UNIVERSITY OF KHARTOUM
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The Problem of Financing
Small-Scale Agriculture
The Case of Rural Credit in Al Shehainab Area
Khartoum State 1990-2005

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Dedication

To those whom I love

To the soul of my father the source of love and care.

To the memory of my dear brothers Osman and Hamed

To my beloved mother, husband Hamid, children Esraa, Alaa, Yousef, Ahmed whose encouragement and spiritual support is part of this thesis.
Acknowledgment

My profound gratitude to my supervisor Dr. Khalid Ali El Amin for his constructive and valuable advice, kind supervision and guidance of this research without which this research would not have materialize into such an acceptable form so my appreciation to him.

My sincere thanks to all members of my family for helping and patience.

I wish to record my thanks to all staff of development studies and research institutes.

My thanks are due to many who have helped me in various ways
## Research Contents

**Dedication:** ............................................................................................................. i  
**Acknowledgment:** ................................................................................................. ii  
**Research contents:** ............................................................................................... iii  
**List of table:** ........................................................................................................... v  
**List of figures:** ..................................................................................................... vi  
**List of abbreviation:** ........................................................................................... vii  
**Abstract:** ............................................................................................................... viii  
**خلاصة** ................................................................................................................... ix

### Chapter One:
**Introductory Background** ..................................................................................... 1  
**The Research problem** ........................................................................................... 1  
**The Importance of study:** ...................................................................................... 2  
**The objective of the study:** .................................................................................... 2  
**Suggestions:** ............................................................................................................ 2  
**Research layout:** ..................................................................................................... 2  
**Methodology:** ......................................................................................................... 3  
**Limitation:** .............................................................................................................. 4  
**Literature Review:** ................................................................................................. 4

### Chapter Two:
**Agricultural Policy in Sudan**  
**Introduction** ............................................................................................................. 11  
**Types of Finance** .................................................................................................. 11  
**The formal finance** ............................................................................................... 12  
**The informal finance** ............................................................................................ 12  
**The Goals of Agricultural Policy:** ....................................................................... 14  
**Agricultural Policy:** .............................................................................................. 15  
**Critique of the Policy:** .......................................................................................... 16

### Chapter Three:
**The Impact of the Credit Policy on Peasant Case Study Alshehainab**  
**Introduction :** ....................................................................................................... 19  
**Ability to Save and Self Reliance** ....................................................................... 21  
**Type of Finance in Alshehainab** ........................................................................ 23  
**The formal Finance in Alshehainab** ................................................................... 25  
**The informal Finance in Alshehainab** ................................................................ 29  
**Cost of Production** ............................................................................................... 31  
**Transportation Infrastructure and Storage system** ......................................... 33  
**Marketing:** ........................................................................................................... 35  
**Repayment problem:** ......................................................................................... 36  
**Government Intervention:** ................................................................................. 37  
**Accessibility to Credit:** ....................................................................................... 41

### Chapter Four:
**Constraints to Access Credit**  
**Introduction:** ....................................................................................................... 43  
**Direct Constraints:** ............................................................................................. 44  
**Credit:** .................................................................................................................. 44  
**Terms of Financing:** ............................................................................................ 46  
**Taxation and Zakat:** ............................................................................................ 48  
**Specialized Rural Institution:** .............................................................................. 48
List of Tables

Table (1) The Bank’s Financing Rates of Crops in al Shehainab: .................. 19
Table (2) Type of Finance of Potatoes Cultivation in Alshehainab: ............. 23
Table (3) Total finance Offered by the Agricultural bank from (2001 to 2005) IN Alshehainab: ............................................................................................................... 25
Table (4) The Cold Store in Omdurman: ......................................................... 33
Table (5) The Cold Store in Khartoum: ............................................................ 33
Table (6) Production per feddan: ..................................................................... 37
Table (7) Type of Land and Property: ............................................................. 40
List of figures

Fig (1) Types of Agricultural Finance:.................................................................23
Fig (2) Types of land property:.............................................................................40
## List of Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>General Domestic Project</td>
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<td>NGOs</td>
<td>Non Government Organizations</td>
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<td>GTZ</td>
<td>(In Germany = Society for Technical Assistance)</td>
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<td>LDCs</td>
<td>Less Developed Countries</td>
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<td>NESP</td>
<td>National Economic Salvation Programme</td>
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<td>ABS</td>
<td>Agricultural Bank of Sudan</td>
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<td>GB</td>
<td>Grameen Bank of Bangladesh</td>
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<td>PCRW</td>
<td>Production Credit for rural woman</td>
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<td>ACROD</td>
<td>Agency for Co-Operation in Research and Development</td>
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</tbody>
</table>
Abstract

The study aims at investigating the importance of potatoes cultivation in Al Shehainab and studying the problems of financing that face small farmers. It examines the conditions of poor farmers who struggle to survive despite the power of the commercial banks, big traders and try to get financing with difficult terms and conditions.

The research highlights the ability of the traditional sector in Al Shehainab to adopt modern inputs and methods that can improve and sustain potato cultivation. It attempts to add further information to the scanty available sources and draw the attention of the government, represented by the Ministry of Agriculture to the problems of financing the Agricultural production in Al Shehainab. Finally, the research aims to draw the attention of all those concern to the plight of poor farmers in rural areas who have got little access to credit, land or power.

The study is based on both primary and secondary data collected from government ministries, departments and institutions. The primary data has been collected through informal interviews with resource persons and key informers. Lack of capital and limited access to credit compelled farmers in Al Shehainab to use self finance from their own resources. A few use a combination of self finance and formal finance. The research shows farmers prefer formal finance to informal while a small number prefer the informal types of finance. Furthermore, the study shows that the credit is not adequate. However the farmers found that the credit did not solve the problem of finance completely. Government absence and the lack of state intervention in sense of subsidies is tow of the major problems of financing potatoes in Al Shehainab. The research shows that farmers have no enough assets to entitle them to receive credits.

The research concludes that farmer in Al Shehainab faces limited access to credit. When he have the credit he suffer form high interest rate, he also have restricted access to market when he reach the market the whole system is defective and need adjustment the research recommends to improve access to credit with long duration loans, and low interest Rate. The research recommends for wide access to market and the establishment of specialized rural institutions to facilitate access to credit. Also the research recommend establishment of associations to express and represent farmers' interest. Government is also required to maintains effective credit polices.
Chapter one

Introductory Background

General:

Small scale Agricultural schemes are a very important component of the national economy. This fact has always been misconceived by Sudan government which focuses mainly on modern agriculture and neglects the traditional sector. If we study the factors affecting rural development in Sudan we find most people in rural Sudan work in agriculture. This traditional agriculture is characterized by low productivity and low production. Most of the farmers finance their work from rural traders. Finding credit for the farming system is an approach that can be met more effectively to satisfy the real needs of people in the rural areas. Availing adequate finance can improve productivity and increase the income and realize welfare of rural household. Rural development can not be viewed as a narrow technical problem of increasing product by availing material components only. For it is rather, a problem of a much wider scope that includes the establishment of organizations and institutions capable of mobilizing and motivating the members of the rural community to exert greater productive efforts, overcome the obstacles and achieve optimum utilization of their resources and potentials. One of these obstacles is how to finance agricultural scheme and how to solve the problem of access to credit so that regular financing and easy access to financing will lead to sustainable agricultural reform in the rural areas.

The Research Problem

The great importance of the credit for rural agriculture and the limit access to credit which face the farmers in Al Shihainab motivated the study to see, solve and answer the following questions:
1) What are the forms of finance? How do they function and what impact do they have on farmers?
2) What form of finance do peasants prefer, why?
3) Given all types of finance available in the study area, has the problem of finance availability been resolved or is there still a problem of lack finance?
4) If there is a problem what is it? What forms does it have (constrain)?

The Importance of study:

This study will address specific economic problems within a given geographical territory with the purpose of understanding credit problem of small scale Farms. This study aim at highlighting the problem of the lack of capital and forces that control farmers live.

The Objective of the Study:

Firstly, the study of the existing system of the planning and financing of agricultural sector in Al Shihainab policies and to identify the gaps in these policies. Secondly to understand the real problem of access to credit.

Suggestion:

Some of the farmers in Al Shihainab use the informal finance but, the majority prefer the formal finance. As the formal finance comes from the Bank, the informal is generated from surplus and self saving; the problem of finance has not been solved completely due to the problem and constraint of accessibility to the formal finance.

Research layout:

The study is divided into four chapters. The first chapter concerns with the basic research elements. The problem, objectives, preposition, methodology, organization, limitations, and literature review forms the conclusion of chapter one. The credit policies and the goal of credit
policies are covered in chapter two. The third chapter focuses on the impact of the credit policies in AlShehainab. The constraints and limitations constitute chapter four. Finally summary and conclusions and recommendations. The bibliography precedes the interview questions in appendix one.

**Methodology:**

In the literature review section of this research some theoretical and conceptual issues are review to provide and analytical frame work for the research. Both primary and secondary sources of data were solicited for the study. The data of the latter type was scanty. Institutes, banks and local authorities which were consulted have no information about farming in AlShihainab region.

However the primary data were collected from AlShihainab farmers in the study area. The informal interview followed topic guides that work prepare before the field. Informal interviews to generate qualitative data covered old farmers, Bank officials, agricultural officers, farmers union members, and local government officers. The interview had some elements that made the study more unique. The first thing to note is the absence of women in the study which refers to the social status of them in the region.

The case study concern cultivation of potatoes in Al Shihainab area. Al Shehainab is small village in north Omdurman locality with population estimated six thousand people. Historically, it was back dated to Neuelothic era 600 BC. The domestication of the animal and the pottery making in Sudan were firstly known in this area. There was continuous archeological works in this area. Most of the people earn their income from agriculture by cultivating vegetables but the main cash crops are potatoes and onion.
**Limitation:**

The problems faced during the study were many. However, the main were:

The short of statistical data and records on the subject; reflect lack of interest in rural agriculture. Another problem was all references found were in Arabic so translation into English was often needed. Moreover, institutions the banks in particular consider any information concerning the bank policies, are top confidential

**Literature Review:**

The majority of population in the underdeveloped countries live and work in rural areas. The average standard of living in these areas is very low with an annual per capita income usually bellow $100. Debilitating disease is rampant, infant mortality rates are high and life expectancy is less than 50 years. Accordingly, there is no doubt that the greatest concentration of poverty in the world is in the rural areas of the underdeveloped countries\(^1\).

