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Integrating Sudan Banking Sector
to The International Financial System

Organized by :

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The Sudanese Banking system

An Historic Background

- Modern Banking started in Sudan in 1913 when Barclays set its feet in Khartoum, a few years after the British colonization of the country.
- Barclays was then followed by Egyptian, Turkish, Greek and Ethiopian banks.
- Untill 1960 /1961, four years after independence, two national banks were established, The Commercial Bank and the Agricultural Bank.

- Afterwards, due to flourishing production and export of cotton, Gum Arabic, Sesemi Sudanese ground-nuts, leather, melet and soughram, more foreign banks entered the market including Credit Lyonnais, Arab Bank, National & Grindlys and Habib Bank.
- It is needless to say that these banks were also attracted by the ever growing Sudan import business.
- As of 31st of March 2021 there are 38 banks mostly very small by regional as well as international standards. This is probably the reason why the business community complains that it has been underserved.
- There have also been numerous official calls for financial inclusion programs to accommodate a noticeable portion of the population.

Regional & International Relations

- Sudan, for a century long or so, used to trade with Europe, Arab countries and Northern America, and the US Dollar, sterling pound and later the Euro were the currencies denominating its trade.
- Correspondent banking relationships were kept with the American and European banks including Barclays, Natwest, credit Agricole, BNP Paribas, Commez bank, Standard Chartered, Chase, Citi bank, etc.
- Due to the trade embargo in the early 1990th the former regime had to go east, and so China had become the main trade partner of the Sudan.

- China had invested in crude oil exploration, production and export facilities. It had also found valuable opportunities in telecommunication equipment trade, real estate and infra-structure.
- The civilian – lead incumbent government has announced, numerous times, it intends to regain its economic ties with the western world and it continues to work towards the achievement of this goal.
- Current correspondent banking relations are kept with regional financial institutions mainly in the Gcc and other Arab countries in addition to a few accounts in Europe (Spain, Italy, Belgium).

Integration into the International Financial System

- For the last 36 years Sudan Financial System had been operating under a very restrictive legislative and regulatory framework forcing institutions to operate according to a broadly defined Islamic jurisprudence requirements.
- Integrating Sudan Financial System into the international (Particularly Western) Financial System is a strategic Goal for our Government.
- Based on a recommendation of the First National Economic Conference held in 2020, the Prime Minister issued Decree No. 505/2020 to move towards a Dual Financial System (a system allowing the co-existence of Islamic and mainstream Banks).

- An act named “The Miscellaneous Amendments Bill 2021” was drafted and passed by the **Legislative Council** in its meeting held on the 19th of April 2021.
- This act has paved the way for international financial institutions to enter the market and/or do business without any barriers.
- The move will also strengthen competition, allow for capital market instruments to be floated in the local and international markets for Sudan and facilitate correspondent banking relationships across the borders.

Compliance with International Laws and Regulations against Financial Crimes

- Sudan National Assembly (the parliament) back in 2014 issued its second up-dated version of the Anti-Money laundering & Combating Terrorism Financing Act (AML&CTFACT).
- The Act was based on the International Standards of the FATF and OECD first Issued in 1990 and its up-dates on 2001 and 2003.
- Sudan is one of 180 countries which had endorsed these international standards and since then abided by their requirements.

- As per the requirements of the standards, Sudan formed a National Committee to oversee AML and CTF in the country.
- An Independent body was set-up called the "Financial Investigation Unit". The National Committee appointed a director for this unit and continued to receive periodic reports.
- The Unit works directly with the law enforcement branches of the government and has the full right to access financial and non-financial Institutions in Sudan. Moreover, it has the power to co-operate with similar Units and /or bodies abroad.

- In response to international developments and Sudanese desire to integrate with international banking to end decades of isolation, Sudanese Banks have been exerting efforts into developing Compliance standards and adopting needed arrangements on legal and institutional levels.
- Our Banking system has coordination and cooperation with the international community such as Financial Action Task Force (FATF), Middle East & North Africa Financial Action Task Force (MENAFATF) and the International Monetary Fund (IMF).
- Sudanese Banks are adopting and applying AML programs which include KYC information, AML Policies and Procedures, Sanction Screening, Transaction Monitoring and Reporting.

- They also have AML Policies and Procedures that are comprehensive, approved by Banks' Board of Directors and periodically updated.
- In the case of accounts opening, all banks are obliged to conduct a screening of the names of individuals, legal entities or financial institutions against various blacklists such as OFAC, UN, EU, US Treasury and local lists to ensure that they do not deal with blacklisted individuals or entities.
- The Central Bank of Sudan (CBOS) circular issued on the 2nd of February 2021 directed all banks to immediately launch an automated AML system to implement Compliance function in a proper way.

