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The Microfinance Platform



Market Research report Khartoum state

May 2007

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Acronyms

AGS	Agricultural Bank of Sudan
CRS	Catholic relief service
IKM	Impact Knowledge Market
KCB	Kenya Commercial bank
MFI	Micro Finance Institution
NCB	Nile Commercial Bank
R&D	Research and development
SD	Sudanese Dinar
SUMI	Sudan Microfinance Institution

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Executive summary

The Market Research Survey on Microfinance has been conducted by PlaNet Finance. This survey among micro entrepreneurs in Khartoum State had the objectives of:

1. Providing information on Sudanese micro entrepreneurs and their activities
2. Assessing the demand in Khartoum State for microfinance lending services
3. Assessing the demand for microfinance non-lending services

Sampling

This survey has been conducted in Khartoum State within 3 areas: Khartoum, Omdurman and Khartoum North. A sample of 840 microentrepreneurs randomly selected within these areas has been used for this survey

Stratification		Sample distribution			Total
		Khartoum	Omdurman	Khartoum North	
Area		36%	37%	25%	100%
Location	Urban	29%	24%	17%	70%
	Semi-urban	7%	5%	4%	15%
	Rural	0%	8%	7%	15%
Local	Outside	19%	30%	21%	80%
	Home based	7%	8%	6%	20%

Micro enterprises Characteristics

Sudanese micro entrepreneurs lack access to financial services in Khartoum State. Only a small share of respondents has applied for formal credit in the twelve months before the survey (11%). And the lack of information is the main reason for micro entrepreneurs for not applying for a loan.

The majority of businesses are in trade activities (59%) and 19% in processing activities. And the majority have been **working in their activity for 9 years (32%)**.

Main Indicators	Khartoum State	% of respondents
Sector of activity	Trade	50%
Registration	Registered	55%
Financing Sources	Self financing	63%
Employees	Self employed	69%
Purchase of input	Daily	39%
Average monthly profit (median)	SDD 30 000 (USD 150)	-

Demand for Lending Services

The number of potential clients in Urban areas of Khartoum state is estimated at 1.500.000 (21% of total population) and the estimated potential market size for micro-lending services amounts to US\$ 1.5 billion in Khartoum State.

72% of the surveyed micro entrepreneurs in Khartoum State have no access to formal or informal credit services. The market penetration of formal microfinance lenders is still low as 8% of the total demand is served. In terms of financing a large majority of micro entrepreneurs' surveyed finance their activities themselves.

The Median loan size that micro entrepreneurs in Khartoum State are requesting is US\$ 1000 for a term up to 2 years. And the average interest rate micro entrepreneurs are willing to pay is 16%.

Type of loan desired	Females in Khartoum State (US\$)	Males in Khartoum State (US\$)
Median loan requested	500	1500
Monthly instalment		59%
Loan term desired by more than 50% of the respondents		12-24 months
Repayment capacity: interest rate demanded		16%
Collateral proposed		Guarantor

Surveyed micro entrepreneurs indicate credit needs mainly for expanding their businesses, working capital, starting up new businesses and financing assets.

Credit Needs	% of respondents
Expand business	66%
Working capital	35%
Start up new activities	23%
Finance asset	16%
Emergency reason	8%

Demand for Savings and other Financial Services

The demand for savings services is also important. 70% of the surveyed micro entrepreneurs stated a need for saving products.

Insurance products are considered with a lot of interest by respondents. 79% of the micro entrepreneurs are interested in Health Insurance, 59% in Social Insurance, 42% in Insurance on asset and 23% in Pension Fund.

1 Introduction

1.1 General Background

1.1.1 Context



Sudan is ranking 141st out of 177 in the 2005 Human Development report of the United Nations Development Program (UNDP)

Macroeconomic Context

Sudan is the largest country in Africa with an area of 2.5 million square kilometres.

After more than two decades of civil conflict between the north and the south of Sudan, a comprehensive peace agreement was concluded and signed between the Government of Sudan and the Sudan People's Movement in 2005.

Sudan embarked on a number of policy and institutional reforms in recent years aimed at sustaining growth, maintaining macroeconomic stability, and meeting the challenges of the peace agreement with the south. Thus, this prospect provides a source of optimism for the country.

In recent years, Sudan has managed to improve its previously dour economic outlook through sound economic policies and infrastructure investment, as well as an improved international image. Nonetheless, the economy still faces serious problems and the recent economic boom, on the back of Sudan's plentiful oil wealth, is bringing problems on its own. And since 1997, the country has been implementing IMF macroeconomic reforms.

In 1999, Sudan began exporting crude oil and recorded its first trade surplus, which, along with monetary policy, managed to stabilize the exchange rate. The oil industry is attracting large amounts of foreign direct investment and providing an important impetus to economic growth. Increased oil production, revived light industry, and expanded export processing zones helped sustain GDP growth

Official Name	Republic of the Sudan
Capital	Khartoum
Administrative Divisions	25 States
Official Language	Arabic
Other languages	Nubian
Population	41, 236,378
Population Growth Rate	2.55%
Religions	
North	Islam
South	Christian, Animist
Currency	Sudanese Dinar
GDP Per Capita	US \$2,100
G U ag	
NI S ric	
P \$6 ult	
er La ur	
C bo e:	
ap ur 80	
ita ab %	
or in	
Fo du	
rc str	
e y:	
by 7	
O %	
cc se	
up rvi	
ati ce	
on s:	
13	
%	
Unemployment Rate	18.7%
Population Below	40%
Poverty Line	

at 8.6% in 2004. Properly managed, the oil bonanza has the potential to revolutionise the economy, but increasing levels of inequality could pose problems in the longer term.

Real GDP growth is projected to top 10 percent in 2006 and 2007, as a result of increased oil production as well as other profitable sectors. Inflation has been kept in check, averaging 8.5 percent last year and remaining below this level for the first quarter of this year. However, the infusion of foreign exchange from oil exports has driven a strong appreciation of the dinar—12 percent and 17 percent in nominal and real effective terms, respectively, in 2005 alone. Nevertheless, the introduction of the new pound in January 2007, to replace the dinar, should help to restore the integrity of the currency as well as facilitate the process of economic and monetary union between North and South.

Sudan's considerable **debt burden** and lack of access to international capital are significant risks to long-term growth and development. Meanwhile, multilateral debt relief initiatives and an IMF monitoring arrangement are positive. And as oil export revenues increase, the debt burden should start to ease. But the **current situation is generally qualified as unsustainable**.

North Sudan Overview

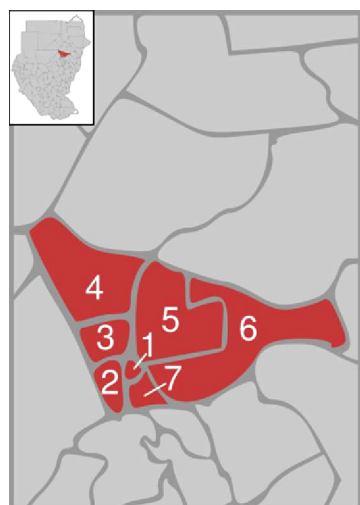
In terms of geography, economy, and population, North Sudan has a distinct profile which differs from that in the south. The northern regions of the country cover most of Sudan and include most urban centres. Most of the estimated 18 million Sudanese who live in this area are Arabic-speaking Muslims.

Years of conflict have created two different economies in Sudan: a weak economy at subsistence level in the South and a vibrant economy capable of attracting foreign investment in the North. In addition, as a result of religious differences between the two regions, North Sudan and South Sudan have each adopted different banking systems. While the South uses conventional banking, the North has implemented Islamic banking principles, which governs the financial sector. Traditional Islamic financial instruments play an important role in the country. They include the *murabaha*, the *Salam*, the *musharaka* and the *mudaraba*.

Microfinance Overview

Most of the Sudanese micro and small enterprises are usually financed by informal and semi-formal sources and the involvement of the formal banking system is minimal. According to the Bank of Sudan reports¹, the percentage of small loans extended by formal banking sector to “productive families” or small producers in 2003 did not exceed 3%.

However the demand for Microfinance has grown during the few past years, especially among women. Indeed, in addition to their poverty, women represent the major victims of armed conflicts and the phenomenon of female-headed household characterized the families of the Internally Displaced Persons (IDPs) in the poor urban settlements of Khartoum.



1.1.2 Khartoum State

Khartoum State hosts the capital of Sudan (Khartoum City). The State is located in the centre of the Sudan where the two main rivers (Blue and White Niles) meet and form the Nile River which flows to the Mediterranean, across Egypt. The State extends along the banks of the three rivers. The State is bordered by the States of Jazeera and White Nile to the South, Gedarif to the south-east, River Nile to the North and North Kordofan to the west.

The area of the State is 22 736 sq. kilometres and the population is estimated at 6.6 million. The State consists of three main towns (Khartoum, Omdurman and Khartoum North) in addition to some semi-urban and few rural areas in the peripheries. The area of the total arable land in the State is 1.89 million acres, of which only 368 thousand acres are cultivated with fruits and vegetables. The total number of livestock is around 1.4 million heads. The area of the natural rangeland is 2.3 million acres.

¹ In Ph D. Thesis, Jaafar Farah, 2005

Khartoum State, headed by Khartoum Governor (*Wali*) is divided into 7 administrative divisions called "localities", each headed by a Commissioner (*Moutamad*). The localities are subdivided into administrative units headed by senior local government executives.

Administrative Structure and Population Distribution ²					
No	Area	Localities	Nb of Admin. Units	Population	%
1	Khartoum	Khartoum	6	1 206 000	
		Jebel-Aulia	4	1 165 288	
	Sub-total		10	2 371 288	35.8
2	Omdurman	Omdurman	3	639 334	
		Kereri	2	731 760	
		Umbadda	3	1 117 244	
	Sub-total		8	2 488 338	37.5
3	Khartoum North	Bahri (Khtm North)	3	752 281	
		East Nile	8	1 021 872	
	Sub-total		11	1 774 153	26.7
	Grand Total	7	29	6 633 779	100

Table 1

The population of Khartoum State has rapidly increased during the last two decades, receiving the influx of IDPs, rural-urban migrants and some refugees. This phenomenon is attributed to: a) frequent waves of drought and environmental deterioration, b) civil conflicts, c) the high level of poverty which brought many people to Khartoum seeking better employment opportunities and, d) urban-urban migrants who left their rural towns looking for better opportunities and services, including quality education.

IDPs came to live around towns and big urban centres. Most of them now live in Khartoum City, some in shanty areas, some in IDP camps and others are relocated in new settlements. There are four IDP camps in Greater Khartoum: Jebel-Auliya and Mayo camps in Khartoum and Al-Salaam and Wad-Elbasheer camps in Omdurman town. The total number of the population of these camps is around two million, according to the UNHCR estimates (1998 Report). Inside these camps, the IDPs live under very harsh conditions, deprived of the essential means of a decent living. They encounter problems in the education of their children, lack adequate health services, water, sanitation, shelter etc.

This increase in population has led to pressure on services and increased the demand for commodities and services. To meet this growing demand, especially among the poor (estimated at more than 80%) and low income groups, lead to the expansion of the informal sector and the emerging of a considerable number of small and micro enterprises, in response to the growing demand for their services.

1.2 Objectives of the Market Study

Due to the lack of reliable quantitative and qualitative data on the characteristics and specific financial needs of SMEs and potential clients in Khartoum State, PlaNet Finance has conducted a market study of this demographic. The results presented here will provide a client segmentation of the microfinance market in Khartoum state with clear descriptions of each demand segment (size, needs, profitability, competition...). The market study will be used to establish strategic and operational planning of a new Microfinance Institution.

The main objective is to better understand the demand in microfinance services in North Sudan focusing on Khartoum State.

The Market research should give answers to following questions:

What is the client segmentation (gender, formal/informal businesses, type of activities) of the microfinance market in the State of Khartoum?

What is the description of each demand segment (size, needs, profitability, competition...)?

