

ISLAMIC BANKING IN SUDAN'S RURAL SECTOR

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This paper presents an account of the experience of the Sudanese Islamic Bank (SIB) in the implementation of Islamic banking procedures to the rural sector. It begins with a discussion of divergence between theory and practice in Islamic banking and then goes on to explore the ideology/strategies of Islamic banking. The rest of the text focuses on the experience of the SIB in the rural sector of Sudan. At the end, SIB's cooperation with international aid agencies and institutions involved in rural sector development is presented.

1. DIVERGENCE BETWEEN THEORY AND PRACTICE

In their sincere but hasty efforts to eliminate interest (*riba*) from the traditional *riba*-based banking institutions, pioneers of Islamic banking embarked on their sacred mission, without a blueprint of a model Islamic bank. Experienced bankers drawn from traditional *riba*-based commercial banks were called upon to transform existing conventional banks into a non-*riba*-based, or interest-free, banks rather than establishing an Islamic Bank. In the absence of a blueprint, and without prior appropriate retraining and orientation on the Islamic model, experienced practitioners drawn from the traditional banking system succeeded in the last two decades in establishing interest free banking models which cannot be clearly identified with the theoretical basis of a bona fide Islamic Bank. Although interest (*riba*) was practically eliminated from all banking transactions, other main distinguishing features of Islamic banks like, the profit and loss sharing principle and the main Islamic tenet of providing social justice, were practically absent. The pioneer practitioners deserve, however, great credit for demonstrating the general economic viability of interest-free banking and their ability to compete with traditional banks.

These non-interest-based banks have become a reality, not only in the Islamic world but also internationally. It has, therefore, become the task of those running these non-interest-based banks to reorient these young institutions to become mature Islamic banks manifesting clearly and vividly on the practical plane, the values of Islamic economic ideology.

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2. IDEOLOGY AND STRATEGY OF ISLAMIC BANKING

Islamic Banking can only be understood in its own context and not in the prevailing capitalist, socialist or any other context. Islamic Banking owes its existence to the general Islamic ideology. This ideology is laden with the value of social justice which is the cornerstone of Islamic economics. Islamic economics itself is an integral part of Islamic ideology. As Islamic banking is a product of the general Islamic ideology, it bears its own characteristics which provide the new Islamic banking with its main points of divergence from the traditional interest-based commercial banking system hitherto known and practiced, viz:

(a) The Islamic banking system is essentially a profit and loss sharing system and not merely an interest (*riba*)-free banking system.

(b) In Islamic ideology, commercial investment has a dual function. Investment must serve simultaneously both the interests of the investor and those of the local community. This simultaneity stems from the fact that Islam professes a "social role" of "money". Islam ordains that "money", although it is the property of the individual who has title to it, is basically and truly the exclusive ownership of the Creator (Allah) alone. Man is entrusted with it, as a vicegerent of Allah, and Man must invest it according to the rules and regulations of the creator and the real owner, Allah.

These rules are pronounced by Quran and Sunnah and they ordain that "money" and indeed every other creation is exclusively Allah's, who has entrusted it to the individual for the general benefit of mankind. Quran constantly and consistently speaks of "money" as the money of the community, despite the fact that it is entrusted to individuals who have legal title to it.

When money is consumed or employed, the consumer or employer, better still the investor, must observe the rules of the authentic owner Allah, who consistently and perpetually strives to match between the interests of the individual investor and that of the community. After all, any deposits in a commercial bank are actually, by ordainment or belief, the property of the local community which should justly reap any rewards of investment together with the investor who was allowed access to it. The investment should at least serve the interest of the community as a priority. The concept of money in Islamic ideology is basically and intrinsically different from the hitherto known two human ideologies or concepts where money is either the exclusive property of the individual, as in the capitalist regime, or is state-owned, as professed by the socialist dogma.

This dual function of money in Islam which merges the interests of both the individual and the community simultaneously provides commercial investment in Islamic ideology with a new and genuine dimension, hitherto unknown to human experience. This dimension, must characterize all Islamic banking, commercial investments and other Islamic financial operations.

It is the contention of SIB that these are two characteristics of Islamic banking, if not its hallmark. The SIB has adopted both features as its strategy when discharging its banking functions, particularly in the field of financial investment. Article (3A and 3B) of the Articles of Association of SIB, ordain clearly that "SIB shall undertake all banking activities, financial, commercial and all investment activities and shall participate in agricultural projects, industrial as well as economic corporations and social institutions, all in the manner and method adopted by the bank and considered as reasonable and in accordance with Islamic *shari'ah*. Attention to small artisans, small investors and those with small businesses and to help them and aid them in their projects with the major aim of improving the quality of their living conditions."

Besides, the Board of Directors has adopted a resolution demanding that most, if not all, commercial investments must be in the *musharaka* participation or "profit and loss" instrument. So *musharaka* is the most cherished financial instrument in the SIB.

Finally, it is the intermarriage between these two basic policies, adopted by SIB, the *musharaka* principle and the observance of the social function of commercial investments, which have opened the door wide for rural development which has typified commercial investment in SIB rural branches in rural Sudan. Without adopting and constantly pursuing these two important strategies, SIB functioning could not have knocked at the door of rural development, let alone, entering it.

