

**ECONOMIC AND SOCIAL RESEARCH INSTITUTE (ESRI)
NATIONAL CENTRE FOR RESEARCH
KHARTOUM, SUDAN**

AND

**ORGANIZATION FOR SOCIAL SCIENCE
RESEARCH IN EASTERN AND
SOUTHERN AFRICA (OSSREA)**



National Workshop on

**Small-Scale Enterprises in Sudan:
Management and Socio-Economic Aspects
November 1994**

Rapporteur's Report

By

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P.O. Box 1166
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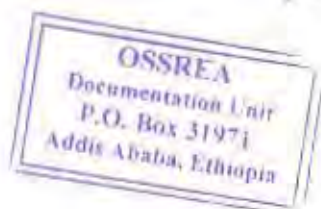
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INTRODUCTION

The workshop on Small-Scale Enterprises (SSEs) in Sudan, held in Khartoum in November 1994, was jointly organized by the Economic and Social Research Institute (ESRI) of Sudan and the Organization for Social Science Research in Eastern and Southern Africa (OSSREA). The Institute was entrusted with the technical and academic side of the workshop while OSSREA extended financial support.

The ESRI has launched a big research programme on small-scale enterprises which touches on all socio-economic aspects. This workshop has been one of the outcomes of the programme. Authors of the papers presented in the workshop were invited from different organizations to enrich the discussion and to add material to the literature on SSEs. In particular, they come from the ESRI, Faculty of Economics and School of Management Studies (University of Khartoum), Faculty of Economics (University of Gezira), Ahfad University for Women, and NGOs. The papers discussed cover macro-economic issues, entrepreneurship, regional development, finance, and management.

Opening Remarks

Mr Ibrahim Mohamed Juma'a Sahl, a faculty member of the ESRI, welcomed all participants to the workshop and introduced the ESRI Director, the National Centre for Research Director, the OSSREA Executive Secretary and the Minister of Education and Scientific Research and invited them to give their opening remarks.

Dr. Mohamed ElTayeb Abdalla ElTayeb: Director, ESRI, NCR

After welcoming the OSSREA Executive Secretary, the Director of the NCR, and the Minister of Education and Scientific Research, the

Director of the ESRI gave a brief introduction about the objectives and activities of the Institute concentrating on the programme of small-scale enterprises (SSEs). The Director, thereafter, emphasized the importance of SSEs and their contribution to the economy and society. He gave short statements on the eight papers to be presented in three working sessions of the workshop and their relevance to the Sudanese economy. The Director stated that the workshop on SSEs is one in a series of similar undertakings by the ESRI to follow in the coming future. He thanked the administration of the NCR, the Executive Secretary of OSSREA, and his colleagues in the Institute for rendering all services and help to make the workshop a success.

Professor Abdel Ghaffar Mohamed Ahmed: Executive Secretary, OSSREA

The Executive Secretary of OSSREA thanked the ESRI and its Director for exerting tremendous effort in organizing the workshop. He gave a short history of OSSREA and its development. OSSREA, he said, started as an idea of some social scientists in some African countries. The idea grew and materialized in an organization run by volunteers. Last year, however, a full-time executive secretary was appointed to look after the administrative affairs of OSSREA.

Professor Ahmed stated that this workshop is the second in a series of workshops to be held in OSSREA member countries. The first was about *Indigenization of the Zimbabwe Economy: Problems and Prospects* held in Harare in August 1994. He explained that, according to the recommendation of the Fourth OSSREA Congress, the Organization is now expanding its activities to cover Southern Africa.

The Executive Secretary also elaborated on the membership (individual and institutional), financing and activities of OSSREA. He thanked the Addis Ababa University for housing and rendering services to OSSREA.

Secretariat. The Executive Secretary also appreciated the help and facilities extended to liaison officers in member countries.

