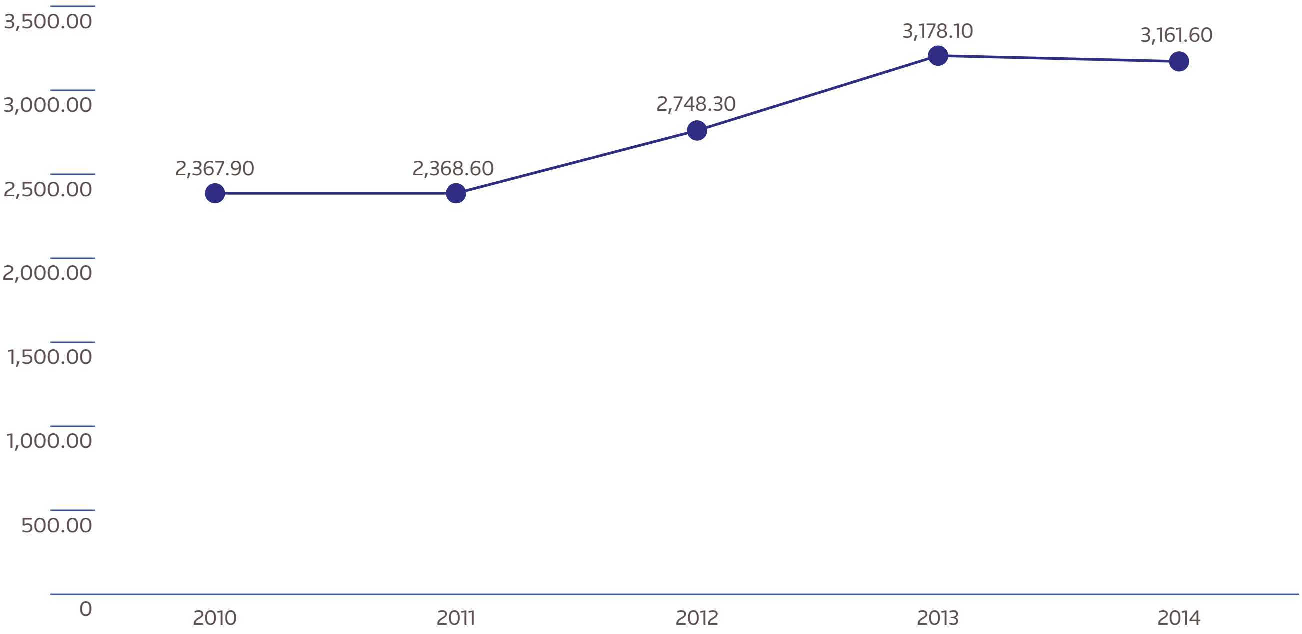
The trading rates in KSE have been on the rise in 2013 and 2014 following the implementation of the electronic trading system in 2013. The implementation of the new trading system has revamped the local market in terms of market activation and engagement. With the new system, the volume of trading increased by 154.1% in one year, from SDG 133.9 million in 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%.

The KSE is keen to further develop the trading system to eventually enable all market players to execute deals from their premises without having 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 OBJECTIVES

- Regulate and control the issuance and dealing in buying and selling securities
- Encourage saving and spread investment awareness
- Expand and strengthen the private ownership of assets in the national economy
- Market development by monitoring securities issues
- Ensure fair treatment among different categories of investors and to protect smaller investors
- Propose how to manage the financial statements, monetary and capital movement, and policy oversight for the development of sources of financing medium and long term in Sudan

KHARTOUM STOCK EXCHANGE INDEX



KHARTOUM STOCK EXCHANGE TRADABILITY VOLUME (BY SECTOR)

	2013				2014			
Sectors	**No. of Shares Traded ('000)**	**Volume of Trading (SDG '000,000)**	**No. of Executed Contracts**	**(%)**	**No. of Shares Traded ('000)**	**Volume of Trading (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	**177,610**	**133.91**	**675**	**100**	**305,681**	**301.9**	**599**	**100**

Source: Khartoum Stock Exchange (KSE)

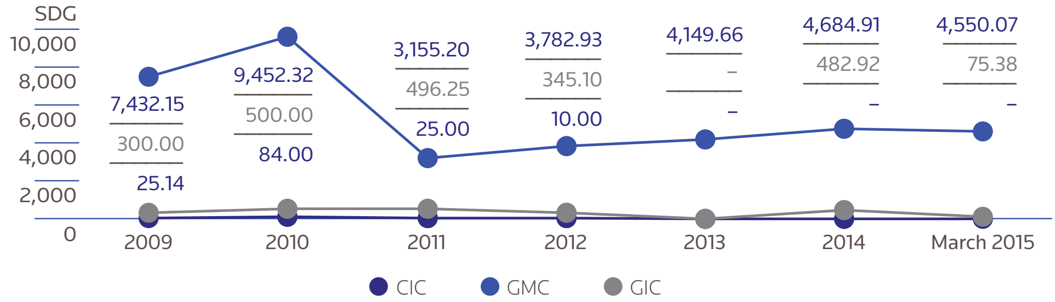
Sukuk overview

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.

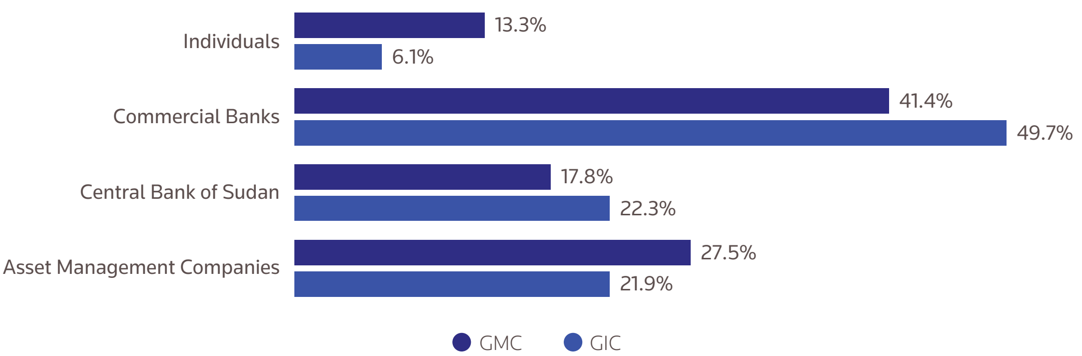
There are three types of certificates that are regularly being issued by the government to inject liquidity into the market. The most active type is the government musharakah certificates (GMCs), also known as shahama, which is issued every three months and structured as musharakah. The GMCs are issued 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). 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 opportunity for the people, and 3) utilizing people's money to more effectively develop the country instead of placing their funds in fixed deposit accounts.

TYPES OF SUKUK ISSUED 2009 – MAR 2015



GMC & GIC INVESTORS BREAKDOWN AS OF 2014



Source: Central Bank of Sudan

High inflation, high yields

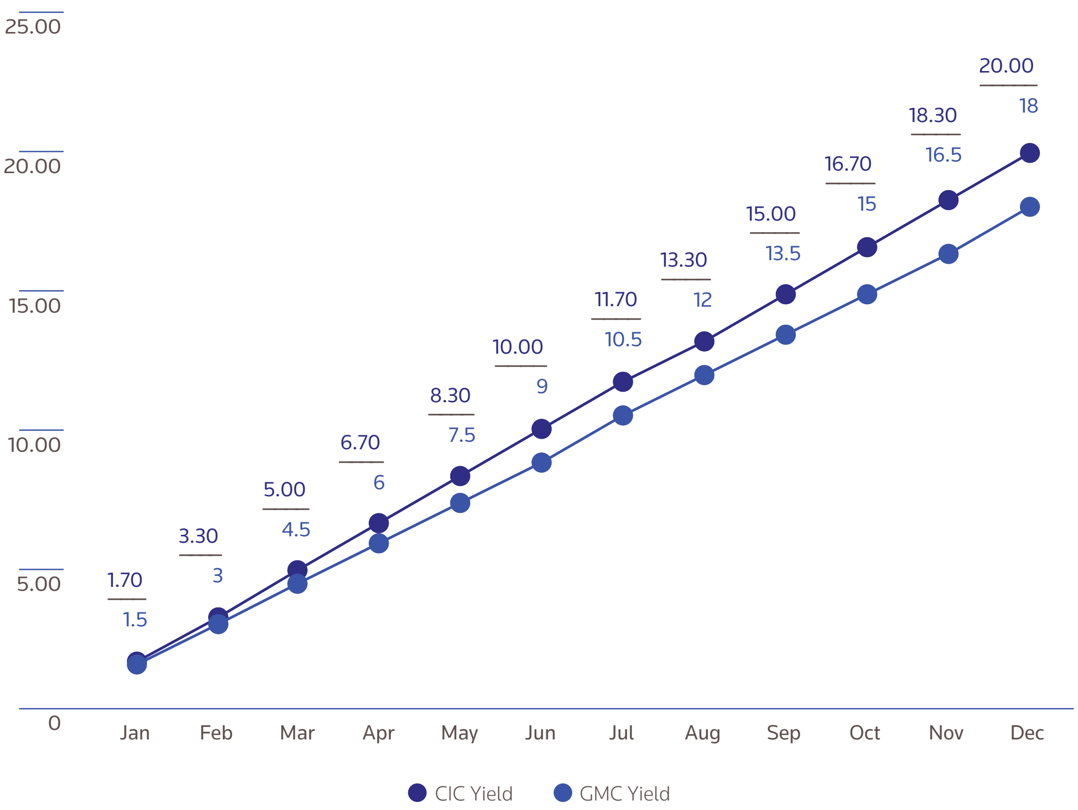
The return on GMCs, GICs and CICs has been skyrocketing on the back of high inflation. The inflation in Sudan was the highest in Africa averaging 36.9% in the years 2013 and 2014. The high inflation was caused mainly by the drop in the exchange rate and by the government decision in late September 2013 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 Salim al-Safi Hajeer, Chairman of the Economic Subcommittee in the Sudanese Parliament. The program aims to bring down inflation over time 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 tenor 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.

As per 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 eco-

CIC & GMC SUKUK YIELD CURVE



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A worker rides a bicycle past a sugar cane plantation near the Kenana Sugar Company (KSC)'s main plant, 270 km (170 miles) south of Khartoum. REUTERS/ Mohamed Nureldin Abdallah

nomic 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. 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 the Basel 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 supply and demand expected to reach US$ 90 billion by 2016[26].

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.

A new tool introduced to manage liquidity

Since 1983, when Sudan became the first country to adopt Islamic principles in its financial system, the country has been trying to manage liquidity in a more efficient way. However, the implementation of real-time settlement in 2011 has not benefited the Sudanese banks. In fact, it put even more pressure on banks to settle daily payments and transactions on the spot which resulted in banks stockpiling Shahama certificates and further hindered liquidity.

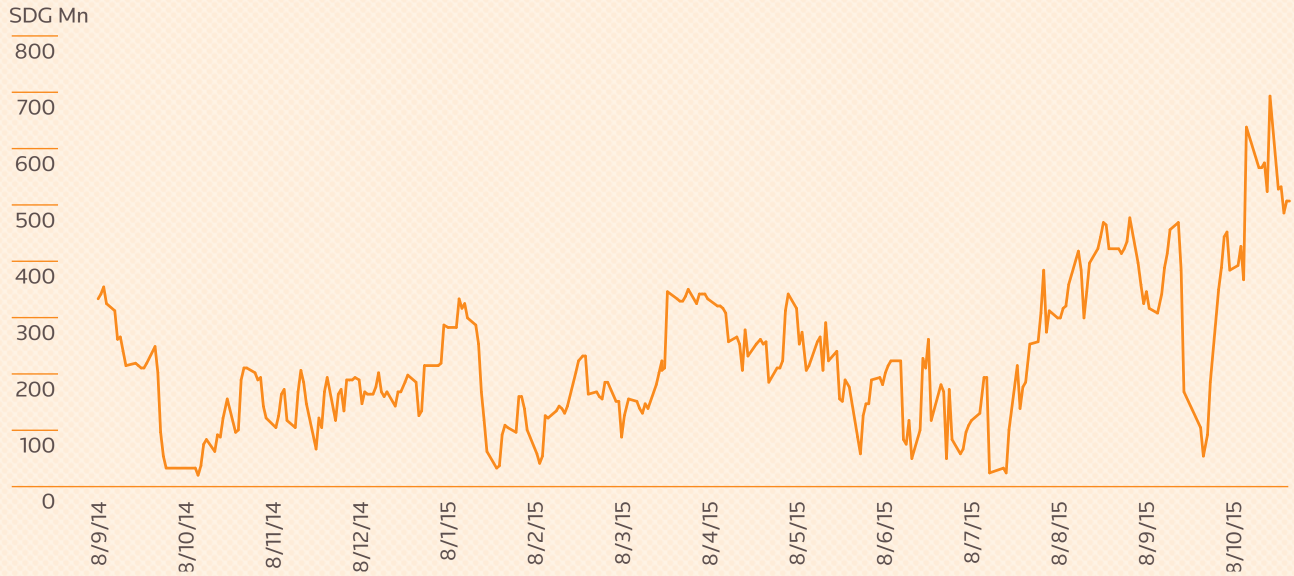
In 2014, the CBoS officially introduced a new liquidity tool by creating an open-end fund to better manage and facilitate liquidity among banks with an initial value of SGD 750 million (approximately US$ 125 million). The fund is a unique yet simple way of bringing all banks together to enhance liquidity.

The fund was launched with a criterion to be made up of 40% cash deposits and 60% securities; however, 100% cash subscription was also welcomed. The Central Bank would have a minimal role in the fund and would act as the lender of last resort to cover any deficits in the fund which will be managed by the Financial Investment Bank (FIB).

The new liquidity management fund comes at a great time to aid the liquidity position in the financial markets as most of the banks were becoming quite inactive in the secondary market and inflating their balance sheets with Central Bank certificates. Following the launch of the fund, the financial market has become more dynamic and active. While the fund is relatively new, it represents a step in the right direction and should be replicated in other countries if the fund continues to solve the liquidity challenges in the Sudanese financial market. Today, there are very limited Shariah-compliant liquidity management tools and many countries are still depending on short term sukuk to provide liquidity.

Initially in 2011, the Real Time Gross Payments System (RTGS) was launched which required banks to clear checks on the spot and at the end of a day, while any overdrawn position of a bank had to be covered. If necessary, the Central Bank would inject cash to cover any shortage at a cost. The role of the Central Bank would be to liquidate the sukuk taken as collateral at a haircut of 5% initially, which was then reduced to 2%. The process emerged to be costly, ineffective and criticized by some banks.

CASH POSITION OF THE FUND SINCE AS OF OCT 2015



Source: Financial Investment Bank (FIB)

A new fund was proposed by the FIB to the CBoS by the end of 2011 to accompany the RTGS. The fund was studied carefully and was officially launched in August 2014. It was made obligatory by the Central Bank for all the banks to participate in the fund. The subscription amount would vary from bank to bank depending on the ratio of total cash to banks deposits, but the law enforces a minimum of SDG 5 million in contributions. The fund manager also contributes SDG 15 million.

There have been some concerns about the implications of the banks' participation. These concerns include the classification of the sukuk that would be contributed to the fund, the risk weight of the sukuk, and implications on the capital adequacy ratio (CAR). The committee representing the banks agreed with the Central Bank that all sukuk would be classified as "Available for Sale" in order to be sold and that the risk weight of the sukuk would be zero.

The fund aims to help banks cover any liquidity positions through RTGS and avoid the haircut; it also encourages interbank activity and creates a liquidity management instrument which is a "derivative" of tradable Shariah compliant investment instruments. The historical trend of the cash position of the fund for the past year gives a good indication of the healthy cash contribution by the banks. In terms of performance, the Net Asset Value (NAV) of the fund has increased by approximately 38% to SDG 1,039 million by October 2015 since inception from SDG 750 million.

In the event of any amount exceeding the value of sukuk, it becomes Qard Hassan which would have a maturity of five days. During the five days, it is the responsibility of the fund manager to chase the borrowing banks. In case the amount is not settled, the central bank intervenes to settle the Qard. The total amount of Qard Hassan reached SDG 2,699 million with Faisal Bank capitalizing most on the opportunity with a solid 26.85% percent of the total Qard.

AMOUNTS & FREQUENCY OF QARD HASSAN AS OF OCT 31, 2015

No.	Bank	No. of times	Total Amount	Percentage to total Qard
1	Faisal	25	716,800,966.08	26.85%
2	Alnilin	46	397,038,143.49	14.88%
3	Export	73	336,827,946.51	12.62%
4	Farmer	17	295,400,636.12	11.07%
5	Real Estate	66	281,716,525.43	10.55%
6	AlTadamon	18	184,037,497.75	6.89%
7	Alnil	12	146,792,829.08	5.50%
8	Albaraka	10	137,035,074.94	5.13%
9	AlFaransi	10	108,161,250.53	4.05%
10	AlSalam	1	23,938,297.75	0.90%
11	Sudanese Islamic	1	23,488,875.99	0.88%
12	Family	6	10,835,714.13	0.41%
13	Khartoum	1	7,090,001.49	0.27%
Total		**286**	**2,699,163,759.29**	**100%**

Source: Financial Investment Bank

5 The Role of Islamic Finance in Social Development

Displaced people gather to receive food provided by the United Nations' World Food Programme (WFP) during a visit by a European Union delegation. REUTERS/ Mohamed Nureldin Abdallah

INSIDE THIS CHAPTER

^ Displaced Sudanese children stand inside the Abu Shouk refugee camp in northern Darfur region of Sudan. REUTERS/ Antony Njuguna

This section presents the historical trends, and future challenges and prospects for the various segments of the Islamic social finance sector — 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. The section is divided into three sub-sections and presents the overview, regulatory and policy framework for the zakat, awqaf and Islamic microfinance sectors, respectively. This section is part of Islamic Social Finance report 2015, IRTI.

Zakat

Zakat Mobilization

The zakat system in Sudan has evolved over time. 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 in 1990 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. 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

In Sudan, the Diwan Zakat is the apex zakat body. 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 Shariah 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.

GROWTH IN ZAKAT COLLECTION (2004 – 2013)

Year	Amount ('000 SDG)	Growth Rate %	Amount ('000 USD)	Growth Rate %
2004	271,352	12.0	117,978	12
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
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

Zakat Collection

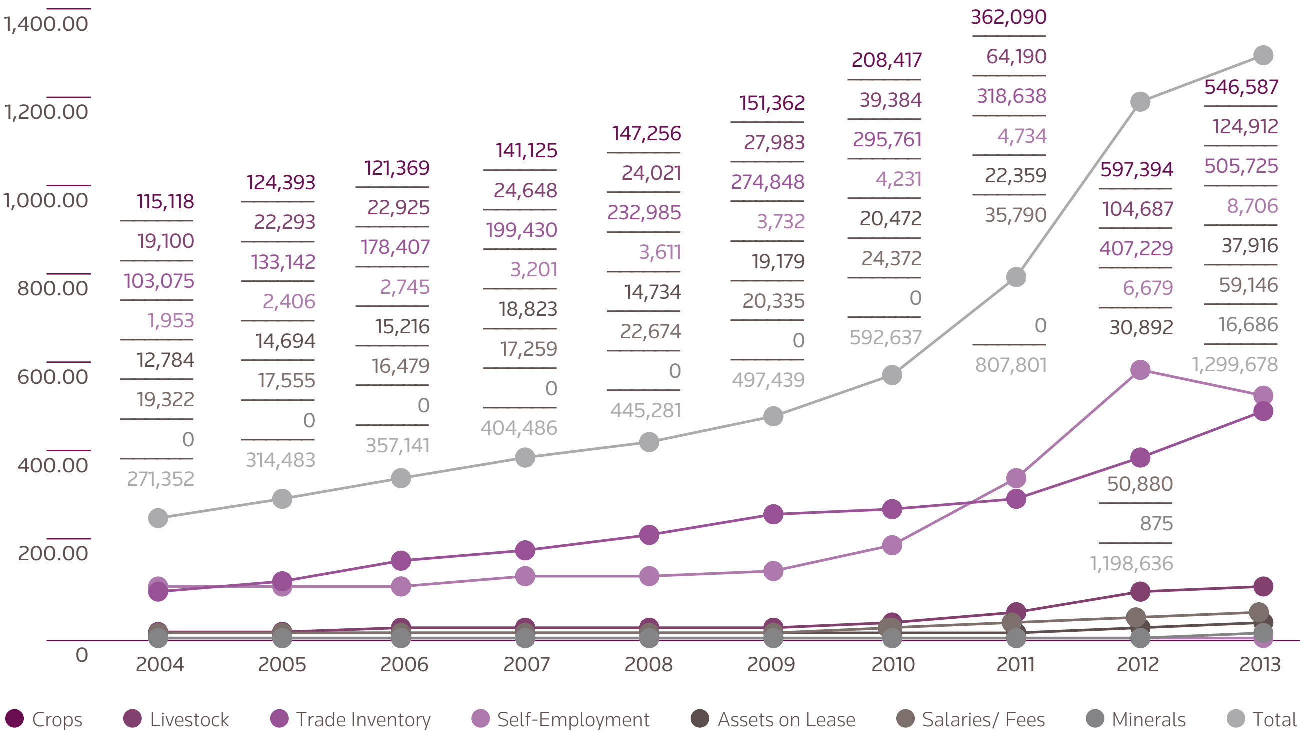
Creation of a country-wide decentralized infrastructure backed by a strong system of accountability and governance has ensured steady growth in the zakat collected. The time-series behavior of zakat collection in Sudan over the last 10 years is presented in the table below. Indeed, collections increased from SDG 119.1 million in 2000 to about SDG 1,299.7 million in 2013 at an annual average growth rate of 19%. In US dollar terms, the growth has been less impressive, at about 7.2% per year, due to devaluation of the Sudanese pound against the US dollar over these years. In SDG terms, the growth was particularly impressive during 2011 and 2012 at 36% and 48%, respectively. However, growth moderated to 8% in 2013, due primarily to a decline in zakat from crops due to crop failure.

While the realized growth in zakat collections appears to be quite impressive, there is a long way to go. In a 2013 study by the Institute of Zakat Sciences Sudan, it was estimated that in light of the current economic environment in Sudan, the zakat base has widened to SDG 193 billion on which the zakat is estimated at about SDG 5.8 billion. Given that the actual zakat collected in 2013 stood at about SDG 1.2 billion, four in every five pounds of zakat due remains uncollected.

In order to identify the major challenges facing zakat collection, we disaggregated total zakat into its components based on the sources of the zakat base. The composition of zakat in Sudan is unique. A large chunk of zakat comes in the form of crops from the agriculture sector. This is driven by the agrarian nature of the country. The table disaggregates the annual zakat collected in terms of the sectors that contribute to zakat collection.

