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**Extractive Industries and Sustainable Job Creation**

**The role of the banking sector in enhancing extractive  
industries in Sudan**

By

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The views expressed are those of the author and do not necessarily reflect  
the views of UNCTAD.

# **The role of the banking sector in enhancing extractive industries in Sudan**

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- The present paper outlines the role of the banking sector in promotion of extractive industries in Sudan, mainly by focusing on oil, gas, gold and other mineral resources.
- Since the initiation of the oil exploration project, the banking system played crucial role in encouragement of investments in this important field, settlement of foreign transaction related to importation of equipments and tools deemed necessary for oil exportation, production, processing and exportation.
- The banking system enhanced oil and gold investments, exports and imports operations

# Main theme

- The paper explores various policy measures adopted to encourage investments, which include registration of capital, transfer of profits, loans, provision of finance, facilitation of foreign trade operations in oil, gold and other mineral resources.

# Gold partially replaced oil losses

- In spite of the fact that Sudan lost considerable share in oil proceeds post secession of South Sudan, which imposed severe currency and inflationary pressures, however, the banking system seemed resilient to the shock and the economy featured clear indicators for recovery, thanks to traditional mining in gold sector which contributed positively to meet the country's basic goods.

# US sanctions and foreign debt

- Two factors had negatively affected the development of extractives; first US Sanctions which resulted in real challenges to transfer of technology, trade and investment, secondly burden of foreign debt and limited access to international financial market.

# CBOS encourages investments in extractive industries

- The CBOS will continue to encourage extractive industries by facilitating finance, opening foreign credit lines and adopting investment encouragement schemes.
- The efforts will be exerted to create a business and investment friendly environment

- From a banking perspective, the unprecedented expansion in the extractive industries in Sudan in recent years comes with great investment opportunities to the Sudanese banks. In fact, this rapidly growing sector underlies huge potentials for banks in the form of profits and deposits attraction. From a broader perspective, the extractive industries led by gold, oil and gas have positive impacts on the creation of jobs, foreign exchanges and economic development



# Stylized facts about Sudan economy

## 2013-2014

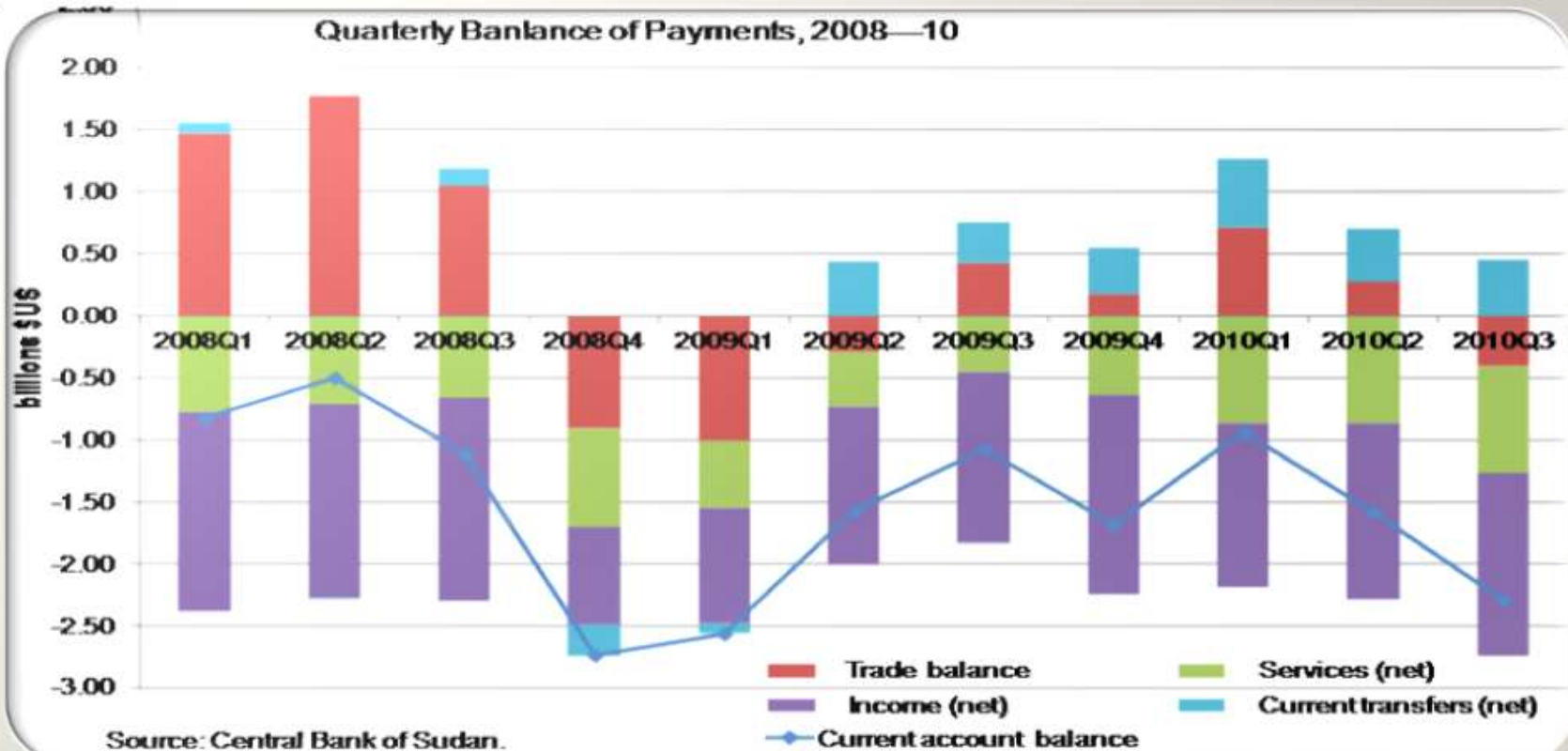
- Real GDP growth 4.4% in 2013 and 3.6% in 2014 . Projected to grow by 6.3% in 2015
- Inflation 36% in 2013 and 37.1% in 2014 . About 17% average 2015, last published data October 2015, 13.3%.
- Balance of payments 17 million \$ in 2013 and 15 million \$ in 2014.
- Current account balance 5.4 billion \$ in 2013 and 4.8 billion \$ in 2014.
- Trade balance 3.9 billion \$ in 2013 and 3.7 billion \$ in 2014.

