



المجموعة السودانية للديمقراطية أولاً
Sudan Democracy First Group

مبادرة الشفافية السودانية
Sudan Transparency Initiative

Sudan Democracy First Group (SDFG) was formed as an umbrella group of leading Sudanese independent and democratic civil society and media actors to serve as a civil society and think tank that conduct indigenous research, analysis and advocacy on human rights, development, peace and democratic transformation in Sudan.

SDFG launched the Sudan Transparency Initiative (STI) Project in March 2015 to investigate, analyze, document and disseminate credible and reliable information about the scope and scale of corruption and lack of transparency in Sudan. The overarching objective of the project is to raise awareness, promote accountability and resistance and spur grassroots anti-corruption movements in Sudan. One of the components of the project is to commission expert consultants to thoroughly research and report on corruption and lack of transparency in specific key sectors. The banking system in Sudan sector receives considerable attention and controversy both in government circles as well as the public arena. This report is an attempt to shed light on the intricate and multifaceted structure and practices of this sector.

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I. List of Abbreviations and Acronyms

AAIOFI	Accounting and Auditing Organization Standards for Islamic Financial Institutions.
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ASB	Al-Salam Bank.
BCBS	Basel Committee for Banking Supervision.
BDSF	Bank Deposits Security Fund.
BoD	Board of Directors.
BOK	Bank of Khartoum.
CBOS	Central Bank of Sudan.
CPA	Comprehensive Peace Agreement.
CMA	Capital Markets Authority.
CICs	Central Bank Ijara.
FDI	Foreign Direct Investment.
GMCs	Government Musharaka Certificates.
FSIs	Financial Soundness Indicators.
FSAB	Financial Sector Assessment Program.
HSSA	Higher Shariah Supervisory Board.
HQLA	High-Quality Liquid Assets.
IFSB	Islamic Financial Services Board.
IFIs	International Financial Institutions.
IMF	International Monetary Fund.
IFRS	Institutions Offering Islamic Financial Services.
KSA	Khartoum Stock Exchange.
LMF	Liquidity Management Fund.
L/Cs	Letter of Credits.
L/Gs	Letter of Guarantees
LOLR	Lender of Last Resort
NISS	National Intelligence & Security System.
NCP	National Congress Party.
NPLs	Non- Performing Loans.
QNB	Qatar National Bank.
ONB	Omdurman National Bank.
OMOs	Open Markets Operations.
PLS	Profit and Loss Sharing.

QNB	Qatar National Bank.
RSF	Rapid Support Forces.
SFB	Sudanese French Bank.
SFSC	The Sudan Financial Services Company.
SMEs	Small and Medium-sized Enterprises.
SST	State Sponsoring Terrorism.

II. Executive Summary

The paper aims to analyse the banking system in Sudan, from its foundation in 1960 to date, in detail. It discusses the major differences in the banking system before and after the incumbent regime ascended to power in June 1989 through a military coup, calling itself the Salvation (Ignaz) regime (now known as the National Congress Party (NCP)), with respect to huge variances in the prevailing supervisory and regulatory frameworks. The paper also demonstrates that the Sudanese banking system lacks political, operational, and financial Independence due to frequent intervention from government and also other influential and corrupt persons in the banking business.

The paper also sheds light on the negative practices and non-compliance of various banks with Central Bank of Sudan (CBOS) regulations, circulars and guidelines. The paper gives many examples of corrupt practices and their impact on the public interest, especially the exploitation of banks' funds and resources for the personal interests of ruling NCP executives at the expense of the public interest. However, CBOS Banking Supervision Department's reports pertaining to mismanagement of banks General Managers' negative practices, corruption networks, including the misuse of depositors' funds by the Boards of Directors (BoD) and major shareholders of banks, huge volumes of bad debts (non-performing loans), etc., are neglected by CBOS Senior Management, because of their fears from the influential executives.

The paper reveals that political intervention has significant influence on the performance of the banking system, especially on the banks' executive decisions with respect to the extension of credit, providing finance to specific segments of society, priority in the allocation of foreign currency resources, recruitment and selection of employees, and promotion. As a result, poor persons in the general public were totally deprived of banking access as a result of the prevailing inequality and discrimination.

The paper concludes by laying out a broad set of challenges currently facing the banking system in Sudan, such as ineffective policies issued of the CBOS, spread of corruption, US Sanctions, blocking access to external financing from international financial institutions (IFIs), liquidity squeezes by the CBOS, and lack of corporate governance.

The paper also provides set of recommendations to tackle these challenges, such as promoting the public's confidence in the banking system and ensuring its stability, anti-corruption mitigating strategies, improving the correspondence banks relationships, promoting good market practices and ensure high standards of corporate governance and regulatory frameworks to prevent corruption and ensure a sound, healthy and resilient banking system in Sudan in the near future.

III. Introduction

Interest in the banking system in Sudan has grown significantly in recent years; sizable investments have been made by both individual businessmen and government. The banking system in Sudan is considered a major pillar of the overall financial system, and the various varieties of services they avail for the economy constitute vital inputs for conducting and fostering investment activities in virtually all the sectors of the economy.

The banking sector in Sudan is composed of 37 banks, five of which are state-owned specialised banks, 23 are joint-venture banks, some of them are owned jointly by the government and the private sector, others national-foreign banks and some are wholly owned private banks (one of those banks is an investment bank), and nine banks are fully owned by foreigners.

From 1989 to date banks have generally not complied with CBOS regulations due to political influence. Regulatory frameworks to preserve a sound banking system and prevent corruption are almost non-existent. In addition, most banks lack the knowledge to conduct feasibility studies regarding project financing and portfolio management.

From 1989 to date banks have generally not complied with CBOS regulations due to political influence. Regulatory frameworks to preserve a sound banking system and prevent corruption are almost non-existent. In addition, most banks lack the knowledge to conduct feasibility studies regarding project financing and portfolio management. They also lack the expertise or skill of analysing the financial situation of other banks which leads to low competence in setting credit lines for dealing in the interbank market. All banks rely heavily on the CBOS for their liquidity needs; the CBOS is playing the role of lender of last resort (LOLR) for injecting money into banks that face a permanent deficit in their accounts with the CBOS.

Historically, banks in Sudan measured up to the international banking practices since they had to compete with international banks that conduct business inside Sudan, such as Barclays, Credit Bank, and Citibank. These international banks had a strong financial position

and solid relationships with correspondent banks all over the world and were managed by highly trained and highly qualified banking cadres. However, after 1989, banks were characterised by a very weak financial position, breakdown in relations with international correspondent banks, and lack of capital and reserves buffers. Moreover, the imposition of the Islamic banking system impacted the performance, due to the challenges related to compliance with Shari'a rules on banking.

Experience has shown that the banking system in Sudan is not independent. The CBOS and other banks have little to no room for operational freedom under the financial liberalization model; instead they work under a model of financial restriction and institutional constraints from the government and influential bodies. Therefore, we would conclude that there is no efficient and sound banking system capable of satisfying the needs of customers in a consistent and fair way.

This research focuses on and highlights corrupt practices that arise from the abuse of power and use of political influence for private gain in the banking system. The research also sheds light on the powerful networks linking leaders in the government with those in the banking system and how these links effectively hinder the performance of banking system in Sudan.

The research also addresses the chronic problems that have infected the banking system in Sudan since the ascendance of the NCP to power in 1989, such as the recruitment of weak senior staff to fill leading positions in the banking system who can easily be influenced by politicians to execute illegal bank transactions, facilitate suspicious bank operations, and breach the restrictions and violate the policies that govern the practice of banking. In addition to spreading corruption, this practice has seriously undermined the development of the banking system. The cases of corruption cited in this research reveal the impact of cor-

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ruption on the ability of the banking system to carry out its functions.