The time-series behavior of different sources of zakat shows that zakat collected from all sources have steadily increased over time except crops which dropped in 2013 only. Zakat from crops in 2006 and more recently in 2013 actually declined from their prior year, primarily due to lower crop yields. This resulted in slower growth for total zakat collected.

SOURCES OF ZAKAT COLLECTED (TIME-SERIES BEHAVIOR) FIGURES IN SDG '000



Year	Crops	Livestock	Trade Inventory	Self-Employment	Assets on Lease	Salaries/ Fees	Minerals	Total
2004	115,118	19,100	103,075	1,953	12,784	19,322	0	271,352
2005	124,393	22,293	133,142	2,406	14,694	17,555	0	314,483
2006	121,369	22,925	178,407	2,745	15,216	16,479	0	357,141
2007	141,125	24,648	199,430	3,201	18,823	17,259	0	404,486
2008	147,256	24,021	232,985	3,611	14,734	22,674	0	445,281
2009	151,362	27,983	274,848	3,732	19,179	20,335	0	497,439
2010	208,417	39,384	295,761	4,231	20,472	24,372	0	592,637
2011	362,090	64,190	318,638	4,734	22,359	35,790	0	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

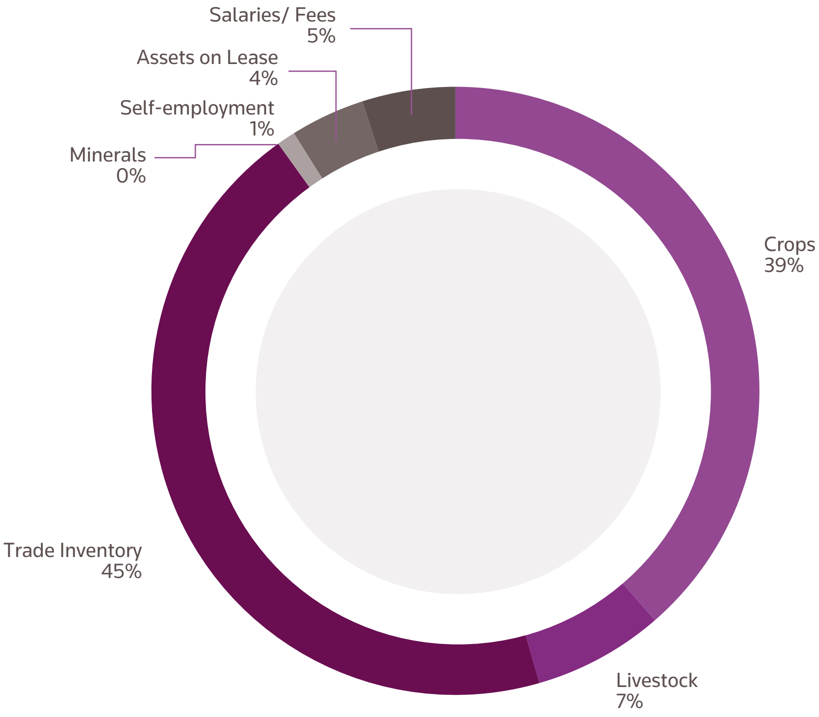
Source: Islamic Social Finance Report 2015, IRTI

PERCENTAGE OF CONTRIBUTION TO ZAKAT BY DIFFERENT SOURCES OVER TIME

Year	Crops	Livestock	Trade Inventory	Self-employment	Assets on Lease	Salaries/ Fees	Minerals	Total
2004	0.42	0.07	0.38	0.01	0.05	0.07	0.00	1.00
2005	0.40	0.07	0.42	0.01	0.05	0.06	0.00	1.00
2006	0.34	0.06	0.50	0.01	0.04	0.05	0.00	1.00
2007	0.35	0.06	0.49	0.01	0.05	0.04	0.00	1.00
2008	0.33	0.05	0.52	0.01	0.03	0.05	0.00	1.00
2009	0.30	0.06	0.55	0.01	0.04	0.04	0.00	1.00
2010	0.35	0.07	0.50	0.01	0.03	0.04	0.00	1.00
2011	0.45	0.08	0.39	0.01	0.03	0.04	0.00	1.00
2012	0.50	0.09	0.34	0.01	0.03	0.04	0.00	1.00
2013	0.42	0.10	0.39	0.01	0.03	0.05	0.01	1.00
Average	0.39	0.07	0.45	0.01	0.04	0.05	0.00	1.00

Source: Islamic Social Finance Report 2015, IRTI

AVERAGE PERCENTAGE OF CONTRIBUTION TO ZAKAT BY DIFFERENT SOURCES



The table in the previous page represents the percentage contribution of zakat from each source. In terms of contribution to total zakat, crops and trade inventory have been the most significant sources. While crops have contributed more to zakat over the last three years, trade inventory has contributed more on average over the last decade. Together, crops and trade inventory constitute over 80% of zakat collected on average over the last decade. This indicates that the potential opportunity of zakat collection from other sources (e.g. salaries/fees, minerals, livestock) remains largely untapped.

Issues in Collection

The following are some of the critical success factors and challenges to optimizing zakat collection from crops, livestock, trade and business, salaries and professional incomes, minerals, and other sources. A problem that persists across all categories of zakat is identified as lack of public awareness of the mandatory nature as well as the rules of zakat. Similarly, awareness levels are quite low among relevant stage agencies regarding their legal obligation to support the Diwan in its collection efforts.

- **Crops**

  The share of zakat from crops has witnessed great variation (between 30-50%). This is attributable to several factors: natural and climatic factors, security conditions faced by some areas, problems unique to large agricultural projects, and a decline in the contribution of small-irrigated schemes due to high costs of agricultural production. Nevertheless, the fact remains that zakat from crops is a significant contributor to the total kitty and the share has been rising in recent times. Overall, one may find that zakat from crops is collected in areas of relative stability. Collection also has benefitted from the accumulated experience of workers in the zakat collection field. However, some major challenges remain, including:

  - Monitoring costs are quite high. It is extremely difficult to monitor all production, since large tracts of land are difficult to reach. Reaching out to faraway locations may not also make economic sense if the potential zakat to be collected is not large enough

  - Leakages are hard to control in light of multiple entry points to major cities. Attempts to set up control points to monitor the highway traffic at entrances to major cities are thwarted by private entry points. For instance, Khartoum State, which is one of the largest producers of agricultural products in the Sudan, provides for easy transport of such goods and an easy route for exports through the sea

  - Many of the products are stored at the sites of production making it difficult to monitor them in a timely manner and to subject them to zakat. A large part of the production goes for domestic consumption that enhances difficulty in assessing the true zakat base. In addition, zakat due from the production of some small private holdings is hard to monitor and collect, even though it represents a significant proportion of total production

- **Livestock**

  Livestock contributes significantly to the GDP of Sudan, even more so than crops. It is a dominant form of zakatable wealth in regions such as Darfur and Kurdufan. However, it contributes a meager 7% to total zakat. A major reason for this is widespread instability in these regions with large herds of livestock. Hence, zakat collected from livestock has been affected by poor security in the region, despite collections steadily increasing. Other issues remain, including:

  - Opaqueness of national boundaries across which the herds move in search of pastures. This makes it extremely difficult to keep track of the livestock and subject them to zakat

  - Owners of livestock are difficult people to deal with according to zakat collectors and it requires a high degree of efficiency, professionalism, and hard work to collect zakat from people who keep changing their locations in search of pastures, often across national borders

- **Mining**
  Zakatable wealth from mining in Sudan is mostly in the form of gold. Zakat collected from this source has seen a modest spurt during the last couple of years. The major problem areas in zakat collection from gold are as follows:

  - Families hold a large chunk of gold and the state apparatus for zakat collection does not have full control over the production process of gold

  - There is private and irregular mining as well as foreign and non-Muslim ownership of the mines that makes it difficult to obtain information on the annual production on which to levy zakat

- **Trade and Commerce**
  Zakat from trade and commerce constitutes the largest source of zakat over the last decade. Its share of total zakat reflects that its relative importance may be attributed to (i) the growing importance of the services sector and industry in the composition of GDP, and (ii) steady development in the capacity of the Diwan staff and its systems, driving enhanced coverage. However, collection of zakat on business and commerce in Sudan faces many challenges that still need to be addressed:

  - Lack of coordination between the state zakat body and the banking system. The Diwan Zakat exercises little control over bank deposits that are zakatable. There is no sharing of information or coordination between the Diwan and the central bank. It is estimated that the zakat due on bank deposits of SDG 23,416 million as SDG 585.4 million in 2013 alone, a sum equivalent to 115.8% of the actual total collection from trade and business. This zakat could be easily collected with the support and cooperation of the banking system

  - Lack of coordination between the Registrar of Companies and the Diwan Zakat. It is estimated that the number of companies that pay zakat is less than one-tenth of the over 40,000 registered companies. While some companies may not be zakatable based on their ownership by non-Muslims, the fact remains that there is substantial leakage of zakat due to a lack of coordination

  - Absence of any linkage between customs clearance procedures and zakat payment. Linking up a certification by zakat authorities (that zakat due has been paid) with customs clearance of goods entering or leaving the country will significantly boost collection

  - Investment by government bodies and companies are subject to zakat. However, the Diwan has little option but to accept the zakat allocated by the Auditor General in this regard. This results in a dispute between the company or government body and the Diwan Zakat

  - The Diwan, though it performs a function comparable to the Inland Revenues Authority, remains comparatively understaffed with a grossly lower amount of resources at its disposal. At the same time, its domain of activity is much wider. This naturally hampers collection efficiency

- **Miscellaneous (Assets on Lease, Salaries, Wages, Fees)**
  Together, these sources constitute less than 15% of total zakat, notwithstanding their high potential. The primary reason for this includes lack capacity of the Diwan staff and a lack of adequate systems to monitor and collect all forms of wages, salaries and other incomes. Other issues need to be addressed, including:

  - When government units, foreign missions and international organizations own leased property, collection of zakat by the Diwan is less efficient as the Diwan is not adequately empowered to take all the necessary steps for collection

- The system to monitor the incomes of high-ranking employees in government as well as in the private sector is weak, especially when they are posted overseas

- A provision in zakat law (Article 49) requires presentation of a zakat settlement certificate before certain transactions can be completed. This is purported to enhance zakat compliance. However, the implementation of this provision has been extremely weak in light of continued resistance on the grounds of public grievance

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Gold mine workers weigh their gold in a local mine in Al-Ibedia locality at River Nile State. REUTERS/ Mohamed Nureldin Abdallah

Policy Recommendations for Zakat Collection

1. Due to the vast expanse of agricultural areas and the difficulty in monitoring, zakat collection efforts could be timed with the seasonality of crops, taking periodic breaks after zakat collection is completed for a given cycle of crops

2. The presence of Diwan at specific control points on highways should expedite resolution of conflicts and enhance efficiency

3. The involvement of Diwan in the agricultural census should facilitate easy completion of the public records of the zakat payers

4. Efforts should be made to enhance the awareness of jurisprudence of zakat on agricultural production and to involve zakat payers in the distribution of a part of the zakat

5. A focus on in-kind collection coupled with adequate incentives for zakat collectors should lead to expansion of zakat collected

6. Compliance of Article 49 of the Zakat Act of 2001 must be ensured which requires linking all government transactions and land records, renewal of business licenses and permits of public vehicles, provision of services of customs clearance and registration of companies with certification of zakat settlement by the Diwan

7. Public auditor of banks, companies and government agencies that have invested public money should coordinate with the Diwan before placing any provision for zakat in the budget for these units

8. The Diwan should be provided with facilities and customs exemptions for mobility devices which is needed in the conduct of its work

9. The Diwan should have access to all the field studies, surveys and census data to incorporate the same in its database of zakat payers

10. The Diwan should coordinate with voluntary and service providers around the center and states to obtain the required information that will help collection of zakat similar to taxes and duties

11. Zakat collection should involve use of modern technologies and networking supported by training to raise the technical capacity of zakat officials

12. Zakat mobilization should actively involve local committees as a way to build social capital and enhance community solidarity. Local participation should be sought in the collection of zakat on agricultural products of smallholdings, and on merchandise and leased property in the locality. Zakat should be distributed in the neighborhood in order to encourage community solidarity.

13. The Diwan should seek full coordination with the central bank and the Ministry of Minerals to enhance its effectiveness

14. The competent management of zakat on metals should require monitoring the production plans of all producers of metals and their extracts

15. Some fiqhi issues need to be addressed urgently. For instance, zakat on extracted minerals from the land of Muslims, financed by foreign capital, raises important issues. How should the yield be subjected to zakat, given that the foreign investor is only a tenant of this land that is owned by a Muslim zakat payer? Should zakat be levied on total output, minerals extracted, or only on the share of the Muslim owner?

16. The children of pastoral tribes in the desert tribes of Kurdufan and Darfur and Kassala should be allowed to take over the collection of zakat in due course

17. A large proportion of cattle collected as zakat should be distributed at the collection area itself to save on costs of transportation and storage

18. The workers engaged in the collection of cattle as zakat should be given a special in-kind incentive

19. Top zakat payers from livestock owners should be honored for their contribution to community development and solidarity at the time of distribution of in-kind zakat to the poor people of the region

20. The Diwan should coordinate with trade unions in the matter of zakat collection, as the latter may share vital information regarding wages, output and profitability

21. The Diwan should set up its own storage facilities and warehouses to save the crops and livestock

22. There should be an all-out initiative to sort out the complexities of the procedures and laws of other institutions so that the Diwan may look forward to improved communication

Zakat Distribution

Shariah mandates that zakat can be distributed to specified categories of beneficiaries. The eight eligible beneficiaries — 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 overburdened with debts), fi-sabeelillah (for every struggle) in Allah's cause, and ibn as-sabil (for the wayfarer) — have been stipulated in the holy Quran. However, the definitions of these beneficiaries, or asnaf, vary. 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 steady growth over the last decade. The number of beneficiaries has also steadily grown by about 70% over 7 years. It may be noted that the distribution ratio of zakat — the ratio of zakat distributed to zakat collected in a given period — has been hovering around unity. This is a very healthy scenario and indicates the absence of any "zakat holding".

The table below presents the time-series of allocation ratios of zakat among alternative beneficiaries. The poor and the needy (fuqara and masakin) account for about two-thirds of zakat distributed, even though the percentage of zakat distributed to the poor and the needy was much lower (at around half) at the turn of the century. That was a time when a relatively higher percentage of zakat was allocated to muallaf (15 – 18%) as well as to operating expenses. The total operating costs that include salaries / remuneration to zakat officials as well as other administrative expenses (see last two rows in table below) were as high as 26 – 32% from 2000 to 2001, but have been pegged at around 20% since then.

The percentage of zakat allocated to cover operational expenditures is a key policy issue. It may be noted here that the percentage is usually pegged below one-eighth (12.5%) in South East Asian countries, either as a customary practice or as a Shariah requirement (there being eight asnaf, the maximum allocation to any one of them should not exceed one-eighth). The ratio seems to be quite high in the case of Sudan. Indeed, there is some merit in the argument that a higher ratio is a natural consequence of in-kind zakat. While 12.5% may look good as a cap in a scenario where zakat is collected in cash or through online transfer, in-kind zakat in the form of crops and livestock would require much higher operational costs (due to transport, storage etc.). In Sudan, the scholars seem to be fine with a cap of 20%, perhaps considering that there are effectively five asnaf. Indeed, the concern for high operational costs has enabled the Diwan to bring down the ratio from a high of 31.9% in 2000 to roughly 20% over the last 6 years.

GROWTH IN ZAKAT DISTRIBUTION (2004-13)

Year	Collection ('000 SDG)	Growth Rate %	Distribution ('000 SDG)	Growth Rate %	Distribution Ratio	No. of 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				

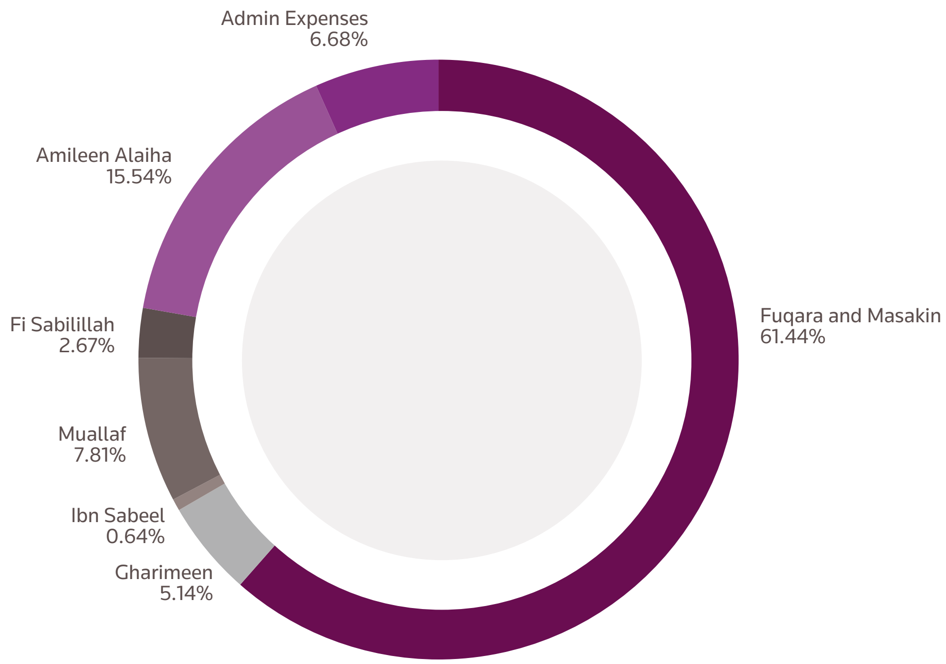
Source: Islamic Social Finance Report 2015, IRTI

ZAKAT ALLOCATION AMONG BENEFICIARIES

	Avg (2000-2013)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fuqara and Masakin	61.44	47.5	52.4	55.7	60.1	60.9	62	64	63	64.5	63	63	68	68	68
Gharimeen	5.14	1.2	4.2	5.2	4.5	6	5.9	5	8	7	5	5	5	5	5
Ibn Sabeel	0.64	1.2	1.2	0.8	0.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Muallaf	7.81	18.2	15.6	12.8	8.8	6	3	6	5	5	8.5	8.5	5	3.5	3.5
Fi Sabilillah	2.67	0	0	0	0	5	5.9	3	4	4	4	4	2.5	2.5	2.5
Amileen Alaiha	15.54	17.5	17.9	17.9	16.6	14.6	15.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	16
Admin Expenses	6.68	14.4	8.8	7.7	9.3	7.1	7.2	7	5	4.5	4.5	4.5	4.5	4.5	4.5

Source: Islamic Social Finance Report 2015, IRTI

AVERAGE ZAKAT ALLOCATION AMONG BENEFICIARIES



Poverty Alleviation with Zakat

A key issue in alleviating poverty with zakat relates to the measurement of poverty and defining the poor. According to Sudanese scholars, a poor person is one who is devoid of the minimum amount of resources needed to sustain the individual along five dimensions in the light of Maqasid of Shariah, e.g. deen (religion), nafs (human dignity), aql (intellect), nasl (lineage) and maal (wealth). The reference point for the measurement of poverty is, however, the family (and not the individual) as being the smallest unit in the Sudanese society. Poverty is defined and measured in a relative sense. It takes into account the spatial and regional differences in consumption patterns — urban and rural — for measurement of poverty. Of course, specific and special considerations are also considered in the process including people displaced by war, natural disasters or under special circumstances.

Over the years, the Diwan has developed several indicators for determination of the poor. A family is considered poor if it fulfills one or more of the following conditions:

- The head of the household is unemployed and does not have a family income
- The family has an income less than the minimum wage and has no income from any other source
- The head of the family has a physical inability or illness that rules out productive work
- The family has a member suffering from endemic diseases with a heavy financial cost
- The head of household has a chronic illness and has a family of six members or more
- The head of the family has assets such as a house or agricultural land, but is neither working to be able to generate cash, nor do these assets generate revenue

- Entrepreneurs, farmers and blacksmiths who neither produce basic items of sustenance nor have other income for them

- Agricultural workers and herdsmen, who do not have livestock or other incomes, but have families consisting of six members

The Diwan has undertaken several studies aimed to identify the poor. The following inventory and classification of the poor in Sudan has been obtained:

CLASSIFICATION OF POOR IN SUDAN

Categories of the poor	Number of families	Percentage of the total poor
Total number of poor	2,291,789	100
First category	330,703	14.4
Second category	1,729,449	75.5
Third category	231,637	10.1

Source: Islamic Social Finance Report 2015, IRTI

According to Sudanese law, the allocation of zakat resources among various categories of eligible beneficiaries is undertaken by the Supreme Council of Trustees, which takes into consideration various economic and social variables that affect society. The allocation ratios for the various categories of beneficiaries over the past 14 years are presented in the table above ("Zakat Allocation among Beneficiaries"). The following observations regarding zakat policy as enunciated by the Supreme Council of Trustees and implemented by Diwan Zakat are as follows:

- An allocation ratio of over two-thirds to the poor and the needy shows a distinct priority to this category of beneficiaries

- Within this overall category, there is further prioritization in favor of orphans, widows, sick and infirm, elderly and university students who come from poor families

- A clear policy exists to provide support and assistance in the form of projects (project health insurance, project uniforms, project to finance university students, project to sponsor orphans etc.)

- The policy has a focus on productive projects that benefit from a specified allocation

- Zakat is mobilized in two cycles in each year to optimize mobilization efforts. The campaigns undertaken as projects aim to develop local talent and to integrate them with the mainstream

- Zakat is provided as support to States that are suffering from problems of displacement, war and contribute to the stability and resettlement of returnees

- The policy focuses on the implementation of collective projects and service projects that address issues of mass poverty (water, health, education)

- The policy aims to contribute to the creation of a society of virtue and morality and supports projects and centers of mass marriages, development of women and young people

- The policy requires advocacy work aiming to promote a culture of peace and tolerance

In order to implement the above policies, the Diwan Zakat undertakes the following types of projects, programs and activities.

