STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

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ABSTRACT

For more than two decades stock markets have boomed in just about every developing country. This stems from the recognition that the establishment of financial institutions, primarily stock markets, is essential for the generation of the requisite capital for economic development and growth. A develop stock market, as concluded by many articles on stock markets, is as important to national economic growth as banks. Though each provides a different set of important services, they both stimulate the accumulation of capital and contribute to improvements in productivity.

The purpose of this paper is to investigate the extent to which the Sudanese stock market has succeeded in performing its functions including being a mechanism through which public funds and credits can be channeled for development purposes. The investigation covers the period 1995 – 2007.

Since there exists no theory of financial market development, the empirical indicators of stock market development assembled by the World Bank researchers and constructed by the International Finance Corporation, are used to measure the level of development of the capital market in Sudan. The principal measures used are measures of activity as well as measures of the institutional determinants of conditions under which securities are traded. To measure the achievements of KSE in terms of the crucial issue of capital mobilization three ratio measures are suggested in this paper.

The results obtained from this empirical study reveal the poor performance of the Sudanese capital markets. In terms of all stock market development indicators as well as new measures suggested by this paper, the KSE is a very limited and undeveloped market.

Introduction

Faced with the problem of shortage in the supply of capital from traditional sources and strong competition for investment capital, domestic resource mobilization and efficiency in allocating resources have become a primary concern of policy makers in the developing countries. So many developing

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

countries, including Sudan, which over so many decades followed governmental control and ownership over the means of production, which did not allow capital markets development are recently following greater liberalization and openness of their economies. This is because these countries, or at least some of them, are adopting the International Monetary Fund's prescription for domestic reform or because they finally have come to accept the inevitable reliance on the market based economy as the means for enhancing economic growth and development. The liberal economic programs adopted by these countries assigned a major role for private sector and capital markets to play in the process of mobilizing and allocating economic resources and facilitating the move towards greater system efficiency.

Capital markets aid growth by channeling savings into investments. Most recent experiences of the emerging capital markets indicate the successful contributions of these markets to the process of the allocation and mobilization of capital. By providing long-term debt and equity finance for the government and corporate sector and by allowing individuals, risk averse investors in particular o invest in a large number of firms and diversify their portfolios, capital markets add to a country's stock of capital goods which leads in turn to increases in output and finally raises the standard of living of the country.

Furthermore capital markets can raise the portion of financial resources available for investment by increasing liquidity. Without stock markets, short run liquidity needs may force some investors to withdraw capital from firms prematurely and receive a low return. Premature capital liquidation not only lowers firm productivity but also, because of the possibility of receiving a low liquidation return, discourages firm investment. By eliminating the likelihood of premature withdrawal of capital from firms, because shareholders facing short run liquidity needs can sell their shares to other investors for more than the liquidation value of their firm capital, securities markets can accelerate growth directly by increasing firm productivity and indirectly by encouraging firm investment. Thus a capital market does more for a national company than simply bring in new capital.

In addition to the role they play in generating equity finance, securities markets effect economic development by helping enterprises to raise funds that would otherwise, and at best, be put in less productive uses. They provide a mechanism through which returns on savings are related to expected yields on real investment. Whether or not investors are willing to avail their savings for investment depend on the returns they expect on their investments. In the presence of a capital market where investors are well informed about transactions in shares and where the profitability and efficiency of any investment are reflected, the allocation of resources becomes very efficient. Knowledgeable investors trying to make the best use of their limited resources will allocate funds to businesses that promise to have prosperous lives and withdraw from businesses that prove inefficient and misuse funds. They allows the cost of capital to be determined by market forces and at a realistic level, that is, on the basis of the return expectations of investors and the capital thus generated to be used more efficiently.

In fact a well-established capital market provides an alternative as well as a complementary source of discipline, which is expected to enhance the economic efficiency of the listed firms and hence lead to a more efficient allocation of capital. Such discipline may be exerted through two possible mechanisms. Firstly, since shareholders own a claim on the firm's residual profits, they have an incentive to monitor the management of the firm and to ensure that it undertakes the most profitable investments to maximize the value of shares. Secondly, discipline can be exerted by the marketability of the shares. If shareholders are dissatisfied with the performance of the firm, they can sells shares and this will result in a decline in the market price of shares and accordingly the firm may find it more difficult to obtain new investors. If the decline in the price is a big one, rival managers who believe they are more capable of managing the firm efficiently may attempt a takeover. Thus the managers who face the threats of losing their jobs have an incentive to avoid this by managing the firm as efficiently as possible. In short, as stated by Hamdi (1996), the shareholders of companies listed in a stock exchange represent a general assembly always in session judging and evaluating the firm's performance.

Although until recently the role of banks in disciplining firm performance and hence in improving economic growth is considered to be far more important than the role played by capital markets, World Bank researches and studies showed that though the stock market development and banking sector development both contribute to growth, stock markets seem to have some benefits specifically associated with them. Such benefits appeared to be derived from the market ability to consolidate and transmit vast amounts of information from many sources through share prices. Moreover capital markets, as shown by some recent studies, contribute to banking development. Better developed stock markets stimulate greater use of bank finance so corporate debt-to-equity ratios actually rise as markets develop.

Finally, the establishment of a well functioning capital market is important because capital markets, as proved by the experiences of many emerging equity markets, can attract not only domestic savings but also foreign savings, thus providing an important supplement in supplying productive investments. Moreover equity markets can help the country avoid the excessive reliance on external debt that exposes it to increased debt-service payments when international interest rates climb. Also by encouraging foreign investors, developing countries can avoid the danger of being the indirect victim of the increasing political pressure on the aid budgets of industrial nations, which are always increasingly uncertain. Furthermore inflows of foreign equity finance bring improved accounting and reporting standards in their wake and increase the exposure of domestic firms to advanced supervisory and managerial techniques. This in turn transmits efficiency to the real sectors of the economy and can ultimately result in improving economic growth.

The concern about the establishment of an organized stock exchange in Sudan dates back to the early nineteen sixties. The extensive discussions, debates and studies on the subject resulted in 1974 in a secretarial office for stock exchange market set up within the Central Bank of Sudan. However, it took the office seven years to prepare the Stock Exchange Act of 1982. Since then the stock exchange was established as a department in the Bank of Sudan and was expected to function under the control of the Ministry of Finance and Economic Planning. Again many years elapsed before the sincere efforts for establishing an organized market place for share dealings in Sudan turned to be a reality.

On February 24th, 1994 the Khartoum Stock Exchange (KSE) Act 1994, abolishing that of 1982, was passed by the Transitional National Assembly and approved by the President of the Republic. Finally, since September 1994 and after a search for a stock exchange that goes back over thirty years, Sudan has its first ever stock exchange which is a physical entity occupying its own building at Al-Barka Tower in the center of the capital city Khartoum. The exchange has specifically designated members and board of directors. Against all the odds and with great hopes that it will contribute positively to the economic growth of the country and complement the other measures adopted by the government in its move from the state-led economy model to a free market based economy, the KSE was inaugurated on January the third, 1995.

Section Two, sub-section nine of the Khartoum Stock Exchange Act 1994 states the objectives of the Exchange which centered around the encouragement of savings by developing investment awareness and the creation of an atmosphere conducive to the efficient utilization of these savings in securities for the benefit of the investor and the national economy, the enhancing of the role and the increasing of the relative weight of the private sector in economic activity by encouraging private ownership for productive resources and transfer of public ownership of the state's capital assets to a wider national categories, the regulation and supervision of new issues of shares of stock in the primary market and their subsequent trading in the secondary market in a way that ensures appropriate and fair dealings among the various categories of security dealers and guarantees protection of small investors and the participation in the coordination of financial and monetary policies relating to the development of medium and long-term financing in Sudan.