With respect to the challenges facing the banking system in Sudan, the unilateral economic sanctions imposed by US, though lifted now, posed a significant burden that constrains the ability of the banking system to reach its full potential since their imposition in 1997. Though lifted, th sanctions remain the main limitation of Sudan’s access to finance, sophisticated technology, international banking and electronic payment systems. The sanctions also have significant impacts on bank customers; increasing the cost of financial transactions for businesses and isolating them from the international financial system; and depriving households of remittances from relatives abroad which constitutes the largest informal safety net for the poor in the country. Moreover, the sanctions have caused a breakdown in relations with correspondent banks, which has had negative impacts on the economy, such as decelerating growth by inhibiting imports and exports. The lower imports of foodstuffs, intermediate goods, and raw materials resulted in lower domestic consumption and production; the shortage of foreign exchange contributed to the depreciation of the currency, fuelling inflation and undermining macroeconomic stability.

The research is organised as follows; Part IV provides overview of the historical developments of the banking system in Sudan, Part V sheds light on the banking system regulations and the independence of Sudan’s banking system. Part VI focuses on the challenges that face the banks’ operation and their implications. Part VII offers conclusion and recommendations.

IV. Background & Context

a) The Banking Sector during the Colonial Period (1898-1956)

The banking sector in Sudan was introduced in the early years of the colonisation and expanded the use of money by opening branches of foreign banks, including; the National Bank of Egypt (1903), Barclays Bank (1913), the Turkish Ottoman Bank (1949), the Bank of Egypt branch (1953), and the French bank Crédit Lyon (1953). These banks dominated banking in Sudan, and by the end of the colonial system there were 38 branches in different cities across Sudan.

b) The Banking Sector in the Post-Independence Period (1956-1977)

After the independence of Sudan in 1956, the immediate priority was to establish a central bank. A commission of experts from the United States' Federal Reserve worked with the Sudanese government to create the Law of the Bank of Sudan in 1959, and in February 1960 the Central Bank of Sudan began its operations. The main responsibilities of the CBOS included the issuance of the national currency, formulating monetary and finance policies, building a strong, efficient and effective banking sector, maintaining government accounts, and providing foreign currency for government development projects.

Following the establishment of the CBOS, many banks were also established, and the Sudanese Pound started to circulate. A number of new banks were established, including specialised development banks such as the Agricultural Bank (1957-1959), the Sudan Industrial Bank (1961), the Real Estate Bank (1967), and the Sudan Commercial Bank (1960).

A major development with lasting effects on the banking system in Sudan was the nationalisation of foreign banks between 1970 and 1975. Nationalisation was followed by a policy of restructuring and merging banks. This policy was reversed in 1975-76 by allowing foreign banks to open branches in Sudan.

Another major development in the Sudanese banking system, was the introduction of Islamic finance in Sudan in 1977, when the first full-fledged Islamic bank, Faisal Islamic Bank, was established. Following the establishment of Faisal Islamic Bank, the government opened five more Islamic banks between 1980 and 1983. This trend of Islamic finance con-

tinued when the CBOS, started a policy to Islamise the entire banking system in 1983.

c) The Islamisation of the Banking Sector (1983-2005)

In 1983, the CBOS announced the Islamisation of the entire banking system, mandating all financial institutions operating in Sudan to fully comply with Islamic laws. These laws prohibited riba, an increase in wealth that is not related to engaging a productive activity, in the banking system and stipulated that banks immediately shift towards using Islamic modes of finance. While the financial environment was not ready to make such a sudden change, however the number of banks complying with these directives started to grow and the entire financial system started to adapt to the newly imposed Islamic principles, including branches of foreign banks such as Citibank. The major conceptual and practical difference between Islamic and conventional banking system is that Islamic financing does not deal in interest; rather it is based on a partnership agreement that shares risks as well as returns.

Key Principles Governing Islamic Banks in Sudan

The key principles governing Islamic banking in Sudan are:

1- The principle of equity: This principle is the rationale for the prohibition of predetermined interest payments (riba) and aims to protect the weaker contracting party in a financial transaction and promote fair treatment. The principle of equity is also the basis for prohibiting excessive uncertainty (gharar) as manifested by contract ambiguity or elusiveness of payoff. Transacting parties have a moral duty to disclose known information before engaging in a contract, thereby reducing information asymmetry; if this principle is violated, the presence of gharar would nullify the contract.

2- The Principle of participation: Although commonly known as interest-free financing, the prohibition of riba does not imply that capital is not to be rewarded. Investment return must be earned for participation in the productive activity and not merely with the passage of time. Thus, return on capital is legitimised by risk taking and determined after the fact based on asset performance or project productivity, thereby ensuring a link between financing activities and real activities. The principle of participation lies at the heart of Islamic finance, ensuring that increases in wealth accrue from productive activities.

3- The Principle of ownership: The rules “do not sell what you do not own” (for example,

short-selling) and “you cannot be dispossessed of a property except on the basis of right” mandates asset ownership before transacting. Islamic finance has, thus, come to be known as asset-based financing, forging a robust link between finance and the real economy. It also requires preservation of, and respect for, property rights, and upholding contractual obligations by underscoring the sanctity of contracts.

During the period 1989 to 2005, Islamic finance in Sudan was evolved into a fully integrated system with a wide range of Islamic financial institutions and products. That period witnessed the establishment of the High Shari’a Supervisory Board (HSSA) in 1992, alongside many other financial institutions to improve the functioning of banks under the full-fledged Islamic banking system. These institutions include the Khartoum Stock Exchange, Deposits Guarantee Fund, Sudan Financial Services Company, Electronic Banking Services and National Agency for Export Finance and Insurance...etc. As a result, the number of operating Islamic banks in Sudan grew to 29 banks by the end of 2005.

Main Characteristics of the Islamic Banking System

The main characteristic that distinguishes the Islamic banking system from other systems is that it is derived from and built on Islamic laws. In particular, the primary objective of the Islamic banking system is the development of society, not making profit. More precisely, Islamic banks should perform their role as intermediaries through combining economic, banking and social activities.

In the Islamic banking system, banks are prohibited from charging fixed or predetermined interest, but rather sharing profits and losses. This fundamental principle requires that banks’ return on financial assets to be unknown and determined only after realising the transactions. This means that return on capital cannot be payable regardless of the result of the productive operation.

Moreover, Islamic banks should use Shariah compliant modes of finance. Some of these modes are based on sharing profit and loss such as Mudarabah, Musharaka, Muzaraa and Musaqat...etc, while others include Ijara (leasing), free loans, deferred sale and Murabaha (these concepts are defined in greater details below).

It should be noted that the basic premise of the Islamic Banking is that prohibiting interest reinforces the fair distribution of money in the economy and strengthens overall social welfare. In addition, it reduces the prices of the goods which would otherwise be inflated

by the cost of interest. Similarly, sharing profits and losses contributes to minimising risk and facilitates its absorption by distributing the risk between the two parties i.e. debtors and creditors.

It is worth mentioning that Islamic banking does not allow for reselling a debt with another debt even if the two debts have the same value. This stems from the Shariah view of lending as a lenient contract and one that should not be entered into for the sake of making profit.

Below is a brief explanation of key instruments of Islamic finance used by banks in Sudan.

Murabaha:

Murabaha is considered the most common mode of finance used by banks and other financial institutions operating in Sudan. In Murabaha transactions, a buyer petitions a bank to finance a purchase at a premium over the initial price. When the buyer completes a set number of payments, including the pre-set premium, he or she takes on full ownership of the purchase

Salam and Parallel Salam:

Salam contracts are normally used to finance the purchase of agricultural products and may be subject to different interpretations. For example, in Sudan, banks assign credit risks according to the length of time before the investment is realised into cash by the bank.

Musharaka:

The Musharaka mode of finance is based on sharing profit and loss between the parties. Musharaka transactions under Shariah are most often used for partnerships in trading transactions such as acquisition and sale of commodities, real estate or other similar goods. The risk weighting assigned to these assets varies depending on their type.

