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The Development of Islamic Finance and economic growth in the Republic of Sudan

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Abstract

This paper's main objective is to evaluate, the connection between the development of Islamic finance and economic growth during the last three decades in the Republic of Sudan. Islamic financial institutions in the Republic of Sudan have not only had a great economic impact but had a significant contribution, to the social fabric of the country, through the zakat and waqif system. Sudan is the third largest country in Africa; therefore, Islamic finance has ample opportunity to make great differences. The paper also will examine the contribution that has been made by Islamic finance toward the different economies, especially the agriculture sectors. Of the economy. The paper will emphasize more on the agriculture sector which employed more than 80% of the total workforce in the country. However, one may expect the contribution of Islamic finance in the country to the country's agriculture sector will be detrimental because Sudan has significant farmland. Furthermore, even though the entire banking system in Sudan was converted in the early 1990s most banks in the country focus on short-term trade instead of focusing on the most productive sector of the country like agriculture. Others have argued that because the government of Sudan neglected the agriculture sector following oil discovery in the country in 1999, so did Islamic finance However, generally speaking, the overall impact on economic growth and real GDP in the country was very limited by any means. The finding also demonstrates even though Islamic finance has no direct contribution to economic growth, it nonetheless, has an indirect economic impact such as its impact on other factors that are related to which has a major influence, for example, on saving, investment, and consumption.

Keywords: Islamic Jurisprudence, Cryptocurrency Fatwas, Bitcoin and Sharia Compliance, Thematic Content Analysis, Islamic Financial Ethics

Introduction

Sudan is one of the biggest countries1 in Africa, before losing a third of its territory in South Sudan in 2011. The country's history since independence from Great Britain in January 1956. Sudan Has gone through t numerous difficulties ranging from

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military coup to civil war in its South part from 1955 until 1972 and then from 1983 to 2005. In June 1989 the country experiences its third military coup since its independence. The coup was by General Al- Bashir. His rule lasted for thirty years, from 1989 to 2019. Omar Al Bashir's government faces several measures by the West in general and the United States in particular. His government faces economic sanctions because of its alleged connection to international terrorism, especially after the terrorist attack of 9/11, 2001 against the United States. In 1997 The State Department placed Al Bashir government on its list of those countries that sponsor terrorist activities and terrorist organizations. The Sudan government was the prime suspect in the terrorist attack on the United Embassies in both Kenya and Tanzania in August 1998.

Despite these difficulties and many others Islamic finances in Sudan steadily grow in the country since the mid-1970s. The development of Islamic finance in Sudan has opened new opportunities for economic growth, especially in sectors like agriculture, trade, and industry. The country's first Islamic bank opened its door in 1977. The efforts to open the bank were led by Sadi Prince Muhammed Bin Faisal Al Saud. The bank became the first fully sharia compliance bank in Africa and the Arab World. Soon several Islamic banks were opened. The government of Sudan the time in order to attract investors from Muslim countries converted its entire financial system to Sharia compliance during the 19990s. This paper's main objective is to examine the connection between Islamic finance and economic growth and its effect on e country s economic growth in general and highlight a key feature of Islamic finance and its impact on the country's real GDP in particular. The paper also will highlight a key feature of Islamic finance and its impact on very important sectors like agriculture and international trade.

Islamic Finance in Sudan Brief Overview

Islamic finance is financing that has some similarities with traditional or conventional finance; however, Islamic finance is deeply rooted in the principles of Sharia law, (the Holy Quran, and the Hadith of the prophet, in another word, his (Sunnah) (be Peace and prayer upon Him). Islamic banks have key components including the prohibition of interest (riba) sharing profits and losses and most importantly the entire economy need to be connected to the real world not the virtual. In Sudan, Islamic finance has gained a good reputation and as a result Islamic finance today represents a real viable alternative to the conventional financial system. Beginning from the early 1990s there has been major growth, especially in Islamic finance assets that reach by the end of 2014 to about 2 trillion (Commings, The City UK,2013). Islamic banking is interest-free banking and has been gaining a remarkable portion of the development of Islamic finance in the long term. Furthermore, as we know from our study of Islamic finance, is the fact that Islamic finance stimulated innovation in the real economy meaning they focus on the productive sectors and encourage investment, while at the same time higher investment not only helps the growth of the financial sector but also encourage consumption and donation to good cause.

Islamic financial institutions change and grow as the economy develops and grow consumers' needs for financial intermediation even grow more. However, the vast majority of the finding indicated that the sluggish correlation between financial development and economic growth in Sudan may be attributed to the financial inadequate resource allocation by the financial institutions, political unrest such as the civil war in the South and the western part of the country had a negative effect on attracting new investment.