Professor Ahmed emphasized the importance of OSSREA publications, particularly the journal and books published by the Organization. These publications, he said, are assessed and recognized for promotion purposes. He then explained the main activities of OSSREA planned to be organized in the near future. These plans are:

- 1) **Research on the Environment:** This is a three-year research programme on environment issues to be coordinated by senior scholars and to be conducted in some selected member countries.
- 2) **Visiting Scholars from the OSSREA Region:** This is a 3-12 months visit of African scholars to institutions inside the region. This is thought to bring scholars closer to each other, to exchange ideas, and to coordinate efforts.
- 3) **Summer Schools:** This is a school for training participants in research methodologies in social science. It is planned to be located in Addis Ababa. This activity may be implemented in other member countries.
- 4) **Seminar on Africa Beyond 2000:** Based on present developments and future prospects scholars are expected to participate in this African Seminar.

Professor Faisal Tageldin Abu Shama: Director, National Centre for Research (NCR)

The Director of the NCR started his speech by welcoming the Minister of Education and Scientific Research for opening the workshop. He then

stated that this workshop is an activity in the downstream effort of research in the NCR. The Director of the NCR said that the ESRI is undertaking a big research programme in SSEs, and this workshop is one of its outcomes.

The Director of the NCR then elaborated on the issue of SSEs and their importance in development. Small industries, he said, are very important entities in developing countries. They bring about tangible results in social and economic conditions of life. This is true in agriculture, industry, and services.

The Director of the Centre thanked the faculty members and staff of the ESRI for organizing the workshop, the participants for attending the workshop, and OSSREA for extending financial support. He also thanked the Minister for opening the workshop and addressing the participants.

Professor Ibrahim Ahmed Omer **Minister of Education and Scientific Research**

The Minister started his speech by welcoming the participants of the workshop. Thereafter, he praised the continuous efforts and activities of the NCR in communicating research results to the concerned policy-makers and academicians. He said that this is a good behaviour, and urged the NCR to go ahead in this downstream effort of communicating research results and discussing recommendations with relevant people and organizations.

The Minister, then dwelt on the important issue of small businesses, and how such small activities were the main concern of prophets and great people since the early days of mankind. This importance, he said, has been growing, particularly in developing countries.

PAPER PRESENTATIONS AND DISCUSSIONS

Eight papers were presented in three sessions. A general paper on Sudanese crafts, a paper on structural adjustment and small-scale enterprises and a third paper on small-scale processing enterprises in Sudan were presented in the second session. These papers discussed economic aspects of SSEs. The third session discussed two papers on women entrepreneurs and the role of small-scale industries in regional development. These issues were about entrepreneurship and regional development. Finance and management aspects were tackled in the fourth session where three papers were presented, the first was about the financing gap of small businesses, the second was about innovative approaches to financing small-scale enterprises and the third was about management issues and policy implications of small-scale industries in Northern Darfur State.

An attempt is made below to give highlights of the papers and main points that emanated from the discussions.

Mohamed Hashim Awad **Sudanese Crafts: An Overview**

The paper discussed the importance of crafts to the Sudanese economy. Crafts, the paper pointed out, have continued to suffer from the official bias to industry. Concessions and special treatment given to industry were not at all comparable to those given to crafts. Yet, despite all incentives offered to them, Sudanese manufacturing industries have failed to grow as planned for them. But crafts have managed, not only to survive but also to strike a remarkable comeback. The increasing number and percentage of the poor made policy-makers and term-lending institutions to pay more attention to crafts as their produce became more attractive.

Crafts are in a more advantageous position compared to industries as far as supply change is concerned. They do not face problems of hard currency for imports of inputs, shortages of basic infrastructural facilities, e.g. electricity, transport, etc. However, crafts were adversely affected by fiscal policies.