The rest of the paper deals with:

- (a) An exploration of *musharaka* principles in general in both the commercial and industrial spheres as a prelude to agricultural partnership which has been our gangway to rural development.
- (b) An exposition of SIB experience in rural development.

But before that we will present a brief introduction to the SIB and its operations in the field of rural development.

3. THE SUDANESE ISLAMIC BANK

The Sudanese Islamic bank commenced operations on 10 May 1983. Its nominal capital is 20 million dollars comprising 200,000 shares of one hundred dollars each (or the equivalent in Sudanese Pounds). By the end of 1407H (1986-87), paid up capital reached 85%, which is the highest percentage for all banks in the country. The majority of shareholders (72%) are Sudanese. SIB has achieved phenomenal rates of expansion. At the preset, it had twenty one operating branches in five different regions, and five branches are now proposed to be established. In addition to acquisition of shares (valued at £5,940,000 in 1406H) in seven companies and banks, SIB has established four affiliated companies, of which two are already operating in the fields of trade and construction. The two companies to commence operation in the near future will be involved in the fields of agricultural services and insurance. In 1407H, moreover, SIB contributed 375,000 dollars (out of a subscribed total of 500,000) to the establishment for the Fund of Islamic Banks for Commerce and Investment, which is administered by the Jeddah-based multilateral Islamic Development Bank.

Though constrained by the official policy of credit ceilings in the Sudan, SIB has been steadily expanding its deposits and investment operations which cover various sectors. By the end of 1409H, the value of liquidated operations was in excess of 545,000,000 Sudanese Pounds compared to 141,637,000 for 1406H as shown in Table 1.

Table 1

**SIB Development from 1405H to 1409H
(Value in '000 Sudanese Pounds)**

Particulars/Years	1405H	1406H	1407H	1408H	1409H (provisional)
Paid up capital	19,365	21,535	23,910	24,141	24,149
Reserves	5,439	7,0444	8,157	15,673	22,354
Total Assets	132,701	177,161	270,036	397,970	655,024
Total Deposits	84,571	117,004	181,941	256,234	378,952
Direct Investment of Zakat	50,315	141,315	146,027	141,998	253,133
Pre-tax of Zakat profit	3,497	5,700	2,426	9,891	29,261
% of dividends to capital	10.6%	11%	2.7%	11.7%	28.7%
No. of branches	9	10	11	15	18
No. of employees	220	210	247	260	318

*By the end of 1410H, the number of branches grew to 21 including the rural development branch.

Source: SIB Annual Reports.

SIB places particular emphasis on investment in the productive sectors as shown in Table 2.

Table 2

The Sectoral Distribution (%) of SIB's Executed Operations 1406H - 1409H (Values in '000 Ls)

Sector/Years	1406H	1407H	1408H	1409H
Agriculture	29,400 29.4%	33,500 33.5%	81,857 33.9%	135,064 24.7
Industry	9,400 9.4%	25,800 25.8%	56,621 23.5	104,180 19%
Strategic Goods	20,800 20.7%	17,800 17.8%	26,122 10.8%	48,876 9%
Transport	18,100 18.1%	14,700 14.7%	24,032 10%%	26,916 4.9%
Consumer Goods	9,600 9.6%	5,400 5.4%	12,346 5.1%	26,046 4.7%
Construction	10,700 10.7%	1,400 1.4%	24,915 10.3%	108,605 20%
Craft	900 0.9%	900 0.9%	2,716 1.12%	69,809 12.8%
Others	1,800 1.8%	500 0.5%	12,522 5.2%	25,932 4.8%
Total	100%	100%	100%	100%

SOURCE: SIB Annual Reports

SIB operates on the basis of all three main interest-free financing instruments, but it is the bank's policy to expand operations on a *musharaka* basis. Table 3 provides an overview of the relative weight of each instrument over the last four years.

Table 3

The Respective Shares (%) of the interest-free Financing Instruments in SIB's Executed Operations 1406H-1409H

Instrument	1406H %	1407H %	1408H %	1409H % Provisional
<i>Mudaraba</i>	0.67	0.3	-	-
<i>Murabaha</i>	51.65	38.8	45.3	47.9
<i>Musharaka</i>	47.59	60.9	54.7	52.1
Total	100.00	100.00	100.00	100.00

Source: SIB Annual Reports.

3.1 SIB's Musharaka Operations

For *musharaka*, as for the two other financing instruments, the bank would evaluate the feasibility of the project presented by clients. Upon approval of application, a *musharaka* contract is signed between the Bank and the client (who becomes partner). The contract specifies all the details relating to the contribution of each partner in capital, management and profits, as well as the controls regulating relations between the two partners. As soon as the contract is signed, a joint account in the name of the partnership is opened, and withdrawal of the deposited amounts would be controlled by the pre-agreed plan of operations contained in the contract. Goods purchased from partnership funds are normally kept under dual custody of both partners, thus serving as a collateral. To ensure compliance with contract, SIB undertakes general supervision and monitoring of the progress of operations. *Musharaka* contracts concluded by SIB cover three main fields. These are: *musharaka* in trade, *musharaka* in industrial investment; and *musharaka* in agricultural investment.