Within this general framework the KSE attempts to achieve the following purposes:

1- Provide all the factors that help facilitating and increasing the liquidity of funds invested in securities so that the investors are assured that they can sell their securities any time they decide to do so.
2- Ensure the accurate and rapid flow of information needed by investors and those interested through the regular publication of data, statements and statistics.
3- Establish regulations and rules that must be followed by exchange members and design standardized practices and procedures that provide for high ethical conduct among brokers and other members.
4- Establish an organized body to regulate the deposit and transfer of ownership of securities, follow up shareholders affairs and manage and supervise the exchange central building.
5- Raise the standard of academic and professional qualifications of brokers through training programs and continuous contacts with regional and international capital markets.

The securities to be traded on KSE include the shares of public companies and the government and corporate finance certificates (sukouk), which according to the Financial Sukouk Act, should be issued according to the Islamic forms of financial transactions.

In the following sections of this paper the performance of KSE since 1995 and up to 2007 end is critically evaluated. The primary measuring tools employed are the traditional stock market development indicators suggested by the World Bank researchers and the International Finance Corporation (IFC) for assessing stock market development and growth. The KSE performance in terms of its contribution to capital mobilization is evaluated using the measures suggested by this paper

1- Research Methodology

Since there exists no theory of financial market development, the empirical indicators of stock market development assembled by the World Bank researchers and constructed by the IFC, are used to measure the level of development of the capital market in Sudan. The principal measures used are measures of activity as well as measures of the institutional determinants of conditions under which securities are traded. The activities indicators are:

a. ***Market Capitalization Ratio:*** which is the ratio of stock market capitalization to GDP. It measures both the stock market's ability to mobilize capital and diversify risk. Market capitalization is defined as the market value of all shares listed in KSE.

b. ***Total Value Traded Ratio:*** which is the ratio of total value of shares traded to GDP. This ratio is an indicator of liquidity. It measures the organized trading of equities as a share of national output. Total value of shares traded refers to the market value of shares traded on KSE.

c. ***Turnover Ratio:*** which is the ratio of total value of shares traded to market capitalization. This ratio is another indicator of liquidity and it measures trading relative to the size of stock market.

d. ***Volatility:*** which is a measure of the volatility in stock prices and is measured by the standard deviation of the percentage changes in equity prices.

e. ***Concentration:*** which is a measure of the degree of market concentration and is determined by computing the share of market capitalization accounted for by the ten largest stocks.

On the other hand measures of Regulatory and Institutional Features include the following:

a. ***Indicator of Information Disclosure:*** this indictor shows whether the firms listed in KSE publish price-earnings information. The indictor assigns the value of 0 when the information disclosure is poor, whereas 1 indicates that the information is comprehensive and published regularly. ***b. Indicator of Accounting Standards:*** this is a measure of the quality of the accounting standards. It assigns the value of 0, 1, or 2 when the accounting standards of a country are poor, adequate or good. The standard for judging such quality is the internationally accepted accounting standards. **c.** ***Indicator of the Quality of Investor Protection Laws:*** This indictor judges the quality of the laws adopted to protect investors. The values of 0, 1, and 2 are used to indicate poor, adequate or good investor protection laws. ***d. Indicator of Market Organization:*** This indicator shows whether the country has a securities and exchange commission or not, with the value of 1 assigned for the first and 0 for the latter. ***e. Indicators of Restriction on Capital Flows:*** Three indicators are used to measure restrictions on capital flows. The first one measures restrictions on dividend repatriation by foreign investors, the second measures restrictions on capital repatriation by foreign investors and the third measures restrictions on domestic investments by foreigners. The assigned values of 0, 1, and 2 indicate whether capital flows are restricted, have some restrictions or free respectively.

The stock market development indicators discussed above are mainly measures of secondary market activities. They are concerned primarily with the value of listed shares, number of listed companies, the ability to buy and sell securities easily and the variations in stock prices. Measures of primary market activities are lacking in the literature and in particular in the empirical studies by researchers. The concern with secondary market activities may be justifiable on the grounds that the stock market is almost completely a secondary market. However, since a capital market exists primarily, especially in developing countries, to serve as a vehicle for the mobilization of funds, the extent to which the capital market could have aided this mobilization process constitutes the first and probably the most important criterion for evaluating its performance.

One of the main reasons that could be called for in establishing a stock exchange in Sudan is to channel savings into investments and device a new mechanism for corporate financing. This could be achieved through the issues of securities, which result in new opportunities for investors and a net increase in the aggregate investment in equity. To measure the achievements of KSE in terms of this crucial issue of capital mobilization three ratio measures are suggested in this paper. Though the market capitalization ratio is concerned with the market ability to mobilize funds the measures suggested put more emphasis on this issue. The first measure suggested is the Ratio of Initial Public Offerings, the second is the New Issues Ratio and the third is the Capital Mobilization Ratio.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

Following is a description of the three suggested measures:

1. The capital mobilization ratio: which is a measure of the contribution made by the stock market to the country's Total Fixed Capital formation. It is the ratio of the capital raised through the stock exchange to total fixed capital formation. It indicates whether or not the stock market can be considered as a medium for mobilizing new capital. A high Capital Mobilization Ratio implies a developed stock market that succeeds in playing its role as a means for mobilizing capital. On the other hand a low Capital Mobilization Ratio is an indication of a limited stock market that fails to work in the capacity of a medium for capital mobilization.

2. The new issues ratio: which is a measure of the flow of funds to the corporate sector that results from the operation of the stock market. It is the ratio of the funds collected through shares to total funds flows. A high New Issues Ratio indicates the market success in developing an alternative instrument for financing the corporate sector and as such the role played by the stock exchange in mobilizing capital could be considered as satisfactory. On the other hand a low New Issues Ratio is an indicator of the unsatisfactory performance of the stock market in terms of capital mobilization. This is because the market does not seem to succeed in motivating corporations to collect new funds through share issues.

3. The initial offerings ratio: which is another measure of the contributions of stock markets to the process of allocation and mobilization of capital. It is the ratio of initial public offerings to subsequent new issues. It measures the success of the market in terms of the encouragement of new issues. A low Initial Public Offerings Ratio implies a developed and progressing primary market in which subsequent share issues are higher than the initial public offerings. A high ratio, on the other hand, is an indication of a limited and undeveloped primary market in which subsequent issues are few in number and/ or small in amount.

3- Empirical results and analysis

This section critically evaluates the achievements of the KSE for the eleven-year period 1995-2007 using the different stock market development indicators suggested by the World Bank researchers and constructed by the (IFC). For the purposes of calculating the market activity indicators, that is, indicators of stock market size, liquidity, volatility and concentration, data for the period 1995-2007 are used. The indicators are calculated for each year using the year-end values of market capitalization and traded shares, number of transactions, number of listed companies and number of trading companies.

As for institutional measures the indicators are determined based on a thorough examination of the regulatory and institutional features of the KSE. The regulatory and institutional factors examined include publication of price-earnings information, accounting standards, quality of investor protection, existence or nonexistence of securities and exchange commission and restrictions on capital flows. The standards set by the International Finance Corporation for measuring these factors are used to determine the values assigned to the KSE regulatory and institutional factors.

