



## Problems Arresting Private Sector Development in Western Sudan \* :

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### 1. Introduction :

It is well recognized that private sector investment plays a significant role in the long-term development and in the design of short-term stabilization programs in the developing countries. In this context the identification of the factors which constrain the development of the private sector in the developing countries is of considerable importance. While the private sector in the developed countries has made appreciable contribution in the process of socio-economic development, there is as yet no evidence that it has made similar contribution in the developing countries. In some cases this has been attributed to institutional and structural factors such as the absence of well developed financial markets, the relatively larger role of the government in capital formation, distortions and market imperfections ... etc. <sup>(1)</sup> The scanty literature available centres around the controversial role played by the multinational companies in the developing countries. <sup>(2)</sup> Recent contributions questioned the relationship between the private sector and factors, such as government investment, the change in bank credit to the private sector and the inflow of foreign capital <sup>(3)</sup>. However, the institutional, policy-related, market-related and other important constraints that hinder the development of the private sector in the developing countries have largely been neglected. The objective of this paper is to explore the activities of the private sector and investigate the problems that constrain its development in Western Sudan. <sup>(4)</sup> The following section reviews the activities of the private sector in the area. This is followed by the problems that face the development of the private sector in those areas. The last section provides policy implications and concluding remarks.

### 2. The Private Sector in Western Sudan:

The private sector in Western Sudan (W. S.) is active in a number of fields. These include agriculture (including livestock and horticulture),

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commerce and trade, manufacturing and handicrafts, transportation and input distribution. In this section, detailed activities of these sectors would be spelt out.

**a- Agriculture:**

The agricultural sector in Western Sudan covers the following sub-sectors:

- i. Crop production
- ii. Livestock production, and
- iii. Horticultural production.

The vast majority of the population in W. S. is engaged in crop production and livestock raising. Main crops produced are dura (sorghum), Dukhn (millet), groundnuts, sesame, cotton and karkadeh. Two patterns of production could be distinguished; mechanized rainfed agriculture that is becoming increasingly important in terms of total area cultivated, production per feddan and total production, and traditional agriculture. Mechanized rainfed agriculture is more prevalent in Southern Kordofan in such areas like Habila, Al Baida and Um Lobia. These schemes get the greater part of their finance from the Sudanese Agricultural Bank, and their major preoccupation is the production of dura. On the other hand, and since its establishment in 1967, the Nuba Mountains Agricultural Corporation (N M A C) has been desperately trying to nurse the so-called modernization schemes for the production of cotton and Dura. The unfavourable prices set by the government (NMAC) for cotton made it impossible for farmers to comply with the condition that they cultivate a minimum of 50% of the area allocated to them with cotton if they were to receive help from the corporation. Refusal by farmers to grow cotton led to more than 80% drop in the volume of cotton produced in 1980. In Southern Darfur, mechanized farming is very limited. In fact there are only two mechanized farms, Khor Ramla project in the Jebel Mara area and Um Agaga project in the Eastern District. The former project proved failure and mechanized farming has been abandoned and the project has been distributed into small holdings for the farmers in the area. Um Agaga project also suffers from a number of problems. Out of a total area of 100,000 feddans only 12,000 feddans have been distributed for farming.

The predominant activity in W.S. is traditional agriculture. The traditional agricultural sector is characterized by small-scale farming and the farmers constitute a group with limited or no access to technology and formal credit institutions. Of the crops produced in the area, millet is the dominant crop as indicated by table 1 which shows the percentage cropped area for some crops in the Western Savannah Development Pro-



ject in Southern Darfur.

Table (1)

Percentage Cropped Area in W.S.D.P.

	Millet	Sorghum	Groundnut	Other
1982 Survey (246 farmers)	54	14	23	9
1983 Survey (303 farmers)	63	14	18	5
Average	59	14	20	7

Source : WSDC, Economic Overview of S. Darfur, Unpublished.

Although the figures show millet as the dominant crop, nevertheless, such results must be treated with caution as farmers in most cases shift emphasis in response to fluctuations in crop prices.

In areas of traditional agriculture grain crops are produced for subsistence and cropping is based on small family farms. The family provides the largest labour input. However, there is also a substantial amount of hired labour which is used to assist the family with certain peak operations. The average holding per farming family varies from one area to another. In the Western Savannah Development Project Area in Southern Darfur, the average holding per family is 21 Mukhamas (5) or 12 hectares. Although there are differences in the way crop cultivation is carried out in the different areas, the dominant pattern is hand cultivation. Yields show considerable variations among the different areas of Western Sudan depending on a number of factors such as the amount of rainfall and the degree of land fertility. In the last few years yields throughout the area showed a marked decline due to the general shortage in rainfall, and migration of able farmers to the towns.

