

M. Metin ARTUKOĞLU¹

¹ Doç. Dr., Ege Üniversitesi Ziraat Fakültesi
Tarım Ekonomisi Bölümü,
35100 Bornova, İzmir
metin.artukoglu@ege.edu.tr

Micro Credit Applications for Decreasing of Poverty in the World and Turkey

Dünya’da ve Türkiye’de yoksulluğun azaltılmasında mikro kredi uygulamaları

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ABSTRACT

Micro credit is an extension of small loans to entrepreneurs too poor to qualify for traditional bank loans. The aim of this study is to some evaluations will be done about micro credit applications both in the world and Turkey. The analysis of the effects of micro financing on its beneficiaries, after more than 20 years of application, offers encouraging lines of results. It is an efficient instrument in the fight against extreme poverty, enabling the poor themselves to actively participate in this fight; it is also one in the fight for gender equality, as it is usually women who are the beneficiaries of these programmes and this permits their economic and social enrichment as well as their self-esteem. To draw a conclusion of micro credit applications is an alternative for decreasing poverty in the World.

ÖZET

Mikro kredi, geleneksel banka kredilerine ulaşmaları çok güç olan yoksul kesimin kendi işini kurabilmesine olanak tanımak amacıyla küçük çapta kredilendirilmesidir. Bu çalışmada mikro kredi uygulamaları hem oldukça geniş uygulama olanağı bulunduğu dünya ölçeğinde, hem de yeni uygulama alanlarından olan Türkiye için değerlendirilmiştir. Dünya’da yirmi yılı aşan uygulamalar göstermiştir ki, mikro kredi yoksulluğa karşı savaşta önemli bir araç olmuştur. Mikro kredi uygulamalarından daha çok kadınların yararlandığı, bu kapsamda cinsel eşitlik, kadının sosyal ve ekonomik açıdan konumunun yükseltilmesi gibi önemli yararların sağlandığı görülmektedir.

INTRODUCTION

Micro credit refers to small loans made of low-income individuals to sustain self-employment or to start up very small businesses. Although there is no standard definition of micro credit, in practice such loans are quite small, amounting to a few thousand dollars (Department of Finance Canada, 1999).

Not only has the number of people who live on less than a dollar a day decreased, but also the figure is gradually increasing. The millennium objectives, agreed on internationally in the framework of the UN, amongst which we find the decrease of poverty in the world by fifty percent by 2015, sees its achievement in danger due to the passivity and lack of willingness of the rich countries. The figures are overwhelming: according to the IMF, one thousand, two hundred million people in the world live on less than a dollar a day. Two hundred and twenty million school age children do not go to school. The

population of the planet will be double in 2030 and this will bring new and greater inequality with it and a significant increase in the number of poor people, if we do not act in an integral and effective way. The common bank does not grant loans to people without a guarantee, whether economic or patrimony. The truth is that a high proportion of the world's population do not have property, therefore they are unable to access the financing system (Anonymous, 2004). And if they are unable to access a credit, they cannot develop an economic activity and therefore they will never have anything. This "non existence" of poor people for the economy becomes a vicious circle from which there seems to be no way out.

Micro credit institutions provide credit for self employment and other financial services such as savings to help the very poor start or expand tiny businesses and work their way out of poverty. The 1997 Micro credit Summit was organized by civil society in response to the UN Summits of the 1990s not emerging with a compelling, measurable goal for expanding micro credit for the poor.

The 1997 Micro credit Summit launched a nine-years campaign to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by 2005. Organizers contend that at the time at the 1997 summit, a series of misconceptions were strongly espoused by many in the microfinance industry and informed the heads of donor agencies incorrectly. This conventional wisdom held that a microfinance institutions cannot reach very poor families, because they are too expensive to identify and motivate; if an institution could reach these families, they would be such a drag on its financial performance that it could not become financially self-sufficient; and even if an institution reached the very poor and became financially self-sufficient, it would just add a debt burden to very poor families (Micro Credit Summit Campaign, 2006).

The purposes in this study are an analysis of micro credit applications results in the world and in Turkey. Data of this study were collected from the results of researches done on micro credit applications and records of some institutes.

