

# Building Resilience Through Digital Financial Services

Africa COVID-19

Digital Finance Market Impact Series

Sudan

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

**Sudan** is a vast country with a predominantly rural and young population. While only 15% of the population holds a bank account, mobile phone is second only to Egypt's as 77.1 % of all Sudanese had access to a mobile phone in 2019, with a year on year growth of 7.5% (World Bank). There were also 13.38 million internet users (Jan 2020) an increase of 2.4% over 2019 (316 000 new users) resulting in 31% internet penetration ([Data Reportal, 2020](#)).

The high mobile phone penetration coupled with the young age of the population and the large addressable market present an opportunity **to significantly expand digital financial services**.



## SUDAN: KEY COUNTRY STATISTICS



**42.8 million**

Population<sup>1</sup>

34.1% Urban



**\$425 million**

Remittance inflows (1.3% of GDP)<sup>4</sup>



**-8% GDP Growth**

Projection revisions for 2020<sup>2</sup>



**31%**

Internet penetration<sup>5</sup> via 3G



**15.3%**

Financial Inclusion<sup>3</sup>



Mobile Phone ownership:<sup>6</sup>

**77%** Basic

**25%** Smartphone

Sources:

1 World Development Indicators 2016.

2 World Bank Report. 2020, downgraded to -8.2 % from an initial expectation of +1%, because of the COVID19 pandemic with negative poverty impacts)

3 15.3% of Sudanese adults have a financial account (Global Findex 2015),

4 World Development Indicators (Dec. 2020),

5 2019,

6 GSMA 2019.

## IMPACT OF THE COVID-19 PANDEMIC ON DFS

The economic impact of Covid-19 and months of containment measures included increased price of basic foods, rising unemployment and falling exports, exacerbating the macroeconomic challenges the country was already facing. Labor income was lost due to illness on the one hand and economic shocks on the other hand. In addition, annual remittances of around US\$3 billion, essential to Sudan's economy and society and empowered by a global diaspora fell by as much as \$500 million. This was mainly due to the COVID-19 induced recession in the countries of the Gulf Cooperation Council (GCC), falling oil prices and lockdown measures, all of which negatively impacted employment and pay for the hundreds of thousands of Sudanese migrants.

Figure 1: Impact of COVID-19 on Sudan

 <p><b>Socio-economic impact</b></p> <ul style="list-style-type: none"> <li>Higher inflation</li> <li>8% GDP decline</li> <li>64% increase in P2P mobile transfers</li> <li>Reduction of 30% in check clearing</li> <li>Increased poverty/unemployment</li> <li>Reduction in livestock exports</li> <li>Informal sector disrupted</li> <li>Reduced remittances</li> <li>Substantial reduction in oil exports from Sudan</li> </ul>	 <p><b>Preventative measures</b></p> <ul style="list-style-type: none"> <li>Lock-down in Khartoum and some other states; national curfews</li> <li>Closure of schools, colleges, international airport, borders, public events/gatherings</li> <li>Public information campaigns</li> <li>Scaling up healthcare and isolation facilities</li> <li>Country-wide curfew imposed</li> </ul>	 <p><b>Government support</b></p> <ul style="list-style-type: none"> <li>Provide USD 55m to support both the local production and the imports of medicines</li> <li>Extension of commercial loans</li> <li>Revise interest rate guidance downward</li> <li>Established emergency liquidity management fund</li> <li>Enhanced supervision of banks</li> <li>Distribution of essential goods to poor in Khartoum</li> </ul>	 <p><b>Rebuilding better</b></p> <ul style="list-style-type: none"> <li>Higher allocation to social/productive sectors</li> <li>Increase share of formal sector in the economy</li> <li>Social protection for informal sector</li> <li>Expand women's participation in financial inclusion</li> </ul>
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To provide relief to the most vulnerable segment of the population, the government launched the Sudan Family Support Program (SFSP), under the leadership of the Ministry of Finance and Economy (MOFE), with the aim of reaching 6.5 million Sudanese families (80% of the population) efficiently without duplication or fraud, by leveraging a digital delivery ecosystem powered by the private sector.

