



Key Elements of an Institutionalized Structure, Policies & Regulation of Micro & Small Finance Sector in Sudan.

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Introduction

- **Worldwide microfinance is growing at the rate of 15-30% per annum (about 6 billion US\$ annually), (Standards & Poors's RatingsDirect, 2008).**
- **Islamic banking microfinance is still covering a very limited number of experiments (including rural banks in Indonesia & microfinance banks in Bangladesh). These experiments, were based on a number of models and were not integrated into the financial system, being set up by donors or religious groups and have yet to develop.**

- According to CGAP, Islamic FIs represents 0.5% of the total worldwide, whereas the poor Muslims constitute 35% of the total number of Muslims (1.2 billion). The UNDP estimated that there exists an opportunity for about 7 million beneficiaries from Islamic finance & about 19 million savers.
- About 80% of the Islamic microfinance institutions are located in three Islamic countries, i.e., Indonesia, Bangladesh and Afghanistan.
- The Sudanese experience is considered the most fortunate and the first of its kind worldwide. **The Sudanese Islamic MF Experience (Vision, Policies, Strategies. & Institutional Support) is remarkable & worth considering.**

Sudan - MF Vision/experience

MF is viewed as intervention to reduce poverty-social & religious responsibility

Centrally-controlled profit margins (*Murabaha* Margin)

Gap-filling MF experience

Mainly credit-based, not non-credit services -based MF

Existence of two MF visions: Lucrative business Vs charity-based MF

Pioneering in Islamic Micro-insurance vision & practice (*Takaful*)

Credit before growth (finance before the existence of the project)

Local-demand-oriented, not export oriented MF

The CBOS MF Major Policies



In 1990 the Financing policy of the CBOS **incorporated the Craftsmen as one of the priority sector** for banking finance.



In 1994/95 the CBOS financing policy **incorporated "Craftsmen, Professionals & Small Producers Including the Productive Families"** as a priority sector for financing, with some preferential treatments.

The CBOS includes MF as a priority sector, with a **minimum allocation of 12% of the banking portfolio & project finance of 20 thousands SDG**, while small finance goes up to 100 thousands SDG (\$1= 4 SDG)



In 2006 the CBOS formulated an **MF Vision for the Development & Expansion of MF Sector (2007-2012)**



In 2007 an **administratively independent MF Unit** established at the CBOS, to organize the small and MF sector.

To ease the finance the **CBOS identified 15 types of guarantees/collateral** suitable for this sector.



In 2010, the signed an agreement with the Islamic Development Bank (IDB) to allocate \$59.5 Millions joint fund for: Technical support, IT & wholesale finance to MFIs.



The CBOs & the MOF (& donors, the WB) established a \$ 20 millions capital Sudanese Microfinance Development Facility (SMDF) to support MFIs via dissemination of best practices, technical assistance, training & wholesale financing.

The CBOS announced the **Comprehensive Insurance Documents** to act as an Insurance & a guarantee (covering: money lend, assets & *Takaful- physical disability or death*)



The CBOS/MFU since 2007 finished training programs (for credit officers, TOTs, managers, parliamentary members, mediators, local & foreign NGOs etc.



The CBOS/MFU identified four themes to develop MF and small finance starting 2012: (1) Financing, (2) Promotion, Training & Capacity Building, (3) Outreach & Financial Inclusion & (4) Project Selection/Development.

The CBOS identified Islamic lending modes of microfinance: partnership-based (*Musharaka*), trade-based (*Murabaha* – most common, *Salam*) & rental-based (*Ijarah* and diminishing *Musharaka*).



Reorganizing government MF specialized banks (Saving & Social Development Bank & Agricultural bank) for more effective MF delivery.



Generalization the experience of specialized banks (Darfur Bank for MF and *Al-Ibdaa'* bank – the first foreign MF bank).

The **Wholesale Guarantee Agency's Law** (*Kafalat*) was approved to help siphoning wholesale finances to MFIs with 75% risk-sharing @ a cost of 0.5% of the total loan.