Review of Literature

In this paper we will investigate the direct connection between the development of Islamic finance in Sudan and economic growth, numerous previous studies have argued that there are clear relations between both. Technological Innovations lead to the mobilization of economic resources especially the productive side of the economy, improve risk management and increase saving, (Qamruzzaman et. al., 2018).

Moreover, financial development stimulates growth and innovation. When the real sector of the economy transfers from traditional to modern all sectors of the economy indicate the supply-leading relationship will increase demand for financial services increase. The increasing demand encourages an expansion in the financial sector as well. The efficiency of the financial system and long-term economic growth are positively correlated according to Levine (2005). Efficient financial markets were found by Khan and Senhadji (2000,2003) to have a significant impact on economic growth. Furthermore, according to Clasessens and Laen (2005) increased rivalry among financial institutions leads externally dependent industries to grow more quickly. Shan et. al., (2016) also describes the close connection between Islamic finance and economic growth. Chowdhury and Abdullah, (2012) investigate the causal connection between Islamic finance and economic growth in the case of Bangladesh by using quarterly data (2004 Q1 to 2011Q2). Abduh and Omar (2012) also described the case of Indonesia using Quarterly time series data (2003 Q1 to 2010 Q2). Since the early 1960s, literature has indicated the link between financial development and economic prosperity. Today with rapid advancement the connection between financial development and economic growth has become more relevant. The basic way that a financial system can create growth is by ensuring the operation of a strong economy has become competitive and evolving a more advanced payment system, which will lead to the mobilization of savings and result in more economic growth. In addition to all that we can add, productivity improvement will open new opportunities for new investment, market, and economic expansion. On the other hand, the financial market and banking intermediation can create a better mobilization of available savings and can also support economic growth. It will encourage financial intermediation to spread out the risks related to specific investment projects and to provide investors with wider opportunities. This approach often encourages financial saving rather than hoarding less profitable assets. Furthermore, this shift in priority can also support the growth of the financial system. One of the most common ways that Islamic finance contributes to growth is by promoting an effective and efficient and evolving payment system, mobilizing savings, and increasing the role of savings on investments. Therefore, the existence of a trustworthy financing system will lead to productivity and exchange that will expand economic growth.

Problem of statement

Even though Islamic finance in Sudan had a significant contribution economically and socially, nonetheless, the entire sector today is in total decay. Due to the ongoing political and social unrest since 2019. In the country, in present time the Islamic finance industry is suffering from weakness in many aspects including the banking size, liquidity, and in ableness to provide long-term funds to its customers and the business sector in general. In recent years the financial sector in the country has started to lose the trust of the public, due to poor performance and biased distribution of branches throughout the country. Islamic banking also lacks consistency in their performance which in turn led to low credit performance as well. Another problem is the lack of cooperation between the financial sector on one side and the financial sector and country s Central bank on the other side.

The banking system in The Republic of Sudan

The first Islamic bank was established in Sudan in the mid-1970s. Islamic financial institutions like the case in Muslim countries, the primary objective of Islamic financial is to promote justice and development. The Islamic financial system can be used as an effective tool to promote economic development and social justice among underprivileged people, by risk sharing principles rather than providing loan financing policy makers, working on economic growth and development can help achieve reducing poverty and inequality. Islamic financials in Sudan like many other Muslim countries manage depositor and investor funds using Sharia rules that prohibited inters and involvement in a business prohibited by Islamic rules, such as engaging in product-related alcohol, pork production, and gambling. Sudan s. the banking industry has seen a major transformation in the last fifty years. Since the country was independent in 1956 from Great Britain. During the colonial era, the banking industry was dominated by the colonial power. The main objective of the financial system at the time was to meet the demands of import, export, and international trade as well as the function of deposit takers from domestic and foreign-owned businesses and trade (Al-Harran, p,181). The Sudan Currency Board was established in 1957 the issue the new currency for the country. The Sudanese Central Bank Act was passed in 1959. In 1961 the Central Bank of Sudan start its working regarding issuing money, trade, and all matter related to money and credit. In May 1970 the government of General Nimiri, the president of the Republic at the time takes a bold decision in which that nationalization of the entire financial sector in the country, eliminating or limiting the ability of foreign capital to have a direct influence on the country's banking insurance, import, export and so on. On the other hand, the establishment of the first Islamic bank, the Faisal Islamic Bank in the mid-1970s in the country was the first step towards the Islamization of the entire financial system in the country. A few years later the government of Sudan supported the opening of additional five Islamic banks. The Sudanese Islamic Bank and the Islamic Cooperative Development Bank were both established in 1982, later the Al-Tdamun Islamic Bank in 1980 and Al Baraka and the Islamic Bank for Western Sudan, both banks were established in 1983. All five Islamic banks were successful in attracting new depositors and investors which led to the opening of more branches across the country. The rapid success of Islamic banks in the country encourages the Sudanese government to adopt a system like system that was taken in countries like Pakistan and Iran, a few years later the Sudanese government converted the entire banking system in the country to one that is interest-free (Haroon, 1997). Following the overwhelming success of Islamic finance in the country as mentioned before the Sudanese government forced all commercial banks domestic and foreign to the interest-free system in their entire transactions also should not fund economic activities that are in nature against Islamic principles.

