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**On the Experience of Islamic Agricultural Finance in Sudan:
Challenges and Sustainability**

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To write a book on the experience of agricultural finance in a developing country, including problems and challenges, is a casual treatise in development finance in general and agricultural finance in particular. To study the experience of agricultural finance in Sudan within the period 1991-2001 is another story. The main reason behind this significance is that this period witnessed the introduction of Islamic finance in Sudan . Agriculture, having been contributing between 29% and 50% to gross domestic product or an average annual share of 48% during this period , merits special interest in how successful were the Islamic modes of finance in such a vital sector. Moreover, it is worth researching into whether the level of achievement of the financial institutions, manifested mainly in financial viability and self-sustainability , was due to the nature of Islamic financing modes or due to structural, institutional and organizational factors inherent in the Sudanese financial sector. The general conclusion of the book in this regard is that a mixture of all such factors contributed to the relatively poor performance of agricultural financing schemes during the studied period.

Islamic finance offered great opportunities for the development of the agricultural sector in Sudan. It suited most the needs of farmers who were short of long term financial resources , provided risk-sharing modes of finance and obliged less collateral from farmers. On the national level, Islamic finance, through the association between finance and real economic activity, meant less inflationary pressures in the economy.

The book covered several vital issues, pertaining mainly to the performance evaluation of agricultural finance in Sudan through Islamic modes of finance, most significant among which are the following:

1. Criteria of Financing: Emphasis on credit needs of farmers versus other performance-related criteria like efficient credit decision-making and loan administration , the ability of borrowers to repay debt and risk-bearing by borrowers, contributed most to the low level of performance of agricultural finance. Focusing on credit needs may also have led to distortion of the costs of finance, ignorance of incentives and profit-making motives and the under-emphasis of sector output, particularly in the long run. Intervention by the government in the financing process may have led to the precipitation of such outcomes.
2. Structure of financing: Agricultural finance consisted of informal and formal sources. Informal sources included unorganized Salam⁽¹⁾ " *shail* " , sharecropping " *Musharakah* " and loans from family members. Formal sources normally include commercial banks, The Agricultural Bank of Sudan, The Farmers Bank and The Animal Resources Bank. Informal sources of finance have their own merits which include low administrative costs, simple procedures for lending, absence of collateral, suitability to the borrowing farmers needs and flexibility in repayment of loans. Depending heavily on informal sources of finance, however, have their disadvantages consisting mainly of the susceptibility of farmers to exploitation by lenders in terms of undervaluation of the borrowers crop and overcharging of interest.
3. Performance impediments: Challenges and problems encountered by Islamic modes of finance, as applied to financing of agriculture in Sudan, were not due to inherent performance-hindering characteristics in these modes, but to structural, institutional and organizational factors most significant among which are the following :
 - Emphasis on the goal of quantity of production increase versus the goal of sustainable production and long term productivity enhancement.
 - Neglect of risk, featured mainly in: marketing risk, default risk, crop price risk and macroeconomic risk. Dilution of such risks can be achieved by more prudent screening of borrowers, closer monitoring , rationing of finance and better utilization and management of collateral.
 - Low level of market-based credit systems.
 - Low level of regulation and supervision. This is mainly due to the public nature of financing institutions, whether specialized or development banks, which means less prudential regulation and supervision and lack of internal control mechanisms and efficient lending procedures.
 - Low level of operational efficiency. Highly centralized operational structures, deficient risk management tools, absence of proper administrative accountability, technological obsolescence and shortage of investment in human capital schemes, contributed mostly to such a situation.

(1) For a review of Salam as a mode of agricultural finance in Sudan, see Review in the Arabic section of this issue of a book titled, "The Experience of Agricultural Finance by Islamic Banks through Salam".

The book evaluates the merits (advantages) and limitations of various Islamic financial instruments in agriculture as practiced in Sudan, based on the analysis of the survey (questionnaire) results (pp. 57-58).

The author draws several conclusions and recommendations which may enhance the performance of Islamic modes of finance in the agricultural sector in Sudan, most prominent among which are:

1. The appropriateness of microfinance in providing credit to farmers compared to full scale financial institutions or banks. Credit Unions and Cooperative Societies are examples of financial institutions envisaged to be most fit to serve the special credit needs of farmers within the microfinance scheme.
2. Improvement of information gathering mechanisms and more prudent project supervision and monitoring. This may contribute to better risk management, diversification of asset portfolios in favor of equity finance, thus achieving higher levels of returns through profit sharing.
3. Several means to enhance efficiency , in terms of outreach and sustainability as well as operational efficiency, of Islamic financial institutions dealing with financing of agriculture in Sudan, were suggested (pp. 12-13 and pp. 55-56).

The book provided significant thoughts and information on the challenges and opportunities facing agricultural finance in Sudan and ways and means to develop the agricultural financial market. It extracted much of its information from a sample survey of 10 banks, 4 specialized and 6 commercial. A question may be raised as to why the survey is limited only to banks and did not include financed parties (borrowing farmers) in order to get a wider and more inclusive picture of the experience of agricultural finance in Sudan.