Mudarabah:

Mudarabah is a profit-sharing and loss-bearing contract where one-party supplies funding (financier as principal) and the other provides effort and management expertise (mudarib or entrepreneur as agent) with a view to generating a profit. The share in profits is determined by mutual agreement but losses, if any, are borne entirely by the financier, unless they result from the mudarib's negligence, misconduct, or breach of contract terms.

Qard al hasan:

In Islamic finance, the term “Qarḍ al hasan”, refers to a form of financial assistance to the needy to be repaid free of charge.

Ijarah:

Ijarah (leasing) is a contract of sale of the right to use an asset for a period of time. It is essentially a lease contract, whereby the leaser owns the leased asset for the entire lease period.

d) The Banking Sector in the Post Comprehensive Peace Agreement (CPA) Period

In 2005, when the Comprehensive Peace Agreement (CPA) was signed addressing the long-standing civil conflict between northern and southern Sudan, a dual banking system was adopted, allowing for an Islamic banking system in the North and a conventional banking system in the South.

After the secession of South Sudan in June 2011, the Sudanese banking system has become entirely compliant with Shariah. All of the 38 banks and their 724 branches in Sudan operate in accordance with Shariah principles.

V. Banking Regulations in Sudan

a) The Legal Frameworks and Structures Governing the Banking System in Sudan

1) The Legal and Regulatory Framework

Following independence in 1956, a currency committee was established to issue a unified Sudanese currency with a design that reflected the cultural diversity in Sudan. During this period, the government formed a committee of international experts to consider the establishment of a central bank. The British and Egyptian currencies prevailed even as the committee for Sudanese currency was established in 1956 and issued the first national currency in 1958. In 1959, the Bank of Sudan Act was passed, and the CBOS started its operations officially in 1960 as an organization with its own legal status.

In the same context and after a long delay, the first Banking Business (Organisation) Act 1991 was issued to regulate the banking system along with Bank of Sudan Act 1959.

According to the Banking Business (Organisation) Act of 1991 and the Bank of Sudan Act 1960, Chapter 1 Article 3, banks are allowed to perform the following:

- Banking, including receipt of cash, currency deposits, savings deposits and investment deposits;
- Providing letters of credit and of guarantee;
- Payment of checks and collection of orders, vouchers and other papers of value;
- Providing financing to customers and operations to deal in foreign exchange;
- Any finance work as determined by the Bank of Sudan, which is not inconsistent with Shariah.

Currently, the banking system is governed by the 2002 Central Bank of Sudan Act, and the 2003 Banking Business (Organisation) Act which replaced previously mentioned acts of 1959 and 1991 respectively. The law confers on the Central Bank of Sudan (CBOS) powers to regulate and supervise the banking system.

Titles two, four, six, seven, and eight of the Banking Act, together with Regulations and Circulars, frame the powers vested in the Board of Directors of the CBOS under the Banking Act while other provisions cover the regulatory framework, in addition to the standards and regulations made by international agencies such as Islamic Financial Services Board (IFSB), Accounting and Auditing Organization Standards for Islamic Financial Institutions (AAIOFI), Basel Core Principles (BCP), and those consistent with public interest and do not conflict with the applicable provisions of Sudanese law. Accordingly, the CBOS follows international developments in regulation and supervision closely and adopts the international best practices at the earliest opportunity.

In addition to Central Bank of Sudan Act 2002, and Banking Business (Organization) Act 2003, other Acts and Regulations applicable to the banking system include:

- the Foreign Exchange Dealing Act, 1981, although a new act is under discussion in the parliament.
- the Anti-Money Laundering & Combating Terrorism Finance Act, 2014
- the Property Mortgaged to Banks (Sale) Act, 1990.
- the Sukuk Act, 1995
- the Credit Information & Scoring Agency Act, 2011
- the Payment Systems Regulation 2013 (a new act is under discussion)
- the Deposit Guarantee Fund Act, 1996, and
- the Foreign Exchange Dealing Regulation, 2013

2) Indicative Regulatory Principles for Banks

Some of the regulatory principles applicable to banks, including:

- The minimum paid capital requirement for local banks is SDG 20 million and USD \$100 Million for foreign banks.
- Minimum capital requirement is 12% of total holdings as provided for by the IFSB. Work is underway in the CBOS to implement Basel III as recommended by the IFSB to address the scientific and practical aspects related to capital requirement and liquidity ratios. Accordingly, the CBOS has directed banks to increase their capital requirement to mitigate the relative-

ly high market risk. Capital adequacy for overall Sudanese banks is 18.7% in 2016. Asset quality ratio (total non-performing loans against total funding) is 6% as provided by the BCBS. The non-performing loans ratio was 5.2% in 2016.

- Risk classification and provisioning requirements include 25% for substandard, 50% for doubtful and 100% for loss assets respectively.
- The Reserve Requirement Ratio is 18% of deposit liabilities. The banks should maintain a cash balance with the CBOS in the form of a statutory cash reserve of 18% of total deposits in local and foreign currencies. Deposits include current deposits and margins, as reflected by the Weekly Position Report on deposits and financing in the bank, except the investment and savings deposits.
- Licensed banks need to adopt international standards about customer due diligence, internal audit, risk management, compliance, corporate governance, etc.

While these are specific requirements, banks are required to comply with other laws in Sudan, as applicable. For instance, in addition to norms set by CBOS, Stock Exchange Act, set by Khartoum Stock Exchange (KSA), shall apply to licensed banks which joint stock companies.

3) The Structure of the Sudanese banking Sector

The banking systems in all economies are considered one of the major pillars of the overall financial system, and the various services they avail constitute vital inputs for conducting and fostering investment activities in virtually all sectors of the economy.

The Sudanese financial sector is dominated by the banking sector like many other developing countries. It is currently structured around the CBOS as a regulatory and supervisory authority, 38 commercial banks distributed into three groups according to capital ownership, specifically state-owned, joint-venture and foreign banks. All banking operations are governed by a centralised High Shariah Supervisory Board, established in 1992, to assure full compliance with Shariah principles. Moreover, banks are also required to establish in-house Shariah supervisory boards.

The Sudanese banking system is currently organised under the CBOS, as a supervisory body over 38 banks of various forms of ownership and domain of activities. Those banks have over 924 branches spread across the country, concentrated in the urban cities.

