THE ROLE OF CREDIT SERVICES IN ALLEVIATING THE POVERTY OF SMALL-SCALE FARMERS: CASE STUDIES FROM THE DEVELOPMENT PROGRAMMES OF OXFAM GB IN ARMENIA AND GEORGIA

Author: Nigel Thorne
Date: September 2013

A dissertation submitted in partial fulfillment of the Master of Arts Degree in Development and Emergency Practice, Oxford Brookes University, Centre for Development and Emergency Practice (CENDEP), Faculty of TDE, Oxford Brookes University
“The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure. This applies all the way from large enterprises (in which hundreds of thousands of people may work) to tiny establishments that are run on micro credit.”

(Sen, 1999, p. 39)

“Lack of access to credit is generally seen as one of the main reasons why many people in developing economies remain poor.”

(Hermes and Lensink, 2007, p.F1)

“Finding ways to finance medium-scale enterprises is the next big challenge for finance in developing countries.”

(Banerjee and Duflo, 2012, p. 181)
Abstract

This research considers the role that the provision of credit services has had in alleviating the poverty of small-scale farmers in Armenia and Georgia through case studies of the work of the NGO Oxfam. The main concerns of the research are the discovery of information and the exploration of key issues and understanding the case studies in themselves. The research does not propose that the case studies are statistically representative of a wider population. Small-scale farmers often need access to credit to start-up, maintain and grow small rural businesses, whether in respect of farm businesses or other rural enterprises. Armenia and Georgia have large populations of poor small-scale farmers and as a result of conflicts both countries have many refugees or IDPs in rural areas.

The research demonstrates the evolution of microcredit services in Armenia and Georgia from philanthropic efforts by NGOs such as Oxfam to commercial microcredit services by MFIs and banks. Nor Horizon and Horizon Fund, which emerged from Oxfam’s interventions in Armenia, maintain a social focus and Horizon Fund makes interest free loans to poor small-scale farmers. In Georgia Lazika Capital, the successor organisation of Oxfam’s microcredit work in Georgia, maintains a focus on small-scale famers and has microcredit products designed to meet their requirements. In both Armenia and Georgia a focus on microcredit services for women small-scale farmers was a priority of Oxfam’s work and this emphasis has been maintained by Nor Horizon and Lazika Capital. To support small-scale farmer communities Oxfam is now organising larger loans by banks for cooperatives of small-scale farmers and small and medium sized agricultural enterprises in remote rural areas.
Acknowledgments

I would like to thank Oxfam, Nor Horizon and Lazika Capital for making these case studies possible.
Supervision

This dissertation was supervised by Professor David Sanderson BA (HONS), Dip Arch, MSc, PhD.

Statement of Originality

This dissertation is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged by explicit references.

Signed..........................  
Nigel Thorne

Date: 12 September 2013

I hereby give consent for my dissertation, if accepted, to be available for photocopying and for inter-library loan, and for the title and summary to be made available to outside organisations.

Signed..........................  
Nigel Thorne

Date: 12 September 2013

Statement of Ethics Review Approval

This dissertation involved human participants. A Form E1BE for each group of participants, showing ethics review approval, has been attached to this dissertation in appendix 3.
# Table of Contents

Abstract ........................................................................................................... 3  
Acknowledgments.......................................................................................... 4  
Supervision ..................................................................................................... 5  
Statement of Originality .............................................................................. 5  
Statement of Ethics Review Approval ......................................................... 5  
List of acronyms ............................................................................................. 8  
Terminology ................................................................................................... 8  
List of figures .................................................................................................. 8  

Chapter 1 – Introduction ............................................................................. 10
1. Background ............................................................................................... 10
2. Research question ..................................................................................... 10
3. Credit services for small-scale farmers ................................................... 11
4. Armenia .................................................................................................... 13
   1988 earthquake ..................................................................................... 13
   The Nagorno-Karabakh war and refugees .............................................. 13
   Economic development and poverty ..................................................... 14
   Small-scale farmers ............................................................................... 15
   Women .................................................................................................... 16
5. Georgia .................................................................................................... 16
   South Ossetia and Abkhazia conflicts and IDPs ................................... 16
   Economic development and poverty ..................................................... 17
   Small-scale farmers ............................................................................... 17
   Women .................................................................................................... 17
6. Structure of this paper .............................................................................. 17

Chapter 2 - Methodology .......................................................................... 19
1. Case studies ............................................................................................. 19
2. Exploratory approach ............................................................................. 19
3. Approach to theory ............................................................................... 19
4. Generalisation ......................................................................................... 20
5. Data sources ............................................................................................ 20
   Interviews ............................................................................................. 20
   Observation ............................................................................................ 21
   Documents ............................................................................................. 21
6. Ethics ........................................................................................................ 21
7. Limitations ............................................................................................... 21

Chapter 3 - Literature review ..................................................................... 22
1. Microcredit group lending ...................................................................... 22
2. Microcredit individual lending ............................................................... 22
3. NGOs ....................................................................................................... 23
4. The rapid development of microcredit services .................................... 23
5. Impact on poverty of microcredit ......................................................... 23
6. Credit as just one factor in poverty alleviation ..................................... 24
7. Cases of success and failure ............................................................... 25
8. Does microcredit help poorer people? .............................................. 25
9. Women and microcredit .................................................................. 26
10. Larger loans for rural SMEs ............................................................. 27

Chapter 4 – Case Studies ............................................................... 28

Armenia ......................................................................................... 28
1. The Oxfam Credit Program in the 1990s ........................................... 28
2. Microcredit .................................................................................. 28
3. Group lending .............................................................................. 29
4. Tied loans ................................................................................... 29
5. ArmAgrobank ............................................................................ 30
6. UNHCR requirements .................................................................. 30
7. Cases of success and failure ......................................................... 31
8. Credit as just one factor in poverty alleviation ................................ 33
9. The rapid development of microcredit services in the 2000s .......... 33
10. Nor Horizon ............................................................................... 34
11. Individual lending ....................................................................... 36
12. The need for microcredit services ............................................... 36
13. The impact of microcredit services ............................................. 36
14. Cases of success and failure ......................................................... 37
15. Does microcredit help poorer people? ....................................... 37
16. Larger loans for cooperatives and other SMEs ............................ 39

Georgia ......................................................................................... 42
1. Oxfam credit programme ................................................................ 42
2. Microcredit .................................................................................. 43
3. Group lending .............................................................................. 43
4. Lazika Capital ............................................................................. 43
5. The need for microcredit services ............................................... 44
6. The impact of microcredit services ............................................. 45
7. Cases of success and disaster ....................................................... 45
8. Does microcredit help poorer people? ....................................... 46
9. Larger loans for cooperatives and other SMEs ............................ 47

Chapter 5 – Concluding remarks .................................................... 48

References .................................................................................... 50

Appendices ..................................................................................... 54
Appendix 1 ...................................................................................... 54
   List of informants ........................................................................ 54
Appendix 2 ...................................................................................... 55
   Questions .................................................................................... 55
Appendix 3 ...................................................................................... 57
   Ethics Form ................................................................................ 57
List of acronyms

EDP  Enterprise Development Programme of Oxfam
GBP  Pounds Sterling
IDPs  Internally displaced persons
MFI  Microfinance institution, an organisation that provides microcredit to customers
NGO  Non governmental organisation
SME  Small and medium sized enterprises
UNHCR  United Nations High Commissioner for Refugees
USD  United States Dollars
USSR or Soviet Union  The Union of Soviet Socialist Republics

Terminology

Armenia  Republic of Armenia
Lazika Capital  JSC Lazika Capital
Oxfam  Oxfam GB, part of an international confederation of 17 Oxfam organizations working in approximately 90 countries.

List of figures

Cover  A representative of an all women agricultural cooperative supported by Oxfam in Gomk community in south Armenia, where cooperative members have microcredit loans from the Horizon Fund
Figure 1  Location of Armenia and Georgia (MSF map)
Figure 2  IDPs from Abkhazia, Georgia, displaced by the war in the early 1990s and still living in very poor semi-communal accommodation in rural Georgia near the Abkhazia border
Figure 3  Label 'A' marks the town of Spitak, which was near the epicentre of the earthquake and which was largely destroyed (Google maps)
Figure 4  War damaged farms near the border with Azerbaijan
Figure 5  An example of the many abandoned Soviet factories that can be seen in Armenia and Georgia
Figure 6  Women only cooperative of small-scale farmers, including refugees. Oxfam provided the mobile phones to allow the co-operative members access agricultural markets information
Figure 7  Georgia (Google maps)
Figure 8  Destroyed rural home and car near the South Ossetia border and current living conditions
Figure 9  Map showing branches and representations of Nor Horizon
Figure 10  Two co-operative members in the co-operative greenhouse at Aknaghbyur community
Figure 11  The greenhouse at Aknaghbyur community
Figure 12  Checking vegetable produce into the cold storage service at Aknaghbyur
community

Figure 13 The derelict Soviet canning factory at Ayrum city
Figure 14 Label ‘A’ marks Ayrum City (Google maps)
Figure 15 The processing factory at Ayrum City in construction, 10 July 2013
Figure 16 Members of the Lchkadzor Consumer Cooperative outside the new factory in Ayrum City, 10 July 2013
Figure 17 Location of Samagrelo region
Figure 18 Location of Zugdidi (Google maps)
Figure 19 Two examples of leaflets produced by Lazika Capital for farmers providing information on how to farm particular crops successfully
Chapter 1 – Introduction

1. Background

Armenia and Georgia are former republics of the USSR that became independent countries in 1991. In the last twenty years both countries have had to cope with the consequences of the end of Soviet rule, including the associated sudden collapse of Soviet industry and the jobs it provided, and the continuing impact of long standing conflicts with neighboring countries or internal regional disputes.

Armenia and Georgia have large populations of poor small-scale farmers and as a result of the conflicts both countries have many refugees or internally displaced persons (IDPs) in rural areas.

2. Research question

Small-scale farmers often need access to credit to start-up, maintain and grow small rural businesses, whether in respect of farm businesses or other rural enterprises. This is particularly the case for IDPs and refugees who have lost all or most of their assets on displacement and have to establish micro-enterprises to survive. This research therefore asks, what is the role that the provision of credit services has had in alleviating the poverty of small-scale farmers in Armenia and Georgia? This will be answered through case studies of the work of Oxfam. In particular it considers:

- The evolution of credit services for small-scale farmers in Armenia and Georgia since independence from the USSR in 1991;
• The importance of credit services for women, refugee and IDP small-scale farmers in Armenia and Georgia;
• The extent to which microcredit is available to help the poorest small-scale farmers.

Figure 2: IDPs from Abkhazia, Georgia, displaced by the war in the early 1990s and still living in very poor semi-communal accommodation in rural Georgia near the Abkhazia border.

