MICROFINANCE ASSESSMENT CONSULTANCY TO DARFUR, SUDAN

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FINAL REPORT

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PREPARED BY: ABDELMAJID KHOJALI AND LENE M.P. HANSEN

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Acronyms and Abbreviations

ABS	Agricultural Bank of Sudan
AML	Anti-Money Laundering
ARB	Animal Resources Bank
ASCA	Accumulating Savings and Credit Assoc
ATM	Automated Teller Machine
BDS	Business Development Services
BOP	Bottom of the (economic) Pyramid
CAR	Capital Adequacy Ratio
CBO	Community-based Organisation
CBOS	Central Bank of Sudan
CIT	Cash in Transit
CPA	Comprehensive Peace Agreement
CIS	Credit Information System
CSO	Civil Society Organisation
DPA	Darfur Peace Agreement
EC/EU	European Commission/Union
EPOS	Electronic Point of Sale
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoNU	Government of National Unity
GoSS	Government of Southern Sudan
GNI	Gross National Income
HAC	Humanitarian Aid Commission
HH	Household
HRD	Human Resource Development
ICT	Information & Communication Technology
ICDB	Islamic Cooperative Development Bank
IDP	Internally Displaced Person
IFAD	International Fund for Agricultural Dev't
IGA	Income Generating Activity
ILO	International Labour Organisation
I/NGO	International/Non-Governmental Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
JV	Joint Venture
KYC	"Know Your Customer"
LD	Libyan Dinar
LPG	Liquid Petroleum Gas
ME	Microenterprise
MDTF	Multi-Donor Trust Fund
MF	Microfinance
MFI	Microfinance Institution
MFP	Microfinance Provider
MFU	Microfinance Unit (of CBOS)
MIS	Management Information System
MoFNE	Min. of Finance & National Economy
MoSW	Ministry of Social Welfare
MS(M)E	Micro- and Small (& Medium) Enterprise
NCP	National Congress Party
NHI	National Health Insurance
PA	Practical Action (INGO)
PaR	Portfolio at Risk ratio
RI	Relief International
ROSCA	Rotating Savings & Credit Association
SACCO	Savings & Credit Cooperative
SCA	Savings and Credit Association
SDF	Social Development Foundation
SDG	The 'second Pound' currency of Sudan since July 2007. One 'second' pound = 1000 'first pounds' (SDP) and = 100 Dinars (SDD)
SMDF	Sudan Microfinance Development Facility
SME	Small and Medium sized Enterprise(s)
SO(C)B	State-Owned (Commercial) Bank
SSDB	Savings and Social Development Bank
TA	Technical Assistance
TOR	Terms of Reference
UN	United Nations
UNAMID	United Nations and African Union Mission in Darfur
UNCDF	UN Capital Development Fund
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNHCR	UN High Commissioner for Refugees
VC(I)	Value Chain (Integration)
VS&LA	Village Saving and Loan Association
WDA	Women's Development Association
WFP	World Food Programme

1. Executive Summary

1.1 Context and Constraints

The **trading networks** and entrepreneurship of Darfuri traders are legendary and Darfur has long been the source of Sudan's most important exports of agricultural produce, including groundnuts, gum arabic and livestock. Its modern economy remains based on agriculture and trade, but chronic under-investment, marginalization and isolation from the rest of the Sudanese economy has disabled the region from reaching its full production and trading potential.

To a large extent, the conflict that escalated in Darfur in 2003 represents a modern flare-up of grievances caused by natural, political, national and local processes that started deep in history and have continued during colonial times as well as under the regimes that have ruled Sudan since Independence. The key **economic impacts** observable today are a combination of the acute effects of the **latest conflict and the gradual impact of increased competition** for scarce political, economic and natural resources. Whether gradual or acute, the loss of rural livelihoods has had a direct impact on the rate of urbanisation, and the natural resources in the fragile climatic region have been seriously compromised by the increase and urban concentration of people.

Microfinance – the provision of financial services to poor and low-income earners - can be and is indeed being implemented successfully even in areas where conflict is resurgent and political stability elusive. This is largely because economies continue to function during a crisis, albeit at a reduced or shrinking rate of growth – and the people affected by conflict – like everywhere else - require sources of income to survive and thrive. Thus, people need reliable, regular access to financial services to return to economic activities as soon as immediate life-saving needs are being addressed.

People in Darfur have continued to evolve their survival and coping mechanisms, but to date the private sector, the local governments and the IDPs and host communities themselves have **not been adequately engaged in their own recovery.** There is a **huge gap in the understanding** and analysis of the local situation between the international contingents whose movements are relatively restricted, and Darfuri people on the ground. Internationally, economic recovery assistance is no longer viewed as a "later-stage activity" but one that should be commenced in parallel with emergency efforts to avoid conflicts becoming 'stuck' in the relief phase and affected population becoming dependent on aid. In a move so gradual that it appears out of touch with developments on the ground among IDPs and host communities in Darfur, several donor agencies are beginning to transition from life-saving emergency relief to longer-term recovery and development interventions, but there are as of yet **very few development resources** in Darfur.

Even if a budget for development has been available, the local human resource capacities of Darfuri public services appear low. Planning, documentation, monitoring and market surveillance seems all but non-existent; few civil servants were able to provide meaningful data about their field of responsibility; and the political influence on local government, while perhaps not as controlling as in other parts of the country, is still evident.

Economic growth in Sudan has been strong in recent years, but it has not been broad-based and may have increased **inequality** between regions. A more pro-poor allocation of public expenditures for expanded access to basic services and a more balanced (inclusive) pattern of growth emphasizing traditional rain-fed agriculture, pastoralism, and small business will be vital for enabling poverty reduction, lowering inequality, and mitigating conflict by delivering a peace dividend, particularly in Darfur where the trust in government has been shattered, was it ever there.

The lack of **physical infrastructure** increases the transaction costs for micro- and small enterprises. In addition, limited market information flows discourage market entry and formalisation, particularly for subsistence farmers and rural microentrepreneurs. Equally, for Microfinance Providers (MFPs), the cost of reaching people is high. The technological solutions available to overcome some of these constraints, e.g. mobile phone marketing and M-banking, have not yet been introduced in Darfur.

Risk management and mitigation has been integral to the Darfuri way of life for centuries. However, the '**triple whammy' over the past decades of drought, urbanization, and conflict** seems to have weakened these important abilities in areas now defined as 'the public sphere'. In particular the current environmental problems are almost too big for the traditional, individual risk management systems. With huge budget gaps and the lack of expertise and long-term development planning, it is not surprising that natural resource management has not received the public sector priority it deserves. But unless the current rate of deterioration is reversed, it threatens health, wealth, markets – and future livelihoods in the entire region.

While community composition is defined somewhat along tribal lines in Darfur, **poverty** is more correlated with geographic location, which again determines the extent of recent losses of assets due to drought or displacement and defines available and feasible livelihood strategies.

Outside the realm of financial services, the demand for basic social services is strong, particularly among the rural, non-IDP communities of Darfur who have not received much outside support at all, and reasonably feel overlooked. The priorities in terms of demand appear to vary very little across rural Darfur: water, education and health (for humans and animals). Unfortunately, access to these services appears to be inversely proportional to need.

These external constraints, while noted, do not present insurmountable hindrances to successful delivery of microfinance – or financial services in general. Operational costs will be higher than in more well-endowed environments, but methodologies can be adjusted to better accommodate the market, and importantly, the 'coping economy' of Darfuri entrepreneurs is vibrant, widespread, and very resilient.

1.2 Microfinance Demand and Supply

Of the 7.8 million people living in Darfur today, around half are in the economically productive age groups. Of these, it is estimated that **2.3 million adults** may be demanding and able to utilize microfinance services, as breadwinners for around 785,000 households.

Against this demand, some 40 bank branches provide formal financial services in urban Darfur, along with FOREX bureaus, insurance companies, and up till the 1990s - also the Postal Savings Service. Only two of the **16 banks** provide microfinance at any volume. The vast majority of microfinance loan products are traditional ***murabaha*** (sale and mark-up) contracts priced at 12-18% p.a., and most (88%) is provided as individual loans. One bank is also providing *mugawala* (turn-key service) contracts to farmers, but neither *mudaraba* nor *musharaka* products appear to be offered to microfinance customers by any of the banks. While all banks are aware of the CBOS request for them to use 'non-traditional collateral', the risk averse banks tend to **over-collateralize** loans using several types of guarantees; insurance; and conventional, physical collateral if it is available.

The total deposits mobilized were reported to be around SDG 17.4 million – or only half of the outstanding financing portfolio. Hence, the **branches do not mobilise enough** savings to expand their portfolio without funding from other sources.

On a more positive note and in comparison to other peripheral regions of Sudan, Darfuri banks deserve credit for the **gender balancing** and diversification of their small portfolio. Loans to women represent 23% of total microfinance loans outstanding, which also reflects the active role that women play in the Darfuri economy at all levels – a role that may have increased with the loss of primarily male lives during the conflict.

But even with two specialized banks, the portfolio of 5,700 microfinance loans as at the end of 2009 does not even reach one percent of the estimated demand market, whereas the number of micro-savings accounts is 2%. Given a modest expansion rate of 20% compounded per year, it would take 27 years for the banking industry in Darfur to become inclusive. In addition, the average micro-loan balance outstanding is SDG 5,980 (US$ 2,392); well under the SDG 10,000 ceiling for microfinance, but by international standards a rather high average suggesting that the banks are currently not reaching very deep into the 'micro segment' of poor people, so the **formal finance gap** may be larger yet.

The range of i**nsurance** products potentially on offer is wide and a number of the conventional products could be adapted to the micro-market with a minimum of effort. When the Government launched the Sudan Microfinance Pilot project offering matching loan funds to banks for microfinance, it also asked the state-owned Sheikhan insurer to develop a specific range of insurance products. The total value of the insurance certificates issued for microfinance projects in 2009 was around SDG 37.5 million (US$ 15 m); 75% of which insured cattle. The claims paid to date have not exceeded 7%, boding well for commercial sustainability. However, rain-fed agriculture and livestock herding still do not have appropriate coverage.

All banks and FOREX bureaus claim to make their profit on **money transfers**. Banks at 3-6 ‰ are significantly slower than bureaus and will only transfer in-land. FOREX bureau are allowed to process international transfers, but under severe restrictions, and are significantly more expensive at 10-15 ‰. However, if 40 bank branches and 4 bureaus are making money from transfers, truly significant amounts of money must pass through the system – even if CBOS and the banks estimate they only see up to 25% of the total cash in circulation.

Within the 'semi-formal' segment, this Consultancy was able to identify **only two NGO**-programmes that have micro-credit components, albeit not designed for sustainability:

- EU-funded support from Practical Action to the North Darfur Women's Network of 56 CBOs, which operates a revolving loan fund; and
- Relief International providing wholesale loan funds to Kebkabiya Women Society and other CBOs as well as retail loan funds to individual clients in Kebkabiya, Saraf Omra and El Sireaf, North Darfur.

However, microfinance services are being offered on a relatively large scale in urban areas of Darfur today, just not by banks. In addition to the traditional borrowing of smaller cash amounts from friends and family, usually at no cost, the **biggest providers of microfinance** in Darfur today remain the **informal sector** traders, *hawaldars* (personal financial intermediaries) and land owners that have kept business going in the region during the past 350 years. A number of these microfinance providers, especially the traders, are themselves bank clients and pass credit and other resources down the value chain to keep input coming and thus keep the business alive. This is one of the reasons why, despite all the social rupturing having taken place in Darfur during this and earlier conflicts, trade links have not been severed and continue to span rifts and cement links across geographical, tribal and social divides.

The main financial service provided by the informal sector in Darfur is **credit** in cash and in kind for trading, farming, and household consumption. In addition, an extensive, widespread and efficient informal system of cash **transfers and remittances** is ensured by mobile phone operators, who may gradually be replacing the more traditional *hawala* system as far as domestic transfers go – internationally, *hawaldars* remain the chosen provider. People still save in cash, albeit less than earlier, and do so by **investments** in collective production *sanduq*s (ROSCAs) – or in the private *burma* (pot in the yard). The traditional provision of forward sales financing for agriculture – *shiel* – appears to have all but disappeared with the decreasing crop production and possibly with the availability of *salam* financing from banks. There are, however, remnants of the system in the **sharecropping** arrangements between farmers and land owners/lessors (or indeed occupants) who may provide the input necessary for preparation to the farmer against a later payment of up to half the harvest. Finally, guarantor systems remain for specific value chains, e.g. larger store owners or wholesalers **guaranteeing** loans for their agents and *duman* in the livestock markets guaranteeing the integrity of the livestock to the buyer and the payment in instalments to the seller.

Microfinance market development takes time as capacity, trust and loyalty between suppliers and their market needs to be built. The Government through CBOS has tried to speed up the development process, first by requiring banks to provide financing to poorer people (the 12% allocation), then by incentivicing banks with generous amounts of subsidized capital (the Microfinance Pilot project). But partly because **microfinance has been introduced 'from above'** as a required target - often without adequate training, additional staff or resources - most bank branch staff consider the new market segment unprofitable, unfamiliar and risky; the products and procedures expensive in both staff time and arrears; and the methodology unknown – and as such end up finding microfinance utterly unsuitable for commercial banking operations.

With many bank branches concerned about security and reluctant to leave town to meet customers for fear of attack, Darfur would seem a prime market in which to launch branchless (electronic or mobile) banking. While some preparatory steps are being taken by CBOS, however, such technology-driven delivery systems do not yet appear to have found their way to Darfur.

1.3 Key Findings and Recommendations

In order for banks to deliver good microfinance, the fact that microfinance is a specialized financial service and not just 'small commercial loans' needs to be appreciated, and bank management and supervisors need to buy-in to the changes in staffing, delivery methods, and marketing that successful microfinance would require. The financial services system in Darfur could become inclusive with the addition of a few specialized microfinance providers. But Darfur – and Sudan in general – has a dearth of microfinance intermediaries or even institutional structures that could develop into microfinance institutions.

Whereas microfinance also lacks champions at national and many state levels, there are potential champions for good practice microfinance in Darfur: In North Darfur, a Microfinance Committee of bankers, hosted by the CBOS branch has been established to discuss how banks may assist in the process of expanding microfinance, which is a great start. In South Darfur, the Ministry of Finance more than the CBOS branch is driving a process to attract the necessary assistance to design and establish a Good Practice microfinance institution.

There is capital and investment willingness from the formal financial sector of banks; there is some expertise and market knowledge among informal providers in the private sector ready to engage; and there are influential champions in Darfur. These local stakeholders need to be given access to appropriate technical assistance to rectify the current misconceptions and set microfinance off on a more sustainable path. The proposed interventions center around three options on the supply side:

1. Conventional rectification: Improve microfinance services through existing providers
    - Rectify and strengthen delivery system on the ground through **training, TA,** and mentoring engaging technical assistance through SMDF;
    - Design wholesale group loans to Associations that banks can better manage;
    - Outsource the establishment and start-up of a new MFI.

2. Modernised Delivery: Improve outreach and sustainability through new technologies

- Link the formal and informal providers by introducing **“branchless banking”**: the use of non-bank retail agents and information technology to deliver financial services to low income people beyond traditional banking channels;
- Mobile phone-based systems can be used to broadcast information (market prices, government regulations); for insurance (certificates and claims); for transfers, savings and other banking services;
- Mobile phone based virtual transaction accounts (“electronic wallets”) for customers enables access to bank services without a need for physical contact, and develops link between existing providers: banks, customers and mobile phone operators.

3. Targeted troubleshooting: Focus on the biggest risk – alleviating environmental damage
    - Access to financial services for the poor cannot ensure environmental protection, but finance can design products and services to support efforts to protect the natural environment in an economically viable manner;
    - Banks can promote “Green Operations” among branches and customers;
    - A “**Sustainable Environment Fund for Darfur”** can be established, aimed to finance transitions to and establishment of environmentally sound developments in Darfur. The Fund would help finance businesses that install, apply, or otherwise change to more environmentally sustainable practices, as well as new businesses that ensure, promote or support natural resource protection.

2. Background and Introduction

The Government of Sudan is committed to supporting the expansion of sustainable microfinance in the north of the country through a process managed by the Central Bank of Sudan (CBOS). Because microfinance is new to the country, however, very few specialized microfinance institutions (MFIs) operating based on international Good Practices have emerged, and the Government has thus focused on channelling funds for microfinance through commercial banks. Without much training or familiarity with the market segment of micro- and small enterprises (MSEs), banks are reluctant to expand services, whereas many MSEs do not trust the banks or find their products to be unsuitable for their businesses. This is especially true in the peripheral states of the country, including Darfur.

Lack of access to, restricted movement within, and biased media coverage of Darfur have all contributed to a slightly uninformed and warped image of conflict levels and economic development. International presence is largely limited to an UN-African Union Force (UNAMID) that is unpopular due to its limited mandate to protect civilians and maintain law and order and therefore under significant self-imposed travel restrictions; and a small contingent of donor agencies and humanitarian INGOs that have focused on food security, emergency relief among IDPs, and short-term, quick impact projects. Few projects and agencies have, until very recently, looked at the local market economics, the factor markets, and the possible longer-term development needs of the region.

Possible exceptions include IOM, UNEP and UNDP that have been informed by a series of research studies undertaken by the Feinstein International Centre of Tufts University since 2006, on the effects of the conflict on livelihoods in Darfur. Consensus has emerged that opportunities exist to enhance livelihoods and build capacity to support economic recovery while addressing the serious environmental degradation that urbanization, displacement and the conflict has caused in the fragile climate on the edge of the Sahelian desert. This is timely, because Darfur in 2010 is not, with notable exceptions in some areas, a war-zone, and the centuries-old proud trading traditions of the region have not been severed by the conflict. Rather, a resilient, vibrant if conflict-affected economy is mending rifts across tribes and communities – because markets endure conflicts and people need to generate income to sustain lives and livelihoods.

Partnering with UNDP and IOM, UNEP is leading an environment technology task force (ENTEC) aiming to address the need for alternative energy in the deforested and water-scarce region, and UNDP has held two of three multi-stakeholder workshops at state-level with the aim to identify gaps and develop longer-term support strategies for livelihoods and conflict-sensitive microfinance. Such strategies could be integrated in UNDP's ongoing Darfur Enhancing Livelihoods Project for expanded livelihood and economic recovery activities, or become part of other new programming initiatives in support of private sector-led economic development in Darfur.

As part of an overall review and assessment conducted by Tuft's University of the dynamics of livelihoods and conflict in Darfur as a complementary intervention to IOMs and UNDPs Livelihoods and Natural Resource Management activities in Darfur, a specialist microfinance team of one national and one international consultant were recruited to focus on the options and feasibility for microfinance as part of a conflict-sensitive livelihood strategy in Darfur.

The team was tasked to assess microfinance demand and supply as well as possible gaps to be addressed through conflict-sensitive, inclusive microfinance support either as stand-alone MFIs or through other means. In addition, the team was asked to study the potential of microfinance to underpin or facilitate

- Access by households and MSEs to alternative (clean) energy sources, including liquid Petroleum Gas (LPG); and
- Access and usage by households and MSEs of mobile phone-based remittances (money transfers) and possibly the delivery of other financial services.

Any recommendations for feasibly interventions in support of more convenient remittances, more secure savings, credit for LPG and/or general market development through financial services to MSEs should be incorporated in a draft project proposal for UNDP.

The Consultancy took place during the first quarter of 2010, with a 3-week field visit to South and North Darfur being undertaken during February 10 – 27. The Consultants were greatly assisted by Hiba Farid, the Head of the Central Bank of Sudan Microfinance Unit and her staff for guidance and direction; by Maja Bott, UNDP Khartoum for initiating, preparing and supporting the consultancy throughout its duration as well as providing secondary data and research; by Paul Rushton and his colleagues at IOM and UNDP staff for operational support and travel logistics; by Mr. Abdalla El Taleib at UNDP in South Darfur; Mr. Omer Harun at UNDP in North Darfur for meeting arrangements, networking and facilitation in the field. The Consultants are particularly grateful for the interventions of His Excellency the Minister of Finance of South Darfur to provide guidance, information, and for the facilitation of visa procedures. Throughout the assignment, the Consultants were fortunate to meet with committed professionals, who shared their insights and assessments of the current situation and constraints, and took time from a busy schedule to attend meetings and provide information and feedback. The Consultants would like to extend their sincere appreciation for all the time and effort that was put into the assignment by all persons met.

3. Approach and Methodology

As part of the overall livelihood research, the Microfinance Consultancy had three main tasks to perform: an assessment of the demand; a review of existing supply; and recommendations on how to close any gaps found between demand and supply of microfinance in the conflict-affected environment of Darfur. Should the Consultancy find grounds for recommending a microfinance support project, a Project Document (Proposal) for a Microfinance Program in Darfur should be drafted (see Terms of Reference for the assignment in Annex 7). In response to the TOR, the Consultants adopted a financial systems development approach, involving an assessment of the size and characteristics of the overall client market; of the existing microfinance retailers; of the business support infrastructure for these retailers (e.g. funding, training, TA, audit, IT provision); and of the enabling environment at macro-level, including policies, legislation and regulation pertaining to or affecting the microfinance industry, especially the Microfinance Regulatory Framework of 2008.

The context in Sudan is complex and has important bearing on potential success or failure of Good Practice microfinance. For this reason, the two Consultants had slightly different terms of reference, and the national consultant began in January 2010 to compile and analyse background data and information on microfinance providers in Darfur; from providers of mobile telecommunication services; insurance providers; and providers linked to the supply of LPG. The national consultant visited Darfur to meet with stakeholders in January, and summarized findings in a background paper setting the stage for the joint field visit.

When the international consultant arrived in early February, meetings were held with UNDP, the CBOS Microfinance Unit (MFU), and the Sudan Microfinance Development Facility (SMDF), as well as with one bank and one insurance provider in Khartoum, before the team set off for South Darfur four days after having met. In hindsight, the rush to get the team to the field backlashed slightly, as very little time was availed for programming and arranging meetings; planning approaches; developing joint interview guidelines and formats, etc. Based on each consultants' prior work, individual questionnaires and interview guides for focus group discussions with micro entrepreneurs were eventually prepared along with an interview guide for commercial banks, NGOs and funding agencies for the supply side review (all research tools are available from the Consultants on request).

With the help of UNDP staff in Khartoum and on the ground in Darfur, a work schedule was drafted and continuously updated as meetings were confirmed, travel advisories changed, and flight schedules shifted. It was a particular regret that it proved impossible to arrange a visit to West Darfur state during the field mission. The demand side assessment was conducted through 14 focus group discussions with state government officials, bank client groups, NGO beneficiaries, IDPs, entrepreneurs and office holders in North and South Darfur as well as around 35 individual interviews with micro and small entrepreneurs in 10 markets. To inform the supply review, a total of 10 bank branches; 15 donor agencies and I/NGOs, 4 insurance and telecommunication companies, as well as 4 retail service providers were interviewed in South and North Darfur respectively. To validate and further inform the demand and supply findings, interviews and meetings were held with state and locality government authorities, CBOS branch managements, and donor agencies in the two states (see Work Schedule and List of Persons Met, Annex 8).

Before leaving South Darfur, the Consultancy debriefed with the Livelihoods Officer and received valuable feedback. In North Darfur, a lively debriefing meeting was held with the Microfinance Committee of bank representatives chaired by the CBOS Branch in El Fasher. On 03 March, the Consultancy debriefed an internal Programme Committee meeting of UNDP as well as a meeting in the Donor Economic Discussion Group hosted by the African Development Bank in Khartoum. And finally on 04 March, the Consultancy Team was asked to present findings and recommendations at a multi-stakeholder workshop hosted by CBOS MFU and attended by HE Minister of Finance of South Darfur, the CBOS branch managers of South and North Darfur; CBOS officials, banks, donor agencies, consultants and NGOs. Again here, findings were validated and adjusted, and valuable feedback received.

A draft report was submitted for comments and observations by IOM, UNDP, and Feinstein International Centre, Tufts University on 28 April and comments were received in May and incorporated to the extent possible in this final report.

The Report is divided into eight sections. Sections one through three present the executive summary, background and methodology. Section four presents a summary of the socio-economic, legislative and regulatory environment for microfinance in Sudan, as well as of the conflict, markets and peoples of Darfur. Section five presents an estimated quantification and characteristics of the demand in Darfur, while section six covers the findings in terms of outreach, performance and product range of suppliers. Section seven summarises the main constraints and challenges for the development of a microfinance industry in Darfur, whereas section eight provides the recommendations as opportunities and options for funders and regulators alike. A series of annexes are attached to the main report, and a draft UNDP project document for a microfinance support project/component will be submitted separately, in response to the TOR.

As is often the case in Sudan, the quality of the data obtained during the field work was mixed. While many efforts were made during the Consultancy to validate and triangulate findings, the Lead Consultant remains responsible for any remaining errors. In particular, the consultants regret the travel restrictions and logistic difficulties that prevented their visit to West Darfur, and recognise that this omission may have skewed some of the findings. However, we can only report on what we saw. The views and recommendations expressed in this report are those of the Consultants, and do not necessarily represent the views of Tuft's University, UNDP, IOM, the Central Bank of Sudan or other government authorities in Sudan.

4. The Setting for Access to Finance in Darfur

Sudan is the largest country in Africa, comprising equatorial mountains, swamp, savannah, and semi-arid areas and desert in the north and west. Rich in natural resources, Sudan is home to some 39.1 million people of many religious, ethnic and linguistic groups. 30 million (77%) of the population reside in the North of the country, according to the census conducted in 2008. Of these, a total of 7.85 million people[1] now populate the three states that since 1994 have made up the region of Darfur: South Darfur that shares a border with the Central African Republic and is home to the largest city in the region, Nyala; West Darfur that borders Chad; and North Darfur that shares a border with Libya and hosts the historic capital of Dar Fur, El Fasher.

Sudan has been experiencing an economic upturn, characterised by a long period of growth and relatively low inflation. In addition to the exploitation of oil reserves, foreign direct investment (FDI) has stimulated a boom in the service sector, especially transportation and communication. Real GDP growth was 10.2% in 2007, which slowed to 6% in 2008[2] reflecting the impact of the global financial crisis in reduced industrial output, but outside the oil sector, economic growth is narrowly based and limited in reach.

The conflict in Darfur, which should now be characterized as 'low-intensity' if not 'post' in several areas, has accelerated urbanization, and almost half of the population now lives in and around seven towns or along the roads that link them, occupying only about 10% of Darfur's territory. The natural resources of water, arable soil and pasture vegetation in this fragile climatic region have been seriously compromised by the increase and urban concentration of people.

4.1 The Financial System in Sudan

Sudan operates two financial systems: exclusively Islamic finance in Northern Sudan and conventional finance in Southern Sudan – at least until 2011[3]. The financial system is supervised by the Central Bank of Sudan (CBOS), which is responsible for establishing macroeconomic, monetary and credit policies;

[1] This figure is based on the April 2008 population census published in the Central Bureau of Statistics website and extrapolated to 2010 by the stated 2.2% annual population growth (see Annex 3). In the early 1970s, the population was estimated at only 1.5 million, and the 420% increase since has contributed significantly to the environmental strain on the fragile land.
[2] Central Bank of Sudan: Annual Report 2008.
[3] Meloni, C., Bott, M. and Hansohm: Microfinance In Sudan - An Assessment Of The Current Status Of The Industry. Paper for the First National Consultative Forum on Microfinance Khartoum, November 2007. The 2011 referendum in South Sudan is also meant to include a choice between conventional or Islamic financing systems.

regulating and supervising the banking industry; issuing currency; and acting as the bank for the Government of National Unity (GoNU). CBOS manages the clearing house of Sudanese banks[4], and is mandated to determine minimum profit levels, deposit reserves, ceilings for volume of credit and activities to which credit is provided, and as well as to receive annual 'budgets' and monthly balance sheets for the banks it supervises. In addition, CBOS is charged with the "promotion and development of banking in a manner that will achieve balanced economic and social development in pursuit of economic stability"[5].

CBOS performs its supervisory and public banking functions in North Sudan from 11 branch offices. South and West Darfur is served from the CBOS branch in Nyala, and the branch in El Fasher supports North Darfur. The Bank of Southern Sudan (BoSS) is part of CBOS but has the power to license financial institutions operating in the 10 Southern States.

CBOS oversees an institutionally diversified financial sector comprising 35 licensed banks of which most are registered as commercial, including two state-owned (SOCBs), 2 branches of foreign (Gulf-based) banks, and 26 joint-venture (JV) banks. Five additional banks – 1 JV and 4 state-owned are registered as 'specialized' including three important microfinance providers (MFPs): The Agricultural Bank of Sudan; the Savings and Social Development Bank and the Family Bank in Khartoum state which has recently opened a branch in North Darfur. The bank branch network, while concentrated in the central riverine region of Khartoum, still numbers 564 outlets[6]. Accordingly, by African standards, bank usage in Sudan is relatively high at 144 bank accounts per 1000 adults[7].

In addition, the financial sector includes at least 12 financial services companies; a leasing company; a government bond institution issuing *sukuk* and other Islamic financial papers; the Khartoum Stock Exchange listing around 53 companies (end 2008); some 22 foreign exchange companies (the central bank strictly regulates the supply of foreign exchange to bureaus and most commercial banks do not trade currencies[8]); and 4 national funds, including the Pensioners Fund, the National Social Insurance Fund, the Industrial Finance Fund and the Bank Deposit Security Fund[9]. Insurance is a particularly well developed industry in Sudan, where the first Shariya-compliant (*takaful*) insurance company was established in 1979. In 2006, net insurance premiums received by the industry exceeded gross claims payments to customers by 21%. In 2008, however, claims had risen by 61% year on year and totalled 88% of gross premiums – but more than half of this amount was recovered from reinsurers[10]. There are currently 15 insurance companies.

The total assets of the banking sector (including South Sudan) stood at around SDG 30.6 bn (US$ 12.2 bn) as at end 2008. Total local currency deposits reached SDG 13.5 bn (USD 5.4 bn), of which 91% were from the private sector. Of these private deposits, half were mobilized in savings or investment accounts. 90.6% of this deposit base was used for lending in 2008 (12.3% for import, 18.6% for local trade, 9.3% for industry, 11% for agriculture and only 3% of the 47% "others" is for 'social development' including microfinance – despite the call from the Central Bank for all banks to allocate 12% of their portfolio for microfinance). Without commitment, capacity, commercial incentive and means of enforcement, this requirement is perhaps better left unfulfilled for now, as there is never a good argument for poorly implemented microfinance.

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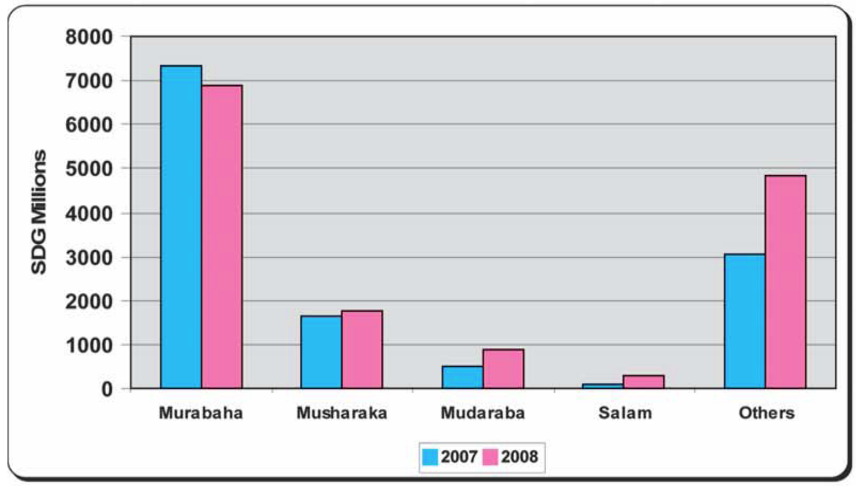
[4] Bank of Sudan Act 2002
[5] Central Bank of Sudan Act (2006) and Annual Report from Central Bank of Sudan, 2007.
[6] CBOS: Annual report 2008.
[7] Getting Finance database in World Bank: Banking the Poor, 2009.
[8] IMF: SMP Sudan Program Note, July 2009.
[9] Listing from CBOS' Annual Report 2008 found on its website: http://www.cbos.gov.sd/english/id_e/banks/banks.htm which may not be completely up to date.
[10]CBOS: Annual report 2007 and 2008. Figure 1 is taken from the 2008 Annual Report. Other forms of financing include e.g. mugawala and ijarah (leasing).

Figure 1: Lending by product type, 2008.



Of the total lending, *murabaha* contracts had dropped to 47% in 2008, down from 58% the year before[11]. The profit margin charged on commercial *murabaha* contracts varied from 8-18% in 2008 against the recommended 10%[12], which in 2010 has been reduced to a recommended 9%.

The fiscal expansion and rapid credit growth for public sector financing in 2006-07 significantly weakened the financial sector and required several injections of liquidity by CBOS totalling 1.5% of GDP between September 2006 and January 2007. During 2008, CBOS increased its capital contribution (shareholding) to banks by 120% while it's lending to banks fell by 24%[13].

From a low at end of 2007, broad money and reserve money grew by 16% and 22% respectively, in 2008. Private sector credit growth, however, slowed to 13% by March 2009, in line with a drying up of credit lines from foreign banks. Another reason for the private sector credit crunch is decreasing liquidity in the banking sector, as government *sukuk* certificates (bonds), considered safe and high yielding, are crowding out credit to the private sector, especially SMEs. The generous returns offered on the bonds[14] are widening the fiscal deficit and delaying the repayment of government arrears to private suppliers and contractors, who in turn default on their bank loans, increasing the NPL.

Both the size and the depth[15] of the formal financial sector remain limited and in addition, performance is not encouraging. Non-Performing Loans (NPL) was 24% of the entire financing portfolio of the banking sector as at March 2009, and the provisions set aside to cover these potential losses are insufficient at 19%[16]. A massive 80% of the NPL is concentrated in one very large and very troubled SOCB, the Omdurman National Bank (ONB). The government has pledged to restructure and privatize the bank, which accounts for 28% of all lending (2008)[17]. Add to this that only 21 banks – 66% of the entire banking industry – were able to meet the minimum capital requirement of SDG 50 million by end of 2008[18], and the contour of a weakening banking sector appears. Many banks are in distress due to the lack of efficient, transparent and accountable lending practices as well as weak monitoring and supervision by the CBOS.

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[11] Ibid. See Annex 2 for an overview of Islamic financing instruments.
[12] CBOS: Annual Report 2008 and Policies 2010. By comparison, the highest margin charged in (18%) is only half the average annual yield (interest) on gross portfolio by microfinance banks in Sub-saharan Africa (34% in 2008). See CGAP and the MIX: Microfinance Analysis and Benchmarking Report: Sub-saharan Africa 2009, April 2010.
[13] CBOS: Annual Report 2008.
[14] As an example, the government *musharakah* certificates had an average return of 15.8% p.a. in 2008.
[15] M2 to GDP was at 18% in 2009 – against the regional average of 38%.
[16] IMF: SMP 2009-2010, June 2009 and CBOS and MoFNE: Memorandum of Economic and Financial Policies (MEFP) to IMF, June 2009 and World Bank Country Economic Memorandum: Sudan - Toward Sustainable and Broad-Based Growth, Dec 2009.
[17] MoFNE and CBOS: Sudan Memorandum of Economic and Financial Policies, June 2009.
[18] CBOS: Annual Report 2008.

The conflict and political instability have slowed economic and social development. Lack of good governance is a major concern not only in the political sphere but also in the economic and corporate sectors. In 2009, Sudan was ranked 5th lowest in the Corruption Perceptions Index (CPI) – as 176th of 180 countries[19]. Poor governance implies a lack of transparency and accountability in the enforcement of regulations. It is undoubtedly one of the factors behind the poor performance and weak compliance of government banks. Unless controlled, it may further discourage FDI as well as investments by development partners[20].

CBOS imposed restrictions on the foreign exchange market to reduce capital flight in 2009, as a severe foreign exchange shortage became apparent, brought about by the fall in oil revenues, declining Foreign Direct Investment (FDI) and an expected decline in remittances as well. Given that Sudan has no reserves, as all oil revenue earned earlier has been spent, government now has to cut public spending and control FOREX in order to avoid further pressure on the Sudanese pound[21]. CBOS has also strengthened efforts to improve commercial banks' compliance with supervisory regulations and to develop a Credit Information System to help them implement a client coding system to reduce non-performing loans[22].

4.2 Microfinance in Sudan

4.2.1 The Policy, Legal and Regulatory Framework for Microfinance

The GoNU and GoSS have both endorsed microfinance as a crucial component of their financing strategies in support of the 'social dimension' or poverty reduction. In 2006, CBOS commissioned a situational analysis of microfinance in the country[23], based upon which a National Vision for the Development and Expansion of the Microfinance Sector in Sudan was drafted, consulted and adopted. The Vision paper outlined the potential and challenges in the market, the options for support to development of a microfinance industry and the principal strategies available. Fully Good Practice-compliant, the Vision (goal) adopted is to: "*facilitate sustained access to financial services for the economically active poor in rural, semi-urban and urban areas by expanding and developing the microfinance sector in a cost-effective, gender sensitive and sustainable manner*"[24].

In pursuing the Vision, a series of strategies were agreed and a comprehensive work plan adopted, which included the issuance of specific microfinance regulations and licensing for banks and non-banks; linkage banking including whole-sale mechanisms and a re-evaluation of the effectiveness of directed credit; and promotion of a broader range of financial products, including *musharakah* investments both by banks (in micro-enterprises) and by clients (in bank investments for dividends); and microinsurance products.

To oversee implementation, the CBOS established a dedicated Microfinance Unit (MFU) in March 2007, fully responsible for executing the strategy. Similarly, an MFU was established in Bank of Southern Sudan. To ensure broad buy-in and awareness raising, the First National Consultative Forum on Microfinance was

[19] Sudan's score in 2009 was 1.5, down from 1.6 in 2008. The CPI is published by Transparency International. See http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table
[20] African Economic Review http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#/political_context
[21] World Bank CEM (2009), op.cit.
[22] African Economic Outlook, op.cit.
[23] UNICONS: Situational Analysis of the Status of Microfinance in Sudan, Mar 2006.
[24] CBOS and UNICONS: A Vision for the Development and Expansion of the Microfinance Sector in Sudan, July 2006.

conducted with donor support in November 2007[25]. A first progress review of the implementation of the strategy was conducted in November 2008[26].

Many of the constraints listed in the Situational Analysis and Vision of 2006 remain valid today, but the CBOS MFU has achieved the lifting of some barriers to microfinance development, no doubt buoyed up by the GoNU declaration of 2008 as the Year of Microfinance in Sudan. These include:

- The adoption of a regulatory framework for microfinance;
- The development of policy and implementation guidelines along with licensing requirements and reporting formats;
- Amendment of the Law on Humanitarian and Voluntary Work with HAC, officially permitting local and international NGOs to conduct commercial activities, including microfinance; and
- Commissioning of studies on legislative challenges and collateral constraints, and a resulting Circular[27] encouraging microfinance providers (MFPs) to use more non-conventional collateral types.

CBOS defines microfinance as financial services to poor people. Poor people are defined as people with an income not exceeding twice the minimum salary (currently SDG 500/month) and whose productive assets excluding land do not exceed a value of SDG 10,000, "provided he is not a regular employee in any organization and not less than 18 or more than 60 years of age"[28]. This latter salary-related restriction would exclude a significant potential market segment of low-income wage-earners. This may not have been the intent, as this segment is normally considered prime microfinance clients. Micro-financing is restricted to a maximum of SDG 10,000/contract (USD 4,000).

In accordance with international good practice, the current regulatory framework for microfinance[29] distinguishes between non-deposit taking Microfinance Providers (MFPs) on one hand, and microfinance banks or non-banks (institutions) which have to be licensed by CBOS to mobilize public deposits on the other.

- Deposit-taking MFPs have to be legal entities (either public corporations, public or private companies limited by shares, NGOs, credit associations or cooperatives) and are required to be licensed by CBOS if they provide microfinance as one of their business activities. They also have to document a minimum capital of SDG 10 million (USD 4 million) if they operate at national level or half that if below (at state or locality levels). They need their Board and management approved by CBOS, and are required to submit operational policies and business plans. They are required to have computerized accounts, internal and external auditing, and Basel I compliant reserves. So far, one entity has been registered under this framework[30];
- Non-deposit taking MFPs that lend only to 'members' are exempt from the otherwise rather conventional capital adequacy requirements, whereas such an MFP that wishes to serve the public must have at least SDG 500,000 as equity (although annex 3 to the Regulations would seem to contradict this). Any and all organizations or projects providing any type of microfinance, however, must register with CBOS and then

[25] See Forum Report on First National Consultative Forum on Microfinance: Microfinance Best Practices in Conflict-affected Countries – Challenges and Opportunities for Sudan, November 2007.
[26] UNICONS: Evaluation of Implementation of the Strategy for The Expansion and Development of the Microfinance Sector in Sudan, Nov 2008.
[27] CBS circular No 5/2008, dated 10/3/2008
[28] CBOS: Microfinance Regulatory Framework, July 2008.
[29] CBOS: "Microfinance Regulatory Framework", July 2008 and "Policies for the Year 2009, the Financing Policies for the Activities of the Social Dimension", 2009.
[30] Promoted by the Businesswomen's Association of Khartoum State, the Family Bank is the first microfinance bank licensed under the Microfinance Regulations and started operations in July 2008. The Bank is registered as a public company, with CBOS, Khartoum State, the National Social Insurance Fund and the Zakat Chamber as its main shareholders. UNICONS: Review 2008. Op. cit.

have 30 days in which to incorporate as either a company, a cooperative, or under special legislation. Three entities have registered with CBOS under the new regulations, of which the Khartoum State Social Development Foundation is up and running already.

CBOS' Microfinance regulatory framework lists a broad set of allowable activities for MFPs, including financing (lending), guarantees, salary payments, distribution and delivery of finances extended by government, input provision, provision of consultancy and technical assistance, and other 'non banking tasks'[31]. Only microfinance banks are allowed to take public deposits, but non-deposit taking MFPs may be allowed to accept compulsory savings and take voluntary savings up of a maximum of SDG 1 million[32]. MFPs must report and seek prior approval for expansion plans[33].

The microfinance regulatory framework as published in 2008 falls a little short of international good practices in its loan loss reserve and provisioning regulations that copy commercial banking rules and are thus not stringent enough for microfinance. The regulations allows banks not to provision at all until arrears are past 90 days, and suggest an overall provisioning of only 1% of outstanding portfolio. For the less collateralized microfinance portfolio, that could prove too lenient. The framework uses prudential capital adequacy ratios and limits on unsecured lending which reflect Basel II requirements for commercial banking and may deter new microfinance entrants or transformations, as the requirements may not be well understood. A positive development since 2008 is that microfinance is now exempt from the indicative profit margin ceiling on *murabaha* financing of 9%[34].

Some of the key components prioritized in the CBOS Vision and Strategy to provide a more enabling environment for microfinance have not yet been implemented and would appear to require urgent attention. These include:

- Establishment of a central database and performance monitoring system for MFPs
    - A database within CBOS MFU has been established for microfinance activities by banks, but the structure and formats of the database render the outputs very difficult to verify, compile and meaningfully feed-back to banks
- Coordination and information to MFPs and stakeholders at large
    - Confusion remains about what microfinance is; can; and should or should not do. MFPs and the broader group of microfinance stakeholders urgently need increased awareness raising, unambiguous information, and clarity, and increased collaboration among providers would facilitate expansion of outreach and sounder performance.
- Consideration of a private "Information Credit Bureau" (ICB) or credit reference service.
    - Instead, microfinance customers have been included in the centralized programme for Electronic Coding of commercial borrowers as part of the upcoming Credit Information System (CIS). The coding is a very cumbersome KYC process meant to deter money-laundering which no doubt has its place in Sudanese banking. However, some of the questions asked to further distinguish customers who have similar patronymic names are culturally offensive (e.g. name of mother), and as the microfinance portfolio of the banks poses negligible systemic risk or AML concerns, it is not obvious that microfinance customers should have to endure the 7-30 days delay in processing that the registration on the central database requires.