The CBOs/MFU issues the **Regulatory & Supervisory Framework in 2001** to establish & promote MFIs. Private individuals, civil mediators, NGOs, & government applications results as follows (up to 2012):

Status of MFIs			
Licensing Status	Provisional Approval 21	Final Approval 3	Working MFIs 12



MF Strategies

- The Vision for the Development & Expansion of MF Sector in Sudan -2007-2012 (Developed by UNICONS for the CBOS).
- The National Comprehensive MF Strategy for Small and MF (NCMS)- SCMF – under processing.

Conducive Legal & Policy Environment

Revision of banking laws & CBOS policies, banks' restructuring, diversification of services/products, alternative collaterals, enhancing saving & Investment schemes for micro-savers, promoting micro-insurance, facilitating wholesale lending, & creation of MFU at the CBOS



Enhancing the Rule & Supporting of MFIs

Develop & Sustain
MFIs

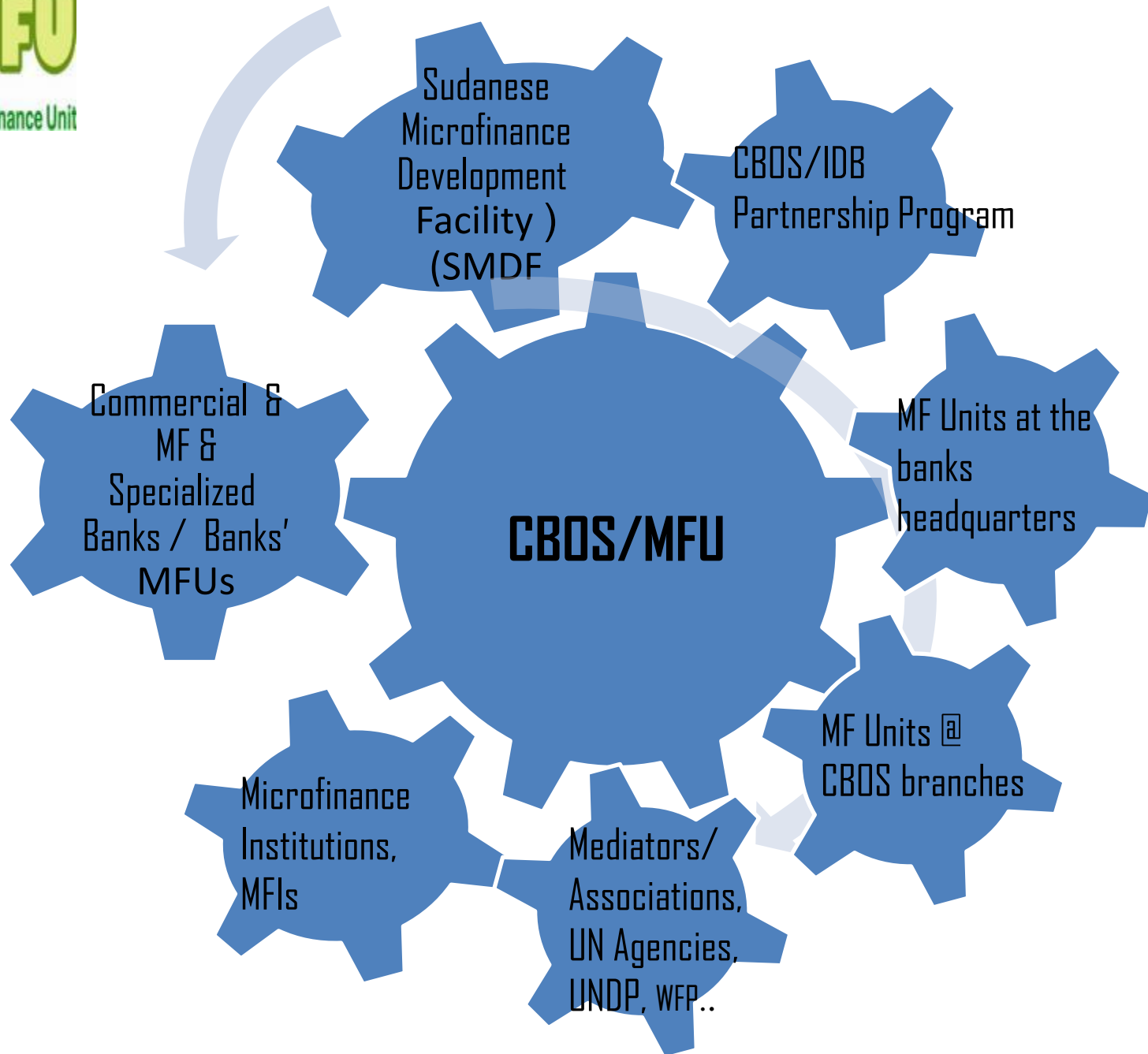
Establishing & Supportive Infrastructure