Crafts are also in a more advantageous position compared to industries as far as demand shift is concerned. Crafts have benefited considerably from the depressed conditions of local industry and from the shortage of foreign exchange which restricted imported substitutes at a time when the country was liberalising its foreign trade on the behest of the IMF. Other factors which enhanced the growth of crafts were the growing concentration of income which resulted in increasing the number of the poor who form the bulk of crafts customers. The lower strata of the society enlarged, and hence increased the clientele of craftsmen.

The factors mentioned above generated a growing interest in the crafts sector locally and internationally as well as at all levels. Financing institutions were also interested in crafts as an area for investment. Some special branches were established for craftsmen in Faisal Islamic Bank and the Sudanese Islamic Bank.

Industrialized countries have suffered in their own markets as well as abroad from competition by countries relying on labour-intensive crafts and small-scale industries. Foreign donors' aid to the crafts sector is too small to dictate its mode of growth or its role in national economies and political systems of developing countries.

DISCUSSION

- * Although they are important and few banks are establishing special branches for them, craftsmen are disappearing from the economy. This is so because they could not afford guarantees and collaterals.

Large-scale industries are in a more advantageous position. Therefore, new innovative and more attracting supports are needed for this sector.

- * Crafts represent a folklore and a rich cultural heritage in Sudan. Therefore, they should be encouraged to survive by integrating them in the domestic economy.
- * Small-scale enterprises should be upgraded by applying a technology that is derived from the cultural heritage.
- * Although they are in a better position as far as demand for their products is concerned, craftsmen need to grow, to have their markets expanded. This calls for studies and forecasts of the domestic and international markets.

Ahmed Hamza Khalifa: Economic Policy and the Small-Scale Processing Enterprises in Sudan: The Case of Bakeries.

Considering the economic policy regarding bakeries in Khartoum State, the paper considered revenues and expenses of two types of bakeries: traditional and improved. The first type uses firewood while the second uses furnace. Regarding revenues, the improved bakeries are in an advantageous position while the traditional ones are incurring losses because of the under-utilization of inputs. Improved bakeries are allowed a higher flour quota by the authorities. Most bakeries depend on reducing weight of bread to earn more profits.

Traditional bakeries get only about 21% of the wheat which makes their survival difficult. In addition, gradual removal of subsidies leads to undermining their role. This removal of subsidies is made within the framework of the liberalization policy adopted by Sudan Government in 1990.

The paper made some recommendations which called for improving small-scale bakeries by using simple furnace, increasing the flour quota and allowing them to produce various types of bread, etc.

DISCUSSION

- * Subsidization of bread did not discriminate between the rich and the poor. But gradual removal of subsidies adversely affected the poor who could not afford to pay high prices.
- * One illegal way followed by bakery owners was to distribute bread through other channels not prescribed by the authorities. This has recently been accepted in the move towards commercialization of this strategic commodity. But this hits very hard the budget of the poor.
- * Although the use of fuel oil is better than the use of firewood, fuel is scarce. Therefore, the Government should seek other input materials for bakeries.
- * It is important to train women in bread-making. This enables many families to obtain bread easily and probably at far less cost.

Badr-ElDin A. Ibrahim: A Branch Study to Investigating the Potential Contribution of Small-Scale Enterprises to Structural Adjustment in Darfur.

This paper discussed a research methodology used to evaluate the contribution of small-scale enterprises to the economy. It started by defining structural adjustment and pointed to the appropriate time of adjusting the economy. According to the paper the policy of structural adjustment has not been sufficiently fulfilled everywhere. As an alternative to the multi-sectoral approach used in the policy, the paper

suggested two approaches. These are the branch approach and the commodity approach. The paper favours the branch approach in the case of Darfur States of Western Sudan.

Two hypotheses guided the empirical study of Darfur. The first was that the most important aspects of crafts and small-scale industries are their capital and import intensities, their linkages to other sectors of the economy, and their potential for innovation. The second hypothesis was that not all branches in crafts and small-scale enterprises have the same potential to contribute to structural adjustment.