The economy of most rural areas in the underdeveloped world depend heavily on small farm agriculture for employment, production and consumption. It is therefore necessary to set agriculture in the forefront of the national and international agenda to eradicate poverty in the underdeveloped countries. Failure to achieve significant results in the field of agricultural development increasing research and investment activities will make poverty eradication an illusive goal in the 21\(^{st}\) century\(^2\).

Agricultural development and modernization depend among other things on the availability of funds to make new production inputs and

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\(^1\) Keith Griffin, *The Political Economy of Agrarian Change An Essay on the Green Revolution*, Even in Latin America, the richest of the major underdeveloped regions of the world. Over two, third of the agricultural population viz. about 70 million people, receive an annual income of less than 100$ per person Palqurve Macmillan September 1979..

\(^2\) Ibid., p. 56
technology accessible to farmers\textsuperscript{1}. Availability of funds and provision of financial services to the poor majority in the less developed countries (LDCs) is considered as a major instrument for employment creation and furtherly of empowering the poor by strengthening their bargaining power when dealing with other interest groups in a society\textsuperscript{2}.

In all LDCs credit services are scarce and expensive for the majority of inhabitants. The land infrequently controlled by a small wealthier minority and the small farmers are frequently illiterate and have limited access to knowledge and new methods of cultivation.

Approaches of financing agriculture conventionally divided into two sectors: Formal and informal approaches. A third method combining both approaches was arrived at recently and labeled as the linking approach.

Small minority of wealthy farmers in rural areas can have easy access to the formal (organized) credit market. They can even obtain loans at preferential interest rates since their status makes the risk of credit repayment minimal. Through their political influence they can furtherly ensure that government credit programs will cater for their favor.

Small peasants in contrast have only little working capital, if at all, and a restricted access to formal credits the form land title of a small farmer is often disputed or his tenancy arrangement is insecure. As a result he may not be eligible to borrow on the organized markets, and he finds himself obliged instead to resort to the informal credit market – which is composed of the village money – lenders, local shopkeepers or

\textsuperscript{1}Adam B. Elhiraka and Sayed A. Ahmed, Agricultural Credit under Economic Liberalization and Islamization in Sudan, AERC Research Paper 79 march 1998, P. 1

\textsuperscript{2}S. Tilakaranta, Preface: Samir Radwan, Credit Schemes for the Rural Poor, International Laboua Office, Geneva.
big landowners. Rates of interest in this market are very high because of monopoly factors and moreover because of the high risk of default.

Repayment of credit has been a serious problem in most places. Various devices to secure repayment were recommended. These include: mortgages, joint liability and automatic withholding from market proceeds. The period of repayment should be brought close to the anticipated time of rise in the farmer’s income resulting from using the loan. Failure in these respects had always resulted in defaults. Repayments would be caught only when loans really result in an adequate increase in the farmer’s output. We had come over many cases where the farmer abstained from repayment because he had learned from relevant and past experiences that defaults would not be tolerated.

Charles Abugre¹ argues that when the poor fail to pay, it is either because of uncontrollable factors or that the loan was inappropriately given in the first place.

Experience, according to S. Tilakananta² has shown that credit cannot be effective without being supported by other factors including improved technology, input supply, infrastructure facilities and markets. The majority of the rural poor need assistance, through the preparatory phase”, to build their capacities in order to use credit effectively”.

The cost of capital to the peasant is very high not just because he is exploited by money lenders and middlemen but because land tenure institutions are defective and the political system is biased against him³.

Through informal structures of credit are normally criticized in many political and social circles as being exploitive to the poor, it is seen

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¹ Charles Abugre, when Credit is not Due : A Critical Evaluation of Donor NGO Experience with Credit :Research paper (Page 10-8)
³ Keith Griffen, the Political Economy of Agrarian change, an easy on Green Revolution.
that they play a very important role for rural population, especially in providing insurance services which the formal supplier will hardly be able to provide\(^1\). The informal sector substitutes the formal bank guarantees with traditional securities such as consumer goods and for personal guarantee or may either use the social pressure within the group as a means for obtaining repayment. The informal approach also characterized by its quick and efficient procedures which result in reducing the transaction costs.

The Grameen Bank of Bangladesh (GB) and the Production credit for Rural Women in Nepal (PCRW) were set by Tilkananta as examples where assistance is provided to the poor in making effective use of credit. Provision of credit thus, become a labor-intensive process involving mobilization, facilitation and close monitoring. A question arise here about who should buy the cost of these services. Both institutions set in the example were obliged to recourse to donor grants and concessional loans to cover the credit services cost which they couldn’t make by their interest revenues alone.

As Tilakananta reported, the example demonstrates the need to separate the operational (promotional) costs from the direct costs of credit. Credits should always be self-financing.

Charles Abugre reports that NGOs had witnessed, during the 1970’s and after a shift from emphasis on welfare and relief services towards increasing production and income of the poor to provide for themselves in future “sustainability” credit had a central position in the new approach together with skill training, organization and marketing support. NGOs, Abugre argues, do not usually change real interest rates. They provide “easy money” to others. Abugre confirms that “positive interest rates are necessary for encouraging people to save and that

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\(^1\) Agriculture & Rural Development 2/99 volume 6, No. 2, ISSN 0343 – 6462 P. 36
interest rates are important mainly for contributing to financing operating costs and building up funds”¹.

Abugre claims that the experience of NGOs in Africa, while setting the ACORD² activities as an example, had shown that poor infrastructure and communication increase the unit cost of financial systems and act as disincentive to investment. The institutional and environment (socioeconomic and other) conditions under which most NGOs work restrict the expansion of financial resources.

Among the lessons Abugre arrived at conclusion was the necessity to understand. When and where not to provide financial services in order to avoid harmful results. He advises that informal credit systems are more adaptable to the society needs and environment than the formal systems, and can thus, understand the quick economic changes to which most LDC’s are exposed. It’s better for donors to provide organizational and institutional support for savings mobilization and management and assist in building a macro environment suitable for informal systems to flourish.

The third approach, which is Linking both formal and informal financing approaches in a unified approach has been a subject for many studies by various national and international institutions and NGOs. Many researchers call for linking the developed and organized formal approach to the traditional approach under the consideration that the informal approach is more kin to the socioeconomic environment of local societies³. Innovative methods for linking approaches connect self-help groups with commercial banks to facilitate granting of credit to it’s members. In respect of saving activity the linking approach is also used when the groups accumulate their savings and maintain joint accounts

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¹ Ibid, P. 10-9
² the Agency for cooperation in Research & Development, A consideration of European and Caradian NGOs
³ Charles Abugre, when credit is not due: A critical evaluation of Donor NGOs experiences with credit, Research paper.
with formal financial institutions. A further link can take place through granting formal loans to informal financial providers who offer it in turn to the local community members. Technological saving innovations such as mobile bank units can also be implemented. Thus, limited access to formal credit in rural areas could be “offset by innovative lending technology”\(^1\).

In Sudan’s experience with agricultural credits, we found most of the abovementioned considerations on agricultural credit in the rural underdeveloped countries and the various NGOs experiences are quietly applicable to the Sudan where the majority of population live in rural areas and depend on agriculture for their subsistence.

A medium term, three–years, National Economic Salvation Programme (NESP) was launched in 1990 in the context of overall economic reform on basis of liberalization. The objectives of the programme involved reallocation of resources especially in the agricultural sector to achieve food security and generates export services\(^2\). Since 1990, the formal agricultural credit was assigned to provide sources. The activities of the agricultural bank of Sudan (ABS) were expanded through government support and constructor of commercial banks (CBC) was setup to raise credit availability and minimize individual bank credit risks through pooling of allocated resources.

Under islamization slogans “explicit” rates of interest were band and replaced by the Islamic methods(Loan Service). The competition that took place between the newly introduced and even relevantly costly Islamic method of (elsalam) with the traditional (shail) method had led, according to Al-Shaikh and Sayed to reduced rates of interest.

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\(^1\) Agriculture and Rural Development 2/95 volume No.2 ISSN 0343 – 6462 P. 36.

The researchers came to the conclusion that it is necessary to promote “appropriate financial intermediaries” including voluntary savings and credit cooperation to serve balancing the expenses of market households with limited income. The Central Bank ultimately plays an important role as guarantor of the national economic stability which is a major precondition for a financial system to be able to efficiently “cope with regional, social and sectoral transactions”.
Chapter Two

Agricultural Policy in Sudan

Introduction:

This chapter deals with the agricultural policy in Sudan, the inappropriate credit system and how it developed. The ambitious goals always stated in the annual plans of Ministry of agriculture, are well covered in the same section. Section two concerns with the types of finance with its two broad types: The formal and the informal and the subdivisions of each one. Our study will not tackle these issues in depth. However, we will discuss briefly the position of finance in agricultural policy, with little reference to the financing institutions, while the credit policy will be dealt with at the end of the chapter as a conclusion.

Types of Finance

Sudan is one of the biggest countries in Africa, its climate is diverse from the arid climate to the tropical one. It characterized by availability of natural and water resources. Sudan was declared in 1974 in World Food conference in Roma as the food basket for the world, because of the plenty of natural resources and about 200 million feddans is suitable for cultivation. Many attempts were done to make Sudan play a significant role in food security regionally and internationally. Agricultural sector is the basic sector of Sudan economy. It plays an important role in providing the industrial sector with raw materials. The Sudan area is estimated at 600 million feddan, 200 million feddan is suitable for agricultural, but the real cultivated area is 20 million feddan only. The agricultural sector receives the least share of financing compared with the other sectors.

Finance, can be divided into 2 types: The formal finance and the informal finance.
The formal finance:

Most of the commercial banks and financial institutions are located in big cities a fact, which makes it difficult for rural people to have access to such intuitions. Many types of finance are found in rural areas including:

Agricultural banks, specific credit institutions, agricultural organizations and Self-finance. In Sudan we find all this types of financing but some of them are more significant than others. Each has its advantages, disadvantages and limitations as well. But because of the difficulty of accessibility to most of the above mentioned types, the most common types in rural areas of Sudan is through rural traders and self finance.

