Journal of US-China Public Administration, ISSN 1548-6591
April 2011, Vol. 8, No. 4, 444-457

Does Privatization Work?
The Story of Sudan's White Nile Tannery

Khalid Hassan Elbeely
Sudan University of Science and Technology, Khartoum, Sudan

This study investigates whether and to what extent the introduction of the privatisation policy succeeded in achieving the desired targets announced by the government, such as increasing productivity or provision of adequate funds for the newly privatized enterprises. A case study of the White Nile Tannery [WNT] aids that investigation. The study examines the controversy that surrounded the privatization of WNT and its subsequent performance, especially its technical and financial performance. The study reveals that the tannery's technical and financial performance improved significantly during the period of 1992-1994, which directly followed its privatisation. Nevertheless, the improvement failed to persist in the years thereafter (1995-1999), when the tannery's technical and financial performance trends began to show inconsistencies. There were also symptoms of under-performance, as evidenced by its declining labour productivity average, as well as its small contribution to the total exports of the leather sector. The evidence suggests that the main reason for the significant improvement that took place during 1992-1994 was the rehabilitation programme completed immediately before the tannery's privatisation in 1992. Furthermore, the study of the White Nile Tannery demonstrates clearly that changing the ownership alone of a particular enterprise will not lead to a substantial improvement in its efficiency, unless the real problems from which it suffers are tackled and eradicated entirely. This conclusion stems from the fact that even after its privatization, the tannery's main problem—a lack of adequate funds—remained unsolved. Therefore, if privatisation is inevitable, priority should be given to the private sector, which possesses the knowledge, expertise and adequate financial capabilities.

Keywords: privatization, performance, productivity, tannery

Sudan is the first Arab country and the second in Africa when we consider the number of its animal resources. This animal wealth amounts to 140,003 million head, and comprises four different types, namely cattle, sheep, goats and camels. Moreover, animal resources contribute significantly to the composition of the country's GDP (16.7% in 2008). However, its contribution in the country's export dropped significantly since 1999 after the discovery and export of oil, i.e., from 15.2% in 1999 to 0.03% in 2008 (Central Bank of Sudan, 2008).

The large number of animal resources also enabled the country to play an important role in the production of leather and shoes, which reached 4.9 million pieces and 13.2 million pairs respectively in 2007 (Central Bank of Sudan, 2007). Leather can also be used in the manufacture of a number of products such as furniture, clothes, bags, gloves and belts.

Corresponding author: Khalid Hassan Elbeely, Ph.D., associate professor, Dean of the College of Business Studies, Sudan University of Science and Technology; research fields: political economy, economic development, international economics with special interest in topics such as privatization, poverty, informal sector, structural adjustment programmes. E-mail: lingokhalid@hotmail.com, alternative e-mail: khalidhassan@sust.edu.

In addition to the above-mentioned industries, a flourishing tanning industry appeared in the mid-1960s with the establishment of the Khartoum Tannery, which was followed by White Nile Tannery and the Gezira Tannery in 1975 and 1976 respectively. Along with these state-owned tanneries, a number of private and traditional tanneries were also established during the same period. The number of both traditional and modern tanneries grew substantially during the 1980s and 1990s; and the number of modern tanneries approached 7, while their traditional counterparts amounted to 300 located throughout Sudan (Ministry of Industry, 2005).

Objectives of the Study

The aim of this study is to investigate whether and to what extent the introduction of the privatisation policy succeeded in achieving the desired targets announced by the government, such as increasing productivity or provision of adequate funds for the newly privatized enterprises. The outcomes of the privatisation programme will be compared with the declared objectives, and the factors that influenced the outcomes will be assessed.

A case study of the White Nile Tannery (WNT) aids that investigation. The tannery processes domestic raw material using a low level of technology. The privatization of the White Nile Tannery in 1992 was hotly debated, to the extent that it was discussed by the Transitional National Assembly (TNA). The opponents of privatisation have used the story of the White Nile Tannery as a classical example of "selling the family silvers to a selected few business groups at throw-away prices". The paper examines the controversy that surrounded the WNT and its subsequent performance, especially its technical and financial performance.

Methodology

The methodology adopted in this paper is a combination of comparative, descriptive, analytical and political economy approaches. A thorough examination of the tannery's technical and financial performance before and after its privatization had been carried out.

The research conducted in the preparation of this study involves the collection of wide range of data (both primary and secondary). The primary data included several government reports such as the report issued by the Auditor General Chamber on the methods used in the disposition of the assets of the public sector enterprises under the privatization programme, the report of the Supervisory Administrative Committee of the Transitional National Assembly on the implementation of the privatization programme, the Institute for Leather and Shoe Research (ILSR) Report on the rehabilitation and improvement of efficiency in leather sector in Sudan. The study also involves carrying out a number of unstructured interviews with some of the White Nile Tannery head departments, academics and government officials.

Organization of the Study

This study is divided into seven major parts. Part 2 reviews the technical and financial performance of the tannery before its privatisation, and explores the major problems that constrain both types of performance. Part 3 explores the process through which the tannery was sold to the private sector, while part 4 examines the allegation raised about the sale of the tannery to its new owners. Particular reference is made to the report of the Auditor General about the mechanism used in the privatisation of state-owned enterprises (SOEs), and to the report submitted to the TNA by its Supervisory Administrative Committee. Part 5 and part 6 review the technical and financial performance of the tannery after privatization, while part 7 presents the conclusion of the paper and its main findings.

White Nile Tannery: Performance Before Privatisation

The tannery was established in 1975 as a result of an agreement between the Sudanese Government and the Yugoslavian Invest-Import Company, which supplied most of the tannery's machines at the start of the company's operation.