Social Security

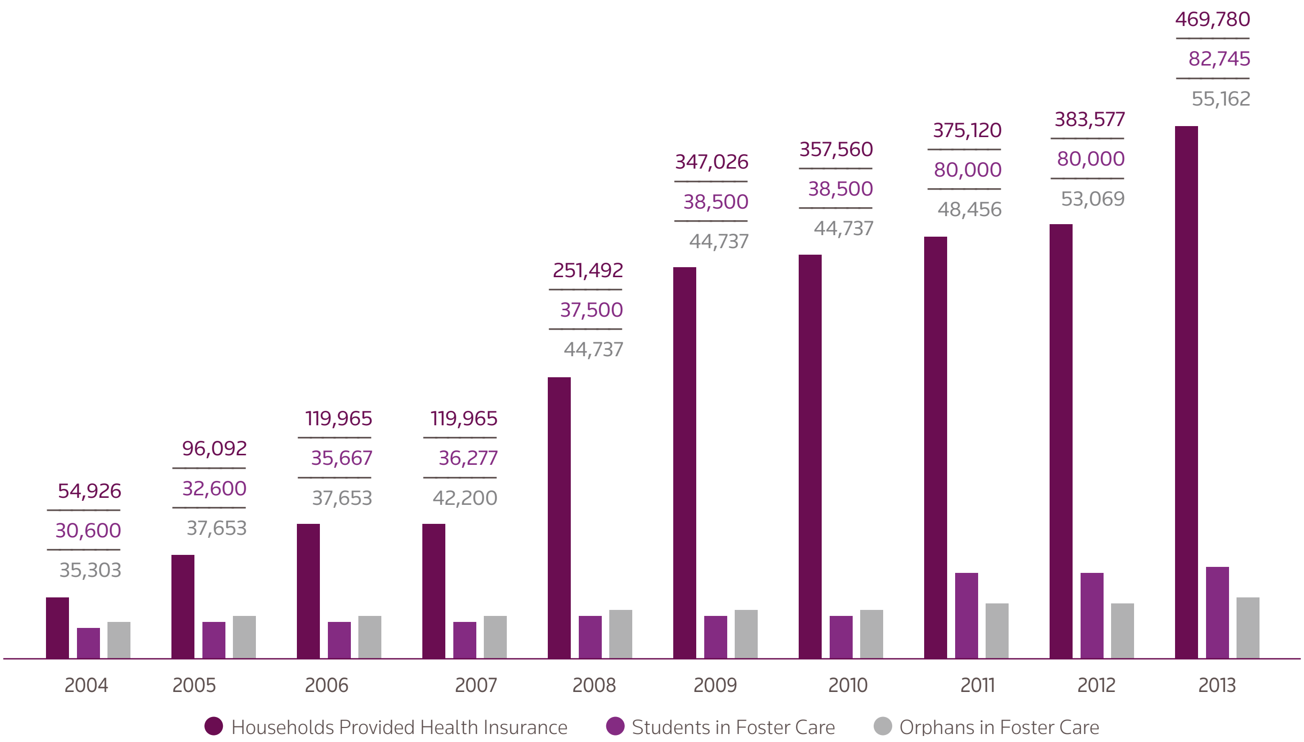
This involves the distribution of cash and in-kind assistance (including services, such as, health insurance) so that basic needs, such as food, health, clothing and shelter, for low income populations of society are met. It also involves undertaking relief and rehabilitation work during natural calamities in order to preserve human life and dignity. The targeted beneficiaries, in normal times, include students from poor families, poor orphans, widows, divorcees and deserted

TIME SERIES OF SOCIAL SECURITY BENEFITS

Year	Households Provided Health Insurance	Students in Foster Care	Orphans in Foster Care
2004	54,926	30,600	35,303
2005	96,092	32,600	37,653
2006	119,965	35,667	37,653
2007	119,965	36,277	42,200
2008	251,492	37,500	44,737
2009	347,026	38,500	45,737
2010	357,560	38,500	45,737
2011	375,120	80,000	48,456
2012	383,577	80,000	53,069
2013	469,780	82,745	55,162

Source: Islamic Social Finance Report 2015, IRTI

TIME SERIES OF SOCIAL SECURITY BENEFITS



women, infirm and the elderly poor, those suffering from chronic diseases, those with special needs and the families of prisoners and missing persons. During the period from 2009 to 2012, a total of SDG 1,089 million pounds was spent on these causes. The table below provides insight into the Social Security measures implemented by Diwan over the last decade (2004 – 2013).

The number of households provided with health insurance increased from 54,926 in 2004 to 469,780 in 2013, representing a cumulative increase of 755%. The annual cost of this program 2013 increased to SDG 102 million. The number of university students sponsored increased from 30,600 in 2004 to 82,745 in 2013, representing a cumulative increase of 170%. Meanwhile, the value of monthly sponsorship increased from 30 pounds per month to 50 pounds per month and then again to 75 pounds per month. The number of orphans increased from 35,303 in 2004 to 55,162 in 2013, representing a cumulative increase of 56%. In 2013, the annual cost of this program stood at around SDG 35 million.

Social Development

This involves contributing to projects for the provision of water, health and education services in areas inhabited by a large number of poor people. It also involves contributing to projects that help combat impoverishment factors, such as projects to ward off drought and desertification and to combat pests and epidemics. These projects aim to achieve sustainable development in rural communities. Water projects involve digging of wells and reservoirs and the maintenance of water systems. During the period from 2004 to 2012, 712 different projects were implemented with an outlay of SDG 25.8 million.

The Diwan participates in the healthcare sector through provision of hardware, medical equipment and hospital support as well as through provision of medical services for the poor and needy. The total spending on health projects during the period from 2004 to 2012 amounted to SDG 481.5 million.

The Diwan also contributes towards payment of tuition fees and provision of school supplies and the construction of classrooms in rural areas. It has embarked on 240 education projects benefiting poor pupils. Over the years from 2007 to 2012, 240,000 school bags were distributed to poor students across Sudan. The total spending on education projects during the period from 2004 to 2012 was approximately SDG 51.5 million.

In addition, the Diwan undertook several collective projects in the agriculture sector. These projects included rehabilitation of agricultural projects in the state of White Nile, agricultural cooperatives project in the state of Gedaref, Qard-al-hasan for farmers in the state of River Nile, artificial insemination projects in Kassala, White Nile and Sennar, and cattle ownership project for the poor and needy in multiple states. The agricultural projects covered 550,000 acres at a total cost of SDG 73.7 million benefiting 214,450 households. A key aspect of the Diwan's intervention in the agriculture sector is to create a network of farmers' associations. In 2007, the number of associations stood at 132, which increased to 345 by 2013. These associations adopted villages to finance agriculture in over 200,000 acres of land providing significant benefit to these regions.

Employment and Livelihood Generation

This involves providing finance and other resources to the unemployed poor to set up micro and small enterprises. The intervention often involves helping those who fail to find gainful employment by enhancing relevant skills or acquiring necessary skills through training. It also involves targeting productive families and providing microfinance so that they may set up or expand their micro and small enterprises. In turn, this helps provide employment and generate livelihoods for the families and for others. The wide range of enterprises that have been assisted by the Diwan include poultry farms, grain mills, spices factories, bakeries, tools for footwear, textiles making, work tools for craftsmen and artisans, sewing, embroidery, tire repairing, ice cream making, fishing boats, carts, small taxis and minivans.

Zakat-funding of projects raises some Shariah concerns, especially relating to tamleek which requires that the zakat beneficiary be made an owner of the project or assets in the truest sense of the term. These concerns underlie the stipulation by the Diwan that the beneficiaries must become owners of these projects in a legal sense and possess all the rights related to ownership of the assets. The ownership of the projects should be "closed" and restricted to the beneficiaries of zakat only. Further, the projects that produce a good or service that are not deemed necessities should not be considered. A considerable importance is attached to training and capacity building of beneficiaries. Retraining of those whose skills have become obsolete is given importance along with the training of new entrepreneurs. The Diwan allocates 3% of zakat funds in each state to be spent on training.

A novel product introduced by the Diwan is the microfinance portfolio guarantee using zakat that is provided by a Fund (SDG 200 million) configured as a partnership between the Diwan (SDG 50 million) and 32 Sudanese banks (SDG 150 million). A well-known collective project implemented by the portfolio is the Abu Halima greenhouses project in Khartoum State benefiting 125 graduates at an investment of SDG 7.1 million. Another partially implemented project by the Fund is the health centers project involving 300 doctors and an investment of SDG 1 million. Another project involves a partnership between the Fund and the World Food Program to finance 100,000 small-scale farmers in eight states at a total cost SDG 45 million.

Direct Assistance to Poor

The aim of this project is to provide direct assistance through an integrated package of services for 500,000 of the poorest households in Sudan. The goal is to make a significant dent on the poverty rate while compensating the poor for the adverse impacts suffered from inflation and other economic maladies. A key feature of the project is a comprehensive stocktaking survey of the poor in Sudan, which analyzes, understands and classifies their needs in a comprehensive manner. The database provides an objective basis for assistance packages to the poor. The packages consist of health insurance, support to students, improvement in shelter, cash and in-kind support (for the purposes of food) and finally, microfinance support with a social dimension. While all five elements are part of the package for the ultra-poor, the other categories of the poor receive a combination of elements that best meet their needs.

PROJECTS AND BENEFICIARIES OF ZAKAT IN SUDAN

	Healthcare		**Agriculture**	
No.	**Type of project**	**Number**	**Type of project**	**Number**
1	Hospitals	79	Tractors Agricultural	185
2	Health centers	68	Agricultural harvesters	151
3	Pharmacies	18	Ploughs	9,325
4	Eye camps	19	Large units	37
5	First aid	18	Small units (for jackets) Forklift Water Pumps	910
6	Rooms for mothers	72	Agricultural projects	54
7	Test labs	62	Gardens (orchards)	85
8	Midwives' bags	260	Poultry Farms	79
9	Different devices (refrigerators, vaccines, blood bank, etc.)	411	Dams and gears	52
10	Sanitation, environment (waste carts)	32	Cattle heads	75,000 heads per year
11	Health Insurance			469,780 households
12	Standardized treatment			5,000 patients annually

Source: Islamic Social Finance Report 2015, IRTI

Community Development

This involves setting up major projects for the benefit of the community that also requires direct and active involvement by community members. This requires exhorting the community towards desired Islamic values, such as, zakat compliance and support for programs and projects intended for welfare of orphans and other deprived populations of the society. Ramadan programs and special drive for orphans are examples of such projects. These programs typically constitute a full range of individual and collective projects, associated advocacy programs, and mobilization at a grassroots level. For example, in 2012 an amount of SDG 70.3 million was spent on the Ramadan program and SDG 26 million was spent on the National Festival of the Orphan.

Institutional and Regulatory Environment for Zakat

Zakat management in Sudan has evolved over time with 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 was 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 last 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.

Zakat Collection

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.

Section 36 of the Sudanese law adds that if the individual liable for zakat is not present, then the person responsible for managing the funds or its legitimate agent is liable. In case of death of the individual liable for zakat, then zakat shall be levied on the assets prior to distribution among heirs.

Incentivize Zakat Payment[27]**.** Sudanese law does not impose any physical penalty on defaulters, but provides for forced recovery of due and unpaid zakat. Section 42 of the act asserts that "any person who provides misleading information, evades or abstains from payment of mandatory zakat, shall be penalized for an amount that should not exceed the value of such zakat, the zakat shall forcefully be taken from him by the Chamber. The Chamber may issue an order to attach his funds in the banks, provided that; execution is carried out by a competent court". The next Section 43 imposes a penalty of 10% of zakat liability on any person who objects to forward any under-taking, document or statement, demanded by the Diwan.

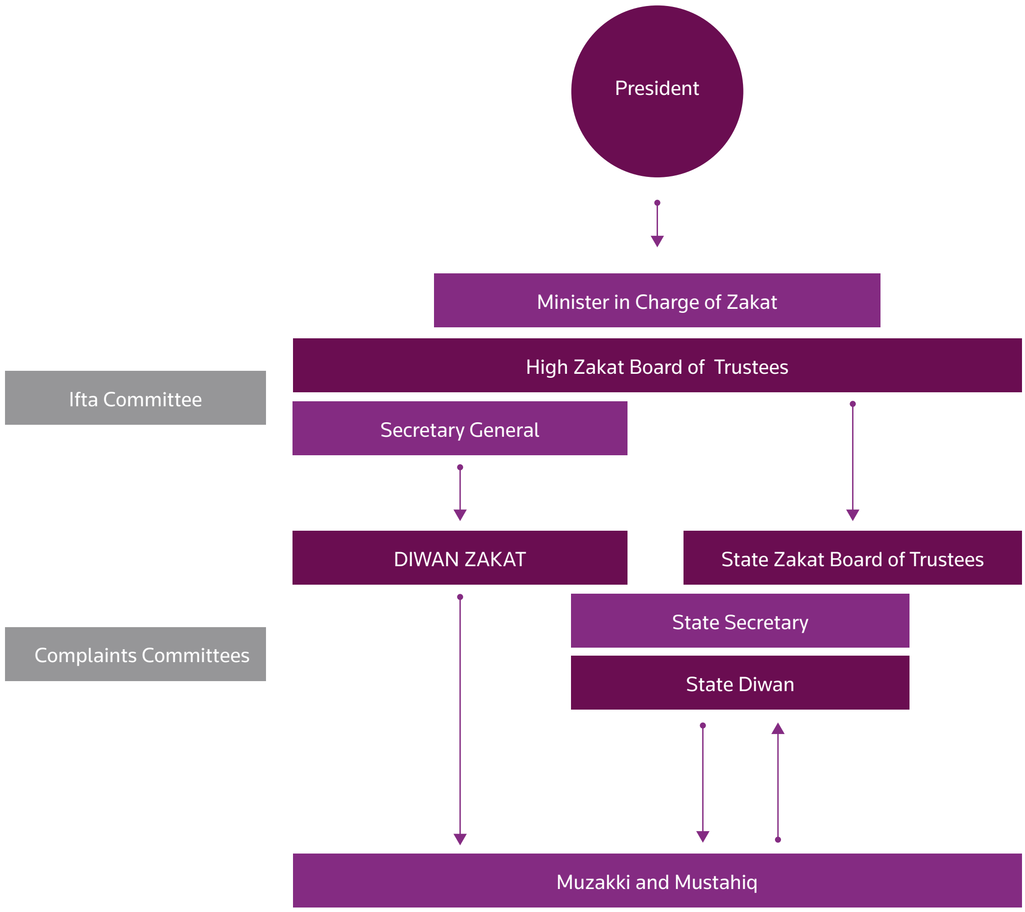
Section 48-1 of the Sudanese law provides for tax incentive on zakat payment. It states, "When the income tax of any person is assessed, the zakat paid by him shall be deducted from his property assessed for income tax, provided that, zakat deduction shall not be duplicated." Further, Section 35 dealing with zakat liability on wages and salaries, bonuses, pensions, dividends, incomes of self-employed people and craftsmen makes all such income are subject to zakat at 2.5%; and permits "deduction of this amount from the tax imposed under any other law. (Sec.35-2). For purpose of calculation of zakatable income, a standard deduction will be allowed reflecting the "original estimated need to spend on food and drink, clothing, housing and healthcare and that is determined by a technical committee set up under the provisions of Article 11."

Infrastructure. The zakat infrastructure in Sudan is presented in the chart below. Chapter 2 of the Zakat Act 2001 defines the role, powers and functions of Diwan Zakat as the apex zakat body and its relationship with the state apparatus. Section 4 provides for the establishment of the Diwan as an independent corporate body (Sec.4.1). The Diwan has the right to undertake all necessary measures to assess zakat liability and collect the same through the mechanisms prescribed by the regulations. The High Zakat Board of Trustees shall comprise the Minister (in charge of zakat) as the Chairman, a Secretary General and up to twenty eminent persons as members who will be nominated by the President (Sec.7). The mandate of the Board includes setting policies and guidelines pertaining to zakat collection (e.g., defining nisab) and distribution (Sec.8). The Secretary General of the Board shall be the link between the Board and the Diwan. He shall be appointed by the President of the Republic subject to a recommendation from the Minister (Sec.9). He shall assume the executive responsibility in the Diwan and shall be answerable to the Board with respect to execution of the Diwan's business and resolutions of the Board (Sec.10).

The interesting aspect of the Sudanese framework for zakat management is that the entire structure is repeated at the level of the states with the establishment of Zakat Board of Trustees (Sec.14), Diwan (Sec.13), Secretary (Sec.16) and Complaints Committee (Sec.12) for each state with similar powers and functions. The State Zakat Boards shall be subject to supervision of the Higher Zakat Board of Trustees, adhere to its directives and be seen fully committed to the general policies and plans of the Diwan (Sec.14.2). The Secretary General, in consultation with the Minister (Sec.15.1), shall appoint the Zakat Secretary in each state.

Power to set regulations: Section 52-2 of the Sudanese law empowers the Board, with the consent of the Minister to make such regulations as may be necessary for implementation of the provisions of this Act.

SUDANESE FRAMEWORK FOR ZAKAT MANAGEMENT



Power to enforce zakat collection: According to Section 6-c of the Sudanese law, the powers and functions of the Diwan include "collection of zakat as entitled through the means and methods prescribed by the regulations."

Power to seek information; to demand assistance from other agencies: According to Section 6 d-e-f of the Sudanese law, the Diwan is empowered (i) to request and accept declarations of zakat payers and endorse the same (ii) to enter places, inspect and check records for the purpose of fixing the right assessment of zakat and (iii) to seek attachment of all types of property to such extent, as may guarantee payment of zakat that has failed settlement at its due time, with no advanced acceptable explanations. The same may be sold in auction subject to the ruling of the regulations.

A mechanism in the Sudanese law to enforce compliance is contained in Section 49 that makes a range of commercial and financial transactions contingent upon presentation of a zakat compliance certificate. Section 49 states:

"Notwithstanding any provisions in any other law, the concerned authorities shall not grant any documents or facilities which confer rights or financial privileges save after the applicant produces a certificate testifying settlement of zakat, issued by the Secretary General or State Secretary, as the case may be, in respect with the following matters,

a. Payments from the government treasury, states governments, institutions of local council, treasuries of public organizations and institutions, or companies to which the government contributes with any proportion of shares in consideration of commodities and services as the Minister may prescribe.

b. Registration, in companies, co-ownership, business names and trademarks register.

c. Registration or renewal of registration in the register for importers and exporters.

d. Registration of ownership of real estates.

e. To participate in government auctions.

f. Procedures of obtaining licenses, renewal and transfer of ownership thereof with respect to commercial and rental vehicles, harvesters and tractors.

g. Procedures of obtaining and renewal of trading licenses.

h. Procedures of seeking approval of erecting multistory buildings.

i. Any other procedures as the Secretary General may prescribe vide an order to be issued by him, that a certificate of payment of the zakat is a must, before completion of any other procedures."

Another provision with a similar intent is Section 51 that confers a privileged status on zakat funds. It asserts, "The zakat funds are privileged over any other funds that the person is indebted to."

Power to punish unauthorized collection: Under the laws, no punishment is prescribed for unauthorized zakat collection. Nor do they empower the apex zakat body to punish erring individuals and institutions. This is in contrast to the Malaysian laws, which prescribe punishment to be meted out by State Islamic Religious Councils.

Power to enforce zakat distribution: According to Section 6 l-m-n of the Sudanese law, the Diwan is empowered (i) to spend zakat on the legitimate prescribed items of expenditure on such bases as may be laid down by the Board (ii) to endeavor to provide the poor and destitute with means of living, if this be possible, so that these dispense with zakat and (iii) to participate in plans and programs focused to alleviate poverty and suffering.

Power to punish unauthorized payment: None of the provisions in the law prescribes any punishment for unauthorized zakat payment. Nor do they empower the apex zakat body to punish erring individuals and institutions. This is in contrast to the Malaysian laws, which prescribe punishment to be meted out by State Islamic Religious Councils.

Rules and criteria for membership and executive positions: Section 6 a-b states that the Diwan is empowered to organize its administrative and financial affairs and all other activities and appoint employees, determine conditions of their service subject to the organizational structure and service regulations as may be approved by the Board of Trustees in conformity with the requirements of work in the Diwan.

Provision for Shariah advisory body: Section 11 of the law provides for establishment of an Ifta Committee comprising individuals well informed in Fiqh (jurisprudence) and widely concerned with Islamic and Muslims affairs. The regulations shall determine the functions and manner as how to organize their business. Further, according to Section 50 the Board or the Secretary General may seek a fatwa from Islamic jurisprudence Academy Council on any matter, which requires the same, and the Fatwa made thereof, shall be binding.

Financial provision for Agency: Section 39-3 of the law states that the Board of Trustees shall prescribe the percentage of zakat share to the main Diwan as well as to the Diwans in the states. Section 40 requires an independent budget to be prepared for the main Diwan and to the Diwans at the states levels, subject to sound accounting principles and the budget must be ratified by the Board. One of the unique features of the Sudanese law is the emphasis it lays on sound on planning. Chapter 5 of the law deals entirely with how financial resources of the zakat management bodies will be raised and each body meticulously prepares an annual budget of how and how much zakat is going to be mobilized, shared among them and distributed. As Sec.40-3 asserts, the Secretary General or the Secretary at the state level, as the case maybe, shall submit the annual zakat budget estimates, along with a report thereon, to the Board of Trustees or the State Board of Trustees for approval. Once the Board of Trustees approves the same at its final form, it will forward the same to the Council of Ministers. There is also a lot of emphasis on use of sound accounting practices. Sec.41 asserts, "The main Diwan as well as the Diwans at the state level shall keep proper accounts in conformity with sound accounting principles."

Provision of appeal by muzakki against a wrong decision by Agency officials: Section 6-h of the Sudanese law states that the Diwan can constitute Complaints Committees, the number, functions and powers shall be prescribed by the regulations. Section 12 states that in the main Diwan as well as in each state-level Diwan, there shall be established a High Complaints Committee, composed of knowledgeable, just and competent individuals to be appointed by the Board or State Boards of Trustees as the case may be, and the resolutions of such committees shall be final.

Zakat Collection Rules

General conditions relating to zakatability: Section 17-1 of the Sudanese law provides the general conditions e.g. possession of lawful nisab, elapsement of hawl where applicable, non-personal use, deduction of debt as may be prescribed by the regulations. Section 17-2 says that in case of mixed ownership of a single asset, zakat shall be levied on the property as a whole when it reaches the nisab, as in the case of partnerships, community and family ownership (Sec.17-3).

Sudanese law clearly stipulates that the Nisab be determined from time to time by the Board (Sec.8-e).