(A) Musharaka in Trade

Trading *musharaka* operations cover three spheres: domestic, export, and import trade. For the conclusion of contracts on trading operations, SIB undertakes an evaluation of feasibility regarding cost, returns and rate of turnover from the commodity in question. In the process of evaluation, SIB takes into consideration the compliance of the project with the investment policy adopted by SIB and the credit policy announced by Sudan Bank (the Central Bank). Great emphasis is put, in Islamic financing, on the viability of the commercial transaction itself rather than the credit-worthiness of the client. The profit and loss sharing aspect of Islamic financing renders redundant considerations of credit worthiness of clients. This is a basic difference between financing in the interest-based conventional banking and Islamic banking.

As for all types of *musharaka* contracts, trading partnerships concluded by the SIB are guided by a manual embodying *shari'ah*, administrative and accounting regulations governing the contract. In this regard SIB adopts the *shari'ah* principle conceding allocation of disproportional shares in profits to the partners (an additional share is granted to client partners for management, for example), and adheres to the principle of bearing losses in proportion to contribution. In addition to the joint management of the bank account, trading *musharaka* contracts stipulate joint storage and Islamic insurance of commodity. The example provided in Table 4 concerning a commodity with an invoice value of 1,602,000 Sudanese Pounds in an operation extending for four months, typifies liquidation of trading *musharaka* undertaken by SIB.

TABLE 4

***Musharaka* in Trading Transaction for the Purchase and Sale of Sesame Seed. (Estimated Period for Liquidating Transaction is Four Months)**

<u>Quantity:</u> 1000 Metric Tons Sesame Seed		
<u>Costs:</u>		
		Sudanese Pounds
Purchase Price LS. 1602 Per Metric Ton		
Total Purchase Price=1000 x 1602	=	1,602,000
Other Expenses=1000 x 333	=	<u>333,000</u>
Storage and Dues		
Total Capital		<u>1,935,000</u>
<u>Equity Shares:</u>		
Bank's Share75%=1,451,250		
Client's Share25%= 483,750	=	1,935,000
<u>Proceeds of Sales:</u>		
1000 Tons x 2337	=	2,337,000
Total Costs	=	<u>1,935,000</u>
Profit	=	402,000
<u>Distribution of Profits According to Contract:</u>		
402,00025% for Management	Client	Bank
<u>100,500</u>		
307,50075% of Bank		226,125
25% for Client	57,375	
Profit Accruing to Partners	<u>175,875</u>	<u>226,125</u>
Equity	<u>483,750</u>	<u>1,451,250</u>
Total Amount Accruing to Partners	659,625	1,677,375
Profit Percentage	36%	15%
Annualized Percentage	108%	45%

In cases of import trade, SIB sometimes enters into *musharaka* for the clearance of commodities through customs only (i.e. *musharaka* in services). In such instances, the partner would have provided the foreign exchange component, and SIB would contribute the local component to cover clearance, customs, etc. The cost of the service provided would be calculated as a proportion of capital. The procedures followed for the determination of the respective shares of the partners and the allocation of return for management are similar to the case presented in Table 4.

The involvement of SIB in foreign trade is not confined to the sphere of import trade. In cognizance of the positive implication of promotion of exports on the expansion of Sudan's production capacity, as well as the country's balance of payments, SIB encourages conclusion of *musharaka* contracts on export trading operations.

(B) *Musharaka* in Industrial Investment

For its significance as a productive sector with enormous potential, industrial investment has been given a steadily growing share in SIB's investment operations. *Musharaka* in industrial investment takes one of two forms:

(a) ***Musharaka* in Fixed Assets.** More often than not, *musharaka* in fixed assets utilizes a formula of "diminishing partnership" whereby at the time of liquidation the partner-client would become the sole owner of assets. Upon approval of application, SIB negotiates the basis of partnership, determines the respective contribution by partners and how the industrial establishment will be operated. SIB will normally be involved in *musharaka* in working capital as well. A contract is subsequently signed specifying the details of the partnership, the respective contributions and shares of partners, responsibility for management, etc. In contracts stipulating diminishing partnership, the partner client would undertake to allocate a portion of his annual profits for the purchase of a certain preagreed percentage (say 20%) of SIB's contribution to the partnership. In effect, the respective contribution to the partners do not remain the same for the whole duration of the partnership. At the end of the first year, the partner/client would come to increase his contribution by buying part of SIB's. If the part bought each year is 20%, then at the end of the fifth year, the whole share of SIB would have been taken over by the partner/client. In view of the changes in the relative proportion of contribution of each of the two partners, the contract would provide a formula for a corresponding adjustment of shares in profits according to the increase or decrease in the share of each of the two partners.

(b) ***Musharaka* in Working Capital.** This second form of industrial partnership is characterized by

being short in duration typically extending for one working season, normally six months. Under such partnerships, the contribution of the partner/client is usually provided in the form of depreciation of fixed assets, whereas SIB would contribute operation costs and expenses. The contract specifies a percentage of profits for management (usually 25%), to be given to the client/partner, and the remaining profits are divided in proportion to the respective contribution of each party.

(C) *Musharaka* in the Agricultural Sector

The Sudan is a country of enormous agricultural potential. In 1975, an FAO conference in Rome singled out Sudan as one of three countries "with the greatest untapped agricultural potential" in the whole world.