The establishment of the White Nile Tannery was meant to fulfil certain objectives, such as supplying finished and semi-finished leather to both the domestic and international markets. Additionally, both government balance of payments and budget might be improved as a result of the revenue contributions of the tannery, either through taxes paid or foreign exchange earned from the export of its manufactured leather. Furthermore, the tannery was expected to provide and create employment opportunities for a number of people in the area. Moreover, the tannery might benefit from the availability of the large amount of animal resources, and thus from the availability of local raw leather material.

The tannery was established as a production unit of the fully state-owned Leather Industries Corporation (LIC), which at that time comprised two existing tanneries, the Khartoum Tannery and the Red Sea Tannery, the latter being a 50% joint venture with a private investor. Additionally, two shoe and leather goods factories, as well as two tanneries being planned or under construction (the White Nile Tannery and the Gezira Tannery), were also considered as part of the LIC. In 1981, the LIC was dissolved, since when the White Nile Tannery has formally been a unit of the Ministry of Industry. Three years later, a new company came into existence to replace the LIC: the Leather Trading and Manufacturing Company Ltd (LTMC). The new company was to comprise, apart from the central head office, the three large public tanneries (i.e., Khartoum, Gezira and White Nile), since the other production units of the original corporation were already separate companies (ILSR, 1987). The LTMC was supposed to be a limited liability company under the Companies Ordinance of 1925 and to be financed from the contributions of the three state-owned tanneries.

The WNT had its own organisation and management, and its budget was submitted separately to the Ministry of Finance, not via the parent corporation. Nevertheless, the tannery continued to be linked (at the corporate level) to both the LIC and its successor the LTMC, which exercised control over its activities, especially in the decision making process (Mohamed, 1995). The continuous intervention from these two governmental bodies limited to a great extent the freedom of the tannery's administration in taking decisions and thus negatively affected its performance.

The WNT comprised five major departments, specifically finance, administrative, technical, commercial and engineering, and there were also three subsidiary units, namely security, secretary and quality control. These subsidiary units were placed under the supervision of the general manager.

The Productivity of the White Nile Tannery

Table 1 shows that during the period of 1989-1991, the WNT managed to utilise only 14.3% and 12.8% of its designed capacity for both hides and skins respectively, which indicated a very low utilisation ratio. Moreover, the tannery's production represented 19.7% of the total amount of leather produced by the other state-owned tanneries during 1989-1991, but only 2.8% of the total amount of leather produced by private tanneries.[1] Furthermore, the combined production of the three state-owned tanneries, Khartoum, Gezira and WNT, represented only 17.6% of that of their private counterparts during this period.

The tannery also managed to achieve only the small labour productivity average of 1.6 square feet per man/hour during the 1980s.[2] In comparison, Khartoum and Gezira, the other state-owned tanneries, achieved a

[1] This figure was obtained by dividing the total WNT production by the total production of Gezira and Khartoum, i.e., 204.9/1,222.7 = 19.7%.

[2] Labour productivity was calculated by dividing the number of square feet produced annually over the total number of employees multiplied by both the daily working hours and the number of working days during the year.

slightly better average of 1.7 and 1.9 square feet per man/hour respectively.

Table 1

White Nile Tannery Productivity, 1989-1991 (per 1,000 Pieces of Leather)

Year/Type	WNT designed capacity (thousand pieces)	WNT actual production (thousand pieces)	WNT utilization capacity[3] (%)	Gezira & Khartoum production (thousand pieces)	Private tanneries production[4] (thousand pieces)
1989/1990 Hides	180	26.5	14.7	54.8	480
1989/1990 Skins	600	139.8	23.3	557.3	2,398
1990/1991 Hides	180	25.2	13.9	74.6	3,070
1990/1991 Skins	600	13.4	2.2	536.0	2,375

Note. Source: Bakhit, 1998.

The Financial Performance of the White Nile Tannery

The WNT started its operations in 1975 with a working capital of £LS 1.3 million (paid by the Ministry of Finance), which was doubled during the period of 1975-1987 to £LS 2.7 million. A year later, in 1988, its capital was raised to £LS 3 million, i.e., increased by 11% (Sudan Government, 1992, January).

The tannery's capital remained constant at this amount until its privatisation, which took place four years later in 1992. However, as a result of its inability to increase its capital substantially, the tannery was faced with severe shortages of funds, which negatively affected its ability to implement its plans. Thus, it was forced to resort to financing part of its operations through bank overdrafts at a higher rate of interest. In fact, these interest rates constituted a large part of the tannery's liabilities, to the extent that they accounted for 35% of its total liabilities in 1984-1985 (Sudan Government, 1990, October). Nevertheless, state-owned banks continued to finance the tannery's losses until 1986-1987, when they decided to freeze their loans because of the tannery's huge debts.

Table 2

The Financial Performance of WNT, Khartoum and Gezira Tanneries During 1989-1991 (Million £LS)

Unit	TR 1989-1990	TC 1989-1990	S or D[5] 1989-1990	TR 1990-1991	TC 1990-1991	S or D 1990-1991
WNT	10.1	11.2	-1.1	14.7	14.9	-0.2
Khartoum	34.6	23.0	11.6	40.2	32.8	7.4
Gezira	35.2	31.2	4.0	32.2	37.6	-5.4
Total	79.9	65.4	14.5	87.1	85.3	1.8

Note. Source: Technical Committee for Disposition of Public Enterprises (TCDP), 1997.

