



Foreign Currency Mobilisation in Sudan

Executive Summary

This note argues that increasing the minimum paid-up capital of the Sudanese banks, enhancing the ability of the banking sector to attract remittances through the formal channels and amending the Mineral Resources and Mining Act of 2015 can generate foreign capital inflows to Sudan in the range of USD 2.5-3.3 bn in 2020.

First: Banks have three options: To increase the minimum (low) paid-up capital of the Sudanese banks and meet Basel capital requirements. Minimum paid-up capital has to increase to at least 1.1 billion pounds (USD 25 million) from the current level of 100 million pounds (USD 2 million). The current level cannot support financial sector stability. Increasing the minimum paid-up capital to 1.1 billion pounds would bring the capital requirement to its real value in 2012 when 1 USD was equivalent to

4.4 Sudanese pounds. With the participation of foreign shareholders in about 17 Sudanese banks, the increase in the minimum capital base can lead to USD 400 capital inflows from foreign stakeholders. It will also contribute to investor confidence in Sudan's financial sector. Furthermore, small banks should be encouraged to merge to form bigger entities through voluntary bilateral agreements or turn to public limited companies (PLC) and invite new investors.

Second: Sudan can regain the expatriates' confidence and attract remittances in the range of USD 1.5 bn to USD 2.3 bn in 2020, depending on the ability of the banking sector to provide a set of financial products to suit the needs of Sudanese working abroad and allowing the expatriates to withdraw their remittance in foreign currencies. The wide gap between the official and parallel exchange rates will continue to encourage workers' transfers outside the banking sector unless recipients have the right to receive transfers in foreign currencies and transfer fees is quite reasonable.

Third: There is urgent need to revise and expand the Minerals Resources and Mining Act of 2015. Unlike other countries, the current gold mining contracts give the Sudanese government the right to own 10% and buy 20% of extracted gold. If this formula is changed to 50/50, this will generate additional USD 600 million, assuming Sudan exports 90 tone in 2020.

Introduction

In December 2019, Sudan's Balance of Payments (BoP) recorded a deficit of USD16.8 bn which puts tremendous pressure on the exchange rate to depreciate since Sudan continues to suffer from a severe shortage of foreign exchange.

The trade balance in Sudan has recorded a growing deficit since the early 1970s. The reason for this is sluggish export performance and escalating import growth. Both the trade balance and the current account take the same trends, indicating that the trade deficit was a main driving force of the current account deficits.

In this note, we identify and estimate the foreign capital that the Sudanese government can tap from three sources in the short term. We examine the current level of the minimum paid-up capital of the Sudanese banks, the potential of the remittance and current bottlenecks, and Sudanese government returns from the existing mining industry.

First: Banking Sector in Sudan

The Sudanese banking sector includes 37 banks, 5 specialized and 32 commercial banks. Banking sector was cut off from the global financial system for decades which had negative impact on the performance of the banking system. During those years, no regular assessment reports of the financial health of Sudanese banks have been published. Instead, inadequate financial statements were

published. Some of the banks published annual reports, yet without giving details about risks associated with assets or bad debts.

According to the audit report of 2017, which mainly focused on banks in which the government has over 20% stakes, at least eight banks failed the liquidity ratio test. The report also stated that most Sudanese banks did not comply with financial safety and best banking practices. Sudanese banks must keep their debts less than 6 per cent of the total lending amounts.

Sudanese banks need to be measured according to the Basel Standards. Actions are needed to consolidate their capital and liquidity, and address the huge percentage of bad debts, in order to be able to return to the international financial systems, and open up for investments.

Increasing the minimum paid-up capital to 1.1 billion pounds

The banking minimum paid-up capital stands at 100 million pounds since 2012, equivalent to \$2 million which is very low by all standards. For example, in Kenya, the minimum capital requirement for commercial banks is Ksh5 billion (\$50 million) in 2020. Increased capital base is important for financial sector stability and may lead to cost reduction from economies of scale which may lead to lower prices (lending rates). The move would protect public deposits and investments and also contribute to investor confidence in Sudan's financial sector, which will increase investment and economic growth. The proposal is likely to lead to mergers between small banks.