3-1 Measures of stock market activity

Stock market size: The market capitalization and the market capitalization ratio, for the KSE for the period 1995-2005 are presented in table (2.1).

The formula for calculating the market capitalization ratio is as follows:

$$\text{The Market Capitalization Ratio} = \frac{\text{Total Market Value of Listed Shares}}{\text{GDP}}$$

The table also includes statistics on the number of listed companies as an additional measure of market size.

Table 2.1

Stock market size indicators

Market capitalization ratio and number of listed companies for KSE, 1995-2007

Number of Listed Companies	Market Capitalization Ratio (%)	GDP (SD millions)	Market Capitalization (SD millions)	Years
34	0.9	413,391	3,690	1995

40	0.5	1,021,571	4,650	1996
41	1.5	1,601,211	23,843	1997
42	1.3	1,991,612	26,239	1998
43	2.9	2,601,900	54,282	1999
44	3.5	2,892,300	100,860	2000
44	3.7	3,241,084	120,138	2001
46	4.0	3,875,438	155,924	2002
47	4.3	4,449,863	192,985	2003
48	6.9	5,342,990	368,988	2004
49	12.0	6,220,150	747,327	2005
51	11.7	8,001,578	932,242	2006
53	11.0	9,329,965	1030,529	2007

Market capitalization ratio is the value of stock divided by GDP

Source; KSE reports & bank of Sudan reports.

In terms of total market value of listed shares, as table (2.1) reveals, the KSE did make a remarkable growth. By the end of 2007, the total market capitalization had increased by more than 279 fold. The marked increases were in 1997 in which the market capitalization was slightly more than five times the 1996 level and 2005 in which the market capitalization was more than doubled compared to 2004.

However when judged by the market capitalization ratio, the growth in KSE is a very limited one. Over nine years The ratio fluctuated from less than 0.5% to 4.3%, an annual average of 2.5% which is far below the average market capitalization ratio for regional emerging markets which is 7.0% over the same period. However during the last three years 2005 – 2007 the ratio increases to an average of 10.2%. Then it can be deduced that KSE is a very limited and small market.

The growth in the number of listed companies, as table (2.1) indicates, also suggests slow stock market development. By the end of 1996 the number of listed companies was 40. The number of listed companies remained the same for almost one year, to increase only by 9 companies by the end of 2005. During the last two years 9 more companies were listed and 5 gone out of the market due to merger and liquidation, thus increasing the number of listed companies to 53 by December 2007.

Thus the measures of stock market size indicate that the supply of corporate securities in the KSE over the thirteen-year period 1995-2007 remained limited both in absolute terms and relative to the size of the economy.

Liquidity: Table 2.2 below shows two ratios, the total value traded and turnover ratios, which are indicators of stock market liquidity, computed for KSE for the thirteen-year period 1995-2007.

The two ratios are calculated as follows:

Total value traded ratio = $\frac{\text{Total Market value of Shares traded}}{\text{GDP}}$

Turnover ratio = $\frac{\text{Total Market Value of Shares Traded}}{\text{Market Capitalization of Listed Shares}}$

Table 2.2

Liquidity indicators: Value traded ratio and turnover ratio for KSE, 1995-2007

(Values in SD millions)

Turnover ratio (%)	Market capitalization	Total value traded ratio (%)	GDP	Total value traded	Years
8.0	3,690	0.07	413,391	294	1995

2.1	4,650	0.01	1,021,571	99	1996
2.4	23,843	0.04	1,601,211	570	1997
0.9	26,239	0.01	1,991,612	237	1998
2.9	54,282	0.06	2,601,900	1,554	1999
5.9	100,860	0.20	2,892,300	5,914	2000
14.0	120,138	0.52	3,241,084	16,837	2001
16.0	155,924	0.64	3,875,438	24,906	2002
12.6	192,985	0.55	4,449,863	24,410	2003
12.1	368,988	0.84	5,342,990	44,772	2004
16.3	747,327	1.96	6,220,150	121,683	2005
22.21	931,242	2.58	8,001,578	206,805	2006
17.46	1,030,529	1.96	9,329,965	179,964	2007

Source: KSE monthly reports & Bank of Sudan repots.

As table (2.2) illustrates the total value traded in KSE increased from SD 294 million in 1995 to SD 570 million in 1997, reflecting an increase in the activity of the market by more than 93%. Unexpectedly the total value traded dropped substantially in 1998 to record only SD 237 million which is below 1995 level. From 1999 on the total value traded increased steadily to record a value of SD 24,410 million in 2003 and SD 44,772 million in 2004. In the last three years the total value traded jumped to SD 121,683 million, SD 206,805 million and SD 179, 964 million respectively. However, excluding trading in just one company (Sudatel) and investment funds, the total value traded for 2003, 2004, 2005, 2006 and 2007 is only SD 4,205 million, SD8,968 million, SD 12,488 million, SD 29,087 million and SD 29,887 million respectively.

When measuring the organized trading of equities as a share of the GDP, the glory picture of the last five years performance looks rather different. The KSE, table (2.2) reveals, has a very low total value traded ratio over the period 1995-2007, 0.7% which is below the standards of IFC emerging markets, 1.3%. This reflects the very limited trading of equities when compared to the size of the economy and informs about the illiquidity of the market.

The second measure of liquidity, that is, the turnover ratio which measures trading relative to the size of stock market also indicates the limited volume of trading in KSE when compared to the value of the shares listed. The turnover ratio as shown in table (2.2) dropped from 8.0% in 1995 to 2.1% in 1996 and remained within the same range up to 1999, to increase again to 5.9% in 2000. During the period 2001-2007 the turnover ratio reached its highest levels. It ranged between 12.1% and 22.2%.

The relatively high turnover ratios in the first year 1995 and the last seven years may be looked at as a sign of improved performance. However this is not true. The high trading in the first year 1995 could be attributed to the fact that majority of investors who had held their shares for long periods finally found a place to sell them. This activated the market for a while until it settled down to its real very low level by the end of the second year. As for the last seven years after adjusting the market capitalization for each year to exclude that of the investment funds and the company with extremely high trading volume, the turnover ratio dropped to an average of 6.5% to indicate again the very limited trading in KSE.

This limited trading relative to the size of KSE is due to the fact that out of the 53 listed companies the shares of only 25 companies do actually trade with the rest of companies never trading. Moreover of the 25 companies only 12 companies trade frequently and other 13 seldom trade. Thus the number of companies never or seldom trade represents 77% of the total number of the listed companies (41 companies out of 53). The few listed shares that frequently trade remained almost unchanged over the thirteen-year period indicating an inactive and illiquid market.

Concentration: To measure the degree of market concentration in KSE the share of market capitalization accounted for by the ten largest stocks is computed. Table (2.3) below shows the total market capitalization, the market capitalization of the ten largest stocks and the ratio of concentration for the KSE for the period 1995-2007.

Table 2.3

Market concentration in KSE, 1995-2007

Share of market capitalization by the ten largest companies

(Values in SD millions)

Share of capitalization by the ten largest companies (%)	Market capitalization for the ten largest companies	Total market capitalization	Years
92	3,389	3,690	1995
85	3,957	4,650	1996
88	20,906	23,843	1997
93	24,463	26,239	1998
93	50,537	54,282	1999
96	97,266	100,860	2000

95	114,595	120,138	2001
97	150,485	155,924	2002
94	183,174	192,985	2003
98	362,352	368,988	2004
97	727,697	747,327	2005
94	876,576	931,242	2006
88	906,098	1,030,529	2007

Source: KSE monthly reports

The market concentration in KSE, table (2.3) reveals, is very high over the period 1995-2007. The largest ten companies averaged almost 93% of the market. Thus indicating a narrow and shallow market.