² Source: computed from the Social Development Foundation Study on Microfinance Potential Market , April 2007

The objectives of the implementation of a market research in Khartoum area are:

- to identify the needs of the potential clients regarding Financial Services (credits, savings, insurance and money transfers)
- to provide information to develop adequate products
- to estimate the characteristics of financial services desired (types, amount, rate, repayment, frequency of access to the savings account)
- to segment the market in terms of demography, formal/informal, activity, wealth, micro-enterprise's characteristics
- to evaluate the potential of unmet demand

1.3 Scope of the Study

1.3.1 Sampling

A Multi-stage sampling technique has been used to realize the survey. This methodology is a practical technique for a large population as it is not necessary to list all the micro and small entrepreneurs in the population.

Three main stages have been developed: First, The population is defined, second, the population is divided into selected areas, and last, a simple random sample of micro and small entrepreneurs is realized following stratification

Population definition

Following bibliography on Sudanese's Microfinance sector, there is no single definition for the small and micro-enterprise sector based on the difference in fixed assets, the type of establishment and the socioeconomic characteristics of small producers. Based on this and after have been consulting major actors in the sector, PlaNet Finance has defined the population studied in this survey on three criteria: business, demographic and geographical criteria's.

Population definition	
Business criteria's	<ul style="list-style-type: none"> • Owner of the business and authorized to run a business • Existing business for more than one year • Less than 5 employees for Micro entrepreneurs and less than 10 employees for Small Entrepreneurs • Formal and informal business • Micro and small entrepreneurs : business size: capital must exceed 50.000 SD (micro) and up to 1 000 000 SD • Financial Services needs. Credits (working-capital or fixed assets), Savings, Insurance, Money Transfers • Type of activity: Trade, Manufacturing/Processing of other product, Services, On-Farm activities
Demographic criteria's	<ul style="list-style-type: none"> • Age: above 18, below 65 • Gender, Minimum 10% females • Nationality: Sudanese
Geographic criteria's	<ul style="list-style-type: none"> • Areas selected in the 7 localities of Khartoum State • Mapping of the areas: streets, souks, homes • Street and House-based enterprises

Table 2

Selected areas

Potential areas in the three Areas (Khartoum, Khartoum North and Omdurman) were identified with Sudanese Consultants. Table 3 lists all the main markets and selected location for the survey in Khartoum state, defines the type of location (urban, semi-urban and rural) and gives a size rating (3= large market, 2=medium, 1=small). Out of those 47 locations, 17 have been surveyed.

Main markets and Selected locations for survey in Khartoum State					
No	Area	Markets	Type	Rating	Surveyed Markets

1	Khartoum	Central Market	Urban	3	X
2		Arabi Market	Urban	3	X
3		Saggana	Urban	2	X
4		Eldaim	Urban	2	
5		Elkalakla Alluffa	Semi-urban	3	
6		Abuhamama	Urban	1	
7		Almahalli	Urban	2	
8		Jebel	Semi-urban	2	
9		Mayo	Semi-urban	2	X
10		Soba	Semi-urban	1	
11		Sahafa Block 26	Urban	1	X
12		Shaabi-Khartoum	Urban	3	
13		Burri Block 4	Urban	1	X
14		Shajara	Urban	1	
15		Elushara	Urban	1	
16		Khartoum 2	Urban	1	
17		Giraif Gharb	Urban	1	
18	Khartoum North	Central Market	Urban	3	X
19		Bahri market	Urban	3	
20		Saad-gishra	Urban	3	
21		Droashab	Semi-urban	2	X
22		Haj-yousif – 6	Urban	3	X
23		Hilat-kuku	Semi-urban	3	
24		Ailafoon	Rural	1	X
25		Giraif-sharg	Semi-urban	1	
26		Halfaya	Urban	1	
27		Shambat	Urban	1	
28		Samrab	Semi-urban	1	
29		Umdiraiwa	Rural	1	
30	Shigla (Haj Ysf)	Semi-urban	1		
31	Omdurman	Big market	Urban	3	X
32		Shaabi	Urban	3	
33		Libya	Urban	3	X
34		Abroaf	Urban	2	X
35		Halaib		2	X
36		Thawra Block 29	Urban	1	
37		Thawra Block 4	Urban	1	
38		Khalifa (Thawra Block 17)	Urban	2	
39		Sabreen (indust. Area)	Urban	1	X
40		Karoar	Urban	2	X
41		17 Elbugaa	Urban	1	X
42		22 Darassalam	Semi-urban	1	
43		Abuzaid	Semi-urban	2	
44		Alrashideen	Semi-urban	1	
45		Alfitaihab	Urban	1	
46		Umdafaso (Marzoog)	Semi-urban	2	
47		Shajara	Urban	1	

Table 3

Stratification

The sample was stratified according to several variables such as localization, citizenship, and gender.

The survey was conducted with 830 micro enterprises in Khartoum following the distribution presented in table 4.

Sample distribution					
Stratification		Khartoum	Omdurman	Khartoum North	Total
Area		36%	37%	25%	100%
Location	Urban	29%	24%	17%	70%
	Semi-urban	7%	5%	4%	15%

Local	Rural	0%	8%	7%	15%
	Outside	19%	30%	21%	80%
	Home based	7%	8%	6%	20%

Table 4 : Sample Distribution

An additional qualitative analysis has been realized complementing of the multi-stage sampling technique, consisted of four Focus Group discussions with the target population (women, formal business, informal business, and existing IMF clients) in Khartoum State led by a Sudanese microfinance expert. The Focus Group Discussion was conducted with 28 micro entrepreneurs following the distribution presented in table 1.

Focus Group distribution		
Group Type	Place	Number of Participants
Formal Group	Halfaya (Khartoum North)	7
Informal Group	Abuhamama (Khartoum)	6
Current Clients	Saggana	8
Females	Abusi'id (Omdurman)	7

Table 5

1.3.2 Data collection

Qualitative methods were used to identify and to validate the questionnaire. The IKM³ (Impact-Knowledge-Market) standard questionnaire has been adapted according to local specificities. The adaptation phase was composed of three main steps:

- Initial adaptation by the team during project preparation.
- Second adaptation following the organization of meetings with local consultants to test for cultural and socioeconomic relevancy.
- Final adaptation done with the local interviewer during field testing. After training, interviewers delivered the questionnaire in order to test their ability to do the work and to test the validity of the questionnaire. This stage of test of questionnaire development led to the final version which was then used.

1.3.3 Data Analysis

Significant amounts of information were collected from the respondents including household information, asset ownership, economic activities, access to markets, use of financial services, investments, and credit demand.

Data entry and data analysis have been done using SPSS. All questionnaires were first controlled by the supervisor before data keyboarding. At this stage, the data was "cleaned," meaning certain elements of the questionnaire were deleted in order to avoid incoherence.

1.3.4 Limitation of the study

Social research has a certain number of inherent problems. For example, the difficulty of winning the full confidence of a respondent within a short period of time can hinder research. During data collection, some respondents regarded the research as an inquiry on tax evasion, profiteering, and other malpractices and therefore would not cooperate fully with the interviewers. This brings the accuracy of the data collected from such respondents into question.

1.4 Organization of the Market Study

This report is divided into 9 chapters including this introduction.

Chapter 2 - Characteristics of Households and their Activities: This chapter describes the demographic information of households in the sample (age, gender, formal education, housing, etc.) and economic

³ See annexe 10.1

information related to their activities (type of activity, location, investment, seasonality of activities, etc.).

Chapter 3 - Use of Financial Services and Access: This chapter covers the available sources of financial services as well as the use of credit, savings, and other financial services.

Chapter 4 - General Knowledge of Financial Suppliers: This chapter explains to what extent respondents are aware of available financial services in the Khartoum State.

Chapter 5 - Structure of Credit Demand: This chapter details the type, size, and repayment modalities of loans preferred by micro entrepreneurs as well as type of collateral that can be offered. It also details which additional financial services are needed by the respondents.

Chapter 6: Potential Demand: This chapter provides an analysis of credit behavior which allows for and identification of potential clients as well as modification of existing products accordingly.

Chapter 7: conclusion and recommendations: This Chapter describes the profile of micro entrepreneurs, microentreprises and what their financial services needs are.

Chapter 8: Annexes: This last chapter describes the methodology used to develop the “asset ownership index”

2 Characteristics of households and their activities

2.1 Demographics

2.1.1 General Information

The majority of respondents are between 20-40 years of age. 67% are male, and 62% are married.

As despite on chart 2, the proportion of respondents who are originally from Khartoum State is low (15%). People from Central and Kordofan States are the most represented with 25% et 24% followed by Darfour States with 17%.

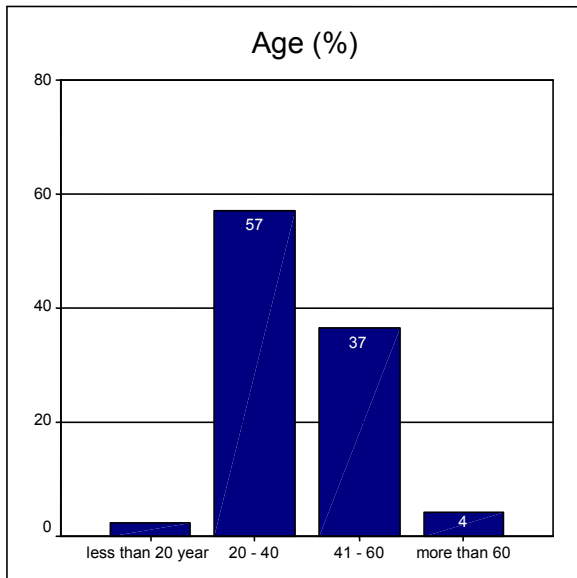


Chart 1 : Age

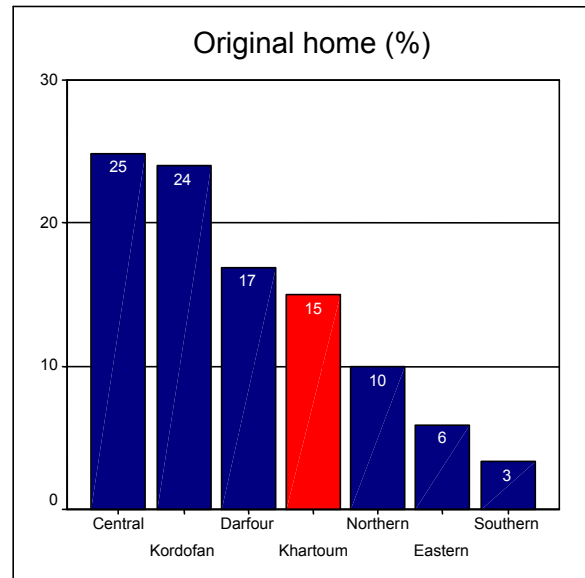


Chart 2 : Original Home.

12,5% of respondents have completed higher education; 30% preparatory education; 33% only primary schooling; 11% less than primary and 13,5% received no formal schooling. 82% of the respondent However, when asked if they were able to read a letter, 18% of all respondents declared themselves incapable.

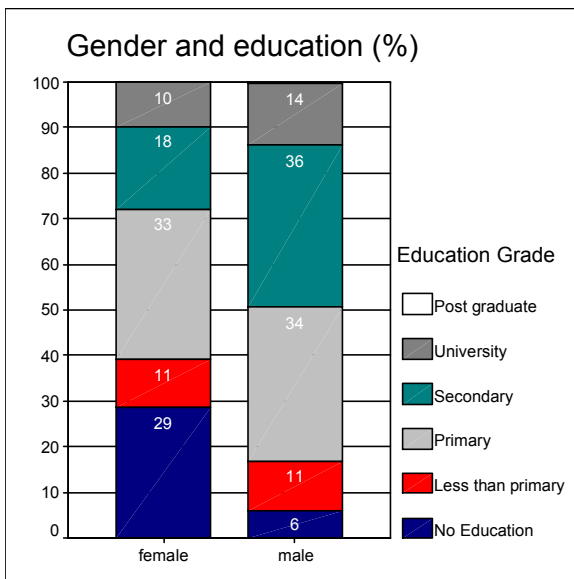


Chart 3 : Gender and education

The level of education varies between men and women. Generally, the level of education is higher for men. 6 % of the males received no formal education compared to 29% of females. When asked if they were able to read a letter, 74% of men and only 26% women surveyed responded in the affirmative.