- One of the most significant features of automated AML systems is identifying, monitoring and detecting suspicious transactions, after analysis by the Compliance department these transactions are either filed as unusual transactions or reported to the FIU as suspicious to be further investigated.
- All banks have AML reporting officers in branches who work closely with their Compliance Departments reflecting and reporting compliance issues.
- Due to the importance of the compliance role emerged the need for the Compliance Officer to be a high-level member of management with direct reporting duties to the Board of Directors. So the Compliance Officer has the authority and autonomy to address compliance issues, no matter who is involved or how high up in the organization they sit.

- The Compliance Department is also subject to audit checks to test their effectiveness regarding the Anti-Money Laundering operation and assessing compliance adequacy of controls and systems and adherence to policies and procedures along with assessments of the roles of the concerned parties.
- CBOS requires banks to demonstrate strong governance and robust risk awareness within their organizations, backed and supported by effective execution. In order to ensure this, CBOS conducts an annual review of all banks to ensure that deficiencies and risks are avoided and properly mitigated.

The Regulators and Regulatory discipline

- The Central Bank of Sudan (CBOS) licenses and regulates banks, Fx exchange houses and finance companies.
- The CBOS drafts and issues its annual policy guidelines sometime in December of each year. The policy covers Governance, Compliance, Liquidity management, credit, financial inclusion, payment systems, financial reporting etc.
- The CBOS doesn't stop there, it follows up the policy with a series of Control Circulars during the year covering specific issues as deemed necessary.
- The insurance and Re-insurance companies together with the brokers are regulated by a separate autonomous regulator.

- And in January 2021 the prime minister set-up the Financial Service Authority as third regulator and appointed its board of directors and its chief executive officer.
- The regulators have all announced that they are working on reform plans for the sector they regulate. And indeed, the Central Bank of Sudan issued its new policy for higher levels of capital adequacy horizons in the banking sector.
- The Sudan Legislature also has concerns and laws for Data Protection in the financial system. Financial Institutions are legally subject to principles covering data collection, organization, structuring, storage, alteration, consultation, restriction, erasure, combination, communication and destruction of personal and business data.

Business opportunity in Sudan Finance Sector

- The financial sector reform underway in Sudan creates immense business opportunity for International Financial Institutions in this country.
- It is now possible for interested institutions to enter Sudan market with their products, systems, Standards, expertise etc, without the need for special requirements or extra cost.
- Business opportunities in the coming years are everywhere in private and public sectors as the Government has been looking at an ambitious reconstruction plan.
- The World Bank Agencies (IDA, IFC, AFDB, Mica) are now in Sudan with encouraging funding plans.

- Moreover, Arab Funds are closely working with the Government to arrange for bilateral funding.
- Foreign Direct Investment (FDI), from Arab Countries has recently resumed picking up after removal of Sudan from the SST list.
- The regulator has recently required banks to re-capitalize through injection of fresh capital, merger or acquisition. This requirement creates opportunity in the banking sector for new investors.
- As the Dual Financial System is now in place the authorities intend to issue new licenses, for main stream (conventional) financial institutions at very modest and attractive terms.

- The government has already launched Sudan Gold Borse and very soon Sudan Agricultural Commodity Exchange. The organization and modernization of markets create opportunities for financial institutions.
- The insurance and re-insurance market in Sudan is largely under-served. Almost (70%) of the existing business is General Insurance (Accident, Marine & Fire). There are opportunities in the business of Medical Insurance, Credit Insurance, Export Insurance, Life Insurance, Agricultural insurance etc.
- Financial inclusion is very low due to low level of Financial Technology Utilization, due to the embargo and high cost. Therefore there is a great business opportunity for fintec firms in the new Sudan.
- These opportunities shall be driven by Sudan Immense resources in the real Sectors including Mining, Oil & Gas, Agriculture, Infrastructure, livestock, Leather, Fisheries, ICT and manufacturing, to name a few.

Concluding Remarks :

▶ The Government of Sudan main strategic goal is the integration into the international financial system.

Reform programs have been underway in order to achieve this goal including, but not limited to:-

- Banking sector reform through the implementation of the dual financial system.
- Enhancement of the regulatory framework for the financial sector and the strengthening of regulators.
- Strengthening compliance systems in the financial system in order to fight financial crimes (Anti-money laundering and combating terrorism financing).
- Opening up the economy for foreign investors through an extremely encouraging investment act. Which was passed by the legislative council last April 2021.
- The launching of Sudan Gold Borse and Sudan Agricultural Commodity Exchange.

▶ It is believed that with such on-going reforms Sudan can now smoothly re – integrate into the international financial system.

Appendix: Map of Sudan Financial System

Financial Institutions by Regulator :

Regulated by Central Bank of Sudan	Regulated by Insurance Regulator	Regulated by Financial Service Authority
(38) Licensed banks.	(14) Islamic Insurance companies.	Khartoum stock exchange.
(46) Microfinance institutions.	(2) Islamic Re-Insurance companies.	(42) Securities brokerage firms.
(20) Exchange Bureau.	(10) Insurance brokers.	Sudan Gold Borse Sudan Ag.
(20) Money transfer agencies.	(288) Insurance Agents.	Commodity exchange
(2) Leasing Finance companies.		

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