Structure of the Sudanese Banking Sector

The Sudanese financial institutions like it's the case of many developing countries was dominated by commercial banks rather than other financial activities such as bonds, equities, and market which needs much-sophisticated accounting. Since the establishment of the Bank of Sudan which is known as the central bank that has shown several modifications. The Central Bank of Sudan, was established on February 22, 1960. There are about 37 commercial banks in the country 16 of which are partially or entirely held by private investors and 7 of them owned by the government. The country s financial system has often been dominated by the Central bank which is owned by the government.

The banking system in Sudan lacks indirect monetary policy and weak accountability and loose banking regulations. Experts like Kireyev, (2001) have argued that in comparison to other Islamic financial in other Muslim countries, the country's financial institutions are relatively small even if we compare it with countries similar to Sudan economically, Current deposits account for nearly 70% of the banking system and total deposit approximately $500 million. Savings and investments continue declining to become a less significant amount. The reason behind the decline of savings and investment Kireyev argued that most people do not have banking access and those who have one like to have quick access to their cash. Hyperinflation in the country along with political unrest are other reasons for that decline. Later in this paper will have more details about the banking sector in the country.

However, the below graph in table shows some increase in deposits with commercial banks, between 1990 to 2001. The table indicates that the private and public sector represents most of the commercial bank's total deposit liabilities representing 92.8 in 1990.4%in 2001. The rise was due to the nominal interest rate for conventional commercial banks to 8% (during the period of the conventional banking system) and for Islamic financial is due to the rise the in the profit margin for Murabaha.

Table 1: *Growth of the Central Government and Private Sector's Deposits with Commercial Banks – (SD 000's)*

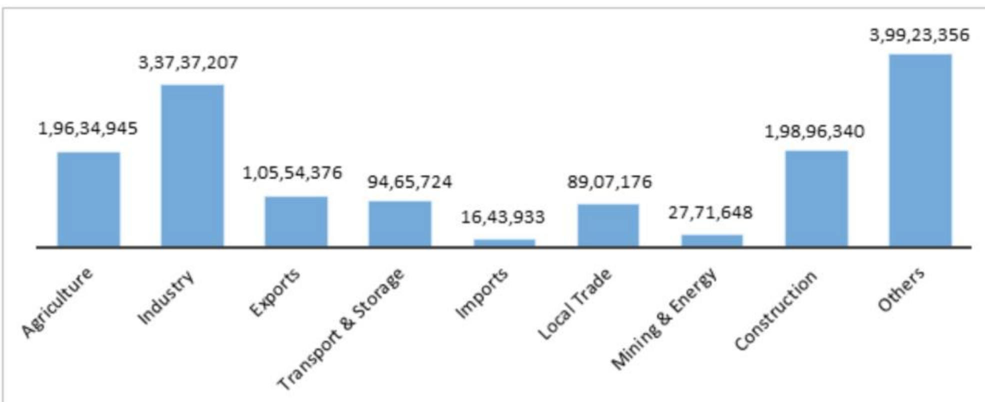
Year	Government Deposits	Public Institutions and Private Deposits	Total
1990	122	1582	1704
1991	172	2817	2989
1992	236	9209	9445
1993	639	16095	16734
1994	806	22630	23436
1995	315	41327	41642
1996	767	67026	67793
1997	400	96354	96754
1998	424	119689	120113
1999	3527	141992	145519
2000	6352	190872	197224
2001	7076	267112	274188

Source: Bank of Sudan Annual Reports (1990-2001)

Financial Development in Sudan

Until the year of 2011, the Republic of Sudan was the largest nation in Africa. The country also has abundant capital and natural resources and offers numerous economic development possibilities. The Republic of Sudan's economy is basically based on agriculture, and the agriculture sector in the country continues to be the most significant economic sector, it employs about 80% of the workforce in the country (1998), and contributes a total of 38.7% of the country Gross Domestic Production (GDP) to the economy in 2003. According to the CBOS website, there are nearly 37 banks in the Republic of Sudan, including five banks owned entirely by the government of Sudan. Another 23 banks are venture banks, some of which are jointly owned by the government and the private sector, and some of them entirely owned by the private sector. There are about nine banks in the country that are entirely owned by foreigners. According to Figure (1) below, the industrial sector accounted for about 23% of the outstanding credit provided by Sudanese financial institutions at the end of 2018, followed by the construction industry (14%), agriculture (13%), transport and storage (6%), imports (6%) local trade (6%), mining and energy (6%) and exports (7%).