MICRO CREDIT APPLICATIONS IN THE WORLD

Micro finance is the provision of banking services to lower-income people, especially the poor and the very poor. Definitions of these groups vary (Christen, Lyman and Rosenberg, 2003). Providing a credit seems to be a way to generate self-employment opportunities for the poor. And the successful way to bring it into effect is microfinance (Safrankova and Havel, 2007). This paper will analyse the use of micro credit more broadly.

Micro credit applications were first started in 1979 in Bangladesh, after a period of assay, via allocations of credit to landless farmers without any guaranty requirement. Meanwhile, there wasn't any formal finance institution in Bangladesh to meet the credit needs of the poor. The interest rates in agriculture were quite high. For example for a unit of paddy rice borrowed at the beginning of the seeding season, it was required to pay two and a half unit at the harvest season. If the land was shown as the guaranty the ownership of the land had to be given to the lender till to the total repayment. Otherwise, the guaranty could be the obligatory workmanship for the money lender. The poor and the women didn't have enough access to get the credit from the banks. Within this general view, the establishment of the Grameen Bank aiming to lend credit to the poor and to the women is noteworthy (Yunus, 1999). When the differences between this bank and the classical ones are put forward, the functioning of the Grameen Bank system will be better understood (Table 1).

It is straightforward that the two banks have quite different characteristics. One of the differences between the two is the construction of the executive committee. In Grameen Bank, 9 out of 13 members of the executive committee are chosen among the customers. The president is assigned by the government and the general manager is chosen by the executive committee. Currently, they have been still spent effort for the president to be also selected by the executive committee. Grameen Bank today serves more than six million poor families with loans, savings, insurance and other services. The bank is fully owned by its clients and has been a model for microfinance institutions around the world (Grameen Foundation, 2007a).

Table 1. The Comparison of the Grameen Bank and a Classical Bank

The Classical Bank	Grameen Bank
Customers are, generally, far over the poverty limit.	All of the customers are under the poverty limit.
Guaranty is very important.	Reciprocal trust is important.
The customer comes to the Bank.	The Bank goes to the customer.
Employees work in the branch office.	Employees work next to the customer. They educate their employees in their own education institutes, according to Grameen philosophy.
The variety of credits is limited.	There are more than 50 categories of credits.
It has only economical objectives.	It has both economical and social objectives.
The rules and the procedures are important.	The rules and the procedures are not important. The most important is the people.

Source: M. Yunus, 1999. Towards a poverty-free world (in Turkish). Edditions Jean-Claude Lattès, 364p.

While at the beginning, the Grameen Bank provided credit from the institutions, like Central Bank of Bangladesh, The World Bank and the International Fund of Agricultural Development (IFAD), at present time they additionally issue bonds and borrows credit from commercial banks to obtain capital.

The credits are lent for a maximum of one year and to be re-founded weekly by equal amounts. The interest rate is fixed at 20 %. The re-payment rate is 99 %. It is noted that the real power of the Grameen bank is derived from the almost perfect credit refund rates (Yunus, 1999).

Presently, The Grameen type credit programs are to be applied in 111 countries in the world. The credit programs is basically concentrated on the 25 % poorest, and especially on the poorest women, the countries applying this system are mostly the third world countries. The fact that the 4/5 of the poor people live in Asia caused the micro credit programs to concentrate in the countries in this continent. On the other hand, similar programs are carried out in some of the developed countries in Europe and America to avoid the immigration from the poor regions.

Grameen Foundation has supported microfinance in South Asia for more than five years. For example; India, Pakistan, and Bangladesh, one third of the population, approximately 440 million people, lives on less than \$1 a day. Because of the widespread poverty, South Asia is a key area for Grameen Foundation to make an impact, not only in

line with our strategic goal of providing access to microfinance services to five million people, but also in our global fight against poverty. Poverty remains a critical problem in the Middle East and North Africa. An estimated 75 million people in the region live on less than \$2 a day, of which 10-20 million barely survive on less than \$1 per day. It is also estimated that only 10 percent of the region's potential microfinance market is currently being served. Microfinance markets have incredibly varied environments in China, East Timor, Indonesia, and the Philippines in East Asia. Approximately 245 million people in the region subsist on less than \$1 a day. 34 of the world's 48 poorest countries are in Africa and more than 300 million of the continent's 725 million people are estimated to live on less than a \$1 a day. The percentage of Africans living in acute poverty is more than 40 percent. This alarming fact is even more chilling when viewed in the context of the myriad of other problems that affect millions of people across the continent, including civil conflict, natural disasters, and HIV/AIDS (Grameen Foundation, 2007b).