It is highly recommended to increase the minimum paid-up capital to 1.1 billion pounds, equivalent to \$25 million as per the official exchange rate. Taking into account that fact that around 17 Sudanese have foreign shareholders, the increase in minimum paid-up capital is expected to bring about \$400 million in the form of capital inflows.

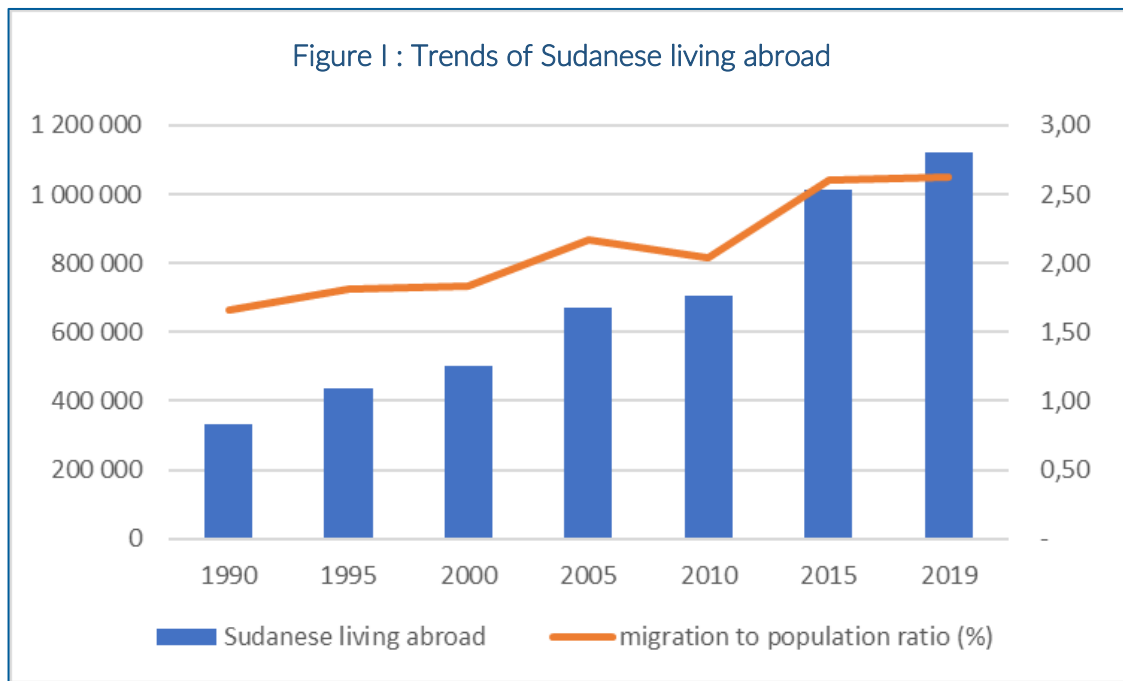
Second: Remittances

The patterns of migration in Sudan

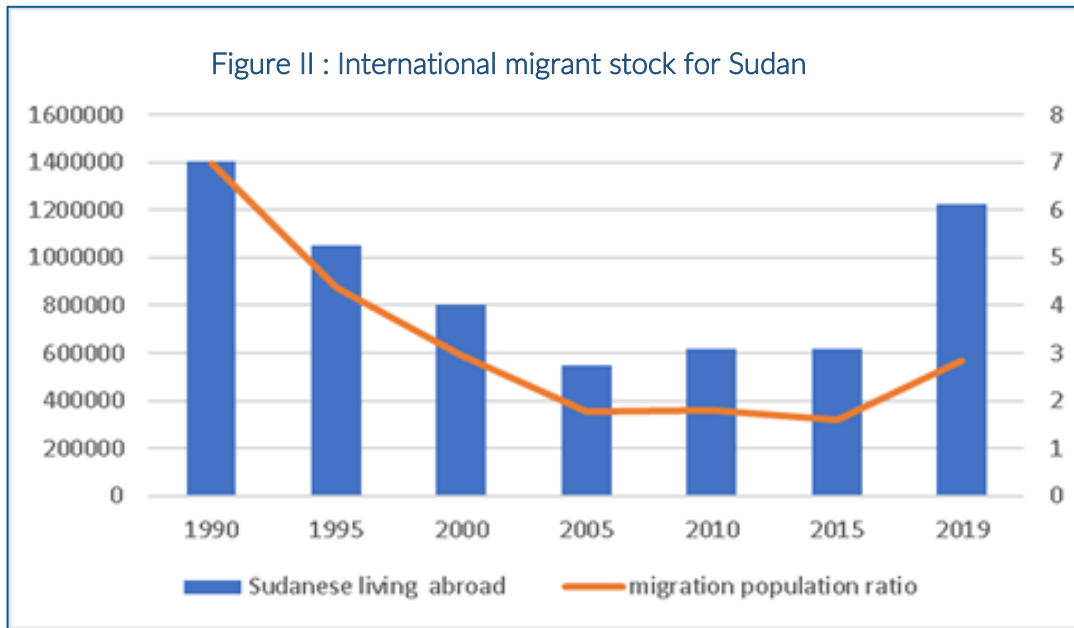
Since the global oil boom in the Arab Gulf countries in 1973, Sudan became a labour sending country and the remittances of the Sudanese working abroad, is playing a key role in the economy and the livelihood of the households in Sudan.