The areas of Southern Kordofan and Southern Darfur are fairly rich in livestock wealth. Ownership of livestock is widely dispersed over a large number of individuals (most notably are members of the Baggara tribe) and possession of cattle, for example, ranges from a minimum of 5 cows per household to a maximum of 3000 cows per household. Livestock, particularly cattle, still seems to be kept for social and prestigious reasons. This is particularly true for areas of Muglad, El Fola, Lagawa and Dilling in S. Kordofan, Buram, Tulus and El Da'in in S. Darfur. Invest-



ment in Livestock is mainly by rich local individuals, merchants and most recently by Sudanese Nationals Working Abroal (SNWA). Investment by SNWA seems to be steadily gaining importance and their objectives certainly appear to be commercial and expected rise in future prices playing a significant role in their investment decisions.

Another extremely prosperous sub-sector is horticulture. Generally speaking horticultural crops are grown alongside the banks of the Wadis mainly on small scale farms that range between one to five feddans, although gardens of up to thirty feddans could be found. Major crops grown include oranges, guava, mango, grapefruits, potatoes, garlic and onion. Areas like Abbassyia, Tag mala, and Abu Gibaiha in S. Kordofan contain up to 1000 gardens each, exporting about a million medium-sized boxes of fruits every year. In S. Darfur, the most important areas for horticulture are the Jebel Mara, Zalingi and Wadi Salih areas. Of these areas, the most important for horticultural development is Jebel Marra area. Suitable climatic and physical conditions and fertile soils are some of the most important factors that made Jebel Marra the most suitable for horticulture. The farmers of Jebel Marra have developed their own farming systems such as terracing slopes using gravity feed irrigation system and cultivating crops suitable to the Jebel environment such as garlic, potatoes, citrus, cherry tomatoes and onions. (7) A number of irrigation systems are used for the purpose of horticulture including gravity feed irrigation, Shadoufs, Buckets (Rombovia), camel powered chain and washer pump (Saghier) and diesel pumps.

#### **b- The Manufacturing Sector and Handicrafts:**

The manufacturing sector in W. S. is still at its infant stages of development. Very few manufacturing industries of substantial size are located in the area. Despite the existence of potential in many fields in the area, in comparison with other parts of the country, yet the number of large- and medium-scale industries, and the volume of industrial capital is relatively very small. The manufacturing sector is composed of small-scale agro-industries using crops produced in the area as raw materials and most of them are concentrated in the big towns. The most flourishing of these is the edible oil industry particularly in S. Darfur as shown in table 2. There are about 20 crushing mills in S. Darfur alone. A number of decorticators are operating as well as soap factories. (8) Other medium-scale factories are located in the area particularly in Nyala which is more or less the largest industrial town in W. S. These include soft drinks industry, ice making, vermeiceli and weaving factories.

Handicrafts activity is very flourishing all over the area with some concentration in the big towns. The handicraft works include multi-purpose workshops specialized in the manufacture of engine parts for decorticators, manufacture of grinding mills, manufacture of truck trol-

leys for agricultural projects, manufacture of agricultural equipment such as ploughs, in addition to performing other activities such as welding, car mechanics,



Table (2)

Distribution of Factories and Handicraft Works in

Southern Darfur Province

Town	Oil crushers	Soap factories	Decorators	Multipurpose shops	Carpentry shops	Modem tanneries	Cottage tanneries	Soft drinks factories	Other
Nyala	8	4	23	200	NA	1	6*	1	4
Zalingi	-	-	-	3	8	-	3*	-	1**
El da'in	11	1	27	20	NA	-	NA	-	-
Burari	-	-	1	2	65	-	NA	-	-
Tulus	-	-	1	-	NA	-	NA	-	-
Ed el Ghazam	-	-	-	1	NA	-	NA	-	-
Total	19	5	52	226	73	1	9	2	4

Source: Field Work

\* Approximate figures.

\*\* Closed down for a long time.