The ILO/UNDP Mission of 1976 detailed further aspects of that potential and stressed the leading role which the agricultural sector could assume in the future development of the country.

One of the basic constraints inhibiting the utilization of Sudan's agricultural potential has been lack of conducive financing facilities, particularly for the small farmers. Available finance has traditionally been oriented towards the plantation-like government irrigated schemes (Gezira, Rahad and New Halfa) and private large scale irrigated and mechanized rain-fed schemes.

Until recently, small farmers depended almost exclusively on informal sources of finance. The village trader practicing *shail* (preharvest sale of crop), in effect charging exorbitant rates of interest, was and still is the most prominent source.

The Agricultural Bank of Sudan (ABS) is the official agency that should supply finance to agriculture in the Sudan. However, ABS finance could not reach the small farmers because of the following reasons:

- (i) ABS require guarantees and/or collateral which small farmers cannot provide. (ii)
- Its procedures are slow and cumbersome.
- (iii) It does not provide comprehensive finance.
- (iv) The costs of inputs are high.
- (v) It charges interest which farmers reject out of their religious awareness.

Through a number of daring pilot projects in various parts of the country, SIB has found out that

finance and input facilities provided directly to small farmers are feasible and profitable.

In order to overcome the obstacles facing small farmers in getting finance and other inputs without putting unnecessary strains on them, SIB has developed a new methodology based on true Islamic principles to supply finance and inputs to small farmers, poor families and small craftsmen. Promotion of development among small farmers and craftsmen is a primary objective of the bank, as stated in its memorandum and Articles of Association.

In order to execute these goals, SIB has established at its head office in Khartoum a full fledged rural development department, the only of its kind in all commercial banks in Sudan. (see Appendix 1)

Currently, the bank is contemplating the establishment of village branch banks in rural areas.

SIB started its involvement in agricultural finance through *musharaka* as well as *murabaha* in 1404H (1983/84). This program was expanded in 1986/87 to cover various areas in the Sudan, West, East, North, Central and Khartoum. The *musharaka* models are presented in the various Appendices.

In 1986, implementation of a plan started in five different areas in Sudan: in the West through its branch in Um Ruwaba, in the North through branches in Shendi and Karima, and in central Sudan through its Omdurman branch. In 1986/87 SIB acquired fixed assets (tractors, discs, water pumps, etc.) costing 1,085,884 Sudanese Pounds and made a further allocation of 1,948,045 Pounds for financing running costs of *musharaka* operations in partnership with small farmers. *Musharaka* contracts were concluded with 858 small farmers involving a cultivated area of 2,900 feddans of irrigated farms and 1,000 of rainfed farms. The crops in the irrigated area included potatoes, onions, broad beans, fruits and vegetables, while sorghum was the main crop produced in the rainfed farms. The experiment proved a success, and farmers were able to realize unprecedented profits. In the second year (1987-88), many factors beyond SIB control inhibited implementation of the Kadugli project (LS.354,000), in southern Kordofan. Nevertheless, SIB has increased its allocation for *musharaka* with small farmers to 2,037,095 Pounds and is now preparing plans to expand and cover more areas through its branches in Gedarif, Karma and Port Sudan. Appendices 3-7 show details of five projects upon liquidation of first year operations.

SIB also developed a new method of rehabilitating existing farms around Khartoum area. SIB, through a field survey of Khartoum area, found that there were over a 100 farms of areas ranging between 10 to 50 acres, fully equipped with basic infrastructure. However these farms are not operating

due to a number of reasons, e.g. absence of owner, lack of working capital, etc. SIB sets a three party partnership between SIB, the farm owner and an agricultural expert. SIB provides working capital, the farm owner provides the farm and all basic infrastructure, e.g. water, labor electricity etc. The expert overtakes management and supervision.

After deducting all operating costs and depreciation of fixed assets, the net profit is divided between the three partners as follows:

- 30 percent for management (expert).
- Remaining profit shared between SIB and the farm owner on equity share basis.

Unlike the practice adopted by the Bank of Sudan, the developmental initiatives undertaken by SIB cover small farmers, poor families and craftsmen. These initiatives cover crop, poultry and dairy production, as well as small scale industry. Among these categories SIB does not extend cash, nor does it stipulate a fixed rate of return and require guarantees or collateral. As it is *musharaka* financing, the clients are treated as partners and in accordance with the type of productive activity pursued, SIB undertakes to provide its contribution in the form of inputs and services. Profits are shared in accordance with the contract agreed on by both parties, while losses are borne in proportion to contribution. In other words, in the event of crop failure, the partner/clients would owe nothing to SIB, because they are partners, not debtors. This is the basic characteristic and merit of *musharaka*, which farmers do not find in their interaction with the conventional credit policy of the Agricultural Bank of Sudan.

For *musharaka* in crop production, SIB owns its own machinery (tractors, water pumps, etc.) and presents its contribution to the partnership in the form of a comprehensive package of inputs and services provided on real cost basis. The package covers the following:

- provision of ploughing and irrigation services;
- provision of production inputs such as seeds, fertilizers, bags, etc. at cost-price and at farm-gate;
- provision of working capital requirements;
- provision of agricultural extension;
- contribution to provision of storage and marketing; and
- marketing partnership.