The Vision work plan as stated is impressive in its application of Good Practices and while there is room for improvement in the regulatory framework, it should not in itself deter industry growth. Any current causes of concern are related to initiatives outside of the Vision work plan, and to the ability of the CBOS MFU to

[31] CBOS: Microfinance Regulatory Framework, July 2008.
[32] In Islamic banking 'savings' (as opposed to deposits) describes a semi-liquid product with no returns.
[33] CBOS: Microfinance Regulatory Framework, July 2008.
[34] Central Bank of Sudan: Policies for the Year 2010, Chapter 1, para 2.

stick to the Vision in the face of political pressures: In 2008, a "Sudan Pilot Microfinance Project" was launched, which allocated SDG 115 million to *musharakah* partnerships, effectively credit lines to banks matched by subsidized CBOS funds dedicated for microfinance lending[35]. To access this cheap source of funding, banks are required to establish microfinance units. This has been done by at least nine commercial and specialised banks at head office level, but not necessarily in the branches to which funds are being allocated, where capacity to implement microfinance is still very limited. In addition, the general banking policy for 2010 encourages all banks not participating in the Pilot project to allocate 12% of their portfolio to micro- and "mini"-finance (a new category of small contracts introduced in 2010) either directly managed by specialized departments or units for microfinance (at head offices), or through the establishment of specialized branches or subsidiaries. Banks are also encouraged to engage in awareness raising; in simplification of procedures; and particularly in the application of non-conventional collateral and technologically assisted services.

Even with limited enforcement mechanisms for these recommendations, there is thus an exceptionally large pool of funding available for microfinance delivered through banks, but due to the delays in the establishment of a facility for capacity building (see below) and a general belief in monetary incentives, very little training or technical assistance has so far been made available to bankers who are asked to provide a unknown methodology of financing to a new market segment without having to risk too much of their own capital. This unintended "funds first – quality later" situation may be the single biggest constraint to good microfinance development in Sudan today.

4.2.2 The Support infrastructure for Microfinance

The support infrastructure for the finance sector include financiers (whole-sale lenders), technical service providers (consultants, audit companies, IT companies, trainers etc.), as well as facilitating public infrastructure such as mobile phone networks and power supply. It is distinct from the providers of training and business development services to the micro-, small ("mini") and medium scale enterprises themselves.

Technical Service Providers
The Frankfurt School of Finance and Management was initially called to Sudan based on its core competency of bank training. In collaboration with a local consultancy firm, it adapted and delivered a basic bank training course in 2007, which has now successfully been spun off to the Sudanese Higher Academy for Finance and Banking. By end of 2008, 400 bank staff had completed the standardised 5-day training,[36] and while the need for such induction training is high, it is not sufficient.

Particularly for downscaling banks, international experience suggests that managerial buy-in is what secures – or risks – success, and thus exposure of bank managers may be important. In addition, ongoing and on-site technical assistance, mentoring and/or trouble shooting would appear essential for microfinance to take root and become a successful new product line for (some) commercial banks. In addition, general awareness and exchange of experience would be important. The microfinance providers (MFPs) among the formal banks have not coalesced in a specialized sub-group to facilitate such shared learning, but efforts are being made to bring bank- and non-bank MFPs together in a Sudan Microfinance Network (SAMI).

In 2008, the Frankfurt School of Finance and Management was contracted to manage the "Sudan Microfinance Development Facility" (SMDF), meant to be an apex funding and capacity building provider for the emerging industry in Northern Sudan, as co-funded by the Multi-Donor Trust Fund (MDTF). With the dearth of capacity and experience with good-practice microfinance in Sudan, the services of the apex

[35] Meloni et.al., op. cit.
[36] CBOS Annual Report 2008.

institution would be in great demand but its start-up was marred by severe delays and repeated management and staff changes. To gain and maintain legitimacy and advance industry development in the emerging market, the SMDF must necessarily 'lead by example' and apply good microfinance funding principles[37] and practices in all aspects. In hindsight, given the crucial importance of management buy-in at all counter-part levels in Sudan, the structure of a more generalist project management overseeing the technical work of microfinance specialists at SMDF was possibly not the most appropriate.

Seeking to make up for lost time, the Facility has increased its efforts to provide support to non-bank MFPs by providing capital and attracting high-level technical assistance through the issuance of international tenders[38]. With the contractual agreement running out in July 2010, however, it is doubtful that the SMDF will be able to fulfil its mandate of providing technical support to the retail and meso-levels of the industry and strategic input to the policy level in addition to its whole-sale funding.

Other business services for the banking sector appear scarce and not of sufficient quality in Sudan, and most JV banks appear to have technical agreements with service providers abroad or in-house. While the IT industry is booming, there seems to be less interest in accounting systems, MIS and data management services for banking institutions among private sector providers. Auditors also appear scarce – perhaps because demand is suppressed, given that CBOS inspectors perform audits of banks.

Mobile telecommunication Networks

Mobile telecommunications networks have quickly spread in recent years into once unserved areas on the entire African continent, helped by companies such as Orange, Vodacom, Zain, MTN, Moov, and Tigo. These six operators accounted for 52% of all subscriptions for mobile phones in Africa in 2008, and their average growth rate in Africa has been 41%. Mobiles account for 64% of total telephone revenues and Africa is the only region in the world where mobiles now outstrip fixed lines.

Sudan's telecommunications infrastructure includes 11,000 km long optic fibre national backbone that covers most of the country and extends to the borders with Egypt, Ethiopia, Eritrea and Chad. It is complemented by a digital microwave network and a domestic satellite system. The national system is connected via submarine cable link across the Red sea to Saudi Arabia and from there to international cable systems. Telecommunications services are available in roughly 80% of the country, covering all major urban and rural settlements, but it is estimated that only 46% of rural and urban localities have access to public Internet centres. Where it exists, the service is highly efficient in terms of speed, absence of delays and rationing, but it is relatively expensive. For example, the average Internet café price per hour in Sudan is US$ 0.9, while the corresponding rate in Nigeria is USD 0.6.

There are two major operators that provide fixed line services (Sudatel and Canar (Etisalat)) and three companies that provide mobile services (Sudani (owned by Sudatel), Zain (Kuwait) and MTN (South Africa). The Internet technology used in Sudan encompasses cable, optic fibre, mobile phones, ADSL, LDSL and GSPR. Most institutional subscribers use ASDL and optical services, whereas individual subscribers mainly use LDSL and dial-up services. Sudatel and Canar have enjoyed a monopoly over Internet Gateways till the end of 2009, and could fix the price for service access by the other operator (although all operators must have their own towers, the law does not prohibit the sharing of other resources).

The telecommunications sector is almost completely liberalised with government ownership limited to 20% of Sudatel, which had to establish its mobile services in a separate company (Sudani). Before the entry of other operators, Sudatel, the oldest operator, used to determine fees in consultation with the National

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[37] The Good Practice Guidelines for Funders of Microfinance developed and endorsed by the member countries of CGAP are available in Arabic at: http://dev.cgap.org/gm/document-1.9.2741/donorguidelines_ar.pdf

[38] In March 2010 a Request for Proposals was issued for a Microfinance Service Company in Al Shamaliya.

Telecommunications Corporation, but now fees are freely determined by operators. The operators rely on self-funding obtained through their operations; funding from mother companies; and debt finance through banks and equity financing through sale of shares, in the case of Sudatel. Operators do not see financing as a major constraint on their expansion and quality of services[39].

The use of ICT in Sudan still remains concentrated on communication which has expanded rapidly. Other uses, however, are expanding rapidly. These include the transfer of money through mobile phones and the beginning use of Internet for banking operations. CBOS has established an electronic services company to assist financial institutions to acquire and operate telecom equipment for ATM services, electronic clearance of checks, mobile banking, electronic transfer of funds, electronic statements and web-based banking in general. The result is increasing use of Electronic Point of Sale (EPOS) systems, debit cards for ATMs, and an increasing interest among banks in other branchless banking services. The number of ATMs countrywide grew by 48%, and there were 1050 operating EPOS points in 2008[40] - however, none were found in Darfur during this Consultancy. The government has recently passed a bill that paves the way for e-government, allowing for electronic payment of various types of government fees. Sudan's excellent cellular network could be an important channel for the expansion of microfinance, especially in regions like Darfur where physical movement is restricted in some areas[41].

The Funders

The biggest funder of microfinance in Sudan is the Government of National Unity through the Microfinance Pilot Project (see section 4.2.1) as an attempt to incentivise the provision of financing to small businesses and the poor[42]. The Agricultural Bank of Sudan (ABS), Farmer's Commercial Bank, the Savings and Social Development Bank and the Real Estate Commercial bank have received the largest shares of the funding, ABS alone availed almost 30% of total allocations[43]. State-level authorities are also contributing funds to microfinance through banks in many states, but not (yet) in Darfur.

Through the MDTF, donor agencies have invested USD 10 million in the SMDF. Outside of the SMDF, however, donor assistance to microfinance in the North has been less forthcoming, primarily due to the general delay in the shift from a relief to a development approach, compounded by the banking embargo of Sudan that disincentivises donor agencies from engagement. UNDP has included preparation of microfinance interventions into a broader private sector development approach being designed to include both Eastern Sudan and Darfur; UNHCR has supported livelihood activities for refugees including revolving financing funds; WFP is considering more market-supportive cash-for-work projects, voucher-based service provision, and import-substituting local procurements; and UNDP, IOM and UNEP are exploring ways in which rural livelihoods based on environmentally friendlier technologies may be supported by microfinance. The EU has been funding Practical Action's program of technological improvements and revolving group loans to women's societies in Darfur.

IFAD has for long included microfinance activities in its broader rural development projects, and through an impressive process of directly applying lessons learned, it is currently supporting some of the most innovative microfinance activities in North Kordofan and Kassala through the Agricultural Bank of Sudan. Under its ABSUMI project in North Kordofan, a phased intervention plans to extend some 55,000 loans of SDG 1-2,000 to rural households over the next five years, breaking even in year 3 of operations. During the

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[39] For more details on Sudan's telecommunication structure, see African Economic Outlook, March 2010, http://www.africaneconomicoutlook.org/en/countries/east-africa/sudan/#/annual_theme.

[40] Central Bank of Sudan, Annual Report, 2008.

[41] The importance of cellular phones for microfinance development is described in Arabic in the CGAP publication: http://www.cgap.org/gm/document-1.9.2716/Brief_MobilePhones_AR.pdf

[42] UNICONS: Review of Implementation, 2008, op.cit.

[43] CBOS – MFU, monthly report, September 2008 reported in Unicons, Review, Nov. 2008, op.cit.

Incubation Phase, ABSUMI is extending financial services to communities served by the IFAD-supported Western Sudan Resources Management Programme (WSRMP) and to the *sanduq* communities earlier served by the North Kordofan Rural Development Project (NKRDP) in order to build on existing resources[44]. Similarly, under the Gash Sustainable Livelihoods Regeneration Project in Kassala State, IFAD supports the Agricultural Bank of Sudan in an effort to extent appropriate microfinance services to small scale farmers and pastoralists. The Bank provides all capital for financing, whereas IFAD has provided funds for the re-opening, staffing and running of a bank branch in the area. Based on a customer-centered approach and with the use of client feedback via water user associations, women's development associations and the media, the bank branch has adapted its products and procedures to better suit the needs of the clients. As an example, it runs a mobile unit to more remote communities.

The humanitarian support programme to Darfur remains one of the biggest in the world (over $1 billion per year). About 65% of funding pays for food aid that is estimated to reach over 4.3 million people (perhaps twice the number of IDPs) from almost 300 distribution points[45]. Some 21,500 military and civilian staff from across Africa, Asia and the Middle East have jobs with UNAMID whose annual budget reached $1.6 billion in 2009/10[46]. Very few resources within the programme are geared towards longer-term development efforts.

People in Darfur have continued to evolve their survival and coping mechanisms, but to date, they – the private sector, the Darfuri state and local governments and the IDPs and host communities themselves - have not been adequately engaged in their own recovery. There is a huge gap in the understanding and analysis of the local situation between the international contingents whose movements are relatively restricted, and Darfuri people on the ground. In a move so gradual that it appears out of touch with developments on the ground among IDPs and host communities in Darfur, several donor agencies are beginning to transition from life-saving emergency relief to longer-term recovery and development interventions, but there are as of yet very few development resources in Darfur.

Figure 2: Fin. systems approach to market assessment.

In general, a more concerted and better coordinated approach based on a more in-depth contextual analysis by funders to the development of inclusive markets in Darfur would clarify the gaps, improve coherence in addressing such gaps, and might also serve as an example for the many governmental structures.

4.2.3 Microfinance in Conflict Environments

Microfinance is an integral part of financial service provision in functioning markets. When reviewing microfinance, analysts often take a financial systems development approach in order to assess demand and supply at the various levels of services required to support a robust industry, as per Figure 2.

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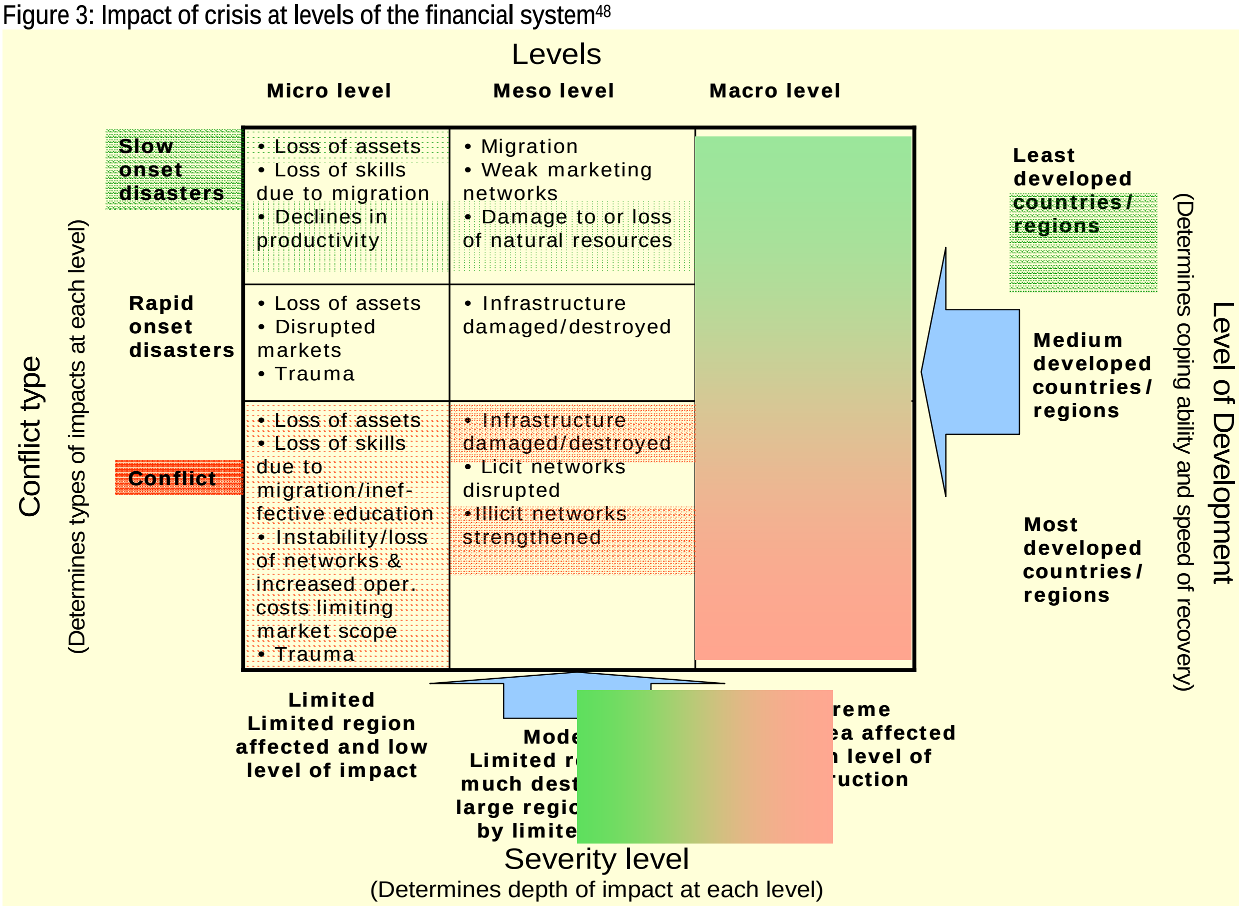
44 Agricultural Bank of Sudan: ABSUMI Microfinance Business Plan Summary, May 2009.
45 UNDP: Darfur: Note of relief, recovery and development, January 2010.
46 UNAMID: Facts and Figures as at 31 December 2009
http://www.un.org/en/peacekeeping/missions/ unamid/facts.shtml

In conflict and crisis situations, microfinance is one of many development tools supporting economic recovery. Economic recovery is a response to evidence that market failures are significantly undermining the enterprises from which affected house-holds earn their livelihoods. Indicators of market failure may include disruption of business activities; declining enterprise productivity or increased business failure; rapid increases in prices for, or a lack of, basic commodities; and less availability of cash. However, external assistance efforts in conflict affected areas like Darfur often ignore market dynamics and support unviable economic activities or promote activities that crowd out local enterprise. This results in fleeting or even harmful impacts. Individuals' incentives to invest in and operate viable businesses are distorted, and thus the pace of overall economic recovery slows. To work, economic recovery programs must reflect local market realities, and be designed and implemented based on a thorough understanding of the supply of, and demand for, goods and services, and how the organization of markets determines power and governance among different market actors[47]. This assessment attempts to provide such a basis for the design of microfinance interventions in Darfur.

In reviewing the feasibility of microfinance as a potential economic recovery intervention in a conflict-affected area, it is useful to start with determining the impact of the crisis at the levels corresponding to the financial system stakeholders (see Figure 2 above) by crisis type, level of development and level of crisis severity, as per Figure 3.

Figure 3: Impact of crisis at levels of the financial system[48]



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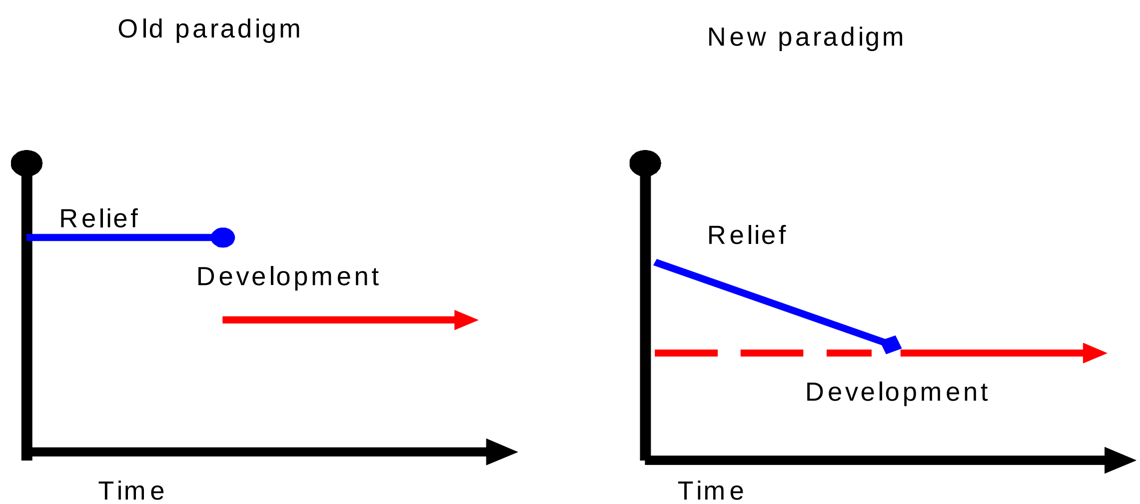
47 See more on standards for economic recovery activities in SEEP: Minimum Standards for Economic Recovery after Crisis, February 2009, developed as a complement to the core standards in the *Sphere Handbook*.

48 From CGAP Annual Meeting 2007 in Benin, special session on MF in challenging environments by Tim Nourse, ARC, also replicated in SEEP: Minimum Standards, op.cit.

In Figure 3, efforts have been made to differentiate between the impact of the long-running environmental crisis (illustrated in green) of Darfur which has been exacerbated by political isolation and economic marginalization on the one hand, and the more recent conflict (illustrated in red) which has aggravated the ongoing loss of assets; disrupted markets and networks due to damage and migration; and strengthened illicit networks (banditry, looting, double taxation for protection, etc.). Both types of crises have had a negative impact on the ability of authorities (local and national) to enforce law and order and provide services to the population.

In the 1990s, it was still accepted doctrine that microfinance is appropriate only in politically and economically stable environments. In 2001, a framework of 'essential and preferred conditions' for the implementation of microfinance in post-conflict environments replaced the earlier and more restrictive paradigm. Today, however, it is widely acknowledged that microfinance can be and indeed is being implemented successfully even in areas where conflict is resurgent and political stability elusive – most of the factors that were thought to be essential earlier have proven not to be preconditions. This is in large measure because economies continue to function during a crisis, albeit at a reduced or shrinking rate of growth – and the people affected by conflict – like everywhere else- require sources of income to survive and thrive. Thus, people need reliable, regular access to financial services to return to economic activities (livelihoods, enterprises) as soon as immediate life-saving needs are being addressed. Economic recovery assistance is no longer viewed as a "later-stage activity" but one that should be commenced in parallel with emergency efforts to avoid conflicts becoming 'stuck' in the relief phase and affected population becoming dependent on aid (see Figure 4).

Figure 4: The paradigm shift



This requires viable financial institutions that can develop or adapt services to the needs of their customers, and that can remain independent from political and donor demands to ensure management decisions are made with sustainability in mind – even if this may not always coincide with short-term relief objectives. Broad-based selection of client segments and self-selection of groups of clients, for example, remains core to microfinance. New subgroups of potential clients are created during armed conflict (ex-combatants, IDPs, refugees, widows, child-headed households, etc.) who often get much more attention than others, but who may not be able to benefit immediately from access to financial services. Experience in microfinance, as well as in most relief interventions, has demonstrated that targeting communities as a whole has a less divisive impact than targeting particular subgroups. If there are no appropriate local financial institutions in the conflict zone, community-managed services can be supported. The decision to set up a new Microfinance Institutions (MFI) should ***only*** be made if the long-term commitment of funds, time and specialized expertise can be made.

Financial services must be driven by demand and priced at market rates that reflect costs of funds, risk and transactions. While profit margin subsidies or ceilings may appeal to relief donors and politicians alike, clients' dependence on artificially low prices will damage their ability to succeed economically once normal market forces return after donor interventions and government programmes end.

In many countries, including Sudan, there is a widespread, but not well documented belief in the direct beneficial impact of microfinance delivery processes on social and political peace and reconciliation (see Figure 5). The assumption is that microfinance can play a conflict mitigating role by encouraging inter-ethnic economic activities, or by building trust through multi-ethnic community banks or solidarity group lending. However, this direct link remains questionable[49].

Figure 5: Types of conflict mitigation through microfinance[50]

	Direct mitigation	Process mitigation	Indirect mitigation
Rationale	Micro- or mini financing may support projects that directly resolve or reduce conflict triggers	Contact and facilitation between hostile groups as part of microfinance delivery helps reduce mutual prejudice	Alleviation of poverty yields benefits in conflicts fuelled by persistent lack of revenue or inequitable access to resources
Examples	Boreholes, fodder trees, and mobile schools for pastoralists; "Good Fence Loans" to farmers to protect fields by Caisse Villageoise in Foyet, Cameroon.	Multi-tribal membership required in village banks; Azaouad Finances plc in Timbuktu, Mali ensuring client diversity and equal influence	Focus on inclusive access by the poor, economically active; adapting products and delivery to demand. Abazamukana in Rwanda supported by Concern Worldwide.
Client selection	Community members who are party to a conflict with access/resource dimension	Members of excluded, culturally/socially defined group	The poor in general – inclusive of all subgroups in a community/area
Financing Products	Designed to address conflictive resource need specifically	Joint IGA, musharakah among members of opposing social groups, cross-tribal sanduqs/ SACCOs	"grow with clients" – expand product range and contract size as clients' business needs grow
Delivery mechanisms	Group, wholesale	Individual or group, branch-based	Individual or group, branch-based or branch-less

At all times, but in particular in conflict-affected environments, it is important to realize that micro-financing – as many relief and emergency interventions – is ***not*** in itself a conflict resolution tool. In fact, financing (credit) may well *generate* conflicts, e.g. in groups where one member defaults and the others have to pay up on her behalf, or in communities where some households, e.g. IDP or refugees, have or are perceived to have better access to the services than others. A few positive examples notwithstanding, the majority of cases where direct conflict mitigation has been attempted, it has not been achieved through the process of loan provision[51].

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[49] See also D. Larson: *Searching for Differences: Microfinance Following Conflict vs. Other Environments* in MBP Microfinance Following Conflict, Brief No. 5, DAI, September, 2001.
[50] Adapted from S. Michelle Heen: Microfinance and Conflict: Toward a Conflict-Sensitive Approach, The Fletcher School, Tufts University, USA, 2004.
[51] S. M. Heen (2004), op.cit., p. 33-34.

If done well, in or after a conflict situation, however, microfinance can help poor people invest in enterprise activities, meet emergency needs, reduce vulnerability, and build assets, and as such may be able to *indirectly mitigate or diffuse* community tensions and/or collective violence fuelled by poverty or economic-political exclusion. Put more simply, when asked, many people seem to think that identified conflict tensions could be resolved through greater availability and use of credit[52].

Still, microfinance in war-affected countries has often consisted of short-term, poorly planned, and rushed interventions by organisations under pressure to disburse funds quickly, using staff with little or no expertise in microfinance. Clients have been provided with relatively large loans for long loan periods, to inject capital into the household economic activities. Unfortunately, these methods generally prove inappropriate, resulting in ineffective lending mechanisms, over-indebtedness of clients, poor repayment rates (significantly less than 98%), and low outreach. This has been partly due to diversion of loans to wealthier or more powerful members of the community, and an over-emphasis on credit at the expense of savings and other services[53].

The efforts required to build and sustain the capacities within a MFI to ensure conflict sensitivity in its operations – especially in conflict environments where external donor pressure for quick disbursements is often extreme – should not be underestimated. Just like microfinance expertise rarely exists in relief organisations, microfinance institutions do not typically have internal conflict mitigation capacities, such as:

- Ongoing conflict analysis capacity, including designated staff responsible for continuous update, analysis and interpretation;
- Mediation and conflict resolution skills and qualifications among staff, if process mitigation is used;
- Coordination, negotiation and facilitation skill sets to provide or link clients to non-financial services provided by other agencies in the area; and
- Capital reserves to provision against potentially higher than normal loss rates[54].

During the past twenty years, research focused on conflict-sensitive microfinance has provided the following lessons learned which have now been translated into minimum standards or good practices for conflict-sensitive microfinance[55]:

1. Project mix – focus on the clients' security
    - Services that enhance security are often as important as financing, e.g. safe savings to assist communities rebuild and protect their assets, and transfer services that enable clients to trade without having to carry cash;
    - Crisis risk mitigation in microfinance includes a clear expectation for and enforcement of repayment, an understanding of market volatility, and the ability to offer options that help clients through crises, e.g. making clients' savings available, reschedule or renegotiate financing contracts, or dropping penalties for late payment for a specific period of time;
    - Neither in peace or conflict is financing appropriate for people who have no means of repaying – microfinance is not for everyone.

2. Institutional linkages – work with trusted structures
    - Institutions seen to be parties to the conflict are rarely the best choice of partner;
    - Innovative designs are called for – look for linkages in the informal sector;

[52] Ibid.
[53] Tamsin Wilson: Lessons from A Microfinance Project in Rwanda, http://fex.ennonline.net/20/lessons.aspx
[54] S. Michelle Heen (2004), op.cit.
[55] Summarized from the SEEP Network: Conflict and Post-Conflict Environments – Ten Short Lessons to Make Microfinance Work, Progress Note no. 5, September 2004, and SEEP: Minimum Standards for Economic Recovery after Crisis, February 2009.

- Sometimes an entirely new, neutral and/or cross-communal local organization needs to be created – and institutional influences may change over time.

3. Distinguish microfinance as an enterprise development activity different from relief
    - Microfinance must be separate from relief operations to be successful – institutionally/legally, by name, logo, venue, etc. to avoid client confusion;
    - A longer-term perspective focusing on sustainability is necessary from Day One along with an agreed timeline for when the transition from relief to development support should start;
    - Planning and coordination with relief and non-financial development activities can assist households move from relief dependency via cash grants to financial services.

4. Product design and delivery – adjust to the needs of clients
    - Individual loans, smaller loan sizes, grace periods to suit business cash flow, repayment schedules to suit revenue structure, incentives for repayments and better analysis of clients' businesses are often called for in conflict situations;
    - Strong and effective guarantees (not necessarily conventional) are required – it is key for MFPs to stay "put" and in contact with clients during times of crisis.

5. In conflict, collaboration is more important than competition
    - Sharing detailed information with other practitioners – even potential competitors – on security, product terms and conditions, and client performance is mutually beneficial in unstable environments;
    - Local networks, working groups or similar platforms can help unify the message of sustainability in economic development activities by educating donors and local politicians who often have little microfinance experience.

6. Think, plan and fund for the long-term
    - Building a sustainable MFI takes 3-5 years – the higher cost of operating in an unstable environment may increase the time it takes to become profitable;
    - While donor funding in conflict environments is often short-term, funding mechanisms must be designed to enable longer-term funding cycles. It's better *not* to start an MFI than to create a "stop-start programme" that depends on ongoing fund-raising efforts.

7. Develop strong human resources and robust systems from the start
    - It's difficult to find, recruit and retain experienced technical staff in conflict environments. The right staff can be expensive to hire, keep, and keep secure - and the skill sets of relief staff do not often translate well to microfinance;
    - One successful model seems to be the recruitment of young graduates, local business managers, and a team of (expatriate if not locally available) experienced microfinance mentors working under a clear succession plan with specific targets and dates;
    - Ensure all records and important documents are backed-up and accessible off-site (e.g. by online MIS, FTP sites, etc.) and develop an effective communication and risk management system of emergency procedures;
    - Management and staff must be authorised to and capable of adapting and improvising in difficult and changing circumstances, while remaining fully focused on portfolio quality and long-term sustainability.

The most important lesson learned to date is probably that doing poor microfinance is not an option. If good practices cannot be adhered to, microfinance is not an appropriate intervention, and a grants-based income-generating activity should be done instead. Microfinance is only one of many development tools and should be used with care in attempts at rebuilding a war torn society. To support economic recovery, non-financial services are often required to precede and/or support financial services provided through innovative and competent institutions, e.g. business management and financial literacy training for potential customers. Likewise, there are segments of the population for whom grant-based support – at least for a period of time – would be more appropriate to avoid increased indebtedness and prepare beneficiaries for future access to financial services[56].

4.3 The Conflict Context of Darfur

4.3.1 The Early History of Darfur

For a millennium, Greater Darfur has been an important African trading hub, catering both to East-West trade with the Gulf and South-North trade with Egypt and Libya and an important centre for religion. Three dynasties were decisive in its rise to fame - the *Daju* dynasty that ruled from the thirteenth century to the sixteenth century; the *Tunjur* dynasty that ruled until the seventieth century; and the *Keira* dynasty whose centre of power was in the Jebel Marra. The core group in the Keira dynasty was the *Fur*, whose king Suleiman Solongdungo became the first ruler of the Sultanate of Fur (1650-1680).

Even in its early days, the Sultanate was the scene of power struggles, strife and infighting. Many smaller clans and chiefdoms as well as immigrants from West and North Africa were included in the growing state, and to provide the mobility to ensure physical control of the Sultanate, nomadic pastoralist communities were incorporated at the fringes of the increasingly centralised and autocratic, sedentary political economy. Gradually consolidating the power of the Sultanate as a cosmopolitan 'state', a new system of granting land titles (*hakura*) by merit or as rewards rather than by kinship and clan was introduced; the army was strengthened and made up of slaves from the south presumed to be independent of local loyalties; and Islam was adopted as a unifying court-based system of beliefs.

The Keira Sultanate of the Fur maintained its independence until it was overthrown in 1874 by the new Turco-Egyptian rulers, who had occupied the northern parts of Sudan including the Funj Kingdom. This occupation remained 1883 when the Mahadiya forces, of whom many were from Dar Fur, overran Khartoum. After British troops reoccupied Omdurman ending the Mahadiya rule in 1898, the Anglo-Egyptian forces also annexed Dar Fur and in effect closed the chapter on independent Darfur. For a slightly more expanded summary of the long and complex history of the region, see Annex 1[57].

4.3.2 Key Causes of the Current Conflict

To a large extent, the conflict that escalated in Darfur in 2003 represents a modern flare-up of grievances caused by processes that started deep in history and have continued during the Anglo-Egyptian occupation of Sudan as well as under the regimes that have ruled Sudan since Independence in 1956. Key aspects relate to the colonial system of rule; national and regional processes; and finally local developments which are shaped by events at the national and regional levels. A very brief overview is attempted here (see also Annex 1):

1. The British Colonial system of classification and native administration
Contrary to the unification attempts of the Mahadiya, the British colonial administration in Sudan as in most other colonies, needed a system to manage, subdue and pacify the people using minimum resources. The

[56] See also: Geetha Nagarajan: "Microfinance Research in Conflict Environments: State of the Art and the Road Forward", USAID microNote 2, August 2004.
[57] Both this summary and Annex 1 borrows heavily on M. Mamdani's book: and Survivors – Darfur, Politics, and the War on Terror, 2009, which have been criticised by some as biased either pro- and against the Government of Sudan, but still presents a comprehensive and historically accurate description of developments in the region.

Indirect Rule was based on a census that coded people according to their self-proclaimed tribes, and then categorised tribes into 'native' or 'non-native/settler' ethnic groups as well as into Arab or Negroid 'races'. This was done to distinguish cultural traits, identify local leaders and – importantly - to identify administrative units of governance. Smaller tribal groupings were put under the administration of the larger tribal chiefdoms, with or without their consent (the *Ma Alyia* tribe was incorporated in the Rizaighat, for example). The Indirect Rule brought all ethnic groups under a number of native authorities (which could then be played out against each other) to ensure overall stability under British rule.

But only 'native' tribes would have access to a customary homeland (*dar*) and only tribes which had their own *duur* were granted 'independent administration', i.e. some form of participation in governance, and a sultan or *nazir* was appointed to govern on behalf of the Crown. Even if the cattle herders (*baggara)* were classified as 'non-native' (or rather non-sedentary), the large southern Rizeighat tribe and the Beni Hussein communities were allocated *duur* as rewards for their loyalty, and as a result they have had better access to natural resources (pasture and water points) and political influence, as illustrated by their common tribal administration centre in Ed-Dain[58]. Similarly, the northern non-Arab camel-herding tribes (*abbala)* of the Meidob and the (Arabic-speaking) Zayadiyya were allocated *duur*.

Minority tribes that were classified as 'non-native' were not given a *dar*. This has affected the northern (Arab) Rizaighat tribes of the Mahamid, the Mahriyya and at least five others the most – they have not been allocated *duur* (neither through the Sultanate's *hakura system* or the colonial *indirect rule*). This may not at the time have affected their pastoralist livestyle but with time this lack of homeland became critical due to the pressures on the natural resource base, and the northern Rizeighat have been almost totally excluded from access to land, influence and public services. With the system of indirect rule, the British – possibly inadvertently – undid what the Sultans of Fur had spent centuries doing: uniting clans and tribes under a single polity.

2. Political and economic marginalization of Darfur

Like other 'peripheral' regions of Sudan, Darfur was economically and politically marginalized both by the colonial regime and the regimes that came to power after independence, as can be deducted from policies of education, political representation, and general economic development:

- The colonial administration's policy on education had the objective of strengthening those, whose support was required. Entry to schools was controlled and limited to sons of important tribal leaders. In 1956, the Darfuri population of 1.3 million people thus had access to a mere 20 primary schools and 2 secondary schools, one in Nyala and the other in El Fasher;
- During the colonial period and up until recently, the national administrative officials manning the few government institutions in areas like Darfur were recruited from among the well-educated minority elite of Central, riverine Sudan. Due to the educational deficit, 'representatives' of Darfur in the National Assembly more often than not came from Khartoum and had little knowledge of Darfur;
- The lack of economic development in the 'peripheral' states, including Darfur, is obvious from the limited physical infrastructure, especially roads, water and electricity facilities; as well as the very limited development budget transfers from the federal government to the States, which were supposed to increase dramatically with the Darfur Peace Agreement. Similarly, of the total US$ 13.4 billion extended to Sudan by the international community for development projects between 1958 and 2003, Darfur accounted for only 10 projects, constituting a share of 2% of the development fund[59].

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[58] See Annex 1 and H. Young et al: Livelihoods, Power and Choice – The Vulnerability of the Northern Rizayghat in Darfur, Feinstein International Center, Tufts University and UNEP, January 2009.

[59] H. Young et al: Darfur-Livelihoods under Siege, Feinstein International Center, Tufts University June 2005

3. Increased local competition over resources and influence

Inherent and historic tensions among the many different peoples that inhabit Darfur have been ongoing – and fanned by various interests over time – only to break out into direct conflicts that have their roots in access to resources (land, pasture, water – and education) and influence (political voice, development and local self-determination); and have been aggravated by increasing population pressures and deteriorating climatic conditions (droughts and degradation). A few examples of this ongoing process are listed below:

- Rainfall in Darfur is notoriously unpredictable, but the increasing population and urban concentration have amplified the need for water. **Deforestation and droughts** have resulted in famines – the most severe in 1984-86 when some 176,900 people lost their lives; severe loss of assets, deterioration of the natural resource base, and desertification in Northern parts of Darfur. The droughts affected both nomadic and sedentary communities of northern and central Darfur, who moved southwards and occupied land for subsistence and commercial farming and grazing. The increased cultivation by farming communities blocked many pastoralist animal routes, whereas the increasing concentration of animals put the crops and water points under increasing pressure;
- The 'Arab Congregation' established in 1986 called on the central authorities in Khartoum to address the inequality and marginalisation felt to affect especially the Arab (pastoralist) majority of Darfur. Simultaneously, the Chadian civil war broke out, resulting in a significant influx to the Jebel Marra of Chadian refugees, many of whom were armed from the war. The (sedentary or *dar*-owning) Fur, Zaghawa, and Masalit tribes felt threatened by these events and the influx of pastoralists on their farm land, and the **"Arab-Fur Conflict"** of 1987-89 erupted causing substantial loss of lives and assets until a negotiated peace settlement was reached in 1989;
- In 1994, the Federal government divided Greater Darfur into three separate states and introduced "emirates" in every *dar*, appointing loyal *emirs*. This perceived return to a parallel native administrative was fiercely opposed by most Darfuris. The decree in 1995 by the Governor of Darfur to subdivide the traditional homeland of the *Masalit* into 13 new emirates, nine of which to be allocated to Arab groups, was the proverbial 'straw' that resulted in the devastating "**Masalit-Arab Conflict"** from 1996 to 1999 when a massive government attack supported by Arab militias crushed the Masalit insurgents, displacing some 100,000 people;
- The call for young men to mobilize to fight an enemy is by no means new in Sudan, but this 'tradition' has led to **militarization and small arms proliferation** in Darfur:
  - In the 1980s, President G. Numeiry mobilized *Muraheel* militias largely composed of Southern Rizeigat to fight southern Sudan rebels. Similar mobilizations were made by Sadiq Al Mahadi in 1986 and by the National Islamic Front when they took power in 1989[60]
  - In 2003 with the onset of the current rebel insurgency, the Federal government again appealed to tribal leaders in the region to mobilize men to fight the rebels. With the inter-tribal tensions over access to resources increasing, the northern Rizeyghat decided to join the government's counterinsurgency. In 2008, it was estimated that some 20,000 *abbala* received salaries as militia. While the military salaries provided significant cash injections into the poor pastoralist households, this line of activity is clearly not sustainable and has left a legacy of bitterness and fear among many IDPs towards the *abbala*[61]*;*
  - The Chadian civil war during which calls were made for Darfuri (*abbala*) Arabs to assist their 'Arab brethren'; the Chad-Libyan conflict during which Darfuri migrant workers and Rizeighat *baggara* were recruited in support of Libya's Islamic Legion[62]; and the movement of Sudanese and Chadian rebels along the Western border have all contributed to a rapid increase in the availability of arms among ordinary citizens of Darfur;

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[60] Ibid.

[61] The Rizayghat are researched in detail in H. Young et al: Livelihoods, Power and Choice – The Vulnerability of the Northern Rizayghat in Darfur, Feinstein International Center, Tufts University and UNEP, January 2009.

[62] H. Young et al: Darfur Livelihoods under Seige – Feinstein International Center; Tufts University and USAID/OFDA , June 2005.

- While it appears that young, uneducated and unemployed men from these tribes make up the majority of the '*Janjaweed*' and other militia recruits who are thought to be behind the current banditry, looting and unrest in Darfur, it is unfortunate that they are being politically exploited from several quarters that seem to lack an understanding of the extreme livelihood pressures facing the pastoralists in general, but the northern Rizayghat in particular.

In reviewing the complex causes of the latest conflict in Darfur, it is important to recognize the features of general human encroachment on a fragile environment; historical national, regional and international political influences and their local expressions; as well as increasing competition for livelihoods in a situation of scarce resources.

4.3.3 Key Impacts of the Conflict

The conflict that escalated with the government counter-insurgency on 2003 needs to be placed in its context of the historical tensions, and its impacts understood as additional strains to a situation of long festering vulnerabilities. There were of course direct, acute effects of the – politically fanned - flare-up of tensions into open conflict during 2003-04, but the key economic impacts observable today are a combination of these acute effects and the gradual impact of competition for scarce political, economic and natural resources, and include:

- The gradual loss of rural and pastoralist livelihoods, changing livelihood patterns and southbound and urban migration;
- Forced urbanization after attacks and destruction, resulting in asset loss and collapse of primary markets;
- Upsurge of construction, trade and prices in secondary and main markets; and
- A looming environmental crisis.

The direct impact of the many acts of violence during the latest conflict included loss of lives and destruction of farms and homesteads, and resulted in displacement of villagers and inhabitants of *dammar*. Economic livelihood assets such as crops and livestock were looted or destroyed, and natural resources were lost when wells were destroyed, surface water was contaminated, fruit trees were cut and land became inaccessible. In the early days of the conflict in particular, human capital was undermined by the violence and the separation of families, and the destruction and displacement eroded support networks and other social capital.

> Box 6: Camel pastoralism coming to an end?
>
> The livelihoods of the northern *abbala* have revolved around seasonal livestock migrations (in some tribes, only (younger) men herd, while the rest of the community live in permanent settlements (*dammar*); trade in livestock and animal products, and some export and labour migration to Libya and Egypt. The camel-based pastoral livelihood is, however, fast contracting.
>
> The mid-1980s droughts caused the loss of some 92% of livestock in North Darfur to death or distress sale; and forced many pastoralists to migrate and/or settle in urban areas. The semi-nomadic Zaghawa have taken control of the northern winter pastures (the *Jizzu*), requiring the Rizayghat *abbala* to move south with their animals sooner than normal – before the traditional time of year (*talaig*) when southern farmers allow herds to graze the harvest residue – thus increasing the tensions with the sedentary Masallit and Fur farmers.
>
> The closure of the Sudan-Libyan border in May 2003 severely disrupted migration and livestock trade with Libya further contracting their livelihoods, and the reintegration of their militarized youth is not going to be an easy task.

Whether gradual or acute, the loss of rural livelihoods has had a direct impact on the rate of urbanisation:

- Gradual urbanization has occurred as rural dwellers lost their livelihoods to drought and moved to cities to benefit from social networks, increased employment opportunities and service provision. In rural areas, livelihoods have been integrated with farmers also keeping animals and pastoralists also growing e.g. fodder crops – each therefore increasing competition over natural resources where before the livelihoods were complementary;

- The acute displacement during the conflict caused a significant and rapid increase in this urbanization, both increasing the number of urban residents and creating the huge IDP camps that sprung up around the safer urban centres. The urban centres of Darfur are not at all able to cope with the increased population. Supplies of electricity, water (and gas in Nyala), as well as basic services (sewerage, sanitation, schooling, health) are very inadequate[63], and most localities lack the revenue from a small and poorly monitored tax base to provide improvements. Federal support for development has largely not been forthcoming.
- The destruction of villages and homesteads, displacement of people and animals and subsequently fallow fields led to a collapse of many of the primary markets which used to supply the town markets with cash and food crops, livestock and livestock products. With the booming urban demands, traders have had to import goods from farther away, adding links to the value chain; but it appears that the sale of free food aid to some extent shored up the sorghum market and kept prices stable. In some areas even secondary markets have been badly affected (see Box 7);

> Box 7: Impact in secondary cash crop markets
> A rural centre like Geraida east of Nyala used to be a very busy groundnut and livestock market. Today, the groundnut market is closed and the space rented out to UN, because production has fallen sharply. The limited amount of groundnut produced is sold directly by farmers to traditional oil millers, shelling machine owners and few local traders who export it unshelled to Khartoum and the agents, large traders and exporters of the past have disappeared.