Table 2 shows that the WNT achieved the worst financial performance in comparison with the other publicly owned tanneries, since it sustained continuous deficits in its budget during 1989-1991, immediately before its privatisation in 1992. Furthermore, the three publicly owned tanneries only managed to achieve a total surplus of £LS 14.5 million in 1989-1990 and £LS 1.8 million in 1990-1991. The main contributor to these surpluses was the Khartoum Tannery, since it maintained continuous surpluses during the period of 1989-1991.

On examining the contributions of the three state-owned tanneries to the total amount of the LTMC's exports (see Table 3), it is noted that the contributions made by both WNT and Gezira were better than that of the Khartoum Tannery, since their contributions represented 78.1% of the total amount of leather exported by

[3] The utilisation capacity equals the actual production of the tannery divided by its designed capacity.
[4] Private tanneries included both modern and traditional ones.
[5] The letters S or D refer to surplus or deficit, while TR stands for total revenue and TC stands for total cost.

the LTMC during the period of 1988-1990. Nevertheless, the contribution of the LTMC to the total amount of leather exported during the period of 1988-1990 remained extremely negligible at 12.9%, while the private and traditional tanneries contributed the remaining 87.1% (Ministry of Finance, 1992). The reasons for the WNT's poor technical and financial performance will be investigated in the next section.

Table 3

The WNT Contribution to Exports During 1988-1990 (Million $)

Item/Year	1988-1989	1989-1990	Total
LTMC	0.527	1.202	1.729
Khartoum Tannery	0.156 (29.6%)[6]	0.222 (18.5%)	0.378 (21.9%)
WNT & Gezira[7]	0.371 (70.4%)	0.980 (81.5%)	1.351 (78.1%)

Note. Source: Ministry of Finance, 1992.

The Major Problems Facing the White Nile Tannery

The major problems that faced the WNT can be divided into three main categories, namely administrative, technical and financial, as the paper will explain in the following paragraphs.

Administrative problems. These included government intervention in the internal operating decisions through the appointment of people who lacked the necessary experience and adequate skills, especially at the top level, e.g., the members of the Board of Directors. Moreover, the tannery suffered from a lack of adequate funds to implement its training programmes, besides the emigration of a large part of its skilled workers, due to the unattractive salaries and allowances offered to them (Mohamed, 1995; Bakhit, 1998).

Additionally, one of the main reasons for the WNT's poor productivity was largely related to its lack of sufficient amounts of raw material, especially leather. This situation arose due to its failure to compete with the private tannery owners and leather traders in purchasing the needed amounts. As a result, the tannery only managed to utilise a small part of its designed capacity, as shown in Table 1. Its inability to compete with its rivals stemmed mainly from the restriction imposed by the government on the prices offered by the tannery for the purchase of leather. The government specified a maximum ceiling price that the tannery could not exceed under any circumstances, while no such restrictions was imposed on its competitors, the private tannery owners and leather traders, who bought the good quality leather and left the rest for the others to compete for. Ironically, some of these competitors would bring their purchases of leather to be processed by the tannery (Mohamed, 1995; Bakhit, 1998).

Financial problems. These included a lack of adequate finance (whether foreign or local components) to implement its various projects. As a result, the tannery was forced to resort to bank overdrafts to finance its operations. Furthermore, these banks used to charge high interest rates, which aggravated the tannery's financial position. Additionally, the tannery had no accurate accounting methods, and thus no balance sheets or profit and loss accounts were prepared for several years, which made it difficult to evaluate its actual financial performance. Moreover, the excessively low prices for the tannery's output (determined by the Ministry of Industry) led to huge losses (Auditor General, 1990). The tannery also faced problems in the marketing of its products, especially internationally, due to the poor performance of the sales department of the LTMC, which handled the export function of all three state-owned tanneries.

---

[6] The figures in brackets show the contribution of the tannery as a percentage of the total exports of the LTMC, which comprises all three publicly owned tanneries.

[7] We only managed to find the Khartoum Tannery's export share, which was then deducted from the total exports of the LTMC in order to calculate the shares of both the WNT and Gezira tanneries.

Technical problems. These stemmed mainly from the tannery's lack of adequate funds to maintain its machines and equipment, as well as its failure to replace the obsolete ones. Moreover, its daily operations suffered greatly from frequent power cuts (especially in summer), which interrupted production. The tannery also experienced frequent breakdowns that arose due to its inability to purchase the required spare parts and chemicals needed for processing (Mohamed, 1995; Bakhit, 1998). Another factor that negatively affected the tanning section's productivity, and hence the productivity of the tannery as a whole, was related to defects in the construction of the tannery's buildings, especially its hall's concrete floor, which had been badly damaged by subsoil expansion (Auditor General, 1990).

In an attempt to offer solutions to the problems that the WNT faced in particular and the state-owned tanneries in general, a study was undertaken by the Institute for Leather and Shoe Research in the Netherlands. The study, which was funded by both the Sudanese Government and the World Bank, consisted of three separate volumes and covered the three publicly owned tanneries. "Being a state enterprise was the main reason behind the poor performance of WNT, the study claimed" (ILSR, 1987, p. 3).

The consultants even went on to claim:

> The parastatal system has no genuine interest in the individual enterprise, unlike a private owner, whose money is at stake to make him push and support the management to obtain good results. In addition, the parastatal system does not give the management adequate freedom to promote the prosperity of the enterprise autonomously (ILSR, 1987, p. 22).

They therefore urged the government to find a private owner, either local or foreign, which was willing to take over and continue operating the tannery.