In return, farmers are expected to make their contribution to *musharaka* consisting of the following:

- provision of arable land;
- provision of part of the working capital requirements (if available);
- provision of labor for agricultural operations; and
- provision of management (jointly with SIB).

The farmers are not obliged to receive all components of the package, but are free to request those inputs and/or services which they require. In effect, SIB has divided its comprehensive *musharaka* package into a number of financing instruments providing smaller packages, which could be combined when farmers wish to do so. These financing instruments include: *muzara'a* (co-farming), *musagah* (co-irrigation), lease of machinery, agricultural services, and marketing services.

Muzara'a: Co-farming is the most widely requested package. Through it SIB undertakes to finance agricultural inputs through the provision of the services of machinery for land preparation, as well as the supply of improved seeds and fertilizers. The small farmers contribute land (valued prior to the conclusion of the contract in accordance with prevalent norms in the district), as well as their labor for carrying out operations such as weeding (also valued per unit area in accordance with prevalent rates). The contribution of each partner is thus determined prior to signing the *musharaka* contract, which also specifies the respective entitlement of the two partners in profits. Following the harvesting and marketing operations, costs incurred by each of the partners are deducted from the proceeds, leaving profits for distribution. Typically, 10 to 30% of profits would accrue to farmers in return for management; the rest is divided between SIB and the farmers in proportion to their contribution in real cost of the products provided. (See Appendix 2).

Musaqah: Through co-irrigation SIB undertakes the provision of irrigation pumps and accessories, installs them in the farm and authorizes their operation by the farmer. The contract sanctioning the operation would stipulate payment by the farmer of a proportion of his produce (according to prevalent norms in the district, usually around 25 percent), whereas SIB undertakes meeting all expenses relating to running, maintenance and spare-parts.

One advantage of the *musaqah* instrument is that it carries with it options of additional financing (over and above irrigation) for other inputs such as seeds, fertilizers and pesticide.

The form which this additional financing takes is subject to agreement between SIB and clients, but it usually takes the form of *murabaha* contract. This combination has been successfully applied in Surourab and Islang Island districts, north of Omdurman, where SIB has provided full finance for the cultivation of autumn and winter onions in an area of 600 feddans.

Furthermore, SIB has also experience in combining *muzara'a* and *musaqah* in a single operation. In this case, SIB does not enter into partnership. It instead hires its agricultural machinery to farmers at rates that are lower than prevalent market rates, virtually on cost-basis. SIB has provided 12 tractors to farmers at Islang Island.

Upon request, SIB would finance the provision of a comprehensive agricultural services unit to render services to farmers. The unit would undertake to prepare the land (clearing, ploughing, etc.) for cultivation by farmers. Though the machinery provided is owned by SIB, farmers would meet all running expenses. At the end of the season the total real cost of operation and depreciation of machinery is calculated whereby profits ranging from 10-20 per cent are usually granted to farmers in return for management. This service was implemented in Surourab, Islang Island, Karrari and Shaheinab (north of Omdurman).

Small farmers in Sudan tend to sell their produce immediately after harvest. Prices fetched by crops at harvest time, however, are normally very low compared to prices prevailing a few months later. The poverty of small farmers thus tends to be a kind of vicious circle that constraints the producers from waiting until prices improve. For this reason SIB seeks to help small farmers by continuing its partnership with them through the marketing stage as well. Instead of selling crops at harvest, SIB pays the farmer 50 percent of the price prevailing at harvest time, thereby becoming partner with the farmer in the crop. The crop is stored under joint control by both the farmer and SIB. When prices improve, the crop would be sold. Of the profits made (i.e., amount additional to harvest price and incurred storage expenses), 50 percent would accrue to farmer in return for management, while the other 50 percent is divided equally between the two partners according to their equity shares.

Table 5

Cold Stored Potato Partnership in Sheheinab

Season	1986/87	1987/88	TOTAL
Potato amount in sacks	--	19,000	19,000
Volume of Finance (LS)	--	1,870,000	1,870,000
Number of Farmers	--	45	45

Profit (Pounds)	--	406,000	406,000
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For example, if the harvest price is LS. 100, storage costs ten, and sale price is 160, the farmer would end up receiving a total of LS. 137.5 instead of the harvest price of LS.100, and SIB would receive LS. 12.5 as share in profits.

(D) The Productive Family Poultry Project

In addition to financing crop production, SIB also provides finance for poultry production projects involving poor families. The projects are executed in close collaboration with the Ministry of Social Welfare and the Ministry of Animal Wealth and Ministry of Finance and Economic Planning and they consist of supplying battery cages of 95 layer capacity with hens at the start of laying to each family. SIB provides feeds, veterinary care and drugs at cost price in addition to management advice through its qualified staff who undertake regular visits to these families. Though inputs are provided on the basis of *bai'muajal* (deferred payment system) and families are required to repay in fourteen monthly installments, SIB undertakes to replace pullets in the event of an epidemic resulting in high mortality rates.

Of thirty productive families who completed the fourteen month contract duration, five have incurred losses due to bad management and/or an outbreak of epidemic. The majority, however, not only discharged their commitments towards SIB, but also realized profits that constitute a relatively significant addition to family budget. Profits ranged from a low of 2,134 Pounds to a high of 3,800 Pounds for the 14 month period, representing a monthly addition to family income of 152 to 271 Pounds. In a country where the standard minimum wage is less than one hundred pounds, the role of the productive family poultry project in improving living standards of poor families can hardly be underestimated.