3. Credit services for small-scale farmers

This research is concerned with the impact that the availability of credit services can have on the poverty of small-scale farmers, particularly women, IDPs and refugees. Small-scale farmers are not an economically homogenous group. Indeed, there is considerable diversity amongst them in economic position based, primarily, on assets and gender. Vorley classifies small-scale farmers into three ‘rural worlds’ (Vorley, 2002):

<table>
<thead>
<tr>
<th>Rural World 1 (RW1)</th>
<th>The richest of the poorest small-scale farmer producers who have access to land, capital, information and infrastructure and who are capable of accessing formal markets.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural World 2 (RW2)</td>
<td>The majority of small-scale farmers who are less likely to have access to formal markets than farmers in RW1 and who may also undertake some waged work. State institutions are usually inaccessible for them.</td>
</tr>
<tr>
<td>Rural World 3 (RW3)</td>
<td>Small-scale farm households who may have very small plots of land or no land assets at all and are either tenant farmers or wage labourers. Small-scale farmers in RW3 are more likely to be female-headed households, and are more likely to depend on off-farm labour opportunities (Vorley, Cotula and Chan, 2012, p. 17).</td>
</tr>
</tbody>
</table>
This study will consider credit services made available to each of these ‘rural worlds’, however there will be a particular focus on RW2 and RW3 as the small-scale farmers in Armenia and Georgia that are the subject of these case studies are predominantly within RW2 and RW3.

As with urban families small-scale farmers in each of the ‘rural worlds’ require savings or the facility to borrow capital to cope with household money management, for example to pay for household equipment and for education and health care. However, small-scale farmers also require capital to manage the seasonality of their incomes arising from the nature of agricultural activities. For example, they need to acquire seeds and fertiliser and invest in equipment at the start of the planting season that will not produce an income until the harvest is collected and sold. Small-scale farmers incomes also fluctuate according to the success of the growing season and harvest. They may not have the savings available to provide the capital required and therefore they need to borrow it. For refugees and IDPs displaced to rural areas they need some form of capital to start even the smallest of microenterprise, such as growing garlic, drying it and selling it.

However, small-scale farmers have historically been unable to access formal credit services because lending to them is considered by lending institutions to involve high costs and high risk because of the seasonal nature and unpredictability of agricultural production and because of the remoteness and the low population densities of many rural farming areas (Meyer, 2013). In Armenia and Georgia this situation was magnified by the transition to a market economy in the 1990s and the conflicts. The poorest small-scale farmers, typically within Vorley’s RW3 categorisation, who do not own land or any assets, are usually excluded from the formal banking system because they do not have collateral available to secure loans (Morduch, 2009). Therefore small-scale farmers have often had to resort to informal credit services (Roodman, 2012), such as borrowing from family and friends, professional moneylenders and local landowners (Sundaresan, 2008). These arrangements may on occasions provide a useful function but may be expensive (Banerjee and Duflo, 2011). They are also not subject to government regulations and protections.

Reacting to the need for capital amongst small-scale famers, governments in some developing countries intervened in the 1960s and 1970s to increase the supply of credit and to reduce interest rates for small-scale farmers. However, these arrangements usually failed, as there were poor loan screening, poor repayment records, corrupt practices and a lack of consistency and commitment in government policies (Meyer, 2013; Johnson and Rogaly, 1997). In Armenia and Georgia at this time farmers were part of the collective communist economic system, whereby agriculture inputs were provided by the state in return for the allocation of production targets, and therefore loans were not part of the economic system. However, Armenia and Georgia became free market economies in the 1990s at the same time as there was a rapid growth in a new form of loan finance, microcredit. Microcredit is small loans, which were usually made to individuals within borrowing groups to help allay the costs and risk of providing small loans. Microcredit grew from roots in Armenia and Georgia as an initiative of NGOs in the 1990s to become a significant commercial business in the 2000s that now involves banks as well as MFI.
4. Armenia

Armenia is a mountainous country with a population of 3.1 million\(^1\). Its capital is Yerevan, where approximately one third of the population lives. It is situated at the crossroads of Western Asia and Eastern Europe and is bordered by Turkey to the west, Georgia to the north, Azerbaijan to the east and Iran and the Azerbaijan enclave of Nakhchivan to the south. When Armenia became independent from the USSR in 1991 it was recovering from a major earthquake (which affected one third of the country) and was embroiled in a dispute with Azerbaijan over the enclave of Nagorno-Karabakh in southwestern Azerbaijan (see figure 1).

1988 earthquake

On 7 December 1988 an earthquake with its epicentre in the northern region of Armenia, near the Georgian border, caused 25,000 deaths and major infrastructure destruction\(^2\). In an unusual move the Soviet Union called on the West for assistance and there was a major international humanitarian effort.

The Nagorno-Karabakh war and refugees

The Nagorno-Karabakh war was a conflict that took place from February 1988 to May 1994 between the majority ethnic Armenians of Nagorno-Karabakh, backed by Armenia, and Azerbaijan. While a ceasefire was brokered by Russia in 1994 the conflict remains unresolved and tensions continue to the present day.

---


311,000 Armenians from Azerbaijan were displaced by the conflict and became refugees within Armenia. They accounted for 8 per cent. of the population of Armenia. The Armenian refugees were unable to return to their homes and Armenia adopted a policy of integrating them into Armenian society. UNHCR supported and assisted the integration policy through projects supporting local settlement and naturalisation.

**Economic development and poverty**

On 23 August 1990, Armenia declared independence from the USSR and in 1991 the USSR was dissolved and Armenia's independence was officially recognized. However, the post-Soviet years were marred by economic difficulties, principally arising from both the adjustment from a centrally controlled communist economy to a market orientated economy and the Nagorno-Karabakh war. Soviet industry across Armenia closed with major loss of employment.
Many Armenians left the country for work opportunities abroad. However, there was economic growth in the period up to 2008 and in 2008 the World Bank reclassified Armenia from a low-income to lower middle-income country (OECD, 2011). Nevertheless, Armenia remains comparatively poor with an uneven distribution of income and wealth within and between regions (OECD, 2011). In 2011 35 per cent. of the population was poor, 19.9 per cent. was very poor and 3.7 per cent. was extremely poor (World Bank, 2012).

The transport routes with Azerbaijan to the east and Turkey to the west were shut early in the Nagorno-Karabakh war and as a result Armenia could no longer export to other regions of the USSR and the work of food canning factories, food-processing enterprises and other industry that had been established by the USSR in Armenia was suspended. These transport restrictions have never been lifted and therefore the only routes that currently connect Armenia to the rest of the world run through Georgia in the north and Iran in the south, although the link with Iran is only by road and visas are required to enter Iran and therefore in practice Iran is not considered a transit country. As a result, most of Armenia’s imports and exports are transported through Georgia by road and rail.

**Small-scale farmers**

After the break up of the USSR in 1991 a process of land privatization by the Armenian government created some 300,000 farms, 97 per cent. of which were owned by households (OECD, 2011). With this land privatisation collective farms were abolished and villagers were left alone on their land. They usually did not have the means to work the land efficiently as such machines and chemical fertilisers as there were, were in the hands of a small elite. As employment in Soviet centralized industry disappeared and many Soviet era professions became obsolete in the new market economy, and many people were forced to become farmers of whatever land they had or to seek new micro entrepreneurial activities. Refugees from the war also swelled the number of small-scale farmers. In 1999 UNHCR estimated that 80 per cent. of refugees were of urban backgrounds, and that some 70 per cent. had been settled in rural areas and had to face the challenge and difficulty of coping with a rural lifestyle.

![Image](image.jpg)

*Figure 6: Women only cooperative of small-scale farmers, including refugees. Oxfam provided the mobile phones to allow co-operative members to access agricultural markets information.*
Small-scale subsistence agriculture shields people in rural areas from some of the extremes of poverty that are still felt in some of the urban centers and as a result only 1.7 per cent. of the rural population was living below the extreme poverty line in 2008 (OECD, 2011). However, rural income levels are far below the per capita average (OECD, 2011) and as land holdings are relatively small the rural population falls largely within RW 2 and RW3. The main problems for Armenian agriculture are inadequate irrigation, climate change, lack of agricultural equipment (including quality seeds), lack of quality roads, low purchasing prices and a lack of access to technical information and technology (OECD, 2011). The small and medium scale enterprise sector is underdeveloped and access to credit by enterprises, particularly in remote regions, is limited (OECD, 2011).

Women

While men and women are largely equal as a matter of law, inequality arises from the traditional norms of the society. Women are generally well educated but have fewer opportunities of employment, are paid less and have lower positions in the hierarchy (OECD, 2011).

5. Georgia

Georgia has a population of some 4.6 million (OECD, 2011). Its capital is Tbilisi. It is located north of Armenia, has a western coast on the Black Sea and has borders with Russia, Turkey and Azerbaijan, as well as Armenia. As with Armenia, Georgia gained independence from the USSR in 1991.

South Ossetia and Abkhazia conflicts and IDPs

After independence Georgia suffered a number of years of civil unrest and separatists in the regions of South Ossetia (see figure 1) and Abkhazia (see figure 1), who were supported by Russia, established independence from Georgia. These disputes resulted in some 230,000 Georgians being displaced from Abkhazia and some 23,000 from South Ossetia. A further war over South Ossetia erupted in 2008, with Russia invading parts of Georgia and occupying South Ossetia and a further 100,000 persons being displaced (OECD, 2011).
Economic development and poverty

As with Armenia, after the collapse of the USSR Georgia embarked on a transition to a market economy. Initially there was economic collapse as the centrally controlled economy evaporated and the situation was made worse by the conflicts in South Ossetia and Abkhazia. The ‘Rose Revolution’ in 2003 established a new government that carried out a large number of reforms to create competitive market conditions that resulted in spectacular growth of 9.7 per cent. on average between 2003 and 2008 (OECD, 2011). However the 2008 South Ossetia war followed by the global economic crisis ended this prosperous period (OECD, 2011). In 2007 the incidence of poverty in Georgia was 23.6 per cent., while the indicator of extreme poverty was 9.3 per cent. (World Bank, 2009).

Small-scale farmers

Approximately half of the Georgian population lives in rural areas and 53 per cent. of the labour force is employed in small-scale farming. Rural living standards have been declining since 1990 (OECD, 2011). “Low monthly revenues of rural households are responsible for the high rate of poverty and poor living conditions, which are, however, improving very slowly. Although poverty incidence has diminished, most agricultural areas are linked to poor living standards” (OECD, 2011, p. 127). Small-scale famers will generally fall within RW2 and RW3. Georgia lacks large-scale agricultural machinery and high-value fertilisers and, most of all, access to credit (OECD, 2011). Georgian banks tend to deal only with large clients who have a proven credit history and as a result enterprises are underfunded and rely on family or individual capital (OECD, 2011).

Women

In 2008 employed women only accounted for 39 per cent. of the economically active population and employment opportunities for women, particularly in rural areas, were few and most self-employed women worked on family farms or in businesses for no remuneration (OECD, 2011). While employment opportunities are equal as a matter of law, women have limited access to managerial positions and their remuneration is usually lower (OECD, 2011).

6. Structure of this paper

Chapter two of this dissertation sets out the methodology for the case studies. Chapter three contains a review of the academic literature that touches on the themes
of the case studies. Chapter four contains the case studies and Chapter five sets out conclusions.
Chapter 2 - Methodology

1. Case studies

This research consists of case studies of Oxfam’s work with credit services and small-scale farmers in Armenia and Georgia. It uses qualitative methods. The main concerns of the research are the discovery of information and the exploration of key issues about credit services for small-scale farmers in Armenia and Georgia (Denscombe, 2010) and understanding the case studies in themselves and for their own sake (Gomm et al., 2000). As two cases studies were undertaken this research project is a multiple case study (Swanborn, 2010). However, while the research encompasses two case studies, the primary focus of the research is not on cross-case comparisons but on within-case analysis (Gerring, 2007). That is not to say that cross-case variations are not potentially of interest and they have been referred to where they have emerged. The research is not of cases as observed at a particular point of time or as monitored over time, but is an analysis of what took place over a period of time in the past (Gerring, 2007). This temporal aspect is important, as an aspect of the research is to understand how the role of credit services in poverty alleviation of small-scale farmers has evolved over time. The spatial boundaries are clearly defined as the research relates to Oxfam’s development programmes in two countries.