Supportive Information base, coordination of MF activities, set benchmarks and standard performance, capacity building programs for MFIs.

**Action Plan- The Vision
for the Development &
Expansion of MF
Sector in Sudan -
2007-2011**

MF Institutional Support

- The Sudanese experience **successfully managed to build smoothly run, organize & coordinate MF institutions/MF units/MF states & federal councils etc.**
- Starting with SCMF to MF units at the CBOS branches & banks headquarters, to mediators, joint donor programs, MF company, MFIs, & specialized commercial banks.
- The following Graphic illustrates this development.



Mediators

UNs
Organizations/N
GOs

Role of mediators

Sprouting
Intervention/organizing
the target groups/ follow-
up/ provide ideas of
project development etc.

Community-
Based Self-Help
Groups

Cooperatives

Professional Unions
(Women Union, Farmers
Union etc..)

The Role of Mediators- UNDP Example. (sprouting Interventions)

Baseline for Microfinance Situation

- Microfinance Assessments for Darfur & East
- Assessment on the use of Liquid Petroleum Gas in Kassala and Gedaref States

Microfinance Policy Advice

- Support the National Consultative Forum on Microfinance in 2007 & Microfinance Platforms
- Youth's Financial Inclusion Policy Reform

Promote Microfinance & Business Sector

- Pro-Poor Branchless Banking in Sudan
- Promoting Savings & Credit Groups Associations

Institutional & Grass Roots Support

- Microfinance Providers Assessment
- Boulder Microfinance Training
- Value Chain Training
- Entrepreneurship & Start up Business Initiatives

