

# **Strategic Microfinance Vision 2021-2025**

submitted to

**Central Bank of Sudan, Microfinance Unit  
Republic of Sudan**

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## 1. Introduction and Terms of Reference

This report is produced according to the December 2020 contract between M-CRIL and the Central Bank of Sudan, under which M-CRIL undertook to review the situation and recent progress of microfinance in Sudan and to make recommendations for its development between 2021 and 2025. The ‘key deliverables’ under the contract were to provide:

- An evaluation of the performance of SMF from 2010 to 2020, with particular reference to what was proposed for the period from 2013 to 2017 and what was actually achieved.
- A statement of an appropriate and realistic vision for SMF for the period from 2021 to 2025 with recommendations for performance indicators by which progress may be monitored during the period.

## 2. Executive Summary

This strategic vision of 2021-2025 for the microfinance sector in Sudan has been outlined based on the performance of microfinance in Sudan from 2006 to 2019. Microfinance in Sudan has evolved under the guidance and supervision of the Microfinance Unit (MFU), Central Bank of Sudan (CBOS). Since 2006, CBOS has played a very critical role as regulator, supervisor and provider of technical assistance (TA) and capacity building support to microfinance institutions in Sudan. Moreover, the MFU has also provided equity support and has played a pivotal role as the facilitator in arranging funds for microfinance institutions. This has assisted the sector immensely and has provided impetus for the growth of microfinance in the country.

To fulfill its on-going responsibilities, CBOS must collaborate with multiple stakeholders and create a robust ecosystem to ensure sustainable access to financial services for economically underserved and poorer communities in rural, semi-urban and urban areas. Since 2006, CBOS has created and implemented strategies to support people's livelihoods either through agricultural interventions or through assisting new non-farm businesses. Going forward, CBOS must develop a comprehensive framework to support economic growth and employment, and to promote social policies which address the country's poverty and social development issues.

Higher food prices, exacerbated by the impacts of COVID-19, will most likely have a significantly negative effect on living conditions, which will cause an estimated increase in the extreme poverty rate to 20 percent in 2020, with the urban poor most affected. Given the parallel market exchange rate, the proportion of the population of Sudan who to live on less than \$1.90 a day is likely to have exceeded 50% by December 2020. It is important to develop a strategic plan for microfinance which is based on field realities as well as global best practices.

The strategy must focus on addressing poverty through the provision of financial assistance to poorer people and particularly to women. The strategy should include the creation and development of policies and legislation to encourage overall development of microfinance, along with supporting infrastructure, besides expanding the availability of financial resources and the related services and distribution networks.

There is a need for improved connectivity within and between financial institutions through improved technology, which can provide better services to beneficiaries at an affordable cost. To address this, CBOS's payment division is working closely with fintech companies and TELCOS to create and develop an appropriate financial ecosystem.

Based on the current position of the microfinance sector in Sudan, the strategic vision for 2021-2025 should be focused on strengthening four key pillars. They are regulation, financial resources, expansion, and information technology. These pillars will provide significant growth in terms of outreach and portfolio and will allow microfinance institutions to provide their services to micro, small and medium enterprises (MSMEs). Growth will be primarily driven by agriculture and livelihood services and should also contribute to the reduction of gender inequality.

### 3. Strategic Vision and Performance of the Microfinance Sector (2021-2025)

#### 3.1 Sudan: Political and Economic Evolution<sup>1</sup>

##### 3.1.1 Political Developments

The 2019 revolution led to the establishment of a transitional government with a mandate to carry out sweeping reforms to reverse decades of economic, social, and political decline. The Government of Sudan (GOS) has taken bold steps towards resolving long-standing internal conflicts, unwinding economic distortions, renewing the social contract, and re-engaging with the international community. In August 2019, a civilian coalition called the Forces of Freedom of Change (FFC) signed an agreement with the Transitional Military Council (TMC) forming a hybrid civil-military sovereignty council and a transitional government to oversee a 39-month transition toward democratic elections.

The 2019 revolution and the establishment of a transitional government with a mandate to carry out sweeping reforms and to the commitment to reengage internationally radically changed the prospects for World Bank Group (WBG) engagement. The Country Engagement Note proposes a strategy to make the most of what is the best opportunity in decades to reduce poverty and boost shared prosperity in Sudan. Sudan's government has launched an ambitious economic and social revival program. This program focuses on (a) achieving internal peace in the country based on inclusion, regional equity, and justice, (b) economic stabilization through correcting the causes of current large macroeconomic imbalances, and (c) providing a foundation for future rapid growth, development, and poverty reduction.