Methods of estimation of zakat base and applicable rates of levy: The definition and treatment of zakatable items under Sudanese laws are presented in table below:

DEFINITION AND TREATMENT OF ZAKATABLE ITEMS UNDER SUDANESE LAWS

Section	Name of Zakatable Item	Method and Applicable Rates
18	Minerals and Metals	Nisab proportionate to gold; at 2.5 percent of value upon extraction
19	Merchandize	Nisab proportionate to gold; deductions (debt etc.) to be defined by regulations; at 2.5 percent
20	Gold & silver	Nisab 85g of gold; 595g of silver; at 2.5 percent
21	Monetary assets	Nisab proportionate to gold; at 2.5 percent
22	Debts, stolen and extorted property	Only for one year even if the asset remain with debtor or extorter for more than one year
23	Buried treasure	20 percent upon extraction
24	Crops and fruits	Nisab 653 kgs; zakatable when matured and harvested; at 10 percent when naturally irrigated and 5 percent when artificially irrigated
25		Types and kinds to be grouped together for nisab
26		Zakatable even after act of sale or donation after maturity; buyer/ donor liable if sold/ donated before maturity
28	Livestock	To be collected at pastures and water places; male and female, young and adult all grouped together for nisab
29-31		Nisab and rates based on headcount of camels, cows and sheep
32	Combination of assets	Assets short of nisab should be combined and subjected to zakat if combined value exceeds nisab
33	Exploited assets	Net returns zakatable similar to cash
35	Salaries, wages, fees and other earned incomes	Net of deductions zakatable similar to cash; zakat paid to be deducted from any other tax under any other law

Assets/output/earnings exempt from zakat: The assets, output and earnings that are exempt from zakat under Sudanese laws are presented in table below:

EXEMPTIONS FROM ZAKAT UNDER SUDANESE LAWS

Section	Name of Zakatable Item	What is exempted
17-C	Properties	Any property for personal consumption as defined by regulations
27	Crops and fruits	Consumption by owner of farm, passer-by
27	Livestock	Animals used for plough
33	Exploited assets	Costs on maintenance and others as determined by regulations
35	Salaries, wages, fees and other earned incomes	Expenditure required for basic necessities to be determined from time to time
37	Properties	a. Public property if not put for investment b. Alms property, voluntarily spent on benevolent or charity purposes c. Funds regarded as endowment put to continuous charity activities

Zakat Utilization

Defining the asnaf: Section 38-1 of Sudanese law clearly stipulates that "zakat shall be spent forth with, unless necessity requires otherwise, on the following lawful aspects subject to Shariah: the fuqara (poor), masakin (needy), amilin alaiha (zakat collectors), muallafatul quloob (those whose hearts are inclined), fi-riqab (in bondage), gharimin (insolvent and indebted), fi-sabilillah (for cause of Allah) and ibn-sabil (wayfarers)."

Self-distribution by Muzakki: There is no provision in the law that permits any part of the zakat to be retained by the muzakki and distribute the same among asnaf from his near and dear ones.

Priority scheme for distribution: Section 38-2 of Sudanese law articulates a clear priority for the poor and the needy as well as on local distribution. It states, "Despite the provisions of Section 1 above, the share of poor and needy shall not be tempered with or transferred to any other head." Further, "the central and the state Diwans, as the case may be, shall locally disburse the funds to the legitimate beneficiaries." With non-zakat charity contributions however, there are no such restrictions and these may be spent on any desirable charitable and beneficial activity (Sec.38-3). Further, Section 38-4 asserts that the regulations shall specify jurisdictions and priorities of expenditure. According to Section 38-5, the zakat paid by Sudanese abroad, shall be spent in accordance with the priorities determined by the Board.

Carrying undistributed surplus: There is no provision in the law that deals with the issue of investing surplus zakat funds or the surplus of zakat funds.

ASNAF OF ZAKAT

Asnaf	Description
Faqir (poor)	One who does not own food enough for one year; a head of a family who does not have source of income; a student who fails to meet his school fee related needs
Miskeen (needy)	One who does not own food for one day; one who cannot earn due to permanent handicap; a patient who cannot meet cost of his/her medical treatment; a victim of calamities
Aamilin alaiha (zakat employee)	Employee in the central or state Diwan and with the contributors
Mualafatul quloob (whose hearts are inclined)	One who has recently accepted Islam or inclined towards Islamic faith and expected to accept the faith
Fi-riqab (in bondage)	One who is war prisoner (zakat to be spent for release)
Gharimin (insolvent and indebted)	One who is indebted to others on lawful debts that he/she is unable to settle on the specified period; this does not include legal person or body corporate
Fi-sabeel Allah (for cause of Allah)	One who defends religion and the state; this includes dissemination of Islamic knowledge and Daawa (propagation).
Ibn-sabil (wayfarer)	A traveler on route unable to meet the cost of travel to his/her destination

Accountability, Transparency and Governance in ZIs

Transparency: Section 41-1 stipulates that the main Diwan as well as the state-level Diwans shall keep proper books of accounts in conformity with the sound accounting principles. It shall also keep special records that may be needed.

The institution of Diwan enjoys certain privileges too. Section 45 asserts that the property of the main Diwan and the state Diwans, are regarded as public property for the purposes of the Penal Code or Criminal Law. Further, these are exempted from all types of taxes and fees, including custom duties (Section 47). In Zamfara and Niger laws, both provisions are present in Section 36.

Separation of zakat funds from other forms of charity funds: The Diwan is also empowered to collect other forms of charity funds in addition to zakat. However, there is no explicit provision in the laws to segregate zakat funds from other forms of charity, e.g. sadaqa, infaq and waqf.

Placement of funds in safe and liquid avenues: Section 6-g requires the Diwan to deposit zakat funds with the Bank of Sudan or with any other bank specified by the High Zakat Board or the State Board of Trustees as may be the case.

Accountability to public: As a principle of good governance, the apex agency should share information about zakat collection and utilization with the public with utmost transparency and in a spirit of sharing on a continuous basis. However, none of the provisions in the law has any explicit provision regarding this. Again as a principle of good governance, the apex agency should be open to suggestions from the community regarding zakat management. However, there is no explicit provision regarding this.

Deterrents against dereliction of duty, fraud, and dishonesty on the part of zakat officials: As a principle of good governance, law should provide for strong deterrents in the form of financial penalty and/or physical punishments for dereliction of duty, fraud, and dishonesty on the part of zakat officials. Dereliction of duty by zakat officials may take several forms, such as, the violation of confidentiality of information provided by zakat payers. In Sudan, the Diwan is held fully accountable for ensuring confidentiality of the information provided by the individuals and businesses. According to Section 46-1, all statements pertaining to zakat and spending thereof are regarded confidential and shall not be disclosed, save for the purposes of executing provisions of this Act.

Under Section 46-2 of Sudanese law, whoever deliberately discloses such statements shall commit a crime penalized under the Criminal Law, particularly if he is a temporary or permanent employee of the Diwan who exploits his office with the intention of harming the person in connection with such statements.

Zakat laws in other countries, e.g. Indonesia, provide for strict deterrents in the form of financial penalty and/or physical punishments against fraud, dishonesty and misappropriation of zakat funds. There are also strict deterrents in the form of financial penalty and/or physical punishments against Shariah non-compliance. As principles of good governance, such deterrents should be explicitly provided in the law. However, there is no explicit provision in the Sudanese law regarding this.

Lessons & Policy Implications

Sudan provides supporting evidence for compulsory zakat. Also, a policy of decentralization seems to have paid off. Zakat is observed to be institution-elastic. It is the presence of a network of healthy institutions at multiple levels — in public or private domain — that seems to lead to greater public awareness and greater public participation in the process of poverty alleviation through zakat.

The case for having standardized and globally acceptable definitions of zakatable assets and methods of estimating zakat liability does not appear to be a strong one. Since Islamic societies are typically characterized by multitude of madhabs and schools of thought, the zakat laws must retain enough flexibility to accommodate alternative views. The diversity in legal opinions should be respected. However, in societies like Sudan with great homogeneity in Shariah legal positions, and where zakat is compulsory, the clarity provided by law in the definitions and methods seems to have imparted greater stability and added to enforceability. Where zakat is voluntary, it is more practicable to ensure that zakat estimation is an outcome of consultative process between the muzakki and the zakat collecting institutions.

Monetary zakat may be a sustainable, dependable and a growing source of funds for institutions that acquire the necessary professionalism in fund-raising and seek continued betterment in their social credibility through integrity, transparency and good governance. However, the same may not hold in the context of the agrarian economies of Sub-Saharan Africa that display volatility in zakat collections due to changing fortunes in the farming sector.

The zakat sectors in Sudan provides supporting evidence that the success or failure of an institution as zakat collector and distributor is not so much dependent on whether it is in government or private hands, but on the credibility and trust it maintains among the muzakki population. This, in turn, is a function of the integrity, transparency and good governance reflected in its practices and as perceived by the stakeholders.

The issue of incentivizing zakat payment is quite crucial. With reasonably strong enforcement mechanisms, as in Sudan, incentives in the form of the benefits of compliance (e.g. tax incentives on zakat on salaries) as well as the costs of non-compliance (e.g. zakat payment as precondition to other commercial transactions) work well.

Where zakat collection and distribution is entrusted entirely to the state, zakat may be seen as a component of aggregate resources available to the state. In this sense, zakat payment may be seen as a perfect substitute to the direct taxes of the state and may be allowed as deductions to taxes payable. However, there must be absolute clarity on the issue as well coordination between zakat and Inland Revenue bodies. The absence of clarity seems to have affected zakat collection in Sudan adversely in the initial stages of operation of the Diwan, but sorted out later with tax incentive being made available only on zakat paid on salaries.

Collection of in-kind zakat from the actual locations, including farms that are stretched far and wide, entails huge collection costs. Therefore, a more liberal view is called for in relation to the cap on operational costs that is traditionally placed on one-eighth of zakat funds collected in South East Asia. Further, once zakat is collected, the transportation and storage of in-kind zakat involves substantial cost which justifies the strategy of on-the-spot distribution. Various best practices developed in the context of South and South East Asian countries may need to be revisited in the context of the Sub-Saharan African countries.

In light of various legal opinions relating to distribution of zakat among eligible beneficiaries, there is a case in favor of a scheme of prioritization among different types of beneficiaries with highest priority given to the needs of the ultra-poor. Basic consumption needs are, by definition, more urgent than needs that may be deferred to a future date. In this sense, zakat is traditionally viewed as a solution to the consumption needs of the poor. However, there is also merit in using zakat to enhance the wealth-creating capacity of the poor so that they are able to get out of the vicious circle of poverty and find lasting solutions to their needs. A complete neglect of the empowerment dimension is likely to perpetuate the dependency syndrome among the poor. The distribution of zakat towards consumption and productive activities should, therefore, depend on the type of beneficiaries. For poor beneficiaries who are not able to work (such as elderly and the disabled), the appropriate response should be consumption support; for able bodied people, the goal should be to enhance their productive and income generating capabilities.

There is a case in favor of using zakat for covering genuine credit defaults by the poor, since such borrowers qualify as eligible beneficiaries in the eyes of Shariah. There is, however, need for adequate caution while designing an institutional mechanism for this purpose. It is not easy to differentiate between genuine and willful defaulters for any microfinance institution operating with inadequate and imperfect information. The simultaneous functioning of a micro-credit initiative and a zakat-based initiative to cover credit defaults by poor borrowers under the same organizational umbrella may involve serious conflict of culture and moral hazard issues. The Sudanese experiment of using zakat only as a third-level institutional guarantee to microfinance (MF) providers (after post-dated cheques and personal guarantors) is a step in the right direction for a zakat-based credit-default mechanism to evolve.

Waqf

Overview

Awqaf or Islamic endowments have a long history in the Sudan[28]. 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 by the Sultan of Sinnar in Mecca and Medina for the service of Sudanese pilgrims. Some historians have argued that awqaf 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 the 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 body corporate 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.

Examples of Awqaf

Awqaf Developed with Private Capital

As mentioned earlier, one of the early examples of waqf in Sudan has been the Waqf-al-Sinnariah in Makkah founded by the Sultan of Sinar in the 1880s for the benefit of Sudanese pilgrims. On a later date, the original property was substituted for a developed property in Makkah for the same beneficiaries by the Saudi government under the Islamic mode of istibdal / substitution (since extension is needed for al-Haram in Saudi Arabia, the trustee agreed to this mode).

Waqf al-Baghdadi was established in 1930 on a piece of land. It is essentially an educational waqf that was developed with use of private funding under an agreement between the IEC and the Islamic bank through the traditional mode. The mode involved redeveloping the idle waqf land into an 8-storied commercial building and giving it on a long lease contract for 99 years. Rentals on the ijara are based on market rates. Primary beneficiaries include the medical students of Khartoum University. Part of the waqf revenues is used for the maintenance of the medical faculty, and a part to create new awqaf.

Another example of waqf is the Mujama' al-Zahab al-Tijari that was developed by the IEC with financing from an Islamic bank. The original waqf was a piece of land left idle for almost a century, situated in the capital city of Khartoum. Using the mode of diminishing musharakah the land was developed into a Gold Commercial Center situated in a good location. The new beneficiaries include gold traders, sellers, workers, customers and, of course, the poor and needy to whom a part of the rent is channeled.

Still another example of waqf development took place on a piece of idle waqf land located in the city of Abu-Jinzir. The funds needed for development were raised by IEC through issue of waqf shares. Using this mechanism, the IEC raised an amount of SDG 90 million towards the cost of building a 10-storied shopping complex with 88 shops. A part of the rent received is allocated to the poor and the needy.

Family Waqf

Sudanese law has always permitted the idea of family waqf (waqf ala-aulad). Below we provide four examples of family awqaf with family members of the founders as the trustees of the waqf.

The Sharwani Institute for Quranic Studies was founded by Abdalaziz Abdallah Sharwani in 1921 located in Khartoum. The property was redeveloped in 1972. Since its establishment, the institute has been subject to maintenance cost in the range of SDG 20 to 50 thousand. It was estimated that the budget needed to redevelop the waqf was around SDG 200 to 250 thousand. It received funds from the Sharwani Waqf committee as well as donations from individuals to cover the cost of redevelopment. The institute also has three commercial shops, two of which are rented. The money generated from these shops goes to the institute to be spent when needed. This waqf is currently under the administration and supervision of the Ministry of Education. Its curriculum revolves around Islamic studies, Quran, Narration of Hadith and all the sciences related to Islamic teachings. The student intake is very small at roughly 100 students a year. Students who graduate from this institute are able to compete for seats at all of Sudan's Universities. Regarded as one of the oldest institutes specializing in teaching Quranic studies, its main objective is raising students who are equipped with enough knowledge to spread the word of Islam locally and internationally.

Alzaytona Hospital in Khartoum was developed from a house of 518 square meters, which was donated by Sakina Ahmed Hassan Abdalmoniem in 1977. The house was developed into Alzaytona Hospital in 2005 by the Federal Minister of Health Professor Mamoun Homeida. The mode of financing used was diminishing musharaka over a 100-year period and the monthly lease rental (determined according to market rates) was to be given to the beneficiaries of the founder. The waqf is supervised by the Awqaf committee of Abdelmoniem Mohammad, one of the family members, who is entrusted with overseeing and managing the waqf and to distribute the rental among the beneficiaries as specified by the late Hajah Sakina according to a formula: 25% for providing education to those in need of funding; 10% for providing healthcare services for the needy and less fortunate; 5% for distribution amongst her family members and the balance for the trustee. Social benefits also include specialized healthcare for patients, jobs for doctors, nurses, workers, ambulance drivers, chef, bakers etc.

The Alsalamabi Healthcare Center founded by Mohammed Ahmed Abdallah Alsalamabi in 1920 is another example of a family waqf located in Khartoum. The original property was developed in 1977 with a budget of SDG 100 to 150 thousand that was financed by donations from the descendants of the founder and the Alsalmabi's charity organization. The waqf falls under the supervision of the Ministry of Health in collaboration with Alsalambi's charitable organization and is run according to their policies and guidelines. It provides healthcare at low fees and includes a pharmacy and a clinical Laboratory to provide assistance when needed. In addition, there are general practitioners and consultants who provide their services at minimum charge if not covered by the insurance and pro bono if under an insurance plan.

Alsheikh Mustafa Alamin School (Al-Qurania) is an education waqf founded by Alsheikh Mustafa Alamin in 1983. The recurring operational costs were estimated at around SDG 50 thousand, which are financed through the commercial properties that are adjacent to the school and which are also part of the waqf. The shops include a dairy store, butchery and a hardware and depot store. The waqf falls under the supervision of the Ministry of Education and cooperates with the Sheikh Mustafa Alamin foundation. It continues to contribute to the spread of Islam and bring Islamic awareness to students through teaching Islamic sciences including Islamic principles and values to fulfill the purpose for which it was built.

Waqf Future Fund

Islamic Relief Worldwide has set a modern example of an innovative waqf project. This initiative called the Waqf Future Fund was set up in 2000. It is essentially a cash waqf that permits its donors to support numerous ongoing charitable projects. Its Water and Sanitation Waqf offers communities both the practical and educational means to overcome water and sanitation problems to improve their lives. Its Healthcare Waqf supports a range of integrated health and nutrition projects for impoverished people around the world. Various projects undertaken by the Waqf Future Fund in Sudan include; the 2003 Water Sanitation and Wells Project; the 2005 Fresh Meat Distribution Program; the 2003 Mother and Child Health Programme and the 2004 West Darfur Emergency Response Programme.

Institutional and Regulatory Environment for Awqaf

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 henceforth 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".

Infrastructure

Sudan has a federal structure for management awqaf as well (similar to management of zakat). At the center, a general institution called the Diwan of National Waqf has been established as a body corporate (Section 4-1) for preservation, management and development of awqaf in Sudan. Subsection 2 permits the Diwan to establish different branches in other cities in Sudan and overseas with the approval of the competent minister (as determined by the President of the country). Subsection 3 establishes a Board of Trustees and Subsection 4 entrusts the competent minister with a general authority in supervising the institution.

Section 10 empowers the Board of Trustees with full authority and autonomy required for implementation of the national policy of the Diwan in accordance with the provisions of this law. Members of the Board will be nominated by the Council of Ministers on the recommendation of the competent minister. The Board will have a Chairman, a Secretary-General, thirteen members who are intellectuals and men of standing and five members selected by the Board of Trustees. Section 14 provides for establishment of the General Secretariat of the Diwan. Section 14 provides for appointment terms, role and function of the Secretary General who is the chief executive officer of the Diwan.

Creation of New Waqf: Section 5 outlines the objectives of the Diwan, which include scientific planning to expand areas of waqf to include all types of land and services and social and economic development, conducting scientific studies and research on awqaf, and carrying out training and capacity building and institutional development in the field of endowments at home and abroad in coordination with the Northern states. It specifically mentions that one of the objectives of the Diwan is to encourage citizens to do waqf.

Permanence of Waqf

Perpetuity, Inalienability & Irrevocability: Section 19 asserts that waqf funds are like public funds, and must be preserved in their original state. Other provisions in law that enhance preservation include:

- Section 6 defines the key task of the Diwan as "supervision of the national endowments inside and outside the Sudan to ensure its preservation and efficient use"; and "ensuring the implementation of the conditions put by the endower" (Subsection a-b)

- Section 25 exempts all national endowments — real estate, industrial, commercial, agricultural and services and its investments — from all duties and taxes imposed by the state and, in particular: the types of taxes, including VAT, other fees, the litigation fees, land and space charge registration fees and any other national fees, and the business profits tax

Recovery of lost waqf: Section 6 (i) empowers the Diwan "to recover all the endowed money which is possessed by other individuals, institutions, companies, or governmental authorities or to receive a just and equitable compensation from them. Section 24 excludes endowments from application of the provisions of the Civil Transactions Act of 1984 and any other superseding law. It also applies the provisions of the evacuation of public buildings Act of 1969 and subsequent amendments to endowments.

Elements of Waqf

The Process: Section 3 of the Sudanese law explicitly recognizes waqf khairy or philanthropic (social), waqf al-ahli or family waqf and waqf mushtarak or jointly owned waqf.

Ownership of Waqf Assets: In Sudan, Section 22 (1) transfers to the Diwan all real estate assets and movable and money, rights and obligations of national awqaf inside and outside the Sudan, movable and inheritance money without heir. Subsection (2) devolves the rights and obligations of awqaf to state bodies.

Management of Waqf Assets

Section 6(c) empowers the Diwan to engage in the planning and organization of the national endowments inside and outside Sudan and the development of policies, plans and regulations for it.

Section 8 clearly states that the Diwan will manage all national waqf assets inside and outside the Sudan, other forms of charity, family awqaf as stipulated by the endower, waqf assets under partnership between the Diwan and private parties as defined in the waqf deeds.

Section 9 (1) explicitly asserts that the waqf funds must be managed in compliance with the provisions of Islamic Shariah. Subsection 2 further requires the waqf management authority in the Northern States to ensure the following:

- The relationship between the beneficiary and the administrators is fiduciary in nature

- The management and investment of endowment funds must be compliant with the Shariah

- The decision to invest the funds endowed will be by an absolute majority

Responsibility: Section 11 entrusts the Board of Trustees with the responsibility to achieve the objectives of the Diwan. It is empowered to formulate the policies and plans for development of endowment investment projects, after studying their technical and economic feasibility, approve the budget submitted by the Secretary-General, accounting and monitoring the performance of the Secretary-General and the Diwan institutions, the approval of the contracts inside or outside Sudan, approval of financing for development of waqf assets.

Transparency: Section 20 of the Sudanese law stipulated the Diwan to maintain proper books of accounts in accordance with sound accounting principles and be subjected to independent annual audit of the account. The Board of Trustees is mandated to produce a statement of accounts, including an account of all national awqaf at home and abroad accompanied by the report of the Auditor General within a period not exceeding six months from the end of the financial year.

Section 21 requires the trustees and principals of universities, associations, institutions and bodies and national organizations, the national endowments, submit to the Diwan the annual reports of revenues and expenses related to the endowments.

Accountability: Section 12 and 13 provide that the membership of the Board of Trustees is for four meetings, but may cease if frequent absence from three consecutive meetings without an acceptable excuse is reported as well as in case of a conviction of an offense involving honor or honesty, in addition of course, to reasons of sickness, health or death.

Development of Waqf Assets

Section 5 outlines the objectives of the Diwan, which include the maintenance and improvement of endowed funds and evaluation, construction and re-construction, and investment funds in all legitimate investments.

Section 6 empowers the Diwan to sell the endowed asset to replace it with better ones in accordance with Islamic jurisprudence as recommended by the Minister. It also empowers the Diwan to establish companies, partnerships and own the business names and other national endowments for investment funds in partnership with any party capable as per the provisions of Islamic law. The same section requires the Diwan to maintain an inventory of endowments, develop them and maximize returns on them taking advantage of commercial opportunities. Section 18 specifically deals with istibdal and an alteration or modification in the waqf deed. It stipulates that the same should be carried out based on recommendation competent minister and only the extent deemed necessary.

Lessons & Policy Implications

The Sudanese example has important lessons and policy implications for waqf management.