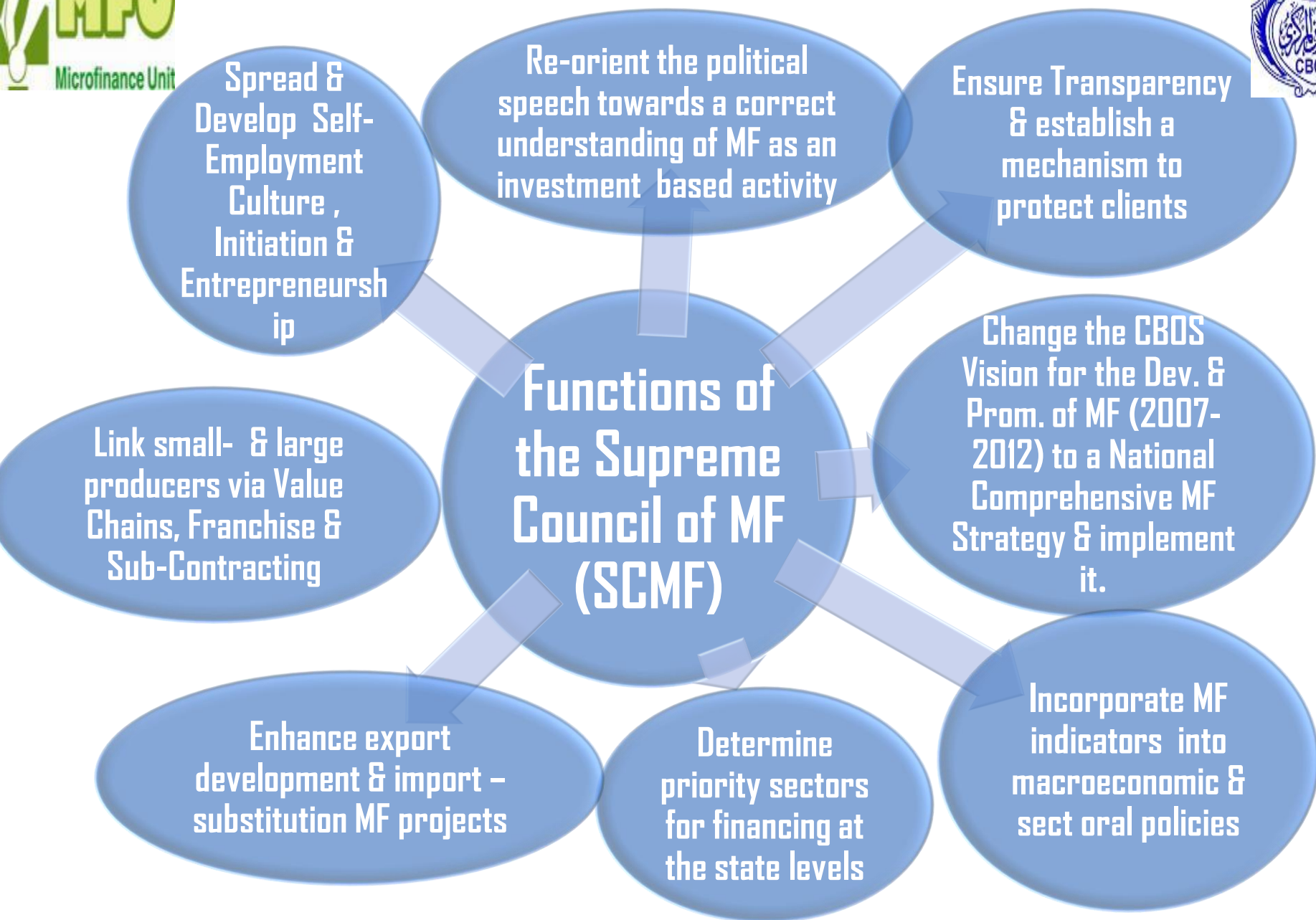
UNDP- Outcomes

Beneficiaries: 25 inst.
1500 individuals.

