

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

University of Science and Technology

Faculty of post graduate study and academic development

Research on:

EVALUTION OF FORMAL FINANCA AVILABLE TO SUDANESE INDUSTRIAL SECTOR

**A thesis submitted for fulfillment of the
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Prepared by:

Mahmoud Ishag Mohammed

Bsc (honor), of chemical engineering- university of karray, 2001

Supervisor:

Prof: Hassan Abass

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Abstract

Sudan is a big country which has an abundance of natural resources, such as agriculture, animal, forest, mines, water and crude oil, also Sudan has different human resources ,so Sudan has a good industrial infrastructure to become industrial country the growth of Sudan industry sectors has been slow ,in fact the Sudan's industrial sector are weak and have low share in the economic of country , Despite several measures undertaken by the government, Sudan's industry sectors continue to suffer from several chronic problems, including a lack of raw materials, labor force and investments.

This research aim to evaluate the industrial sector on the spot of finance the finance of Sudanese industrial sector come from owner which can be nation or foreign investor or by borrowing from bank.

Sudan has a small, undeveloped financial system, which is largely governed by Islamic monetary principles, including the prohibition to charge. Sudan's banking sector comprises of either fully or partially private-owned banks. The Sudanese financial sector suffers from weak lending practices, supervision and regulation. Besides, a majority of the population is not associated with the formal banking sector due to limited access to credit, which also hinders Sudanese businesses. Sudan has a small capital market, which primarily trades in bank shares, on the nation's Khartoum Stock Exchange.

So we discuss the Islamic mode of finance which applies in Sudan's bank sector.

المستخلص

هدف هذا البحث الى دراسه طرق التمويل المتاحه للصناعه السودانيه وتقييم تلك المصادر.

قامت منهجيه البحث على البيانات الثانويه من نتائج المسح الصناعي الشامل للعام (2005) ومعلومات اقسام الاستثمار فى بعض البنوك الاسلاميه. اظهرت الدراسه ان التمويل المتاح للصناعه المحليه يكون من الاموال الذاتيه للافراد او المجموعات او شركات التامين والضمان الاجتماعى فى شكل شركات مساهمه محدوده او عامه. كما يتم استخدام عوائد المبيعات والاهلاك وغيرها. كما يتم الحصول على الاموال لاغرض شراء معدات او مواد خام عن طريق القروض البنكيه.

اظهرت الدراسه تقييد جميع البنوك السودانيه بالتمويل عن طريق الصيغ الاسلاميه مثل المشاركه، المرابحه والمضاربه وغيرها.

خلصت الدراسه الى ان التمويل البنكى به كثير من القيود والتعقيدات الاداريه وتتجنب البنوك العمليات المحفوفه بالمخاطر مثل عمليات المشاركه والمضاربه. كما اظهرت الدراسه ان حجم التمويل المتاح للصناعه قليل ولا يفي بحوجه الصناعه المحليه مما يجعل الصناعه المحليه متخلفه ولا تساهم مساهمه فاعله فى الناتج الاجمالى للسودان

1.Introduction

As you are aware finance is the life blood of business. It is of vital significance for modern business which requires huge capital. Funds required for a business may be classified as long term and short term. Finance is required for a long period also. It is required for purchasing fixed assets like land and building, machinery etc. Even a portion of working capital, which is required to meet day to day expenses, is of a permanent nature. To finance it, we require long term capital. The amount of long term capital depends upon the scale of business and nature of business.

1.2Finance definition

Finance may be defined as the provision of money at time it is needed. Finance consists of providing and utilizing the money, capital rights; credit and funds of any kind which are employed in the operation of an enterprise, so business finance means investing, borrowing and spreading of money in the proper manner for the operation of business.

1.3Principals of Finance

Generally, business finance is obtained by two means. Firstly, the owner of business himself introduces capital to form a business, Secondly; finance is obtained through borrowing from the people outside the organization who provide finance on the basis of the principals of safety, profitability and liquidity. These principals are described below:

1.PrincipalofProfitability

An investor must employ funds in useful and profitable channels. He must think many times that money invested in a business should not become bad or uncollectible. He should not lend to a borrower with whom remuneration may be much, but also equally risky. On the other hand lender should prefer a borrower who is offering a higher rate of interestorprofitoncomparativelylesserrisk.

2.principleofSafety

The money which will be employed must be secured. Therefore, an investor must be very careful and ensure that his money is in safe hands where the risk of losses does not exist. He must ensure that the borrower is a person of character and will repay the money borrowed, including the profit or interest thereon. He must also see the capacity of borrower to repay the money borrowed. He must also consider whether amount invested for is reasonable in relation to the borrower's own investment.