##### 3.1.2 Poverty

Sudan has witnessed a steep deterioration in its economy, poverty has increased and the country has fallen from 'lower middle income' to 'poor country status' in the past three years. Large public sector deficits have driven inflation up to 210% in October 2020. There are shortages of key commodities and power outages are frequent. Trade in goods and services is limited and remittances are curtailed. Social indicators have also worsened; Sudan is ranked 139 out of 157 countries in the Human Capital Index (HCI) and 167 out of 189 countries based on the Human Development Index (HDI) in 2018.

##### 3.1.3 Agriculture & Industries

Sudan has a largely agrarian economy and possesses the second largest amount of irrigated land in sub-Saharan Africa as well as abundant mineral resources, most notably gold, which has become the country's largest export. Over the medium-term, agriculture and agro-business has a particularly high potential for growth in both output and productivity, with major implications for poverty reduction.

With its new government coalition, Sudan presents underexploited opportunities that can reinvigorate economic growth. About 63% of Sudan's land is agricultural, and only 15–20% of it is under cultivation. This offers huge private investment opportunities. Large scale irrigated

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<sup>1</sup> World Bank: Country Engagement Note, September 2020

agriculture has the potential to create employment and increase national income and foreign exchange earnings. Non-food agro-industries can accelerate growth by developing value chains that diversify the economy to compensate for the loss of oil revenues. The government should undertake structural reforms to facilitate the movement of labor from subsistence agriculture to industry and services to accelerate labour absorbing growth and reduce unemployment.

**Table 1: Macroeconomic, Poverty, Population & Employment Indicators**

Indicators	2010	2015	2016	2017	2018	2019e	2020f
Real GDP Growth	-0.3	4.9	4.7	4.3	-2.3	-1	-8.2
GDP per capita (current US\$)	1,401	1,910	1,299	1,125	854	780	730
Inflation (CPI Average Annual)	13.2	16.9	17.8	32	64.8	51.3	140.0
International Poverty Rate (\$1.9 in 2011 PPP)	14.4	11.3	10.6	10.6	12.1	14.2	20.0
Lower Middle-Income Poverty Rate (\$3.2 in 2011 PPP)	40.0	42.2	40.8	40.4	43.7	47.0	55.7
Population, male (% of total population)	49.8	49.9	49.9	49.9	49.9	49.9	49.9
Population, female (% of total population)	50.1	50.1	50.1	50.1	50.1	50.0	50.1
Urban population (% of total population)	33.1	33.9	34.1	34.4	34.6	34.9	35.3
Rural population (% of total population)	66.9	66.1	65.8	65.6	65.4	65.1	64.7
Employment in agriculture, female	61.1	57.6	56.8	56.2	55.2	54.3	53.5
Employment in agriculture, male (%)	40.4	36.1	35.4	34.8	34.8	34.8	34.8
Unemployment, female (% of female labour force)	26.8	30.1	29.8	29.5	29.1	27.7	27.2
Unemployment, male (% of male labour force)	10.5	11.9	11.8	11.7	11.6	11.6	12.0

Source: World Bank & M-CRIL's projections, e=estimate, f = forecast,

### 3.1.4 COVID Pandemic

At the end of November 2020, the GOS reported more than 18,000 confirmed COVID 19 cases and over 1,000 fatalities. The Government responded with an initial lockdown in Khartoum and then slowly resumed economic activities. The combination of the global economic crisis and domestic limitations triggered by COVID-19 is expected to lead to a decline of more than 8% in GDP in 2020 as the crisis has significantly impacted revenues, and has increased the costs of healthcare, which has in turn resulted in higher inflation. The pace of annual inflation accelerated to over 50 percent from 2018 to 210% and higher in October 2020. As of November 2020, the parallel market exchange rate has quadrupled the official rate of 55 pounds to the US dollar.

### 3.1.5 US Restrictions

In 1993, the United States designated Sudan as a state sponsor of terrorism which was followed by comprehensive economic, trade, and financial sanctions. This ban was finally lifted during December 2020. A U.S. decision to remove Sudan from a list of state sponsors of terrorism came into effect on December 13, 2020<sup>2</sup>, which should eliminate a burden that had weighed on Sudan's economy since 1993 and has restricted its ability to receive foreign aid.