2. Exploratory approach

The preliminary research phase involved carrying out initial interviews with five informants who were subsequently interviewed in greater depth. These initial interviews were undertaken with representatives of Oxfam in Oxford, Armenia and Georgia and with representatives of MFIs. They were selected on the basis of being available for interview and being experts in microcredit, Armenia, Georgia, small-scale farmers or the work of Oxfam. This process allowed the researcher to become better informed and to keep “an open eye to unexpected aspects of the process” (Swanborn, 2010, pp. 16 and 17). Indeed, there was maximal openness towards unknown aspects and to ‘let the object speak’ (Swanborn, 2010, p. 17). However, heeding Swanborn’s warning of the danger of focusing on irrelevant features of a case and overlooking the “original intention to study the case for its representativeness of the phenomenon in general” (Swanborn, 2010, p. 9), the research process concentrated on data collection that directly related to the research question.

3. Approach to theory

This research project is designed to describe the features of the cases and to explain what occurred. It does not intend to construct theory or to test theory, but it does where appropriate use extant theory to describe or explain the phenomenon revealed by the research (Swanborn, 2010). As Swanborn comments, in “applied research existing theories are used; it is not the researcher’s explicit intention to develop or test theories” (Swanborn, 2010, p. 77). Accordingly, the aim of this research is to understand the cases, to describe relevant characteristics and to apply general theories, where relevant, to explain aspects of the cases (Swanborn, 2010).
4. Generalisation

Traditional criticisms of the case study approach express concern over its weak basis for scientific generalisation. Indeed, while there is no reason to presume that the cases in this research project are different from a broader class of cases (Gerring, 2007), it does not mean that the findings from these case studies can be offered up for generalisation. In addition, Oxfam selected the case studies and therefore no sampling methods were used for case study selection. Accordingly, this research does not propose that these case studies are statistically representative of a wider population and generalisations are not made. Each of the case studies is what Gerring describes as a single-outcome study (Gerring, 2007), which seeks to explain a single outcome for the particular case, rather than a range of values across a population of cases. Single-outcome studies seek the causes of specific outcomes and may rest an inference or a set of inferences upon evidence from the case alone (Gerring, 2007). For Gerring single-outcome analysis is intrinsically valuable because we wish to know about such occurrences (Gerring, 2007). It is submitted that the findings of this research are of sufficient interest as to have intrinsic value (Gomm et al., 2000).

If there are features of these case studies that are typical of a larger set of cases, and thus capable of generalisable inferences, it would be difficult to tell which they are in undertaking these case studies by themselves. However, this research may offer data for future researchers who have broader or different agendas (Gerring, 2007). In this way Gerring claims that case studies “partake of two worlds: they are particularizing and generalizing” both “of something particular and of something more general” (Gerring, 2007, pp. 76, 79 and 80). Swanborn goes further and claims that a case study approach “may provide us with tentative ideas about the social phenomenon, based on knowledge about the studied event” (Swanborn, 2010, p. 3) and “shed light on a larger class of cases” (Gerring, 2007, p. 20). While the aim of the research is not to draw conclusions about a general type of phenomenon or about a wider population of cases (Gomm et al., 2000), the findings might be of value to others and thus “feed into processes of ‘naturalistic generalization’” (Gomm et al., 2000, p. 7, citing Stake, Chapter 1). The interpretations and explanations made in these case studies may also be useful in framing relevant questions for future research.

5. Data sources

Interviews

Interviews were the principal method of data collection for the research. Swanborn refers to key personnel as ‘informants’ and that term is used in this paper (Swanborn, 2010). In selecting informants the research has progressed by way of a ‘snowball procedure’ whereby informants in each country and organisation were asked to identify other informants to speak to. All the interviews were with people especially knowledgeable about the area of research (Gillham, 2005). A list of the interviewees is in Appendix 1. All the informants were in positions of power or authority by virtue of their experience and understanding and as such knew more than the researcher “about certain key dimensions of the area” and “were alert to the implications of questions, and of their answers to them” (Gillham, 2005, p. 54). As such, the appropriate form of interview was a loose structure that was akin to semi-structured interviewing, but reflected the fact that the informants would not be engaged by or
submit tamely to a series of prepared questions (Gillham, 2005). Semi-structured interviewing is usually taken to mean that the same questions are asked of all those involved and that approximately equivalent interview time is allowed (Gillham, 2005). This was not appropriate for the informants in this research because of their expert nature. Questions were prepared in advance based on the research question and pre-formed ideas of what the research would discover (see Appendix 2), but in most cases the interviewee’s authoritative grasp of the subject lead the interviews in unexpected, although pertinent and interesting, directions. Interviews took place in person or by Skype. There were no language barriers as all the informants spoke good English. In some cases interviews with informants were supplemented by email exchanges on particular questions.

**Observation**

Observation of the situation of small-scale farmers in Armenia and Georgia was an informative aspect of the research. Baker commented that the value of observation is to allow researchers to study people in their native environment in order to understand issues from their perspective, although it requires considerable time in the field (Baker, 2006). The observation for these case studies took place during visits to Oxfam projects in Armenia and Georgia between 6 and 12 July 2013 and the time in the field for each community visit was no more than two hours. Therefore the observation elements of this study were very limited. Nevertheless listening to refugees and IDPs discuss with Oxfam staff their displacement and rural livelihood experiences, including in relation to the credit services made available to them, offered a valuable insight.

**Documents**

A small number of Oxfam and MFI documents were reviewed, which were primarily working papers relating to the operation of the Oxfam programme in Armenia in the late 1990s and early 2000s.

**6. Ethics**

All the interviews were undertaken with professional Oxfam GB staff or professional representatives of MFI institutions. Participation in the interviews was entirely voluntary and on the basis that names of interviewees are kept confidential and the comments made are not attributed.

**7. Limitations**

The temporal boundaries of the research caused some difficulties as in undertaking the interviews it was evident that memories of events going back over 20 years are inevitably more generalised than in respect of more recent events. As the interviews were undertaken with representatives of Oxfam and of two MFI institutions it may be the case that the interviewees had bias towards the institutions they represent. As noted above there was no opportunity for lengthy observation and all observation was undertaken as part of an Oxfam research visit. The number of documents available for review was very limited and primarily related to Armenia.
Chapter 3 - Literature review

This chapter is a review of the academic literature concerning the role of credit services in alleviating the poverty of small-scale farmers. The academic literature that discusses these issues in respect of the Armenia and Georgia is very limited. Therefore, this literature review draws on academic literature that discusses this topic in a global context and in the context of a number of developing countries.

1. Microcredit group lending

Current approaches to microcredit emerged in the late 1970s as a means by which small-scale farmers could access credit even though formal banking arrangements or government funding schemes were not open to them. The size of microcredit loans varies between developing countries, but microcredit has historically been very small loans typically in the range of 100 USD to 800 USD. However, some MFIs now include within microcredit larger loans of up to some 3,000 USD. The microcredit innovation exploited new contractual structures, in particular the innovation of group lending, established by the Grameen Bank in Bangladesh. The founder director of Grameen Bank, Professor Muhammad Yunus, is “credited with proving that ‘the poor are bankable’” (Hulme, 2009, p. 163) based on a group lending model targeted at rural women. The administration costs relating to small loans are potentially disproportionate to the size of loans, particularly as the MFI needs to spend time vetting potential customers. However, the innovation of group lending reduced these costs in terms of time and money. Typically loans are made to groups of borrowers who are jointly liable for each loan made to members of the group. If the group members know each other then they are likely to self-select reliable borrowers. There are also other mechanisms to encourage repayment, including making subsequent loans larger once a repayment history has been established. “Access to future loans becomes an important incentive for repayment when obtaining a new loan is perceived as being more beneficial than defaulting” (Meyer, 2013, p. 206). Group lending was a feature of microcredit in Armenia and Georgia from its first introduction in each country.

2. Microcredit individual lending

However, some MFIs started to undertake individual rather than group lending, including in Armenia and Georgia in the 2000s. Individual lending requires MFIs to analyse estimates of a farmer’s expected yields, cash flows and ability to manage a loan in order to determine whether a loan should be made and its size, duration and repayment profile (Meyer, 2013). MFIs have adapted to allow for the cost of this work, although such costs are also reflected in interest rates charged to customers. Where there is individual lending MFIs often require some form of collateral even if it is likely to be inadequate if there is default (Meyer, 2013). “The idea is that the notional or use value to the borrower is more critical than the market or sale value of the pledged assets” (Meyer, 2013, p. 205). For agricultural loans this may be physical assets such as land (even if the title is not clear), other assets such as tools, machinery and livestock and co-signers as guarantors.
3. NGOs

During the 1980s and 1990s many large international NGOs working to reduce rural poverty around the world through development programming became increasingly enthusiastic about financial interventions through microcredit (Sundaresan, 2008) because microcredit had developed “a reputation for stimulating microenterprise, empowering women and lifting families out of poverty” (Roodman, 2012, p. ix). In 1999 Sen’s empowerment approach to those living in poverty highlighted the importance that services, such as financial services, have in enhancing a person’s ability to strive and take control of her or his own life (Sen, 1999). Microfinance in the 1980s and 1990s was usually a philanthropic effort or a quasi-philanthropic effort (Sundaresan, 2008) rather than a commercial proposition. NGOs, whose supply of capital was donor based, provided microcredit to poor people in rural and urban areas. For NGOs such as Oxfam microfinance seemed to offer a new means of alleviating the poverty of small-scale farmers around the world (Johnson and Rogaly, 1997). This form of development programming was seen in Armenia and Georgia.

4. The rapid development of microcredit services

Initially subsidised ‘soft capital’ for not-for profit microcredit arrangements (Sundaresan, 2008) was provided by NGOs, including in Armenia and Georgia. Soft capital consists of grants to allow loans to be made on non-commercial terms and to subsidise the running expenses of the microcredit organisation. However, from the early 2000s efforts were made to make microcredit programmes commercially sustainable in the longer term and this resulted in MFIs being established and seeking to operate without subsidy and profitably. This process of commercialisation was seen in Armenia and Georgia. Commercial private for-profit corporations also became interested in providing microcredit and microcredit services grew rapidly to become part of the mainstream international banking industry. Microfinance developed during the 1990s and early 2000s and 2005 was declared as the ‘Year of Microfinance’ (Sundaresan, 2008). By that time mainstream-banking organisations had joined the microfinance market and the interest of banks in microfinance, including in Armenia and Georgia, accelerated after the financial crisis in 2008 as they sought out new markets to replace declining markets.

