The Role of Central Bank of Sudan in Boosting Microfinance 1999-2009

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in Development Planning

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Dedication

To my dear parents,
To my dear wife and kids,
To all who supported and encouraged me,
I dedicate this work
Acknowledgement

My deep gratitude to my supervisor Dr. Hassan Shiekh Idriss for his valuable assistance, advices and comments.

My thanks to assistance and advices I’ve received from Dr. Abubakr I.M. Hussein, Director of DSRI.

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My deep thanks to those who contributed, by a way or another, to this work.
Abstract

This study is to shed light on the role of Central Bank of Sudan (CBoS) in boosting microfinance (MF) during the period: 1999-2009. The study followed the historical descriptive analytical approach. The study primary data has been collected through questionnaires, field trips and interviews with stakeholders. The secondary data has been used to qualify the primary data.

The study revealed that the Microfinance Unit of CBoS paid valuable efforts to find out an enabling environment for microfinance, MF provided during the research period accounted for 3.8% on average in comparison to the total banking advances, banks are insist to provide MF against traditional guarantees, the majority of MF operations is not covered by insurance, the MF applications period of study is too long, and there is no link between the provision of MF and marketability of outputs of the financed projects.

The study recommended that the definition of MF should be broaden to include savings, Mobile transfers and loans to cover the basic needs of clients (food, education, health), MF to be increased up to 30,000 Sudanese pounds, the MF insurance and guarantees problems must be resolved, there is a critical need for building a central microfinance database, establishment of National Agency for Microfinance insurance and wholesales MFIs, adoption of a Comprehensive National Microfinance Strategy in which the role of CBoS to be centered to the policies, regulatory and supervisory frameworks. For more efficacy, the Microfinance Unit of CBoS to be a sub-division of the Finance Directorate in the bank or it should be developed to become a General Department.
مستخلص البحث


أنتجت الدراسة منهج التحليل الوصفي التاريخي، حيث تم جمع البيانات الأولية عبر الاستيابات والزيارات الميدانية والمقابلات مع الأطراف ذات العلاقة، وتم رفع هذه البيانات الأولية بمعلومات مستقلة عن المصادر الثانوية.

خلصت الدراسة إلى أن هدف التمويل الأصغر بنك السودان المركزي مجهودات مقدرة لتوفير بيئة واعدة للتمويل الأصغر، وأن التمويل الأصغر قد بلغ في المتوسط 3.8% مقارنةً بإجمالي التمويل المصرفي خلال فترة الدراسة، إصدار البنوك على تقديم التمويل عند توفر قضاة تقليدية، وأن عملات التمويل الأصغر غير مغطاة بالتأمين، فترة دراسة طلبات التمويل طويلة نسبياً وعدم الربط بين تقديم التمويل الأصغر وإمكانية تسويق منتجات المشاريع الممولة.

أوصت الدراسة بتوعية تعريف التمويل الأصغر ليشمل الإدخال والتحاويل عبر الموبايل وتقديم قروض لمقابلة إحتياجات العملاء الأساسية (الأكل، تعليم الأبناء، الصحة)، زيادة مبلغ التمويل الأصغر لبلغ 30 ألف جنيه، وحل مشاكل الضمانات والتأمين، بناء قاعدة بيانات مركزية للتمويل الأصغر، فضلاً عن إنشاء وكالة وطنية للتأمين على التمويل الأصغر وإيجاد مؤسسات تقدير التمويل الأصغر بالجملة ووضع إستراتيجية قومية للتمويل الأصغر يقتصر دور بنك السودان المركزي فيها على وضع السياسات والأطر التنظيمية والرقابية، ولتحقيق المزيد من الفعالية، ينبغي دمج وحدة التمويل الأصغر مع إدارة التمويل بنك السودان المركزي أو تطويرها لتصبح إدارة عامة.
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<td>The Asian Development Bank</td>
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<td>AfDB</td>
<td>The African Development Bank</td>
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<td>CBs</td>
<td>Commercial Banks</td>
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<td>CBOS</td>
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<td>LCDs</td>
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<td>MOF</td>
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<td>NGOs</td>
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<td>SHGs</td>
<td>Self Help Groups</td>
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<td>SMDF</td>
<td>The Sudanese Microfinance Development Facility</td>
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<td>SNCC</td>
<td>The Sudanese National Currency Committee</td>
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<td>SRI</td>
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<td>UNDP</td>
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Chapter One
Introduction
1.1 Background:

Microfinance is developed from being conducted through informal modes of finance to be a formal banking and non-banking service. The philosophy lies behind invention of microfinance is the financial exclusiveness for the economically whom deprived from enjoying services provided by the formal financial institutions due to lack of collateral.

The economically active poor mostly rely on relatives, friends, and moneylenders to get loans. Moneylenders provide loans at exploiting rates\(^1\). For instance, the traditional village traders and moneylenders in Sudan charge small producers and farmers exorbitant amount of interest\(^2\).

Nowadays, microfinance has become an important instrument to ease the loans delivery to small entrepreneurs. In a number of countries, whether developed or developing, there are different kinds of financing policies to mainstream the poor clients into the formal banking system through invention of administrative, prudential and mandatory microfinance legislations.

Historically, the early microfinance institutions invented in Europe as far as 1720 in Dublin by Jonathan Swift who started the first Irish Loan Fund providing finance to the poor without collateral. Priyayi Bank of Indonesia was opened in 1895 as the first Asian microfinance bank. In the twentieth century, the microfinance industry shaded the globe.

In the 1970s and 1990s what is so called the Micro-credit Revolution resulted in encouragement of the provision of loans to small entrepreneurs. Such a revolution occurred timely with the shift from the trickle-down

\(^{1}\) Valentino Piana, Microfinance, Economice WEB Institute, 2008, P.4.

development approaches to the bottom-up approach. In the 1980s and 1990s, the microcredit revolution has been evolved to be the microfinance revolution that to comprise the banking and financial intermediations for the economically active poor to help them to receive formal loans against traditional guarantees.

The final goal of the microfinance activist is to ease financial services for the economically active poor in particular. Such services include; micro-loans, micro savings, micro insurance, money transfers and remittances. This indicates microfinance incorporates social, economic and development concepts, as well as principles to underlie commercial institutions and financial markets\(^{(1)}\). So, MFIs stability become crucial for MF\(^{(2)}\). Also such a diversity in the microfinance services reflects heterogeneity in the financial needs of the economically active poor\(^{(3)}\).

Microfinance evolves in a hasty way in the twenty-first century. Mix announced that by the end 2009 there about 1,084 MFIs around the world serving 74 million clients. And due to a study on microfinance, there at least 30 million people have access to microfinance\(^{(4)}\). There have been existing 10,000 Microfinance Institutes (MFIs) reach only 4% of the potential market (World Bank Statistics, 2001).

In Africa, women account for more than 60 per cent of the rural labour force and contribute up to 80 per cent of food production, yet receive less

\(^{(1)}\) Maria Otero, Bringing Development Back Into Microfinance, A paper based on a talk delivered by the author at the conference, “New Development Finance,” held at the Goethe University in Frankfurt. The conference was sponsored by IPC, Ohio, September 1999.

\(^{(2)}\) Journal of Microfinance, volume 1, pp111-12.


\(^{(4)}\) MIX Bulletin Issue No.19 Dec, 2009 pp49
than 10 per cent of credit provided to farmers (Data Snapshots on Microfinance - The Virtual Library on Microcredit).

The World Bank estimates that there over 7000 microfinance institutions, serving some 16 million poor people in developing countries. The total cash turnover of MFIs world-wide is estimated at US$2.5 billion and the potential for new growth is outstanding (Data Snapshots on Microfinance - The Virtual Library on Micro credit)(1).

The potential growth for the newly microfinance activities is outstanding(2).

However, the majority of the economically active poor demand for the microfinance services remains largely unmet. For instance, in the Sub-Saharan African countries the economically active poor face a limited access to the banking loans, deposits, savings, facilities and financial services provided by the financial institutions(3).

To address microfinance, the United Nations Organization proclaimed the year 2005 as the International Year for Microcredit(4). The African Development Bank (AfDB) has established a fund for developing the microfinance activities in the African States(5). The Asian Development

(4) www.un.org/events/microcredit
Bank (ADB) has made a strategy and policies to boost the microfinance sector development in the Asian states\(^{(1)}\).

There have been successive microfinance experiences in Bangladesh, the Caribbean islands, Latin American countries (Bolivia, Brazil\(^{(2)}\)), the United States of America\(^{(3)}\), the Euro-zone States, Indi and Indonesia. Award of the Nobel Prize for the year 2006 to Grameen Bank in Bangladesh and its founder Professor Mohammed Yunus (the godfather of the banking microfinance) drawn attention of donors, governments, NGOs, development institutions, commercial banks and central banks to conduct strategies, policies and initiatives to boost microfinance sector development.

Microfinance institutionalism has been adopted successfully in India, Indonesia, Nigeria, Kenya, Ethiopia, and Uganda\(^{(4)}\). The provision of microfinance evolved from being conducted by money lenders, friends up to formal microfinance institutions such as banks, NGOs, the Pension and Social Insurance Funds.

Historically, the provision of microfinance through banks in Sudan can be referred to the early development finance has been provided by both of the CBoS and the agricultural Bank of Sudan in the 1960s. It is also to say that Central Bank of Sudan has started its endeavors to constitute the suitable enabling environments for the microfinance activities for a long time, especially after the bank has established a Finance Department within

\(^{(1)}\) Asian Development Bank, The Role of Central Banks in Microfinance in Asia and the Pacific vol,1,2000. ADB, Microfinance Development Strategy..

http://www.adb.org/Microfinance/default.asp.

\(^{(2)}\) MIX, Latin America and the Caribbean 2009 Benchmarks

\(^{(3)}\) http://www.microfinanceusa2010.org

\(^{(4)}\) All of these central banks have made their own microfinance development strategies and regulations.
its organizational structure to ease the provision of loans for the national development finance purposes.

The provision of microfinance through the Sudanese commercial banks can be referred to the 1970s; the time at which the agricultural Bank of Sudan and the Peoples' Cooperative Bank started to provide microfinance to the weak segments of the society scattered in the countryside and urban areas. The story of such a kind of microfinance expanded after the Sudanese Savings Bank was established in 1974 to mainly develop the savings culture among the mass from the one hand, and to provide loans for small producers from the other hand.

In 1980s, microfinance increased due to loans provided by Faisal Islamic Bank, the Sudanese Islamic Bank and the Cooperative Development Bank, however its supply remained not in line with the potential demand. In the 1990s the provision of microfinance services has become a cornerstone in the CBoS lending policy.

Duly, such a policy modified to encourage the CBs to provide microfinance to the economically active poor. The stunning thing is that the microfinance endeavors of CBoS increased in the 2000s. In reality, such endeavors translated into developmental and promotional activities dedicated not only to boost microfinance, but also aiming at building strong pillars for the microfinance industry take-off. However, the Sudanese economically active poor still in need of the more microfinance services.

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(1) د. عصام محمد علي الليثي، تكلفة التمويل وأثرها على سلك المصارف في تقديم التمويل الأصغر، ورقة مقدمة للمنتدى السادس لوحدة التمويل الأصغر ببنك السودان، يناير 2008م، ص.5.

So, this study tries to explore the microfinance atmosphere in Sudan with especial concentration on efforts paid by CBoS to boost the microfinance sector development during the period: 1999-2009.

1.2 Organization of the Study:

This study has been organized as follows:

1.2.1 Problem of the Study:

Although the Central Bank of Sudan lending policies have been made in away that to enhance the life quality of small producers, the productive families and the economically active poor in general, but the bank’s annually issued reports are to point out to the fact that the microfinance services in commercial banks are so minor. Besides, some market surveys and studies on microfinance have been conducted in Sudan indicated that the available microfinance services via commercial banks concentrated in Khartoum State and the urban areas at the time that most of the potential microfinance clients are living in the countryside\(^{(1)}\).

Moreover, the Sudanese economically active poor access to the financial services provided by commercial banks surrounded by many difficulties. For example, these banks are to focus on loans against traditional collateral such as fixed assets, houses mortgage, land plots, certificates of assets ownership, storages, postponed cheques, opening of a current account, as well as clearance certificates issued by Zakat Fund and Taxations Chamber…etc, at the time that microfinance clients not able to fulfill such financing prerequisites. Also such clients are in lack of capital to startup income generating activities, unable to market their products and most of them in need of micro insurance.

\(^{(1)}\) ibid, Unicons, 2006
To address microfinance sector problems, CBoS conducted developmental and promotional microfinance key activities. For instance, the bank annually issued financing policy has been modified to comprise lending directives and requirements imposed on commercial banks to devote stipulated percentages of their lending portfolios to small producers, the productive families in general and to the economically active poor in particular as being part and parcel of the economic priority productive sectors. However, the weak segments of the society are still in need of the more microfinance chances.

To build a solid platform for the microfinance services provision, CBoS consolidated its efforts into a microfinance strategy that translated into an action plan. But after many years of practice, the microfinance sector is still suffering from tremendous problems that in need of the more studying to find out suitable solutions for them.

So, in specific terms, this study tries to find out answers for the following questions:-

1. What are the main features of the microfinance strategy of CBoS?
2. What is the definition of microfinance in general and from the viewpoint of CBoS?
3. Does microfinance provided by the SCBs in line with the proportion prescribed in the annually financing policies issued by CBoS?
4. How CBoS tried to mitigate the microfinance collateralization and insurance problem?.
5. What are the main features of the promotional and developmental actions have been led by CBoS to support the microfinance sector development?
6. What are challenges and enhancement chances for the CBoS' microfinance efforts?

1.2.2 Objectives of the Study:

The main objective of this research is to highlight the microfinance policy, regulatory and supervisory frameworks introduced by CBoS to boost the microfinance sector development. Among others, the research is also attempts:

1. To stand on the endeavors paid by CBoS to ease the provision of finance for the national economic and social development purposes.
2. To authenticate the key roles played by CBoS to set the floor for the emergence of the institution-based microfinance services in Sudan.
3. To record the key microfinance endeavors of Microfinance Unit of CBoS.
4. To authenticate activities led by CBoS to ease the microfinance facilitation, microfinance staff training and the microfinance administrative capacities building.
5. To shed light on the microfinance governing and supervision rules have been made by Central Bank of Sudan.
6. To record the promotional activities led by Central Bank of Sudan to enhance the provision of microfinance.
7. To stand on the problems resulted from the implementation of CBoS' microfinance policy with respect to the Sudanese commercial banks.
8. To file CBoS' microfinance strategy challenges and enhancement chances.
9. The findings of the study are to proposed guiding principles and recommendations to expand microfinance services sustainability and outreach in Sudan.
1.2.3 Hypothesis of the Study:

The study hypothesizes that:

- Although CBoS issues annually financing policy that being restructured to boost the microfinance activities, but the percentage of microfinance permitted by the SCBs during the period: 1999-2009 hypothesized to be less than the microfinance proportion announced in such a policy.

- Microfinance Regulatory and Supervisory Frameworks adopted by CBoS to form the microfinance institutional structures.

- The Microfinance Unit of CBoS has to play a vital role that to develop microfinance services. However, the microfinance experience of the SCBs to show that microfinance in Sudan is in its earlier stages.

- Incentives provided by CBoS such as the simplification of the microfinance provision and collateralizations conditions supposed to play positive changes, but such incentives not the first condition to increase microfinance through the SCBs.

1.2.4 Methodology:

The study followed the qualitative Approach to stand on the definition of microfinance, the microfinance related concepts and characteristics. Review of reports, previous studies, documents, primary and secondary data, interviews, group discussions and surveys to obtain information on the role played by CBoS to develop the microfinance sector.

1.2.5 Duration of the Study:

The main discourse of this study is to cover the period: 1999-2009 to highlight the inter-related issues resulted from the endeavors paid by CBoS to boost the microfinance industry.
1.2.6 Structure of the Study:

This study consists of five chapters. Chapter one is an introductory chapter about the state of microfinance and structure of the study.

Chapter two as a cushion to reflect the study conceptual framework with special concentration on the definitions of microfinance, the microfinance models, microfinance schools and institutions.

Chapter three is about the CBoS Profile. Chapter four highlights the developmental and promotional microfinance activities conducted by CBoS. Chapter five is to assess the microfinance policies effectiveness, records the findings and recommendations.

The concluding remarks, references and appendices to be sited in the end of the research.
Chapter Two
Conceptual Framework

2.1 Background:
Economic theory views the provision of loans as a lubricant to facilitate the continuity of the production processes. Furthermore, such a theory defenders argued that the provision of the rural financial services will become much better if there is a concentration on the constitution of sustainable financial institutions to serve the economically active poor, the productive families, as well as small entrepreneurs to help them startup micro businesses.

Modernization and a viability of the financial institutions reduce costs of the financial services, setting out the suitable routes and conditions for financing. Such a situation, in addition to efforts played by the central banks, may induce the financial institutions to contribute to development finance through the provision of microfinance.

Microfinance has been considered one of the financial instruments to open doors before the poor to startup income generating activities. In its earlier phases, microfinance can be permitted through informal providers. However, the microfinance delivery evolved over the time through formal providers.

Informal modes of microfinance have emerged as community-based initiatives under many different names; such as "sandouk" , "khatta" and "Sheil system " in Sudan as well as "hui" in China,"arisan" in Indonesia,"chit" in India,"cheetu" in Sri Lanka,"pasanaku" in Bolivia, "tandas" in Mexico, "tontines" in the West Africa Region, "susus" in Nigeria and Ghana

Formal modes of microfinance have been started as institution-based services curried out by Microfinance Institutions, banks, governments and NGOs in order to facilitate the provision of loans for the economically
active poor whom deprived from enjoying services provided by the financial institutions due to lack of collateral.

Microfinance institutions (MFIs) have become the very important vessels to serve the economically active poor. For example, the formal MFIs were born in Europe and known under various names such as the People's Banks, the Credit Unions, the Savings clubs and the Cooperatives. For instance, the Irish Loans Fund initiated by Jonathan Swift in the early 1700s being considered as one of the earlier formal microfinance institutions that by the 1840s had became a mega microfinance institution. Since the 1840s, nearly about (300) Irish funds emerged and devoted themselves to provide loans to small entrepreneurs all over Ireland\(^{(1)}\).

