

**REPUBLIC OF TURKEY
BAHCESEHIR UNIVERSITY**

**MICROFINANCE IN TURKEY – A STUDY OF
DEMAND AND SUPPLY**

Master's Thesis

AYŞE ŞAYAKÇI

ISTANBUL, 2010

**REPUBLIC OF TURKEY
BAHCESEHIR UNIVERSITY**

INSTITUTE OF SOCIAL SCIENCES

EUROPEAN UNION PUBLIC LAW AND INTEGRATION PROGRAMME

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Thesis Advisor: PROF. DR. ESER KARAKAŞ

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ÖZET

TURKİYE'DE MİKROFNANS – BİR ARZ TALEP ÇALIŞMASI

Şayakçı, Ayşe

Avrupa Birliği Kamu Hukuku ve Entegrasyonu

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Mikrofinans gelir artırıcı aktivitelerin ve istihdamın artırılması yoluyla insanları yoksulluktan kurtarma mekanizmasıdır. Mikrofinansın kalkınmaya olan diğer bir etkisi ise bundan en fazla kadınların yararlanmasıdır. Türkiye'nin üyelik müzakerelerini devam ettirmekte olduğu Avrupa Birliği ve dünyanın geri kalan kısmı mikrofinans kurumlarının geliştirilmesinde çok istekli olsalar dahi, Türkiye bu konuda halen son derece kısıtlı bir tecrübeye sahiptir. Bu çalışmanın asıl amacı Türkiye'de halihazırda bulunan mikrofinans arz ve talebini incelemektir. Çalışma, Türkiye'de hem sivil toplum kuruluşları hem de bankalar tarafından yapılacak yeni mikrofinans çalışmalarına talep olduğunu savunmaktadır. Çalışma, mikrofinans konusunda gelecekte beklenen muhtemel gelişim yol haritasıyla sonuçlandırılmaktadır. Ayrıca, bu çalışmadan sonraki etabın da Türkiye mikrofinans sektörü için inovatif modeller bulmak amacıyla diğer ülkelerin mikrofinans tecrübelerinin karşılaştırılması üzerine bir çalışma yapılması olduğunu söylemektedir.

Anahtar Kelimeler: Mikrofinans, Kredi, Fakir, Arz, Talep, Türkiye, Ekonomik kalkınma, Finans Sektörü

ABSTRACT

MICROFINANCE IN TURKEY – A STUDY OF DEMAND AND SUPPLY

Şayakçı, Ayşe

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Microfinance is a tool to elevate people from poverty by increasing income generating activities and employment. It's another important development impact is the fact that it benefits the women the most. Although the EU -where Turkey currently holds accession talks- and the rest of the world have been keen on developing microfinance facilities, Turkey still has very limited experience regarding microfinance. The main aim of this study is to look at the current demand and supply of microfinance in Turkey. The study argues that that there is an untapped potential demand for microfinance in Turkey for both NGOs and banks. The paper concludes with the possible future development path in the sector. It also recommends that a further comparative study with different countries' microfinance experiences should be conducted in order to find new business/institution models that could be applied to the Turkish microfinance case.

Keywords: Microfinance, Credit, Poor, Demand, Supply, Turkey, Economic Development, Financial Sector

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INTRODUCTION

The current global economic recession started as a financial crisis caused by the US housing market crash in 2008, prompting a severe credit and financial crises. Banks stopped lending to each other and to the people. As a result, giant economies stalled and unemployment rose to very high levels. Due to the liquidity shortage, entrepreneurs also found themselves short of credit lines they need in order to start/grow their businesses.

The economic crisis is expected to cause circa 3.5 million people to lose their jobs this year in EU. The financial crises has also caused the credit lines to be withdrawn by the banks so the available credit for those who want to start their businesses are even more scarce now.

With the current context, it is very difficult for the unemployed or the poor to get a loan from the formal financial lenders. However, with a microfinance facility, not only they can get micro loans, but also receive additional support such as mentoring and training on business know-how. This support will be pivotal in creating new jobs, while giving more people a chance to realize their goals as entrepreneurs.

There is also an additional microfinance focus on the disadvantaged people, such as the young and the women. These people who want to start or further develop their own small businesses will also be assisted in preparing a sound business plan for their proposed projects.

Besides numerous other focus areas, the Spring European Council has chosen 3 major areas to focus on in order to respond to the crises: maintaining employment, creating jobs, promoting mobility. In order to support this effort, the Commission proposed “A Shared Commitment for Employment” to increase cooperation between the EU and the Member States as well as the other social partners on these focus areas. Many initiatives were outlined to support the employment and Microfinance was one of them.

In July 2009, The European Commission came up with a proposal to set up a new microfinance facility. This facility would have a budget of 100 million EUR that could be leveraged to 500 million EUR with the support of European Investment Bank (EIB) and other

international financial institutions. The facility will provide micro loans to the people who have lost their jobs and who want to start their own businesses. This amount is expected to yield approximately 45,000 loans in a time frame of up to eight years. The Commission expects the new 'Progress Microfinance Facility' to be ready to operate by 2010.

(<http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=547>)

Previously, The European Commission and the European Investment Fund had already set up a microfinance and SME creation facility called JEREMIE, which functions under the European Regional Development Fund (ERDF). (<http://www.eif.org/jeremie/>) Under JEREMIE (Joint European Resources for Micro and Medium Enterprises), regional and local ERDF authorities transform some of their budget into loan capitals to be assigned to potential financial intermediaries (such as microfinance institutions). JEREMIE also provides the framework to improve the financial environment for SMEs at multiple levels (national, regional and local), thus enabling the economic growth and competitiveness. The commission expects the new JEREMIE program for 2007-2013 to provide micro-credit and guarantees for financing (loan & equity) to SMEs. (Karatas, Helvacioğlu, 2008) When it is considered that 99 percentile of all European start-ups in are micro or small enterprises and more than 30 percentile of these are launched by unemployed people, the necessity of supplying credit to SME's in order to increasing employment gets even more highlighted.