In contrast, on examining the tannery's major problems, it is noted that probably most of them were the direct responsibility of the government. For example, the main reason for the frequent breakdowns experienced by the tannery could be attributed to the lack of adequate funds to purchase the necessary spare parts and chemicals needed to smooth the operation of the machines. The tannery's capital (supposed to be paid by Ministry of Finance), increased by only a small amount during the period of 1975-1988. It increased from £LS 1.3 million in 1975 (the year of its establishment) to £LS 3 million in 1988, while at the same time the pound suffered a continuous devaluation, which made this increase extremely negligible. From 1988 until its privatisation in 1992, its capital remained constant at £LS 3 million (Ministry of Finance, 1992). Additionally, the tannery was also prevented from benefiting from its own foreign exchange revenue, which the government would confiscate whenever the need arose. As a result, the tannery was forced to finance parts of its operations through bank overdrafts at high interest rates, and this worsened its financial difficulties.

Accordingly, one might claim that the problems facing the WNT could have been eradicated without the sale of the tannery to a domestic or a foreign private investor, as suggested by the Netherlands consultants. Even if one accepts their proposition as a solution to the tannery's major problems, the inadequate capabilities of the domestic private sector, besides the prevailing disincentive environment for foreign private investment at that time questions the logic and the timing of that proposal.

The Privatisation of the White Nile Tannery

The first attempt to privatise the tannery came immediately after the publishing of the ILSR Report in 1987, when the government tried to find interested private investors or semi-government bodies to participate as shareholders in the proposed new company. The government failed in its mission, however, despite the fact that it approached a variety of bodies and institutions such as the Arab Authority for Agricultural Investment and Development, local banks and hides and skins traders (ILSR, 1987). The obvious reasons were the poor financial and technical results of the tannery, and the heavy debt incurred by it as a result. This situation drew the government's attention to the importance of implementing a rehabilitation programme in order to improve the tannery's productivity, and hence to attract more interested investors, as a first step towards its privatisation. A rehabilitation programme was launched in 1989 (finished two years later in 1991) and was funded by loans from the Romanian, Italian and Yugoslavian Governments, at a total cost of $7 million. As a result of the programme the productive capacity of the tannery increased remarkably, the production of hides and skins exceeding their previous levels by 470 and 270 per cent respectively (Bakhit, 1998).

Moving in the same direction, the Salvation Government after June 1989 called in its Three-Year National Salvation Economic Programme (NSEP) for the reduction of government involvement in the economy. Moreover, it identified certain public enterprises to be sold, liquidated or privatised, and among these enterprises were the three state-owned tanneries, Khartoum, Gezira and WNT (Three-Year NSEP, 1990). The government thought that the productive capacities of these tanneries would be improved substantially after their privatisation, as well as their abilities to export a large proportion of their products. Additionally, the government anticipated that the increase in their productivity would be reflected positively in their contributions to government revenue, either through foreign exchange earned from exports or through the payment of taxes and customs duties. Furthermore, the increase in their productivity might help to satisfy the growing demand of the domestic market, especially the various local shoe workshops and factories (TNA, 1995).

A committee was formed by the Minister of Finance in June 1990 (Committee for Reviewing SOEs Performance) to offer proposals concerning the methods of disposing of public sector enterprises, including the three state-owned tanneries. The committee called for the three tanneries to be sold to the private sector (whether domestic or foreign), with priority being given to the foreign private sector, on the basis that it would be able to bring advanced technology into the tanneries. Furthermore, the committee thought that the tanneries should be offered to those who had the expertise and knowledge in the field, besides possessing adequate financial capabilities. Otherwise, a public share company combining both the domestic and foreign private sectors might be formed (Committee for Reviewing SOEs Performance, 1990). Later, the HC (High Commitee) for Privatisation, at its meeting held in August 1992 called for the immediate dissolution of the LTMC, besides offering the WNT for sale. Consequently, the White Nile Company for Leather Products (WNCLP) came into existence.

The entire assets of the WNT including the machines, equipment and furniture that were referred to in the tannery's assets evaluation list book were handed over to the new company. These assets included some machines and equipment supplied by the Romanian loan immediately before the tannery's privatisation and were not referred to in the assets evaluation list book. The new company (WNCLP) was mainly owned by Sudanese investors and financial institutions, namely the Faisal Islamic Bank, the Risafa Company, the Rawasi Company and the Bash Company, all of which were considered strong supporters of the regime. The following paragraphs will explain their links to the regime, starting with the Faisal Islamic Bank.

After the National Reconciliation took place in 1976, some of the Ikhwan (Muslim Brothers) emigrants' leaders with their well-established relationship with the Saudis decided to transfer the Islamic banking experience to Sudan. This attempt was greatly welcomed by Numeiri, who was seeking Arab financial support for his ambitious economic plans (Omer, 1997). As a result, the Faisal Islamic Bank (FIB) was established in 1978. One of its major shareholders, who was also the chairman of the Board of Directors, was the Saudi Prince, Mohamed bin Faisal (Woodward, 1990). FIB shares were divided between Saudis, Sudanese and other Muslims in the ratio of 4:4:2 (Omer, 1997).

The success of the FIB led to the establishment of similar banks: In 1983, the Tadamon Islamic Bank, the Sudanese Islamic Bank and the Islamic Co-operative Bank were established. In 1984, two Islamic banks began operation: the Al-Baraka (Sudan) and the Islamic Bank of Western Sudan. In 1988, another Islamic bank was established: the Al-Shamal Bank (as cited in Omer, 1997).

As Omer had pointed out:

> Undoubtedly, though these banks are not under the complete ownership of the Islamic Movement, the Ikhwan have played the most dominant role in their administration and activities. This dominant role rendered the movement the ability to expand its activities confidently (Omer, 1997, p. 21).