An identity platform managed by the National Civil Registry, which currently includes 33 million unique names (75- 80% coverage, among the highest in Africa), is to be expanded to reach an additional 5 million unique bringing ID coverage to 90% under the SFSP. The availability of a unique ID will be key factor to accelerate remote account opening, especially if the database can be accessed in real time. The SFSP will thus become an important lever to drive digital transformation not only through G2P payments, but also more broadly.

## DFS MARKET OVERVIEW

Figure 2: Events shaping DFS in Sudan

Policy and Strategic Initiatives	Key Developments	Legal and Regulatory	Market Changes
<ul style="list-style-type: none"> <li>To promote and build digital payment system, <b>Sudan joined the UN's Better Than Cash Alliance</b></li> <li>MTDT is in charge of <b>digital transformation</b> including through the new Digital Transformation Agency</li> <li><b>A Financial Inclusion Task Force</b> consisting of members from the CBoS, the MOEF and the MTDT is in place</li> </ul>	<ul style="list-style-type: none"> <li><b>Regulations</b> to enable mobile money has been recently issued</li> <li><b>Implementing regulations are to follow</b>, as it is unclear if banks/MNOs can issue mobile money</li> <li><b>The digital identity platform</b> includes 33m unique names (75% coverage, among the highest in Africa) to be increased by at least 5 million.</li> </ul>	<ul style="list-style-type: none"> <li><b>CBoS</b> has been the <b>sole issuer of mobile money</b></li> <li><b>Banks</b> may purchase mobile money from CBoS through depositing fiat currency (SGD) with the CBoS</li> <li><b>MNOs</b> must partner with a bank who then as a FSP, sponsors the MNO into the mobile money system</li> </ul>	<ul style="list-style-type: none"> <li>To promote the uptake of mobile money, <b>CBoS need to consider licensing the MNOs (other Fintechs) to operate their own mobile money schemes</b>, - become licensed mobile money operators</li> <li><b>Visa and Mastercard recently licensed banks</b></li> </ul>

### A relatively small financial sector dominated by banks

As in many African countries, the banking sector in Sudan is **highly concentrated**, with the five largest banks accounting for 55% of total assets whilst the assets of the 37 commercial banks accounted for 25% of the GDP at the end of 2019. All financial services in the market are Sharia compliant and financing available is mainly short term. However, all banks are under-capitalized and report a high rate of non-performing loans. **The Central Bank of Sudan (CBoS) plays the dual role of owner and regulator of MFIs and manages donor lines of credit and technical assistance for the sector.**