When the European Commission gives such a priority to microfinance in tackling the unemployment and the adverse effects of the financial crises, the importance of microfinance shows itself once again.

Within this pre-defined background, microfinance can be thought in two dimensions. The first one covers the financial needs of micro enterprises (between 1-10 workers) that are in need of financing for their operations. The second one is broader in terms of answering the multi-faceted capital needs of the financially unserved poor population such as loans to build income generating activities, spend for healthcare and access to education. Although half of the world (about 3 billion people) lives with only less than 2 dollars per day, and they are the ones in need of desperate financial help, they end up being the ones financially unserved. It is this aspect of Microfinance that has a wide reach and a profound developmental effect on the society, since its beneficiaries are mostly the poor (or financially vulnerable) women and the unemployed.

These small sums of credit given by the Microfinance institutions or NGO's end up enabling this unrealized workforce potential to engage in entrepreneurial activities and lift themselves out of poverty. Serving the financial needs of the unemployed population should be studied in depth considering the socio-economical aspects and drivers for microfinance demand.

When we look at the Turkish example closer, it appears that nearly 100 percentile of formal sector loans are given to men. However, women make up almost 1/3rd of the total workforce. It is also estimated that 1/3 of all informal workers are women as well. So it will be safe to assume that 1/3 of the working population (formal+informal) is not using any loans for any entrepreneurial activities. Besides, if we think that only 23 percentile of the female population works, we can see the huge potential of serving the financial needs of this "unemployed female segment" as well.

It should be kept in mind that more than 50 percentile of Turkish women's entrepreneurial activities are home-based. Given Turkey's geographical and socio-economic demographics, we know that women in eastern Anatolia work in farms to provide for the family. In other cases, home-based entrepreneurial activities may be another source of income for females. This is the case when the male family members are employed in work stations or factories in relatively more developed areas and the women are left at home to take care of the kids during the daytime. This will probably occur more often in relatively more industrialized areas of the poorer regions since the males will be at work (or have seasonal jobs) and women dominantly stay at home. These types of households will also have a high probability of being immigrants from less urban areas. These segments are already the main borrower categories of microfinance. Maya Enterprise for Microfinance in Turkey estimates the potential demand for female borrowers (including but not limited to home-based workers) to be 1.7 million.

According to Banking Association of Turkey (BAT), only 28 percentile of the Turkish population is banked. This is a tiny fraction when compared to the EU average of 98 percentile. As said earlier, women are a big portion of this unbanked population who does not have access to financial services. Microfinance provides a new approach to offer banking services to some of these people. Thus, the subject definitely deserves a more careful attention in the world as well as in Turkey while keeping in mind Turkey's geographic and socio-economic factors.

1. MICROFINANCE IN GENERAL

1.1 WHAT IS MICROFINANCE?

There are millions of poor and disadvantaged non-poor unbanked households who are not receiving any financial services. Basic banking services such as loans, savings, deposits, remittance services and insurance products are also needed by the poor. These financial products and services are crucial in building income generating activities, protecting the family against economical crises and health problems, and even against natural disasters. Via these resources, the poor can invest in new a business or sustain the existing one, improve living conditions such as household nutrition or education of the kids.

Microfinance Information Exchange organization (MIX) describes microfinance as “Microfinance is the supply of loans, savings and other financial services to the poor. The term ‘micro’ is in reference to the small amounts typically involved in the practice. These services are small – ‘micro’ – because a person who does not have a lot of money most likely will not need a loan of several thousand dollars. However, a loan of a few hundred dollars may make a huge difference in their lives, giving them the ability to purchase livestock for a small farm, a sewing machine to help make accessories and clothes, or supplies for a small store.” (<http://www.themix.org/about-microfinance/faqs-microfinance>)

However, commercial banks mostly ignore this vast segment and the poor are left out of the formal banking system. There are numerous reasons why these people are not included in the banking system and served as customers. Most banks are unable to handle the business model of microfinance, meaning that the microfinance business requires high number of transactions (loans etc) with small amounts. Thus, the operational aspect of the business is quiet heavy for such low amounts of loans, and commercial banks find this kind of a model cumbersome operational wise. Another barrier for the poor to be banked by the commercial banks is the requirement for collateral which they do not have most of the time. There is also a widely thought misconception that the poor are unwilling and unable to repay the loans they barrow. These topics will be discussed in details through out the paper.

In broad terms microfinance is the provision of financial services to this excluded poor segment. In order to overcome the above mentioned hurdles between the provision of

financial services and the poor, certain lending technologies are employed accordingly with the characteristics of the client type, their cash-flows and their needs. Asset-based collateral requirements which are the main tool of commercial banks are not employed in microfinance lending technologies, as mentioned earlier, due to the fact that there are no assets to be used.

Numerous different institutions are now in the microfinance, serving customers. These institutions include non-governmental organizations, microfinance banks, credit unions, non-banking financial institutions (NBFI), and commercial banks with specialized subsidiaries which operates in the microfinance sector, or even the commercial banks themselves who develop new segments on microfinance/SME lending.

The spectrum of potential microfinance clients is great. It may include a woman in the informal sector working part time at home to produce decorative boxes; it may include a grocer selling vegetables in an open-air market or a handcraft/jeweler selling his products from a storefront. It may include a farming household that seeks access to credit to buy fertilizers, and savings services to bank post-harvest profits that can be drawn on seasonally.