The share of value traded by the ten most active stocks is also calculated and presented in table (2.4) below as another measure of the degree of market concentration.

Table 2.4

Market concentration in KSE, 1995-2007

Share of total value traded by the ten most active stocks

(Values in SD millions)

Share of value traded by the ten most active stocks (%)	Value traded by the ten most active stocks	Total value traded	Years
97	285	294	1995
88	87	99	1996
56	318	570	1997

29	70	237	1998
97	1,510	1,554	1999
94	5,808	5,915	2000
92	15,538	16,837	2001
51	12,611	24,906	2002
71	17,392	24,410	2003
74	33,031	44,772	2004
80	97,285	121,683	2005
55	114,243	206,805	2006
33	59,358	179,964	2005

Source: KSE monthly reports.

Table (2.4) shows that the concentration ratio, as measured by the share of value traded by the most active stocks, is extremely high throughout the period under study. The decreased ratios in 1997, 1998 and the last six years of the period under study which may be considered as a sign of improved performance, should be interpreted with caution. Excluding the few special orders that have been executed during the year 1997 for stocks that never or rarely trade, the total value traded reduces from SD 570 million to SD 472 million and accordingly the concentration ratio rises to 67%. The same logic applies for 1998, of the total value traded during the year SD 121 million is the value of special orders and the remaining SD 116 million represents normal trading. Thus concentration ratio for 1998 should actually read 60%. As for the last six years when excluding trading in government certificates the concentration ratios for 2002 and 2003 plunged to 97% and 96% respectively, whereas in the rest of the period under study the concentration ratio reaches its highest level to record an annual average of 99.4%. This again reflects the high degree of concentration in the KSE market and is in line with the fact stated earlier that the shares of only 12 companies trade frequently. In fact since the year 2002 and on the KSE seems to be a market for only one company and government certificates.

Thus measuring KSE in terms of the degree of concentration also indicates the very limited development and growth of the market.

Volatility: To measure volatility in KSE for the thirteen-year period 1995-2007, this study utilizes the method adopted by El Erian and Kumar (1995). The percentage changes in equity prices (in domestic currency) at end month for each year are calculated. The standard deviations for the monthly price percentage changes are, then, determined and averaged and used as an indicator for the year's price volatility.

In table (2.5) below the volatility ratios in KSE are shown for the thirteen-year period covered by the study.

Table (2.5)

Volatility in KSE, 1995-2007

Volatility (%)	Years
8	1995
26	1996
7	1997
16	1998
N/A	1999
N/A	2000
N/A	2001
44	2002
37	2003
30	2004
36	2005

N/A	2006
N/A	2007

As the measure of volatility in table (2.5) indicates, the KSE exhibits a fluctuating pattern of price volatility. In the first and third years of the Exchange the volatility was within the standards of a number of regional markets which ranges generally between 5% and 12%. However, in 1996 the volatility of KSE was very excessive, more than 26%. Though the measure of volatility for 1998 shows that the market has been less volatile, the volatility of the market was extremely high during the period 2000-2007, an average of more than 37%. Thus in terms of volatility the KSE is a small, illiquid and inactive market.

The high volatility of KSE can be attributed mainly to the relative illiquidity of the market and lack of adequate and timely information about quoted companies. The excessive volatility of the market has led to a weakening of investor confidence and tends to discourage the participation of investors. This in turn leads to infrequent trading which is considered as one of the main reasons for the high volatility of the market, hence setting up a vicious cycle.

To conclude this discussion on the evaluation of the KSE secondary market performance table (2.6) summarizes the market activity indicators for the KSE for the thirteen-year period 1995-2007. In table (2.7) the average market development indicators for KSE for the period 1995-2007 are compared with the standards of the least developed markets monitored by the IFC.

As table (2.6) reveals all of the stock market development indicators used to assess the development process of KSE inform about the underdeveloped nature of the market and its very low level of development and growth. The supply of securities is limited both in absolute terms and relative to the size of the economy. The number of listed companies is small and the shares available for trading are limited. Consequently the value traded remains small relative to the companies quoted with an average concentration ratio of more than 91 percent.

Table 2.7

Average market activity indicators for KSE and emerging markets, 1995-2007

Emerging Markets	KSE	

7.0	5.0	Market Capitalization Ratio (%)
90	44	Number of Listed Companies
9.8	10.2	Turnover Ratio (%)
1.3	0.7	Total Value Traded Ratio (%)
7.4	25.5	Volatility (%)
61	92.6	Concentration: Market Capitalization for the Ten Largest Stocks (%)
51	91.2	Value Traded by the Ten Most Active Stocks (%)

Source for Emerging Markets Standards: 2002 IFC facts book.

It appears from table (2.7) above that all of the stock market development indicators for KSE are below those of the least developed emerging markets monitored by the IFC. Thus by the standards of these markets the KSE is a very small, illiquid and limited market.

3-2 The regulatory and institutional indicators: The regulatory and institutional indicators for KSE are determined on the basis of a deep and thorough investigation of the regulatory and institutional features of the market. The information provided by the IFC on the institutional indicators for a number of developing countries also provides a useful guidance. Table (2.8) below summarizes the institutional and regulatory indicators for KSE for the thirteen-year period 1995-2007.

Table 2.8

Regulatory and institutional indicators for KSE, 1995-2007

Assigned Values	Indicators	
0.00	Regular Publication of P/E ratio	1
0.25	Accounting Standards	2

1.00	Quality of Investor Protection	3
0.00	Securities Exchange Commission	4
1.50	Dividend Repatriation	5
1.00	Restrictions on Capital Repatriation	6
2.00	Restrictions on Domestic Investment by Foreigners	7
0.82	Average institutional Indicator	8

The values in row 1 thru 7 are to be interpreted as follows:

Row (1) 0 = Not published regularly. 1 = Comprehensive and published internationally.

Row (2) and (3) 0 = Poor, 1 = Adequate, 2 = Good, of internationally acceptable quality.

Row (4) 1 = Functioning securities exchange commission or similar government agency, 0 = No agency.

Row (5), (6) and (7) 0 = restricted, 1 = Some restrictions, 2 = Free.

Row (8) is an average of rows one to seven.

It appears from table (2.8) that there is substantial variation between the regulatory and institutional indicators of KSE. For instance the KSE does not publish price-earnings information but it provides for an adequate protection of investors. The information published by the Exchange is confined to statistics on the monthly performance of the secondary and primary markets. Information on companies' performance in terms of financial ratios such as earnings per share, price earnings ratio and Dividend Yield is completely lacking. Due to the importance of such information for guiding investment decisions, the KSE is considered to be inefficient in this respect.

Accounting practice in Sudan, as revealed by Buktor (1980), Rikabi (1984) and Osman (1998), is deficient and unsound. In the absence of well-defined standards and efficient professional body, corporate financial information is either not always readily available or unrealistic and false. Thus in terms of accounting standards the performance of KSE is a poor one.

Adequate protection of investors is provided by KSE in its 1994 Act. The law prohibits dealings in securities on the basis of inside information, that is, undeclared information and such transactions are considered void. Further, the law sets punishment–imprisonment and/or financial penalty–for those who provide false data that affect investment decisions.

Lack of an independent authority entrusted with all matters related to the development and regulation of the securities market is a serious defect in the regulatory framework of KSE. The existence of such a body is very important to ensure proper dealings in securities and to guarantee investor protection. Thus measuring KSE by the institutional indicator of the existence or nonexistence of SEC reveals the inadequacy of the KSE institutional settings in this respect.