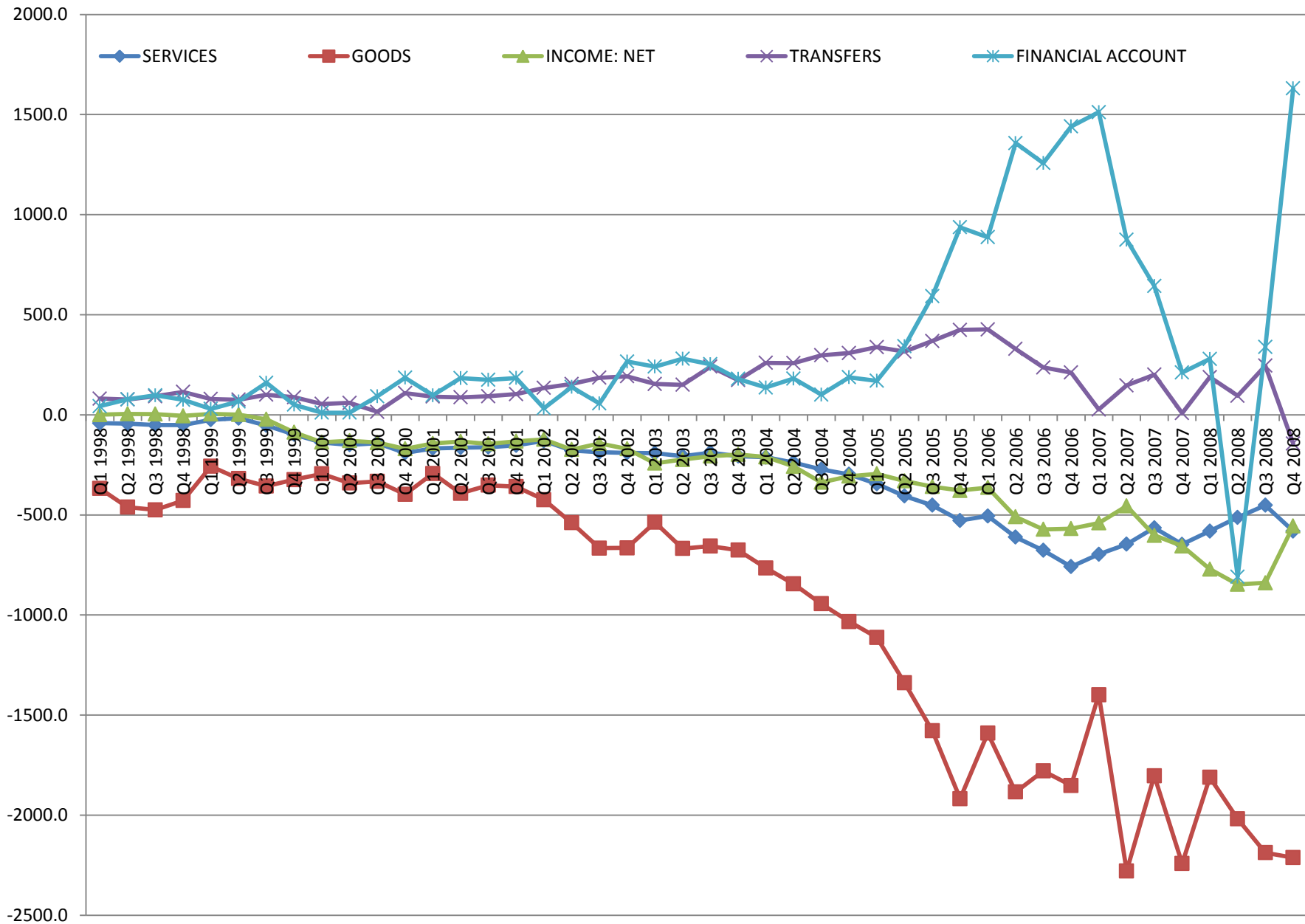
# Continue Stylized Facts

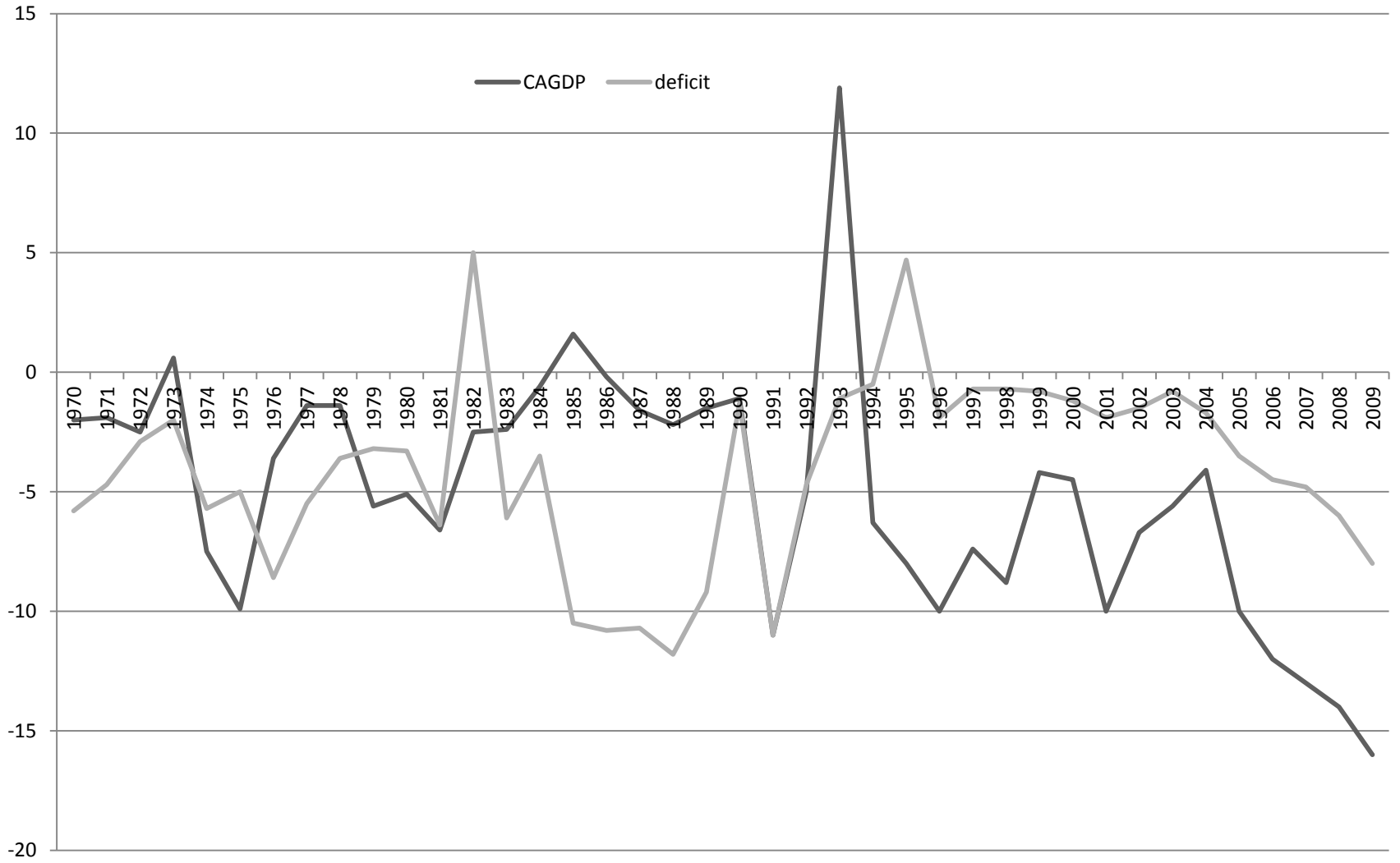
- Exports 4.7 billion \$ in 2013 and 4.4 Billion \$ in 2014 .
- Imports 8.7 billion \$ in 2013 and 8.1 billion \$ in 2014.
- Foreign Debt 43.8 billion \$ in 2013 and 46.6 billion \$ in 2014.
- Government revenues 37.3 billion SDG in 2013 and 51 billion SDG in 2014 .