The system of self finance depends on the ability of the farmers to save and their capacity to increase production and productivity. But most of those farmers produce for their own consumption and leaving very small quantities to the market. Thus they are engaged in a vicious circle. As they have no sufficient credit, they can not increase their production. They consume all of their production and can not save, so they will remain poor because they have no access to credit. The Sudanese agricultural sector suffer from low productivity, low income of farmers, low out put of the agriculture as well as small contribution in the national income. The main problems that face agriculture, is the availability of capital and the low capacity to save in rural areas due to the low income of these groups. The formal financing is complicated, but the informal financing prevails in all rural areas of Sudan.

Informal finance:

Informal financing may be described as:

Exploiting small farmers, when compared with the formal type it has less complicated procedure and bears no administrative costs and
accessible with regard to the formal financing. The Informal Financing can be classified into four types:

Big merchants of the city, money lenders merchant, the rural traders and sharing system: It is a partnership between the person who provides cash and the other who provides labor and effort according to certain agreement and financing through the family either by the parents or by other relatives. Sometimes, this may take the form of interest-free loans. They may be concluded through contracts or otherwise. The informal type also is represented by the shayle, sharing, self finance or family finance systems. Historically these systems of finance began before independence practiced by: Abu Ella corporation, Abdu Moneim corporation and Dairat Almahdi. The above corporations financed the rural farmers with certain rate of interest. Although this kind of financing is characterized by great exploitation but it is accessible. Financing include the traditional informal forms like Shayl. Shayl is the main financing source for the small producers in traditional agriculture. This phenomenon began before 1930 in the period of 1930-1953 there were great efforts help production to satisfy the increasing needs of the world market.Before independence there were many types of financing through the enterprises of some large and influent families.

Abul ILLa Co-operation, Abdu Elmoniem Cooperation and Dairat Al mahadi. These cooperations finance the rural farmers with certain rate of interest. These cooperations take loans from banks and distribute it to small farmers at high profit through buying the crops before harvest. These traders were able to find access and obtain bank credits. After establishing commercial banks, no care was taken to finance the rural agricultural because of many reasons; among which is that the
agricultural activity is risky, the banks prefer short term loans, the lack of 
specialized agricultural administrators in banks and the lack of 
specialized agricultural institutions within the commercial banks and the 
high cost of administrative cost of modern financing.

Informal finance institutions play a major role in rural areas. Although more finance services can be provided from formal sector, the different profile of the service supplied by the informal financial sector implies it will continue to exist and provide valuable services. We can conclude that there is coexisting of formal and informal supplies of financial services in rural areas. The informal finance with its ugly image (sheil) could be seen as a result of short comings of formal supplies and the absence of the government intervention; however the informal finance is continuing to exist even in the presence of the formal finance.

The Goals of Agricultural Policy:

Planners stated many goals: To achieve equal and sustainable 
agricultural development. To achieve food security through increased 
production and optimal utilization of resources. To orient production to 
the market needs. To increase production efficiency by introducing 
modern technologies. To enlarge investment in agriculture on basis of 
scientific information, technical studies and economical research. To 
adopt privatization policies in order to develop agricultural activities. To 
apply crop diversification policies. To avail relevant information on 
aricultural activities. To avail sustain financing credit. To provide care 
to household programs. To rehabilitate the infrastructure of agricultural 
production and pay enough care for rural development and combating 
poverty, to create job opportunities in remote areas through rural
development, in order to reduce immigration to urban centers and lastly:
To regulate and increase agricultural marketing efficiency and capacity.\textsuperscript{15}

We had seen the goals which are stated by the Ministry of agriculture in the annual plan year by year. The rural areas have a little in the plan and the reality. We will see across the study what was done to the rural farmer. Development policies frequently show an image of the poor needs, where is it concealed as soon as agricultural process changes the threshold, from subsistence farming to market operation; it becomes intimately linked with other sectors. Next section we will see how the agricultural policy develop historically, how it affects the rural farmer life and it function to impoverish the rural farmers recently and previously.

**Agricultural Policy:**

The agricultural sector has particular significance in the Sudanese economy, due to its high share in GDP. Being the major source of GDP and foreign currency it employs about 75\% of the labor force in the country. Also, the importance of agriculture is reflected in providing the industrial sector with most of the raw materials, which constitute significant source for industrial production i.e cotton, gum Arabic, durra, millet, wheat, groundnuts, sesame and sunflowers and sugar cane.

The agricultural contribution to the total export amounted to 62\% in 1998 (the agrarian sector 41\%; the animal sector 21\%). The agricultural growth rate decreased from 12.3 in 1997 to 8.3\% in 1998\textsuperscript{16}.

Similar to other LDCs, agricultural policy in Sudan is adopting mono crop system. Producing and concentrating on one cash crop resulted in great difficulties. Agricultural growth is essential for overall economic growth since it stimulates growth in the non-agricultural sectors, which provide employment opportunities and reduce poverty.

\textsuperscript{15} \textit{وزارة الزراعة، خطة الوزارة لسنة 2005، مكتب التخطيط بوزارة الزراعة الولاتية.}
\textsuperscript{16} Bank of Sudan, annual report, 38\textsuperscript{th}, 1998. P19
The urban poor benefit from rural growth in several ways, agro industries create jobs, price of food falls, rural urban immigration slows down leading to higher wages for unskilled urban workers and urban growth if not capital intensive, generates jobs for rural workers\textsuperscript{17}. Similar to most of LDCs we find that the Sudan government greatly concentrates on the modern sector, which is represented by the industrial sector and mechanized farming. According to this policy the traditional sector is pushed to the marginal areas. This is also applicable to the financing policy as most of the budget is spent in the other sectors, while the agricultural and traditional sector are underestimated and under financed. Up to 1997 the agricultural share in export sector amounted to 85%. But, with the discovery and exportation of oil, agricultural share has dropped to 12%\textsuperscript{18}. Another problem is the banking policy. Formal finance for agriculture, particularly the traditional sector, is very low, because agricultural investment is considered as highly-risky. Furthermore, the banks prefer short-term loans, a policy which is unfavorable for the farmer who sells his crops as soon as they are harvested for fear of default. So the output will be very low. Traditional agricultural always has the least financial share because the government policy is biased to the modern sector.

In 1998, the total amount of banks finance allocated to agricultural amounted to 15.7 millions SD.

\textbf{Critique of the Policy:}

Over the years, the government agricultural policy remained unchanged and biased to the modern sector at the cost of the traditional sectors. Revenue collected from exporting the products of the traditional sector in the form of machinery and other modern inputs. To make our

\textsuperscript{17} Mohmed Hasan Khan, \textit{Rural Poverty in Developing Countries Issues and Polices}, IMF working paper. P13.

\textsuperscript{18} Osman El Hadi Ebrahim, \textit{Agricultural Insurance}, May 2004- p 4.
way out of this in just situation, it is necessary to reinvest an adequate portion of the return earned from exports, for their development and welfare. Through this particular organization of growth strategy, the available economic of growth benefits can be distributed equally over the different sectors of the community. So, we have to begin with the traditional sector, orient the production for mass consumption and enlarge domestic markets. The major part of population was excluded from modern consumption, including infrastructure projects. This lead us to say that the government policies completely ignore the small farmer's when setting the import and financing programs. To get access to needed inputs, primary export’s revenues have to be directed to provide foreign exchange in order to fill the gaps left by domestic production. So the government policy which is obviously small farmer's to the modern sector is characterized by neglecting the traditional sector.19

The deteriorated terms of internal trade also contribute to undermine the purchasing power of the small farmer's be decreasing the value of their real income. The indebtedness of small farmer's rural traders is a main factor responsible for the low standard of living of the small farmer's and the decreasing motivation to work. It has been proved already that the state cannot eradicate these forms of small farmer's exploitation effectively therefore, cooperatives pricing, extension services, marketing and credit institutions have to be established to serve rural agriculture.

To conclude we find two types of finance formal and informal. The formal one includes the Commercial Bank, Agricultural Bank, Farmer’s Bank, Animal Resource Bank. The informal finance emerge through the relatives, the money lenders of the village “Shail System” self finance

19 Mohmed Hasan Khan, Rural Poverty in Developing Countries Issues and Polices, IMF working paper. P13.
according to the ability to save. The government policy which adopt, always the traditional farming have the least. So the government agricultural policy remained unchanged over years biased to the modern sector at the cost of traditional sector.
Chapter Three

The Impact of the Credit Policy on Peasant
(case of Al Shehainab)

Introduction:

This chapter discusses the government’s policies that affect the potato’s cultivation in Al Shihainab. Basically the policy of financing, the repayment and the credit system, the researcher would also review the government’s intervention policy, which affects the production of potatoes, the formal finance and the unequal treatment towards the farmers, and the access to credit. The problem of repayment, factors which hinder the expansion of the area cultivated, as well as the duration of loans of high rate of interest.

By the end of 18th century, potatoes represented an important source of diet for most of the people of the European countries. When the British who colonized Sudan, brought in this item for their own food. Then after few decades it spread out and became well known among more than 150 countries in the world. In 1970, an amount of 515 tons of potato’s seeds were imported from Holland. In 1985 the figure declined to 240 tons and in 1987, the quantity raised again to 4,000 tons. All these amounts were imported from the same region by GTZ organization. In 2004 and 2005, the amount imported was decreased to 2,075 tons due to the increase of local production. The total area available for potato’s cultivation, in Khartoum state, was estimated as 1.7 million feddan. And the actual area is about 241.2 thousand feddan.

According to the annual report of 1995, the area available for cultivation in 1993 was 37.2 thousand feddan in Al Shihainab, but the actual area, which was cultivated in the same year was 23,927 feddan, amounted to 64% of the total area planned for. This was due to the failure
of the Agricultural Bank which promised to finance Agricultural schemes in Al Shihainab with 227,524,600 SD, but it was actually able to detained only required 107,876,000 SD which represents about 39% of the total sum. In 1995 the area proposed to be cultivated was 51,600 feddans, but the actual cultivated land was 19,803 feddans which represents 38% of the total. The size of finance which was proposed by the Agricultural Bank was 1,524,500 SD, but the actual sum paid was 1,326,316 SD that expresses represented 87% of the total amount promised. Compared to the estimates of 1994, the total area planned to be cultivated was 17,000 feddans, where the actual figure was 11,900 feddans just 30% of the total area. The finance proposed by the Bank was 150,000,000 DS but the actual amount allocated was 105,971,510 SD which equalled 70% of the total.