Banking System Structure

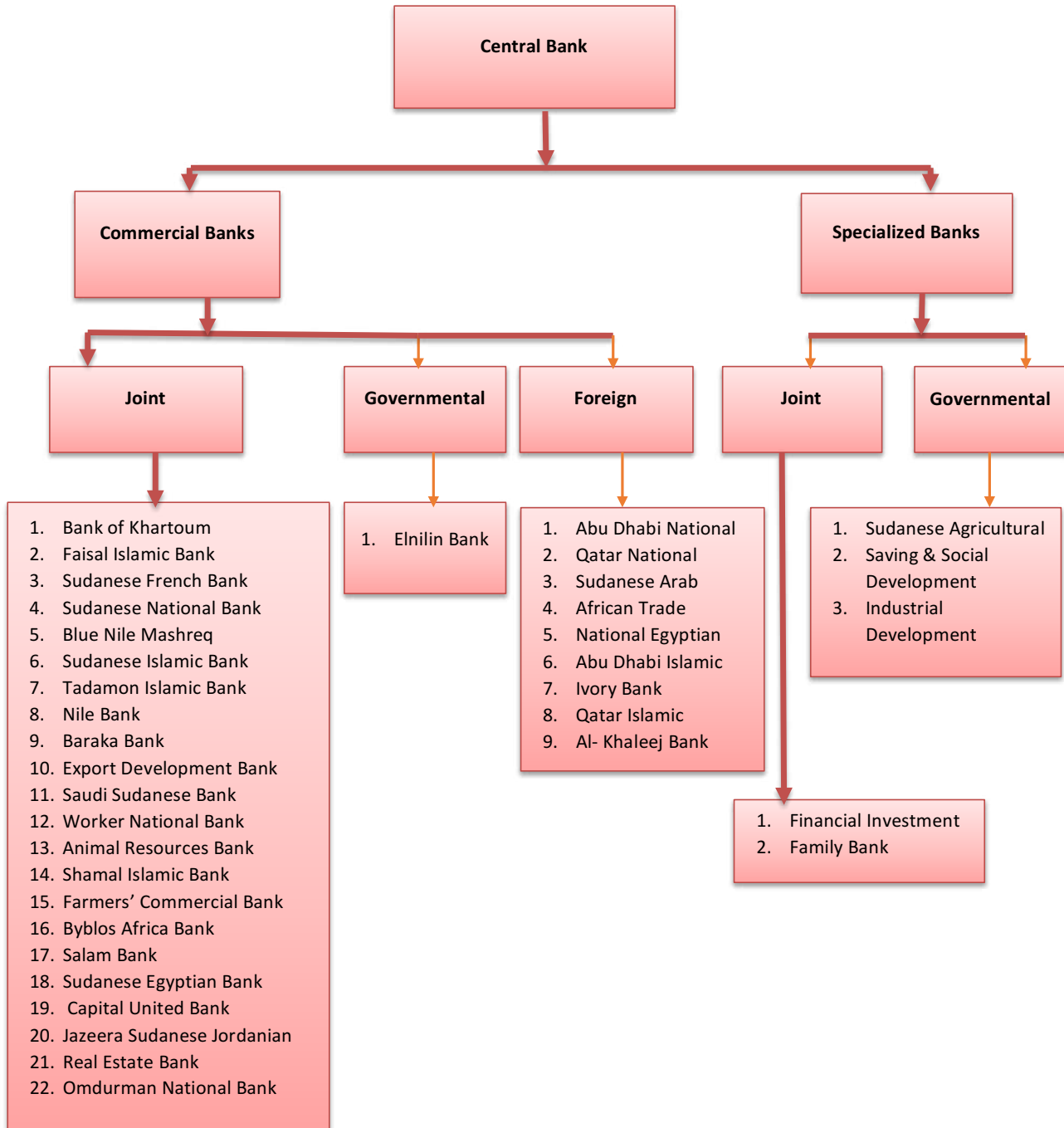


Table (1): Foreign Investments in the Sudanese Banking Sector

Bank	Share of Foreign Capital %
1- Estate Commercial Bank	33.40%
2- Khartoum Bank	61.78%
3- Byblos Bank Africa	82%
4- El Salam Bank	68.30%
5- Sudanese- Egyptian Bank	79.92%
6- Capital Bank	99.64%
7- Gezira Bank	41.49%
8- Qatar National Bank	100%
9- National Bank of Sudan	75%
10- Arab Bank	100%

Source: Finance Directorate, Financial Markets Department, Central Bank of Sudan

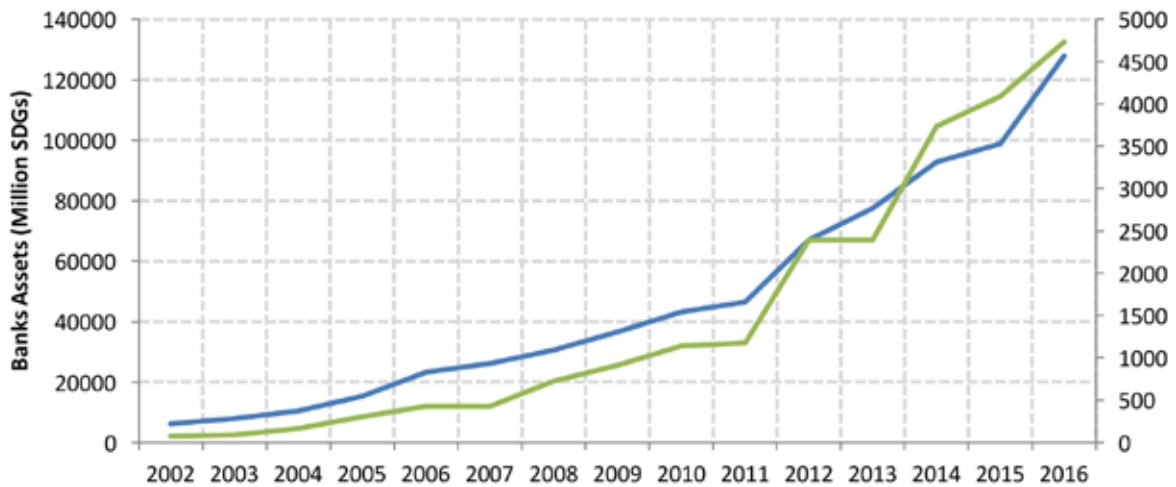
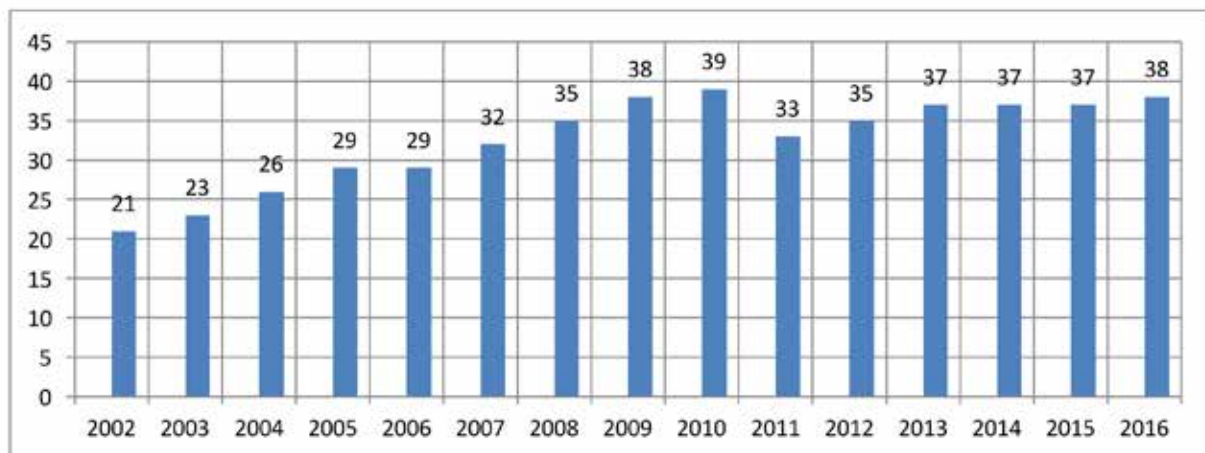
4) Performance Indicators

To form an idea about the performance of the banking sector in Sudan, it is sensible to look at some indicators related to the financial stability specifically bank assets, their profitability and the number of banks operating in the country. In this context, Table (2), Figure (2.1) and Figure (2.2) below show the banks' total assets, profits and the number of banks operating in Sudan during the period 2002 – 2016. As shown by the table and figures, the number of banks operating in Sudan grew steadily to reach a total of 38 across the country. The banks' assets and profits also increased during the period 2002 – 2016.

Table (2): Banks Assets, Net Profits & Number of Banks (2002 – 2016)

Year	Banks Assets (in millions of SDG)	Banks Net Profits (in millions of SDG)	Number of Banks
2002	6,112	79	21
2003	7,896	88	23
2004	10,435	167	26
2005	15,303	306	29
2006	23,144	430	29
2007	26,197	430	32
2008	30,650	728	35
2009	36,667	912	38
2010	43,108	1,143	39
2011	46,504	1,177	33
2012	67,050	2,395	35
2013	77,480	2,396	37
2014	92,880	3,737	37
2015	98,830	4,091	37
2016	127,805	4,791	38

Source: Banking Supervision Department, Central Bank of Sudan

Figure (2): The Total Assets and Banks' Profits (2002 – 2016)**2.1 Banks Assets & Profits (2002 -2016)****2.2 Number of Banks in Sudan (2002 -2016)****b) Government Regulatory Authorities**

The following bodies were established to support the operating banks to achieve their business objectives and boost activity and operations:

1) Deposits Guarantee Fund (Deposit Insurance Scheme)

The deposits guarantee fund was established in 1996 to provide Islamic insurance services to bank deposits. The scheme, termed the Bank Deposits Security Fund (BDSF), is based on the Sharia's-compliant contract of takaful. The BDSF covers current account (qard), in-

vestment account (mudarabah) of full-fledged Islamic commercial banks and investment banks.