It highlights the importance of preservation of waqf. The legal framework clearly articulates that all awqaf (with the exception of temporary waqf or waqf for a finite time period) must be governed by the principle of "once a waqf, always a waqf". In case old laws fail to ensure protection, they must be replaced with new provisions that enable recovery of lost waqf assets. The law empowers the Diwan to recover all the endowed money which is possessed by other individuals, institutions, companies, or governmental authorities or to receive a just and equitable compensation from them; that excludes endowments from application of the provisions of the Civil Transactions Act of 1984 and any other superseding law and that applies the provisions of the evacuation of public buildings Act of 1969 and subsequent amendments to endowments.

While preservation is important, law also clearly recognizes the importance of sustaining and enhancing the benefits flow out of the waqf, this being the ultimate purpose of the act of waqf. This is possible when the importance of development of waqf is clearly recognized. An undue emphasis on preservation (e.g. constraints on leasing) would lead to neglect of developmental possibility with private participation. Similarly, an undue emphasis on development, to the extent that it results in loss of full or partial ownership of asset to private developers, would dilute and vitiate the very concept of waqf. The regulatory framework must seek to strike a balance between concerns about preservation and development by requiring the Diwan to undertake the maintenance and improvement of endowed funds and evaluation, construction and re-construction, and investment of funds in all legitimate investments. Further, the law explicitly deals with the issue of istabdal and the Diwan is empowered to sell an endowed asset to replace it with better ones "only to the extent deemed absolutely necessary."

The legal framework does not put undue restriction on creation of new waqf. In Sudan, a major objective of the Diwan is to conduct scientific studies and research on awqaf, and carry out training and capacity building and institutional development in the field of waqf and encourage citizens to do waqf.

Most observers and scholars of waqf believe that the institution of family waqf must be revived. Sudan provides some excellent examples of family awqaf.

Waqf development must be a mandatory obligation of the waqf management. Innovating financing methods may be employed that bring in new waqf capital for development of existing awqaf. Innovative methods may also be employed that facilitate private-public partnerships (e.g. involving issue of sukuk) that involve transfer of rights to lease as distinct from ownership rights to private financing entities for finite, yet long enough period to provide a fair return on investment capital. Legal constraints motivated by preservation concerns, such as, on long-term leasing of awqaf assets should be removed. The Sudanese cases of partnership between the Islamic Endowment Corporation and private Islamic financial institutions are worth replication in other countries.

It is compulsory to invest waqf assets, be it real estate or moveable assets like cash. Sudanese law empowers the Diwan to establish companies, partnerships and own the business names and other national endowments for investment funds in partnership with any party capable as per the provisions of Islamic law. It also requires the Diwan to maintain an inventory of endowments, develop them and maximize returns on them taking advantage of commercial opportunities.

Old The Great Mosque of Djenne and UNSECO World Heritage Site Sign board. Michel Piccaya / Shutterstock.com

Islamic microfinance

Overview

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"[29]. 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"[30]. 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-2007 to 494,000 by 2012. In terms of active clients, Sudan and Bangladesh are easily the global leaders in Islamic finance microfinance, with Sudan likely to take top spot given current growth rates."[31]

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[32] 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.

The microfinance institutions (MFIs) in Sudan are guided by the regulatory framework of 2011. 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

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. The Sudanese regulatory framework to establish MFIs was issued in 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 licensing MFIs (amended 2007). 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

A major goal of MF policies in Sudan has been to create a dynamic environment in which microfinance institutions can grow and play an effective role in poverty alleviation. To accomplish this goal, the CBoS has issued numerous regulations at regular intervals to support the MF 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, non-deposit-taking or credit-only MFIs in Sudan was put in place in 2011. The 2011 framework includes the following:

- Three types of MFIs may seek licensing — federal, state and local
- Documents required for final license include business plan for 5 years, market study, administrative structure, manuals for internal working conditions, audit, accounting and financial, names and CVs of the Director and the Board of Directors etc.
- Applicants for setting up MFIs should be one of the following: public organization, private or public company registered under law, registered NGO, registered credit association, registered cooperatives or any other entity approved by the CBoS
- No MFIs should start operations before obtaining final license, and getting approval from the CBoS and MFU with regards to the requirements of MFIs building, Board of Directors, administrative structure and the paid up capital
- Minimum required capital is SDG 20 million for a federal deposit-taking MFI, SDG 10 million for a state deposit-taking MFI, and SDG 4 million for a local deposit-taking MFI; and SDG 1 million, SDG 700,000 and SDG 500,000 for non-deposit-taking MFIs, respectively

Depositor Protection

The following regulations apply to deposit-taking MFIs only:

- Should be a member of Deposit Guarantee Fund
- Must put at least 5% of annual profits in reserve
- Must place a minimum of 10% and a maximum of 40% of all deposits in liquid assets. Overall, minimum capital adequacy ratio should not be less than 12% of risky assets, and 8% of total deposits
- Non-Performing Loans (NPL) should be classified in accordance with the number of past due days (less than 30 days at zero provisioning, 31-91 days at 20% provisioning, 91-180 days at 50% provisioning, and over 181 days at 100% provisioning)

Reporting

In Sudan, the reporting standards are relatively weak. None of the MFIs except two — Family Bank and Port Sudan Association for Small Enterprise Development (PASED) — report data to Microfinance Information Exchange (MIX Market). None of MFIs have been subjected to rating, either at a local or international level. Current standards include:

- All MFIs are required to submit monthly reports before the 15th of each month, in accordance with the specific format to be dictated by the CBoS. However, the same is not usually verified through on-site supervision of MFIs
- On-site supervision of MFIs is usually conducted when there is wholesale lending or when that is necessary. The CBoS regional branches (MF Units) conduct visits and provide supervision
- Each MFI is required to have an internal qualified auditor submit the auditing report to the Board of Directors. The internal audit should include branch inspections at least twice a year to check compliance with CBoS financing policies and regulations specified by the Board of Directors
- The MFI should assign an independent auditor acceptable to the CBoS to audit accounts annually. The results should be submitted to

the same within 4 months from the end of the financial year.

- Branches can be opened, closed or change locations but prior approval from the CBoS is required
- Penalties for not complying with regulations are set in accordance with the CBoS structure of penalties

Board Composition

Regulations also prescribe and specify the eligibility criteria for Directors of microfinance institutions. Directors of MFIs must submit their credentials to the CBoS for approval. Directors must have a minimum first degree in social science or equivalent, and a minimum of 15 years of professional experience at a financial institution. Members of the Board of Directors should not exceed 10. Lastly, members should act with integrity and have clean historical records in accordance with conditions determined by the CBoS.

Prohibited Areas

A few other prohibitions also apply to MFIs. In particular, MFIs are restricted from dealing in foreign exchange, accepting deposits from the government or public (without prior approval from the CBoS), accepting deposits if designated as a non-deposit-taking MFI, engaging in real estate ownership or trading, and investing reserve money in the financial market without the approval of the CBoS.

Clients

A microfinance client in Sudan is defined by the CBoS as someone (1) who is between the age of 18 – 70, (2) with a monthly income of less than double the minimum wage or 'productive assets' less than SDG 20 thousand, and (3) who has not benefited from any official lending sources. In Sudan, a microfinance client 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, and craftsmen.

Products

As mentioned earlier, the CBoS has included microfinance as a priority sector for banks' financing, with a minimum allocation of 12% of the banking financing portfolio and project financing of SDG 20 thousand (approximately US$ 4,000) as a ceiling. Microfinance lending in Sudan considered specific products like *murabaha*, with a margin of approximately 15% to 18% based on the institutions' client base. When it comes to partnership lending modes like *musharaka* and *mudaraba*, there is no interference in sharing ratios' margin.

Islamic micro insurance in Sudan is dominant. There are presently 15 micro insurance providers in the country. The concept is gaining further momentum as evidenced by the CBoS issuance of the Micro Comprehensive Insurance Document. Sudan has a relatively long history of micro insurance and the present takaful which covers credit, assets, physical disability or death is a step forward.

IDB Intervention in Islamic Microfinance

The Islamic Development Bank Group has contributed to the development of Islamic microfinance in Sudan in the following ways:

a. Microfinance Support Facility: Line of financing for microfinance institutions in Sudan to be administered through the CBoS along with capacity building support

b. Participation in Al-Aman Fund that invested in the IRADA initiative (microfinance department of Bank al-Khartoum)

c. Capacity building of Bank al-Usrah (conversion into a full-fledged Microfinance Bank)

d. Equity participation in Bank al-Ibdaa

Microfinance Support Facility

The Microfinance Support Facility involves a partnership between the Central Bank of Sudan and the Islamic Development Bank. It is a source of wholesale funds for Islamic microfinance in Sudan. The joint fund for technical assistance for MFIs in Sudan has allocated US$ 59.5 million to MFIs in terms of IT programs, training, wholesale finance, and exposure visits. The facility also includes the creation of four business development centers at a cost of US$160 thousand and five business incubators at a cost of US$ 500 thousand. A project management unit (PMU) has been created for managing the portfolio. The actual amount disbursed to 10 MFIs under different projects stands at US$ 19 million as of mid-2014. The projects currently funded by this facility under a restricted mudaraba agreement are presented below.

From the available data, it follows that the overall portfolio has been reasonably profitable with a margin of over five percent. Three of the six MFIs have reported particularly good performance with a margin of over eight percent and two have reported a margin of over eleven percent. In terms of risk, the Portfolio at Risk or PAR (that measures loans that are late in their repayments for over 30 days) for the overall portfolio stands at 1.8%, which indicates a healthy portfolio. Only one MFI has a PAR of over 7% which is high by international standards and needs further investigation. In terms of exposure to various sectors, the portfolio appears to be quite balanced with agriculture and services receiving 20% of funds each, while trade and commerce has received about 40% of funds. There does not seem to be any gender bias as women constitute 46% of the beneficiaries.

MFIs IN SUDAN

	MFI	Project Description
1	Baraa	Funding rural development programs with three savings products and six loan products with a focus on women
2	Gezira	Provision of financial and non-financial services to the poor; Setting up a Business Development Center
3	SDF Kassala	Financing rural development projects for livestock rearing & breeding, small-farm agriculture, handicrafts and small industries
4	Al Shabab	Microfinance services for the youth for animal production, fodder and crop production in small farms
5	SDF Khartoum	Enhancing skill in garment production through training programs for the poor; enabling them to become producers; Develop database in Khartoum state for four sectors (female-headed households, artisans, dairy producers, unemployed youth programs)
6	Al Anaam	Boosting agriculture production through provision of improved seeds, small agriculture machineries, processing equipment, cold storage and packing facilities as well as credit facility; Setting up a Business Development Center
7	PASED	Setting up new branches for enhanced market penetration in non-deposit-taking microfinance
8	AlWatania	Provision of microfinance for defense personnel
9	SRDC	–
10	Blue Nile	–

A summary of the financial results of the portfolio is presented below:

MFI LOAN PORTFOLIO NET INCOME AT JUNE 30, 2014

#	MFI	Amount Mln USD	Equiv Mln SDG	Net Income Mln SDG	Profit Margin %
1	Baraa	2	8.796	1.013	11.51
2	Gezira	2.5	10.995	0.117	1.06
3	SDF Kassala	2.5	10.995	0.277	2.52
4	Al Shabab	2.5	10.995		-
5	SDF Khartoum	3	10.079	0.834	8.27
6	Al Anaam	2	8.796	0.112	1.27
7	PASED	1.5	6.597	0.777	11.78
8	AlWatania	1.5	6.597		
9	SRDC	0.5	2.199		
10	Blue Nile	0.5	2.199		
	Total	**19**	**80.447**	**3.129**	**5.20**

PORTFOLIO ANALYSIS I (AS OF DEC 31, 2014)

State	MFI	Amount Disbursed SDG	Current Portfolio Amount / SDG	No. of Clients	Clients' Gender Men	Clients' Gender Women
South Kurdufan	Baraa	9,437,800	6,574,602	8,777	4,610	4,167
Khartoum	SDF / Khartoum	18,682,200	29,536,870	9,877	4,999	4,878
Kassala	SDF / Kassala	11,636,800	19,185,952	10,903	5,883	5,020
Khartoum	Al Anaam	9,437,800	4,741,896	1,698	1,141	557
AL Gezira	Al Gezira	11,636,800	12,494,354	2,548	2,361	187
Red Sea	PASED	6,597,000	6,129,357	5,688	2,133	3,555
Khartoum	Al Shabab	12,278,600	15,465,080	1,952	1,268	684
Northern State	Al Watania	14,289,200	2,073,659	210	210	–
North Kurdufan	SRDC	2,840,800	2,433,300	1,491	485	1,006
Blue Nile	Blue Nile	2,840,800	–	–	–	–
	Total	**99,677,800**	**98,635,070**	**43,144**	**23,090**	**20,054**
					54%	**46%**

PORTFOLIO ANALYSIS II

State	MFI	Activity Sector Agricultural	Industrial	Service	Comm	Others	Portfolio at Risk % (PAR > 30)	Average Loan / SDG
South Kurdufan	Baraa	3,314	2,588	–	2,025	850	0.00%	1,075
Khartoum	SDF / Khartoum	18	1,164	1,698	6,834	163	0.06%	2,990
Kassala	SDF / Kassala	1,624	–	4,436	3,407	1,436	3.30%	1,760
Khartoum	Al Anaam	507	503	233	430	25	3.09%	2,793
AL Gezira	Al Gezira	1,650	20	28	1,208	–	3.00%	4,904
Red Sea	PASED	27	67	1,218	2,721	1,655	1.92%	1,078
Khartoum	Al Shabab	462	466	797	106	121	7.10%	7,923
Northern State	Al Watania	–	210	–	–	–	0.00%	9,875
North Kurdufan	SRDC	1,062	2	196	231	–	0.00%	1,632
Blue Nile	Blue Nile	–	–	–	–	–	–	
	Total	**8,664**	**5,020**	**8,606**	**16,962**	**4,250**	**1.85%**	**2,286**
		20%	**12%**	**20%**	**39%**	**10%**		**399.19**

IRADA Initiative

IRADA is the microfinance unit of the Bank of Khartoum (BoK) established in 2009. BoK was the first bank in Sudan. Its major shareholders include the Dubai Islamic Bank (DIB), the Islamic Development Bank Jeddah, Abu Dhabi Islamic Bank, Sharjah Islamic Bank, United Arab Emirates Etisalat and other prominent local and regional businessmen. Currently, all of the microfinance operations of the BoK are organized under its Microfinance Unit which is part of BoK's Department of Retail, SME & Microfinance. The unit was established in 2009 with the support of and assistance from the Islamic Development Bank. The department was tasked with implementing the SDG 200 million Al-Aman fund for microfinance. As previously discussed, the fund was formed through a strategic partnership of the Zakat Chambers and 32 Sudanese commercial banks, following regulation from the Central Bank of Sudan that required all commercial banks to invest at least 12% of their bank portfolio in microfinance. The Zakat Chambers contributed SDG 50 million while the remaining SDG 150 million was contributed by the commercial banks. As the fund is made up of a mix of social and commercial resources, it targets the economically impoverished populations across every state of Sudan.

The success of the Microfinance Unit led to it being spun-off as an independent entity to allow for an even stronger focus on the social dimension of microfinance aside from just business sustainability. After the spin-off, the Microfinance Unit was named the IRADA Microfinance Company, with BOK (75% ownership) and Islamic Development Bank (25% ownership) as the main shareholders.

A model that has been experimented by IRADA in the past involves a composite finance-plus approach to support farming communities. While there are elements of credit-based financing, the overall models are rooted in partnership. The underlying rationale for this approach is driven by the pivotal role that Islamic financial institutions believe they must play in addressing the various problems of poor farmers and in enhancing food security across the region. While agriculture in Sudan faces problems similar to other member countries of the IDB, the challenges are even greater due to extremely adverse weather conditions, large tracts of drought-affected land, and civil strife that has led to a faltering economy riddled with unemployment. Islamic microfinance in Sudan, however, has a lot to offer in terms of its unique approach to solving these economic challenges and its high success rate to date.

IRADA was set up with a vision to alleviate poverty and hunger by realizing the potential of the poor through development of limited resources and affordable financial facilities, and a mission to increase the numbers of poor people involved in entrepreneurial activities through Islamic finance and expanding income generating activities, creating sustainable livelihood and employment. Its programs and activities are influenced by its strategic approach, which states, today the poor are our clients, but tomorrow they will be our business partners. Since inception, IRADA has identified and focused on economic empowerment through group finance and partnership.

Business Development Services

IRADA has carefully developed a network of providers of business development services to provide a range of additional services to its clients. In many ways, these officers are important to the overall success of the program given their ability to source and procure assets needed for income-generating microenterprises as well as their ability to actively monitor the clients. In fact, each client is assigned a business development officer who is responsible for ensuring that the relevant asset is delivered to client, that the supplier is paid, and that the client makes timely repayment to the bank. The business development officers are also entrusted with the task of advising clients on how their business can become more profitable. In addition, the officers also use their network to facilitate mutually beneficial exchanges among their clients. The provision of business development services is adequately incentivized.

Abu-Halima Greenhouses Project

The Abu-Halima Greenhouses Project of IRADA, designed in 2011, uses a composite model of intervention that combines several "smart" factors and is designed to address several critical social issues including lack of food security, unemployment and poverty. It aims to open new economic opportunities for young university graduates with formal education in agriculture. The project, in its current phase, targets economic empowerment of 125 educated, unemployed graduates and their families. The project involves setting up 25 productive units of greenhouses with annual capacity production of 1,200 tons of off-season vegetables using the latest technology in the industry and relying on professional expertise that leverages the partnership-based model.

The business plan of the project is rooted in the economic peculiarities of the local market for vegetables, which has witnessed a major spurt in vegetable prices because of adverse weather conditions. The greenhouses would enable micro-entrepreneurs to grow high-value vegetables all year round, while stabilizing the supply of vegetables in the Khartoum market. The greenhouses can now grow vegetables that usually witness a significant price rise during the summer and other high-value vegetables during winter, thus, reducing price volatility. The underlying model for the project is presented in the diagram below.

The Model (Restricted Mudaraba Partership)

Unlike regular micro-credit products, or even the commercial *mudaraba* products, the partnership between the bank and the micro-entrepreneurs extends well beyond that of a creditor and debtor or that of a *rabb-al-maal* (fund provider) and *mudarib* (fund manager). The bank assumes responsibility for the provision of financial services as well as a range of non-financial services in the form of technical, marketing and business development services. The latter involves direct investment in the creation of assets for supply of electricity, water as well as for vegetable cooling, storage and other services on behalf of the micro-entrepreneurs.

A beneficiary of this project must come from low-income strata of the Sudanese society and the income of the household must not exceed two times the minimum wage of US$ 207 per month according to the CBoS. The beneficiaries are organized into jointly liable groups of households (headed by graduates, preferably in agriculture) in the form of a cooperative society registered according to the Sudanese Cooperative Law. These groups enter into the restricted *mudaraba* partnership contract with BoK. The micro-entrepreneurs receive the required technical training from experts, and managerial and marketing support from the bank. They are eventually organized into a cooperative, which allows them to benefit from common facilities while retaining their right to perform business activities.

Other stakeholders and partners in the project include: (i) Ministry of Finance, which has made a social contribution of 6.5% of capital; (ii) the State Ministry of Agriculture, which helps get fertilizers and assists in technical capacity building; (ii) the Ministry of Social Affairs, which nominates the beneficiaries through its Graduate Fund; and (iii) Sanaa Food Hypermart and Home Centre (a major supermarket chain), which has committed to off-take the vegetables. A technical Turkish firm, specializing in the technical aspects of greenhouse projects, is also a significant contributor to the success of the project.

Financing Method

The financing product is structured using the *mudaraba* mode with profit and loss features. Losses would be absorbed by the bank while profits would be shared in the ratio of 40% for the micro-entrepreneur and 60% for the bank. Profit distribution would take place twice a year. The "restricted" *mudaraba* involves total financing to the tune of SDG 15 million (US$ 4.50 million), which accounts for about 6% of the total portfolio of IRADA. It involves financing of working capital to purchase the 25 greenhouses, supporting infrastructure, technical feasibility, technical capacity building, agricultural inputs and living allowances. As stated above, the Ministry of Finance has contributed 6.5% of *mudaraba* capital as a social contribution with a view to lower the costs borne by the beneficiaries.

IRADA's product package includes the services of an administrative coordinator, and an agricultural expert to supervise the production process and technical matters, ensure quality control and provide training. Such costs are included with the direct cost of the product. IRADA would retain control of the venture for 5 years to ensure its profitable operation. During this implementation period, the graduate micro-entrepreneurs would be trained to manage the ventures. IRADA would cede control of the project assets to the cooperative as a gift or sale at a nominal price after 5 years with depreciation of assets calculated at 20% per year. The only collateral that the bank would seek for this financing would be a personal guarantee against mismanagement and lack of commitment. There is no financial or physical collateral required. However, the households, through the cooperative society, are required to submit a check as security for default and infringement. The title of the assets is in the name of BoK as the *rab-al-mal* during the finance term, thereby, mitigating asset-related risks. BoK, being the provider of the funds (*rab-al-mal*), has an insurance contract with the Islamic Insurance Company to cover the assets against any potential loss.

As highlighted, the return on investment to IRADA would come in the form of 60% of the profits made on the sale of 1,200 ton of high-value vegetables and fruits annually. This is expected to generate an ROA of 18% percent and IRR of 22% for the bank. Returns to the micro-entrepreneurs would come in the form of balance profit share, estimated at SDG 2,100 per family plus an additional living allowance of SDG 300 to 600 per family during the implementation period. After the implementation period, the returns are expected to significantly increase to SDG 7,000 per family, since IRADA would withdraw after this period and the micro-entrepreneur would receive full profit share.

A unique feature of the design of this microfinance model is the safety net during the implementation period of 5 years. This makes enormous sense as the *mudaraba* profits may display volatility while the basic needs of the micro-entrepreneurs must be taken care as a top priority.