- The urban centres have benefited from the influx of cheap labour and demand – even at limited purchasing power - for basic, locally produced food stuff and household items by IDPs, as well as from the employment opportunities and significantly elevated purchasing power and demand for higher-value items by international NGOs and UN agency staff. The combination has resulted in exponential growth of some sectors, especially trade, construction (bricks, timber, water) and housing (rentals). Merchants in Kass town confirmed to the Consultancy that sales of cooking oil, sugar, tea, coffee and wheat flour had increased dramatically after the direct impact of the conflict had subsided in 2007. Both in the state capitals and in the larger towns like Kass and Kebkabiya, construction is booming and the rents of houses have more than tripled since 2005;
- The construction of housing for expatriate staff; and to a certain extent for IDP camps (e.g. latrines) and the demand for basic fuel wood and water has meant a completely unsustainable assault on the scarce natural resources of Darfur in ever increasing circles around the urban centres. Many urban poor and IDPs are cashing in on the demand by making mudbricks, working in kilns, cutting or collecting, transporting and selling timber; making charcoal and selling water. These livelihood strategies are obviously not sustainable and alternative energy sources for households in poor quarters and IDP camps need to be identified and made available. This is not only relevant for Darfur, however. The government estimates that 78% of the energy consumption in the country is in the form of firewood and charcoal![64]

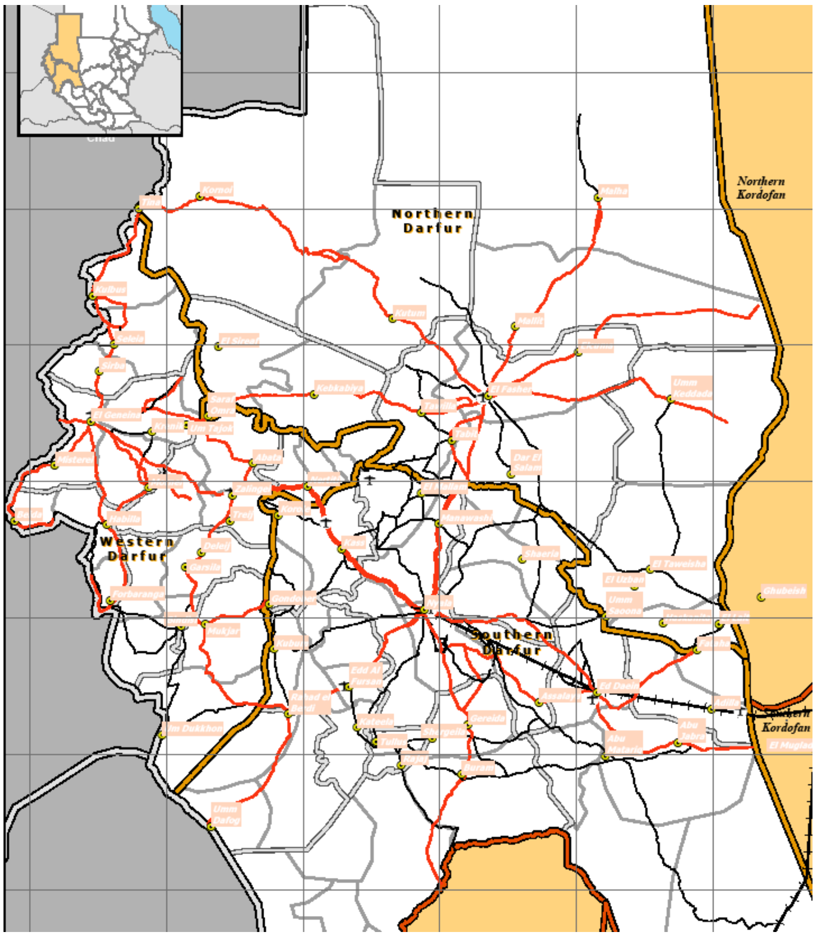
4.4. The Market Environment in Darfur

The trading networks and entrepreneurship of Darfuri traders are legendary and it has been the source of Sudan's most important exports of agricultural produce, including groundnuts, gum arabic and livestock. Darfur's modern economy remains based on agriculture and trade, but chronic under-investment, marginalization and isolation from the rest of the Sudanese economy has disabled the region from reaching its full production and trading potential.

[63] Over two-thirds of the population in Nyala, Geneina and El Fasher are not served by water or electricity, World Bank (2009), op.cit.
[64] World Bank (2009) op.cit.

Livestock is the leading agricultural export product of Sudan contributing 47% of the agricultural GDP, and more than 20% of Sudan's livestock resources are reared in Darfur. North Darfur alone accounts for 12% of national camel production, and South Darfur is the second largest cattle producing state, followed by West Darfur. Of the 1.5 million sheep and goat exported from Sudan (to Saudi Arabia except in years with an import ban, e.g. 2007) each year, most come from Darfur which also produces a significant amount of the 20 million sheep consumed domestically.

Figure 8: Important markets in Darfur[65]



This dominance of domestic trade is increasing due to the high cost of export marketing (transport via rail from Nyala to Port Sudan, losses underway, and taxation). In addition, the encroachment on and deterioration of the rangelands and pastures, especially in Darfur, lowers productivity and profitability in the livestock trade[66]. In addition to the animals themselves, pastoralists, agro-pastoralists (herders that also farm) and mixed farms (farmers who also keep livestock but usually stabled) also trade animal products, such as milk, ghee, meat, and hides.

Of the three major crop production systems in Sudan: rain-fed traditional, rain-fed semi-mechanised, and irrigated agriculture, the traditional rain-fed is the most widespread in Darfur. Pre-2000, Darfur was self-sufficient in cereals in most years. In addition to basic food grain, Darfur has traditionally produced several cash crops, notably ground nuts, gum arabic and *tombak* (chewing tobacco). Sudan is the world's leading exporter of gum arabic, and this crop used to be particularly important to poor farmers on marginal land in Darfur (where acacia grow). Trade has been monopolized and controlled by government, however, and farmer's prices have been kept low. In 2009, the gum arabic trade was liberalized and taxes removed, so there may be hope for better prices in future[67]. During the price slump, however, many acacia trees in Darfur have been cut and sold as firewood or charcoal and will be hard to replace. In the irrigated areas of land around wadis and in the hills, fruit (particularly oranges and grapefruit) and vegetables are grown and sold, primarily at the local and domestic markets. Specialised products, like dried hibiscus petals (*karkadeh*) and honey are also produced, but in small quantities only.

[65] Map courtesy of CRMA/UNDP (2008). The names and boundaries on this map do not imply official endorsement or acceptance by the Government of Sudan or the UN. Double-click on map to enlarge.
[66] World Bank CEM (2009), op.cit
[67] Ibid.

The government has traditionally supported small-scale farming. In 1999, sales taxes on crops sold in local markets were abolished to incentivise food production. The states were compensated by the central government for the loss of revenue. Instead of increasing productivity on existing farm land, however, the increased profitability appears to have caused farmers to enlarge the area under cultivation – hence expanding into and destroying the quality of pastoral land. In addition, however, the tax break was not matched by a similar facility for the livestock producers. They continue to pay local sales tax, local fees (zakat contributions for the poor and needy), and final sales tax plus an annual head tax for which there is no equivalent for crop producers. Livestock producers are thus more heavily taxed than crop farmers – one study suggested by up to 65-70% more[68].

Cash crop (ground nuts) and cereal production (millet and sorghum) has decreased as many farmers were displaced during 2003-04[69]. The trade in local grain has to some extent been shored up by the trading of substantial quantities of relief grain, which has helped to keep prices stable. IDPs with ration cards report selling around one third of their rations to purchase other necessities[70]. WFP estimates that around 40% of the households supported by food aid resell some of their rations. From 2007 onwards, IDPs have rented farm land around their new settlement, with land owners either providing all inputs against half the harvest, or providing access to the land only against 1/3 of the harvest in payment. Likewise, more and more IDPs (albeit mostly women, the men still fearful of travelling outside of the relative safety of the urban areas) return to their own fields in the rainy season (July-September) to farm. Where they have found their villages and farms occupied, a similar sharecropping (or protection) agreement has often been made[71].

There is widespread agreement that the three key constraints to improved productivity and competitiveness in the Sudanese – and Darfuri – agricultural sector are:

- The current land policy which still prevents most farmers (and all pastoralists) from formally leasing and trading land – and hence from access to formal collateralised credit;
- The non-conducive albeit improving policy and regulatory environment of ad hoc and distorting export and locality taxation, tariff policies, incentive payments and trading monopolies (e.g. on livestock and in gum arabic till very recently); and
- The limited public infrastructure, including roads, markets, and cellular network coverage in some areas, which deters private investment and increases marketing (transaction) costs to uncompetitive levels.

Table 9: Agricultural credit vs. value of GDP

	% of total credit to agriculture	% of agriculture in GNP
1995	24.7%	38%
2000	22.5%	42%
2003	11.0%	38%
2006	7.6%	32%
2008/9	10.1%	28%

The government's current land policy fails to provide most farmers with long-term leases on their land, and hence there is no formal (even if customary) security of tenure and importantly, land cannot be pledged as collateral for financing and cannot be traded. While bank credit to agriculture has increased in absolute values since 2001, its proportion of total credit has decreased to much below the percentage contribution to GNP (See Table 9).

[68] Whereas sesame or groundnut producers were paying 16% of total marketing cost in fees and levies, sheep producers had to pay 17-27%. World Bank: Sudan – toward sustainable and broad-based growth, December 2009.
[69] M. Buchanan-Smith and A.A. Fadul, 2008, op.cit.
[70] M. Buchanan-Smith and Jaspars, 2006 quoted in M. Buchanan-Smith and A.A. Fadul, 2008, as correlated with A. Osman El Fateh: Interagency Livelihood Assessment in Abu Shouk, Al Salam and Zamzam IDP Camps, North Darfur, NDATF, November 2007.
[71] Interview with farmers in Kebkabiya and Gereida, as well as with WFP, El Fasher, 25 Feb 2010 and Young etc. Al: Livelihoods, Power and Choice (2009), op.cit.

A new initiative, the Green Mobilization Program with a budget of SDG 10 bn for 2008-2011 has been proposed under the Agricultural Revival Program for 2008-2012 which aims to diversify production and markets, increase growth in agriculture and ultimately reduce poverty (disbursements are still pending). Reforming the agricultural land tenure system forms part of the indicators of the ARP, and as part of the CPA and DPA[72] land commissions have been established but have reached no conclusions yet. An example of how to proceed is already available from the Gezira Irrigation Scheme in Gedaref state, however, where the new Gezira Act provides for the tradeability of leases and hence their usage as collateral[73].

A 2003 industrial survey showed that South Darfur hosted more than 4,000 small manufacturing businesses, second only to Khartoum, whereas North Darfur had a little more than 1,000 MSMEs[74]. More importantly, perhaps, it was noted that the MSMEs of Darfur outperformed those of Khartoum as well as the national average in terms of productivity levels[75]. The majority of manufacturing is agro-industry or food processing, including vegetable oils (ground nut, sesame, sunflower), sugar and leather products. Darfur used to produce the majority of the ground nuts used for oil production which was exported primarily to Europe (Italy), but the supply of oil seed from Darfur has dropped significantly, and restrictions on import of oil seeds appear to be in place, causing the export to collapse.

Through the centuries and still today, trade has been the glue that has inter-linked and cemented Darfuri livelihoods across geographic, ethnic and tribal divides. The conflict escalating with the GoS counter-insurgency in 2003-05 put the adaptability of the Darfuri traders to the ultimate test. Production and supplies were disrupted; domestic and international borders and supply routes were closed; and market infrastructure fell apart as rural villages were abandoned or destroyed, leaving a severely contracted economy in which movement was restricted due to the fear of banditry. The combination of increased transport and other transaction costs; local governments trying to cover costs of operation by tax increases; and various factions in the conflict demanding protection money for safe passage increased the costs of goods and services and severely narrowed the profit margins of traders. West Darfur was particularly hard hit, but overall it is estimated that 20-30% of urban traders went bankrupt in the early phases of the conflict[76]. Even so, the Darfuri market has continued to function – as it almost always does in a conflict environment, with most of the economically active population engaging in the 'coping economy'. Darfur has a three-tier network of both resident and IDP markets, as illustrated in Table 10.

Even where distances may not be so long, they are costly and time consuming to cover in Darfur, given the poor state of most roads. In addition, the marketing chains appear long for many products: multiple intermediaries appear sometimes to take advantage of market inefficiencies to raise prices through fees, charges and taxes, without adding particular value to the product[77], e.g. the middlemen (*sebaba*) in the livestock markets.

In Sudan, as in many other developing countries, the foundations for private sector activity are not fully in place and the legal and regulatory institutions necessary to support them are weak. While the current national Five Year Strategy is relatively private sector friendly, the enterprise sector in Sudan emerges from a deep historical legacy of state participation. In addition to the direct public ownership that remains after the

[72] Darfur Peace Agreement, Art. 162-169 defines the mandate for state-level land commissions under the general agreement that "Tribal land ownership rights (hawakeer), historical rights to land, traditional or customary livestock routes, and access to water, shall be recognised and protected" (DPA, art. 158), May 2006.
[73] World Bank (2009) opcit. And CBOS Annual report 2008.
[74] World Bank, 2007.
[75] World Bank (2009) op.cit.
[76] M. Buchanan-Smith and Dr. A.A. Fadul: Adaptation and Devastation: The Impact of the Conflict on Trade and Markets in Darfur – Findings of the Scoping Study, May 2008.
[77] World Bank (2009), op.cit.

privatization drive in the 1980s, the state indirectly own enterprises through government officials and political parties, which distorts competition and discourages new entrants[78].

Table 10: Darfur's market infrastructure[79]

Type of Market	Description	Examples	Current status
Primary:	Weekly assemblies in villages, rural settlements or at water points where farmers and pastoralists interact with small traders and agents or larger traders	Almost all functioning villages/water points	Many ceased to function with migration/destruction of villages, some reopening as IDPs return.
Secondary:	Held 1-3 times per week in towns or larger villages attended by small and larger traders	Gereida, Kebkabiya, Garsila	Most still functioning – some shifted (e.g. Mellit to Kulkul)
Informal secondary:	Same as above, but IDP-controlled markets in smaller camps/quarters attended by IDPS, informal, roving traders (charcoal, bricks, firewood). IDPs control trade of food aid	Birgi Aboja	Dominated by IDPs but increasing trade links with formal markets and resident customers.
Tertiary/main:	Operate daily in the main urban centres, function as export or domestic shipment points, and are attended by exporters, national level traders; and agents of processors	Nyala, El Fasher, Al Geneina	Quick, sustained and exponential growth due to urbanization, IDPs and int'l community.
Informal main:	Same as above, but in larger IDP camps, often IDP-controlled 'tax havens' for timber, meat, etc.	Kalma, Abu Shouk	Dominated by IDPs. Close links with formal and possibly illicit markets, some resident customers.

This may cause markets to favour existing elites and reinforce existing patterns of inequality and social exclusion[80]. Even where markets are creating growth, they may not be creating jobs and reducing poverty at a commensurate rate[81]. 'Inclusive Markets' are defined broadly as 'markets that result in expanded choice and opportunity for the poor and produce outcomes that benefit the poor':

- For the poor as entrepreneurs and employees, such outcomes will mean increased returns on goods sold, improved access to labour markets and increased opportunities for 'decent work';
- For the poor as consumers, they will mean increased choice and affordability for essential goods and services, including access to financial services that help reduce risks and vulnerability[82].

But for markets to work for the poor, they must first work.

4.4.1 Powering the Markets

Sudan has devoted a sizeable proportion of public expenditure to infrastructure such as roads, telecommunication, and electricity. But widespread poverty, highly skewed income distribution and inadequate delivery of social services remain serious problems[83], especially in the marginalised or peripheral regions of the country, including Darfur.

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[78] World Bank CEM (2009), op.cit.
[79] Adapted from M. Buchanan-Smith and Fadul: Adaptation and Devastation, May 2008 as correlated with interviews in the field.
[80] UNDP: Private Sector Strategy – Promoting Inclusive Market Development, September 2007.
[81] Malte Lubker: "Labour Shares", in ILO Technical Brief No. 10, ILO, 2007.
[82] UNDP (2007) op.cit.
[83] African Economic Report, 2010.

Only 22% of Sudan's population has access to electricity either through the national grid, which only covers 9 of the 26 states, or through stand-alone networks. Unsurprisingly, 57% of available energy is consumed by Khartoum. Outside of the capital, electricity is rated as one of the most serious constraints for doing business, and most enterprises have to rely on diesel-based power generation[84]. This is also true for Darfur; a recently built petroleum depot in Nyala was supposed to have eased the earlier shortages of fuel in South Darfur, but is reportedly empty since 2007, resulting in regular shortages of bottled gas. The supply lines to North Darfur appear to have been unhampered since 2008.

Table 11: Gas supply issues: Shortages in South and general lack of market info

	# Comp.	# Distributors	# Sub-agents, town	Subagents, State	Depot
South Darfur	Min. 2	15 centers	Not sure	Not sure	Empty since 2007 - shortage 2 tankers on train (monopoly) + 1,500 cyl/month by truck
North Darfur	Not sure	8 centers	11	3	Yes, vol: 1,000 cyl 3 tankers/month + + 750 cyl 4-5 times/year

Most ordinary households, however, cannot afford a generator and most urban areas only have power a few hours a day – many rural areas have none at all. As a result, cooking in particular is done using firewood and charcoal at household level, as well as by rural and urban SMEs, such as bakeries and brick kilns. The combined threat of pollution and pressure on the fragile natural resource base requires urgent investments in alternative energy. One option is liquid petroleum gas.

LPG appears widely available from a number of urban and peri-urban outlets in North Darfur and no shortages were reported. On the contrary, frequent shortages of LPG were reported in South Darfur which appear to be linked to a restrictive monopoly of train tankers, combined with the general difficulties of road travel (delays of convoys) between Khartoum and Nyala, after the depot shut down in 2007[85]. In addition, the upfront cost of acquiring a gas stove, for example, is quite high. The investment in the first bottle of LPG would cost a household SDG 130-140 or 57% of the average microenterprise income/month (see Table 12 and Section 6.4.1). But high demand, reliability of supplies and possible competition to North Darfur has clearly affected prices – the upfront investment has *de*creased by 35% since the conflict escalated in 2003. Inversely, the lack of availability, especially of new cylinders for sale in South Darfur has *in*creased the price by 35% (see Table 12). The cost of refilling a bottle of LPG has increased over time period in both states, but less in EL Fasher (up SDG 7) than in Nyala (up SDG 5-10). The majority of customers are households, but interestingly in Nyala, there are more SMEs that use LPG as fuel (bakeries) than in El Fasher (only one restaurant).

Table 12: Examples of Gas Price Fluctuations over time

	Cost at source (KRT)	Sale SDG New 12.5kg cylinder		Sale SDG Refill		Volume sold/month	# HH customers	# LPG Kits sold	Sales price
	SDG	2003	2009	2003	2009				
Nyala	21/refill + transp.	90	140	25	30-35	0 new 1,500 refills	15,000 + 5 SMEs	715	105 (small cyl.)
El Fashir	24/refill	200	130	20	27	100 new 3,000 refills	7,000 + 1 SME	1,000	195
Kebkabiya					40				210

[84] World Bank CEM (2009), op.cit.
[85] Interview with petroleum distributor in Nyala, 10/2/2010.

In partnership with the INGO Practical Action, the World Food Programme has also begun introducing fuel efficient stoves in Darfur. The Safe Access to Firewood and Alternative Energy in Humanitarian Settings ("SAFE") stoves are being distributed to 100,000 IDP women in an attempt to impact both the unsustainable use of timber; the health risks while cooking; and the risk of attacks on women that are collecting firewood. The SAFE stoves use 50% less wood and reduce harmful smoke and emissions. Shrubs can be used in the stoves, but briquettes would be an even better alternative, made from compressed grass, peat, food waste and agricultural waste. A pilot project is ongoing in Kebkabiya in North Darfur[86] .

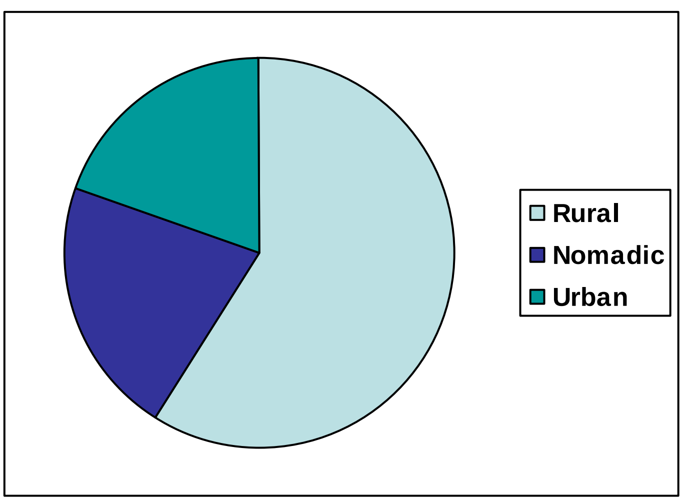
The Nyala locality has issued an order to stop new brick kilns in order to control the usage of firewood, but there are no viable alternatives yet for the many, many lucrative brick kilns delivering bricks to the booming market and providing many jobs in the process. One pilot test of an LPG-fuelled brick kiln has been conducted so far, but it was unsuccessful. While energy efficient stoves, husk-based fuel briquettes, and Stabilized Soil Blocks can be promoted as good investments in alternative energy, SMEs will not be able to consider a switch from e.g. firewood to LPG until reliable availability can be guaranteed.

5. The Demand Market in Darfur

Based on the 2008 census, there is now an estimated 7.85 million people of whom 48% are female, living in some 1.4 million households in the three Darfuri States. South Darfur is the most populous state with a population of 4.3 million as per the census, while 2.2 million reside in North Darfur and the balance of 1.4 million live in West Darfur (see Annex 3).

Pre-conflict, over 75% of Darfur's population was living in the rural areas[87]. The 2008 census contents that 80% or 6.3 million are sedentary or nomadic rural dwellers, whereas only 20% of the population or 1.5 million are living in urban areas. Many might contest this figure, arguing that the urbanization of Darfur has increased to 35-45%.

Figure 13: The population of Darfur



As an example, the growth of Nyala in South Darfur has been spectacular: from a small town in 1960 (just Hay al Wadi and the government centre) to a city of 100,000 in 1983 to 1.3 million today (1.6 million if the IDP camps are included). One in four Darfurians lives in Nyala and its environs and well over a third of the region's economic activities are there[88].

Some 1.6 million people in 300,000 households in Darfur are classified as nomads in the 2008 census, comprising 20% of the population. Of these, 60% are reportedly based in South Darfur, which would include the majority of the cattle herding *baggara*, with 15% in West and 25% in

[86] Interview with WFP El Fasher on 25/2/2010 and UN Radio: "WFP launches safe stove initiative", 21/12/2009.
[87] Darfur Geographical and Population Study, University of El Fasher, 1994, quoted in A.O. El Fateh: Interagency Livelihoods Assessment in Abu Shouk, Al Salam and Zamzam IDP Camps, North Darfur, November 2007.
[88] Alex de Waal: Do Darfur's IDPs have an Urban Future? In SSRC Blog: Making Sense of Sudan. http://blogs.ssrc.org/sudan/2009/03/31/do-darfurs-idps-have-an-urban-future/

North Darfur state, including the majority of the camel-herding pastoralist (*abbala)*. Miscounting may have distorted these figures. In between the herders of the South and North are the most fertile plains and hills of Darfur, where the sedentary farming tribes of the Fur and Turjur, located in and around Jebel Marra, the Massalit in the west and several other tribes grow the food and cash crops of Darfur.

The combination of environmental degradation, urbanization and insecurity has had significant impact on the livelihoods of all Darfuri peoples. Many farmers now also raise livestock and some herders farm, if not food crops then at least animal fodder. On the outskirts of towns, residents keep zero-grazed (stabled) livestock[89] and vegetables are grown along the wadis. In short, livelihood coping strategies have shifted and intermingled as people adapted to their changing situations.

This is particularly true for Internally Displaced Persons (IDPs) and refugees who have fled or moved due to insecurity or depletion of sustenance resources (water, crops, animals); or been forcefully uprooted from their former homes by the violence of the conflict. UN estimates that there are 2.6 million IDPs in Darfur (Jan 2009[90]), or a total of 34% of the population residing with family or as lessees primarily in urban environments or in the many IDP camps located in or around the towns.

Adding to this pressure on the urban infrastructure is the large contingent of international agency staff including UNAMID with high demands and high purchasing power that reside primarily in Nyala and El Fasher. While this comparatively small but highly visible group of temporary urban inhabitants of Darfur has created new income and employment opportunities, it has also led to significant demand distortions and price hikes on goods and services.

A final subgroup of current inhabitants of Darfur needs mentioning, i.e. the large contingent of national uniformed and semi-civilian forces stationed in the region. Like UNAMID, the formal national forces (police, army, Central Reserve Force, etc.) are visible, deployed to enhance law and order in urban areas and security along roads, and increase the demand for local produce. Unlike UNAMID (one hopes), they interact directly with the local markets by expecting free services (e.g. transport); manning check- and taxation points; supplying food crops and allegedly being involved in parts of the lucrative shadow economies, e.g. the hard-wood timber trade[91], etc.

5.1 Market Characteristics – Who are the Customers?

While community composition may be somewhat defined along tribal lines in Darfur, poverty is more correlated with geographic location, which again determines the extent of recent losses of assets due to drought or displacement and defines available and feasible livelihood strategies[92].

1) The rural poor

The majority of the population outside the towns are village-based farmers and *dammar*-based or truly nomadic pastoralists. Many villages include IDPs who have fled from other villages and are not living in camps (or even refugees from Chad and Congo). In addition to subsistence farming on own land or by

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[89] Nyala traders estimated the number of cattle in the town had tripled since 2003, according to M. Buchanan-Smith and Fadul (2008) op.cit.

[90] UN: Darfur Humanitarian Profile no. 34, January 2009, which does not seem to have been updated. http://www.unsudanig.org/docs/090330%20DHP%2034%20narrative%201%20January%202009.pdf

[91] . O. El Fateh: Interagency Livelihoods Assessment in Abu Shouk, Al Salam and Zamzam IDP Camps, El Fasher, North Darfur, North Darfur Assessment Task Force, November 2007, p. 45, 49.

[92] The three livelihood groupings presented here are gratefully borrowed from Karen Jacobsen: "UNDP-IOM-Tufts mission to Nyala, South Darfur: Developing a Conflict-Sensitive Microfinance Model for Darfur: Darfur Livelihoods Context , Feinstein International Center, Tuft's University, December 2009.

sharecropping; herding own livestock or serving as herders for others (or both - agro-pastoralism becoming increasingly widespread), petty trade is a major component of poor rural livelihoods. Subsistence trade is based on the sale or bartering of farm/animal produce, wild foods and artisanal products such as leatherware, basketry, etc.(see Box 14). Surprisingly many of the rural households appear to be linked into the base of a value chain by selling produce to visiting traders that take goods to the urban markets for on-sale, or by sending produce to secondary markets. In the dry season, labour migration may be an added livelihood strategy for some rural households.

> Box 14 Dammar-based *Abbala* trade livestock 100km from home
>
> Sheikh Ysain Sharif and five Rizeighat hamamid abbala stationed in 6 *Dammar* around Kutum some 100 km to the North west herd 3-4 camels all the way to the livestock market in El Fasher a few times a year to sell animals and buy supplies and fodder. They raise sheep in the *dammar*, but they can't go so far and are sold in Kutum together with milk in the rainy season, even if the prices are better in El Fasher. Since 2008, there have been no security problems in their area, but they still have not seen any NGO or government service. Even when many goats died last year and they informed the Kutum veterinary service, no one came to help – as Sheikh Sharif says "Everything is given to the IDPs but we get nothing". Seeing this, one of the Dammar clans upped and went to Kebkabiya as IDPs – but they have now returned – they didn't get ration cards there and so now they have nothing. The women in the damra need to trek long hours to get water from the wadi, so their greatest need is new water source, but also schooling for their children, a health post and a reliable vet. Sheikh Sharif is ready to offer full protection to anyone willing to come to assist his damra.
>
> The herders do not take credit. But they sell their camels on credit – receiving SDG 2-300 as a downpaymernt and the balance 1-2 months later. This is ensured by the tribe's *Damin* who is based at the livestock market. Serving as a two-way guarantor, he assures the buyer that the animals are not stolen, and he guarantees full payment to the seller – against a fee, of course. There are an estimated 15-20 *douman* in El Fasher and 25-30 in Nyala.

2) The urban poor

The urban poor include residents and IDPs living outside the camps, including displaced pastoralist herders who have sought livelihoods or safety in the towns. In most towns, the urban poor are concentrated on the outskirts with reduced or no access to municipal services (electricity, water, sewage). Housing is usually constructed of traditional materials such as mud or thatch, with some improved materials, such as tin roofs or cement walls, and it is not uncommon for the households to own a donkey (if not a cart), some zero-grazed sheep or goats, and some chicken. Other IDPs living in towns are self-employed in petty trade, selling vegetables and fruits picked and purchased cash or on credit from orchards surrounding towns. Domestic and construction work is a widespread livelihood strategy, as is portering, tea and food selling in markets – and begging as a more recent occupation clearly targeting the international community.

3) Camp-based IDPs

Camp populations include new arrivals and those who have lived in the camps for several years, some since 2003. Some are relatively well educated, politically engaged and sophisticated in their understanding of the politics of the Darfur conflict and the demands to be made of federal and international agencies (e.g. the 'secretaries' in Kalma camp, Nyala), but most IDPs in the camps are much less well off, less educated and from rural pastoral or farm origins. A few possess livelihood assets such as donkeys or goats; many trade – be it from a blanket on the ground in the camp market; a mobile enterprise (water cart, wheelbarrow, or newspaper stand), or a market stall in town; and a majority of the poorest work as daily labourers in the construction or brick making industries (both men and women) and/or in near-by farms or households – in direct competition with other urban poor.

Most enterprises in the camp markets are owned and run by IDPs and include petty trading, restaurants, small livestock (poultry, eggs, goats, milk), firewood collection and charcoal making and selling. There are significant economic links and trade transactions between the camp markets and urban traders and consumers. Products traded between the camps and towns include consumer goods, furniture, fruits and vegetables, poultry products, livestock, fire wood and charcoal, mobile phones and airtime, including as cash transfers. Contrary to the urban and rural poor, the majority of camp-based households have access to humanitarian food aid, health services and schooling for children as an affordable (nominal) cost – all attractions which makes the thought of returning a less agreeable option, and which create some tensions with other communities that feel overlooked.

A study of the 150,000 IDPs that lived in three large camps around El Fasher in North Darfur in 2007[93] sheds some light on the livelihood strategies employed by IDPs (See Table 11). The three camps were established during November 2004 – June 2005 and each one houses around 50,000 IDPs in a little less than 15,000 households of many different tribes, but with a majority of rural farming Fur and herding Zaghawa.

The demands resulting from the displacement process itself and the international response to it have created a massive urban construction boom. This is creating not only a rental bubble in the urban markets, but also an unsustainably high demand for timber, (wood-fired) bricks, water, fuel, electricity and services like translation, protection and domestic work. While this 'war economy' is taking a huge toll on the fragile environment and infrastructure, it is providing new, if temporary and somewhat unsustainable, income generation opportunities for IDPs, pastoralists and farmers alike. Employing available skills and resources, IDPs are coping as best they can[94].

Table 15: Examples of camp-based IDP livelihood strategies, North Darfur

Income group:	Poor	Middle income	Better off
Income range	Up to $ 50/month (SDG 5/Day)	Average $ 145/month (SDG 12/day)	At least $ 180/month (SDG 15/day)
Est. % of all camp IDPs	75% 30-50% of HHs headed by females, elderly; low education levels; 40% of males unemployed	15% Better education provide access to jobs	5% Owning assets
Income sources/ livelihoods	40% from casual labour (agric-ulture (women), construction, bricks in dry season, domestic year round); migrant labour; petty trade (fruit, grass, water – often by children, bags, tea, charcoal); sale of 30% food aid; begging, alms (in kind food)	53% from wage labour; farming rented/share cropped land; sale of 40% of food aid; services (phones, restaurants); trade (goods, water, grass, charcoal, firewood, bread, meat) with access to credit; some casual labour	50% from wage labour; wholesale and retail trade with access to credit (firewood, crops, sugar); services (transport, milling, rentals of land/houses, IT); agriculture (own land) and livestock, sale of 50-70% of food aid
Expenditures	40-43% on non-staple food 25-30% on HH essentials (kerosene, fuel wood, cooking utensils etc.) 8-9% on bizz inputs and transport	44% on non-staple food 15% on HH essentials 15% on bizz/agric inputs and land rent 7% on transport	37% on non-staple food 13% on HH essentials 20% on bizz/agric inputs 7% on transport
Financing	30-35% Wages; 33-35% sales revenue including 20% from working children; 14% sale of food aid; 8-11% remittances 10-20% access remittances from migrants in central Sudan, SDG 60-250/yr Limited access to in kind credit and cash loans SDG 30-50/yr	47% Salaries 25% revenue (trade), 10% sale of food aid 10% remittances Remittances SDG 360/yr In kind credit SDG 100-200/month, and Cash loans of SDG 120-150/yr	50% salaries & rent income; 30% revenue from sales, sale of agric. produce, 8% sale of food aid 9% remittances Remittances SDG 600/yr from trader in Omdurman/KRT

[93] O. El Fateh: Interagency Livelihoods Assessment in Abu Shouk, AL Salaam and Zamzam IDP Camps, El Fasher, North Darfur, North Darfur Assessment Task Force, November 2007. IOM estimates the current number of IDPs to be 204,000 in the three camps.

It is not so much the livelihood strategies themselves that have changed from the former rural-based activities of cultivation, herding, collection of natural resources, trade and labour (migration), as it is the mix and relative importance of the different strategies that have been opportunistically adapted to the new, urbanized environments. Where the strategies are "maladaptive", they may provide food and income in the short-term, but they often incur indirect longer-term costs for the household, and can increase societal inequities and marginalization as well as over-exploiting limited natural resources. Poor and displaced people are rarely in a position to deal with longer-term negative effects of their immediate survival strategies.

5.2 An Attempt at Market Quantification – How big is the Market?

In microfinance market size estimates, the percentage of poor people as internationally defined, i.e. people living below $2/day, is often used. However, the GoNU has been unable to agree on an official definition of poverty. The only recent study quantifying poverty in Darfur that this consultancy was able to find, used income level as a poverty proxy for camp-based IDPs and found 'poor IDPs' to earn less than SDG 5/day; 'middle income IDPs' earning less than SDG 13/day and 'better off IDPs' earning at least SDG 15/day[95]. This corresponds roughly to the definition used by the Zakat Foundation for the poor, i.e. SDG 15/day/household which would work out to $1.2/person/day). In its effort to define the poor as microfinance clients, the CBOS uses a slightly higher monthly income not exceeding twice the minimum wage or SDG 500/month ($6.6/day) which would include both 'poor and low-income earners'. Some observers estimate the poverty rate to be 50% in north Sudan[96], but the lack of a formal national poverty line for the country means that the extent of the problem – while broadly recognised as significant - has not been officially quantified. The state authorities in Darfur were equally unable to provide an estimate of a regional poverty rate. To estimate the size of the microfinance market in Darfur, we have to use another proxy.

Of the total population of Darfur of 7.8 million people[97], some 52.8% or 4.14 million people are in the productive ("economically active") age group as defined by CBOS (15-60 years of age) making up the labour force. Participation in the labour force is, however, markedly higher for men (74%) than women (31%)[98]. The total economically active Darfuri population of 4.1 million people could be considered the total market for financial services. Of these, the non-poor and the formally employed wage earners could potentially access formal banking services. Income generation in the informal sector is therefore often used as a proxy to quantify the people at the 'bottom of the (economic) pyramid' (BOP) who are typically excluded from access. Agriculture and the informal sector is estimated to provide income for around 70% of the labour force[99], or around 2.9 million people in the three states, the majority of whom (from 55% to 80% pending the source of data) are living outside of the urban centres.

Not all poor households can benefit from all financial services, and especially financing is not for everyone. While most of Darfur's population seems somewhat linked into the cash economy, bartering is still the predominant method of exchange in some isolated areas. Similarly, not all poor people are able or given the opportunity to generate income. Without an income generating activity, however, financing in particular can over-indebt households, making them poorer. Adjusting for these factors by 20% due to the low level of

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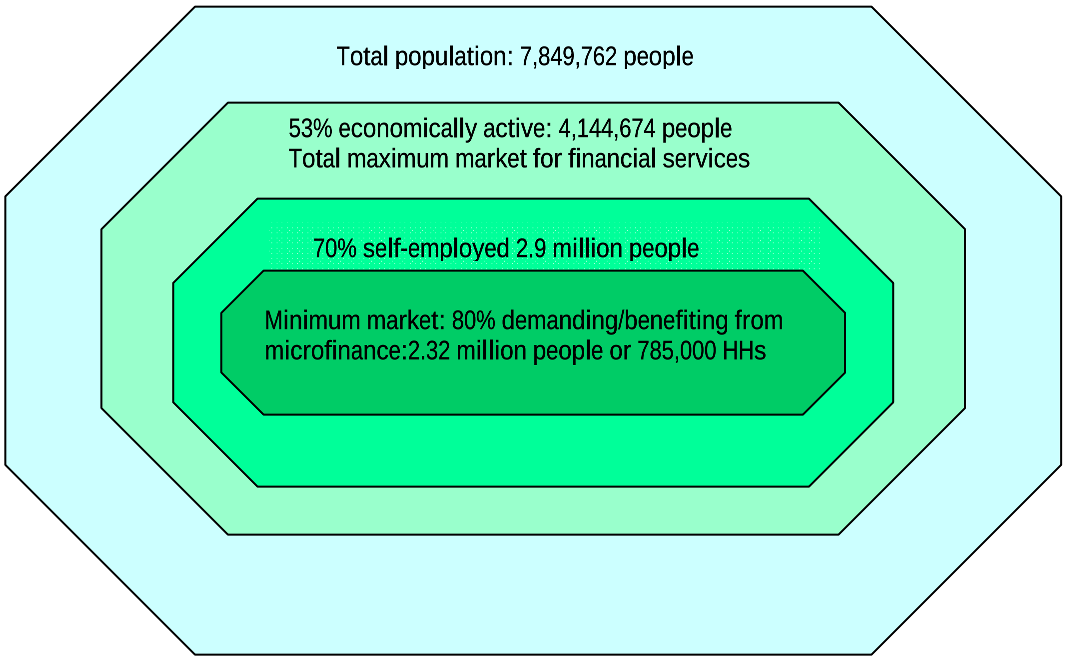
[94] See also: H. Young, K. Jacobsen and A. M. Osman: Livelihoods, Migration and Conflict, Feinstein International Center, Tufts University, April 2009.
[95] A. O. El Fateh: Interagency Livelihoods Assessment in Abu Shouk, Al Salaam and Zamzam IDP Camps, El Fasher, North Darfur, North Darfur Assessment Task Force, November 2007.
[96] African Economic Review, March 2010.
[97] Central Statistical Bureau of Sudan: 2008 Census extrapolated to 2010 figures by a 2.2% annual population growth. The household size is calculated from the census total for each State.
[98] ILO statistics projected for 2009 from http://laborsta.ilo.org/STP/guest
[99] Layla O. Bashir, MOFNE: "Enabling Environment for private- sector led growth", Presentation for Sudan Consortium, Mar 2007.

economic activity in rural Darfur, we reach a total minimum market estimate of 2.3 million adults of whom 54% reside in South Darfur who may be demanding and able to utilize microfinance services, and who are the breadwinners of around 785,000 households:

- 404,000 adults in 159,400 poor households in West Darfur;
- 652,760 adults in 216,900 households in North Darfur; and
- 1.26 million adults in 405,830 households in South Darfur. (see Figure 16).

Figure 16: Estimated Market Size for Financial Services in Darfur



5.3 Demand Specifications - What do Customers want?

Microfinance services are being offered on a relatively large scale in urban areas of Darfur today, but not by banks. In addition to the traditional borrowing of smaller cash amounts from friends and family, usually at no cost, micro-credit in particular takes place within the informal commercial economy and evolves around market trade. In addition, an extensive informal money transfer system is ensured by mobile phone operators, who seem to be gradually replacing the more traditional *hawala* system.

The most common form of credit is in-kind trade finance: larger traders provide goods in-kind as advance to smaller traders who pay back at the agreed rate when the goods have been sold and new stock is needed. Variations of this exists in agriculture, where land owners may provide seeds and other inputs to agricultural labourers who have rented the land, and is repaid with a percentage of the harvest – 50% if all inputs are provided; a third if only access to land is given. The old *shiel* credit – the predecessor to the modern *salam* loans offered by banks – where input is provided to the farmer and repaid by a fixed amount of harvest output at a fixed unit price, seems to be waning – none of the farmers or crop traders met by the Consultancy mentioned this system at all.

Rotating savings and loan groups – *Sanduq*s – are in evidence if not very widespread, but primarily among women, and it seems primarily linked to group-based income generation, e.g. formed by women producing or trading the same types of goods. They appear to be perceived more as a means of access to cash loans than a savings mechanism, and as such most members seem to consider their weekly or monthly contribution an investment rather than savings. This in turn allows for members to expect and gain a dividend on the investment – as any other *musharakah* arrangement. The dividend is earned from the members taking the 'pot' as a loan and repaying with a fixed fee or a percentage of profit earned from the activities financed by the loan.

Many Darfuri entrepreneurs interviewed during the Consultancy confirmed that they perceive the current range of financial services offered by banks to be inadequate and inappropriate, the application process to be long and complicated, and the financing terms to be unfavourable. Many poor people were convinced they would not be eligible for financing, and most would rather not visit a bank. Similarly, many traders – even with significant businesses – thought they would not meet 'regular bank' requirements for collateral, and therefore used the specialized Savings and Social Development Bank (SSDB) which is specifically mandated to offer non-conventional collateral (i.e. personal guarantees instead of real estate). In practice, however, the bank's preference of customers with government salaries, land and/or fixed (permanent) shops in town results in the majority of customers being non-poor – and in fact often providers of informal credit to smaller/poorer traders and service providers in the urban market[100].

Several of these informal creditors expressed a desire to off-load their borrowers to a financial institution, but recognised that the commercial banks would not be interested. In describing an institution that might offer the needed microfinance services, the traders emphasized:

- Private management (no "politicians") with clear and transparent procedures – open to all;
- Good customer selection process (not everyone) and good customer care;
- Simple requirements for documentation (especially replacement of ID card and residence certificate with photo ID);
- Fast processing of credit application;
- No customer contribution – full loan amount provided in kind;
- Accessible collateral (guarantors, post-dated checks from account, livestock)
- No mandatory waiting period between loans;
- Flexible repayment systems (e.g. products with monthly and quarterly instalments, grace periods, possibility for rescheduling in case of market deterioration);
- Increasing loan sizes for older customers;
- Musharakah financing to share losses;
- Inverted musharakah (investment accounts with dividends) OR no interest on loans - "fairness")
- Marketing, awareness raising[101].