5. Impact on poverty of microcredit

Studies of microcredit from around the world show mixed results about the impact of microcredit services on alleviating poverty. In some cases data has been collected and analysed and then subsequently revisited by different researchers who have each claimed that the same data supports both the success of microcredit in alleviating poverty and its relative failure to do so (Adams and Vogel, 2013). This demonstrates the difficulty in proving the impact of microcredit on people living in poverty. Adams and Vogel point to various reasons to explain this, including that a loan is a fungible item that merges with the borrowers general purchasing power, so it is difficult to measure its impact (Adams and Vogel, 2013). Other problems include the difficulty of comparing outcomes for persons who have access to microcredit and those that do not as their circumstances may be very different.
MFIs point to their customers taking out many repeat loans as a demonstrator of the success of microcredit. That is, if microcredit was not working then people living in poverty would not come back for repeat loans. The Consultative Group to Assist the Poor (CGAP), an organisation that promotes microcredit, considers that “there is mounting evidence to show that the availability of financial services for poor households microfinance can help achieve the MDGs” (cited by Banerjee and Duflo, 2011, p. 168). Some proponents of microcredit cite access to microcredit as a catalyst for larger scale economic development in agriculture:

“[M]icrofinance, the indispensible multiplier. Money to pay for a cow. Fresh milk and something wondrous called ‘income’. The cow became a dairy, then a milk distribution business. And the income went back to the village. The money became seeds, then crops. And the income went back to the village. And it became a school for non-formal education, a boat for a fisherman, a house, a university”.³

However, as microcredit services expanded rapidly in the 2000s academic literature became noticeably more cautious about the ability of credit services to reduce poverty. In 2008 a World Bank study commented that the evidence of “favourable impacts from direct access of the poor to credit is not especially strong” (Demirguc-Kunt, Beck and Honohan, 2008, p. 99). Roodman believes that there is little evidence that the provision of microcredit to poor people reduces their poverty or allows them to escape poverty altogether, however he does believe that it helps people survive poverty by helping poor people cope with income volatility (Roodman, 2012). An innovative and influential study in India by Banerjee and Duflo indicated that microcredit did not perform economic miracles, but that there were modest increases in entrepreneurial activity (Banerjee and Duflo, 2011). In particular, credit services allow small-scale farmers to cope with cash flow issues associated with seasonal production and the acquisition of seeds and equipment. Banerjee and Duflo point out that it has been demonstrated that it is possible to lend to the poor, that few other ideas can be said to have reached so many poor people and that the current scale of microcredit provision is a “remarkable achievement”, but that whether it transforms the lives of the poor remains a matter of debate (Banerjee and Duflo, 2011, p. 181).

6. Credit as just one factor in poverty alleviation

Sundaresan emphasises that access to financial services must be tackled in parallel with providing access to education, health care and better technologies (Sundareshan, 2008). Indeed, these other services are at least as important, if not more important, but “access to financial services will enhance the ability of poor households to access these important basic services” (Sundareshan, 2008, p. 22). As such Fisher and Sriram consider (Fisher and Sriram, 2002, p. 21):

“Micro-financial services on their own are clearly not going to solve poverty, but can only serve as a complementary tool within a broader strategy to reduce poverty.”

³ The award committee comments in the press release announcing the award of the $1.5 million Conrad N. Hilton Humanitarian Prize for 2008 to BRAC, which is a leading Bangladesh MFI, as cited by Bateman (Bateman, 2010, p. 80).
7. Cases of success and failure

There are individual stories of the poorest people lifting themselves from poverty through having access to credit and stories of people living in poverty taking on credit that leads them to greater destitution. Roodman sees facilities to manage money as empowering, but also points out that high interest rates, over extended borrowing or coercion within borrowing groups is not empowerment; credit “is both a source of possibilities and a bond” (Roodman, 2012, 177). Credit by its nature constitutes financial ‘leverage’ that can potentially either create or destroy value and therefore where credit is taken it may increase income or destroy it depending on the circumstances. There can be expected to be both outcomes, and that has been the case in Armenia and Georgia. Accounts by MFIs and banks, including in Armenia and Georgia, typically highlight stories of financial and social success by small-scale farmers resulting from access to microcredit. However, some commentators emphasise less successful cases in certain countries. Roodman comments that used wrongly microcredit results in over supply of credit that leads people to use new loans to repay old loans and thereby creating a dangerous cycle of debt (Roodman, 2012). He says that microcredit is “a prescription drug – useful in moderation, but dangerous in large doses” (Roodman, 2012, p. 14). Bateman argues, in the context of India, that the provision of large quantities of microfinance to tiny subsistence farming units caused a disaster because they were not equipped to deal with it (Bateman, 2010, p. 83). He believes that there was an entrapment of several tens of millions of “the very smallest subsistence farms in a vicious downward cycle of dependency and growing microdebt” and he claims that 160,000 farmers’ suicides in India since 1997 is a “most grotesque” statistic “associated with the growing entry of microfinance into the agricultural sector” (Bateman, 2010, p. 84).

8. Does microcredit help poorer people?

While microcredit largely began as a philanthropic or semi-philanthropic service, it quickly became apparent, including in Armenia and Georgia, that for it to be sustainable in the longer term as grants reduced, it would need to become a profitable business as far as possible. MFIs that are socially minded therefore face a tension between breaking even while maintaining or improving outreach. The drive for commercial sustainability has raised concerns that there is ‘mission drift’ from the original purpose of poverty alleviation. Fisher and Sriram write of the ‘finance school’ and the ‘poverty school’, with the first promoting the mainstreaming of microcredit as a financial service and the latter emphasising the need to reach poor people and possibly be suspicious of financial stability “believing it is likely to lead a micro-finance provider away from its focus on poorer clients” (Fisher and Sriram, 2002, p. 19). They conclude that microcredit has become dominated by financial sustainability and in the process “the development impetus which first gave rise to micro-finance is often lost (except in the narrowest sense of outreach to poor people)” (Fisher and Sriram, 2002, p. 20). However, Hulme and Arun say that the battle of the ‘finance school’ and the ‘poverty school’ is now largely resolved with the microfinance sector “adopting a financial systems approach either by operating on commercial lines or systematically reducing reliance on interest rate subsidies and/or aid agency financial support” (Hulme and Arun, 2009, p. 226). Robinson says that microfinance should “seek to meet the demand of low-income people for financial
services, rather than the poor and extremely poor” and this “widely informs present day practice” (Hulme and Arun, 2009, p. 230).

However, fully commercial services may not be sustainable for the most vulnerable poor, particularly in rural and remote areas. Hulme’s view of the Grameen Bank is that while internationally it is still perceived as a micro-lending institute focused on extremely poor women, his personal observation leads him to (Hulme, 2009, p. 169):

“believe that its clientele is less economically deprived than was the case in the 1980s and 1990s. This is partly because clients have done well (perhaps through Grameen membership) and partly because of the product redesign and the drive for expansion and profitability.”

While the microfinance sector in cities and towns and major rural trading areas may be strong in developing countries “the microfinance revolution has not yet created viable models for operating in areas with dispersed populations of extremely poor people where there is limited physical infrastructure and little institutional capacity” (Arun and Hulme, 2009, p. 229). There are different economics in terms of loans between, for example, small service enterprises like restaurants and tailor shops and loans required for livestock raising and agricultural processing. The former may support real interest rates and short loans, while the later require longer-term loans and may not be able to support higher interest rates (Morduch, 2009, p. 18). There “are apprehensions about the capacity of MFIs to provide services and products for the poorest of the poor category” (Arun et al, 2009, p. 13). Some commentators believe that NGOs development programming in developing counties based on ‘soft capital’ will remain “an important force, especially for the poorest of micro-borrowers” (Sundaresan, 2008, p. 5). According to Sundaresan “NGOs remain the mainstay for the poorest of borrowers, where the loan sizes are very small and the interest rates remain high” (Sundaresan, 2008, p. 21). “The estimated costs are the highest for NGOs, which service the poorest of the borrowers, and lowest for credit unions” (Sundaresan, 2008, p. 7). Morduch reports that nearly all microfinance programs remain substantially subsidised, especially where there are social objectives (Morduch, 2009).

9. Women and microcredit

On a global basis, approximately 71 per cent. of the some 155 million global microcredit customers are women (Armendariz and Morduch, 2010). Amongst those classified as the poorest clients some 83 per cent. were women (Armendariz and Morduch, 2010). Sundaresan reports that borrowers from NGO backed MFI arrangements are predominantly women and that they are also typically the poorest of micro-borrowers (Sundaresan, 2008). Armendariz and Morduch comment that some MFIs favour women borrowers as they are generally seen as more reliable in repayment (Armendariz and Morduch, 2010), they are more conservative and take less risks, they are more vulnerable to peer pressure within groups which encourages repayment and are more reliable and punctual for group meetings (Armendariz and Roome, 2008). They also say that more women may use microfinance than men as they have access to fewer alternative sources of credit, have less by way of assets for collateral and may therefore be more prepared to accept small loans, training sessions, regular group meetings and joint liability (Armendariz and Morduch, 2010).
MFIs pursuing social objectives may have a bias to working with women borrowers because of perceived greater development impacts. There are arguments that microfinance empowers women by enhancing feelings of self worth, allowing greater social inclusion, enabling them to develop their agricultural enterprises, providing them with additional skills, building confidence to deal with persons in authority and improving their bargaining power within households (Armendáriz and Morduch, 2010; Kabeer, 2009). However, others comment that taking a loan may increase conflict in households as men feel threatened as primary breadwinners (Armendáriz and Roome, 2008) and that while a loan may be taken out in a woman’s name her husband may control the use of the loan, including the acquisition of assets in his name (Kabeer, 2009). Kabeer refers to evaluations of women’s empowerment in Bangladesh as a result of microfinance, a number of which claim positive results and a number that suggest that it may leave women worse off. However Kabeer also noted that by and large the negative evaluations concentrated on loan use while the positive ones concentrated on outcomes associated with access to loans (Kabeer, 2009). Armendáriz and Roome call for more research as to whether there are unforeseen outcomes and adverse consequences from MFIs focusing on women (Armendáriz and Roome, 2008).

10. Larger loans for rural SMEs

More recently, the next step to microfinance is seen as providing larger loans to cooperatives of small-scale farmers and to small and medium sized agricultural enterprises that will support small-scale farmer communities. Small and medium scale enterprises in poor rural areas in many developing countries are commonly not able to access credit from banks because they cannot provide security or are too early stage. Banks often consider seasonal agriculture as too risky in terms of weather impacts and will often not venture into remoter geographical regions. Bateman believes that the focus on microfinance has been a distraction, and a drain on what he sees as the vital need to financially support the small and medium scale enterprise sector (Bateman, 2013). Banerjee and Duflo comment that “[f]inding ways to finance medium-scale enterprises is the next big challenge for finance in developing countries” (Banerjee and Duflo, 2012, p. 181).
Chapter 4 – Case Studies

Armenia

1. The Oxfam Credit Program in the 1990s

As described in part 3 of chapter 1 the post-Soviet years in Armenia were marked by economic difficulties caused by the adjustment from a centrally controlled communist economy to a market orientated economy, the Nagorno-Karabakh war and the resulting refugee crisis. In 1994 Oxfam, through its Armenian office, established a microcredit and tied loans programme, called the Oxfam Credit Program. An informant commented that Oxfam started the programme because it believed that in appropriate situations facilitating access to credit services for small-scale farmers would promote small-scale farmer livelihoods, empower women and refugee farmers and support economic change to help rural economies.