<sup>2</sup> <https://www.theguardian.com/world/2020/dec/14/us-ends-sudan-pariah-status-by-removing-country-from-terror-list>

### **3.1.6 Lowest Ranking in Gender equality**

Sudan is ranked 168 out of 189 countries and territories in gender equality and remains in the ‘low human development category’. There are a number of contributing factors to gender inequality in Sudan which include (i) low levels of women’s political participation (28 percent) (ii) unequal participation in the labor market (24.5 percent), (iii) unequal education attainment of adult women relative to adult men (15.3 percent). In general, many national institutions are very weak, unemployment has remained at 14–15% for more than two decades, including 25% youth unemployment, and there is a high level of external debt. Additionally, climate change is having a negative impact on Sudanese agriculture, while low levels of labor and capital productivity continue to be important domestic challenges.

## 4. Microfinance – Sudan

### 4.1 Microfinance - Demand and Supply

Sudanese microfinance has grown strongly in the last ten years and has the potential to grow further in the future. The demand for microfinance is huge whereas the supply is limited mainly to urban and semi urban areas, and to some specialised agricultural activities in a small number of states. Women are generally excluded, since most loans are given to male borrowers. Hence, suitable policies need to be created to address the needs of rural women and young people and to extend the geographical outreach of microfinance programmes. At the present time, very few MFIs provide services to all the 18 states in Sudan, and the coverage is very uneven with many areas being seriously under-served.

### 4.2 Microfinance providers in Sudan

Currently, microfinance is provided by commercial banks, microfinance banks and microfinance institutions. Over the last decade, the number of microfinance providers has increased significantly. There are now 39 commercial banks which provide some microfinance, three specialised microfinance banks and 43 microfinance institutions (MFIs). Twenty-one of the MFIs were formed under state government initiatives and 22 are registered as private microfinance institutions. The number of their active microfinance clients has increased significantly during the last ten years; the number doubled from 2018 to 2019, from 800,000 to 1,670,000 clients. This expansion was mainly possible because the large microfinance institutions were able to expand their operations in newer geographies.

### 4.3 International Donors

Many projects which are related to microfinance have been financed and supported by the World Bank, the United Nations Development Program, the International Fund for Agricultural Development (IFAD), the Islamic Development Bank, the Arab Fund for Economic and Social Development and the Arab Monetary fund. The microfinance unit established under the Central Bank of Sudan has played a critical role in collaborating and networking with these international funding agencies. Some of the key developments are as follows:

**4.3.1 Islamic Development Bank (ISDB):** This agreement was signed in 2011 and implementation started in February 2012. The total fund was US\$ 26.2 million (US\$14.2 million from ISDB and \$12 million as the local component paid by CBOS). About 87% of the budget had been disbursed by November 2020. The partnership agreement contains the following components:

- **Extension of lines of credit to MFIs:** Thirty-two MFIs have been financed and supported to the extent of SDG 170 million on a restricted Mudaraba basis. The total loan outstanding under this program is SDG 90 million. The credits were eventually extended to more than 70,000 people as against the target of twenty thousand. The average loan size was US\$ 367, and the portfolio at risk which was overdue more than 30 days represented only 2.13% of the total loan as of September 2020.

- **Training of MFIs:** More than ten international training courses and exposure visits have been conducted for MFI staff to help them understand global best practices. A further 33 training programs have been organized in Sudan.
- **Establishing of business development centers:** Four business development centers have been established in four different States.
- **Business Incubators Support:** This project was designed and implemented in coordination with the Sudan University of Science and Technology. Five moribund business incubators were rehabilitated, and they have provided training to 4600 existing and potential entrepreneurs.

**4.3.2 Arab Fund for Economic and Social Development Loan:** This agreement was signed in 2013 and disbursement started in May 2015. The total amount of the loan was US\$ 50 million, and it is all to be used for wholesale finance to MFIs. Some thirty MFIs have benefited from this funding.

**4.3.3 Arab Monetary Fund Loan:** This agreement was signed in 2018 for total amount of US\$72 million. The fund has been allocated to building an enabling environment for small and medium enterprises and is not to be lent as wholesale finance to financial intermediaries. It provides funds for developing and building the capacity of MFIs and related stakeholders which support MSMEs.

## 5 Central Bank of Sudan – Microfinance Unit

### 5.1 Role of Central Bank of Sudan

Since its inception, the Microfinance Unit (MFU) of CBOS has created and implemented various strategies to support microfinance in Sudan. The results of these efforts are clearly visible, since they have helped to nurture the concept of microfinance as a means of addressing poverty and creating livelihoods for the poor. The MFU has played the multiple roles of regulator, supervisor, equity investor, and wholesale lender, and it also provides technical assistance and capacity building to MFIs. In order to provide sufficient finance for MFIs, the CBOS MFU has in 2008 initiated a requirement whereby commercial banks have to lend a minimum of 12% of their funds to microfinance institutions. This policy change has assisted MFIs to expand their operations and to start to provide microfinance services to poor people and to other businesses whose operations help poor people. Because of the high rate of inflation, the MFU has adjusted the quantum of microfinance loans and has increased the maximum loan amount from SDG 10,000 to SDG 300,000 in the last ten years.