An encouraging proportion of poor and not so poor people – especially in more rural areas - stated that they would rather not borrow because they were not sure they could repay a loan, indicating a healthy repayment culture. They would, however, like other financial services including safe and convenient savings; easier cashing options for remittances received; and insurance of the harvest against poor rainfall/pests or of stocks and livestock against theft and fire. Where poorer entrepreneurs and rural farmers were considering financing, they added the following characteristics to the list:

- Seasonal loans (balloon repayment at the end of loan term);
- Cash component of financing[102];

[100] Interview with staff and clients of SSDB Nyala on 13 Feb 2010.
[101] Ibid and interviews with brick kiln owners 13/2/10 in Nyala and with Pastoralist Union Nyala on 17/2/2010.
[102] A particularly clear demand among farmers outside of urban centres who are willing to pay 10-20% for a 3-6 month cash loan with balloon repayment at sale of harvest. Interviews in e.g. Gereida, Feb 2010.

- Demarcated (if unregistered) land verified by sheikh as collateral;
- Crops in stock as collateral (warehouse finance):
- Mobile financial institution serving villages – not necessarily a full branch;
- Small minimum balance for opening savings account to keep savings safe;
- Use *sanduq* savings as collateral;
- Use NGOs as guarantors for group loans[103].

> Box 17 - Repay a Loan?...Yes we can!
>
> A group of farmer IDPs in Sakhali camp outside of Nyala met to discuss financial services demands. Currently, most are earning an income from casual labour which pays SDG 5-10/day, and saving a little for consumption purposes.
>
> They all agree that the most profitable work is to farm the land in their old village some hours away – if the rains are good. Last season, they didn't have money, so they couldn't buy seeds, so they didn't farm their land. But, IF they could access financing before the start of the rains – the vast majority would sign a contract of around SDG 500 for seeds, pesticides, fertilizer and hand tools. Discussing the terms, the majority agreed that the contract should be:
>
> - of 6 month duration (issued in June, repaid in December)
> - with balloon repayment at the end of the term
> - Issued at the camp rather than in the village
> - Could be charged at 10% profit margin (this would need negotiation).
>
> But they didn't think the Agricultural Bank would avail them such financing because they couldn't offer registered land as collateral.
> Because of the unreliable rainfalls, most were very interested in a crop or weather-based insurance as well, so that a failed harvest would not ruin them and put them in deeper debt.

In listing these characteristics, the entrepreneurs of Darfur describe what would be a fairly standard MFI in most other countries and therefore a model for microfinance provision that does exist, and could be adapted to Darfur. And in fact, some of the aspects mentioned are implemented by banks in Sudan already, e.g. a group loan guaranteed by an NGO as offered by SSDB in Gedaref and interest-free cash components of *murabaha* loans as provided by ABS in Kassala state.

In terms of non-bank financial services, the informal sector again seems to outnumber the formal providers. The Chamber of Commerce in Kass for example, is compensating members for losses due to theft or fire rather than taking out a group asset insurance for members, thinking that the insurance may be too expensive. The pastoralist union's committee members in South Darfur found the paperwork required at the death of an animal to be too cumbersome to warrant the cost of livestock insurance. Inversely, the agro-pastoralist IDPs having relocated to Gereida wished they had had insurance when they lost their livestock and assets during the conflict. The most important insurance was deemed to be for assets, including livestock and crops in the field (input-, yield-, or weather-based) but also inventory and medical insurance was of interest.

Non-financial services including vocational, technical and business training and mentoring was mentioned by many as a need for the poor – curiously not by the poor themselves as much as by banks, NGOs, donor agencies and government officials. Micro entrepreneurs will often be interested in *relevant* training and the level of relevance is directly proportional to the price that entrepreneurs are willing to pay for the training. If training as well as other inputs and services are provided for free, however, not only will it distort the potential value of the service; it will also displace any future commercial providers of the service. When the donor-funded programme ends (as was the case with many services when INGOs were rather abruptly expulsed in 2009) there is no commercial providers to take over, and there is little incentive to fill the market gap as the value has been distorted. The severe cut in humanitarian relief efforts and "quick impact projects" in 2009 may therefore be a blessing in disguise for the entrepreneurial Darfuris: it provides an inroad for commercially oriented public and private sector providers if funders (government and donor agencies) extract themselves and their subsidies from the commercial transaction and assist in the linkages of demand and supply instead[104].

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[103] Interview with women entrepreneurs in PODR groups, Kass, 15/2/2010.
[104] The inherent conflict between short-term quick impact and longer-term sustainability and means to resolve it are excellently discussed in P. Piet Goovaerts et al.: Demand Driven Approaches to Livelihood Support in Post-War Contexts, A Joint ILO-World Bank Study, October 2005.

This is especially true for the training and service provision market. The financial management skills inherent to make ends meet at $ 2/day is not readily recognized by stakeholders who have not been focused on the demand side of the market, and it is often assumed and accepted that the poor are high risk customers simply because of their wealth status. This goes counter to 40 years of global microfinance experience, where microfinance clients generally outperform the conventional banking sector in repayment performance. That this is not yet the case in Sudan has less to do with the poor clients than with the suppliers of services that are not yet well geared towards this market segment.

The demand for basic social services remain strong, particularly among the rural, non-IDP communities of Darfur who have not received much outside support at all, and reasonably feel overlooked. The priorities in terms of demand appear to vary very little across rural Darfur: water, education and health (for humans and animals). Unfortunately, access to these services appears to be inversely proportional to need: the smaller, more remote, less linked-in, and less sedentary your community is – the less access you have had. As relief support scales down in the urban centres where development interventions should by now increase, it would be important to channel available resources to the re-/establishment of basic social services in rural villages as well as (and perhaps particularly in) *dammar*s.

6. The Supply of Microfinance in Darfur

6.1 The Structure of the Supply Market in Darfur

Because of the limited outreach of banks, commercial buyers and traders have historically been filling the 'credit gap' in between seasonal or intermittent sales and have ensured the associated transfer of money for many people in Darfur. Even today, the suppliers of '<u>informal finance</u>' continue to have a much larger and deeper outreach than any bank.

In between this informal (i.e. unregulated by a financial authority like the CBOS) financial market and the formal banks are a very few providers of <u>'semiformal microfinance'</u>, including I/NGOs and CBOs, none particularly specialized or exclusively offering financial services. In Darfur, the Consultancy found no immediate evidence of cooperatives or unions providing financial services. There is a real gap in the market of specialized providers of microfinance understood as financing, savings services, remittances and perhaps even insurance, for the poor and low-income population.

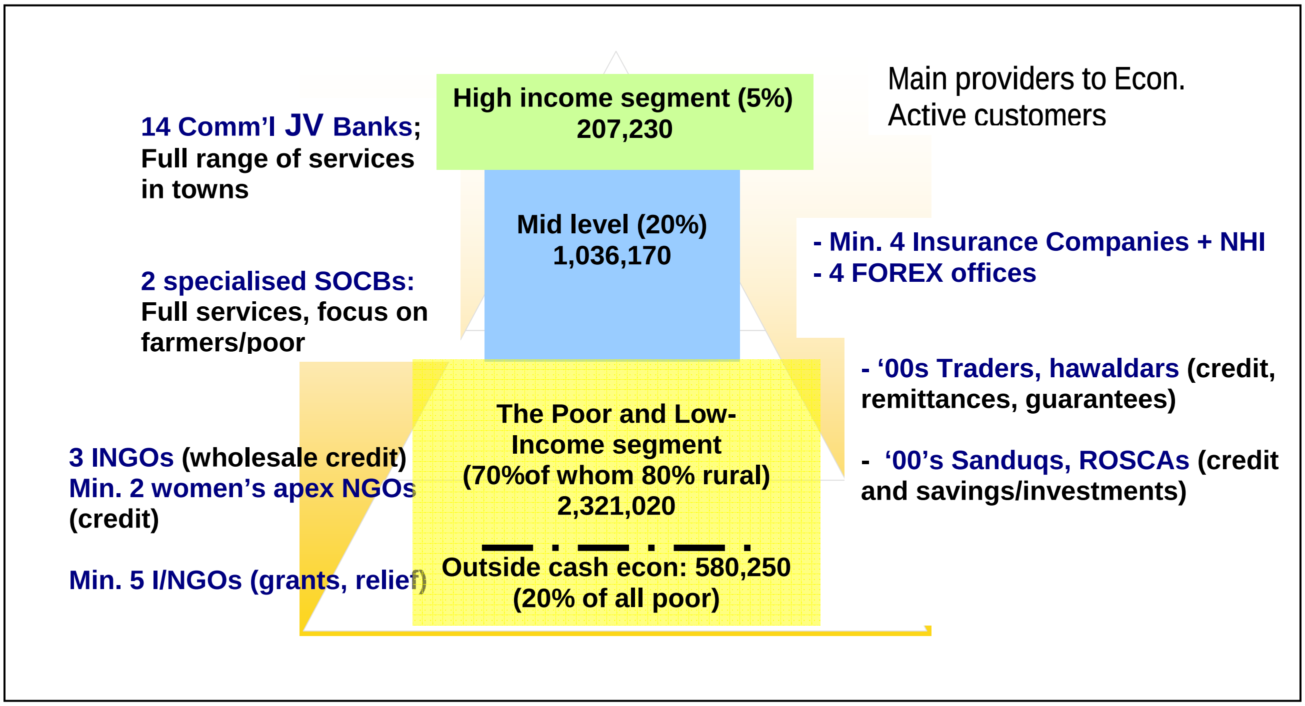
The <u>formal sector</u> financial service providers operating in Darfur include urban-based banks, FOREX bureaus, non-bank service providers like the insurance companies, and - up till the 1990s - also the Postal Savings Service. The post offices may return as future suppliers of remittance and savings services following the recent privatization. The number of banks that provide microfinancing is small, the level of technical expertise very low, and the reluctance to expand services to the poor very real. Even small businesses (with less than 10 employees and demanding 'mini finance') are not considered an attractive market segment, despite them constituting the vast majority of the urban manufacturing and production sectors, due mostly to a lack of cashflow appraisal capacity among the banks to substitute conventional collateral.

Broadly speaking, the different financial service providers focus on each their segment of the market, as illustrated in Figure 18[105]. However, none of the providers are yet covering a substantial part of their preferred market segments neither in terms of geographic outreach nor by numbers, and in fact some of the bank

[105] Please note that the Consultancy team was unable to visit West Darfur and the presentation and analysis in this report therefore relies on secondary literature for that State and direct observation and interviews from North and South Darfur only.

branches have very small financing portfolios or do not lend at all. Despite the efforts of the informal service providers, most rural areas are severely under-served.

Figure 18: An overview of suppliers by preferred market segment



Without technical specialization, well-intended providers may not have the capacity, training or systems to design, deliver and monitor microfinance provision sufficiently. This could result in failure, not just for the suppliers attempting to provide the new service, but for the future of the entire market as the basic premises of microfinance are not adhered to and repayment discipline thus lapses.

6.2 The Banks – Reluctant Microfinance Providers

A total of 16 commercial and specialized, state-owned and JV banks have branches in South Darfur – almost all in the capital Nyala. Seven of these banks also have branches in North Darfur, most in El Fasher, but Nilien Bank also in Kebkabiya, even if it is not currently offering financing. Of the total of 40 branches all over Darfur[106], the commercial (JV) banks are not generally providing micro- or even SME finance, but will consider small loans (SDG 50,000 and above) for businesses that can offer real estate as collateral. Four of the 16 banks – all state-owned – content that they offer microfinance, and have signed up to the Sudan Microfinance Pilot project benefiting from government credit lines for microfinancing, but judging from their portfolio size, the microfinance providing banks in North and South Darfur really come down to two: the Agricultural Bank of Sudan (ABS) and the Savings and Social Development Bank (SSDB), both established with a specific mandate to serve farmers and the poor respectively (See Table 19).

[106] CBOS Annual Report, 2008, Appendix IX.

Table 19: Percent of the total microfinance portfolio from total lending during 2009

Banks by State	Total Portfolio SDG	Microfinance portfolio	MF %
South Darfur			
ABS	3,055,898	2,910,472	95%
SSDB	5,160,274	2,324,762	45%
ICDB	4,133,559	96,593	2%
ARB	1,581,323	577,838	37%
South Darfur	13,931,054	5,909,665	42%
North Darfur			
ABS	3,827,332	1,518,018	40%
SSDB	1,127,461	910,361	81%
ICDB	1,253,427	200,000	16%
ARB	226,902	83,250	37%
North Darfur	6,435,122	2,711,629	42%
North and South Darfur	20,366,176	8,621,294	42%

The Agricultural Bank of Sudan was the first formal bank to open in Darfur in 1967, when it established the Zalingi branch to provide small loans to small-scale irrigated farm owners to grow vegetables, tobacco and fruits; as well as savings and current account services and cash transfers. In 1976, ABS opened Nyala branch to serve primarily small farmers that grew rain-fed groundnuts, and marketed its financing products through farmers unions at the village council levels. Expanding significantly during 1991-92, ABS opened another 11 branches at the state and locality levels; broadened its targeting to include micro, small, and larger entrepreneurs operating in farming, trading, processing, and the service sectors, and expanded its product range to provide financing, savings, deposit accounts and remittance services. Since the conflict escalated in 2003, ABS had closed 2 branches, but the rest have largely remained open throughout. The other microfinance provider, SSDB, has branches in Nyala and El Fasher only.

The total **financing** contracted by the 4 banks in the two states during the year 2009 was only around SDG 20.3 million as reflected in Table 19. This meagre outlay reflects the general contraction in the formal financial market in Darfur (not a low demand as much as a limited ability by banks to respond to the demand with appropriate products and delivery mechanisms). In addition, the head offices of the ARB and ICDB issued decrees limiting the authority of branch mangers to loan approvals of SDG 50,000. The proportion of the portfolio consisting of microfinance loans (i.e. loans of less than SDG 10,000) was stated to be around SDG 8.6 millions or 42% of the total portfolio, which is very high, not because there are many microfinance loans but because there are few loans made at all.

Even with two specialized banks, the portfolio of 5,700 microfinance loans as at the end of 2009 does not even reach one percent of the estimated demand market of 622,720 households in the two states (see Table 20). The average loan balance outstanding is SDG 5,980 (US$ 2,392) – well under the SDG 10,000 ceiling for microfinance, but by international standards a rather high average suggesting that the banks are not reaching very deep into the 'micro segment' of poor people. The average loan balance for MENA MFIs is $314; the global average is $1,588 (2008)[107]

The majority (70%) of the financing was provided in South Darfur, but this only reaches 1% of the estimated number of households demanding microfinance. By all accounts, bank-provision of microfinance is appallingly limited in the two states – and for ABS in particular, it is a very poorly performing portfolio at that.

[107] The Microfinance Information Exchange compiling data from a total of 1,395 MFIs worldwide (2008). www.themix.org

While SSDB has managed to keep its **portfolio at risk**[108] under the international microfinance standard of 5%, ABS and the ICDB in El Fasher display unsustainable high arrear rates. ABS explained that the high rate results from arrears carried over from prior years that have not been written off. Since the conflict began, most ABS branches - especially at localities level - processed financing contracts based on certificates from the Farmers' Union without visiting the farms due to the perceived security risks of (specifically bank vehicles) travelling outside town. Similarly, borrowers were not visited for monitoring or debt collection. Bank staff acknowledge that borrowers have taken advantage of the self-imposed restrictions of movement by wilfully defaulting, blaming low productivity or looting of crops or animals. In addition, bank officials mention political interference, which on some occasions have effectively prevented the bank from enforcing loan contracts (e.g. a decree stating that any small farmer was debt-free).

Table 20: Number of MF borrowers and outstanding portfolios as on 31 December 2009

Banks by State	# borrowers	Outst. Portfolio SDG	% PaR
South Darfur			
Agricultural Bank	3,217	13,609,635	73.8%
Savings and Social Development Bank	722	9,085,816	2.6%
Islamic Cooperative Development Bank	19	96,593	2.8%
Animal Resources Bank	68	611,000	4.2%
Subtotal South Darfur	4,026	23,403,044	44%
North Darfur			
Agricultural Bank	1,228	8,196,203	53%
Savings and Social Development Bank	434	2,392,006	0
Islamic Cooperative Development Bank	2	5,423	90%
Animal Resources Bank	8	82,750	1.6%
Subtotal North Darfur	1,672	10,676,382	41%
Total North and South	5,698	34,079,426	43%

To rectify the situation, ABS branches across Darfur have reduced lending, especially to rural clients – which is not conducive to expansion of microfinance, but is preferable to continuing a portfolio that has collapsed. The branch in El Fasher took action late in 2009 and halted all new lending to focus on debt collection, and to the credit of the bank staff, the PaR(30) has dropped to 30% as at end of February 2010[109].

The vast majority of microfinance **loan products** are traditional *murabaha* (sale and mark-up) contracts priced at 12-18% p.a., and most (88%) is provided as individual loans. ABS is also providing *mugawala* (turn-key service) contracts to farmers, e.g. for the service of tractor ploughing provided to customers. Neither *mudaraba* or *musharaka* products were offered to microfinance customers by any of the banks (see Annex 2 for a description of the products). These products entail the sharing of profit but also of possible losses between the investor (bank) and manager (customer) and thus require financial projection and analysis skills as well as a good knowledge of the local market – neither of which are currently much in evidence among bank staff.

Compared to banking in other peripheral states of Sudan, the Darfuri banks deserve credit for the gender balancing and diversification of their small portfolio (see Table 21). Loans to women represent 23% of total microfinance loans outstanding. This is high by North Sudan standards, and may also reflects the active role that women play in the Darfuri economy at all levels – a role that may have increased with the loss of primarily male lives during the conflict.

[108] Portfolio at Risk (PaR) ratio measures the quality of the portfolio by the value of all loans with any arrears normally older than 30 days as a percentage of the outstanding portfolio.
[109] Interview with ABS Al Fasher branch manager 22/2/2010.

Table 21: Outreach by gender, type of enterprise, and lending methodology in 2009						
State & bank	Gender		Type of enterprise		Lending methodology	
South Darfur	Men	Women	Farm	Off-farm	Individual	group
Agricultural Bank	424	22	345	101	286	160
SSDB	365	155	257	263	507	13
Animal Resources Bank	22	4	6	20	26	0
Islamic Coop Development B	7	7	6	8	14	0
Subtotal South Darfur	818	188	614	392	833	173
North Darfur						
Agricultural Bank	163	8	108	63	163	8
SSDB	320	114	0	434	434	0
Animal Resources Bank	15	0	6	9	15	0
Islamic Coop Development B	16	4	5	15	20	0
Subtotal North Darfur	514	126	119	521	632	8
Total South and North	1,332	314	733	913	1,465	181

While all banks are aware of the CBOS request for them to use 'non-traditional **collateral**', the banks in general appear extremely risk averse and thus tend to over-collateralize loans using several types of guarantees; insurance; and conventional, physical collateral if it is available:

- Almost all borrowers are required to open a current account from which to issue post-dated checks as one form of personal guarantee. Bouncing a check is a criminal offence in Sudan, and can result in imprisonment. As surety, this guarantee should therefore carry high preventative and punitive weight. And it does, as long as it is not diluted by political interference by e.g. politicians, the Zakat chamber or other charitable organizations requiring banks to drop charges, and prisons to release defaulters;
- Proof of employment and a salary account, especially from a government employer is a collateral favoured by many banks, as it significantly reduces the administrative burden of debt collection, even if a system of automatic 'debit orders' may not be in place;
- Third party personal guarantors recommending and guaranteeing repayment on behalf of the borrower are also popular. *Sheikh*s, *umda*s, government, Union and Association officials, and large traders are all considered good guarantors. There does not appear to be a system of information sharing in place yet, so that bank branches in one locality can check how many loans a given official is guaranteeing at any one time. In other markets, too much reliance on guarantors as surety have caused microfinance portfolios to collapse completely in areas where a large group of customers using the same guarantor group, defaulted at once (e.g. if a market burned down or an entire village fled hostilities);
- Insurance helps to externalize the risk of banking – which can be problematic, as it provides a 'scapegoat' for poor portfolio appraisal and monitoring. When the government provided US$ 40 million as matching funds to banks willing to provide microfinancing in 2008, it also asked the state-owned insurance company Sheikhan to design a specialized 'microfinance insurance'. This insurance covers each microfinance activity three times over (see section 6.3.2). Even if the components of the insurance can be bought separately, such extravagant insurance increases the price (premium) which is generally passed on to the customer, and may divert the banks' business responsibility.

As the collateral is relatively conventional, so are the bank **procedures**, delivery mechanisms and documentation requirements for microfinance customers. There is no customer targeting to speak of. Microfinance customers, like all others, are required to produce an ID card and a nationality certificate, and that is a difficulty for many IDPs in particular. Banks interviewed were pointing to a high number of potential customers turned away due to a lack of documents. In addition, microfinance customers have to complete the complicated and sometimes culturally offensive questionnaire of the CBOS Coding System, as microfinance is not exempted from this KYC procedure meant to discourage money-laundering (which rarely happens at micro level). At branch level, the banks do not have specialized or even designated loan or investment officers for their microfinance portfolio, and the conventionally trained staff is usually not familiar with microfinance-specific client appraisal methods based on the "3Cs": Character, Cashflow, and (repayment) Capability. This lack of procedure adaptation is not conducive to an expansion of microfinancing.

Looking at the **deposit** side, the total number of savers in the four banks in North and South Darfur as of 31 December 2009 was around 13,000 or more than double the number of borrowers (See Table 22). However, the total deposits mobilized were reported to be around SDG 17.4 million – or only half of the outstanding financing portfolio. Hence, the branches cannot rely solely on savings deposits to fund an expansion of their microloan portfolio, but need funding from other sources.

The average balance per savings account of SDG 1,300 would again indicate that depositors are not very poor people. But the incentives for anyone – poor or not – to deposit funds with the majority of banks is also severely limited by the fact that most do not offer dividends on savings, and inflation crept up to 14% in 2008[110]. The SSDB require borrowers to open a current account, and this may explain its many accounts. But the Islamic Cooperative Development Bank is the only bank that the Consultancy identified in Darfur which offers an 'inverse *musharakah*' investment account. ICDB determines its return on savings annually based on its annual revenue and the contribution of savings in generating this revenue, in line with Shariya rules. The chief reasons why ICDB's investment product has not outperformed all the other banks are assumed to be:

- Geographic limitations – the high transaction cost of travelling to the ICDB branch in the State capital;
- Lack of marketing – most people are unaware of the product or think it requires a large minimum balance.

With so few loans at a modest profit margin, and no revenue from savings, how do the banks of Darfur make money? It appears that two products – one urban, one rural – provide the income earnings for at least some of the banks:

Table 22: Savings mobilized and number of savers as on 31 December 2009

Bank and State	Total # savers	Outstanding balance (SDG)	Average bal./ account (SDG)
South Darfur			
Agricultural Bank	575	1,114,713	1,939
Savings and Social Development Bank	3,705	3,505,697	946
Islamic Cooperative Development Bank	2,188	3,155,808	1,442
Animal Resources Bank	1,168	1,600,000	1,370
Subtotal South Darfur	7,636	9,376,218	1,228
North Darfur			
Agricultural Bank	553	923,483	1,670
Savings & Social Development Bank	1,976	2,010,607	1,018
Islamic Cooperative Development Bank	2,007	3,503,343	1,746
Animal Resources Bank	1,112	1,670,714	1,502
Subtotal North Darfur	5,648	8,108,147	1,436
Total North and South Darfur	13,284	17,484,365	1,316

All banks, including the four microfinance providers, offer **cash transfer (remittance) services** for their clients and a very stable cost across banks of 3-6‰ of the value transferred, but with discounts for large amounts and preferred customers, indicating strong competition. El Nilien Bank in Kebkabiya offers this service almost exclusively – as government sends all salaries through this bank, and it does not currently lend. In ABS branches of urban centres the revenue from transfers appeared to be the major source of income. On average, the branches of the four microfinance providing banks in North and South Darfur reported to transfer out around SDG 40 million per month during 2009, generating SDG 120,000 revenue for the branches. They reported to receive SDG 36 millions/month, and the comparative advantage is clear: the banks are much cheaper than any non-bank competitor. Their services are, however, also rumoured to be slow (up to 3 days), and of course only accessible during banking hours – facts that the competition cashes in on. Another recent constraint for remittance customers is CBOS' requirement that they must present the magnetic ID card in order to send money, and these cards are quite expensive.

[110] CBOS Annual Report, 2008.

Another – rather innovative – way to make money for a branch in a rural setting is to sell agricultural input. ABS branches are able to order (and are sometimes allocated) amounts of agricultural input (fertilizer, pesticides, sprayers, fuel, jute bags, pump units, etc.) from their head office and store it in a rented or owned warehouse until they – normally, at least – provide it to farmers under *murabaha* contracts. But at least one bank branch has opted to just **sell the input** for cash (see Box 23). The input acquired appears to be subsidized, perhaps import tax/VAT exempt or otherwise discounted, as the bank is able to sell it at profit at a lower price than in the local market, thereby undercutting any input traders, but certainly earning more on the cash sales than on the 18% p.a. profit margin charged on the loan contracts.

Box 23: A bank turned trader – versatility or unfair competition?

The ABS branch in Kebkabiya orders agricultural inputs from ABS Khartoum via the ABS regional office in Nyala and settles the cost on an internal account. Transport from Nyala has to be paid by the branch, which owns a warehouse for storage of the input. The branch provides the input to customers on murabaha contracts and as cash sales!

Estimated "import":	2009	2010	Cost	Price	Market	% cash	% credit
Fertilizer	1,200 bags	1,200	55/bag	80/bag	100/bag	80%	20%
Pumps:	50 pcs	350	1320/pcs	1730/pcs	2500/pcs	25%	75%
Fuel:	80 drums	300	400/dr	450/dr	500/dr	0%	100%
Jute bags:	1 truck bales	-	710/bale	900/bale	-	100%	0%

With many bank branches concerned about security and reluctant to leave town to meet customers for fear of attack, Darfur would seem a prime market in which to launch **branchless** (electronic or mobile) **banking**. While some preparatory steps are being taken by CBOS, however, such technology-driven delivery systems do not yet appear to have found their way to Darfur.

While several banks had ATMs (usually in front of their branches) and thus provide debit cards to customers, there was no evidence of electronic Points of Sale (EPOS), netbanking or banking services accessible via mobile phones in North or South Darfur. However, the central electronic payments system now adopted by CBOS has facilitated not only ATM transactions but also electronic check clearance across the states[111]. Checks can be cleared and cashed faster and the cash transfer time is decreasing, as confirmed by customers in Nyala[112]. But banks will have to hurry if they are not to be overtaken by informal providers of branchless financial services (see below).

Most of the bank branches interviewed for this – and other – studies are not happy with the drive by the CBOS and their head offices to deliver microfinance. Because microfinance has been introduced from 'above' as a required target (allocation) but often without training, additional staff or resources, most branch staff consider the new market segment unfamiliar and risky; the products and procedures expensive in both staff time and arrears; and the methodology unknown – and as such end up finding microfinance utterly unsuitable for commercial banking operations. In order for banks to deliver good microfinance, the fact that microfinance is a specialized financial service and not just 'small commercial loans' needs to be appreciated, and bank management and supervisors need to buy-in to the changes in staffing, delivery methods, and marketing that successful microfinance would require.

But the entrepreneurial spirit of Darfur is not absent from banking either. In North Darfur, a Microfinance Committee of bankers, hosted by the CBOS branch has been established to discuss how banks may assist in the process of expanding microfinance, which is a great start. In South Darfur, the Ministry of Finance more than the CBOS branch is driving a process to attract the necessary assistance to design and establish a Good Practice microfinance institution.

111 African Economic Outlook, March 2010.

112 Interview with customers of SSDB in Nyala, 13/2/2010.

6.3 Non-Bank Formal and Semi-formal Service Providers

6.3.1 Foreign Exchange (FOREX) Bureaus – serving UN

In February 2010, there were three foreign exchange bureaus in Nyala and one in El Fasher, all established relatively recently (i.e. after the latest conflict) and all regulated by CBOS. Up until 2009, FOREX bureau regulations were reasonably simple and focused on reporting. However, in February 2009 the threat of national foreign currency depletion lead CBOS to tighten the regulatory reins on the FOREX bureaus. Today, the bureaus are struggling to make a profit from what used to be their core business of outgoing international transfers, because of the regulations that determine their daily quota of allowable transfers out of the country which often is so limited that they cannot meet the demand of customers (see Table 24). The bureaus are hope that current negotiations with CBOS will result in easing of the restrictions on outbound international transfers as well as in more bureaus joining the central Credit Information System.

Table 24: Illustrative business figures for FOREX bureaus in Darfur

	FOREX A, Nyala	FOREX B, Fasher
Licensed:	May 2008	2007
Branches elsewhere:	Nyala, P. Sudan, Khartoum& international network	Nyala and will link to any bank
Transfer systems used:	Coinstar, Xpress Money, CMT/TMT	Agents, banks
International transfers:		
TO until Feb 09:	Italy, Saudi, CAN, AUS France, US, GB, UAE	MENA, Pacific, Europe
Volume:	40 transfers/m - SDG 50-100,000 equivalent	SDG 1 – 1.125 million/month
TO now:	UAE, India, Russia, Pakistan, Bangladesh, Phill.	Ghana, Nigeria, Kenya
Volume:	5-10, pending CBOS limits/daily receipts	SDG 5,000/month pending limits
Cost for SDG 1,000	SDG 41-71	SDG 45-90
Key customers:	HHs remitting to students, UN staff, foreign workers	90% UNAMID staff
FROM until Feb 09:	MENA region, Pacific/AUS, GB, Canada, US	Italy, France, US
Volume:		SDG 300,000-400,000/month
FROM now:	UAE/Gulf, US, GB	Italy, France
Volume:	3-4 transfers/month	Almost 0
Cost for SDG 1,000	SDG 21 (up to SDG 150 pending value)	
Key customers:	Diaspora for family maintenance/students	Diaspora for students
Domestic transfers:		
TO:	Omdurman, El Fasher	Nyala, Khartoum
Volume:	SDG 150,000-200,000/month	SDG 900,000/month
Cost for SDG 1,000	SDG 11	10‰ of value
Key customers:	SMEs/traders – especially on Saturdays	Traders, SMEs
FROM:	Omdurman (Khartoum)	Nyala, Khartoum
Volume:	SDG 10,000/month	SDG 450,000/month
Key customers:	Migrant workers for families/students (not IDPs)	Relatives/migrant workers for students

All FOREX bureaus require customers to present an ID card and/or nationality certificate. One of the bureaus offers regular clients a swipe card to speed up transfer processing. While the domestic transfer processing of the bureaus is much faster than transfers through the banks (in some cases instant), it is also almost double the price (10-11 ‰ against the 3-6‰ of most banks), and the bureaus recognize that they do not target the poor. Their main competitive advantage is the speed and legality (registration) of their transfers and their opening hours which extend past banking hours. With the current restrictions on foreign currencies in Sudan, the FOREX bureaus compete among themselves, e.g. in Nyala, but as providers, they have no other licensed competitors (see section 6.4), as most banks no longer can or will process such transfers. This has not decreased prices, but the recent influx of foreign workers and UN staff has provided a new customer segment with much higher purchasing power.

6.3.2 Insurance Companies – Beginning to downscale

At least four major insurance companies have branches in Nyala and El Fasher including the state-owned Sheikhan Insurance and Reinsurance Company, Sudan Islamic Insurance, and the Islamic Insurance Company owned by Faisal Bank. A number of smaller companies also operate there. The National Health Insurance (NHI) is government owned and serves as a 'social security system' rather than an insurance company per se in offering its important service to poorer employees and their families, some of which are creatively 'sponsored' by corporations and/or professional associations.

With a commanding market share (around 80%[113]), Sheikhan is the largest insurance provider in Darfur as well as nationally. Perhaps as a result, marketing in the insurance industry seems much more subdued than in banking, where central locations, customer-friendly halls, and large billboards are used to increase name recognition and attract customers.

The range of insurance products potentially on offer is very wide and a number of the conventional products could be adapted to the micro-market with a minimum of effort. Instead, when the Government launched the Sudan Microfinance Pilot project offering matching loan funds to banks for microfinance, it also asked Sheikhan to develop a specific range of insurance products for this new segment.

The composite insurance product that resulted covers most of the types of activities in which poor and low-income Darfuri people engage, such as crops, livestock, equipment, vehicles and inventory – with the important exception of traditional crop production on rain-fed land and livestock herding. Camels are not insured and other livestock is only insured if stabled (in enclosure) and tagged, although a new product is being considered for free roaming livestock – which will, however, not cover theft. Claims are only processed with a death certificate signed by a designated veterinarian, and for the average rural livestock owner in Darfur, that alone is an almost insurmountable hurdle, as emphasized by the representatives of the Pastoralist Union of South Darfur and *abbala* pastoralists from *dammar* around Kutum in North Darfur who could not get the Kutum veterinarian to visit them even when they had a major epidemic last year. On the other hand, the demands for tagging and death verifications are not unusual in livestock insurance, and one has to take the risks for Sheikhan into account – during the period of 1998-2003, the average annual loss rate on their livestock insurance was 62%[114]. Another problem, which the insurance company shares with the banks, is its limited branch network in Darfur. While livestock owners and crops traders in Gereida in South Darfur were potentially interested in an insurance, the cost of going all the way to Nyala to apply made it unfeasible.

All eight banks participating in the Microfinance Pilot Project (Family Bank, SSDB, Industrial Development Bank, ICDB, Real Estate Bank, Agricultural Bank, Omdurman National Bank, and the Farmers' Commercial Bank) have signed up with Sheikhan for the micro-insurance product. The Family Bank and the SSDB have provided the largest number of clients and so far, the biggest claimants have been the SSDB and the Real Estate Bank. The total value of the insurance certificates issued for microfinance projects in 2009 was around SDG 37.5 million (US$ 15 m); 75% of which insured cattle. The claims paid to date have not exceeded 7%, and so far, Sheikhan insists that no claims have been rejected yet because the product is still new. For this reason, the company still is not sure whether the product will be profitable in the long term, but the prospects look promising.

[113] Interview with to Export Credit and Finance Insurance Department, Sheikhan Khartoum, 9/2/2010.
[114] Sheikhan's website provides the details: http://www.shiekanins.com/Livestock.html

While the composite micro-insurance is a great product in theory, it appears almost too comprehensive, increasing the cost unnecessarily (see Table 25), as it insures the same transaction a total of *three* times, even if the components may be bought separately. The insurance product includes:

- insurance against the risk of damage, theft and fire (regular asset insurance to be paid by the client);
- insurance against the portfolio risk of the loan (against moral hazard, insolvency and poor management in principle to be paid by the bank, but often passed-on to the client); and
- insurance against the risk of the client dying before the loan is repaid (*takaful* or 'credit-life insurance').

Table 25: Annual insurance cost rates[115]

Class of Insurance for item	As client's asset	As bank's portfolio	'Takaful' Rate	Total cost	Excess
Property (Goods in stock)	0.26%	2%	0.3%	2.56%	10%
Engineering					
Machinery break down and fire	0.56%	2%	0.3%	2.86%	10%
Electronic equipment	0.4	2%	0.3%	2.7%	10%
Medical equipment	1%	2%	0.3%	3.3%	10%
Portable electronic equipment	3%	2%	0.3%	5.3%	10%
Motor					
Motorcycle	3.5%	2%	0.3%	5.8%	10%
Microbus	4%	2%	0.3%	6.3%	10%
Livestock					
Cows	3%	2%	0.3%	5.3%	10%
Sheep and goats	4.5%	2%	0.3%	6.8%	10%
Broiler	3%	2%	0.3%	5.3%	10%
Breeder	4%	2%	0.3%	6.3%	10%
Crop insurance	7%	2%	0.3%	9.3%	10%

This tendency to insure the same item in multiples increases the cost – perhaps unneces-sarily - and may also dilute the responsibility (duty of care) of banks for managing and mitigation lending risks, when the risk aversion is already very high among banks.

In Darfur, Sheikhan Nyala branch started offering insurance for microfinance projects in early 2009 and is expanding very carefully. All the insured loans have been for businesses based in towns; Sheikhan will not yet consider crop insurance in Darfur, citing insecurity (rather than climatic constraints) as the reason. Currently, three of the four Sheikhan branches in Darfur have a total of 90 insurance certificates (policies) for cattle, feed stock, equipment, and inventory outstanding at a total value of SDG 747,000 (see Table 26) or less than 1% of the value of Sheikhan's microinsurance portfolio for all of north Sudan. This means that only around 1.6% of the number of outstanding microfinance loans are insured, so there is room for expansion.

Table 26 Details of micro insurance certificates in Nyala, El Fasher and Ed Daein

Branch	Loan item insured	# certificates	Value SDG	Value policy
Nyala	Electronic equipment	11	86,625	1,866.70
	Animal feeds	20	157,250	4,929.16
	Cement	8	61,780	1,294.40
	Livestock	3	19,000	1,171.00
	Goods for local trade	33	282,270	4,503.90
Total Nyala		75	606,925	13,765.16
El Fasher	Property	12	129,680	2,029.88
Ed Daein	Property	2	10,000	288.00

Sheikhan does indeed seem to be willing to invest resources in researching microinsurance experiences from other countries so as to expand the portfolio and adapt the microinsurance product range. It has linked into the international microinsurance community to access technical assistance and new ideas. Currently, a possible group-based pensions or savings scheme is being considered, as well as in-kind premium payments and possibly a micro-medical insurance.

[115] Sheikhan Export Credit and Finance Insurance Department: Table of Rates, 2009-10, and interview with Sheikhan head office, Khartoum, 9/2/2010.

6.3.3. The Public Corporation for Post and Telegraph

The venerable Postal Corporation of Sudan which dates back to 1885 is in fact the oldest formal sector provider of savings services and cash remittances in the country. The current Public Corporation for Post and telegraph was established by the Post Office Services Act in 1910. In Darfur, the postal system has functioned since the early 1950s. At its height, there were at least 15 postal centres with hundreds of agents in rural areas. Today, only the centres in the three state capitals remain.

Until 1982 the Corporation was offering a 'postal savings' account with a dividend (interest) for customers of up to 17% p.a.[116]. After the introduction of Shariya law in 1983, however, the interest on the savings accounts was abolished – and predictably most customers withdrew their money. From the late eighties and with development of the internet and telecommunication services the importance of the corporation diminished further, resulting in even less revenue. Because of the shortage of both public and private financing, the corporation was not able to modernize its services to cope with the development in communication services technologies. Consequently the corporation business volume and income shrank to the extent that it was not able to cover its operational cost. The volume of business in the offices having remained open is all but non-existent. For example, the Nyala post office remits some SDG 2,000/month in 2-3 transfers.

By the end of 2009, the corporation was transformed into a company structure and sold to the Investment Department of the Social Insurance Corporation (SIC). The SIC is a public social security fund, managing the national pension funds for public and (some) private sector employees. The SIC plans to modernize the mail, savings, and cash remittance services of the new company and to reopen and expand its network of branches and agents to ensure rural outreach. While a noble idea, it is not very obvious what services a revamped postal service would offer that have not been replaced by more efficient informal means since its demise some 20-30 years ago. Snail mail is hardly used anymore – especially not if travel is unsafe; and banks, FOREX bureaus and informal providers offer cash transfers. While a rural network of postal agents and centres may rekindle the interest in postal savings accounts, the new product would have to be restructured into an investment (musharakah) contract with customers in order to provide dividends.

6.3.4 Non-Governmental Organisations - Promising Facilitators

Some 48 international NGOs and 241 national and local NGOs (sometimes also called civil Society organisations, CSOs – no distinction between the two abbreviations are made here) are registered with the HAC as working in Darfur[117]. Most of the national NGOs were established as part of strategic partnerships with international NGOs and implement projects as subcontractors for or in partnership with UN agencies and INGOs. Such linkages became especially important after the expulsion in 2009 of 13 major INGOs working in the region.

Coordination between NGOs and the UN agencies in conflict-affected areas like Darfur is attempted through thematic fora established and organized by fields of interventions ("clusters"). One of these clusters' focuses on "food security and livelihoods", is normally hosted by FAO and the Ministry of Agriculture, and deals with issues of farming, livestock and income generation. In South Darfur, the cluster is currently working particularly effectively under 7 priority themes, including a theme named "livelihood support through income generating schemes", and a questionnaire on "who is doing what where" is currently being circulated so the level of coordination may improve[118].

[116] Interview with previous manager of the Corporation Interview with previous manager of the Corporation Mr. Ahmed Tigani Al Aalimon , 07/01/2010
[117] Partners in Development Services: Mapping and Capacity Assessment of CSOs in Darfur, UNDP.
[118] For more information, contact the Cluster lead, Mr. Wolde Selasse Abbute, FAO/South Darfur.

As often happens, especially in emergency situations, many local NGOs do not last long – as their funding dries up, they effectively dissolve. To establish which of the many local NGOs are active and how they may best contribute to relief or development activities in Darfur, UNDP conducted a study of the local and national NGOs in 2009[119]. This study prequalified 67 CSOs for possible work within seven clusters of activities, including peace building, capacity development, environment, pastoralists, and livelihood and recovery. One of the criteria in the 'livelihood and recovery' cluster was microfinance expertise, and the study identified a total of 20 CSOs with such expertise, of which 5 were based in Khartoum. This Consultancy was only able to meet 4 of these CSOs, but based on these meetings and meetings with NGOs not in the prequalification list, it may be suggested that the list could benefit from regular, e.g. annual, updating.

Despite the improvements in the security situation of Darfur, and the return to normalcy for many, particularly urban segments of the population, most of the programmes and projects currently under implementation by donors and NGOs remain somewhat anachronistically focused on food aid, relief and emergency support for survival rather than on development-oriented recovery, livelihoods, and income generation. The majority of NGO programmes that support livelihoods provide small grants to community groups or individuals in the form of free training and productive assets (often called 'microfinance' to add to the confusion). There are very, very few interventions that are applying the methodology of microfinance (i.e. financial services) on a cost recovery basis with the aim to enhance the livelihoods and self-reliance among IDPs and other conflict affected populations in Darfur. This Consultancy was able to identify only two programmes that have micro-credit components:

- EU-funded support from Practical Action to the North Darfur Women's Network of 56 CBOs, which operates a revolving loan fund;
- Relief International providing wholesale loan funds to Kebkabiya Women Society and other CBOs as well as retail loan funds to individual clients in Kebkabiya, Saraf Omra and El Sireaf, North Darfur.

Several other organizations (including at least 3 on the UNDP prequalification list) and projects may facilitate financial service provision to the poor by forming groups, training potential clients, linking borrowers to non-financial services, and provide grants for micro-scale investments, etc. but they do not in fact offer loans, savings, insurance or transfer services for the poor, and nor do they have means to secure the sustainability of their operations, but rely on repeat grants to continue. They should therefore not be referred to as 'microfinance providers'.

North Darfur Women's Development Network
The network was established in 2003 with assistance from the international NGO Practical Action (PA) to facilitate the implementation of development programmes at rural community levels. The network is the apex institution for 56 village-level Community-based Organisations (CBOs) in five localities in North Darfur State, including Dar el Salam, El Fasher, Korma, El Cuma, and Kutum and has around 22,400 members[120].

The Network and PA are implementing the Cleaner Healthy Cooking Project with the main objectives of improving household health by decreasing smoke from cooking; and protecting natural resources by encouraging households to switch from firewood and kerosene to Liquid Petroleum Gas (LPG) for cooking and light. The CBOs of the Network promote the use of stoves and lamps powered by LPG. The project aims to provide gas-powered stoves and lamps to 10,000 households on 9-month hire purchase contracts.

The Network received seed funding for the project, and signed a contract with a petroleum (and gas) distributor to supply the gas cylinder-kits through their network of agents in the localities, and contracted the

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[119] Partners in Development for UNDP Darfur Livelihoods Programme: Mapping and Capacity Assessment of Civil Society Organisations (CSOs) In Darfur, 2009.
[120] Interview with secretary of NDWDN on 22/2/2010.

part time services of a lawyer to advice on legal and contractual issues with the distributor and the borrowers. As at December 2009 (cumulatively), the Network has distributed 2,382 sets in the five localities and the repayment rate is 93%. In terms of outreach, they have thus reached 24% of their target, and 11% of their members. The lack of funds to purchase additional kits up front slows the disbursement – a problem common to revolving funds. Table 27 reflects the number of outstanding loans by locality as of December 31 2009:

Table 27 LPG loans in North Darfur

Locality	# loans	Outstanding Portfolio SDG
El Fasher	465	79,050
Elcuma	74	12,580
Dar el Salam	5	850
Kutum	30	5,100
Kebkabiya	167	28,390
Total	1280	217,600

The total cost of the cylinder-light or –stove set from the distributor is SDG 195-210[121]. A down payment of SDG 40-42 is required from the client, and the balance is paid in monthly instalments by clients through coordinators of the CBO who meet regularly to deposit the repayments with their locality representatives who in turn meet in the Network committee. The question remains, of course, if the fee of SDG 2/borrower charged can cover the potential loss of 7% of the outstanding portfolio as well as increase the revolving loan fund sufficiently for all members to be availed the opportunity of an LPG-loan. The Network thinks not – but as a grant-based NGO, they see the solution to be an additional grant rather than an increase in the price charged to members.