Figure 1: *The distribution of Sudanese banking credit (in thousands of Sudanese Pounds)*



Source: Central Bank of Sudan Website

Development of Islamic Finance in Sudan

The first step in establishing Islamic banks in Sudan was the formation of Sudan Faisal Islamic Bank in February 1977. Islamic finance in Sudan has drawn a significant number of people's attention because most people were hesitant to engage in interest-based banking transactions. The development of Islamic finance in Sudan not just took the support of the people but also the government of General Numeri at the time provided major support to the newly established Islamic bank The quick success of the first Islamic bank in Sudan encourages the government to open five more banks within a short period of time. Those five banks were the Sudanese Islamic Bank, (1980), the Islamic Cooperative Development Bank (1982), a Few years later AL Barakah Bank, and the Islamic Bank of Western Sudan were founded. As of March 2016, there were 37 Islamic banks in Sudan with assets exceeding SDG 115,503 billion and a consistent compound yearly growth rate of about 16.64%. However, since the separation of South Sudan from North Sudan in July 2011, the Sudanese banking system which is entirely Sharia complaint, was least to impacted by the separation However, Sudan still has fewer Islamic banks compared with other Muslim countries, and most of the Islamic banks are located in the capital city of Khartoum. Like many other Islamic banks, in the past have depended on Murabaha financing mode to other Islamic banks across the globe. Murabaha was widely used among Islamic banks in Sudan until 2014, as its exceeded fifty percent of all funding. The reason behind this excessive use of Murabaha according to many experts is because its relatively low cost, easy to administrate, and profits is more predictable compared to other financing mode. However, in recent years other financing modes like Mudarabah and Musharkah began to rise drastically and its already reached about forty percent of all bank's funding.

The basic function of an Islamic bank is the same as a conventional bank, which is to raise money from depositors and make that money available to those agents often investors and people of trade and investment. Islamic banking also manages all financial transactions without interest (riba). Furthermore, Islamic banks in addition to being connected with Shariah rulings, are socially responsible and acceptable toward its customer and society, Islamic financial institutions' roles and functions are like those of conventional ones. Conventional banks even though it has some positive impact on the economy, it focuses only on the financial market, and as a result, financial markets around the globe have grown dramatically. For Islamic institutions, the contribution to the economy is different, because it focuses on the real economy. For example, Islamic Financial provides additional capital loans to the manufacturing and agriculture sectors. Furthermore, the deployment of financial resources in accordance with production needs is more efficient and effective than providing pure lending. Moreover, several economists have argued the current banking generation has improved financial development, compared to conventional financial institutions, The concept that long-term growth is promoted by financial development is typically supported in the literature.

The Role of Islamic Finance on Economic Growth in Sudan

Islamic finance in Sudan has been instrumental in supporting social and economic development initiatives. Zakat, the obligatory almsgiving for Muslims, is often collected and distributed by Islamic financial institutions to support education, healthcare, poverty alleviation, and other social welfare programs. By promoting equity and fairness in financial transactions, Islamic finance has helped to reduce income inequality and improve the overall well-being of Sudanese society.

i. Islamic Finance and Financial Inclusion and Access to Capital:

Islamic Finance in Sudan has played a major role in the last thirty years in promoting, financial literacy and inclusion, all that done by adhering to Islamic rule, the Holy Quran, and the Sunnah of the prophet (BPUH). Furthermore, Islamic Financial institutions have provided also access to capital for the government, businesspeople especially small business owners, corporations, and the public. This increase in access to finance promoted new initiatives, and innovation, and created more employment, particularly among youth who often suffered from high unemployment. Islamic finance also by providing access to capital it will lead to financial inclusion for people who normally have no access or limited opportunity to capital. Access to capital will help people, especially recent graduates, pursue their dream jobs.

ii. Islamic Finance and Stability and Resilience:

Islamic finance leads its operation on the foundation of risk sharing, which promote financial stability resilience, and growth. The focus on the real economy that will increase production is one Islamic finance principle, which makes Islamic finance a unique system, unlike the conventional banking system which depends excessively on the use of debt and interest. On the other hand, emphasizing asset-backed financing and avoiding interest has given the Sudanese economy a good reputation that led to economic growth. Another essential principle that Islamic finance promotes ethical investment practice, such as avoiding uncertainty, and keeping away from prohibited economic activities such as alcohol, pork production, and everything that lead to gambling.