All banks in Sudan whether state-owned, joint venture or foreign, enjoy the guarantee services of deposit security fund, and all new banks can also access the fund. All banks also enjoy equal access to the lender of last resort services of the Central Bank through the so-called liquidity shortfall financing window.

2) Liquidity Management Fund (LMF)

To encourage interbank activity, a Liquidity Management Fund (LMF) was introduced in 2014. The LMF encourages an interbank market and limits recourse to the CBOS as “lender of first resort”. All banks were required to subscribe to the LMF.

The banks mainly use interbank musharaka and mudarabah, Islamic placement accounts, to exploit and manage surplus liquidity and liquidity shortages. However, among commercial banks, liquidity allocation has been less than efficient in the context of excess reserves, shallow interbank and secondary markets, and a cap on banks’ holdings of government securities.

3) Khartoum Stock Exchange (KSE)

Established in 1994, the Khartoum Stock Exchange plays a major role in strengthening the financial markets in Sudan by regulating secondary markets. In addition, it provides long term finance by trading in stocks and Islamic financial securities as well as raising the investment awareness among the public.

4) National Agency for Insurance & Finance of Exports

The National Agency for Insurance & Finance of Exports was established in 2005 as a specialised body that insures and finances eligible Sudanese exports, boosts the volume of exports, creates new markets and expands the financial sources for exports.

5) Sudan Financial Services Company

The Sudan Financial Services Company (SFSC) was established in 1998 and is 99% owned by the CBOS and 1% owned by the Ministry of Finance (MoF). The company is the issuing, selling and marketing agent for certificates issued by both the MoF and the CBOS.

Government Musharaka Certificates (GMCs) and Central Bank Ijara Certificates (CICs) are issued through auctions. The SFSC conducts the primary auctions, maintains the ownership's register, transfers of ownership for secondary market trades and effects payment of principal and profits at maturity.

SFSC also issues CICs/Shihab certificates on behalf of the CBOS, for the sole purpose of managing liquidity in the market, used for Open Market Operations (OMOs). These are issued exclusively for banks.

6) Micro Finance Developments

In 2007, the CBOS established a Microfinance Unit as an administratively and financially independent body. The Unit is entrusted with formulating microfinance policies and developing of operations with a socio-economic dimension to help poor people access credit with a view to encouraging the establishment of effective microfinance institutions and other activities to alleviate poverty in the country and to achieve balanced economic development all over Sudan.

The main objectives of the CBOS microfinance unit include the following:

- Encouragement of microfinance as a tool to provide financial services to the poor with a view of alleviating poverty and promoting economic development.
- Provision of microfinance through banks and financial institutions and facilitation of the flow of finances, from governmental and non-governmental sources, to the weak segments in the society.
- Institutional development of banks and microfinance institutions through training programs.

7) Microfinance Policies

CBOS policies aimed at contributing to economic and social development by increasing the contribution of microfinance projects to the gross domestic product (GDP), raising national savings and reinforcing social justice, alleviating poverty by creating opportunities for self-employment, promoting entrepreneurship and innovation to increase the income and assets of various economically active poor groups. To achieve these objectives, the CBOS continues to allocate 12% of the total financing portfolio of each bank to microfinance

projects. Moreover, the microfinance ceiling for individuals was raised from SDG 30,000 to SDG 50,000 together with the commencement of the wholesale microfinance guarantee agency (TAISEER) in 2016. Accordingly, two guarantee documents have been issued for microfinance institutions, and a coordinating council has been established, comprising the microfinance unit and the Sudanese Company for Development of Microfinance. The year 2016 also witnessed the launching of the agricultural season financing program using technology in cooperation with the Ministry of Agriculture and Forestry.

Table (3) shows the volume of microfinance extended by banks from 2013 up to 2016

Item	2013	2014	2015	2016
Total Bank Finance	37,657.1	44,320.7	53,456.7	67,688.6
Allocation for Microfinance According to the policy ((12%	4,518.9	5,318.5	6,414.8	9,477.0
Actual Total Microfinance	1,546.0	2,055.0	2,692.0	2,940.7
Total of Social Dimension Finance	1,129.7	2,704	5,601.3	2,744.3
(%) Micro Finance Percentage of the Total Finance	4.1	4.6	5.0	4.3
(%) Social Dimension Percentage of the Total Finance	3.0	6.1	10.5	4.1

Table (3) shows that the volume of microfinance increased from SDG 2,692.0 million in 2015 to SDG 2,940.7 million in 2016, an increase of 9.2%. The actual performance of microfinance decreased to 4.3% of the total finances in 2016 compared to 5.0% in 2015, social dimension finance decreased from SDG 5,601.3 million in 2015 to SDG 2,744.3 million in 2016, a decrease of 51.0%.

8) Comparison of the Banking System before and after 1989

From its establishment to 1977, the banking system operated according to the conventional (or interest charging) system. Monetary policy instruments were standing facilities, and inter-bank operations were based on overnight policy rate to manage commercial banks' liquidity. Islamic banking started in 1977 when the first fully-fledged Islamic bank, Faisal Islamic Bank, was established. The Government opened five more Islamic banks between 1980 and 1983. In 1983, the CBOS started a process to Islamise the entire banking system. A 1984 Civil Transactions Act required that banking system comply with Islamic laws.

From 1989 to date (with limited exceptions during the CPA period) the banking system was transformed dramatically to become fully Islamic. The CBOS under Islamic banking frameworks is challenged with the lack of adequate Shariah-compliant monetary policy instruments. The CBOS faces two main challenges in pursuing its monetary policy; the lack of short-term securities and the shallow capital and financial markets which negatively affect liquidity management in the banking system and the economy at large.



The main characteristic that distinguishes the banking system after 1989 from the banking system before the “Ignaz Era” is that it is now built on Islamic laws and heavily influenced by political and self-serving interests



The main characteristic that distinguishes the banking system after 1989 from the banking system before the “Ignaz Era” is that it is now built on Islamic laws and heavily influenced by political and self-serving interests

In the period between 1960 and 1977, banks were competing with international banks, but the Islamisation of banks after 1989 has negatively impacted the performance of the banking system.

Despite these differences between the systems, there are some similarities between two, with respect to the authority of the BOD to set rules, regulations and guidelines, and the authorisation to license banks.

9) Bank Relations with Government Authorities

The CBOS issues letters of guarantee (which are usually irrevocable, unconditional and payable on first demand) for some banks, when they enter into agreements to finance strategic goods (such as sugar, exports, and agriculture). However, some banks are getting this kind of guarantee for non-strategic goods or finances essentially allowing the extension of service to promote the personal interests of high-ranking leaders of the ruling party, their family members and supporters. There are many examples of the misallocation of deposits and grants from Gulf countries for personal gain.

Between 23 February and 4 March 2016, Mr. Abdelrahman Hassan Hashim, the former CBOS Director, allocated a significant amount of foreign currency resources for specific

banks to benefit influential NCP leaders. CBOS has received unprecedented requests from NCP leaders and affiliates for foreign currency resources, especially when the CBOS receives deposits from abroad and/or gold proceeds. These requests are made mainly to establish and expand existing business, and foreign trade through banking systems.

As an example of the misuse of foreign currency deposits received from friendly (mainly Gulf) countries, was the amount received in 2015 that amounted to US\$1.5 billion. Despite that, foreign currency reserves at the CBOS have declined by around US\$500 million. The data shows that the all government imports amounted to US\$750 million in 2015, and the balance of \$ 750 million from the foreign currency received from the Gulf friendly countries was not recorded as a reserve and did not appear in the CBOS balance sheet.

