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Could Microcredit Enhance Agricultural Services among Urban and Rural Dwellers: Evidence from Drylands of Sudan

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Abstract

Despite the empirical evidence that the linkages between urban and rural areas can contribute vastly to improving the lives of rural and urban dwellers through exchange of goods and services, much evidence indicates that the impact of interaction is still expected. Several factors are contributed for this including; limited access to market, financial services, agricultural inputs, and poor infrastructure. This situation forced households in urban and rural areas to search for different sources of credit in order to secure their life. This study primarily intended to investigate the factors influencing loan utilisation and repayment performance in particular, and whether the factors determining loan use and repayment are the same.

The study focuses on three localities in North Kordofan State namely Shiekan, Um Rwa-ba and Enuhud, which are purposely selected. The study relies on survey that is conducted in 2011, using structured questionnaire. It surveyed 200 urban and rural households, which were selected through a multi-stage random sampling technique.

Descriptive statistical analysis and bivariate model were applied to analyse the data. The results of descriptive analysis show that 95 % of rural households repayed their loans on time against 87 % of urban households. Typically, about 85 % of rural households have used their loans for investment activities. While only 73 % of urban households have used their loans for investment purposes. In addition, the results of bivariate model showed that application fees, value of assets, frequency of repayment, punishment expected, group lending collateral and geographical locations are significant variables effects household's decision on loan utilisation and repayment performance.

To avoid duplication and misleading results, a test of multicollinearity for variables is carried out using correlation commands in Stata software. Based on the multicollinearity test some variables were replaced in both loan utilisation and loan repayment equations. The study suggests that in order for agricultural services in both urban and rural areas to be improved, financial products for different market segments should be improved. This could be possible through providing sustainable loans to income generating activities with high rates of return.

Keywords: Bivariate model, loan repayment, loan utilisation, market segments, microcredit, poverty