2. Microcredit

The Oxfam Credit Program was funded by UNHCR. An informant said that it was one of the first microcredit schemes in Armenia, alongside microcredit programmes by Save the Children and World Vision. The objective of the programme was to help fill a gap that had been identified that refugees, in particular, lacked access to capital to start-up or run farms or small rural or urban businesses. Associated with this, small-scale farmers often lacked business skills and know how. It was thought that the programme would also help support vulnerable refugee households to integrate into communities. An informant commented that “at the time the situation was particularly acute for the refugees, women headed households, single pensioners and the disabled”, who were discriminated against when seeking employment and were not empowered to access the business environment, including such limited formal credit opportunities as were available.

By 1998 the Oxfam Credit Program was operating in five regions of Armenia with an Oxfam credit team of two people managing the process through two local NGO implementing partners. These local NGOs were Hask 96, based in the capital Yerevan, and an NGO newly formed in 1998 and supported by Oxfam, Kapan Entrepreneurship Development Center (KEDC), which was based in Kapan in the south of Armenia. The KEDC project in the south concentrated on helping refugees in Kapan and neighbouring villages with land cultivation, animal breeding, poultry farming and small scale trading activities. In 1998 Oxfam’s criteria for beneficiaries’ eligibility to the program were:

- Refugees (from Azerbaijan, Nagorno-Karabach and Shaumian district);
- Refugee women headed households;
- Disabled people/or families with disabled dependents;
- Families with three and more children;
- Single pensioners; or
- Women from the earthquake zone.
In addition Oxfam applied the following poverty indicators for beneficiaries to qualify for the programme:

- An average monthly family income considerably less than the ‘minimum market basket’ of 1,650 USD for an average family of four people;
- Poor ‘quality of life’ identified by a social-economic survey preceding the formation of the loan group and loan disbursement; and
- No permanent shelter available to the family.

Accordingly the refuges targeted were within RW3.

In 1998 Oxfam reported that it had made 120 loans in the Kapan area (both first and second loan cycles), mainly to refugees, with a total of 500 beneficiaries in the affected households. However, Oxfam also reported that demand for microcredit was substantially higher, particularly amongst refugees, than Oxfam could provide at that time. The target was for fifty per cent. of beneficiaries to be women. Loans were up to 500 USD at an interest rate of twenty four per cent. The loans were either for six months or twelve months, with the majority being for twelve months.

3. Group lending

The loans were made as part of group lending arrangements whereby individual loans were not secured by way of collateral, such as assets (as generally the refugees had no assets), but the members of a group were expected to guarantee repayment of each other’s loans. An informant said that “this peer pressure, group responsibility system meant that no physical assets were mortgaged but that under peer pressure principles all group members were responsible for each individual loans within the group and if anyone failed to repay on time the other group members were either to support that member to repay or to collect money (for example from group savings) to cover the debt”’. No new loans were disbursed to a group until outstanding debts were repaid. Alongside microloans the programme provided technical support, training in business skills and advice on legal matters concerning businesses.

In the assessment process the Oxfam credit team registered applicants, interviewed them, made business site visits and appointed leaders for group lending arrangements. Two weeks business training was provided after which applicants produced business plans showing the current status of the business, loan utilization and business projections for the loan recovery period. Business plans were discussed with applicants and loan approval was then required from an Oxfam loan committee. Oxfam statistics showed that the average time to form a credit group of 20 beneficiaries was 1.5 to 2 months and required an assessment of 50 to 60 potential beneficiaries. Repayment rates were reported in 1998 as at more than 90 per cent., and it was noted that they were improving as loan procedures improved.

4. Tied loans

In addition to microcredit Oxfam was operating a program whereby loans would be provided to businesses that would then be committed to employing a certain number of refugees with salaries of about 20 USD per month and to providing vocational
training. No other agency was operating this scheme in Armenia. The loan amounts were 1,500 USD to 2,000 USD per employed IDP with an interest rate of 2 per cent. a month and a repayment period of twelve months. Collateral was also required by way of security. In 1998 six enterprises were funded by tied loans to a total value of 23,500 USD and fifty beneficiaries received vocational training and jobs.

5. ArmAgrobank

In 1998 Oxfam entered into an agreement with ArmAgrobank, a bank with 42 branches in Armenia, to deal with the mechanics of loan disbursement, repayments and also savings. There had been confusion in roles for the Oxfam credit team and the implementing NGOs but by making arrangements through a bank it allowed for a division of responsibilities. The bank was responsible for the provision of loans approved by Oxfam (through the corresponding regional branch), record keeping, repayment and savings collection, accounting for the credit resources used and their movement, notifications to Oxfam of delays in repayment, cooperation with Oxfam in handling delays and problems and providing expertise in collateral evaluation for tied loans and the legislative basis of transactions. Loan agreements were between the bank and beneficiaries. Oxfam and the local NGOs meanwhile worked with the communities, identified and selected borrowers and the formation of groups, carried out business assessments, undertook the training of beneficiaries, gave final approval of loans and carried out monitoring. In effect Oxfam and NGO staff were re-orientated from financial and administrative tasks to more program orientated activities. This allowed for better administration and also introduced the beneficiaries to the experience of and skills needed in dealing with a bank and to dealing with paperwork and not exclusively cash. The Oxfam credit department was still responsible for beneficiaries selection, business site assessment for the tied loans, business training, monitoring of loans and final loan approvals.

6. UNHCR requirements

The funding for the Oxfam Credit Program was provided by UNHCR. In 1998 107,000 USD was allocated, with 71,000 USD for microcredit and 36,000 USD for tied loans. UNHCR expected microcredit to help the refugees improve their incomes and for tied loans to help refugees gain long-term employment. In 1999 UNHCR set out its own criteria for eligibility for loans by beneficiaries:

- The income of a family of four receiving microcredit was to be between 70 USD and 100 USD per month; and
- The beneficiary would have a business with a monthly turnover of 500 USD to 1000 USD, which is viable in terms of sustainability and this would apply to start-up businesses as well as existing businesses.

The target beneficiaries for UNHCR were:

- Women headed households with minors (children up to 18);
- Families in temporary accommodation (communal centres, containers, basements);
- Families caring for unaccompanied minors;
- Displaced people who have acquired Armenian citizenship (naturalised).
UNHCR expected that the Oxfam Credit Program should achieve a minimum ratio of repayment of the total portfolio capital of eighty per cent. within the loan periods, with the balance of twenty per cent. being used to help those who could not pay back for genuine and unforeseen reasons that were beyond individual control. Oxfam had the responsibility to recompense UNHCR for any failure to reach these targets. In respect of the tied loans UNHCR expected repayment of no less than ninety five per cent. of the overall portfolio within the loan periods, with a rigorous selection of businesses and an expectation of long term jobs to be provided.

7. Cases of success and failure

Monitoring of the program was through a socio-economic survey of beneficiaries undertaken before each loan cycle. One monitoring indicator was that incremental income of beneficiaries in terms of assets and consumption would increase. The programme demonstrated both the successes and failures that can be associated with microcredit:

<table>
<thead>
<tr>
<th>Successes</th>
<th>Bee keeping: The family consisted of a married couple with three children who were refugees and part of a group established by Oxfam. Before the first loan was made they had 1.2 acres of land, one cow, ten beehives and an average monthly family income of 50 USD. The loan of 500 USD was used to purchase five extra beehives with bees and some medicines. All repayments were made to schedule and the average monthly profit was about 120 USD to 140 USD out of which 70 USD was paid as loan repayment and interest and the rest of 50 USD to 70 USD was available for family consumption needs. The beneficiary commented to Oxfam at the time that: “The loan allowed me to purchase extra five beehives and increase the volume of honey produced which for I’ve already had a market. The increased business turnover was enough to recover the loan on time and to meet family needs during the period. After the loan repayment I got extra five beehives with bees as an asset with increased monthly profit. I realise that I could never got such a loan from the bank for those needs. If it would be available I’d take another bigger loan for extension of the business.”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egg production: A family of husband and wife, two grandparents and four children had a small-scale farm of one pig, two piglets, 2 cows, 20 hens on 0.2 acres of land. They had average monthly income of 60 USD. A loan of 500 USD was made to purchase 50 extra hens and a stock of forage for hens. In general during the loan repayment period weekly instalments were paid accurately and in time. The average weekly profit during the repayment period was about 140 to 160 USD out of which 70 USD was paid as loan repayment and the rest was spent for family consumption needs. The beneficiary commented to Oxfam: “This loan allowed me to purchase extra 50 hens and to extend the business. Although during last year the prices of eggs fell down (from 50 drams per egg to 40) my business was not only eggs production and sale. I was selling also milk, meat and chicken and was able to repay the loan in time.”</td>
<td></td>
</tr>
</tbody>
</table>
Once I had difficulties during the wintertime (the volume of eggs produced was essentially lower than planned) but I used better forage and some medicines to treat the animals. During the whole period my monthly profit from the business was enough to make small regular instalments of loan repayment and to address my family needs. By the end I got not only increased monthly profit but also about 40 extra good hens. I was quite happy about that loan and would take another one if possible. I could hardly get money elsewhere except private money lenders.”

Failures

Pig breeding: The disasters reported included a microloan to a family operating a pig breeding business. They formed part of a group lending arrangement and it was a family of two adults and two children. Before the loan was taken the household had one pig, eight piglets, one cow, 2.5 acres of land seeded by wheat and the average monthly family income was about 50 USD. A loan of 500 USD was used to purchase eleven piglets and a stock of forage. However flooding destroyed one acre of wheat and the rest was badly damaged. 15 piglets and one pig were killed and the pigsty was destroyed. The loan could not be repaid. The beneficiary commented to Oxfam at the time: “This loan allowed me to purchase extra piglets and a stock of forage. I have about 6 to 7 year experience in pigs breeding. But that overflow completely destroyed the farm and now I could not repay the loan in time. On the other hand the prices on pig meat felt down and the remaining piglets were sold at a quite low price. This was done to get some cash for purchase of seeds of what to seed in spring season. Now I am expecting a good harvests of wheat which I hope will allow repay the loan.”

Egg production: A refugee family of a husband and wife, two children and an elderly relative were producing eggs. Their assets were two cows and ten hens. They had an average monthly income of 60 USD. They received a loan of 500 USD to purchase seventy hens and a stock of forage for them. In the beginning of the loan repayment the husband got a stomach abscess and the family had to spend 1000 USD on treatment in hospital. As a result repayments were delayed and at the end of the loan repayment period 210 USD was still to be paid. The beneficiary commented to Oxfam: “that the loan was a good opportunity for investment into the business and that was done. But the problems with my husband’s health and big expenses in that connection caused big difficulties for our families. I was not able to follow the repayment schedule since the whole cash coming from the business as well as 400 USD borrowed from the relatives was spent on the treatment. Presently I am able to continue loan repayment and I understand that the repayment period is already over. I plan to complete the loan repayment within these coming months.”
There were also difficulties with some of the tied loans, which were exacerbated by weaknesses in the legal framework and judicial mechanisms in Armenia at that time. While some tied loans were successful in creating jobs for refugees, in a few cases either the enterprises concerned disappeared or the expected jobs were not established. Where businesses struggled to repay Oxfam assisted with business development issues and extended loan repayment periods and schedules. This also enabled the beneficiaries employed by the enterprises the chance to continue employment. Documents from that time state that a social orientated approach was applied in dealing with defaults as the mandate was to target and support vulnerable and marginalised groups in improving the quality of their lives.