1.2 MICROFINANCE WITHIN THE FINANCIAL SECTOR

Globally, the provision of financial services to the unbanked poor had been traditionally tied to the development programs in economic or agricultural contexts. These were mostly government-subsidized programs that were specifically designed for a specific target group. However, most of them failed to reach the desired objectives and the targeted groups, not being able to attain the widespread access to financial services by the poor. Later on, the aim of reaching the poor was changed towards using the micro and small loans in order to reach the micro and small businesses. NGOs were eager to use the financial tools to reach the poor and create the social development effects they desired. Microfinance was only perceived as a tool for development, rather than a regular part of the formal financial system. With the time, the NGO-led credit institutions became licensed banking institutions and they became just another segment (micro credit segment) for financial institutions. With the transformation of these credit institutions from donor-funded operations to profit generating commerce activities, the operations grew and the number of clients multiplied. After that, many institutions commenced providing microfinance; including NGOs, companies, nonbinding

financial institutions (NBFIs), specialized microfinance banks, commercial banks, subsidiaries of mainstream commercial banks, credit unions, etc. Commercial capital that is needed to finance this expansion has been provided by the bank loans and equity investment firms and public sources. Although in the early stages of the microfinance industry, the funding was provided by NGO's and government aid agencies, the high demand could only be addressed via the engagement of commercial sources to the sector. So, with sustaining the profitability in sector, the commercial capital was lured into microfinance, enabling the reach to a greater number of clients.

Thus, the institutions had to perform constantly well in order to keep the commercial capital in the microfinance business. In Latin America, these institutions (MFIs) almost outperformed regular commercial banks due to this performance pressure. However, we should note that not all the MFIs are profitable institutions due to the important fact that the sector itself is a relatively young sector. Globally, only 62 MFIs are financially self sufficient out of 147 that reports to the Micro Banking Bulletin.

(<http://www.themix.org/publications/2009-latin-america-and-caribbean-microfinance-analysis-benchmarking-report>)

Although there have been early concerns that the profitability and the depth of outreach were opposite factors in the sector, there has not been a proven significant correlation between these two. Numerous institutions that serve a wide range of clients including the poor and the vulnerable non-poor have become financially profitable in various contexts.

1.3 MICROFINANCE IN EUROPE

Microfinance in Europe is relatively under-researched most likely because the poverty headcount in industrialized countries is considerably lower than that of the developing countries. Also, the wave of microfinance in Europe is a relatively new phenomenon. The term 'poverty' in the 21st century in urban areas is regarded as social exclusion rather than absolute poverty. (Armendariz, 2009)

Microcredit in Europe is that it is a relatively young industry. An estimate by the Bankengruppe in 2007, reports on approximately 48 thousand microfinance clients for 2005. This is a low number when compared to the estimated number of poor in Europe alone of

around 55 million individuals. This outreach is low relative to that in developing countries where it is estimated to be around 150 million individuals. (Armendariz, 2009)

The role of microfinance in European countries is generally viewed as a tool for alleviating an overburdened welfare state. There is growing awareness on the impossibility for microcredit in Europe to become self-sustainable, among other reasons, because of the exceedingly high reliance on European government funds and foundations for offering financial products requiring costly guiding and training for the target population of potential clients – the long term unemployed and socially excluded in particular, and the low interest rates. (Armendariz, 2009)

In much of Western Europe the sector can be described as ‘para-public’ in that many delivery agencies are predominantly funded by the state even though they were established and are managed by nonstate actors. As a result there has been a focus on issues related to social inclusion, such as getting people back to work or promoting entrepreneurship, even if this is at the expense of sustainability. There are also government constraints on what is deemed appropriate (caps on interest rates), but also some MFIs have been underfinanced and have insufficient resources to market their services. Consequently, highly developed Welfare States limit the potential market. However, the UK has the most liberal policies on interest rates and MFI development in Western Europe. (The EMN Bi-annual Magazine on Microfinance in Europe, 2008)

If we look at the French example as a mini case study, the four main providers of microcredit in France include the Association pour le Droit à l’Initiative Economique (Adie), Afile 77, BNP Paribas, and the Credit Cooperatif. Adie is the largest provider, with 12,824 customers for 2008 in France. It is also the leading provider of microcredit for income-generating activities in the self-employment sector in the industrialized world. Adie was modeled based on the Grameen Bank, under the sponsorship of the French Development Agency (AFD) in 1988. Adie’s goal is to cover all costs related to its lending activity by 2013. (Armendariz, 2009)

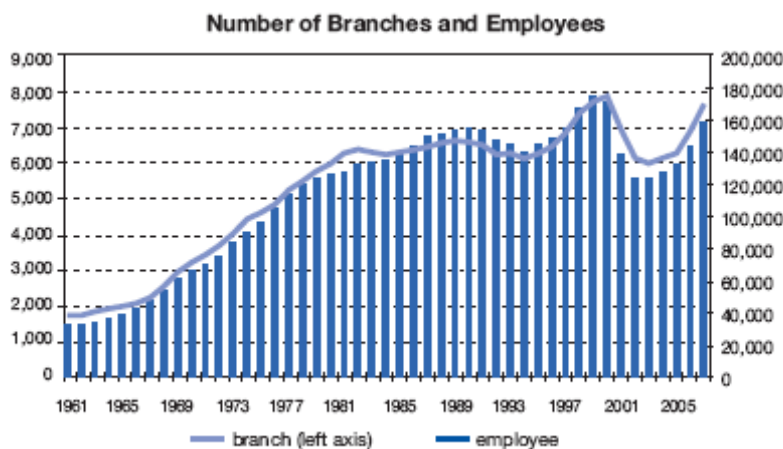
2. TURKISH MICROFINANCE EXPERIENCE

2.1 FINANCIAL SECTOR IN TURKEY

When we look at the last 50 years of Turkey, we see that the population rose to almost 75 million people, from 27 million. While the population tripled, the GDP per capita has increased by 12 times reaching to USD 7500 from USD 600. According to the Banking Association of Turkey (BAT), during this period the banking sector mainly focused on increasing its geographical presence and the number of branches in order to increase the accessibility. (50. Yilinda Turkiye Bankalar Birligi ve Turkiye’de Bankacilik Sistemi “1958-2007”)

The number of branches and the number of staff increased dramatically between 1960-1980. The sector increased its non-branch channels (such as ATMs) in that period with the help of the technological advancements. The number of internet banking users reached to 10 million. The volume of credit card and debit card transactions increased to TL 270 billion, which is around 30 percentile of the GDP. The utilization of the non-branch delivery channels help the financial deepening process go even faster than expected.

