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Microfinance as a Modern Technique for Financing Small-sized Entreprises –Sample: Sudanese Experience

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Abstract: This research dealt with microfinance as a modern financing technique for small-sized entreprises, which has become an essential requirement for them in current circumstances. The research is conducted following descriptive methodology and analytical approach. The main results it concluded are that microfinance contributes to the development of small-sized entreprises, increases and improves household income, reduces unemployment rates, and enhances employment opportunities. This is due to its role in improving economic and social standards. Additionally, microfinance policies in Sudan have a social and economic impact on vulnerable populations.
The research also suggested several recommendations, mainly the necessity to increase the funding ceiling for small-sized entreprises. This increase is one of the main sources of economic and social development to help address the problems of poverty and unemployment.

Keywords: Microfinance, small-sized entreprises, development, Sudan.

Introduction

Financing is a major challenge for small-sized entreprises despite the availability of numerous banks and specialized financial institutions. Therefore, the development of a sound and effective financial system is imperative to provide a wide range of financial services for the success and sustainability of these entreprises. Owners of such entreprises often find it difficult to secure the necessary financing to establish their entreprises, mainly due to their inability to provide the required guarantees and financial documentation demanded by lending institutions.

Consequently, microfinance widely developed in recent years worldwide, and gained international interest, owing to its proven efficiency in combating poverty and unemployment while fostering the growth and development of small-sized entreprises in various countries. This is achieved by making financing accessible to the poor and low-income individuals, who constitute a crucial client base for microfinance institutions. Many countries, including Sudan, have established several financial institutions offering microfinance services to clients who have demonstrated their capability to repay these loans. Through these small-sized entreprises, employment opportunities are created, and production is enhanced, thereby the competitiveness of small business sector is increased.

A. Research problem:

This research paper handles the problem of microfinance and small-sized entreprises, in the context of the challenges our world is currently facing. These challenges are primarily a result of the decline in oil prices and its negative impacts on development, particularly in developing countries.

Based on the above, this research tends to answer the following question: Can microfinance be a modern technique for financing small-sized entreprises? What is the current situation in Sudan regarding this matter?

To address this research problem, the following sub-questions are formulated:

1. What is microfinance? What are its fundamental principles?
2. Can microfinance serve as an effective approach for development and poverty alleviation by supporting small-sized entreprises?
3. What is the current situation of microfinance in Sudan? To what extent has it contributed to financing small-sized entreprises?

These sub-questions will help to delve into the core of the research problem and provide insights into the role of microfinance in supporting small-sized entreprises and its relevance in the Sudanese context.

B. Significance of the research:

The significance of this study lies in addressing the research problem. It sheds light on various aspects of microfinance and small-sized entreprises. It is also a novel effort to emphasize the added value that all countries, including Sudan, can achieve by encouraging microfinance.

C. Research objectives:

This study aims to provide key insights to elucidate why microfinance is considered an effective means to improve the lives of the poor. This is achieved by supporting small-sized entreprises and realizing the sustainable development goals of third millennium to reduce poverty and address unemployment issue.

D. Research methodology:

To fulfill the diverse objectives of this research, commonly used methodologies in economic studies are employed. The use of descriptive methodology and analytical techniques is predominant throughout the sections of the study. This approach was chosen to comprehend and interpret the subject matter.

E. Research structure:

To address the research problem and achieve the desired objectives, the study has been structured as follows:

Section I: Microfinance
Theoretical Framework

1. Origin and evolution of microfinance:

While the Grameen Bank is often considered the starting point for the microfinance industry, confirming it is challenging. The term "microfinance" is relatively recent in the field of development, but the concept behind it is ancient and has deep, difficult-to-trace roots. Here are some documented stages of microfinance evolution worldwide:

1.1. Experiences of microfinance in developed countries:

Some studies indicate that all developed countries have had their own experiences with microfinance. Two famous experiences in Europe are the Irish and German ones.

In 1720, the first loan was granted to the poor in Ireland due to the increasing poverty in Europe. The records show that approximately 20% of Irish households had access to small loans by 1843.Germany had two notable microfinance experiences in the 19th century. One occurred in rural areas under the leadership of Friedrich-Wilhelm Reiffeisen, and the other took place in urban areas under Schulze-Delitzsch. Studies suggest that the banking system, known as universal banks, has its origins in microfinance.[1]

These experiences highlight the historical roots and importance of microfinance, which has evolved over time and succeeded worldwide.

1.2. Microfinance in developing countries:

Some researchers believe that the Badan Kredit Desas (BKDs) bank, established in 1896 in Indonesia, is the oldest commercial institution providing microfinance in the world. In West Africa, there is a system known as "Susu," which has been prevalent for hundreds of years and has been in use in Ghana for over 300 years. Researchers suggest that the word "Susu" was brought to the Caribbean region by enslaved Africans. Susu system is a savings mechanism in which Susu collectors gather daily amounts voluntarily provided by their clients and return them at the end of the month, deducting a small commission from the total.[2]

These historical examples demonstrate the long-standing presence and adaptability of microfinance systems in different parts of the world, especially in developing countries. Such systems have played a crucial role in providing financial services to underserved communities and promoting financial inclusion.