The Women's Network and its CBOs have also implemented an in-kind, revolving 'Goat Bank' – the **"Kids for Kids"** goats restocking program. Each targeted village is given a sufficient number of goats and bucks to provide initially the most vulnerable households with 5 goats and one buck each to keep for two years. After the two years, each of the first cycle families return 5 goats and one buck from the first deliveries of their stocks. The collected stock would be given to an equal number of new families and so on until all the interested households in the village are covered. In 2006 the Network distributed goats for 55 families in one village. In 2008, another 55 families received 5 goats and one buck each from the offspring of the stock distributed in 2006. In 2009, 398 new families received goats.

Box 28: Repayment is easy, but is the loan useful?

Mrs. Hasaniya lives with her husband in a thatch house at the outskirts of Kebkabiya. They arrived as IDPs in 2003 from a village around 30 km away. Her husband is a carpenter, and she got a job as tea lady and caretaker at the compound of an NGO, where she earns SDG 150/month. In addition, she produces handicrafts and sells onions in the IDP market. That earns her an additional SDG 14/month, which is quiet good, she admits – but she also still has children in school to pay for.

Mrs. Hasaniya took a gas cylinder loan three months ago, taking the down payment of SDG 42 from her salary. She will pay back the SDG 20 per month from her salary too, which will not be hard. But she hasn't used the 'gas lamp' yet – she wants to build a sturdier house first – "I'm afraid the lamp may set fire to my house", she smiles.

Kebkabiya Women Charitable Society (KWCS)

This society of 385 women is a member of the North Darfur Women's Network, and has benefited from the Cleaner Healthy Cooking Project. They have also received a grant of SDG 3,000 from Oxfam Canada in 2003 and again from Relief International in 2004 as seed capital for a loan fund to finance its members' petty trade activities. The first capital injection was spent on other activities when all loans were repaid. The second injection of SDG 3,000 is being provided as SDG 50 loans with a 4 month term. Borrowers repay with a fee of SDG 10 (20%) and the seed capital has grown to SDG 3,500 since 2003, which would suggest that 50 loans have been provided, given 100% repayment. Unfortunately, the CBO does not keep records of the loans and were not sure how many were outstanding[122].

[121] The distributor in El Fasher sells the kits at SDG 195 with a profit of SDG 5/kit, and the transport cost per kit from EL Fasher to Kebkabiya, for example, is SDG 15/kit.
[122] Interview with members of KWCS' committee, Kebkabiya, 23/2/2010.

Relief International (RI) restarted microfinance activities in North Darfur 6 months ago. They work with 500 individual borrowers, more than 50% of whom are women, and some 26 groups of women, including KWCS in their three selected localities. The groups are given a SDP 3,000 loan. The individuals are selected in cooperation with the village committee in accordance with social rather than entrepreneurial criteria (e.g. IDPs, widows, poor) and are provided with cash loans of SDG 300 for a micro enterprise (trade, services) to be repaid in 6 months. The loans are *qard hassan* (interest free), and thus the invested capital will deplete over time with losses and inflation. Volunteering that the project was new and needed a proper structure and clearer methodology, RI was nevertheless pleased that more than 50% of borrowers so far had repaid on time[123].

NGOs as Facilitators

Often, humanitarian or relief NGOs that have worked in an area through an emergency are encouraged internally, by funders, or by beneficiaries to venture into livelihood support projects when the security situation improves. Because of the current popularity of microfinance with GoNU and among funders, it is not usual for grant-based humanitarian programmes to try to expand their services to beneficiaries with a 'microfinance project'.

Relief NGOs rarely have the long-term perspective, skill set or expertise required to implement microfinance, and the clients often get confused when they are offered debt-finance (loans to be repaid) by the same people who used to provide grants and free inputs. Consequently, repayment suffers and the loan programme (often a revolving fund) dries out, confirming for clients that they were right not to repay, as they chief motivation for repayment; the promise of a new and larger loan; was not met. Financing in particular is being provided around the world without sufficient knowledge of or attention to good practices – but the short-term losses, and the longer-term unsustainable impact of such schemes ultimately harm the very clients that they were meant to benefit. The experience from past failures proves that direct provision of services by subsidized and non-profit bodies tends to result in limited outreach and unsustainable impact. This fact is, however, sometimes overlooked in the quest to combat poverty by availing cash to the poor through any available channel. Because money is a commodity well-known and managed by almost everyone, the technical skill and specialization necessary to provide this business service successfully is often not adequately recognized.

But non-financial NGOs – whether international, national or local - do have important skill sets and resources that make them excellent partners to specialized financial service providers. Mobilisation and group formation; basic and financial literacy; income generation, vocational training and production support; market linkages; and group-based savings mobilization and credit management are all services that many 'beneficiaries' would benefit from on their way to becoming 'customers' of a financial service provider. Some of these services are – and should be – provided by commercial entities in the private or public sector, but some can equally well be provided by NGOs, as exemplified in Table 29.

The Consultancy heard very little expressed demand for vocational or life skills training from potential clients. Their demand was for information about banking procedures and criteria; market prices and linkages; and business training. However, the supply side (consultants, NGOs, bankers and funders) strongly voiced a requirement and need to train clients – almost to the point that the reason why microfinance has not taken off in Darfur is because clients don't know a) that "they are poor"; b) how to run their business; c) how to present a bankable project, etc. There is clearly a need for additional, specific training – but it must be demand-driven and cost-covering rather than supply-driven and free.

[123] Interview with Randir Kumar, Relief International on 24/2/2010.

Table 29: Examples of NGO projects to facilitate microfinance

NGO	Project description	Comments
Norwegian Church Aid (NCA) Supported by Caritas	Training self-selected groups of 7-17 IDP women for 5 days in group management, savings and credit, book keeping and fund management; providing cash box and 3 keys; encouraging monthly saving of SDP 5/member and sequential borrowing of 'pot' with 'gratitude fee' of 5-10%	- Good service – the model is very like *sanduq*s so likely well known to beneficiaries; - Good that no external loan funds has been provided; - Acknowledged lack of data collection and monitoring of groups, so impact is unknown; - Maybe check if mixed groups of IDP and resident traders would work?
1. Sudan Aid & SCC, Ed Daein supported by NCA 2. Darfur Dev't & Reconstruction Agency (DDRA) supported by Oxfam, UNDP, Khalifa Found. 3. ND Women's Devt Network and Faculty of Community Devt. supported by UNDP 4. UNDP livelihoods prg. Nyala	Training of IDPs selected by 'needs criteria' or by application process in vocational or life skills (food processing, computer, handicraft, mechanics, electrics, driving, etc.) by NGO for free with incentives (lunch, transport) or by College with SDG 50 fee. Provision of 'start-up kit' at graduation either free or as principal loan to be repaid in instalments of 10% of monthly sales to be revolved.	- Socially destitute (needy) beneficiaries may not be the best microentrepreneurs. Stick to grants for them; - To avoid displacing the emerging service industry of training establishments, charge a contribution from participants to confirm the market value of the training (avoid free services); - Current recovery rate 38% - hard to monitor 'sales' to determine 10% as basis for repayment. Easier for all to provide kits for free.
Peace and Development Organisation, Kass supported by UNIFEM and ICRC	Establish and train mixed groups of IDP and resident women in handicrafts and food processing; provide in-kind input as pre-finance or loan in-kind from seed fund; members to repay 50% of profit (after deduction of costs) from sales in market or in Khartoum by trader	- Great that resident women mobilized IDP women from camps in town; - Additional training in book keeping may help strengthen credit and profit management in groups; - Savings component could be added – as well as a fee for training.
Human International Services Group (HISG), Nyala	Providing venture capital grants to potential SME projects – some with vague repayment terms.	- Good support type, interesting projects, SME fairs a great idea, and funding mechanism is innovative – but this is not microfinance, so find another term to avoid confusion.

6.4 Informal Microfinance Services Providers – filling the Gap

The biggest providers of microfinance in Darfur today remain the traders, hawaldars and land owners that have kept business going in the region during the past 350 years. A number of these microfinance providers, especially the traders, are themselves bank clients and pass credit and other resources down the value chain to keep input coming and thus keep the business alive. This is one of the reasons why, despite all the social rupturing having taken place in Darfur during this and earlier conflicts, trade links have not been severed and continue to span rifts and cement links across geographical, tribal and social divides. The main financial services provided by the informal sector in Darfur are credit in cash and in kind for trading, farming, and household consumption; cash transfers and remittances through the *hawala* system or its modern replacement, the mobile telecommunication retailers; savings by *sanduq*s – or in the private *burma* (pot in the yard)..

6.4.1 Credit Provision

In Darfur, the proverbial 'money lender' is the wealthy trader in rural and urban areas, but wealthy community leaders; urban manufacturers; and land owners also provide credit, primarily – but not exclusively – in kind.

Agricultural credit

The traditional 'shiel' system of upfront financing of land preparation, input (and possible consumption) in cash against an expected payment of a certain amount of specific cash crop at a fixed (and often below-market) price agreed upon at the time of the loan disbursement, was common in ground nut producing areas of South Darfur, but appears to have disappeared[124]. Ground nut production is down; many farmers have fled their farms; and the formal counterpart to shiel - *salam* loans are available from ABS and other banks.

Family, friends or patrons would normally provide upfront credit for agricultural inputs before the planting season, but these informal credit systems have been severely damaged by the displacement of farmers. Displaced farmers now seek credit (sharecropping) from patrons or land owners in their new surroundings by requesting rental of land against an agreed portion of the harvest – half if the land owner also provides the input; otherwise one third; – or they return to their own fields to farm or sharecrop for any current residents there. Not all farmers have the social assets to ensure access to farm land, and the poorest farmers may miss a seasons harvest due to a lack of input financing. It is not a given that the seeds provided free by FAO necessarily reach these poorest of farmers.

Trade credit

Larger (wealthier) traders will provide upfront 'trade finance' in kind, i.e. give sub- or smaller traders, service providers (e.g. tea stalls, eateries, etc.), and hawkers items to use or sell as an advance, expecting payment when the sub-trader comes back to restock. This is probably the most common form of informal finance in Darfur and appears widespread in all urban and peri-urban areas as well as rural centers throughout Darfur. Trade finance is practiced throughout the year in a continuous process of borrowing and repaying when possible, often in small amounts against a 'tab'.

> Box 30– Informal trade credit makes financial sense
>
> Retail traders from the market in Kass prefer to travel to Nyala, about 1.5 hours south, and buy stock on credit rather than taking out a bank loan. A 50kg bag of sugar costs SDG 140 in Nyala, and the seller charges a fee per bag of SDG 2-3 for providing it on credit. It costs SDG 5/bag to transport it back to Kass – a cost that's doubled since 2003 due to increased cost of fuel and 'protection money' to be paid at the 20 check points on the road (there used to be only 2). By the time the bag of sugar reaches the Kass shop, it has cost SDG 147.50 on average. But the prices in Kass have also increased with the rising demand from the much larger urban population, and the retailers can sell the bag of sugar for SDG 150-153. They generally sell 12 bags/month with a profit of around SDG 50 - an increase since 2003 of 20-25%. But still – the profit isn't sufficient for the retailers to want to buy their sugar under a bank murabaha contract at 15-18% p.a.

The fewer and shorter 'tabs' you have, the easier they will of course be to clear. The more different 'tabs' the microenterprise requires (e.g. vegetables, meat and spices for an eatery) and the less value the microenterprise adds to the price of the product borrowed, the harder it is to repay the loan and still earn a profit. It is therefore not surprising, that the poorer of the entrepreneurs at the lower link of the value chains appear to be continuously – and perhaps overly – indebted. The levels of continuous debt mentioned by micro-entrepreneurs interviewed in Nyala, Gereida and Abu Shouk camp near El Fasher ranged from SDG 50 to SDG 2,000. The monthly profit stated from a cross section of the smallest microenterprises interviewed in the same places ranged from SDG 50-480, averaging SDG 235/month. Adding to this a casual wage of SDG 7/day it would still be hard to repay debt, with a family to feed.

Retail traders interviewed who take formal micro-credit[125] confirmed that they provide in kind credit in the form of goods to their petty trade customers on a daily basis. Some traders provide credit without interest, for example the resident traders of Gereida that advance goods to the traders in the IDP market. Others charge a fee of SDG 2-3 per item borrowed (see Box 30). Some debtors repay their loans and borrow systematically, others repay in instalments depending on their business sales and some do not repay because of their high

[124] As confirmed also by interview with the executive committee of Al Fasher Rural Development Network in January 2010.

[125] Interview with group of traders who were customers of SSDB in Nyala on 13/2/2010.

consumption expenses or business failure. The traders confirm that they do not "run after the small businesses that go bankrupt" – but they mind their own credibility and sell land if they have to. The creditor-traders interviewed would rather happily 'hand over' their borrowers to a specialized microfinance institution so they could borrow there and pay for their wares in cash. But the traders were ready to recommend their customers to the bank and to guarantee their loans up to a certain limit. This may be the biggest difference between informal and formal creditors in Darfur - there is a certain degree of tolerance or compassion that is not normally seen among 'money lenders' who are notorious for usury elsewhere. It remains a question if Islamic mores or financing principles play a role in this.

Box 31: The trade credit glue of the value chains

Abdel Jabbar is an IDP in Abu Shouk Camp near El Fasher. In 2002 before the conflict he moved with his family from Jebel Si to El Fasher and established a retail shop. In 2003, he moved his shop to Kuma thinking he could do better there due to the high competition in El Fasher. In 2004, Kuma was attacked by the *Janjawid*, his shop was burned, and he fled and came to live with his family in Abu Shouk IDP camp. He managed to establish his current retail grocery shop in Abu Shouk camp by the proceeds from selling a house in Omdurman and by borrowing in kind from some wholesale traders in El Fasher. He continuously stocks his shop by buying in cash and by borrowing in kind from the wholesale traders whom he deals with in El Fasher. His current outstanding debt is around SDG 1,500-2,000. Abdel Jabbar sells his goods in cash as well as on credit to petty traders in the camp market and to households. Among his customers are 5 petty traders and 10 families who borrow from him and repay continuously.

Hawa Ismaiel Ahmed is the owner of small eatery in a shack near the grain market in Nyala. She supports her daughter and son who are still students. She started her business fifteen years ago. She employs three workers to assist her in cooking and serving the customers. Despite her many years of experience, she still borrows daily to run her business: the bread from the bakery, meat from the butcher and cooking oil and spices from the trader. She repays the traders daily when her business sales are good. When the sales are not good she repays the arrears in daily instalments ranging from SDG 3-5. When she needs larger sums of cash, e.g. for school tuition, she borrows from a trader who is a customer of the restaurant. Hawa said that she borrows and repays continuously and her average outstanding debt from the bakery and other traders is around SDG 180.

The credit mediators – livestock guarantors (Duman)

Duman (guarantors) at the livestock markets provides a two-way guarantee service to the buyers and livestock owners (sellers). A *Damin* guarantees to the livestock owner (seller) that he will receive the price agreed on, and to the buyer that the animals sold to him are not stolen. The guarantee to the seller is crucial as most livestock sales are done on credit, with an up-front down payment of around 15-25% of the agreed value and subsequent instalments by the buyer until the full payment should be completed within 35-40 days. Nomadic or non-resident livestock sellers, however, are not able to stay at the livestock market that long, so the *damin* takes on the task of ensuring payment by the buyer and keeping the money safe till the seller returns.

Each community or tribe has its own guarantor at every major market. The guarantor is selected by the tribe or a group of villages or settlements (*dammar*) in a certain area. In some areas the guarantor also needs approved by the major buyers in the livestock market. After being appointed, the guarantor is issued with a license from the locality to perform the service – and to avoid illicit guarantees. Against his services the guarantor receives a sales fee from the buyer and the animal owner/seller. The fee for camels is about SDG 10/head, for cattle SDG 5-10 and for sheep and goats SDG 1-2. The fee is not fixed and varies with the number of animals sold in one transaction and the selling prices compared to the average market price. The

Duman are, in effect the informal equivalent of loan officers (monitoring repayments) and banks (a safe). Any microfinance institution wishing to do business with pastoralist communities would therefore be well advised to involve the local *Duman*.

6.4.2 Cash Transfers and Remittances

Hawala transfers

Traditionally, cash (payments, remittances, etc.) has been transferred in and out of Darfur by traders acting as 'intermediaries' who brought either goods, the instruction to pay, or both, from A to B, either between migrant workers in Libya, Egypt and their Darfuri relatives; and between Darfuri buyers and exporters dealing with importers in Omdurman. The sender of the 'hawala' which can be either goods or cash instructs a known agent to pay a specified recipient a specified amount. To pay for this, the sender can send goods through intermediaries or directly to the agent in the location of the recipient. The goods are sold, and the revenue from the sale less the agent's fee is paid to the recipient upon positive identification (e.g. via telephone). Alternatively, the sender (abroad) can pay his importer in Omdurman in foreign exchange which the importer exchanges and transfers to an intermediary in Darfur who contacts the recipient. The importer is paid for the service through the exchange rates established for the foreign currency.

These 'hawaldar' are in effect the predecessor of FOREX bureaus. In recent times, however, they have got a somewhat poor reputation, as their informality – the very fact that they are not regulated – is linked to alleged involvement in illicit money transfers (drugs and arms deals) as well as money laundering. At the same time, new technological developments may be over-taking the institution of the hawala (see below). Due perhaps to the very limited outreach of any formal financial service provider in Darfur, however, the network of hawaldars appears well recognized, widely used, and well respected in Darfur. There are an estimated 15 traditional (trade-based) hawaldars in El Fasher and 10 in Nyala.

Box 32 The Hawaldar at work

Mokhtar is a Hawaldhar operating from his telecommunication centre near the sorghum market in Nyala. He is linked to a hawaldhar in Libya. The Libyan hawaldhar trader who buys goods and ships them to Mokhtar who sells them in Nyala. He then uses the sales returns to pay out cash remittances from migrant Darfuri workers in Libya to their relatives in Nyala in accordance with instructions received via the hawaldhar in Libya.

The remittance instruction is received by Mokhtar over the phone from his Libyan counterpart. At the same time the remitter (sender) makes a telephone call to his relative to receive the remittance from Mokhtar's shop. The remittance agent in Libya charges LD 2 for each LD 60 transfer, equivalent to 3.3%. For each LD 60 transferred, Mokhtar pays out SDG 100 to the receiver.

Mokhtar pays out some 40-50 remittances per month. He confirms that some of those who receive remittances have been customers for more than 4 years. During the interview with Mokhtar, three customers were waiting at the centre for telephone calls from Libya to receive their cash remittances – the market for informal remittances appears sound.

Cellphone based transfers – the modern *hawala* system

Four telecommunications companies provide services in Darfur; these are Zain, Sudani, MTN, and the newest: Canar. Zain and Sudani have the widest coverage. Sudani is the oldest and appears particularly popular in South Darfur, whereas Zain is very popular in North Darfur, and may have the widest coverage with its 152 masts in all three states. Each company has an office in each of the state capitals; a number of direct sales offices that offer internet connections and manage post-paid contracts; as well as a network of indirect sales points, each with their own network of retail agents that sell airtime, phones and accessories on their behalf. Whereas Sudani does not appear to register their sub agents, Zain has a better documented structure with 6 of its 52 indirect sales agents in Darfur. The company specifies a certain geographic area for each agent, and sets competitive and performance-based targets. The sales commission offered by the company to each direct agent is 6% of sales, and 2-3% is typically passed on the indirect sales agents.

Zain's El Fasher branch estimates to have 150 new clients signing post-paid contracts per month, and 60 signing up for internet services[126]. Business is clearly booming. In addition to phone calls, however, this new mode of communication is quickly replacing the old trade-based Hawala system as a means for domestic cash remittances between individuals of relatively small amounts (not for payments and transfers), and will probably extend to the cross-border transfers as well, as soon as roaming services become more available and affordable.

The remittances are usually made through the "communication centres" – the numerous little shops in all *souk*s and market places that serve as retail outlets for the indirect sales agents of the mobile phone companies. The cash transfer is made either by buying an airtime balance from the centre or by selling an airtime balance to the centre. When buying airtime, the customer would normally pay cash and receive a 'scratch card' with the equivalent value that can then be loaded into a mobile phone. When remitting, however, the customer pays cash and the operator deposits the value into the cell phone of the recipient. The recipient can then go to a similar operator and sell the airtime, by transferring it to the cell phone of the operator against the cash payment – a human ATM. The retailer does not charge anything for selling airtime balances to his customers. Zain charges a transaction fee of SDG 0.05 for each transfer (any SMS), whereas Sudani transfers are completely free. When buying airtime from customers (i.e. providing cash), the retail centre charges 10-15% of the value of the airtime purchased.

In Darfur, such mobile cash transfers are evidently widely used in towns, large rural centres, and any village with network coverage, and do appear to have replaced formal providers such as banks and FOREX bureaus for smaller remittances – it's faster than banks, cheaper than FOREX bureaus and more convenient – there always an open tele centre nearby.

The Consultancy tried hard to obtain figures of outreach and sales of this service, but the three companies visited all refused to provide any detailed data, explaining that their data was proprietary and could hurt competitive position – clearly competition is cut-throat in the industry, which ultimately can only benefit the customer. Based on interviews with tele centre operators in different markets in South and North Darfur, however, we can make the following very rough estimate of business volume for for illustrative purpose only:

The 43 retail agents of one tele company in El Fasher sells SDG 15 million worth of airtime/month, or sales of around SDG 348,800/agent. While there are three mobile phone providers, they are not equally big, so we conservatively estimate the total number of agents in Fasher to be 85 – or 1 for every 570 HHs[127]. Assuming the demand for airtime would be similar in all larger urban areas, we can extrapolate this ratio to the urban population of Darfur, and estimate that there are at least 450 airtime retail agents in the urban areas. Assuming they all sell airtime at levels similar to those of El Fasher, that would mean a total monthly sale of some SDG 157 million for the informal airtime market in urban areas alone. Evidently, the rural majority would not have the same high level of demand; many areas are still not networked, and many rural poor do not own cell phones. However, this little calculation does provide an idea of the magnitude of the sale of airtime, including transfers for cash.

[126] Interview with direct agent in El Fasher, 22/2/2010.
[127] Company estimates from interviews with agents in El Fasher, household numbers extrapolated to 2010 from the 2008 census.

Box 33: The telecom transfer

Mahmoud (name made up) has been an indirect sales agent for his telecompany for five years. He has a network of 43 retail operators in his town. The requirements to be a retail agent are not complicated – agents need to present their ID card, sign a contract, and Mahmoud visits their place of business to ensure it exists. No fees are charged for the retail license. The sales commission of the retail agent is 4% and the good agents with high sales volumes receive between 4.5% - 5%. As an incentive for the active retailers, the indirect agent give them SIM cards with special numbers preferred by customers.

The company provides Mahmoud and the other indirect sale agents with special SIM cards for airtime balance transfers which provide the service free of charge. Mahmoud gives his agents these SIM cards to work from. In addition, Mahmoud has a special SIM card that allows him to withdraw an airtime balance transferred mistakenly to a wrong number, and he has specialised software from the company to monitor sales of his agents.

Mahmoud estimates that most money transfers through mobile phones are in the range of SDG 150-200 and most transfers are made by relatives to students - nationwide but the majority to Khartoum. He confirmed that business has increased after CBOS required customers of banks to present the expensive magnetic ID card in order to transfer money and that the market is growing very fast.

Money transfer using mobile phones is the new *hawala* system. It is more expensive than the banks and the post office – in the range of FOREX bureaus, but it is much faster (instant), and requires minimal procedures. For all areas with network coverage – whether urban or rural; among residents or IDP - it appears to be the preferred way of remitting small amounts of cash to relatives and microbusiness partners. Any attempts of interference from the regulatory bodies to impose regulations and controls and fees may render the service unattractive for dealers and customers.

7. Main Microfinance Constraints in Darfur

While the national economic growth has been strong in recent years, it has not been broad-based but rather accompanied by rising inequality between regions. A more pro-poor allocation of public expenditures for expanded access to basic services and a more balanced (inclusive) pattern of growth emphasizing traditional rain-fed agriculture, pastoralism, and small business will be vital for enabling poverty reduction, lowering inequality, and mitigating conflict by delivering a peace dividend[128], particularly in Darfur where the trust in government has been shattered, was it ever there.

Despite the somewhat outdated reflection of crisis in the international media, and the time-delayed response of the international, humanitarian community to developments on the ground, Darfur today is not the Darfur of 2003-04[129]. Similarly, the key constraints appear less related to a situation of 'conflict' or emergency than to the lack of analysis of changing needs and/or the obsolescent response by government and the aid community to this changing situation and the demands for longer-term, sustainable development support:

- Of the 7.8 million people in Darfur, two thirds are not IDPs but their development needs have not received much attention;

[128] World Bank: Interim Strategic Note, March 2008.
[129] As recognized in the flyer: "Ten Issues for NGOs and UN agencies planning programmes for 2010 in Darfur"

- One third of the population may still be displaced in camps, sites and living with urban relatives, but after 5-7 years, many former IDPs have integrated in urban and peri-urban settings, and the accelerated urbanization of Darfur has put enormous strain on the urban infrastructure;
- The demand for public infrastructure, jobs and income generating activities rather than for survival support among former and current IDPs is growing[130] - and at the same time, the attractions of the camps (free food, health services and schools) compared to the lack of basic services in most rural settlements are delaying the return even for communities that do want to go home;
- State and locality governments however, have not yet received the commensurate funds, resources or capacity building to plan and upgrade the urban service infrastructure, ensure law and order, nor initiate development projects for job creation;
- Looting, banditry and other forms of general crime and violence remains a problem in many areas. Rather than a political or tribal 'conflict', however, this appears to be the result of an absence of law and order to which the arming and 'militarization' of primarily disgruntled, uneducated and unemployed youth without sufficient oversight and control has contributed;
- Contrary to the self-imposed restrictions on movements of international agencies in Darfur, local people, livestock, and goods are moving to, from and around the vast majority of the territory of Darfur – and traders have developed coping strategies to minimize risk and losses. The threat and risk assessments guiding UNAMID and the international agencies in the region thus remain vastly different from the reality experienced by most inhabitants, and often puzzling;
- Trade and to some extent production has resumed in Darfur. Primary markets are not back to pre-conflict levels as many have been abandoned; secondary markets have shifted in a few places, but are generally functioning; but the swollen urban markets are booming. The sector of construction and building services (bricks, timber, water), transport and firewood are growing fast; competition is increasingly; vegetables, fruit (including the famed Jebel Mara citrus), basic food stuff and consumer goods are being traded in increasing quantities; and livestock is again being moved on the hoof from rural to urban markets where prices are better;
- Neither profits nor prices are at their pre-conflict levels as transaction costs have increased – but prices are again sensitive to demand rather than to supply only. And the traditional informal financing arrangements among producers, larger and smaller traders, and guarantors have to a large degree been reinstated[131], making goods and services traders the largest provider of informal microfinance in Darfur today.

7.1 External Constraints: Development Resources & Capacity

Access to financial services for the poor is not a universal panacea for poverty reduction. Access to safe savings and business finance is only one of many services that poor households need to extract themselves from the grips of poverty. The building of human capital (education, skills, empowerment); enhanced health (water, sanitation, access to health care and nutrition education); and most importantly, the infrastructure to generate increased wealth from livelihood activities (local cash economies, access to markets and market information) are crucial factors impacting the ability of poor people to succeed in improving their livelihoods.

7.1.1 Public Infrastructure and Services

Darfur remains lacking in access to public infrastructure and services, particularly roads, electricity and water.

The new petroleum and gas depot outside Nyala is not functioning, and most urban households – and businesses – are provided a maximum of 2-3 hours of power per day, if they have access at all. Already, the

[130] Interview with UNOCHA, El Fasher, 24/2/2010.
[131] M. Buchanan-Smith and Jaspars, 2006, notes that trade credit had collapsed in 2005.

cost of transport in Sudan is significantly higher as a proportion of sales revenue than in neighbouring countries[132], and with very few tarred roads, the costs in Darfur are even higher, increasing the pre-sales costs and the prices of imported goods. However, transport to and from Darfur has always been costly and prices in general are higher than in Khartoum – and it will remain so until more transport links are developed to the rest of the country and beyond. Recently, however, the cost of transport has actually decreased[133], signalling an improved security situation.

For MSEs, high transaction costs and limited market information flows discourage market entry, preventing them from becoming active participants in the formal economy. In particular, subsistence farmers and rural microentrepreneurs are not in a position to accept the high opportunity costs and risks of entering a new market without reasonable assurances of revenue generation. For Microfinance Providers (MFPs), the cost of reaching people by setting up microfinance outlets within reasonable distance of people's residences is high; and the limited infrastructure outside of the main city centres compounds the problem. The technological solutions available to overcome some of these constraints, e.g. mobile phone marketing and M-banking[134], have not yet been introduced in Darfur.

The additional mobility restrictions caused by security concerns are barriers to accessing product and service markets for micro- and small enterprises (MSEs) and microfinance providers alike, but the recent rate of urbanization – while putting an enormous strain on resources – would also facilitate the delivery of services to a larger proportion of the population.

In addition to the limited public infrastructure, there is very limited access to social services by many pastoralist and rural communities in Darfur, especially to education and health care. Human and veterinary health care is scarce, as the governmental extension services have been interrupted or under-funded, and the donor-funded service provision by NGOs (e.g. 'revolving drug funds' for health care workers, animal vaccinations, etc.), have limited outreach. Basic numeracy and literacy skills are low in the rural areas of Darfur, especially among the pastoralist communities since the 'mobile schools' established specifically for nomadic children have been more or less abandoned[135].

Low literacy negatively affects people's access to and use of information and training, the ability to appropriately price produce, and the general inclusion of rural communities into the supply chain. It also contributes to the difficulties for MSEs to present bankable project proposals to a financial service provider, and gain access to financing. However, schooling is highly prized by most (urban) families, and there is a surplus of unemployed graduates from the three universities in the region (as well as from elsewhere – many youths are sent away to study); a resource that could be better utilized given stronger local development planning capacity and funding.

Better access to public infrastructure, markets and services remains one of the most important ways in which to support and develop the 'coping economy', but this requires a much higher level of financial transfers from the Federal budget than has hitherto been the case, as well as better management and governance capacity at state and locality levels to ensure transfers are spent effectively.

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132 3.3% for all traders, 3% for non-exporters only, as compared with an African average of around 1.75% as per the World Bank: Investment Climate Survey, 2008.

133 Confirmed by WFP that is contracting local transporters to move food aid around Darfur.

134 See http://www.cgap.org/gm/document-1.9.2716/Brief_MobilePhones_AR.pdf for an overview of this technology in Arabic.

135 Interview with pastoralists in North Darfur on 26/2/2010 and with the Pastoralist Union, South Darfur on 17/2/2010.

7.1.2 Capacity for Development

The promises for 'peace dividends' enshrined in the Darfur peace Agreement have not all been met, and the ability and capacity of local government structures to effectively enforce law and order; plan and implement service provision; and remain accountable to the citizens is extremely limited.

The 5-Year Strategic Plan (2007-2011), which is in effect a local government budget more than a development plan, is still referred to as the key planning document for Darfur, and still guides the recruitment of staff and structuring of public offices. However, the development budget (as opposed to the operational costs of salaries, etc.) has been severely under-funded since 2000. The transfers expected from the Federal government have not all come through, and the state and locality authorities have been unable to expand the local tax base to ensure the revenue for any major development projects. Many enterprises and livestock sellers, however, would argue that taxation has increased manifold over the past 3-5 years, and remains a maze of fees, charges, taxes and commissions for various processes, not all of which are adding to the value of the product or service taxed. The tax reform that is ongoing at central level has not yet taken full effect in Darfur.

But – as is evident from the banking sector – money does not solve all problems, and even if there was a budget for development, the human resource capacities of Darfuri public services appear low. Planning, documentation, monitoring and market surveillance seems all but non-existent; few civil servants were able to provide meaningful data about their field of responsibility; and the political influence on local government, while perhaps not as controlling as in other parts of the country, is still evident. Further decentralization and delegation of power may generate plans that are better anchored in local constraints and demands, but would, however, need to be accompanied by significant capacity building and possibly some replacements.

With limited own resources, it is not surprising that the Darfuri authorities – at least initially - banked on support from the large international contingent in the region. For a while yet, the development process would benefit from foreign donations. However, development aid must come with the skill set needed for its proper use and management - and that is a different set of capacities than the emergency and humanitarian expertise currently dominant in Darfur.

In all conflict-affected environments, the co-existence, coordination and transition between short-term relief programme types, and longer-term development programme types tend to cause difficulties (see Box 34).

Relief services are implemented quickly; they focus on saving lives and meeting immediate humanitarian needs; and tend to monitor inputs (# rations distributed, # people trained, etc.) rather than impact, so issues like market distortions or private sector displacements may be overlooked. Sometimes relief is attempted by development organizations which are unable to move as fast as the relief operations require (e.g. some UN agencies), and in other cases relief agencies try to incorporate development activities in their short-term, relief-mandated programme, often having to leave projects half-finished (e.g. one-off loans to beneficiaries by some humanitarian INGOs). In many emergencies, donors, NGOs, and local

> **Box 34: The difficult transition**
> After a crisis, many individuals or microenterprises lack the basic capital, experience, or market outlets to use credit effectively. In response, many practitioners and donors argue that vulnerable or crisis-affected populations should be provided with "preparatory" subsidized services such as grants, training, or market information for a period of time before introducing more sustainable services. However, effectively sequencing activities to move from subsidized to sustainable services is difficult in practice;
> 1) implementing subsidized relief programs requires different capacities than those needed for sustainable development;
> 2) Coordinating the different program types so that they truly complement each other is difficult in the hectic relief environment;
> 3) Knowing when to stop the relief and begin development is challenging when individual households recover at different paces.

authorities have an interest in continuing to provide grants, well after the relief stage should be over. This can be due to internal fundraising, procedures, earmarks, or pure organizational or political survival. As a result, relief programs tend to 'linger' and sometimes unintentionally hinder the development of more sustainable services and relationships because they crowd-out commercially based providers of the services they subsidise. If funders and implementing agencies establish upfront criteria for when transition from relief to development should begin, it helps all parties prepare better.

When programme sequencing is not being planned (and funded) from the beginning, there is no 'roadmap' for people to transition from beneficiaries of short-term survival and relief aid to clients of sustainable development services. Without a clear plan, the preparatory (short-term, relief phase) activities may not actually prepare clients for sustainable services but inadvertently promote aid dependency among beneficiaries. Transitioning from subsidized to sustainable services is difficult for both clients and organizations. To avoid clients confusing grants and loans or organizations being unable to enforce strict lending criteria, different organizations/units should provide the two services, and a careful 'handing-over' process should be managed between relief and development practitioners and their respective funders. Had this been done in Darfur, many places would qualify for 'transition' at this time. As it is, however, there are almost no international development resources in Darfur at present.

The perceived and in some areas real security threat to the international community prevents the level of interaction with the local communities necessary to transition effectively from relief to recovery and development support. This inability to respond appropriately to changing demands in turn confirms or increases the local frustration with ineffectual assistance that may trigger increased threats. Camp-based IDPs and the (international) emergency, humanitarian and relief community in Darfur are to a certain degree caught in a "war economy" of self-perpetuating and mutually beneficial inter-dependency underpinned by self-imposed restrictions on travel, contact and interaction with the "coping economy" around them. But this economy is picking itself up after yet another conflict in its long history, rallying its remaining resources and trying to move on. The gap between these two realities appears to be widening as the balance changes with increasing numbers of resourceful IDPs joining the 'coping economy' and returning to farm their fields, finding work in towns, or trading at the markets; whereas less resourceful IDPs remain captured by the politics of dependency and demands for compensation in the camps.

7.1.3 Fragile Ecology

On the edge of the Sahelian belt, the northern half of Darfur has always been dry, and its pasture lands fragile. The micro-climate in the Jebel Marra mountain range can be forbidding, and the savanna plains to the south have been hard to farm. The large region is sparsely populated in areas at long physical distances from central points of commerce. But with an increasing population, the fragile ecology of Darfur has come under even further pressure, and the vicious but well-known circle of degradation was set in motion: more people requiring more firewood resulting in deforestation, further diminishing rainfalls, etc. The droughts in the 1980s hit the region hard and started the urbanization process. The concentration of people in fewer places caused a more intense pressure on the natural resources. The conflict with the resulting mass displacements to urban areas has only increased this pressure.

At the same time, the livelihood systems used to manage the finely-balanced human-nature relationship in the rural areas have been disrupted by the same processes of droughts and conflict – more people and more farming has meant less pasture lands for nomadic communities; blockage of animal routes; and migration patterns that are no longer in sync with the farming communities that used to host them. This process as well as the conflict led to an increased search for alternative livelihoods in and around the fast-growing urban centres of Darfur.

Water is the most precious resource in Darfur and the current rate of depletion the most worrisome. The natural cycles of droughts but more importantly the recent human encroachment on the natural resources should result in water management being at the top of the priority lists, but given the many other development concerns, the longer-term impact of the human encroachment on the natural resources have so far not been comprehensively addressed. There is a focus on ensuring human – and to a lesser extent animal – survival, but the impact of wasteful usage of scarce resources, and threats to human and animal life posed by the waste generated by the growing urban populations is not being given the attention required. There are simply too many competing demands.

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The felling of trees for firewood resulting in significant loss of forest cover; the vast and concentrated increases in water usage for construction, brick making and consumption in the towns and irrigated agriculture along the *wadi*s; and the limited planning and protection capacity of the local authorities threatens the water supply – and with it the livelihoods of rural farmers, pastoralists and eventually urban populations.

Box 35 Maladaptation or economic rationality?

Around Nyala, for example, the brickmaking in former (or still functioning) orchards has been lamented as a 'maladaptive livelihood' in recent studies. It would appear however, that one of the original reasons for shifting away from fruit production was an increased salinity in the water, causing fruit trees to produce less. Due to the high demand, brick making was a later, rational economic choice for alternative use of the land.

Interviews with mango orchard owners outside Nyala, 13/2/2010

Risk management and mitigation has been integral to the Darfuri way of life for centuries. However, the 'triple whammy' over the past decades of drought, urbanization, and conflict seems to have weakened these important abilities in areas now defined as 'the public sphere'. When focused on keeping the family alive and together in an IDP camp, your first priority is not the plastic bag thrown on the ground or the one tree you cut to light the cooking fire. In year 5 in the same camp, the total loss of forest cover and the 5 million plastic bags lining the fence become problems too big to deal with, using the traditional, individual risk management systems. With the huge budget gaps and the lack of expertise and long-term development planning, it is not surprising that natural resource management has not received the public sector priority it deserves. But unless the current rate of deterioration is reversed, it threatens health, wealth, markets – and future livelihoods in the entire region.

Access to financial services for the poor cannot in itself ensure environmental protection. However, factor markets like finance can design products and services to support efforts to protect the natural environment in an economically viable manner. Energy sources for light and heat (cooking, kiln burning) alternative to the wood currently collected or cut for the large urban population would seem a priority together with environmentally friendly and low-maintenance water catchment systems, including the repair of destroyed rural water points.

These external constraints, while noted, do not present insurmountable hindrances to successful delivery of microfinance – or financial services in general. Operational costs will be higher than in more well-endowed environments, but methodologies can be adjusted to better accommodate the market, and importantly, the 'coping economy' of Darfuri entrepreneurs is vibrant, widespread, and resilient. In addition, the market demand characteristics are similar to those of many other successful microfinance markets, and there are tools and guidelines readily available for MFPs to facilitate training and implementation[136].

[136] See for example: www.sanabelnetwork.org and www.arabic.microfinancegateway.org

7.2 Retail Level Constraints: Capacity to Manage Resources

Microfinance market development takes time as capacity, trust and loyalty between suppliers and their market needs to be built. The Government through CBOS has tried to speed up the development process, first by requiring banks to provide financing to poorer people (the 12% allocation), then by incentivising banks with generous amounts of subsidized capital (the Microfinance Pilot project). As described in Section 6 above, the banking industry is trying – if reluctantly – to respond to a demand not from the market, but from above. But nowhere else in the world has a supply-driven, government-subsidised approach to microfinance provision been successful, and Darfur displays no particularities that would suggest it will be successful here.

7.2.1 Lots of Cash – Limited Capacity

By directly intervening through **subsidised credit lines** in retail financing, a government may harm rather than encourage current MFPs to increase outreach, and may lead people to borrow or lenders to lend for more risky activities which will end up failing. As experienced also in Sudan, the channelling of capital as risk-free or low-risk (cheap) credit lines leads to large defaults and results in contraction and regression, thus actually reducing the access of MSEs to credit. In addition, the government as an investor will often get no financial return on such credit lines. Similarly, once having become used to risk free capital, banks (and non-banks) generally find it hard to wean themselves off subsidized capital, and microfinance or other targeted portfolios are often stopped when the credit line expires. Borrowers who cannot trust that access to finance will be permanent generally do not perform well on repayment. The risk of availing more capital to weak managerial structures with little understanding of operational requirements for growth cannot be understated. Credit lines work best if there is a liquidity problem, but for credit lines to work as intended, the recipient bank needs to retain sufficient risk to subject its financing applications to the normal appraisal and approval procedures – even if the pricing may be less because the risk is shared with a third party.

So far, **insufficient training and technical assistance** has accompanied the significant amounts of government credit lines having been made available to banks for microfinance. Capacity building is sorely needed to stem the bleeding from the current credit lines and to provide the basis for a more sound microfinance portfolio within the banking system[137]. Currently, repayment discipline is not being reinforced due to lack of mobility, and this is exploited by wilful defaulters. Banks are not staffed to follow-up clients, and the Loan Tracking and Management Information Systems are not geared to capture – or react to – problems in the portfolio. Slow disbursement rates; high delinquency rates; and lack of adaptation and market orientation suggest serious capacity deficits. The SMDF was designed to provide the much needed training and TA, and hopefully the Facility and the CBOS Microfinance Unit together can start filling the significant capacity gap at in the industry. Demand-driven and on-site technical assistance is probably the most effective and fastest way of building capacity at the retail level, i.e. funding should be made available for branches (or banks) to apply competitively for technical support against specific performance targets.

But staff training is not enough. Technical assistance needs to be provided at the managerial levels of bank branches; CBOS branches; bank head offices; and local government, because there has to be **top-level buy-in** and support for the development process. This is true everywhere because “you can lead a horse to water but you can’t make it drink”. Reluctant banks do not make good microfinance providers, and poor microfinance provision makes losses. But it is especially important in Sudan, because of the very command-economic, top-down and supply-driven approach to banking that is apparently the norm. While some bank branches will review their markets and propose an annual ‘budget’ to their head offices, most branches are given an annual

[137] A series of excellent microfinance training toolkits are available from MicroSave at http://www.microsave.org/content/imicrosaveis-training-toolkits

budget which has certain allocations for various economic sectors and product types. This leaves the branch without much authority, flexibility or motivation to adapt products and services to changes in the market place. Time and again branch staff confirmed that “they are just implementing” policies and decisions set at the central level in Khartoum and have no reason to get to “know their customer”.

Changing this extremely centralized operational mode would not only give branches more liberty to interact with and adjust to their respective markets and exploit market opportunities as they may arise; it may also – if combined with performance-based incentives – improve the performance of the branches to the benefit of the banks as a whole. But like for public sector decentralization, increased **delegation of authority** needs to be accompanied by risk management training, performance-targets and incentives commensurate to the new responsibility.