8. Credit as just one factor in poverty alleviation

The microcredit and tied loans programme formed part of a wider sustainable livelihoods initiative by Oxfam in Armenia. From 1994 Oxfam was an implementation partner of UNHCR in Armenia, carrying out repairs to refugees new homes, repairs to village water systems and undertaking community based primary and reproductive health care and revolving drug fund initiatives in rural areas. An informant commented that: “it was evident that access to credit services was just one part of the equation and that to help refugees and the rural poor a wide range of support was required, starting with humanitarian assistance after the war and progressing over time into development assistance”. UNHCR supported credit services programming as part of the transition in Armenia from humanitarian assistance to development assistance, after which UNHCRs role was expected to scale down. Indeed, UNHCR stopped it’s funding of the Oxfam Credit Program in 2000, as UNHCR downsized its activities in Armenia.

9. The rapid development of microcredit services in the 2000s

Surveys in 1999 and 2000 showed that all Oxfam International member organisations around the world were involved in microfinance in some way and were planning to increase their contribution to microfinance. In 2001 Oxfam GBs livelihoods programme contemplated reorienting its microfinance programmes in the Middle East and Commonwealth of Independent States region from initiatives directly operated by Oxfam to establishing local entities that could takeover the microcredit activities. Accordingly in October 2002 the Oxfam Credit Program in Armenia became a not for profit MFI called the Horizon Fund. This marked a first step towards commercial sustainability. An informant said that “a for profit MFI was considered at that time by Oxfam but it decided to establish the Horizon Fund as a not for profit MFI”. The board of trustees of Horizon Fund included representatives of Oxfam, Hask 96 and KEDC as well as external finance experts. The arrangement was that Oxfam would be represented on the board of trustees for five years. A chief executive officer and a small staff ran the new MFI. In 2002 the fund was 300,000 USD and it had 300 to 400 clients. During the period from November 2002 to December 2006, Horizon Fund made more than 11,500 loans to about 4,500 clients totaling 4,639,565,000 AMD (approximately 12,800,000 USD). Interest rates were on a flat rate basis whereby interest was paid on the whole amount of the loan until all of it was repaid, rather than interest being paid on a reducing balance as monies were repaid. Interest rates were up to 45 per cent., reflecting the risks and costs of lending in rural regions.
10. Nor Horizon

At the end of 2005, the National Assembly of Armenia adopted a law to supervise financial institutions and required all institutions to change legal status to comply with the law. As a result, in 2006 Horizon Fund registered and became the owner of the Nor Horizon Universal Credit Organisation Limited Liability Company (‘Nor Horizon’), which obtained a licence from the Central Bank of Armenia in March 2006. Nor Horizon registered four branches and two representations in the regions where formerly the Oxfam Credit Programme and then Horizon Fund operated. The Horizon Fund stopped direct lending at the end of 2006. While in the Horizon Fund Oxfam was to be represented on the board for five years, with the establishment of Nor Horizon Oxfam was to continue with board representation for an additional three years. While Nor Horizon is currently still owned by Horizon Fund, in 2013 15 per cent. of the fund became owned by employees of Nor Horizon.

Currently Nor Horizon covers a territory with a population of over 1.8 million people. In 2011 Nor Horizon had a gross loan portfolio of five million USD and 3,284 active borrowers. Its average loan balance per borrower was 1,530 USD and it had assets of 7.7 million USD. However the microfinance market in Armenia is considerably larger with some 22 commercial banks and 32 credit organisations involved. Since the economic crisis of 2008 banks have entered the same markets as Nor Horizon in search of new business. An informant said that this has increased competition ten times since the early 2000s. This has in fact improved terms for borrowers with longer-term loans being made available and interest rates being reduced. However competition and the easier availability of credit has lead to a tendency for borrowers to take multiple loans. It is estimated that 30 per cent. of Nor Horizon’s borrowers have parallel loans with banks or other MFIs.

Unlike the Horizon Fund, Nor Horizon is a for profit organization. An informant said that Oxfam is in favour of for profit MFIs as it encourages sustainability and increases the scale of financial services provision, although there is still a space for subsidies for tailored programming for the most vulnerable poor. Although Nor Horizon is a for profit organization it’s mission statement remains to promote poverty alleviation.
in Armenia and to promote the availability of financial services in remote and border areas. Its objectives are:

- To enable marginalized and poor people to achieve sustainable livelihoods;
- To increase the ability of poor people to engage in productive activities and generate secure livelihoods through access to local and regional markets;
- To involve poor people in business activities and to create sustainable income sources, to ensure community development and to facilitate refugees’ integration with the local population through creation of equal opportunities for access to markets; and
- To promote close cooperation with all individuals, groups, associations and organizations willing to support the accomplishment of these objectives.

The major funds that support Nor Horizon with capital typically have a social focus and associated criteria for lending to beneficiaries:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Kiva</strong></td>
<td>Kiva is funding loans for education and for consumer lending. For these loans customers must be seen to have stability of income.</td>
</tr>
<tr>
<td><strong>Habitat for Humanity</strong></td>
<td>Habitat for Humanity is funding the launch of “Repair and Renovation of Homes in Spitak” initiative (see figure 2). The project provides affordable home improvement loans to residents of Spitak who were affected by a devastating earthquake in 1988.</td>
</tr>
<tr>
<td><strong>Millennium Challenge</strong></td>
<td>Millennium Challenge is funding agricultural enterprises. The average loan is larger than microfinance at 10,000 USD, and loans can be made of up to 150,000 USD. For these loans customers must have a good credit history and the skills to manage enterprises. The Millennium Challenge conditions to the loans mean that loans are most likely to be made for agricultural machinery, water irrigation systems and greenhouses. For agricultural machinery, such as tractors, they must not be more than 3 years old and must be of a certain quality. While expensive European tractors that typically cost 70,000 USD are too expensive, tractors from Belarus, which cost some 20,000 USD, are often purchased. This is also because of incentives from government encouraging trade with Belarus that allows for subsidised vehicles and simplified customs clearance. The Armenian Government also subsidises the interest rate, which reduces it to 6 per cent. Nor Horizon can make loans totaling 400,000 USD in aggregate under the Millennium Challenge funding. The current typical commercial rate on microcredit is 24 per cent. a year but the Millennium Challenge rates allow for 15 per cent. Microfinance loans are typically 3 year term.</td>
</tr>
</tbody>
</table>
but Millennium Challenge monies can be used for and can be made for 7 years. As farmers average land size is 1.5 hectares it does not support the cost of financing a tractor but purchasers usually use them for their own land and then rent out the services of the tractor to other farmers. Cooperatives are also expected to purchase tractors for use by their members and this arrangement is expected to begin with Oxfam supported cooperatives in 2013.

11. Individual lending

From formation Nor Horizon did not undertake group lending, but concentrated on individual lending. An informant commented that this reflected:

• A culture of individualism in Armenia that makes group lending less attractive to borrowers;
• The fact that group lending had become purely a means of guaranteeing repayment, with other group activities, such as training, in decline; and
• Nor Horizon could not encourage groups by way of savings products or providing training due to government regulations.

However, co-operatives of small-scale farmers are emerging, particularly through the work of Oxfam, and this offers new possibilities around group lending in the future.

12. The need for microcredit services

An informant commented that “approximately 90 per cent. of the loans made by Nor Horizon are within agriculture and arise from the seasonal nature of agriculture”. The money tends to be spent, for example, on improved fertilisers over those otherwise available and to fund the cultivation of a little more land than would otherwise be cultivated. The average plot size is 1.5 hectares and within that on average 500 square meters is cultivated. Typically microcredit loans finance the cultivation of an additional 200 square meters, which increases the harvest and increases incomes.

However people in poverty also need savings and other products as well as microcredit. An informant said that “safe and accessible savings facilities for the poorest are as important and possibly more important in poverty reduction than microfinance”. Under financial legislation Nor Horizon may not take deposits or issue insurance. This places it at some disadvantage compared with banks that can offer deposit taking and microfinance and insurance. An informant commented that “it may encourage people to over extend by encouraging multiple loans with different organisations”.

13. The impact of microcredit services

An informant commenting on the success or otherwise of microcredit in helping people in poverty said that “the number of clients who returned for new loans year in year out is a demonstration of the need for microcredit and its success in helping
people living in poverty”. The informant also said that “some clients of Nor Horizon have had 15 cycles of loans and many clients who have been with Nor Horizon for up to ten years were below poverty line at the beginning and have become wealthier”. An informant said that traditionally in the mountainous areas poor small-scale farmers have only bred animals. With the advent of initiatives by NGOs and the availability of finance such as microcredit they have been able to diversify into crop production in greenhouses to generate larger and more diverse incomes.

14. Cases of success and failure

Repayment rates of Nor Horizon loans are 99.9 per cent., although there are occasions when terms of loans need to be rescheduled. This is usually because of the difficulties that arise from agricultural seasonal production. An informant said that Nor Horizon “works with small-scale farmers who are in difficulties and it reschedules their terms”.

15. Does microcredit help poorer people?

An informant commented that: “the mainstreaming of microcredit into for profit organisations and serving more clients had resulted in a number of MFI losing some focus on their social targets”. However, the informant thought that this had begun to change in the last two or three years in Armenia, with a renewed focus on social performance and social impact. An informant commented that while Nor Horizon focuses “on the poor and vulnerable it tends to be the poor and vulnerable around the poverty line rather than the ultra poor”. 40 per cent. of clients are not below the poverty line but they are close to poverty. Many clients have been with Nor Horizon for ten years so they were below poverty line but have become wealthier. Nor Horizon has to seek collateral from borrowers, as otherwise government regulation requires that Nor Horizon provides for loans in their entirety, which is financially unsustainable. Typically the poorest will not have land or assets that can form collateral and may not have suitable guarantors of their loans. An informant also commented that “many of the ultra poor have debts arising since independence from the USSR in the last twenty years and if they do get access to new credit they use it to tide over their crisis in other loans”.

Figure 10: Two co-operative members in the co-operative greenhouse at Aknaghbyur community

However, the structure of Nor Horizon, with Horizon Fund as its parent organization, allows for non-interest bearing loans to be made through Horizon Fund to the very
poor. Each loan is for 100 USD that an informant described as a ‘nano-finance’ because it is smaller than normal microloans in Armenia. Horizon Fund has some 475 small-scale farmers with these loans and five loan officers to administer the loans. An informant said that if this type of loan were made on a commercial basis the interest rate would probably be in the region of 75 per cent. to reflect the cost involved with very small loans and the risk of non-repayment. The loans are typically made to members of cooperatives that Oxfam is supporting and establishing through its programme in Armenia. For example, a cooperative in Aknaghbyur community was established and is supported by Oxfam. The purpose of the cooperative is to introduce:

- Horticulture in greenhouses to allow higher value crops to be grown during longer growing seasons;
- The greenhouses also aid climate change adaption as parts of Armenia are suffering destructive hail storms that ruin crops, but greenhouses crops are unaffected; and
- A cold storage room has been constructed for produce from the greenhouses and from the individual land of cooperative members so that produce can be stored and then sold into the market when prices are higher.