Labour emigration data for Sudan suffers from the lack of reliable data and as per UNDESA

statistics, the stock of the registered Sudanese migrants was almost 1.2 million in 2019 with the ratio of migrants to the whole population of almost 3%. The main destinations of the Sudanese workers are the Gulf Arab and other North African countries as Saudi Arabia, Libya, United Arab Emirates and Egypt. The oil boom in Sudan between 2000 and 2010 had the effect of slowing slightly the migration. The migration accelerated again after 2010 and rose by almost 30%.



Sources : UNDESA international migration Data.

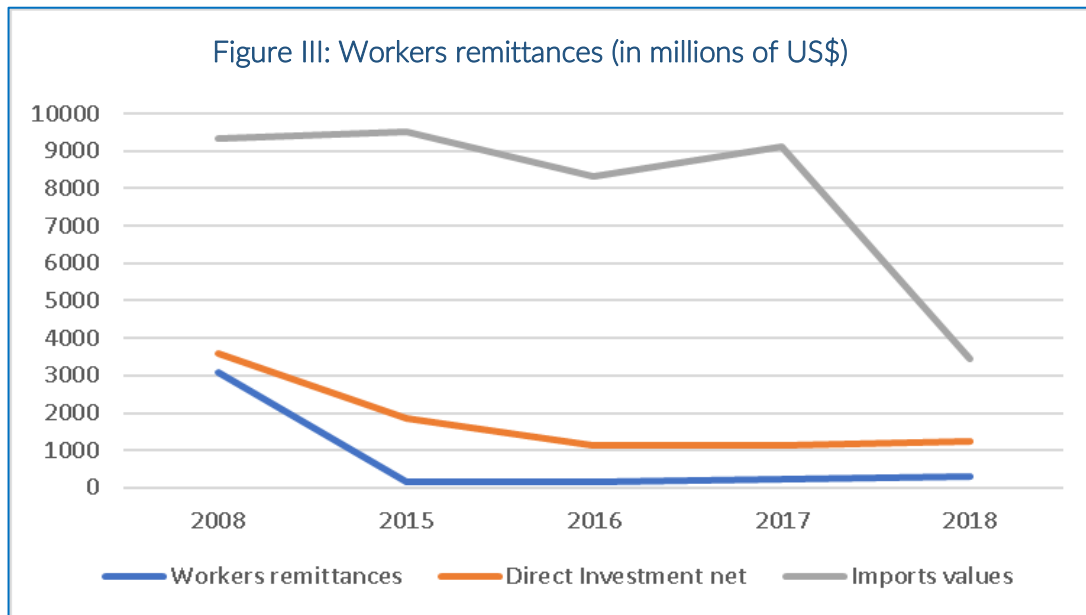


Sources : UNDESA international migration Data.