- Public expenditure 49.7 billion SDG in 2013 and 55.6 billion SDG.
- Government deficit 6457 million SDG in 2013 and 4417 million SDG in 2014.
- Money Supply (M2) 66.4 billion SDG in 2013 and 77.7 billion SDG in 2014.
- Money Growth 13.3% in 2013 and 17% in 2014.

# Balance of Payments

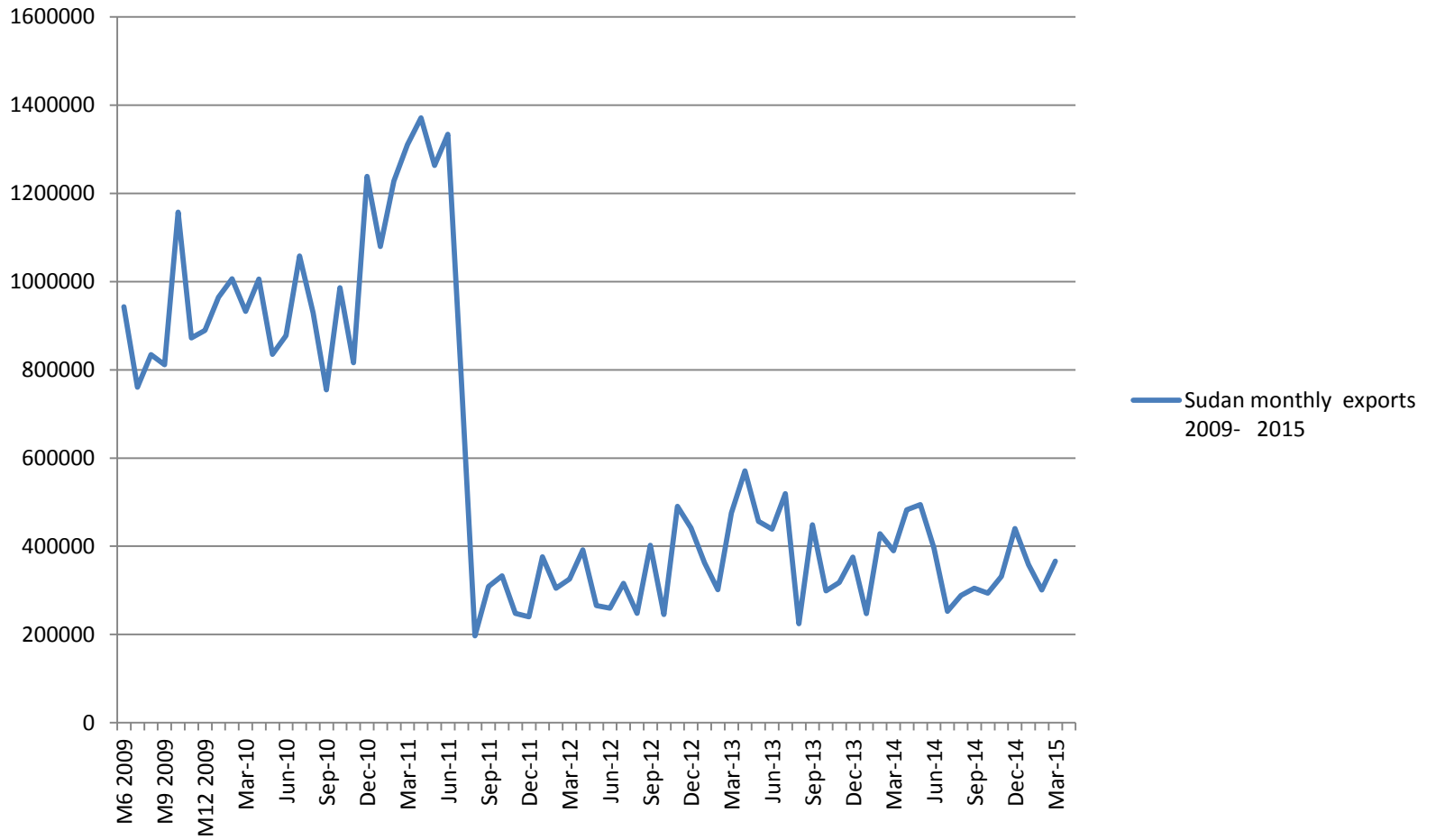






- Based on the price indicators shown below it seems that gold and oil prices had dropped massively , due to world economic recession coupled with China slow growth and challenges of emerging economies the prices may remain low in near future, this has positive and negative effects on Sudan economy. Definitely the decline of gold prices will negatively affect Sudan economy, while the decline in oil prices will reduce the budget burden and positively affect the balance payments because currently Sudan is a net oil importer.

