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RURAL FINANCE AS A MECHANISM FOR POVERTY ALLEVIATION IN SUDAN, WITH AN EMPHASIS ON „SALAM“ MODE

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Abstract:

This paper sheds light on rural finance in Sudan, with an Emphasis on "salam" mode, which recently experienced by banks. As one of the least developed countries, most of people in remote areas in Sudan Suffer from absolute poverty ,although they are capable of producing their necessities to sustain their living, but in most of the cases they lack money. They need capital to reduce the negative effects of unpredictable weather patterns, long crop cycles, irregular market access, and high farm input costs.

Recently, after the islamization of the banking system, many islamic modes were adopted like “Morabaha” “Musharka” Modarba” and ”Salam”. The Agricultural Bank of Sudan as the pioneer in serving the agricultural sector in the rurals used to practice successfully "Salam" mode as a suitable mode for small farmers, although it is appeared to be similar to "shail" system .This practice is highly associated with many problems like delay in loan repayments.

"In the absence of commercial banks, a large number of non – governmental organizations and other specialized institutions have created financial technologies that serve the increasing number of the poor and sustain loan repayments that are not only competitive with traditional commercial banks , but offer profit without subsidies " . (Hamid, Salih Jibriel, 2006).

Introduction:

Rural finance emerged due to the impacts of poverty which hits roughly a large number of people all over-the world.

"This number was expected to reach 2 billion, unless the world community exerts more efforts to combat poverty. In fact, about three quarters of the poor people in the world who live in rural areas lack basic needs". (Jameel, Ahmed Abdel – Hameed ,2002)

Those people ,in rural areas their savings are very weak and the commercial financial , institutions deliver finance only to the large and well-equipped business ,with the needed guarantees and ignore the small ones which utterly surrounded by risky and uncertained conditions stemmed from geographical dispersion, insufficient resources, and under-education, that amplify the costs and risks involved in lending.

Poor or small farmers are able to produce, and self-employment, if the needed capital for provision of the production inputs is secured or attained.

Pressed by the needs of finance and lacking any institutional help, farmers in rural areas resorted to money lenders, to get the needed money, and these may be, shopkeepers ,merchants, wealthy farmers, tractor owners , etc. , who gave loans to farmers by pledging of their crop in the "shail" system.

"Given" that the majority of poor in developing countries lack access to formal credit, any carefully undertaken household sample survey is likely to conclude that informal credit is the major source of loans for the poor" (IFPRI; 1997:62).

Generally "shail" is a kind of credit distinguished in the marketing system under which a local merchant or money lender advance credit to a farmer (in kind or cash) to cover part of the operational cost and/or living expenses in the season.

In "Shail" system, "The farmer verbally pledges his harvested crops at prices considerably below value". (Ahmed Humeida, 1975:28).

In recent years, to solve this problem, the government established different branches of the financial institutions , especially the Agricultural Bank of Sudan (ABS) in the production centres in the remote areas.

This accompanied with the implementation of the islamic modes of finance, to protect small farmers against the exploitive informal sources of finance. "A conspicuous policy shift was the implementation of the islamic system of banking in 1984" .(stab,1989:74). But capital is still regarded as one of the crucial pre requisites for sustainable development and the main factor for attaining self- sufficiency in food.

Methodology:

The approach of the study is descriptive with some statistical analysis. It depends on the data collected from the field survey conducted in Gedaref area ,as the main source of data ,in addition to the available sources of secondary data. The case study of the research covers the experiences, through" Salam" mode that undertaken by the Agricultural Bank of Sudan(ABS) under the umbrella of the Islamic modes of finance that accepted in the year 1984.

The study try to test the accessibility of finance delivered by the Agricultural Bank of Sudan(ABS) using "Salam" with no or personal guarantees.

Also by testing the equation, used by the bank to minimize the negative impacts of "Salam" experience with respect to the removal of injustice. Different tables summarizes some results of the financial situation in rural areas as performance, guarantees used, repayments, etc.

Rural Financial Institutions:

People in the vast rural areas of Africa lack access to financial services, and most commercial banks are not interested in moving into these areas due to their low income levels, lack of scale economies, and poor infrastructure.

Rural financial institutions should promote both credit and deposit services , credit to tide farmers over the deficit period and to enable them to take the advantages of the new technological opportunities "credit is provision of the needed fund for the investment purposes in the agricultural sector, despite its source whether from self ,formal or informal ".(Agricultural credit- arabic- 1996).

And deposit services for savings during periods of surplus. The structure of rural financial market in developing countries is typically dualistic, it consists of both formal or informal financial intermediaries with differing degrees of interactions between them.

