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Extractive Industries and Sustainable Job Creation

Financing Africa's extractive industries
The role of banks and non bank financial institutions
The example of Sudan

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In the Sudan, which is the focus of our paper, there are 37 banks. Some a century old and some relatively new, but the commercial banking sector is weak and small by international standards.

This is – I believe – is the case in most African countries. In addition to the commercial banks the central bank plays an active and sometimes a very direct role in financing the economic activities in the country, it does so directly and indirectly by strictly controlling and directing the commercial banks credit through a pervasive interventionist policies.

There is hardly any non bank financing sector in the country, only two leasing companies operate in the country mainly in the field of equipment leasing. The big commercial houses almost never indulge in financing such endeavours as extractive industries, however some have entered the field of prospecting for gold as investors as we will see a little later.
Constrained by their smallness and central bank restrictive credit policies there is hardly any financing role in the prospecting for oil, gas and minal activities*

Financing Oil & Gas

The Sudanese banks have no capital sharing in any of the oil & gas blocks or concessions. These are financed by the foreign investors who share with the government through production sharing agreements (PSA) in consortia of 3 or 4 foreign companies, the government being one of them with free carried shares held by (Sudapet) on behalf of Sudan government. They are financed by the foreign investors, who in most cases are

*The total consolidated budget of the commercial banks plus the Central Bank does not exceed $25 billion USD (using the official exchange rate).

government owned investors. The private foreign investors in some of these concession came at a later date when they could see the success achieved by the state owned giants like CNPC of China, Petronas of Malaysia and the Sudan state company.
The production sharing agreements seem to work to the satisfaction of both parties. This is manifested by the foreign parties undertaking other associated activities like financing the building of pipelines & refineries and not only prospect for oil. They get back their financing from the Sudan government share in the proceeds of sale of oil. A total of about $8 Billion USD is the estimated cost of Sudan's oil industry.
This clearly shows that the local banking sector plays no role in the financing of oil & gas prospecting, instead they contended themselves with providing traditional banking services to some of the local contractors serving the oil industry. These include providing bank guarantees, letters of credit and sometime murabaha (cost-plus) financing for equipment & machinery needed for effecting some contracts. In financial terms this comes a distant second to the sums spent of oil & gas prospecting and infrastructure. It could be measured in tens of millions of USD.

Mining

Mining is a relatively recent activity the country – barely 7-8 years old – expect of Ariab joint venture company with the French which dates to 1990, which is fully financed by the foreign partners.
Mining began – in the organised sector – by locally owned companies owned by indigenous investors with relatively humble finances, but even then the local banks were never persuaded to finance their prospecting operations (there was a single notable exception but a very humble one). They satisfied themselves with financing on a murabaha (cost-plus) basis some of the needed equipments and machinery, they have yet to provide export facilities or services.

The Roles of the Regulatory Bodies

The regulatory bodies include the Ministry of Petroleum & the Ministry of mining (which was until recently part of the Ministry of Oil).
One can say that in spite of the dearth of information accumulated by these agencies they have developed reasonable and satisfactory legal and technical frames for investors to work through.

These include the production sharing agreement, the technical participation through Sudapet , operating companies in the oil sector. In the mining sectors where is clear framework for concession giving governed by extensive agreements. There is however little technical guidance from the Ministry of mining because of the obvious lack of qualified staff, this and the lack of any finance by the local banks, have led a very clear trend of an increasing number of concessions or blocks going to foreign investors and lately to state owned companies simulating what has happened in the oil sector since day one. We are protected from falling in the hands of big multinational companies because they shun the Sudan thanks to US sanctions, what started as an indigenous mining industry – run by popular entrepreneurs or organized by local companies is slowly turning to foreign enterprises!

There are other regulators, namely the central bank and to some extent the Ministry of Finance has an important role to play to influence this activity – both in the oil production and mining, the need to do so because they have the greatest stake in the proceeds of this sector : foreign currency!

The central bank – true to its tradition can initiate & participate in investments funds to undertake mining for minerals or oil in all facts. It can persuade or reward banks who finance prospecting, which is risky.

The Ministry of Finance can give guarantees and assured rebates on money spent on oil, gas and mining prospecting.

This is done in most countries of the world, and we need to develop these policies now to avoid our extractive industries falling wholly in the hands of foreigners.

This is not a call for discrimination – the Sudanese investment code calls for equality between local & foreign investors, it is a call for a fair share to the local investors!

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