### 5.2 Mission and Vision of the CBOS MFU

**Vision:** To be a pioneer in collaboration and networking in order to build a culture of microfinance, moving towards making microfinance more attractive for commercial banks, and thus to ensure that microfinance becomes an effective mechanism to help to alleviate poverty in Sudan.

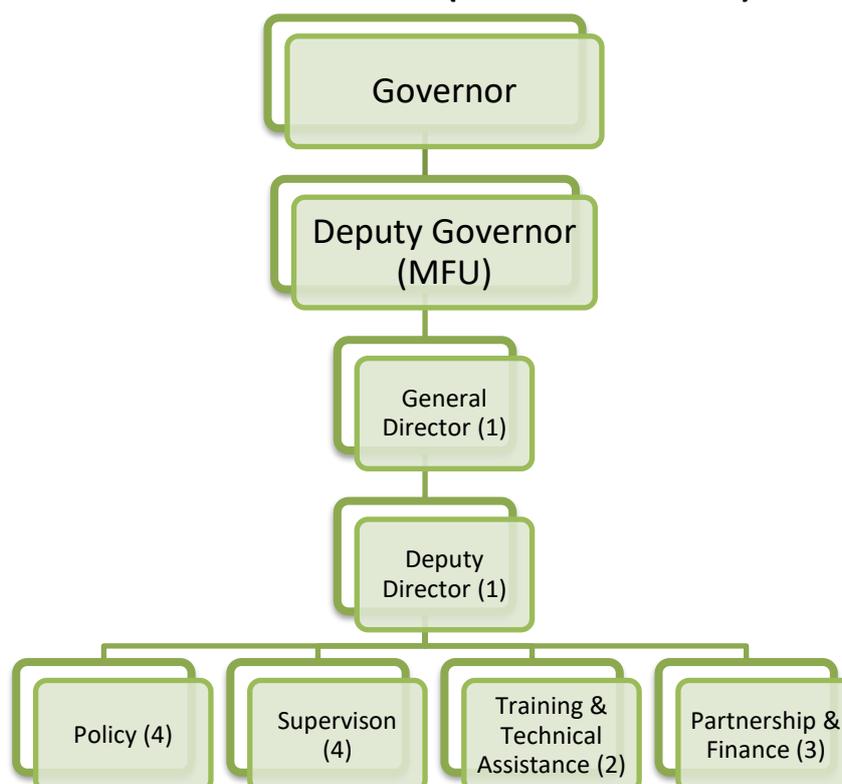
**Mission:** To facilitate sustainable access to financial services for the economically active underserved, and poorly served people in rural, semi-urban, and urban areas by expanding and developing microfinance so that it becomes cost-effective and sustainable.

The vision of CBOS, MFU should include Financial Inclusion as one of key measurements towards sustainable development. Financial inclusion plays an important role in alleviating poverty and help in achieving inclusive development. Financial Inclusion incorporates a range of initiatives like financial literacy, services, accessible and affordable to all segments of the population, including women, youth and rural communities, and vulnerable groups.

#### Key Objectives:

- To play a legislative and supervisory role and to issue laws, regulations and policies that encourage the development of the microfinance industry in Sudan.
- To design and implement institutional and technical capacity building programs and to provide technical support to institutions working in microfinance in Sudan.
- To promote the Sudanese microfinance industry by providing incentives, and participating in media and networking activities, and to coordinate with other government departments and organizations as well as other relevant institutions and associations
- To design, propose and promote ways through which the Sudanese microfinance industry can be strengthened at the national level.