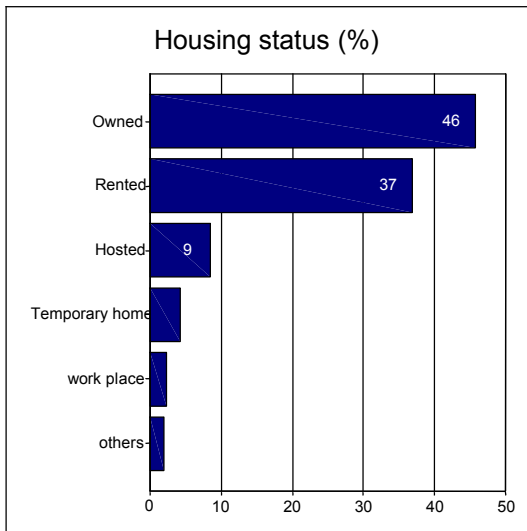


Chart 4 : Housing ownership

46% of the respondents in Khartoum State own their homes and 37% are renting it. It is interesting to notice as well that 9% are hosted in another family and 2% are staying at their work place.

The household profile of micro enterprise owners, is in average 3 people under the age of 18 (chart 4) and 4 dependents over the age of 18 years old (chart 5).

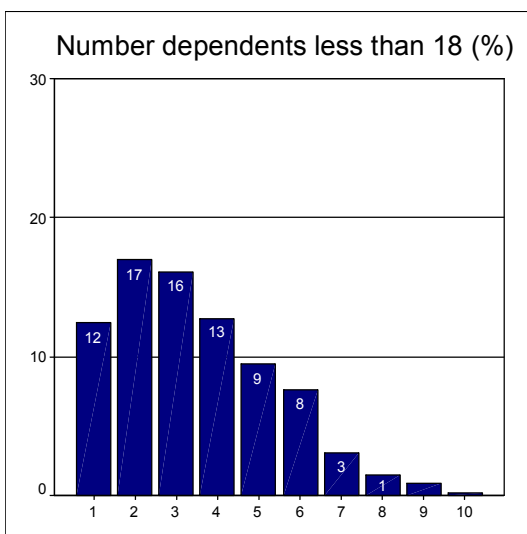


Chart 5: Number of dependent less than 18 years old

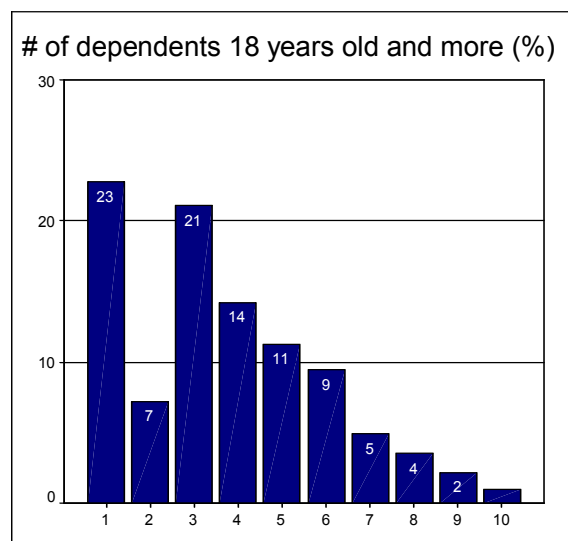


Chart 6 : Number of dependent 18 years old and more

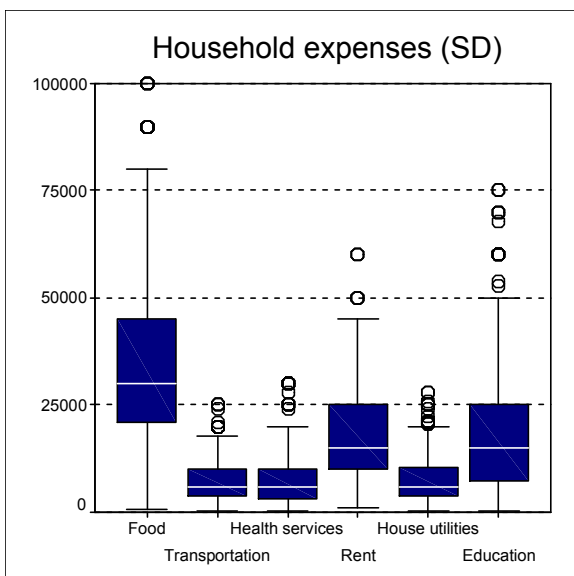


Chart 7 : Household expenses

Chart 8 represents the level of households' expenses per month. Table 1 represents average amounts spent by household in current expenditures.

2.1.2 Evaluation of Wealth: Index of Asset Ownership

In order to evaluate wealth, an asset ownership index is used to subdivide a sample into several groups with respect to their degree of wealth. Each individual or household included in the sample is assigned a score, based on the number or nature of assets owned by the household. This index has

been used to divide the sample into five “quintiles” or groups of equal size (see methodology explanation in annex).

Wealth Index and Location

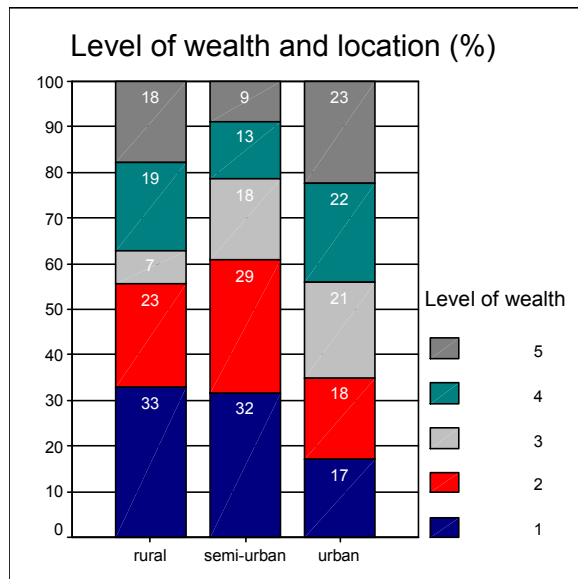


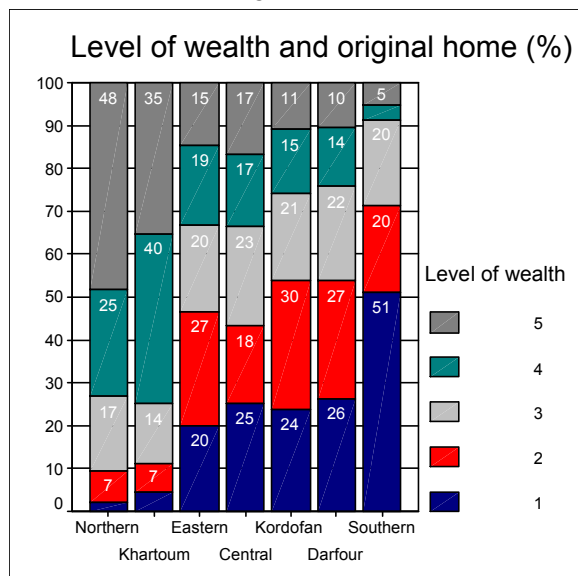
Chart 8 shows the result of crossing this wealth index with different types of location (rural, semi-urban, and urban). From down to the top, quintiles are represented from poorest to wealthiest.

Chart 8 : Wealth by location

Wealth Index, Gender and legal status

The comparison between male and female respondents does not show significant differences between the two groups in terms of wealth. If we compare the level of wealth by legal status, formal business owners are slightly wealthier.

Wealth Index and original home



Wealth of micro entrepreneurs varies significantly per the location of their original town or village in Sudan.

The proportion of relatively “wealthier” respondents is higher in Northern and Khartoum States, while there is a higher concentration of respondents in the middle and lower quintiles in Eastern, central, Kordofan and Darfour States.

Chart 9 : Level of Wealth and original home

Wealth Index and Education

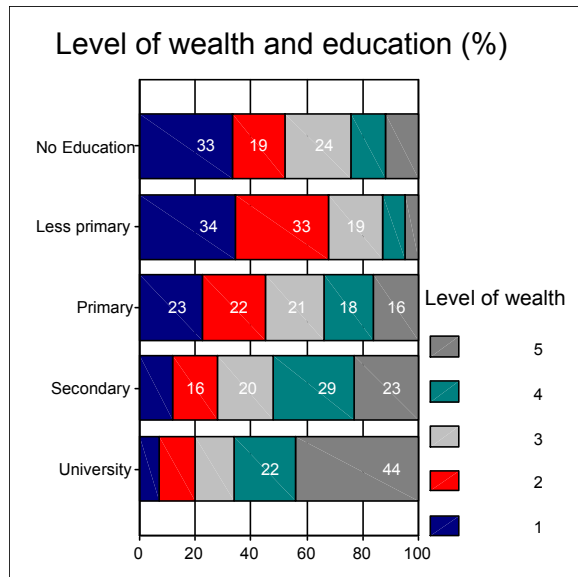
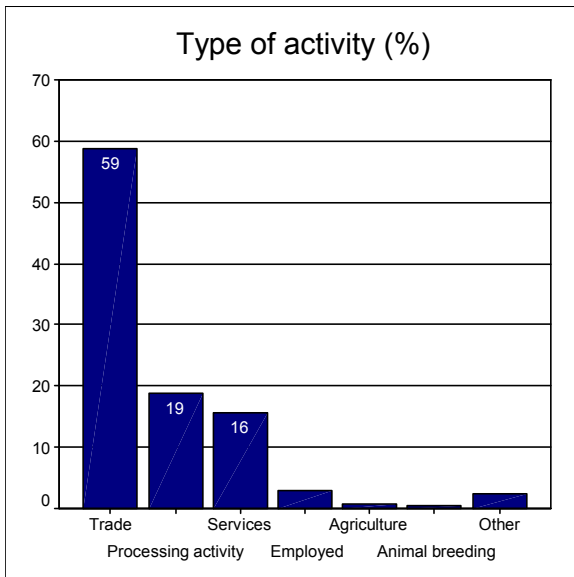


Chart 10 shows the result of crossing this wealth index with different level of education (no education, less than primary school, primary school, Secondary school, and University). From left to the right, quintiles are represented from poorest to wealthiest.

Chart 10 : Level of wealth and education

2.2 Information about Economic Activities

2.2.1 General Information



Trade is the most important activity of the respondents in Khartoum State (59%), although the proportion of traders varies by type of location, with a higher presence in rural areas.

Qualitative analysis confirms that trade is the main occupation of small and micro-businesses. It includes small shops, food vending and processing, stalls...

Chart 11: Type of activity

As Chart 12 shows, the majority of micro entrepreneurs surveyed sell their products and services on a remote market (60%) far from their house. At contrary, 19% of them sell in a nearby market.

Chart 13 depicts the distribution of type of premises used by the micro entrepreneurs to sell their products and services: 32% in shop, 19% only a shed, 14% on a stall or table, 13% in a kiosk, 11% to an intermediary, and 9% in open air.