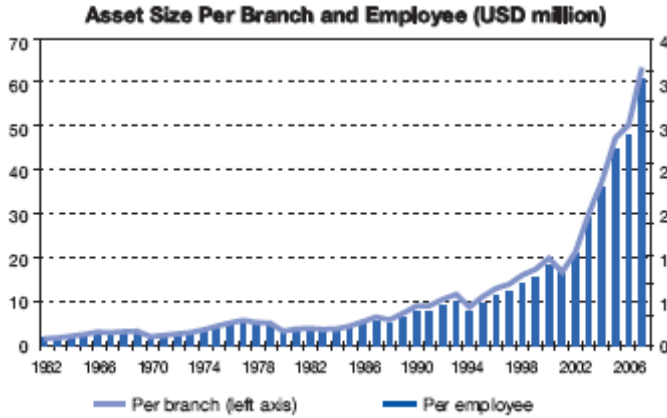
The financial deepening showed itself starkly in the numbers. The number of branches increased by 4 times (reaching 7618) and the number of staff increased by 5 times (reaching 158,534) during the period 1961-2007. However, with the consolidation trend in the sector, bigger & stronger banks emerged, and the number of banks fell to 46 from 51.



Graph 2.1 : Number of Branches and Employees

Source: 50. Yilinda Turkiye Bankalar Birligi ve Turkiye’de Bankaclik Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)

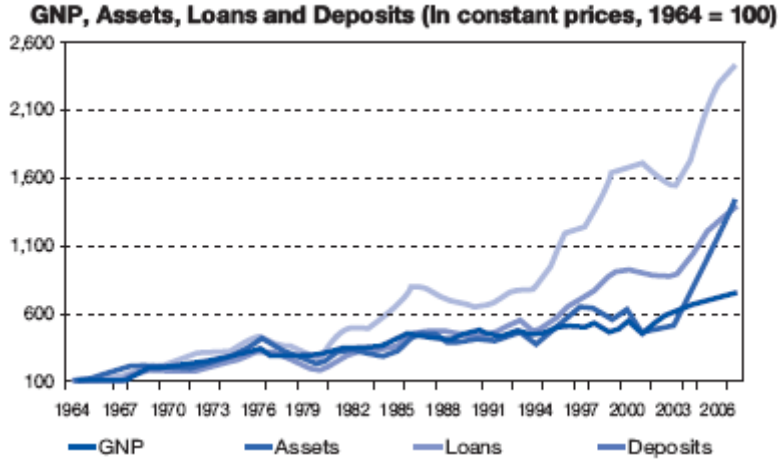
Asset size per one branch rose to USD 3.1 million and asset size per one employee rose to USD 148,000 during the same period. Both of these efficiency indicators have shown an increase over 250 percentile for the period.



Graph 2.2 : Asset Size per Branch and Employee

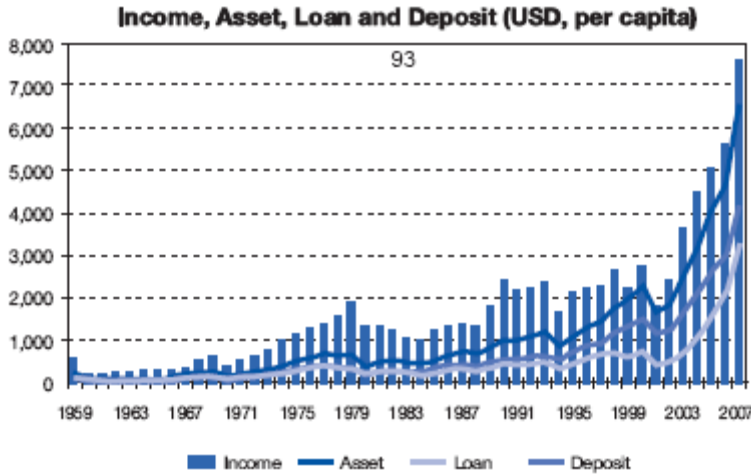
Source: 50. Yilinda Türkiye Bankalar Birligi ve Türkiye’de Bankacılık Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)

Total asset size of the sector rose to TL 561 billion (USD 484 billion) in 2007 from TL 17,774 (USD 6.3 billion) in 1959. Total loans rose to TL 280 billion (USD 242 billion) from TL 9,261 (USD 3.3 billion), while total deposits rose to TL 357 billion (USD 308 billion) from TL 7,350 (USD 2.6 billion). GNP rose to TL 649 billion (USD 560 billion) from TL 43,700 (USD 15.6 billion) in the same period. The sheer increase of the sector’s size can be seen from the comparison of the given historical figures.



Graph 2.3 : GNP, Assets, Loans and Deposits (in constant prices)

Source: 50. Yılında Türkiye Bankalar Birliği ve Türkiye’de Bankacılık Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)



Graph 2.4 : Income, Assets, Loan and Deposit (USD, per Capita)

Source: 50. Yılında Türkiye Bankalar Birliği ve Türkiye’de Bankacılık Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)

When the size of the assets, loans and deposits are compared to the size of Turkey’s GNP, a steep increase of the numbers which also shows the deepening of the financial sector can be easily seen. Ratio wise, the deepening shows itself when we look at the ratio of total assets to GNP in 1990s which was 43 percentile, and the same ratio in 2007 which was 87 percentile.

