International Conference on:
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Notes for the discussion of the following two papers:

Assefa Admassie. A review of the performance of agricultural finance in Ethiopia: Pre and post reform periods

and

V.K.Ramachandran and M. Swaminathan. Financial liberalization and rural banking in India.

by Carlos Nuno Castel-Branco (discussant)

1. Both papers look at the impact of different financial regimes, with emphasis on the financial liberalization, and on the availability and cost of credit to small farmers. Ramachandran and Swaminathan paper looks at two different types of credit – social credit, for consumption, and credit for investment – as well as at the impact of the different regimes on the type and coverage of rural banking institutions.

2. Both papers have shown that previous financial regimes had failed to address the needs of the small farmers, and that financial liberalization has not improved the situation and has made small farmers more dependent upon informal finance that tends to be more expensive and exploitative than formal finance. Thus, if anything, liberalization has made small farmers worse off with respect to access to formal credit.

3. Admassie's paper starts its review of the post reform performance of agricultural finance by enthusiastically stating the case for financial liberalization on the grounds of Shaw-Mackinnon theory: financial deepening, increase in savings and improvement on the quality of investment. However, the paper does not follow any of these arguments to discuss the performance of agricultural finance. It limits itself to stating that small farmers have not benefited but without linking the result with the theory of financial liberalization. Then, the paper argues that more complete liberalization of financial institutions is required, together with an adequate, or favorable, macroeconomic environment, to develop solid rural financial institutions.

Quite apart from the fact that the meaning of “favorable macroeconomic environment” is not made clear, it is not clear, from the history of rural finance in Ethiopia, as it is told in the paper, how a solid rural financial system will ever be developed through liberalization helped by a general macroeconomic environment.

4. Ramachandran and Swaminathan’s paper is very rich in detail, and I particularly liked its description of shifts in finance policy regime in relation to shifts in other policy regimes – such as, for example, the financial system that was introduced to address the needs of the *green revolution.* I also like its critical description of microfinance and how its claims (lower transaction costs, accessibility to the poor, etc.) are proven wrong. I would like to invite Professor Ramachandran to come to Mozambique to share his critical experience of microfinance with us, because we face very similar problems as described in his paper.

5. However, none of the papers develops a sound theoretical critique of the financial regimes of the past and of the liberalization phase, starting from the point of view of how finance, production and other broader economic and policy issues interact. This applies also to microfinance – what are the underlying postulates and assumptions behind the faith in microfinance, and why it fails (or does it fail?)? Thus, from the papers alone it is difficult to understand:

   a. why policy and institutional shifts have been made, both within and between financial regimes;
   b. the social, economical and political interests that underlined the shifts;
   c. why they failed to address the need for credit for small farmers
   d. and, more importantly, why is that liberalization not only does not solve the problems, but makes them worse.

   It is also difficult to understand who and what may have benefited, or be benefiting, from such policy shifts.

6. None of the papers convincingly makes the case that the performance of any rural financial regime should be measured against how it deals with small peasants. Is social credit the solution for lack of access to education, health, housing and inter-generational indebtness? Can small farmers, as they are, borrow their way out of poverty? Can they grow as independent commodity producers so as to justify credit for working capital and investment specifically directed at them? Or is it that the solution for massive poverty amongst small farmers lies on the interaction between agriculture, industry and other services that take small farmers out of poverty by giving them the opportunity to stop being small farmers and becoming workers, cooperativists, etc? Could the focus on rural labor relations be more important than on rural credit to address poverty amongst small farmers? None of these questions can

be adequately answered without a better understanding of the theoretical questions that underline them and of the particular historical and socio-economic conditions in India and Ethiopia. The papers would be stronger if they would explicitly make the case for small farmer credit, not on the grounds that small farmers are poor, but arguing how credit would make them richer (or less poor) rather than poor and indebted.

7. Finally, both papers would be much improved by a more detailed and rigorous discussion of two related issues. One is the analysis of the policies of the past. We are often suggesting a return to some of such policies, but we do not know if they would work under present conditions, what sort of changes would be required (political, economic, social, institutional, etc) to revert to such policies, and what would the impact of U-turning be – would we arrive at the past or at the future? Another is the political conditions under which policies are made and changed – even if we can arrive at a better future by walking to the past, were would the political energy come from to make such a change in policy?