iii. Islamic Finance and Mobilization of Domestic Resources:

Islamic finance sector played a significant role in the mobilization of the entire economic sectors in the country. Sudan Islamic has facilitated domestic resources by using savings in the most effective and efficient way to enhance the productivity of the different economic sectors, giving priority to some important sectors like agriculture and others. Islamic finance in Sudan also has created a unique mechanism that will help the entire community and not focus on a few wealthy individuals and groups. Furthermore, Islamic finance in Sudan also have developed very effective ways of spreading wealth fairly within society, including Musharakah, (partnership), and Murabaha (cost plus margin) to provide finance for an infrastructure project that includes railways, roads, communication, and transportation. This unprecedented mobilization of resources once again has a tremendous impact on investment, productivity, and employment which led in return sustainable economic growth in the Sudanese economy.

iv. Islamic Finance and Social Economic Development:

Islamic finance in Sudan has been instrumental to the social fabric of the Sudanese people, by using Zakat, Waqif, and other types of charities. Zakat as most of us know is one of the five pillars of Islam. Zakat is a religious duty on designated individuals and groups in Islam. Zakat is often collected from the community and distributed to the same eligible recipients of zakat within the same community. Islamic financial institutions in Sudan like many other Islamic finances around the globe dedicated themselves to supporting education, healthcare, building hospitals, schools, mosques, and so on. By reducing extreme poverty and promoting equity, inclusion, justice, and fairness, Islamic finance has helped improve income and enhance the overall well-being of the Sudanese people.

The basic development traits of Islamic financial institutions

Islamic financial institutions have different high-quality characteristics than the conventional banking system. Because Islamic finances have more efficiency than their conventional counterpart. In this paper we will discuss two very important qualities, the first quality will be the ethical and moral quality and the second will be the quality of productivity.

a. Moral and ethical quality.

One of the most important features of Islamic economics and finances is the incorporation of moral and ethical principles that are deeply rooted in Islamic finances. Islamic finances cannot ignore morals and ethics when entering financial transactions or planning to fund any economic projects. For example, Islamic financial institutions are prohibited from engaging in economic activities with products such as alcohol, pork production, and gambling projects. The reasons that Islamic financial institutions are not allowed to involve in such types of products, even though could generate significant profit in the short term, nonetheless, have a negative long-term social impact on society as well it will lead to a negative effect on the entire economy. Islamic financial institutions demonstrate their ethics and morals by not engaging in pure money lending and receiving interest on the loan that has been given, rather than involving in a contract that will benefit both the customers and the bank.

Islamic financial institutions provide interest-free loans from social funds to unfortunate people that are often given to them in a time of emergency, these funds are basically provided by the annual Zakat contributions made by Muslims and income that is usually generated from the bank deposit or any other type of donations by individuals or groups. On the other hand, for Islamic banks, maximization of profit is legally perfect with Islamic law, the same as conventional bank or business, however, one of the primary objectives as we have indicated before to be supportive of social responsibility and any activities that bring will maximize people hasn't (reward) afterlife.

b. The productivity

One of the most crucial aspects of Islamic financial institutions is the strong connection of Islamic economics and finance to the real economy, unlike the conventional banking system whose major activity is the trade on loans. For Islamic economics, only contracts like musharakah and Murabaha can be the only possible tools for productive business that support the real or the physical economy that will create growth and increase productivity. The same applies to leasing in Islamic financial institutions. Where leased assets serve as the foundation upon which financing is constructed on the other hand the business according to Islamic law must create profits before it may be divided between the customer and the Islamic bank. furthermore, in Islam, all finance should engage actively in the creation or exchange of real or actual services and goods. Islamic financial institutions in contrast to conventional banks placed more emphasis on the project that will be funded rather than focusing on the ability of the customer to pay back the loans. Another great benefit that adds to the Islamic bank's mode of financing is the fact that Islamic financial institutions' view is totally different from the view of conventional banks, where conventional financial institutions with speculative transfer and other purely financial activities make a major part of the current activities of the bank.

Contribution of Islamic Finance to a major economic sector in Sudan

The Republic of Sudan has abundant natural resources including agriculture. For example, the country produces more than 80% of Arabic gum, which is necessary to hundreds of other products. Agriculture is very important to the economy. For example, the contribution of the sector to the country s GDP decreased from 30% in 2013 to 28.2 in 2014. However, the decline in agriculture production was attributed to several reasons to the major cut to many agricultural lands in favor of other economic activities, such as oil and other cash Corp. The dramatic decrease in the agriculture sector resulted in a decrease in finances to the sector. However, even though the agriculture sector has decreased the number of employees in the sector was about 80% of the workforce of the country were employed in the sector. Agriculture products in Sudan include Cotton, wheat, Arabic gum, millet, sorghum, mangos, papaya, and many others. The agricultural sector in Sudan until recently was the main source of hard currency before oil. Because of the importance of the sector for the country and its people. All Sudanese governments since the country was independent in 1956, took agriculture seriously and it made agriculture its top priority in every economic plan, as well the government acknowledged that expanding agriculture requires better infrastructure and a clean environment. Agriculture experts have agreed today that the sector is underutilized, because of poor infrastructure, such as bad roads, scarcity of water and electricity, especially in a remote area.