A rate of 38.3% of formal fund of agricultural credit was distributed as follows:

Table (1) The Bank’s Financing Rates of Crops in Al Shehainab

<table>
<thead>
<tr>
<th>The crop</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potatoes</td>
<td>46%</td>
</tr>
<tr>
<td>Alafa</td>
<td>15%</td>
</tr>
<tr>
<td>Vegetable</td>
<td>13%</td>
</tr>
<tr>
<td>Crops for export</td>
<td>13%</td>
</tr>
<tr>
<td>Onion</td>
<td>13%</td>
</tr>
</tbody>
</table>


From the table above, potatoes in Al Shihainab assumes 46% of the total finance earmarked by the Agricultural Bank for Agricultural production in Al Shihainab. According to the annual report, there were 173,000,358 SD earmarked for potatoes cultivation in Al shihainab,
to be financed in short term loans, and about 58,683,000 SD was allocated, short term loan, as cost of storage for 165 tons. Therefore the total financing reached 232,238,358SD. Where the medium financing for 400,000 applicants financing was 100%. The 3 year repayments were about 63.6% out of the total dues and 69.4% for the medium term loans repayments. The total area cultivated with potatoes in Alshihainab was about 23,927 feddans. Part of this area in Kajabi Island and the other part in Kroos (groof), in addition to 33 Sagya in kjalaii Island which is well known by the Potatoe’s Island.

Land shortage is and would remain a constrain for potatoe’s farming expansion. Therefore many farmers solved this problem by rent, or sharing or migration outside the region.

Ability to Save and Self Reliance

The importance of the farmer's ability to save, was considered by many writers as the first step for development. Farmers of the least developed countries (LDCs) lack the ability to save.

The prevailing agricultural policy, we found does not encourage the farmer to generate more revenues. Thus, he will have limited resources, though there is no hope in the short future to improve his standard of living aspired for.

21 بנק السودان التقرير السنوي الرابع والثلاثين 1994
22 بنيك السودان التقرير السنوي الخامس والثلاثين 1993
23 The Kajabi Island is divided into four different areas. The first one is called Dawabia. It is found in the south part. The second area in the Island called dahab (Gold). It was the most productive area. The third part is called Awatfa or Eadain farm. This name was derived from the word (Bone) the nature of soil layers here is heavy clay soil and it is a less productive than the other parts. The fourth is called (Hutia) which lies in the northern part. This part is characterized by it’s high salt components and is exposed to aridity, so this land is not adequate for potatoe’s cultivation, and for this reason citizen decided to emigrate northwards to Dongola, or southwards to Semnar searching for suitable areas to cultivate potatoes. In Alshihainab one thousand and two hundred farmers (1200), cultivate potatoes by rotation system, with other vegetables like onion (as cash crop).

24 Omer Almanour, an old farmer, informal interview, Elshehainab may 2005. Also Alzubair Ahmed Alzubair, informal interview, Elshehainab, may 2005
Alshihaniab, is small rural area in the northern part of Khartoum state, it is proved that according to information collected from farmers directly\(^{(25)}\) they really suffer ability to save. Because their incomes are deteriorating and revenues incurred are always limited and below their demands. Agricultural inputs are very expensive compared to the low productivity per feddans.

According to the informal interview carried out to examine this problem, confirmed that the expenditure is always high than revenues, so it is very hard for the farmer in this position to make any savings. Framers interviewed were depending basically on formal credit through the Banking system as accessible substitute for self financing. Expensive nature of inputs, basically imported seeds, fertilizers and fuel used in the irrigation operations, compel the farmers to borrow these items inputs from the Bank as commodity loan. The land preparation is done by either casual labor or mechanically through tractors on commercial bases. Farmers self saving can not afford all cultivation expenses, besides the daily family requirements. To meet these expenses they need to resort to the banking system to fill the gap. Moreover, they disparately sell their products in low prices so as to pay the credit’s installments in its due time. In fact the current credit’s policies, applied in the rural agricultural sector, disservice the small farmer desires. They were formulated to serve the interest of rich merchant rather than the small poor farmer. In theory, credit’s facilities provided by the bank is supposed to solve the finance problem, and encouraging investment But it doesn’t, because the loan is given for a very short duration (Maximum six months), installments must be paid with a very high rate of interest.

\(^{(25)}\) Omer Elmamour an old farmer who is previously in council as a clerk, informal interview, Elshehainab, may 2005
Types of Finance in Al Shihainab

Different types of financing were implemented in Al Shihainab as they mentioned in this study. Besides formal financing, there were financing through banks and other institutions. They are two types either cash loan or commodity loan. The commodity loan is usually provided in terms of modern agricultural tools and equipment such as tractors and accessories, or fertilizes, improved seeds, insecticides.. etc which are very crucial for agricultural production.

Referring to the study carried out by Karari Agricultural Service Office, 41.4% of the farmers adopt self finance due to the complicated procedures of the banking system, in addition to that, the high rate of interest.26 About 19% of the farmers, have to resort to the Bank’s loan, in spite of its complicated procedures and hard conditions. Where 5.2% receive their finance from Agriculture Fund in Bahri. The study also showed that about 8.6% of the farmers prefer the combined financing, which means part of it will be drawn from the Agricultural Bank and the other part will be self finance. 10.3% of the farmers combine finance from the Agricultural Bank as well as the Agricultural Fund. The study showed that 1.7% of the farmers beside self finance they rely on others resources such as (Relatives or Rural Traders). 6.9% connect finance of the Agricultural Fund with self finance. Most of the finance that comes from the Agricultural Fund is commodity loan in terms of seeds imported from Holand the .seeds sometimes may have its problems such as low quality type. It was happened in the season of 2005, as mentioned in the report of Karari Agricultural office.27

26 Saeed Musa Alamin, an old farmer, informal interview, Elshihainab April 2005.
27 Gamal Alagab, Head of Karari Agricultural Office, Informal Interview, Omdurman, April 2005.
Table (2) Types of Finance of Potatoes

Cultivation in AlShehainab in 2005.

<table>
<thead>
<tr>
<th>Types of finance</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self finance</td>
<td>41.4</td>
</tr>
<tr>
<td>Bank</td>
<td>19.0</td>
</tr>
<tr>
<td>Agricultural fund</td>
<td>5.2</td>
</tr>
<tr>
<td>Others</td>
<td>3.4</td>
</tr>
<tr>
<td>Bank+self finance</td>
<td>8.6</td>
</tr>
<tr>
<td>Bank + agricultural fund</td>
<td>10.3</td>
</tr>
<tr>
<td>Self + other</td>
<td>1.7</td>
</tr>
<tr>
<td>Agricultural fund + others</td>
<td>1.7</td>
</tr>
<tr>
<td>Agricultural fund + self</td>
<td>6.9</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>


Fig (1) Types of Agricultural Finance

As shown in the above graph illustration, self finance represents 41.4% from the grand total, Bank’s financing is supposed to be available with reasonable conditions such as, long duration and low rate of interest, so as to avoid the pressures of selling the product immediately after the harvest season with low price.
Beside the high cost of finance there is the cost of other services, basically cold stores, whether in Omdurman or other places within Khartoum state.

The Formal Finance in Elshihainab:

Formal finance, as defined before, is the financing process through formal institutions in accordance with the credit policies, approved by the Central Bank of Sudan. People in Alshihainab resort to finance from these institutions mainly the Agricultural Bank, Farmer’s Commercial Bank, the Cooperation Bank, the Agricultural Development Fund, and the Central Farmer Union. All these institutions are founded in Omdurman, except the Agricultural Bank–Branch– which was established in Alshihainab in 1992. It had been financing most of the farmers with in almost 2 million SD Pounds, with a rate of interest 1.5% on monthly bases. But unfortunately this Bank had been closed down due to the accumulated debts and the delay of the installments scheduled to be paid by customers.

Agricultural Bank (Branch): is a governmental financial foundation, established in Alshihainab in 1992, it had been offering commodity loans, such as: seeds, fertilizers, fuel, and tractors with accessories and spare parts in regular stages. The minimum amount paid by the bank was about 10 M SD (Ten million million Sudanese Dinar), while the maximum was 50 MSD (Fifty million Sudanese dinar). Farmer should undertake to repay the loan, by signing a form designed by the Central Bank of Sudan specially for this purpose. In case of a big finance amounted to (The 50MSD) the farmer should deliver mortgage of fixed assets, equal to 125% of the value of the loan required, for the interest of the bank, and subject to the approval of the Centeral Bank of Sudan. The total area of

28 The real number is not known because the manager refused to give any information it is regarded as secret in the bank policy.
the scheme (Numbers of feddans) is considerable in this case and be checked by the officials of the bank. The rate of interest is 1.5% per month and the duration finance is six months, beginning from November and ends in May of the next year.

Table (3) Total Finance Offered by the Agricultural Bank from 2001 to 2005) Alshehainab-Branch

<table>
<thead>
<tr>
<th>Year</th>
<th>The amount of finance In million Dinars</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.200.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>4.900.000</td>
<td>122</td>
<td>122</td>
</tr>
<tr>
<td>2003</td>
<td>17.700.000</td>
<td>704</td>
<td>361</td>
</tr>
<tr>
<td>2004</td>
<td>109.700.000</td>
<td>4880</td>
<td>519</td>
</tr>
<tr>
<td>2005</td>
<td>125.700.000</td>
<td>5613</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Omdurman agricultural bank, field survey of the researcher 2005.

The Agricultural Bank officers identified the problems of financing as: lack of transparency and dishonesty of farmers, and the Agricultural Services Officer’s information are not reliable.