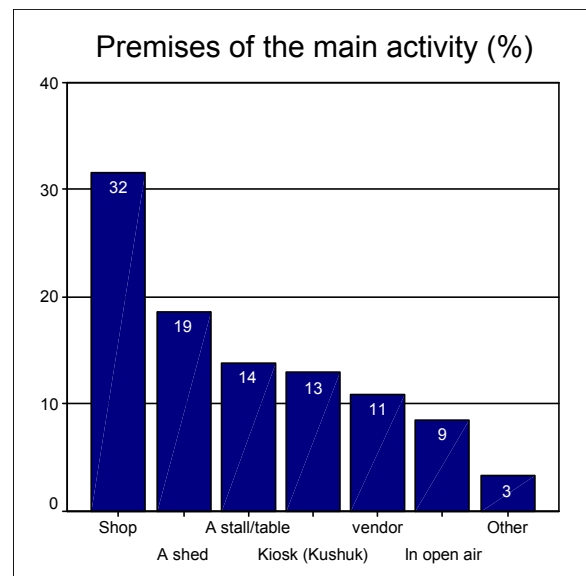
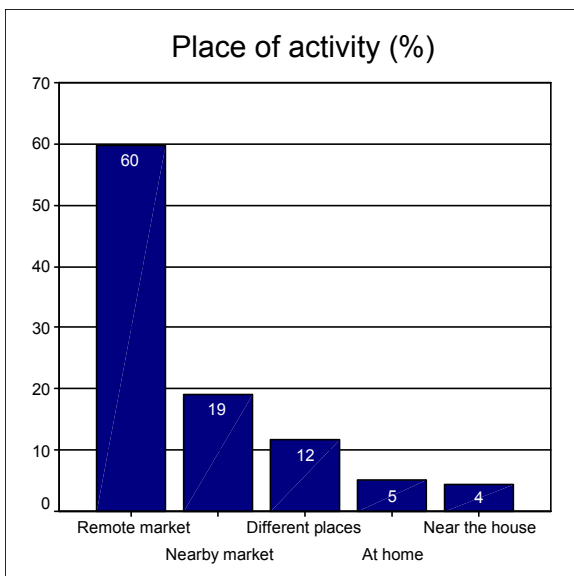


Chart 12 : Place of activity

Chart 13 : Premises of the main activity

Chart 14 shows the number of times respondents have to buy goods or raw materials that they need for their work per month. 39% of micro entrepreneurs purchase inputs every day, 19% purchase inputs each week, 15% each two weeks, 11% each three weeks, 7% each two days and 8% once a month.

In terms of financing a large majority of micro entrepreneurs' surveyed finance their activities themselves (63%), have no external sources of financing (chart 15).

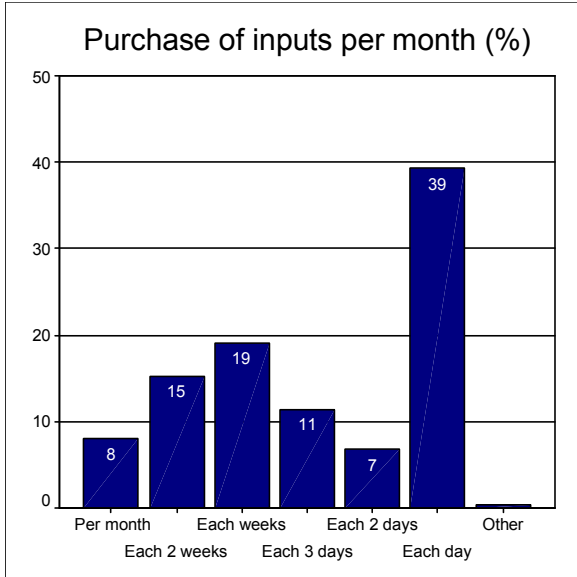


Chart 14 : Purchase of inputs per month

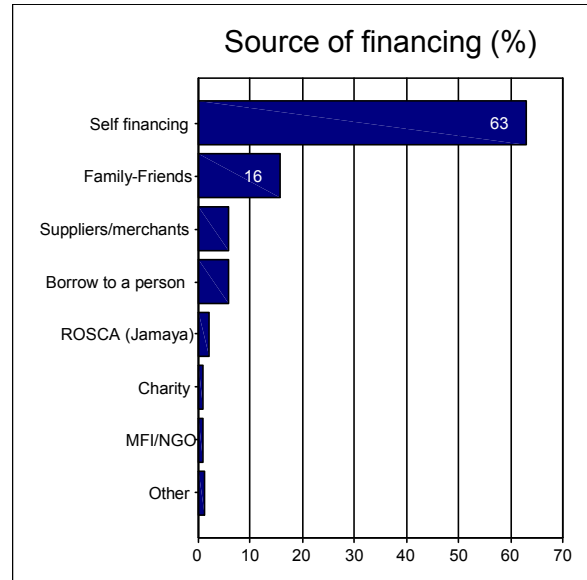


Chart 15 : Source of financing

2.2.2 Registration status

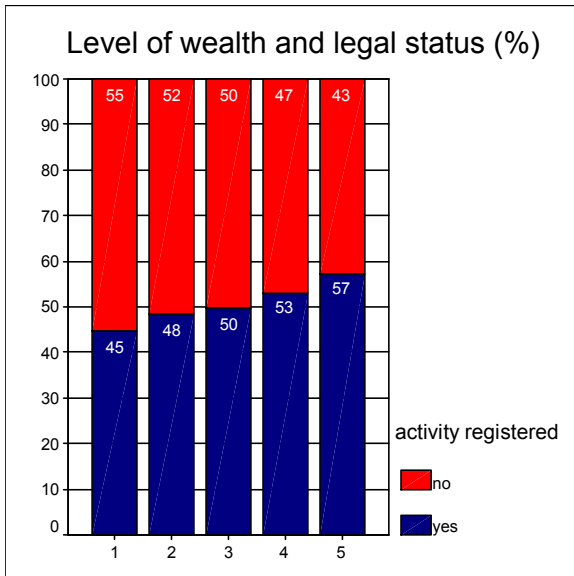


Chart 16 : Level of wealth and legal status

According to the respondents of this survey 55% of micro enterprises are formally registered, while 45% of the micro-enterprises are not registered or informal.

This fact has been confirmed during the Focus Group Discussions when respondents pointed out the harassment of authorities for informal businesses (including confiscation of goods or suing in court). Consequently, this has badly strangled small and micro businesses.

2.2.3 Experience in Activity

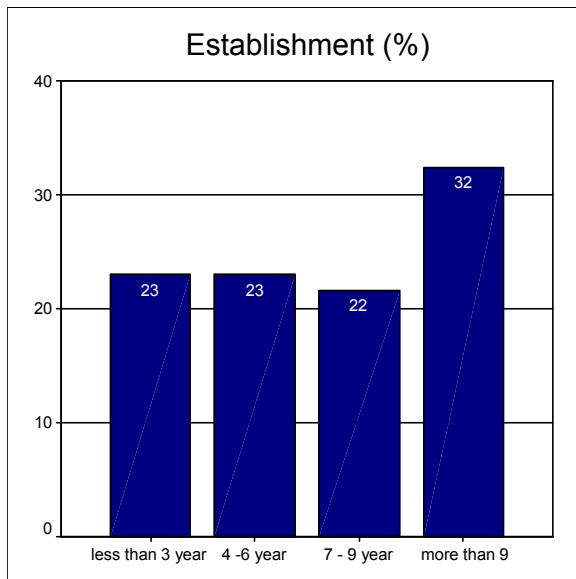


Chart 17 : Establishment

The majority of respondents of this survey has at least 9 years of experience in their activity (32%).

2.2.4 Purchase of inputs on credit

We asked directly, 27% of respondents declare to have bought goods or raw materials on credit to suppliers.

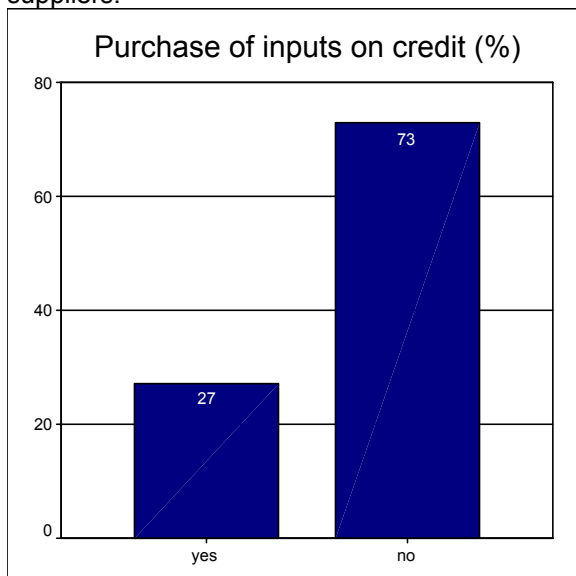


Chart 18 : Purchase of inputs on credit

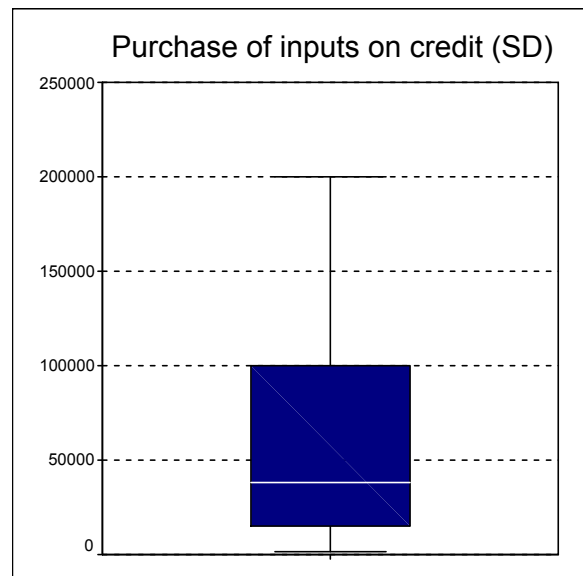


Chart 19 : Purchase of inputs on credit

2.2.5 Profits by gender and Level of wealth

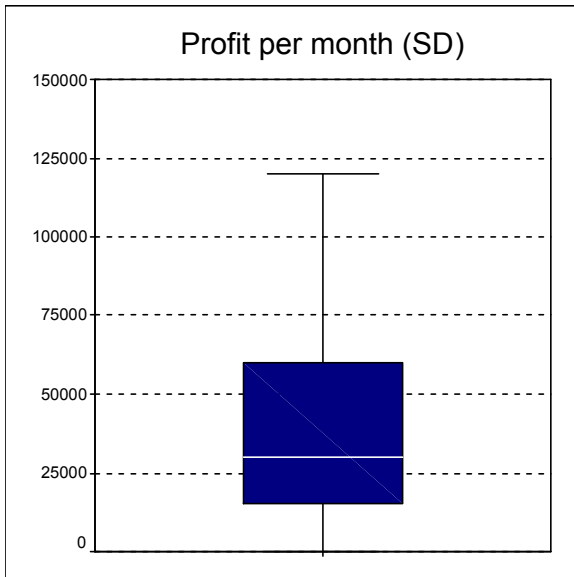


Chart 20: Profit per month

The average monthly profits in Khartoum Sate is 56 200 SD

Monthly average profits earned by respondents have been further analyzed in terms of the following variables: gender, legal status, type of location (rural, semi-urban, urban); activity (trade, services, handicrafts/production, and agriculture/animal breeding); location of activity (home-based and outside-based) and level of wealth.

These segmentations show significant differences among micro enterprises particularly concerning the level of wealth and gender.