# Sudan monthly exports 2009- 2015





Dependent Variable: INFLATION

Method: ARDL

Dynamic regressors (4 lags, automatic): EXCHANGE M2

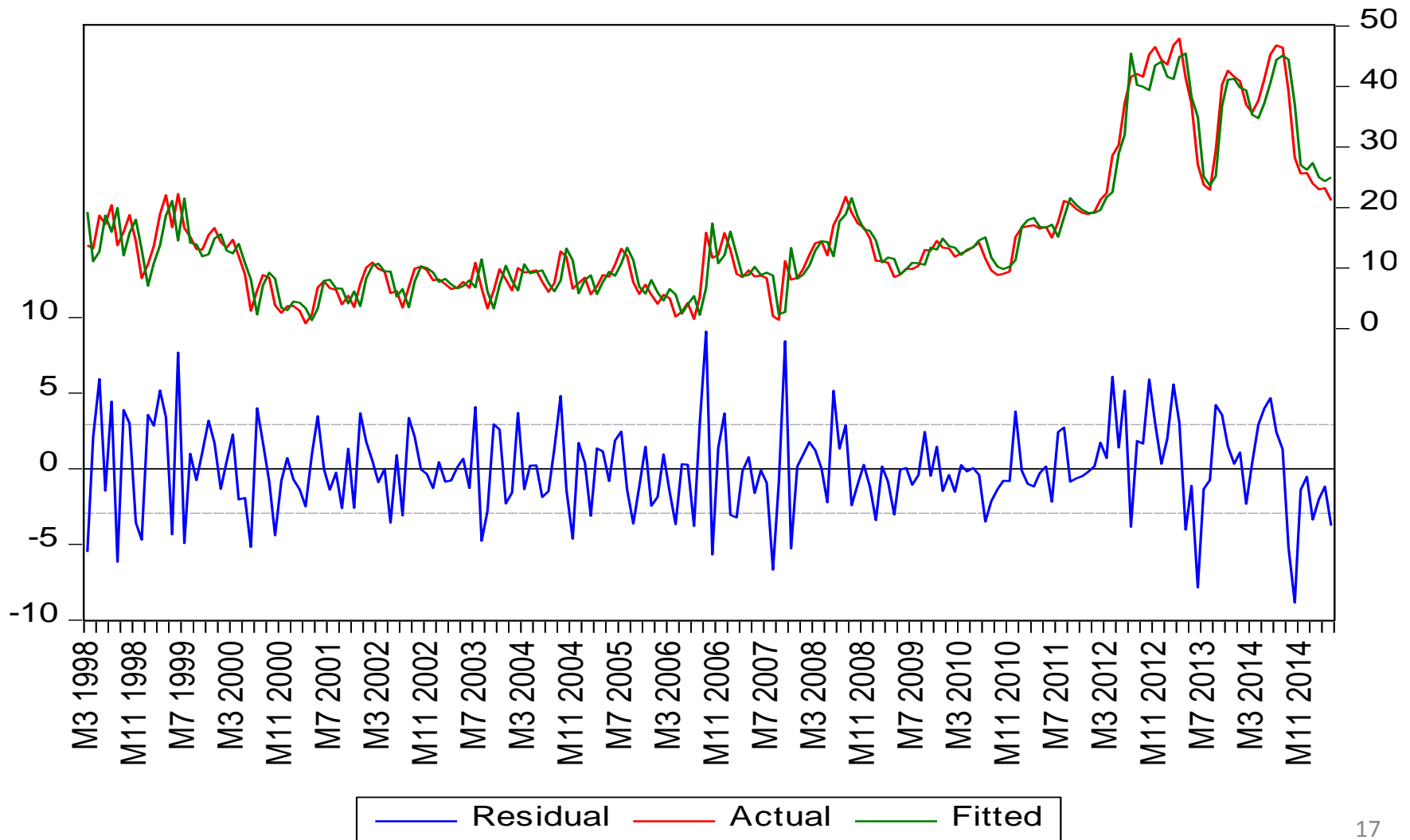
Fixed regressors: C

Number of models evaluated: 100

Selected Model: ARDL(2, 1, 0)

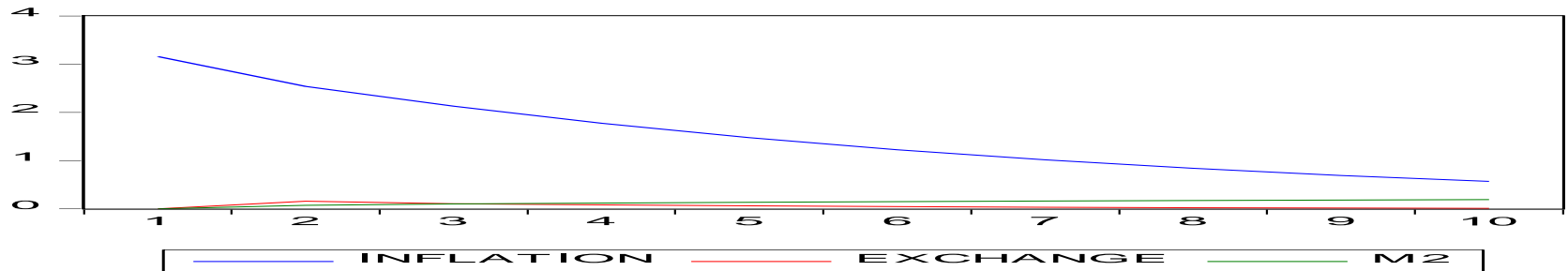
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
INFLATION(-1)	1.076522	0.06744	15.96257	0
INFLATION(-2)	-0.20707	0.066572	-3.11042	0.0021
EXCHANGE	6.205342	1.707736	3.633665	0.0004
EXCHANGE(-1)	-6.17654	1.702665	-3.627569	0.0004
M2	4.25E-05	1.77E-05	2.396157	0.0175
C	0.784248	0.733604	1.069034	0.2863
R-squared	0.935677	Mean dependent var		15.39764
Adjusted R-squared	0.934069	S.D. dependent var		11.41436
S.E. of regression	2.930869	Akaike info criterion		5.017168
Sum squared resid	1717.998	Schwarz criterion		5.114097
Log likelihood	-510.768	Hannan-Quinn criter.		5.056369
F-statistic	581.8626	Durbin-Watson stat		1.992816
Prob(F-statistic)	0			

# Actual and predicted inflation

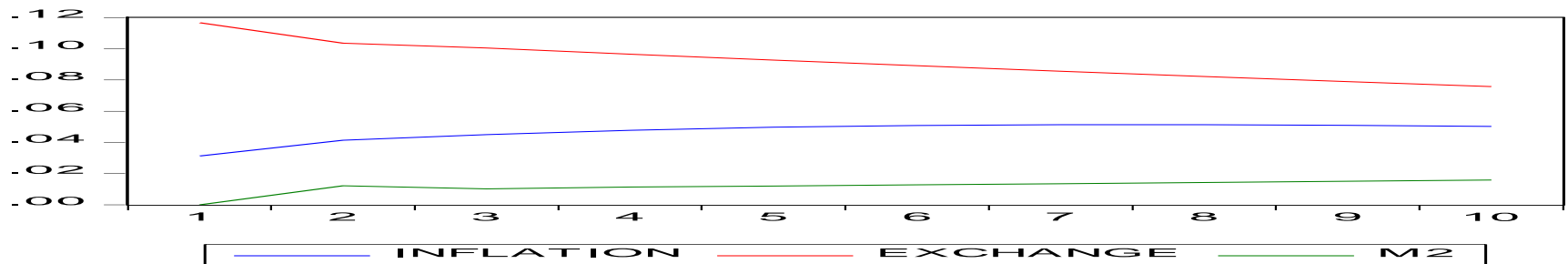


# Bayesian impulse responses

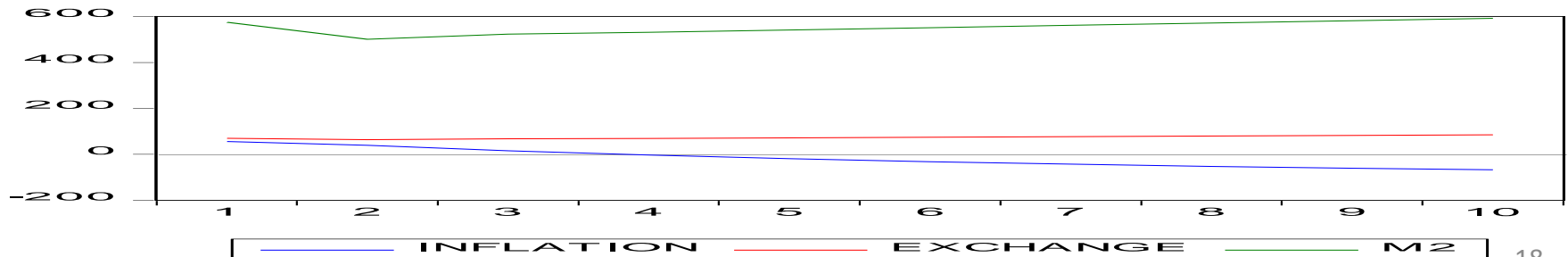
Response of INFLATION to Cholesky  
One S.D. Innovations