On the other hand, the farmer complains that the credit is inadequate and he has no ability to save, that lead him to sell part of the commodity loan, to cover both some of the cultivation expenses as well as his personal needs. Furthermore, the Bank’s management blame the farmer for he will not repay his installments on time. Because he will be waiting for price to rise in September, while the fixed date for the repayment should have been in May. Repayment in May will cause him a great loss.
Moreover, the credit amount actually received is 75% of the total finance and the farmer is committed to pay the full amount 100% which to him is unfair and unaffordable. To solve this problem in the short run, the farmer must resort to another kind of financing, or sells the crop in advance, before the harvest (ElReesh). 29

If the crop exposed to any kind of damage, say for example, epidemic disease, the farmer should report the bank on time. If it happened, the bank will appoint specialized official to visit the site to assess the damage volume and recommend to the bank management. The bank’s management will study the recommendations and consequently take the proper action. In some cases the bank would consider the loan as Gard Hasun (soft loan) without benefit or interest rate to compensate the farmer some of his losses.

The last problem stated by the bank officials was the absence of the government intervention for indirect support, i.e by giving exemptions from the business profit taxes or local fees. Furthermore unreliable information revealed by some farmers lead to the delay of repayment and default.

According to the informal the majority of the people interviewed were financing their cultivation activities by self saving, while some of them use combined system, saving and Bank Finance.

Secondly, The Agricultural Development Fund is responsible for providing commodity loans mainly seeds, which be perfect and not spoiled.

It is worth mentioning that the last batch of seeds which was imported from Holland was before (June, 1989), and since then GTZ Cooperation took the business of producing potatoes seeds with low fees, aiming at developing the cultivation of fruits, vegetables in the Sudan.

29 Hussan Mohamed Abass, member of farmer union, informal interview, Alshihainab April 2005.
Now GTZ Cooperation is replaced by the Agricultural Bank. The bank, unfortunately tackled the matter in commercial bases. It was providing these items with a very high fees and short duration of payment, as commodity loan, in accordance with, the credit policies adopted by the Central Bank of Sudan.

The Development Agricultural Fund was established in 1994, Supported by the government, which allocates about seven million SD in the state annual budget, for importing potato’s seeds through the tender system.

Potatoes seeds were being imported by two co-operations namely Enaam and Wass cooperations. According to the interview conducted with farmers and jointly with a report of Karari Agricultural Office stated that the productivity of potatoes decreased in 2002, 2003, 2004 for the three seasons consecutively. Unfortunately the two co-operations did not import the proper seeds, used by the Alfa farm, which led to that decrease in productivity. As a result the productivity of the feddan decreased sharply from ten to two sacks only.

Therefore, a committee was formed to investigate the failure of the seasons of 2001, 2002, 2003. The report of the committee attributed that failure to, the inaccuracy of the implementation of the rotation system. In addition to the defective imported seeds where the feddan’s capacity decreased to two only sacks instead of ten.

Moreover, the investigation committee added to the above reasons, also the improper land preparation besides the bad seeds which had been imported by the Corporation of El Enaam. The seeds imported by the two Cooperations Wass and Al Ena’am was not checked by the Agricultural Development Research Center, for compatibility with international standards and specifications.
(3) Agricultural Union Association:

The Agricultural Union Association (AUA) finances farmers normally with fertilizer in a form of commodity loan, but sometimes fertilizers are given to non farmers, through illegal channels who will re sell it with high prices, to the farmers.

(4) Government Intervention

Government intervention means the government’s direct or indirect support to the small farmers. According to the records, the only role played by the government, is the Extension Services Office establishment in AlShihainab headed by an Agricultural Inspector. His main job is to provide and present technical advices in all forms of agricultural operations and implement scientific techniques of agricultural process as well.

According to the informal interview the majority of the farmers were experiencing the combination system of finance, basically self finance plus formal finance, but small portion of the total number interviewed were using formal financing with informal finance. Nevertheless, self finance still represents the minority.  

The Informal Finance in Elshihainab:

In Al Shihainab there are many well off citizens, but they were interested to finance the peasants. The large numbers of small farmers were suffering from the negative impacts of the formal financing, which made them to seek finance from other informal sources. They resort to self finance, because formal finance is impossible, and to avoid the disadvantages of other types of financing, which was prevailing at that time.

Liquidity shortage, the bank’s finance which will not exceed ten million Sudanese dinar, irrespective to the area mortegated. Farmers

30 Omer Mohamed Babekir, member of farmer union, informal interview, Alshihainab may 2005
were always under pressure of the expenses of running all cultivation activities. As result of this pressure, farmers will unwillingly sell part of their crop before harvest at an estimated price through a system called (El Reesh), it is like the traditional shail system, but it is combined of two types of financing, one is formal and the other is informal. Moreover, if the farmer failed produce the amount agreed upon, the credit will be transferred to the next season. This system- debt trap- is being experienced in Kordofan and Darfur regions.

In Alshihainab all types of finance were valid, being formal or informal. The formal one is conducted through the official channels. The agricultural Bank Alshihainab (Branch) had been closed down due the failure of installments repayment. Despite that the majority of farmers according to the informal interview stated that, they continued to receive loans from Omdurman National Bank.

The majority of the farmers according to the informal interview, prefer the formal loans either in cash or in commodity. (Fertilizers and Seeds) Historically speaking, most of the financing credit were received after the beginning of cultivation season in December.

The farmer also needs to prepare the land, either mechanized or through casual labors. In this case cash in hand is more crucial to meet these requirements.

The interview carried out in concern indicated that, the majority of the farmers prefer the formal financing, although it is not accessible. As far as the credit repayments are concern, banks prefer to deal with rich farmers rather than the majority of poor farmers.

31 Hussan Mohamed Abass, member of farmer union, informal interview, Alshihainab April 2005.

32 Gamal Elagab, inspector of Karari Agriculture office, informal interview, Omdurman, April 2005.
The demerits of the formal financing can be pinpointed as: firstly: the duration of the loan is very short (approximately six months). Secondly, the rate of interest is too high (1.5% per month). This represents a great challenge to the farmer who is always under threats to sell at low price. Thirdly, the commodity loan may be of inferior quality or spoiled which may negatively affect the quantity or quality of the product, and finally daily needs of his family’s another head ache.

In spite of all these negative aspects, formal loan is seem inaccessible. The majority of the people interviewed criticized the behavior of some bank’s officials who give loans to their relatives and friends. Others who have no access can either wait for long time, or desperately head for the informal credit.

The majority of the farmers claimed that the formal finance is more accessible for them, while small number of farmer said that the informal finance is the best for them.

According to the informal interview the majority of the farmers preferred the formal finance, while some of them chose the informal, for its simple procedures.\(^{33}\)

Investigating the adequacy of the credit to the target group, the majority according to the informal interview stated that the credit is not adequate, while the small number of them find it adequate. The in Adequacy of credit accepted by the majority of the farmers because it will help them to have another informal finance from the money lenders.

The money lenders usually give loans in a very hard terms and the poor farmer should sacrifice and sell his crop before harvest with a very cheap prices, to meet these hard terms. By so doing, he would end with more losses and receive the coming season with more debts, or relinquish in prison which is a regretful and shameful position.

\(^{33}\)Saeed Musa Alamin, an old farmer, informal interview, Alshihainab, May 2005.
As far as the time duration is concern the majority of the farmers according to the informal interview found that is suitable, while the others said the opposite. The time usually begins in September and last in May of the coming year usually the procedures of the formal loan take long time, that will cause a delay in cultivation process and this delay might lead to crop failure.

**Cost of Production**

The production cost of the feddan cost is about 3.5 million SD without using the instructions and directives of the technological packages (El Hizam El Tagnia) and with the technological package the feddan cost 4.5 million SD. The average annual productivity per feddan ten sacks of potatoes. In spite of the high cost of the technological packages, but the productivity increased two times and sometimes jump to an impressive number, as shown in table(6) below.

The cost of transportation to Omdurman is 1.00 SD per sack and the cost of the duration for cold stores tow months at least the net cost will rise.

According to the informal interview, the cost of inputs basically seeds, fertilizers, labor, land preparation, and cold stores are very high. And due to the same source it was found that the seeds imported from Holland are reasonable and acceptable compared to the local seeds which may be of low quality, and subject to honey dim (Assalah disease).

Some Banks provide commodity loans with special rate of interest to the big traders due to their ability to provide guarantees. Those traders, in turn, misuse that loans and resell those items to the unlucky farmers at a very high prices. The double rate of interest and high prices of seeds

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34Omer Mohamed Babekir, farmer union, informal interview, alshihainab, May 2005
and chemical fertilizers, result virtually in sharp increase of the cost of production.

The seasonal casual labor employed were emigrating from western Sudan. It is an additional expensive cost, and moreover they constitute a complicated social problem as they come without their families, a situation which is socially unacceptable in conservative communities. The seasonal labor are employed to operate “wasag” in digging channels. The cost of the seasonal worker was estimated as (3,000SD) three thousands Sudanese Dinnar per day and they usually work in land preparation and sewing potatoes in the period from August to October. Land preparation specially ploughing, leveling and harrowing can be done mechanically by tractors, in commercial basis with 2,000 SD per hour. Every 3 Feddan need about 7-10 Gasaba. Each Gasaba is composed of 64 Sarabas. This process needs 2 laborers takes almost 2 hours.

The Agricultural Fund does not cover all the cultivation operations, as confirmed by the majority of the farmer according to the informal interview, but small number stated that, it will, because they had additional sources generated from other activities.35

**Transportation, Infrastructure and Storage system**

There were 19 cold stores in Omdurman locality with huge designed capacities. The table below shows the quantities of potatoes stored, during 2000-5005

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantities of potatoes in tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>19,380</td>
</tr>
<tr>
<td>2003-2004</td>
<td>24,690</td>
</tr>
<tr>
<td>2004-2005</td>
<td>21,480</td>
</tr>
</tbody>
</table>

Source: Annual Report, Karari Agricultural Office, 2005

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35 Saeed Musa Alamin, an old farmer, informal interview, Alshihainab, May 2005. Also Abd Alsalam Musa, an old farmer, informal interview, Elshihainab, May 2005
There is one cold store in Khartoum the quantities of potatoes stored, during 2000-5005 as shown in table(5) below

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantities of potatoes in tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>1000</td>
</tr>
<tr>
<td>2003-2004</td>
<td>550</td>
</tr>
<tr>
<td>2004-2005</td>
<td>300</td>
</tr>
</tbody>
</table>

Source: A Report, Karari Agricultural Office, 2005

All the cold stores are concentrated in Omdurman. They are owned and managed by private investors. The cost storing was relatively very high, and increases the production cost and affects the ability to save. There is no existence for the Farmer’s Association and access to government institutions is quite limited, the state support is not to the point.