1.3. Non-governmental organizations (NGOs) and microfinance:

During the 1970s, non-governmental organizations (NGOs) also emerged as key players in microfinance. Organizations like Opportunity International, with Christian roots, began lending to the poor in countries such as Colombia in 1971. Additionally, Accion, an organization that pioneered microfinance, provided its first loan in Brazil in 1973.[3]

1.4. Emergence of Grameen Bank:

Despite all the above, one idea that captured the world's attention and was the driving force behind the significant growth of microfinance industry was the experience of Grameen Bank, founded by Muhammad Yunus in 1976 in Bangladesh, following the devastating famine of 1974. Yunus aimed to assist poor farmers who were pledging their lands to commercial banks, in exchange for high-benefit loans. He proposed the concept of "microcredit," through which loans were provided to dozens of farmers without the need for guarantees typically required by commercial banks. "Grameen Bank" project, which means "Village Bank" in Bengali, was launched in 1977 and received its banking status in 1983. Since its inception, it has provided approximately $69.4 billion in small loans, with a repayment rate of 99%.[4]

2. The Concept of Microfinance:

Given the diverse financial needs of the poor, the concept of microfinance has evolved to encompass a wider range of financial and non-financial services. It has expanded to include small loans, although there has often been confusion between the term "microfinance" and "microcredit." The term "microcredit" refers to the narrower aspect of microfinance, focusing solely on the provision of small loans. In contrast, microfinance is more comprehensive, encompassing a holistic set of financial services that the poor require, including lending, savings, insurance, and transfers.[5]

In essence, microfinance has grown to include not only credit but also other crucial financial tools that empower the poor to manage their finances, save for the future, and access financial services that were traditionally inaccessible to them. This comprehensive approach recognizes the multifaceted nature of poverty and aims to address various aspects of financial inclusion and economic development for poor communities.

A. International Labour Organization (ILO) definition of microfinance:

International Labour Organization defines microfinance as follows: "Microfinance is the provision of sustainable financial services to micro-entrepreneurs or low-income individuals who lack access to traditional financial services."

B. United Nations Capital Development Fund (UNCDF) definition of microfinance:

United Nations Capital Development Fund defines microfinance as follows: "Microfinance is the provision of financial services such as credit, savings, remittances, and insurance to the poor and low-income individuals."[6].

C. European Microfinance Network (EMN) definition of microfinance:

European Microfinance Network defines microfinance as follows: "It is about facilitating access to financial services for 'excluded' individuals. The maximum loan amount for microcredit is set at 25,000 euros. These loans are aimed at financing the establishment and development of investment entreprises. Organizations providing micro credits often, though not always, work on guiding and monitoring the small-sized entreprises they finance."[7].

Based on these definitions, we conclude that microfinance is nothing more than financial and banking services made available to the poor and low-income individuals in a manner that is tailored to their circumstances and needs. Sometimes, it also includes non-financial services such as training, education, and financial support for the poor.

3. Microfinance clients:

Muhammad Yunus emphasizes the importance of clarity in concepts and warns against broad definitions of the poor who are target beneficiaries of microfinance programs. He argues that such ambiguity can diminish the effectiveness of these programs in alleviating poverty. Yunus states clearly: "If the poor and non-poor are combined within the framework of a single program, the non-poor will always lead the poor. For the delivery system to be effective, it must be designed and operated exclusively for the poor. This requires a precise definition of who the poor are, and there is no room for ambiguity in concepts."[8]

In essence, microfinance programs are most effective when they are specifically designed to serve the needs of the poor. This necessitates a clear and precise definition of who qualifies as "the poor." This approach ensures that the programs are targeted and tailored to address the unique challenges and requirements of impoverished individuals and communities, so who are the poor? How can they be identified? Are poverty lines sufficient to identify microfinance clients? What about people who are just above the poverty line but cannot access formal financial institutions; can they be considered potential clients for microfinance institutions?

Microfinance practices over the past decades have shown that its clients are typically the poor and those close to the poverty line, individuals who are vulnerable to poverty. They often have a relatively stable source of income and the ability to work, but they lack access to formal financial institutions. These clients are frequently self-employed, working from their homes or small-scale businesses. In rural areas, they may be small-scale farmers or engaged in modest income-generating activities like poultry farming. In urban areas, their activities vary and can include selling fast food, street vending, or engaging in artisanal work.[9]

4. Basic principles of microfinance:

As part of the major initiatives aimed at achieving the Millennium Development Goals, the Consultative Group to Assist the Poor (CGAP) was established. It is a coalition of 31 public and private development agencies working together to expand the access of the poor to financial services, referred to as microfinance. Its principles are:[10]

1- The poor do not need loans alone but a variety of appropriate and flexible financial services at reasonable prices:

The poor need not only loans but also savings and cash transfers according to their circumstances.

2- Microfinance is considered a powerful tool to combat poverty:

Access to financial services enables the poor to increase their income, build assets, and reduce their vulnerability to external shocks, motivating them to invest in improving their nutrition, living conditions, health, and the education of their children.

3- Microfinance means building financial systems that provide services to the poor:

To realize the full potential of microfinance in reaching a large number of the poor, it should become an integral part of the financial sector.

4- Financial sustainability is necessary to reach a large number of the poor:

Sustainability is the ability of microfinance institutions to cover all their costs, which is the only way that these institutions can continue to operate and provide financial services to the poor on a scale and impact far beyond what donor agencies can finance.