All the cooperative members have taken interest free loans from the Horizon Fund to allow them to buy seeds and hire equipment. An informant said that Horizon Fund “would prefer to charge a small amount of interest on the loans in order to help train small-scale farmers in the way of microcredit”, so that when they gravitate to larger loans they have some experience of commercial activity.
16. Larger loans for cooperatives and other SMEs

An informant said that while encouraging the development of first business activity in developing countries it might not be the best or only way to reduce poverty and drive economic growth in the long run. With this in mind Oxfam has established the Enterprise Development Programme (EDP) that operates around the world, including in Armenia. EDP aims to help promising businesses to reach SME size, so they can more easily ensure market access for small-scale farmers while also achieving economies of scale. It helps farmer co-operatives to improve processes, increase production and diversify into new product areas. The programme provides grants and loans to SMEs, particularly to enterprises that involve women. An informant said that funding SMEs in rural areas is the “missing middle” in terms of finance.

In Armenia the programme is financing the Lchkadzor consumer cooperative, based in Ayrum city, Tavush region, near the Georgian border (see figure 8). In the Soviet era Ayrum City was home to a very large fruit preserve and canning factory, which suspended production during the war and closed after Armenia gained independence. It is part of the former Soviet era industrial architecture that has closed down but is still seen throughout Armenia. Near the old Soviet factory there is a forest that contains seasonal crops of fruit that local people collect and preserve. Following the collapse of the old cannery local people have continued to collect the fruit on a seasonal basis and women have sold it at the kerb side or in local villages. The cooperative was established, after the canning factory closed, by small-scale farmers and ex-factory workers to collect and trade the forest harvests.

Figure 13: The derelict Soviet canning factory at Ayrum City
The grants and loan from the EDP programme are to be used to build a small-scale processing and packaging plant that will process both orchard fruits and wild berries from the forests. The products will be consumer ready jams to be sold locally and into Georgia and also semi-processed product to be sold to local confectionary factories. An informant commented that “it is expected that in addition to creating jobs in the factory, the enterprise aims to support 1,000 local farmers and fruit pickers, eighty per cent. of whom will be women”. Women fruit pickers were observed commenting to Oxfam staff that being able to sell their produce to the factory will save them several hours a day selling their orchard fruits and forest harvest by the road side.
Loans from EDP are not made directly by Oxfam, but Oxfam seeks a local banking partner to provide the loans. Oxfam supports the loans, as needed, in order to secure that the loans are made. In Armenia the local banking partner for the processing factory loan is Nor Horizon.

Figure 16: Members of the Lchkadzor cooperative outside the new factory in Ayrum City, 10 July 2013
Georgia

As described in part 5 of chapter 1 after independence from the USSR Georgia suffered a number of years of civil unrest with separatists in the regions of South Ossetia (see figure 1) and Abkhazia (see figure 1), who were supported by Russia. These disputes resulted in some 230,000 Georgians being displaced from Abkhazia and some 23,000 from South Ossetia. Oxfam started an emergency response programme in Georgia in 1993 for IDPs, concentrating on the Samagrelo region (see figure 17) south east of the Abkhazia region.

Figure 17: Location of Samagrelo region (in red)

1. Oxfam credit programme

While the Oxfam emergency response programme started in 1993, the Oxfam credit programme did not start until late 2000. The programme was devised as a reaction to the perceived needs of vulnerable IDPs in the Samegrelo region, centred on the town of Zugdidi. This was at a time when Oxfam was transitioning its programme work from emergency response for IDPs from Abkhazia to a development programme. Current senior MFI staff include staff that worked with Oxfam from 1993 on the shelter, health and other emergency response programmes.

Figure 18: Zugdidi (Google maps)
2. Microcredit

The first credit fund was 300,000 GBP and was provided by Oxfam Novib, the Dutch Oxfam organisation. An informant commented that “when the programme started to be planned in 1999 the banking system in Georgia was not working but credit was needed to help with seasonal agriculture”. Another informant said that “at this time nothing was working in the region due to the after effects of separation and the conflicts”. There were initially some cultural issues as traditionally Georgian people did not seek loans and there were concerns about the risks associated with loans. Nevertheless, the demand for the loans in the early 2000s was too great for the Oxfam programme and the few MFIs that were then also emerging. The criteria for the programme required that a certain percentage of the loans were made to women, IDPs and start up businesses for poor people. In the early days of the programme there was support for group savings as well as credit but this did not continue. An informant commented that the repayment rate was always high at approximately 98 per cent., but that overall the loans were not made to very poor people but to economically active people. By 2003 two cycles of the programme had been funded.

3. Group lending

In September 2003 the programme was separated from Oxfam and was registered as a Small Business Development Foundation and all the assets of the project were transferred into the ownership of the Foundation. Oxfam was the founder of the Foundation and controlled it. Loans were made through group lending arrangements, with a minimum of 5 persons and a maximum of 7 persons in each group. The minimum loan was 300 Lari and the maximum was 700 Lari\(^4\). The interest rate was 18 per cent. on a declining balance. An informant commented that “in the average group some borrowers would be poor and some a little less poor”. A group leader collected repayments. The group loans continued to be very popular with demand outstripping the fund available. Oxfam closed its office in Zugdidi in the early 2000s (although it still has an office in Tbilisi), save for the credit programme staff that remained operational in Zugdidi.

4. Lazika Capital

In 2007 a new law meant that the Foundation could not legally continue in its form as a foundation and a new commercial entity was established. The new entity was called JSC Lazika Capital and was a joint stock company. Lazika Capital is a non-banking MFI registered at the Tax Department and National Bank of Georgia in compliance with the relevant articles of the Law of Microfinance Organization and Entrepreneurial Code of Georgia. All the assets of the Foundation were transferred to Lazika Capital.

As well as conversion being a requirement of microfinance law, an informant said that “the conversion allowed Lazika Capital to source funds from banks and other institutions”. The shareholders of Lazika Capital were its staff. At the time of conversion it was decided that Oxfam would be represented on the board of Lazika Capital for five years. Oxfam also had one ‘golden share’ that allowed it to monitor

\(^4\) 1 Lari in September 2013 is approximately equivalent to 0.6 USD
the social activities of Lazika Capital and to veto any changes in social purpose. There was also a shareholders agreement between the shareholders of Lazika Capital, which gave Oxfam certain rights in order to maintain the social purpose. The shareholder agreement prevented any shareholder dividends for five years and restricted salary increases of staff. In this way Oxfam was able to monitor the social effect of the company activities in this period. Unlike in Armenia, the structure did not provide for an equivalent of the Horizon Fund that exists purely for social purposes.

Lazika Capital is still based in Zugdidi, which is the northern town that was the centre of Oxfam’s early emergency response work and then credit provision. In 2005 Oxfam started work in Ajar region as an emergency response after floods. This work focused on water and health assistance, but Oxfam also introduced Lazika Capital to the region and Lazika Capital now has an office in the region. Lazika Capital currently has fifteen branches in the regions of Mingrelia, Lep Sagneta, Imeretia, Ajara and Guria. Lazika Capital plans to expand during the next five years mainly in Samegrelo region, Ajara and Kutaisi District (Imeretia). It aims to become the leader of the MFI market in West Georgia. In July 2013 Lazika Capital was serving some 7,800 clients and had approximately 8,750 loans in place and had a gross portfolio of some 1,923,000 Lari.

Oxfam surrendered its ‘golden share’ in 2013 and stepped down from the board. While Oxfam now has no formal connection with Lazika Capital it at times works closely with it. However, Oxfam does not just work with Lazika Capital because Lazika Capital is only operational in certain regions. For example, Oxfam is working to establish agricultural cooperatives in various areas of Georgia and some may use Lazika Capital and others may use other MFIs for their finance.

5. The need for microcredit services

An informant said “that there was a strong demand for microcredit amongst small-scale farmers”. Lazika Capital has a variety of loan products aimed at different types of customer: agriculture, trade, services and production. Large and small loans are made. Small loans are ranked in size as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>500 to 1,500 Lari</td>
</tr>
<tr>
<td>B2</td>
<td>1,500 to 2,500 Lari</td>
</tr>
<tr>
<td>B3</td>
<td>2,500 to 3,500 Lari</td>
</tr>
</tbody>
</table>

Annual interest rates can vary between 18 per cent. and 36 per cent. on a decreasing balance. Larger loans usually have a lower interest rate. Banks may be cheaper in terms of interest rate but typically won’t make the sort of loans that Lazika Capital is able to provide. For loans up to 10,000 Lari no formal collateral is required. Loan officers simply complete a form with the customer that lists their assets. For loans greater than 10,000 Lari formalised legal collateral is required, for example over land, household equipment or cars. Lazika Capital provides two types of start-up loans. The first for a pure start-up and the second for borrowers with a few assets but whose small business has had difficulties and may have collapsed and needs to restart. For small-scale farmers they adjust repayment schedules for seasonality of spending and income from agricultural businesses. For example loans are made in March to
purchase seeds and equipment and the main repayments are in autumn during harvest. There can be a grace period of 6 months for agriculture before repayments are due to be made. In July 2013 5,108 of Lazika Capital’s borrowers were in rural and 3,635 were in urban areas.

6. The impact of microcredit services

Oxfam left the board of Lazika Capital in 2013 and also surrendered its ‘golden share’. However informants said that Lazika Capital’s focus would remain on rural areas and its social purpose would continue to be very important in its activities. An informant commented that “Oxfam has no doubts about the continuing social commitment of Lazika Capital”. The mission of Lazika Capital is now to deliver financial services to low-income people to help overcome unemployment and poverty. Its loans are for start-up capital and working capital for marginalised entrepreneurs to help bridge their micro-businesses as they seek to become SMEs. While maintaining a strong pro-social lending philosophy, Lazika Capital also aims to generate optimal financial return on its invested capital.

A number of Lazika Capital’s capital providers are purely financially focused while others have a social focus. Those with a social focus include Oxfam Novib, Millennium Challenge and US Aid. Novib loans must be made in the rural areas with seventy five per cent. in agriculture. Of these, sixty five per cent. must be distributed to women, over eighty per cent. into villages rather than towns, between 5 and 7 per cent. is for start-ups and 5 to 10 per cent. for IDPs. Approximately fifty per cent. of all Lazika Capital’s loans are made to women. An informant commented that “regularly the largest percentage of loans used to be made to women because they have been more progressive, but that men had been spurred into action having seen the success of women”. Another informant said in the context of the collapse of Soviet system and the jobs it provided and the displacement of IDPs that “many men were not able to cope and effectively gave up, but that it was the women who have worked to allow their families to survive”.

7. Cases of success and disaster

An informant passionately described a number of successes going back to the earliest days of the Oxfam credit programme. The informant recalled a “very poorly dressed lady approaching the Foundation for a loan of 300 Lari to buy cheese and cucumber to resell it”. She was working with her daughter and cousin. They were IDPs. They were part of a group and the group took fourteen group loans in succession. They then moved on to individual loans. As their business built they were able to buy land in the village they had settled in and they expanded into nuts, pigs, cows and fruit production. They remain clients and have built a successful business and whenever they visit Lazika Capital they are now very well dressed.

There are loans that are less successful but Lazika Capital works with clients to reschedule loans and to help them meet their obligations. If clients simply do not want to repay then Lazika Capital will resort to legal means to demand repayment. There have been a few cooperatives that have not been successful, for example a cooperative that grew and sold kiwis. The cooperative members worked together while receiving grants as well as microcredit but after the grants ceased they fell back
to working individually, which gave them less income but they considered that this was easier for them.