All these reasons are supposed to push the Agricultural Services Office to develop ideas to decrease the storing costs, to think for example in establishing their own co-operative cold stores.

Recently the Women’s Association in Alshihainab, constructed a cold store through their own efforts, with cheap costs within the premises of the Extension Services.

This is definitely a bold step; the government must support it, and make other parts think in relative projects such as: land transport and mobile cold stores.

The area of study lacks developed infrastructures, so the crop is transported to Omdurman for storage and marketing. The cost of cold stores is very high i.e. 2000 SD for one sack per month.

The person who needs this service must pay 4-months fees in advance, even if he wants a less duration. The majority of the farmers according to the informal interview expressed their inability to establish
their own cold stores due to the high cost of constructions. For that, they prefer the commercial stores. Therefore, high storage cost, combined with repayments dues will affect his returns and of course he can hardly suffice his requirements that compel him to sell his crop with low prices.

Marketing:

As people of Alshihainab suffer a lot from the problem of inadequacy of financing, they also have a limited access to the market to sell their product. So firstly, they are compelled to sell with low prices to repay the loans and furthermore to cover their immediate needs and daily demands. Secondly, because they have limited access to transportation facilities the farmer would sell directly to the middle men, because they have no direct connections with the end users (consumers). Thirdly, the farmers practice a kind of finance called AlReesh, it is an obligatory sales of his crop before harvest. It differs from Alshail because the one part of financing will be formal and the other part is informal. In this case the farmer seeks an additional resources from informal source as complementary part.

Part of the farmers according to the informal interview, sell when prices are low, because they have to fulfill some of their demands and repay the remaining installments, being formal or informal, from relatives or traders. In this connection the farmer faces another problem, which is the marketing of his crop; where he should sell his crop directly, to the traders and middlemen.

The majority of the farmers were forced to sell their crop at low price with a marginal profit. Traders and middlemen in turn will sell the crop directly to the consumers, through their private shops. The farmers find themselves, committed to purchase their needs from these shops at
higher prices. It is a paramount exploitation, as the majority as stated of farmers have no ability to save or perform self-reliance system.

The majority of farmers transport their production to the cold warehouses in Omdurman, while small portion sells it locally. The product will be marketed to retailers and wholesalers at the three Towns. It is worth mentioning that, the farmer can realize good prices and achieve remarkable profits, as long as he could store the product and sell it on the suitable time, as the commodity could be preserved for three consecutive months.

**Repayment Problems**

The persons who are in charge of the agricultural activities, i.e the extension’s officials and the Agricultural Services Officers stated the people of Alshihainab describe the loan of the Bank as (*ElGUl or ElkUGRA*). The two terms have the same meaning. They mean difficulty to repay the loan on time.  

The Agricultural Bank which was closed down in 1995, with total closing debt 1,500,000 billion SD, borrowed by Alshihainab’s people and failed to repay their debts, so 43 persons were in prison at that time, due to insolvency.

Loans are usually provided either in cash in a limit of 10000SD or in commodity e.g seeds, fertilizers… etc. If a farmer wants to borrow a loan, he must provide a mortgage (Real estates) house or piece of land as a guarantee for the credit. The repayment will be divided into 9 equal installments, to be repaid on monthly basis from November to September of the next year, with a rate of interest 1.5% per month. It is evident, from experience, that this policy is not successful, as it is unaffordable by the farmers. Usually the farmer spends part of the loan to meet his private


37 Bushra. The extensionist of AlShihainab. informal interview, Alshihainab, April 2005.
needs and directs the other part to the field operations, so there is no room for savings.

The third problem is that, farmers have limited access to the open market because they have no direct relationship with consumers; as they used to deal with traders and middlemen; who will sell to the small distributors.

There is one point to be mentioned in this concern, that if the farmer failed to repay the loan on time, he has the right to reschedule his due installments, on condition that he has to provide acceptable reasons. A very interesting point is that: most of the resource people interviewed, and even those who were summoned by the courts to settle their cases, said that, in spite of the fact that they prefer formal financing. In their opinions, the rescheduling policy of the dept can solve partially this problem of the cultivation.

The study reflects that the majority of the group interviewed, confirms that choosing May as a time for scheduling repayment is not suitable, because at this time price is supposed to be low, while small number according to the informal interview stated that, it is suitable. Most of the farmers repay the credit in kind to the bank (sacks of potatoes). The banks, in turn, store it until September when the prices go high. However, there were small numbers who repay in cash.

**Government Intervention:**

A study conducted by Agricultural Services office in 2005, indicates that about 6.9% of the farmers deal with Agricultural Fund as formal finance, combine it with self finance. Where 5.2% finance their field’s activities with 100% of credit from the Agricultural Fund. Again

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38 Alzubair Ahmed Alzubair, informal interview, Alshihainab, May 2005. also Mohamed Al sanhory, informal interview, Alshihainab, May 2005
39 The Director of ABS of Omdurman, informal interview, Omdurman, April 2005
1.7% of the farmers of AlShihainab combine finance of Agricultural Fund with other sources, see Table 2.

No government intervention, of course, not for the benefit of the farmer, is recorded except the establishment of the Extension Services Office in Al Shihainab. The office is managed by an extension expert. The role of this extension officer is to give consultation in a scientific way the farmers and explain to them the agricultural techniques and a set of programs that improve the production and productivity. He must carry out personal visits to the site, at least four times a week, to practice training to show the farmers the ways and means on how to conduct prevention measures and control potatoes from insects and rodents, by using the appropriate insecticides. And implement the technological packages (Hizam El Tagnia), so as to demonstrate its role and impacts in increasing the production and productivity. For more details refer to table (6) below:

**Table (6) Production per Feddan**

<table>
<thead>
<tr>
<th>Year</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>2002</td>
<td>20</td>
<td>90</td>
</tr>
<tr>
<td>2003</td>
<td>90</td>
<td>165</td>
</tr>
<tr>
<td>2004</td>
<td>165</td>
<td>360</td>
</tr>
</tbody>
</table>

The production increased in 2001, from 20 sacks to 90 sacks per feddan, in 2002. In 2003, 2004 the yield reached 165, 360 sacks respectively. Unfortunately In 2005, the productivity declined from 90 to 2 sack per feddan.

The season of 2005 faced the problem of the exhausted and spoiled seeds (Imported from outside) which pulled down the productivity per feddan from 360 sacks to 2 sacks only. Farmers realized a great loss that
is because it did not coincide the international standards and specifications.

The majority of the farmers according to the informal interview, in this respect, responded that there was no any attempt from the government side shown to solve neither this problem, nor other problems e.g cold stores nor pricing or marketing.  

The high productivity in the seasons of 2001, 2002, 2003, 2004 was attributed to firstly: the efforts exerted by the extension inspector with the farmers of AlShihainab. Secondly: the policy practiced was dedicated to increase the productivity. They gave more attention to land preparation including ploughing, leveling ‘Targeet’by using ditcher ‘Gasabia’, thirdly ridging (torrad), and farrowing (Sarabat) - making channel. Fourthly, growing seeds by dividing the kuper (dividing the potatoes seeds). Fifthly: fertilizing the soil. Sixthly irrigating the farm weekly to reach twelve times in three months. And finally combating the (three insects) by using the insecticides known as (silicon), (folimat) and (spiklat) in the suitable time.

Harvest must be with in 105 days. After the harvest the crops – potatoes- will be preserved in a pitch to harden the potatoes skin. This will be done in the last four weeks.

The formal financing was being conducted through the Agricultural Bank, the Development Agricultural Fund, the Farmer Associations and Ministry of Agriculture of Khartoum state. However, this study confirmed the absence of inequality, lack of transparency and access to these institutions seem to be impossible, specially financing in commodity loan, where fertilizers and seeds were distributed by the

40 Saeed Musa Alamin, an old farmer, informal interview, Alshihainab, May 2005
41 Bushra. The extensionist of AlShihainab. informal interview, Alshihainab, April 2005, also Omer Almanour, an old farmer, informal interview, Alshehainab survey May 2005.
Agricultural Fund and the Central Farmer’s Union, to non farmers who in return sell them to farmers with high prices (Black Market). In other words these institutions contribute in raising the cost of production in stead of decreasing it.

The Agricultural Fund had not solve the problem as this was confirmed by the majority of the farmers interviewed, but small number assumed contrary to that, claiming that the problem of finance had been solved by the Agricultural Fund.

Availability of land will remain as a great problem. Some of the targeted group solved this problem by rent. Others through sharing system. While the last group emigrated outside the state, either northwards to Dongola or southwards to Sennar. Those farmers who emigrated outside the area sought to rely on rent methods and this type of relationship will increase the cost of production. A research conducted by a committee formed by Karari Agricultural Office stated that 50% of the farmers are cultivating in their own property, 22.4% by rent and 5.2% through partnership and sharing system. Some farmers combine between ownership and partial rent, to cover part of the expenses of the farm and part of their private requirements. The same study explained that, 6.9% of the farmers perform combination system.

Recently shortage of agricultural land emerged as a result of housing plans conducted by the government to solve the housing problems. There are an other reason which is land ravishing. Finally 6.9% of the citizens who possess no land, have to chose between either rent or sharing system

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### Table (7) Type of Land and Property

<table>
<thead>
<tr>
<th>Type of Land property</th>
<th>Percent%</th>
</tr>
</thead>
<tbody>
<tr>
<td>own property</td>
<td>50</td>
</tr>
<tr>
<td>Rent</td>
<td>22.4</td>
</tr>
<tr>
<td>Sharing</td>
<td>5.2</td>
</tr>
<tr>
<td>Own property &amp; Rent</td>
<td>8.6</td>
</tr>
<tr>
<td>Own property</td>
<td>6.9</td>
</tr>
<tr>
<td>&amp;Sharing</td>
<td>6.9</td>
</tr>
<tr>
<td>Rent &amp; Sharing</td>
<td></td>
</tr>
</tbody>
</table>


### Fig (2) Types of Land Property

The table number (7) shown the property of land in 2005 according to the study of the Karari Agricultural Office.