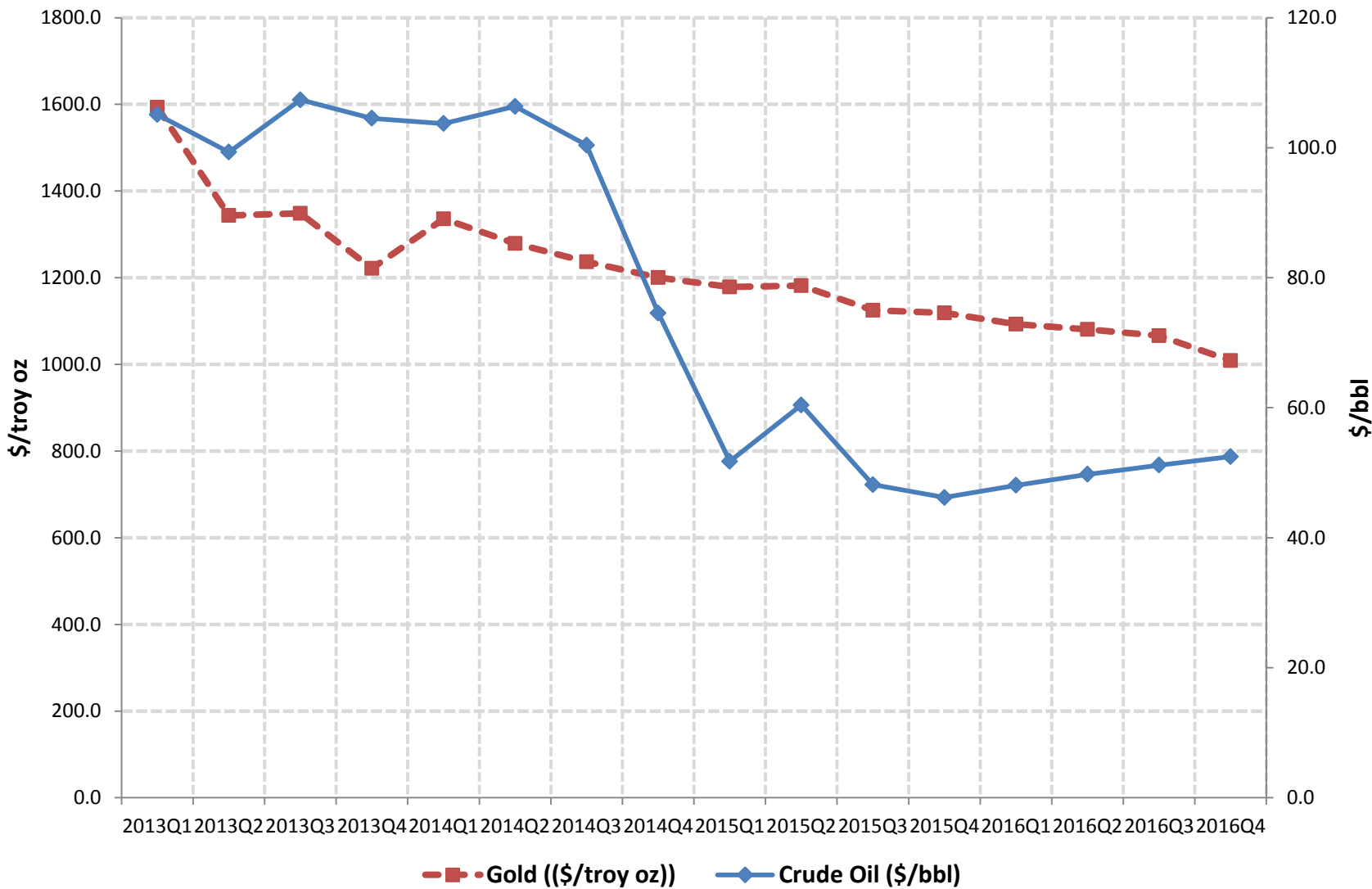
Response of EXCHANGE to Cholesky  
One S.D. Innovations



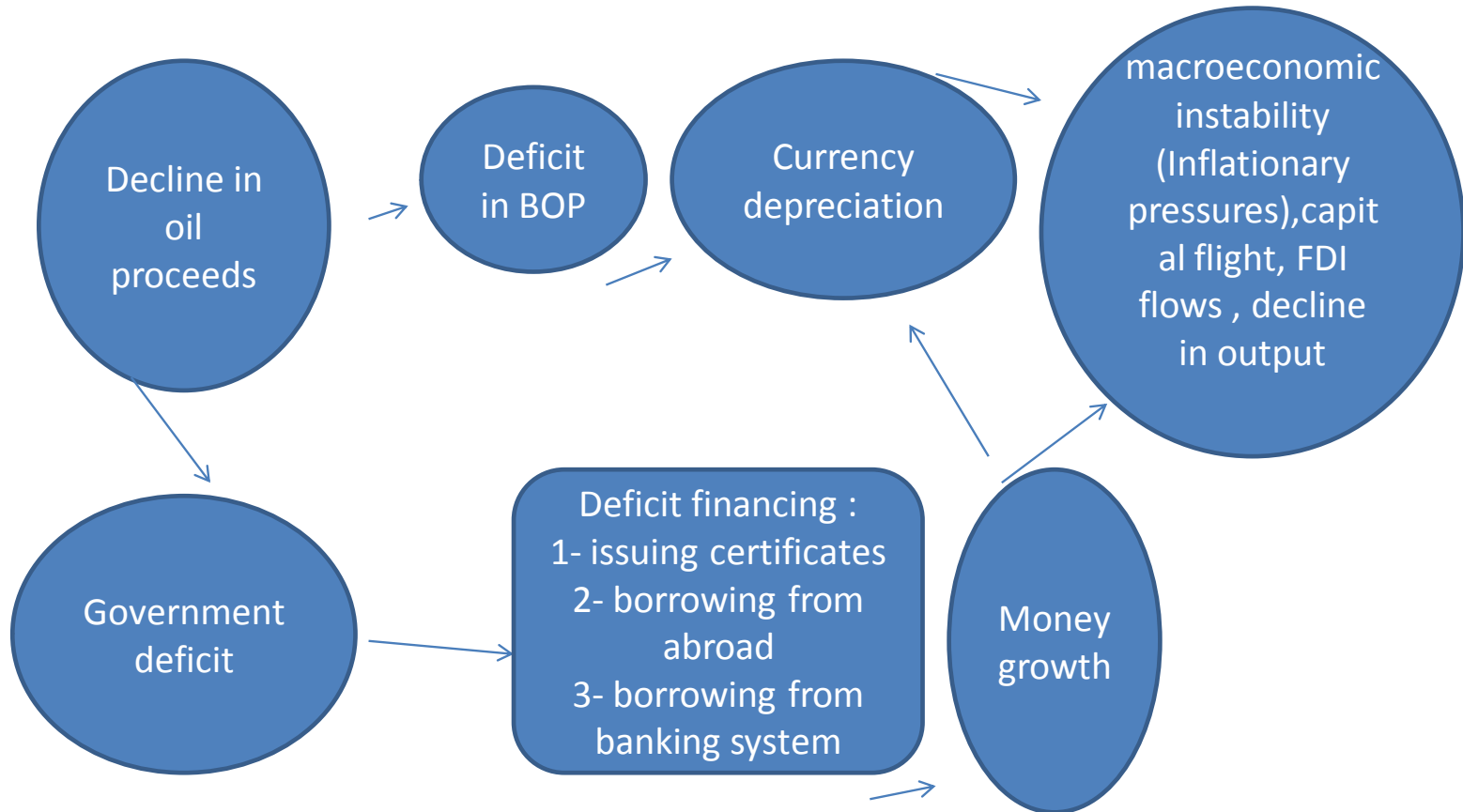
Response of M2 to Cholesky  
One S.D. Innovations