Instead of channelling foreign currency deposit to the CBOS reserve, US\$ 350 million was allocated to the Ministry of Defence. The amount (US\$ 350 million) was requested by Mr. Abdallah Hassan Al-Bahir, the President's brother, who is responsible for managing financial and banking transactions in foreign currency for the Ministry of Defence. Moreover, Mr. Al-Bahir has strengthened his relationships with CBOS staff, during the time of the Dr. Mohamed Khair E-Zubair, the former CBOS Governor, by marrying a senior female CBOS employee, who is now a general manager.

Strictly speaking, Mr. Al-Bashir has access to the CBOS foreign exchange department at any time, to obtain permission to transfer foreign exchange resources from the CBOS to Omdurman National Bank (ONB), in order to allow the ONB to execute/ implement ministry of defence imports from abroad by issuing letters of credit.

The remaining amounts of the deposit were allocated to import sugar, despite the availability of sugar at Sudanese Sugar Company



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Store. The allocation was divided equally between Mr. Ali Mahmoud Abdelrasool, former Minister of Finance, and Mr. Abdelrahim Al-Mutaafi, former Minister of Agriculture. The amounts of foreign currency were transferred to the banks of the said beneficiaries at Qatar National Bank (QNB).

To object to these type of personal interests' decisions, a CBOS employee in the foreign exchange department wrote a memorandum to CBOS Governor with respect to sugar deals, explaining that there was no need to import sugar from abroad because sugar was already available at the Sudanese Sugar Company Store. He also highlighted the fact that the importation of sugar would have a negative impact on domestic production. Unfortunately, the memo was put aside, and the employee was immediately transferred away from the policy department.

CBOS also received US\$ 500 million in January 2016 from friendly Gulf countries and US \$170 million from the Arab Monetary Fund (AMF) at an interest rate between 3% to 4%. These amounts were also allocated to defence and security, including the President's palace, the Army, Rapid Support Forces (RSF), and the National Intelligence and Security Services (NISS).

Accordingly, strict instructions were issued from the CBOS to beneficiary banks with respect to compliance with confidentiality about the names of the main sources of foreign resources.

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VI. The Independence of Sudan's Banking System

a) Political Influence on Bank Decision Making

In Sudan the banking system doubtless lacks independence and operational freedom and faces many institutional constraints. The following are the main obstacles to creating a sound banking system.

Political Influence

The CBOS formulates and executes its regulations and policies under severe intervention from the Republican Palace, the Cabinet, NISS, the Ministry of Finance and Economic Planning, and other government entities. The politically motivated influence of the executive branch in banking can be seen in the human resources management of senior and sensitive positions in the banks, and in the instructions for bank management to facilitate transactions in the interests of NCP members and their affiliates.

Lack of Operational Independence

The ability of the CBOS and other operating banks to limit printing of money to meet Ingaz needs and financing the public sector expenditure is extremely curbed. Government authorities force the CBOS to agree to government inflation targets and the CBOS is not in a position to define the short-run trade-off between inflation and unemployment

Lack of Financial independence

Since the succession of South Sudan in July 2011, government entities have withdrawn their deposits from the banking system. Despite that, they still use the bank deposits to finance their projects, crowding out the private sector from the banks. This, in turn, decelerates development by inhibiting private sector access to finance.

The CBOS is no longer able to achieve its policy goals, because of the transfer of its profits to the government. In addition, the government does not allow the CBOS to conduct open market operations with operating banks in order to manage liquidity in an efficient way. The CBOS engages in quasi-fiscal operations (monetising the budget deficit), which

in most cases deteriorate its financial position. This engagement exacerbates inflationary pressures.

b) Human Resources Management in the Banking Sector

Experience has shown that all banks have similar methods of recruiting staff. Banks do not follow fair selection processes by ignoring job qualifications required to fill positions.

The CBOS has clear rules and requirements for the selection of bank general managers, but “the rules are easy to write and difficult to enforce”. Therefore, in most cases decisions are made by outsiders who have real influence in the banking system decision making circles, but act in their own personal interest, regardless of the terms and conditions of the CBOS.

With respect to the recruitment of the junior and mid-career staff, the political affiliation and nepotism are the main driver for selection of staff for the CBOS and other banks.

Case (1)

For the CBOS, we can provide one famous example for the selection based on political affiliation.

The CBOS recruited 120 employees from Sudanese universities' graduates in 1996 and 1997. They were selected from the Islamic movement sympathisers and all of them are currently NCP members, and became directors and deputy directors in various departments at the CBOS headquarters and in its branches. These employees have had no part in designing CBOS policies, regulations, and guidelines, because they have no banking knowledge, despite their duration of service at the bank.

Unfortunately, they handle the requests of the government with regard to financing and help other NCP businessmen to get exemptions from CBOS regulations to execute their transactions.

Case (2)

At the CBOS level, we can provide three famous examples for selection based on nepotism.

In 2008, the CBOS human resources department appointed Hisham Bakri Hassan Salih (the son of the current First Vice President) along with a batch of 35 recruits. He currently works in the foreign exchange department.

In 2009, the human resources department appointed Ammar Awad Al Jaz (the son of the current presidential aide) . He is currently working in the foreign exchange department as well.

In 2010, the human resources department appointed Rogaya Hassan Osman Rizig, the daughter of the Minister of Youth at the time. She is currently working in the information technology department.

It is worth mentioning that nepotism at the CBOS was exacerbated in the era of the former CBOS Governor, Dr. Sabir Mohamed, and it has continued to date.

Nepotism in Al Salam Bank in the era of Osman Mukhtar (GM of the Bank)

Up to his dismissal by the BoD of Al Salam Bank in 2016, Osman Mukhtar appointed hundreds of his relatives to positions in the bank and its branches. He also promoted his relatives to be managers and a division head at the expense of others. He even promoted one of his relatives from a driver to thean employee in treasury department, and later to the treasury manger.

We conclude that, all the above stated cases have undermined confidence in the integrity of the banking system, particularly when it has to do with confidentiality.

Decision Making in Banks.

The decision-making process is heavily determined by personal interest and political influence. In this regard, we can cite the very recent example of Dr. Bader Al-Din Gurashi Mustafa, former CBOS First Deputy Governor who was dismissed on 1 April 2018. He was prepared to become the new governor, he believed in short-cut route to promotion through the influence of political circles. As such, he often violates the CBOS regulations and circulars to give special treatment to NCP members and their relatives throughout the banking system, not only at the CBOS. Before his departure, he facilitated illegal financial transactions in collaboration with Mr. Al-Bagher Hassan Al-Nouri; the former GM of Faisal Islamic Bank.¹ However, due to split with the ruling Islamic Movement and its political party, the NCP, the wind went against his influential circles and thus was not able to make to the position of the CBOS chief.

It is worth noting that the presence of numerous cases of illicit finance and credit decisions can be explained by a lack of corporate governance in the banking system. As result, the banks' BoD authority has been challenged by the influential persons in the NCP and other decision making circles, despite the volume of rules, which have proved difficult to enforce. All banks are in a risky situation because of the personal and private appetite to take funds from banks without restrictions and controls from the supervisory authorities.

d) Corrupt Deals.

1) Faisal Islamic Bank violations (unprecedented distortion of the market)

The CBOS launched the Real Time Gross Settlement System (RTGS) in 2011 and required banks to keep government, securities equivalent to 50 percent of their general liquidity, as collateral in a special account at the CBOS, which would be used for the purpose of providing intraday liquidity to avoid any clog or delay in the payment system during the day. This would be done automatically by the system and no charges would be levied on these transactions for the first six months.