Risk management is particularly important in the banking sector. Like all business, banking carries a given risk. Because risk is inherent (internal) to the very business of banking, risk assessment, mitigation and management is normally at the core of bank staff training, specialization and incentive systems. To manage internal risks, banks may have early warning systems with ‘risk triggers’ and ‘risk owners’ specially assigned to monitor determined risk triggers so as to give the bank as much time and as many options as possible to evade, manage, mitigate or eliminate a risk. In seeking to mitigate the internal (controllable) risk of a given financing contract, the bank may require collateral from the borrower. One such collateral requirement could be a guarantee from a person or institution. Likewise, a bank may seek to lower external (uncontrollable or force majeure) risk by under-writing or insuring a given (part of) portfolio.

In Sudanese banking, however, risk acceptance and hence the responsibility for assessing, mitigating and managing risk does not seem to be very eagerly embraced. Collateral is often exceeding the value of financing; often multiple guarantees are sought (personal, institutions, by ‘a prominent person’); and in addition, external insurance is sought to cover what could be argued to be internal (inherent) risk to the business. This may be a deliberate and interim risk mitigation strategy until banks build up the necessary capacity to manage risk without an external ‘safety net’. But this ‘externalization’ of risk promotes evasiveness of risk responsibility, either to higher-ups or to other entities, e.g. the insurance company, the Zakat Foundation, the Government, CBOS, etc). Another result is a certain degree of ‘blaming the client’ for what remains primarily a supply side problem of limited capacity.

7.2.2 No Financial Intermediaries

Good Practice microfinance is new in Sudan, and banks – and many of their stakeholders - may not yet fully understand the methodology of microfinance nor know how to provide microfinance; and supervisory structures such as the CBOS branches may not have received appropriate tools with which to guide banks and ensure performance monitoring and reporting. Greater clarity and awareness-raising about what Good Practice Microfinance[138] is and how it differs from grants-based relief and social transfers would help delineate the space for inclusive financial service market development as per the CBOS MFU Vision statement.

With 40 bank branches for a total maximum market of 2.3 million people, the financial services system in Darfur could become inclusive with the addition of a few specialized microfinance providers. But Darfur – and Sudan in general – has a **dearth of microfinance intermediaries** or even institutional structures that could develop into microfinance institutions.

[138] Please see http://dev.cgap.org/gm/document-1.9.2741/donorguidelines_ar.pdf for Good Practice Funding guidelines for donors in Arabic.

Even with full understanding of the methodology, commercial banks in general are not well suited to provide "low value high volume" financing to poor people. As put succinctly by a senior banker in a recent workshop "Banks can't afford to do microfinance correctly – we don't have the MIS or the staff to provide the close supervision of clients"[139]. The few banks that have downscaled successfully have generally created a specialized subsidiary and brought in expertise in the initial start-up phase, or merged with a specialized Microfinance Institution. Banks in Darfur do, however, have an interest in supporting small businesses, and have access to inexpensive capital for microfinance. All banks approached confirmed that they would be happy to negotiate a *musharaka* and other loan arrangement with a specialized microfinance intermediary to meet their 12% allocation requirement.

The agreement reached by CBOS and HAC at central level to enable NGOs and INGOs to conduct commercial activity was a great step forward, but there are very few INGOs with a development mandate in Darfur today, and few, if any, national NGOs that are involved in cost-covering activities. Elsewhere in Sudan, there are a few good examples of associations performing the 'microfinance specific' part of the financial service delivery for a bank (e.g. selecting clients, appraising business proposals ("projects"), guaranteeing the financing, monitoring outstanding loans, and securing repayments) against group financing being offered to their members, but such linkages were not seen in Darfur.

The associations, societies, chambers and cooperatives in which MSEs are organized and/or which act as their representatives suffer from weaknesses in management capacities to promote microfinance, and their legal mandates may not be conducive to a role as financial intermediary. What they do have, however, is access to the significant pool of individual businesses that conduct informal microfinance on a daily basis, and from where a Darfuri microfinance institution would be wise to attract its human resources. In addition to intermediaries – microfinance needs champions. And in Darfur, such champions may just be there to 'sanction' and nurture the emerging industry.

7.2.3 Micro-Business Market Development

Microentrepreneurship is hard and does not always succeed. Despite the many unmet needs in rural and urban communities, carving out off-farm business opportunities and market niches requires innovation and skill. The immediate choice among off-farm livelihood activities in many rural areas of Darfur is running a kiosk selling dry goods, trading in a limited number of basic goods or animals from the homestead or at weekly markets; making and selling food products etc. **Not all poor people have the skills and/or the time to make a success** of these activities. Competition is stiff, margins are low and returns are limited, especially when many clients invest their loans in similar activities ("copy catting") in limited local markets (villages, settlements and IDP camps). As is the case for any business effort, the challenges of running MSEs profitably is compounded by droughts and conflict, instability and other external shocks. Community-based investments and job creation would therefore often be good alternative or additional, complementary intervention areas.

The entrepreneurs that do become successful, however, often lack access to finance. Among the many obstacles facing businesses and farmers alike, access to finance was stated as a major constraint by 47% of firms surveyed in 2008[140]. Only 15% of Sudanese firms have bank loans. Small-scale agricultural producers have even less access, in particular because they lack formal collateral[141]. Useful, affordable and high-quality financial services are indeed an important service needed by MSEs. But they are only one part of an array of business support services required, and the other business support services are oftentimes as important, in particular market access, physical or virtual.

[139] ABS MFU head at Microfinance Debriefing Workshop, Banker's Union, 04 March 2010.
[140] World Bank Trade Investment Survey, 2008.
[141] World Bank CEM (2009), op.cit.

The mobilization, training and nurturing of small income generating projects and micro enterprises among poor people so that they can confidently access a banking institution when they need financial services remains an important task to accomplish in order for the financial system to be truly inclusive. This task of **building tomorrow's market** is not for the banks. Tried and tested methodologies of group formation, training, and locally managed, savings-based services (SCAs, village banks and sanduqs) along with services using new ICT technologies, like for example mobile phone banking, remain important efforts to facilitate access by all Sudanese to professional, market-responsive and sustainable financial services.

Private sector business service providers and NGOs – supported by government and donor-funded projects - are much better suited for this work than commercial financial service providers, especially when they have direct business experience to impart on the future microfinance customers. Companies are generally more credible and effective as providers of business skills than governments or donors, for the very reason that their personal experience exemplifies success. In Darfur, commercial private sector **businesses** have not yet been crowded out by donor agencies providing subsidized services, and would be a possible resource to engage in such work. **Business service provision,** however, is limited, and the nascent market is at risk from supply-driven and donor-oriented providers offering free services to selected clientele.

Documentation is extremely scarce and where available, of questionable quality. The aggregate data available on the microfinance industry size and performance is not shared and not fed-back as performance indicators to the reporting banks. Statistics, surveys, baselines, and research that provide estimates of the volume of the microfinance market and its characteristics by sector and area are very limited or unavailable. Similarly, it is difficult for producers and small traders to check market prices without physically going to markets – there is very little e-information – yet.

8. Opportunities for the Future - Recommendations

In this report many pages have been spent in an attempt to contextualise microfinance in Darfur, hopefully with the valid reason that the complexities of this context need to be taken into account when considering additional interventions. Like elsewhere in Sudan, lessons need to be learned and approaches need to be adjusted, and first and foremost – local stakeholders need to be given access to appropriate technical assistance to rectify the current situation and set microfinance off on a more sustainable path. The proposed interventions center around three options on the supply side:

- Conventional rectification: Improve microfinance services through existing providers;
- Modernised Delivery: Improve outreach and sustainability through new technologies; and
- Targeted troubleshooting: Focus on the biggest risk – alleviating environmental damage.

8.1. Improvement of Existing Services

The poor and low income population in Darfur has not in the past experienced a high degree of governmental or formal sector support – instead, many are rather wary and skeptical about services supposedly aimed at them – and justifiably so. The provision of successful microfinance in the recovering Darfuri market therefore requires high levels of market responsiveness, responsibility, flexibility and prudence on the part of providers to carefully design products, adapt delivery mechanisms and assess the amount of finance made available against the customers' business capacity and opportunities for investment to avoid overindebtedness. Repayment installments and frequencies must be tailored to the revenue flow of the business activities, and deposits should carry incentives. Care must be taken not to overload customers with unnecessary transaction costs (transport, unproductive time in queues and meetings, excessive paperwork, insurance, etc.). At the same time, a ‘zero tolerance’ for late repayments must be enforced. These are not skills that are immediately available within the Darfuri banking sector.

Yet, impatience, the delays in the establishment of the Sudan Microfinance Development Facility (SMDF) and political pressure for the Pilot Project of *musharakah* arrangements all contributed to putting the ‘cart before the donkey’ and providing capital for microfinancing to bank branches that are ill equipped, untrained, unfamiliar, and disempowered to manage and grow a microfinance portfolio. The attempts to drive forward expanded access to finance with carrots (subsidized credit) and sticks (regulatory directions) from central level have not produced the desired results, and the strong supply-push in the weak market has lead to serious default problems.

8.1.1 Branch-based Micro Banking

Currently, the majority of banks that are attempting to provide microfinance – with or without CBOS matching funds through the Sudan Pilot project - face similar challenges with their portfolios. At branch level in Darfur, the level of authority to design, deliver and price products seems limited and the instructions from head offices or CBOS to ‘increase outreach’ have not been very specific. In addition, little if any relevant training or capacity building has been provided and no market information has been offered. So the market segment of the poor remains unfamiliar; the staffing, processing and procedures remain unchanged and geared towards corporate- rather than microfinance; and bankers at branch level are therefore not convinced that they will be able to – or should - do microfinance.

Yet, the banking policies (2010) asks banks to create windows for micro-finance; develop micro-finance units or branches; or establish [new] institutions and provide them with systems, structures and qualified and trained manpower in the area of micro-finance. Not all banks will, and indeed, it would make little sense for all banks to do so. Some banks may be more interested, better structured, and more inclined to make up this new challenge – which, it has to be remembered, is a profitable product range, if done right.

The few banks that are potentially interested – and the stakeholders around them – need a **‘how-to’ manual** for the introduction of microfinance that makes business sense, i.e. that includes realistic projections for debt collection and profitability on micro-products. Like any other new methodology, a guidebook is not sufficient The tools with which to do good microfinance are also necessary, first and foremost **systems** of loan tracking; account management; and performance data recording, reporting and analysis. To operate these systems, dedicated and equipped **staff** is required, preferably located separately from the ‘corporate banking units’ so that they can create a more suitable customer experience for their market segment. These investments in new **infrastructure** at branch (or sub branch) level are the minimum possible when aiming for microfinance success. And to get such **investments** approved, the business case needs to make sense (the projections need to justify the up front investment) – and the top managements of the interested banks need to **champion** the new business line throughout their organizations. Once support from above is confirmed, the management and staff of the new unit also need **time** to re-design products and services, costing and pricing; re-structure internal work flows; become comfortable with performance analysis and reporting; and – crucially – begin to study and explore their market segment and the operations of micro businesses.

To assist in the start-up phase, on-site mentoring, practical training, and **technical assistance** on a day-to-day basis as well as **exposure** to successful microfinance banks elsewhere are normally also good investments, which can often be funded by outside partners, e.g. CBOS through SMDF or international donors. Just like it is strongly recommended to charge a fee for training of IDPs, so capacity building support to banks must be competitive and performance-based in order that disinterested providers would de-select themselves from assistance, and efforts could be focused on any interested suppliers. For this reason, the banks that wish to get involved in microfinance provision should be asked to present **proposals** for how they would be able to allocate internal resources to a microfinance unit as outlined above, and how much on the contrary they would need from external sources. A transparent grid of proposal **evaluation** criteria would determine which applicants would be provided with which level of support. This is a process well known by SMDF and should not pose difficulties to implement.

Branch-based micro-banking works best if the branches and the potential clients are in the same locations. Therefore, a large branch network would enable banks to reach more – and often more rural – customers, as would be the case for example with ABS in Darfur. ABS in particular would also be able to benefit from an active and knowledgeable central microfinance unit, as well as **experience and lessons learned** in branches in North Kordofan (ABSUMI) and Kassala (Al Gash) which are already focusing on micro-level customers. As such, the ABS branches involved in these pioneering projects may be good venues for exposure trips.

For some activities, e.g. general training in loan tracking, recording, reporting, performance analysis, client appraisals etc, the staff of all interested banks could be brought together to ensure lateral learning and in the process, get to know and discuss common challenges with likeminded institutions working in the same market segment. This would also lower the cost for each institution of the technical training.

It would be appropriate for the branches of CBOS in the region to be involved as champions of microfinance in general and coordinators of joint trainings as well as perhaps **quarterly meetings** to discuss operational problems, reporting and performance. This is already instituted to an extent in North Darfur with the Microfinance Committee of seven commercial and specialized banks, Ministries of Finance and Social Welfare (although MoSW has yet to attend meetings), Zakat Foundation, HAC, and chaired by CBOS. While still new, this forum provides an excellent platform for banks to discuss the issues involved – but a slightly firmer agenda may help focus the meetings on issues at hand. Ideally, CBOS would compile microfinance-specific performance reporting data from all microfinance providers and feed-bank information on performance to providers at the meeting so that external monitoring becomes more meaningful. A brief quarterly **newsletter** could be shared with stakeholders in Khartoum and elsewhere, and reporting among participating banks could be incentivised with a quarterly **award** for best performance, e.g.:

- Lowest Portfolio at Risk(30 days);
- Biggest increase in number of new (first-time) clients;
- Lowest cost per contract, or similar.

As a potential champion, the Microfinance Committee structure could be replicated in (West and) South Darfur, where the Ministry of Finance has already taken the lead, and all members of the Committees could meet at an **annual performance review** to evaluate progress and present joint constraints to CBOS representatives from Khartoum. To perform the coordinating and promoting role of microfinance champion, these fora would require initial technical assistance to forge an informed consensus on the definition, scope and merits of microfinance, and to introduce appropriate performance reporting and monitoring tools.

In addition to the work at branch level, CBOS at central level could facilitate the expansion of microfinance in Darfur by continuing to adapt the regulatory framework to address constraints on the ground. The 2010 policy exemption of microfinance *murabaha* contracts from the recommended 9% profit margin was a helpful start. Other adaptations that would be helpful to Darfuri providers would include:

- Expansion of the types of acceptable individual identification documentation from the ID card and nationality certificate only, to any photo valid ID (for example driver's license, NHI card, etc.);
- Exemption of microfinance clients from registration in the centralized customer coding system of CBOS. While the importance of KYC and other AML measures is well recognized – especially for corporate clients; the current formats makes the coding process a very cumbersome, time consuming and costly procedure for the customer and investment officer at branch level – and it also delays the contract processing time with 7-30 days, as the data needs to go from the branch to head office to CBOS' coding department and back. In addition, some of the data required in the coding format (e.g. name of mother) is

culturally inappropriate in Darfur. At its current size, the microfinance portfolio in the banks poses no systemic risk. To provide an incentive for banks to engage in microfinance and cut the processing time and cost for clients, it may therefore be appropriate to exempt microclients from the central coding system. To ensure that banks would meet their KYC requirements, a special closed user group for microfinance providing banks could be established in the Credit Information System under finalization. It would be especially helpful if the microfinance CIS could be decentralized to CBOS branches at state level, where it could serve as a KYC tool as well as a faster, simpler and more locally relevant measure to prevent wilful default and fraud.

The initiation and management of this entire process does not require much more than a **designated coordinator**, e.g. at the SMDF or CBOS MFU. The match funding necessary to gap-fund capacity building proposals from the interested banks could be allocated from the remaining SMDF budget or from CBOS.

Once the products and service delivery systems in the interested banks have been adapted to the micro-market, **marketing** though public means (radio, flyers, posters) as well as through linkages to the traders that currently provide microfinancing would help bring in customers, and some of the traders may in addition be willing to act as guarantors – at least until the bank and the customer have become acquainted.

8.1.2 Replicating Partnerships

Several banks would not have the inclination, infrastructure, or investment capacity to engage in branch-based micro banking, but may still wish to meet the 12% allocation to microfinance requested by CBOS without signing responsibility over completely. For such banks, the use of **wholesale financing** would be a more appropriate option than retailing.

All banks are familiar with wholesale lending – the procedure being relatively simple as it involves one 'corporate-size' loan to one legal entity who in turn, and at its own risk, provides financing for members while retaining repayment responsibility vis-à-vis the bank. The entities involved can be cooperatives, unions or trade chambers, but are most often associations, NGOs or CBOs. However, often the members of a given association want to get financing for many different business purposes, so a mugawala-type contract is not appropriate (the 'turn-key service' of providing loans is not in itself acceptable). Neither can the bank be involved in providing a range of different items under a murabaha contract, even if it is to the same client. But the client (association) can account for the items financed by a joint invoice, and as a legal entity can provide the surety of repayment (guarantee) that the bank requires *on behalf of* its members. Wholesale contracting is much easier for banks to manage than retail banking, and the associations that take on the responsibility of such loans are often in a much better position than any bank to evaluate members' projects and repayment capacity. In addition, they often have the trust and loyalty bonds with and among members that really is the core of microfinance "collateral".

There are excellent examples of wholesale contracts between SSDB and **Women's Networks** in Gedaref that could be replicated in Darfur with interested Networks. The network executives would benefit from training in financial management, loan tracking and book keeping before entering into financing contracts, but especially in North Darfur, several women's associations are already familiar with commercial contractual relationships from their work with distributors of LPG. There may also be surviving agricultural **cooperatives** in Darfur that could serve as intermediaries for their members.

A final group of potential intermediaries for wholesale financing would be the ***Douman*** – the guarantors of the *dammar*-based or nomadic pastoralists that come to urban or peri-urban livestock markets to sell livestock in order to purchase other goods, but they have to wait up to 45 days to be paid in full. It is a worthy challenge for a bank to design an innovative, shariya-compliant financing product that would allow the *Douman* to purchase and immediately pay for the livestock being taken to market by his community, while repayment to the bank in installments as the Douman obtain funds from the final buyers of livestock.

8.1.3. Outsourcing – Establishing a Specialised MFI

In order to significantly expand access to microfinance in Darfur within a short time frame, the proposals above may not be sufficient. Not all banks will be interested and it will take time for the ones that are interested to adjust their structures and train their staff. With the rather sophisticated microfinance market of customers in – especially urban centres of – Darfur, however, it may be possible to **outsource the hard work** of establishing sound microfinance provision. As discussed, there is not a shortage of **capital** for investment in micro banking – many banks would happily allocate 12% of their portfolio as investment in a *musharakah* contract with an agreed – or annually calculated – dividend. Similarly, several private sector investors approached in Darfur would not be opposed to invest in a microfinance institution, provided it was professionally managed and independently directed. And finally, State government may be interested in co-investing in a bank for the poor – even without a seat on the Board.

Because microfinance as a viable financial industry really has not yet developed in Sudan, inviting a specialized, commercial provider of Islamic microfinance to establish an MFI in Darfur may prove a 'short-cut' to develop the industry. An international competitive bidding process should be used to attract the best bid in terms of value for money, but it would be important to develop a detailed TOR for the bidders, which:

- Accurately reflects the challenges and opportunities in the market;
- Should perhaps be structured as a "design and implement" contract with an initial business planning phase, and a main implementation phase based on an approved plan;
- Includes a fair risk- and profit sharing, e.g. an equity contribution from the bidder itself towards the MFI against a percentage of profit in the first year after break-even, but up-front funding of operations by investors till break-even;
- Includes a very clear and timebound process of training up and handing-over managerial and operational responsibility to a local team, perhaps within a space of 30-36 months, pending the size.
- Finally, it would be important for all interested investors to discuss and agree on an outline of the financing terms for the intervention prior to the tender. UNCDF through UNDP could assist in the validation of the financing model, which would then be finally negotiated with the winning bidder.

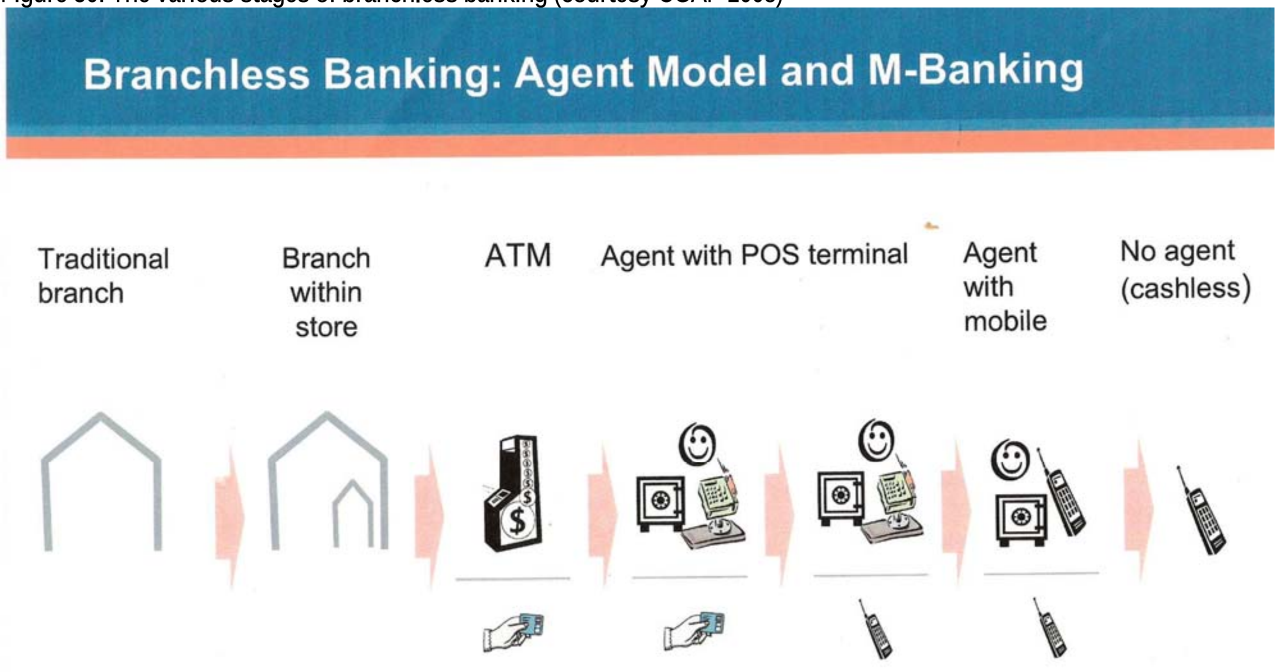
Whether justified or not, Darfur is not likely to attract very many competitive bids for the establishment of a microfinance institution, and it may be helpful to 'market' the opportunity a little in advance of the actual tender. The response to the current RFP of SMDF would give an idea of the current commercial appetite for Darfur

8.2. Modernising Delivery Systems

The conflict context of Darfur is currently restricting the freedom of movement of formal sector banks and I/NGOs more than it is affecting customers, leading to poorly appraised financing (based on Farmer's Union certificates) and willful default due to lack of monitoring. Such a situation would seem very appropriate for the introduction of **"branchless banking":** the use of non-bank retail agents and information technology to deliver financial services to low income people beyond traditional banking channels.

The 2010 Policy tasks CBOS to develop and perfect the present payment systems through endorsement of settlement of Government services via electronic cards, perfection of the ATMs and Points of Sale services and spread of awareness regarding banking technology in the area of electronic cards and plastic money and electronic money. This provides an opportunity for existing and new providers of financial services to **innovate technologically** rather than having to replicate branch structures for microfinance (see Figure 36).

Figure 36: The various stages of branchless banking (courtesy CGAP 2008)



As CBOS expands the central technological platform, and as banks invest in new technology, many different mechanisms for reaching clients, facilitating transactions, and ensuring repayment will become available, but at the current level of technology in Darfur, it would seem feasible to explore three or four opportunities to support the expansion of access to finance, even for bankers who remain unconvinced about the profitability of microfinance.

8.2.1 Agents with (E)POS terminals

Electronic Point of Sale systems are used by banks in Sudan, including Faisal Bank that has expanded its system outreach of state capitals like Kassala, but we were unable to verify if the system has reached Darfur yet. EPOS does not differ markedly from ATM services, but enable customers with an EPOS card (usually a standard bank debit or credit card) to pay electronically for purchases made in stores that have installed a terminal (agents). POS terminals that accept payments via mobile phone transfers also exist, but this technology does not seem to have reached Sudan yet.

The benefit of POS systems is that customers no longer have to carry around large amounts of cash – a particularly risky activity in Darfur. Currently, traders in particular will transfer large sums of money (payments) either through *hawaldar*s or FOREX bureau at relatively high costs. If POS systems were introduced/their use expanded, it may mean that payments could be done cheaper for the customer. The system would benefit anyone making large purchases, including for example women's networks buying LPG cylinders for members; bank staff or agents buying items under *murabaha* contracts; and traders or residents of villages that have to travel long distances to purchase goods and supplies and would be safer carrying a plastic card than a wad of cash.

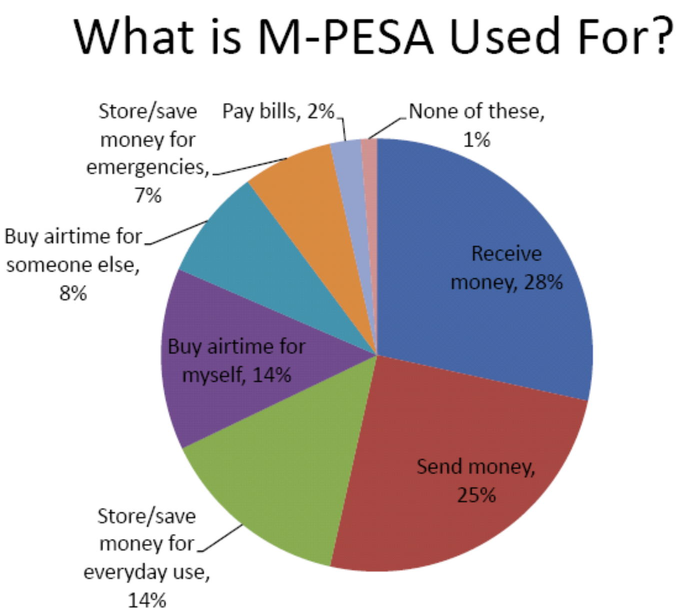
EPOS agents (stores, petrol stations, distributors, traders, post offices) may also act as **cash points** for card-holders in places where there are no ATMs and bank branches. Once authorized by a bank or cell phone company to accept withdrawals and deposits, the agent would swipe the card – or receive an SMS - from a customer's phone and then either accept the deposit or disburse cash. It's important to design such systems so that they are profitable and worthwhile for the agents – a point that, while obvious, that can sometimes be overlooked by banks and other big players. The fees within an EPOS cash out system may, however, be competitive compared to the selling of airtime to telecomm centres, especially if larger amounts are required

8.2.2 Agents with Mobile systems

Mobile phone operators have had more success than banks in using mobile phones as part of a growth and outreach strategy, chiefly because they are less regulated and thus can be less demanding on documentation and more flexible in responding to demands. A lot of poor and low income people in Darfur are already using mobile phone operators to send and receive transfers (remittances), and the operators (companies) have built up what seems like a very robust and well functioning network of retail agents all over Darfur.

In addition to the small transfers already on offer, mobile phones can manage a **virtual transaction account** for the customers that allows savings to be deposited and withdrawn; wages to be received along with remittances; payments to be made (such as rent, water fees, taxes, school fees, etc.) along with the sending of remittances. It would enable banks to deliver loans to customers; it would enable customers to repay loans (or banks to deduct due repayments from a given account), etc. The customer would be spared queuing in the bank, and the bank would avoid crowded banking halls. Cash would not have to be physically carried, bank staff would not have to accompany customers to suppliers to verify purchases under *murabaha* contracts, and savings would no longer have to be dug down in the back yard, and any dividends on investment accounts could be paid out directly. The account platform is the key to broader use of mobile phone banking, and provides a link between banks, customers and mobile phone operators.

Figure 37: Using a transactional account



To open a transaction account, the customer needs to go through the same process as is necessary for opening a regular bank account – either the bank itself or an agent accredited by the bank – needs to perform the identification required by KYC and ALM regulations, register name, address, and mobile phone number, and verify an acceptable form of identification. It may be possible for banks to **accredit the direct or indirect agents of mobile phone companies to perform the KYC** procedure, especially if a simplified procedure for microfinance clients would be endorsed by CBOS. This outsourcing would need to be worthwhile for the mobile phone operator too – but the time and effort saved by bank staff to have clients accredited would surely be worth a commission. If the customer already has an account, it would need to be linked to the mobile phone by the bank or its agent.

M-Pesa in Kenya[142] is a successful example of a mobile phone banking system (CBA bank) that uses the retail agent network of Safaricom (Vodafone) as the contact point with customers. Safaricom leveraged its existing retail distribution channels to serve as cash-in and cash-out points for M-Pesa customers. In addition to this network, it has also signed up other retail stores that wish to include M-Pesa services in their product offerings. Vodafone has aligned the incentives for these agents to participate through its commission payments for transactions, but also through benefits such as the increased foot traffic into their stores. With over 3,500 agents throughout the country, M-Pesa's presence has expanded into rural areas, increasing customer adoption. Vodafone has also set up M-Pesa in Tanzania where its subsidiary Vodacom now has more than one million subscribers to the service. One of the aspects of the M-Pesa system is that customer funds are not reinvested by Vodafone, so the company would not have to list as a deposit taking institution. Instead, the money (float) in the 'electronic wallet' of customers remains the property of the customers, and a holding company oversees the accounts. There is no immediate reason why a system like M-Pesa would not work – and be a great success – in Darfur.

8.2.3 Adding Insurance

One additional service that has recently been added into the M-Pesa bouquet in Kenya is **agricultural insurance**, which might be particular relevant also to Darfur. Like in Darfur, only few farmers in Kenya buy improved seed or spend money on inputs, and many use poorer quality seed kept from previous harvests – the effect is a reduced crop over time. This is how the idea came about for a new microinsurance product added onto the transactional account of M-Pesa. The product uses the combination of mobile phones and 30 automated solar-powered weather stations put up across the farm lands.

Farmers pay an extra 5% on top of the normal price to insure a bag or seed, fertilizer or herbicide against crop failure. The agribusinesses that sell input (including Syngenta East Africa) match the farmer's contribution to meet the full 10% cost of the insurance premium, as they expect sales to rise due to the project. Local agents (sales points for the input) register the bag with UAP Insurance using a camera-phone to scan a bar code put on each bag, and this registers an insurance policy. An SMS confirming the policy is sent to the farmer's mobile phone. Farmers are registered at their nearest weather station, which transmits data over the mobile network. If weather conditions deteriorate, a panel of experts in the capital applies an index system to determine if and when crops will no longer be viable. At that point, payouts are made directly to the mobile phones of farmers in the affected area using Safaricom's M-Pesa services.

As there are no field surveys, no paperwork and no middlemen, transaction costs are minimal, and the 10% premium is designed to cover costs, so when more farmers sign up, the price per premium is likely to go down. The pilot scheme with 200 farmers in 2009 was hit by a severe drought, which triggered compensation payments of 80% of the farmer's investments. The average amount of insured seed in the area has risen from 2kg to 4kg per farmer.

This product has been designed jointly by the UAP Insurance company in Kenya, Safaricom, and the Swiss agribusiness group Syngenta Foundation for Sustainable Agriculture and is called "safe farming". It aims to reach 5,000 farmers this year[143]. It would seem that a **weather-based index insurance** like "Safe Farmer" as described above would be of great interest to traditional farmers on rain-fed land in Darfur; to the input suppliers that could benefit from closer links to their customers; and to Sheikhan. In the interim, FAO is supplying seeds free of charge to IDP farmers, and may be able to support a pilot project in Darfur to ensure

[142] Figure 37 taken from a households survey in Kenya about M-Pesa conducted in June 2009 by Caroline Pulver for FSD Kenya.
[143] The Economist: "Security for Shillings – Insuring crops with a mobile phone", 11/3/2010. See also http://www.syngentafoundation.org/ for more on Syngenta who is a co-funder of the GroFin Initiative for Africa.

that the solar-powered weather stations gets put up in the relevant places, and that the premiums are set at the appropriate level.

CBOS may also be able to assist that it is tasked to "expand the insurance services in the agricultural and industrial sectors so as to set up an institution for agricultural and industrial financing insurance and guarantees" according to their 2010 Policy. Support to a commercially sustainable insurance product like "Safe Farmer" would be an easier way to support agricultural insurance services than setting up a guarantee mechanism, and would potentially benefit many more farmers.

8.2.4 E-Info – Non- Cash Market Development

Access to **market information** is crucial for sellers and buyers of all types of products, but for poor farmers and livestock producers in particular. Often, produce is being sold under value at farm gate due to lack of knowledge of market prices. This is less of a problem in entrepreneurial Darfur, where produce sellers appear to make an effort to confirm market prices before a sale, but not everyone has the resources to do this – or the time to wait until another trader comes along. And especially for producers living far away from the markets, e.g. as nomads or in pastoralist *dammar*, the cost and effort of first getting the market price, then bringing produce to market, and then coming back for payment significantly lowers productivity.

Electronic commerce is extremely limited in Sudan. There are no e-applications and e-services in agriculture yet, but the Ministry of Agriculture does have plans to develop an agricultural information database to provide potential investors with information on investment opportunities. Market Information Systems have, however, long been established to collect data on prices and sometimes quantities of widely traded agricultural products. Normally the data is sent on to farmers and traders through unions, to government officials and to consumers through message boards, radio and print media. Currently, the systems appear to be managed by FAO in Darfur, that share the data with the Ministry of Agriculture as well as the Livelihoods Cluster group, but it was not possible for the Consultancy to verify its further outreach.

Box 38: Donor-supported market information via NGOs

Since 2005, the Women of Uganda Network (WOUGNET) has tried to increase the bargaining power of farmers in Eastern Uganda by sending SMS texts with market prices to 400 rural farmers in their local language. The NGO collect information from markets and the data is posted on the Busoga Rural Open Source Development Initiative (BROSDI) website. Other staff translate the information to the local language, and send the information to farmers by weekly SMSs. Farmers can request more information by replying to the SMS. In gthe beginning, WOUGNET provided mobile phones with airtime for free, but this practice has now been stopped. Financial support to this project came from the ACP-EU Technical Centre for Agricultural and Rural Cooperation, but efforts are underway to expand the number of users of the service so that their fees cover the cost of providing the data.

ICT-based systems have started to emerge, that provide a faster and relatively affordable flow of information on agriculture in Africa. As one example, SMS Sokini in Kenya provides agricultural **information through SMS text messages** for a fee. The project is run by a partnership between the Kenyan Agricultural Commodities Exchange (KACE) and Safaricom. Information kiosks are located at the market places where agricultural commodity buyers and sellers meet, providing low cost access to farmers. KACE workers collect the information from the kiosks and send it to farmers, buyers and exporters on text messages.

Similarly in Senegal, the "Know Your Market" initiative was established in 2002 by the Manobi Development Foundation. Market information on prices and quantities of selected crops, mainly vegetables, at many different markets are collected by specialists, and for a small fee in addition to the cost of an SMS, farmers in their fields (or at the nearest place that has network coverage) can get information on their crops and the prices in markets where they normally sell as well as in other distant markets. This increases their bargaining power vis-a-vis farmgate traders and middlemen. Finally, Esoko Networks (formerly TradeNet) in Ghana was started in 2004 by the software company BusyLab. They run a website that quotes more than 800 000 commodity prices from hundreds of markets across Sub-Saharan Africa. But because only a small percentage of users have access to the internet, Esoko expanded to an SMS platform. Users can now sign up for a fee to receive weekly SMS alerts on commodities. Users can also upload offers to buy and sell products via mobile phone and make precise price requests on commodities in a specific country receiving the information by SMS[144]. Closer to home, the Telecentre in Gedaref State has started an e-agriculture project for 13,000 farmers[145].

All these examples demonstrate the viability of SMS-based information for agricultural and livestock producers, especially in areas where distances are long, transport is difficult, and transaction costs are high. Of course, the value of timely and convenient information extends well beyond agriculture, and similar systems would be beneficial within other value chains as well. By sending out an SMS to all registered customers, traders could announce arrival of goods or discounted sales; market managers could announce the arrival of stock from Omdurman; and banks and other financial institutions could broadcast new products, rebates and discounts – or warn of legal action being taken in case of default. In the financial sector, SMS-broadcasts are a great way to build customer relations. As the ICT systems develop, and people access 'transaction accounts' as described above, most banking can take place via mobile phone.

There is plenty of scope for replication of SMS-based e-agriculture and e-marketing in Darfur. Because the service in itself can be designed to cover costs after a short start-up phase, such information services are also good candidates for 'quick impact projects' for donors and practitioners that do not have long-term development time frames or budgets, but who want to made an impact on livelihoods.

E-governance is the latest hype – the "Government-to-Person" (G2P) systems of personalised communication and interaction are being seen as the future of especially local "good governance" systems. The mobile phone networks enable government to broadcast information, announcements, weather warnings, and news to a very large number of people at once. Linked to an 'electronic wallet' account like M-Pesa described above, people in Darfur could be advised by SMS of convoy delays or risk assessments on the roads; new taxation procedures; and school holidays, and may one day be able to pay their taxes and other public dues by SMS.

8.3 Financial Services in support of Natural Resource Management

The 2010 CBOS Policies for "Micro – and Mini Financing and Banking" are designed with the purpose of "activating the role of the banking system in contributing to activities with a social dimension in the areas of agricultural development, housing, water and electricity, health and education". Perhaps even more important for the long-term survival of 'the social dimension' in Darfur is the ecological or environmental dimension. Put simply, unless the current trend of environmental degradation is reversed, Darfur will not remain a habitable place for neither humans nor animals much longer. Because of the enormous drain on the scarce natural resources that the past fifty years of population growth, urban concentration, and conflict have inflicted, the environment is no longer an aspect that can be overlooked, postponed, or 'dealt with by someone else'. All stakeholders in business, livelihoods, social development AND factor markets like finance have to focus on the problem and find ways in which to contribute to the ecological survival of Darfur.

Bankers are not environmental specialists nor vice versa – but all actors can contribute "what they do best" in order to restore and protect the fragile natural resources of the region. The banking sector does financial

[144] For more on these and other examples of E-marketing and E-agriculture, see African Economic Review, op.cit.
[145] See more on this initiative at http://www.gedaref.com/images/efarengkish.jpg

services provision best, and understand how important **incentives and profitability** is for the long-term success of interventions in support of what may upfront appear like "public goods", such as environmental health.

In order to begin the difficult, but urgent process, of restoring Darfur's fragile ecology, there is an immediate need to identify and design commercially viable incentives for good practices – for "going green". At a minimum, going green in Darfur includes:

- Using less carbon-fuels, especially wood and charcoal;
- Switching to non-wood fuels for lighting and heating (cooking, etc.) at home and especially in the businesses (kilns, bakeries, etc.);
- Restoring lost forest cover (trees for shade and rain) and ground cover (erosion-preventing shrubs);
- Using less water, and recycling what is being used;
- Managing the existing water sources with maximum efficiency, ensuring they stay replenished and free of contamination;
- Collecting and recycling non-biodegradable waste, especially polythene bags (plastic) that kills animals and children; and
- At a more sophisticated level, replacing finite carbon fuels (gas, oil) with sustainable energy sources (sun, wind) – and in the interim, benefit from the international trade in carbon credits (see Box 39).

Box 39: Carbon Credit Trade at Micro-level

MicroEnergy Credits (MEC) is a social enterprise which links micro-finance institutions to the carbon markets when they lend for clean energy. MEC sells the carbon credits earned by replacing dirty fuels like kerosene, wood, coal and dung on the voluntary carbon markets and passes the carbon revenues along to its partner institutions. The institutions can then use the revenues to offset their costs of running the clean energy program or can pass the savings along to the client in the form of reduced interest rates, free battery replacements or other benefits.

MEC has partnered with EcoSecurities (Ireland) to provide a unique carbon finance option for microfinance institutions. MEC also provides implementation services to help MFIs rapidly scale up their clean energy product lines. MFIs benefit when they finance, for example:

- Solar home lighting systems
- LED lanterns
- Biogas digesters
- Fuel-efficient cook stoves
- Sustainable housing
- Solar water heating systems

MEC provides the link between the carbon markets and the microfinance industry by automating the monitoring and tracking of carbon offsets with its Credit Tracker technology. The Credit Tracker is a mobile phone based monitoring system which dramatically reduces transaction costs associated with monitoring carbon as well as social performance. It provides transparent and efficient performance monitoring and makes field based monitoring a lot simpler. Credit Tracker is suitable for applications including:

- Social performance monitoring
- Carbon offset monitoring for community programs
- Carbon offset monitoring for agricultural programs

See more at http://microenergycredits.com/microfinance

UNFCC is the global clearing house for carbon trade.

In order for markets and businesses to Go Green, it has to make financial sense – there has to be an economic incentive to do "Green Business" instead of the usual business, and that incentive needs to be realistic in scope (big enough) and time (early enough) that no argument of affordability or profitability can be made against it. The business case has been made for Going Green in some economies, but not yet in Darfur. In partnership with local (and central) government, international INGO and agencies, NGOs and academic institutions of the civic society, however, the banking industry can contribute at two levels: by green operations and by green investments.

8.3.1. Corporate Social Responsibility - Setting examples that pay off

Financial services institutions are not known to be major polluters, but they need almost continuous power supply – and they often *fund* the big polluters. By taking a corporate stand on both of these issues, a bank can strengthen its brand and make it stand out ("The Green Bank") and thus attract new customers. In the medium term, green operations are also cheaper operations.

Corporate social investments (or charitable funding) are common among banks, also in Sudan, but often it is the 'social' rather than an environmental activity that is supported in this way (football clubs, school outings, prizes at the horse races, etc.). Strengthening the corporate social responsibility (CSR) in favour of the environment could include activities, such as:

- Funding school tree-planting, vegetable gardening, or water harvesting projects;
- Funding trees around the football pitch, the race course, or around the branch;
- Sponsoring a 'clean-up day' to collect plastic waste from designated areas, etc.

When building new branches, repairing and maintaining existing buildings, and just generally **running the branches**, choices can be made that enforce the 'green image' of the bank, while also saving money. For example:

- Buy and use stabilised soil bricks or sand cement blocks instead of kiln-fired bricks for construction[146];
- Replace regular light bulbs with low-energy bulbs (already done in many banks);
- Install solar panels for water heating;
- Consider alternative fuel for back-up generators (see section 8.3.2);
- Replace old cars with more fuel efficient ones;
- Install gas-stoves and gas-fridges in kitchens;
- Publicly select the greener suppliers, e.g. the tea stall and fatur restaurant that cook with gas rather than wood, the stationary shop that carries recycled, non-wood paper, the delivery service that uses bicycle rather than car, etc.

Finally, investments in new **ICT systems**, especially internet, intra-net (LAN), and mobile phone-based banking (see section 8.2) may seem costly upfront, but will save the bank money not just on operations but also in terms of significant efficiency gains which could translate into more business, for example by faster registration of new customers, faster transaction processing and less staff requirements. ICT is being embraced around the world not primarily because it's a greener technology – but because it makes better business sense.

8.3.2 Financing Change – Providing the Incentive

Financial institutions can make the biggest environmental impact by actively incorporating a 'green approach' in its financing decision-making. Incentives for potential borrowers can be negative (rejection or higher price of funding if the project has a high environmental risk profile) or positive (lower cost of funding if project is specifically 'green'). Emphasizing the positive incentives, banks may thus specialise in the funding of alternative energy, sustainable environmental practices, 'green' businesses, while declining to fund projects that have not been subjected to and passed an external/independent environmental appraisal.

As most businesses in Darfur are agri-businesses of modest size, the key areas to investigate for damaging environmental practices may be intensively irrigated farms with high usage of pesticides/herbicides; intensive use of chemical fertilizer; very intensive livestock production (large chicken hatcheries), etc. The requirement for an environmental appraisal should be applied particularly to new construction projects; dams or other industrial water catchment projects; tanneries and similar plants with high water requirements and/or high chemical effluent emissions; and oil and petroleum businesses, including petrol stations, depots, storage and transfer sites, etc. Environmental appraisals do not have to be very comprehensive (see annex 5), but have the most effect if they are able to provide the project owner (potential borrower) with more environmentally friendly solutions to high-risk elements of his proposed project.