5- Microfinance implies the establishment of permanent local financial institutions:

Serving the poor requires local financial institutions that offer their services on an ongoing basis. These institutions need to mobilize and provide local savings in the form of loans and other services. As these institutions and capital markets develop, reliance on donor and government funding, including development banks, decreases.

6- Interest rate ceilings can harm the ability of the poor to access financial services:

Governments often set low interest rate ceilings to increase the poor's access to loans. However, this can prevent microfinance institutions from covering their costs and lead to discontinuation of lending in the long run. At the same time, these institutions should not pass on their operations' inefficiency to customers in the form of much higher benefits rates.

7- Government's role is to facilitate, not directly provide financial services:

One of the main facilitation measures is maintaining overall economic stability, not crowding out microfinance institutions with subsidized lending programs, improving access to markets, and infrastructure services.

8- Donors' support should complement rather than crowd out private sector capital:

Donors should help create sustainable local microfinance institutions with their own resources, and donors' support should be temporary, not planned from the beginning.

9- Lack of institutional and human capacity is one of the main obstacles:

Most investments in the microfinance sector should focus on building capacity at all levels, from microfinance institutions to supervisory and regulatory authorities, to local government development agencies, and donors.

10- Importance of financial transparency, and transparency in dealings with clients:

All relevant parties need to have accurate and uniform information about the financial and social performance of microfinance institutions to make comparisons and evaluate risks and returns.

5. Developmental role of microfinance:

Microfinance plays a significant developmental role as it serves as a tool through which economic and social development is achieved. It is both an economic efficiency driver with its impact on the economic aspect and a social aid provider.

5.1. Role of microfinance in economic development:

A. Impact on growth:

Some argue that microcredits affect self-employment opportunities rather than investment ones. They open doors for self-employment opportunities that might not exist within other organizations. Additionally, it has been found that microcredits contribute to increasing the ratio of output to capital in the long term. They also help reduce the use of less productive alternatives in society, such as welfare benefits or social aid, which can be redirected towards increasing production and growth by employing them in wealth-generating sectors. Furthermore, microcredits have the potential to reduce levels of inequality by increasing the incomes of the poor through their work. On the other hand, decreasing the income levels of higher-income groups, as a result of the increased incomes offered by microfinance organizations.[11]

B. Impact of microfinance on economic development:

It should be understood that the low income and living standards of the poor, who are primarily the clients of microfinance, characterized by their lack of access to healthcare, education, and other services, can reduce economic productivity. This, in turn, can directly or indirectly lead to slowed growth and economic development. Income elevation strategies assert that the lowest 40% of the population should contribute not only to their own material well-being but also to increasing the productivity of the economy as a whole, a goal that microfinance targets.

Increasing the income levels of the poor will stimulate demand for local products, thereby driving increased production, higher employment rates, and local investment. Supporting the poor can encourage their active participation in achieving development.

5.2. Impact on social development:

A. Microfinance and millennium goals:

Microfinance and its impact go beyond merely obtaining commercial loans. The poor benefit from financial services not only for small business investments to escape poverty but also for healthcare, education, addressing household emergencies, and meeting various cash needs they encounter. Evidence from millions of microfinance clients worldwide indicates that access to financial services enables the poor to increase their household income, leading to improved nutrition and healthcare outcomes, such as higher vaccination rates and sending more of their children to school for longer periods.

B. Role of microfinance in poverty alleviation:

Microfinance can effectively contribute to the eradication of extreme poverty and hunger because it provides a diverse range of financial services that cater to the various needs of the poor. Each of these services can create positive impacts and improve the lives of the poor by increasing self-employment opportunities, enhancing investment prospects, achieving income distribution equity, providing suitable services, and safeguarding their assets.[12]

Section II: A Look at Small-sized entreprises, their Importance, and Challenges

1. Defining small-sized entreprises:

There is variation among writers, international organizations, and local entities in defining the concept of small-sized entreprises. Typically, they resort to descriptive definitions that rely on specific criteria related to the number of employees or capital. Among the well-known definitions are:

A. International Labour Organization (ILO) definition:

"Small-sized entreprises, or small industries, are extremely small-sized units that produce and distribute goods and services. They consist of independent producers working for their own account in urban areas in developing countries. Some of them rely on family labor, while others may hire workers or craftsmen. Most operate with very small or possibly no fixed capital and use a low level of efficiency. They typically generate irregular income, provide unstable employment opportunities, and operate in the informal sector, meaning they are not registered with government agencies and lack official statistical data"[13]

This definition highlights the diverse nature of small-sized entreprises and their significance in both urban and informal economies in developing countries.