3.PrincipleofEasyRecovery

An investor must consider the possibility of easy recovery of funds invested in a business. He always invests money where he is assured of the immediate recovery. Investment in company shares and loans from banks and financial institutions are the examples of investment on the basis of this principle.

1.4Classification of financial institution

There are different types of financial institution but in this research we explain financial institution as a formal and informal type, both of formal and informal institution provide financial services, or supply financial product .the distinction between forma and informal is usually made according to weather the institution is subjected to government registration, regulation and control well as the control of the central bank.

1.4.1Formal institution

The formal financial sector consists of three levels:

1. The central bank and other regulatory which represent the first level.
2. Banking and non- banking financial intermediates, which include commercial bank, development bank, postal saving network, saving bank, insurance company ,etc. commercial and development banks are usually the most prominent .this institute are directly involved in providing borrows and savers with financial services.
3. The financial market.

1.4.2Informal institution (Informal finance)

Informal finance can be described as borrowing among individuals and firms that are not registered with the government as financial intermediates and are not subjected to government supervision ,the type and the characteristic of informal finance are beyond of these research so we don not explain here.

1.5TypesofFinance

On the basis of the purpose for which capital is required, finance may be classified into long term finance and short term finance.

1.5.1 Long Term Finance

The long term finance refers to the amount required for acquiring fixed assets like machinery, land, building, furniture and equipments etc. These assets remain in use for a long period and to acquire these long term finance is needed which is sunk in the business permanently or for a long term and is not available for immediate conversion into cash. The amount of long term capital required by a concern depends on the nature and size of the business. Long term finance is utilized for establishing a new business or for expanding an existing business and to replace the old fixed assets by new assets or to acquire the benefits of new inventions, methods and technologies. Long term capital is invested for ten or more years.

1.5.1.1 Purpose of long term finance

Long term finance is required for the following purposes:

1. To Finance fixed assets:

Business requires fixed assets like machines, Building, furniture etc. Finance required to buy these assets is for a long period, because such assets can be used for a long period and are not for resale.

2. To finance the permanent part of working capital:

Business is a continuing activity. It must have a certain amount of working capital which would be needed again and again. This part of working capital is of a fixed or permanent nature. This requirement is also met from long term funds.

3. To finance growth and expansion of business:

Expansion of business requires investment of a huge amount of capital permanently or for a long period.

1.5.1.2 Sources of Long Term Finance

The Long Term Finance must be basically provided by the owners of the concern since it is the amount which is permanently sunk in the business. To acquire fixed assets of the business long term finance can be divided into two parts:

1. Corporate Financing

In a company, the long term finance is raised by issue of shares. Additional fixed capital required when the business expands, is raised by means of long-term borrowings, such as the issuance of debenture, floatation of mudarba, accepting public deposits, borrowing from bank

and other financial institutions and ploughing back of profits.

2.Non-CorporateFinancing

This financing refers to the sole proprietorship and partnership, etc. In sole proprietorship business, long term finance is provided by the sole trader himself. In and partners may also acquire long term loan from their friends and relatives.

1.5.2ShortTermFinance

It is required for day to day working of the business. It is required for the purchase of raw materials and for the payment of manufacturing, establishment, selling and distribution expenses. It is also required for holding convertible assets like stock of merchandise, receivables, and cash etc. In the course of business these assets are used again and again for the earning of profit. The finance required for this purpose is invested for a shorter period is known as short term finance or working capital. It represents the total investment in current assets such as cash, stock, receivables etc., minus current liabilities.

1.5.2.1SourcesofShortTermFinance

such finance is required for acquiring the current assets of business and meeting the operating expenses of business. A business concern must have sufficient funds to carry on its current operations. The sources from which short term finance or working capital is derived are of utmost importance. For short term business needs are financed either out of internal sources or external borrowings. The extent to which external sources can be relied upon depends on various factors such as stability of the profit of the concern, its goodwill and credit standing in the market, the amount of cash readily available at any time, etc. Following are the main sources of short term capital.

1.6. Research objective

The aim of this research is the study of Sudanese industrial sector and identifies the formal finance available to this sector and evaluates it.

1.7 research methodology

This Research is adopted by use of second information that obtained from some of Sudanese bank and from the general industrial survey (2005), this information was analyzed and used to identify the formal finance available to Sudanese industrial sector.