However, hand, most Islamic financial institutions lending in the Republic of Sudan, tend to be short-term efforts. Table 2 below shows that most of the lending was toward foreign trade and received the most fund. This has been true mainly regarding to export financing loans reaching 69% in 1990. Even though agriculture is the backbone of the country s economy, little or limited progress has been made since 1990. However, before 1990 commercial banks' lending to the agriculture sector was less than 1% of the commercial bank's total credit. In 1992 commercial Banks Consortium (CBC) was created to promote lending to the agriculture sector. As result commercial banks were instructed to dedicate one-third of their available funding to the agriculture sector through CBC. As a result, this policy led to a significant increase in lending to the agriculture sector from 1% prior to 1990 to about 35.3% in 1993. In 1997 financial reform and deregulation were suggested by the government; the reform of the financial sector did little to the lending rate to the agriculture sector. For example, in 2003 only about 12% of all bank lending was allocated to the agriculture sector (Elhiraika,2005). According to Kireyev (2001), banks' fear of lending to all sectors other than commerce is the major cause of the reduction in lending to the agriculture sector. Banks believe that finding the agriculture sector is too risky since about 85% of all non-performing loans come from the agriculture sector. Furthermore, it seems that several Islamic financial institution's finance modes such as Musharakah and Salam are not effective in funding the agricultural sector. Banks often due to government restrictions are allowed by Salam to sell in-kind repayment costs at which they can even recoup the cost of the first credit. Secondly, this form of lending necessitates the bank's engagement in the daily management of the funded project, which banks are not often prepared to do so, in many cases, banks prefer to engage in musharkah contract agriculture producers.

Table 3: *Islamic Banking s, Lending by Economic Eector (SD 000s)*

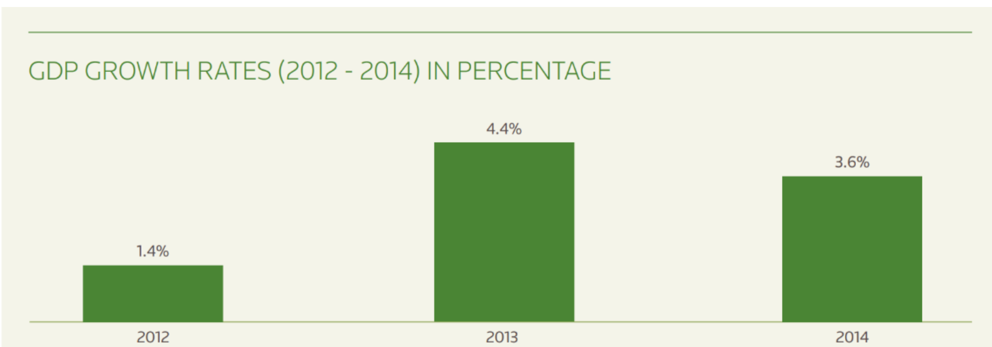
Year	Agriculture	Industry	Exports	Imports	Local Trade	Others	Total
1990	(15%)	(19%)	(69%)	(1%)	(5%)	(11%)	100%
	0.08	0.18	1.22	0.02	0.08	0.19	1.77%
1991	(26%)	(20%)	(19%)	(2%)	(14%)	19%)	100%)
	0.27	0.28	0.26	0.03	0.19	0.27	1.4
1992	(34%)	(14%)	(17%)	(1%)	(12%)	(22%)	(100%)
	1.12	0.46	0.57	0.04	0.38	0.74	3.31
1993	(53.4%)	(15.7%)	(21.9%)	(0.8%)	(6.0%)	(20.2%)	(100%)
	1.865	728	1.154	43	318	1.066	5.273
1994	(29.3%)	(18.3%)	(22.2%)	(1.1%)	(5.6%)	(23.5%)	(100%)
	2.946	1840	2.236	105	567	2.379	10.073
1995	(24.7%)	(18.0%)	(27.1%)	(8.5%)	(2.9%)	(18.8%)	100%
	2.579	2.618	3.947	1.227	419	2.7	14514
1996	(26.5%)	(18.8%)	(19.6%)	(5%)	(3.6%)	(26.5%)	(100%)
	8.997	6.643	6.643	1.705	1.216	9.002	33.948
1997	(30.5%)	(17.8%)	(20.4%)	(2.1%)	(4.2%)	(2550	(100%)
	12.522	7.284	8.387	857	1.738	10.766	41.556
1998	(33.3%)	(18.8%)	(17.1%)	(0.7%)	(4.3%)	925.8%)	(100%)
	16.763	8.908	8.114	325	325	12.235	47.383
1999	(30.0%)	(15%)	(17%)	(3%)	(6%)	(30.0%)	(100%)
	14.833	7.784	8.359	1.519	2.816	14.833	48.732
2000	(22.5%)	(10.5%)	(21.2%)	(1.4%)	(10.4%)	(33.9%)	(100%)
	17.807	14.035	16.839	16.839	8.243	26.867	79.224
2001	(7.6%)	(14.8%)	(15.7%)	(3.7%)	(18.8%)	(29.2%)	(100%)
	19.605	16.445	17.726	4.106	20.900	32.558	111.340
2002	14.3%	13.0%	13.7%	4.4%	22.6%	32.0%	100%
	22.857	20.850	21970	7.078	36.230	51.055	160.020
2003	12.5%	11.4%	12.70%	0.50%	32.3%	30.60%	100%
	26.881	24.637	27.512	1.107	69.735	66.177	216.028
2004	9.50%	11.50%	10.20%	1.20%	36%	31%	100%
	27.339	32.820	29.129	3.328	103.832	89.470	285.964