Judging the institutional settings of KSE in terms of restrictions on capital flows indicate that the market is of high standards. The country freely allows international capital flows across its borders. Listed stocks are freely available to foreign investors. Although the capital market law gives the Minster of Finance the right to determine the percentage of holdings by foreign investors in the capital of public companies, this restriction is a very lenient one. Furthermore foreign investors can freely remit their income from dividends and sales of securities.

The average regulatory and institutional indicator of KSE, which is simply an average of the seven indicators, is of a value of 0.82. Comparison of this average with a standard of 1.7 for the least developed emerging markets reveals that the institutional settings of the market suffers some weaknesses and lacks a number of fundamentals.

3-3 KSE contribution to capital mobilization measures

This section judges the KSE performance in terms of its contribution to capital mobilization using the measures suggested by this paper. The three suggested measures are:

A) Initial Public Offerings Ratio.
B) New Issues Ratio.
C) Capital Mobilization Ratio.

Initial public offerings ratio

This is the ratio of initial public offerings to subsequent new issues. It compares the initial public offerings made in the first year of the KSE by the established listed companies to their subsequent new share issues. In table (3.1) below the initial share issues, the subsequent issues and the initial public offerings ratios for KSE for the period under review are shown.

Table 3.1

Initial public offerings ratio for KSE 1995-2007

Initial Public Offerings Ratio (%)	New Share Issues	Initial Public Offerings	Years
		355	1995
93.2	381	355	1996
62.8	565	355	1997
25.4	1,400	355	1998
5.7	6,207	355	1999

2.9	12,087	355	2000
3.8	9,465	355	2001
1.4	24,886	355	2002
1.5	24,400	355	2003
35.5	1,000	355	2004
0.6	60,506	355	2005
1.6	22,140	355	2006
1.7	20,382	355	2007

Source: KSE Reports.

In terms of both new issues and the initial public offering ratio, as table (3.1) reveals the KSE did make a tremendous growth especially in the last years of the period under study.

The value of the new issues increased steadily throughout the period under study. The marked increases were in 2002, 2003, 2005, 2006 and 2007. The new issues in these years amounted to SD 152,314 which represents 83% of the total new issues made during the period under study. The initial public offering ratio which exhibits a fluctuating pattern throughout the thirteen-year period 1995-2007 also seems to inform about the recent development of the market in this area.

However knowing that 85% of the total new issues come from only one company and the remainder from 14 companies out of the 53 listed companies, the conclusion inferred at the beginning of this discussion does not seem to be correct. To qualify, the KSE primary market as judged by the initial public offerings ratio is very limited and undeveloped.

New issues ratio

This is the ratio of funds collected through shares to total funds flows. It is calculated using the following formula:

$$\text{New issues ratio} = \frac{\text{New Issues}}{\text{The Shareholders Equity}}$$

Where: New issues term represents the cash received from shareholders in respect of shares issued and;

The shareholders equity is made up of the following:

- New issues.
- Premiums paid by shareholders over and above the nominal value of issued shares.
- Accumulated capital and revenue reserves from past profits.
- Retained profits.

Table (3.2) below shows the total shareholders equity for the companies listed in KSE and the new share issues for the thirteen-year period 1995-2007 together with the yearly new issues ratios.

Table 3.2

The new issues ratio for KSE, 1995-2007

(Values in SD millions)

The new issues ratio (%)	The new share issues	The total shareholders' equity	Years
11.5	355	3,095	1995
9.7	381	3,919	1996
0.8	565	24,106	1997
3.5	1,400	40,330	1998
9.7	6,207	63,884	1999
16.9	12,087	71,358	2000
8.9	9,465	106,624	2001

35.2	24,886	70,781	2002
13.5	24,400	180,963	2003
0.6	1,000	180,963	2004
30.3	60,506	199,543	2005
10.8	22,140	205,702	2006
5.7	20,382	356,397	2007

Sources: KSE Reports.

It appears from table (3.2) above that the picture revealed by the new issues ratio does not seem to differ from that which the initial public offerings ratio reveals, that is the KSE has not yet begun to justify its existence on the basis of the crucial issue of capital mobilization. Excluding the two years with extremely high new issues ratio – 2002 and 2005 – the new issues ratio averages 8% for the period under study.

Although, even in mature economies one would expect new issues to contribute a small portion of the yearly investment, there would however be no grounds to expect the situation to be the same in a rudimentary economy like Sudan. This is because of the significant role played by the internal finance in investment in more mature economies due to the momentum already gained. In developing countries, however, the relatively greater number of unexploited opportunities and recently established companies could certainly render the issues of securities as the viable source of finance to resort to.

Capital mobilization ratio

This is the ratio of the capital raised through the Stock Exchange to Total Fixed Capital Formation. It is calculated by dividing the total value of new share issues made during the year by the Total Fixed Capital Formation for that year.

In table (3.3) below the Total Fixed Capital Formation for the country is shown for the period 1995-2007 together with the new issues and Capital Mobilization Ratio for the same period.

Table 3.3

Capital mobilization ratio for KSE for the period 1995-2007

(Values in SD millions)

The capital mobilization ratio (%)	The new issues	Total fixed capital formation	Years
0.7	355	51,870	1995
0.2	381	158,850	1996
0.2	565	261,740	1997
–	1,400	N/A	1998
–	6,207	N/A	1999
2.2	12,087	552,200	2000
1.5	9,465	639,000	2001
3.2	24,886	780,000	2002
2.5	24,400	977,000	2003
0.1	1,000	1,342,000	2004
4.7	60,506	1,275,000	2005
1.1	22,140	1,994,000	2006
–	20,382	N/A	2007

Source: Central bureau of statistics & KSE reports.

As revealed by table (3.3) the Capital Mobilization Ratio for KSE is very low. It averages 1.6% for the thirteen year period, 1995-2007. This indicates that the KSE contribution to the country's stock of capital goods is very minor. Thus judging KSE in terms of its principal objective of savings accumulation and capital mobilization reveals the fact that the market has not yet begun to play its role as a means for capital mobilization.

4- Discussion of the results

The very low level of performance of both the secondary and primary markets of KSE, which is revealed by the analysis in section three, is attributed to a number of factors, which are categorized as follows:

- The investment environment.
- The financial sector characteristics.
- The regulatory and institutional factors.

4-1The investment environment

The very low level of performance of both the secondary and primary markets of KSE is attributed mainly to the inadequacy of the investment environment. Equity flows to the Sudanese capital market is materially influenced by the political conditions in the country. The war in the southern region, which continued over more than twenty years, until a Peace Accord was signed in early 2005, had a negative impact on both local and foreign investments. It has depleted the resources of the country and adversely affected its economic environment. The military expenditure forms the major part of government spending. Only very limited resources are directed to productive activities. This has led to a decrease in investments in infrastructure needed for the growth and development of productive activities, which in turn rendered the country's investment environment unattractive and uncompetitive.