[146] To learn move about alternative construction methods, contact the Environmental Technology Task Force (ENTEC) in Darfur and its lead on this issue, UN-HABITAT. The group also comprises the universities of Darfur and the Sudan Environmental Conservation Society. .

Most banks would prefer to provide positive incentives. Because the environmental degradation in areas of Darfur is so profound, it is recommended that a **Sustainable Environment Fund for Darfur** (or Sudan) be established. This Fund would aim to finance transitions to and establishment of environmentally sound developments in Darfur (Sudan), and would focus on projects that help businesses install, apply, or otherwise change to more environmentally sustainable practices, as well as new businesses that ensure, promote or support natural resource protection.

Examples of projects that such a Fund might help finance through financial institution *murabaha, mugawala, ijaraa* or *musharaka* contracts include:

- Supply of organic/biological (instead of chemical) fertilizer, tanning colours, pesticides, etc.;
- Production of non-wood fired bricks and non-timber construction materials;
- Solar energy installations (panels, batteries, water pumps, school lighting, phone chargers, etc.);
- Sustainable water catchment, harvesting and management;
- LPG-fuelled energy installations to replace wood fuel (e.g. gas stoves in bakeries, gas fridges/ freezers in grocery shops, LPG-fuelled kilns, etc.);
- Start-up/expansion of tree and plant nurseries, seedling productions, and distribution services;
- Recycling of waste, water, non-wood fuels (fuel briquettes from agricultural/kitchen waste, polythene bags (plastic) into plastic lumber for construction and/or fuel;
- Alternative energy vehicles (electric rickshaws, bicycle delivery services, etc).

The Fund would underwrite financing by participating banks/financial institutions (FIs) that would be responsible for their normal client and project appraisal, contract approval, monitoring, tracking, and repayment. The underwriting by the Fund would, however, **decrease the cost to the customer** of the financing to incentivise businesses to invest in environmentally friendly technologies. The Fund would include a **'Risk Share Guarantee'** for participating banks/FIs that wish to expand into new market segments or offer new financing products that promote natural resource protection, but may carry a higher than usual commercial risk. And finally, the Fund would provide a performance-based **Green Award** to participating banks/FIs that increase their financing of environmentally sound projects above a certain threshold (e.g. 8 loans per month) and successfully collects at least 90% of the debt on time.

Box 40 Solar Panel Distribution through Micro-franchising

The use of wood and kerosene for lighting causes serious health, environmental and income problems for poor communities. SolarAid, a new and fast-growing non-profit organisation, estimates that there are 200 million kerosene lamps in Africa, with each one generating approximately a tonne of CO_2 over 10 years. It wants to replace all of them with solar lamps by 2020, either through its own operations or in partnership with others.

Sunny Money is SolarAid's new micro-franchise brand that applies the proven marketing and operational concepts of traditional franchising to micro-businesses, and allows the rapid creation of distribution networks in rural and urban areas. Sunny Money works with local communities in East Africa to recruit and train poor micro-franchisees, with strict training and sales targets. Sunny Money supports them with new product development, manufacturing, marketing and branding. Results are surpassing expectations, promising huge potential for scale-up. Micro-franchisees show a high success rate and customer feedback is overwhelmingly positive.

As well as micro-solar entrepreneurship, SolarAid installs larger solar systems at schools, health clinics and community centres, carries out educational work on solar power and climate change in schools in the UK and East Africa, and is building the capacity of the East African solar industry through the construction of a Solar Academy in Lusaka, Zambia. Source: Nicolas Sireau, Executive Director, Solar Aid (www.solar-aid.org).
SolarAid is not yet in Sudan, but SudanSolar is – at http://www.sudansolar.com/

Customer Incentive

The Fund would enable banks/FIs to offer Sustainable Environment loans on better than regular terms, i.e. at a lower cost, or longer term, or both. The customer would still follow and comply with the regular loan

Box 41: An illustrative Example of a Fund

Launched in January 2003, the US$4 million Uganda Energy Fund - a partnership between Shell Foundation and DFCU Leasing - provided lease finance to SMEs in the pro-poor energy sector. Shell Uganda acted as a special adviser to DFCU Leasing, providing no-cost support to market the Fund, train staff from DFCU Leasing and share skills with eligible SMEs. By 2005, 345 pro-poor enterprises had received financing through this program, and had generated over 1000 jobs.

In hindsight, the Uganda Energy Fund – while intending to – did not provide the business development services to its borrowers that it had foreseen. Because many of the borrowers did not access the skills development or BDS needed to grow their enterprise, the Energy Fund ended up with a higher than expected number of non-performing loans. DFCU Leasing was, however, able to recover these losses through their title to the leased assets that remain DFCU property till fully paid. See Annex 6.

application, approval and tracking processes of the bank/financial service provider, but if the customer needed a business loan for an upgrade of the business, a loan to increase its environmental friendliness would cost less for the customer than a regular loan. For example, if a customer applied for a *murabaha* loan to build an additional firewood oven in his bakery, the normal cost would be 15% p.a. and the normal term 12 months. If the customer instead applies for a *ijaraa* or *murabaha* loan to install an LPG-fuelled oven in his bakery, the cost might be 10% p.a. and the term extended to 15 months. While the bank would receive the same fee, the customer's monthly instalments would be 25% smaller, and hence easier to manage. Alternatively, a direct profit share between the Fund Investors and the Bank could be negotiated as part of a *musharakah* investment.

Risk Share Guarantee

Risk aversion is particularly widespread among Sudanese banks, and the appetite for financing new types of equipment, processes or businesses at a lower rate of profit may not be high. Most Sustainable Environment loans, however, will be to regular customers or well known types of projects, so there would not be an increased risk to deal with – and the loss of profit could be off-set by good performance under the Green Award. In addition, however, the participating FIs/banks that are willing to take an *increased* risk by funding new market segments (e.g. micro-businesses or rural businesses or pastoralist customers) or new loan types (e.g. a group ijaraa for a solar waterpump), the FI could apply to the Fund for Risk Share support. The Risk share instrument would provide an underwriting (guarantee) of 75% of the estimated maximum Portfolio at Risk for the new loans and would be claimable quarterly to coincide with provisioning requirements.

For example, Bank B allocates a total of SDG 5 million for Sustainable Environment Finance in Darfur, but recognises that applicants may include unfamiliar customers, locations and loan requests. For example, group loans to farmer' societies for solar-powered weather stations far from the nearest bank branch that would provide data for an index insurance of the farmers' harvest based on their purchase under a bank *murabaha* of 2 bags of seeds each before planting. The familiar *murabaha* loans for seeds have been approved, but the bank is worried about how the farmers will repay their weather stations. There are many other new aspects of the portfolio that worries Bank B even if the portfolio in principle makes good sense. Bank B estimates that the risk on this portfolio is 25%, i.e. that a quarter of the portfolio may be in arrears by 90 days after due date, and thus have to be provisioned for. Bank B submits a request for Risk Share to the Fund. Approving the request, the Fund will now reimburse the bank 75% of any loss (provisioning required) up to 25% of the loan amount after 90 days of due date, pending agreed monitoring, documented debt collection efforts, and submission of a claim to the Fund.

Learning from experiences with similar Funds elsewhere in Africa (see Box 41), it would be important to link borrowers to business or skills development services for the new technology that they may be installing and for the health of their business. For the technological/technical aspects, partnerships should be concluded between the Fund and service providers such as Practical Action, SudanSolar etc., perhaps through ENTEC. As part of the environmental project appraisal of the projects, a technical specialist should review the production and business plan as well as the financial projections with the customer. As this appraisal would be a requirement for borrowers – and a credit risk mitigation strategy for the investors – the costs of this BDS service should be shared 75-25% between the Fund and the Bank for the first 12 months, after which the cost should be shared between the banks and the borrowers as part of the financing contract terms.

Green Award

Participating banks would forward their monthly portfolio data in a predetermined format to the Fund management. The Fund management would compile and monitor all participating FI/banks' Sustainable Environment portfolios and send results back to participating institutions on a quarterly basis so that each participating institution can monitor own performance against the average performance of all. Once a year, the 'Green Award' will be presented to the best performer. To become 'best performer', an FI would have to have increased its Sustainable Environment Portfolio by the highest number of contracts above say 96 (8 per month) and have the highest percentage of on-time repayments above 90% among all participants. The Green Award should be worth working for in terms of its monetary value, and should be offered to the winning *branch* for local usage, and be widely publicised.

It is possible that the local and national authorities would wish to contribute to the Fund for Sustainable Environment, and the currently frozen balance of the earlier Photovoltaic project of the UNDP would be well spent as a contribution to the Fund.

Even without investment funds, local authorities in particular could support the efforts to restore Darfur's fragile environment, for example by banning polythene bags in markets, as has been successfully done in Gedaref state already. The decree to ban new brick kilns in South Darfur is well appreciated, but it very hard to enforce. It may be more effective to incentivise the supply side by only permitting non-fired bricks (e.g. stabilised soil bricks), lumber from recycled plastic or other such environmentally friendly materials be used for any future public construction projects.

Finally, the many stakeholders outside the financial services sector can support a Sustainable Environment Campaign in Darfur by promoting, funding, and raising awareness about 'green activities' that also support health and wealth, including the fuel-efficient stoves. Many small-scale 'Green projects" lend themselves particularly well to grants-based 'quick impact projects' (QIPs) without distorting the recovering commercial economy of Darfur.

Annexes

1. Darfur - A Brief Historic Background
2. Terminology and Definitions – Islamic and conventional finance
3. Indicative Market Quantification – the calculations
4. Provisional Map of Outreach by Financial Service Providers
5. Examples of Environmental Appraisal formats
6. Example of Fund to support Alternative Energy use
7. Scope of Work for the Assignment
8. Work schedule and List of Persons Met

Annex 1

This brief historic overview of political developments in Darfur is built on and borrows heavily from Mahmood Mamdani's recent book: Saviours and Survivors – Darfur, Politics, and the War on Terror. It is meant as an introduction for readers unfamiliar with the context of Darfur as it appears outside the domain of fundraising campaigns and international political agendas.

1. The Historic Sultanate of Dar Fur

The political history of modern Sudan begins with the establishment of two political entities: the kingdom of Funj (Kordofan) with its capital established in Sinnar in 1504 and the Keira Sultanate of Dar Fur (Land of the *Fur*) established in 1650 with its capital in El Fasher, which was made permanent in 1792 concluding a bitter civil war between the Keira dynasty and the Zaghawa which in effect "took the Fur state away from the Fur"[147].

Both states ruled over a two-class agrarian society of nobles and commoners, the latter tilling the land and supplying the courts and nobles. The Dar Fur sultans pursued an expansion policy of incorporating nomadic populations and smaller, sedentary tribes into its political economy to the effect that in 1874, the Sultanate had a population that was two-third non-Fur[148] . The pastoralists provided the hoofed mobility necessary to maintain and expand the trans-Saharan trade, closely controlled by the royal clan. The expansion of Dar Fur from one chieftainship among many into a centralized sultanate was supported by the development of three institutions: an army of slaves, ensuring the king's independence from clan leaders; a land grant system which eroded clan control over land; and the introduction of Islam as a court ideology capable of evoking transtribal solidarity.

1.1 Access to Land

The land system developed in Darfur was more complex than in many other parts of Africa, and included tribal, communal and individual land holding arrangements. The Keira Sultans of the 1700s Dar Fur granted rights to tracts of land and its inhabintants to supportive followers and officials, including local leaders and clan chiefs but also to an emerging 'state elite' recruited from different ethnic groups. The rights were embodied in written charters (*Wathiqa al-tamlik*) which led to the development of a grid of estates. The granting of a *hakura* (land title) was a formal legal act and the land granted was demarcated, in some areas (e.g. Zalingei) by drystone walls. There were two types of *hawakir:*

a) An administrative *hakura* typically given to clan leaders, allowing limited taxation from communities living on the land, and exempting the land owner from state taxation (in effect transferring the tax rights from the Sultan to the grantee). The administrative hakura was not exclusive to the holder, and mostly served to confirm communal ownership of land for a given group of people (clan, tribe). Much like the older system of communal tenure, the sultan received loyalty against formal recognition.

b) The other *hakura* (*hakura al-jah*) was a personal grant of privilege, and was more exclusive, giving the holder rights to collect taxes and dues (*ushur*) from farmers. Guaranteed by the sultan, these *hawakir* were given to religious leaders or holy men (*Fuqara*), merchants, members of the royal clan, army leaders and state officials – the new people that built the Sultanate. As salaries were not regularly paid, it provided a means of income to courtiers, *malik*s and important supporters of the state, and was also used to reward individuals for services to the state. Breaking radically with the traditional kin-based land ownership principle, the *hawakir* of privilege served to open up new land and attracted people to settle in the sultanate.

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[147] O'Fahey, State and Society in Dar Fur, 146, quoted in Mamdani, op.cit.
[148] Hamid: Local Authorities and Social Change, in Mamdani, op.cit.

The *hakura* system served to detribalise both the land system and the system of governance in Dar Fur, and has parallels to the feudal system of other parts of the world. The customary *ushur* of a tenth of the produce could be extracted as either rent or tribute – the rent left the producer with ownership rights to the land, whereas tribute bonded the producer to the land, and thus to the master of the land. Whereas state nobles were more at risk of losing their privilege as the spoils system developed, the *hakura* system seems to have had the enduring legacy of protecting the *fuqara* – the holy men who serve as mediators in local conflicts, teachers and writers of magical texts (*hijabat*).

1.2 Islam countering Kin

These *Fuqara* were the key source of Islamic doctrine in Dar Fur. Well schooled in the doctrine and in sufi mysticism, they came mainly from West and North Africa (as opposed to the *fuqara* settling in Funj who came primarily from Egypt and Iraq), and helped to establish Quranic schools and mosques in the Sultanate. Religious men who were granted hawakir were able to generate specialized followings, evolving into *tariqa*s or Sufi brotherhoods – autonomous from the State, but dependent on it for protection. The *ummah* – Islamic community – so formed provided an effective counter to kin-based clan solidarity in historic Dar Fur. During the centralisation of Dar Fur's sultanate (17th-18th century), the spread of Islam was closely associated with Arabic culture, supporting both state formation and market expansion. In addition, written Arabic provided an administrative language for communication among functionaries across the expanding state.

1.3 Trade

Three major trade routes linked Dar Fur with the outside world: the famously difficult but secure "Forty-Day route" (*Darb al-Arba'in*) to Assyut in Egypt; the pilgrimage route from Wadai (now Chad) via Dar Fur, Sinnai and Port Sudan to Mecca and Medina; and a less significant northwestern trade route via Fezzan to Tripoli. By the beginning of the 19th century, Dar Fur was Egypt's largest African trading partner – primarily providing slaves, camels, ostrich feathers, ivory, gum Arabic, cotton and gold. Sudani slaves were valued for the Egyptian army and some also rose to important positions in the State institutions, and slavery while known in Dar Fur, was key to its expansion during the great period of Dar Fur-Egyptian trade 1750-1850. Without exception, slaves were captured from tribes to the south outside Dar Fur (*Fartit*). Traders came primarily from around the Nile and the *Fuqara* from West Africa – Dar Fur was a cosmopolitan society by the 1850s.

Internally, Dar Fur trade was mainly in food, cotton, hoes and copper. Slavers applied to hunt among the *Fartit* and were granted the right through a letter of marque – a process as formalized as the granting of land. It was the eventual collapse of the royal monopoly over the lucrative slave trade that lead to the collapse of the sultanate of Dar Fur at the time when its horse-riding slavers were overtaken by superior armed slave raiders feeding the plantations in the West. In 1874, an attack by a trader and his slave troops broke the *Baggara* of the South and brought the independent sultanate of Dar Fur to an end.

2. From Sultanate to Colonial Backwater

What followed was the first occupation known to the region by a Turco-Egyptian force. The '*Turkiyya*' emphasized state building through a brutal system of exploitative taxation, demanding payment in coin or slaves. The system subordinated or destroyed much of the old ruling elites and only left the *fuqara* relatively intact. From the rallying of people behind the *fuqara* developed the idea of a jihad against the foreign oppression led by a Mahdi. The *'Mahdiyya'* united disparate peoples from across Sudan in a rebellion against the British and Turco-Egyptian oppression.

In Dar Fur, the *Mahdiyya* had support from both the Arab *Baggara* of the south, and the non-Arab Fur of the Jebel Marra, when the Mahdist troops took Khartoum in 1885, and the *Baggara* made up a majority of the Mahdist followers – the Ansar. However, support soon waned and revolts against centralist authority increased. The Mahdist state was highly centralized and autocratic. Hostile to potentially challenging tribal organizations, it broke the remnants of chieftain power, deeply disrupting tribal life in Sudan. When the Mahdist state dissolved in 1998 and British colonial rule began, a process of retribalization was introduced that laid the seeds to the current conflict.

The British colonial administration conducted a census, coding people according to their self-proclaimed 'tribe', and then categorizing tribes into less benign 'ethnic groups' and 'races' (e.g. "Arab" and "Negroid"), serving both to distinguish cultural traits and to identify administrative units of governance. The 'tribes' were categorized as 'Native" and "Non-native". Only 'Native' tribe members would have access to customary homelands (*dar*) and to participate in native (local) administrative – a policy resulting in a split of the united social base of the Mahdiyya back into 'settlers' and 'natives'. This approach to governance led to the formal restoration of the kingdom of Dar Fur – except this time as an ethnic Fur vassal state rather than the earlier transethnic sultanate. The "indirect rule" of British colonial administration ensured that all ethnic groups as classified were brought under a 'native authority' and could then be played out against each other to ensure overall "stability" under British rule.

Darfur became the heartland of indirect rule based on three types of legislation:
- *Native administration ordinances* turned ethnicity from a cultural to a political identity, defining who was ruled by which 'native authority';
- The *Closed Districts Ordinance* cut off northern riverine Sudan from the south and to some extent from Darfur; while
- The *Southern policy* built a mosaic of politically self-contained 'tribes; in the South, with significant impact on later developments.

In the 1930s, the murmurs of discontent with these rules and the split they were causing between town and country, were beginning to be heard, and the "native administration" was reformed into "local government" rules to accommodate the demand of an increasingly vocal group of well-educated, urban, and nationalist class. This reform was largely cosmetic, and in Darfur there was little 'local' about the new administrative system, which incorporated an 'educated strata' of people imported from the riverine capital. The colonial period and its Local Government reform implemented during 1930-1951 contributed to the crisis of the late 1980s by *marginalizing and retribalising* the region:

- The colonial administration wanted to stamp out any remnants of Mahdiism, thus marginalizing the areas seen having driven the movement – chiefly Darfur. From having been able to influence politics in northern Sudan for centuries, Darfur was turned into a backwater ruled by a few officials from the capital, supplying cheap labour to the cotton projects of Gezira and later to Libya[149]. Education was limited to children of the elite – for a population of 1.3 million at Independence in 1956, there were 20 primary and only 2 high schools. Even after the railway to Nyala was built in 1959 and citrus and other cash crops were introduced, Darfur remained marginalized. It was the poorest of northern provinces in 1967-68 – and remained so in 1982-83;
- The native administration demarcated land in the region into 'tribal homelands' (*dar*s) and proceeded to determine who was 'native' to the *dar* and thus could own land and participate in local governance, and who was a "settler" and thus could not[150]. *Sheikh*s could allocate farmland in the village to households within the community, but had to consult the *Umda* to allocate land to fellow emigrant tribespeople and had to secure the approval of the *malik, shartay or nazir*, if land was to be allocated to newcomers from outside the tribe. If approved, settling 'strangers' were required to pay *ushur*. This retribalized system of land occupation disenfranchised the pastoralists the most. While the biggest and most loyal nomad groups (e.g. the cattle raising *Baggara* and the *Beni Hussein*) received dars as rewards, the smaller and northern

[149] There were an estimated 150-200,000 Darfuri migrant workers in Libya by 2000. Livelihoods under Siege.
[150] Similarities to the current crisis in central Nigeria springs to mind and has largely the same historic background.

camel raising *Abbala* nomads of the Rizeighat tribe were completely overlooked – with no settlements (villages) they had no *dar* to claim and thus were given no voice.

The combination of a politically skewed classification system of tribes into Arab and Zurga (black) 'races'; a land policy regulating access by tribal affiliation, and a governance policy basing participation on tribal identity created a grid of territories owned by ethnically defined groups in Darfur, which were superimposed on the multiethnic population. In each *dar*, however, there were resident communities whose tribal coding provided access to land and influence - and others who had none. This division – rather than any "invasion by raiding Arab settlers from the outside" – caused Darfur to explode in conflict in the mid 1980s.

The Fellata – the immigrant nomads from West Africa who have taken on an Arab identity over the centuries - had no *hakura* and their claim for tribal land was rejected by all their Arab and non-Arab neighbors, resulting in bloody conflicts. Landless Chadian refugees are in an equally difficult position, but they can at least appeal to UNHCR for protection and support as refugees. While all communities of Darfur have been affected by the conflict, it is perhaps still fair to recognize the camel herding *Abbala* of the North as the hardest hit. *Hakura*-less and *dar*-less they have been doubly marginalised - first as Darfuris in Sudan, then as Arabs in Darfur.

3. Caught between Modernity and Traditionalism

The clash between 'modern' reforms and 'traditional institutions' provides another key to the conflict in Darfur. The traditional camp is built on community-based rights and responsibilities of 'indigenous people' and draws support from historical links with Sufi *tariqa*s evolving into sectarian political parties such as NUP or Umma as "*defenders of tradition*". The modernist grouping of urban-based intelligentsia, the army, and the merchant classes favour the power of the State and the rights and responsibility of (enlightened) individuals as 'citizens' to lead the uneducated masses as these cannot be trusted to break with tradition without firm leadership. Modernists are both secular (as in the Communist Party) and religious as in the Islamic parties, chief among which are the 'fundamentalist' National Islamic Front and the smaller rival the Republican Brothers.

Postcolonial politics chose the modern over the traditional, but this locked both sides into a stalemate: As only a small minority of the population participated in the modern sector, modernists could only approach change as impositions from above, while traditionalists tended to see all change as a threat to tradition. The assumption that the traditionalist majority would oppose modernity and change has lead to the increasingly anti-democratic face of Sudan's modernist governments.

The top-down modernisation projects started with the state-sponsored "Arabisation" by the NUP government in the 1950s. Opposition was strong in the provinces, and the Darfur Development Front (DDF) formed in 1964 was a response to the perceived (and real) lack of influence and fair share of development in the region.

Gaafar al-Nimeiry's government from 1969-85 introduced several reforms to decentralize governance and redefine landholding. The Registered Land Act passed in 1970 declared all unregistered land the property of the government of Sudan – all such land had until then been de facto tribally held. The Civil Transaction Act in 1984 clarified that occupation (usage) was recognized alongside ownership (exchange) rights, but still ensured that over 90% of land became state-owned. The People's Local Government Act in 1971 finally abolished the native authority system, replacing it with 22 rural councils. The reform failed, chiefly due to its 'modernist' anti-democratic approach inserting officials from the Nile into an inflated bureaucracy under the autocratic rule of a single party – but it also removed the almost unquestioned authority of "traditional" leaders and chiefs, stripping individuals of land rights.

In 1980, the Regional Autonomy Act of 1972 was extended to Darfur and after significant protests ("the Intifada") against the non-Darfuri governor initially appointed, the former chairman of DDF Ahmed Diraige became the first Darfuri to govern the region since Independence. Ironically, this step towards autonomy made visible the eroding internal unity of Darfur – political competition and increasing ethnicisation of politics increased, exacerbated by the ongoing ecological crisis that spurred competition for natural resources such as pasture and water. The regional cabinet soon divided into two opposing camps: an alliance of Nomads (Zaghawa and the so-called Arab nomads) backed by the Islamist Muslim Brothers; and the major sedentary groups of Fur and Tunjur in a revived DDF backed by urban Darfuri elites and comprising the (Fur) Governor.

The 'Islamist' camp lead at national level by the National Islamist Front (NIF) won the 1986 election, not least due to support from the student (Graduates) constituency. Students from Darfur played a large part in the NIF Turabi faction cells at the University of Khartoum, and upon the introduction of regional government in 1983, many of these students returned to prominent positions in the regional government of Darfur. Hassan Al-Turabi's faction was seen to represent Darfur against the riverine Arabs, not least due to current JEM leader Dr. Khalil Ibrahim's presence, and in 1999 the NIF split between Al-Turabi and Al-Bashir led to the formation of Al-Bashir's National Congress Party (NCP) and Al-Turabi's Popular National Congress (PNC). In 2004, the government detained Turabi on charges of incitement to regionalism and tribalism in Darfur.

4. The Latest Conflict

The main impact of the prolonged drought in the 1980s was to steadily turn the northern part of the Sahel belt, including Darfur into desert, forcing first pastoralist societies and later also sedentary farming communities to move south to find pasture and water for commercial farming and subsistence. Sedentary tribes from the north came to occupy *Baggara* boreholes, surround their veterinary centres and block their animal routes. Only three of eleven migratory routes existing in the 1950s were functioning in 2007[151]. The *Baggara* and the sedentary tribes of central and south Darfur felt threatened and agricultural land, traditionally opened to grazing after harvest, was fenced off, further depriving pastoralists of access to pasture.

4.1. The Arab-Fur conflict in 1987-89

The 1983-86 drought came in the wake of serious political conflict in Chad and forced many Chadian groups, both nomadic and sedentary to take refuge in Darfur, some subsisting by looting and banditry. The difficult terrain of the Jebel Marra provided natural protection for often armed Chadian refugees, opposition groups, and their livestock, but the Fur farmers protested the influx by burning pasture areas to force the 'Arabs' to move elsewhere, withholding access to water and - allegedly supported by Cold War USA – by mobilizing the Federal Army of Darfur of some 6,000 men. Sandwiched between the Chadian military and paramilitary forces from the West and Fur militia in the mountain sanctuary, the Chadian Arabs fought hard and called upon Arab nomads in Darfur and Kordofan for assistance, a call also heeded by Libya that supplied weapons to this "Arab Congregation". The Arab Gathering was never a major platform for the conflict, as the *Baggara* did not participate, but CDR forces are alleged to have participated directly in internal Darfuri struggles, fighting alongside the Hamamid in the land wars.

Both sides came together at a conflict resolution conference in El Fasher in 1989, organized by the regional and national government, and a ceasefire ensued.

4.2 The Arab-Massalit conflict of 1996-99

The NCP government introduced top-down local government reforms in 1991 and 1995, first appointing a military governor for Darfur in 1991. In 1994, Darfur was split into the current three States each with their capital, supposedly to balance the power of the majority Fur, and as a consequence alienating them. In 1995, the next stage of reforms began in West Darfur, where the government issued a decree to divide the traditional *dar* of the Massalit into 13 emirates, nine of which were allocated to former *dar*-less Arab groups, resulting in

[151] Musa Adam Abdul-Jalil, "Land tenure, Land use and Inter-ethnic conflict in Darfur", in Abdel Ghaffar M. Ahmed and Leif Manger, eds.: *Understanding the Crisis in Darfur: Listening to Sudanese Voices*, University of Bergen, 2006.

alienation of the Massalit. When they protested, however, the civilian governor was replaced by a military one, and prominent leaders were imprisoned and allegedly tortured. While the background for the tension can be found in issues related to local power, tribal territory and access to natural resources, the seemingly partisan reforms of the central government favouring the Arab tribes exacerbated the problem, and resulted in the raging conflict between the Massalit and the Arabs.

Different ethnic groups established, trained and armed militia groups, including village militia called '*warnang*' among the Fur and '*ornang*' among the Massalit originally mobilised for hunting parties or communal work. Guerrilla warfare continued till January 1999 when a massive government attack supported by Arab militias crushed the Massalit insurgents, displacing some 100,000 people, some 40,000 said to have fled to Chad.

In response to the resignation from the NIF-block of two prominent Darfurians – Daud Bolad, a Fur, left the government and joined the SPLA/M leading an incursion also supported by veterans of the Massalit revolts. It is claimed that the central government in response mobilised the recent immigrants to Chad as militia as well as unemployed youth from the smaller camel herding tribes of the north, which became known as the *Janjawiid*, and operated both in the Jebel Marra of the Fur and the Dar Massalit to the west. While armed by government, they did not receive any regular pay, and in part the robbery and looting for which they became infamous is probably a means of sustenance.

5. From Hot to Cold to Post- War?

By early 2000, Darfur was awash with militia and weaponry. The militia was at the heart of the government 'proxy war strategy' launched in the South following the breakdown of the Addis Abbeba agreement, not least because government troops were scarce in the West. The second counterinsurgency in 2003-04 appeared to deliberately target any supporters of the insurgency – armed or civilian. The militia-based decentralization of violence combined with raiding contributed directly to the erosion of discipline among the warring factions, including the army as well as the network of irregular militias called the Popular Defense Forces, supposedly lead by army officers.

The post-2003 conflict turned into an all-Sudan affair, even if it played out only in Darfur. *Zaghawa* pastoralists were allied with *Fur* farmers and recruited foot soldiers from the Chadian military across the border. Camel pastoralists of the north (*Abbala*) and a few small cattle nomad tribes of Jebel Marra joined with Chadian nomads. But the larger cattle raising Arab (*Baggara*) tribes of the south – the majority of Darfur's Arabs – did not take part in the conflict. As the conflict grew into war, the insurgency was driven by two armed movements (SLA and JEM). The government's counterinsurgency armed a more shadowy militia, the *Janjawiid* – which till today remains perceived as more of an antisocial and outlaw phenomenon comprising young unemployed men that reflect on the deepening crisis of nomadism in Sahel in general, but which may still account for much of the absence of law and order in Darfur. "The problem is not tribal; it is anarchy (*Fawdha)"* – what happens when there is no government.

As the counterinsurgency intensified, it appeared that government became concerned with the loyalty of the Darfuri soldiers in the regular army, and shifted to a strategy relying on three groups: the military intelligence, the air force and the armed nomads (Janjawiid), but the 'additional armed forces' receiving regular government pay and the popular defence forces of conscripted soldiers were still deployed in the region.

The Darfur Peace Agreement (DPA) signed in Abuja in 2006 decreed a ceasefire and significant resources for development and inclusion of Darfur in the political processes of Sudan. The Minnawi faction of the SPA signed the Abuja agreement, but is alleged to have turned on the civilian population in the areas it controlled, replacing civilian with military courts and introducing very high taxes - earning it the nickname "Janjawiid 2". Other factions of the SPA, notably Ahmed Walid, did not. Importantly, however, the Arab nomad tribes without *dar* were excluded from Abuja – rather than being represented, they were to a large extent demonized as "Janjawiid".

In summary, it may be said that the four most important triggers of the conflict in Darfur have been:

- A land tenure system that discriminates between 'native and non-native' tribes linked to a colonial administrative division of sedentary (primarily non-Arab) tribes as 'native' and nomadic (primarily Arab) tribes as 'non-native';
- Drought and environmental degradation that pushed Northerners south;
- A degree of spill-over of four decades of war in Chad and general militarization of the Darfuri communities; and
- A brutal insurgency and counter-insurgency in 2003-05.

But Darfur has moved on. While there are still skirmishes and unsafe areas and while many, many people – sedentary and nomadic alike – remain displaced, the 'Darfur Conflict" today resembles more of a power struggle between many factions in the absence of an effective system of law and order applicable to all. In spite of ongoing dry spells; heavy taxation of both formal and informal nature; and perceived insecurity in some areas, Darfuri communities live, work, trade and farm across the three States.

Annex 2

I. Islamic Financing Terms and Characteristics

For many Muslims, some conventional financial services – whether banking or microfinance) are incompatible with the financial principles of Islamic Law (Shariya). In compliance with federal law, all formal service providers in North Sudan offer only Shariya-compliant (Islamic) financial services. To assist readers, a listing of the key characteristics of these types of financial services is presented here.

Shariya-compliant financial services have been designed specifically to ensure that providers and customers can enter into financial transactions avoiding any practices that are deemed usury, unfair, exploitative and therefore prohibited. The biggest difference between secular and Islamic finance relates to the pre-determined setting of interest by creditors, which is banned in Islamic finance, resulting from the Shariya precepts that:

- Money has no intrinsic value and therefore cannot be traded as other commodities (secular finance *is* the trade of money) and cannot increase in value over time unless backed by assets (secular finance holds that institutions must ensure the increase of capital value to counter effects of e.g. inflation);
- Providers of finance should share the business risk as investors (secular fund providers or investors are typically creditors that expect a predetermined rate of return).

In addition, key Shariya concepts that enjoy widespread observance include

- Prohibition of speculation by requiring that all financial transactions are linked to a real economic activity;
- Prohibition of investment in activities considered harmful to society (e.g. gambling, consumption of alcohol and pork, weapons production). In North Sudan, banned activities also include the purchase of foreign currency, shares and financial papers; outstanding or non-performing portfolios, FOREX bureaus and financial services institutions (acquisitions) as well as provision of finance to government and State-Owned Enterprises with more than 20% state ownership without prior CBOS approval[152].
- Prohibition against exploitation, e.g. in contracts which must clearly state terms and conditions, and must be understood and agreed by all parties – a principle shared by secular business ethics[153].

These and other requirements of Shariya-compliance has led to the development of a range of Islamic finance services for the provision of additional resources for economic activity as well as for the investment of deposits. There are at least 21 types of Shariya compliant contracts used by Islamic banks in the world, of which 16 are commonly used. These are usually distinguished as profit-sharing or non-profit sharing and further grouped into 1) profit-sharing-and-loss-bearing, 2) profit-and-loss-sharing, 3) asset-backed, or 4) services-based types[154].

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[152] CBOS: Central Bank of Sudan Policies for the Year 2009.
[153] See also CGAP: "Islamic Microfinance: An Emerging Market Niche", Focus Note 49, August 2008.
[154] Islamic Financial Services Board (IFSB): Compilation Guide On Prudential And Structural Islamic Finance Indicators - Guidance On Compilation And Dissemination Of Prudential And Structural Islamic Finance Indicators For Banking And Near-Banking Institutions Offering Islamic Financial Services (IIFS), March 2007. Table 1.1. is also based on this document.

The Islamic financing products most commonly found in North Sudan are described below to assist readers unfamiliar with Islamic banking, and to contribute to a common terminology for the microfinance sector.

1. Profit sharing and loss bearing instruments

Mudāraba (Profit and loss sharing investment agreements)
Mudāraba is an equity-based instrument denoting secular trustee financing where one party is the investor providing capital and the other (Mudarib) providing 'labour' i.e. is the fund manager providing technical and managerial skills (both parties can be an individual or a group of people). The ratio of profit sharing is predetermined in the agreement. Monetary losses are absorbed by the investor(s). Mudaraba agreements go both ways: banks can invest with managing customers in projects, and customers can invest in projects managed by the bank (deposit investments with fixed terms and profit share but also some fees).

Mudaraba savings products are relatively common, enabling customers to earn a profit on their investments in the bank. Both un-restricted and restricted Mudarabah exists, the latter including limitations on where, how and for what purpose the IIFS can invest the funds. Unrestricted Mudarabah is prohibited by Central Bank of Sudan. Shares in Mudarabah funds can be traded at the stock markets. While promoted in many countries, including Sudan, Mudaraba-type bank investment contracts for MSMEs are limited. The chief constraint is the substantial operating costs associated with the complex, formal accounting and reporting requirements needed to ensure that profits are distributed fairly.

2. Profit and loss sharing instruments

Mushārakah (joint venture/co-ownership contracts)
Often the least offered, but most encouraged Islamic finance product, musharakah partnerships are established between the bank and either individuals or groups as equity investors in a joint business (typically going concerns, projects, working capital and assets including real estate). The partnership contract specifies each partner's share of *actual profit earned* (not necessarily equal to the ratio of capital invested[155]) but losses will be shared as per capital contribution.

In *Diminishing Musharakah* joint ventures, the customer may co-fund as little as 20% of the joint venture but buys increasing shares of the banks' investment over time through pre-determined, monthly payments. The customer's investment can be provided via Mudaraba deposit investments with the bank (see above).

3. Asset-backed non-PS contracts

3.1 Sales based:
Murabaha (Purchase order/cost + mark-up sale contract)
The most commonly used Islamic finance contract Murabaha is an asset-based sales transaction used to finance tangible assets/ goods. The buyer should specify his/her requirements, and the financier will then procure the item from the market and resell it to the buyer at cost plus an agreed and fixed service fee with no buy-back option (to avoid speculation). Ownership changes when the buyer takes possession of the asset (whether it is paid for or not), but the amount is typically paid to the bank in equal monthly installments. Until then, the financier (bank) owns the asset and its inherent risks.

[155] As per the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Sharia'h Standards.

Current Sudanese banking laws limits the use of Murabaha contracts to maximum 30% of the portfolio of banks in North Sudan. The first installment (down payment) by buyers is regulated to 10% for buyers of goods for agriculture, manufacturing, medicines and export and 25% for buyers of any other goods.

Salam (trade/ pre-finance)
A sales contracts by which the customer "pre-sells" a specific amount of goods (typically crop/produce) to the bank at an agreed price and date and the buyer (bank) advances the payment (capital or goods, e.g. agricultural inputs) to the customer against a future receipt of the agreed goods.

3.2 Lease-based:

Bea Eijari or Ijaraa (Leasing agreement)
Typically used for the financing of machinery or equipment, Ijaraa refers to the selling of a use or service for a fixed price, and the agreement specifies the duration of the lease, the fixed service (lease/rental/usage) fee and payment schedule. As opposed to Murabaha sales contracts, the asset remains the property of the financier who is thus also responsible for its maintenance and insurance throughout the lease/rental period – as well as the risk of obsolescence e.g. for computer equipment. These costs and risks are factored into the service (lease) payments. Payments of rentals are treated as payments of operating expenses and are therefore fully tax-deductible. Leasing may therefore offer tax-advantages to profit making MFPs. For ownership to be transferred to the 'lessee', a (murabaha) sales contract has to be concluded at the end of the lease period.

Ijarah-W-al-Iqtina or Ijaraa muntahia bittamlik (Hire-purchase contract)
As opposed to Ijaraa, the W'al lktina contract is the Islamic equivalent of a secular lease and sale contract under which an Islamic bank/MFP leases or rents goods or assets to the customer ("the lessee") for an agreed price, and at the end of the lease period, the bank transfers the title of the goods or the asset to the customer as a purchase (Ijeraa thumma al-bay). The rentals as well as the purchase price are fixed in such manner that the bank gets back its principal sum along with profit over the period of lease.

Interestingly, the Central Bank of Sudan policies 2009 refers to the 'mugawala' product which is specific to Iranian Islamic banking. It is comparable to the Ijaraa Wal Iqtina (leasing purchase) product, which is not widely offered in Sudan, and can be used for Istisna'a (turn-key) products as well[156].

3.3 Manufacture/production (financing non-existent assets):

Istisna'a (installment based payment)
This contract is essentially between a manufacturer (or contractor) who agreed to produce/constructor and deliver, at a given price on a given future date a specific good – typically a building, factory or other turn-key project – and an investor (the bank) who agrees to pay. As opposed to Ijaraa, however, payment does not need to be up-front, but can include advances and progress-related installments. The contract determines the type of asset being purchased, the total price as well as the payment schedule. As owner and investor, the bank can then sign an agreement to sell on the factory to a third party (user), e.g. a project company on deferred payment terms – as owner, the bank in effect ensures the transfer of payments from the user to the contractor. The bank can continue to own the factory and charge the user a fee based on the profitability of the factory, or it can sell the factory to the project company. One advantage of this financing method over Murabahah, for example, is that start-up costs (e.g. earth removal) may be included in the fee to the user or the purchase price, as long as all costs are known to all parties from the outset.

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[156] Central Bank of Sudan: Financing Policies 2009 and Islamic Financial Services Board (IFSB): Compilation Guide: Guidance On Compilation And Dissemination Of Prudential And Structural Islamic Finance Indicators For Banking And Near-Banking Institutions Offering Islamic Financial Services (IIFs), March 2007.

4. Service-based (investment) contracts

The service-based contracts function at par with deposit accounts in secular banking, ensuring the depositors' rights and returns on investments managed by banks.

Wadiah is an amount deposited on which the depositor is guaranteed his or her fund in full – similar to a zero-risk, zero-loss investment account.

Wakālah is an agency contract, where the investment account holder (principal) appoints the IIFS (agent) to carry out on behalf of the principal the investment for a fee or for no fee, as the case may be.

5. Benevolent contracts

Qard and Qard al-Hassan (benevolent loan)

Qard is the only cash loan product permissible by Shariya laws. It is interest-free and intended to allow the borrower to use the loaned funds for a period with the *understanding that the same amount of the loaned funds would be repaid* at the end of the period. Qard al-Hassan signifies that repayment is less expected – the financier expects reward only from God, and such loans are often forgiven in case of default.

Qard are associated with charity rather than banking, and cannot be provided sustainably. In addition, extensive availability of Qard al-Hassan in a locality risks affecting the repayment discipline of customers who need Qard or other financing instruments.

6. Securities

Shariya compliant capital markets have evolved over the past 25 years, and stocks, bonds and other security certificates are traded across the muslim world. The key difference from secular stock security markets is the direct link from the traded paper to an underlying, tangible asset.

Sukūk (certificates) represent the holder's proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such asset.

7. Non-Bank services – Insurance

Mutual Insurance Funds

Members of a group contributing to a joint fund to support the group in times of need and someone managing the common funds as custodian (kafalah) is an old and established concept in Islamic finance (takaful) and in North Sudan (sanduq). Such mutual benefit funds abound as ASCAs or ROSCAs at the village level. Conceptualized as an enterprise rather than charity, takaful institutions were later formalized primarily to cover trade related losses. The first formal takaful company based on a cooperative model, the Islamic Insurance Company, was established in Sudan in 1979[157] and many have since followed.

As opposed to most secular mutual insurers, an Islamic Takaful operator is usually mandated by its shareholders to operate takaful holders' (participants') funds in their best interest but bears no underwriting risk. Therefore Takaful operator's funds need to be segregated from participants' funds. However, in Sudan a Takaful holder (participant) is usually also a shareholder in the Takaful operator (due to the cooperative background).

[157] G. Nagaranjan and R. L. Meyer: "Rural Finance: Recent Advances And Emerging Lessons, Debates, And Opportunities, Ohio State Unive rsity (Columbus, Ohio, USA), July 2005.

Sheikan Insurance and the National Health Insurance scheme of Sudan is also based on takaful principles. While Sheikan operates very similarly to a secular insurance company, it invests premium funds in Shariya-compliant ways only. The NHI has very little to invest and is barely able to meet expenses at State level with the significantly below-market fee structure imposed by Federal law.

Demand has been registered for micro-takaful, but provision to poor clients at an affordable cost without massive subsidization remains a challenge[158]. Due to the long history of kafala and takaful in Sudan, however, the level of public and supplier awareness imperative to the success of any micro insurance is comparatively very high and bodes well for risk sharing arrangements with the poor.

II Microfinance Terms and Characteristics

Microfinance Bank is a company registered under the Company's Law of 1925 and licensed by the Central Bank to provide microfinance services, including saving, financing, internal monetary transfers and other financial services required by the economically active poor people for the running and expansion of their medium, small and micro enterprises[159].

Deposit Microfinance Institution is an institution (public corporations, public or private companies limited by shares, NGOs, credit associations or cooperatives) licensed by the Bank to accept deposits from the general public for the purposes of providing microfinance services.

Non-Deposit Microfinance Institution is an institution (company, a cooperative, or under incorporated under special legislation) registered with the Bank as a microfinance provider but not authorized to accept deposits from the general public.

Microfinance [credit ceiling]. CBOS delineates microfinance from other finance by customer and contract size, the latter currently not to exceed a value of SP 10,000/contract for individuals.

Microfinance Client is defined in Sudan as a person in possession of a monthly income not exceeding double the average monthly income of a Sudanese citizen or minimum wage in the Sudan (currently SP 500/month), and whose total of productive assets, excluding land cost, do not exceed a value of SP 10,000, provided he is not a regular employee in any organization and not less than 18 or more than 60 years of age.