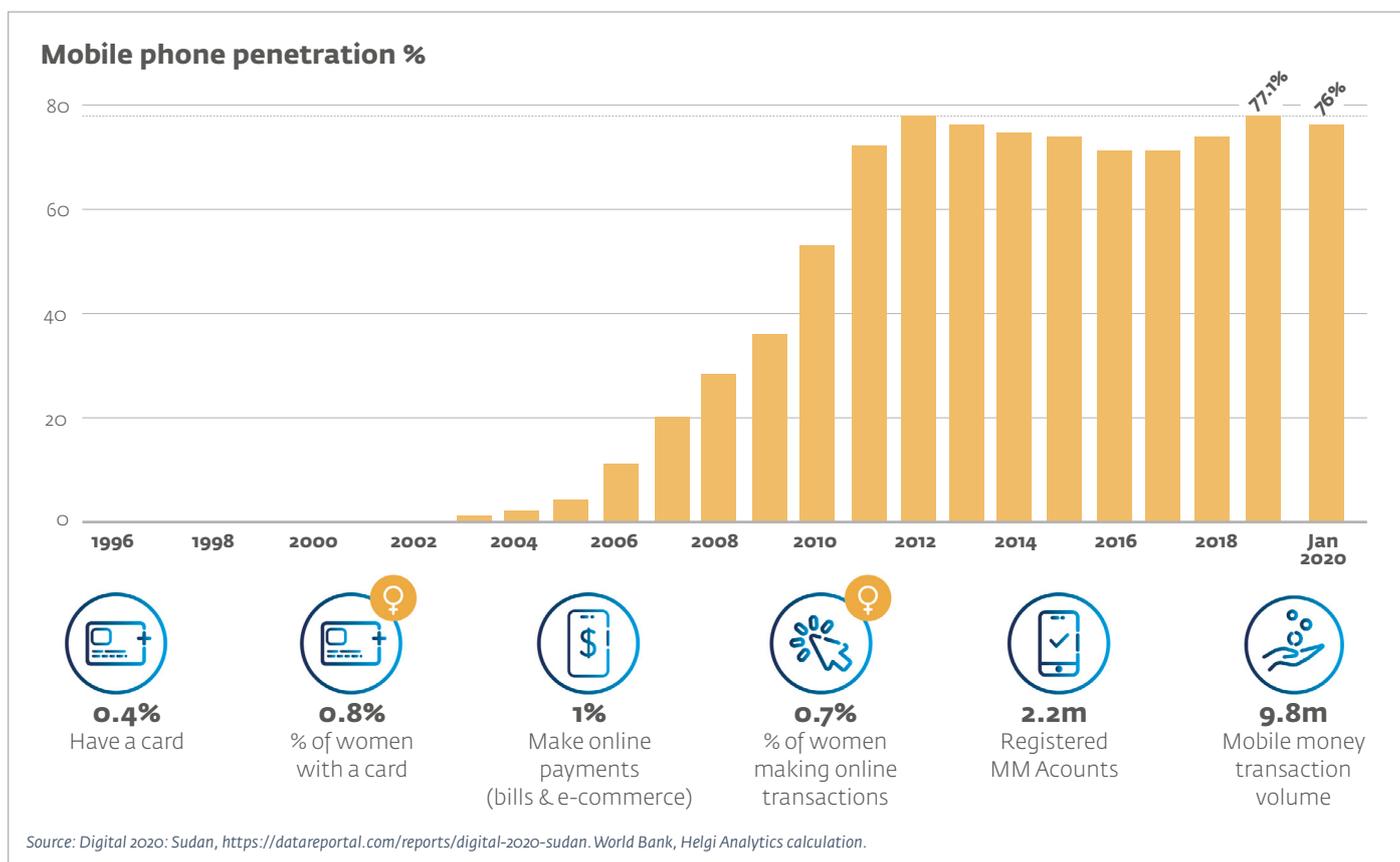
The market for digital payments through these channels is still rather limited since less than 10% of adults hold an account although there are 33.3 million mobile subscribers. Zain Sudan is leader with 48% market share, followed by Sudatel Sudan (24%) and MTN Sudan (28%). Yet, there are few Fintechs (like [Tirhal](#), an Uber equivalent), mostly homegrown as a result of sanctions, currency issues, etc.

In this context, **there has been a strong government commitment to promote financial inclusion, particularly through the country's 39 microfinance institutions (MFIs) as well as DFS.**

### Low level of financial inclusion to be addressed though increasing government-to-person payments

Financial inclusion remains low in Sudan. Card penetration is negligible. E-commerce is in its infancy as illustrated by the small percentage of online payments. But this also indicates that there is a significant addressable market, both for retail and small businesses. Likewise, the fact that airtime is sent in lieu of money is an indicator of the country's readiness to embrace mobile banking solutions. At the same time the prevalence of airtime transfers hinders the expansion of mobile money as airtime sellers charge between 10-50% of to cash out minutes. Regulators are aware of this issue but are hesitant to act until a well-functioning alternative transfer mechanism is in place.

Figure 3: Sudan: Key Access Metrics



### An improving enabling environment

**CBoS has oversight of e-money licensing and provision, the retail payment system and agent operations.** Digital payment systems to date have been undeveloped and highly centralized, since CBoS is also the only issuer of mobile money, which is currently offered through a single system, the Gemalto Mobile Payment Platform (GMPP), operated by the Electronic Banking Services (EBS), a company jointly owned by the CBoS and the private sector. However, CBoS is actively collaborating with development partners to support new business models for mobile payments in Sudan. It has recently issued a directive allowing Mobile Network Operators (MNOs) and Fintechs to establish payments subsidiaries supervised and licensed by CBoS. Implementing regulations have yet to be issued.