Remittances in Sudan

Sudan is a major recipient of remittances and, compared to the other sources of external development finance, remittances are much

more efficient in term of fighting poverty at the individual and community levels, as they are person-to-person flows, well targeted to the needs of the poor recipients.



Sources: Central Bank of Sudan.

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The inflows of remittances during the oil boom, 2000-2010 accounted to 33.1% of imports, in 2008 and 86,1% of the net direct investment. Between 2008 and 2018, remittances through the official channel have been divided by 10, dropping from a peak of USD 3.1 billion in 2008 to an amount of USD 300 million in 2018. This trend could be explained by a number of subsequent events such as the 2008-2011 global financial crisis, which directly tends to reduce migrant's income; the political instability and the war in Libya starting from 2011, which also led to a mass return of Sudanese workers back to their country (17 124 Documented returns as of the end of 2011)¹ and the decisions taken by the Saudi authorities since 2013 to expel foreign migrant workers without proper work permit, which have forced more than 55 000 Sudanese to leave the country.

In addition, the current exchange rate policy which, favored the parallel exchange market and the small and uncompetitive banking sector have made that substantial amounts of remittances are transmitted through informal channels (not captured by the official statistics), preventing the country from getting access to the needed reserves.

The exchange rate system remains highly distorted with multiple currency practices, and the real exchange rate is substantially overvalued. The parallel market exchange rate continues to depreciate strongly and continues to dominate, accounting for about 80 % of all transactions.

■ Increasing Remittances inflows

The potential to increase remittance inflows to \$3 billion a year in 2020 is possible if the government allows expatriates to receive their

remits in foreign currency. This means that on average a Sudanese living abroad is expected to transfer around \$200 monthly in 2020. In order to attract transfers through the banking sector, Sudanese banks have to impose reasonable fees, otherwise expatriates will continue to use informal vehicles to transfer money to their relative in Sudan. In a humble scenario assuming the average monthly transfer is \$100, Sudanese living abroad are expected to transfer \$1.5 billion in 2020.

In fact, it is possible to increase the expected remittance by Sudanese living abroad by additional 50% to \$2.25 billion, if the banking sector is able to offer the Sudanese community living abroad set of financial savings products to help them settling back in Sudan in the medium to long term.

Third: Minerals Resources and Mining Act of 2015

The law's coverage is adequate in the sense that exploration and production are included. The law is vague, however, and only addresses general issues. For example, the exploration license section of recent mineral laws in other countries usually includes sections with the following detailed information:

■ How Exploration Licenses are awarded in cases other than artisanal mining

One can infer that exploration licenses are awarded on a first-come-first-served basis, after some kind of determination of the technical and financial ability of the applicant to conduct exploration activities. More specific qualification criteria are needed. These criteria include, but are not limited to: financial

¹Tunisia IOM Policy Brief, March 2013:
https://tunisia.iom.int/sites/default/files/resources/files/policy_in_brief_libya2013_6mar2013.pdf

qualifications, technical skills, and management qualifications. The purpose of such a statement is to restrict the process to only those persons capable of conducting the stipulated activity and to avoid speculation in licenses. The last point can arise when there is a nontransparent process and persons obtain a number of exploration licenses for the purpose of speculation. That is, persons can obtain a number of licenses and then resell the license based on new information.

