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Lack of Liquidity and Financing Possibilities for Agricultural Family Farms in Azerbaijan: The Example of Mountain Grazing Systems in the Region of Gandja-Gasach

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Abstract

The structure of farms in Azerbaijan was extremely changed after the privatisation of land. The so long dominating state-owned big farms were replaced by small family farms. This development had sustainable effects on the production and also on the possibilities of financing farming.

The presented article aims to survey in an empirical analysis mountain grazing systems in the region of Gandja-Gasach with a particular focus on analysis of lack of liquidity and financial possibilities of these farms. The farms are typical family farms, which hire additional labour in form of herdsman. for their mountain grazing systems. They do own only little agricultural crop land and use the possibility to rent land in from the state. They use the land to practice the for them typical sheep and dairy production.

About 50 family farms were selected by chance and the respective family members were interviewed using standardised questionnaires to secure a representative analysis. The main objective of this work was to determine the financial and liquidity situation of these agricultural farms by using primary data.

Liquidity problems do exist particularly in the period of the purchase of feed and in the period of animal migration from winter to summer pasture as the analysis showed. Foreign capital is needed, since the own means of financing are short. The empirical analysis showed, that the access to formal credits is bad for the surveyed farms

High interest rates and additional costs for the application and documentation of credits are seen as major reasons for this situation. Banks and credit institutes do not provide higher credit amounts to the farms since securities and trust in the farm people is missing or they do ask for serious higher interest rates.

Therefore informal creditors do play a dominant role for providing credits to the farms. Informal creditors are relatives and friends, who do provide capital mostly for short periods and without interest. Credit users do thank the creditors by giving of natural means. Transition costs of these financing forms are very little, which will shown in the article.

The articles works out the importance of the informal credit sector for the family farms and gives hints on the need to further improve and strengthen the formal credit sector.

Keywords: Azerbaijan, farm families, liquidity, mountain grazing systems