Source; Bank of Sudan annual Reports (1990- 2004).

Islamic Finance and Real GDP in Sudan

The Republic of Sudan, attempted several times to get advantage of its natural resources, especially oil and gold. In the early 1980s, the government of General Numeri invited well-known oil companies like Chevron to extract oil in the southern part of the country. However, the company's work erupted due to the civil war between the main insurgency in the South and the central government in Khartoum. Sudan began actively producing oil in 1999 and had major expansion for more than a decade. During this ten years period the country's GDP, until the emergence of the international financial crisis of (2007-2008). The separation of the South was the second major hit to the Sudanese economy within five years. For example, real GDP growth fell during this time from 5.2% in 2010 to less, than two percent in 2012 before recovering during 2013-14 to 4.4% and 3.6%. The GDP product at the time rose from 12.257 USD Billion in 2000 to 70.03 USD Billion in 2014, and income per capita increased from USD $394.125 to $ 1985.21 USD. Even though the Sudanese economy lost more than 80% of its oil total revenue because of the separation of South Sudan, the IMFs World Economic Outlook expected Gross Domestic Product in Sudan to grow at about 3% in 2015 and 20016 five years after South Sudan's separation. Islamic finance contribution to the oil industry was limited because most of the oil production in the country was achieved by foreign banking from China and Malaysia.

Figure 1: *Trends in Growth Structure of GDP (%) Sector*



Trends in Growth and Structure of GDP (%) Sector

	2006	2007	2008	2009	2010	2011	2012	2013	2014
REAL GDP GROWTH RATES (%)									
Agriculture	8.4	6.0	7.8	4.9	5.7	3.4	5.7	4.0	-4.1
Industry	12.5	22.7	0.5	4.3	4.5	-3.6	-6.8	10.4	15.2
Services	10.3	5.7	10.7	3.2	4.6	4.4	3.2	2.1	3.2
Overall GDP	9.9	10.9	6.4	4.5	5	2.5	1.4	4.4	3.6
STRUCTURE OF GDP (%)									
Agriculture	31.8	35	35.7	32.3	33.9	34.1	30.6	30.6	28.2
Industry	23.8	22.7	25.2	24.7	22.6	18.5	19.5	21.5	24
Services	44.3	42.2	39.1	43	43.5	46.5	46.5	47.9	47.8

Sources: Sudan General Bureau of Statistics

Islamic Finance in Sudan Today

After South Sudan its official separation from the country in 2011, due to the fact that about 80% of oil revenue went to the south, the government of Sudan attempted to pursue other economic options with the help of Islamic financial institutions. The government of Sudan after the South Sudan separation has instructed the financial sector to give priority to the agriculture sector as well as the mining industry, especially gold mining. Since the separation of South Sudan in 2011, the Sudanese government looked to the agriculture industry as a major source of economic growth and diversification of the country s economy, due to the fact that the government concentrate on the oil industry following the oil discovery in 1999. Between 1999 to 2012, the Central government of Sudan made its main priority the oil industry, and as a result, farmers had to depend on their own to keep their farms going. Islamic financial institutions, on the other hand, provide some incentives to work together in funding the agriculture sector, however, even though the government tried to secure the fund that was needed to revive the agriculture sector, the sector receive only 16% of the bank’s total finance in 2014. Today the agriculture sector in Sudan even facing more challenges, and is almost on the parge of collapse, due to political unrest that follow the public uprise against the Islamist government of Omar Al-Bashir in December 2018.

