Post-sanctions Sudan: A unique opportunity for frontier-market investors?

By Jaco Maritz

This article is a summary report of a panel discussion, titled *Sudan returns to markets: challenges and opportunities*, that took place during the Afreximbank annual general meeting, held in Kigali, Rwanda from 28 June to 1 July 2017.

Panellists included:

- Mohamed Ousman Elrekabi, Minister of Finance, Sudan
- Mohamed Ahmed Bushra Badawi, Assistant Governor, Central Bank of Sudan
- Ahmed Dirdeiry, Managing Partner, Dirdeiry & Associates
- George Elombi, Executive Vice President, Afreximbank

Those travelling to Sudan need to ensure they've downloaded all the apps they'll require during their visit before leaving, as some popular apps are inaccessible in the northeastern African country.

So said Ahmed Dirdeiry, Managing Partner of Sudanese law firm Dirdeiry & Associates, during a panel discussion at the recent Afreximbank annual general meeting in Kigali, Rwanda.

Likewise, it is not possible to buy a book via Amazon, pay a hotel bill using a credit card, or send and receive cash transfers while in Sudan.

This situation is due to sanctions barring US companies from doing business with Sudan, introduced in November 1997 by then president, Bill Clinton. The sanctions prohibited the trade in most goods and services between the US and Sudan, and blocked Sudanese government property in the US.

Clinton's executive order gave three reasons for the sanctions: 1) Sudan's continued support for international terrorism; 2) ongoing efforts to destabilise neighbouring governments; and 3) the prevalence of human rights violations, including slavery and the denial of religious freedom. These, according to the president, constituted an "unusual and extraordinary threat" to the national security and foreign policy of the US.[1]

However, there has recently been optimism that the sanctions will be permanently lifted. In January this year, in one of his last acts as US president, Barack Obama issued an executive order that revoked certain Sudan-related sanctions, and called for their re-evaluation by 12 July 2017.

Obama highlighted Sudan's positive actions over the preceding six months as the reason for temporarily revoking some of the sanctions, citing "a marked reduction in offensive military activity, culminating in a pledge to maintain a cessation of hostilities in conflict areas in Sudan, and steps toward the improvement of humanitarian access throughout Sudan, as well as cooperation with the United States on addressing regional conflicts and the threat of terrorism".[2]

According to Dirdeiry, Obama's directive "became the reason of great hope in Sudan… and became a reason that people started to dream about… the entire removal of the sanctions from Sudan".

However, Sudan will have to wait a bit longer to know its fate. On 11 July, the Trump administration announced the extension of the review period by a further three months, due to the fact that it is a new government that hasn't had adequate time to review the sanctions. "There was a feeling that the additional time was needed to ensure that, given the scope and gravity of this decision, we reached the proper outcome," commented a senior administration official.[3]

THE EFFECTS OF THE SANCTIONS

Technically, the sanctions only implicated US firms, and there were no legal restrictions preventing companies from other countries from transacting with Sudan. Mohamed Ahmed Bushra Badawi, an Assistant Governor at the Central Bank of Sudan, said that even though being sanctioned by the world's biggest economy did have an impact, for many years Sudan continued to receive significant foreign investment from other countries.

However, the situation took on a new dimension in the first half of this decade, when the US started charging European banks for violating American sanctions by processing US-dollar transactions related to countries such as Sudan, Cuba and

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Iran. In 2014, French lender BNP Paribas admitted to criminal charges for processing payments for countries subject to US sanctions, and paid a record $8.9 billion settlement, while its rival Crédit Agricole and Germany's Commerzbank paid penalties of $787 million and $1.45 billion, respectively, for similar accusations.[4]

As a result, banks from across the world stopped transacting with Sudan for fear of American penalties – the "globalisation of the entire sanctions regime", as Dirdeiry describes it. "It has become a situation of not only the US imposing sanctions on Sudan, but the entire world imposing sanctions on Sudan because they fear that they will be penalised by the US."

"This made all banks to be risk averse – i.e. to avoid doing business with Sudanese parties," added Badawi.

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For instance, if an Indian food manufacturer wanted to open a factory in Sudan, there is nothing in Indian law preventing it from doing so. However, according to Dirdeiry, this company would find it next to impossible to transfer capital to and from Sudan, because no bank would be willing to do so.

Another challenge highlighted during the panel discussion is that companies have become "over compliant" so as to avoid the ire of the US. For instance, it was mentioned that even though trade in certain agriculture-related products is allowed, relatively few entities have taken advantage of these opportunities.

Similarly, Obama's relaxing of sanctions on 13 January didn't lead to the expected increase in business activity with Sudan. According to Badawi, this is because Sudan remains on a US State Department list of countries sponsoring terrorism, together with the fact that a number of Sudanese individuals and companies are still on the Office of Foreign Assets Control sanctions lists.

He said that following Obama's decision, Sudan did launch an information campaign to inform banks that US entities are now allowed to legally transact with Sudan. However, the reaction from the lenders were "generally very cautious and diplomatic; they didn't say 'yes' and they didn't say 'no', which means they are waiting for 12 July."

Badawi added that, "Some American banks, in their communication with other correspondent [banks], still ask the question, 'Do you have any business with Sudan? So other banks play it safe, and they say 'no'."

BUSINESS AND INVESTMENT POTENTIAL

The permanent lifting of sanctions could start a new economic era for Sudan. With over 40 million people and an abundance of natural resources, the country presents numerous investment opportunities. It is rumoured that a delegation from a prominent US automobile manufacturer recently visited the capital, Khartoum, to scout for opportunities.