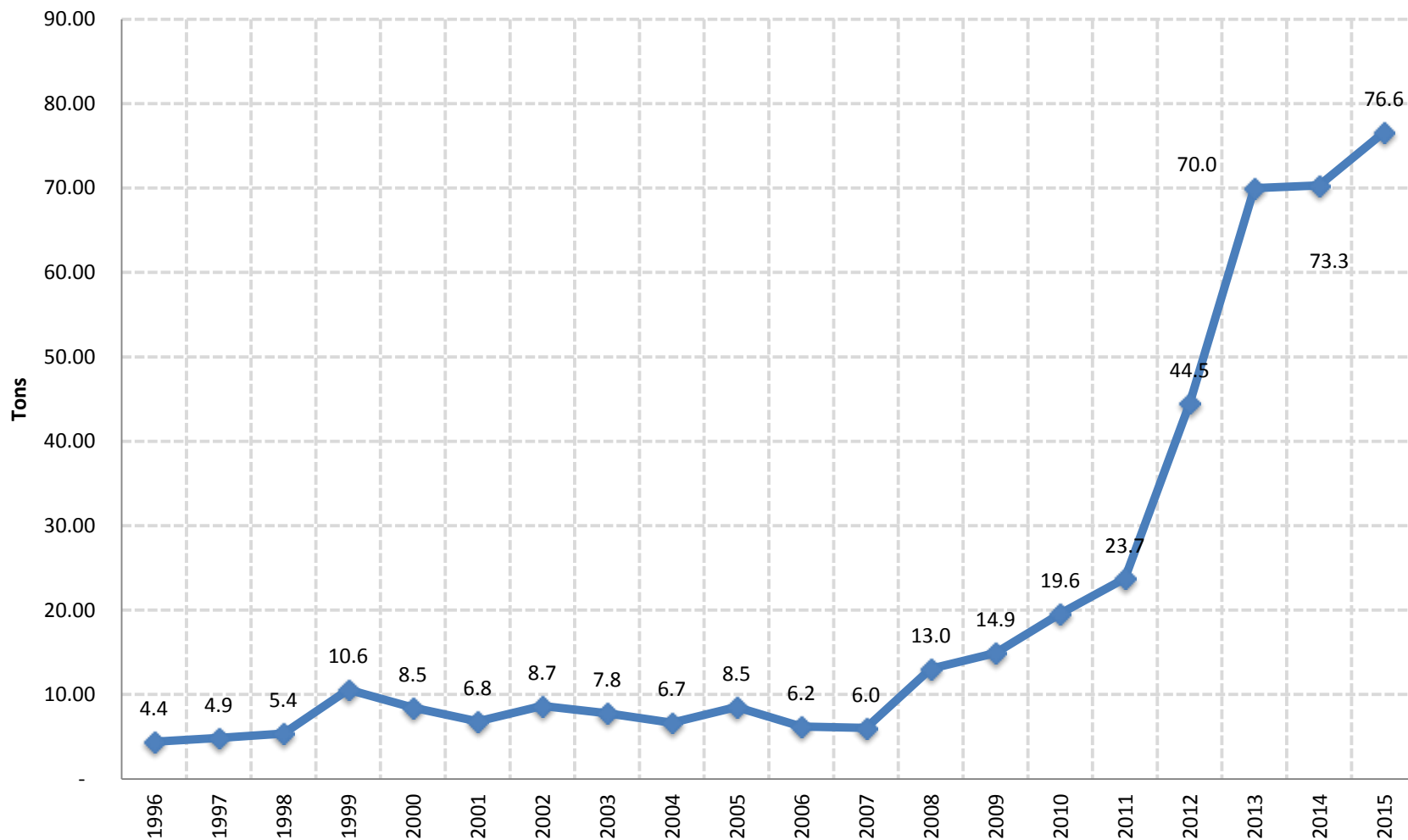
# Actual and Forecasted Prices for Crude Oil & Gold for the period (2013 – 2016)



## Effect of decline in oil and gold prices on Sudan economy



# The Production of Gold in Sudan during the Period (1996 - 2015)



# Contribution of Gold Exports to GDP and Total Exports

Description	2011	2012	2013	2014
Gold export contribution to GDP	2.1%	3.2%	1.5%	1.5%
Gold exports contribution to total Exports	15.1%	53.1%	21.9%	29.2%

# Central Bank of Sudan Role in Gold Exports

- The Central Bank of Sudan (CBOS) is the sole exporter of the gold produced by traditional miners in Sudan.
- It purchases gold from traditional miners at higher market exchange rates while the proceeds from gold exports are provided at lower official exchange rates.



# Imports of Strategic Goods

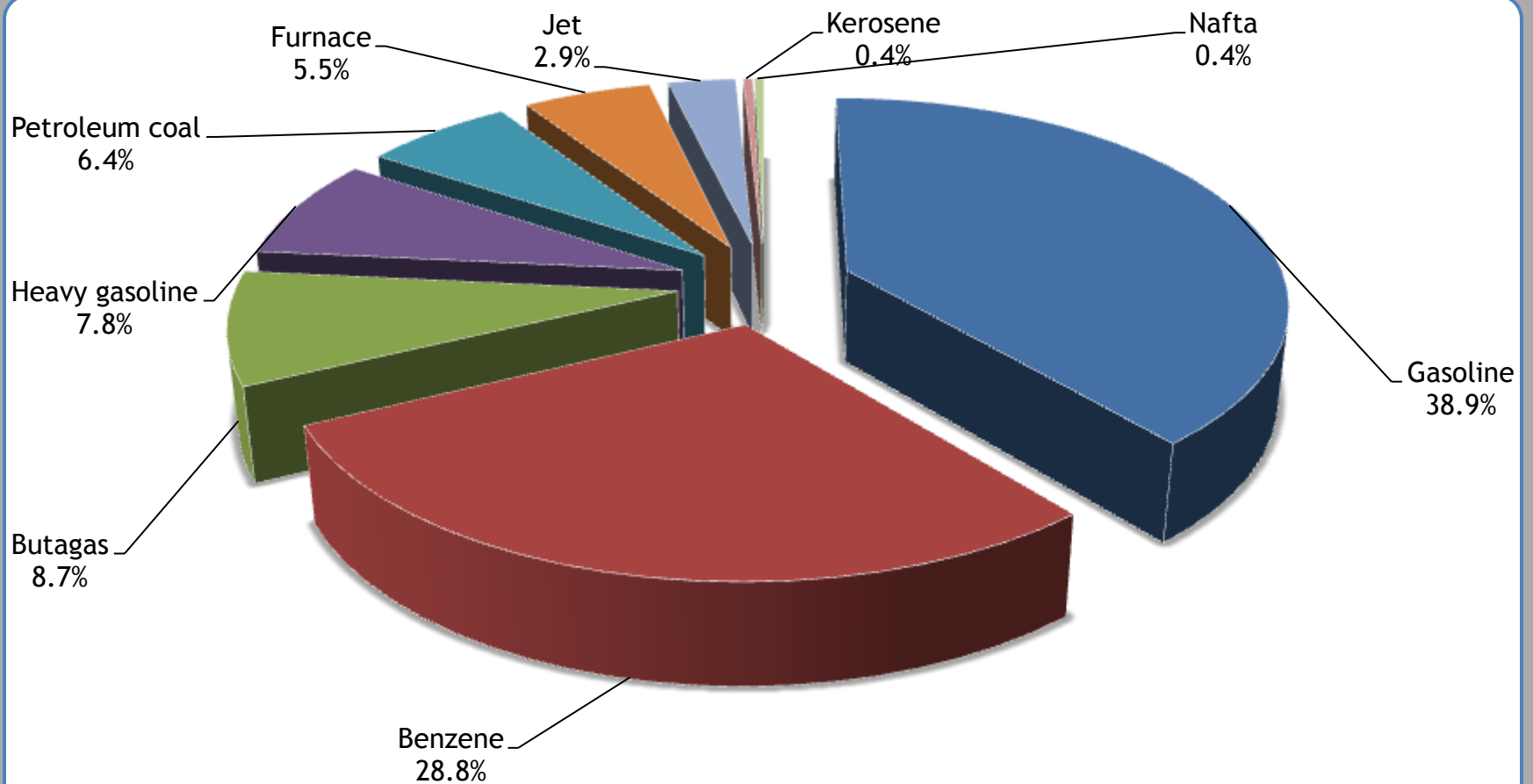
Commodities	Unit	2010		2011		2012		2013		2014	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
<b>Petroleum Products</b>	Million USD	-	428	-	735	-	1,052	-	1,460	-	1,524
<b>Wheat</b>	M. T	2,560	945	1,673	690	2,053	811	2,314,	1,027	2,177,	1,046
<b>Wheat Flour</b>	M. T.	59	32	43,	21	46,	25	27,	15	64	36
<b>Medicines,</b>	Million USD	-	349	-	376	-	349	-	412	-	411
<b>Sugar</b>	M. T.	1,024	502	670,	506	719,	529	1,118,	646	810,	460

