BUILDING FINANCIAL MARKETS IN DEVELOPING COUNTRIES FOR TOMORROW'S AGRICULTURE: STATUS, REFORMS AND INNOVATIONS

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Nine presentations were made during this mini-symposium on three subjects: (a) the status of rural financial market reforms and access to financial services, (b) innovations to improve performance, and (c) methods to measure performance.

Claudio Gonzalez-Vega (USA) began by presenting a framework for reviewing the state of rural finance in Latin America. He emphasized its role in revitalizing agriculture and alleviating poverty by expanding the financial frontier through new lending technology. Though he acknowledged that opportunities exist for innovative breakthroughs, there are also dangers from exaggerated expectations of what finance can accomplish. Even the most successful lending techniques have important exclusionary features and efficiency effects. He described the policies, methods and organizations that have shaped rural finance in recent decades. The discussion focused on how the problems of seasonality of demand and covariant risk affect rural finance.

In the second presentation, Yoichi Izumida (Japan) described the key rural finance reforms implemented in Vietnam. The Agricultural Bank of Vietnam (ABV) reaches a large proportion of rural farmers with apparently unusually low costs and arrears. Subsidization of interest charges, however, still characterizes loan pricing. He argued that market liberalization has generated high rates of economic and agricultural growth and facilitated the emergence of healthy rural financial markets. The participants questioned the 'frozen debts' and rescheduled loans, which may artificially reduce the reported arrears rate. Questions were also raised about the credibility of the reported administrative costs, which seem low by international standards.

The third presentation, by Richard L. Meyer (USA), reported on a regional survey of Asian rural financial markets. The general conclusion was that most Asian countries have weak rural financial institutions in spite of huge amounts of funds having been spent by governments and donors in the past three decades in a supply-leading approach to rural finance. However, three flagship institutions in the region demonstrate the large outreach and sustainability that can be accomplished when appropriate policies and institutions are used. They are the Unit Desas of Bank Rakyat Indonesia, the Bank for Agriculture and Agriculture (BAAC) in Thailand and the Grameen

Bank in Bangladesh. These three institutions provide financial services to millions of rural clients.

In the second session, Douglas H. Graham (USA) identified the determinants of increased outreach and sustainability for the Centenary Rural Development Bank in Uganda. Technical assistance from International Projekt Consult (IPC) in Frankfurt from 1993 onwards transformed the bank through improved institutional and organizational design, governance structure and lending technology. An econometric model demonstrated the strategic role of IPC lending technology in lowering arrears and lending costs. The discussion focused on different model specifications to measure the impact of technology on bank performance.

Lucila A. Lapar (Philippines) reported on research to measure the effects of credit on output for a sample of rural non-farm enterprises in the Philippines. A switching regression model was used to correct for selectivity bias and endogeneity of credit status found in credit impact studies. The results showed a significant impact of largely informal finance on enterprise expansion, with a high marginal rate of return on capital. She concluded that credit does not require interest subsidies because the return on capital is substantially above market rates of interest. Participants raised questions about model specification and research design issues.

Michael Lyne (South Africa) discussed the recent evolution of land reform initiatives in South Africa, comparing direct allocation of commercial farmland through government grants to large groups of beneficiaries with market allocations through financial intermediaries. In the latter, newly constituted farm companies are created in which farm workers become co-owners with the original farmers or freehold buyers through mortgage bond loans. The cash flow problems encountered in the early years of these initiatives are reduced through interest subsidies provided by a land reform credit facility. The discussion focused on clarifying the details of the credit facility and how non-financial constraints faced by the new farmers are overcome.

In the third session, Geetha Nagarajan (USA) discussed the construction of poverty indicators for use by microfinance organizations (MFOs) concentrating on the poor. She presented the results of an attempt to develop reasonably efficient proxies that are consistent with national poverty benchmarks for Lima, Peru. The three measures of per capita household income, a housing index and household size offered some promise in matching the national poverty benchmark. However, they are sensitive to threshold levels and leakage, hence undercoverage can occur when they are used. They are also subject to site and time period effects. The ensuing discussion concentrated on the strengths and weaknesses of the three proxies.

Manfred Zeller (USA) and Manohar Sharma (USA) reported the results of four case studies conducted in South Asia and Africa using 15–20 indicators to measure different dimensions of the depth of poverty outreach for MFO and non-MFO poverty populations. The indicators showed that the MFO clients fairly well reflected the poverty profile found in the sampled areas. Principal component analysis was used to consolidate a weighting group of indicators into the composite index used in the study. The participants raised questions about the choice of indicators and why distance of clients from markets was not used as an indicator. The possible bias in using highly volatile variables like income per family was debated.

In the final presentation, Sergio Navajas (El Salvador) summarized an EI Salvador study that explored the degree to which different lending techniques might exclude certain segments of the poor. Formal lenders reach only about 8 per cent of the rural population, while semi-formal NGOs and cooperatives serve an additional 12 per cent, with informal lenders reaching 22 per cent. A study of the clients of Calpia indicated that it is among the most successful lenders reaching the credit-worthy rural poor. The discussion revealed that Calpia's credit-worthiness indicators reflect capacity to repay; hence its clients reflect a slightly higher incidence of economic diversity, assets, proximity to markets and human capital than the non-borrowing rural poor.