

Omdurman National Bank

**(Omdurman National Bank experience in Islamic finance
for infrastructure in Sudan: models and obstacles)**

The presentation is based on three themes:

- 1- Summary of the Islamic banking system in Sudan
(size, potential, problems and models)**
- 2- Omdurman National Bank(ONB) experience in
Islamic finance for infrastructure projects**
- 3- Recommendations and suggestions to expand
Islamic finance products**

Firstly : Islamic banking system in Sudan (size, potential, problems and models)

The use of Islamic finance for infrastructure development has attracted more attention .

concerns will remain :

- How do we understand and access Islamic finance? -
How can we reduce its cost?

addressing two obstacles:

- 1- lack of awareness and knowledge about Islamic finance
- 2- its high cost.

Sudan entirely dependent on Islamic banking system with regard financing infrastructure small projects while The large-scale infrastructure projects depend on external loans or (FDI) .

Sudan economic difficulties for several years

- a long civil war that led to the secession of South Sudan in 2011 deprived Sudan from 75% of oil revenues
- Impacts of 20 years of US economic and trade sanctions on Sudan.

- growth of the Sudanese economy in 2019 will remain at the level of 2% compared to 2.3% in 2018 (IMF)
- Inflation reached 74% annually in December 2018 and decreased by the end of August 2019 to 53% .
- Sudanese pound has deteriorated, reaching about 48
- Sudan's external debt exceeds \$ 50 billion most of it was arrears about 61%
(put pressure over Sudanese banking system)

Although all financing operations in Sudan are based on Islamic law, there is concentrate on some Islamic products

- Murabaha (as a lower risk) with a ceiling over 55%
- other forms (Ijarah, Musharaka, Istisna'a, Mudaraba and others) remained less than 45% (lack of diversity and lack of innovation)

Secondly :
**(ONB) experience in Islamic finance for
infrastructure projects**

- established in 1993 - 1.35 billion(SDG)
- represent the highest paid-up capital
- since its inception to date the bank has achieved very high performance rates (19% deposits and 15% assets 15% financing ceiling)

This good performance enabled it to win international, regional and local prizes that made him the first bank in Sudan for many years in many financial performance indicators

- In the last two decades, ONB contributed to financing large and diversified infrastructure projects in Sudan (17 % in total)
- For examples in last year we financed the infrastructure in the health sector by 2.5 billion SDG and the mining and energy sector 60.4 billion SDG and the industrial sector 4.1 billion sdg Agricultural 2.4 billion SDG transportation bridges and roads by 4.1 billion SDG

financing operations are based on the Istisna'a :

- 1- relationship between three parties the project owner, the contractor (manufacturer) and the bank as a financier .**
- 2- The project owner shall apply to the Bank requesting financing**
- 3- The bank study the client's request and take adequate guarantees (often mortgage and LGs) the transaction will be certified**
- 4- The Bank shall, in agreement with a manufacturer (be called the contractor) on the principle of parallel Istisna'a**
- 5- The Bank shall contract with the Contractor as a manufacturer - shall appoint a consultant to follow up the implementation of the project.**
- 6- Payment is made in accordance with the provisions of the contract, sometimes there will be a down payment . The rest of amount will pay according to the (certificates of completion)**

According to these experiences we face many problems in implementation:

- 1-inflation and deterioration of pound have negative impacts of banks' assets**
- 2- risk of repayments is putting pressure over capital and assets**
- 3-erosion of the value of guarantees weakens the adequacy of capital .**

Thirdly : Recommendations and suggestions to expand Islamic finance products

- There is a growing global trend on demand for Islamic finance products
- creation of new products in line with the spirit of the era .

The Islamic Financial Services Board report on the stability of the Islamic Services :

- 8.3%
- \$ 2 trillion

Recommendation no 1 : expand the use of (Sukuk product)

- watershed moment for Islamic financing
- international community has recognized the need to bring together all stakeholders and potential sources of financing for development.
- UN Conference on Financing for Development in Addis Ababa in 2015, the adoption of the 2030 Agenda for Sustainable Development and the 2017 Hamburg Principles.

- In this context, the Sukuk will play greater role.
- The Islamic banks can play a dual role in this approach

It is time not only to achieve awareness of Islamic finance as an additional source of finance - and relatively untapped - but also to facilitate its use. There is a wide range of Islamic finance structures, tools and elements to be explored and reorganized that can work alone or in combination with conventional finance in mixed structures.

- Expanding investment in infrastructure is an effective means of promoting inclusive growth and encouraging the resilience of communities.
- In particular, investment in good sustainable infrastructure helps economy to be more environmentally friendly economic model.
- This is particularly true in the renewable energy and low-emission sectors.
- Given the magnitude of the resources required to fill the gap in infrastructure investments, private sector participation in this goal has become an imperative (Sukuk will play as platform)

Recommendation 2 : Building awareness and capacity

- In order for Islamic finance to realize its potential, it is necessary to raise awareness among stakeholders .
- its need certain degree of standardization with regard to access to Islamic finance and the tools used
- although most Islamic finance assets are in the banking sector, the scope of adoption of these instruments by others asset managers, such as pension funds and other long-term investment institutions, is significant

Recommendation 3 : Standardize tools, reduce costs

- As project documents and contracts become standardized, the high cost of Islamic finance-related structures will decline.
- creating a fairer space for competition among conventional and Islamic finance actors.
- For this reason, (a reference standard) for Islamic finance and public-private partnerships in infrastructure should be prepared.
 - This reference standard should include groups of standard contracts and other documents to provide a starting point and framework.
 - the existing Islamic finance products should be reviewed as an important element to attracting private capital to invest in infrastructure projects.

Finally :

- Islamic finance is based on a strong hedges, as it is based on project assets and emphasizes the sharing of risks.
- making it very appropriate in infrastructure projects .
- Islamic finance products should be more flexible.
- Some investors (banks, sovereign wealth funds and other asset managers) have significant liquidity that can be converted into Islamic investments in low-risk infrastructure.
- However, expanding the use of Islamic finance in response to growing investor demand still requires overcoming significant legal, regulatory and institutional challenges.
- In fact, the inconsistency of rules on observance of Islamic contracts continues to complicate the structure of Islamic finance system

REFRENCES :

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THANK YOU :

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