### CBOS MFU Structure (15 members team)



In order to strengthen the credibility of Sudan’s microfinance institutions, CBOS has developed an internal grading system to evaluate them. The objective of this tool is to analyze MFIs’ operational and financial performance and based on the outcome to provide technical assistance and capacity building support to strengthen their governance and operations. The grading tool consists of eight dimensions. They are

- **Outreach:** includes breadth and depth of outreach, compulsory and voluntary savings (number of clients, amounts and average savings per client).
- **Financial structure:** includes capital to assets ratio, debt to equity ratio and deposits to loans ratio.
- **Financial performance:** includes return on assets, return on equity, and the financial sustainability ratio.
- **Efficiency and productivity:** include operating expenses to loan portfolio ratio, personnel expenses to loan portfolio ratio, costs per borrower and borrowers per loan officer.
- **Risk and liquidity:** include portfolio at risk, write off ratio, risk coverage and non-earning liquid assets ratios.
- **Governance:** frequency of meetings of the board of directors, board committees and existence and content of MFI governance manual.
- **Social performance:** mission and vision, social performance measurement studies and Board of Directors’ involvement in social performance measurement

- **Products and modes of finance:** proportion of portfolio lent to agriculture and number and diversity of modes of finance.

In 2019 the CBOS MFU staff graded all the registered microfinance institutions in order to understand their strengths and the areas where they needed improvement.

### 5.3 Wholesale Finance

During the three years between 2017 to 2019, the finance portfolio of the main commercial banks has increased to SDG 247 billion in 2019 from SDG 122.11 billion in 2017; the microfinance portfolio of these commercial banks is approximately 4.5% of their total portfolios. The commercial banks have reduced their microfinance exposure from 5% of their portfolio in 2017 to 3.5% in 2019. This contrasts with the CBOS guidelines to banks, whereby their minimum exposure to microfinance should be a minimum of 12% of their total portfolio.

(millions SDG)

Indicators	2019	2018	2017
Commercial banks total portfolio	247,945.53	181,080.27	122,111.50
Microfinance portfolio - Commercial banks	8,916.46	8,797.54	6,197.00
Wholesale finance – CBOS	789.88	733.52	540.00
Number of MFIs	46	44	38
Microfinance portfolio/total portfolio of commercial banks	3.6%	4.9%	5.1%
Active beneficiaries (millions)	1.6	0.79	n/a

### 5.4 Blended/Consortium funding

During 2019, four MFIs collaborated to provide rural finance in a more structured manner. The objective of this collaboration between the **Tomoh**, the **Gezira**, the **IRADA** and the **ALFal** MFIs, or TGIF, was to enhance financial inclusion in rural areas of Sudan. TGIF's activities started in Gezira and White Nile states, focusing on rural farmers and producers, the production of enhanced seeds and cereals and the development of rural Gezira and White Nile states as agricultural hubs.

In Gezira state, Tomoh and Gezira MFIs disbursed more than SDG 100 million for planting wheat and sorghum cereals in 40,000 acres, reaching 15,000 farmers. The project produced more than 40 thousand tons of cereals. Similarly, in White Nile state and for the first time in thirty years IRADA and ALFal MFIs disbursed more than SDG 450 million for planting wheat and sorghum in 60,000 acres. They reached 25,000 farmers who produced more than 50,000 tons of grain. The TGIF business model was based on linking the four aspects of improved productivity, the farmers, the finance and their knowledge. The main purpose was not to make profits for the banks, but to achieve inclusive developmental impact through a strategic partnership with flexible policies and a comprehensive vision.

## 5.5 Creation of SMDC

The Sudanese Microfinance Development Company (SMDC) was set up in October 2008. It is owned by the Central Bank of Sudan (99%) and the Ministry of Finance and National Economy (1%). It was established by the Multi Donors' Credit Fund (MDTF) and is managed by the World Bank and the Central Bank of Sudan. It's capital amounts to US\$ 18.25 million. Its goals are:

- To develop collaboration and coordination on the demand side, that is commercial banks and microfinance banks, by opening channels to provide appropriate services to them so that they could become more efficient and could reduce their costs and expand their outreach.
- To offer wholesale financing and financial contributions to bank and non- bank institutions which work in microfinance in order to create an enabling and inviting infrastructure for the banking sector, for private sector investors and for donors.

## 5.6 Creation of MGA

The Microfinance Guarantee Agency (MGA) or "Tayseer" was established in 2013. It is a Sudanese financial institution which works for the public benefit by providing wholesale guarantees to small and medium-sized microfinance institutions in order to enable them to obtain bank financing. This is specifically for institutions that do not have sufficient capacity to provide the guarantees which are required for donor finance, whether they are Sudanese or foreign institutions. The first letter of guarantee was issued in September 2016, and by September 2020, MGA had six branches which were providing three year guarantees to 17 commercial banks which were in turn supporting 21 microfinance institutions. The total guarantee amounted to SDG 1.03 billion, and it enabled the MFIs to support 174,691 beneficiaries.

