

Sudan: Islamic Financial Instruments

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Sudan is a multicultural and afro Arab country occupying a remarkable strategic position in Africa. It is the largest country in Africa. About 15% of this space is cultivated, 18% is forest and the remaining is water and desert. The population in 2009 was estimated to be 40 million. However Sudan is identified as a low income country.

The banking system in Sudan operates according to Shariah principles. After the Comprehensive Peace Agreement (CPA), there emerged two systems – an Islamic system in the north and a traditional system in the south. The central bank also strives to develop monetary and financial instruments for liquidity management, and also the practice of banking and finance away from usury in the north and illegal practices in the south.

The Central Bank of Sudan takes its role through the legal framework governed by the Central Bank of Sudan Act, the Banking Regulation Act and other laws of finance and business. In order to implement the tasks and achieve the objectives, the bank issues a monetary and financial policy, which contains a set of procedures and regulations issued by the central bank to manage liquidity in the economy. It also aims to provide funding and guidance to the banking sectors of priority, so as to maintain the stability of the exchange rate for balance between the different variables to achieve stability and economic and social development.

The Monetary and Credit Policy of the central bank governs the framework of practices in all areas of banking, including the means of implementation of the central bank, and the other banks towards the achievement of macroeconomic objectives. The central bank issues rules, regulations and publications, which shows how to implement and conduct banking business.

In countries where Islamic banking operates, its coverage and extent varies significantly from situations where the sector is entirely Islamic (Iran and Sudan before the CPA), as opposed to others where the conventional and Islamic systems co-exists (Indonesia, Malaysia, Pakistan, the UAE and Sudan after the CPA), and to countries where there is only one or two Islamic banks.

The current trend seems to be towards separation between the Islamic and conventional. But according to the CPA, Sudan will have a dual system – Islamic banking in the north and conventional banking in the south.

Sudan: Islamic financial instruments

Islamic financial instruments used in Sudan fall into three broad categories – profit and loss sharing, debt and quasi debt instruments. While each category covers a wide variety of instruments, the following is a brief description of the main contracts that are used most frequently by banks:

1. Profit and loss sharing instruments such as Musharakah and Mudarabah
2. Debt instruments such as Murabahah, Salam and Qard Hasan
3. Quasi debt instruments such as Ijarah

Islamic banks offer depositors the following four classes of accounts –
Central bank policies

The central bank policies are now hereby issued in a context of perceived full coherence with the macro-economic goals of the fiscal policy “the general national budget” and in accordance with the guidance of the five-year strategic plan of the central bank “2007-2011”, that aims essentially at managing the overall volume of liquidity in the economy in a manner that adequately and prudently meet the economic sectors requirements to attain positive economic growth and monetary stability through applying indirect dual banking – friendly instruments which equally serve to sustain the efficiency and soundness of the banking system.

Furthermore, this policy envisages fostering financing the operations of social dimensions namely; micro and meager microfinance through setting up novel subordinate financing units in the banks lacking them or promoting the currently operating ones. Also the policy encourages financing popular and rural housing operations, besides also encouraging financing development through the specialized banks.

Apart from the aforementioned objectives, the policy also has taken into account the rampart developments of the current global financial crisis which its consequences anticipated to impact the overall national budget, the private and banking sector, a situation that entails adopting congenial flexible measures to mitigate and contain that anticipated impact.

With regard to the non-performing loans, which adversely affected several economic sectors, the central bank will manage through this policy to sustain its already exerted robust efforts to resolve that problem. Accordingly, for that concern, the policy accommodated a host of measures that could curb the magnitude of those financing besides also incorporating the visions to contain them within the conventionally known international ratios in the future.

The policy will also endeavor to keep up the efforts to contain the impact of the enforced American Economic Embargo on Sudan through encouraging banking dealings with the strategic partners in the Arab and the African regions besides the East Asian countries and the other emerging economies.