The external financing environment faced by Sudan reflects the financial isolation, which the country suffers. The early years of the nineteen nineties witnessed the deterioration of political relation with the west and a number of Arab and African countries. This has a severe negative impact on the foreign flows to the country, which is supposed to provide a supplement to domestic savings for financing productive investment activities. With the exception of humanitarian aid, all economic aid, whether grants or loans, from the EU, the USA, the World Bank and the IMF has been abandoned. Foreign flows from other international financial institutions decreased substantially, from about US $ 159 million in 1991 to only US $ 1.5 million in 1995. During the last ten years the foreign loans and grants stopped completely with the exception of some contributions from the Islamic Development Bank, the International Fund for Agricultural Development, the OBEC Fund and the Kuwaiti Fund. These contributions decreased from US $ 34.7 million in 1996 to US $ 21.8 million in 2001. However during the last four years of the period under study they increased steadily to record US $ 213.2 million, US $ 222.4 million, US $ 276.7 million, and US $ 594.2 million reflecting the government efforts to improve and strengthen its relations with the regional and international financial institutions.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

The broad range of macroeconomic and structural reform programs implemented by the Sudanese government since 1991 is expected to create an environment characterized by declining fiscal deficits, stable and realistic exchange rates and lower inflation. Although the program aged almost seventeen years by the end of 2007, it does not seem to achieve what is expected of it. The exchange rate for the Sudanese Dinar Kept on deteriorating throughout the period 1995-2007, from SD 81 to one US dollar in 1995 to SD 243.6 to one US dollar in 2005. However during the period 2006-2007 the exchange rate increases to record an average of SD 202.8 to one US dollar. The first five years of the period under study were characterized by excessive inflation. Though the inflation rates decreased substantially throughout the period 2000-2007 to record an average of 8% this did not have a positive impact on the economic performance. The same can be said about the positive GDP growth rates maintained since the implementation of the program in 1991. The growth rate averaged 6.7% for the period under study, which is fairly above that for African Countries; an annual average of 3.9%. But again this is not reflected positively on other economic indicators. The current account of the balance of payment shows increasing big deficits throughout the thirteen-year period 1995-2007, from US $ 576.2 million in 1995 to US $ 3,268.2 million in 2007. The exports proceeds before and during the petroleum era falls beyond the imports by an average of 30%.

The failure of the economic liberalization policies to impact favorably on the investment environment can mainly be attributed to the country's very limited and scarce financial resources. Due to the deterioration of economic relations with the international finance institutions, the International Monetary Fund in particular, the government has lost an important source for funding its budget. The government was, then, compelled to finance its needs, both current and capital, by borrowing from the central bank.

On the other hand the privatization policy adopted as part of the macroeconomic reform programs does not seem to have any favourable impact on the investment environment. In addition to its principle objective of improving enterprise performance, privatization was expected to increase the supply of equity for domestic and foreign investors. This however was not the case. In countries like Sudan where the usual method of raising capital is through debt financing from banks, share offerings could be an important strategy for developing financial markets by building a wider business ownership base. Nevertheless the different methods adopted for privatizing state owned companies in Sudan did not include share offerings. Out of the 60 governmental units disposed by the end of 2002, 16 were sold at low prices to private companies and individuals and 30 were freely transferred to some state government organizations. The rest were either leased or liquidated. Thus if privatization is meant to have a favorable impact on the investment environment it certainly did not accomplish this objective.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

Surprisingly while successful public sector corporations are being sold to the private sector, the government is establishing new public sector corporations. Khartoum state alone established 50 new corporations. Thus if privatization is meant to move the public sector out of productive activities, the newly established state owned companies certainly are defeating this objective.

Moreover the long years of planned economy and public sector domination of overall economic activity together with the structure of enterprise ownership in the country, have posed considerable difficulties in the way of the privatization attempts. In Sudan public sector enterprises still play a dominant role in a wide range of economic activities. This is because when the big public sector corporations were established-such as public utilities, textiles, railways, airways, ports and river transport corporations – the private sector was too week to assume such a responsibility. It still is to a large extent. The dominance of public sector in Sudan has limited the productive investment opportunities available and discouraged the incorporation of public companies.

The narrowness of the structure of enterprise ownership in Sudan has also impeded the development and growth of public corporations. Most businesses in the country are family owned and managed. Those, which are incorporated, are characterized by high share concentration. To preserve corporate control in the hands of existing shareholders small companies depend mainly on their own family resources and the larger ones rely heavily on commercial bank loans for expansion and working capital. Again this tradition of family ownership and high share concentration tendency has lessen the interest in public companies. Further, due to the separation between ownership and management public companies are believed to be of benefit only to their mangers and board of directors. The poor performance of the majority of public companies in the country has contributed greatly to the deepening of this belief. For instance out of the 53 public companies registered in KSE, the performance of only 15 companies can be considered as satisfactory. This has led to the lack of confidence in public companies, which is evidenced by the small number of public companies compared to that of private ones.

The fiscal and monetary policies adopted by the Sudanese government since 1991 as part of the macroeconomic reform programs seem to have no material impact on investment. Though minor improvements could be seen the ultimate goals of reduced government expenditure, controlled money supply and circulation, stable exchange rate and developed productive sector are still far from being reached.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

The government expenditure, though it fluctuated greatly during the period 1995-2007, continued to register very high increases year after year, a yearly average increase of 33%. Although the yearly increase in government revenues slightly exceeds that of government expenditure, an average of 35.3%, government revenues still fall of the increasingly government spending in absolute terms. Moreover the ratio of investment and development expenditure to total government expenditure is very low. It averages 16.2% of total expenditure for the period under study.

The fiscal policies and procedures adopted to control the rates of growth in money supply did not seem to succeed in keeping money supply within the desired limits. The rate of growth in money supply, though it fluctuated over the period 1995-2007, registered a general upward trend. It records an annual average increase of 32.2% which is well above the annual money supply growth in most of the Arab and African countries, which ranged between 17% and 19% in recent years. Moreover the money in circulation represented a sizable portion of the total money supply, namely, an average of 34.8% over the thirteen-year period 1995-2007. The demand deposits, on the other hand, averaged 27.6% of the total money supply. This reflects the general tendency of the public to keep their savings either outside the banking system or in banks in the form of current deposits just for the sake of facilitating the settlement of their payment obligations or simply for the sake of security and not for investment purposes.

Similarly the policies followed and the amendments to policies made since the early years of the nineteen nineties, to stabilize the exchange rate for the domestic currency or to establish a foreign exchange market did not seem to succeed. The exchange rate for the Sudanese Dinar continued its dramatic downward trend since the implementation of the macroeconomic reform programs, from US$ 0.012 in 1995 to US$ 0.005 by the end of 2007. This is mainly due to the fact that the fiscal and monetary policies adopted are unclear, unstable and lack coordination. For instance the measures undertaken to regulate foreign exchange dealings varies from an extreme of a free market, in which exchange rate is determined according to the forces of supply and demand by a committee representing commercial banks – a free floating system of exchange rate – to a highly restricted market in which the rate of exchange is fixed and enforced by the central bank.

The fiscal policies and procedures implemented to enhance and improve the productive activities suffer from the same ambiguity and lack of coordination as fiscal policies in other areas. Moreover the enforcement of such policies is very weak. Though these policies clearly state that the major part of the bank resources – 90 to 95% is to be directed to the financing of productive sectors, some of these resources find its way to speculation and other non-productive activities. In addition the tax burden on the productive sector is very high, more than what is officially stated due to the additional fees and charges imposed by different state authorities. The privilege enjoyed by the public sector can easily be noticed. Many public sector companies and corporations enjoy duty, fees and tax exemptions. Thus the objective of a developed productive sector is still to be struggled for.

The experience of many developing countries indicates a favorable impact of normal payments relations with external creditors on the domestic and foreign private sector's perception of the country transfer risks. Unfortunately Sudan suffers from a continuous growing imbalance between the external contractual obligations and its debt servicing capacity. This has resulted mainly from inappropriate domestic policies and partially from unfavorable external factors such as high interest rates and unfavorable terms of trade.