The other owners of the White Nile Tannery included the Risafa Company. This company was owned by Khalifa Makawi, a chemical engineer and a close aide to Al-Turabi, leader of the National Islamic Front (NIF). Makawi was one of the leading figures of the NIF, and after the Salvation Government seized power in June 1989 he became Al-Turabi's private secretary. Although Makawi never occupied a constitutional position after June 1989, the evidence suggested that he chaired the Financial Committee of the ruling party, and thus became a very influential figure indeed (Interview, November 25, 2002). Ironically, Makawi succumbed to the same fate as his boss (Al-Turabi), since he spent some time in prison in 2001, having become a leading figure in the opposition party, the Popular National Congress. This party was formed in 2000 after the division of the NIF into two fractions, one headed by President Al-Beshir (National Congress), and the other by Al-Turabi who had been the regime's strong man until December 1999.

In addition to the FIB and the Risafa Company, other owners also included the Rawasi Company, which was established in the late 1980s by the Islamic Dawa (Propagation) Organisation in order to specialise in the production and distribution of meat. Islamic Dawa itself was established in Khartoum in the early 1980s in order to assist in the dissemination of Islam, as well as helping needy Muslims all over the world. In this regard, the organisation built many mosques, schools and health clinics, besides promoting Quranic schools. The major shareholders in the organisation comprised a group of gulf countries (Saudi, Kuwait, Qatar and the UAE), besides Sudan, the host country. As the host country, Sudan was given the posts of the general secretary and the chief executive of the organisation. The NIF dominated the organisation totally, to the extent that most of the senior posts (including the general secretary) were occupied by members of the NIF. As Lesch observed:

> The NIF had gained substantial power since 1977 through the executive, legislature, armed forces, student movement, and professionals. Through the Faisal Islamic Bank, Islamic Dawa Organisation, and Islamic Relief Agency, NIF dispensed patronage, promoted Quranic schools, established health clinics, and built mosques (Lesch, 1998, p. 67).

The fourth partner in the WNCLP was the Bash Company. This company was owned by a prominent Sudanese businessman, B. H. Basher, the former owner of the El-Shifa pharmaceuticals factory, which was destroyed by the US air strikes on Sudan in August 1998. Basher, a chemical engineer and a member of the NIF, was known to have close ties to senior government officials, especially the vice-president (Ali Taha), both of who had been colleagues at Khartoum University in the mid-1970s (Interview, November 25, 2002).

Debating the Privatisation of the White Nile Tannery

The starting point of the debate was a report issued by the Auditor General Chamber (AGC) in June 1994.

The report reviewed the ways SOEs were disposed of under the privatisation programme, especially enterprises that were privatised during the period of 1992-1994. The report questioned the procedures adopted in the sale of the WNT to its new owners. Specifically, it referred to the huge difference between the evaluated and actual sale price, since the Industrial and Consultation Research Centre (ICRC)—a government agency—evaluated its price as equal to $9.3 million plus the land value, while the tannery was actually sold for only $4.8 million. Furthermore, the report claimed that the new owners had failed to pay the instalments as scheduled in the sale contract signed between the two parties, i.e., the government and the new owners. This negligence had occurred despite the government having agreed to receive the equivalent amount in Sudanese pounds rather than foreign exchange. The report went on to argue that "the delay and reluctance on the part of the new owners of the tannery to pay the instalments at the specific date could reduce the anticipated revenue from the tannery's sale price" (Auditor General Report, 1994, p. 14).

The privatisation of the WNT was also the focus of a heated debate at the Transitional National Assembly (TNA), as a result of a report submitted in March 1995 to the assembly by the chairman of the Supervisory Administrative Committee (SAC), one of the TNA's various committees. The report focused mainly on reviewing the implementation of the privatisation programme, as well as assessing the implemented sale contracts of different SOEs, which were privatised during the period of 1992-1995.

Regarding the WNT sale contract, the report raised certain points which needed clarification by the members of the High Committee (HC) for Privatisation. It questioned the financial capabilities of the new owners of the WNT, claiming that these firms were themselves suffering from severe financial problems, and thus might not be able to solve the tannery's main problem, i.e., a lack of adequate funds. Specifically, the report referred to the Faisal Islamic Bank, noting that the bank was facing severe financial difficulties, to the extent that it had closed many of its branches and sold part of its assets to meet those difficulties (Transitional National Assembly, 1995, March).

The report also sharply criticised the decision of the HC to allow the new owners of the tannery to make their payments in Sudanese pounds rather than foreign exchange. It expected that this decision would greatly reduce the expected revenue from the tannery's sale due to the huge gap between the official and parallel exchange rates. The report was also sceptical that the new owners had not known about the government's decision to devalue the currency, noting that this decision was issued only two weeks after the sale contract had been signed. The report drew attention to the fact that as a result of this devaluation, the pound lost 526%[8] of its previous value, i.e., the exchange rate was reduced from 1$ equal to £LS 15 to 1$ equal to £LS 93.9 in February 1992. The result was a huge reduction in the potential price for the tannery, from which the buyers would greatly benefit (SAC, 1995).

Both the Minister of Finance (president of the HC) and the Rapporteur of the HC came forward to defend the government's decision to sell the tannery to this group of Sudanese firms and to clarify the points and allegations made by the reports. The Minister of Finance dismissed the remarks made by the SAC's report about the financial capabilities of the new owners of WNT. He argued that "small firms can purchase large ones as long as they are able to pay the full amount of their new acquisition" (TNA, Session 26, March 1995, p. 22).

