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The Alternative Means to Increase Farmer’s Access to Credit: Case Study in Armenia

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Abstract

An adequate access to financial resources is shown to be a critical precondition for the effective transformation and for the efficient performance of the newly created private agricultural sector in transition countries. However, due to traditional and transition related problems such as low enterprise profitability in agriculture, risk and uncertainty, and collateral problems, small scale farmers, particularly poor rural households, are practically excluded from access to credit and saving services.

The non - adequate access to financial resources leads to farmers’ capability deprivation. Capability deprivation is often argued to be better measure of poverty because it can capture aspects of poverty hidden by income measures. It is widely acknowledged — and empirically verified — that income and aspects of human development (e.g. education and health) are strongly correlated, with the causality going both ways.

Empirical findings suggest that access to financial resources may be improved by the use of existing social structures of communities, such as farmers’ social capital. If social capital is understood as a network and social, cooperative respect structure it requires an investigation in a form of network analysis. Understanding of networks can be an effective means for identifying and developing opportunities for improvement.

The aim of the research project is to understand how current credit situation is embedded into society, how farmers value and use existing social networks to reduce vulnerability and what makes them to act as they do taking into consideration the complexity of changing institutional relations (economic, political, agro-ecological and socio-cultural environment) within which rural livelihood is embedded. Based on findings, microfinance will be evaluated in its current form as a rural poverty reduction tool and as the benchmark how social capital can be addressed while designing optimal agricultural credit markets.

Keywords: Capability deprivation, microcredit, social networks