In Germany, MFIs originated in the eighteenth century as informal financiers and evolved, over the time, to become the co-operatives and saving banks with of considerable outreach to the small entrepreneurs in the rural and urban areas (e.g. Sparkassen\(^{(2)}\)). Roughly, MFIs in Germany own assets accounted at 51% of all the banking assets\(^{(3)}\).

The beginnings of microfinance in LDCs can be referred to the emergence of the informal financing methods have been invented by moneylenders who provide costly loans for small farmers. On the other hand, the startup attempts of the formal microfinance in the LDCs has taken place since inauguration of the Indonesian People's Credit Bank in the year


\(^{(2)}\) The Sparkassen-Finanzgruppe is the most numerous sub-sector with 446 savings banks (of which 6 are independent) and 12 regional direct public insurance.

1895 which has been developed over time to become one of the largest microfinance banks.

Microfinance Institutions in Latin America thrived in the 1900s. The majority of such institutions owned by governments, NGOs and the private sector. The concurrent banking-based microfinance started in the twentieth century when governments, donors and the development finance institutions turned to focus on achieving developmental goals via trickle-down approach concentrated on the provision of subsidized and concessional loans for the economically active poor via the state-owned banks.

But such an approach failed due to finance misuse, high rates of non-performing loans; and its benefits did not reach the truly poor individuals, because instead of them the available finance has been concentrated in the hands of few better-off big farmers and politicians.

So, since the 1970s, some of the less developed countries including Sudan, Bangladesh, Brazil doubled their developmental efforts to open new windows before the microfinance services provision for not only to mitigate the surging poverty rates among the societies, but to strengthen the microbusinesses environments.

Mostly, the formal microfinance adopted by governments based on the selective and solidarity group lending microfinance models. Duly, every microfinance group member is to guarantee repayment of the permitted microloans on behalf of all members of the group. Moreover, it is widely agreed that Professor Mohammed Yunus is the pioneer of the formal microfinance industry.

Historically, Mr. Yunus has established the early structures of Grameen Bank in Bangladesh in the early 1970s to address the microfinance activities to serve the poor active entrepreneurs especially
women. But the big transformation in the microfinance industry occurred in the decade of the 1990s. Such a decade witnessed the faster growing enthusiasm for promoting the microfinance services through financial policy instruments supposed to resolve the poverty problem.

Successive MF experience of Grameen Bank led to debates among experts, practitioners, central banks, commercial banks, governments, developmental institutions, NGOs and development concerned parties. As a result, there quick paces have been gone to annex MF clients to the banking sector. Duly, many microfinance approaches were invented, and so many microfinance concerned sections formatted within the administrative structures of the formal financial institutions.

Due to the worldwide endeavors, many central banks enacted annually credit policy to set out the MF institution-building approaches and organizational rules to facilitate the provision of banking microfinance to the economically active poor. However, there have been so many MF obstacles.

As a result, United Nations Organization, International Monetary Fund, the World Bank and other development financing bodies have shared common views calling for the poverty reduction through microfinance services for the economically active poor. For the international community, the nation State to make an active road-map to achieve the Millennium Development Goals (the MDGs) through the implementation of action plans that to enhance the life quality of small entrepreneurs. From the viewpoint of the microfinance activists, the provision of microfinance to be considered as an essential element to mitigate the poverty negative effects.

Studies on microfinance in commercial banks showed that downscaling of the microfinance services increased the microfinance
products and eased the microfinance procedures from the one hand, and on
the other hand allowed the banking benefits to reach the low-income
individuals, the poor in the developing countries(1). Moreover, the
microfinance services provision can contribute to the financial stability of
microenterprises. For significant impact, the magnitude of microfinance is
positively related to the benefits have been geared by the microfinance
clients(2).

In Sudan, informal microfinance has been started by moneylenders and
the villages' traders who provide micro-loans to small producers and farmers
through traditional modes of finance; including "shiel system". Besides,
some of the community financing behaviors can be classified as being
microfinance such as "khatta" and the Popular Savings Revolving Fund
(sandouk).

To some extent the formal microfinance services in Sudan have been
conducted by the NGOs, the Pension and Social funds, banks and the
government institutions especially the federal and regional ministries of the
Social Affairs. However, the provision of microfinance services in Sudan
is in its infant stage; a situation implies that the Sudanese economically active
poor are in need of more microfinance services.

The microfinance services sustainability has to lead to the reduction of
Poverty (Shahidur R. Khandker, 2005)(3). As much as microfinance being

(1) Mayada M. Baydas, Douglas H. Graham and Liza Valenzuela, Commercial Banks in
Microfinance: New Actors in the Microfinance World, The Ohio State University, U.S. Agency
for International Development, August 1997
(2) http://www.Microfinance Gateway.org
(3) Shahidur R. Khandker, Microfinance and Poverty: Evidence Using Panel Data from
Bangladesh, The World Bank Economic Review Advance Access originally published online on
September 8, 20
provided, incomes of MF clients supposed to be increased (Maldonado et al.)\(^{(1)}\). MF in Jordan, Syria, Morocco, Egypt, Iraq, Lebanon, Palestine, Sudan and Yemen is emerging \(^{(2)}\).

The provision of MF services in Sudan in the embryonic stages. Such services has been provided before the adoption of the microfinance strategy of CBoS in 2007. Recognizing the roles should be played to boost the microfinance sector development, CBoS adopted a five-years MF Vision covers the period: 2007-2011, \(^{(3)}\) Debates, conferences, interviews, workshops, consultative approaches, field studies and Market Surveys on microfinance have been used by Uniscons Consultancy to bring to gather opinions of stakeholders. The outcome of such operations reflected as the Microfinance Vision of CBoS.

Such a vision is to find out the regulatory and supervisory frameworks needed to facilitate microfinance, and to encourage the Sudanese banks to provide MF \(^{(4)}\). The striking thing is that such a vision confined the best practices and lessons geared from the microfinance experiences in other countries. Also, it portrayed key roles to be played by the bank, commercial banks, development banks, NGOs, donors, the community-
based organizations and the private sector in order to contribute effectively to the microfinance sector development\(^{(1)}\).

To translate its microfinance vision into policies, the bank’s annually issued lending policy has been modified to commence microfinance directives imposed on commercial banks. Moreover, such a policy illustrated the microfinance definition, clients, non-performing microfinance, the monitoring, auditing and reporting on the microfinance performance in commercial banks\(^{(2)}\).

To outstrip the benefits geared from the implementation of the microfinance vision of CBoS, it is so important to know the different types of microfinance. So, the following subtitles are to give briefs about the definition of microfinance.

**2.2.1 The definition of Microfinance:**

Microfinance has been considered as an important key tool to provide the better financing chances for the economically active poor to start-up IGAs. As a common sense, the economically active poor financial inclusiveness is the final goal of microfinance.

Generally, microfinance spread in various types in Africa, Latin America, Asia, East Europe, as well as in the emerging and rich economies such as in Norway, the United States of America and England\(^{(3)}\). As Kofi Annan said: "Microfinance is not charity…it is a way to extend the same rights and services to low-income households…it is Just as important,

\(^{(1)}\) Dr. Sabir M. Hassan, Governor of the Central Bank of Sudan, see the governor’s Note in Uniscons Report. P.7-8.

\(^{(2)}\) The Central Bank of Sudan, Microfinance Regulatory Framework, July 2008

microfinance recognizes that poor people are part of the solution, and builds on their ideas, energy and vision\(^{(1)}\).

By another words, microfinance is a type of financial service devoted to individuals or groups of peoples whom traditionally excluded from enjoying the financial services\(^{(2)}\). Broadly defined, microfinance is the provision of loans, savings, micro insurance and the other financial services for the economically active poor.

But the shouting thing is that the definition of microfinance varies widely. Some peoples reduce such a definition to the micro credits or activities associated with the emergence of the microloan movement or what is so called the Microcredit Revolution in the 1970s. Others redefining microfinance for their on purposes and reduced it to services provided by Grameen Bank.

Generally speaking, MF is the term refers to informal and formal arrangements being made to provide the financial services to the economically active poor. The big transformation in the term MF developed in the 1990s as a connotation concept encompasses; small loans, micro credits, savings, as well as other complimentary financial services such as micro insurance\(^{(3)}\).

MF is an umbrella term which describes the financial services have been provided by the poverty focused financial institutions for the poor parts of the society (Raimer Dieckmann, 2007)\(^{(4)}\). The Consultative Group to

\(^{(1)}\) http://www.uncdf.org.


\(^{(3)}\) Seibel, Hans Dieter, The Role of Microfinance in Rural Microenterprise Development, Sygента Foundation for sustainable agriculture.

\(^{(4)}\) The Role of Central Banks in Microfinance in Asia and the Pacific: Vol. 2
Assist the Poor (CGAP) defines microfinance as “a credit methodology employs effective collateral substitutes to deliver short-term loans and the working capital to the micro entrepreneurs\(^{(1)}\).

Others saying that microfinance is a solid social investment to achieve the economic growth\(^{(2)}\). Some scholars agreed that microfinance is primarily focuses on alleviating the poverty through the financial services provided to the poor\(\text{(Michael S.Barr,2005)}\)^{(3)}. In his study on microfinance in the Philippines, Pia Bernadette defines microfinance as the provision of financial services such as; loans, savings, micro insurance, remittances and transfers to the low-income households and their micro-enterprises\(^{(4)}\).

In their comparative study analysis regarding the Regulation of Microfinance Institutions in Asia, Mamiza Haq, Mohammad Hoque and Shams Pathan draw the attention to the fact that microfinance entails the delivery of multi financial services such as deposits, loans, payment services, money transfers and insurance) to the poor and low income households and their microenterprises\(^{(5)}\).

Central Bank of Nigeria defined microfinance as the provision of financial services for the poor individuals whom traditionally not served by

\(^{(1)}\) CGAP (2003a)  
\(^{(2)}\) Gina Harman and Jim Koch, Microfinance is a solid investment in economic growth, February 1, 2010  
the traditional financial institutions\(^{(1)}\). Central Bank of Sudan defined microfinance as the facility or loan amounted to 10,000 pounds provided to an individual or a group of the economically active poor clients\(^{(2)}\). Bank of Uganda defined microfinance as the provision of short term loans to small or microenterprises and to the low income households which usually characterized by the use of collateral substitutes, such as group guarantees or compulsory savings\(^{(3)}\).

To open an alternative microfinance path, the central banks have become the spear-head in setting out suitable environments for the microfinance sector development. Some of such banks accustomed to see the mission of microfinance institutions should be redefined to secure the provision of loans to the economically active poor against traditional guarantees from the one hand, and on the other hand to maximize their benefits through well-established financial systems (Goerge J. Vojta, 2003)\(^{(4)}\).

From the former mentioned definitions of MF, and for the purpose of this study, it's to say that microfinance is the provision of ranges of financial services such as microloans, savings, deposits, money transfers and micro insurance provided by Microfinance Institutions (MFIs) to the lower income individuals to enable them startup IGAs to enhance their life quality.


\(^{(4)}\) Damon C. Morris, Policy Note: Microfinance, eStandardsForum, August 1, 2007.
2.3 Methods of Microfinance:

Methods to provide MF differ from country to another. Some countries use particular MF tools, whereas others are relaying on more than one method. Noteworthy, this diversity can be referred to the fact that MF evolved in different environments(1).

For example, in countries such as Bangladesh, Nepal and the Philippines, the majority of MF institutions apply one or another variant of the Grameen bank’s MF model, whereas in other countries such a model used within some modifications.

To sum-up, the MF methods can be classified into informal and formal methods:-

2.3.1 Informal Microfinance Methods:

Informal MF methods can be used in absence of formal microfinance institutions. They characterized by simplicity of the delivery although they have been considered costly. In this concern, the forthcoming paragraphs highlight some of the well-known informal microfinance methods;

2.3.1.1 Money lending:

Lending of money to small producers by moneylenders thrives where there is no formal financial services or where the formal finance providers insist to exclude small producers from enjoying benefits of their financial services as a result of lack of collateral. Un-like commercial banks, moneylenders are to provide flexible microfinance disbursement due to the absence of information asymmetric. Because they aware that their microfinance clients are in a critical need for finance.

As a fact, moneylenders are to provide costly microfinance for the economically active poor. For instance, some studies realized that interest

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rate imposed by moneylenders in Sudan ranges between 122% to 226% on average\(^{(1)}\).

2.3.1.2 The Revolving Savings Funds:

This kind of microfinance has been resulted from aggregation of savings in a fund established by a group of individuals who intend to save money for investment purposes or to be used at times of hardship. A revolving savings fund has a manager elected by the group members so as to collect installments periodically from the members and disburse them to the beneficiary. The beneficiaries priority of finance can be determined either collectively or through lottery.

2.3.1.3 Other Informal Microfinance Methods:

Informal models of microfinance are diversifying according to the social and economic environments where the microfinance activities are being conducted. For instance, microfinance sometimes comes from relatives, friends or even neighbors in order to realize social purposes such as marriage, death and expenses…etc. Bural Associations, Religious Associations and their counterpart resembling community funds sometimes provide microfinance for the poor individuals who face accidental costs.

In general, such kind of informal microfinance models can be classified as non-commercial microfinance models.

2.3.2 Formal Microfinance Methods:

To provide loans for the economically active poor, microfinance institutions developed innovative widespread financing mechanisms including repeated lending types that break down the micro loans into small

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installments with frequent repayment schedules to establish the trust and worthiness of small entrepreneurs.

Duly, the formal microfinance methods are varying from being progressive financing models up to formal methodologies easing provision of micro loans, joint-liability and partnership with MF clients who receive loans under group responsibility gives strong incentives to each of the group members to pay if a member of the group fails to repay installments.

The following titles highlight some of the formal MF methods and models applied around the globe:

2.3.2.1 The Microfinance Models:

For the purpose of this study, there has been special concentration on the following MF models:

2.3.2.1.1 Microfinance Model of Grameen Bank:

MF Model of Grameen Bank has been invented and developed by Grameen Bank in Bangladesh. Such a model has various physical, cultural and institutional settings. The distinctive features of this model include; the careful targeting of the poor clients, self-selected group of the peers which consists of five members guarantee each other, the compulsory savings, incentives, motivations, supervision of borrowers and decentralization of the microfinance operations.

For more assurance, the peer groups incorporated into the villages' centers (Branches) which composed of up to eight members. The group members must hold weekly mandatory meetings. Savings of the group members to be collected for four to eight weeks prior to the receiving of the first microfinance installment, and it should be continue for the duration of the lending period. No further loans can be available if any one of the peer group members does not repay his/her loan on the time.
The Microfinance branch staff verify data and information on microfinance activities and make the periodic visits to the clients' businesses. Nevertheless, the Grameen Bank's microfinance model is not static. Some MFIs have modified it in many aspects. Some MFIs introduced the voluntary savings, the third party guarantee, the guarantees of mayors, syndicates and associations. Others have developed a set of procedures that differ to those of Grameen Bank constituting similar newly microfinance models.

2.3.2.1.2 Self Help Groups:

Self Help Groups microfinance model (SHGs) differs from the Grameen Bank microfinance model. This model composes of around twenty-group-members who are more autonomous in comparison to those of Grameen model. To some extend, SHGs model is primary based on the group members who have to search for additional funds from external parties. Some NGOs are to apply the SHGs so as to provide loans to the micro-entrepreneurs.

Generally, the SHGs model has been applied widely in India, and has been modified into many copies. To far extend, such a model successfully applied in India, Pakistan, Nepal, Sri Lanka and Indonesia.

2.3.2.1.3 The Villages' Banks:

The Villages' Banks formation is similar to the SHGs, but it differs in some aspects. Firstly, this model has been evolved from the idea of the community-managed Credit and Savings Associations created to provide financial services for small producers in the remote villages and rural areas. Secondly, the membership ranges from (30) to (50) clients.

The Villages' Banks model based on the self selection of the financed individuals, the members’ savings and contributions, as well as the outside
sources of finance. The striking thing is that Villages' Banks are to provide microfinance against interest or profit margins relying on cross-guarantees of clients where social pressure among members plays a vital-guarantee to curb the non-repayment tendencies.

Besides, the Villages' bank members are to select their own management committee, create book-keeping, disbursements and repayment schedules. Hold Regular meetings to discuss the delinquency and managerial problems. Levies and fines are to be curried out on members who break the rules or missed the meetings or fall behind their payments.

2.3.2.2 Formal Methods of MF:

These are methods used by formal MF institutions to provide MF such as:

2.3.2.2.1 Individual Credit lending:

Individual credit lending Method deals with the provision of MF to a client who has to sign a lending contract with a microfinance institution after fulfillment of lending conditions. Requirements in this method resemble to those asked by the traditional banking i.e. such a client is to receive a certain fund and reimburses it back to the bank, at a determined time, plus the lending cost (interest or profit).

Moreover, this model requires a close contact from MFI's with the microfinance clients. Such a methodology almost successful for production-oriented micro-businesses and for clients who have some form of collateral. Noteworthy, this Individual Lending method applicable through both of the traditional and Islamic MF.

2.3.2.2.2 Islamic modes of microfinance:
Islamic modes of microfinance (IMOMF) consist of Al-Salum Sale, Al-Musharaka, Al-Murabaha, Al-qardh Alhassan, Al-ijarah and Al- istisna’a which can be used to finance the long-term large scale facilities\(^1\). Such modes have been applied in the Sudanese commercial banks due to the CBoS financing policy requirements that called for the existence of financial systems that in accordance to the Islamic Sharia’a jurisprudence.

IMOMF have multiple advantages in comparison to the traditional interest-based lending. For example, under these modes, the microfinance services can be permitted without obligations on clients to payback if the financed operations failed due to uncontrolled circumstances such as disasters and draught...etc. Generally speaking, in such circumstances clients can be given another chance of re-financing for not only to handle a new activity to create incomes to recover losses, but also to be given a grace period of time without any additional obligations\(^2\).