The policy also envisages assuming particular heed for deepening the Islamic banking through efforts including encouraging applying Islamic modes of finance other than the Murabahah, and adoption of additional novel modes of finance compatible with the dual banking regime.

The structure of the financial sector

The Sudanese financial system is currently structured into the Central Bank of Sudan – which is the regulatory and supervisory authority, 33 commercial banks, and numerous non-banking financial institutions, including leasing companies, microfinance institutions, and bureaus of foreign exchange. The structure is detailed below:

- 1) Central Bank of Sudan is the regulatory body
- 2) Commercial banks: Banks are divided according to ownership of capital into three groups:
 - a) four public sector banks

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- b) 21 joint venture banks
 - c) two branches of foreign banks
 - d) six foreign banks
- 3) The non-banking financial institutions include –
- a) Financial institutions operating under the supervision of the Central Bank of Sudan
 - b) Foreign Exchange Bureaus: that was established under the Regulation of Exchange Bureaus Act issued in September 1995, and operates in transferring, buying and selling foreign exchange, tele-money dealing in foreign currency between the purchase and the area of foreign remittances
 - c) Sudan Financial Services Company which was established by the Central Bank of Sudan and the ministry of finance and National Economy in 1998 to work in the production and marketing of instruments of Islamic securities.
- 4) Financial institutions partly operating under the umbrella of the Central Bank of Sudan –
- a) Insurance companies: that employs its resources to cover the risk and investment in the case of financing its activities
 - b) Development finance companies: funding development projects in various fields of agricultural, industrial and others
 - c) Social funds: in the case of its funding activities such as the National Pension Fund and National Fund of Social Insurance
- 5) Financial institutions, working in coordination with the central bank–
- a) Deposits Insurance Guarantee Fund which was established under a law issued in February 1996 to strengthen confidence in the banking system and maintain the stability and safety of banks
 - b) Khartoum Stock Exchange which was established in October 1994 and began working in the primary market (market versions) in that year and while the opening of the

secondary market (market trading) in January 1995.

Open market operation instrument

After 1998, there was a paradigm shift in monetary policy, where indirect mechanisms and tools for the management of monetary policy and regulate liquidity were also introduced with the amendments to the existing mechanisms to make them more efficient and effective. It witnessed the introduction of Central Bank Musharakah Certificates (CMCs), and Government Musharakah Certificates (GMCs) as mechanisms to regulate liquidity in the economy, an alternative title for the debt securities based on their employment rate was in the open market operations. Also, the margins of profit sharing and funding windows have been developed to be more suited to the service of monetary policy.

1. Government Musharakah Certificate (GMCs)

Musharakah according to Islamic Financial Instruments in Sudan – It is an equity participation contract with the bank and a client contributing jointly to finance a project. The GMCs represents the share of the ministry of finance in some public institutions which is securitized and converted into certificates and issued in 1999.

Although the main objective behind the issuance of these certificates was to provide mechanisms for the Central Bank of Sudan in the management of liquidity but; it has become in a short period and effective means of financing the general budget deficit.

That means that the government can obtain real resources from the public to cover the public budget deficit instead of resorting to borrowing from the banking sector.

The main characteristics of these certificates are:

1. Means to finance the budget deficit and the mechanism for the management of liquidity by the central bank.
2. Means of attracting national savings and encourage institutions and individuals to invest their surpluses, and help develop the

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Khartoum Stock Exchange – secondary market (Value in US dollar)