Ratio of Selected Aggregates and Sizes to GNP (percentage)

	1959	1980	1990	2000	2007
Total assets	41	31	43	83	87
Loans	21	17	20	27	43
Deposits	17	15	24	55	55

Graph 2.5 : Ratio of Selected Aggregates and Sizes to GNP (percentage)

Source: 50. Yılında Türkiye Bankalar Birliği ve Türkiye’de Bankacılık Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)

Despite the deepening that occurred in the last 50 years, financial sector in Turkey is relatively small and not matured yet according to international benchmarks. Although it offers a big growth potential, it still does not have complex financial instruments which are present in the more mature financial markets. When we compare the size of the capital markets of EU with that of Turkey, we see that banking assets per capita is nearly 4 times higher in EU than it is in Turkey. This means that the banking sector in EU is 4 times deeper than in Turkey.

Selected Aggregates: EU and Turkish Banking System *

	EU27 (2007)	Turkey (2007)
Per capita income (euro)	24,792	6,770
Per capita bank assets (euro)	82,827	4,453
Per capita loans (euro)	38,918	2,225

* Deposit, development and investment and participation banks are included.
Source: European Central Bank

	EU27 (2007)	Turkey (2007)
Population per bank	59,401	1,605,978
Population per staff	153	486
Population per branch	2,123	9,697

* Deposit, development and investment and participation banks are included.
Source: European Central Bank

Graph 2.6 : Selected Aggregates: EU and Turkish Banking System

Source: 50. Yılında Türkiye Bankalar Birliği ve Türkiye’de Bankacılık Sistemi “1958-2007” (<http://www.tbb.org.tr/Dosyalar/Yayinlar/Dokumanlar/2tbb50yil.pdf>)

2.2 MICROFINANCE IN TURKEY

Despite the fact that the number of people who lives in absolute poverty in Turkey is low with only 2.5 percentile of the population, the population vulnerable to the threat of poverty remains much higher. 7.3 percentile of the population cannot purchase the minimum food basket. And, 36 percentile of the population is considered economically vulnerable (Burritt, 2003).

There is a high income distribution gap among the sectors and geographical regions. The rural population is particularly more vulnerable due to various reasons. The social security system in the country is ineffective and there is a part of the population that is not included in the system. Improvements are being implemented to the system. But it is still far from being comprehensive and effective.

In the first quarter of 2009 unemployment measured 14 percentile compared to approximately 12 percentile in 2003's first half. The government is showing efforts in alleviating the poverty and easing the effects of unemployment in the country. There are also certain programs and institutions have been created to assist the poor. We can list some of these names as to be Social Solidarity Fund (SSF), General Directorate for Women's Status and Problems, the General Directory of Social Services and Child Protection, and numerous regional development agencies and programs GAP (Southeastern Anatolian Project).

While it is accepted widely that the government is committed to the social protection and the poverty alleviation via certain government policies, better and more comprehensive solutions must be designed to ensure the effectiveness and the reach of the programs.

The governments used to heavily utilize the financial sector in implementing sectoral policies such as supporting agricultural sector via subsidized loans. However, their focus was not on widening and deepening the sector and it was not considered to be a big limitation on the development of the micro and small enterprises. Halkbank was (and still is) a major outlet of subsidized loans -with decreased lending rates- to the selected sectors.

The Turkish government has been moving rapidly towards the liberalization of the financial sector and elimination of subsidies. Restructuring of the banking system has moved a long way. The near history financial reforms that tightened the control mechanisms on the sector

has strengthened the confidence in the financial sector and even attracted further investments to the sector from Turkey and abroad alike.

In that wider context, microfinance is a powerful tool that enables the vulnerable and the poor to access financing and create themselves an opportunity to financially support themselves. Micro and informal sectors play a crucial role here given the fact that a big portion of the vulnerable and poor are in these segments of the population. On the contrary to the common belief, the poor also can make savings (in the form of assets, livestock animals or etc), and they use these savings during difficult times. Those savings are usually utilized for nutrition needs and healthcare, and prevent them from falling into poverty even more. Microfinance allows the poor and the vulnerable to be a part of the formal financial system for the purposes of loans, savings and etc. Including these lower segments in the financial sector deepens and widens the reach of the sector, as well as allowing the access to financial services by all.

The international context of microcredit identified the poorest of the poor as the target segment. There are almost 3 bn people in the world who do not use any form of formal financial services. This is almost equal to the half of the world's population. (Half of The World is Unbanked, www.financialaccess.com)

There is more than one way to take a look at the demand in microfinance. First, it could be looked from the perspective of micro and small businesses that need loans to sustain their business. The second perspective is that of the poor households that seek a source of money to build a business, to spend for their basic needs and to spend for their livelihoods such as nutrition and housing. The ones who are especially left out of the formal financial system are mostly women in the poorest segment. After the female, the main targets are the unemployed young, and small farmers who don't own any land.

In Turkey, SME's play a big role in the economy with constituting the more than 95 percentile of all the enterprises. The SMEs that do not deal with agriculture constitute the 40 percentile of the total workforce of the country, while they produce between 30 percentile-40 percentile of the total output. According to the TESK (Tradesmen and Artisans Confederation), there are about 4mn micro enterprises that has 1-10 employees. Only half of these enterprises are listed with TESK, so the actual number could actually be more than 4mn. (www.tesk.org.tr). The businesses are taxed quite in a heavy way in Turkey, so it is

financially more viable for some of the small businesses to stay informal and cut costs. It is estimated that the number of informal businesses range from somewhere between 0.5mn to 8mn. The number of the self employed individuals is thought to be around 6.3mn people in the informal sector. However, this figure is bound to increase with the increasing unemployment. The informal business could be in any sector such as trading, shop-keeping or production.