#### c- Commerce and Trade:

Commerce and trade are a major preoccupation of many people in towns and villages of Western Sudan. Traders in the area are involved in the trading of cash crops, consumer goods, livestock, illicit trade, and border trade. Trade in crops is by far the leading activity in the field and it comprises trade in such crops as groundnuts, sesame, karkadeh, gum Arabic, okra, chillies, onion, millet and sorghum. The traditional farmers sell these crops to village traders who actually fix the prices of the crops. Some farmers take their crops to crops markets (Zareeba) in the big towns. As many as 500 merchants are reported in each big town but with only 6 or 7 effectively controlling the market. Many of these would have their own storage facilities and their invested capital may be up to a million Sudanese pounds. Trade in cash crops is very export-oriented and important markets outside the area are El Fasher, El Obied, Kosti, Wad Medani, Kharotum and Port-Sudan. Trade in food crops (mainly Dura and Dukhn) covers the Southern Region and extends outside the international borders of the Sudan to reach Chad and the Republic of Central Africa in the West, and Ethiopia in the East through smuggling practices.

Livestock trade is second only to that of trade in agricultural crops. There are large and important livestock markets in the area (such as Nyla, Babanosa El Rahad and El Da'in) that export animals to khartoum and aboard. Although traders who specialize in the buying and selling of livestock to local markets, Khartoum markets and for export exist all over Western Sudan, many crop merchants are also engaged in this activity. Livestock trade is an extremely lucrative activity for traders with enough financial liquidity for the following reasons:

- i- They buy calves and other young animals at relatively depressed prices at the beginning of the rainy season when individual owners are in pressing need for cash, and sell them by the end of the rainy season at inflated prices realizing profits that reach 500%.
- ii- At the late months of summer when both pastures and water for animals become scarce, merchants buy animals cheaply, nurse them through the difficult months of April, May and June to sell them later for considerable profits.

Trade in consumer goods involves trading in finished goods both imported and locally made such as clothing, confectionary, detergents, ... etc. A number of wholesalers import the goods from Khartoum and sell them to retailers in towns and villages across W. S. Furthermore, due to recent substantial increases in horticultural production, trade in fruits and vegetables has also become an important activity both within and outside W. S.

Another flourishing activity is the border trade particularly between



Southern Darfur and the Republic of Central Africa. The Sudanese export cooking oil, salt and crops and import wood, perfumes and clothing. Despite the existence of a customs outpost in Um Dafoug, an intensive smuggling activity across the borders is taking place.

**d- Transportation:**

The private sector in western Sudan is also active in the field of land transport, mainly in the form of owner-operator lorries that serve to link production areas with the major markets in the area. They usually travel in extremely bad roads. Beside handling produce, these lorries carry strategic consumer goods to the far flung villages. Some transport companies have recently been established but they mainly serve as a link between the major towns such as El Obied, Nyala, Khartoum and Port-Sudan. Some buses provide limited passenger transport services between the big towns.

**3. Major Problems Facing The Private Sector in Western Sudan:**

A number of major problems constrain the activities of the private sector and its contribution to the local and national economy. These problems could be grouped under the following:

- i- Policy related problems
- ii- Institutional problems
- iii- Marketing and market structure
- iv- Financial problems
- v- Infrastructure, and
- vi- Other problems.

**a- Policy related problems :**

Policy related problems that are common to all activities of the private sector include the taxation system, the licensing system, the pricing system, the laws and regulations governing the distribution of fuel as well as those which govern the organisation of vital infrastructural facilities. Negative government intervention is often a major problem.

In the mechanized agricultural sector in Southern Kordofan for example, owning a scheme is usually a long and complicated process which may take years. Without inferring anything about the advantages and disadvantages of mechanized agriculture vis-a-vis environmental considerations, delays in issuing of licenses lead to delaying production efforts. This also applies to the manufacturing industry. There is a substantial confusion over distribution of power to issue licences between the Central Government and the regional governments. On top of that, bureaucratic routine at the headquarters, worsens the situation.



Almost all those interviewed in the manufacturing in sector expressed opinion that taxes are high while the services they receive (in return) are minimal. On the other hand the system of incentive and inducement recently adopted by the regional government of Kordofan for the private sector, which includes appropriate speed in processing licenses applications, help with feasibility studies, ... etc. is restricted to certain limited areas only. lack of adequately trained personnel and inadequacy of other related facilities in the regional Ministries of Finance add further complications to the situation.

The cooperative sector(9), however, is suffering most from inadequacy of the services of the public sector particularly in as far as registration and supervision of cooperatives are concerned. The files of many cooperative offices in various towns of Western Sudan were found to be full of applications for cooperatives waiting to be processed. The activities of many co-operatives have been brought to a stand-still because of the inability of those offices to attend meeting, check accounts or supervise elections.