Grameen Foundation has supported microfinance development in Africa since 2002. Grameen Foundation will have been partnering with local microfinance institution LAPO to help extend their services to more than 200,000 clients by 2008 in Nigeria. In Uganda, Rwanda, and Cameroon Grameen Foundation have launched Village Phone replication projects. Village Phone, originally pioneered in Bangladesh, establishes mobile

phone businesses that provide "pay phone" service for entire villages. Grameen Foundation's goal in Latin America and the Caribbean is to reduce extreme poverty, particularly in rural areas, by providing its microfinance partners with funding, technical assistance and technology support. This allows these grassroots organizations to expand their outreach to more families and increase their impact. In a region with 125 million people living on less than \$2 a day, and 50 million of those barely surviving on less than \$1 a day, the ability for Grameen Foundation partners to expand to reach large numbers of very poor families is even more critical. In 2005, Grameen Foundation launched a four-year Latin America Initiative overseen by a Latin America Advisory Council of expert volunteers with a long-term interest in the region. This \$10 million project addresses the need for financial services by many of the areas poorest people. As of March 2006, Grameen Foundation microfinance institution (MFI) partners were directly serving 126,334 clients (benefiting over 600,000 people) through the Latin America Initiative. This represents an increase of 32 percent compared to two years earlier, and was largely boosted by the addition of two rapidly growing partners (Grameen Foundation, 2007b).

Micro credit applications had very important implications on labor and income. Those who are participating in the program had become able to use their capabilities to carry out a work so that their income levels are increased considerably.

Besides, the bargaining power of the women participating in the program has been increased, and their relation with their environment has been developed in a positive direction. For example, serious steps are noted to be taken in family planning and in reaching the sources (Osmani, 1998).

The Grameen Bank model may be taken as a model for the establishment and the functioning of the system. Such an organization, would also contribute in preventing the immigration from the rural to the urban and in reduction of hidden unemployment in rural areas. It is also possible that the system perform in urban area, especially oriented to the women and to the development of their activity in the handcraft sector.

In many studies, it was determined that micro credit applications has contributed in economical and social characteristics of rural women, children and other person in various countries of the world (Higinio Maldonado and Gozales Vega, 2005; Jaffar et.al, 2006; Javed, et.al., 2006; Ayagma, et.al., 2006; Kettinger and Hegyi, 2006; Barboza and Barreto, 2006; Strobach and Zaumseil, 2007).

The analysis of the effects of micro financing on its beneficiaries, after more than 20 years of application, offers encouraging lines of results. It is an efficient instrument in the fight against extreme poverty, enabling the poor themselves to actively participate in this fight; it is also one in the fight for gender equality, as it is usually women who are the beneficiaries of these programmes and this permits their economic and social enrichment as well as their self-esteem. It also has effects on one of the fundamental pieces in the disappearance of poverty: education, as one of the first actions of the beneficiaries is to send their children to school. This series of consequences of the use of the micro credit and the advances in its development (appearance of non-financing services such as savings accounts, pension funds, methods for assessing effectiveness, etc.) makes it into a very important axis for the future in which the poor countries can see their emancipation from poverty from close to. The axis on which, for the time being, international co-operation, in many cases, is still based – charity - can be counterproductive for these countries, as they become passive participants of their problem. The involvement of states and common banking companies (either adapting legislations or granting credits to people with no guarantee) is the next stage in reinforcing and disseminating the system of micro financing (Anonymous, 2004).