Nevertheless, one is bound to question the financial capabilities of the Faisal Islamic Bank, which was facing persistent financial difficulties at that time, as revealed by the selling of its assets, as well as the closure of many

[8] This figure came as a result of ([93.9-15]/15) *100 = 526%.

branches. Furthermore, the FIB was one of the banks that had been ordered by the Bank of Sudan to restructure their financial position, and especially to increase their capital and strengthen their supervision (Committee for Determining the Requirements for Restructuring Banks and Financial Institutions, 1994). Moreover, the owner of the Bash Company was also facing financial difficulties to the extent that he had been forced to sell the famous El-Shifa pharmaceuticals factory in order to cover part of his debts. Additionally, the Rawasi Company found itself facing severe financial problems after the Gulf War in 1991, when the gulf countries greatly reduced their contributions to the funds of the Islamic Dawa Organisation. Its financial difficulties continued to mount until it declared itself bankrupt six years later in 1997 (Interview, November 25, 2002).

It could be argued, then, that these bodies were not suitable candidates for purchasing the WNT. Privatisation as advocated by its proponents is expected to inject new investment in newly privatised enterprises, investment lacking under the conditions of public sector ownership. Moreover, one should note that the sale of the tannery took place despite the recommendations of the Attabani Committee, which had called for giving priority of ownership to those who had adequate funds, as well as being experts in the field.

The Minister of Finance admitted that the new owners of the tannery had made their payments only after the government had agreed to reschedule the remaining instalments and receive the equivalent amount in Sudanese pounds rather than foreign exchange. The Minister claimed that this agreement was prompted by the existence of severe shortages in the amount of foreign exchange available at that time, adding that asking the buyers to pay by foreign exchange might have led to a rise in the price of the dollar, since they would eventually have resorted to the black market to secure the amount of foreign exchange needed (TNA, Session 26, March 1995). Supporting the Minister's argument, the Rapporteur of the HC claimed that immediately after the introduction of the liberalisation policies, the difference between the two rates, i.e., the official and the parallel one, was almost indistinguishable. Accordingly, he believed that such a small difference would not affect the anticipated government revenue from the tannery sale price (TNA, Session 26, March 1995).

In contrast, the Auditor General's Report referred to the fact that only the first instalment was met within the specified period, while the payment of the second instalment was delayed for nine days. The report specifically referred to the payment of $1.6 million on June 24, 1992 instead of June 15, 1992, as specified in the contract. Moreover, it noted the failure of the buyers to pay the foreign exchange component ($800,000) of the third instalment by the specified date. Despite their failure, the HC for Privatisation agreed to accept their offer to pay the amount in Sudanese pounds in accordance with the current exchange rate, which was $1 equal to £LS 136. Despite this concession, the buyers did not make their payment until a month later than the specified date. The same story was repeated with respect to the fourth instalment, since they failed to meet the foreign exchange component ($1.2 million) within the specified period (Auditor General, 1994). Furthermore, they even failed to pay the equivalent amount in Sudanese pounds on the correct date, as agreed between the two parties later, when the HC for Privatisation agreed to receive the equivalent amount in local currency, rescheduled in six instalments. The buyers' cavalier attitude to repayment went further than this: A former member of the WNT Board of Directors claimed that the new owners had paid the remaining sum from the tannery's production (Abdel Rafi, interview, August 28, 2000). His accusation was endorsed by one of the WNCLP's heads of department (Interview, August 6, 2000).

Referring to the remarks being made about the time of the sale of the WNT on January 21, 1992 and the introduction of the liberalisation policies two weeks later on February 2, 1992, the Rapporteur of the HC for Privatisation ruled out any connection between the two events. He declared:

> Those policies were not even predicted by the IFIs, since at that time the IMF was negotiating with the government to reduce its exchange rate from US $1 equal to £LS 15 to US $1 equal to £LS 40. Nevertheless, the new exchange rate (introduced one week later) was US $1 equal to £LS 93.9, which went far beyond the expectations of the IMF and the World Bank (TNA, Session 26, March 1995, p. 38).

In fact, the decision to liberalise the exchange rate contradicted the policies outlined in the government's Three-Year NSEP (1990/93), since the programme called for "the maintenance of policies that would help to stabilise the exchange rate at its current levels for a reasonable period of time" (Three-Year NSEP, 1990, p. 7). The government's decision to devalue the pound by such a huge amount, which greatly exceeded the IMF's expectation, could have been motivated by its intention to show the West and the IFIs its commitment and keenness to carry forward its liberalisation policies, in the anticipation that the adoption of such policies would lead to the removal of the political and economic sanctions imposed on the country since 1990. A Sudanese political economist described this situation by arguing that "it is very hard to find a country that has implemented the IMF's directives more than Sudan, but failed so badly in meeting the political requirement of this institution's backers" (El-Amin, interview, September 11, 2000). Indeed, the sanctions were lifted only in August 2000, when the country began to show its co-operation with the international community in fighting international terrorism and after the removal of Al-Turabi (whom the West considered as a sponsor of international terrorism) from power in December 1999.

Furthermore, although the evidence suggests that the owners of the White Nile Tannery may have had no foreknowledge of the government's intention to liberalise the exchange rate, they greatly benefited from its decision, since it led to a huge reduction in the amount of the local component of the tannery's sale price. The owners of the tannery also benefited from the decision of the HC to allow them to pay the equivalent amount of foreign exchange according to the official exchange rate rather than the prevailing parallel exchange rate, due to the huge difference between the two rates. As a result, the sale price of the tannery was greatly reduced, and thus negatively affected the anticipated privatisation proceeds.