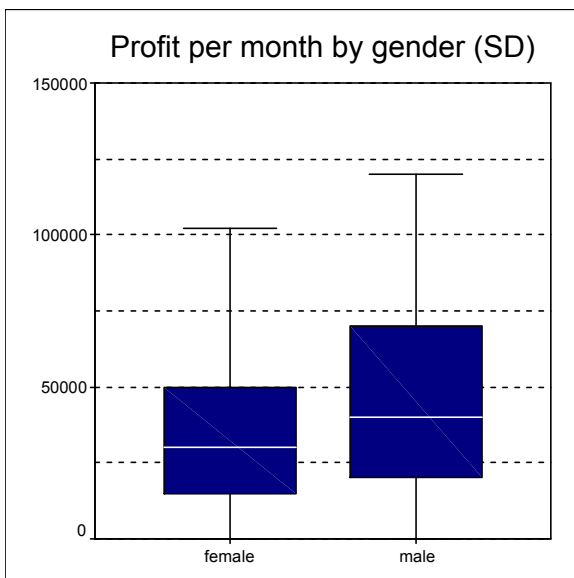


Chart 21: Profit per month by gender

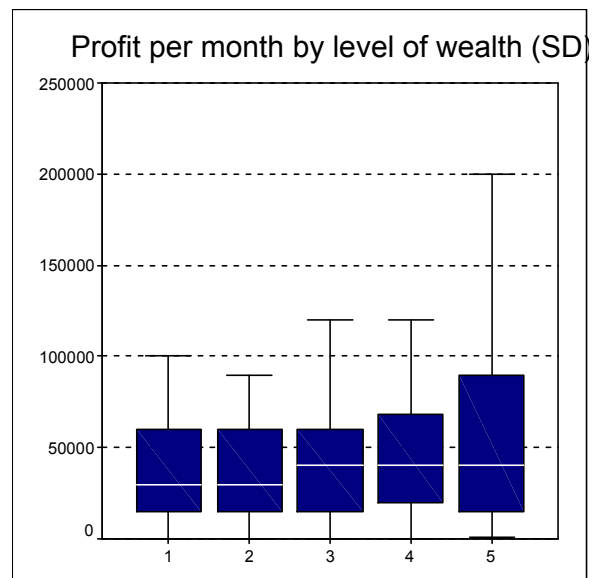


Chart 22: Profit per month by level of wealth

2.2.6 Employment

As depicts in the following charts, most of the business owner's interviewed works by themselves. Only a few of them employ currently workers either full time or part time.

Full time worker

69% do not employ any full time workers paid, 20% of micro enterprises employ one person, 6% employ two people, 3% employ 3 people, and 1% employs 4 people.

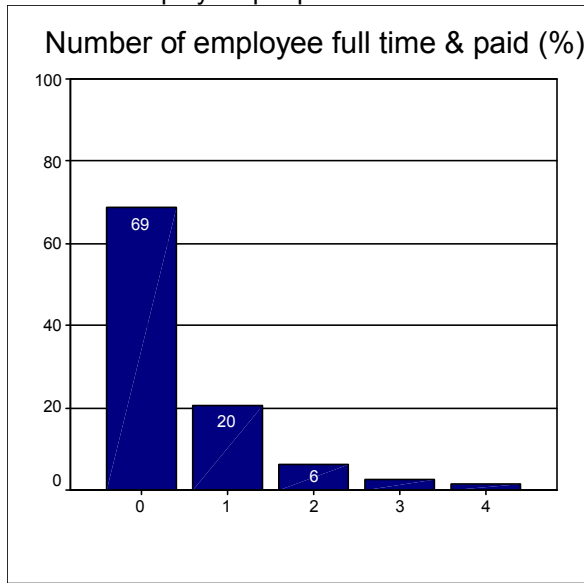


Chart 23 : Number of employee full time and paid

94% do not employ any full time and unpaid workers (family member).

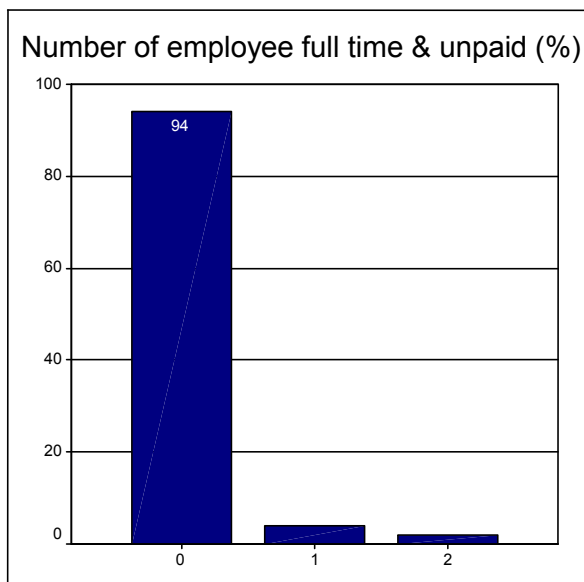


Chart 25 : Number of employee full time and unpaid

Part time workers

94% do not employ any part time workers paid.

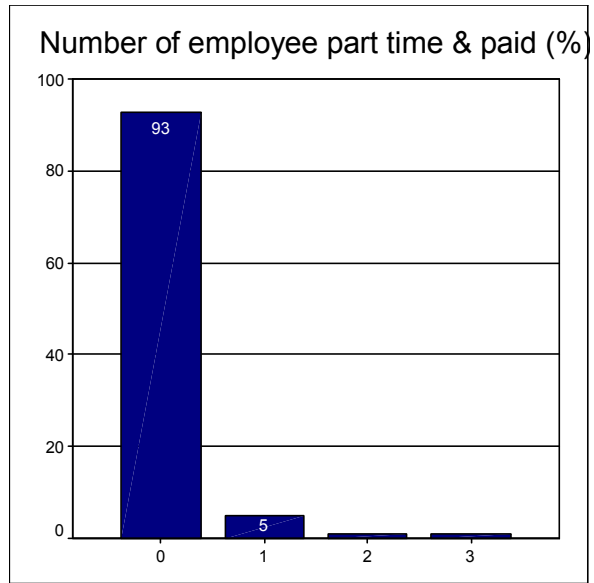


Chart 24 : Number of employee part time and paid

95% do not employ any part time workers unpaid (family member).

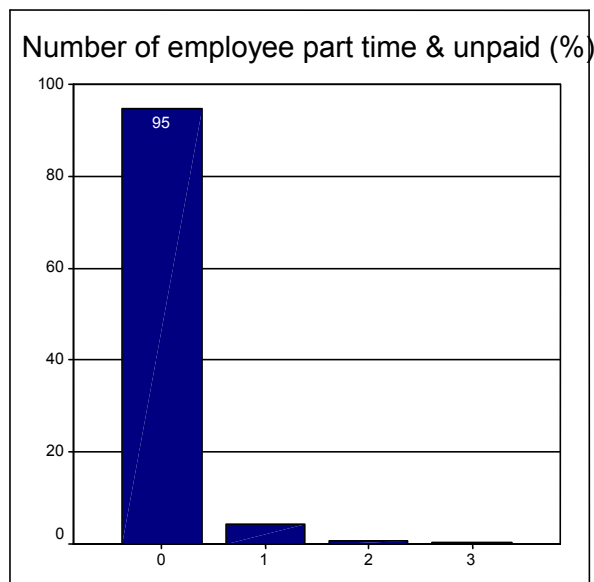


Chart 26 : Number of employee part time and unpaid

2.2.7 Investment

This section focus on the level of past and future investments micro entrepreneurs have done or are planning to do. For each of the following attributes (1. Stock / inputs (month), 2. Machine / equipment (year), 3. Shop / premises acquisition / expansion (year), 4. Livestock (year), 5. Other) respondents were invested to respond. Results are depicts in chart 27 and 28.

Table 6 compares the median level of investment realised and planned. The level of Investment will slight rise in Machine and in Livestock (7%), and increase in Shop or Premised acquisition or expansion (14%) and Stock (25%).

Table 6 : Level of investment

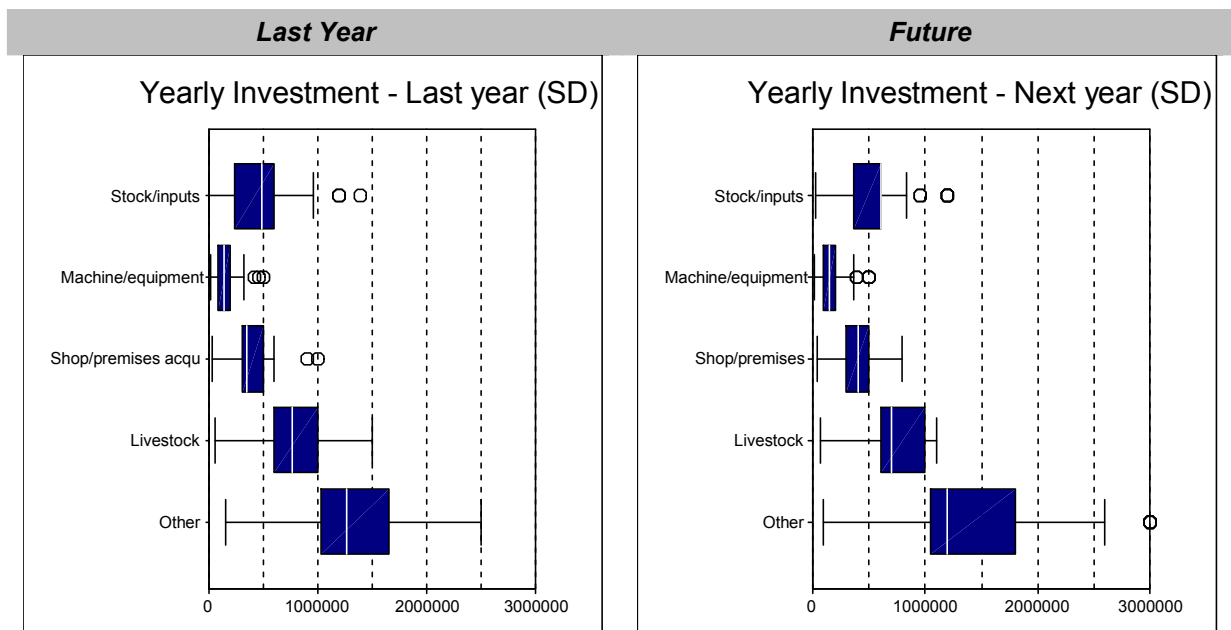


Chart 28 : Yearly Investment – Next Year

Chart 27 : Yearly Investment – Last year

2.2.8 Seasonality of Activities

In terms of seasonality of activities, the below graphs show the activity level throughout the year. Respondents were asked to rank each month's level of activity according to the following criteria: 0: No activity; 1: Low activity; 2: Average activity; 3: Strong activity.

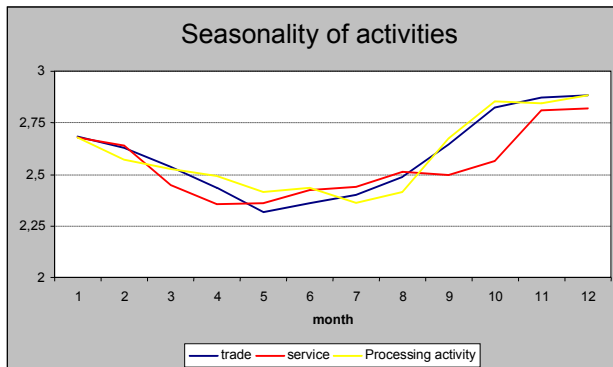


Chart 29 : Seasonality of activities

The seasonal variability of economic activities is moderate to high for the majority of respondents in all sectors: trade, services and processing activity.

Sales are slightly lower during the summer period May-September while they are higher from November to March.

In terms of seasonality of credit needs, the charts 30 shows the level of credit need throughout the year. Respondents were asked to rank each month's level of activity according to the following criteria: 0: No need; 1: Need.

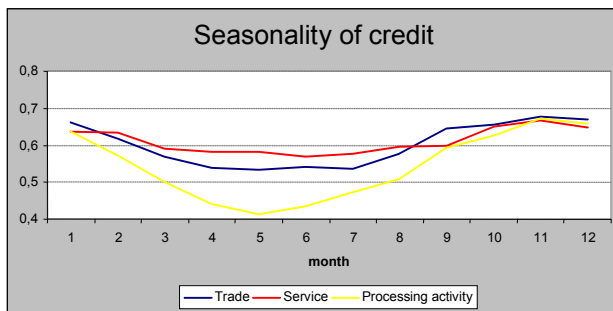


Chart 30 : Seasonality of credit

Credit needs are also higher when the activity level is high. This is a direct result of the need to purchase stock and equipment in order to meet the higher level of demand during these months.