Another stark fact that, nearly 100 percentile the loans that are provided by the formal financial system are taken by the males. However, women actually make up nearly 30 percentile of the total workforce in the country. It is also estimated that 1/3 of all informal workers are women as well. 50 percentile of those informal female workers are home-based and these home-based activities sometimes constitute the whole income of the household if the male is unemployed. Although it is overreaching to assume that all the home-based working females will want microcredit, Maya Enterprise for Microfinance in Turkey estimates that 1.7mn home-based working females are in need of microfinance. Maya's activities are explained in details later on though out the paper.

When we take a closer look at what home-based women do in general, we see that their businesses can range from food production to handicrafts, from hairdressing to tailoring. Their products are mostly sold at home or small nearby markets/shops. Their profit margins differ accordingly with the activity and the number of middleman involved. If they are dependent on the middleman or the distribution and sales of their goods, the profit margins decrease. According to the Maya Enterprise, the loan size home-based female workers demand varies between 200 TL to 1000 TL. And they are able to make monthly installments of 30TL to 100TL.

There is another type of home-based work where the family engages in producing certain goods on behalf of someone else or a company. In such cases, the family can sew clothes, break nuts, assemble certain goods or etc. And they are paid for the piece they deliver to the middle man. These people are called "the piece workers" due to the fact that they are paid by the piece they produce. In such types of businesses, the family does not require a cash loan to sustain the business because the raw materials and he necessary tools are provided by the middleman. However, they would still need saving services to save the money they make for more difficult times.

Another big segment for the microfinance is the small/micro agriculture enterprise segment. It is estimated that there are around 4mn agricultural firms in the country. Thus, they play a big role in the overall economy. They employ 40 percent of the workforce with around 9mn people. Approximately 15 percent of the GNP comes from the agriculture sector. The large number of the people working in this sector and the fact that although 40 percent of the workforce is employed, only 15 percent of the GNP is received within the sector (the inefficiency) begs the attention of microfinanciers to the agriculture sector. It is true that urban areas have attracted the microfinance institutions more than the agricultural areas. However, the agriculture sector offers a big potential as well. (Burritt, 2003)

It should not be forgotten that it is not only micro-business loans that the customers need, but also other types of loans to improve their livelihoods, repair their houses and send their kids to school. They also need to use the saving services in order to keep their savings in sums for their future purchases of land, animals and etc. One should not think that the poor or the vulnerable are not capable of making savings. The way they do and use the savings are just little different from what we are used to. For example owning a sheep can be a form of savings for an agricultural worker. Various products such as insurance and etc. can be offered to the poor and the vulnerable once their needs are studied more in depth by the microfinance institutions.

The Turkish microfinance market is consisted of a variety of potential clients. Since the market is not fully penetrated banking wise (only 1/3 of the population is banked) and a big population is left nonfinanced, significant segmentation could be done for this big population. Via interviews and field studies, the UN illustrates a scenario of potential market segments in the Turkish target market as shown below:

1. This segment covers the self-employed and unregistered workforce as well as the family-owned informal sector businesses. Seasonally employed people and recently unemployed people are also in this segment. Such seasonal low paying wages could be the family's sole income source. The segment includes both men and women and they only have access to informal sources of credit.
2. Another segment includes the micro/small businesses with only one employee or just couple employees. They could be registered within the formal economy through cooperatives and they are both in rural and urban areas. They usually do not have any

properties nor do have access to formal credit. Without having access to formal credit sources and low profit schemes, these businesses can grow only in limited scales.

3. Households that work in the agricultural sector make up another segment. They are usually members of agricultural cooperatives. Besides agriculture, they engage in other types of income generating activities in order to support themselves. They have little or no access to financial services provided by the agricultural banks such as Ziraat Bank.
4. The established and registered businesses make up another segment. These businesses have the assets that can be used as collateral to get the formal financing they need. They seek financing from numerous sources. They also need financial services such as current accounts and credit cards.

Due to the fact that the market segmentation covers a very broad range as seen above, the amount of the loans that are required by each segment is very different as well. While the requested loan amount ranges from \$200 to \$7,000, the majority of the given loans are between \$500 and \$3,000. (Burrirt, 2003)

The above mentioned loan sizes (\$200 -\$7,000) coincides with average loan sizes of Maya Enterprise for Microfinance. Maya's first average loan amount was 300 TL (\$200). On the other hand, at the other side of the spectrum, ceiling limit of Halk Bank loans to small enterprises through cooperatives was 10.000 TL in 2006. Halk Bank average loans sizes to micro entrepreneurs are were less than \$2,000. (Burrirt, 2003)

As stated before, a basic rule in microfinance is to lend to people not to the business or to tie the loan to the asset (people in this case) itself; thus, making the entire household responsible for the loan repayment, rather than just tying the loan to the success of the business. In any case, the financiers find it difficult to control where the loan is spent even if it was given for business purposes. These loans frequently end up being spent on household needs. Customers naturally spend the money lent on where it is needed the most. The lenders also prefer to give household loans rather than micro business loans due to the fact that the household's repayment capacity is larger than the enterprise's payment capacity only, and this reduces the risk of defaulting on the loan.

There is a certain view that subsidized loans will impede the development of the micro loans, especially household loans. However, the amount of government subsidies for micro loans is

very limited and most of the people cannot access these. Another reason why people will prefer regular micro loans over the government subsidized ones is the fact that the government subsidized loans are very cumbersome to receive; thus, many people prefer to use an easier product with less cumbersome procedures. Besides these practical issues, subsidized loans are usually dispatched to business investments rather than households.