The paper investigated five types of linkages, these were capital linkages, labour linkages, backward production linkages, forward production linkages, and consumer demand linkages. It found both positive and negative correlations. The general conclusion of the paper was that although small-scale enterprises have a contribution to structural adjustment, not all branches have equal contribution.

DISCUSSION

- * Darfur State is small and a big number of crafts and small industries do not exist. With these facts in mind the branch approach is limited and it cannot give a clear and definite picture of the economy.
- * More effort is needed in terms of research, finance, institutional support, etc. to develop small industries in remote areas like Darfur and enhance their contribution to the economy.
- * The concern should be about craftsmen in terms of income increment or economic readjustment. A special study is needed to investigate the result of changing from one craft to another.

Sunita Pitamber: **The Financial Dilemma of the Female Entrepreneurs.**

The paper pointed that small-scale businesses in general and women enterprises in particular in Sudan face many problems such as lack of legal status, i.e. that they have no licenses, are unable to compete with big enterprises to get the required raw materials and equipments, are unable to market their products sufficiently and lack access to capital.

Among these problems lack of access to capital represents a real dilemma, particularly for women entrepreneurs. This is attributed to the rigid requirements of the traditional banking system that disqualify small enterprises from funding. Women entrepreneurs have then resorted to informal or traditional financing.

Some formal attempts to solve the credit problem for small businesses have been made by some banking organizations, namely the Agricultural Bank of Sudan, Faisal Islamic Bank-Sudan, the Islamic Cooperative Development Bank, and the Sudanese Islamic Bank (SIB). Among these attempts the SIB had the most genuine one, which could, to some extent, be favourably compared to that of Grameen Bank of Bangladesh.

These attempts, in general, were far behind solving the problem or removing the dilemma. The paper, therefore, proposed the establishment of women specific banks to deal with the issue. Also, traditional banks and banking styles have to change to incorporate and promote women small-scale financing. Further research on women small businesses is recommended.

DISCUSSION

- * Traditional banks have to establish units to serve women small-scale businesses, and have, also, to train their staff to be gender sensitive.

- * Banking styles and procedures should be simpler to encourage women entrepreneurs.
- * Women specific banks are distortive, gender-insensitive idea
- * Employment of women in traditional banks together with training male staff in gender activities is more appropriate in enhancing and developing female small-scale businesses
- * Further research on the area was widely recommended

Intisar Ibrahim Abd-El Sadig: The Role of Small-Scale Industries in Regional Development: A Theoretical Perspective.

The paper provided theoretical review for the role that small-scale industries could play in regional development via employment, income generation and value added. It also assessed the role of regional variables such as existence of infrastructure, market and agglomeration in the development of small-scale industries.

Arguments for and against the idea of regional development and the small-scale industries approach to development were presented and some of the underlying literature was revealed. Some theoretical policy options to deal with these issues were also dealt with. The paper concluded that advocating small-scale industries for regional development is a controversial issue

DISCUSSION

- * Small-scale and large-scale industries are not alternative approaches to development. They could be seen to exist side by side in an economy.

- * For promoting and developing small-scale industries a conducive macro environment framework is a necessity.

Sayed Abbas Ahmed: The Small Business Financing Gap in the Sudan: An Empirical Examination.

Examination of small business financing gap and practical financial policy to minimize and/or close the identified gap/s was the main issue discussed in the paper. The finance gap was measured in four dimension; these are institutional long-term debt, cost of borrowing, capital shortage, and security and collateral requirements. The paper used profitability, liquidity, financial risk and degree of self-finance in defining the small growing business.

Fixed cost of finance for small business is very high compared to large businesses. This is a proof that there is a finance gap. The gap can be attributed to the banking system's mentality, ability, belief and perceptions. The paper called the business gap as the "Sudanese Macmillan Gap" and "Bolton Gap" in the Sudan. The paper made many recommendations about how to finance small businesses, creating new schemes based on balance interest rate and the risk involved in funding, consideration of small business financing in the national credit policy, etc.