## 6 Strategic Plan for the Development of the Microfinance Sector (2021-2025)

This plan and strategy must aim to develop a viable policy to enable microfinance to be properly integrated with the overall national plan for the financial sector and to achieve the broader objective of financial inclusion. The national strategic plan (2021-2025) is an extension of the first (2007-2011) and the second strategies (2013-2017), which have created a robust platform for microfinance in Sudan. The 2021-2025 policies should provide an ecosystem which is conducive to the development of microfinance in Sudan. Based on our discussions with various stakeholders, we have identified gaps which need to be filled; they relate to regulation, liquidity, expansion, and appropriate infrastructure, and include the following problems which need to be addressed and initiatives which need to be undertaken by the various institutions. These include:

- a) The MFU of the Central Bank of Sudan treats MFIs in various different and inconsistent ways in terms of regulation, supervision, equity investment, wholesale lending and technical assistance.
- b) There is a strong need for an apex institution which can provide equity investment, wholesale finance, technical assistance, and capacity building for Sudanese MFIs, and can also help them to network with external stakeholders, in order to make them aware of the development of microfinance in Sudan.
- c) There is a need for SMDF and MGA to collaborate; they are working in separate 'silos'.
- d) State level MFIs have weak governance, which limits the sound growth of the Sector
- e) Commercial banks are unwilling to lend the required 12% of their loan portfolio to MFIs, because so many MFIs have limited capital and weak governance.
- f) The larger microfinance banks and institutions should critically conduct Institutional ratings of their operations. This will improve their reputations and will attract low-cost funds from global investors.
- g) Large MFIs have limited presence in semi-urban and rural areas. This makes it impossible to implement the poor and pro-poor expansion strategy developed by MFU.
- h) There is a need to develop and implement a robust mobile banking technology infrastructure, in order to help MFIs to expand their operations economically.
- i) There is a need to develop policies on MSMEs to improve demand and supply value chains, thus benefiting the ecosystem. The staff of MFIs and microfinance banks need to be developed and trained in order to build their capacity. The MFU and others should work closely with universities and other capacity building institutions in order to develop an appropriate curriculum for microfinance learning and research.

If these problems can be overcome, it should be possible to develop and then to implement a strategic vision for microfinance in Sudan for the five years between 2021 and 2025, focused on the Four Pillars of

- 1 strong and robust regulations,
- 2 effective collaborations between institutions to ease liquidity and funding constraints
- 3 appropriate policies and plans for the expansion of microfinance into new areas,
- 4 creation of adequate infrastructure to facilitate connectivity through technology.

## 6.1 First Pillar: Strong Regulatory and Supervisory Institutions

### Role of MFU, CBOS

The microfinance unit of the Central Bank of Sudan should be responsible for regulation and supervision. It should not be a shareholder or wholesale lender to microfinance banks and institutions. MFU's role should be to guide the microfinance sector with appropriate and timely policies with respect to supervision, liquidity and expansion of microfinance. MFU should work closely with other departments of CBOS to create a robust infrastructure for mobile connectivity and mobile banking. CBOS should also partner with other Government departments to provide guidance for the development of micro, small and medium enterprises (MSME).

**Strategy 2021-2025: During this period, CBOS should clearly articulate their responsibility and provide handholding support to Apex Institution to take over the role of equity shareholder, wholesale lender and capacity building institution.**

### Apex Institution

There are now two types of financial apex institutions in Sudan. The SMDC is at the national level and the others are at regional level, in Darfur Region and in five states (North, South, East, West & Central). The national level apex institution should be responsible for providing capital and wholesale funding to MFIs. The institutions should also provide technical assistance and capacity building to the MFIs. CBOS, in consultation with the apex institutions should develop a roadmap and provide the necessary support to the apex institutions so that they can fulfill their objectives. CBOS should also support these institutions in order to build a strong network of social investors, microfinance forums and other facilitating stakeholders.

CBOS has the credibility to develop strong policies to ensure that the regulations are consistent and to create funds at the apex level to address crises such as the COVID 19 pandemic. To achieve the stated objectives, CBOS should facilitate strong collaboration between the Sudan Microfinance Development Company (SMDC) and the Microfinance Guarantee Agency (MGA) and they should clearly define the differences between large, medium and small MFIs. This segmentation will assist the regulator to develop tailor-made policies for medium and small MFIs; the Microfinance Guarantee Agency should allocate 25% of its guarantees to medium and small MFIs.