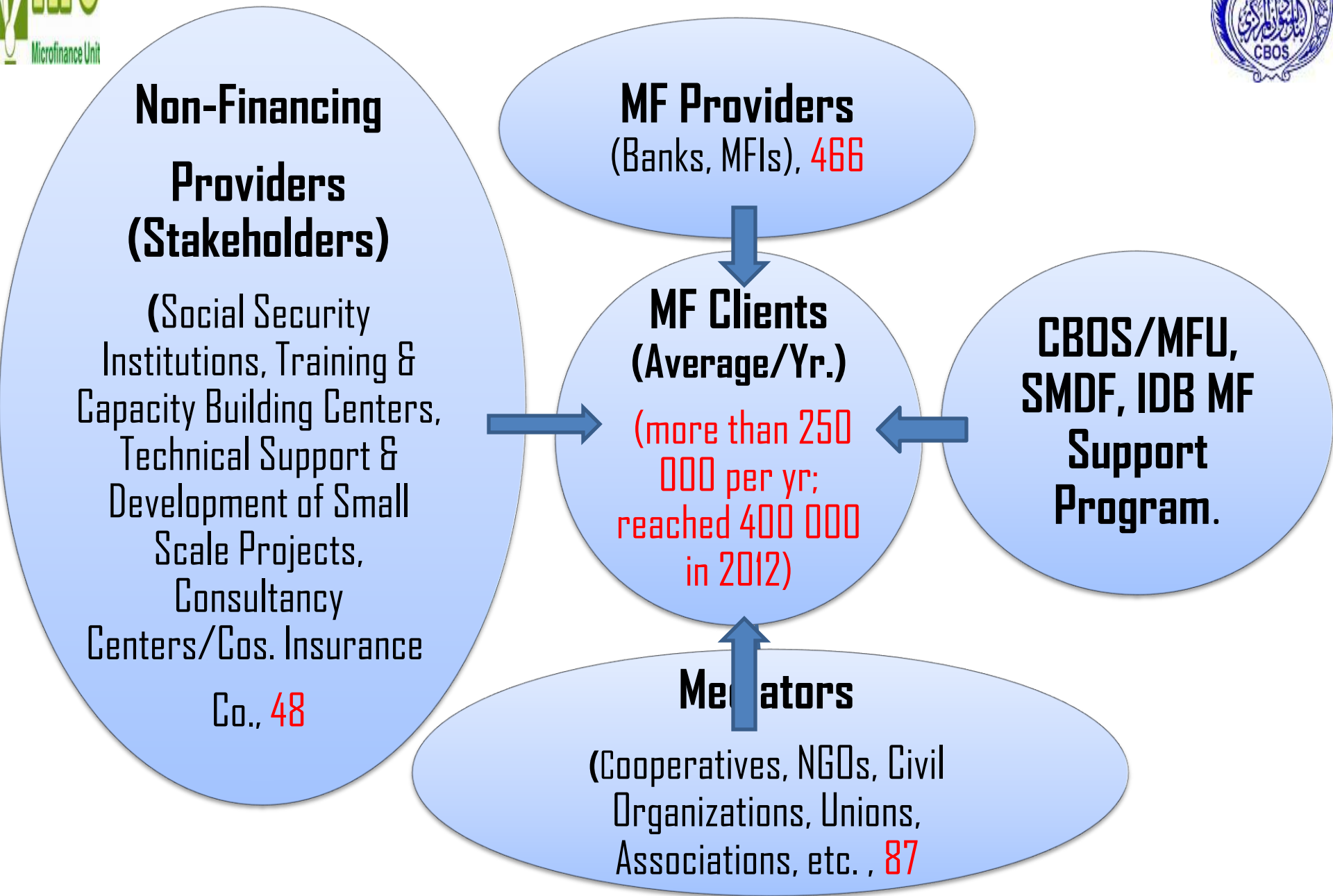
Starting 2006. total
budget : US \$ 1,373,000.

Geographical Coverage:
Centre, North, Darfur,
east, *Kordofan*, B. Nile

Future Support: MF
Provider Network,
Business Development,
MF Knowledge Hub.



MF & NON-MF Providers- Source PACT, 2012, Mapping, Capacity Assessment & Capacity Development of MF Providers in Sudan



Outcomes....

Years/ Description	banks' MF % portfolio	Banks' Clients (000's)	MFI's Clients (000's)
2007	1.6%	049	15
2008	1.5%	134	22
2009	1.0%	102	30
2010	2.0%	94	40
2011	3.2%	196	47
2012	4.9%	400	92
Total	-	975	244
No. of working Institutions	23 banks (around 500 branches) & 11 MFIs		

Estimates of Financial Inclusion (FI) via Microfinance among Sudanese poor (2007-2012)



Sources: UNDP, WB, CBOS, Population census, 2008 & 2011
Population & clients in millions, loans in Millions SDG)



Years	Populati Pop.) on (Poor pop. over 18 yrs	Banks' MF Clients (000s	MFIs clients (000).	FI (Banks MF clients/p oor over 18 yrs.)	Banks MF Portfoli o (%)	MFIs clients /poor clients over 18 yrs.
2007	37.10	9.0	49	15	0.5%	1.6%	0.16
2008	39.15	9.4	134	22	1.4%	1.5%	0.23
2009	40.02	9.7	102	30	1.1%	1.0%	0.31
2010	41.30	10.0	94	40	0.9%	2.0%	0.40
2011	33.50	8.1	196	47	2.4%	3.1%	0.58
(up to 2012 July)	34.30	8.3	245	92	3.0%	3.6%	1.10

Sudan: Basic FI Indicators

(the past year, age 15+, year 2011, published 2012.) *Global Findex is the most reliable and comprehensive database on FI.*

Description	Low income countries	Sub-Saharan Africa	Sudan
Loan from a financial institution	11%	5%	2%
Loan from a family or friends	30%	40%	47%
Credit card	2%	3%	1%
Saved at a financial institution	11%	14%	9%
Saved using a saving club	8%	19%	7%
A/C at a formal financial institution	20%	24%	4%
(Female)	24%	21%	3%