By the end of 2007 the country's total debt amounted to US$ 28.2 billion of which US $ 27 billion represent deferred payments. Moreover the deterioration of political relations with the granting countries, both Western and Arab, and failure of attempts to improve the relationship with the IMF obstruct the rescheduling of external debt obligations or their treatment within the framework of the international debt strategy of debt forgiveness and debt and debt service reduction packages.

4-2The financial sector characteristics

Judging the financial environment in which KSE operates in terms of the characteristics of an appropriate financial system also reveals the inadequacy of this environment. The financial sector in Sudan is dominated by commercial banks. Almost all the financing for productive activities comes from commercial banks. It amounted to a yearly average of SD 193 billion over the period 1995-2007. Compared to this figure financing from KSE is negligible, a yearly average of 21.7 million over the period 1995-2007.

Judging the banking sector in Sudan in terms of flexibility of entry reveals the leniency of exit and entry barriers. Since 1976 the country has reversed the policy of state control of the banking sector and removed the limitations on private and foreign participation. Also within the context of the structural and economic reform programs the investment Act 1996 and KSE Act 1994 freely allow foreign capital flows across the country borders. Thus due to this easy entry banks – domestic, foreign and joint-ventures- are expected to play a greater role in providing the requisite funds for development and growth. Nevertheless the banking sector in Sudan does not seem to succeed in providing neither the type of funding needed nor the quantities required. As regarding the first part of the problem, the type of funding, commercial banks tend to concentrate on short-term lending and are, thus, not able to meet the growing demand for medium and long-term credit required for economic development. This is mainly due to the structure of the commercial banks deposits. Commercial banks depend mainly on current deposits for providing financial facilities. Due to its short-term nature current deposits cannot be used for financing medium and long-term development projects. Moreover the high rates of inflation, which render the majority of investment with negative real return, induced the banks to favor short term financing.

With regard to the second part of the problem, the required quantities, the funds available for financing from the banking sector always fall short of the market demand. This is, mainly, due to the limited resources of the banking sector and partially, to the limits imposed on overall and sectoral allocation of credit. The limited bank resources can be attributed to a number of reasons, both internal and external to the banking system. The external factors are, to name but the most important, high inflation rates and deteriorating exchange rates for domestic currency. The factors internal to the banking system include unstable fiscal and monetary policies, low returns on investment deposits, inability of banks to devise new mechanisms for attracting savings and unsophisticated banking services.

The demand for even the limited bank financing, on the other hand, is hindered by high financing costs, which ranged between 45 and 36 percent during the period 1995-1998. Although the cost of finance decreased substantially during the period 1999-2007 – an average of 13%, it is still very high compared to a regional average of 6% and an international one of 4%. Thus easy entry to the banking sector does not seem to have a favorable impact on the development and growth of the economy in general and the capital market in particular as theoretically expected.

Of the issues, which are of particular relevance for deepening and broadening capital markets are; appropriate accounting standards, a strong accounting and auditing profession and adequate financing disclosure rules and regulations. Knowing the utmost importance of the availability of reliable financial information for the success and proper functioning of KSE, this study investigates the factors affecting financial reporting in the country.

The approach adopted for examining the current accounting practice in Sudan is based on Parker's contingency model in which he identified three basic environments that affect accounting practice in developing countries. These environments are; the internal professional environment, the external professional environment and the regulatory environment. The internal environment affecting developing countries accounting practice includes education and training and a fledging accounting profession. In Sudan accounting education and training have expanded greatly during the nineteen nineties. However the expansion in accounting education during the last fifteen years is in terms of quantity and not quality. The emigration of a large number of academicians and professionals with higher degrees in accounting during the late nineteen eighties has adversely affected the quality of the graduates of the most reputable universities. Furthermore the difficulties of acquiring up-to-date educational materials and periodicals published abroad due to financing problems, has a negative impact on the quality of accounting education in the country. Lack of concern of educational institutions and training centers about offering continuing training programs for accountants is another factor contributing to the low standard and quality of accounting practitioners.

The serious problem of the lack of a governing body to regulate the accounting profession in Sudan, which is considered as assuming the major responsibility for the deficient and unsound accounting practice in the country, was solved by the establishment of the Sudan Council of Certified Accountants (SCCA) in 1988. The council has a free hand to regulate and organize the accounting profession in the country. Its potential contribution to the development of the profession cannot be overemphasized. However the achievements of the profession compared to its age, which is over sixteen years by the end of 2004, seem to be less than satisfactory. This is mainly due to the over-lasting problem of political instability and government intervention. Moreover the lack of cooperation and continuous conflict among practicing accountants has also impeded the active participation of the SCCA in promoting the accounting practice in the country, and led to its dissolution in 2004 by the Constitutional Court and the establishment of a new council – the Council of the Accounting and Auditing Profession Organization.

According to Parker (1984) the factors external to the accounting profession that have a substantial influence on the accounting practice in developing countries are the colonial, political and cultural factors. The colonial impact can easily be noticed both in areas of education and legislation and regulation of accounting in Sudan. Previous studies that have attempted to describe and evaluate accounting practice in Sudan emphasize that the colonial impact on accounting practice in the country is a negative one. However this research is of the opinion that the colonial impact should not be considered as a deterrent to the development of accounting practice in Sudan, but rather as a solid base on which to build a strong local profession. For instance the newly issued local accounting standards which, adopts international accounting standards and the system of the SCCA exams which is similar to that of the ACCA in UK support the above mentioned view.

The external factor that materially affects the status of current accounting practice in Sudan is the political factor. The development of the accounting profession in the county is adversely influenced by the political instability and continuous government intervention. All attempts that had been made to amend the 1925 companies Act failed completely. The low level of development of the SCCA is another example of how political factors have adversely affected current accounting and reporting practice in the country. The failure of the efforts to amend the 1925 Act or legislate, new laws and regulations and to issue a comprehensive body of accounting standards and principles can mainly be attributed to the lack of enthusiastic support by authorities and policy makers. This is because the ability to set standards and legislate new laws and regulations is materially influenced by the power base on which the standard setters and legislators depend. Unfortunately in Sudan those responsible for accounting policy making are not always in power, sometimes they lack the strong support of those in power and sometimes although they have the power their political interests override their professional commitment.

The influence of the factors internal and external to the accounting profession in Sudan on the regulatory environment affecting the profession, that is, the regulatory environment can easily be noticed. Accounting practice in Sudan is regulated mainly by the 1925 Companies' Act. The Act is out-of-date and it does not provide for the reporting of all information needed by users of accounts. The other legislation affecting accounting practices in Sudan include Business Profit Tax 1986, SCCA Act 1988, the Transitional Constitution 1985, and the Auditor General Act 1986. Though many of these legislations have been amended and replaced several times in an attempt to update them, still they suffer some limitations and pitfalls. A further shortcoming with the laws and regulations governing accounting practice in Sudan is their very weak enforcement. The accounting regulatory environment is also influenced materially by the shortage of qualified accountants and lack of locally formulated guidelines to adapt accounting and auditing standards to local conditions. Thus the deficient and unsound accounting practice during the nineteen eighties, which is reported by a number of studies, is still prevalent. This is because the changes and developments undertaken to improve the accounting internal and regulatory environment are minor and ineffective. Thus the current status of accounting practice in the country has a negative impact on the operation of the stock market and shared, with other factors, the responsibility for the smallness, shallowness and limited development of the market.