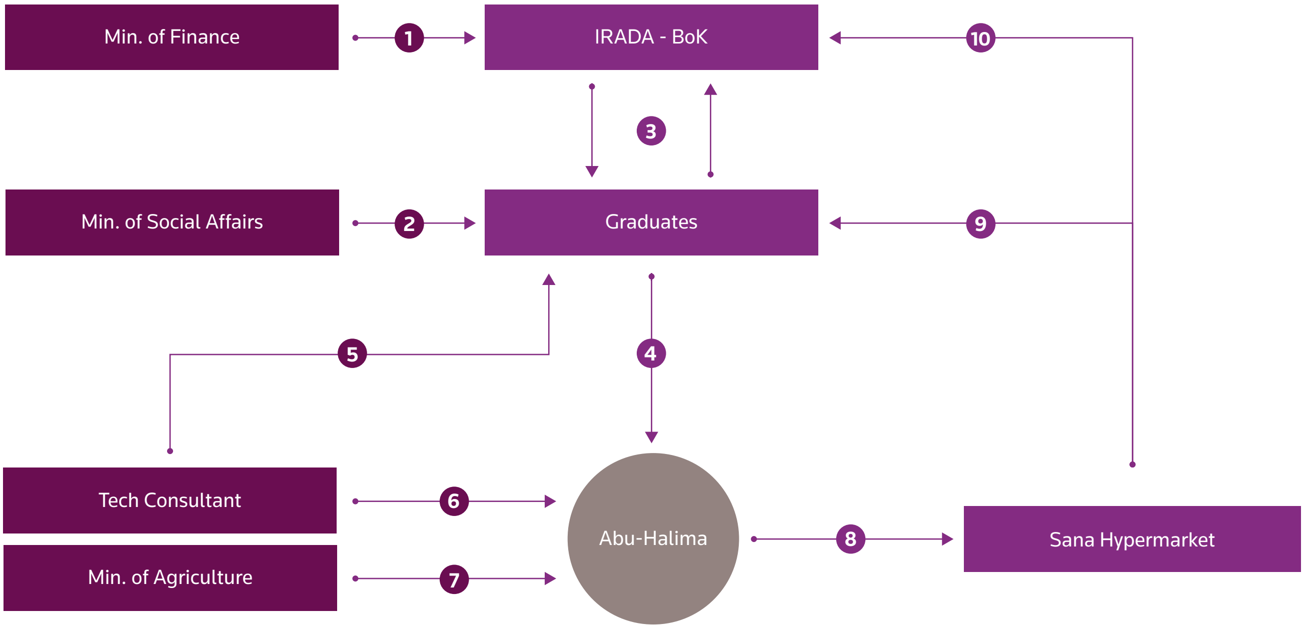
Non-financing services

Another unique feature of this project is the magnitude and variety of non-financing intervention/services provided to the micro-entrepreneurs. These include: (i) assistance to source and hire a technical firm to construct greenhouses and related infrastructure and to provide technical support throughout project lifetime; (ii) pre-production support in the form of seeds, fertilizers, pesticides, machineries, electric and water sources; (ii) at-production support in the form of living expense allowance, operational expenses, harvest expenses, and technical support; (iii) after-production support in the form of cooling storage and grading room; (iv) assistance to source large customers such as DAL and Home Centre to purchase produce; (v) assistance to manage the project accounts; (vi) formation and registration of cooperative of farmers; and (vii) transfer of ownership to the cooperative upon its readiness to manage the business.

Arrows in the next page denote specific activities as follows:

1. Financial partnership between Ministry of Finance and BoK
2. Nomination of agriculture graduates for project by Ministry of Social Affairs
3. *Mudaraba* agreement between IRADA (BoK) and micro-entrepreneurs (agriculture graduates)
4. Setting up of Abu-Halima greenhouses
5. Technical consultancy to micro-entrepreneurs
6. Technical consultancy to greenhouse establishment and operation
7. Provision of fertilizers and other services by Ministry of Agriculture
8. Sale of vegetables output to Sana Hypermarket and others
9. Sharing of profits by micro-entrepreneurs (40% for 5 years, 100% thereafter)
10. Sharing of profits by IRADA-BoK for 5 years (60%)

ILLUSTRATION OF THE ABU-HALIMA GREENHOUSES PROJECT



Risk Management

An agri-venture like Abu-Halima faces several risk factors, many of which could lead to crop failure and consequently to the failure of the project.

The success of the project hinges on mitigating these risks. Below are some major risk factors identified by BoK and the various measures contemplated to address them:

Risk Factor	Mitigant
Inability to sell produce	Contractual agreement with major customer(s) is in place to purchase products at market price
Crop failure due to disease	Program has provided the micro-entrepreneurs with fertilizers and ensured that they have the capacity to use appropriate amounts
Crop failure due to heat	Greenhouses have automatic temperature control
Crop failure due to lack of humidity	Greenhouses have automatic humidity control
Crop failure due to lack of water	Drip Irrigation system developed to provide water and well is constructed to provide sufficient water
Electricity blackouts	Program has provided generators that run on diesel to function as backup electricity
Unmet consumption needs leading to a lack of commitment	Families are provided SDG 300 to SDG 600 as a living allowance every month all through the five-year implementation period
Lack of commitment by beneficiaries	BoK has retained an option to remove a given beneficiary and replace them with another. Beneficiaries have to opt-in to work and their performance is monitored. Bank has the ability to distribute a larger proportion of profits based on performance and commitment
Conflict during distribution of profits due to different yields	Profits of the micro-entrepreneurs and bank is based on the total production of all the greenhouses and not on an individual greenhouse basis

Challenges

Notwithstanding the potential success of the model, several challenges remain.

The first set of challenges relates to the beneficiaries. First and foremost, the project assumes that the beneficiaries have the desired qualities and characteristics of a micro-entrepreneur, especially as it relates to the agriculture sector. Many of the beneficiaries may turn out to be deficient in terms of their capabilities, notwithstanding the training and other resources provided to them. Behavioral traits, such as, indolence, apathy, negligence and impatience are hard to overcome. To overcome potential deficiencies, several farming tasks will be outsourced and the cost charged to the beneficiaries according to *mudaraba* rules. Second, lack of financial acumen on the part of the beneficiaries is likely to limit proper understanding of the *mudaraba* contract and its implications regarding the rights and obligations of the various parties.

The second set of challenges is institutional. Compared to traditional banking and microfinance products, micro-*mudaraba* is a new financing methodology that requires developing much of the procedures and mechanisms de novo. At the same time, these are likely to be more complex, especially given the involvement of many partners.

The third set of challenges comes from the lack of a favorable macro environment, namely, weak *mudaraba* laws. A major challenge may be in the form of political interventions that send a wrong signal about the product being non-commercial. Other macroeconomic developments, such as high inflation rates, may also wreak havoc on financial estimates underpinning the project.

Wad-Balal Livestock Development

Livestock production is an important component of the local economy in Sudan, providing food, employment, foreign exchange earnings, wealth, and supply of resources and services, such as draught power, manure and transport. The livestock sector, however, faces numerous constraints, including a heavy disease burden, low productivity exacerbated by drought and poor security, and a poorly organized marketplace for livestock owners and traders. The Wad-Balal cattle fattening project of IRADA involves an investment of SDG 9.30 million (about US$ 1.68 million) to curb poverty by addressing many of the aforementioned problems in livestock. The project aims to produce 7,000 cattle annually that meet export standards. It also aims to link poor livestock herders with international markets utilizing contacts of the Sudanese diaspora in order to increase the household income of 250 to 300 poor families. The model underlying the project is presented in the diagram below.

The Model

The model of intervention involves three parties — IRADA of BoK; the Wad-Balal Company owned by a group of Sudanese diaspora in the GCC; and the Wad-Balal Association with cattle farmers as members. Under the arrangement, IRADA will have a diminishing *musharaka* agreement with the Wad-Balal Company to invest in the required physical assets and create a facility for fattening calves. The Wad-Balal Company will provide the technical services for the project. The *musharaka* will provide the facility / assets on *ijara,* or lease, to the Wad-Balal Association comprising the farmers. IRADA and the Company will share the lease rentals from the farmers, as received by the *musharaka*. The latter will buy out the share of the former over a period of 5 years by using a share of its profits. Furthermore, a pre-agreed share of the profits of the Wad-Balal Company would be used to provide social benefits to the local community. The Wad-Balal Association will sell all the cattle post-fattening to the company, which will ensure quality standards and handle export to international markets. At another level, IRADA will provide *murabaha* financing for purchase of calves to the association. *Murabaha* financing in bulk reduces the cost of purchasing calves.

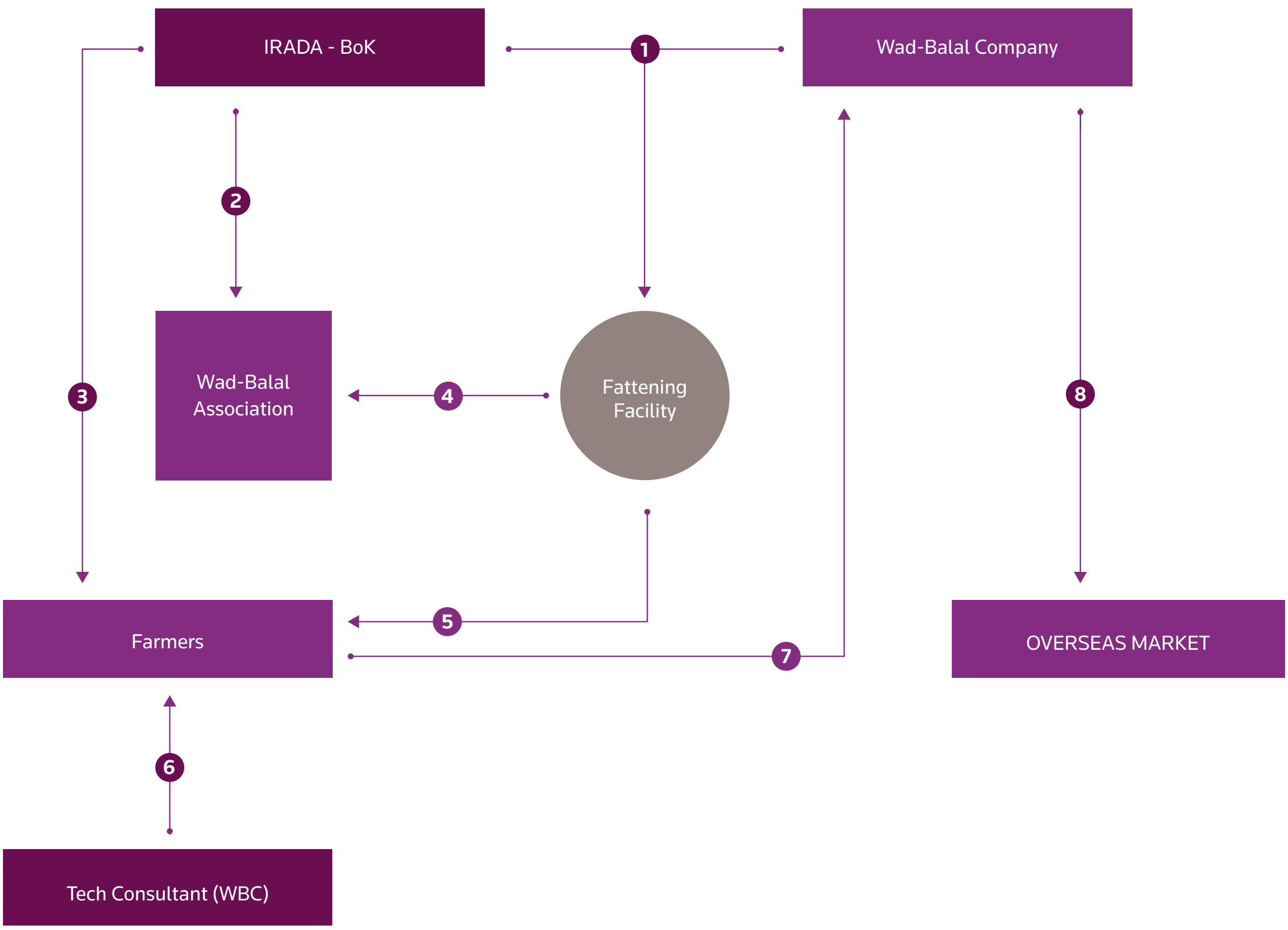
Financing Method

The *musharaka* between IRADA and Wad-Balal Company was formed with 95% of capital contributed by the former (amounting to SDG 5.04 million) and 5% by the latter. The *musharaka* would make direct investments in hangers, electric sources, water sources, and fattening investments including cooling storage, services facilities, securities facilities, living allowance of beneficiaries and technical support. The financing tenure is 5 years. The lease of the facility to the association would bring in rentals at 18% per annum on *ijara* of assets used for cattle fattening. The revenue from *ijara* is shared between Wad-Balal Company and BoK as per the agreed terms of diminishing *musharaka*. The *murabaha* financing amounting to SDG 4.26 million will involve *murabaha* to purchase calves for the Wad-Balal Association at a 15% profit margin. BoK will provide 100% financing for calves in the first 2 years; which will gradually reduce to 25% by the fifth year.

Arrows denote specific activities as follows:

1. Diminishing musharaka agreement between BoK and Wad-Balal Company (WBC) to create cattle fattening facility
2. BoK helps farmers form Wad-Balal Association (WBA)
3. *Murabaha* agreement between BoK and farmers represented by WBA to finance purchase of calves
4. *Ijara* agreement between musharaka and WBA to use facility in lieu of payment of rentals
5. Use of fattening facility by farmers to grow the calves
6. Technical consultancy and training by WBC
7. Delivery of cattle by farmers to WBC
8. Sale of cattle by WBC in overseas markets

ILLUSTRATION OF THE WAD-BALAL PROJECT



Non-Financing Services

As before, this initiative also involves a multitude of non-financing intervention / services that include the following: technical support throughout project lifetime to ensure production quality and cattle vet services; established linkage with Wad-Balal Company with access to markets in GCC countries; assistance in managing the project accounts, and formation of Wad-Balal Association of farmers.

Risk Management

An agri-venture like Wad-Balal faces several risk factors, many of which relate to the marketability of the cattle that are reared by the farmers. The success of the project hinges on mitigating these risks. Below are some major risk factors identified by BoK and the various measures contemplated to address them:

Risk Factor	Mitigant
Diseases	The project provides on-site veterinarian services to treat and prevent cattle diseases
Lack of quality and specifications (e.g. health, weight) for export market	On-site technical services are provided to educate farmers how to raise the quality of their livestock and meet international standards
Unmet basic needs of farmers	Families are provided a living allowance
Inability to market	The Wad-Balal Company, which has strong export links with the GCC countries, has committed to purchase the cattle at a fair price
Lack of commitment by farmers	This risk is mitigated considerably by retaining the right with BoK to remove a shirking beneficiary and replace with another committed worker. This is backed by stringent performance monitoring. Good performance is also incentivized with BoK having the right to distribute a larger proportion of profits based on performance and commitment. Performance of individual farmers is also monitored at the association level

Building Strategic Food Reserve

Under another program involving multiple partners, IRADA microfinance aims to purchase goods efficiently from farmers for sale to the Government of Sudan's strategic food reserve. This would replace the intermediary and ensure a better price for farmers for their produce based on official advance purchase rates determined by the Ministry of Agriculture. This ensures that farmer incomes increase and more farmers are motivated to produce to generate a viable livelihood in addition to subsistence. The other partners in this program are the Ministry of Agriculture and the Ministry of Social Welfare of the Government of Sudan, the Zakat Chamber of Sudan and the World Food Program.

Under this program, IRADA provides *salam* financing with a tenure of a maximum of 8 months. Its target beneficiaries include 73,000 smallholders under 878 Farmers Associations in seven states (23,677 through direct contract and 48,396 through *mudaraba* with other commercial banks). The program involves multiple parties in a multitude of roles. IRADA serves as the link between the farmers and other partners and in grouping the farmers into associations. The Ministry of Agriculture provides technical assistance for product quality and building the capacity of the farmers groups. The World Food Program provides food for farmers during the planting period. Finally, IRADA provides for coordination and monitoring of partner activities and links farmers to local, regional, and global markets.

Lessons & Policy Implications

Agricultural growth has a direct impact on poverty by raising farm incomes. It indirectly impacts poverty by generating employment and reducing food prices. When centered on smallholder farmers, it requires creative and innovative intervention that involves the provision of a range of financial and non-financial services. The latter include technical skill enhancement of the farmers as well as empowering them through producer organizations. The IRADA experiment shows a wide range of interventions that have been undertaken in recent years to achieve the

"THE CONVENTIONAL LENDING METHODOLOGY FOR THE RURAL POOR IS REJECTED IN THE ISLAMIC FRAMEWORK ON A FUNDAMENTAL GROUND. ISLAM PROHIBITS ANY GAIN OR PRICE FOR CREDIT.

same outcome within the Islamic framework. This approach is necessary as conventional products and services may not be acceptable to farmer communities in Islamic societies, since they may violate fundamental religious and cultural norms. The key lessons from the case studies included in the paper are highlighted below.

The conventional lending methodology for the rural poor is rejected in the Islamic framework on a fundamental ground. Islam prohibits any gain or price for credit. It does not permit any increase in the quantum of debt due to what we know as the "compounding of interest". Thus, while Islamic finance includes products that create debt, it curbs automatic expansion of credit. Given that the clients come from the poorest strata of society, there is merit in a more "humane" form of credit that rules out penalties for genuine delays in repayment. The paper presents the case of IsMFIs offering *bai muajjal*, *murabaha, ijara, bai salam* where the quantum of debt obligation, once created and determined, is not permitted to take any other value due to its restructuring. Nor are penalties a source of income for these institutions.

A review of various Islamic modes that are used for the provision of finance to farmers reveals that there is no one-size-fits-all mode, even though *bai salam* is widely seen to be the appropriate mode for agricultural finance. Further, Shariah-compliance of a mode does not by itself ensure freedom from exploitation. For instance, *salam* can often involve exploitation when the advance price paid to the poor farmer is artificially pegged at low levels due to his/her weak bargaining power. Identifying appropriate organizational structure, e.g. a farmer's cooperative, may replace the vendor and thus prevent exploitation of individual farmers by the latter. Similarly, rates on *murabaha* and *ijara* financing can be and often are exploitatively high. In case of participatory modes e.g. *mudaraba*, *musharaka* and *muzara'a* the sharing ratio could be unfairly biased against the poor beneficiary because of their low bargaining power. Prudential regulation of markets is an important pre-condition to ensure healthy and adequate competition among the players and thereby, remove abnormal and/or illegal profits through mispricing. Of course, these "exploitation" concerns apply to for-profit modes only and call for a greater reliance on not-for-profit modes of microfinance.

A vendor displays mangoes for sale at Khartoum's central food market. REUTERS/ Mohamed Nureldin Abdallah

Islamic finance discourages debt based products and encourages equity and partnership based products in general. Given that conventional MFIs derive their income from interest, they seem to be inclined to push their clients into larger and larger amounts of debt. In the Islamic approach, debt is not just discouraged; there are built-in mechanisms, such as *zakat* to address over-indebtedness of an individual. The paper documents the cases in Sudan where an institutional mechanism exists for use of *zakat* for curbing indebtedness.

Islamic finance requires "simplicity" in contracts where the rights and obligations of the parties are well understood by them. Even where an Islamic finance model includes future obligations, or composite structures, the uncertainty and ambiguity factor is kept to the minimum. The diminishing *musharaka* based models used in Sudan are apparently complex but quite "definitive" in terms of transfer of ownership of the key assets into the hands of farmers over a finite period.

While credit and finance are key inputs for transforming the lives of the farmers, they often require a wide range of non-financial services. Identifying these non-financial needs and finding creative and innovative solutions is critical for success of any intervention. The paper documents a range of such services provided in Sudan including: technical assistance, skill enhancement, procurement, production, warehousing, processing, packaging and marketing support that underlies the success of these interventions.

A related question is how these non-financial services are to be funded. Should they be priced? Should the farmers pay for these services? The cases documented in this section highlight both commercial and philanthropic approaches to the issue. In the examples cited, the costs are duly accounted for in the determination of profit-share for the farmers.

MFIs that focus on financing the need for physical assets by farmers through conventional or Islamic credit, or through leasing often ignore the importance of providing for basic consumption needs. It should not come as a surprise if farmers resort to diversion of funds from the so-called income-generating project or even distress sale of the assets (funded by MFIs) if the basic consumption needs remain unfulfilled. Indeed, in case of the Sudanese projects the provision of a safety net by IRADA is perhaps a significant contributor to the success of the projects.

Appendix

SURVEY METHODOLOGY

Sudan's consumer financial services survey was conducted in 2015 in collaboration with Benchmark brands — Sudan branch. This survey was distributed to a sample of the population over 18 years old in Sudan. Along with the responses from the survey questions, we also collected demographic and economic data about the survey respondents including age, gender, religion, place of residence, education level, monthly family income, and occupation.

SAMPLE SIZE: **1,860**

LOCATION: WHAT CITY DO YOU LIVE IN?

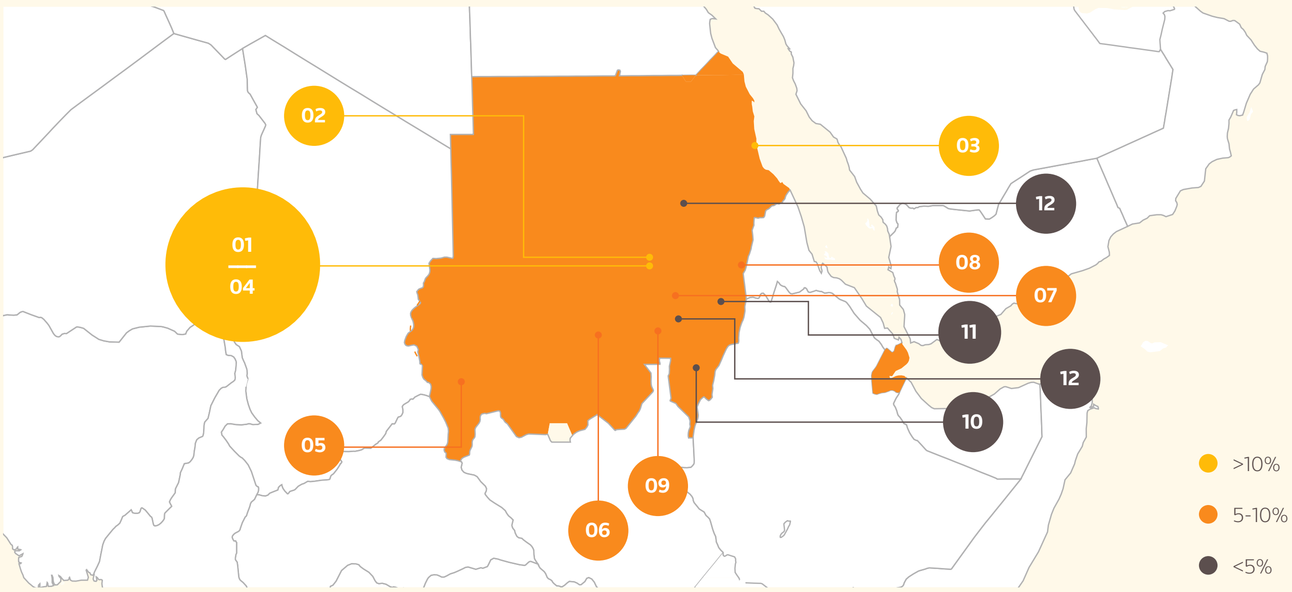
#1
KHARTOUM
16%
—
#2
OMDURMAN
14%
—
#3
PORT SUDAN
11%
—

#4
BAHRI
10%
—
#5
DARFUR (NYALA, GENEINA + EL FASHER)
9%
—

#6
EL OBEID
8%
—
#7
WAD MADANI
8%
—
#8
KASSALA
8%
—

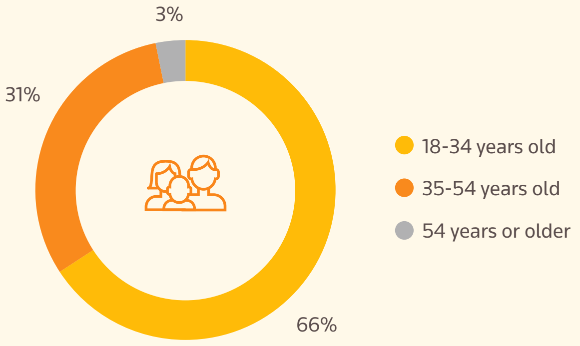
#9
KOSTI
6%
—
#10
AD DAMAZIN
3%
—
#11
ALGADARIF
3%
—

#12
ATBARA
3%
—
#12
SINNAR
3%

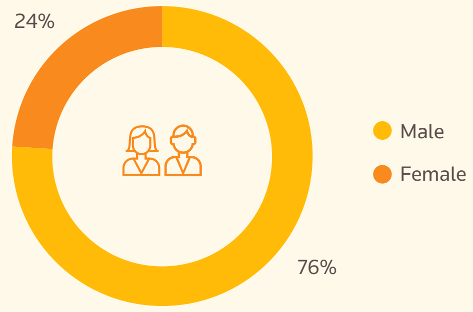


* The sample size does not represent the entire population, the survey was conducted on a best effort basis.