B. United Nations Industrial Development Organization (UNIDO) definition:

The United Nations Industrial Development Organization (UNIDO) defined small-sized entreprises as follows: "Those entreprises managed by a single owner who assumes full responsibility, with the number of employees typically ranging from 10 to 50 workers"

C. European Commission for Small-sized Entreprises definition:

The European Commission defines small-sized entreprises as follows: "Micro-entreprises employ up to nine workers, small-sized entreprises employ between 10 and 49 wage earners, and medium-sized enterprises employ between 50 and 249 wage earners, characterized by their independence."[14]

When looking at some developed and developing countries, it is evident that they may rely on either the number of employees or capital. For example, in England, small-sized entreprises may have 200 workers or fewer, while in Belgium, it's 50 workers or fewer, and in France, it's also 50 workers or fewer. This demonstrates that there is no consensus on defining small-sized entreprises, it varies according to each country's economic circumstances. In the Arab region, being a developing one, it may be suitable to use the following criteria: "Craftsmanship enterprises have 1 to 10 employees, small-sized entreprises have more than 10 and fewer than 50 employees, and medium-sized enterprises have 50 to 100 employees."

2. Importance and advantages of small-sized entreprises:

Small-sized entreprises offer numerous economic and social advantages, including:[15]

1. Job creation: Small-sized entreprises create significant employment opportunities with limited investments, helping alleviate unemployment issues and address widespread poverty in developing countries.
2. Low capital requirements: These enterprises do not require substantial capital, and funding is often sourced locally. They rely on local production inputs, reducing the need for foreign currency and promoting self-sufficiency in goods and services.
3. Simple technology: Small-sized entreprises typically use less advanced technology suitable for local conditions, reducing the reliance on importing high-tech solutions from developed countries.
4. Space flexibility: They can utilize any available space for their establishment with simple facilities, reducing infrastructure costs.
5. Operational flexibility: Small-sized entreprises are known for their flexibility in operations, processes, and product offerings, allowing them to adapt to changing circumstances.
6. Rural and urban development: They contribute to rural development by creating job opportunities in rural areas and help achieve a balanced population distribution between rural and urban areas.
7. Supply chain Support: Small-sized entreprises often supply essential components and inputs to larger industries, reducing production costs compared to importing them.

3. Challenges and obstacles faced by small-sized entreprises:

Some of the key challenges faced by small-sized entreprises globally include:[16]

3.1. Capital costs:

The cost of capital significantly impacts the profitability of small-sized entreprises. These enterprises often face higher benefits rates compared to larger firms when borrowing from banks, leading to increased financial burden.

3.2.Inflation:

Small-sized entreprises face a significant challenge due to inflation's impact on the rising prices of raw materials and labor costs, which inevitably lead to increased operating expenses. Here, these businesses encounter a major problem, which is competition from large entreprises. This competition prevents them from raising prices to avoid the effects of rising labor wages and raw material prices.

3.3.Financing:

Small-sized entreprises encounter financing difficulties due to their size (lack of guarantees) and their youth (lack of credit history). Consequently, financial institutions face various risks when financing small-sized entreprises in various stages of their growth (establishment, initial growth, actual growth, integration). Due to these risks, commercial banks avoid providing the necessary financing to these entreprises to safeguard the deposits of their customers.

3.4. Governmental and administrative procedures:

This is a growing problem in developing countries, especially in terms of regulations and guidelines that govern the operations of small-sized entreprises. The latter are the main attraction for entrepreneurs and an opportunity to demonstrate the owner's skills in management and marketing. However, these entrepreneurs are a minority compared to the large number of small-sized entreprises. These small-sized entreprises often lack proper management and expertise in various areas, such as accounting, marketing, and technical matters.

3.5. Taxes:

Taxation system is one of the most significant problems facing small-sized entreprises worldwide. This problem arises from two sides: for small business owners due to high taxes and for tax authorities due to the lack of sufficient data on these enterprises, making tax collection challenging.

3.6. Competition and marketing:

Small-sized entreprises face fundamental challenges, with the main sources of competition being imports and large entreprises.

3.7. Scarce primary materials:

This includes natural scarcity, the inability to store these materials, the necessity of resorting to imports, and fluctuations in exchange rates.

<u>Section III: Role of Microfinance in Financing Small-sized entreprises in Sudan</u>

Microfinance is considered a significant mechanism for alleviating poverty and providing employment opportunities. It has gained prominence in the global economy since the 1990s. In Sudan, microfinance appeared under this name and became an economic mechanism after being adopted by the state in late 2006. The government showed interest in economic and social development for communities of society that had previously had limited access to financial resources.

The Central Bank of Sudan, in its monetary and financial policies, allocated a percentage of the resources of banks to what is known as "productive families." This allocation started at 5% in 2000, then increased to 7%, 10%, and eventually reached 12% in 2007. This is when the term "microfinance" emerged, which expanded beyond just lending and now encompassed a set of financial services, with savings as key components.[17]

The concept of financing small-scale producers through banks began with the Sudanese Agricultural Bank in 1959, which focused on small-scale farmers. In 1974, the Sudanese Savings Bank, which targeted professionals and small-scaleproducers in the Gezira region, followed suit. Cooperative People's Bank and Faisal Islamic Bank also started offering limited-scale microfinance services in the 1970s and 1980s, primarily for artisans.