**Strategy 2021-2025: CBOS-MFU to decide to officially form a national level apex institution for microfinance operations. The Apex institution should define large, medium and small MFIs based on certain benchmarks like clients, portfolio, area of operations. Further, develop conducive policies to support all levels of microfinance institutions**

## Regulation of Commercial Banks:

The funding from commercial banks to microfinance institutions has increased by 44% to 8,916 million SDG during 2019 (US\$ 198.13 million)<sup>3</sup> from 6,197 million SDG during 2017 (US\$ 1,273 million)<sup>4</sup>. This increase could be attributed to increase in number of well managed MFIs, 12 new MFIs have started their operations during 2017-2019 period.

As per the guidelines issued by CBOS in 2008, commercial banks should allocate a minimum of 12% of their portfolio to microfinance institutions. However, the commercial banks have never been able to provide this minimum required support to microfinance institutions. In fact, the banks have reduced their funding to microfinance institutions from 5% of their portfolios in 2017 to 3.5% in 2019. Therefore, CBOS should restructure this policy and should require commercial banks to transfer any funds which they have not been able to lend to MFIs to apex institutions. This should encourage the commercial banks to on-lend the full 12% of their total portfolio stipulated by CBOS to MFIs.

CBOS should also explore the possibility of including loans to cooperatives and MSMEs under the 12% minimum lending requirement. NGOs might also be included in the allocation since they can increase the banks' outreach by facilitating relationships between banks and MFIs. NGOs might also act as monitoring institutions and help commercial bank to maintain healthy asset quality.

**Strategy 2021-2025: MFU should have deliberations with commercial banks and should work out guidelines based on market conditions. MFU needs to design and develop Microfinance institution rating/grading framework which will enhance the credibility of microfinance institution and commercial banks will be able to sanction sufficient credit based on rating/grading outcome.**

## 6.2 Second Pillar: Capital and Wholesale funds

CBOS and the apex institutions should discuss the issue of microfinance funding with the commercial banks and should develop guidelines to assist the commercial banks, so that they can meet the stipulated lending requirements. They should analyse and understand the challenges which are faced by commercial banks in adhering to these guidelines and should develop more suitable guidelines. In addition to commercial banks, large MFIs should also be encouraged to support medium sized and small MFIs to mitigate their problems of limited liquidity.

**Liquidity:** CBOS should formulate guidelines which allow and encourage commercial banks to be minority shareholders in MFIs, and they should also relax the regulations on foreign investments in order to strengthen the capital base of MFIs. CBOS should also encourage consolidation and mergers between the smaller MFIs. CBOS should also allow commercial banks to be minority shareholders in MFIs, if the MFIs are sufficiently strong in their operations and finances. CBOS should also allow and encourage foreign investments in MFIs to improve their capital position.

<sup>3</sup> 1 US\$ = 45 SDG in December 2019

<sup>4</sup> 1 US\$ = 7 SDG in December 2017

**Mergers and acquisitions:** Based on their rating grades, CBOS should closely engage with weak microfinance institutions and encourage them to consolidate. CBOS should restructure their registration guidelines and allow private players to take over weak MFIs through mergers and acquisitions.

**Strategy 2021-2025: MFU to draft appropriate guidelines to allow Commercial banks to acquire stake in microfinance institutions.**

**Deposits from borrowers:** CBOS should develop a framework to allow large MFIs with a strong capital base to raise savings from their clients. This may encourage other large private companies to establish strong microfinance institutions. If suitable MFIs are allowed and encouraged to mobilize clients' savings this may also encourage other large and medium sized MFIs to satisfy the CBOS criteria to allow MFIs to be registered as deposit taking institutions.

**Rating Framework:** CBOS should develop a framework for rating the creditworthiness of microfinance banks and institutions on globally accepted standards, which will allow the better-managed institutions to raise low-cost capital and wholesale funds from international sources. These ratings will also make it possible for the equity of suitable MFIs to be listed on stock markets and will thus enlarge their resource base and enhance their credibility.

### 6.3 Third Pillar: Geographical Expansion

**Expansion of Microfinance operations:** CBOS should explore modifying the licensing criteria for MFIs and should insist that they expand their operations to new places. CBOS should also encourage commercial banks and large MFIs to expand their operations in semi-urban and rural areas and to add a minimum of 25% new clients each year.

**MSME Segment:** CBOS should encourage young people to establish micro and small enterprises which can if necessary be financed by MFIs. CBOS should also encourage national and local government bodies, NGOs and others to promote and encourage young people to start new businesses. This should be done in collaboration with commercial banks and microfinance institutions, as well as schools and colleges. CBOS should work with Government to define clear policies to encourage and assist micro and small businesses.