2.4 Schools of Microfinance:

The concurrent microfinance literature is dominated by thoughts generated by the institutionalism and the welfare schools of microfinance thoughts. The conceptual foundations of the microfinance institutionalism school stem, to a large degree, from the Ohio State University’s Rural Finance Program researchers' analysis of the failed rural credit programmes during the 1960s and 1970s. Namely; those researchers anchored on the


reality that the primary causes of such programmes failure referred to lack of the institutional viability (Gonzalez-Vega (1994)(1).

Generally, the institutionalism school seeks for the better chances and the suitable means and instruments to expand the umbrella of the microfinance services as far as possible through provision of the more facilitations, regulations and the inauguration microfinance institutions that to furnish the floor for the easy delivery of credits and the other financial services to the economically active poor.

Moreover, the thought of the institutionalism school centered to the philosophy that the existence of MF institutions could back the financial services being devoted to the material capital and the basic needs of the small entrepreneurs to start-up income generation activities. The supporters of such school argue that constitution of more MF institutions is the solid pillar for providing microfinance to un-bankables especially in the earlier stages of the microfinance policies and strategies implementation.

The MF institutionalism school constitutes important driving-forces to sustainability of the microfinance investment vehicles. The institutionalism believe that the MF expansion contributes to improvement of resources allocation, equality in the wealth and power sharing, promotion of the production and financial markets, the adoption of better technology, promotion of the economic growth and achievement of development objectives.

On the other hand, the supporters of the microfinance welfare school are calling for deepening the microfinance services outreach. i.e. the welfare

school concern is expanding to the extent that the majority of the microfinance potential beneficiaries can benefit from the available microfinance services or funds.

Besides, the welfare school supporters are to believe in providing efficient MF services such as credits, insurance, banking services and facilities to enable the economically active poor and small producers from starting self-employ enterprises, smoothen their consumption, managing their risks, accumulate assets and enhance their incomes, as well as improving their life quality.

Accordingly, debates concerning the principles of the institutionalism and the welfare schools of MF demonstrated differences in the degree of microfinance thoughts since both of the two schools are to reflect intersection between the microfinance activities and the development objectives.

Needless to say, development and microfinance seeking for reaching the poor clients on the one hand, and calling for the creation of the sustainable financial institutions on the other hand to connect the economically active poor producers to the financial system to enhance their life quality.

The more striking thing is that the Institutionalism school of MF took into its account the reality that attaining the fully microfinance functionality is a state surrounded by many difficulties; where MF institutions are to offer ranges of the financial and non-financial services, at the time that they should stick to the microfinance terms and legal forms of business approaches\(^{(1)}\).

2.5 Microfinance Institutions (MFIs):

In general term, the financial intermediaries are to receive money from depositors and to transfer it as loans to entrepreneurs against collateral. But the microfinance potential clients in lack of guarantees. Thus, the financial intermediaries' loans mostly bypass small producers, micro entrepreneurs and the economically active poor who have no guarantees. As a result, the poverty increases among the low-income segments of the society. Duly, microfinance institutions are to take the lead to mitigate the financing problem facing the economically active poor.

So many MFIs have multiplied loans to the economically active poor. A number of such MFIs successfully provided micro loans, savings, micro insurance especially in the low-income countries. According to the 2005 Report of the State of Micro Credit Summit Campaign, some (3,200) microcredit institutions reached more than(92) million clients\(^1\).

In common, MFIs have been invented to offer ranges of the financial services to un-bankables. Broadly defined, MFIs are to provide the financial services for the economically active poor (CGAP\(^2\)). Noteworthy, this definition includes the down-scaled commercial banks, NGOs, cooperatives, government-owned banks, the credit unions, the social security funds, pension funds, as well as institutions to provide loans to the micro entrepreneurs and weak segments in the society.

MFIs differ in types, legal formation, business approaches, sustainability and funding sources. Because they ,in the first, started as non-profit enterprises to focus on assisting the poor and small entrepreneurs through accessibility to financing. As globally witnessed, such institutions

\(^{1}\) International Review of Business Research Papers Vol.4 No.4. Aug-Sept 2008. PP. 421-450

\(^{2}\) www.CGAP.
funded through grants from governments, donors and development agencies. Gradually, some MFIs evolved as formal financial institutions or even regulated as microfinance banks to seek for sustainability on the one hand, and facilitate access on the other hand.

The historical context of the modern MFIs referred to 1950s-1970s a period in which governments, development financing institutions and donors turned to focus on the provision of concessional loans to small farmers through the state-owned banks to raise the productivity and to increase their incomes.

However, such concessional loans policy failed to realize its goal due to non-performing loans and funds concentration in hands of the few better-off farmers. But during the mid 1980s through 1990s, the development finance thought turned to envision provision of loans to small entrepreneurs especially women who accumulate assets to up-grade their families incomes and welfare.

Historically, the 1970s witnessed the provision of microfinance through villages banks in lesser developed countries. During this period, Grameen bank and Bank Rakayat Indonesia have achieved outstanding microfinance experiences. Duly, the development finance turned to favour the provision of loans to the economically active poor who accustomed to payback loans at excellent repayment rates\(^{(1)}\).

As a result, some microfinance institutions such as Grameen bank achieved microfinance sustainability enabled them to expand their activities to reach large numbers of clients. The ownership of microfinance institutions varies from being private to state-owned. For instance, ACCION International was established in the 1961 as one of the earliest pioneer

\(^{(1)}\) Yunus, Banker to the Poor.
private microfinance institutions in Latin America that to address poverty through microfinance.

The Self Employed Women's Association (SEWA) formally registered in 1972 as a trade union committee in Gujarat district of India to address the microfinance services dedicated to strengthen its members' income, employment chances and access to the social security services\(^{(1)}\).

In the 1980s, the Grameen bank’s microfinance models being replicated in many microfinance institutions. The World Bank estimates indicate that there over (7000)MFIs serving (16) million individuals in the developing countries. Some estimates pointed that there are more than (10) thousand MFIs such as NGOs, banks, cooperatives, government bodies, the Social and Pension Funds and do other microfinance investment vehicles.

MFIs follow different sources and modes of finance. Mostly, loans provided by some MFIs have to come from their own resources, the working capital, shares and deposits. Other MFIs lending sources consist of loans and grants received from governments, the central banks, donors, the bilateral development finance bodies. Commercial banks, international investment funds, the World Bank and other financiers have been considered as the main sources for MFIs funding.

A microfinance study based on data collected from (1500) MFIs operated in (85) countries in Asia, Africa, and Latin America reflected that 3% of them largest institutions that served more than 80% of the MF customers\(^{(2)}\). Other microfinance studies conducted in the South American countries showed that significant parts of MF channeled through the regulated MFIs. And the majority of MF provided through unregulated


\(^{(2)}\) Lapenu and Zeller (2001).
The cooperation between the development agencies, the financial institutions and microfinance institutions set the floor for the expansion of the financial markets portfolios. For instance, commercial banks started to help MFIs in expanding the screen of their clients.

Since the mid 1990s, enthusiasm for poverty reduction reached the peak. Many NGOs have been transferred to formal MFIs financially sustainable. Commercial banks started to back MF activities through the provision of funds to MFIs via creation of new products (downscaling). In this regard, the Microfinance Investment Vehicles (MIVs) have become important actors in the microfinance sector.

MIVs accustomed to provide funds for the microfinance sector investors. Most importantly, governments, the local authorities, as well as the central banks turned to contribute to the building of strong microfinance institutions through redefinition of their microfinance relevant regulatory and supervisory frameworks, and creation of National Microfinance Strategies namely; in Africa, Latin America and Asia, geared fruitful results. It is to say, mouthful, that MFIs positioned themselves as facilitators to achieve sustainable economic development through the provision of financing for the economically active poor.

### 2.6 Previous Studies On Microfinance:

To stand on the broad range of information and knowledge regarding microfinance, the forthcoming subtitles deal with merit international studies

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(2) IMF, Microfinance: A view from the Fund, 2005.

(3) ADB, The role of Central Banks in Microfinance, Vol 1, 2000.

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and papers on microfinance conducted in some of the central banks with special concentration on the Pacific-Asian Region States, as well as some selective microfinance studies have been done in Sudan.

2.6.1 International Microfinance Studies:

In his book about the development of microfinance in Grameen Bank in Bangladesh and the future of the Social Businesses titled: Banker to The Poor, Professor Muhammed Yunus mentioned that the Grameen bank’s microfinance experience demonstrated that the poor microfinance clients are fully capable of improving their lives.

The Grameen Bank's microfinance methods reciprocated in dozens different types of microfinance projects in many countries with vary in cultures, climates, and levels of development in comparison to Bangladesh. This can be attributed to the fact that the Grameen bank's microfinance models really versatile. Valuable to say, the Grameen Bank's successive microfinance experience can be referred, in part, to Mr. Yunus who believe that the social intervention of governments comes through a policy package to provide incentives to the social-driven enterprises and encouraging business to move in directions desired by the societies(1).

The IMF attention extended to MF to the low-income individuals. A paper titled: Microfinance: A view from the Fund concluded that MF pose public policy choices as it can serve as a vehicle for the poverty reduction. The study indicated that the MFIs degree of prudential regulations depends on the extend to which they intermediate deposits and pose a threat to financial stability(2).

(1) Yunus, Muhammed, Banker to The Poor, Publicaffairs, New York, 2007.

(2) International Monetary Fund. Microfinance: A View from the Fund. Prepared by the Monetary and Financial Systems Department. 2008
Optimal MF regulatory approach to take into account the specific circumstances of the country. Maria Otero believe that the intersection between MF and development occurs at the intersection between MF and the financial system and to accomplish when MFI's regulation to be an essential mean to alleviate the poverty. Accordingly, MF activities will thrive in a broader and deeper financial system does not restrict the allocation of capital to a tiny group of elites, but instead integrates the economically active poor as one of the market segments\(^1\). Nagarajan repotted that MF can be sustainable in the conflict affected environments; the MF products to be discouraged by the absence of the market researches; unqualified staff; highly startups and operating costs; and subsidies that discourage the microfinance installments payback.

Some advocates succeeded in approval of MFI's guidelines in the conflict areas indicated that MF policy to concentrate on the conflict environments characteristics, impacts of the conflicts on micro entrepreneurs' poverty levels, the cultural sensitivities; the links between types of the crisis and seeking for alternative MF systems. Others concentrate on: the institutionalism and the clients' choices; targeting groups like women and youths; data and information on the MF environments, the credit standards versus tailored MF schemes, products; the MF costs and the creation of guidelines to identify the effective methods\(^2\).

\(^1\) Otero, Ibid, p p12-18.

2.6.2 Merit Studies on Microfinance in the Central Banks:

Up-to-date, the first outstanding study on the role of central banks in achieving the microfinance sector development has been curried out by the Asian Development Bank (ADB). This study concluded the central banks in China, India, Indonesia, Pakistan Bangladesh, Nepal, Philippines, Sri Lanka, Viet Nam, the Papua New Guinea, Vanuata and Kyrgyz Republic are very active in providing developmental and promotional activities to support the microfinance sector development\(^{(1)}\).

The former study realized that in most of the former mentioned countries the central banks' support to microfinance varied from being directed credit policy requirements imposed on commercial banks to provide finance to the micro entrepreneurs up to the channeling of funds through licensed banks to microfinance clients. To lesser extend, such microfinance supportive actions being presented to some non-banks microfinance institution. The former central banks have become successive when they directed finance to microfinance institutions with appropriate processes under no imposition of interest controls\(^{(2)}\).

The ADB’s study also indicated that the central banks in the Asia-Pacific region are to play vibrant microfinance roles via their promotional activities that to encourage commercial banks to build pillars for the microfinance systems development. But the extend to which such central banks are to involve into the provision of microfinance is partly depends on how the central banks' top-management perceives the broader financial


sector duties of a central bank, and it also depends on the route being gone to achieve the central bank objectives.

if the central bankers are only to centre themselves to issues relating to the monetary policy, the supervision and prudential regulations, they will become less likely to support the microfinance sector development. But when the central bankers are to see that the mandate of a central bank is extending to development finance, they will more likely to undertake initiatives and policies that to boost the microfinance sector development\(^1\).

Central banks in Nigeria, Uganda, Kenya, Tanzania, Ethiopia and Sierra Leone have conducted studies on Microfinance enabled them from standing on the fact that the microfinance demand in their countries exceeds the available supply; a situation that led such central banks to make their own microfinance strategies. The Deutsche Bank working paper titled: Microfinance: An emerging investment opportunity indicated that the core mission of microfinance institutions is the provision of microcredit to the working poor.

2.6.3 Selective Sudanese Studies on Microfinance:

In a study on the Micro-Enterprises in Sudan, Dr. Badr El-din A. Ibrahim indicated that the Central Bank of Sudan annually issued financing policies have been modified since the mid-1990s to impose financing directives on commercial banks to allocate determined percentages of their finance portfolios for the small-scales activities. However, such experience showed that, at the time that Central Bank of Sudan efforts made to

encourage the banks to enhance the funding access to the micro-enterprises and small clients their internal financing policies defeated such a goal\(^{(1)}\).

In his Ph.D Thesis titled: Micro-finance as a mechanism for Poverty Alleviation in the Sudan, Dr. Salih Gibriel, took the Savings and Social Development Bank as the case of study, has illustrated that the microfinance has been permitted to small entrepreneurs and women through commercial and social windows of finance. The group lending policy applied by the bank, where the group size ranges at 5 to 10 members whom supervised by a supervisor within the group and selected by the group members.

Some times the savings & Social Development Bank provided loans to projects supervised by an selective committee. Such a study also pointed out that the mandate of the Savings and Social Development Bank is to deal with the social development affairs all over Sudan, and revealed that the majority of the banks branches located in towns and the big cities, and only 23% of the banks launched in the rural areas where the majority of microfinance clients lacking finance. The study concluded that the microfinance repayment ranges at 90%-97%, and it is calling for the conduction of detailed microfinance policies that to be adopted by Central Bank of Sudan\(^{(2)}\).

In his Msc. thesis titled: Microfinance and poverty alleviation: the Potential of Group Lending of Microfinance; A case study of the UNDP project Area Development Scheme Elobied, Western Sudan, the scholar Hatim El-Noush surveyed (104) households in (15) villages, and concluded


that the groups lending very efficient tool in providing the poor with loans, and the provision of incentives for collective actions and the social cultural factors are to be used to manage microfinance. The study recommended that the targeted credit programmes should be continued for more than (5) years to successfully reach the poor by making efficient social collateralization to make the poor to participate. The important recommendation of the study is that the provision of microfinance for consumption purposes is needed during the weeding and harvest time\(^{(1)}\).

**2.7 Microfinance in the Agenda of Central Banks:**

The central banking theory confines that the main function of a central bank is to find out sustainable, viable, healthy and wealthy financial institutions. However, in practice, there is a newly trend in many of the central banks around the globe to encourage the provision of development finance through commercial banks in favour of the community-based institutions and the economically active poor.

Perception of the central banks regarding the microfinance sector development evolves over the time. The studies on microfinance in the central banks, the majority of the microfinance practitioners and experts pointed out that a central bank mandate, to far extent, should not only be limited to issues concerning the financing, monetary policy, prudential regulations and supervision of the licensed financial institutions.

So, it is widely agreed such a mandate should be made in a way that to allow the central banks to contribute effectively to development finance\(^{(2)}\). It

\(^{(1)}\) www.SudanSupport.no

\(^{(2)}\) Asia Development Bank, The Role of Central Banks in Microfinance in Asia and the Pacific, 2000
is also agreed that a central bank has to participate to the national economic growth via the provision of microfinance.

In this context, some commentators believe that the very important thing is the contribution of the central banks to the microfinance sector development through grants, facilities, the microfinance capacity building, appropriate micro lending directives and administrative measures on the financial institutions to encourage them to ease the accessibility of the economically active poor to their services\(^{(1)}\).

The central banks support for the microfinance sector development stems from the fact that the economically active poor producers are in need of finance to start-up income generating activities at the time that they in lack of collateral, and living in the marginal areas where the market failure occurs due to absence of the complementary services, information asymmetric, the covariant risks, moral hazards and weak access to the financial services (Besley, 1994)\(^{(2)}\).

there is a critical need for the central banks interference to find out solutions for the economically active poor financing problem. the extent to which the central banks attention can be drawn to the microfinance sector development depends on how the central bank top-management and board of directors perceive the broader functions of a central bank.

The central banks microfinance attention increases when central bankers believe that the objectives and functions of a central bank are extending to support the provision of microfinance. On the other hand, such microfinance support depends on the comparative advantages expected to be gained from the provision of such a kind of finance, the perception of the

\(^{(1)}\) Ibid, p.p17

\(^{(2)}\) Ibid, ADB, pp.21
central bankers regarding the boundaries to which the central bank activities shall be limited.

In that regard, it is likely to say that the central bankers who recognize that the central bank mandate is only limited to the monetary policy; the banking prudential, regulations and supervision affairs are so conservative to support microfinance. In contrast, the central bankers who confess that the central bank mandate is extending to involve developmental and promotional activities are more likely to undertake initiatives, strategies and policies to boost the microfinance sector development.

Microfinance thrived in the latest three decades under the auspice of governments, the central banks, NGOs and the social and developmental institutions. Some studies on microfinance showed that microfinance institutions that served significant numbers of clients have received considerable financial and developmental support (McGuire et. tal, 1998)(1).

In fact; the efforts have been paid by the central banks to provide microfinance as a kind of development finance varying from country to another. For instance, in the less developed countries, some of the central banks have become very active in the provision of promotional and developmental activities to support microfinance.

Such activities include; channeling of loans through commercial banks for micro clients, adoption of the directed credit policies, imposition of lending directives on commercial banks to provide certain proportion of their loans portfolios to the priority productive sectors including; the

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agricultural sector, small and micro entrepreneurs, the productive families. In addition, some central banks are to encourage the provision of credits for developmental purposes, present facilities and guarantee for loans that made by microfinance institutions.

To address the MF sector development, some central banks constitute an apex body that to provide loans for the country-side producers; handle technical and financial support for second-tier MFIs, channeling funds to secure the sustainability of MF, strengthen the financial position of MFIs, enforce MF standards (Gonzalez, Vega and Claudio, 1998(1)).