Generally rural financial institutions have the following advantages :

1. Facilitate complementarities between intermediate inputs, labor ,and operating assets, enabling farmers to have inputs available when they need them.
2. Encourage diversification of agriculture and development of other economic activities that complement or supplement agriculture.
3. Promote the non-inflationary production and saving linkages of technologies resulting from increased rural incomes.
4. Offer effective alternatives to informal lenders as "shail" system.
5. Through economies of scale, they collect a larger share of loans promptly, hence recycling funds more often, thus increasing their own viability.

In the developing countries, few rural financial institutions, for the poor have attained significant levels of outreach, and this has understandably led to the concentration of the financial activities on a tiny fraction.

For this reason, need less to say ,it is impossible to promote the habit among the people when banking facilities are physically absent.

Therefore rural farmers in most of the cases and due to the absence or incomplete functioning of the formal financial institutions are forced to informal sources beside their insufficient home savings although these savings have limited impacts, because agriculture needs correspondingly more funds from outside sources due to high cost of production , and this means that demand for credit rises.

"Thus it will be along time before savings can make a significant contribution to the agricultural finance , for this can happen only when more efficient farm management in economic and technical terms raises farm incomes quite considerably and makes them less precarious and when the widespread practice of prestige spending disappears". (Gordiano, Agricultural Credit in Africa 1987).

In Sudan rural areas, in spite of the recently geographical distribution of the agricultural bank of Sudan , small farmers. Prefer the informal sources "shail" of finance, mainly due to many reasons:

- a. The intimate relationship with the money lender, may be, relative, neighbor, shopkeeper,.....etc.
- b. Elasticity in payments operations.
- c. Consider the natural and social conditions of the farmers.

State Intervention:

In the status co in Sudan, the financial situation of small farmers is seriously deteriorated , because the agricultural production is highly costly ,leading to high rates of delinquencies.

“Consequently, the absence of financial institutions in rural Africa has often enticed governments to step in, particularly with state-dominated banks focused on agriculture. Many of these initiatives have failed, however because they were too bureaucratic, too policy oriented, too concentrated on risk to only one segment of the population, or too weak in customer focus. In addition, clients considered these

government-sponsored institutions to be instruments that provide grants, hence, the banks suffered from poor loan recovery rates". (IFPRI, 2020 vision, July 2010 p:10).

The most powerful stimulus the government can give the rural agricultural economy and the most effective help to escape poverty is public investment in social overhead capital like modern schools, hospitals, storage and marketing facilities , transportation,etc.

Also the government intervention may be through the discount or complete cancellation of the annual taxes as "Ushor" "Gibana" or by proceeding of marketing levy on certain major crops.

There is a trend in the developing countries to encourage agricultural co-operatives, some of the governments established specialized independent institutions to support and provide agricultural credit to co-operatives, such as the Islamic Co-operative Development Bank in Sudan (ICDBS). These institutions provide credit beside extension services, production inputs, and/or marketing services.

All these help indirectly to expand agricultural credit by making farming more profitable and subsequently enable farmers to save more.

Experience with Salam Financing:

"Salam is a purchase with deferred delivery (Bai , Salam)- in transaction the buyer pays the seller the full- negotiated price of specific product, which seller promises to deliver at specified future date . This transaction is limited to products whose quality and quantity can be fully specified at the time contract is made."(Al-Hassan,1993,P; 105). "In salam contract the profit may increase or decrease". (Rahama,2001,Bai Al-Salam-(Arabic)P:75).

Usually banks ask for collateral against negligence or misuse of funds. The collateral may be in the form of a post-dated cheque or amount equal to the amount of finance, assets or may be personal or by the union org- anization (table-1)

Results and Discussion
Table (1):
Kinds of Collaterals (Guarantees)
Percentage Finance, Season 2002 -2003

States Types Of Collaterals	Nile	Gazira	Kordofan	Northern	Gedaref
Personal	63.3	30.0	30.0	6.7	11.5
Cheque	06.7	06.7	33.3	6.7	26.9
Stable Assets	03.3	06.7	10.0		07.7
Liquidized Assets					15.4
Union Organization		03.3	10.0		

From the table above one can notice that most of the collaterals were personal.

Experience of the (ABS):

The Agricultural Bank of Sudan (ABS) , used to practice "Salam" Mode Since 1992/93.

When implemented the (ABS) faced many obstacles and challenges.

The main reasons behind these challenges are:

- a. The shortage in qualified executive staff.
- b. Rural farmers were not familiar with "Salam" mode ,so some people said that "Salam" is just like "Shail" system that used to exploit rural farmers via exorbitant profits.