**Alternative Financing for smallholders:** CBOS should explore ways in which they can assist small farmers through alternative financing mechanisms and should also explore ways in which they may obtain health insurance. Most smallholders find it difficult to improve their operations because they have insufficient finance to enable them to make major investments. CBOS and commercial banks and microfinance institutions should explore alternative financing options to assist smallholders to overcome this challenge and to escape from their present dependence on informal sources of funding.

**Credit Bureau Data analysis:** CBOS should encourage MFIs and banks to use data from credit bureaux in order to increase borrowers' credit limits. This should help commercial banks and microfinance institution to lend larger amounts to suitable borrowers and will also enable the banks to diversify their present dependence on loans to large corporate institutions.

**Strategy 2021-2025: MFU at CBOS should develop concrete strategy towards Financial Inclusion agenda. Currently, only limited population in Sudan can avail the services of microfinance providers. A wider financial inclusion framework is must for inclusive development. Moreover, MFU must design and develop policies & guidelines for Micro Small and Medium enterprises and youth population.**

#### 6.4 Fourth Pillar: Infrastructure and Information Technology

**Infrastructure:** CBOS along with other stakeholders should collaborate with private institutions in order to finance the development of improved infrastructure which will make it easier for farmers to improve their links to suppliers and to buyers so that they can overcome some of their present difficulties by building improved value chains. Many small farmers are now forced to sell their produce in the open market at low prices because they are unable to access suitable storage facilities. CBOS and other Government departments should encourage and assist investment in improved infrastructure for backward and forward linkages for small farmers. This will in itself create many new jobs and will also enable small farmers to increase their earnings.

**Information Technology:** CBOS should facilitate the development of a robust mobile banking application ecosystem to enhance the financial inclusion landscape. Mobile connectivity will expand the geographical reach of microfinance and other services through point of sales agents and will reduce the transaction cost of operations. Given the vast area of Sudan, all the states should as soon as possible be properly and robustly connected. This will encourage commercial banks and large MFIs to expand their operations and outreach at low cost, and the telecom operators should also be able to provide alternative cash collection outlets through their sales outlet networks.

Mobile banking with robust and advanced technology has the potential to revolutionise microfinance activities in Sudan in the period between 2021 and 2025. The CBOS payment department is already working closely with several financial technology companies to provide improved platforms for mobile banking.

**Capacity Building:** CBOS and other apex institutions should collaborate with universities and research institutes and encourage them to provide training on microfinance and its potential to reduce poverty. The apex institutions should also work to raise general awareness of microfinance through training, workshops, and conferences. They should also establish a microfinance training centre which will provide training to MFI and banking staff.

**Strategy 2021-2025: Mobile banking should revolutionise the microfinance and micro small and medium enterprise segment in Sudan in the next five years. The total number of clients are expected to reach 5 million in 2025 from 1.1 million in 2020. CBOS is in a process of piloting the mobile banking IT platform along with Fintech players.**

## 7 Programme

In order to conduct the study, the M-CRIL team member spent some two weeks in Sudan having discussions with key stakeholders. He visited Microfinance banks, institutions, state level microfinance institutions, SMDC, MGA, Insurance providers, Telecom operators and existing and prospective microfinance borrowers.

- The team member had discussions with the following stakeholders
  - Central Bank of Sudan, MFU Team
  - General Manager – Alanaam Microfinance (Khartoum)
  - General Manager – SMDC (Khartoum)
  - General Manager – MGA (Khartoum)
  - General Manager – Alfal Microfinance (Khartoum)
  - Dy. General Manager – IRADA Microfinance (Khartoum) and clients including Director – Payment Department, CBOS-Khartoum.
  - Visit to Gezira State
    - Dy. General Manager – Al Gezira MFI and their clients in Wad Medani.
  - Visit to Sinar State
    - Sinar CBOS team
    - Sinar banking window office and clients including
  - Visit to Singa
    - Meeting with Singa MFI and their clients including
    - Meeting with Ebdaa Bank Branch at Singa and their clients including...
  - Dy. General Manager – Ebdaa Bank in Khartoum and their insurance and IT departments
  - Prof. Badr el-din ibrahim, Ex-Governor, CBOS
  - Head - Mobile Financial Services -MTN

During the field visit, the team member interacted with more than 75 farmers who produce potatoes, wheat, maize, and sorghum, five micro entrepreneurs who recycle waste plastics and manufacture plastic pipes and some ten traders who work with sheep, goats, cows, seeds and general goods.

The M-CRIL team would also like to express their sincere gratitude to all the staff of the various institutions, their clients and others who organized and facilitated this programme.