By virtue of its very encouraging results, the project is now included in the Dutch Aid Program. With the help of the Ministry of Animal Wealth, SIB has been provided with Fl.1 million for the purchase of 2,000 battery cages and 150,000 one day old chicks from the Dutch Aid Program. SIB has made arrangements to rear these chicks up to laying point and then distribute them to productive families in Khartoum, Shendi, Medani, Atbara, Sinkat, Port Sudan, Karima and Um Ruwaba.

Moreover, SIB has financed a Coral company to establish a 100,000 day-old chick capacity hatchery at Soba in Khartoum province. This hatchery is planned to allow for sustainability of this

productive family poultry project by providing locally hatched chicken. The parent stock is imported also through SIB finance from Holland.

SIB also financed four small feed factories with an average capacity of 10-15 tons per day. SIB financed in a *musharaka* - method the provision of dura and other feed ingredients. The factory owner provides the mills, labor, electricity and management. Net profits are shared according to equity share.

SIB financed a number of vets and agriculturists (to buy crossbred cows for milk production through *murabaha* finance for a period of 18-24 months). Appendix 3 shows the volume of finance to the livestock sector by SIB.

3.2 Co-operation between S.I.B. and Foreign Development Agencies

It is worth mentioning that the experiment of financing small farmers led by SIB has attracted the attention of a number of foreign development agencies working in Sudan. The Dutch government has been the first to grasp the scope of this new methodology, and the Bank has been chosen as the first private sector institution to be allowed to implement part of the Dutch Aid Program to Sudan. Through this program, SIB has been allocated more than five million Guilder to import 2,000 battery cages, seeds, drugs, potato planters and diggers and at last a 1,000 - ton potato cold store and a mobile workshop.

SIB also executed the productive family poultry project in close collaboration with Food Aid National Agency (FANA) of the EC. Through this program FANA provided 1.6 Million Sudanese Pounds to the Department of Social Welfare for purchase of pullets, feed, and cages for distribution to poor families.

SIB has close cooperation with Friedreich Ebert, a German NGO, which is interested in training small entrepreneurs, small farmers and rural women. Through Friedreich Ebert, SIB organized a workshop for training trainers and a two-month field practical training for woman to help them manage poultry and cages. Other projects in collaboration with development agencies include:

- a pilot project assisted by Friedreich Ebert on small scale cottage industries for tomato paste, dried fruits, etc;
- a joint program to supply inputs and extension services to small farmers in Shendi area with GTZ, A German NGO, interested in promoting horticultural production;

- a self help agricultural program for displaced Nomads in Wadi Mugadam with ADRA, a European NGO. Through this program, SIB dug two deep portholes and ADRA supplied solar pumps to help Hawawir tribesmen in establishing their own farms in Wadi Mugadam;
- a joint rural development program with the French Embassy, specially in solar pumps and lighting equipment.
- cooperation with Global 2,000 and the Danish Development Program and a number of other Sudanese and foreign NGO's, e.g., UNHCR.

The significance of these relationships lies not only in the assistance with finance in the form of foreign exchange and inputs in kind, but also as evidence that the Islamic models of *musharaka*, *murabaha*, etc., are not hostile to the Christian mentality, and that there can be very convincing and attractive alternatives modes of financing rural enterprises.