Besides, some central banks acted conduits for the microfinance projects funded by governments, the NGOs or donors. Above all, in some times some central banks are to contribute to the primary capital of MFIs, provide interest-free loans, facilities and grants to such institutions so as to increase their sufficiency, sustainability and outreach(2).

World-wide, commercial banks especially in some of the less developed countries have been directed by the central banks to channel microfinance that to ease the creation of Income Generation Activities. For instance, a study conducted in the Asian and Pacific region by Goodwin, Groen and Ruth in the year 1998 showed that about(95%) of commercial banks studied undertook microfinance programs due to directives from governments and the central banks(3).

Although the central banks not accustomed to provide loans directly to the non banking or un-licensed financial institutions, but there have been

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(2) See the MicroBanking Bulletin, 2000

exceptional cases. For example, Central Bank of Bangladesh used to provide supportive loans to Grameen Bank from its early startups onto its transformation to a specialized microfinance bank in 1983\(^1\).

Similarly, the Reserve Bank of India established the National Bank for Agriculture and Rural Development in 1982 as an apex body for providing the revolving funds and financial assistance to the non-banking Institutions at lower interest rates to allow them undertake the provision of microfinance in the countryside\(^2\).

In order to boost the MF sector development, some central banks have contributed to the microfinance services through different ways such as adoption of the microfinance prudential regulations, building a microfinance database, conducting of market researches and studies on microfinance, dissemination of macroeconomic data and information on the depth and openness of financial markets, building of microfinance economics, facilitation of microfinance field trips and the provision of microfinance technical expertise support and training for the microfinance staff.

Also, the central banks could contribute to the microfinance policy design and regulatory systems to generate positive externalities and reduce costs of the microfinance transactions. Such actions include; encouragement of the microfinance innovations to fill the gap between the microfinance supply and the potential demand for microfinance.

what usefully to say is that the line between the promotional and developmental microfinance supportive actions of central banks is blurred.

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\(^1\) Ibid, Yunus, Banker to the Poor.

However, the promotional actions are useful in the short-run, and the developmental ones can workout effectively in the long term. In addition, some central banks dedicate funds to mitigate the poverty problem among the weak segments of society.

For instance, the Central Bank of China provided loans for the cooperatives working in the country-side and for institutions mainly working in the poverty stricken areas. Typically, the Reserve Bank of India provided loans to the non-bank microfinance institutions so as to perform microfinance activities. Besides, some central banks create the enabling policy environment for increasing the microfinance operations in commercial banks such as in the Philippines\(^{(1)}\).

In addition, some central banks are to provide support for the microfinance pilot projects to encourage the microfinance continuity and to generate microfinance innovations and newly approaches. For instance, Bank of Indonesia has created a group for microfinance institutions from the one hand, and on the other hand provided microfinance to strengthen the provision of the microfinance services. Similarly, the central bank in the Kyrgyz Republic pledged a registration office for tracking the microfinance guarantees\(^{(2)}\).

Microfinance has been considered by the majority of central banks as a newly development finance method that to make banking supervision challenges. But what clear nowadays is that there is an increasing trend among central bankers pushing them to believe that there is a critical need


\(^{(2)}\) ADB, The Role of Central Banks in Microfinance in Asia and the Pacific.
to modify their traditionally used regulatory and risk-based supervision approaches, as an urgent requirement, to build sound microfinance services.

As advocated by Van Greuning et.al, the risk-based supervision is a suitable approach for the central banks to practice so as to supervise the microfinance sector(1).

In contrast, under the traditional supervision; a central bank focuses on quantifying of lending and the minimization of risks in the financial institutions, a deed that to deprive the economically active from enjoying benefits of the financial services delivered by commercial banks.

But under the risk-based supervision, the central banks shall focus on the management quality of the financial institutions and their risks management plans. Such newly supervision directions allow rooming for the provision of microfinance through the banking system vis-à-vis risks management.

Moreover, the responsibility of the central bank management and supervision teams to ensure that the MFIs executive management to have effective tools to flow-up the microfinance operations, setting out the internal auditing and controls, building microfinance data-base supplemented by a sound reporting system and effective monitoring tools to assess the progress of microfinance operations subject to risks.

Some microfinance researchers argue that the central banks shall take care of many risks probably face microfinance institutions including; interest risks, liquidity risk, management risk, ownership risk, competitor’s risk, the subsidy dependence risks, as well as the information technology risk.

Other researchers say that to overcome such kind of risks, it is the responsibility of the central bank top-management to make sure that the microfinance institutions’ managers are aware enough to draw attention to the microfinance feasibility study, the business plan presented by the microfinance clients, the microfinance data and information flows and management, the microfinance standards, usage of the modern banking technologies, as well as the good governance of the microfinance operations and products marketing\(^{(1)}\).

Some of the microfinance experts are to prefer implementation of the risk-based supervision in the microfinance sector especially by a central bank instead of traditional approaches targeting the loans performance. Such a newly approach centered to the fact that the central bank supervision teams concentrate on the ways followed by microfinance institutions to provide finance and well-training for staff to monitor the microfinance operations, learn how to review and assess the microfinance balance sheets and how to consider the microfinance genuine issues such as achievement of microfinance services efficiency and effectiveness\(^{(2)}\).

Fortunately, the microfinance studies conducted in some central banks in the Asian-Pacific region showed that some of these banks have altered their prudential and supervision requirements when they dealt with


microfinance institutions by using flexible lending directives to ease the provision of loans to small entrepreneurs\(^{(1)}\).

As globally realized, the microfinance industry increases faster than the change in the central banking supervision rules. But in practice, there are many central banks believe in the imposition of the strictly traditional supervision rules when there high rates of non-performing loans.

By contrast, some banking supervisors choose not to enforce strict supervision regularities on the microfinance operations\(^{(2)}\). This implies that there different views to justify the need for special central banking rules for the supervision of microfinance institutions. However, it is agreed that the deposits-taking microfinance institutions shall be under the authority of the central banks.

To elaborate, the microfinance supervision supposed to be flexible when dealing with the non-deposit taking microfinance institutions. It is also argued that the central banks are to adopt the newly supervision methods suitable for the changing economic and developmental structures (Sayers 1948). And where there are micro-banking and micro-businesses activities that to affect the major parts of the economy, the contribution of the central banks to the microfinance organization should become the more important than what it can be done in the way of stabilization (Ursula Hicks (1962)\(^{(3)}\).

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\(^{(1)}\) The Asian Development Bank, The Role of Central Banks in Microfinance in Asia and the pasific, vol.1 and vol.2

\(^{(2)}\) The Asian Development Bank, The Role of Central Banks in Microfinance in Asia and the pasific, vol.2, pp.45-48

\(^{(3)}\) Anand G. Chandavarkar, Promotional Role of Central Banks in Developing Countries, The IMF, WP/87/20, March 27, 1987

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Besides, some microfinance experts believe that there is a need for the second-tier microfinance institutions where the licensed commercial banks and financial institutions unwilling to engage into microfinance (Valenzuela and Young 1999\(^1\)). Generally speaking, this is very important since microfinance is the one tool that a central bank can use to back development finance.

There are many microfinance researchers announced that the future of microfinance lies on the endeavors to be paid by the central banks to regulate microfinance. To this end, they say that the microfinance supervision rules are to be made in a way that to enable the supervisors in central banks from having explicit legal authorizations to allow them grant exemptions for the limited numbers of microfinance institutions. But there probably the possibility for authorities misuse inherent in granting such discretion (Christen, Robert Peck and Rosenberg, 2000\(^2\)). Globally, central banks turned to regulate microfinance in commercial banks, and to maintaining the integrity of accommodation of the microfinance services in the banking supervisory framework. On the other hand, It is to say that the vast growing of microfinance institutions requires the central banks interference.

The extend to which a central bank is to regulate the microfinance varies from country to another. For instance, Kwon and Chatterjee studied the microfinance data collected by Microfinance Information Exchange (MIX)\(^3\) for the years 2006 and 2007. And they found that (52.7\%) of

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\(^1\) Valenzuela, Liza and Robin Young, Consultionn on Regulation and Supervision of Microfinance: Development alternatives, Bathesda, 1999.


\(^3\) MIX is the leading business information provider dedicated to strengthening the microfinance sector. For more information see: www.themix.org/about-mix/about-mix
institutions in Cambodia, Ethiopia, Kosovo, Kyrgyzstan, Lebanon, Mongolia, Pakistan, Senegal, Albania, Armenia, Azerbaijan, Bosnia, Egypt, Honduras, Jordan, Kazakhstan, Mozambique, Nepal, Peru, the Philippines, Uganda, Costa Rica, Tanzania and Zimbabwe, by away or another, have been regulated\(^1\).

2.8 Microfinance: Subsidy or Commercialization:

Since the 1990s, the microfinance commercialization literature has been developed due to hot debates among the supporters of institutionalism and welfare schools of microfinance. Such debates centered to the questions: what is the best track?.MF subsidization or commercialization?.

The supporters of MF commercialization favour the institutionalists by saying that profit-seeking MFIs could meet their costs from interest (margins), fees and revenues, and to obtain their capital from the mass savings and the commercial and financial markets. But the welfare approach supporters argue that a deep push towards the microfinance commercialization is risky Because the profit-seeking MFIs forget their original social mission concerning empowerment of the low-income groups(Morduch2000,Woller et.tal 2001).

Some microfinance advocates tried to draw limits on which microfinance can be dominated by the profit-seeking MFIs or the subsidized ones. They divided MFIs into three categories according to their sustainability. At the lowest level there are subsidy dependence MFIs which unable to cover its costs and relies on donors.

Some practitioners argued that the microfinance commercialization is not applicable to this type of MFIs. The moderate level there are the

\(^1\) Formore information see: An Analysis of Organizational, Market and Socio-cultural Factors Affecting the Supply of Insurance and Other Financial Services by Microfinance Institutions in Developing Economies, A paper written by W. Jean Kwon, Ph.D., CPCU, (KwonW@stjohns.edu) is Associate Professor with the School of Risk Management, St. John's University, New York, USA
operational Self-sufficiency MFIs which covers their operating costs. This type of MFIs are depend party on the subsidized capital for lending purposes. At the highest level there are the full Financial Self-sufficiency MFIs which entirely independent, meeting their costs from their operations fees and interest, capital, deposits mobilization and the capital markets.

Major microfinance providers such as the USAID, the World Bank as well as the CGAP are to advocate microfinance researches to promote microfinance commercialization. Microfinance best practices have become the core theme is the setting of fees and returns (Rosenberg, 2002).

Some experts called for the microfinance subsidies especially in the earlier stages. But some researchers look at the microfinance subsidies as being undesirable at all times since its continuity overtime generating negative credit culture among borrowers in which microfinance can be viewed as grants (Barry 1995).

Other researchers seek for limits for the microfinance subsidy to be allocated only for the MFIs start-ups and to having technical and managerial progress to the extent that they financially self-sufficient (Gibbons and Meehan 1999). However, Woller et al. (1999 a) believe that microfinance institutions should able to cover their operating and financing costs (1).

Chapter Three
The Profile of Central Bank of Sudan

3.1 Background:
This chapter highlights the Central Bank of Sudan profile to envision the microfinance directions within the bank’s administrative and organizational structures.
The need for having a central bank in Sudan increased after formation of the first national Sudanese government at ambitious needs for economic development that made it inevitable to introduce the monetary and financial policies. The Sudanese National Currency Committee (SNCC) was constituted in July 1956. In the year 1957, such a committee issued the Sudanese pound as a legal tender.

After comparative studies of proposals received from the Federal Reserve of United States of America and Bank of England, the SNCC favored the British proposal which called for implementation of a monetary regime within interim period before establishment of a central bank. The establishment law of Bank of Sudan approved in December 1959. Duly, Ministry of Finance (MOF) did all preparations required to establish a central bank. Officially, the CBoS inaugurated in February 1960.

3.2 Functions of Central Bank of Sudan(1):

The main functions of Central Bank of Sudan are to perform the objectives specified in the 1959 establishment law of the bank, and its followed amendments those occurred especially in the years 2002 and 2006.

Among others, both of Article (5) and Article (6) of the 2006 law of CBoS give the bank rights to organize and issue the currency, to use the measures being required to maintain sound lending and monetary regimes to achieve goals of the national economy, balanced development in the whole Sudan, as well as to secure the stability of prices and the exchange rate, building of solid banking and payment systems, banker of the banks, lender of the last resort, and playing as a monetary and financial affairs advisor for the Sudanese government.

(1) See: The 2000 law of Central Bank of Sudan and its amended issue of the year 2006
Article (42) authorizes CBoS to determine the discount rates, interest rates and profits margins on the banking operations. Article (44) enables the bank to compel CBs to apply directives issued; for instance, such banks should execute lending policies and keep mandatory legal reserves in the Central Bank of Sudan.

Article (45) and Article (46) allow the bank to conduct off-site and on-site banking supervisions on CBs through usage of directives, circulars, the moral precaution, qualitative and quantitative controls, as well as other corrective and reformative measures and tools that to encourage banks to effectively contribute to development finance.

Article (48) bridges relations between CBoS and MoF. Article (48-A) gives MoF the legal right to borrow loans from the bank up to 15% of the potential budget revenues as short-term temporary advances, getting indirect finance as letters of guarantees for the national development projects. But in practice, some of such a temporary indirect financing did not paid back for a long time and turned to be long-term finance supposed to be settled in a long period of time to one hundred year. Memorandums of understanding agreed upon and signed by both of CBoS and MoF being used to settle such non-performing finance\(^{(1)}\).

Article (49) requires CBoS to ensure that loans of commercial banks allocated should service the whole country’s development. Such an article allows the bank to encourage commercial bank to up-grade their efficiency and capital adequacy. Besides, it gives the bank a right to form the suitable banking regulatory and supervisory frameworks, as well as a right to

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\(^{(1)}\) The Central Bank of Sudan, the Central Government Financing and Letter of Guarantees Section, Finance Directorate.
articulate corrective actions to develop good governance principles in the banking system and the financial institutions.

The Banking Businesses Regularities issued by CBoS to organize and control banking and financial institutions. Such regularities include; the mostly required supervision and enhancement actions such as issue of licenses for banks and exchange bureaus, determination of the banks’ principal capital and how it could adequately be paid and operated effectively.

Moreover, CBoS has rights to issue and approve the lending and investment governing rules, determines the banks' administrative structures, setting out the measures that to achieve corporate governance in the commercial banks, Issue of articles and laws needed to organize and secure the best usage of loans, surplus liquidity and deposits of the mass.

It is more worthy to mention that the banking supervision is the long hand through which a central bank knows that the banking system is going in the right track. The central banking literature reflects the reality that the central banks sometimes appointing internal department and/external organs or auditors to conduct auditing and banking on the final budgetary reports of commercial banks.

CBoS is to accept budgetary reports of commercial approved by external auditors. The Banking Supervision and Development Department curries out on-site and off-site supervisions on to prevent the occurrence of the systemic risks from the one hand, and on the other hand to protect rights of the banking investors (depositors, shareholders, clients…etc.).

On-site supervision conducted by supervision teams those visit the commercial banks' sites. Such teams report the findings to the governor of CBoS to take corrective actions. Off-site supervision is executed indirectly,
i.e. commercial banks shall send the critically needed data and information required through hard, soft and electronic financial returns to the Banking Supervision and Development Dept. for deep analysis to ensure that commercial banks pronouncedly binding to the approved lending directives and agreed with Basil Accord requirements and the approved banking regularities and norms.

On-site and off-site supervisions accompanied with recommendations to the governor to take the corrective decisions. Commercial banks have to apply organizational programs, lending policies and directives to execute their functions effectively. The seemingly goals of such actions is to avoid concentration of the banking services in the few better-off hands, and to direct the commercial banks finance to the priority sectors.

CBoS is to issue regulations, circulars, booklets and finding reports on commercial banks to let them binding to the supervisory frameworks and the Islamic legal opinions issued by the Higher Supervisory Board for Banks and Financial Institutions, as well as to agree with the Basil Accord. In addition, the bank is to provide development finance, facilities, and interest-free loans to commercial banks to increase their lending portfolios and to encourage them to own the modern banking technologies.

In case of liquidity shortages or chronic problems, CBoS intervenes through different forms; such as the provision of facilities and supportive loans, conduction of direct banking administration and supervision measures, as well as implementation of financial and administrative reforms on the problematic banks. It is to say that all of the above mentioned types of interventions and supervision controls have been used by CBoS to secure the existence of the positive interactions between the monetary and fiscal policies so as to achieve the final goals of the Sudanese national economy.
3.3 Organizational Structure of CBoS(1):

The Organizational Structure of CBoS has been evolved over the time according to the bank development stages. The concurrent organizational structure of the bank composes of three administrative levels namely; the board of directors, the top-management and the executive wings. Among others, the board of directors is responsible for setting out the bank’s strategies, policies and budget approval. The top management consists of the governor, two deputy governors and (5) assistant governors responsible for the bank's five Organizational Wings and the bank branches scattered over the Sudanese States. The top-management also responsible for the bank internal affairs control and development, as well as the health of the whole banking system and the financial institutions.

The wings include: The Governor’s Office Wing consists of the Executive Office responsible for managing the services provided to the top-management, Internal Audit Department responsible for auditing the bank’s internal operations, External Debt Unit responsible for the foreign debt accounts management and the Legal Department that responsible for the bank’s legal affairs.

Economics and Policies Wing consists of Researches and Statistics Department responsible for researches, studies and data compiling and analysis. Financial Markets Directorate composes of three departments; Finance department responsible for the provision of finance to government, the public enterprises, commercial banks, Open Market Operations and contributions to local and foreign banks and enterprises. Foreign Exchange Department responsible for the foreign operations( exports and imports, the balance of payments accounts and the exchange rate stability) and the

(1) See www.CBoS.sd.gov
Monetary Operations Department responsible for the liquidity management and forecasts.

Institutions and Systems Wing consists of the Banking Supervision and Development Department that responsible for the banking control and supervision so as to maintain the existence of healthy banking system and financial institutions. The Microfinance Unit is responsible for the microfinance sector development. Payments Management Department is responsible for MF management and development of the modern microfinance facilitations and devices.