Accounts at a formal financial institution, By education %

Countries	Formal Account, Primary or less	Formal Account, Secondary or more
Sudan	03.51	16.05
Sub-Saharan Africa	23.19	39.09
Lower income countries	12.00	39.16

Adults with account at a formal financial institution (Rural/Urban)

Countries	Formal Account, (Rural)	Formal Account, (Urban)
Sudan	7.04	6.72
Sub-Saharan Africa	20.48	37.90
Lower income countries	26.03	33.77

Adults with Accounts at a formal financial Institution

Countries	Young Adults (15+)	Older Adults (25+)
Sudan	4.32	7.86
Sub-Saharan Africa	17.01	27.72
Lower income countries	21.51	31.04

Adults with an account at a formal financial institution (by Gender)

Countries	Male	Female
Sudan	09.45	4.35
Sub-Saharan Africa	26.66	21.47
Lower income countries	33.92	22.94

The 12th banks' MF portfolio Road Map

(Action 1)
**Establish the Wholesale
Micro Insurance Agency
(KAFALAT)
& Promotion
of MF Wholesale Market.**

(Action 2)
**Establish &
Distribute
MFIs
Regionally
& Publish
MFIs'**

**Performance
Criteria.**

(Action 3)
**make the 12% MF
Portfolio Target
Mandatory.**
to be Met
Directly
by the Banks
or via MFIs
Channels

(Expected Outcome)
**Reach 12% of Banks' MF
Portfolio by 2014.**

Increase the banks'
coverage of the poor
over 18 yrs. of age from
around 4% this year
to 10.5% by the
end of 2014.

The Sudanese Islamic Small & MF Experience

is..

- ✓ **The first full-fledge Central bank-supported Islamic MF experience** (licensing, following up, wholesale lending, capital sharing, training and HR up-grading, sponsoring of pioneer projects...)
- ✓ **The first that establish national small & MF Strategy** including all stakeholders.
- ✓ **The first African & Arab experience that determined a percentage of banking portfolio to MF**

- ✓ The first experience **with national institutional support** (SCMF, MFUs, MF Planning Units etc.)
- ✓ The first experience to **include Islamic insurance** (*Takaful*) via the comprehensive insurance Document.
- ✓ The first experience to **introduce the wholesale via a governmental agency** (*Kafalat*) and to exploit the restricted *Mudarabah* for microfinance wholesale lending.

Challenges..

Banks/MFIs

Lack of Performance Measurement of Banks/MFIs, weak banking financial base, no full use of Islamic MF potential, little reflection of international standard MF behavior & diversity (competition)

Policies/ Political Support

Unstable macroeconomic policies, unknown financing gap, strong political support , but uncoordinated National efforts , lack of consumer-protection policy mechanism, little evidence-based polices.

Outreach & FI

Weak use of modern technology, weak regional outreach & FI

Product

Little export-orientated products, project limitation & repetition, lack of investment maps, and exhibitions

Clients

Some clients' dissatisfaction, weak public awareness about MF , weak MF culture among clients, week public awareness of MF benefits & requirements, domination of the view of MF as a subsidy lending not a business-oriented lending, & no financial literacy programs

MF Stakeholders Roles to Mitigate MF & Small Finance Challenges

SCMF (**Comprehensive National MF Strategy**, 2012-2016, Re-orientation of Political Speech towards MF as Business-Oriented, Organize the MF Sector & Oversee State Co-Ordination MF Councils)

CBOS (Finance, Guarantee, Conditions, MF Banks & MFIs, MF Culture, Capacity Building & MF Orientation, Outreach, MF Clients' Protection, Use of Mediators).

States (Willayat), (Fees, Taxes, Investment Plans, Project Development Centres, Incorporation of MF in Economic & Development & Poverty Alleviation Policies).

Ministries of SCMF
(Promotion & Awareness, MF Project Planning Units, Taxes, Fees, Incorporation of MF into Macroeconomic Policies, Capacity Building & training).