1. Key development issues and rationale for MDTF involvement

Sudan has experienced a substantial economic recovery since the mid-1990s, including rapid growth of manufacturing, construction, services, irrigated and rain fed agriculture, light manufacturing and more recently, energy exports. However, this growth has not been broad-based, and in fact has been accompanied by rising inequality and an increasing urban informal sector. About 60-75% of the population in the North and 90 percent of the South is estimated to be living below $1 a day in income.

Relationship with the JAM and Poverty Reduction Strategy

A key development strategy for Sudan’s emerging poverty reduction strategy is to address: (a) rising income inequality as well as the inequitable distribution of investment; and (b) to address the needs of small-scale, domestic and women-owned firms that have not participated in growth. Development of small and micro enterprises and livelihoods of low-income people is seen throughout the JAM as a core poverty reduction strategy.

2. Proposed objective(s)

The development objective is the reduction of poverty among the poor through the sustainable growth of microfinance providers on a commercial basis.

Sustainability and Ownership

The sustainability of the MDTF investment would be ascertained through a combination of commercial principles and complementary policy actions.

Bank of Sudan Microfinance Initiative

The Central Bank of Sudan recently commissioned a study of the microfinance sector with the objective of preparing a long term development strategy for the sector. The two key recommendations of the action plan were the need to strengthen the Bank of Sudan’s microfinance regulatory capacity, and the establishment of an independent apex institution that would provide financial and capacity-building support to new and existing microfinance providers serving diverse market segments across rural and urban parts of Sudan.
**Ministry of Finance: Private Sector Development Program:** The Ministry of Finance is developing a private sector development strategy through an effort institutionally led by the Director of Policy, Madame Layla Omer Bashir and a cross-agency steering committee. The objective is to create an enabling environment that is more conducive to the development of broad-based, pro-poor private sector growth. This effort will support elimination of obstacles to small and microenterprises, including obstacles to microenterprise formalization.

3. Preliminary project description & costs

a. **Bank of Sudan Microfinance Regulatory Policy Capacity**
   With the objective of supporting the establishment of the microfinance sector, the Bank of Sudan has established a microfinance division within the Central Bank’s Financial Institutions and Systems Wing (FISW). The purpose of this division will be to promote sustainable microfinance (both Islamic and conventional) in Sudan. Microfinance is seen by the central bank as a viable financial sector instrument for enhancing access to financial services for the poor, alleviating poverty and promoting economic development. Its strategy is to promote microfinance through both banks and non-bank financial institutions, and to facilitate the use of both government and non-government financial and technical resources.

b. **Sudan Microfinance Development Facility (SMDF)**
   **Rationale for an Apex Institution:** Although the demand for microfinance services is substantial, the industry currently only covers an estimated 1%-3% of the potential market. While microfinance is not a panacea for poverty reduction, it could play an important role in the financial sector development of Sudan. Providing access to appropriate microfinance (credit, savings and other services) could support a range of outcomes, including:
   
   - Increased incomes, a growing enterprise sector, and increased employment
   - Increased assets and wealth
   - Reduced vulnerability of households to economic shocks and to risk, and increased household ability to invest in their own health, education, etc.
   - Economic empowerment of women

The international community, together with the Sudanese government, has put together a microenterprise development project focused on poverty reduction through the improvement of livelihoods for both the urban and rural poor. The estimated funding is US$20.00 million over four years, to be invested in microfinance, in line with the following principles:

- Take an institutional approach to supporting microfinance – act like an investor in retail providers of financial services and microfinance support organizations rather than a financier of a project.
- Establish business-like partnerships with partner organizations, with funding linked to clearly defined and mutually agreed performance targets.
- Invest in diverse retail providers capable of delivering well-tailored services to diverse market segments (by gender, geographic location, socioeconomic base, etc.).
- Take a long-term approach to investing in microfinance – the development of viable microfinance capacity takes time. Ideally provide 3-5 years of financing and capacity-building support to the point at which the microfinance providers are financially viable and able to operate without external support.
• Make sure that the retail providers and support organizations have sufficient support to build institutional capacity, through technical assistance and training tailored to the needs of the organizations.
• Build expertise within Sudan on good-practice microfinance strategies, operations, policies and regulations at all levels – retail microfinance providers, service providers to the microfinance industry such as consultants, trainers and auditors, and regulators and policy makers – to ensure the health of the sector as a whole.
• Create an enabling environment for the sector, applying a mix of laws, policies and regulations to stimulate innovation and diversity in achieving the goal of broad-based access to finance.
• Adjust the program’s interventions as the sector develops, to ensure that funding and capacity-building is tailored, more focused, and implemented in such a way as to avoid distorting the market as the microfinance market becomes more competitive and commercial. Consider appropriate “exit” strategy and thresholds from the inception of the initiative.

In an environment with many existing or planned microfinance programs, and a range of approaches, donors, and priorities, a microfinance development facility – a wholesale mechanism that provides financing and technical support to retail MFIs, microfinance networks, and other intermediaries and service providers – can help coordinate and rationalize donor support for microfinance within a sector development framework, provide a mechanism for introducing good microfinance practices and standards, and support the development of institutional microfinance provider capacity. It can also provide donors with an efficient funding mechanism that meets national market needs. It was with these goals in mind that the establishment of a support facility is being proposed for Sudan.

4. Safeguard policies that might apply
There are no environmental impacts expected from this microfinance development activity. The project is designated in ‘Category C’ for environmental screening as there is no expectation of works resulting from the micro loans provided by microfinance service providers supported by the SMDF.

5. Tentative financing
Source: ($m.)
Borrower 10
Multi-donor Trust Fund for North Sudan 10
Total 20

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