Currency and Treasury Wing consists of Issue Department responsible for currency printing, management, payments, receipts, cheques, cash, transactions on commercial banks accounts, accounts of government and the Public enterprises, custodians, currencies that is to be kept in the safe custodies, determination of un-fit and counterfeit notes, sending and receiving of currency consignments to/from the treasury and the bank’s branches. And the Banking Operations Department responsible for operations on accounts.

The Services Wing consists of Human Resources Department(HR) responsible for the personnel and training Affairs. Financial Affairs Department which responsible for the bank’s staff payments. Accounts Directorate responsible for the banks’ accounts, reports on payments, budget and final accounts. The Services and Engineering Affairs Directorate responsible for logistics, the offices affairs, constructions, maintenance of vehicles and the up-keep of buildings and premises.

3.4 Development Finance in the Agenda of CBoS

The 1960s decade witnessed trends to boost development finance through the 10-years Plan for the Economic and Social Development
covered the period: 1960-1970. Such a plan involved headlines to encourage establishment of developmental banks.

CBoS has become the spear-head to provide loans and facilities to the agricultural sector, paid considerable finance, on behalf of government, to Elnilein Industrial Bank which to provide finance for the industrial sector, import of machines, the spare parts and inputs for the local industries. And to permit loans to professionals, artisans, small producers, as well as to become an adviser for the business men. Its contribution to the capital of such a bank increased from 60% in 1965 up to 99% nowadays\(^{(1)}\). Besides, CBoS participated to the establishment efforts of the Sudanese Real Estate Bank to provide loans for housing development purposes.

Also, the bank carried out reformative actions on many commercial banks to secure their administrative and financial stability. For instance, such actions applied to the Agricultural Bank of Sudan, The Sudanese French Bank, and even the Sudanese Real Estate Bank to ensure that these banks execute their functions effectively.

To put the mass savings in service of development finance, CBoS in collaboration with Ministry of Finance conducted a joint-study in 1962 aimed at the establishing a stock market in Sudan. Although such a market constituted in 1995, but it successfully reserved considerable financing resources for the developmental projects through funds resulted from selling and buying of securities and the different Government Musharaka Certificates (e.g. G.M.Cs).

In 1969, the Banking Supervision Law was issued for not only to deepen supervision on commercial banks, but also to secure flows of grants, facilities and loans that to back the development finance.

\(^{(1)}\) Finance Dept. CBoS.
The 1970s shaded by negative effects on the foreign investments due to the Nationalization Policy imposed on foreign banks. CBoS undertook facilities and some supportive actions in line with such a policy to secure the continuity of development finance. More attention was given to the banking supervision, as well as the monetary and lending policies that meant to support the productive sectors.

CBoS contribution to Savings Bank established in 1973 to increase savings awareness among the public. Microfinance studies showed that such a bank contributed to laborers’ investments through MF\(^{(1)}\). However, such efforts turned to be weak during the first half of the 1970s due to delegation of the Banking Supervision Authority to the Ministry of Finance and transformation of the Credits and Deposits Affairs to the Savings and Investment Council (SIC) constituted by the central government due to the Nationalization Policy requisites.

Consequently, it was appeared, in practice, that functions of Ministry of Finance and Savings and Investment Council differ to those of CBoS. Duly, the deputy governor of CBoS submitted a memo to the minister of finance reflected the losses occurred due to the newly policy that tied the supervision hands of the bank. To back his opinions, the deputy governor prescribed on such a memo the critical need to return the supervision functions back to CBoS to effectively take its corrective actions.

As a result, the CBoS’ law amended in 1975 and the bank resumed its banking supervision authorities. Starting from the Second half of the 1970s up to 1980s; CBoS accustomed to issue circulars, yearly financing policy directives to commercial banks to back developmental finance.

\[\text{(1) Ibid, Salih Gibriel, pp 76-127.}\]
Besides, the bank turned to be the spear-head in Islamicization of the banking operations. Along side the 1990s, Central Bank of Sudan pushed the frontiers of development finance through the conduction of banking reforms that called for introduction of the financially sufficient modern banks of strong administrative structures.(1)

Such reforms occurred timely with implementation of the National Comprehensive Macroeconomic Reforms aiming at breaking-off the economic rigidity, increasing the productivity and expanding the regional development finance chances. Duly, CBoS imposed lending directives on commercial banks to open branches in the regional and States levels to expand the provision of loans to the agricultural activities and the other economic priority productive sectors.

CBoS adopted a Comprehensive Banking Policy, as a mid-term program, covering the period: 1999-2002 to boost development finance, find out competitive Islamic banks and financial institutions possessing the modern banking technologies, providing adequate financial services, maintaining the banking safety, securing the existence of sufficient accounting and internal control systems, as well as supporting the banking corporate governance.

(1) محمد عبد الرحمن أبوشورة وآخرين، توثيق تجربة السودان في مجال المصارف والمؤسسات المالية الإسلامية، مخطط النظام المصرفي (الإسلامية وأثرها على البيئة المصرفية) ط1، دار السداد للطباعة، 2006م.
3.5 Microfinance in the Financing Policies of CBoS:

Since the 1980s, Central Bank of Sudan turned to commence lending its yearly issued financing policy directives to encourage commercial banks to contribute to the macroeconomic objectives achievement. In general such a policy anchored the provision of loans, facilities and adequate volume of money supply to increase productivity of the priority economic sectors and to maintain sustainable monetary sector, and to maintain stable prices and stabilize the rate of exchange.

In addition, the liberalization of the Sudanese economy, as well as implementation of the free market policies accompanied with the rise in the poverty rates to vary from 80% in the North up to 90% in the Southern Sudan. Such a worse poverty situations, in addition to the responsibility to achieve the Millennium Development Goals, induced the Sudanese government to lead attempts to depict the poverty problem. Accordingly, CBoS re-articulated the Comprehensive Banking Policy in a way to ensure that commercial banks to provide development finance for the priority productive sectors from the one hand, and to permit the micro financing services for the society weak segments on the other hand. As a result, the bank's yearly financing policy has been modified to enable CBs undertake promotional actions to back the provision of microfinance.

Historically, the bank responded to the comprehensive and liberal economic policies led by government in the 1990s. Accordingly, the finance policy re-structured to encompass sound regulatory and supervisory frameworks, the interest-based lending substituted by interest-free Islamic modes of finance, as well as the provision of micro-loans for income generating activities. Obliviously, the 1990 financial policy directed CBs to
provide microfinance to small producer, farmers, craftsmen, artisans, professionals and the productive families.

Consequently, extra lending reforms have been curried out along-side the period:1991-1999 to up-grade the banking system performance. Microfinance has reserved top priorities within such policies. For instance, in the 1999 financing policy clearly directed CBs to provide the microfinance services as a must-do-list item.

So, in the light of the former paragraphs, the next chapter elaborately discusses prime endeavors paid by CBos to boost the microfinance sector development.
Chapter Four

Activities to Boost Microfinance
4.1 Background:

This chapter is to shed light on the Central Bank of Sudan activities to boost the microfinance sector development. Worth mentioning, this chapter consists of four sub-sections. Section one is an introductory background focuses on the Central Bank of Sudan attempts to back development finance with especial regard to the microfinance features and directives commenced in the bank's annually issued financing policy.

Section two is to highlight the critically required microfinance activities have been adopted by Central Bank of Sudan so as to expand the frontiers microfinance.

Section three profiles the prime endeavors paid by Central Bank of Sudan to organize, facilitate and up-grade the microfinance services provision.

Section four covers the Central Bank of Sudan activities to build the supervision pillars for the microfinance operations.

4.2 CBoS and the MF Sector Development\(^{(1)}\):

Since its inauguration in 1960, CBoS has been contributing to the provision of development. This trend stem from the bank's top-management and board of directors awareness that its mandate expandable to other issues rather than the monetary policy. As a result, the bank accustomed to provide loans, facilities, grants and guarantees and to participate to the principal capital of the development-related-institutions.

For instance, CBoS contributed to the establishment capital of many domestic and foreign banks and financial enterprises. Besides, the bank used to deliver advances to non financial institutions dealing with

\(^{(1)}\) المراجع السابق .
microfinance such as the Social Development Corporation of Khartoum State and others.

To open corridors for expanding development finance, CBoS contributed to capital of the Agricultural Bank of Sudan which is responsible for the agricultural sector development through the provision of loans and means of production especially for small farmers.

Also, the bank contributed to Elnilein Industrial Bank and the Industrial Development Bank to achieve the industrial sector development through the provision of advances, facilities and means of the productions for the micro-entrepreneurs, the business men, artisans, craftsmen, the productive families and professionals.

To secure financing continuity for the weak segments of society, CBoS contributed to the principal capital of Savings and Social Development Bank and the Family Bank as the only bank responsible for the delivery of loans to the economically active poor.

Moreover, the bank to provide loans, facilities and letter of guarantees to commercial banks to encourage them too participate in consortiums of finance portfolios to provide loans for a determined economic activity. In addition CBoS issues letters of guarantees for banks to participate in portfolios devoted to finance the agricultural seasons, the strategic storage of crops, the animals exports, the Gum Arabic clients, and the Cotton exports.

Besides, the bank provides loans, directly or on behalf of government, for the public enterprises such as the Gum Arabic Company, the Sudanese Cotton Company, the Gazira scheme and its counterparts\(^1\). In practice, the Sudanese commercial banks are relying on CBoS, by way or another, either

\(^1\) راجع: د. صابر محمد حسن، تقييم محاولات إصلاح الجهاز المصرفي ودوره في تمويل التنمية، سلسلة الدراسات والبحوث – الإدارة العامة للبحوث والإحصاء – بنك السودان، الإصدارة رقم (3) ، ص151-61.
through having direct finance, facilities and interest-free loans or repurchasing of their stock of financial certificates\(^{(1)}\).

To allow banks to contribute effectively to development finance, liquidity pumping policy has been adopted by CBoS. Accordingly, CBoS used to sign a restricted or a "free-mudaraba"\(^{(2)}\) contract with a commercial bank to deposit investment deposits that should invested to increase the non-oil products or to be allocated to activities of positive effects on the Sudan economy.

There are many agencies rather than commercial banks in Sudan provide microfinance at both of the federal and States level. Such agencies include; NGOs, the Social and Pension Funds and other local and international development institutions. Such development institutions accustomed to use different approaches, mechanisms and targeted groups.

However, most of the economically active poor (micro-entrepreneurs, the productive families, artisans, professionals and small producers) in lack of loans to startup productive activities. But the more striking thing is that Central Bank of Sudan has created an Microfinance Strategy consists of many financial goals and instruments to expand the frontiers of microfinance as one of the very important tools to enhance the life of the economically active poor in Sudan.

4.3 The Microfinance Strategy of CBoS:

Central Bank of Sudan recognizes that economic and social development in Sudan difficult to be achieved without putting in place well focused financing polices to enhance the life quality of the economically active poor. In this regard, CBoS started hastily paces to design strategic

\(^{(1)}\) http://www.cbos.gov.sd/english/policies.htm

\(^{(2)}\) Means Islamic speculation
Microfinance strategy since 2006 to increase the economically active poor access to the microfinance services.

Recognizing that commercial banks are the suitable vessels to contribute to microfinance, CBoS focuses on them to facilitate the microfinance services provision. To this end, the bank has undertaken a Five-years-Microfinance Vision that to create the enabling environment for the building a promising microfinance industry\(^\text{(1)}\).

Unicons Consultancy Limited has been nominated to formulate the broad lines of the CBoS’ Microfinance vision which has been made through market surveys, microfinance literature reviews, consultations, interviews, workshops, round-table discussions, meetings with stakeholders, learned lessons geared from local and international microfinance experiences, as well as the microfinance practitioners and experts viewpoints.

Such a vision covers the period: 2007-2011. Among others, It is aiming at find out a promising environment for the growing of microfinance sector in Sudan within general framework for the national economy development. Such a vision constituted in away to agree with different microfinance governing rules and approaches to bring benefits for the microfinance stakeholders.

In addition, such a microfinance vision is to facilitate the financial services accessibility for small producers, the productive families and the economically active poor as whole. It is aimed to set the floor for the constitution of institutional and structural frameworks required to invent impressive microfinance regularities, legislation and supervision tools.

\(^\text{(1)}\) Unicons Consultancy Ltd, A Vision for the Development and Expansion of the Microfinance Sector in Sudan, Light Wave, Dubai, 2006, pp3-61
Such a vision is to consolidate efforts of CBoS, CBs, government, NGOs and donors to find out promising environment for MF. It is supposed to set out microfinance standards, MF administrative structures and training to upgrade the microfinance capabilities. Furthermore, it is an attempt to maximize the CBs' commitment towards the creation of microfinance infrastructures, building of the microfinance inquiry and information systems.

Worth mentioning, the following sub-titles to illustrate the endeavors paid by CBoS to execute its Microfinance Vision:

4.4 Developmental Activities to Support Microfinance:

CBoS adopted developmental activities to mainstreaming the economically active poor into the banking system. Such activities are to expand the MF operations, enhance the MF supply-leading processes and bridge the gap between MF supply and potential demand.

In such a regard, CBoS modified its yearly issued financing policy to include, among others, lending directives imposed on commercial banks to provide from 10% to 12% of their finance portfolios ceilings for MF clients, and to establish MFUs units as special focal points to provide the MF services.

To boost the MF sector development, CBoS has established a MFU within its organizational structure in 2007. Also, the bank led a joint-collaboration with the World Bank resulted in establishment of the Sudanese Microfinance Development Facility (SMDF) in 2009 as a second-tier microfinance institution that to develop the private sector's MFIs.

Thus it is clearly appeared there a critical need for a deep digging to stand on activities paid by CBoS to boost Microfinance MF as elaborated in the forthcoming sub-titles:
4.4.1 Imposition of the Directed Credit Policies:

Under the directed credit policies, commercial banks can be required by the central banks to provide certain proportions of their lending portfolios ceilings for determined economic activities.

In this context, the CBoS yearly issued financing policy has been redesigned in a way that to maintain the monetary stability with special respect to the commercial banks' resources and capital adequacy for the better utilization of financing in favor of the microfinance clients.

Such a policy modification aimed at securing flows of advances for the weak society segments as a part of the economic priority productive sectors. Historically, the directed credit policy has been introduced by CBoS within the adoption of Islamic modes of finance in the 1980s. The striking transformation to such a policy occurred in the 1990s and the 2000s; the time at which CBoS introduced direct and indirect Islamic financing instruments to control the banking operations\(^{(1)}\).

Starting from the year 1983, Central Bank of Sudan used to issue an annually financing policy consists of directives imposed on commercial banks to present determined proportion of loans for the microfinance clients. Such a policy mainly aimed at activating banks for the better utilization of their financial resources via the provision of finance to the priority productive sectors to increase the productivity of the agricultural sector, the industrial sector, the exports sector with special concern to the productive families, small producers, professionals, artisans and small entrepreneurs.

Since the adoption of free-market-policy in the 1990s, CBoS modified its financing policy to serve the national development finance.

\(^{(1)}\) These instruments are including: Islamic modes of finance and the Open Market Operations Islamic Certificates.
Consequently, banks have been asked to provide not less than 50% to 70% of their regional branches lending portfolios ceilings for the regional and backward areas development. And such branches should provide loans for Income Generating Activities (IGAs). Moreover, the bank accustomed to issue directed microfinance directives imposed on commercial banks embedded into its yearly issued financing policy.

4.4.2 Establishment of a Central Microfinance Unit:

In 2007, CBoS has established a MF Unit as a sub-division of the bank's Institutions and Systems Wing. The core functions of such a unit are; to find out the enabling environment for MF, setting out the MF institutional regulatory and supervisory frameworks, strengthen MFI financial positions and administrative capacities and to boost the MF sector development in general.

Authorities to utilize the financial resources of CBoS, and the technical and financial assistance provided by foreign development-related institutions, the community-based institutions and NGOs to encourage the microfinance services facilitation have been given to the MFU. To secure the microfinance availability and overcome barriers to the micro loans, the MFU undertook significant steps to broaden the economically active poor access to the banking finance.

To upgrade the MF facilitation, the MFU directed MFIs in the Northern Sudan to apply the Islamic modes of finance and MFIs in the South to apply traditional modes of finance. Taking MF as a business requires infrastructures, sufficient resources and management capabilities, the MFU attempted to build dynamic and financially sufficient MFIs.

MF regularities have been issued. Hot-lines being opened between CBoS and banks. Those efforts led to increasement in the knowledge on
microfinance. Debates, group discussions, forums and conferences attained by microfinance experts, practitioners and stakeholders held under MFU auspices. Moreover, microfinance competitive awards for the mass were organized by the MFU to find out suitable and applicable microfinance projects. The MFU officials encouraged to write microfinance topics on the daily newspapers. Interviews, reports, television and radio programs also have been used.

Bankers and the microfinance experts were hosted by the MFU to disseminate their microfinance experiences. Commercial banks encouraged to introduce the microfinance insurance. The MFU has led surveys on taxes imposed on the micro businesses and conducted studies on the microfinance guarantees required by commercial banks. Lessons geared from such surveys and studies have been used to redesign policies to strengthen the microfinance industry in Sudan.

Furthermore, MFU of CBoS led constructive negotiations with the United Nations Development Programme Office in Sudan, NGOs, the community-based organizations, the ministries of social affairs, Khartoum State, some States governments, Zakat Fund, Taxation Chamber, as well as commercial banks resulted in smart partnerships aiming at the expansion of the microfinance services provision.

Noteworthy, a MFU has been established in the Central Bank of Sudan branch of the South Sudan to grant legal licenses for microfinance institutions, to establish a microfinance database, to mentoring and supervising the microfinance activities in Southern Sudan, as well as to conduct surveys and studies on microfinance.
Note worthy, The MFU of CBoS paid considerable efforts to formulate action plans and policies to enhance MFIs capabilities, and to optimally utilize their resources.

4.4.3 Establishment of Regional Microfinance Units:

To set the floor for the microfinance services development, CBoS directed commercial banks to establish MFUs in line with the agreed microfinance standards and procedures along with the introduction of some microfinance techniques, approaches, regularities and supervision terms.

In that regard, there many microfinance units have been established within organizational structures of Agricultural Bank of Sudan, Savings and Social Development Bank, Islamic Co-operative Development Bank, Animal Resources Bank and Farmers’ Commercial Bank. In addition to establishment of Family Bank.