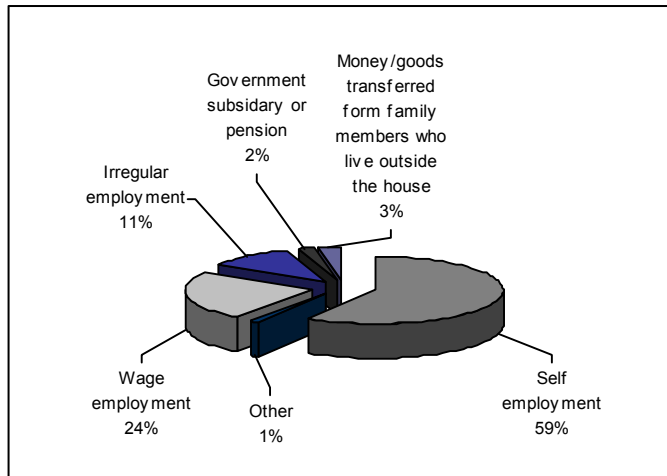
35 percentile of the Turkish population is considered economically vulnerable, giving us 5.7 million households in poverty. A study done by Bankakademie International aims to take a closer look at the demand side of microfinance by case interviews and field research.

(Grossmann, 2006)

In the above mentioned study of Bankakademie International, a total of 388 interviews have been conducted as well as 17 case interviews. 35 percentile of the households belong to the agriculture sector, 19 percentile belong to the manufacturing sector and 37 percentile to the service / trade sector. 60 percentile of the total sample were self-employed (agriculture & non-agriculture), 32 percentile were employed and 8 percentile of the interviewees were unemployed. Certain themes such as migration, income sources, unemployment, saving and borrowing patterns and borrowing purposes have been questioned.

Migration: Around 30 percentile of the interviewed households have migrated to their current locations from a different place. Irregular wage earners and unemployed are more likely to migrate than the self-employed people.

Income Sources: The Bankakademie research shows us that while 63 percentile of the interviewees rely on self-employment or wage-employment. 3 percentile of the interviewees mainly rely on money transferred from family members who do not live in the household.



Graph 2.7 : Main sources of income of the households

Source: Grossman, 2006

Unemployment: Within the unemployed segment of the research, 38 percentile live on the money transfers of the family members sent from outside the household. 10 percentile live on the government subsidy, and 36 percentile have irregular jobs.

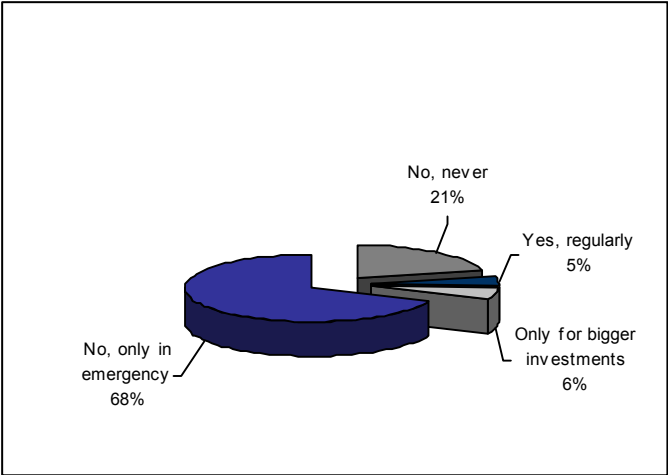
Poverty: Bankakademie International uses the definition of Millennium Development Goals for poverty (minimum income, food security, health and education) while conducting the interviews. According to the findings during the last 12 months 10 percentile of the households had some days where they had to live under \$1/person per day. 12 percentile of the households did not have enough food. 12 percentile of the households had a child underweight out of the households with children below 5 years. 3 percentile of the households had a family member between 15-24 years who cannot read or write. 7 percentile of the households said their children cannot go to school on a regular basis.

Household Income and Expenses: The majority of the households (75 percentile) interviewed had a gross income of 200TL to 1000TL. 16 percentile were making more than 1000TL, while 9 percentile were making less than 200TL.

Saving Patterns: When asked about their saving patterns, 12 percentile of the households said that they have saved (money or similar goods) in the past 12 months. This shows that there is actually a savings potential in the vulnerable households. However, it should be noted that

these people save during the times when their income is good, and then use up these savings when the times get rougher. Thus, they are not long time savers, but rather short time ones.

Borrowing Patterns: Nearly 50 percentile of the interviewed households had borrowed money during the past 12 months. 30 percentile of those said that they barrowed from banks. 43 percentile barrowed from other people such as family and friends. While 69 percentile of the households barrow for emergencies, only 4.5 percentile barrow regularly.



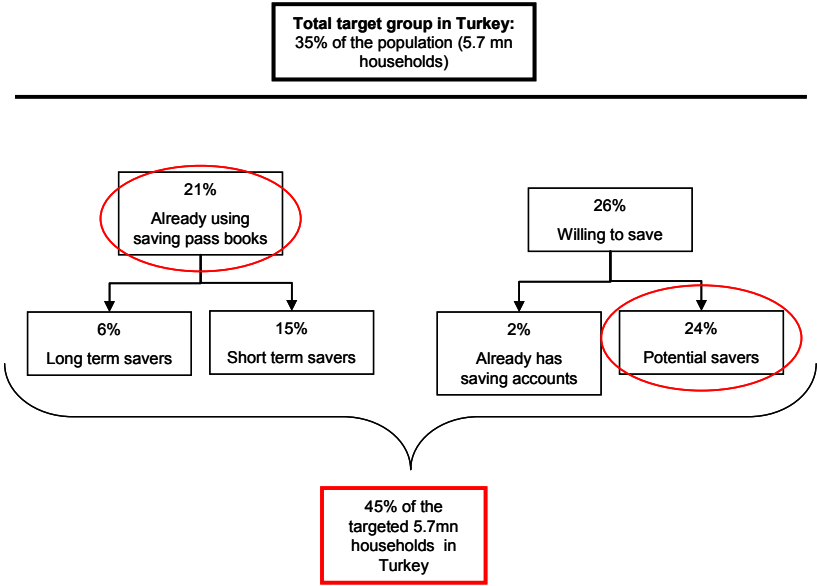
Graph 2.8 : How frequently does the household borrow?