Small Project [Micro and Small Enterprise] CBOS' definition of businesses of the poor reflects the widely held social rather than commercial approach to financing of "projects whose running needs microfinance". Micro enterprises are defined as operated and managed by a single entrepreneur who "works alone or uses a small number of close family members, at a wage that represents additional income to them, in a kind of work that does not require formal registration; management and accounting requirements are simple and flexible; and a manager who is not formally registered or licensed and has no official records for activities and revenues. Such kinds of activities involve primitive production, craftsmanship; value added treatment and commercial distribution" [160].

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[158] CGAP: Islamic Microfinance, op.cit.
[159] Bank of Sudan Act, 2002
[160] CBOS: Microfinance regulatory Framework, July 2008.

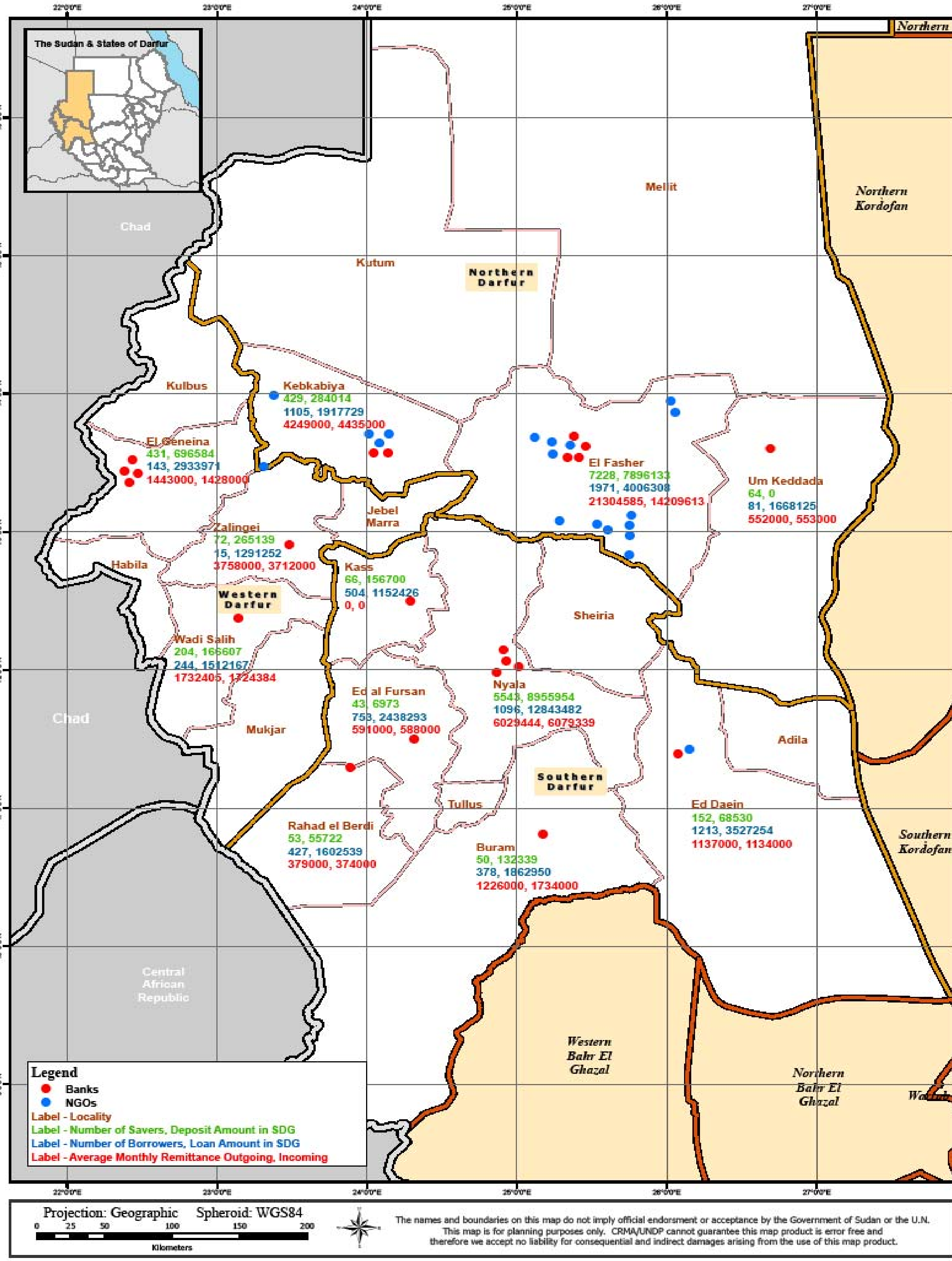
Annex 3 Indicative Market Quantification for Darfur – the calculations

1	Projections of market/demand based on current data						Comments
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	
A. Total Darfur population								
(census 08 + 2.2% p.a.)	7,515,445	7,680,785	**7,849,762**	8,022,457	8,198,951	8,379,328	8,563,673	48.4% female
Urban	1,474,202	1,506,634	**1,539,780**	1,573,656	1,608,276	1,643,658	1,679,819	19.6%
Rural	4,431,220	4,528,707	**4,628,338**	4,730,162	4,834,225	4,940,578	5,049,271	59.0%
Nomad	1,610,023	1,645,444	**1,681,643**	1,718,639	1,756,449	1,795,091	1,834,583	21.4%
HHs @ 5.6	1,337,206	1,366,625	**1,396,690**	1,427,417	1,458,821	1,490,915	1,523,715	
HH urban	247,728	253,178	**258,748**	264,440	270,258	276,204	282,280	18.5%
HH rural	789,263	806,627	**824,373**	842,509	861,044	879,987	899,347	59.0%
HH nomad	300,215	306,820	**313,570**	320,468	327,519	334,724	342,088	22.5%
West Darfur	1,308,225	1,337,006	**1,366,420**	1,396,481	1,427,204	1,458,602	1,490,692	51% female
Urban	226,340	231,319	**236,409**	241,609	246,925	252,357	257,909	17.30%
Rural	847,574	866,221	**885,277**	904,754	924,658	945,001	965,791	64.70%
Nomad	234,311	239,466	**244,734**	250,118	255,621	261,245	266,992	18.00%
HHs @ 4.8/HH (census 08)	270,688	276,643	**282,729**	288,949	295,306	301,803	308,443	
HH urban @ 5.2	43,272	44,224	**45,197**	46,191	47,207	48,246	49,307	16%
HH rural @ 4.7	179,231	183,174	**187,204**	191,322	195,531	199,833	204,230	66.20%
HH nomad @ 4.9	48,185	49,245	**50,328**	51,436	52,567	53,724	54,906	17.80%
North Darfur	2,113,626	2,160,126	**2,207,649**	2,256,217	2,305,854	2,356,582	2,408,427	49% female
Urban	365,765	373,812	**382,036**	390,440	399,030	407,809	416,781	17.30%
Rural	1,351,576	1,381,311	**1,411,700**	1,442,757	1,474,498	1,506,936	1,540,089	64%
Nomad	396,285	405,003	**413,913**	423,019	432,326	441,837	451,557	18.70%
HHs @ 5.7/HH	373,060	381,267	**389,655**	398,228	406,989	415,942	425,093	
HH urban @ 6	59,983	61,303	**62,651**	64,030	65,438	66,878	68,349	16.08%
HH rural @ 5.7	238,426	243,671	**249,032**	254,511	260,110	265,833	271,681	63.91%
HH nomad @ 5.3	74,651	76,293	**77,972**	79,687	81,440	83,232	85,063	20.01%
South Darfur	4,093,594	4,183,653	**4,275,693**	4,369,759	4,465,893	4,564,143	4,664,554	47.3% female
Urban	882,097	901,503	**921,336**	941,606	962,321	983,492	1,005,129	21.50%
Rural	2,232,070	2,281,176	**2,331,361**	2,382,651	2,435,070	2,488,641	2,543,391	54.50%
Nomad	979,427	1,000,974	**1,022,996**	1,045,502	1,068,503	1,092,010	1,116,034	24%
HHs @ 5.9/HH total	693,458	708,714	**724,306**	740,241	756,526	773,169	790,179	
HH urban @ 6.1	144,473	147,651	**150,900**	154,220	157,612	161,080	164,624	20.83%
HH rural @ 6.0	371,606	379,781	**388,137**	396,676	405,402	414,321	423,436	53.59%
HH nomad @ 5.5	177,379	181,281	**185,270**	189,345	193,511	197,768	202,119	25.58%

B. Econ active (52.8% as per ILO stats)		3,968,155	4,055,454	**4,144,674**	4,235,857	4,329,046	4,424,285	4,521,619	73.9% m, 30.9% f
West Darfur		690,743	705,939	**721,470**	737,342	753,564	770,142	787,085	
North Darfur		1,115,995	1,140,546	**1,165,638**	1,191,282	1,217,491	1,244,275	1,271,650	
South Darfur		2,161,418	2,208,969	**2,257,566**	2,307,233	2,357,992	2,409,868	2,462,885	
B1. 30% in government/ formal employment		1,190,446	1,216,636	1,243,402	1,270,757	1,298,714	1,327,286	1,356,486	
West Darfur		207,223	211,782	216,441	221,203	226,069	231,043	236,126	
North Darfur		334,798	342,164	349,692	357,385	365,247	373,283	381,495	
South Darfur		648,425	662,691	677,270	692,170	707,398	722,960	738,865	
C. Self-employed/BOP (70% of B)		2,777,708	2,838,818	**2,901,272**	2,965,100	3,030,332	3,097,000	3,165,134	(~ 3 econ. active/HH)
BOP HHs ~ 70% of pop. @ 5.6		939,431	960,098	**981,220**	1,002,807	1,024,869	1,047,416	1,070,459	
West Darfur		483,520	494,157	**505,029**	516,139	527,495	539,099	550,960	
BOP HHs @ 4.8		190,783	194,980	**199,270**	203,654	208,134	212,713	217,393	
North Darfur		781,196	798,382	**815,947**	833,898	852,243	870,993	890,155	
BOP HHs @ 5.7		259,568	265,279	**271,115**	277,079	283,175	289,405	295,772	
South Darfur (70%)		1,512,992	1,546,278	**1,580,296**	1,615,063	1,650,594	1,686,907	1,724,019	
BOP HHs @ 5.9		485,681	496,366	**507,286**	518,446	529,852	541,508	553,422	
D. Adjustments for need/ability									
D1 Destitute/outside cash econ/provided for (20%)		555,542	567,764	580,254	593,020	606,066	619,400	633,027	
West		96,704	98,831	101,006	103,228	105,499	107,820	110,192	
North		156,239	159,676	163,189	166,780	170,449	174,199	178,031	
South		302,598	309,256	316,059	323,013	330,119	337,381	344,804	
E1. Est. Minimum market for MF	Darfur	2,222,167	2,271,054	**2,321,018**	2,372,080	2,424,266	2,477,600	2,532,107	
	West	386,816	395,326	**404,023**	412,912	421,996	431,280	440,768	
	North	624,957	638,706	**652,758**	667,118	681,795	696,794	712,124	
	South	1,210,394	1,237,023	**1,264,237**	1,292,050	1,320,475	1,349,526	1,379,215	
E2. Min. HH market	Darfur @ 5.6	751,545	768,078	784,976	802,246	819,895	837,933	856,367	
	West @ 4.8	152,626	155,984	159,416	162,923	166,507	170,170	173,914	
	North @ 5.7	207,654	212,223	216,892	221,663	226,540	231,524	236,617	
	South @ 5.9	388,545	397,092	405,829	414,757	423,881	433,207	442,737	

Annex 4

Microfinance Outreach in the 3 Darfur States (Source - UNDP Microfinance, March 2010)



Annex 5

Credit appraisals in banks/FI normally focus on financial feasibility only. But it makes sense for both micro-entrepreneurs to prepare their business plans and for their investors and funders to appraise the project from all aspects of feasibility:

1. Management Appraisal (Character assessment)
The technical and managerial competence, integrity, knowledge of the project, and managerial competence of the entrepreneur and her promoters. The business management should have the knowledge and ability to plan, implement and operate the entire project effectively. The past record of the manager should be appraised to clarify her ability to handling the project.

2. Technical and Commercial Feasibility
Analysis of the technical inputs required and how they will be utilized. Are all input available: Raw materials, power, sanitary and sewerage services, transportation facility, skilled man power, engineering facilities, maintenance, market, etc.? Have plans been made and work/production processes been through through? The commercial appraisal reviews the scope and risks of the project in market – it's beneficiaries, customer relations (are processes customer friendly, etc.), future demand for product, effectiveness of sales plans, government regulations, taxation, controls etc. The appraisal involves the assessment of whether the market scenario will ensure the project adequate demand. Requirements for distribution and advertisement as well as their costs should also be considered.

3. Financial feasibility (Cash flow assessment)
The financial viability analysis includes review of cost estimates, means of financing, financial projections, break-even point, and sometimes ratio analysis etc. The cost of project includes any site development (e.g. clearing, preparation), building, equipment, cost of technical know-how fees, pre-start and start-up costs, financing costs and contingency expenses etc. The financial projections should include the profitability estimates, cash flow and projected balance sheet.

4. Social/Economic Appraisal
How does the project contribute to the development of the sector, industrial development, social development, maximizing the growth of employment, etc. Does the project reach new customer segments? Does it facilitate access to markets/services/benefits by formerly excluded people?

5. Environmental Analysis

An **environmental impact assessment** (or **EIA**) is a way of providing decision makers with information about the effects that a given project could have on the environment. EIAs review the impact on the project on the environment, i.e. direct impact on the quality of water, air, land, natural resources at/near by site; indirect effects (smoke, usage of poisonous/dangerous pollutants in production, seepage of effluents into river beds, ground water reservoirs, etc.). Typically, the project's impact, if any, on land degration; water sources and quality; air quality; noise pollution; waste management; and energy consumptions are checked. If any aspect is found to have unacceptable environmental impact, amendments should be proposed, e.g. different geographical location, addition of cleaning process (filters, recycling, etc). Often, the environmental assessment starts with a brief **screening** of the possible negative environmental impacts of a project, which rates the project and classifies it into one of 3-5 groups reflecting different levels of possible negative environmental impact (e.g. A, B, C, etc.). For example, "A" projects can proceed, "B" projects require more careful analysis, and "C" projects require remedial actions before approval. After an EIA, the precautionary and polluter pays principles may be applied to prevent, limit, or require strict liability or insurance coverage to a project, based on its likely harms.

Example 1: Danida ENVIRONMENTAL SCREENING NOTE

A: Basic Information		
Project title:		
Sector:		
Budget: Million		
Description of the Programme/Project: (activities with potential environmental impacts)		
Dates (expected): Programme committee: - Appraisal:		
B: Environmental Issues Checklist		
Will the Programme/Project (click the box):	Yes	No
1. Result in **irreversible use of the natural resources** (land, water, soil, minerals, forest resources, etc.)?	☐	☐
2. Cause soil, water or air pollution through **emissions or degradation**?	☐	☐
3. Lead to direct or indirect **occupational health and safety** risks?	☐	☐
4. Give rise to direct or indirect **environmental health** risks?	☐	☐
5. Be at risk in the medium or long term from **climate change**?	☐	☐
6. Result in **livelihood changes and opportunities** including resettlement that can increase the pressure on available natural resources?	☐	☐
7. Result in **economic and sector policy initiatives** including production subsidies with direct or indirect impacts on the use of natural resources and the environment?	☐	☐
8. Have activities within or adjacent to **protected and environmentally sensitive areas**?	☐	☐
9. Lead to conflicts associated with land and resource **tenure and access** rights?	☐	☐
Elaborate on Environmental Risks (need for mitigation of environmental risks):		
Elaborate on Environmental Opportunities (no or low cost environmental improvements):		
C: Screening for Environmental Impact Assessment (EIA)		
Requirement for Environmental Impacts Assessment based on environmental risk assessment:		
Component Name:	*Category A, B or C:*	
1:	Select category:	
2:	Select category:	
3:	Select category:	
EIA categories: [A] (Full EIA required) [B] (Partial EIA required) [C] (No EIA required) If category 'A' or 'B' are selected, an EIA shall be part of the terms of reference for the Programme formulation		

Will activities of the programme with potential environmental impacts be subject to national regulation and procedures for EIA? – Yes ☐ - No ☐

D: Screening for Strategic Environmental Assessment (SEA)			
Assessment of the adequacy of the legislation, policies, procedures in Environmental Management and Environmental Assessment in the Sector. (Click the box if further analysis is required).			
Issue:	*Yes*	*No*	*Comments:*
1. Existence of adequate national **procedures and capacity for Environmental Impact Assessment**?	☐	☐	
2. Assessment of **institutional capacity for environmental management** in the sector?	☐	☐	
3. Assessment and management of indirect environmental impacts of **policy reforms** and **budget support**?	☐	☐	
4. Operational national **environmental action plans?**	☐	☐	
5. Updated **state of the environment** reports?	☐	☐	
6. Sufficient environmental management and assessment in **sector plans and development plans** (PRSP)?	☐	☐	
7. Adequate **harmonization, alignment and coordination** for environmental management in the sector?	☐	☐	

E: Next Steps – process action plan		
Need for further work (click the box if action is needed during preparation or implementation):		
Activity:	*Action needed*	*Comments:*
1. Prepare ToR for Environmental Impact Assessment	☐	
2. Prepare ToR for Strategic Environmental Assessment	☐	
3. Assessment of status and procedures for Environmental Management in sector development plans.	☐	
4. Assessment of capacity for environmental management and assessment in the sector.	☐	
5. Preparation of Public Environmental Expenditure Review – assessment of the Government budget for environmental management.	☐	
6. Initiate donor harmonisation in the sector on environmental screening, assessment and management.	☐	

F: Signing of the Environmental Screening Note
Place, date   …………………………………………………………. (name)

Example 1: FAO CHECKLIST FOR SCREENING OF ENVIROMENTAL IMPACT:

ENVIRONMENTAL COMPONENT OR SOCIO-ECONOMIC CONCERN	Biophysical Change; Aspect Liable to be Modified; Social or Economic Changes	MAGNITUDE			
		Not Applicable or Negligible	Minor	Major	Permanent or Irreversible
A. BIOPHYSICAL COMPONENT:					
1. **Land**forms and Soils	Slope Stability				
	Stream bank Stability				
	Rill/Gully Erosion				
	Sheet Erosion				
	Sedimentation				
	Soil Structure				
	Organic Matter				
	Nutrients				
2. **Water** Resources	Storm/flood Runoff				
	Baseflow				
	Groundwater levels				
	Groundwater quality				
3. Climate & **Air** Quality	Microclimate				
	Dust				
	Smoke				
	Other Emissions				
4. **Vegetation**	Complete/Partial Forest Clearance				
	Loss of Species: Rare, Commercial Others				
	Species/Genetic Diversity/Resources				
	Forest Regeneration				
	Influx of Weeds				
	Slash, Other Debris				
	Fire Hazard				
	Adjacent Uncut Forest				
	Exotic Species				

	Re-, Afforestation					
	New Brushland					
	New Grassland					
	Plant Removal with Herbicides					
	Root Extensions into Cropland					
5. Wildlife	Rare, Endangered or Protected Species					
	Nesting/Breeding Sites					
	Feeding Grounds/Pathways					
	Displacement of Animals					
	Population Changes: Browse, Rodent, Insect, Other Species					
	Hunting/Poaching					
	New Habitats Created					
B. SOCIO-ECONOMIC CONCERN:						
1. Traditional Cultures & Subsistence Economy	Habitat Loss/Gain					
	Traditional Resources					
	Heritage Resources					
	Energy Sources					
	Shifting Cultivation					
	Illegal Felling					
	Cultural Contacts					
2. Cash Economy & Demography	Job Creation for Local Residents					
	Jobs for Non-Residents					
	Influx of Newcomers					
	Settlements, (un)/planned					
	New Physical Infrastructure					
	Land-Use Conflicts					
	Labour-Market Competition					
	Waste Disposal					
	Government Services					
5. Other						

Annex 6 The Uganda Energy Fund – an Example

UGANDA ENERGY FUND

Bringing affordable energy to African communities

UGANDA ENERGY FUND

EQUIPPING BUSINESS. EMPOWERING THE NATION.

SHELL FOUNDATION

dfcu LEASING

IN ASSOCIATION WITH SHELL UGANDA

Background to sustainable energy issues

As a continent, Africa has abundant energy resources, but the majority of poorer households lack access to clean and affordable energy services. There is simply not enough public finance or development funding to meet the energy needs and thereby improve the lives of the poor, enhance the productivity of local enterprises, and strengthen public service provision. The active involvement of the private sector is required. Yet many small and medium-sized local enterprises (SMEs) are unable to enter the energy market and provide the services needed by the poor as they often lack essential business skills, do not have bankable business plans, and cannot raise capital from local financial institutions.

What is the Shell Foundation doing?

To tackle these problems, the Shell Foundation has facilitated innovative partnerships with financial institutions in both South Africa and Uganda. These partnerships provide pre-investment business skills training and risk capital, thus assisting SME's in the pro-poor energy sector overcome the technical and financial barriers to starting up or growing their businesses.

Uganda Energy Fund

98% of rural Ugandan households have no access to grid electricity. Launched in January 2003, the US$4 million Uganda Energy Fund – a partnership between Shell Foundation and Dfcu Leasing – is to provide both business development services and lease finance to SMEs in the pro-poor energy sector. Shell Uganda acts as a special adviser to Dfcu Leasing, providing no-cost support to market the Fund, train staff from Dfcu Leasing and share skills with eligible SMEs.

What does the Uganda Energy Fund do?

The Fund provides both lease financing for the purchase of energy equipment plus advice, technical support and business development services to SMEs. Leasing provides particular benefits to SMEs, as it allows businesses with limited capital and credit history to access medium-term finance in ways suited to their operations.

Key aims

- To achieve productivity, quality of life and the environmental benefits for poorer households, communities and businesses in Uganda.
- To be a pioneering force in developing the SME energy sector in Uganda.

Who is eligible?

The Fund assists SMEs that:

- Want to acquire modern energy services to increase their productivity.
- Manufacture, distribute or sell modern energy and energy-efficient products and services.

Co-operatives, NGOs or institutional partners may be eligible if they can demonstrate how modern energy products or services will be used or provided on a financially-viable basis. The Fund defines modern energy services as off-grid electrification schemes, all types of liquid, gaseous and solid fuels and renewable energy.

Key partners

Dfcu Leasing is part of the Dfcu Group, one of the strongest finance houses in Uganda. Dfcu Leasing was established in 1994 and is the first independent leasing company in Uganda. Shell Uganda has been operating in Uganda since the 1940s.

About the Shell Foundation

The Shell Foundation (the UK registered charity funded by the Royal Dutch/Shell Group of Companies) believes that the international business community can and should play a responsible and active part in creating an equitable, healthy and sustainable world. Since 2000, we have tackled long-term social and environmental issues in which the energy industry has a particular role and responsibility. Where appropriate, we also leverage our unique link to Shell to harness the expertise, convening power and leverage of the Shell Group in ways that add real value to achieving our charitable objectives.

What is happening now?

As of July 2003, Dfcu Leasing has committed over US$2 million as lease finance to over 25 beneficiaries, including rural-based enterprises, local entrepreneurs, village banks, schools and clinics.

Annex 7 Terms of Reference for the Consultancy

The Consultancy will review the options and feasibility for microfinance as part of a conflict-sensitive livelihood strategy in Darfur, paying particular attention to savings-led models of financial asset building and safeguarding of savings and remittances through increased used of mobile phone technology. A key aspect here will be access to cash points. Another will be inclusive access, given the deep ethnic, tribal and gender-based rifts in Darfur. In this regard, the consultant will investigate the needs and potential for supporting the planned establishment of State-owned MFIs in Darfur, and the potential of these new MFIs of providing sustainable and inclusive microfinance services. The third key aspect to be studied is the potential for expansion of microfinance services into markets, such as alternative energy.

Objective

The joint Tufts University/IOM/UNDP consultancy will assess the feasibility of a conflict-sensitive model for the provision of sustainable microfinance services in Darfur as a complementary intervention to IOMs and UNDPs Livelihoods and Natural Resource Management activities in Darfur. In particular, the consultancy will assess the feasibility in Darfur of expanding mobile phone-based access to remittances and other microfinance services (to be provided by UNDP) and of specific microfinance mechanisms to support demand for and use of alternative energy sources as discussed in the joint UNEP-UNDP ENTEC Study.

A positive feasibility study of microfinance in support of safer remittances, more secure savings, credit for LPG and/or general market development through microenterprise financing should result in microfinance support being incorporated in the draft project proposal for UNDP. If feasible, an intervention supporting the planned establishment of State-owned MFIs in Darfur could also be included in the proposal.

Activities

Overall, the joint Tufts University/IOM/UNDP consultancy will undertake the following activities:

- Review best practices and lessons learned of microfinance programs from (post-) conflict countries with special focus on their conflict-sensitivity as well as financial and environmental sustainability with respect to their applicability to Sudan;
- Review suitable examples of using microfinance for promotion of alternative energy as well as for supporting agricultural including forestry value chains in Darfur;
- Document and review past and current microfinance initiatives being implemented in Darfur by different actors (banks, NGOs, other programs) with focus on their sustainability potential as well as their conflict-sensitivity;
- Assess demand and access to microfinance in Darfur;
- Assess the feasibility of a sustainable, conflict-sensitive microfinance service for Darfur which can be used for the establishment of agricultural value chains as well as alternative energy promotion in Darfur;
- Assess the feasibility of making use of mobile banking services to increase rural microfinance (incl. remittances) outreach in Darfur.
- Assess the feasibility of setting up a SDF MFI.
- Undertake a peer review of UNEP-UNDPs joint study on LPG-promotion via microfinance in Sudan and its applicability for Darfur;
- Co-facilitate multi-stakeholder workshops for the discussion of conflict-sensitive microfinance approaches in 3 towns of Darfur in order to receive stakeholder-feedback and input to the model;
- Hold meetings and discussions with government, donors and other important microfinance actors in Darfur and Khartoum;
- Provide and present recommendations on how to expand access to microfinance in Darfur to the main project partners in Khartoum.

As part of the overall joint Tuft University/IOM/UNDP Consultancy, the International Microfinance Lead Consultant will team up with and supervise the National Microfinance Consultant (NMC) recruited on separate TOR to compile national data and literature on microfinance demand and supply in Darfur; current usage of mobile telephony in Darfur; and remittance models currently in use in Darfur, etc., and in particular undertake the following tasks:

Tasks	**Est. LoE**
1. Desk review of international experience with conflict-sensitive microfinance models and their potential applicability in Darfur	3
2. Based on data compiled by NMC, assess the degree to which the policy, legislative and regulatory environment and meso-level support structures for microfinance and branchless banking in Sudan may increase access to microfinance in Darfur	4
3. With the NMC, assess the demand (perceived and actual) for and access to microfinance (credit, deposits, remittances, insurance) among the poor in urban and rural Darfur including a rough estimation of the size of the market for financial services, and some key demand characteristics, as logistically possible and cleared by IOM. This would entail: • Focus group discussions with current and potential microfinance clients (women and men) via their providers/associations (e.g. banks, Farmers' Unions, Women's Development Associations, *sanduqs* or similar); • Interview with current and potential micro entrepreneurs (women and men) in their places of business (markets, souks);	6
4. With the NMC, assess the current and planned retail-level supply of microfinance, as logistically possible and cleared by IOM. This would entail meetings and discussions with and data collection among: • Relevant authorities at state and local levels in Darfur (CBOS, MoFNE, SDF, MoSW, MoT, etc); • Financial services providers (banks, NGOs, cooperatives, unions, associations, insurance companies, etc.); • Business services providers (mobile phone companies, LPG kit manufacturers/distributors, remittance agents, CIT providers, etc.) • Support projects and donor agencies (INGOs, projects, UNDP and IOM staff, other donor agency staff)	8
5. With the NMC, assess the feasibility of promoting sustainable, conflict-sensitive microfinance in Darfur based on identified demand characteristics and demand-supply gaps. In particular, the use of mobile phone technology to increase outreach of banking/microfinance services shall be considered.	3
6. With the NMC, undertake a peer review of UNEP-UNDPs joint study on LPG-promotion via microfinance in Sudan (to be provided by UNDP) and its applicability in Darfur, given demand characteristics identified;	1
7. Provide a debriefing on preliminary findings to three stakeholder groups: a debriefing to IOM and UNDP, a debriefing with CBOS, and a debriefing with potential donors on site. Feedback obtained during the debriefing will be incorporated into the draft report/proposal.	2
8. Draft an assessment report including findings and recommendations for feasible access to microfinance in support of livelihoods of the poor in Darfur. If microfinance interventions are recommended, the report should include a draft Project Document on expanding financial services to the poor in Darfur. The report will be finalized following incorporation of comments form UNDP, IOM and Tufts University	7
Total estimated LoE:	34

Deliverables

As a result of the above-mentioned activities the consultancy is expected to deliver the following results:

1. Presentation of preliminary findings and recommendations to IOM, UNDP and other relevant stakeholders upon completion of fieldwork and before departure from Sudan.

2. Assessment report on conflict-sensitive microfinance services in support of livelihoods of the poor in Darfur including findings and recommendations for any feasible options for microfinance support. Feinstein International Center, IOM and UNDP will provide comments to the Consultant and the final deliverable will incorporate these comments.

3. Pending the findings of the Assessment, the report may include a draft Project Document in UNDP format detailing any recommended conflict-sensitive microfinance interventions in Darfur for implementation by UNDP in collaboration with IOM, SMDF, UNEP and/or other actors in Darfur. Feinstein International Center, IOM and UNDP will provide comments to the Consultant and the final deliverable will incorporate these comments.

Duration, Timing, Location and Level of Effort

The assignment is expected to entail up to 34 days of work, beginning o/a January 15, 2010, with the field work to be conducted o/a January 24 – February 22, 2010. The assignment is expected to end on or about March 31, 2010. The available level of effort for this assignment is broken down as per table above.

The consultant will work in close collaboration with and supervise a national senior microfinance expert who will do initial research in Khartoum as per separate TOR before the arrival of the international microfinance lead consultant and will support the international consultants during the entire period of the assignment. In Sudan, the Consultant will coordinate and collaborate closely with IOM and the UNDP Sudan Economic Advisor and her colleagues who will be part of the team providing briefings, technical input and organizational support. The Consultant will work closely with the Senior Livelihood Expert of Feinstein International Center/Tufts University.

Reporting and Communication

At the end of the assignment, the Consultant will submit deliverables to Karen Jacobsen, Feinstein International Center.

While in Sudan, the Consultant will work under the auspices of IOM Sudan and thus report to Paul Rushton who will ensure the travel, logistic, field mission and security support. The consultant will be supported technically by Maja Bott, Economic Advisor, UNDP Sudan.

As Microfinance Lead Consultant in Sudan, the Consultant will closely work with and oversee the work of the National Microfinance Consultant who will be assisting in accomplishment of the assignment and will retain responsibility for the quality of the deliverables detailed in his TOR.

Annex 8 Work Schedule and List of Persons Met

Day/ time	Event - Institution	Name and title	Contact
		KHARTOUM	
7/2, 08.30	IOM Admin	HR Officer Samira H. Bhatti Human Resources Assistant Yowhans Gebreoul Operations officer – Nagmaldin Ali Asaad Hussien – Radio operator	sbhatti@iom.int
7/2, noon	UNDP	Economic Advisor Maja Bott	maja.bott@undp.org
7/2, 1500	SMDF	MD Mansur Khan Ahmed Abdelmoniem Dr. Jafar Farah	mansurk@hotmail.com a.abdelmoniem@int.frankfurt-school.de farah@int.frankfurt-school.de
7/2, 1630	UNEP	Brendan Bromwich	brendan.bromwich@unep.ch
8/2	SMDF	MF specialist Ahmed Abdel Monem	ahmeda_monem@yahoo.com
09/2 09.00	ABS	Ass. GM Internal Perform. Dev't Adam Md. Hussein Ms. Mahasin E. Giha, Absumi Coord Ms. Awadia Fadlalmoula Mohamed	mohdam1283@yahoo.com Suna99suna@yahoo.com Awadia_F60@yahoo.com
09/2 1130	Sheikhan HQ	Salma Faisal Head of export insurance Al Zain Abdelgadir Head of Marketing	0912846225 0912811225
09/2 14.00	CBOS MFU	Ms. Hiba Mahmoud Farid – MFU manger Dep. Manager Yasir Ahmed Hassan Gamie	hibafarid@hotmail.com Yasir.Hassan@cbos.gov.sd
		SOUTH DARFUR	
10/2 11.30	UNDP Nyala	Head of Office Mr. Yahya Hashim Odi Livelihood Officer Abdalla ElTelaib	 Abdalla.eltelaib@undp.org
10/2 1230	Norwegian Church Aid – Caritas/ACT intl	Head, programmes, Christopher Nyamandi Early Recovery Coordinator Mohamed Abdul Karim	0129635786
10/2 14.00	Nile Petrol Company	Mohamed Abu Agla	0912120953
10/2 15.00	Group discussion: Ministry of Finance	HE Minister of Fin Adem M Adem Ali Dir Investment & Microindustrial devt Hafez Abu Alyaman Poverty alleviation Ali Hassan Mahmoud - Zakat Ali Adam Hussien- Plannning Nagm Aldin Iesa – MOF – Revenue Mohadi Mohd Hassan – MOF – credit Hafiz Hamza-MOF Hanan Sulieman Adam – Social Affairs Hawa Tahir – Women Union Ahmed Mohamadain, Darfur R&D fund Adam Mohamed Adam - MOF	adaminre@hotmail.com 0122264259 0121511959 0912101408 0912493495 0912488710 0912884612 0121911903 0912527325
11/2 0900	Group discussion: UNDP, UNIFEM, CRMA	Abdalla ElTelaib Salah Rijal – CRMA Mohamed Miruish – Livelihoods	0912140473
11/2 11.30	UAE Forex bureau	Manager Siddig Al Amin Hamid	0912454391
11/2 13.00	Sheikhan Nyala branch	Dept Manager Mohamed Ahmed Ismiel	0912696205
11/2 14.30	Qatar Charity Foundation	Representative	
11/2 15.00	Ministry of Finance	Hafez Abu Alyaman, Director of International Cooperation and Anti Poverty	0122264259
12/2	Nyala Souk	Eatery owner/cook Hawa Ismaiel Carpenter (IDP) Abu Bakar Mosa Lucerne seller Baker Wasila Abdelgadir Charcoal seller Tea lady Hawala Agent - Moktar Abu Bakar	 0911670313 0911670313

13/2 10.00	SSDB Nyala FGD I with clients: FGD II with clients:	Investment officer Mohamed Amin Branch manager Mohamed Samani Fathyya Awad – client Samira Adam client Suad Al Zain – client Mariam Abu Bakar client Salma Husien client A/Rahman Khalifa client Motasim A/Rasoul client Mohamed Bakit client Ahmed Dieffalla client Ahmed Mostafa client	091240519 0923116146
13/2 14.00	Nyala spice market	Honey trader Ismael Salih	
13/2 15.00	Brick kilns in mango orchard	Brick kiln/orchard owner Osman Mohamed Kiln owner Abd Alhag	0917719717 0927807513
14/2 0900	Kalma IDP camp	Camp sheikh Ali Abdel Rahman Salin Iesa – camp seretary Sector leaders: Adam Abu Bakar- youth, Hawa Yousif -women, security Doctor/pharmacist Communication center operator Charcoal producer	
14/2 1300	Sakali IDP camp	Camp sheikh/umda Mohamed Abu Bakar Abdallah Bokrim, trader in the camp	0913328370 0916719651
14/2 16.30	HISG Nyala	Prg Coordinator Ali Suliman Ibrahim Manager Rami Makar	toorsuliman@gmail.com rmakar@hisg.org
15/2 09.45	ABS, Kass branch	Branch manager Adam Abdalla Ali	01221816519
15/2 10.45	Livestock market, Kass	Livestock traders and 'middle men'	
15/2 12.00	PODR, Kass	Osman Doma – Deputy Manger Kass office	0917719140
16/2 0900	PODR, Kass	Prg manager Suliman Ibrahim IGA group members	0912849907
16/2 1200	Kass souk	Telecommunication center owners Chamber of Commerce committee members: - Umda Ali Boosh – trader - Mohamed Ibrahim Yahya –trader Milk sellers	
16/2 1330	Kass bus station	Ticket seller, drivers and Transporter	
16/2 1415	Bulbul village	Mill owner and assistant – returnees from IDP camps in Kalma and Seref	
16/2 1530	MoF Nyala	Hafez Abu Alyaman	0122264259
17/2 09.45	Min of Soc. Affairs, Nyala	Man, Soc Welfare dept, Doma Biraima Adam Poverty alleviation and displacement coordinator, Hanan Suliman Ali Volunteer coordinator Mohamed Ibrahim Hassan	0918094138 0912884612 0912586982
17/2 11.00	Committee of Strategic Planning	Exec. Dir. Pastoralist Union Hussein Omar Pastoralist union Chairman Husein Omer Musa Committee members: Mohamed Nour Mohamed, Dr Mohamed Al Amin Ishaq	 0912640878 0912349451
17/2 12.00	Central Bank of Sudan, Nyala Branch	Branch man. Mohamed Ahmed Salih Dep. Man. Salah Abdel Rahim	0912538100

		MF officer Hamid Ajabna Makin	0912680568
17/2 1300	Nyala post office	Tag Aldin Dalil Manager	0123488843
17/2 15.00	FAO office	FAO officer Wolde Selassie Abbute Livestock Spec. Mekki Mohammed Crop spec. Bereke Tsehai Tuku	wabbute@gmail.com Mekki.AliM@fao.org Bereke.tuku@fao.org
17/2 15.30	Old Nyala hospital	Director of Bureau of Statistics, Nyala Mr. Mahbool Al basher Al Noor	
18/2 10.00	Gereida market	Umda Ali Ahmed Ismeil	
18/2 10.15	Gereida residents' souk	President, Farmer's Union Malik Nour Aldin President, Pastoralist Union Ismael Suliaman Traders/farmers – host and IDP: Sahnon Ahmed - trader and farmer Osman Adam – trader- farmer- livestock	0126067360 0913510131
18/2 11.30	Aboja Souk in Yassin IDP Camp	Sudatel operator –Yousif Mohamed Al Hassan Oil miller Al toum Osam Adam, restaurant owner MEs in Aboja souk	
20/2 14.00	UNDP Nyala	Abdalla ElTelaib	
		NORTH DARFUR	
21/2 13.00	CBOS, El Fashir	Dep. Branch manager Omer Adam Ismael MF Officer Al Naem Ahmed Hassan	0912538100 0912284045
21/2 15.00	UNDP El Fashir	Sr. Reg. Coord Stephen Kinloch Pichat Livelihood Officer Omer Harun	Stephen.kinloch-pichat@ undp.org/ 0912160602 Omer.harun@undp.org
22/2 09.00	Min of Finance	HE Minister of Fin ElTayeb Salih Gaddal HE Minister, Soc Welfare Dr Ismael Hussien Hashim MoF DG, Planning Unit, Hafez Mahmoud Al Tijani MoSW officer Mr. Dr Al Fatih Sulieman	0912161226 0918067259
22/2 10.30	Sheikhan, Fashir	Asst. MD (Actuarial) HO, Mohamed Awad Mohamed; Branch manager Isam Sulieman nasr Insurance officer Al Aidaros Sahori	Awadnasa70@hotmail.com 0912835684 0912229305
22/2 11.30	ABS El Fashir	Branch manager Mozamil Abas Ali	0915610883
22/2 12.15	Al Aman Forex bureau	Branch manager Ibrahim Adam Sharaf Aldin	0915129272
22/2 13.00	Women's Network (PA)	Secretary Ms. Eman Abdel Rahman Abdalla	0917202044
22/2 15.15	UNAMID Supercamp		
22/2 16.00	Zein direct sales office	Branch manager Ibrahim Adam Ali	0912328719
23/2 10.30	ABS, Kebkabiya	Branch manager Arabi Abdalla Osman	0912584187
23/2 11.15	Nilien Bank, Kebkabiya	Branch manager Mobashar Mahmoud Ali	0120811859
23/2 11.45	Kebkabiya Small holders Charitable Society (KSHS)	Accountant Abdalla Ibrahim Mohamed	
23/2 12.15	Birge IDP market, Kebkabiya	Butcher Kanonnga Abu Bakar Trader Abd Alkarim Mohamed Yousif	
23/2 13.00 – 14.45	Women's Devt. Society (Network member), Keb.	Exec. Pres Thoraya Ibrahim Salih Secretary Mariam Mohamed Bor Amona Abdel Rahim Staff/LPG borrower Hasaniya Md. Bahar (IDP)	
24/2 0800	UNDP Fashir		
24/2 11.30	WFP Fashir	Mr. Ali Rezar – Head of North Darfur Area Office	
24/2 12.30	UNOCHA Fashir	OC Ms. Beatrice Lalcoy Mr. Mohamed Haroon Dimbo NFC Mr. Abd Elbagi Safieldin NFC	0912170946 dimbo@un.org 0912160468
24/2 13.30	Zain indirect sales agents	Manager Alam Aldin Mohmed Altahir Mr. Isam Mohamed Altahir	0912319333 0912397505

		Retail agent Mr. Hafez al Nour	
24/2 16.15	Relief International	Food Security Officer Randir Kumar (tel interview)	0908554044
25/2 0900	Kalmindo Company	Transporter Mr. Al Hadi Ibrahim Abd Alrahman	0912586190
25/2 10.00	Darfur Development and Reconstruction Agency (DDRA)	Program Manager Khalil Wagan Briema Project Officer Mr. Alnour Hussien	waganhk@yahoo.com 0912210551 0918239998
25/2 12.00	CBOS Fashir Microfinance COmmittee	CBOS Branch Deputy Manager MFO CBOS Al Naem Ahmed Hassan ABS Osman Abdalla yahya ICDB Khalil Gamar Aldin SSDB Mohamed Jobara Al Jak AnnRB Hussien Abdalla Khalil Faisal Abdalla Morra MoF Officer Hassan Abdalla Talab	0912538100 0911302953 0912550308
25/2 14.30	Abu Shouk IDP camp market	DDRA officer Ms. Smaya Ibrahim Umda Mr. Abdel Jabbar Abdelkarim, Wholesale IDP trader Lemon seller Livestock traders	0918238971
26/2 14.00	IOM South Darfur	Coordinator Paul Rushton (tel interview)	prushton@iom.int
27/2 09.00	Al Fashir Livestock Market FDG, Mahamid pastoralists (Abbala)	Ysain Sharif (Um Sayala) Farah Jumma Shandag (Chalm) Saed Hamdan (Goz Jumaiza) Alsayer Fidail (Um Sayala) Migaibish Hussien Ibrahim Saed (Damin Al Mahamid) living in El Fashir	0111481270 0121617711
27/2 11.00	Nile Company, Fashir	Distributor	
		KHARTOUM	
1/3 0900	UNDP Khartoum	Debriefing, Economic Advisor Maj Bott	
1/3 1100	Nat. Training center for Youth (at UNDP)	DG Mr. Afaf Ahmed Abd Elrahman	afafntcy@hotmail.com
1/3 1400	CRMA, UNDP Review of CRMA MF mapping exercise	Marta Svare Ambika Mukund Mohammed Belo	Marte.Svare@undp.org Ambika.Mukund@undp.org Mohammed.Belo@undp.org
3/3 1000	UNDP Khartoum Debriefing for UNDP Programme COmmittee	Ekatarina Paniklova and programme officers (full list of participants with UNDP Khartoum)	Ekaterina.Paniklova@undp.org
3/3 1400	African Dev't Bank Meeting with Donors Economic Discussion Forum	Country Manager, AfDB Famara L. Jatta Principal Country Program Officer Obed A. Mensah EC Programme Coordinator Alvaro Ortega US Embassy Officer Rashidah S. Bayero (full list of participants with UNDP Khartoum)	f.jatta@afdb.org a.mensah@afdb.org alvaro.ortega-aparicio@ec.europa.eu ellisp@state.gov
4/3 1030	Banker's Union CBOS Workshop: "Barriers and Opportunities for Expanding Microfinance in East Sudan and Darfur"	Debriefing at workshop HE Minister of Finance, S. Darfur Adem M Adem Ali HE Minister of Social Welfare, Khartoum State Amira Elfadil M. Elfadil Director CBOS MFU Hiba Farid (Full list of participants with CBOS MFU)	 0183 783 188