To build the suitable microfinance administrative capacities, MFU of CBoS organized microfinance training courses. And encourage commercial banks to introduce the latest banking technologies in their microfinance units, and to induce their MF staff for the better creativity and performance.

To enlarge the microfinance services provision in the regional and States levels, CBoS directed its branches to play as microfinance focal points. Besides, many of the CBoS' staff attained training courses on MF to expand their know-how microfinance experiences.

In this context, the MFU of CBoS attempted to increase the MF culture through holding debates, conferences, forums, as well as formation of the Popular Microfinance Associations on the regional and State levels.

4.4.4 The Sudanese Microfinance Development Facility:

Central Bank of Sudan and Ministry of Finance have played significant roles to boost the microfinance sector development. In this regard, the
endeavors of both of them translated into establishment of the Sudanese Microfinance Development Facility (SMDF) in the year 2009.

Basically, the SMDF has been constituted as a result of a joint-coordination led by Central Bank of Sudan and the Multi-Donors Credit Fund (MDF) as a representative of the Sudanese government. The SMDF is registered under the 1925 Law of Companies as a profit-driven microfinance supportive company to develop the private sector microfinance institutions(1).

The SMDF’s startup principal capital amounted to US$ (20) millions which paid by CBoS and the World Bank on the 50%-basis payment. Its board of directors consists of representatives for CBoS (1 member), Ministry of Finance (1 member), the Multi-Donors Credit Fund (2 members), and the microfinance stakeholders (3 members). The SMDF is working in line with a Credit Policy Manual outlines a set of governing rules, guidelines and policies to execute its mission. The SMDF’s day-to-day work has been executing by a team of microfinance experts, a financial manager and the training coordinator.

Principally the SMDF is to target MFIs owned by the private sector especially those of women and the underserved economically active poor in order to improve the life quality of their members, and to effectively contribute to the national economy development(2).

The SMDF core functions are; to find out the suitable private microfinance infrastructures, to contribute to the capital of MFIs, to provide loans, on a commercial basis, to the private sector MFIs, commercial banks and non-bank retail microfinance providers. In addition, the SMDF is to

(1) According to reports of Finance Department of Bank of Sudan
(2) SMDF, Credit Policy Manual, 2009
secure technical assistance and training tailored to the needs of the private MFI s to agreed regulations, standards and procedures\(^{(1)}\).

The responsibilities of the SMDF are similar to the Second-Tier Microfinance Institutions (StMFIs). Such kind of institutions are to support the private sector MFI s activities (McGuire 1998)\(^{(2)}\). Hence, the SMDF can be classified as the first Second-Tier Microfinance Institutions in Sudan.

**4.4.5 Incentives to Encourage the Provision of MF:**

The sub-optimal microfinance through commercial banks in Sudan could not help to provide a cushion for developing the wholesale microfinance in Sudan. Because the microfinance supply not covers the potential demand; a situation reveals a huge gap in the provision of microfinance services especially in the countryside.

CBoS realized the importance of delivering of MF through additional channels. To this end, the bank has taken into account that there is a critical need for conducting microfinance partnerships with commercial banks from the one hand, and for establishing new microfinance institutions in collaboration with the social development actors from the other hand.

Consequently, the MFU of CBoS adopted an Experimental Microfinance Supportive Project aiming at expanding the MF frontiers through a 50%-basis partnerships and speculations with (8) commercial banks and a non-MF institution.

Worthily, such an EMFP helped small producers to startup Income generating activities including; animal productions, agricultural productions,

\(^{(1)}\) SMDF, Credit Policy Manual, 2009.

\(^{(2)}\) Asian Development Bank, Central Banks Support for Microfinance, Vol 1 and vol. 2.
horticulture and fisheries. Furthermore, MFU encouraged CBoS to contribute to the capital of Family Bank for providing microfinance\(^{(1)}\).

The forthcoming Table shed lights on the Experimental Microfinance Project:-

**Table No. (4:1) The Experimental Microfinance Project/ 2008 – 2009.**

(1,000 pound).

<table>
<thead>
<tr>
<th>Institution</th>
<th>Microfinance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Agricultural Bank of Sudan</td>
<td>44,000</td>
</tr>
<tr>
<td>Savings and Development Bank</td>
<td>39,678</td>
</tr>
<tr>
<td>Workers’ Bank</td>
<td>3,000</td>
</tr>
<tr>
<td>Islamic Cooperative Development Bank</td>
<td>2,000</td>
</tr>
<tr>
<td>Farmers’ Commercial Bank</td>
<td>25,000</td>
</tr>
<tr>
<td>Animals Resources Bank</td>
<td>8,000</td>
</tr>
<tr>
<td>Industrial Development Bank</td>
<td>20,000</td>
</tr>
<tr>
<td>Family Bank</td>
<td>15,000</td>
</tr>
<tr>
<td>Estate Commercial Bank</td>
<td>15,000</td>
</tr>
<tr>
<td>Social Development Corporation</td>
<td>21,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>192,678</strong></td>
</tr>
</tbody>
</table>

**Source:** the Central Bank of Sudan Annual Report, September, 2008, the MFU Progress Report, March, 2010.

**4.5 Promotional Activities to support Microfinance:**

Central Bank of Sudan conducted some promotional activities to support financial services dedicated to the economically active poor. Among others, such activities aiming at reducing costs of the microfinance

\(^{(1)}\) Finance Department Reports, Central Bank of Sudan.
transactions from the one hand, and on the other hand to create positive externalities.

To elaborate, such Promotional Activities to support Microfinance are to include:-

**4.5.1 Staff Training on Microfinance:**

To increase MF awareness among the providers, MFU of CBoS held training courses for participants from commercial banks, the Central Bank of Sudan, some ministries and the Social Development Corporation\(^1\).

**4.5.2 Market Surveys, Forums and Studies on Microfinance:**

The microfinance unit of Central Bank of Sudan recognized that the expansion of microfinance services can be realized through the field trips and learned lessons. So, starting from this advanced understanding, the unit conducted market surveys and studies on microfinance with special regard to the microfinance conditions and guarantees.

The microfinance unit held workshops and conferences to find out the suitable microfinance routes and to develop the key microfinance concepts, comprehensive microfinance models and fruitful microfinance strategies and policies\(^2\).

Duly, CBoS issued directives regarding the definition of MF, the MF guarantees and organizational terms. Commercial banks have been directed to provide MF against inconvenient types of collateral\(^3\). Moreover, CBoS led negotiations to reduce fees and taxes on the microfinance operations. The MFU of the bank led round-table discussions to broaden the MF culture.

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\(^1\) MFU of CBoS Indicators Reports for the years 2008-2010

\(^2\) For more details about the forums topics and circulars, see the Unit section at the Central Bank of Sudan site: www.cbos.gov.sd

4.5.3 The Microfinance Networking:

The Microfinance Unit of Central Bank of Sudan encouraged the Microfinance Networking among the microfinance actors at all levels. For instance, multiple co-operative and coordination mechanisms have been created for increasing exchange of MF know-how experiences among the microfinance providers and practitioners. Debates, regional conferences and the Internet are used to draw a road-map to disseminate data and information on microfinance.

Moreover, many corridors have been opened to bridge the microfinance coordination with the relevant microfinance concerned institutions such as the federal and States ministries of the Finance, the Social Affair actors, Zakat chamber, Taxations chamber, United Nations Development Programme office in Sudan, NGOs and the universities. Such activities resulted in many partnerships to expand the umbrella of microfinance.

Besides, the bank's MFU engaged into fruitful discussions with the Federal Ministry of Finance and the Ministry of Social Affairs, Khartoum State to form financing portfolios and resulted in MF tax exemption. Besides, many strategic partnerships with some commercial banks and the Zakat Chamber have been created to find out suitable microfinance vessels favoring the economically active poor.

To activate the MF activities from the one hand, and to expand the microfinance frontiers on the other hand, Community-based Microfinance Associations being constituted under the auspice of CBoS’s Microfinance Unit especially in Khartoum State, Kordofan State, Kassala State, Sinnar State, El-Gedarif State, Port Sudan State, the Nile Vally State and Darfur States.
To this end, successive regional trips and forums have been held by the MFU to bring together practitioners, stakeholders, policy makers in the federal and State levels, local community leaders, and the representatives of the NGOs, multilateral and the intergovernmental development partners.

In brief, it’s clear that CBoS views the microfinance networking an important tool. So, the bank’s MFU formed Microfinance Task Forces to discuss working papers and ideas with microfinance-related organs, banks and experts to utilize their efforts and to put it under the service of the MF sector\(^1\).

**4.5.4 Attempts to Build a Microfinance Database:**

Central Bank of Sudan attempted to build a Microfinance database that to play as a focal point for data and information on MF activities in Sudan. Up-to-date, such a database is under construction. However, it is to provide knowledge outlines about the licensed microfinance providers, as well as some data and information on the microfinance insurance.

Commercial banks being asked to send details about their microfinance operations to the unit including; names of clients, the financed projects, the volume of microfinance permitted and the due loans… etc. The bank MFU is to use the microfinance data and information gathered to conduct its day-to-day work, and to generate progress reports and studies on the microfinance related activities.

Such an under construction database contains some microfinance data. studies conducted by the Microfinance Unit and microfinance experts, and so many writings have been kept in such a database and being disseminated

\(^1\) For instancem the Microfinance Unit led fruitful discussions with Administration of the Humantarian Affairs and the other concerned bodies to modify the laws so as to allow the NGOs effectively contribute to microfinance
to the public and researchers on demand or through the MFU web-site on the Internet\(^1\).

4.6 Approval of the Regulatory Framework for Microfinance\(^2\):

Recognizing the critical need to expand the financial infrastructures to meet the financial services of the economically active poor, CBoS adopted flexible MF organizational policies aiming at creation of an enabling environment for setting out integrated MF services.

In accordance with the 2003 Banking Business Organizational Act, CBoS issued the Microfinance Regulatory Framework that allowed organizing the microfinance industry in Sudan. Duly, MF defined as a financial service provided to individuals or groups of borrowers whose prime income does not exceed (10,000) Sudanese pounds or as being determined by Central Bank of Sudan\(^3\). Short-run microfinance ranges from (4) to (6) months. Long-run microfinance does not exceed (3) years.

The microfinance client is a person whose total assets equal to the minimum taxable income in Sudan. Such a client supposed not to be a regular employee, and his/her age ranges between (18) and (60) years old. MFIs divided into Microfinance Banks, Deposit taking MFIS Institutions and Non Deposit Taking MFIS.

The Microfinance Banks denoted as the licensed banks to provide microfinance, savings, loans, money transfers and do the other financial services for the economically active poor so as to startup micro-businesses. Worth mentioning, the minimum required capital to set out a microfinance

\(^1\) www.cbos.gov.sd.

\(^2\) The microfinance Unit of Central Bank of Sudan, the Regulatory Framework for Microfinance.

\(^3\) The MFU of Central Bank of Sudan, The Microfinance Regulatory and supervisory Framework.
bank operating at the national level is USD (20) millions dollars. And USD (10) millions dollars to set out a microfinance bank operating at the State level, and USD (5) millions dollars to set out a rural deposit-taking MFIs\(^{(1)}\).

The deposit taking microfinance institutions defined as the licensed institutions that to accept deposits from the public for providing the microfinance services. The Non Deposit Microfinance institutions denoted as development finance organizations not legally authorized to accept deposits from the public.

Moreover, MF to be provided against non traditional collateral including; recommendation letters from the villages councils, Sultans or mayors, tribal leaders, the community-based organizations, pension and social insurance funds, as well as the popular committees and the third party\(^{(2)}\).

An application for the microfinance institutions registration shall be submitted to Central Bank of Sudan to obtain the licensing requirements. The contracts and articles of association, the registration certificate, the filled forms of the nominees for the membership of the board of directors and the post of the potential director general, certificates from the local authorities showing the location of the HQ, the operational plan, the budgetary estimates and revenue tables for three years all should be attached within the application form submitted to Central Bank of Sudan.

The potential MFIs to submit contracts and articles of associations, the registration certificate and the last audited budget and income statement\(^{(1)}\). MF to be provided according to a selection criterion depending

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\(^{(2)}\) The Microfinance Collaterization Circular, Central Bank of Sudan.

on clients to present feasibility studies regarding the expected revenues from the financed business, the client’s personality and historical record of finance.

MF disbursement to clients does not only connected to financed project expected cash-follows, clients’ income but also should be in line with the volume of the financed businesses, and MF should not exceed the amount determined by CBoS. The clients borrowing abilities and the permitted highest limits for the non performing loans should be taken into account.

The nature of MF to be taken into consideration in the determination of the profit. MFIs have to introduce latest banking Information Technologies, to develop measures to calculate and to reduce the costs of the MF operations, to determine the microfinance risks and to effectively assess the efficacy of the applied MF governing rules.

4.7 The Supervisory Framework for Microfinance\(^{(2)}\):

In accordance with the provisions of Article (50-1) and Article (60-1) of the 2003 Regulation Act of the Banking Businesses and in line with the 2006 Microfinance Licensing Regulations, CBoS issued the Regulatory Framework for microfinance banks and institutions.

Accordingly, commercial banks and microfinance institutions have been required by the Microfinance Unit of the Central Bank of Sudan to set out their own microfinance regulatory supervisory frameworks that supposed to stipulate the needed microfinance organizational manuals, microfinance internal auditing, controls, and the recruitment of specialized microfinance staff in their microfinance units.

Executive managements of MF banks and MFIs responsible for setting out suitable supervisory frameworks to promote the agreed standards,

\(^{(2)}\) Ibid ,the Supervisory framework for Microfinance, July,2008.
transparency, good corporate policies and disclosure. For the indirect supervision purposes, MFIs shall send feedback information on the MF operations daily basis to the Banking Supervision and development Directorate and to the Microfinance Unit. The feedback received to be subjected to reviews and auditing operations. For more assurance, the supervision teams to visit MFIs' sites to conduct on-desk supervision.

Consequently, reports, memos and recommendations submitted to the CBoS top-management to take the corrective decisions. To avoid MF risks, MFIs to determine penalties on the violation of their MF procedures and to set out provisions for non-performing loans as in the followed table:

**Table No. (4:2) Provisions for Non-performing MF**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Days of Delay</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal</td>
<td>30 days and more/less than 90 days</td>
<td>Not required</td>
</tr>
<tr>
<td>Below level</td>
<td>90 days and more/less than 180 days</td>
<td>20%</td>
</tr>
<tr>
<td>Doubtful</td>
<td>180 days and more/less than 365 days</td>
<td>50%</td>
</tr>
<tr>
<td>Dead</td>
<td>365 days or more</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Source:** the Microfinance Unit of Central Bank of Sudan.

In addition, MFIs to maintain capital adequacy not less than 10% of the total dangerous assets plus preponderant assets of items outside the budget. The MFI capital adequacy not to be less than 8% of the total deposit commitments and their total capital adequacy should not be less than 12% of the total dangerous assets and items outside the budget. In case the capital adequacy is lesser than percentages mentioned above, MFIs are not permitted partially or totally, to receive grant of finance and other investment activities, distribution of divided to shareholders and borrowing from investors.
Chapter Five

Assessment Of Central Bank of Sudan MF Endeavors
5.1 **Background:**

This chapter attempted to stand on the efficacy of microfinance endeavors paid by the Central Bank of Sudan through assessment of MF provided during the period: 1999-2009 with special concentration on the MF institution-based aspects.

Besides, the chapter highlights the perception of staff of CBoS, CBs and MF clients to discuss the major issues dismantle banks to provide microfinance efficiently. A such a chapter is to investigate and record MF in terms of volume, clienteles and staff training, the MF clients, practitioners, experts and commentators point of views.

To elaborate, this chapter consists of four sub-sections. Each section deals with debated issues related to the microfinance provided so as to evaluate the key roles played by CBoS to boost the microfinance sector development.

The first section outstrips the perception of the CBoS staff regarding microfinance.

The second section evaluates the performance of the Experimental Microfinance Project adopted by the bank to encourage the provision of MF. The third section is to record comments on the endeavors paid to find out institutional structures for creating solid pillars of the microfinance insurance in Sudan.

The fourth section assesses the microfinance provided by CBs during the research period.

Above all, the research records the study results, recommendations and concluding remarks.
5.2 Perception of the CBos's Staff Regarding Microfinance:

To constitute objective understanding regarding the Microfinance Vision of CBoS application, a random representative sample composes of (60) the CBoS staff has been chosen from Microfinance Unit, the Banking Supervision and Development Department, Finance Department, and the Policies Department.

Interviews, discussions with the microfinance practitioners and stakeholders accommodated have been taken into account. Questionnaires distributed to the interviewees covered by the sample. The questions of such questionnaires have been made in a way to generate objective and qualitative judgments on role of the CBoS in boosting the microfinance sector development.

After analysis of MF data and information collected, the following results have been achieved:-

a. About 90% of staff interviewed believed that the mandate of Central Bank of Sudan should be extended to cover MF as a modern solution to combat poverty from the one hand, and on the other hand to achieve the balanced development in the whole Sudan.

The remaining 10% of the sample members argued that CBoS indulgence into MF should be limited, and there should be a national organ to develop the MF. They also believe that role of the CBoS should be centered to MF policy, building of MF administrative capacities, provision of supportive MF, simplicity of the MF guarantees and facilities.

b. 5% of interviewees answered questionnaires agreed that the definition of MF as 10,000 thousand Sudanese pounds is fair. 95% of the interviewees mentioned that such a microfinance definition should not be broaden, in terms of volume and meaning to include more banking
services such as savings, mobile transfers and loans to smooth MF clients’ consumption, health and kids education.

c. All interviewees widely agreed that the promotional and developmental MF activities of CBoS in need of enhancement. Traditional collateral required by banks supposed should be the most obstacles to deprive the economically active poor from enjoying benefits of the financial services delivered by banks.

d. Some interviewees encourage interferences of CBoS to determine MF t provided by banks. Others mentioned that such interventions to be centered to the setting out of gradual and flat rates of microfinance starting from 3% instead of the unrealistic percentages (10-12%). Also some interviewees suggest that the microfinance operational costs should be determined according to the interaction between supply and demand for microfinance (free market mechanism).

e. Some interviewees encouraged transformation of the community-based organizations to be set as microfinance banks.