**Accessibility to Credit:**

No information about the government intervention in the study area. It is obvious that the farmers were faced by several problems including lack of finance, land storage, credits and difficult access to formal loans. Government intervention is hardly needed to provide incentives in terms of tax exemptions to the farmer to encourage him to produce more product. Government funds must be transferred to serve poor rural farmers. Seeds and fertilizers must be offered to the farmers.
with facilities and easy terms. Moreover, positive government encouragement is totally absent in Al Shihainab. However, the intervention of the government and the locality existed in the shape of collection of Zakat, Taxes and fees as will be discussed in the next chapter.

To conclude most of the people in Alshihainab have no ability to save. They rely on commercial banks for financing. The cost of production is very high. They depend on the imported seeds and lack all means of supporting services such as transportation, and cold warehouses. They have no access to market, so they sell their production, immediately after harvest to address the problem of repayment of credit and other commitments. Finally, there is a complete absence of government support.
Chapter Four

Constraints to Access Credit

Introduction:

This chapter is to discuss the limitations and constraints that affect the development of agriculture in the study area and the methods and policies of intervention need to strengthen the farmer in AlShihainab in order to have better access to credits and improve his production and productivity.

In the first section the credit’s constrains are discussed, followed by terms of finance. The Zakat and Taxation the localities policies in the sense of fees and taxation were another echoes (Eshoor and Gibana fees on the crop) are studied, as direct constraints. The specialized rural institution which might form the solution is covered in section four. In the indirect constraints the problem of domestic market and the difficult access to market. Are discussed in next section the inadequacy of incentive is touched. While the farmer habits and value concept are well covered in the seventh section. Lastly the cooperative and importance of marketing are catered for in eighth section. The system of storage and the inventory cost is another problem that increases the cost of production. The lack of infrastructure and transportation services problem are discussed in the same section of the chapter. The problem of narrow domestic market and accessibility to the markets is also reviewed in this chapter. The farmer spends a considerable portion of the loans he received on his family subsistence, he also finds himself obliged to sell some of his crops at low prices upon harvesting. This chapter considers this problem that needs to be solved. Firstly the direct constraint will be examined followed by the indirect constraint.
Direct Constraints:

Credit:

Agricultural growth in ElShihainab, needs intervention to finance rural agriculture, it is most important to reduce rural poverty and hasten development. The impact of financing on the rural farmers depends on the initial conditions. The adequate policy, intervention of institutions, incentives, easy accesses to credit and reduction of rate of interest on formal and informal loans.

The stagnancy of agricultural production has harmed the rural farmers in ElShihainab and limited his financial creditability. He is suffering from the continuous rise of the prices of his needs and even, sometimes, from food shortage. The growth of agriculture is a major factor of the overall economic development of the area since it will increase employment opportunities, reduce poverty and provide the industrial sector with new materials. The potatoes, the product of Al-Shihainab is a popular constituent of the Sudanese meal. It can replace other food stuffs for its high nutritional value and can also be exported abroad since it can tolerate the different weather conditions and could be stored for long time.

The agriculture in AlShihainab in terms of credit we find that the whole system is in need of reform in many aspects including: employment, financing, domestic market, incentives, subsidies and government intervention. We can say that the whole system is leading to impoverish the peasant especially the credit system. Because the peasant lacks the ability to save, self reliance, and subsidies from the government he resorts to finance from commercial banks. The system of commercial banks, the high rate of interest, short duration of the loan is another step to impoverish peasants and lead them to turn in a vicious circle in the case of non repayment and rescheduling. Subsidies and loans provided by
the government are sometimes spent on the farmer’s subsistence and his daily needs. So the main problem of cultivating potatoes is the inadequate access to credit and the high rates of interest on the loans earmarked for production, which are partly consumed to cover private needs. The second problem is the inadequacy of inputs for cultivating potatoes like seeds and fertilizers. The third problem is land access. Because of the inheritance system, farmers usually resort to hire lands. This increases the cost of production or leads to migrate outside the area or using sharing system.

A land reform is needed to have new lands for cultivation which needs comprehensive treatment and extension of water canals. There is an abundant land which is not far from the river Nile. Now farmers concentrate in cultivating in an island called Kagapi. So, people in Al Shihainab have few resources and poverty is prevailing all over the village. They need capital to smooth out consumption and to purchase current and capital inputs. Credits in Alshihainab are supplied by both formal and informal sources (informal: such as money lenders, merchants, friends and relativities, self reliance. (Formal: banks and government).

Formal credits are given in small amounts i.e. 1,000,000 SD hence; they are insufficient for investment and consumption. Moreover, their cost is high because of the administrative expenses. To obtain such credits farmers need land mortgages which are not always available. Farmers have to bear the risk of repayment default. No attempts were made by the government. Whether directly to improve formal credit in order to replace the prevailing informal credit financing that by given adequate credit.

The inadequacy of loan itself is another problem. The farmers stated that the bank finance is about 75% of the total cost and according
to the number of feddans the loans is provided, because the finance is not adequate the farmer resort to another source of finance to fill the gap and complete the agricultural activates. So the farmer will fill the gap from his own resources (self finance) and from the surplus of the previous season and surplus from the other activities, and this depends on the ability of the farmer to safe. The problem appears when the farmers is be unable to fill the gap, so he resorts to the money lenders and sell parts of his crop before the harvest. When the crop is declined and the yield is decreased then he obliged to return the dept on time, for this reason, he fell in the dept trap as in AlShail. And this kind of transaction is called AlReesh Sell\textsuperscript{43}. It is more dangerous than AlShail because the farmer is obliged to a couple of institutions to repay, one is formal finance and the other is the informal finance.

**Terms of Financing:**

According to the informal interview in Alshihainab the formal finance from the commercial bank have three problems 1) the access to have credit on time 2) the high rate of interest. 3) the short duration for repayment of the loan. This short term loans deepens the farmer’s indebtedness, because the farmer will be forced to sell the harvest immediately at a low price and buy the food back at higher price. This policy impoverishes the framers even further.

In addition to the difficult access to finance, loans are often received after the time of cultivation according to the farmers interviewed. The difficult accessibility represented the ill process of financing and also in favoring the relatives of the officers.

Most of the farmers interviewed complain against the policy of discrimination where some farmers get easy access to credit, while the others must provide mortgages including real estate or even their own

\textsuperscript{43} Omer Mohamed Babiker, Farmer union, informal interview, Elshihainab. May 2005
farm land in return. Some farmers are even totally inhibited from obtaining credits. This policy always makes the credit to be provided after the time of cultivation and not on the suitable time. According to people interviewed, the short duration of loan from formal and informal sources and high rate of interest always compel the farmer to market his crop in low prices immediately after harvest.

The farmer is thus permanently indebted and impoverished. He is driven into the debt trap and left turn in a vicious circle. Both formal and informal loans push the farmer to rescheduling repayment with a successive increase rate of interest.

Sometimes, a farmer who receives a commodity loan (e.g. seeds or fertilizers) faces another sort of problem. As he may not be able to spend on the various cultivation operations, he finds himself obliged to sell some of these seeds and fertilizers at low prices in order to finance other farm work (Kasir system i.e. to sell a commodity at less than its market price).44

The inadequacy of the credit itself and the timing of credit of is a problem. Farmer when receive the credit lately this will delay the cultivation then he will be exposed to risky.

The high rate of interest leads the farmer to inability to repay. Besides the short term for repayment, which may compel the farmer to sell when the prices are low. This will decrease his return and decrease his ability to repay. So he may think again to seek another credit to bridge the gap.

44 Omer Almanour, an old farmer, informal interview, Elshehainab May 2005.
Taxation and Zakat:
Agricultural institutions support potatoes’ cultivation in the area is quite limited except the extension services. Neither subsidies nor effective technical assistance were prevailing.

We can say that the potentials of cultivating potatoes and its implications on the food production had received little care from both local government and the Ministry of Agriculture.

Farmers in Al Shihainab used to pay all types of taxes and local fees; namely: Attyan tax which is paid to the locality in accordance with, the area 200SD per feddan. Ushhor a tax which is paid due to the quantity of the crop estimated before harvest. Gibana a tax which is also collected by the locality according to the quantity of the crop after harvest. Giabna tax had bee cancelled by the presidential decree but the attyan taxes are still prevails.

Farmers were complaining against the way through which zakat is collected by zakat officers. They explained that zakat it should be paid and collected voluntarily and not compulsory, because some farmers might be indebted or have other critical financial circumstances. Farmers expressed that zakat should be distributed locally and basically to the needy relatives. Farmers in general were rejecting the methods and processes by which zakat is implemented. The majority of the interviewed farmers preferred the formal finance to the informal, while a very small number of farmers said the opposite. 45

Specialized Rural Institution:

According to the informal interview, it was made clear that the farmers in Alshihainab are left to face their fate in agricultures and to depend on himself to finance his farm; without access to a credit sometimes without access to land or hiring land to cultivate without

45 Omer Almanour, an old farmer, informal interview, Alshehainab May 2005.
facilities or services after harvest, like cold store houses to store the potatoes.

After harvest also the farmer is left for the market mechanism, no procurement to protect the peasant, no state intervention to raise price or to give subsidies. Farmer have to resort to the commercial bank because he lacks the ability to save the credit, either it is formal or informal, in the condition of in ability to repay, he falls in the debts trap even in the formal finance we find the system of rescheduling make the farmer to be indebted all the year and this system impoverish the peasant greatly.

Indirect constraints

Domestic Market:

Market limitations undoubtly hamper the development of the local agriculture in the past and at present. The production has been export-oriented, so we find the Sudanese farmer continues to produce at low prices because there are few alternative opportunities for the employment of their labor and land.