Faisal Islamic Bank (FIB) sends checks to the CBOS to cover its accounts when they are in overdraft. The checks clearing system is linked to the new the RTGS payment system, called the Sudanese Real-time Automated Gross settlement (SRAG). The system uses bank certifi-

1. One of the most corrupt banks since its establishment; the bank has played a key role in strengthening the Islamic movement in Sudan.

icates, mainly GMCs, to cover the bank liquid shortages in the same day. The major issue of corruption here is not the coverage of the deficit but is the bank intentional uses of the balances in black market speculation, instead of keeping the balances to meet the regulatory requirements set by the CBOS. Therefore, the bank is always non-compliant and the CBOS lacks any corrective measures.

To simplify the above-mentioned technical process, the newly established RTGS serves the CBOS in protecting current account balances of banks . The system is programmed to check the deficits in the banks' balances by the end of any settlement session. The system also automatically uses the banks' collaterals at the CBOS to cover any shortages. The collaterals are in the form of government securities such as GMCs, CISs, etc.

Accordingly, banks will sell their collateral immediately to feed their current account balances at the CBOS to get more cash. However, the FIB uses the cash to purchase more foreign cur-

rency from the black market for its customers in order to facilitate their credit operations.

The aforesaid practices by the FIB have distorted the banking system and the economy as whole, because the bank has been injecting a huge amount of domestic currency into the black market to compensate for the scarcity of foreign resources with CBOS.

2) Collapse of the Banking System amid Withdrawal of Correspondent Bank Relations

The most devastating and harmful deals that have adversely affected operating banks to date were those executed by the ONB to import raw materials for weapons' manufacturing and other prohibited commodities for the Master Technology Company. These deals were executed by BNP-Paribas which was fined US \$8.9 billion in forfeitures and fines for violating the U.S. sanctions on doing business with Sudan.

In 2015, Commerzbank and Deutsche Bank also faced fines for violating U.S. sanctions and

In 2015, Commerzbank and Deutsche Bank also faced fines for violating U.S. sanctions and their engagement in the foreign trade transactions with Sudanese French Bank (SFB), and Byblos Africa Bank (Sudan).

their engagement in the foreign trade transactions with Sudanese French Bank (SFB), and Byblos Africa Bank (Sudan). Most foreign banks stopped transacting with Sudanese banks following the penalty levied by U.S. authorities on BNP-Paribas, Commerzbank, and Deutsche Bank. As a result, the foreign exchange market tightened, and the parallel exchange rate weakened significantly.

The deals mentioned above, were conducted in breach of laws and regulations issued by the CBOS (mainly foreign exchange regulations issued by foreign exchange departments) and reflected the CBOS failure to control and supervise banks, as provided in business and banking law, due to its lack of independence and therefore cannot competently conduct due diligence. That is why operating banks working to serve the personal interests of NCP affiliates and their businesses, rather than serving their mandates.

3) Bankruptcy of Animal Resources Bank (2013-2014)

Banks in Sudan witnessed sharp deterioration in their business following the succession of South Sudan in July 2011. One of the banks most affected by the shock was the Animal Resources Bank. However, the CBOS intervened to save the bank from bankruptcy, acquiring 55% of its shares.

The CBOS banking supervision and the Banking Regulation & Development Departments (BRDD) reported cases of corruption within the Animal Resources Bank have led eventually to the dismissal of the NCP Leader, Mr. Jamal Abdallah Al Wali, the Chairman of the bank's BoD. The BRDD reported serious financial violations, such as concentration of finance for the Chairman's private business, sale of valuable bank assets, and extension of credit operations in the other sectors (the bank gave priority to other sectors), completely neglecting the animal resources sector.

As a result, the bank failed to achieve its mandate to develop and extend finance to the animal resources sector, as stated in its license and the articles of association.

4) Collapse of Real Estate Commercial Bank in 2008

The bank was fully owned by a Saudi investor, named Juma Al Juma. The bank witnessed unprecedented administrative and financial corruption, due to spread of bribery among the bank's senior management. Moreover, the bank received funds through money laundering activities by the Saudi owner, who was known worldwide as a money launderer, as

reported by specialised Anti- Money Laundering & Combating Terrorism Financing (AML/CFT) agencies.

The bank's position deteriorated rapidly, forcing the supervisory authority at the CBOS to intervene and assigned three supervisors to assess the bank's losses and non-performing loans, and other financial mismanagement committed by Mr. Juma Al Juma and his assistants from senior management.

Since the bank has long been classified as problematic, the CBOS is now living up to its role as the lender of last resort (LOLR) by injecting liquidity into the banking system on a regular basis, due to severe liquidity shortages, to meet its regulatory ceilings as per CBOS regulations and guidelines.

In this regard, the CBOS supervisors' report revealed that the bank required urgent intervention and recommended the termination of Mr. Juma Al Juma's ownership of the bank and the replacement of bank's BoD immediately to save the bank from collapse. Therefore, the CBOS purchased two-thirds (66.6%) of the bank's shares, changed the BoD and terminated the Saudi investor's ownership.

This case reflects the misguided strategy and processes of the government with respect to the flow of Foreign Direct investment (FDI). The case of this bank has affected the whole banking system's reputation with respect to non-compliance with AML/CFT, which resulted in black listing of most of the banks in Sudan. However, after a very long process of re-assessment, some banks were moved from the black list to the grey list which in turn hinder correspondence banking relationships.

5) Non-Performing Loans

The definition of non-performing loans at the CBOS is simple: a loan that is not earning income and (1) full payment of principal and interest is no longer anticipated, (2) principal or interest is 90 days or more delinquent, or (3) the maturity date has passed and payment in full has not been made.

The issue of non-performing loans (NPLs) has gained increasing attentions in the last few decades. The immediate consequence of large amount of NPLs in the banking system is bank failure.

A high default rates as per the table no. (4), below, reflect the application of political influ-

ence on banks to extend credit facilities for huge amounts to political allies without enough collateral, feasibility studies, and assessment of risk. As a clear example, in 2008, the Giad Group defaulted on loans amounting to 3% of the total unrecovered loans nationwide. The Dam Construction Unit, a Federal Government Authority, defaulted on loans in 2009 and 2010 amounting to 2% of the total unrecovered loans. The problem here is that the banks extend credit to government entities at the expense of the private sector, despite the fact that a big share of deposits in the banks came from the private sector. This reflects a crowding out effect, a situation where public and governmental companies leave the private sector to compete for a disproportionately small portion of banks' loanable funds.

In 2008, 26% of loans were uncovered (the highest rate in the history of Sudanese banking). This would simply mean 26% of banks deposits are redundant. During the month of Ramadan of the same year, the CBOS sent a message to NISS to arrest several big businessmen (major players in the market) who had defaulted in order to force them to repay the banks loans, but unfortunately most of those arrested were released due to their linkages with influential persons.

It is without a doubt that many banks lost a significant portion of their capital because of a breach of laws and regulations and the mismatch between the amounts of credits extended to their customers and the real value of collateral as a result of internal corruption at the banks or political interventions in the credit approval decisions.

Table No (4) below illustrates that default rates from 2013 to 2016 are quite reasonable (compared to the international standard of 6%). The main reason is CBOS circulars for restricting finance to members of bank boards of directors and banning of automobile and real-estate finance (mainly murabaha and musharaka). In addition, the adoption of contractionary monetary policy by increasing of the Reserve Requirement Ratio from 13% to 18% has contributed to this performance. These measures served to ration credit in order to control inflation by restricting lending.

Table No. (4) Non- Performing Loans Ratios in the banks (Default Ratios)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NPLS	13%	16%	10%	7%	19%	26%	26%	18%	14%	13%	12%	8%	7%	6.5%	5%

6) Political Influence Shell Companies

Experience has shown that many virtual companies were established in Sudan in the wake of the oil boom in during 2000 to 2011. These companies have no registration number and no tax file, but they enjoy access to bank funds and defaulted in payment. Bank employees lack practical skills needed for banking operations, and instead played the role of virtual bankers by obtaining huge commissions and bribes to facilitate the access to credit. At the end of the day, however, the direct outcome of such practices is high rates of default due to extension of funds and credit to ill-established and uncreditworthy customers.