8. Does microcredit help poorer people?

The original Oxfam credit programme, the Foundation and Lazika Capital have always maintained a focus on rural areas. An informant commented that “while some other MFIs in Georgia may be nationally spread, they still concentrate mostly on big cities and towns”. Lazika Capital is different as it works in remote villages and this is a distinguishing niche of Lazika Capital. Lazika Capital maintains an impressively comprehensive register of all the villages in the regions, including details of Lazika Capital’s work there. Lazika Capital goes out to the villages to explain the credit services that are available. It takes small gifts to the poorer people in villages, such as small household kitchen appliances. As noted above Lazika Capital’s small loans start at five hundred Lari. Terms vary according to the purpose of the loans.

As part of its social focus Lazika Capital produces information services for farmers. An informant commented that “farmers maintain traditional farming methods but with climate change new methods have to be developed”. Lazika Capital employs an agriculture expert who produces free books and leaflets to help farmers on technical issues and general agricultural training (see figure 19). Lazika Capital prides itself on being close to its customers and its business motto is ‘Friend in Business’.

Figure 19: Two examples of leaflets produced by Lazika Capital for farmers providing information on how to farm particular crops successfully
9. Larger loans for cooperatives and other SMEs

Lazika Capital makes larger loans to cooperatives, and cooperatives represent some ten per cent. of their borrowers. Legal requirements mean that they assess the financial and legal history of the cooperative. In terms of collateral, guarantees are required from the members or cooperative assets, such as machinery, are mortgaged. Pure agricultural cooperatives, whereby land is worked cooperatively, do not exist as this is akin to the Soviet system and people do not want to return to that. However, cooperatives do operate to process the produce grown by individuals and to allow access to markets in an efficient collective manner to enhance market-pricing power. Products range from nuts, wood carved implements, to wineries and greenhouses. The loans are typically ten thousand to fifty thousand Lari. The loans may be for three or four year terms.
Chapter 5 – Concluding remarks

Armenia and Georgia have large populations of poor small-scale farmers. Refugees and IDPs who were displaced in the early 1990s and also in 2008 in Georgia have swelled their numbers. Many refugees and IDPs have the added challenge of being from urban rather than rural backgrounds. Small-scale farmers, refugees and IDPs may have few or no assets and often their only prospects are to start micro rural enterprises, for example on the basis of land cultivation or wild food collection. This may not be possible without microcredit to finance the inputs needed to start a microenterprise.

In the early 1990s microcredit for poor small-scale farmers was not available from banks or any other form of commercial organisation in Armenia or Georgia. However, reacting to the social crisis following the break down of the Soviet system and military conflicts, NGOs such as Oxfam, Save the Children and World Vision, sometimes with the support of agencies like UNDP, established small microcredit programmes. From these beginnings as part of humanitarian relief efforts both Armenia and Georgia have developed large microcredit industries in which banks as well as MFIs operate on a largely commercial, profit driven, basis. NGOs such as Oxfam have at the same time withdrawn from direct provision of microcredit on the basis that commercially sustainable microcredit services by MFIs are expected to be capable of achieving greater scale and geographical coverage. While in Armenia and Georgia microcredit was established on the basis of group lending schemes, as was the norm in the early 1990s, microcredit programmes in Armenia and Georgia are now generally based on individual lending. This appears to reflect the preferred approach of borrowers and lenders.

As a result of the expansion of microcredit services into a commercial industry, microcredit is now readily available for many small-scale farmers across Armenia if they can provide security in the form of assets or guarantors. Landless small-scale farmers or farmers otherwise without assets or guarantors, may still struggle to access microcredit. Nor Horizon has maintained a social focus after emerging from the Oxfam microcredit programme and the structure of the Horizon Fund allows it to make small interest free loans to very poor small-scale farmers. For those that can access microcredit it appears that competition within the industry in Armenia, particularly since the 2008 banking crisis, has improved the terms available to borrowers. In Georgia Lazika Capital, the successor to Oxfam’s work on microcredit, maintains a focus on remoter rural areas and in supporting a wide range of borrowing needs. Their microcredit products are tailored to the needs of small-scale farmers, who are often in the remoter regions.

It is evident that small-scale farmers who have used microcredit have been both successful and unsuccessful in enterprise. Credit carries risk, particularly when circumstances change and when the vagaries of cultivation and weather intervene. However, there are success stories in terms of microcredit alleviating the day-to-day hardships of small-scale farmers and allowing the establishment and maintenance of rural microenterprises. There are also examples of individuals significantly improving their financial and social position where microcredit has allowed them to build larger enterprises. For an NGO such as Oxfam access to microcredit is just one element of a more complex story of what causes poverty and what is needed to
alleviate it. There is not one solution, but in most circumstances it is a blend of access to services such as education and health, as well as having access to microcredit and other microfinance services. In both Armenia and Georgia a focus on microcredit services for women small-scale farmers was an important element of Oxfam’s work and Nor Horizon and Lazika Capital have maintained this focus. It appears that this emphasis has also reflected that women have been more enterprising and progressive in developing new businesses following the loss of jobs on the closure of Soviet industry and after the conflicts created many refugees and IDPs.

Oxfam is now turning its attention to finance for SMEs. Oxfam’s EDP programme, which is now operating in Armenia, seeks to take banks to rural areas they would not otherwise go to and to support rural businesses they would not usually lend to. It will improve the position of small-scale farmers if this results in banks and other lending institutions increasing lending in remoter rural areas and to rural co-operatives and SMEs without NGO intervention, as was the case with microcredit following NGO microcredit development programming in the 1990s and early 2000s in Armenia and Georgia.
References


### Appendices

#### Appendix 1

### List of informants

<table>
<thead>
<tr>
<th>Informant</th>
</tr>
</thead>
<tbody>
<tr>
<td>A representative of Oxfam, based in Oxford</td>
</tr>
<tr>
<td>A senior representative of Oxfam in Armenia</td>
</tr>
<tr>
<td>A representative of Oxfam in Armenia</td>
</tr>
<tr>
<td>A representative of Oxfam in Armenia</td>
</tr>
<tr>
<td>A senior representative of Nor Horizon and Horizon Fund</td>
</tr>
<tr>
<td>A representative of Nor Horizon and Horizon Fund</td>
</tr>
<tr>
<td>An Oxfam representative working in microcredit</td>
</tr>
<tr>
<td>A representative of Oxfam for Armenia and Georgia region</td>
</tr>
<tr>
<td>A senior representative of Oxfam in Georgia</td>
</tr>
<tr>
<td>A representative of Oxfam in Georgia</td>
</tr>
<tr>
<td>A representative of Oxfam in Georgia</td>
</tr>
<tr>
<td>A senior representative of Lazika Capital</td>
</tr>
</tbody>
</table>
Appendix 2

Questions

Original programme

When did the original programme start?
What did it consist of?
What were Oxfam's aims and objectives?
Who was targeted? Rural, semi-urban? Women? Smallholder farmers?
What was the general impact of independence from the USSR?
Does your organisation still work with Oxfam?

Current lending

Who are the current customers? Has this changed over time? Where do you work? Rural and urban?
How many regions do you cover? Where and why?
Where is the demand for microcredit?
What is the microcredit used for?
Who is providing this credit? Competition?
Is it reaching some poor people and not others (e.g. because of assets, geography etc.?)
What percentage of the portfolio is smallholder farmer lending?
What percentage of the portfolio is lending to women?
Why focus on women?
Does the MFI have outlets in rural areas?
How does it rank against competitors in terms of focus?
Is it group lending or another model?
Are there requirements for collateral, guarantees etc.?
What are the lengths of loans?
What is the maximum loan size?
What is the repayment record? What is the default rate?
Do loan sizes increase depending on repayment record?
What sorts of conditions are applied to the use of loans?
What are the repayment terms?
What are the ranges of interest rates and what determines the actual rate?
Is there training involved?
Is technology having any impact e.g. mobile phone banking?

Regulation

Has regulation had a good or bad impact on what can be provided to poor people or smallholder farmers?
Is there any positive governmental intervention to encourage lending e.g. to smallholder farmers?

Other questions
How are you different from other MFIs?
Has micro lending had an impact on poverty reduction?
What are the barriers? Have the barriers changed over time?
Does the MFI retain a social focus? Has commercialisation changed the focus?
Is the MFI commercially sustainable or does it rely still on grants?
Are grants still needed where the focus is on the most vulnerable poor?
Are there special programmes to reach the most vulnerable poor?
What other sources of credit do people use? Informal?
Are the poorest reached or only those around the poverty line?
What are the key issues for the future?

**SME lending**

Are loans made to SMEs/Co-Operatives/farmer groups?
Type of groups? Informal, formal, number of members, gender?
What size of loans?
What are loans used for?
What security is required?
What are key terms?
What are the constraints? Barriers?
Impact on household income?

**Oxfam**

Do you know what Oxfam's original expectations of the MFI were?
What are the expectations now? Still see a social focus?
What are Oxfam's expectations of microfinance for poor small-scale farmers?
Is microfinance still seen as part of the solution to poverty?
Are savings facilities more important?
Are there issues with the scale of the MFI? And reach?
Who is Oxfam focusing on for help? Who is most in need?
How relevant is microfinance now relative to the past?
Why focus now on farmers groups and cooperatives?
What is your current involvement with the MFIs?
How important is microfinance?
Does it alleviate poverty?
What do people need microfinance for?
Do women in particular need microfinance?
Do you have observations on how easy it is for small-scale farmers to access microcredit?
Appendix 3
Ethics Form

Faculty Of Technology, Design & Environment, Oxford Brookes University
ARCHITECTURE / PLANNING / REAL ESTATE & CONSTRUCTION

RESEARCH ETHICS FORM E1:BE FOR STUDENTS ON TAUGHT COURSES
Please read the Guidance Notes at www.brookes.ac.uk/research/ethics/forms

Section A - You & your project
What is your name?
First name
Middle name
Surname

What is your student number?
12345678

What is your email address?
12345678@brookes.ac.uk

What is your supervisor's name?
First name
Middle name
Surname

What is your supervisor's email address?
12345678@brookes.ac.uk

In which Department are you studying?
[ ] Architecture
[ ] Planning
[ ] REC

What course are you taking?
[ ] MA - [Course Title]

[ ] MPhil - [Course Title]

What is the topic area of your research?

An Excerpt

On what kinds of topics will you be collecting data from the participants in the research?

An Excerpt

Section C - Your data collection
When is your data collection likely to start?
[ ] 1
[ ] 2
[ ] 3

[ ] 4
[ ] 5

What will be your method of data collection?
[ ] In-depth interviews
[ ] Telephone
[ ] Face-to-face surveys
[ ] Email
[ ] Direct observation
[ ] Post
[ ] Other, please specify

What kind of data will you be collecting?
[ ] Quantitative/statistical/numerical
[ ] Qualitative/verbal/text
[ ] Images/drawings

Will it be possible to avoid asking for personal data from the participants?
[ ] Yes
[ ] No

Will it be possible to ensure the participants are not being deceived in any way?
[ ] Yes
[ ] No

Will it be possible to ensure the participants remain completely anonymous?
[ ] Yes
[ ] No

Will it be possible to ensure the participants do not suffer any negative consequences?
[ ] Yes
[ ] No

Section D - Declaration
I declare that I will
- give all participants an information sheet, certifying to university guidelines
- not contact any participant until my supervisor has approved my information sheet, research questions, and methodology
- be sufficiently well-trained in necessary methods of data collection and analysis

Student signature

Date

Supervisor signature

Date

Module Leader signature

Date

You may only start fieldwork when this form has been signed by your supervisor & your Module Leader.