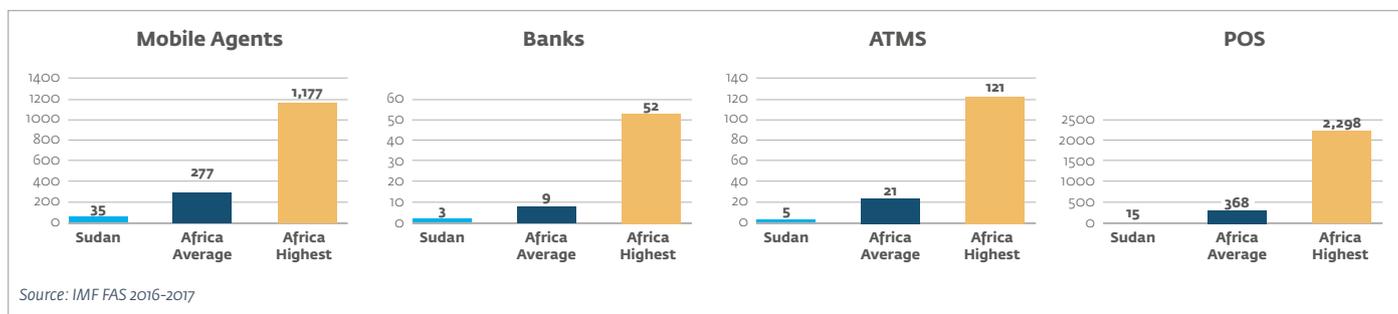
The directive lacks clarity about who can issue mobile money and the described licensing process is onerous and untransparent. There are also concerns related to the capital requirements for payment service license, with FinTechs fearing these costs may be too high for start-up businesses.

The government of Sudan is aware of the potential digitization presents to the country, potentially enabling it to leapfrog development. To exploit the digital opportunity a new Ministry for Telecommunications and Digital Transformation (MTDT) has been created, which is tasked with spearheading the country's digital transformation. A financial inclusion task force consisting of members from the CBoS, the MOEF and the MTDT under the leadership of the ministry, has also been created.

## GAPS AND CHALLENGES

Recent public sector efforts to support DFS must be met with an increase in the number of financial access points. Physical reach is low with very few branches and ATMs, which are concentrated in the urban areas. Building agent networks and leveraging mobile phone technology can unlock peri-urban and rural markets in a cost-effective way. Recent increases in digital transactions (64%) caused by the pandemic indicate this is an opportunity which can be exploited. However, for this to succeed the use of airtime in lieu of mobile money to transfer funds needs to be curbed.

**Figure 4: Financial Access Points per 100,000 Adult Population**



## OPPORTUNITIES FOR MARKET GROWTH

The sheer size of the country, the age of the population and the number of unbanked all present a significant market opportunity for digital financial services to take off in Sudan. The entry of MNOs and FinTechs in the DFS space has the potential to dramatically expand financial inclusion, not only through enabling payments, but through building a pathway to partnerships between different market participants. Leveraging data analytics on the financial behavior of Sudanese consumers and small businesses can also lead to the development of many new products and use cases such as e-commerce and merchant payment.

**Figure 5: Opportunities for DFS market growth**

<b>Digitization of payments</b>	<p><b>Increase volume &amp; value of digitized payments:</b></p> <ul style="list-style-type: none"> <li>• <b>G2P and G2B payments</b> (Social payments to poor households, public works payments)</li> <li>• <b>P2G and dB2G payments</b> (tax payments to government)</li> <li>• <b>P2B and B2P payments</b> (digitization of bills)</li> <li>• Digitization of payment schemes in value chains</li> </ul>
<b>Capture of informal remittances</b>	<ul style="list-style-type: none"> <li>• <b>Remittances could be digitized</b> and integrated into the EBS platform</li> </ul>
<b>Partnerships</b>	<ul style="list-style-type: none"> <li>• The entrance of MNOs and Fintechs' presents an opportunity to expand financial inclusion, by <b>building pathways to partnerships between different market participants</b></li> </ul>
<b>Data automation</b>	<ul style="list-style-type: none"> <li>• Improve the ability of CBoS to collect, manage, analyze and report data from DFS providers through data automation</li> </ul>
<b>Customer Education Programs</b>	<p><b>Roll-out digital literacy programs</b></p> <ul style="list-style-type: none"> <li>• Introduce BTL firms to run educational campaigns across the country on DFS</li> <li>• Increase share of women in financial inclusion through education programs</li> </ul>
<b>Increase use cases</b>	<ul style="list-style-type: none"> <li>• <b>Qualify and license payment service providers</b> (principally MNOs) as mobile money licensees to operate their own mobile money schemes</li> <li>• <b>Interoperability</b> of accounts</li> </ul>

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