Another serious problem is that there is no identifiable pricing system for any of the sectors reviewed apart from what the market can bear. The government presence in the market to control prices is negligible and in the few cases where it exists, it is found to lead to more instability and distortions than would otherwise have been the case . Fluctuations in input prices in particular are substantial and often create uncertainty that negatively influence activities of the private sector . Prominent among the list of those uncertainties is the question of the allocation and distribution of fuel to agriculture , industry , transport and the like . Due to its relative remoteness from Khartoum, the area often ends up with a much smaller and irregular supply of this vital input. (10) This had repercussions on the development of the private sector in Western Sudan. In Nyalla, for instance, the industrial area (as well as the residential areas) is supplied with electricity for three hours only per day. Closely related to this is the problem of high cost of transport. Lack of government control and the low level of competition means that transport represents an extremely high proportion of total costs.

Another problem which has more direct impact on the public sector but affects the private sector indirectly, is the inadequacy of trained cadres in socio-economic development, capable general administrators and skilled technicians. Not many individuals under those groups choose voluntarily to go to Western Sudan given prevailing wage and salary structure and the hardship associated with living in the area.

#### **b- Institutional Problems:**

Except for the few pockets of mechanised agriculture and the few in-



dustrial factories in the big towns, the economy of the area may be labelled as traditional. As such, it suffers from severe duality in its relation with the rest of the country. The intitutions of the traditional sector thus suffer from their relative inefficiency. The farmers unions, chambers of commerce and the cooperatives all face the problem of inadequacy of physical facilities (specially buildings and cars), inadequacy of information on members and very insufficient channels of communication. The leadership of these institutions is sometimes imposed upon the membership and hence cares little about the general welfare of the members. Suspicion among the two often renders the institution ineffective. Furthermore and in many cases, the institutions themselves do not have the legal and official backing to enable them to perform effectively. Chambers of commerce, for example, have no real control over their membership and as such they can hardly act as a guarantor for borrowed capital.

Investment in the private sector often needs coordination among a large number of central and regional ministries and other public units. There is currently no official or private body which shoulders the responsibility of ensuring such coordination. Conflicts among the various bodies often frustrates private sector initiative. It is also important to note that, tribal conflicts worsened in both Southern Darfur and Southern Kordofan after the dissolution of Native Administraion, thus creating a major security problem which often disrupts private sector activity. The war in Southern Sudan had severely disrupted agricultural production in Southern Kordofan. The recent raids of the Sudanese People Liberation Army in the area had forced a number of farmers to abandon their lands. The recent re-introduction of "self-administration" in the regions and the re-introduction of native administrtion in some areas of Western Sudan may be a positive step towards creating institutions that may alleviate the pressure of tribal conflicts on the economy of the area in general.

#### **c- Markets, market structure and dissemination of information:**

In Western Sudan, markets are very underdeveloped. The level of commercialization regarded necessary for the success of markets has not been reached in most sectors where subsistence production is dominant. The parts of production which get marketed often face conditions which favour buyers at the expense of sellers particularly in crop markets, live-stock and horticultural markets. The markets themselves, be the town markets or village markets are not equiped with the necessary facilities which make for relatively smooth and efficient exchange. The lack of storage facilities of any sort and wide prevelance of middlemen often complicates contacts between buyers and sellers and leads to significant distortions in the market. Monopoly, monopsony and cartel arrangements were found to exist on a large scale in the area. In all big towns, only few merchants dominate and control the market. They, in effect, largely de-



termine prices, quantities and conditions of sale. Their hold on the market in the majority of cases, is enhanced by their control of the storage and transportation facilities.

The geographic linkages (or lack there of ) of markets, often dictated by distance and the state of available transport, follow the concentric pattern of small village market feeding the big village market and the latter feeding the town market which usually represents the node that communicate with the markets of the bigger towns in the area and ultimately with Khartoum and Port-Sudan. Information about the market and market conditions is disseminated mainly through lorry drivers. No other means of communication exists. Telecommunication facilities exist in a very limited scale at Nyala, Zalingi and Kadogli but these are primarily for public sector use or for the use of international agencies like the EEC, UNICEF, Dutch and German organizations engaged in some development projects in the area.