1. Microfinance concept in Sudan:

There have been several definitions of microfinance in Sudan, and most of these definitions have been derived from the perspective of the beneficiary or the target audience of microfinance. Typically, microfinance in Sudan has been associated with productive families, artisans, rural women, or recent graduates. However, in recent years, due to the Sudanese government's interest in the microfinance sector through the policies of the Central Bank of Sudan, efforts have been made to unify the concepts related to microfinance. The most common definition of microfinance in Sudan is now linked to the financing ceiling, which is determined by the financial policies of the Central Bank of Sudan. Here are the key definitions related to microfinance as outlined in the policies of the Central Bank of Sudan:[18]

"Microfinance refers to any financial facilitation provided to economically active poor individuals or groups of economically active poor individuals, not exceeding SDG 20,000 per individual, as determined by the Central Bank from time to time, to assist them in:

- Establishing or developing a productive or service activity to economically integrate them.
- Acquiring, constructing, or repairing their housing or providing them with essential utilities such as electricity and potable water.
- Engaging in any economic activity for income generation or employment opportunities.

2. Providers of microfinance in Sudan

There are several entities that provide microfinance to target communities in Sudan. These entities include the banking sector, non-governmental organizations, local community organizations, social funds, and rural development entreprises. Here is a detailed look at these entities:

2.1. Banking sector:

There are 38 banks operating at the state level, aligned with the current strategy of the Sudanese government and international trends. The banking system consists of specialized and commercial banks owned by both the private and public sectors. Specialized banks target specific sectors such as social development, agriculture, livestock, and industrial development, or specific groups such as farmers.

In terms of capital structure, banks are classified into government banks, where the central bank or the Ministry of Finance and Economic Planning contributes with a share exceeding 50%. Joint banks are those with capital shared between multiple entities, whether local (public/private) or foreign. Foreign banks are branches of foreign banks operating outside Sudan.[19]

Table 01: Banks Operating in Sudan by the End of 2020 and 2021

Banks	2020	2021
1. Specialized Banks	5	5
Joint	2	2
Governmental	3	3
2. Commercial Banks	33	33
Joint	23	23
Governmental	1	1
Foreign	9	9
Total	38	38

Source: Central Bank of Sudan, Microfinance Unit, Sixty-first Annual Report, Sudan, 2021, p. 62, available at http://www.mfu.gov.sd/, accessed on July 22nd, 2023.

In addition to (commercial and specialized) banks, microcredit is provided by several non-governmental (local and international) organizations, rural development entreprises, and governmental social funds.

2.2. Non-banking microfinance institutions:

Microfinance operations in Sudan are carried out by various official and semi-official institutions, including:[20]

2.2.1. Official and semi-official Sudanese institutions:

A. Rural development corporation:

This corporation was established in 1980 and consists of two main companies, the holding company and the financing one. The main objective of this corporation is to develop and improve living standards in rural Sudan by providing long-term financial support and technical assistance to small and medium-sized entreprises.

B. Social development foundation:

This governmental foundation, under the Ministry of Social Affairs in the Khartoum county, was established in 1997 with the goal of alleviating poverty. It oversees the "Hope for Microfinance" program, which was established in 2006 and specializes in microfinance, targeting economically active clients in the Khartoum county.

C. Port Sudan Craft and Small Business Development Association (Red Sea County):

This non-governmental organization (NGO) was registered in 2000. It relies on capital revolving from the Agency for Co-operation in Research and Development, which constitutes about 60%, while it receives the remaining 40% from European assistance. Every year, it provides approximately 3,200 loans, totaling around 400,000 Sudanese pounds.

2.2.2. Foreign semi-official organizations:

In addition to official organizations, microfinance is also practiced through several semi-official organizations operating in Sudan. Among these organizations is Oxfam, a British non-governmental organization, ACCORD organization, ADRA Agency, and other organizations. These organizations have succeeded in reaching the poor through small loans ranging from $250 to $500, with monthly or weekly repayment conditions, or based on the project's status, using flexible and easy guarantees or procedures that suit the targeted communities.

2.3. Non-governmental and local community organizations:

Most local microcredit initiatives in Sudan have been facilitated by non-governmental organizations (NGOs) and local community ones. These NGOs and local entities operate on a community-based approach, focusing on grassroots operations rather than formal financial institutions.They work directly with communities and local organizations.

They employ flexible methods in using credit as a tool to alleviate poverty. Due to the influx of rural refugees and displaced individuals into urban areas, increasing urban poverty levels, most NGOs operate in the informal sector within urban areas.

2.4. Social funds:

Several social funds in Sudan are supervised by the Ministry of Social Welfare and Social Security. They provide microfinance services to the poor and low-income individuals. Examples of these funds include the National Zakat Council, the National Pensions Fund, and the Social Insurance Fund. These funds have recently contributed to the establishment of some microfinance institutions. For instance, the National Zakat Council contributed to the capital of the Family Bank, which specializes in microfinance, and also contributed to the Safe Fund with 50 million Sudanese pounds in 2010. The Safe Fund is a form of microfinance that combines contributions from the Zakat Council and banks.

2.5. International donors:

Many international donors have funded rural development entreprises in Sudan aimed at improving the living standards of rural communities affected by conflicts and natural disasters. These donors have established sustainable rural microfinance services as part of their entreprises. Prominent international donors include the United Nations Development Programme, the World Food Programme, and the Islamic Development Bank.

3. Overall policies and indicators for the performance of the microfinance sector in Sudan:

The policies developed by the Sudanese government aim to contribute to economic and social development by increasing the contribution of microfinance to the Gross Domestic Product (GDP). They also aim to enhance savings rates to achieve social equity and reduce poverty. This is done by providing employment and self-employment opportunities, promoting initiative and innovation to increase income and assets for various economically active low-income communities.