5.3 Assessment of the Experimental Microfinance Project:

The following table reflects MF provided by Sudanese MFI s under the Experimental Microfinance Project (EMFP):-
Table No. (5:1): Performance of the Experimental Microfinance Project/ 2008-2009 (1,000 SDG).

<table>
<thead>
<tr>
<th>MF Is</th>
<th>MF Approved</th>
<th>MF Provided</th>
<th>MF Clients</th>
<th>MF Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Bank of Sudan</td>
<td>44,000</td>
<td>26,812</td>
<td>6,046</td>
<td>61%</td>
</tr>
<tr>
<td>Savings Development Bank</td>
<td>39,678</td>
<td>47,676</td>
<td>14,481</td>
<td>131%</td>
</tr>
<tr>
<td>Workers’ Bank</td>
<td>3,000</td>
<td>3,000</td>
<td>393</td>
<td>100%</td>
</tr>
<tr>
<td>Cooperative Development Bank</td>
<td>2,000</td>
<td>3,250</td>
<td>618</td>
<td>163%</td>
</tr>
<tr>
<td>Farmers Commercial Bank</td>
<td>25,000</td>
<td>30,161</td>
<td>10,916</td>
<td>128%</td>
</tr>
<tr>
<td>Real Estate Commercial Bank</td>
<td>15,000</td>
<td>10,260</td>
<td>4,916</td>
<td>68%</td>
</tr>
<tr>
<td>Animals Resources Bank</td>
<td>8,000</td>
<td>5,645</td>
<td>1,165</td>
<td>71%</td>
</tr>
<tr>
<td>Industrial Development Bank</td>
<td>20,000</td>
<td>13,407</td>
<td>3,514</td>
<td>67%</td>
</tr>
<tr>
<td>Social Development Corporation</td>
<td>21,000</td>
<td>30,139</td>
<td>28,860</td>
<td>144%</td>
</tr>
<tr>
<td>Total</td>
<td>177,678</td>
<td>130,293</td>
<td>34,686</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: the Microfinance Unit of the Central Bank of Sudan 2007-2010 reports.

Table No. (5:1) indicated that EMFP partnerships and speculations along the period: 2008-2009 amounted to (177,678) million pound of
which; (130.293) million pound allocated to (34,686) MF clients. The on average performance of such a project accounted to 75% of the total fund.

Moreover, the above table showed that Savings and Social Development Bank, Farmers’ Commercial Bank, Workers’ Bank and Islamic Cooperative Development bank provided MF even more than the funds they received through such a pilot Project. This implies that the socially responsible banks have a great will to effectively contribute to MF.

However, MF doesn't equally provided to cover all the Sudanese as showed in the following table:-

**Table No. (5:2): MF Performance in the State-level /2008-2009**

(1,000 pound).

<table>
<thead>
<tr>
<th>State</th>
<th>Microfinance</th>
<th>Clients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khartoum State</td>
<td>1,702.24</td>
<td>2000</td>
</tr>
<tr>
<td>Gezira State</td>
<td>1,006.76</td>
<td>628</td>
</tr>
<tr>
<td>North Kordofan State</td>
<td>858.28</td>
<td>608</td>
</tr>
<tr>
<td>The Northern State</td>
<td>729.50</td>
<td>716</td>
</tr>
<tr>
<td>Nile Valley State</td>
<td>403.48</td>
<td>146</td>
</tr>
<tr>
<td>The White Nile State</td>
<td>216.70</td>
<td>100</td>
</tr>
<tr>
<td>Southern Kordofan State</td>
<td>157.00</td>
<td>184</td>
</tr>
<tr>
<td>The Red Sea State</td>
<td>128.00</td>
<td>50</td>
</tr>
<tr>
<td>Northern Darfur State</td>
<td>962.00</td>
<td>N.A</td>
</tr>
<tr>
<td>Blue Nile State</td>
<td>313.00</td>
<td>220</td>
</tr>
<tr>
<td>Kassala State</td>
<td>97.42</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>6,574.38</td>
<td>4,752</td>
</tr>
</tbody>
</table>

**Source:** the Microfinance Unit of the Central Bank of Sudan 2009 and 2010 Progress Reports.
Geographically, table No. (5:2) indicates that Khartoum State, the Northern State, Gezira State and the Nile Valley State that depend on mechanized and irrigated agriculture have received MF through the Experimental Microfinance Project more than the rest of the Sudanese States, a situation implies that the majority of small producers in the rain-fed agricultural sector received tiny amounts of microfinance.
5.4 Microfinance Through the Sudanese Commercial Banks:

The Central Bank of Sudan annually issued financing policy has been modified during the period: 1990-2009 to commence directives imposed on banks to allocate not less than 10% to 12% of their finance portfolios, as minimum, to MF clients.

The following table figures out MF provided by the Sudanese commercial banks during the research period;

**Table No. (5:3): MF Through the Sudanese Commercial Banks/1999-2009**

(1,000 pounds)

<table>
<thead>
<tr>
<th>Years</th>
<th>MF</th>
<th>Banking Advances</th>
<th>MF %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>55,630</td>
<td>737,210</td>
<td>7.5</td>
</tr>
<tr>
<td>2000</td>
<td>72,660</td>
<td>1,013,250</td>
<td>7.2</td>
</tr>
<tr>
<td>2001</td>
<td>96,550</td>
<td>1,463,820</td>
<td>6.6</td>
</tr>
<tr>
<td>2002</td>
<td>91,430</td>
<td>2,067,810</td>
<td>4.4</td>
</tr>
<tr>
<td>2003</td>
<td>122,930</td>
<td>2,819,256</td>
<td>4.4</td>
</tr>
<tr>
<td>2004</td>
<td>196,430</td>
<td>4,290,696</td>
<td>4.6</td>
</tr>
<tr>
<td>2005</td>
<td>247.39</td>
<td>6,953,68</td>
<td>3.6</td>
</tr>
<tr>
<td>2006</td>
<td>334,310</td>
<td>10,415,290</td>
<td>3.2</td>
</tr>
<tr>
<td>2007</td>
<td>282,015</td>
<td>12,587,285</td>
<td>2.2</td>
</tr>
<tr>
<td>2008</td>
<td>446,095</td>
<td>14,681,292</td>
<td>3</td>
</tr>
<tr>
<td>2009</td>
<td>469,490</td>
<td>15,659,786</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>2,622.46</td>
<td>68,133.92</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Table No. (5:3) indicates that MF through CBs increased nominally from (55.63) million pound in 1999 to (469.49) million pound in 2009. On average MF permitted during the research period accounted at 3.8% of total banking advances. Such a proportion lesser than half of the 10% to 12% MF proportions imposed on commercial banks.

Besides, the annual reports of CBoS reflected that MFUs have been established in (9) banks and staff of (8) of them divided between the microfinance and investment sections\(^{(1)}\). However table No. (5:3) showed that MF in comparison to the total banking finance dropped from 3.2% in 2006 to 2.2% in 2007 and increased slightly to 3% in the years 2008 and 2009 respectively.

Furthermore, MF delivered during the period: 1999-2006 amounted to 5.2% on average, whereas it equals to 2.7% during the period: 2007-2009 that witnessed implementation of the CBoS MF strategy. Such a decrease can be attributed to many causes the first of which; banks insist to deliver MF against traditional guarantees at the time that MF clients in lack of such collateral.

According to (100) MF clients interviewed by the researcher, the traditional MF guarantees due to the preference of banks include; fixed assets, postponed cheques, salaries, jewelry, letters of guarantees issued by the Workers’ unions, Syndicates and the popular committees.

Also, MF clients interviewed pointed to slow and complex MF procedures in banks. MF experts interviewed attributed such a problem to rigidity of the governing rules of financing imposed on banks by CBoS in addition to banks' staff in lack of MF training. According to (50) MF-related staff interviewed, banks avoid to engage into costly MF operations in the

\(^{(1)}\) The 48th annual Report of Central Bank of Sudan, 2008, p33
absence of collateral and they have a right to refuse them. Staff from investment sections in banks added that since the final goal of a bank is to maximize profits, the banks' right decision is to deliver financing for activities of high returns rather than the tiny costly microfinance operations. Moreover, MF atmosphere in Sudan shaded by too many shortcomings. For instance, the CBoS annually issued financing policy stipulates 10% per a year as an indicative profit margin for the MF operations at the time that minimum profit margin mostly applied in the Sudanese commercial banks ranges between 12% to 18%\(^{(1)}\) in addition to value added tax accounted for 15%.

On the other hand, clients repeated that they deprived from enjoying the banking services although their applications submitted to banks in line with the microfinance requirements. But staff in charge in commercial banks argued that such applications excluded because the feasibility study in completed. Others pointed that there is no unified MF criterion across banks, and the displayed MF procedures tailored to requirements not taking into account circumstances surrounding the economically active poor.

Furthermore, the progressive reports of MFU indicated that 87% of the MF operations provided through "AL-Murabaha" Islamic Mode of Finance, 79% of MF delivered against personal guarantees, postponed cheques and opening of a current account which the preferable collateral required by banks\(^{(2)}\).

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\(^{(1)}\) Microfinance Margin in the Savings and Social Development Bank is 12%-15%, and in the Agricultural Bank of Sudan is 12%-18%.

\(^{(2)}\) The MFU progressive reports for the year 2009.
MF maturity ranges between (12) to (18) months\(^{(1)}\). The length of period between the MF applications submission and installments disbursement ranges at (10) days up to more than (3) months. Clients interviewed attributed such a delay to the bureaucratic and complicated MF requirements. Others pointed out to the absence of priority principle.

But the banking staff interviewed attributed such a delay to the studding of huge microfinance applications submitted, incomplete documents, insufficient feasibility studies and the microfinance clienteles misunderstanding.

The striking thing is that 80% of the microfinance provided being repaid i.e. insolence MF equals to 20\(^{(2)}\). But such a repayment rate so international microfinance repayment level agreed on (95%). However, the banks in Sudan accustomed to apply conservative microfinance approaches so as to minimize the microfinance operations risks.

To avoid MF insolvency, many experts and banking staff believe that the right track banks have to follow is to provide Mf against fixed assets and postponed cheques since Articles (5) and (6) of Law for Selling the Banking guarantees give them a right to liquidate such assets in the case of insolvency or unjustified repayment delay.

To find out the logical reasons behind the microfinance proportion imposed on commercial banks(10% - 12%), and the 10% benchmarked as an indicative flat profit rate on the microfinance operations at the time that the banks did not binding to such constrains, the researcher interviewed so

\(^{(1)}\) Progress Report of the Microfinance Unit of Central Bank of the Sudan for the period: Jan-April 2010.

\(^{(2)}\) Progress Report of the Microfinance Unit of Central Bank of the Sudan for the period: Jan-April 2011, p 6.
many banking staff from the Central Bank of Sudan microfinance-related departments namely; the Microfinance Unit, the Banking Supervision and Development Department, the Finance and Policies Departments.

The astonishing thing is that the interviewees, in their entrances, did not mention reasonable justifications. Because they only insisted to say that as far as they knew such microfinance proportions have been determined by the annually issued financing policy, and it should be executed by banks. Besides, commercial banks' staff interviewed said they strongly believe that there is no blame on commercial banks since their organizational structures not basically made to serve the microfinance clients. But many of the Sudanese Banking Union members argued that MF not a must-do-list item for commercial banks since their lending portfolios compose current and investment deposits owned by the public.

There is a common opinion that microfinance in Sudan is costly due to highly transactions costs, information asymmetric, monitoring costs, the prolong waiting period opportunity cost and taxes and fees. MF experts and practitioners interviewed insisted that the right microfinance track is to encourage the localities, Taxation chamber, authorities in the federal and State-levels to approve tax exemption on microfinance-related activities, and Central Bank of Sudan should ease establishment of MF banks, deposit-taking community-based microfinance institutions and the microfinance incubates.

The big transformation in MF industry in Sudan is establishment of Family Bank (FB) in 2008 as the first MF Bank which accustomed to
provide MF for agricultural purposes, real estates. Its financed projects studied carefully. MF provided by FB accounted for (150) million\(^{(1)}\).

### 5.5 Microfinance Insurance:

Microfinance Insurance is a financial service to reduce losses due to the natural and unnatural causes affecting the economically active poor and the lenders. By other words, such an insurance is synonymous to the insurance arrangements to the community-based organizations\(^{(2)}\).

Churchill (2006) defined the microfinance insurance as a financial arrangement to protect low-income individuals against the risks of specific perils in exchange for regular monetary payments\(^{(3)}\). Up-to-date, the greatest challenge for the microfinance insurance is how to easily provide tiny loans of real-values for the economically active poor and how to find out the right balance between achieving adequate protection and the businesses affordability. In common, the philosophy behind invention of microfinance insurance is to address the economically active poor protection against insolvency due to lack of collateral and out-of-control causes such as negative effects of the economic hardness resulted from the occurrence of natural disasters, incidents and chronic diseases.

There are two different schools of microfinance insurance that shading the Islamic world. The first school followers view microfinance insurance as a legal Islamic insurance approach based on (takaful) in conformity with Islamic Sharia principles. Mohamed M. Billah is one of

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\(^{(1)}\) For more detail refer to interview with Dr. Abdelrahman Dirrar on the CITIZEN Newspaper, dated 6/2/2011


this school followers who defines Islamic insurance (takaful) as a policy of mutual co-operation and solidarity against unpredicted risk or catastrophes\(^1\). And the second school consists of many Islamic jurists who look at microfinance insurance as a kind of debts, and they are to say that microfinance is a debt and should not be covered by insurance.

For more insurance, the researcher interviewed so many Islamic scholars and jurists in Sudan to explore the right track. In common, the majority of the interviewees said that there is no contradiction between microfinance insurance and the core principles of Islam Sharia since the microfinance operations in line with the Islamic modes of finance standards and regularities approved\(^2\). Due to lack of guarantees, commercial banks in Sudan avoid to provide loans to the economically active poor.

To encourage such banks to largely engage into the microfinance operations, Central Bank of Sudan led fruitful meetings and consultations with Shiekan Insurance Company that led to the emergence of microfinance insurance in 2008. The core idea of such an insurance is that the banks are to insure 2\% of the microfinance provided with an insurance company (e.g. Shiekan Insurance Company) that to format an insurance fund for covering the microfinance insolvency.

Microfinance Insurance in Sudan has been provided through contracts signed by Shiekan Insurance Company and the banks. The banks should pay yearly subscription fees amounted to (1000) Sudanese pounds. Moreover, Such a bill of microfinance insurance only covers insolvencies resulted from

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\(^1\) Mohd. M. Billah(Assoc.,TAKAFUL(Islamic Insurance) :An Economic Paradigm, A Working Apaper,Dept of Business Administration,International Islamic University ,Malaysia

\(^2\) An interview with Dr. Mohammed Ali Yousuf, a member of the Islamic Supervision committees in many Sudanese Banks.
reasonable and justified causes such as disasters, death, drought, floods and sickness after deduction of 10% of the microfinance total amount subjected to insurance.

By other words, microfinance insurance does not cover insolvencies resulted from misuse of finance, cheating, dependency and fraud. In 2009, microfinance insurance of Shiekan Company covered by (810) bills of insurance accounted at (42,23) millions pounds\(^{(1)}\). Note worthy, the hereafters table figures out microfinance insurance conducted by Shiekan Insurance Company:

**Table No. (5:4): Microfinance Insurance "2008-2009(1,000s SDG).**

<table>
<thead>
<tr>
<th>MF Is</th>
<th>MF Active Portfolio</th>
<th>MF Insurance</th>
<th>MF Insurance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Bank of Sudan</td>
<td>36,925</td>
<td>126</td>
<td>0.3</td>
</tr>
<tr>
<td>Savings Development Bank</td>
<td>47,676</td>
<td>27,643</td>
<td>58%</td>
</tr>
<tr>
<td>Workers’ Bank</td>
<td>95</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Cooperative Development Bank</td>
<td>1,385</td>
<td>26</td>
<td>1.9</td>
</tr>
<tr>
<td>Farmers’ Bank</td>
<td>18,659</td>
<td>1,610</td>
<td>8.6</td>
</tr>
<tr>
<td>Real Estate Bank</td>
<td>9,514</td>
<td>9,514</td>
<td>100%</td>
</tr>
<tr>
<td>Animals Resources Bank</td>
<td>102,027</td>
<td>38.07</td>
<td>37.3</td>
</tr>
<tr>
<td>Industrial Development Bank</td>
<td>8,002</td>
<td>49</td>
<td>2.7</td>
</tr>
<tr>
<td>Total</td>
<td>184,277</td>
<td>33,866.07</td>
<td>18.38</td>
</tr>
</tbody>
</table>

**Source:** The Microfinance Unit of Central Bank of Sudan.

\(^{(1)}\) Salma Faisal, Representative of Shiekan Insurance Company a paper presented for Workshop on the Role of Insurance in the Microfinance Sector Development, Khartoum, June 2010.
The above table indicated that MF insurance covered 100% of MF provided by Real Estate Bank, 58% in Savings and Social Development Bank and 37% in Animal Resources Bank. Such insurance accounted at 2% in the Islamic Cooperative Development Bank, 0.3% in the Agricultural Bank of Sudan, 3% in the Industrial Development Bank and 9% in Farmers’ Commercial Bank.

MF insurance in the Sudanese banks seems to face significant challenges because only 18.4% of the microfinance provided covered by insurance. In this context, there have been many sources of such a weak micro insurance proportion namely; high administrative costs, technical problems regarding the microfinance products pricing and reporting on the microfinance assessment and insurance\(^{(1)}\).

Furthermore, there has been misunderstanding regarding microfinance insurance. For instance, many insurance company staff pointed out that the banking staff insured microfinance only and ignore the insurance of the complementary activities especially when dealing with the animal resources. Other employees from the banks argue that microfinance insurance is costly because the banks forced to pay additional administrative costs, and taxes, and fees. Besides, Sheikan Insurance Company is to deduct 10% of the total value of the bill of microfinance insured. Moreover, many of the banks’ staff interviewed indicated that that there is a delay in the settlement of microfinance insurance. In addition, many Insurance officers mentioned that microfinance clients sometime exposed to risks because commercial banks not finance the whole stages of production.