DISCUSSION

- * Small businesses are very important to the economy. But because they do not enjoy economies of large-scale production, there is a finance gap. Small businesses are characterized by high utilization of working capital.
- * The information gap and financial gap should not be treated as isolated problems. They should be given equal weights.

- * Because they are small, they are not in an advantageous position. Therefore, government policy and direction should be towards supporting this important sector of the Sudanese economy. *

Mustafa Gamaluddin Abukasawi: Need for Innovative Approaches to Financing of Small Enterprises.

The paper discussed some financing approaches adopted by local and foreign banks and NGOs. Most of the Sudanese banks have been adopting a wide range of strict loan security measures, e.g. tangible securities, bank guarantee, chattel mortgage, merchandise mortgage, individual guarantors, etc. Other requirements were also needed to obtain finance for small businesses. These problems, in addition to long bureaucratic procedures and psychological barriers, made it difficult to small and micro enterprises to approach the banks for financial assistance.

The few non-orthodox approaches adopted recently by some financial institutions (e.g. revolving partnerships, *kifaya* Bank, pilot industrial estates, mobile banks, etc.) come as a result of personal initiatives of the managers or staff of some of these banks. Although these experiences are isolated from any government support programmes or a theoretical background, they can lay the foundation for new creative approaches to the problem of financing the small and micro enterprises.

The success of the group-lending and group-collateral experiments of "Save the Children", ILO Revolving Fund programme and *kifaya* Bank indicates that such approaches could be adopted by financial institutions in the same manner as the Grameen Bank or other similar institutions. The Sudanese people, especially in rural areas, maintain very strong social relations. These social norms prevalent in the Sudanese village indicate that the success potential is very high if group lending is introduced.

The most effective measure that could be foreseen, the paper stated, is the establishment of the "social" bank that is expected to exclusively specialize in lending to low-income groups and micro enterprises. This bank should make use of the good experiences of other developing countries.

DISCUSSION

- * Previous state policies did not pay good attention to small-scale enterprises. Therefore, many constraints, mainly in collaterals, hampered the development of this sector.
- * Many small-scale enterprises are undertaking and financing their activities without resorting to financial institutions. But resources available there are very limited. A financing system, one like the social bank recommended by the paper should be adopted.
- * A package of assistance to small-scale enterprises is needed. This package should include finance, institution building, training, and consultancy.

Mohamed El Tayeb Abdalla El Tayeb: Small-Scale Industries in Northern Darfur State- Management Issues and Policy Implications.

The paper studied investment planning and problems faced by small-scale enterprises in Northern Darfur State (NDS). NDS is one of the most backward states in Sudan. This backwardness is well reflected in the very small number of small-scale industries established. The paper assumed that this problem is mainly due to external factors related to investment project appraisal and financial policies and plans.

The paper examined the procedure of investment planning as exercised by the Public Investment Corporation of Northern Darfur, studied the problems facing enterprises and management systems of a sample of 22 small industrial ventures in El Fasher, the capital city of the State, and described the policy and process of lending investment loans by financial institutions in the State.

The main results arrived at are that inefficient infrastructure and shortage of finance and raw materials are the most impeding factors to industrial development of the State. Within the inefficient infrastructure, shortage of electricity, water and transport were figured out to be the most serious problems which have far-reaching policy implications.

Although there are investment ceilings for priority sectors specified by the Bank of Sudan (the central bank) to finance economic activities, no such ceilings are specified for sub-sectors or branches within the priority sector. This is good to give managers and investment authorities flexibility in decision-making because different regions and areas have different priority needs which may change from time to time. But allocations for the different sectors are not made according to development needs. Local trade gets the lion's share in investment allocations to the banks in NDS - it is, however, a non-productive sector.