4-3The regulatory and institutional factors

Judging KSE in terms of the institutional setting that would establish an environment conductive to investor confidence and public willingness to invest in shares reveals the serious problems and weaknesses from which KSE institutional setting suffers. The Exchange as an entity lacks independence. The Board of Directors is designated by the Council of ministers. There is also a lack of an independent regulating agency such as a stock exchange commission or a capital market authority. It seems that the authorities do not see the need for such a body because of their complete control of the Board of Directors and the General Assembly of the Exchange. This has weakened investors' confidence in the market and increased their worries as regarding the possibility of fraud and manipulation.

It is also argued that a necessary institutional setting for the development and growth of equity markets is the improved market operations. These include improved trading, sound accounting and information reporting systems, strong and readily enforceable legal procedures and effective clearing and settlement arrangements. The mechanism of trading in KSE secondary market is similar to that of many developing countries' capital markets. Though the trading system in KSE secondary market is basically manual, it could be considered as satisfactory as compared to more developed markets in the region, which adopt the same manual based trading system. However judging KSE in terms of information and disclosure reveals that the market is of a very poor standard. The information provided by the market is confined to the daily and monthly statistical reports on the performance of the secondary and primary markets. These statistics are not published regularly in magazines or any special market publications. Only statistics on share prices and volume of trading are published in two national newspapers. Information about registered companies is either completely lacking or at best out of date. Information on companies' performance in terms of financial ratios such as earnings per share, price earnings ratios and dividend yield is nonexistent. Thus KSE fails completely to work in the capacity of a market for information as a stock exchange is expected to be.

Failure of KSE to provide regular and up-to-date information about listed companies is due to the weak enforcement of laws and regulations. This is another weakness with the institutional and regulatory framework of the market. The weak enforcement of rules and regulations together with the lack of accurate and timely information about listed companies have discouraged trading in KSE secondary market and contributed to the smallness and shallowness of the market.

It is also argued that one of the key issues that would promote growth and development of capital markets is the efficient intermediation both in primary and secondary markets. A major shortcoming with the institutional setting of KSE primary market is the lack of investment bankers. Only one investment bank, the Financial Investment bank was established in 1998. This has resulted in inefficient, lengthy and time-consuming methods of subscription and marketing of issues. In turn, this has decreased the interest of potential investors in these issues and greatly limited their market.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

With regard to KSE secondary market there is a severe lack of skilled market makers and dealers. Out of the 21 registered brokerage firms only three are working. The job of brokerage firms is limited to bringing together buyers and sellers. Financial and investment advisory services are not provided by any of these brokerage firms. This is mainly due to the low capital base of these firms as well as the lack of qualified and well experienced staff. Thus in terms of intermediation KSE secondary market is of low standard.

Essential to the success of capital markets is the effective market supervision. It is evident that exercising supervision over securities markets by independent authorities would ensure protection of investors and help establishing a trust building environment. KSE institutional structure lacks such an independent organizing body. The control, supervision and regulation of the market is carried out in accordance with the Khartoum Stock Exchange Act 1994, which is the only self-regulation governing the operation of the market. The adverse impact of the absence of a security commission or any other independent regulating government body on the operations of KSE can easily be detected. The complete absence of accurate, useful and up to date financial information and the weak enforcement of rules and regulations are some of the inevitable adverse results. Again this lack of external supervision has weakened investors' confidence in the market and increased their worries as regarding the possibility of fraud, manipulation or financial loss resulting from the failure of brokers to meet their contractual obligations.

Other factors relating to the KSE institutional setting that have also impeded its development and growth are the lack of institutional investors and limited menu of financial instruments. Institutional investors such as insurance companies and pension funds are important segments of securities markets. This is because these organizations comprehend a large number of investors. Though most of these investors possess small amounts of savings, in aggregate they have vast amounts of savings.

Up to the year 2000 the only kind of financial instruments available in KSE is the shares of public companies. Since 2001 on government certificates and some few investment funds – 5 funds by the end of 2007- were listed. To enhance the capability of the market to mobilize and allocate the available financial resources, financial instruments should be diversified to suit the incomes, needs as well as the beliefs of the various segments of population.

5- Conclusions

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

All the stock market development indicators used in this paper to assess the development process of KSE revealed the underdeveloped nature and low level of growth of the market. The supply of securities is limited both in absolute terms and relative to the size of the economy. The number of listed companies is small and the shares available for trading are limited. Consequently the value traded remains small relative to the companies quoted with an average concentration ratio of more than 91 percent.

In terms of institutional settings KSE has an indicator a value of 0.82 compared with a standard of 1.7 for the least developed emerging markets. This reflects the weaknesses and the lack of a number of fundamentals. The ratios of saving accumulation and capital mobilization in KSE are 8% and 1.6% respectively. These results indicate the limited role played by the market in achieving its primary objectives. The study also reveals the high degree of concentration of the new issues which amounts to 85% from one company.

The very low level of performance of both the secondary and primary markets of KSE is attributed to a range of factors, internal to the Sudanese economy, that seem to have an important bearing on the development and operations of the market. One factor is the inadequate investment environment, which is characterized by economic, political and financial risks. The financial sector characteristics are another factor that affects the operation of the capital markets in Sudan. The limited bank resources, which can be attributed to a number of reasons both internal and external to the banking system, and the deficient and unsound, accounting practice in the country, have a negative impact on the development and growth of KSE. The third factor contributing to the limited development and growth of KSE is the institutional setting of the market and its legal and regulatory framework. The institutional setting of KSE lacks a number of fundamentals such as sound information reporting systems, efficient intermediation and effective market supervision.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

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STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

ملخص

يرجع الاهتمام المتزايد بموضوع إنشاء أسواق الأوراق المالية وتطويرها في الدول النامية إلى الإيمان الراسخ بالدور الهام الذي تلعبه المؤسسات المالية عامة و أسواق الأوراق المالية على وجه الخصوص في توفير التمويل اللازم لعملية النمو و التطور الاقتصادي . ولقد خلصت معظم الدراسات و الأبحاث عن أسواق الأوراق المالية إلى أن هذه الأسواق لا تقل أهمية عن البنوك في دفع عملية النمو الاقتصادي . فبالرغم عن اختلاف نوع الخدمات التي تقدمها البنوك و أسواق رأس المال إلا أن كلاهما يساعد في تحريك و تجميع رؤوس الأموال الضخمة ذات الأجل الطويل و رفع الكفاية الإنتاجية .

تهدف هذه الورقة إلى تقييم مدى نجاح سوق الخرطوم للأوراق المالية في القيام بوظائفه شاملة دوره كآلية لتجميع و تحريك الموارد المالية وضمان كفاية تخصيصها و إستخدامها .

بإستخدام مؤشرات أداء أسواق الأوراق المالية التي إستنبطها الباحثون بالبنك الدولي و هيئة التمويل الدولية لقياس تطور و نمو أسواق الأوراق المالية و نشاطها. كذلك اقترحت الدراسة عدة مؤشرات لتقييم دور السوق كآلية لتجميع الموارد و توجيهها للإستثمار الأمثل.

لقد أظهرت نتائج هذه الدراسة أن أداء سوق الخرطوم للأوراق المالية خلال الفترة ١٩٩٥-٢٠٠٧م كان ضعيفاً كما دلت على ذلك مؤشرات النشاط و الإطار المؤسسي وتجميع المدخرات و تحريكها في الإقتصاد.

Short Bio.

STOCK MARKET IN SUDAN: Thirteen YEARS OF EXPERIENCE

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