MICRO CREDIT APPLICATIONS IN TURKEY

The first micro credit institution which was established in Turkey has been called Foundation for the Support of Women's Work (FSWW). During 1995-1997, it provided micro loans to approximately 100 women coming from low-income neighborhoods of Istanbul to support start-up businesses. The repayment rate in this pilot project was 98% and many

women became active in the economy with the help of these loans. However, after the disastrous earthquake in 1999, the priorities of Turkey and FSWW had to be redefined, and fundraising required for the continuity of this project was postponed. In 2002, FSWW identified new funding for the microfinance programme and Maya Enterprise for Microfinance was established (Foundation for the Support of Women's Work, 2007).

Maya (Micro Economic Support Enterprise) is provided small loans to low-income women who wish to set up a business or to develop their existing businesses. Maya's vision is to become a nationwide microfinance institution with branches all across Turkey. Maya micro credit programme, has disbursed 648,250 USD loans for 1,350 projects to 712 active clients by 2004. The distribution of these loans were, 56 % trade, 40 % production and 4 % for service sectors. The products which were manufactured by these loans were marketed at home 72 %, in shops 25 % and on stalls 3 % (Foundation for the Support of Women's Work, 2007).

Development Foundation of Turkey currently distributes a limited number of non-monetary start-up loans of 300-3,000 US\$ with long repayment periods in Southeast Turkey. In addition, after the earthquake of 1999, Izmit Women Centre project of WALD provided a small number of loans to a group of women to start joint businesses. However, the project has terminated.

The micro credit became a focus subject of national agenda after an international meeting initiated by the Turkish Foundation for Waste Reduction, while FSWW were studying in Turkey. With the cooperation of the Turkish Foundation for Waste Reduction and Social Solidarity Foundation of Diyarbakır, a micro credit project which was applied the Bangladesh-based Grameen Bank methodology targeting the poorest of the poor was initiated in Diyarbakır in 2003. Nearly 4,000 peoples in Turkey utilized micro credit programme (Table 2).

In many of the studies about micro credit in Turkey, it was declared that the demand to this credit would increase in near future (Sensoy, 2006; Grossmann, 2006).

Table 2. Results of Micro Credit Program in Turkey (As of September,2005)

Loan Theme	Number of Project	Amount of Credit	
		(YTL)*	(%)
Process and Production	701	299,035	15.85
Agriculture	130	62,012	3.29
Domestic animals	651	299,211	15.86
Services	364	174,375	9.24
Business and Trade	713	349,616	18.53
Peddling	339	164,596	8.72
Shop	1,112	537,776	28.51
Total	4010	1,886,621	100.00

* New Turkish Liras (Turkish Money Units), 1 US \$=1.33 YTL (in June 06,2005)

Source: Turkish Foundation for Waste Reduction, 2008.

CONCLUSIONS

To finance micro credits and micro company initiatives in poor countries and to develop the already initiated non-financing services, such as savings accounts and pension funds, for the definitive introduction of the beneficiaries in the economic system. We need the effective involvement of the states, as in many cases the legislation of the countries obliges loaning bodies to function as NGOs and not as banks, which prevents the possibility of setting up the previously mentioned non-financing services. In addition, it is from the states that we should regulate, disseminate and promote so that they have a true legitimation in their respective countries. The common bank must start to consider poor people as an existing body of people and with the ability to contribute to the country's economy. In the approximately 20 years of history of micro credits, the return rate of the loan has not dropped below 90%, and this could be a very clarifying piece of information so that common public and private bodies agree to trust in the borrowing potential without the need for the guarantee that is normally required (Anonymous, 2004).

In this study, the micro credit practices are considered as a model to overcome the under-development in rural areas and used in 111 countries, are evaluated and the subject is examined from the standpoint of Turkey. This model is considered to be a promising alternative, particularly, to reduce the hidden

unemployment in rural areas and to prevent the immigration from the rural to the urban (employment in origin). It seems to be a convenient model, mainly, for the landless farmers having no liabilities, and, to some extent, for small size farms. No doubt, this

model is not thought to be applicable in Turkey exactly as it is practiced in other parts of the world. It is thought that micro credit would be a vital tool to reinforce especially poor rural women in Turkey.

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