However, the Islamic banking of Sudan following the separation of South Sudan faces several challenges including the loss of support of the people and government which enjoy it for a long time in the North. Furthermore, the government of Sudan has required Islamic banks in the South either to be converted to a conventional banking system or to leave the country, at the end some responded positively to the government and others left the country as instructed by the government. Even though the country has suffered from major civil war in the South and the West, the country faces a major challenge when a third of the country's territory when South Sudan, declare its independence from the North in re. In December 2018, the Al-Bashir government after 30 years in office faces an existential threat, In April 2019 General, Al-Bashir was ousted from office and was replaced by two rival general and civilian governments. The two parties had entered into an agreement that after three years should a general election and an elected government should take power. However, due to the power struggle between the two generals on hand and the civilian government on the other hand. On April 15, 2023, a devastating war that was widely expected erupted, between the military under General Burhan and the Rapid Force under General Hamdan Dagalow also known as (Himadti). The conflict has increased civilian suffering because both parties are receiving military support from regional and international powers. The conflict until now resulted in a massive humanitarian crisis, where hundreds of thousands fled the country to neighboring countries or were displaced into another part of the country. Sudan is also facing serious environmental challenges resulting mainly from unprecedented climate, and massive migration from rural areas to main urban centers. In post-conflict Sudan it's very important for any future government to focus on improving human and institutional development. Last but not least Sudan faces challenges in establishing successful development partnerships with several important players that would effectively address the escalating development issues (United Nations Reports, 2020).

Challenges and the Way Forward

Islamic finance in Sudan becomes a very important component, of the very fabric of Sudanese society. While Islamic finance has demonstrated its tremendous positive impact on Sudan's economy several challenges hinder the sector's ability to be more proactive, and those that challenges should be addressed including their continued need for an effective and efficient regulatory framework that, improves transparency, accountability, strict compliance with sharia rules and consumer protection.

Moreover, human capital development and expertise in the Islamic finance industry should be strengthened to be more effective and efficient. Islamic finance in Sudan also should have a better system of communication, coordination, and cooperation with the h government and other stakeholders in order to focus on fostering a welcoming environment that will create economic growth and harness the full potential f the Islamic finance industry in the country. This an enabling environment can be accomplished through capacity building, effective collaboration, programs and well-defined goals that encourage and promote research-oriented innovation within the Islamic finance sector.

Conclusion

Islamic finance in Sudan is considered the pioneer of all Islamic finances, around the globe. The overwhelming success of Sudan Faisal Islamic Bank, in 1977 was the first step toward the greater Islamization of Sudan commercial banks. Despite the colonial dominance and history of the banking sector of Sudan until the early 1970s, nonetheless, the emergence of Islamic finance soon becomes a major key success and a significant element of economic growth in the country. Islamic finance in Sudan has contributed to financial inclusion, stability, the mobilization of resources, and social development.

Sudan Islamic Finance also has supported sustainable economic growth following the much-anticipated decision by the government of Omar Albashir the former President of Sudan, who converted the entire financial system of the country to a fully Sharia-compliant financial system in 1993. However, the ousted of General Omar Albashir in April 2019, was great lost for the Islamic finance in Sudan. Sudanese Islamic finance also not only has a major contribution the country’s economic growth and sustainability, but also become a major partner to the government of Sudan in the alleviation process of extreme poverty and reduce gender inequality by providing direct financial support to t family with single parents, through the Zakat system and form charities.

Recommendations and Suggestions

Islamic financial institutions in Sudan, still facing tremendous challenges especially in the last four years due to the ongoing political unrest, in addition to the civil war that erupted recently which has shaken the country’s people and economy alike.in the country, alike. In this paper, we have discussed, the contribution of Islamic finance in Sudan. The contribution of Islamic finance in Sudan, no doubt has a significant impact on all aspects of the Sudanese economy, including economic growth, sustainability, and social development. The rapid increase in real GDP of the country s economy especially during the years from 1999 to 2011. The increase in real GDP and economic growth should encourage government officials, especially policymakers should concentrate on measures that promote trade, and the creation of capital, goods, and high-quality services as they are an essential component of development as well, they are major metrics for economic expansion.

Furthermore, because it's an important indicator of economic growth, government and policymakers should concentrate on measures that boost sustainability and real GDP growth. Policymakers also should encourage financial institutions to increase liquidity by taking advantage of the rapid advancement of technology in the financial sector. The government also should take financial reform and integration seriously because the impact of any future economic crisis will have less effect on the economy.

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