A good example here is the Bank of Khartoum (BOK) and the role it plays in this respect. Fadul Mohamed Khair, a big shareholder in the BOK from the Sudanese side, has weakly established affiliated and subsidiary companies. These companies were granted finance, mainly through Murabaha, in foreign currency, but the loans were repaid in Sudanese currency after a long grace period. These companies have been unable to repay their debts to date due to fluctuations in the value of Sudanese currency.

Recently, in July 2018, the Bank of Khartoum's senior staff (foreign senior staff, most of them from Jordan, Palestine, and Pakistan, including the GM, Fadi Faqeh and some of his relatives) fled Sudan following the arrest of Fadul Mohamed Khair by NISS.

These developments came after a CBOS inspection team found many wrongdoings of BOK senior management who violated CBOS regulations and guidelines for conducting feasibility studies and approving credit before extending loans. The report found that these wrongdoings threatened the stability of the BOK . The bank is likely to bankrupt shortly.

VII. Conclusion and recommendations

Based on the preceding analysis, we can conclude that creating a state-of-the-art regulatory and supervisory framework, corporate governance, curtailing the political intervention in the banking system, building independent institution, and fighting corruption requires a long term and holistic strategy from the CBOS and its market participants to pave the way of banks to abide by their own articles of association to achieve their objectives.

a) Challenges for the Banking System

1) The Banking Industry

The unavailability of the required qualified, experienced Sudanese human resources is a major concern for the industry. This will require sustained attention of all concerned stake-holders in view of the existing asymmetry of supply and demand which is likely exacerbated by the constant growth of the sector . Unfortunately, prevailing corruption in the banking system hinder implementation of sound supervisory and monetary policies issued by the CBOS. In turn corrupt practices erode the banks' ability to provide the financial services efficiently.

2) Spreads of Corruption

Corruption has been considered one of the most important obstacles facing the banking system in Sudan. Corruption discourages financial development and innovation in banking services. Corrupt banks are attracting lower deposits from customers and low credibility due to the bad reputation. In addition, corruption is a major factor in weakening the enforcement of claims and the recovery of bank debts. It negatively affects payment processes and increases market distrust, reducing access to credit and increasing transaction costs, and reducing the efficiency of investments. High levels of corruption in the banking system discourage private sector investments and as such depriving the banks from significant potential gains.

3) Block Access to IFIs

Listing of Sudan on the US State Sponsors of Terrorism list prohibits the Sudanese banking

sector from accessing the external International Financial Institutions (IFIs). Arrears on previous loans also block access to new financing from the IFIs.

4) US Sanctions on Sudan

US sanctions on Sudan have raised the cost of doing business remarkably. Experience has shown that there has been a slowdown in trade since the increased enforcement of the sanctions after the sanctioning of some banks for their violations 2013-2015. Import financing (e.g., through letters of credit) by both the CBOS and commercial banks slowed in 2015. Difficulties in repatriating export proceeds has reportedly weakened the sector. Transfer payments, including remittances, were also adversely affected.

5) Liquidity Management

Liquidity management is a major issue, not in Sudan only but also in countries that introduced Islamic banking much earlier. In order to overcome this issue, the CBOS and industry players need to work in collaboration with other stakeholders. The CBOS is actively working on the development of liquidity management tools. The government has issued marketable sukuk to manage liquidity. Banks rely heavily on the CBOS for their liquidity needs and depend on it to guarantee their transactions with each other and the investment deposits placed with them by the CBOS. In addition, most banks lack knowledge on the conduct of feasibility studies and portfolio management. Banks also lack the expertise on analysing the financial situation of other banks which leads to incompetence in setting credit lines for dealing with the interbank market.

6) Liquidity Squeezes by the CBOS

In January 2018, the CBOS issues a number of regulations to squeeze liquidity further in the local currency market. In 2018, most banks complained of acute shortages of liquidity. According to CBOS regulations, banks should maintain 10 percent of total current and savings deposits in the form of cash to ensure they can meet the daily demands of customers for withdrawals.

Under such circumstances, the banking system is facing difficulty in restoring the credibility, particularly, after the CBOS issued tight measures for the liquidity of commercial banks; such as restrictions on the maximum permissible withdrawal amounts for current and savings account holders. Moreover, ceilings were imposed for withdrawals from ATMs and

bank counters.

7) Conflicts of Interest

The numbers of qualified non-shareholders that sit on the boards of banking institutions as independent directors are reportedly insufficient. In addition, the CBOS has a practice of appointing CBOS staff to sit on bank boards which creates actual or apparent conflicts of interest. This is simply meaning the CBOS GMs are no longer able to control and oversee the bank operation if they receive remuneration from the bank as a result of their participation in the bank board of director meetings.

8) Lack of Awareness

Due to lack of awareness, similarities (to some extent) in operations, products and services offered by banks, high expectations and perceptions of customers, the Sudanese public generally has doubts about the efficiency of banking system .

b) Recommendations

The following are the main proposed measures to ensure efficient banking system with clear roles and responsibilities:

- 1)** Improvement of the regulatory framework to preserve sound banking system and prevent corruption: Additional efforts are needed to review and develop the existing framework and enforce them in the banking system. The CBOS should develop an appropriate and full-fledged legal framework for controlling, guiding and supervising operating banks. Building a legal framework with specific and clear legislative mandate is crucial to deter the political and outside influence on the banking system. This framework should include corporate governance, risk management, ensuring capital adequacy, and other prudent regulations.
- 2)** Promote good market practices & high standards of corporate governance: The CBOS should further develop the current scheme of corporate governance by segregating duties and responsibilities between the board of directors and executive management, and regulating relations among stakeholders, including the board of directors, senior managers, shareholders and depositors and ensuring effective internal controls and internal & external auditing.
- 3)** Credit Rationing for Public Institutions: Restricting access to credit from banks

by government institutions and NCP companies, known as credit rationing, would pave the way for the private sector better access to the banking system and would help banks to ensure its soundness and generate profit. Such measures would certainly contain the crowding out effect, where public sector institutions has fully crowd out the private sector. This can be done by curtailing the extension of credit in local and foreign currency from banks to NISS institutions and its companies, other government companies specialised in the importing military and security equipment, etc. Therefore, we recommend encouraging banks to establish portfolios for financing various economic activities in the private sector, particularly in productive areas.

- 4) **Anti- corruption measures:** Designing and implementing an anti-corruption strategy requires serious commitment from all levels at the CBOS management, with the intention of minimizing the abuse of bank resources from corrupt circles. This should include recruiting qualified, experienced and non-partisan staff to challenge personal and political interests in the banking system operations. At the higher level of the banking system, strong staff would be able curb the influence of government authorities on bank decision making.
- 5) **Promoting public's confidence in the banking system and ensuring its stability:** Protecting depositors & customers' interests and improving public confidence in the banking system.
- 6) **Conducting interbank operations for liquidity management:** The CBOS should develop short-term (less than one year) securities to be used as monetary policy instruments in managing liquidity in the banking system.
- 7) **Improving the business climate to boost private sector-led growth:** Priority should be given to the structural measures to improve the business environment to stimulate private sector-led growth in the sectors outside of oil production.
- 8) **Intensive Awareness Campaign:** A well-organised government sponsored, and patronised nationwide awareness campaign is needed including print and electronic media, organising seminars, conferences and awareness programs for various stakeholders including the general public, the business community and also university professors who are not associated with banking/financial institutions.
- 9) **Capacity Building Programs:** it is extremely important to expand investment in training and development programs for the banking system staff in a more

structured and consistent way.

- 10)** Risk Management: banks should have the necessary rules and procedures to manage risks and liquidity risks, including credit ceilings for dealing with other banks.
- 11)** AML/ CFT Policies: Anti-Money-Laundering and Combating the Financing of Terrorism policies should be developed to address corruption.

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Sudan Transparency Initiative