The Focus Group Discussions' respondents reported a need for credit all year round. Few were trading in seasonal products and therefore needed credit during January-May (the harvest time for many agricultural products)

3 Financial Services Use and Access

3.1 Credit

3.1.1 Sources of credit and size

Micro entrepreneurs in Khartoum State as in any place of the world need credit to finance their activities. To do it so, they rely mainly on people other than family and friends (suppliers) and their family and friends to finance their activities.

Only a small share of respondents has applied for formal credit in the twelve months before the survey (11%). Of those who have requested credit from banks or MFIs the majority (70%) received some credit while 30% were rejected. The Average loan amount demanded by micro entrepreneurs in Khartoum State was 120 000 SD.

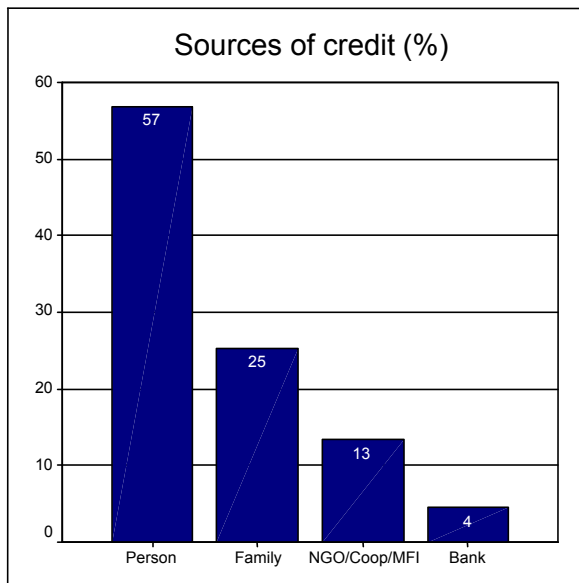


Chart 31 : sources of credit

In terms of formal and informal sources of credit, 28% of the respondents have received loans in the last 12 months. Informal credit (particularly from suppliers and family) was more important than formal sources.

A person other than family or friend is by far the largest source of credit (57%) compared to family or friends (25%).

3.1.2 Rejected application

The two main reasons for being denied a loan from a bank are the lack of collateral and the weakness of business.

3.1.3 Reasons for not applying for credit

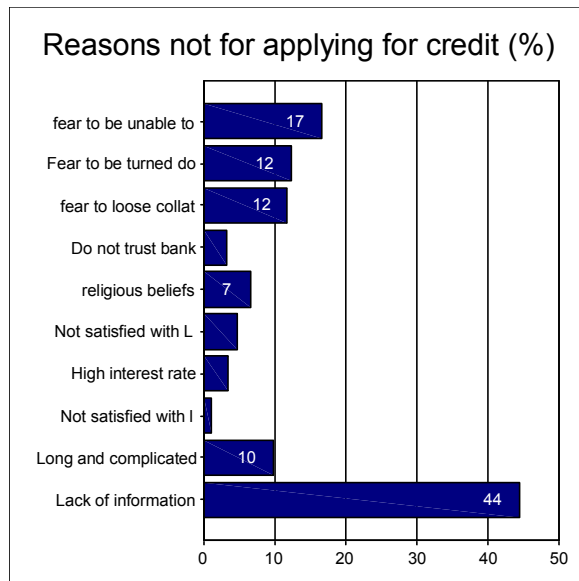


Chart 32 : Reasons not for applying for credit

When asked for the reasons why they have not applied for credit, respondents in the Khartoum State have enumerated a number of reasons not to do so. They can be summarized in three main groups: risk-aversion, product satisfaction and lack of information.

Each respondent was given the option to agree or disagree on each reason presented.

During the Focus Group Discussions, the respondents didn't raise any kind of reservations against borrowing money for business purposes (religious or other types).

RISK AVERSION:

An important reason not to apply for credit is the fear to not be able to pay back the loan (17%), while in addition a number of clients are afraid to loose their collateral (12%), that their application will be turned down (12%), or simply do not trust bank (3%).

PRODUCTS SATISFACTION

Few micro entrepreneurs do not apply for loans because of the inadequacy of the current products offered by the financial providers. Some clients are dissatisfied with the bureaucracy involved in taking a loan (10%), with the loan terms (5%) or the interest rates (3%), while others are dissatisfied with the loan sizes (1%).

LACK OF INFORMATION

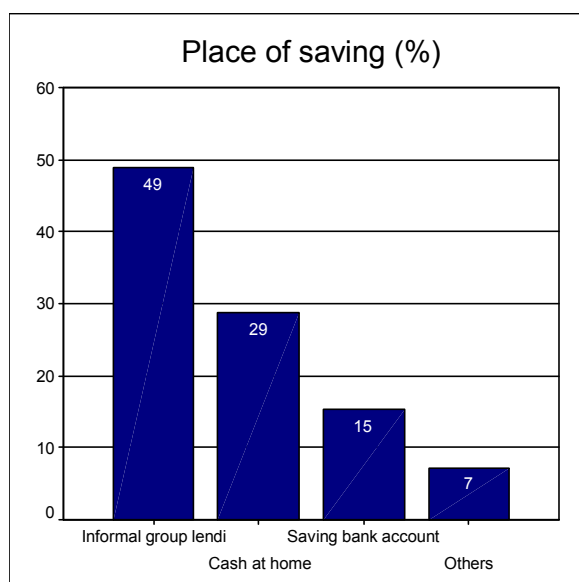
The main reason (44%) why micro entrepreneurs do not apply for a credit is because of the lack of information.

RELIGIOUS BELIEFS:

Furthermore religious beliefs do not seem to be an obstacle to obtain credit; only 7% of respondents did not apply for a credit because of it.

3.2 Savings

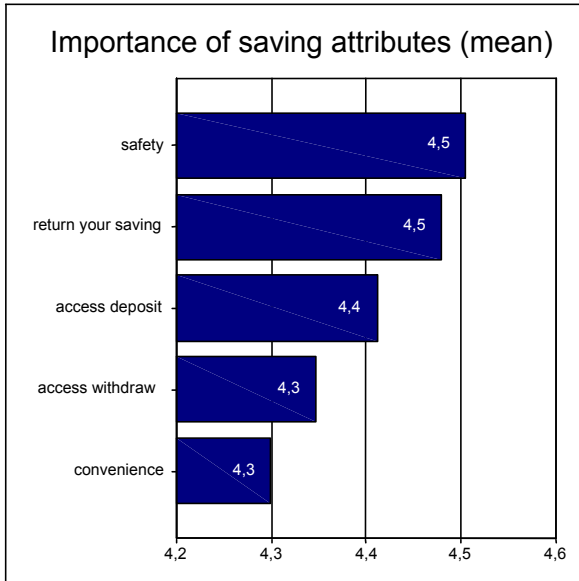
In terms of savings, 51% of the respondents in confirmed saving every month. Most of these savings



are kept in informal group lending (49%). 29% save at home and 15% of respondents had formal savings accounts at banks, (although only 4% of respondents have a current bank account). The higher is the level of wealth, the higher are the numbers of people who have a saving account.

Due to the lack of social safety nets, most of the interviewees of the Focus Group Discussions consider savings as very important for meeting emergencies, paying school fees or medical expenses.

Chart 33 : Place of saving



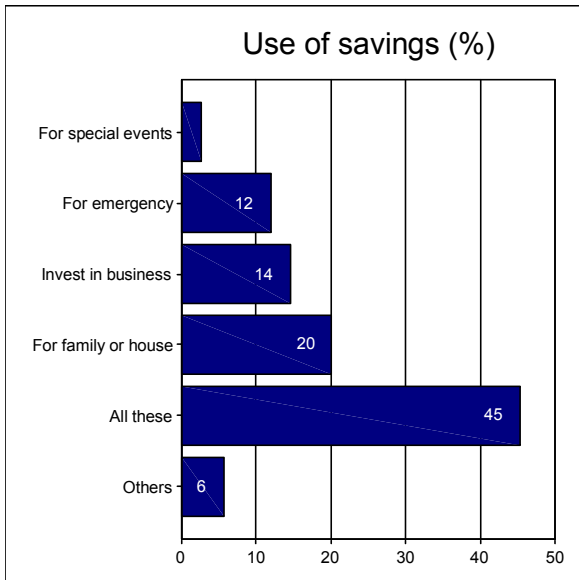
70% of the respondents are interested if a MFI provides them with saving products.

In order to evaluate the importance of different attributes of savings product, respondents were asked to rank different loan characteristics using the following scale: 1: Not important; 5: Very important.

The chart 34 shows that respondents give similar high importance on all savings characteristics. However safety is the most important issue for micro entrepreneurs, follow by return on saving, freedom of access (deposit), freedom of access (withdraw), and finally, convenience (close to home or business).

The qualitative analysis confirms that the most important elements for saving accounts are: 1/ easiness to deposit or withdraw, 2/ to gain profit and, 3/ to help in getting loans.

Chart 34 : Importance of saving attributes



The main reason for saving was for family or house purposes (20%). Such as using the money to invest in their business (14%), for future difficult situations (12%). Few participants mentioned that savings were used for special events (2%).

Chart 35 : Use of savings

4 General Knowledge of Financial Suppliers

Only 30% of the respondents gave a clear answer to the question: "Can you name four institutions to which you could apply for a credit?". Other respondents don't know or have no information or link with credit providers in Khartoum State.

Those who responded positively either named one institution or more. The following table shows the percentage an institution is mentioned by different respondents.

Serial No	Institution	% mentioned/named
1	Social Development Foundation (SDF)	34%
2	Savings and Social Development Bank	33%
3	NGOs/CBOs	23%
4	Agricultural Bank of Sudan (Development Bank)	13%
5	Banks	12%
6	Omdurman National Bank (Commercial Bank)	11%
7	The Islamic Cooperative Development Bank (Commercial Bank)	9%
8	Nilein Industrial Development Bank Group (Commercial Bank)	3%
9	Graduates Employment Project (government project financing unemployed graduates)	2%
10	Real Estate Commercial Bank	2%
11	Faisal Islamic Bank (Commercial Bank)	2%
12	Zakat Chambre (a social government fund to help the poor - grants)	1%
13	Farmers Bank (Commercial Bank)	1%
14	Elshamal Islamic Bank (Commercial Bank)	0,4%
15	The Sudanese Islamic Bank (Commercial Bank)	0,4%
16	Khartoum Bank (Commercial Bank)	0,4%
17	Workers Bank (Commercial Bank)	0,4%

Table 7

5 Structure of Credit Demand

The data collected concerning demand for credit allows us to determine the characteristics of microfinance products that would be wanted by micro entrepreneurs in Khartoum State. These attributes are: type of credit, loan sizes, interest rates, guarantees, and repayment terms.

5.1 Credit Needs

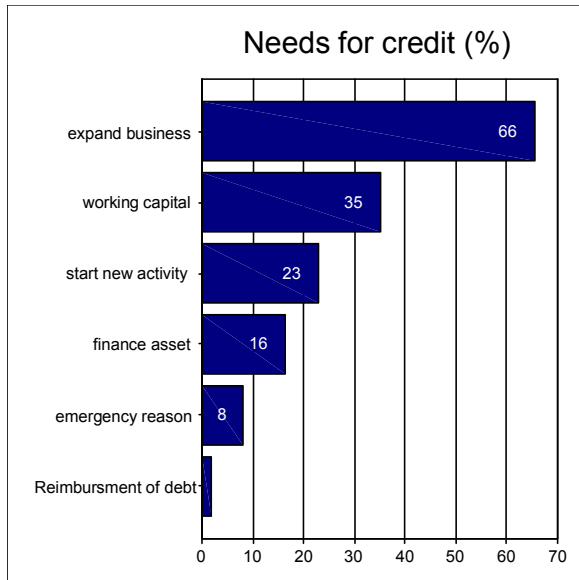


Chart 36 : Needs for credit

In terms of the reasons why micro entrepreneurs in Khartoum State need loans, the main reasons are:

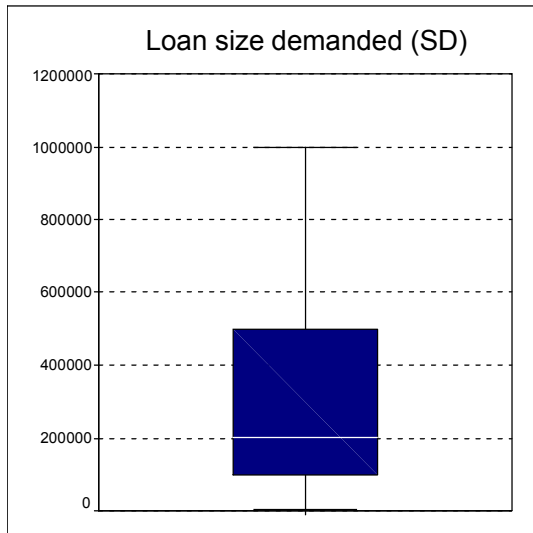
Expanding their activities, where expansion can be interpreted as an increase of business output or investment in new projects (66%).