To achieve these goals, the Central Bank of Sudan continued its efforts to provide the necessary support for the employment of a 12% share of the total financing fund for each bank. The maximum microfinance ceiling for individual clients was increased from 30,000 to 50,000 Sudanese pounds. In addition, the Wholesale Microfinance Guarantee Agency (Taysir) began its operations in 2016. As a result, two guarantee documents were issued for microfinance institutions, and a coordinating council was formed, including the Microfinance Unit, the Agency of wholesale Microfinance Guarantee and the Sudanese Company for Microfinance Development. In 2016, the Agricultural Seasonal Financing Program for 2016/2017 was introduced in collaboration and coordination with the Ministry of Agriculture and Forests. This initiative aimed to link microfinance with production.

In 2021, the microfinance sector in Sudan witnessed a significant leap in financing volume. It increased from 25.7 billion Sudanese Pounds in 2020 to 73.7 billion Sudanese Pounds by the end of 2021, marking a growth rate of 186%. This increase was the result of the Central Bank of Sudan's efforts, through its Microfinance Unit, to support the sector by directing banks to implement the minimum allocation of 12% of their total financial fund to microfinance. These efforts included removing obstacles to the flow of wholesale finance from banks to institutions and introducing modern global models for delivering microfinance services. Microfinance is considered a cornerstone of the economies of developing and low-growth countries, contributing to reducing unemployment rates and alleviating poverty while boosting the overall GDP.

The total microfinance reached 47.6 billion Sudanese Pounds. Microfinance institutions contributed with 24% of total microfinance, and banks with the highest rate of 76% of total microfinance.

The number of active microfinance clients increased from 480,000 at the end of 2020 to 580,000 by the end of 2021. The cumulative number of clients since the inception of microfinance until the end of 2021 reached 2.9 million clients, with cumulative financing of 127.3 billion Sudanese Pounds. These efforts aimed to create employment opportunities, reduce unemployment, and support productive individuals and economic initiatives and entreprises.[21]

- During 2021, the number of microfinance institutions increased from 45 at the end of 2020 to 47 by the end of 2021. Two institutions were granted permission to operate according to their specialization, while eight other institutions are in various stages of training.
- Actual financing provided by banks to microfinance clients increased from 20,178.3 million Sudanese Pounds at the end of 2020 to 73,446.2 million Sudanese Pounds at the end of 2021, with a growth rate of 264%.
- Percentage of microfinance in the total financial fund of banks increased from 5.4% at the end of 2020 to 6.0% at the end of 2021, compared to the targeted percentage of 12% of the total financial fund of banks.
- Financing volume for microfinance institutions increased from 5,592.0 million Sudanese Pounds at the end of 2020 to 11,704.7 million Sudanese Pounds at the end of 2021, with a growth rate of 109.3%.
- Maximum allowed microfinance limit for clients in the productive (agricultural and industrial) sectors increased from 400,000 Sudanese Pounds in May 2021 to 900,000 Sudanese Pounds in November 2021, while the maximum microfinance limit for other sectors remained at 200,000 Sudanese Pounds in 2021.[22]

4. Microfinancing and small-sized entreprises financing

4.1. Microfinance through banks:

The efforts of the Central Bank of Sudan continued to implement policies aimed at achieving a target of 12% of the total financing fund for each bank in microfinance and socially-oriented financing. This was achieved through direct financing from banks to individuals and groups or through wholesale financing from banks to licensed microfinance institutions for their clients.

Table (02): The Size of Microfinance Provided by Banks in 2020 and 2021

Statement	2020	2021	Change %
Total Banking Financing (SAR)	363,610.2	1,031,236.0	183.6
Policy Target (12%)	43,633.2	123,748.3	183.6
Actual Microfinance Size (SAR)	20,178.3	61,994.7	207.2
Actual Microfinance % of Target	46.2	50.1	-
Microfinance % of Total Banking Financing	5.5	6.0	-

Source: Central Bank of Sudan, Microfinance Unit, Sixty-first Annual Report, Sudan, 2021, p. 79, available athttp://www.mfu.gov.sd/, accessed on Jul. 22nd, 2023.

The table shows an increase in the volume of microfinance from 20,178.3 million Sudanese Pounds at the end of 2020 to 61,994.7 million Sudanese Pounds at the end of 2021, with a growth rate of 207.2%. This increase is attributed to several banks committing to allocate a portion of their financial funds to microfinance in response to the directives of the Central Bank of Sudan. They did so by implementing a policy of moral persuasion for banks and raising awareness about the importance of microfinance.

It is also noticeable that the actual percentage of microfinance from the total targeted microfinance increased from 46.2% at the end of 2020 to 50.1% at the end of 2021, with the aim of reaching the targeted percentage. Additionally, the actual performance ratio of microfinance from the total banking finance increased from 5.5% in 2020 to 6.0% in 2021.

4.2. Microfinance through microfinance institutions:

The number of microfinance institutions and companies increased from 45 institutions at the end of 2020 to 47 institutions at the end of 2021, with two additional institutions obtaining permission to operate. The total funding balance provided by these institutions also increased from 2,879 million Sudanese Pounds at the end of 2020 to 14,457.0 million Sudanese Pounds at the end of 2021, with a growth rate of 402.1%. This increase is attributed to the growth in wholesale financing provided by banks to microfinance institutions and the increase in the average loan amount granted to clients following the decision bearing to raise the microfinance limit for productive sectors.