- As revealed by the above table, the purchases of gold by the CBOS were quite helpful in providing foreign exchange resources.
- This led to provision of strategic goods .
- Allowed Sudan to meet its obligation to regional and international organizations .

# Contribution of Oil Exports to GDP and Total Exports

Description	2011	2012	2013	2014
Oil contribution to GDP	5.0%	3.3%	2.7%	3.5%
Oil exports contribution to total Exports	75.6%	23.5%	35.8%	28.8%

# Petroleum Products in 2014



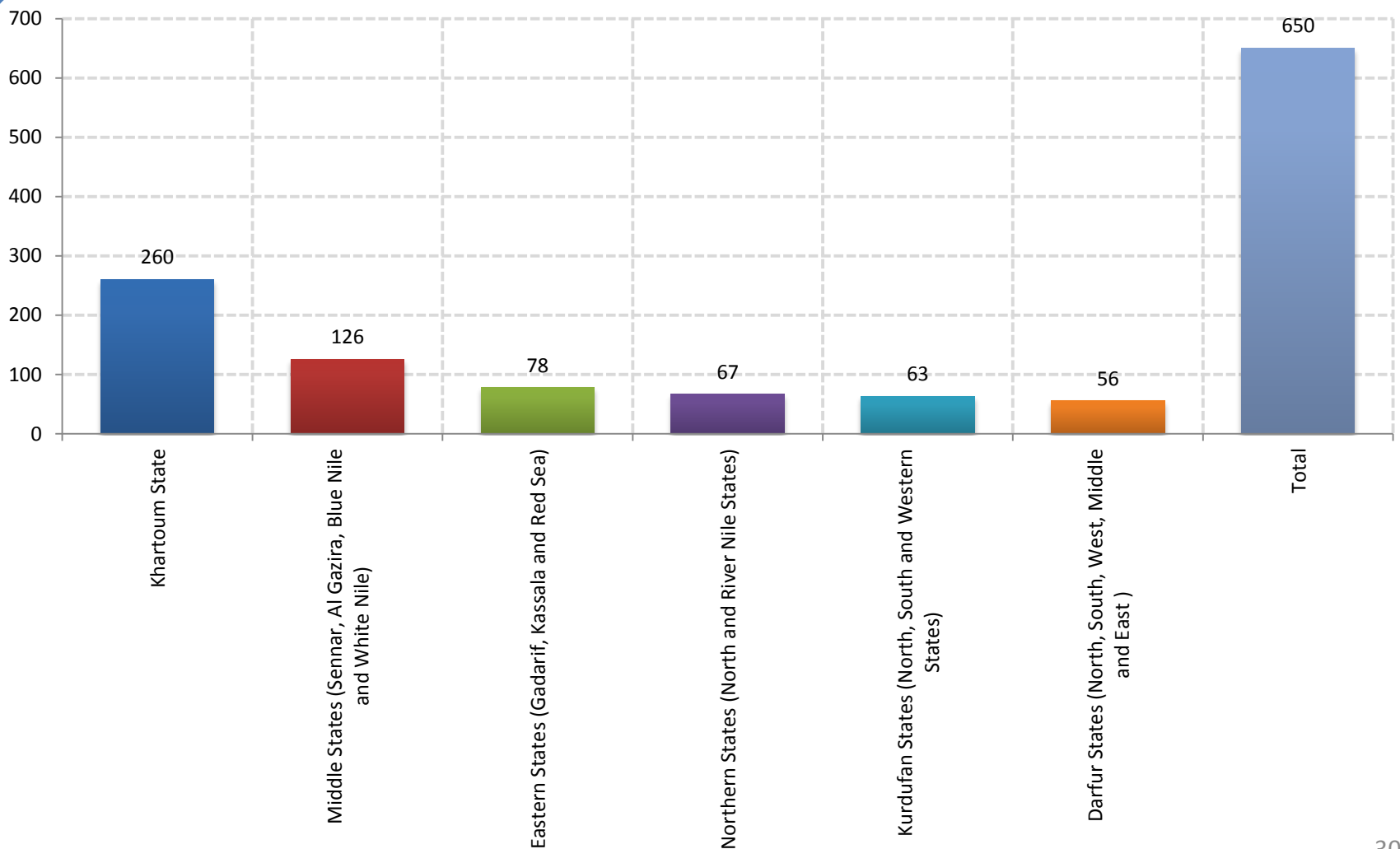
# Natural Gas

- Natural gas is proven to exist in blocks 15, 8, 4 and 6 estimated at around 1.75 tcf; however recent studies have shown a potential of at least 5-7 tcf of natural gas. Currently, most natural gas associated with crude petroleum is being used to generate electricity to support the oil processing operations at different levels.

# The Geographical distribution of the operating banks in Sudan in 2014

Item	No. of banks
Khartoum State	260
Middle States (Sennar, Al Gazira, Blue Nile and White Nile)	126
Eastern States (Gadarif, Kassala and Red Sea)	78
Northern States (North and River Nile States)	67
Kurdufan States (North, South and Western States)	63
Darfur States (North, South, West, Middle and East )	56
<b>Total</b>	<b>650</b>

# The Geographical distribution of the operating banks in Sudan in 2014



# The Role of the Sudanese Banking Sector in Financing Extractive Industries

- After the secession of South Sudan the CBOS monetary and credit policies encouraged banks to finance real sector and extractive industries through different incentives schemes. In line with those policies, the total banks financing to the mining and energy sector increased significantly from SDG 40.4 million in 2010 to SDG 361.3 million in 2014 by 795.6%.