Farmers in Alahiainab are different for they produce for the local market and local consumption an important diet. The problem is that even they produce for local market, they have no access to the local market. The farmer can not enter the market except through the big merchants who own the distribution shops. All shops which distribute potatoes are owned by the big merchants, although they stay without work from the harvest till September. The government policy and the locality policy deprive the real potatoes’ producer from distributing directly to consumers so the production will be transferred through the middlemen and big merchants to the consumes. The farmer finds himself forced to purchase his own need from potatoes at a very high price from these shops. This odd relationship needs to be corrected.
So the role of markets is most important in affecting the conditions of rural farmer in Alshihainab. Furthermore, most of the product and resources in the market are highly imperfect and send wrong signal for the allocation of resources, this distortion is due to structural and financial practices on the one hand and the government’s policy on the other hand eg no subsides or inputs; direct and indirect taxes, exchange rate, rate of interest. So all these factors together affect the condition of all groups of the rural poor.

The increased private profitability and commercial agriculture induced largely by distorted market’s structure and public policy have been a major factor in the process of depeasaniization of farmer in Alshihainab.

**Inadequacy of Incentives:**

Usually the farmer is motivated to increase his production when he finds an increased income in response.

In Tanzania, central Asia and some other third world’s countries which adopt the communal farms, a farmer is motivated by the collective consumption facilities and the collective work in the small plots. So they increase their production. We notice from that experience the committees and the specialized boards look after marketing and pricing policies. Such policies motivate farmers to work more hardly for better production.

But in Sudan generally and Alshihainab in particular we find the government is paying no care to rural credit or rural farmer. The government concern is devoted to the modern mechanized agriculture which produces for world market.

Farmers in Alshihainab are motivated only by the fact that; they produce a desired commodity for local market which is consumed all over the year. The farmers in Alshihainab are proud that they are the first people to cultivate potatoes in Sudan. Hence, they are specialized in this crop.
If the government intervention is to look after this crop which is highly tolerant and can be stored for long time although it is a vegetable, without loosing its minerals; it will note that the farmer here needs incentives to continue producing and extending his production for export especially to the neighboring countries.

Incentives may also take the form of enhancing the farmer’s accessibility to formal credits and introducing land reform to exploit the area to the west of the existing village.

**Farmer Habits and Value Concepts:**

People are always interested in earning more income. That is why it is important to know how rapidly they are becoming cash conscious consumption preferences and values.

According to the people interviewed in Alshihainab it is obviously that people highly respond to new income opportunities and changes in the process of potatoes cultivation. They are ready to have cooperative farms, a collective board for procurement of requirement e.g. potatoes board. They respond to new programs, new projects, and new methods of financing. They are likely to be interested in imported fertilizers since the indigenous brands harm the crop. They respond positively to adoption of any new fertilizer which can increase crop production and increase their income.

One of the striking facts in AlShehainab is the absence of family labor in the farms. The informal interview showed that no members of the farmers work. All the work is done by hired seasonal farming workers who receive relatively high wages raising further the cost of production.

**Organization of Marketing and Cooperatives:**

Some countries in the third world which show rapid development like central Asia countries and Tanzania adopt the system of cooperatives and marketing organizations.
According to the informal interview in Alshihainab farmers pointed to the complete absence of such organizations, although there is a farmers union, (farmer union is not elected by the farmers). So, people interviewed regarded this union does not represent them and that the members of this union are working for their own benefits.47

Obviously nothing is done to the farmers who are heavily indebted. There are no store houses owned by the union, no pricing or marketing policies. The farmer is left to the market mechanism to finance his farm from commercial banks if he has access and assets to mortgage for the credit.

The cooperative farm is needed because the area of Gazira Kajabi is limited and the soil is exhausted by heavy cultivation and absence of rotation. For this reason introducing new areas by land reform and to be owned communally with the citizens is important. Reallocation and reducing of land is needed to give access to landless people who emigrate south to Sennar or North to Dongla

The farmers union now is responsible to the allocation of the fertilizer. The fertilizers sometimes given to non farmers who in return sell them to farmers with high prices. This means that there is lacks of transparency.

The storing is a very costive thing; people of AlShihainab need stores to be constructed either by farmer association or even by government to compact the high cost of storing through the commercial and stores owned by the merchants.

To sum up, the main problem of potato cultivation is the availability of credit, access to credit, the time of financing and the repayment problem. Another problem is the lack of specialized institution to help the farmers in financing the farm. The complete absence of state and the

47 Omer Almanour, an old farmer, informal interview, Elshehainab May 2005.
absence of agricultural institutions and the absence of potatoes board make the farmers to resort to the Commercial Bank with its all problems, of high rate of interest and short duration. There is a complete absence of state intervention, the farmer needs a big push of subsides and achieve surplus. To apply self-reliance system

**Conclusion and Recommendations:**

People in Alshehainab using self finance from their own resources. They prefer formal finance but they have limited access to it because they have no assets to entitle them to have credit so they are not eligible to borrow in the organized market. Given all types of finance available in the study aria, the problem of finance availability has not resolved and there is still a problem of lack of finance so they have to fill the gab from others resources, because then finance is not adequate. People in Alshehainab have limited and restricted access to market. The shops which distribute potato owned by pig merchants. Solving the problem of credit will not be effective with out being supported by improve technology, supply of inputs, infrastructure and market vacillates, building capacities. Government intervention is completely absent land is remain as constrains.

People in Alshehainab are suffering from poverty. This poverty is being perpetuated at two levels: insufficient low income earned from agriculture and the low rate of production caused by the difficult access to credit. They are cultivating an important diet and were the first to cultivate potatoes in Sudan. If the crop is developed, financed and expanded in the area it can cover the domestic market needs and can be exported, because it is highly tolerant and can be stored for long times. Poverty leads those who are powerless to remain isolated from center of authority. They are unorganized and are without associations that represent them or facilitate their access to credit and inputs. They are
neither consulted on their needs and aspirations nor are they involved, or have links with Ministry of agriculture. They are not involved in decision making process because they are poor and do not constitute a threat to local authorities. They really need to be empowered. Cultivating potatoes in Alshihainab represents a viable outlet for alleviating poverty and development of new cash crop in the local economy. Rural agriculture in Alshehainab needs financial support and marketing arrangements. The frustrating reality is that rural development strategies had often ended with failure. Financing patotos in Alshehainab agriculture is as indispensable tool for eradicating poverty.

The problem of rural credit in Alshehainab is seen by policy makers as the last car in the train of the development. This train is pulled by engine of the modern sector represented by the mechanized farming and the industrial sector. Improved financing methods is essential for enhanced rural economic growth and for expedited poverty eradication, being the first necessary step in reforming the economic and agricultural policies. This framework applies to the cash crop producers in AlShihainab as well as to the other rural areas in Sudan. Policy makers who look for rural development should focus on improving the credit and financing system.

**Recommendations:**

The research Government intervention is needed for improving the credit system and providing assistance as well as subsidies to the ready farmers including provision of seeds, fertilizers, farming equipment and machinery.

The government is also required to work hard for maintaining the price levels when the crop is abundant or, to intervene by buying the crop when the prices become unprofitable to the farmer. Tax cuts and exemptions should be provided to the farmers in Kajabi Island who are
cultivating smaller plots of land due to the natural increase in population and the inheritance system. Extensions of areas for cultivation could be made to the west of the existing village and canals could be set there to avail ample space for cultivation.

Cooperative farms and other sorts of cooperatives, collectively owned by the village citizens, can be established there to help in satisfying the needs for various services including schools, medical centers and hospitals, and clean drinking water.

A freely elected body is much needed to represent the farmers and express their interests and aspirations. Associations and organizations imposed by the government are not welcomed by the people there, since their main objective, as viewed by the citizens, is to defend the government and its policies.

Regulatory boards can be set up to help in processing the various steps of producing, marketing and pricing of the potatoes crop, high quality seeds are to be selected by the specialized government bodies and distributed directly to the farmers who should be instructed to types in order to improve the production. Zakat is to be paid voluntarily to the relatives and local community instead of taking it by force without due consideration to the financial states of the people.

The starting point in the required overall reform is the clear understanding of existing situation, then consult an in-depth assessment of the problems and evaluate, accordingly, the potentials at the local level. A local development team that includes the leaders of local farmers, local government units, technical and agrarian personnel, planners and engineers should be composed and identified to carry out the task of bringing the government policies closer to the people.

To make a reform we need a comprehensive approach for development that aims at increasing and improving the living condition of
farmers households. This approach can solve problems of credit and can lead to sustainable agrarian reform in Alshihainab. In our study we noticed the complete absence of women in the family labor. The farmer’s family should collectively participate actively in all phases of production with the support of a development oriented institution. A check of technical feasibility and social acceptability is needed to understand the people living conditions and the forces that control their lives [rural trades, shail,.. etc].

The current agricultural, financing and marketing policies are contributing factors to the impoverishment of the small farmer's. This situation needs reform and radical change in the general policies and the agricultural policy in particular. It needs an effective mechanism for achieving positive changes in the economic and social well being through a comprehensive approach. This approach can respond more effectively to the real needs of the people in Alshihainab. It can improve the potatoes production and increase the income. The government can provide the stores at low fees. Using this approach, we can address a wide range of social, economic and environmental issues. Producers in Alshihainab require the pooled support and resources of various government, non government and private agencies.
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Appendix I

Quantitative Informative Guide:

- The Size of the farm
- The cost of feddan:
  1) Cost of seeds per feddan
  2) Cost of fertilizers per feddan
- Total cost per Feddan.
- Storage cost per sack
- Duration of storage
- The output per Feddan.
- The net profit per Feddan.

Questionnaire:

1- What are the available types of finance?
2- What forms of finance is more accessible?
3- What form peasants prefer and why?
4- Is credit adequate?
5- Is the timing of providing the fund suitable?
6- Does it cover all the needs of agriculture inputs and the peasant’s subsistence?
7- Does the fund solve the problem of finance completely?
8- Is the time for repayment suitable?
9- How does the farmer repay the fund?
   - In kind.
   - In cash.
   - Before harvest.
   - After harvest.
10- After harvest; does the farmer reach the ocean market or does he sell locally?

In case he sells locally, why?

1- Because of the cost of transportation.
2- Because the time of repayment is due

11- Does the system of inventory Increase the profit?

12- How is the problem of access to land solved?
    - By rent    - sharing    - others.

13- What is the impact on output?

14- How does the farmer solve the problem of market and inventory?

15- How does the farmer solve the problem of pricing and credit timing?