Authority over money delegated to bank branch managers is limited to a very small amount while projects, particularly initial investments of new ones, require larger amounts than managers' ceilings. This means applications should be referred either to regional managers or to headquarters. Both take long time which results in cost escalation of projects and delays the development process.

DISCUSSION

- * The role of infrastructure in the development of small-scale industries is very important. Electricity should be supplied through hot lines to selected industrial areas in the city of El Fasher so that uninterrupted production flow is achieved. Transport is another equally important infrastructure. In this connection, the Western Road of El Obied El Fasher is a national and a very important road which links production states of Western Sudan with the capital city, the port and the centre of the country. All efforts are needed to be coordinated towards constructing this road.
- * Authorized management at the financial institutions should delegate more authorities to their branches so that they may be able to take prompt decisions; the limits of authority over money set by the headquarters of these banks should be revised periodically and more frequently in the light of the tremendous increase in prices. Some sort of risk guarantee fund is needed to enable the banks to lend more money to small-scale industries.
- * More decentralization is needed to enable quick decision-making by Government authorities. Therefore, State Investment Corporations should delegate more authorities to local governments down the hierarchy as far as licenses and concessions of projects are concerned.
- * The staff of the financial institutions in NDS in general, and of investment sections in particular, need to be trained in investment planning and budgeting. These training courses will expose them to techniques and methods of efficient allocation of financial resources to achieve economic development.

ANNEX

Programme of the National Workshop 5-6 November 1994

Saturday 5 November

First Session:

Time

8 30	Opening Session
8 35	Holy Koran
8 40	Director, Economic and Social Research Institute
8 50	Director, National Centre for Research
9 00	Executive Secretary, OSSREA
9 15	His Excellency, Minister of Education & Scientific Research
9 30	Break-Refreshment

Second Session:

Time

10.10 30

Subject	Sudanese Crusts: An Overview
Speaker	Prof. Mohamed Hashim Awad

10 30-45 00

Subject	Control and Liberalization Policies for Small-Scale Processing Industries: The Case of Bakeries
Speaker	Dr. Ahmed Hamza Khalifa

11 30-12 00

Subject A Branch Study to Investigating the
Potential Contribution of Small-Scale
Enterprises to Structural Adjustment in Darfur
Speaker Dr. Badr-El-Din Abdel Rahim Ibrahim

12 00-1 30 Discussion

Chairman Prof. Abdel Ghaffar Mohamed Ahmed
Rapporteur Ust. Mohamed Ahmed Mohamed Ibrahim

Discussants Dr. Mustafa Zakaria
Ust. Ibrahim Mohamed Ibrahim
Dr. Mohamed El Tayeb Abdalla

Sunday 6 November 1994

First Session:

Time

8 30-9 00

Subject The Financial Dilemma of the Female Enterprises
Speaker Ust. Sunita C. S. Pitamber

9 00-9 30

Subject The Role of Small-Scale Industries
in Regional Development
Speaker Ust. Intisar Ibrahim Abdel Sadig

9:30-10:30	Discussion
	Break-Refreshments
Chairman	Dr. Ahmed Hamza Khalifa
Rapporteur	Ust. Mohamed Farah Gibreil
Discussants	Dr. Mustafa Babiker Ust. Mohamed El Tayeb Mohamed

Second Session:

11:00-11:30	
Subject	The Small Business Financing Gap in Sudan
Speaker	Dr. Sayed Abbas Ahmed
11:30-12:00	
Subject	Need for Innovative Approaches to Financing Small-Scale Enterprises
Speaker	Dr. Mustafa Gamal El Din
12:00-12:30	
Subject	Small-Scale Industries in Northern Darfur State-Management Issues and Policy Implications
Speaker	Dr. Mohamed El Tayed Abdalla

12 30-1 30

Discussion

Chairman

Dr. Paul Wani Gore

Rapporteur

Nasir Mohamed Zein

Discussants

Ust. Afaf Rehaiman

Dr. Bedawi Babikir Osman