- a. A well-defined term (three to seven years) with a renewal process;
- b. A relinquishment schedule stipulating how the area specified in the license is to be reduced through time as exploration proceeds. The areas relinquished automatically revert to the state;
- c. The minimum amount of expenditure, usually per annum;
- d. More specific information about the content of the application and applicable rules, including:
 - A statement of the areas to be explored;
 - The type of exploration to be conducted; and
 - An exploration program by year.
- e. The right of the licensee to have priority in obtaining a mining license should exploration be successful and the rights of the licensee to sell the license to another person, as well as the rights to obtain a mining license, and retain an interest in the subsequent mineral license;
- f. Clear ownership of information obtained from exploration and a statement that information obtained belongs to the state and will revert to the state when the license expires.

■ How Mining Contracts are awarded in cases other than artisanal mining

The Sudanese Law has little information about either how mining contracts are awarded or the structure of the contract. Some countries use model mining contracts as a basis for negotiations. Sudan might consider such an option. The model contract can then be referenced in the law. In addition to the contract, a number of process items might be included in the law, such as:

- a. Term;
- b. Composition of negotiating team;
- c. Stipulation of information supplied by potential contractors, such as:
 - Proof of technical and financial capacity;
 - Feasibility study;
 - Proposed financing;
 - Development plan; and
 - Pro forma cash flows.
- d. Contractor selection process.

■ A separate section for artisanal mining

This section should contain stipulated qualifications for obtaining such a license, which should be more than citizenship and age, type of mining to be covered by an artisanal license (including reprocessing of tailings), term, payments such as royalties, and capacity limitations, beyond which the licensee must obtain a regular mining license.

There are legal points such as expanded dispute resolution procedures, governmental oversight of the process and transparency provisions. Thus, it might be good for the government to obtain a legal opinion about the structure of the law as well as to obtain information from experts on artisanal and small-scale mining.

Fourth: Policy Options

Recapitalization of the banks

All Sudanese banks, public or private, are highly unlikely to pass the stress tests in terms of capital adequacy. Banks have three options: To increase the minimum paid-up capital of the Sudanese banks to 1.1 billion pounds (USD 25 million) from the current level of 100 million pounds (USD 2 million). The current level is very low and cannot support financial sector stability. Increasing the minimum paid-up capital to 1.1 billion pounds would bring the capital requirement to its real value in 2012 when 1 USD was equivalent to 4.4 Sudanese pounds. With the participation of foreign shareholders in about 17 Sudanese banks, the increase in the minimum capital base can lead to USD 400 capital inflows from foreign stakeholders. It will also contribute to investor confidence in Sudan's financial sector. Furthermore, small banks should be encouraged to merge to form bigger entities through voluntary bilateral agreements or turn to public limited companies (PLC) and invite new investors.

Remittances

The country needs to strengthen and deepen its' knowledge on how to set a more effective policy for managing remittances. The question is how to improve migrants' access to an efficient and cost-effective banking and financial system. The subject should be analyzed from the two sides of the channel, the source, usually middle east and developed countries, and the recipient, Sudan. Facilitating remittance flows will require reducing transfer costs and improving the exchange and monetary policies in Sudan. For this, flexible exchange rate leading to exchange rates unification is crucial for boosting remittances.

The Exchange rate liberalization should be accompanied by the reform of the monetary policies to strengthen the banking sector and manage more effectively the domestic currency liquidity. In addition, improving the business environment and fighting corruption together with the reform of multiple taxes would also help to attract more remittances.

Mining

The current share between the Sudanese government and mining companies is very unfair compare with the practice in other countries. The government should have the right to own 50% of the extracted gold. In the USA for example, companies have only rights to buy certain percentage of extracted gold ■



This policy brief was written by **Khaled Hussein** and **Omar Abdourahman**,
ECA Subregional Office for North Africa

Contact:

Khaled Hussein, Officer in charge
Economic Commission for Africa (ECA)
ECA Subregional Office for North Africa
Secteur 3 - A5, Avenue Attine, Hay Ryad, Rabat
P.O.Box: 2062, Rabat Ryad, Morocco
Telephone: +212 (0)37 54 87 40/ (0)37 54 87 12
Email: husein44@un.org
www.uneca.org/sro-na

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