In relation to the remarks made by the Auditor General's Report about the underestimation of the value of the tannery, i.e., the huge difference between the ICRC's estimation and the actual sale price, the Rapporteur of the HC attributed the size of the discrepancy to the fact that the value of the houses owned by the tannery, though estimated by the ICRC, was not included in the sale contract since they were treated separately. Moreover, he argued that although the evaluation made by the ICRC included the cost of maintenance of the treatment plant, when signing the contract the two parties agreed that both the WNT and the Khartoum Tannery would share the maintenance cost. He also stated that the ICRC's evaluation included the value of the tannery's new buildings (not yet completed) and new machines brought during its rehabilitation programme, although the HC had decided to treat these items separately. He added that the HC for Privatisation, at its meeting on July 15, 1992, called for the new owners to pay the prices of these machines and buildings after evaluation by the TCDP. Accordingly, he believed that these factors might explain why the ICRC evaluation was so high in comparison with the actual sale price of the tannery (TNA, Session 26, March 1995).

In contrast, the Auditor General in his report about the methods of disposing of SOEs claimed that he had not been aware of any reference to the evaluation of these machines or to the new owners of the tannery paying a commensurate price. Moreover, the report went on to claim that the new owners even declined to pay the cost of the unfinished buildings, especially the tanning hall and the sale store (Auditor General, 1994).

Nothing was to be done but to hand over the tannery to its new owners, despite their apparent breaching of the conditions of the contract. The HC's failure or reluctance to take any firm action against these owners could be related to the fact that they were numbered among the strong supporters of the regime, as we explained in the previous section. Therefore, the story of the WNT may represent a direct form of patron-client relationship, whereby the Salvation Government, in order to remain in power, recycled resources into the hands of its supporters. In return, those supporters (FIB, Rawasi, Bash and Risafa) continued to show their loyalty to the government and support it strongly in order to preserve their interests.

The Technical Performance of the White Nile Company (Leather Products)

Table 4 illustrates that the tannery's productivity improved significantly during the period of 1992-1994, but proved inconsistent in the years thereafter. One possible explanation for the remarkable improvements that took place in 1992-1994 could be related to the fact that the tannery was subject to a full rehabilitation programme, which finished in 1991, only a year before the tannery was sold to its new owners. The table also shows that the contribution of the WNCLP to the total production of the leather sector remained negligible. It contributed an average of only 4.3% of the total amount produced by the leather sector during the period of 1993-1999.

Table 4

WNCLP Productivity During 1991-1999 (Thousand Pieces of Leather)

Item/Year	1991	1993	1994	1995	1996	1997	1998	1999
Hides production[9]	25.2 (14.0)	91.3 (50.8)	175.7 (97.7)	161.9 (90.0)	96.7 (53.8)	116.9 (65.0)	101.6 (56.5)	120.8 (67.1)
Skins production	13.4 (2.2)	509.9 (85.0)	985.9 (164.3)	460.8 (76.8)	669.7 (111.6)	617.8 (103)	970.4 (161.7)	760.1 (126.7)
TP for leather sector[10]	15,424 (0.3)	17,615 (3.4)	21,412 (6.3)	25,575 (2.4)	22,745 (3.4)	22,033 (3.3)	10,400 (6.5)	17,300 (5.1)
Labour productivity	0.1	0.7	1.4	0.7	0.9	0.9	1.3	1.1

Note. Source: Ministry of Industry, 2000.

Moreover, after privatisation the tannery only managed to achieve an average of 1.0 square feet per man/hour compared with an average of 1.6 square feet per man/hour achieved before privatisation. The reduction in average labour productivity took place despite the fact that immediately after privatisation in 1992, the number of its employees was reduced by 28.2% (from 348 employees in 1991-1992 to 250 employees in 1992-1993).

It could be noted that after privatization, no significant change took place in the new company's (WNCLP) administrative structure, which, like its predecessor, comprised five major departments and three subsidiary units.

The Financial Performance of the White Nile Company (Leather Products)

Table 5 shows that the tannery managed to achieve continuous profits after privatisation, in contrast to the continuous losses achieved during the period of 1988-1991, as shown in Table 2. It is thought that the full rehabilitation programme that finished a year before the tannery's privatisation had a positive effect on its technical and financial performance. Nonetheless, the tannery's profits showed an inconsistent trend during the period, with the year 1993-1994 achieving the highest rate with £LS 642.6 million, while the year 1998-1999 achieved the lowest with only £LS 91.5 million.

---

[9] The figures in brackets show the utilised capacities of both hides and skins as percentage of the official designed capacity of the tannery when it started its operation in 1975. That capacity amounted to 180,000 hides and 600,000 skins per day.

[10] The figures in brackets show the production of the tannery as a percentage of the total production of the leather sector.

After privatization, it was to be expected that the new owners of the tannery would focus on export-oriented policies in order to increase their returns from foreign exchange. During the period of 1992-1999, however, the tannery directed only 59.7% of its production for export, while the remaining 40.3% was allocated to meet the demand of the domestic market. Furthermore, the tannery failed to contribute significantly to the volume of exports after privatisation, since it only managed an average of 6.2% during the period of 1993-1999 (Ministry of Industry, 1999). Its contribution to exports was badly affected by the government's decision to lift the ban on the export of raw material leather issued in May 1999. As a result, the tannery faced many difficulties in securing the amount of leather needed for processing. Moreover, the tannery was badly affected by the concessions granted to the Gezira Tannery, owned by the Korean company Daewoo. The Investment Act gave this tannery an exemption from business taxes for a period of five years (Investment Act, 1996). This concession to the owners of the Gezira Tannery negatively influenced the ability of other tanneries to compete with it in the domestic market, especially in purchasing the raw material leather necessary for production and processing.