	No of transactions	Listed companies	Capitalization	No of stocks in circulation	No of certificates in circulation	No of shares in circulation	Volume of circulation
December 2006	667	52	3,595 million	22,228	173,028	48,865,189	61,504
December 2007	687	53	3,907 million	88,111	319,159	5,524,020	180,549
December 2008	598	53	3,297 million	607,682	424,009	22,990,225	31,810,270
December 2009	609	53	2,687 million	24,774	299,165	19,835,955	206,082,760
2010							
January	778	53	2,826 billion	62,740	737,955	2,285,206	398,448,291.33
February	511	53	2,539 billion	243,129	172,965	4,851,335	98,794,774.19
March	642	53	2,449 billion	41,684	390,795	5,602,060	222,200,401.35
April	663	53	2,428 billion	76,292	403,039	7,182,924	234,867,520.32
May	605	53	2,369 billion	132,054	181,624	7,458,115	156,754,957.89
June	646	53	2,290 billion	79,441	298,013	87,604,069	169,088,216.63
July	756	53	2,209 billion	117,236	319,018	6,871,582	179,393,769.00
August	677	53	2,206 billion	270,763	280,567	746,403	153,753,980.00
September	715	53	2,222 billion	237,705	352,106	4,681,507	209,526,675.00

Source: Khartoum Stock Exchange Market

(Rate: 1 Sudanese Pound = US\$2.59 as at the 14th February 2011)

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Government Musharakah Certificate position (GMCs) (Value in US dollar)

	Position at the beginning of the period	Value of sold certificates	Value of certificates	Position at the end of period
Jan - Dec 2005	498 million	2,152 million	1,076 million	1,574 million
Jan - Dec 2006	1,574 million	2,745 million	1,372 million	2,947 million
Jan - Dec 2007	1,556 million	433 million	358 million	1,631 million
2008				
Jan - March	1,667 million	529 million	424 million	1,772 million
Apr - Jun	1,772 million	617 million	487 million	1,901 million
July - Sept	1,901 million	366 million	284 million	1,983 million
Oct - Dec	1,983 million	614 million	470 million	2,128 million
2009*				
Jan - March	2,128 million	597 million	529 million	2,195 million
Apr - Jun	2,195 million	914 million	617 million	2,493 million
July - Sept	2,493 million	517 million	366 million	2,644 million
Oct - Dec	2,644 million	839 million	614 million	2,869 million
2010*				
Jan - Mar	2,869 million	983 million	597 million	3,256 million
April - Jun	3,256 million	1,054 million	914 million	3,395 million
Jul - Sept	3,395 million	665 million	517 million	3,543 million

*Amended figures

Source: Sudan Financial Services Company (Rate: 1 Sudanese Pound = US\$2.59 as at the 14th February 2011)

capital market.

- Have had a high return of between 28% and 33% at the beginning of their issuances which represent the proceeds of a real operating profits and capital of the constituent institutions, but this percentage fell during the period 2007 to 2008 between 15% and 17% to 14% in 2010.
- A specific period of validity of the entire year and there are steps for the issuance of certificates.
- Easy to liquidate and have a secondary market developed.
- Convertible and traded in the Khartoum Stock Exchange.
- Exposure through auctions at fixed intervals and control the auction process to specific controls.
- the lease between 10% and 12% annually.
- Pay the share of investors from rental income per month and the yield is calculated from the date of the original lease.
- The presentation of these instruments in the market should be after buying the original for the benefit of investors to be traded in the market according to supply and demand mechanism.
- These instruments are negotiable and the conversion should be wholly or in part. The instruments are sold and converted by the conversion form prepared for this purpose.
- The placement in these instruments exclusively on banks, financial institutions and funds of the public sector.

2. Central Bank Ijarah Certificates (CICs)

Popularly known as (CICs) leasing or certificates of the Central Bank of Sudan. They represent a type of securitization of assets (building), converted into such certificates where the first issuance was in 2005. The main objective behind the issuance of the CICs is to enable the bank to manage liquidity and provide profitable investment opportunities and, the most important characteristics are:

- The relationship between investors and the company (Sudan Financial Services Company) based on the agency contract, and the relationship between the company (agent) and the Central Bank of Sudan adopted on the basis of the original purchase and lease it to him (leasing assets for those who sold them).
- The holder of the instrument in receivables:
 - Monthly fee.
 - The value of the instrument in the market.
 - Distribute the revenue from leasing as 95% of the bondholders and, 5% of the company (as agent).
- Profits depend on the actual rental income and indicators of the feasibility study done indicate that the expected return for