Microfinance provided by banks contributed to 91.5% of the total microfinance provided to microfinance institutions, while the Arab Development Fund, the Central Bank of Sudan, and the partnership with the Islamic Development Bank-Jeddah accounted for 3.4%, 3.0%, and 2.1%, respectively.

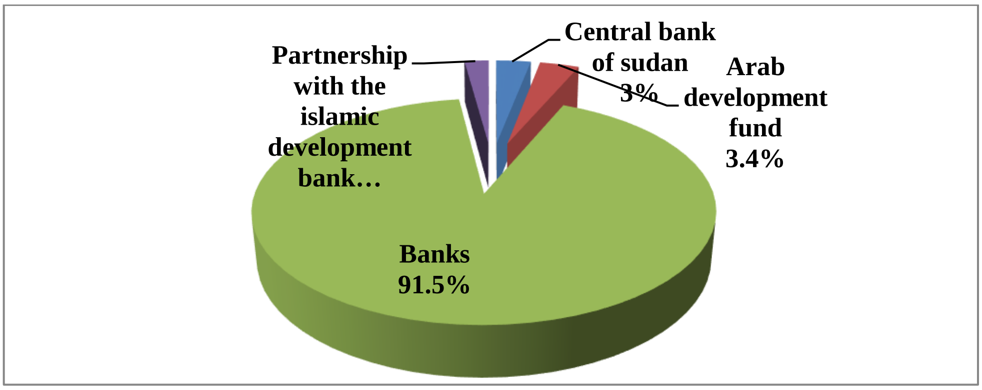
Table 03: Sources of Funding for Microfinance Institutions

Source	2020 (Million SDG)	Contribution %	2021 (Million SDG)	Contribution %	Change %
Central Bank of Sudan	337	11.7	437	3.0	29.7
Arab Development Fund	348	12.1	487	3.4	39.9
Banks	1,909	66.3	13,228	91.5	592.9
Partnership with Islamic Development Bank	285	9.9	305	2.1	7.0
Total	2,879	100.0	14,457.0	100.0	402.1

Source: Central Bank of Sudan, Sixty-first Annual Report, Sudan, 2021, p. 79, available athttps://cbos.dot.jo, accessed on Jul. 22nd, 2023.

The following figure illustrates the sources of funding for microfinance institutions in Sudan during the year 2021.

Figure (01): Contribution of funding sources to microfinance institutions in 2021



Source: prepared by the researcher based on: Central Bank of Sudan, Microfinance Unit, Sixty-first Annual Report, Sudan, 2021, p.80 availableathttps://cbos.dot.jo, accessed on Jul. 22nd, 2023.

As shown in the table, the total microfinance provided increased significantly in 2021. The total amount of microfinance provided by banks increased from 1,909 million Sudanese pounds in 2020 to 13,228 million Sudanese pounds in 2021, representing a growth rate of 592.9%. Arab Development Fund's contribution also increased from 348 million Sudanese pounds in 2020 to 487 million Sudanese pounds in 2021, with a growth rate of 39.9%. The Central Bank of Sudan increased its contribution from 337 million Sudanese pounds in 2020 to 437 million Sudanese pounds in 2021, with a growth rate of 29.7%. The partnership with the Islamic Development Bank in Jeddah knew an increase from 285 million Sudanese pounds in 2020 to 305 million Sudanese pounds in 2021, representing a growth rate of 7.0%.

4.3. Distribution of microfinance among institutions and banks according to sectors:

The agricultural sector is the most targeted for microfinance, receiving 64% of the total microfinance, followed by the service sector at 25%. The remaining sectors represent 11% of the total microfinance provided by microfinance institutions and banks.

Table 04: Microfinance by sectors

Amounts: in millions of Sudanese Pounds

Sectors	Microfinance in institutions	Microfinance in banks	Total microfinance funding	Percentage%
Agricultural and Animal Sector	8,836.69	21,749.46	30,586.15	64
Industrial and craft sector	374.33	1,342.71	1,717.04	4
Commercial sector	529.97	1,059.27	1,589.24	3
Service sector includes activities such as improving housing, mining, and more	1,692.48	10,236.02	11,928.49	25
Other sectors	70.03	1,709.93	1,779.96	4
Total	**11,503.49**	**36,097.38**	**47,600.88**	**100%**

Source: Central Bank of Sudan, Microfinance Unit, Annual Report on Micro and Small Finance Sector 2021, Sudan, 2022, p. 04, available at http://www.mfu.gov.sd, accessed on Jul. 22nd, 2023.

4.4. Distribution of microfinance among institutions and banks by regions in Sudan in 2021:

Table (05): Microfinance Distribution by Regions in Sudan in 2021

Amounts: in millions of Sudanese Pounds

Regions	Microfinance in institutions	Microfinance in banks	Total microfinance	Percentage%
Rural financing	9,839.01	14,904.85	24,743.85	52
Urban financing	1,664.49	21,192.53	22,857.02	48
Total	**11,503.49**	**36,097.38**	**47,600.88**	**100%**

Source: Central Bank of Sudan, Microfinance Unit, Annual Report on Micro and Small Finance Sector 2021, Sudan, 2022, p. 25, available at http://www.mfu.gov.sd, accessed on July 22nd, 2023.