Working capital loans (36%) or funds to start a new activity in the context of their existing business (2%)

Additionally 16% of respondent would need loans to finance asset, 8% for emergency reason and a few to reimburse debts.

From the qualitative analysis, the respondents of the Focus Group Discussions who received loans also pointed out that they would like to apply for another loan in order to finance the working capital or expand their existing business.

5.2 Loan Size

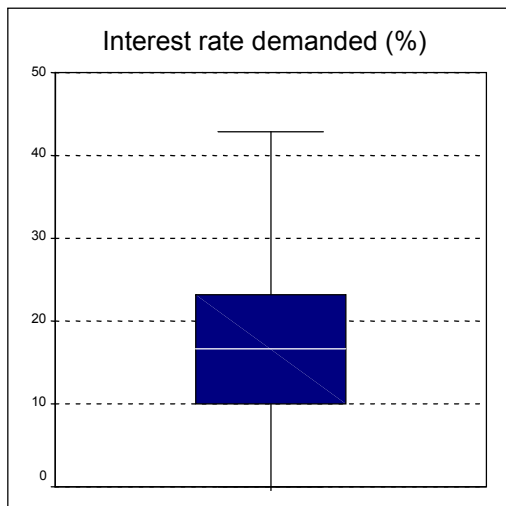


The Median loan size that micro entrepreneurs in the Khartoum state were willing to borrow is 200 000 SD.

There are, however, some significant differences among them, specifically regarding their registration status, gender, and location (urban, semi-urban and rural).

Chart 37 : Loan size demanded

5.3 Interest rate



The average interest rate micro entrepreneurs in the Khartoum State are willing to pay to receive a credit is 16%.

There are no significant differences among them, regarding their registration status, location and gender.

Chart 38 : Interest rate demanded

5.4 Loan Repayment Modalities

5.4.1 Repayment Terms

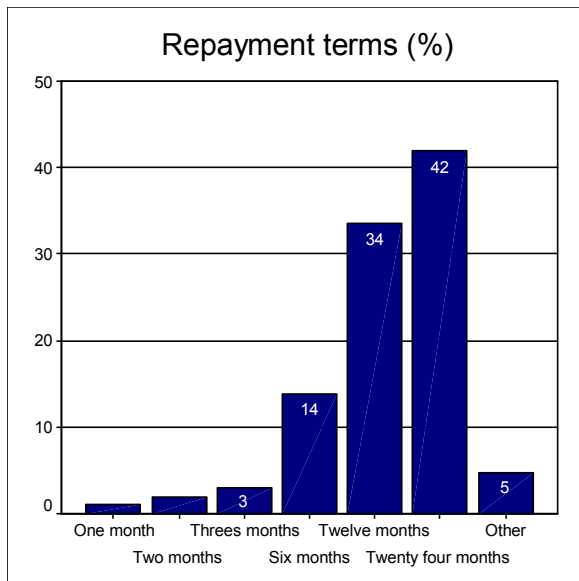


Chart 39 : Repayment terms

In terms of preferred repayment period for loans, the majority of respondent would want a repayment period of minimum two years (42%).

No significant difference has been identified between men and women or between location types.

5.4.2 Installments

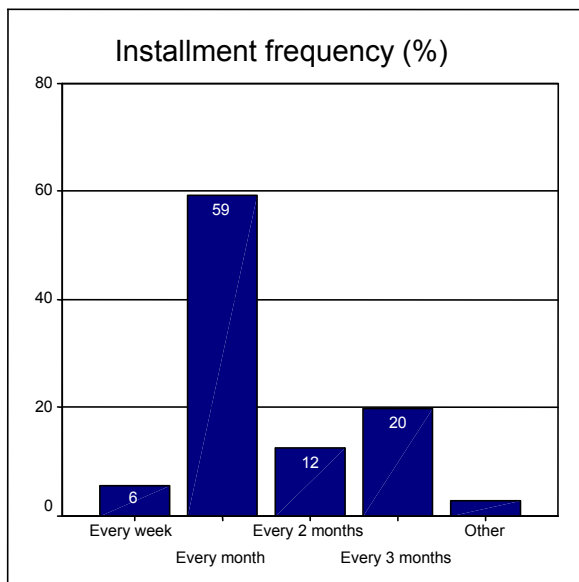


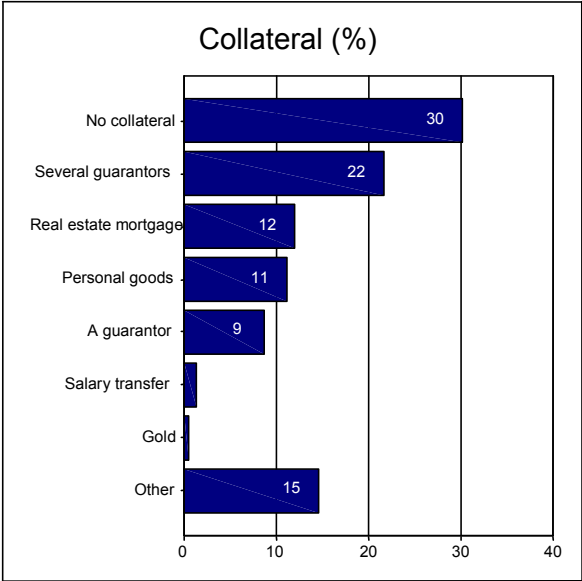
Chart 40 : Installment frequency

The vast majority of micro entrepreneurs in Khartoum State prefer monthly loan installments (59%).

5.5 Collateral

Collateral is one of the most important factors in access to credit for micro entrepreneurs.

In terms of preferred collateral, 26% of respondents would be able to provide a personal guarantor as collateral.



Others would be able to provide several guarantors (18%), personal goods (3.8%), real estate (6.2%) or a salary transfer as collateral (2%).

Chart 41 : Collateral

5.6 Islamic product

Sudan is one of the three countries where the whole banking system has been converted to Islamic banks. In the Islamic Banking system, the prohibition of interest necessitates banking investment operations being conducted on the basis of profit-and-loss-sharing arrangements.

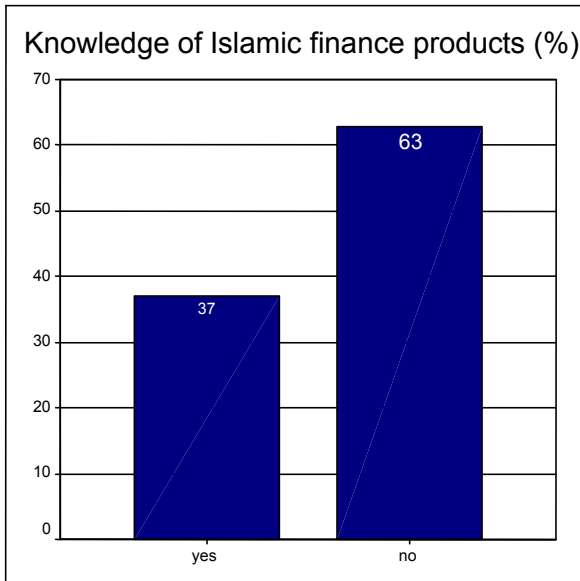


Chart 42 : Knowledge of Islamic finance products

Only 37% of the respondents know the differences between murabaha, musharaka, and mudaraba. And the qualitative analysis confirms this limited knowledge of the participants on Islamic products.

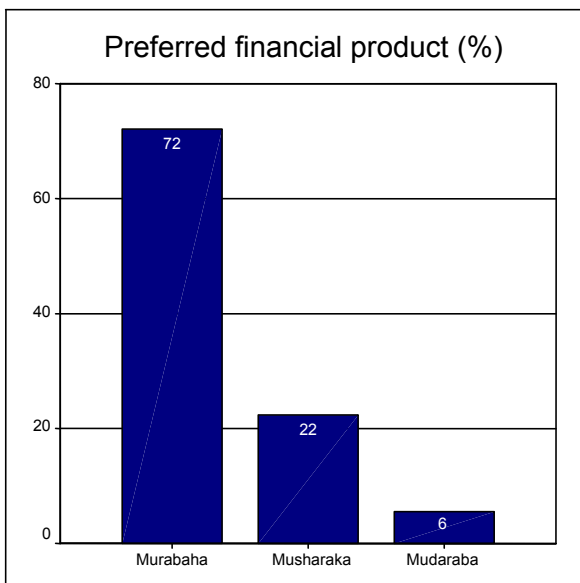


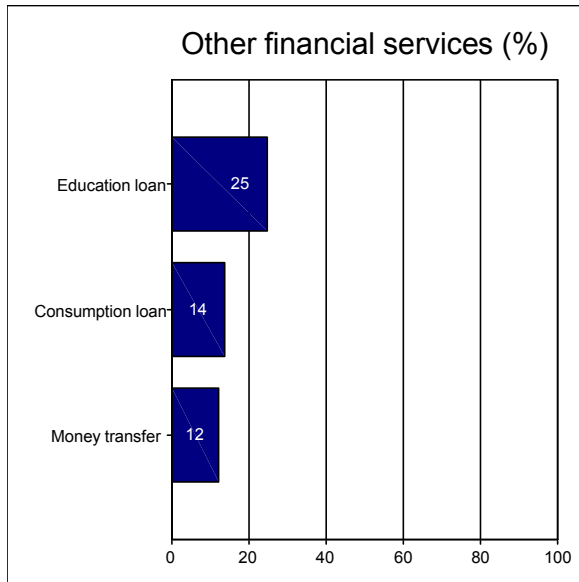
Chart 43: Preferred Financial product

The Focus Group Discussions pointed out that the few who knew about Islamic Products were only familiar with Murabaha. Therefore it can explain the preference for Murabaha that respondents showed.

Following quantitative survey, as depicts on Chart 49, if respondents had to choose between murabaha, musharaka, and mudaraba, most respondent would choose murabaha.

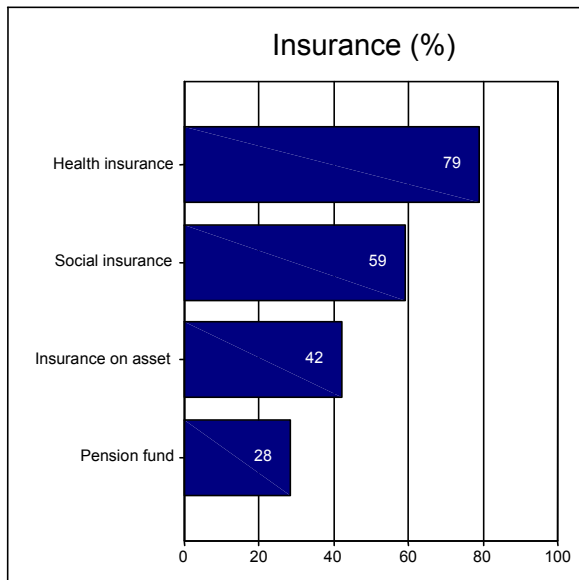
5.7 Other Financial Products Needed

Next to loans, micro entrepreneurs in Khartoum States should be interested in other financial products such as money transfer and insurance products. The Focus Group Discussions confirms the interest of micro entrepreneurs in having access to other financial products: most of the interviewees expressed their interest in death and disability insurance.