Government Investment Certificates position (GICs) (Value in US dollar)

	Position at the beginning of the period	Value of sold certificates (+)	Value of purchased certificates (-)	Position at the end of Period
2009				-
Jan - Mar	838 million	115 million	-	723 million
Apr - Jun	838 million			838 million
Jul - Sept	780 million		57 million	838 million
Oct - Dec	780 million			780 million
2010*				
Jan - Mar	638 million		88 million	726 million
Apr - Jun	750 million	193 million	81 million	638 million
Jul - Sept	750 million			750 million

*Amended figures

Source:- Sudan Financial Services Company

(Rate: 1 Sudanese Pound = US\$2.59 as at the 14th February 2011)

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Central Bank Ijarah Certificates position (CICs)

	Position at the beginning of the period	No of sold certificates	No of purchased certificates	Position at the end of period
Jan - Dec 2005	-	-	-	-
Jan - Dec 2006	105,371	-	-	105,371
Jan - Dec 2007	371	146,300	25,000	79,071
2008				-
Jan - Mar	79,071	176,325	159,000	61,746
Apr - Jun	61,746	88,500	102,800	76,046
Jul - Sept	76,046	84,740	25,000	16,306
Oct - Dec	16,306	7,000	27,940	37,246
2009*				-
Jan - Mar	37,246	-	-	37,246
Apr - Jun	37,246	8,676		28,570
Jul - Sept	28,570	16,461		12,109
Oct - Dec	12,109		5,000	17,109
2010*				-
Jan - Mar	17,109	20,000	42,500	39,609
Apr - Jun	39,609	18,995	44,000	64,614
Jul - Sept	64,614	30,000	15,000	49,614

*Amended figures

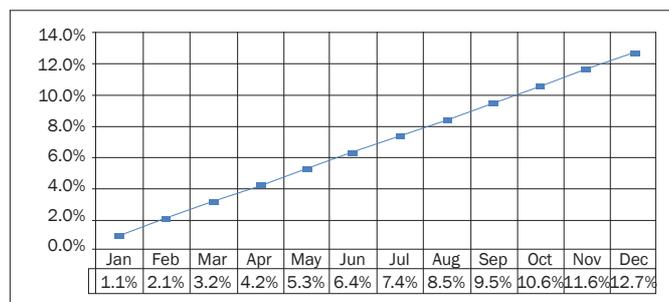
Source:- Sudan Financial Services Company

3. Government Investment Certificates (GICs)

The government investment certificates (GICs) is a medium-term investment fund with a time horizon and capital as well. It was established in order to attract financial resources from the investors by holding restricted Mudarabah for use in financing projects allocated by the ministry of finance and national economy. In order to achieve returns to its investors, the fund seeks to achieve the following objectives:

1. Compilation of national and regional savings and investment promotion.
2. Liquidity management at the macro level.
3. Development of domestic capital market.
4. Polarized utilization of financial resources in government funding to meet the spending on development projects and infrastructure projects.
5. Reduce the inflationary impact by providing stable funding to the government in the form of goods and services.

Expectation of total annual yield curve:



The last monthly public note of Central Bank of Sudan expects the total of annual yield curve reach to 12.7% for the entire investment

vessel which include (commercial bank investment deposits, (GMCs), (GICs)).

Conclusion

Sudanese financial instruments are developed by a higher supervisory board – the Shariah association – a department in the Central Bank of Sudan. This department makes the fatwa on instruments which is to be applied in the financial market. The central bank then takes the decision of using that instrument or not by other technical departments.

For that reason, Sudanese financial instrument seems to be more Shariah compliant and better financial efficiency than other Islamic finance tools of other countries because the supervisory board describes by neutral association of Islamic fatwa and the members of this board are higher Islamic society scientists.

Also, still this instrument was insufficient because the market wants more movement of money to increase finance of productive project holds by public and private sector, increase FDI to the same reason. All of that makes the members of that board and economist of central bank working to resolve the empirical problem of Islamic financial products. (2)

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