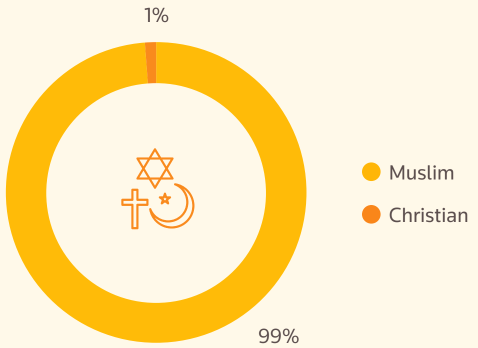
AGE DISTRIBUTION



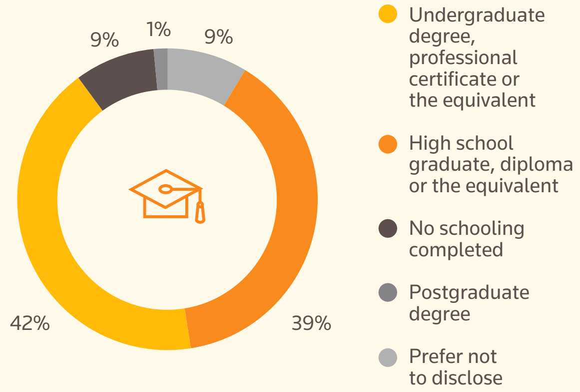
GENDER



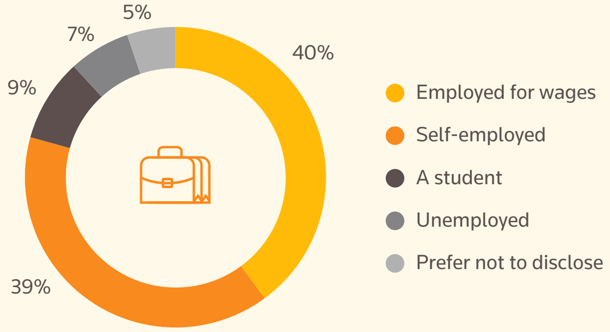
RELIGIOUS AFFILIATION OR SPIRITUAL BELIEF SYSTEM



HIGHEST EDUCATIONAL LEVEL

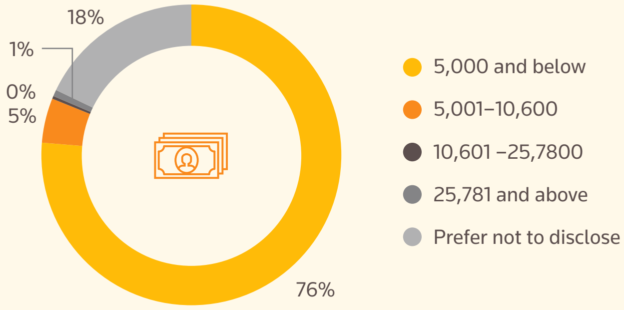


EMPLOYMENT STATUS



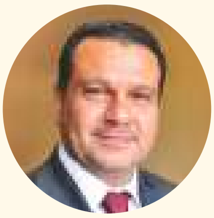
MONTHLY INCOME

(In Sudanese Pound (SDG)



YACOUB AL-ALEM

EVP, Head of Corporate Banking Group, Bank of Khartoum



YACOUB AL-ALEM comes to Bank of Khartoum with over 20 years of experience in banking. As the EVP — Head of Corporate Banking Group at Bank of Khartoum, he is responsible for corporate the banking business, which has over USD 500 million in liabilities, USD 1.2 Billion in funded loans, and a broad base of cash management and white labeling products..

Yacoub is a member of the Asset-Liability, Human Resources, and SME & Microfinance Credit committees and a board member in National Trading & Services Co., Sanabel Securities Co., and Sudacash for Exchange & Money Transfer Co. which are subsidiary companies of Bank of Khartoum.

Prior to joining Bank of Khartoum, Yacoub served as Head of Corporate Credit at BLOM Bank Jordan.

Yacoub received his bachelor's degree of Administrative Sciences from Yarmok University, followed by a Master in Financial and Banking Studies from the Arab Institute for Banking and Financial Studies in 1995.

1. When looking at financing needs for the coming 3-5 years, which economic sector(s) does the Bank of Khartoum see as the fastest growing? What are the Bank of Khartoum's strategic plans towards capturing greater "corporate financing" opportunities?

Over the next few years the sectors we see as the fastest growing are the mining, agricultural and livestock sectors. The growth of these sectors are driven by the depreciation of the exchange rate and the subsequent increase of Sudanese exports of commodities. Gold mining in particular is becoming a mature industry which will greatly support the national economy.

Our strategic plans towards capturing a greater market share include increasing the number of Corporate Banking staff at the bank and investing heavily in training and a CRM system. This way we will deliver superior services to our clients and boost our sales efficacy. We plan on offering our clients advanced IT and cash management solutions such as internet banking, sub-branches and cash offices placed inside their premises. We will open a number of dedicated corporate branches in key locations to supplement our branch network of 73 branches and 27 sub-branches spread all over the country. Other initiatives also involve the opening of an offshore branch this year and expanding our foreign correspondent network which will give us an advantage in offering trade finance solutions.

2. The government has plans to boost exports in the agricultural sector. What is your outlook for agricultural financing and how is the bank supporting this government-led initiative?

We believe that there will be great opportunities in agricultural finance over the next few years. The agricultural and livestock sector is benefiting greatly from the devaluation of the Sudanese Pound and the resulting enhanced competitive of agricultural exports in foreign markets. We plan to get involved in financing all stages of the value chain from farming activities, warehouse financing to industrial processing and pre-export finance.

Our focus is not only on financing large agribusiness and trading companies but also includes the financing of communities and small farms through microfinance and commercial finance. The bank was a top 3 finalist on the World Bank Microfinance Challenge on the Abu Halima Project. The Abu Halima project is an agricultural microfinance project financed by a participatory structure with the co-operative of the employees of the project. The project was created on a brown field site and was a model on how to increase agricultural production and provide opportunities for the youth simultaneously.

3. What has the Bank of Khartoum devised in terms of strategies to sustain the government's infrastructure development plan? What are some of the challenges in financing such projects?

Our key strategies in financing government infrastructure include developing deep relationships with key people at federal and state level. We have granted several states substantial limits and many of our key clients are state owned government companies and utilities. The bank is also playing a pioneering role in the developing and marketing of sukuk in Sudan which are essential instruments for infrastructure finance.

Some of the challenges in financing such products include the substantial budget deficits and debt burdens in federal and state levels limiting the ability of the government to raise additional finance. There are also limited opportunities to diversify projects risk as a limited number of syndications are currently executed. High finance profit rates also render many long term projects unprofitable.

4. How do you evaluate the depth and breadth of banking products and services available to "corporate customers" in Sudan?

It is essential to differentiate between finance and non-finance products and services in order to provide a thorough evaluation. In terms of finance, corporate clients in Sudan enjoy a broad range of well structured Shariah compliant products. Islamic finance products in Sudan are considered to be one of most diverse among countries with predominant Shariah compliant banking practices. In terms of non-finance products and in particular, cash management and electronic transactions, the banking sector in Sudan still needs considerable development and improvement including (a) enhancing the existing electronic infrastructure to allow straight through payment processing between banks is a crucial requirement; (b) developing flexible cash management products to meet the increased volume of bank notes caused by monetization of the deficit (c) and improving of corporate customer services to meet the increasing expectations of corporate clients. Fortunately, the banking sector is well aware of these issues many banks are tackling these challenges. The future seems to be very promising and it is expected that corporate clients will be enjoying the fruitful results of these effort very soon.

5. Today, customers are much more knowledgeable and expect greater transparencies, especially in terms of product pricing. How do you assess the current level of "corporate products' and services'" price transparency in Sudan? Are there any challenges that hinder banks from being transparent?

Product pricing tends to be quite transparent for finance products given their prevalence in the Sudanese banking sector. Corporate customers are able to compare the pricing of similar finance products available in the market and banks have to stay competitive by providing attractive pricing. The degree of transparency is relatively high.

On the other hand, many non-finance products and services are still in the early stage of the product cycle and pricing criteria are not well defined. New products launched such as internet banking are provided at a relatively high price even thought the cost of providing such services is relatively small and other cash management related products such as cash pickup are provided at low pricing while the operational cost is high.

Few banks provide non-finance products and customers are less knowledgeable which makes the market opaque. However, with the maturing of the sector and increasing competition, it is expected that there will be more price transparency.

KASHIF NAEEM

EVP & Group Head — Retail, SME & Microfinance, Bank of Khartoum

KASHIF NAEEM was hired by Dubai Islamic Bank UAE in 2006 and assigned to Bank of Khartoum (BOK) as part of the transformation team to bring true retail banking to Sudan. He is responsible for BOK's market leadership as the first bank in the Sudan to establish a full suite of innovative products and services in Retail, Private Banking, SME and Microfinance.

He has over 24 years of professional experience in many countries including Pakistan, the UAE and Sudan. He has spent the last 19 years in the banking industry, working with international and regional banks includes Citibank, Dubai Islamic Bank, Societe Generale Bank and Union Bank Pakistan (now Standard Chartered Bank Pakistan). Kashif's overall experience in banking covers Retail Banking, SME, Microfinance, Islamic Banking, Wealth Management, Operations, Marketing, Products & Services, e-banking solutions, Sales, Service & Quality, Mobile Money etc.

Prior to banking, he worked for 5 years with the first mobile company in Pakistan — PAKCOM / Insatphone.

He holds a BBA degree from Pakistan and apart from being a Board Member of subsidiaries owned by BOK, he is also a member of the bank's Management Committee, ALCO, Credit Risk Committee, Executive Committee, Audit , Risk & Compliance Committee and a member of the HRC.

1. How did Bank of Khartoum launch retail Banking in Sudan and what has been the role of innovations in the success story of Bank of Khartoum?

Striving to be a benchmark for innovations in the financial sector in Sudan and region, Bank of Khartoum has developed a wide range of Islamic banking products and service that were developed for the 1st time in the country. When Dubai Islamic Bank took over the bank in 2006, there was no Retail banking in BOK. All the banks in Sudan were predominantly corporate banks. Though most of the banks offer basic retail products and services to fulfil the requirements of corporate customers on case-by-case bases, none of the banks offered structured retail products.

We launched retail banking in 2006 from scratch and within a short time span we are now known to be the market leader and trend setter in retail banking. We started with basic savings plus account, launched our 1st ATM in 2006 and now we have the largest branch network, largest ATM / CDM (Cash Deposit Machines) network, largest customer base, largest deposit base, full Islamic products and service offering Auto Finance, Home Finance, Education Finance, Durable Finance, Wedding

Finance, Takaful, only banks with 24 hour Call Centre, Internet Banking, Mobile Banking, SMS alerts, Loyalty Program, AlNukhba — Priority Banking etc). We are also catering to the financial needs of Sudanese living aboard (NRS — Non Resident Sudanese) and our products are available to NRS across the globe. Home remittance is another business we focus on. Biggest NRS community is in Saudi Arabia and we have our staff, stationed in the embassy / consulate in KSA to provide products & service of BOK to NRS in KSA. We will be further expanding our network and will be placing our staff in other embassies in the region.

2. What is the future of mobile payments in Sudan?

Africa in general is largely unbanked and banking penetration is around 20%. Sudan is no different as we have just 0.27 bank branches per 1000km^2 and have about 18% banking penetration but over 75% mobile phone penetration. Mobile payment is the way forward. We are very focused on offering e-banking solutions to our customers as well as mobile banking (mBOK). You can use mBOK to transfer funds and also use mBOK to buy electricity and do mobile top-ups.

Central Bank of Sudan (CBoS) is working on launching Mobile Money — we will be part of it and will support this initiative. Mobile money has huge potential in Sudan due to its size in terms of land and it's not easy for banks to open branches and install ATMS in remote locations especially in rural areas. Mobile Money is very popular and widely accepted in Africa and we have successful examples from Kenya (m-PESA) and other neighboring countries.

3. How is Microfinance doing in Bank of Khartoum and what are the bank's future plan in this regards?

We launched micro finance (MF) in 2009 and started with a fund called AL AMAN FUND where a consortium of banks contributed - including SDG 150 Million and ZAKAT with SDG 50 Million (Around 60 Million USD in total) — we then started our 1st green house project called Abu Halema which became an international success.

While we do individual lending, we believe more in group lending and focus towards doing a project where we have our stake as well. Abu Halima is a perfect example. We did also do a project with World Food Program (WFP), which linked farmers to market.

In 2014, we won the Ethical Finance Innovation Challenge Award (EFICA), organised by Thomson Reuters and Abu Dhabi Islamic Bank. In its second year, EFICA received over 200 entries from all over the world including USA, UK, UAE, Bahrain, Pakistan. Competition was particularly intense for the $50,000 Ethical Finance Initiative Award, which recognizes initiatives that show how ethical delivery of financial

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AFRICA IN GENERAL IS LARGELY UNBANKED AND BANKING PENETRATION IS AROUND 20%. SUDAN IS NO DIFFERENT AS WE HAVE JUST 0.27 BANK BRANCHES PER 1000KM^2 AND HAVE ABOUT 18% BANKING PENETRATION BUT OVER 75% MOBILE PHONE PENETRATION.

services can produce a positive impact on society.

After initial screening of over 200 submission, the top 5 submissions were shortlisted and asked to present their projects to the Advisory Board which consisted of CEOs, MD's and top Islamic scholars of international repute, who selected the final top 3 presentations for an event held in Abu Dhabi in September 2014.

On the final night, in a ceremony held at the Westin Hotel in Dubai, UAE, a final round of presentations were conducted by all 3 finalists to the advisory board and over 250 distinguished guests. Open voting was done after the presentation and Bank of Khartoum came out as a deserved and proud winner!

Banks tend to shy away from Microfinance due to the heavy and long-term investment required, lack of collateral and low return with high risk due to the huge number of individual beneficiaries involved. Also, the portfolio takes a long time to start performing, as it's a social learning curve for the beneficiaries as these are poor people and they may be used to taking money but definitely not used to returning money. To overcome this, BOK focus more on group lending than individual lending and we have been doing MF for over 5 years and focus more on establishing projects for beneficiaries than doing individual lending.

Bank of Khartoum Microfinance is setting a new standard in the region and we are recognized for our MF and known to be the best Islamic MF in Africa. Islamic Development Bank Jeddah, who also have shareholding in BOK, have joined hands with us to form a separate identity called IRADA; BOK owns 80% of the shareholding while IDB – Jeddah owns 20%. Central Bank approval is in place and from 2016; all microfinance related projects will be done by new entity/ subsidiary of BOK. IRADA is also allowed to accept deposits, apart from doing MF lending.

Central Bank of Sudan is encouraging banks to offer microfinance and made it mandatory to have 12% of the bank's investment in the field of microfinance. With regard to microfinance target strategies, special emphasis is being made in order to identify needs for the targeted groups and analyze the business environment and marketing potential within targeted regions. As a result BOK microfinance strategy "Doing Business with underprivileged" has manifested that Agricultural production has a very high potential in the majority of poor groups living in rural and semi rural zones.

4. What are the main challenges (if any) of the banking sector in Sudan and how are banks trying to combat such challenges? Considering these, what are the growth prospects of the retail-banking segment in Sudan?

Sudan is under USA sanctions. This makes it quite difficult for banks in Sudan to have correspondent banking relationships. Due to sanctions, no US based bank deals with Sudan. Even many European banks are shying from keeping relationships with banks in Sudan due to the same reason. Bank of Khartoum (BOK) is not part of the sanctions (BOK was officially delisted from OFAC in April 201) as we are not a local bank and main investors are from GCC / Middle East. We have the largest correspondent banking relationship and bank of choice for all UN agencies like UNDP, UNAMID, UNICEF. Institutes like IMF and World Bank, Embassies like American, British, etc all bank with BOK.

Another challenge we face is Sharia. Sharia scholars in Sudan are known to be the best and strictest. Products which are launched by Islamic banks in many Muslim and non Muslim countries, are not approved by Sharia in Sudan. We as a Retail bank are very focused and continue to launch innovative products and services, open more branches in urban and rural locations, install more ATMs and offer full e-banking solutions. We see a big future for retail banking in Sudan, despite the fact that we are the biggest bank in Sudan, there is huge potential with the unbanked (around 80% population in Sudan is unbanked) and also huge potential of increasing the share of wallet from the existing market of 20%.

> THE IMF PREDICTS THAT OVER THE NEXT TWO DECADES, SUDAN WILL SEE HIGH GROWTH IN GOLD AND MINERALS PRODUCTION. THIS IS EXPECTED TO ASSIST THE COUNTRY IN REVIVING NON-OIL BASED REVENUES AND CONTRIBUTE TOWARDS MACROECONOMIC STABILIZATION.

Banking penetration rate in Europe & Central Asia is 44%, Latin American and Caribbean at 28%, East Asia & Pacific 27%, Middle East & North Africa is 24% and Sub-Saharan Africa is less than 18%. This is for overall banking but also shows what potential retail banks are missing on. Banks need to carry a heavy and detailed retail face and focus on launching retail products like mortgage, auto finance, takaful, saving plans, mobile money etc.

5. What is your outlook on Sudan's economy and growth, especially considering recent events in the region?

Despite the challenges from poor macroeconomic conditions, balance of payments and sanctions, Sudan remains an important market given its huge mineral wealth and agricultural and livestock supply. The cash rich, and food insecure ME region has high stakes in the revival of Sudan's agriculture sector. However, regional competitors, e.g. Egypt and Kenya, are rapidly making inroads and tapping into existing opportunities. The government and local business groups are striving to revert, from being an oil-based economy, to being an agrarian and livestock based economy. The IMF predicts that over the next two decades, Sudan will see high growth in gold and minerals production. This is expected to assist the country in reviving non-oil based revenues and contribute towards macroeconomic stabilization.

Based on IMF projections for supply and demand of livestock, agriculture, minerals and other Sudanese export components, real GDP growth is expected to touch 4.4% and 4.8% in 2017, 2018 (IMF Country Report No.13/317, p.87). However, the country needs foreign investments and expertise to tap into the abundant opportunities, and this is likely only if Sudan succeeds in coming out of the crippling sanctions currently in place.

MARKETING FOCUS

1. Market segmentation is an effective marketing practice to improve sales and services. How does the Bank of Khartoum segment its market base? Has this strategy been effective in serving the Sudanese market and reaching a wider customer base?

As per definitions segmentation is the process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. Its objective is to design a marketing mix that precisely matches the expectations of customers in the targeted segment.

In our strategy, we focus on providing valued services for different customer segments, including retail, micro, SME, HNWI, corporate and multinationals .

In addition to that, BOK gives the non banking community special consideration and develops mobile money services to cover a wide range for this specific segment. Depending on the strategy, the financial performance shows that BOK has gained a portion from deposits and high market shares in E-banking services in the Sudanese banking industry.

In retail services (mainly in finance) BOK has designed special criteria to segment customers, which is dependent on the customer income. This strategy helps BOS introduce a product, which effectively serves our customer. It has since affected the Sudanese market and has put Bank of Khartoum in high position regarding its product portfolio.

2. When discussing the banking industry as a whole, differentiation is now a key word. Many have argued that banks need to shy away from the one-size-fits-all approach, and that customers should have the flexibility to customise products and services to fit their individual needs. To what extent do you agree or disagree with this approach? Does Bank of Khartoum offer, or plan to offer, such customisation services to its clientele?

BOK always offers new products and services to its customers, which makes it the number one bank in Sudan. The main reason BOK is a leading institution is due to its customized products and services based on its customer needs as well as the periodical customer feedback.

3. Another key word is loyalty. Many believe loyalty can directly translate into better financials. To what extent do you agree or disagree and why? Currently, what are the available loyalty programmes in the market, and based on your experience, how successful are these in rewarding customer loyalty and translating it into profits?

I agree — A well-designed and run loyalty programme can return the best financials. The theory of customer loyalty is quite simple: a business that retains its customers for longer usually makes more money from them at a lower cost than one that is constantly paying to acquire new customers. The basic principles are simple, too: know your customers, and only reward them for behaving in the way that you want. Through a loyalty programme, customer and transactional data can be collected, and the intelligent use of that data will provide a much clearer picture of the customer base — and this will lead to more profits from the beginning.

In our banking sector, the only available and unique Loyalty Program is "Discount Plus service" presented by Bank of Khartoum. The product philosophy is built on the idea of *'no frills banking'* where the product has the minimum features compared to normal banks products. The product is targeting BOK & non-bank of Khartoum customers.

The service allows BOK ATM card(s) holder(s) to shop through the Point Of Sales in a selected retail business with a discount. The discount varies according to the agreement between Bank of Khartoum and the retail business. Discount Plus Service provides discount on different types of outlets, within many Sectors: restaurants, coffee shops, fashion outlets, supermarkets, hotels, cosmetic's shops, etc.

