

Farmer Access to Formal Credit Institutions in Kassala, East Sudan: Determinants and Possible Ways Forward

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About the authors

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In a nutshell

- *Kassala state has abundant agricultural resources in terms of arable land and water, which suggests that agriculture provides the best opportunities for its economic development.*
- *Despite the availability of formal credit in Kassala, rural farmers lack adequate access to the formal agricultural credit they need; most of them obtain loans from the informal credit market.*
- *To improve the access of small farmers to formal credit, effective policy measures should be adopted, including: increasing awareness of farmers regarding effective utilization of credit and extending financial services in rural areas.*

Agricultural finance is regarded as a decisive factor in helping poor farmers increase production, maintain their basic necessities, adopt advanced technology and raise their incomes. Therefore, access to credit is an important tool for improving agricultural productivity, encouraging economic development and alleviating poverty. Accordingly, governments in most developing countries exert ambitious efforts to improve farmers' credit accessibility, particularly in rural areas.

Like other marginal states in Sudan, the agricultural sector in Kassala plays a key role in the local economy and contributes about 90% to its total income. The agricultural sector also ensures the livelihood of about 70% of the population; most of whom live in rural areas (Central Bureau of Statistics, 2008). The potential resources, in terms of arable land, water and livestock, suggest that agriculture provides the best opportunities for the state's future economic development. Therefore, enhancing the credit services for small farmers is one of the most important actions proposed for increasing their production, reducing and even eradicating poverty, and improving their contribution to the state's economy. Accordingly, the agricultural credit market in Kassala has received considerable attention from the local and central governments. The state supports branches of

commercial banks, as well as nongovernmental organizations involved in financial services. Many financial schemes were launched over the past decade, including a micro-finance scheme, founded by the Central Bank of Sudan in 2008, which aims to provide credit to small enterprises, especially small farmers.

Despite the availability of formal credit in Kassala, rural farmers lack the adequate agricultural credit they need. The majority of rural farmers have limited access to commercial banks and other formal financial institutions. Because of this, rural farmers in Kassala rely almost exclusively on informal credit providers, such as friends, relatives, village traders and landlords.

Therefore, the main objective of this policy brief is to highlight the main determinants of small farmers' access to formal credit institutions in Kassala. The brief also aims to provide recommendations for policy-makers on how they can take appropriate actions to facilitate the access of small farmers to formal financial institutions for the development of agriculture and the rural economy.

Agricultural Credit Market in Kassala State

There is a high demand for credit in Kassala, and small farmers obtain credit from either formal or informal sources. There is also a high level of poverty in rural Kassala, as a major part of households, approximately 96%, use credit to finance farming activities and consumption. Moreover, statistics show that more than half of small farmers, 53%, obtained loans from informal credit sources, while the remaining 47% obtained loans from formal sources. Regarding the role of nongovernmental organizations in the credit market, the statistics show that their contribution in providing formal loans is very low. However, this contribution in financing female headed households is relatively high. Moreover, in Kassala the share of female headed households in accessing formal credit institutions is relatively high in comparison to male headed households. This is attributed to the nature of formal credit programs, which aim at reducing poverty and improving gender equality; thus, females have more opportunities to get loans from such institutions.

Determinants of Farmers' Access to Formal Credit Institutions

There are many factors influencing farmers' access to formal credit institutions in Kassala, which include socio-economic, demographic and geographic variables.

Farmers with past experiences in utilizing credit have better opportunities to access formal institutions. That is, a farmer who has previous experience in using credit has a high probability to attain credit from a formal credit market institution. In addition, participation of farmers in capacity building programs increases their chances to get credit from formal institutions. This is because participation in training and extension activities increases awareness among beneficiaries, which enables them to gain adequate knowledge for better utilization of credit, as well as adoption of advanced technologies in farming operations and management. This fact highlights the importance of training and capacity building in allowing small rural households to access formal credit.

Farmers who own assets such as means of transportation, land, and tractors have a higher probability to access formal financial institutions. This indicates that assets serve as collateral and support the application for credit from formal markets, since collateral is a necessary condition for the provision of loans. In addition, possession of a means of transportation, like a car, facilitates access to formal institutions, since most financial institutions are located in city centers.

On the other hand, elder farmers have fewer opportunities to get loans from formal credit institutions. This indicates that as the age of a farmer increases, the lower their probability of getting loans through formal credit institutions. This is because old farmers may own valuable assets and rely more on their own resources. This also means that young household heads adopt new technology and, therefore, have high production capacities, making them favored by formal lenders.

Moreover, distance to the lending institutions discourages farmers' access to formal credit institutions. That is, farmers who reside in rural areas, far from the loca-

tions of formal credit institutions, have a lower opportunity of getting formal credit loans, since remoteness of distance increases the cost of obtaining loans. On the other hand, farmers residing close to urban centers have a higher probability to get loans from formal institutions. Accordingly, most farmers who live in areas remote from city centers obtain loans from informal credit institutions.

In addition, households owning large farms have a lower probability of attaining credit from formal financial institutions. This is because larger farms are owned by high income households that do not need antipoverty programs, and most formal credit institutions usually target poor and vulnerable households in rural areas.

Finally, in rural Kassala a household with a large number of males aged less than seventeen- years-old has a low probability of receiving loans from formal credit institutions. This indicates that a household with more male children will tend to employ these children as labor resources in performing farming operations instead of demanding credit from formal institutions to hire workers.

Policy Recommendations

The availability of credit for small farmers is instrumental in alleviating poverty, enhancing agricultural productivity and improving the welfare of rural households.

To increase the access of small farmers to formal credit institutions, specialized lending institutions should work to improve the awareness and knowledge small farmers have regarding the utilization of credit. This can be done by linking the provision of loans with farmers' participation in training programs targeting all aspects of farming production. Therefore, capacity building programs in marketing, bookkeeping and agricultural extension would be very useful. In fact, promoting awareness of farmers would improve farm productivity and efficiency and reduce the risk of defaulting on loans.

In addition, financial services should be expanded in rural areas close to small farmers. Thus, opening bank branches in rural areas is necessary to reduce the cost of access to formal institutions by rural farm households. This could also be enforced through improving local infrastructure, such as developing communication facilities and paving roads, to facilitate access to formal institutions.

Moreover, to enhance the access of poor farmers to formal credit institutions, policies related to credit guarantees should be continuously revised to enable poor households to access formal credit. For example, land-right certificates can be used, as well as group collateral. This is because most small farmers live in poverty and lack adequate collateral.

Finally, anti-poverty programs adopted in rural areas need to focus on making credit available for poor farmers. These programs should put farmer access to formal credit on the top of their agenda. This can be done by facilitating the credit demand process and innovating new types of collaterals that fit with the abilities of small farmers.

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