4. CONCLUSION

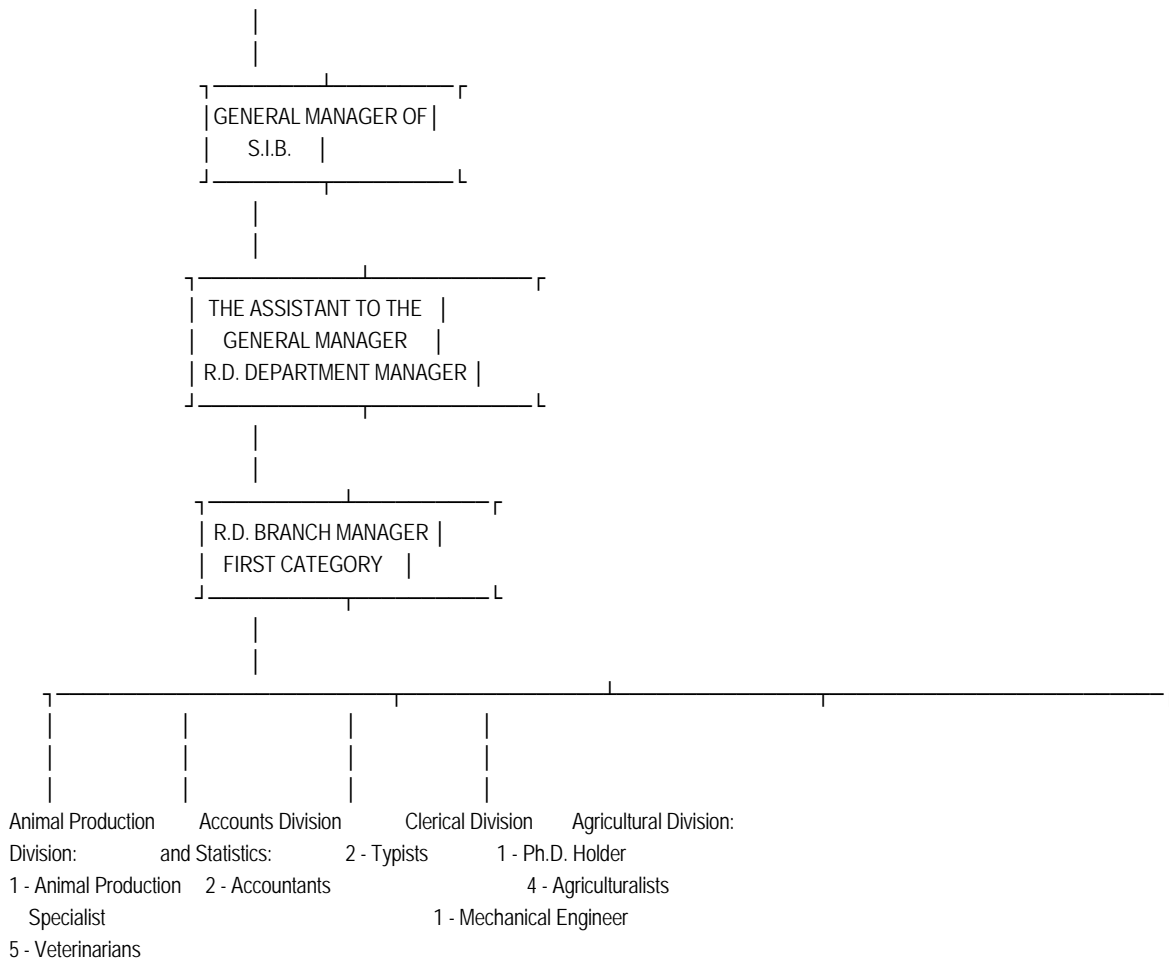
I hope that the experience of the SIB described in this paper throws some light on the operations of SIB in the field of rural development. I hope, this helps to demonstrate, although on a small scale that the social justice advocated by Islamic ideology can be accomplished through Islamizing banking within the limited scope and competence of such institutions as SIB in the general economic order.

APPENDIX 1 THE RURAL DEVELOPMENT DEPARTMENT

To implement its rural development program, SIB has established a full-fledged rural development department at its headquarters. The R.D.D. is headed by an assistant general manager, who is an agriculturist of over 24 years experience and is supported by senior experienced agriculturalists and veterinary officers. The bank has also appointed at least one agronomist in each of its branches who otherwise function as a normal banking clerk during off-season. The field agriculturist mentioned above undertakes all supervisory and extension work with small farmers.

The payment of these field officers and part of the remuneration of the headquarters R.D.D. staff are included in the cost of the agricultural operation in question.

FLOW CHART FOR RURAL DEVELOPMENT DEPARTMENT (R.D.D.) OF S.I.B.



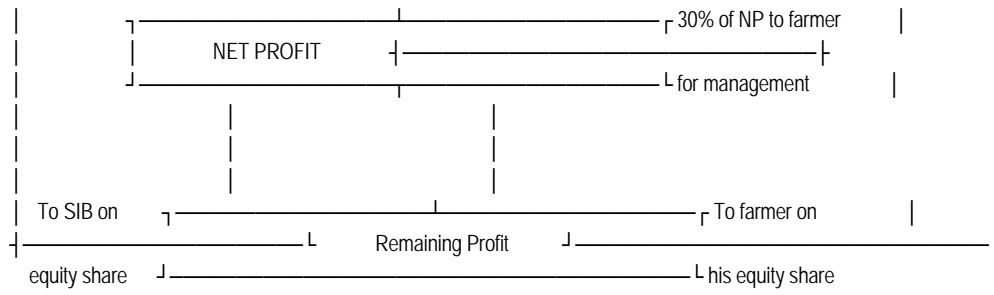
3 - Technicians

APPENDIX 2

SUDANESE ISLAMIC BANK - RURAL DEVELOPMENT DEPARTMENT

AGRICULTURAL FINANCING MODEL

SIB Contribution	Farmer's Contribution
(a) Fixed Assets:	1. Land
1. Tractors, ploughs	2. Labor
2. Water pumps	3. Management
3. Sprayers	
All operated by SIB	
(b) Running:	
1. Fuel, oil, grease	
2. Improved seeds	
3. Pesticides	
4. Fertilizer	
5. Jute sacks	
6. Co-management	
7. Marketing and storage	
No guarantee or collateral	
Agricultural Production by small Farmers	
Gross Revenue	
minus (-)	
1. Zakat	
2. Running expenses	



Note: The model explained above varies according to: (1) method of irrigation, (2) type of land tenure, (3) cropping pattern and types of crops, and (4) locality.

APPENDIX 3

SECTOR AND PURPOSEWISE DISTRIBUTION OF SIB FINANCING OPERATIONS IN RURAL SECTOR SUMMARY (IN SUDANESE POUNDS)

Purpose of Finance	Rehabilitation of Existing farms	Financing of Production inputs	Animal feeds	Total
Sectors				
Finance of Animal Production Sector	861,790	1,638,245	5,837,111	8,337,146
Finance of Agricultural Production Sector	2,364,178	2,016,772	-	4,380,950
Total	3,225,968	3,655,017	5,837,111	12,718,096

Source: SIB Reports.