**d- Capital:**

There are 15 banks in Western Sudan, 7 in Southern Kordofan and 8 in Southern Darfur. This figure represents about 6% of the total number of banks in the Sudan as of December 1983. (11) These banks represent the main source of capital for investors. However, the financial facilities provided for the private sector by these banks are very limited. They mainly finance short term commerical activities. On the top of that, the banks are authorized to lend only a small proportion of their resources to the private sector without referring to headquarters at Khartoum. A substantial number of those interviewed (80%) cited capital scarcity as a constraint factor to increase production in their respective fields of activity. With the exception of the Agricultural Bank of Sudan that provides limited credit to a small group of traditional farmers, the present financial institutions in the area are not capable of maximum mobilization of funds and for making them available to investors at required times and places. Authorization for dispatching funds by bank branches is often delayed from Khartoum where decision making is centralized and speedy communications is usually very difficult. Some limited capital is available from the larger merchants to small farmers in particular via the "shail" (12) system at an extremely high cost. However, in the last few years a clear concensus has emmerged that, in contrast to the case in industrial countries, one of the major constraints on investment in developing countries is the availability of financial resources rather than the cost of borrowing(13). The observable, interest rates in the developing countries often do not reflect the scarcity of capital because capital markets are either small or not well functioning(14). This renders the application of the concept of the cost of capital unrealistic.



**e- Infrastructure:**

The most serious constraint to development in Western Sudan is the very poor conditions of the roads. The absence of proper all-weather roads retards commercial input distribution activities. The extent of the problem is obvious from the fact that in a vast area like Southern Kordofan and Southern Darfur, there are only two paved roads-Dibaibat - Kadogli road whose length is 180 Km. and Nyala-Kass - Zalingi which is 217 km long. Most of the major towns in the area are linked together with earth tracks that close repeatedly during the rainy season. During this time commercial and distribution activities come to a complete standstill. In such circumstances, it is perhaps inevitable that linkages (both inter - and Intra-regional) are found to be very weak or non - existent. Furthermore, there is a general inadequacy in infrastructural services in the fields of education, health, community health, energy and drinking water.

**f- Other Problems:**

Other problems facing the private sector in W.S. include desertification and drought. The drought that hit the Sahel countries of Africa since the early 1970s, affected many areas of Western Sudan. As a result many families had to abandon their homes and businesses. Large areas of previously cultivable land are no longer suitable for cropping and yields have considerably declined over the years throughout the area. Furthermore, substantial number of animals have been lost as a result of drought as well as the prevalence of disease. The veterinary services in the area are extremely poor and there are no private veterinary clinics.

**4 - Conclusions and Policy Recommendations:**

The areas of Southern Kkordofan and Darfur command substantial resources and significant development potential, particularly in agriculture. The private sector in the area is active in a number of fields including agriculture, industry, transportation and input distribution, handicrafts, ... etc. However, the role of the private sector is still not well defined in national and regional development plans. A clear and more precise statement is needed to clarify the division of labour between the public and the private sector and to specify the range of activities for which the private sector may be favoured particularly those in which it may be comparatively more efficient. A clear and more appropriate, incomes and tax policy for the private sector in the regions will have to be drafted. Tax revenues collected by the public sector will have to be closely geared to more provisions of public services especially infrastructural facilities such as roads, water, energy, communication, specific education, health and the like.

Price stabilization schemes for small producers in the private sector



are an urgent matter for reducing risk and uncertainty currently restraining increased production activity. The successful implementation of such schemes requires seriousness and commitment on the part of the government at all levels. An understanding and an acceptance of the essential role of the small producer in the traditional sectors to the process of development is a vital prerequisite to launching such schemes.



Notes:

- (1) See Blejer and Khan 1984.
- (2) See, for example, Pack 1976, Solomon and Forsyth 1977.
- (3) Tun and Wong (1982) have actually hypothesized that private investment in the developing countries depends on government investment, bank credit and inflow of foreign capital to the private sector.
- (4) Generally, the term "Western Sudan" is used to refer to both the regions of Kordofan and Darfur. In this paper, however, the reference is made to the provinces of Southern Kordofan and Southern Darfur.
- (5) Land in Western Sudan is measured in a unit called Mukhamas. One hukhamas is approximately equal to 0.55 hectares.
- (6) The case of SNWA is applicable to Southern Kordofan only. The SNWA from Southern Darfur invest areas other than livestock.
- (7) See the JMRDP report 83/84
- (8) Although no figures are provided for the manufacturing sector in Southern Kordofan, the field visit revealed that oil seed factories, decorticitors and mills are found in most of the big towns of the province.
- (9) The cooperative sector is adequately dealt with in a forthcoming paper by the same authors.
- (10) In Nyala, for instance, that monthly fuel quota allocated for the Union of Commercial Lorry Owners (with an estimated fleet of 214 lorries) is 1585 barrels a month. However, the actual quantities received in 1984 were around 100 barrels a month.
- (11) See USAID Report 1985.
- (12) This is a local lending system where farmers borrow money from local merchants against standing property, or more often, against the next crop. In the process, the merchants achieve extraordinarily high interest profit.
- (13) See Blejer and Khan (1984).
- (14) See Wai and Patrick (1973).



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