The table shows that the percentage of funding for rural areas reached 52% of the total funding provided by banks and microfinance institutions, while urban areas received 48% of the funding. This is due to the encouragement of youth in rural areas.

5. Some enterprises financed by microfinance:

5.1. Abu Haleemagreen houses project:[23]

This is an intelligent financing project aimed at developing the modern agricultural sector. The entreprise was funded through *Mudarabah* (a type of Islamic finance). It aims at creating economic opportunities for graduates and individuals with limited income. The population was divided into 125 graduates and their families in the modern agricultural sector using new financing products. The entreprise consists of 25 greenhouses, each comprising 5 tunnels/pipes.

A. Entreprise objectives:

- Creating job opportunities for graduates.
- Increasing the income of project beneficiaries.
- Providing training and technical support to beneficiaries.
- Developing the greenhouse agriculture sector.
- Increasing the national GDP.
- Maximizing the country's exports.

B. Productivity:

The project aims to produce 1200 tons of vegetables annually, focusing on winter crops in summer and rare crops throughout the year in winter.

Summer crops: Hot pepper, bell pepper, tomatoes, cucumbers, yellow peppers, red peppers.

Winter crops: Green beans, cherry tomatoes, broccoli, red and white cabbage, iceberg lettuce, summer crops, and roses.

C. Characteristics of the provided microfinance:

1. **Number of beneficiaries:** 125 graduates and their families, with an average family size of 5 individuals.
2. **Financing structure of the entreprise:** Microfinance through *Mudarabah* for groups, with 71.5% for Khartoum Bank (the capital provider) and 28.5% for graduates and participating families.
3. **Funding amount:** Approximately 28,000,000.00 Sudanese pounds.
4. **Entreprise guarantee:** A check from the Graduates Association.
5. **Project duration:** 15 years.

5.2. Moringa and Jatropha cultivation project:[24]

This project involves offering innovative products in the agriculture sector through intelligent financing. It was funded through the sale of *Salam* (Islamic finance product) and aims to create economic opportunities for families in rural areas and individuals with low income. The population was divided by financing 150 households in the traditional agriculture sector and through new financing products.

A. **Benefits of financing families:**

- **Direct investment:** Electricity source, water source, agricultural equipment.
- **Indirect investment:** Supported investment services, production facilitations, and confidentiality.
- **Direct expenses:** All agricultural operation costs (seeds, fertilizers, etc.).
- **Living expenses:** For vegetable farming and livestock raising for beneficiaries.
- **Technical support:** Intelligent partnership with the Green Shine Company, which provides technical support and ensures product quality.

B. **Productivity:**

The project aims to produce 50 tons of Moringa seeds, 10 tons of Jatropha seeds, 150 tons of Moringa fodder, and 100 tons of vegetables (for the beneficiaries' needs only) annually.

Partnership:

An intelligent partnership with Green Shine Company, where the latter provides beneficiaries with all technical support, starting from the germination process to harvesting, and then connects them to local and international markets.

C. **Characteristics of microfinance through *Salam*:**

- **Number of entreprises:** 15 farms located in different states of the country, with 30 acres per farm and 3 acres per family.
- **Number of beneficiaries:** 150 families, with an average of 5 individuals per family.
- **Financing structure:** *Salam* for groups (associations).
- **Financing amount:** Approximately 13,000,000.00 Sudanese pounds.
- **Project guarantee:** Group guarantee and checks from the associations.
- **Project duration:** 3 years.

Conclusion:

In conclusion, microfinance, or the provision of financial services to the poor and low-income individuals, has become main and prominent modern trends in development, poverty reduction, and addressing unemployment issues in Sudan. It engages the poor themselves in the development process, especially after the significant international recognition of its importance and role in financing small-sized entreprises to contribute to development in all its forms.

Research results: The study concluded the following:

- Microfinance can indeed be an effective tool for development and poverty alleviation, as the availability of diverse and suitable microfinance services for the poor is sufficient to protect them and improve their living conditions.
- Small-sized entreprises face challenges in accessing financial services, and in most areas, there is a lack of banks that provide services adequately.
- There is significant interest from the Sudanese government in small-sized entreprises, with a focus on encouraging their establishment by allocating 12% of banking finance to them.

Recommendations:

- Increase the financing ceiling for microfinance entreprises, as the development of small-sized entreprises is one of the most important sources of economic and social development, given their contribution to addressing poverty and unemployment issues.
- Work on finding permanent solutions to the problems faced by small-sized entreprises, mainly the high governmental taxes imposed on them. This should take into account the circumstances of these entreprises and their beneficiaries, especially since they directly contribute to economic development.
- Governments should create legislation to exempt small-sized entreprises from taxes to support their success. Develop a legal and regulatory environment that suits their unique characteristics and responds to the requirements and needs of these entreprises. Close coordination between government policies and non-governmental organizations' small business development programs is essential.
- Create mechanisms to assist small-sized entreprise owners in repaying instalments. Encourage the establishment of small-sized entreprises and disseminate necessary marketing information to help them market their products to reach as many citizens as possible.

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