APPENDIX 4

SIB RURAL DEVELOPMENT DEPT - AGRICULTURAL PARTNERSHIP SUDANESE POUNDS (LS)

AREA : Shehenab					Fixed Assets:
CROP : Potato			Type:	No. of units	Value (in LS.)
SEASON:	86/87	87/88	Tractors:	3	165,000
Bank's Contribution:	74,786,5	868,618	Ploughs:	2	14,000
Farmer's Contribution:	30,231	725,218	Water Pumps:	18	62,770
% of Banks Profit: to Contribution	52.8%	10.5%			
% of Farmer's Profit: to Contribution	391%	4.2%			

PROFIT & LOSS ACCOUNT

SEASON	AREA IN FEDDANS	NO. OF FARMERS	AVERAGE AREA OF FARMER'S OWNERSHIP	AVERAGE TOTAL PER FEDDAN (LS.)	TOTAL COST (LS.)	TOTAL REVENUE (LS.)	PROFIT DISTRIBUTION (LS)	
							FARMER'S SHARE 75%	BANKS SHARE 25%
86/87	53	14	3.8	1,981.50	105,018	262,831	118,359.75	39,453.25
87/88	610.5	64	9.5	2,611.00	1,593,836	1,716,002	30,541.50	91,624.50

*THE PROFITS ARE CALCULATED FOR 6 MONTHS PERIOD.

Source: SIB Reports.

APPENDIX 5

SIB RURAL DEVELOPMENT DEPT - AGRICULTURAL PARTNERSHIP SUDANESE POUNDS (LS)

AREA : Shendi					Fixed Assets:
CROP : Been grains			Type:	No. of units	Value (LS.)
SEASON:	86/87	87/88	Tractors	7	336,000
Bank's Contribution:	32,388,85	93,962 (LS)	Water Pumps	7	61,000
Farmer's Contribution:	25,275	721,20			
% of Banks Profit: to Contribution	13.5%	2.8%			
% of Farmer's Profit: to Contribution	31%	2.7%			

PROFIT & LOSS ACCOUNT

SEASON	AREA IN FEDDANS	NO. OF FARMERS	AVERAGE AREA OF FARMER'S OWNERSHIP	TOTAL COST (LS)	AVERAGE TOTAL COST PER FEDDAN (LS)	TOTAL REVENUE (LS)	PROFIT DISTRIBUTION (LS)	
							FARMER'S SHARE 75%	BANKS SHARE 25%
86/87	41.5	8	5.2	58,163.85	1,402	70,440	7,907,2	4,368,95
87/88	105	12	8.9	166,082.00	1,552	170,620,00	1,916	2,622

*THE PROFITS ARE CALCULATED FOR 6 MONTHS PERIOD.

Source: SIB Reports.

APPENDIX 6

SIB RURAL DEVELOPMENT DEPT - AGRICULTURAL PARTNERSHIP SUDANESE POUNDS (LS)

AREA : Karima					Fixed Assets:
CROP : Potato			Type:	No. of units	Value (in LS)
SEASON:	86/87	87/88	Tractors & ploughs	2	130,366
Bank's Contribution:	38,966	62,484	Water Pumps	7	24,192
Farmer's Contribution:	10,643	1708			
% of Banks Profit: to Contribution	28.5%	-			
% of Farmer's Profit: to Contribution	313%	-			

PROFIT & LOSS ACCOUNT

SEASON	AREA IN FEDDANS	NO. OF FARMERS	AVERAGE AREA OWNED BY FARMER	AVERAGE COST / FEDDAN (LS)	TOTAL COST (LS)	TOTAL REVENUE (LS)	PROFIT DISTRIBUTION (LS)	
							FARMER'S SHARE 75%	BANKS SHARE 25%
86/87	22	5	4.4	2,255.00	49,609	94,042	33,324.75	11,108.25
87/88	25	2	2.5	2,567.68	64,192	62,958	-	-

*THE PROFITS ARE CALCULATED FOR 6 MONTHS PERIOD.

Source: SIB Reports.

APPENDIX 7

SIB RURAL DEVELOPMENT DEPT - AGRICULTURAL PARTNERSHIP SUDANESE POUNDS (LS)

AREA : Islang Island

CROP : Onions

SEASON:

86/87

87/88

Fixed Assets:

Type:

No. of units

Value (LS)

Tractors & ploughs

2

14,280

Bank's Contribution:

-

293,830

Farmer's Contribution:

-

199,165

% of Banks Profit:

10%

PROFIT & LOSS ACCOUNT

SEASON	AREA IN FEDDANS	NO. OF FARMERS	AVERAGE AREA OWNED BY FARMER	AVERAGE COST / FEDDAN (LS)	TOTAL COST (LS)	TOTAL REVENUE (LS)	PROFIT DISTRIBUTION (LS)	
							FARMER'S SHARE 75%	BANKS SHARE 25%
86/87	-	-	-	-	-	-	-	-
87/88	300	26	11.5	1,643	492,995	737,811.65	215,438.65	29,378

*THE PROFITS ARE CALCULATED FOR 6 MONTHS PERIOD.

Source: SIB Reports.