The service enhanced the concept of customer's loyalty as it has succeeded in increasing Bank of Khartoum Customer's loyalty to its current products and services as well as stakeholder's satisfaction.

Hence, Bank of Khartoum benefits from Discount Plus Service through direct links with departments by increasing:

- Direct sales: increasing number of new opening accounts and activation of dormant accounts "the customer base for BOK new and current accounts".
- Indirect Sales: Sales of assets.
- Salary transfer: increase BOK Customers.
- Increase the rate of using BOK ATM card(s).
- Call Centre: increasing call volumes and activities associated

with each call "Leads Complain forms".

To be able to serve a wide range of customer preferences, a degree of distribution channel innovativeness is required. What, in your opinion, is the extent of innovation required? How can it be used to serve both retail and corporate clients? How do you assess the current available channels in the Sudanese market? Yes of course — and the reason being the size of the banking community in Sudan — It is very small, not more than 20 %. This percent increased with the availability of multi bank channels (ATM, POS, .etc), and the booming in telecoms, which in turn have encouraged the bank to grow in this field by offering different bank services for the non banking community by means of different channels. As per definition, retail focus to serve individuals, and corporate serve companies and big business bodies, so retail banks focus on bringing E-channels to serve mass market through different tools (like ATM, kiosk, POS and virtual branches) whereas on the corporate side, companies usually suffer from cash management (as Sudanese community is still cash oriented). Therefore, most innovative channels serve the corporate entities in this matter. In addition, these innovative solutions can help corporate bodies minimize their cost as well. Since 2004, the CBOS has encouraged banks to have different banking channels. From that time up to now, the industry has completely changed from the last decade.

SAIED DIRAR ALBADRI

Assistant General Manager for Investment & Retail Banking Sector, Faisal Islamic Bank

This interview was originally conducted in Arabic and was translated into English

MR. SAEID DIRAR ALBADRI joined Faisal Islamic Bank in 1993 as Head of Public Accounts for the Khartoum branch. He then became Head of Transfers, Head of the Current Accounts Department and he now serves as the General Manager for various branches. Mr. Albadri obtained his Accounting degree in 1983.

1. In its efforts to increase access to finance, the Central Bank of Sudan established a microfinance unit in 2007. Two years later, the bank required that all commercial banks have microfinance units. Following this, was Faisal Islamic Bank (Sudan) able to increase the level of financial inclusion in rural areas and empower the underprivileged classes?

Faisal Islamic Bank of Sudan was always a pioneer in the microfinance field. The first two branches to offer microfinance services, in Khartoum and Madni, were opened back in the eighties to allow artisans, small producers and working families to purchase machinery and equipment with affordable instalments. This experience has met with positive acceptance and popular success.

In 2012, the bank expanded its offerings and opened five more branches in Khartoum and allowed other branches in Sudan to allocate a percentage of their earnings for microfinancing. Moreover, in 2016, the bank formed a separate microfinance division in Sudan.

2. The Central Bank of Sudan also required all banks to allocate 12% of their financial portfolio to the microfinance sector. However, the sector still remains small relative to the needs and demands of the market. In comparison, how does the performance and profit of Faisal Islamic Bank's microfinance unit fare against its other financing lines?

The bank is actively seeking to use in its investment department the 12% set by the Central Bank of Sudan to raise awareness of microfinance in Sudan and increase microfinance investment opportunities. The microfinance industry in Sudan is developing rapidly and I believe that the next few years will show positive results.

3. What are the main challenges (if any) of the banking sector in

Sudan and how are banks trying to combat such challenges? Considering these, what are the growth prospects of the retail banking segment in Sudan?

The main challenges facing the banking sector in Sudan are:

- Devaluation of the national currency
- Scarcity of foreign exchange
- Lack of foreign trade

To overcome these challenges, the bank implemented a financial inclusion policy, which has succeeded in attracting local and foreign deposits with good rates.

The growth forecasts for the retail banking sector in Sudan are promising due to the current situation and the urgent need for economic growth in Sudan. These factors provide for a positive outlook for the future of the retail banking sector in Sudan.

4. In 2000, the Central Bank of Sudan issued a comprehensive strategic programme for technological improvement of the banking system. Since then, most of Sudan's banks have switched to modern systems. How do you assess the current level of technological development in the banking sector in Sudan and the level of security associated with it?

The introduction of e-banking in Sudan allowed the sector to flourish. There was a significant increase in deposits, which in turn contributed to providing good resources to finance different sectors. The banks had high profits and maximised their equity capital. Particularly since the level of online security is optimal.

5. What further can be done by regulators and market players to boost technological development in the country's banking sector?

The further steps required to develop the e-banking sector are:

- Increase the capacity of the telecommunications networks.
- Increase awareness of technological developments in Sudan.

MOHAMED SEED AHMED WARAG

Manager — Marketing and Planning Management, Faisal Islamic Bank

This interview was originally conducted in Arabic and was translated into English

MR. MOHAMED WARAQ joined Faisal Islamic Bank in 1996 and has occupied several roles in the bank. Prior to becoming Marketing Manager, Mr. Waraq served as Retail Banking Manager and has worked in several of the bank's branches in Khartoum.

Mr. Waraq obtained his Financial and Banking Studies Diploma from the Sudanese Academy for Banking and Financial Studies, and then went on to get a Bachelors degree from Neelain University and a Masters degree in Financial and Banking Studies from the Open University of Sudan.

1. Market segmentation is an effective marketing practice to improve sales and services. How does Faisal Islamic Bank (Sudan) segment its market base? Has this strategy been effective in serving the Sudanese market and reaching a wider customer base?

Faisal Islamic Bank's marketing strategy always advocates good understanding of the market's needs and tries to meet these needs better than its competitors. The bank also aims to constantly improve its products and services, complying with international standards, in order to better suit the demands of its customers. However, customer preferences have major differences and it is difficult to please all customers through implementing a single strategy or offering the same product for all. In order to overcome this problem, Faisal Islamic Bank's retail banking administration, planning and marketing departments insist on developing and innovating its products and services frequently to meet the customers' demands in order to expand its offerings to the market's various segments. As it is not possible to have a "one size fits all" strategy, we categorized the market sectors into segments and identified each segment's needs and preferences based on their buying behavior. There are various ways in which the market can be segmented; the most important ways, however, include:

1. Geographical segmentation: as it is certain that there are differences in the needs and preferences of customers based on their geographical location, we take into consideration the factors that create these differences when we offer these markets our products and services.

2. Demographical segmentation: we segment demographics into several markets in order to help the bank target its customers more accurately. This also allows the bank to categorize the needs of its customers in order to meet the demands of the customers and for the customers to benefit from the banks offerings.

We are well aware of the importance of marketing to the success of the Bank, both locally and globally. Therefore, marketing is one of the most important activities that aims to increase our profit and enhance the general influence of all activities in public and private sectors. This strategy has been embedded in the Bank's activities for decades; this includes the efforts to establish, connect and deliver services that are of value to our customers and achieve the Bank's objectives.

On the basis of the modern marketing philosophy discussed above, the Bank's management introduced several administrative units in the marketing department. These include marketing the bank's innovative electronic banking services that allow for online banking and reaching new horizons of an efficient cooperation between the Bank and its customers, and the various institutions that use our innovative banking services that meet the demands our current and future customers.

Our customer service center became an important interface for the Bank, as it is the link between the Bank and its customers and an important channel to execute our strategy of offering premium services, marketing our products and services and helping our customers keep up with the technological developments that aim to improve customer services. This is why the center seeks to develop and improve the performance, capabilities and qualifications of its staff and work to resolve all the problems facing our customers.

2. When discussing the banking industry as a whole, differentiation is now a key word. Many have argued that banks need to shy away from the one-size-fits-all approach, and that customers should have the flexibility to customise products and services to fit their individual needs. To what extent do you agree or disagree with this approach? Does Faisal Islamic Bank (Sudan) offer, or plan to offer, such customisation services to its clientele?

We know that providing a single banking service would not suit all customers, therefore we identified the different market segments based on their demands and preferences in the banking industry and provided products and services that suit them. At Faisal Islamic Bank, we offer customized services to all market segments; businessmen, employees and students, in terms of credit and debit cards and providing student accounts. We also have several new services, to be launched this year, to target new segments of the market and provide the best banking services to them.

> “OUR CUSTOMER SERVICE CENTER BECAME AN IMPORTANT INTERFACE FOR THE BANK, AS IT IS THE LINK BETWEEN THE BANK AND ITS CUSTOMERS AND AN IMPORTANT CHANNEL TO EXECUTE OUR STRATEGY OF OFFERING PREMIUM SERVICES, MARKETING OUR PRODUCTS AND SERVICES AND HELPING OUR CUSTOMERS KEEP UP WITH THE TECHNOLOGICAL DEVELOPMENTS THAT AIM TO IMPROVE CUSTOMER SERVICES.

Sudanese children dive in the river Nile in Khartoum. REUTERS/ Mohamed Nureldin Abdalah

3. Another key word is loyalty. Many believe loyalty can directly translate into better financials. To what extent do you agree or disagree and why? Currently, what are the available loyalty programmes in the market, and based on your experience, how successful are these in rewarding customer loyalty and translating it into profits?

Customer loyalty depends on the customers' belief that the bank offers services that commensurate with his/her demands and preferences in terms of quality, price and desired benefits, as well as credibility and confidentiality. Customer loyalty ensures that the customer only deals with one bank, regardless of what other banks offer, and also makes the customer promote the banks products and services through word-of-mouth.

Customer loyalty also guarantees that the customer uses the bank for various activities without considering different banks, despite their attempts to attract him/her to their services. This however does not happen as a coincidence; it requires a great deal of work to build trust between the bank and the customer through providing the best banking experience.

The fact remains that customers, in spite of their desire to get the best services, do not want to pay extra for these services. So how should the bank handle this?

Some services do not cost much; for example, smiling employees who are willing to listen and help, a customer service center's pleasant décor and cleanliness and providing a nice waiting area does not cost much.

Moreover, providing the customer with a feeling of exclusiveness, through dealing with them in confidentiality delivers great results. This methodology turns customers into loyal customers. Although some might think that this is intuitive, we rarely find employees implementing it in the right way or looking for innovative ways to develop their relationships with customers.

Furthermore, loyal customers should be treated in a special way, although some might think that it is unfair, but not all customers are the same. Some spend huge amounts of money and some are always loyal to the bank and others only come to the bank in seasonal offers. Many of the banks that claim to follow a preferential approach towards their loyal customers are in fact trying to trick them into not providing them with an exceptional banking service, which only leads to customers resorting to other banks.

Many of the institutions that apply loyalty programs make the conditions to join exaggerated in order to prevent customers from joining the elite list.

DR. KAMAL JAD KAREEM

Managing Director, Islamic Insurance Company

This interview was originally conducted in Arabic and was translated into English

DR. KAREEM has been the General Manager Islamic Insurance Co. since 2013. He is also a board member in the International Islamic Insurance Company (Bahrain), Khartoum Stock Exchange, the National Reinsurance Company (Sudan) , Microfinance Unit and Al Faisal Financial Transaction Company Limited.

Dr. Kamal Gad Kareem was part of many Sudanese universities as co-lecturer and external examiner besides his vast contribution to all trade- related activities especially in the insurance business where he built his professional career.

In 1981 he was awarded his Honor Degree in Economics from University of Khartoum, in which he also received his Master degree (1994) and his PhD in Macro Economics in 1997.

He joined Islamic Insurance Co. In 1981 and for a short he joined El Nilein Bank from 1998 to 2001 as Deputy Manager. Dr. Kareem has participated in numerous local and international conferences and events related to Sudan's economic activities, particularly relating to the insurance sector.

1. How would you describe the development of the takaful industry in Sudan? And what differentiates Sudan's takaful model from other markets?

The idea of takaful insurance or Islamic insurance as it is called here in Sudan started with the establishment of the world's first takaful insurance company: the Islamic Insurance Company Limited (Sudan). The company was initiated by Faisal Islamic Bank, Sudan, on 22 January 1979 to insure risks associated with the bank's properties. Over time, the company found great acceptance by different sectors of the society and eventually earned its rightful place in the Sudanese insurance market. It also worked on establishing and promoting the takaful concept in the local market, which resulted in the conversion of the entire Sudanese insurance market to the takaful insurance model in 1992; a step that is considered an unprecedented move globally.

The Takaful insurance is based upon the principle of donation (Tabarru) and the Seed Capital neither gain nor held liable i.e. the Shareholders Capital should not gain or bear a loss from the Policyholders Funds (Operations Funds). Moreover, the Shariah Supervisory Board (SSB) permits shareholders (i.e. the founders) to invest a surplus of the policyholders' funds (i.e. subscriptions, or contributions), on profit-sharing basis or mudharabah, on the conditions that these shareholders should bear all investment management costs and that the investment profits should be divided based upon agreed portions. A mudhareb (shareholder) may receive up to 50% of such profits, as prevalent in the market nowadays, unless agreed otherwise at a higher percentage. This investment-related fatwa from the SSB encourages shareholders to expand their investment activities and reflects well on the surpluses achieved for the benefit of policyholders.

The distinctive feature of the takaful insurance sector in Sudan is that the earned surplus is distributed among all subscribers who have paid subscriptions (contributions), proportional to such contributions, irrespective of whether they have suffered losses or indemnities throughout the related insurance year, or not. This is considered the finest embodiment of the essence of takaful, which is based upon cooperation and joint indemnity.

2. What impact are the ongoing domestic and international economic conditions having on the takaful industry in Sudan and the broader region? And what approach should takaful operators adopt to deal with them?

When the global financial crisis loomed in 2008, it was anticipated that the takaful industry would be affected, but, thanks to Allah the Almighty, it was not impacted. It was, however, affected by the considerable decline in oil prices globally and other factors locally, including climatic change and rainfall fluctuations, which negatively influenced the insurance business lines associated with agriculture and livestock and their related production sectors. Furthermore, the issued order by the Central Bank of Sudan to stop banks offering real estate and motor vehicles financing in 2013 significantly affected the Sudanese insurance market. Motor vehicle contribution income constitutes a considerable part of the general insurance market, adding up to 46.50% in 2013, and 49.20% in 2014.

3. In your opinion, what are the main challenges facing the takaful industry in Sudan and the broader region? And what opportunities does Sudan provide for takaful in terms of life and non-life insurance?

The challenges encountered by the takaful insurance industry are associated with the development of its experience, the development and promotion of its service distribution channels and the introduction of new products to meet the increasing consumer demand. Other well-known challenges include the introduction of computing technologies, as well as of quality and standardisation systems. However, awareness about insurance among different segments of the society remains the greatest challenge, requiring development of promotional and awareness-raising campaigns that focus on takaful insurance. In addition, expanding into foreign investments requires the acquisition of well-established technical experience to deal with complex risks, whether material or moral.

As for the opportunities available in this regard, they are undoubtedly numerous and various. The most important and increasingly demanded insurance products are medical and life insurance, known as either individual or group takaful insurance in Sudan.

4. How do you see the future of the takaful industry in Sudan? And how will the Islamic Insurance Company remain a strong player in the increasingly competitive takaful industry?

The takaful insurance industry is continuously flourishing and is widely expanding among other industries. Within this environment, the Islamic Insurance Company Limited (Sudan) has developed a five-year strategy (2016–2020) that focuses on providing proper qualification and training for human resources, improving the company's solvency through increased investments and fixed assets along with opening up to both Arab and African markets, increasing customer-service distribution channels, and implementing total-quality management and corporate excellence systems.

TARIG KHALIL OSMAN

Managing Director, United Insurance Company

TARIG KHALIL OSMAN is the Managing Director at United Insurance Company one of the leading Takaful Companies in Sudan. With over 15 years' experience in Takaful Insurance representing Khalil Osman Investment Company the largest private shareholder on the Board of Directors. During this time was part of development of first partnership agreement and developing Headquarters Project. Directly involved in all major investments decisions that have created highest profit dividends in company 40 years history. Also directly involved in Islamic finance by currently being a shareholder and Board Member of Saudi Sudanese Bank since 2009.

He is currently a major shareholder/Director & represents Khalil Osman Investment Company (KOI) a family investment company that is involved in different Business sectors. KOI is major shareholders in the following companies Khalil Osman Agriculture & Animal Industrialization Company — Air Taxi & Cargo Company — Regency Hotel. Pleases visit www.koivestment.com for more details.

With a complete belief in Takaful Insurance looking to make it a mainstream rather than niche product.

INTRODUCTION

In asking questions about Takaful Insurance, the normal view of economic growth will not be sufficient. One must take a few parameters, which makes this industry different:

- Takaful was established in Sudan in 1978 and only started gaining traction worldwide from the year 2000 in a very young market.
- Takaful's growth is over 15% per year for the past 15 years and its estimated value as of 2015 is between 12 to 15 billion USD.
- There are less than 300 companies worldwide with over 50% in GCC countries and 20% in Malaysia.

1. How do you see the impact of the global economic growth slowdown on the insurance industry, particularly Takaful? And in what ways are you using information to assist in making strategic and risk decisions for your organisation?

Although the global economy might be slowing down, our niche of Takaful Insurance has been growing mainly due to its infancy and acceptance as an alternate to conventional insurance. The growth of Islamic banking worldwide is also another major reason for the growth of our industry and for banks to be truly 'Islamic', their insurance services must be sharia compliant. When we look at the developing world in general, and specifically in the Africa region, the insurance sector is relatively very small with vast potential. For Takaful Insurance, the vast potential has become immense.

Our main approach in making strategic and high risk decisions is based on the development and implementation of a long term growth plan. During the period 2000-2010, the development of the relationship between Shareholders and Policyholders has can only be described as unique. The first partnership agreement was enacted in which the headquarters tower investment project was completed with great success for all involved. Since 2010-2015 a new relationship reached new levels with surplus distribution to customers and profits to shareholders reaching their largest numbers.

2. In retrospect, how would you describe the development of the global Takaful industry? And what factors differentiate Takaful in Sudan from other markets?

Takaful was created in Sudan in 1979 and since 1992 has been the only system in Sudan. During the past 37 years, the Sudanese Model has evolved into what is considered the most 'Islamic' model currently in the world.

To describe our system in general:

1. We conduct all insurance services under a wakalah model with all operations fees deducted[1] and insurance surplus/loss is presented to Policy Holders/customers for their disposal at the end of each calendar year.

2. At least one member becomes a full voting board member and is elected by and from the Policyholders of the company.

3. All investments of the company are to be invested in Shariah compliant activities or industries under a Mudarabah or Partnership[2] model, with Shareholders on a pre-agreed profit sharing agreement.

It is similar to a mutual fund in terms of our insurance services with all surplus/loss the sole ownership of the customers but the main difference is we make profits for our shareholders via our investments services.

The two other main models are the Saudi and Malaysian models. The Saudi model conducts all insurance services under a 'Wakalah' concept, however the distributed profits to Shareholders are calculated as 90% fees of Insurance Surplus. The issue of shareholders receiving any funds from Insurance services is not acceptable to the Sudanese model as the funds were donated to fulfil claims, and if there are no claims then the rest of the funds must go

"TAKAFUL WAS CREATED IN SUDAN IN 1979 AND SINCE 1992 HAS BEEN THE ONLY SYSTEM IN SUDAN. DURING THE PAST 37 YEARS, THE SUDANESE MODEL HAS EVOLVED INTO WHAT IS CONSIDERED THE MOST 'ISLAMIC' MODEL CURRENTLY IN THE WORLD.

back to the Policyholders to decide on Surplus distribution.

In the case of the Malaysian model, the insurance services are conducted under the 'Mudarabah' system where the insurance surplus is divided between shareholders and policyholders; which has been declared non-sharia compliant by many Islamic scholars.

3. How would you describe the most challenging factors facing the Takaful industry in Sudan and the broader region? How concerned are you about further potential economic, political, social and business threats to the growth of your organisation and the broader industry in Sudan?

The issue of international banking and transfers as well as credit rating is our main concern. We are part of the international arena yet Sudan's unique pariah status is causing serious issues.

In regards to the main issues facing Takaful worldwide, there is a lack of a unified body and the existence of three main models with each country creating its own unique model. There is also a lack of qualified scholars and the adaptability of shariah laws with local laws are all main areas of concern. We need to hold conferences across countries as well across regions. Nations think only locally and make rules that address their viewpoints, and in this case we need a unified cohesion for Takaful to truly grow into its potential.
Even within the different models, a general outline that accepts different versions must be created. There are various organizations working to that end and they must be supported and endorsed further.

4. How widely are you looking to see how the takaful industry could be disrupted in Sudan? And how are you assessing the impact of increased competition, distribution channels and new technologies to your organisation?

We have no concerns of disruption from international entrants to the market yet. Local players can cause short term disruptions by creating a price war and /or providing inferior services resulting in the lack of trust in insurance companies. In our organization, we are embracing change by first instilling the right principles of Takaful insurance. We also believe that the insurance market is too vast for serious competition and there is more room for collaboration and creation of shared value rather than competition.

For the past three years, our customers have decided to annually distribute 40% of our insurance surplus as a bonus to our staff and as reimbursements to our customers. In regard to competition, we believe in alliances and are focused on creating strategic relationships between our competitors.

As the nature of our business involves reinsurance that is mainly conducted internationally, we have fostered special relationships where we distribute work locally.

5. What is your outlook for Takaful in Sudan in the short to medium term? And how will United Insurance maintain a competitive advantage over other operators in an already saturated market?

Our outlook for Takaful is really optimistic for both the short and medium terms. As we develop, we are creating an awareness that can only increase growth in Takaful, not only in Sudan but throughout the world.

In regard to United Insurance maintaining a competitive advantage, we believe corporate governance is key. In 2015 we were the first company in Sudan to create a new organizational chart with the appointment of a Managing Director who is in charge of the Investment Portfolio and the General Manager in charge of the insurance services of the company. We have also created Investment and Compensation committees that are composed of the Managing Director and Policy Holder Board Member and General Manager, as well a rotating Board Member. These committees were all made to create policies and procedures as well as oversight and guidance to all company operations. The inclusion of the Policy Holder Board member is to ensure customers benefit while the Managing Director benefits the shareholders and the General Manager benefits the employees.

In regards to competing in a saturated market, this relates directly to the blue ocean vs. red ocean theory. If we regard the existing market, it is so small that it is insignificant. But when we consider the potential vast blue ocean potential, we are at the tip of the iceberg and only now uncovering how vast it is. We have just recently started health insurance which we believe is one of the pillars of making Africa rise.

We believe our market is not yet saturated and there is an immense opportunity for companies to grow if we are able to spread insurance awareness between small/medium business owners and individuals as well as home owners where more than 90% are either non –insured or inadequately insured.

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Notes

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