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FINANCE
PARTNERSHIP
FINANCING

SAAD ABDUL SATTAR AL-HARRAN

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DEDICATION

*To my mother who gave me care, compassion
and endless love throughout my life,
and to my father who sacrificed everything
to show me the light of the day.*

FROM THE AUTHOR

This book was written in 1990 and during that time the economic and financial situation deteriorated very rapidly. In June 1989 new government came to power and fundamental changes has taken place. The whole economy was Islamized and various programmes were initiated to arrest the deteriorated situation in the country.

The three years' National Economic Salvation Programme (NESP) was designed on the basis of the recommendations of the National Economic Salvation Conference held in mid 1990. The three-year time span was chosen as a medium-term programme (from 1990/91, 91/92 to 1992/1993) focuses on arresting the deterioration in the economy, and lays the foundation for a sound recovery to put the economy on the path of sustained growth and financial stability.

The programme principally tackles down the problem of marketising the economy and at the same time reduces the burden of privatization on the limited income groups through social solidarity funds. The programme generally succeeds to achieve its objectives which are:

Revitalization of the Sudanese economy through reallocation of resources toward production, and the sound indicators for the success to achieve this goal is the high increase in GNP from negative rate in 1989/90 to 7% in the 1990/91, 11.3% in the 1991/92 and the expected rate of growth in the 1992/93 to about (15%-19%). The other indicators are the transfer of the economy to productive economy and wealth transformation to rural productive regions, associated by extensive credit system to agriculture and animal production sector. This transformation from consumption to production, and from urban to rural is a clear

indicator of the implications of the programme on the social sector. The programme through extensive credit system – which allocates most of the idle deposits in the financial institutions, and distributes the credit units among small farmers – is to give an equal chance to all especially small farmers and handicraft makers. The Agricultural Bank of Sudan assigned this responsibility and its various branches were opened. Furthermore, for rural development purpose thirty new banks for farmers were established in the rural areas to cater for the needs of agricultural credit and to reduce the exploitative role of money lender and middlemen.

Enhancement of the role of private sector, whether national or foreign, to play a more active role in achieving the objectives of the programme and to reorient financial, economic and institutional structures to create a more conducive environment for private sector participation.

Maintenance of social balance by protecting the poor during adjustment period. Since social solidarity principle is fundamental to every Islamic states. The various programmes were implemented like Zakat Fund, Social Solidarity Fund, Pension Fund and others to help the poor.

On conclusion we can say that although most of the external conditions surrounding Sudan are not conducive but the government has made some success to put the economy on the right track, restructure the economy, arrest deterioration and lay foundation for sound recovery.

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3rd March 1993

ABSTRACT

There is no doubt that one of the main development objectives which Islamic banks have adopted since their inception, is to support large segments of the society through their financing of medium and long term projects in order to alleviate the problem of development faced by the country. The small farmers, business and handicraft workers, who in the past had no chance to receive any credit from the conventional banks because they were not deemed creditworthy, have realized that their hopes might be achieved through Islamic financial institutions.

The problems encountered in the Sudanese rural sector are extremely difficult and highly complex, including abundant physical resources and a poorly developed economic base. The experience of Sudanese Islamic Bank with the adoption of *musharakah* as the major financing instrument represents a positive example which Islamic banks in Sudan and elsewhere should seek to generalize. It corroborates the viability not only of *musharakah* as a financing instrument, but also of financing operations in the productive sectors of the economy.

One of the major problems with the implementation of the rural development programme in Sudan and elsewhere is that developmental projects are conceived and formulated in virtual disregard of the perceptions of the beneficiaries. This has been especially true in the development of agriculture where superficial temporary measures and uneconomic prestigious projects have been undertaken instead of attempts being made to tackle the main causes of the problems encountered.

The Sudanese Islamic Bank through its rural development programme seeks to avoid the limitations of such projects. It seeks to ensure that its interventions would meet three basic requirements: acceptability, continuity and replicability. Also it wants to demonstrate

to other Islamic banks that its experience in *musharakah* financing has proven that such an instrument is economically viable and popular among the poorer sections of the population.

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