When asked which financial services they would be interested in, excluding loans and savings, only 25% of respondents stated the need for education loan, 14% would be interested in consumption loan, and 12% in money transfer.

Chart 44 : Other financial services



Insurance products are considered with a lot of interest by respondents.

In terms of specific types of insurance, the main products they would be interested in would be:

- Health insurance (79%)
- Social insurance (59%)
- Insurance on asset (42%)
- Pension fund (23%)

Chart 45 : Insurance

6 Training

6.1 Training history

35% of the respondents have already received training. There is no significant difference in terms of gender, registered and informal businesses. However, there is a correlation between the level of education level

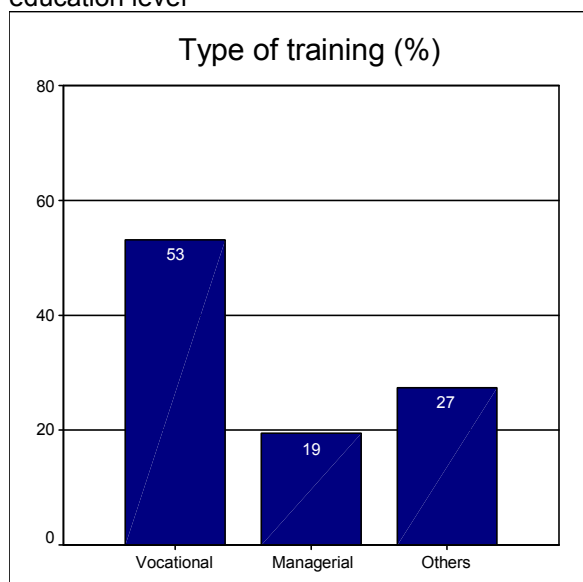


Chart 46 : Type of training

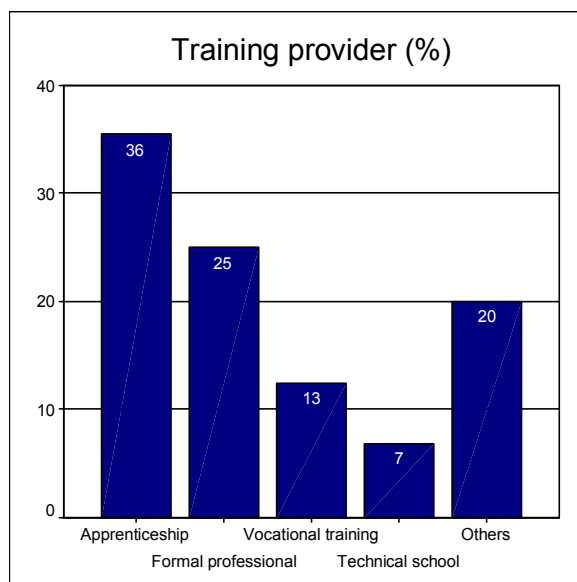


Chart 47 : Training provider

6.2 Training needs

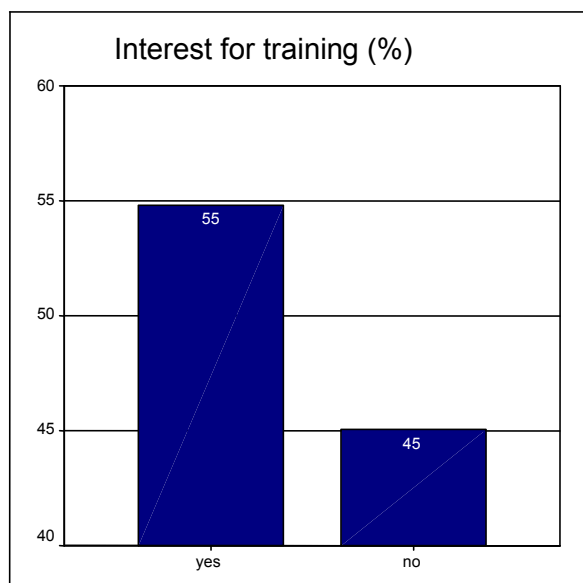


Chart 48 : Interest for training

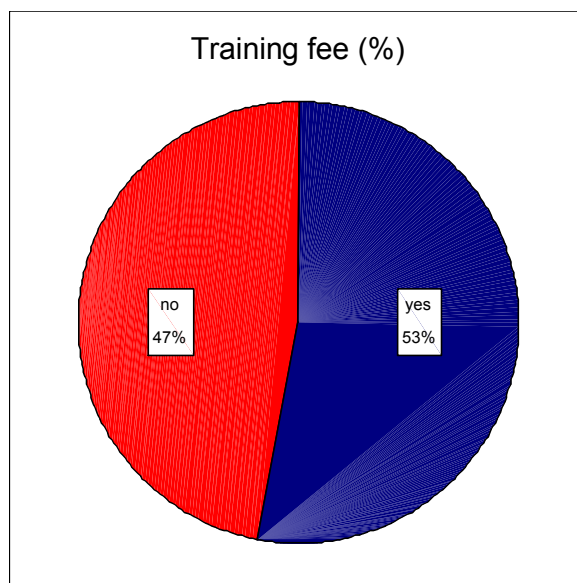


Chart 49 : Training fee (%)

7 Potential demand

Analysis of credit behavior allows to identify potential clients and to adapt products or actions accordingly. Out of the total sample of micro enterprises, 30% of micro entrepreneurs have credit (through formal and informal sources), 5% are not willing to take a credit for religious beliefs and 34% are risk-averse.

Theoretically, 61% of micro-entrepreneurs need credit and would be willing to get credit under certain conditions relative to loan size, procedures or type of credit.

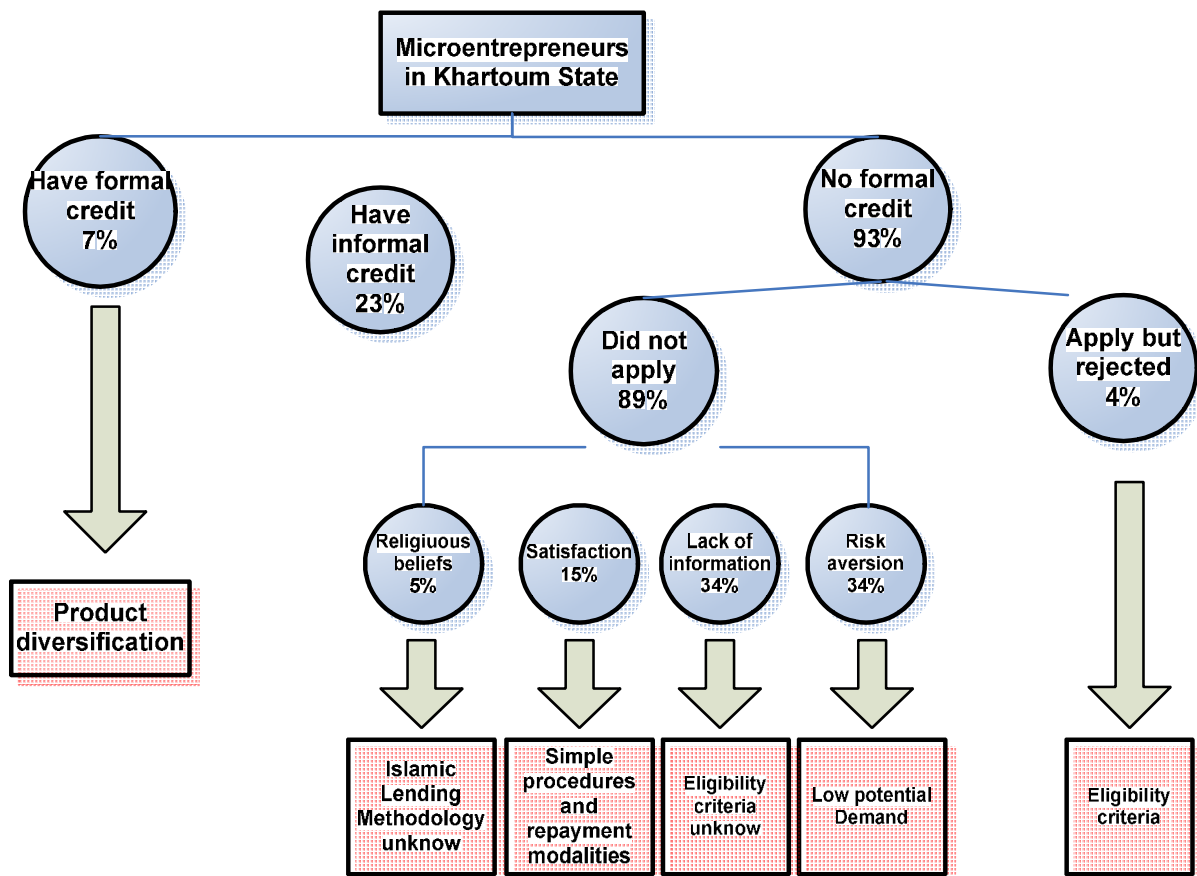


Chart 50 :

8 *Conclusions and Recommendations*

The analysis of the results of this survey shows several important issues that need to be addressed by the microfinance sector in Khartoum State in order to meet the demand expressed by micro entrepreneurs. Such issues are outreach, product development, adequacy of products, funding and guarantees.

A number of recommendations based on the results of this survey have been formulated to address these issues.

1. Outreach

The results of this survey show that the 93% micro entrepreneurs surveyed in Khartoum State never received formal credit from either banks or MFIs. This highlights the need for microfinance providers to increase their efforts in reaching out to clients through innovative marketing strategies and better outreach, particularly in rural areas where they are currently less active.

2. Development of new products

The results of this survey show that there is demand from micro entrepreneurs for the development of new products such as insurance, money transfers and savings. However current Microfinance programs mainly offer one single product, and most of the whole array of other microfinance services is not included in the current microfinance programs.

In line with the need for outreach, microfinance providers need to review their marketing strategy towards microentrepreneurs. Indeed, the lack of information is the main reason to not apply for loans in Khartoum State.

Finally, microfinance providers need to broaden their current product offering with the development of other Islamic product such as Musharaka and Mudaraba.

3. Adequacy of products:

The majority of micro entrepreneurs surveyed would require loans up to US\$ 1 250 and an average repayment period of 2 years.

In the current conditions microfinance providers cannot be expected to reach this with their own limited means, and donors have clearly a role to play in supporting the expansion of microfinance services to a larger population in the area.

9 Annexes

9.1 Impact – Knowledge – Market



Impact – Knowledge – Market (IKM) is a training and action-research program aimed at microfinance institutions (MFIs), federations, donors and international organizations.

Its primary objective is to provide information and to make recommendations to strengthen the viability of MFIs, to help them achieve their social objectives and to assist the design of microfinance and micro-enterprise development policies.

IKM uses qualitative and quantitative methods as part of a participative and multidisciplinary approach. IKM consists of three main components: client knowledge, market research and impact assessment

IKM studies may be implemented in the form of short-term studies, training and R&D assistance programs or sectorial research.

9.2 Asset ownership index

The specific index method, developed by Filmer and Pritchett (World Bank), is based on the following components:

$$Ai = f_1 \times (aj_1 - a_1)/(s_1) + fn \times (aj_n - a_n)/(s_n)$$

Where f_1 is the factorial score of the first asset, aj_1 is the value j of the first asset for the household and a_1 is the mean and standard deviation of the first asset across the all sample and s_1 its standard deviation.

Each household receives a score relative to the amount and nature of assets owned. The score is then divided in 5 quintiles (5 groups of equal size). Wealth 1 is the poorest and Wealth 5 is the richest.