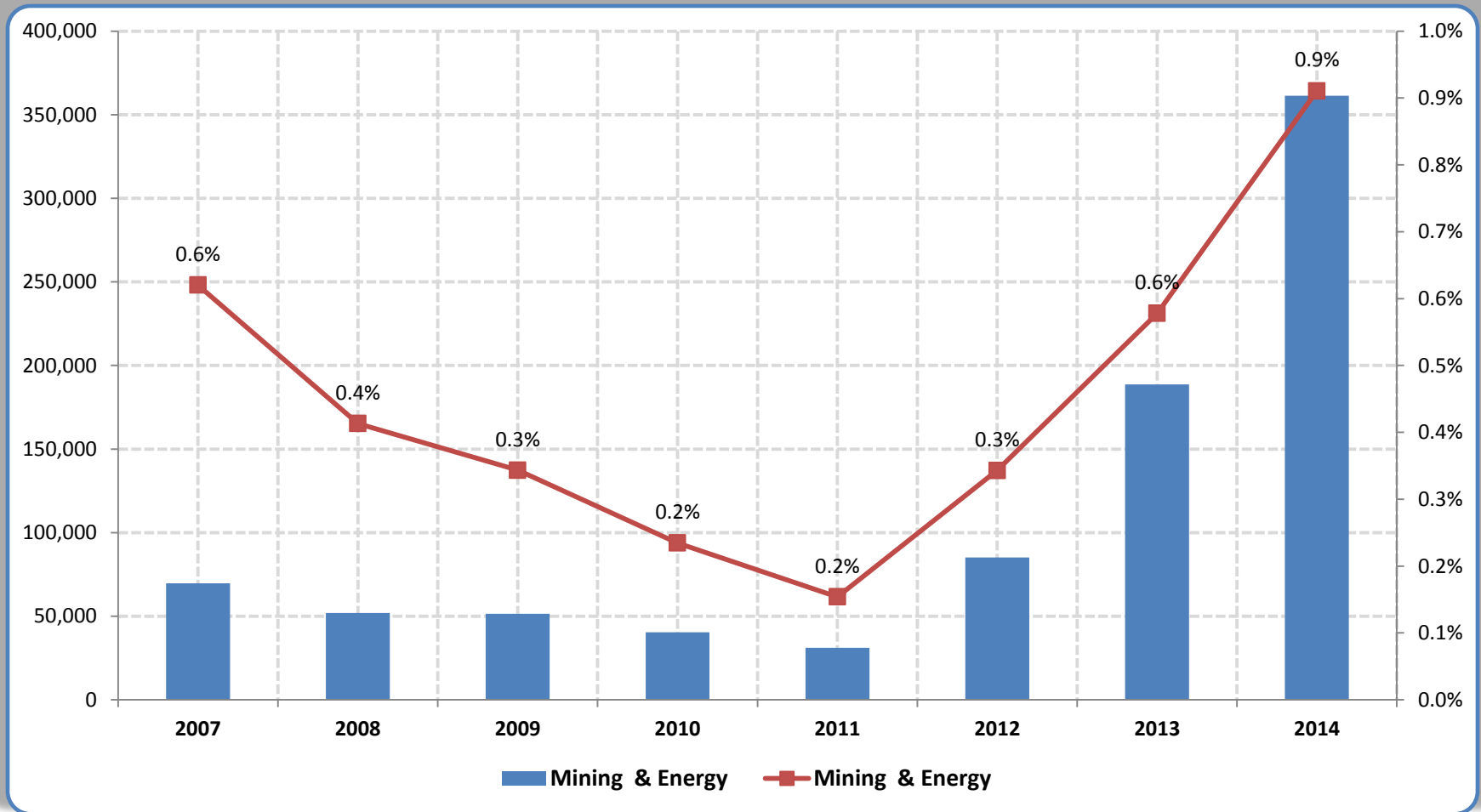


- However, the contribution of the financing of the mining sector to total banking finance remains very small around 0.9% in 2014 which does not match the great potentials of this important sector.
- The small contribution of the mining and energy financing to the total banks financing reflects the presence of financial impediments that prevent Sudanese banks to provide finance to this sector. The lack of collaterals represents one of the main obstacles that hinder the provision of finance to traditional miners.

# Financing Mining and Energy Sector during the Period (2007 – 2014)

End of Period	Banks Finance (1,000 SDGs)	Contribution to Total Banks Finance
2007	69,774	0.6%
2008	51,990	0.4%
2009	51,447	0.3%
2010	40,347	0.2%
2011	31,125	0.2%
2012	85,111	0.3%
2013	188,623	0.6%
2014	361,340	0.9%

# Financing Mining and Energy Sector during the Period (2007 – 2014)



# Investment encouragement schemes

- The current Investment Promotion Act allows foreign investors to have the right to own investment project in full and without the requirement for a partner in Sudan.
- Law treats the national and foreign investors without any discrimination in the granting of privileges, guarantees and facilities.
- Gives full freedom in the transfer of capital invested in the case of non-implementation of the project or liquidated or disposed of in whole or in part, subject to the obligations owed by a quorum

- Allows the transfer of profits and the cost of financing in foreign capital or loans from the date of maturity.
- Free Importation of raw materials needed by investment projects and export products without restrictions.
- In terms of the concessions, the law provides:
- Exemption from the business profits tax and customs duties.
- The law also grants land for the establishment of investment projects free of charge in the case of strategic projects, and promotional price for non-strategic projects.
- No nationalization or confiscation or seizure or a guard on the money invested in the free zone.

# **Policy Recommendation: Main Challenges and Reforms**

- Provision of necessary long and short term finance to extractive industries.**
- Opening foreign credit lines and facilitating access of private sector to financial resources from abroad.**
- Attracting foreign direct investment and providing incentives to foreign firms to explore extractive industries.**

- **The US unilateral economic sanctions remain the main obstacle that negatively affects extractive industries in Sudan and hampers all efforts towards sustaining economic development. Accordingly, the United Nations and the International Community should help the Sudanese government in lifting this heavy burden.**
- **Guarantee the debt relief to Sudan under the HIPC initiative to minimize the heavy external debt burden.**
- **Address the collateral problems through accelerating the Movable Credit Registry projects and Whole Sale Guarantee Agency.**
- **Banks can form financing consortium to finance large and medium scale mining and extractive projects.**

- **CBOS sterilizes the effects of gold purchases and gradually allow more room to the private sector in purchasing and exportation of gold.**
- **Although Sudan concurrently enacted two ordinances and six acts to protect the environment, the enforcing institutions are weak and fall under different ministries, further reducing co-ordination efforts.**
- **Policies on the socioeconomic and environmental impacts of small-scale gold mining.**



- **Better manage mineral resources and process them locally through better coordination between the concerned ministers and government bodies will enable Sudan to achieve economic and social development.**
- **Promote knowledge exchange to increase the sector's productivity, help better manage mining operations to adhere to national and international environmental and health standards, and prevent conflict through effective community relations.**

- **Enhance institutional capacities through putting in place effective strategies, policies and legal frameworks that govern and organize the extractive industries sector.**
- **Encourage partnership with the Sudanese private sector through providing a framework for working with the private sector to put in place effective environmental and social safeguards and corporate social responsibility**

- **Create conducive business and investment friendly environment with regulations and incentives to enhance both domestic and foreign investors.**
- **Registration of foreign capital and facilitate transfer of profits and loans.**
- **Introduce advanced banking technologies and improve the efficiency of the Sudanese payment system.**
- **CBOS will continue buying gold and encouraging traditional mining as well as to provide incentives to gold mining by companies in close collaboration with ministry of minerals and other related institutions.**

- *Thanks for your attention , ,*

*Central Bank of Sudan*