Table 5

Financial Performance of the WNCLP During 1992-1999 (Million £LS)

Year/Item	Total revenue	Total cost	Profits or losses
1990-1991[11]	14.70	15.04	-0.34
1992-1993	311.50	130.90	180.60
1993-1994	938.10	295.50	642.60
1994-1995	1,557.70	1,515.10	42.60
1995-1996	3,561.00	3,213.20	347.80
1996-1997	5,033.80	4,849.80	185.00
1997-1998	3,954.40	3,918.00	36.40
1998-1999	4,603.70	4,512.20	91.50

Note. Source: Ministry of Industry, 2000.

It should be noted that, after its privatisation in 1992, the problems facing the tannery remained much the same, especially the lack of adequate funds. As a result, the tannery has been unable to purchase the necessary spare parts for the maintenance of its machines and equipment, as was pointed out by the technical manager (Interview, August 6, 2000). Moreover, the new owners of the tannery offered neither attractive salaries nor adequate training programmes for its employees to enable them to improve their skills and knowledge. Additionally, their morale has been negatively affected by the prevailing poor working environment, since many offices still lack adequate facilities such as furniture, fans or air conditioning. Furthermore, the inconsistency in government policy towards the tanning sector has had a negative effect on the productivity of the sector in general and the WNCLP in particular. Reference was made in the interviews to the decision to lift the ban on the export of raw material leather, as well as the exemption from taxes given to the Gezira Tannery.

As a result, the owners sold the tannery in 2000 to Salah Idris, the owner of El-Shifa Factory, which was destroyed by the American missiles in 1998. However, Idris failed to run the tannery and provide the necessary funds, as well as inject new investment in it as was expected. Accordingly, the tannery was closed down since that date, i.e., since 2000, while its employees were still chasing their after service benefits and compensation from the owner who till now has declined to pay them (Widaa, interview, March 2010).

[11] These figures represent the tannery's performance before its privatization.

Conclusion

The tannery's technical and financial performance improved significantly during the period of 1992-1994, which directly followed its privatisation. Nevertheless, the improvement failed to persist in the years thereafter (1995-1999), when the tannery's technical and financial performance trends began to show inconsistencies. There were also symptoms of under-performance, as evidenced by its declining labour productivity average, as well as its small contribution to the total exports of the leather sector. The evidence suggests that the main reason for the significant improvement that took place during 1992-1994 was the rehabilitation programme completed immediately before the tannery's privatisation in 1992.

Furthermore, the study of the White Nile Tannery demonstrates clearly that changing the ownership alone of a particular enterprise will not lead to a substantial improvement in its efficiency, unless the real problems from which it suffers are tackled and eradicated entirely. This conclusion stems from the fact that even after its privatization, the tannery's main problem—a lack of adequate funds—remained unsolved. Therefore, if privatisation is inevitable, priority should be given to the private sector which possesses the knowledge, expertise and adequate financial capabilities.

Despite the inadequate financial capabilities of the new owners, and their failure to meet the conditions set forth in the tannery's sale contract, the government decided to hand them the tannery. However, the White Nile Tannery story represents the direct version of patron-client relationship, since the Salvation Government in order to remain in power and enhance its power base recycled resources into the hands of its supporters. In this case, all the new owners of the tannery, i.e., FIB, Risafa, Rawasi and Bash, are known to be strong supporters of the regime.

References

Bakhit, S. (1998). The role of privatisation in improving the performance of the tanning industry in Sudan. M.Sc. thesis, Development Studies and Research Centre, University of Khartoum.

Bank of Sudan. (2007, 2008). *Annual reports.* Sudan Printing Press.

Lesch, A. (1998). *The Sudan: Contested national identities*. Oxford: James Currey.

Ministry of Industry. (1999, 2000, 2005). *Annual reports.* Sudan Printing Press.

Ministry of Investment. (1996). The Investment Promotion Act. Sudan Printing Press.

Mohamed, F. (1995). *The role of privatisation in improving the economic efficiency of the firm: The case of White Nile Tanner*y. M.Sc. thesis, Development Studies and Research Centre, University of Khartoum.

Omer, K. (1997). The Sudanese economy 1989-1997. MA thesis, Centre for Middle Eastern and Islamic Studies, University of Durham.

Sudan Government. (1990, June). *The three-year national salvation economic programme*. Ministry of Finance.

Sudan Government. (1990, October). *Report of the auditor general on the financial performance of the White Nile Tannery*. Auditor General Chamber.

Sudan Government. (1990, November). *Report of the Committee for reviewing SOEs performance (Attabani Committee).* Ministry of Finance.

Sudan Government. (1992, January). *Performance analysis of the White Nile Tannery: General department for SOEs at the Ministry of Finance.* Ministry of Finance.

Sudan Government. (1994, January). *Report of the Committee for determining the requirements for restructuring banks and financial institutions.* Ministry of Finance.

Sudan Government. (1994, June). *Report of the auditor general on the methods used in the disposition of the assets of the public sector enterprises under the privatisation programme*. Auditor General Chamber.

Technical Committee for Disposition of Public Enterprises. (1997). *TCDP privatisation status report No. 2.* TCDP.

The Institute for Leather and Shoe Research in the Netherlands. (1987, January). *Final report on the rehabilitation and improvement of efficiency in the raw hides, skins and leather processing sub sector in the Sudan (Vol. 5): White Nile Tannery.* UNIDO.

Transitional National Assembly. (1995, March). *Report of the Supervisory Administrative Committee on the implementation of the privatisation programme.* Transitional National Assembly.

Transitional National Assembly. (1995, March 22-April 3). *The discussion of the Supervisory Administrative Committee report* (Sessions 26, 27 and 31). Transitional National Assembly.

Woodward, P. (1990). *Sudan 1898-1989: The unstable state*. USA: Lynne Rienner Publishers.