For example, some insurance officers mentioned that they have discovered during field trips that the banks used to provide microfinance insurance for the cows breading only and did take into account provision of finance and micro insurance to cover the farms, a situation that to increase risks.

As microfinance issues usually being under debate, many of the banking staff interviewed announced that the suitable premium for microfinance insurance should be range between 4/%-5% of the potential microfinance. Others mentioned that the fair insurance premium rate ranges between 1% to 2% of the potential microfinance. Administration wise, the microfinance insurance officers review the microfinance subjected to insurance in coordination with the microfinance officials in commercial bank.

The striking thing is that the microfinance clients interviewed complain that the banks are to take all the microfinance insurance compensations repaid in case of insolvency. Staff in charge argued that the banks have a right to do that because they paid the microfinance insurance premiums from their own resources (credit insurance) to avoid losses, and they ready to refinance the microfinance clients in the occurrence of natural causes. However such a behaviour implies that the banks limit their microfinance insurance to credit insurance, which actually protects their finance paid, not the economically active small producers a situation that in need of solutions.

Eventually, it is easy to say, mouthful, Central Bank of Sudan has been encouraging commercial banks to indulge into microfinance insurance. But the above mentioned facts pointed out to the fact that microfinance insurance is in its startup stages, and monopolized by Shiekan Insurance
Company at the time that there are so many other insurance companies; a situation that to urge Central Bank of Sudan to set the floor for the emergence of intrinsic private and public sector Insurance bodies to deal with microfinance insurance.

**The Study Findings:**

1. The Central Bank of Sudan Microfinance Vision implemented has been activating The Sudanese banks and non-bank organizations to provide the microfinance services.

2. Central Bank of Sudan issued the regulatory and supervisory frameworks required for establishing Microfinance Institutions.

3. Central Bank of Sudan defines Microfinance as a micro-loan that equals to (10) thousand Sudanese pounds provided to the economically active poor.

4. Central Bank of Sudan has been conducted developmental and promotional activities to support the microfinance sustainability and outreach.

5. To expand the microfinance umbrella, Central Bank of Sudan issued circulars, conducted surveys and studies on microfinance, held debates, forums, conferences, awards, round-table discussions and microfinance staff training.

6. To build an microfinance database, the Microfinance unit of Central Bank of Sudan collecting data on microfinance, disseminating information on the microfinance concept and activities, and insists to build corridors between stakeholders, commercial banks and the private microfinance institutions.

7. Although the Central Bank of Sudan annually issued financing policy has been modified to impose directives on commercial banks to
provide from 10% to 12% of their finance portfolios to the microfinance clients, but the total microfinance provided by such banks during the period:1999-2009 accounted for 3.8% on average in comparison to the total banking advances.

8. Although Central Bank of Sudan directed commercial banks to provide microfinance against inconvenient guarantees, but such banks mostly insist on providing microfinance against traditional collateral for the many reasons the first of which; is the illegality of some the new guarantees.

9. The Central Bank of Sudan training courses on microfinance provided extended to the microfinance clients.

10. The majority of microfinance clients pointed out to the prolong period between submission of the microfinance applications to commercial banks and the receiving of ratification or rejection notifications from these banks.

11. Central Bank of Sudan has been encouraging commercial banks to adopt microfinance insurance. However, such an insurance still in its developing stage a situation requires more efforts to be paid in this area.
Recommendations:

1. Central Bank of Sudan should redefine the microfinance concept for to be (30) thousands pounds, and to include savings, mobile transfers, loans to cover consumption, health and elementary education expenses.

2. Central Bank of Sudan should find out solutions for microfinance insurance and guarantees problems, the absence of coordination between microfinance institutions in terms of data, information and networking.

3. There is a need for tighten linkages between the microfinance services provision and marketing of the financed projects’ outputs.

4. The private sector microfinance institutions administrative capacities should be strengthened.

5. There is a critical need for building a National Microfinance Development Strategy in which the role of Central Bank of Sudan shall be centered to policy issue and setting out the regulatory and supervisory frameworks for boosting the microfinance sector development.

6. In setting the microfinance supervision rules, Central Bank of Sudan is to consider the balance between enabling microfinance institutions establishment and the microfinance sector healthy requirements.

7. Central Bank of Sudan should carefully reduce financial suppression on commercial banks so as to allow them gradually provide sufficient microfinance proportion instead of the unreachable 10-12% required.

8. There is a critical need for establishment of commercial banks and financial institutions that entirely specialized in the microfinance services provision.
9. To solve the microfinance insurance problems, Central Bank of Sudan in collaboration with the Federal Ministry of Finance and the National Economy should constitute the National Bureau for the Microfinance Planning and Insurance. Such a bureau is to format the National Fund for Microfinance Collateral, and to play a complementary role to the private microfinance institutions and the insurance companies dealing with microfinance.
Conclusion:

Microfinance evolves around the globe as one of the modern tools to back development finance. Practically, Microfinance means the provision of ranges of financial services such as loans, savings, transfers and micro insurance to the economically active poor. To this end, this study attempted to reveal the depth and effects of the microfinance efforts paid by Central Bank of Sudan.

The study highlighted the microfinance definition, models, schools and extended to diagnose width and breadth of the emerging microfinance sector in Sudan. It reflected that Central Bank of Sudan looks at microfinance as an instrument to improve the accessibility of the banking and financial services for the economically active poor. The study also recorded the endeavors paid by Central Bank of Sudan to boost the microfinance sector development. In this regard, it reflected that the bank founded the critically needed regulatory and supervisory frameworks for the provision of microfinance.

Among others, the study revealed that microfinance in the Sudan has been provided by informal microfinance institutions such as moneylenders, friends, villages’ traders of the and formal microfinance institutions such as the government-owned development and social responsible bodies such as the Social Security Fund, the Zakat Fund, the Pension Fund, Central Bank of Sudan, as well as the Sudanese commercial banks, NGOs and the community-based organizations.

To develop the provision of microfinance, Central Bank of Sudan has been modified its annually issued financing policy to involve directives imposed on the banks to provide from 10% to 12% of their loans portfolios.
for the potential microfinance clients. Such a policy also has been made to favor market-based microfinance against inconvenient guarantees.

Although Central Bank of Sudan microfinance policy succeeded in increasing the microfinance awareness among stakeholders, but microfinance provided by commercial banks in the period:1999-2009 accounted at 3.8% on average in comparison to the total banking advances. And the astonishing thing is that such a proportion is even lesser than even half the 10 through 12% percentage determined in the Central Bank of Sudan yearly issued financing policy.

In that regard, it is to say that there are so many factors to affect the microfinance policy of Central Bank of Sudan. Such factors or causes partly in relation with the commercial banks, the potential microfinance clients and the financed projects.

For instance, commercial banks continuously require the microfinance clients to present convenient collateral against the microfinance provided such as durable assets, land plots, lease contracts, opening of a current account, postponed cheques and third party guarantee, at the time that the potential clients have nothing to provide.

Also, there is a gap in the microfinance know-how among staff of the banks and even among the microfinance clients themselves. Furthermore, the microfinance clients interviewed by the researcher mentioned that the period between the microfinance applications submission for ratification and receiving the approval or rejection notification ranges between (2) weeks up to more than (90) days.

But the persons in charge in the banks interviewed in there defending said that such a delay mostly caused by the time needed to assess and study so many microfinance applications submitted, incompleteness of the
feasibility study presented by the potential microfinance clients. Besides, the provision of microfinance in Sudan is still surrounding by many obstacles such as illegality of some of the newly inconvenient microfinance guarantees, the absence of viable specialized microfinance institutions, the critical need for a sufficient microfinance database, and the difficulty to maintaining microfinance sustainability and outreach in both the urban areas and the countryside.

To sum, it is to say that the microfinance policy adopted by Central Bank of Sudan succeeded, to some extent, in building legal, regulatory and supervisory frameworks required to provide microfinance. However, there is a critical need to build the National Microfinance Strategy that to resolve the microfinance guarantees, data-base and insurance problems. And to build the microfinance capacities whether in the federal and state governments levels or in the banking system.
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Appendixes
Appendix (1)
The Central Bank of Sudan Microfinance Experimental Project (1,000 SDG)

المبالغ المخصصة بالآلاف الجنيهات

Source: The Microfinance Unit of Central Bank of Sudan
Appendix (2)
Banking Microfinance Via the CBOS Microfinance Experimental Project (1,000 SDG)

الممول التراكمي

Source: The Microfinance Unit of Central Bank of Sudan
Appendix(3)
Clients Benefited from the CBOS's Microfinance Experimental Project
Appendix(4)
Flows of Banking Finance According to Sectors 1999-2009 (1,000,000 SDG)

<table>
<thead>
<tr>
<th>Years</th>
<th>MF</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Exports</th>
<th>Imports</th>
<th>Local Trade</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>55.63</td>
<td>165.41</td>
<td>143.30</td>
<td>144.53</td>
<td>55.63</td>
<td>70.08</td>
<td>158.26</td>
<td>737.21</td>
</tr>
<tr>
<td>2000</td>
<td>72.66</td>
<td>182.84</td>
<td>179.86</td>
<td>245.91</td>
<td>72.66</td>
<td>116.56</td>
<td>215.42</td>
<td>1,013.25</td>
</tr>
<tr>
<td>2001</td>
<td>96.55</td>
<td>227.45</td>
<td>229.86</td>
<td>205.50</td>
<td>96.55</td>
<td>313.86</td>
<td>390.60</td>
<td>1,463.82</td>
</tr>
<tr>
<td>2002</td>
<td>91.43</td>
<td>327.30</td>
<td>280.01</td>
<td>343.08</td>
<td>91.43</td>
<td>405.62</td>
<td>620.38</td>
<td>2,067.81</td>
</tr>
<tr>
<td>2003</td>
<td>122.93</td>
<td>450.21</td>
<td>299.14</td>
<td>340.33</td>
<td>122.93</td>
<td>651.00</td>
<td>955.64</td>
<td>2,819.26</td>
</tr>
<tr>
<td>2004</td>
<td>196.43</td>
<td>460.92</td>
<td>477.26</td>
<td>457.34</td>
<td>196.43</td>
<td>1,040.87</td>
<td>1,657.88</td>
<td>4,290.70</td>
</tr>
<tr>
<td>2005</td>
<td>247.39</td>
<td>571.11</td>
<td>830.49</td>
<td>339.49</td>
<td>247.39</td>
<td>1,493.61</td>
<td>3,471.60</td>
<td>6,953.68</td>
</tr>
<tr>
<td>2006</td>
<td>334.31</td>
<td>786.09</td>
<td>848.52</td>
<td>351.30</td>
<td>334.31</td>
<td>1,821.08</td>
<td>6,273.99</td>
<td>10,415.29</td>
</tr>
<tr>
<td>2007</td>
<td>382.02</td>
<td>837.08</td>
<td>1,314.26</td>
<td>264.93</td>
<td>382.02</td>
<td>2,093.36</td>
<td>7,695.63</td>
<td>12,587.29</td>
</tr>
<tr>
<td>2008</td>
<td>446.10</td>
<td>1,485.68</td>
<td>1,904.02</td>
<td>481.15</td>
<td>446.10</td>
<td>2,370.57</td>
<td>7,993.78</td>
<td>14,681.29</td>
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<tr>
<td>2009</td>
<td>469.49</td>
<td>1,686.14</td>
<td>1,556.53</td>
<td>369.99</td>
<td>469.49</td>
<td>2,320.91</td>
<td>9,256.72</td>
<td>15,659.79</td>
</tr>
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</table>

Source: The Central Bank of Sudan Annual Report 2009

MF = Microfinance
### Appendix (5)

**Directions of Banking Microfinance**

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
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<tr>
<td>Local Trade</td>
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<td>20.7</td>
<td>20.7</td>
<td>20.7</td>
</tr>
<tr>
<td>Productive family</td>
<td>4443</td>
<td>17.0</td>
<td>17.0</td>
<td>37.7</td>
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<tr>
<td>Services</td>
<td>3451</td>
<td>13.2</td>
<td>13.2</td>
<td>50.9</td>
</tr>
<tr>
<td>Agriculture (Marvy)</td>
<td>3141</td>
<td>12.1</td>
<td>12.1</td>
<td>63.1</td>
</tr>
<tr>
<td>Agriculture (private &amp; Co)</td>
<td>2594</td>
<td>10.0</td>
<td>10.0</td>
<td>73.0</td>
</tr>
<tr>
<td>Operative local &amp; short</td>
<td>1441</td>
<td>5.5</td>
<td>5.5</td>
<td>78.5</td>
</tr>
<tr>
<td>Others</td>
<td>680</td>
<td>2.6</td>
<td>2.6</td>
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<td>Agriculture</td>
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<td>3.5</td>
<td>3.5</td>
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<td>Industrial</td>
<td>750</td>
<td>2.9</td>
<td>2.9</td>
<td>87.5</td>
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<tr>
<td>Transportation and Storing</td>
<td>692</td>
<td>2.7</td>
<td>2.7</td>
<td>90.2</td>
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<tr>
<td>Professional and hand</td>
<td>609</td>
<td>2.3</td>
<td>2.3</td>
<td>93.7</td>
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<tr>
<td>makers</td>
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<td>1.7</td>
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</tr>
<tr>
<td>Non financial Private</td>
<td>250</td>
<td>1.0</td>
<td>1.0</td>
<td>96.4</td>
</tr>
<tr>
<td>(export for Professional)</td>
<td>205</td>
<td>.8</td>
<td>.8</td>
<td>97.2</td>
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<tr>
<td>Real estate medium term for</td>
<td>163</td>
<td>.6</td>
<td>.6</td>
<td>97.8</td>
</tr>
<tr>
<td>professional</td>
<td>128</td>
<td>.5</td>
<td>.5</td>
<td>98.3</td>
</tr>
<tr>
<td>Non financial Private</td>
<td>82</td>
<td>.3</td>
<td>.3</td>
<td>98.6</td>
</tr>
<tr>
<td>(Real estate short term for</td>
<td>59</td>
<td>.2</td>
<td>.2</td>
<td>98.8</td>
</tr>
<tr>
<td>professional</td>
<td>57</td>
<td>.2</td>
<td>.2</td>
<td>99.1</td>
</tr>
<tr>
<td>Non financial Private</td>
<td>49</td>
<td>.2</td>
<td>.2</td>
<td>99.2</td>
</tr>
<tr>
<td>(Kinds of property, short</td>
<td>42</td>
<td>.2</td>
<td>.2</td>
<td>99.4</td>
</tr>
<tr>
<td>terms)</td>
<td>32</td>
<td>.1</td>
<td>.1</td>
<td>99.5</td>
</tr>
<tr>
<td>General (Agriculture non</td>
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<td>.1</td>
<td>.1</td>
<td>99.6</td>
</tr>
<tr>
<td>financial)</td>
<td>27</td>
<td>.1</td>
<td>.1</td>
<td>99.7</td>
</tr>
<tr>
<td>Private (Transportation</td>
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<td>.1</td>
<td>99.8</td>
</tr>
<tr>
<td>non financial)</td>
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<td>.1</td>
<td>99.9</td>
</tr>
<tr>
<td>Private (Industrial non</td>
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<td>.0</td>
<td>100.0</td>
</tr>
<tr>
<td>financial)</td>
<td>5</td>
<td>.0</td>
<td>.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Non financial Private</td>
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<td>.0</td>
<td>100.0</td>
</tr>
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<td>Export</td>
<td>1</td>
<td>.0</td>
<td>.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Co. Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Co. Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petroleum</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>26032</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Microfinance Unit of Central Bank of Sudan
Appendix (6)
The Microfinance Guarantees

<table>
<thead>
<tr>
<th>Type of Guarantee</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Guarantee and a bank letter of guarantee</td>
<td>20524</td>
<td>78.8</td>
<td>78.0</td>
<td>78.0</td>
</tr>
<tr>
<td>Deposit</td>
<td>1000</td>
<td>7.7</td>
<td>7.7</td>
<td>95.5</td>
</tr>
<tr>
<td>Salary guarantee</td>
<td>1124</td>
<td>4.3</td>
<td>4.3</td>
<td>93.0</td>
</tr>
<tr>
<td>Others</td>
<td>712</td>
<td>2.7</td>
<td>2.7</td>
<td>93.6</td>
</tr>
<tr>
<td>Proposed cheques or endorses</td>
<td>417</td>
<td>1.6</td>
<td>1.6</td>
<td>95.2</td>
</tr>
<tr>
<td>Without guarantee</td>
<td>301</td>
<td>1.2</td>
<td>1.2</td>
<td>96.7</td>
</tr>
<tr>
<td>Existing or Legal Disclaimer</td>
<td>287</td>
<td>1.1</td>
<td>1.1</td>
<td>97.8</td>
</tr>
<tr>
<td>Policies</td>
<td>174</td>
<td>.7</td>
<td>.7</td>
<td>98.4</td>
</tr>
<tr>
<td>Real Estate or Legal Documents</td>
<td>122</td>
<td>.5</td>
<td>.5</td>
<td>98.9</td>
</tr>
<tr>
<td>Salary guarantee</td>
<td>112</td>
<td>.4</td>
<td>.4</td>
<td>99.3</td>
</tr>
<tr>
<td>Equipment and tools</td>
<td>80</td>
<td>.3</td>
<td>.3</td>
<td>99.6</td>
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<tr>
<td>Guarantee Letter from Ministry of Finance and National Economy</td>
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<td>.2</td>
<td>.2</td>
<td>99.8</td>
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<tr>
<td>Fund Guarantee</td>
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<td>.1</td>
<td>99.9</td>
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<td>Letter of Guarantee</td>
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<td>.1</td>
<td>.1</td>
<td>100.0</td>
</tr>
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<td>Vendors or Travelers</td>
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<td>100.0</td>
</tr>
<tr>
<td>Total</td>
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<td>99.8</td>
<td>100.0</td>
<td>100.0</td>
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<tr>
<td>No guarantee were provided</td>
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<td>.2</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>

Source: The Microfinance Unit of Central Bank of Sudan