By the end of 2016, Sudan was Africa's seventh-largest economy, with gross domestic product (GDP) advancing by 4.9% and 3.1% in 2015 and 2016 respectively. Growth is expected to be driven by the continued expansion of agriculture, gold production, and services. The settlement of the internal conflicts, including that in South Sudan (which seceded in 2011), and greater macroeconomic stability could also boost the economy.[5]

To stimulate the manufacturing sector, the government is promoting investment in the two free trade zones (there are plans to increase the number of free zones to six), which can be used as a base to cater not only for the Sudanese market, but also neighbouring landlocked countries such as Chad, Central African Republic, South Sudan and Ethiopia. The majority of Sudan's exports (55%) currently go to the Gulf region, while the Common Market for Eastern and Southern Africa (COMESA) accounts for about 18%.[6]

But despite its opportunities, Sudan remains a tough place to do business. Ranking 168th (out of 190 economies) in the World Bank's ease of doing business index, Sudan has its work cut out in areas such as access to credit, protecting minority investors, and trading across borders. Business people would furthermore have to contend with underdeveloped infrastructure and a shortage of highly-skilled professionals due to emigration to Gulf countries where salaries are significantly higher.

According to the *African Economic Outlook* report, “risks include low global commodity export prices, the absence of policy cushions, a weak business environment together with the ongoing civil wars in some parts of the country, which could further worsen the fiscal and external financing gaps, leading to lower real growth. Nevertheless, the formation of a government of national reconciliation in the context of the national dialogue bodes well for broad-based growth.”

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OPPORTUNITIES IN KEY SECTORS

Sudan offers investment and business opportunities in a variety of areas, with the government specifically encouraging increasing exports and import substitution.

Extractive industries

Sudan’s Ministry of Investment is seeking investors to exploit the country’s large deposits of gold, silver, chrome, iron, zinc and tin, in addition to its oil and gas reserves. “Sudan has a very vast base of natural resources,” commented a Sudanese diplomat who attended the panel discussion. “Many people are asking how can a country like Sudan sustain these sanctions for two decades? We can do it because we have very vast natural resources... Sudan is number four in the world in terms of natural resources.”

Gold mining is anticipated to continue playing an important economic role in the years to come. In January, the Central Bank loosened its monopoly on gold exports by allowing companies to export 70% of production, and sell the rest through the Bank. It is expected that small- and medium-sized gold prospecting firms will benefit from this development.[7]

But Sudan’s oil industry is struggling due to lower prices and ageing fields. It lost about 75% of its oil revenue following the secession of South Sudan, where most of its oil fields were located. However, landlocked South Sudan continues to export its oil through a 1,610-km pipeline that runs across Sudan to the Red Sea.

Agriculture

Agriculture is the biggest sector in Sudan, contributing to just over 30% of GDP. The climate ranges from desert in the far north, to tropical in the south, and the country is endowed with about 26 million hectares of fertile land. Major agricultural exports are gum arabic (used as a stabiliser in the food industry), sorghum, oil seeds, cotton and sugar. Sudan also has significant animal resources – including camels, cattle, goats and sheep – which are used for meat and leather exports.

The government is placing a strong emphasis on agri-processing activities. For instance, Mohamed Ousman Elrekabi, Minister of Finance, conceded that despite being the world's largest producer of gum arabic, Sudan is not sufficiently adding value to this crop. Other agriculture-related business opportunities highlighted by the Ministry of Investment include: horticultural irrigation schemes; irrigation products and services, such as water pipes and the drilling of ground wells; and improved seeds and fertilisers.

Infrastructure

Investors are being sought for primary infrastructure projects that will serve as a foundation for future development. One of the opportunities that have been highlighted is electricity production and distribution. Although Sudan has to date focused on hydropower and thermal power plants, there is now a strong emphasis on renewable energy. Other focus areas include the construction of roads and bridges, provision of rural and urban drinking water, and the development of housing and commercial real estate.

Tourism

Sudan has a handful of tourist sites which investors in this sector can leverage for new tourism ventures. These include locations along the Red Sea coast and the bank of the Nile River, the Dinder National Park, and a number of archaeological sites related to ancient civilisations. According to the Ministry of Investment, there is potential to establish hotels, provide transport services for tourists, supply yachts, boats and diving kits, and develop and rehabilitate archaeological sites.

GREAT EXPECTATIONS

Although there remain many uncertainties about the permanent lifting of sanctions, the panel participants generally regarded it as a question of “when”, not “if”. And despite the fact that it has extended the review period by three months, the Trump administration’s recognition that “Sudan has made significant process”, gives reason for hope.

“The improvements in Sudan mean that we have to begin to open our minds to the vast opportunities there,” commented George Elombi, an Executive Vice President at Afreximbank.

According to Dirdeiry, the factors for the original implementation of the trade embargo have been addressed, and he is confident the sanctions will be revoked. He added it is unlikely that the momentum already created around the lifting of the sanctions, will just “die away with no real action”.

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[1] Exec. Order No. 13067, 3 C.F.R. (1997).
[2] Exec. Order No. 13761, 3 C.F.R. (2017).
[3] U.S. State Department. Proceedings of Background Briefing on Sudan Sanctions. June 12, 2017. https://www.state.gov/r/pa/prs/ps/2017/07/272558.htm.
[4] Chon, Gina, and Ben McLannahan. "Crédit Agricole pays $787m penalty for busting US sanctions." *Financial Times*, October 20, 2015. Accessed August 14, 2017. https://www.ft.com/content/2dcf96e2-7744-11e5-a95a-27d368e1ddf7?mhq5j=e1.
[5] Darbo, Suwareh, and Yousif Eltahir. *Sudan 2017: African Economic Outlook*. Report. 2017. http://www.africaneconomicoutlook.org/sites/default/files/2017-05/Sudan_EN_2017.pdf.
[6] African Economic Outlook.
[7] African Economic Outlook.