In the case of "Salam" the bank did not disburse cash to clients, but the disbursement will be in terms of advanced purchase of crops with a predetermined price from the beginning. While, in "Shail" ,the rural merchant will determine the price and the reimbursement of the loan should be in cash .

In "Salam" mode , due to price fluctuations injustice emerged.

Therefore adjustment process is needed , which covered the percentage that exceeds or less than 30% of the predetermined price. This adjustment called: The Removal of Injustice._This took place at the time of delivery crops. If the price increase by 30% the bank will compensate the farmer for the injustice and vice versa.

Sharia Scholars introduced the following equation to articulate the injustice problem:

$$N = \frac{(P1 \neq \frac{P1}{3})}{P2}$$

Where:

N : Number of crop sacks in Salam contract (Be reimbursed).

P1 : Salam price per sack.

P2 : Market price at harvesting time.

Therefore to avoid any problems that may interrupt the usage of "Salam" mode of finance , all "Salam" prices should be determined according to a discussion and negotiation with , Farmers Unions , Central Bank Authorities , and Crop markets administration.

Furthermore , all "Salam" contracts should be revised to delete from it the items of injustice.

"Any decline in liquidation or market price (P2) or loss in Salam without misuse or negligence of the farmer should be solved from accounts point of view" .(Standards of Accounting , AL-Bahrain – 1998 , 266 – 267)

a. Amount of injustice in cash (G1) :

$$G1 = \frac{(3P2 - 4P1)}{c.3} * \frac{k}{P1}$$

b. Amount of injustice in kind(G2) :

$$G2 = \left(\frac{3P2 - 4P1}{3 P2} \right) * \frac{k}{P1}$$

Where:

P1 : Salam Price

P2 = liquidation or market price

K : Capital of salam (Q * P1)

Beside price fluctuations which as stated , solved by the remedial measure called "injustice" , rural finance in general , and "Salam" mode particularly suffer from many shortcomings :

As for the bank:

a. High administrative costs:

"From experiments and practices , it is clear that the main obstacle or problem facing the small producers finance channels are the administrative costs which

tend to be high because borrowers in the rural areas are widely dispersed and makes credit distribution more costly than in urban areas". (Aburaida – 1999).

b .Delay of Repayment (Delinquency).

Table (2):
Repayment of Finance from the Agricultural
Bank of Sudan (ABS) , 2000 – 2004

Particulars Years	Amount For Repayment (SDD Million)	Amount Repaid (SDD Million)	Repayment %
2000	6638	4993	75
2001	6871	4798	70
2002	8001	5398	67
2003	18272	14335	78
2004	20285	15991	79

As for the small farmers:

a:High rates of profit margins.

b:Lack of collaterals." lack of suitable assets collateral , such as saving deposits or land ,is frequently stated as one of the reasons why the poor cannot obtain formal credit". (IFPRI,1997).

c:Short maturity period, without taking into consideration, disastrous events , social conditions ,etc.

Conclusion:

Generally speaking , the Agricultural Bank of Sudan (ABS) , which is considered as the only specialized financial institution in rural agricultural lending , faced by many or a lot of constraints.

The (ABS)has experienced "Salam" mode of finance since the year 1992, with flexible measures to suit the rural farmers, who have long been neglected by the commercial financial institution because rural finance is risky.

Moreover ,the conditions shaping the status of finance in these areas can not be adequately traced or understood without direct or indirect governmental intervention.

On the other hand side , small farmers in the rural , access to credit is limited in the formal markets combated to informal sources "shail" and this could be attributed to many factors may be economical or of social nature.

The Islamic financing mechanism of “Salam” which is considered as a kin to the traditional “Shail” system, although relatively costly, seems to be widely acceptable by banks and to some extent by borrowers, because actually “Salam” not only be a mean of financing crop production, but also a way of advanced sell of crops as crop pledged in “Salam” contract have a ready market. This is especially important since seasons of plenty harvest normally witness substantial price cuts.

Thus, it remains problematic and needs more efforts to be solved. Despite these problems , formal credit system equated to the Agricultural Bank of Sudan (ABS) ,has gained a foothold in rural credit ,and subsequently the rural areas had received considerable development efforts ,during the last decades ,that generated remarkable socio-economic transformation of the people and the area.

Furthermore credit demand appears strong for short-term working capital , especially in view of the rise in production and cropping intensification strategies .

Hence, in rural areas there is a greater need for the formal sources of finance to play an important part in financing the traditional sector, in a healthy complementary role with the informal sources , due to the link between them in the sense that both "Salam" and "Shail" mechanisms were competing with each other.

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