Source: Grossman, 2006

Borrowing Purpose: Again the emergency barrowing (54 percentile) is the biggest reason for barrowers who barrowed in the past 12 months. The emergency reasons include doctor/medicine, food, education and etc. Another big chunk (20 percentile) was borrowed to buy an asset or for business purposes.

One can also say that there is an untapped potential for micro savings. If the right product is offered, the 45 percentile of the target group of 5.7m vulnerable households in Turkey seems likely to use these savings products according to a UN study (see below graph). They will probably be short-term savers with savings of 90TL/month, and they will be likely to keep it for 6 months before they use it for an emergency. (Grossman, 2006) Keeping these specifications in mind, a good product range could make these people savers and create a new segment for the banks. A total potential savings of approximately 230m TL can be realized per month.

$90\text{TL} * (5.7\text{m} * 45 \text{ percentile}) = 230\text{mTL}$



Graph 2.9 : Saving Potential in Turkey

Source: Grossman, 2006

2.3 HOW BIG IS THE DEMAND FOR MICROFINANCE?

UNDP uses two approaches to determine the demand of microfinance. First is the "standard of living approach", and the other is the "private sector approach". (Burrirt, 2003) Both of them arrive to similar estimations by using different approaches. The approaches are market driven and very basic but they still give a sense of the magnitude of the total demand.

With the standard of living approach, the number of vulnerable households in Turkey is taken into consideration as the basis. The reason why the households are used as the analysis tool is the fact that it is the total household income that is used as to determine the repayment capacity instead of just looking at the business profits.

Assuming that approximately 35 percentile of the total population is vulnerable and 4.5 people make a household, there are nearly 5.7 million vulnerable households in Turkey. The demand is assumed to be somewhere between 20-30 percentile of the total vulnerable

households as UNDP supposes, leaving us with a number between 1.2m and 1.7m households with the population 2008 figures.

Standard of Living Approach					
Total Population	Vulnerable population (35%)	Average size of Households	Vulnerable Households	20% demand	30% demand
73 900 000	25 865 000	4,5	5 747 778	1 149 556	1 724 333

Graph 2.10 : Demand for Microfinance in Turkey: Standard of Living Approach

Different from above, the private sector approach takes the number of micro and small businesses into consideration. It includes the businesses in the informal and formal sectors, as well as the ones in the agricultural markets.

Using the private sector approach, one reaches to an estimated market size of somewhere between 1.5m and 2.2m enterprises. The result of this estimation is not too different from the above, the only difference being taking the enterprises as customers instead of the vulnerable households.

TESK (confederation of Turkish Tradesmen and Craftsmen) estimates the number of micro and small enterprises in Turkey to be around 4 million. The figures used in the below analysis are rough estimates and should be regarded as ballpark generalizations. Demand figures for the agricultural sector are taken from UNDP estimates and they are not precise numbers.

Private Sector Approach			
	Number of enterprises	20% demand	30% demand
Micro and Small Enterprises (formal)	4 000 000	800 000	1 200 000
Informal Sector Enterprises	2 250 000	450 000	675 000
Small Agricultural Enterprises	1 125 000	225 000	337 500
Total	7 375 000	1 475 000	2 212 500

Graph 2.11 : Demand for Microfinance in Turkey: Private Sector Approach

It is assumed that there are different amounts of loans desired by the customers, so the market is segmented into four categories. The categories are reflecting the loans amounts of \$500, \$1,500, \$3,500 and \$5,500. These loan amounts are merely indicative analysis and are used by the UNDP in order to have a more solid understanding of the market. They are not based on factual records, but rather analytical estimates.

When this approach is utilized, and the formerly calculated demand figures are applied to the equation, the total capital requirement ranges between \$2.3bn and \$3.5bn depending on the demand being between 20 percentile and 30 percentile. One should also bear in mind that the loan amount in the portfolio at any time is actually less than the disbursed amount due to the repayments. According to UNDP practices, it could be assumed that around 50 percentile of the total disbursed loan amount is the actual outstanding loan portfolio. Thus, this approach gives us roughly \$1.2bn to \$1.8bn of outstanding loans.

Loan Amount Needs: Standard of Living Approach		
Average Loan Size	20% demand (1,149,556)	30% demand (1,724,333)
20% market (\$500)	114 955 556	258 650 000
50% market (\$1,500)	862 166 667	1 293 250 000
25% market (\$3,500)	1 005 861 111	1 508 791 667
5% market (5,500)	316 127 778	474 191 667
Total	2 299 111 111	3 534 883 333

Graph 2.12 : Loan Amount Needs: Standard of Living Approach

With the private sector approach, the total loan amount required is roughly between \$2.4 bn and \$3.6 bn, again giving very similar figures to the previous approach. When we assume that 50 percentile of the disbursed loans make up the outstanding portfolio, we are left with an amount between \$1.2bn and \$1.8bn which gives us the same range with the standard of living approach estimates.

Loan Amount Needs: Private Sector Approach		
	20% demand (1,475,000)	30% demand (2,212,500)
Average Loan Size		
Formal Sector (\$2000)	1 600 000 000	2 400 000 000
Informal Sector (\$500)	225 000 000	337 500 000
Agricultural Sector (\$2,500)	562 500 000	843 750 000
Total	2 387 500 000	3 581 250 000

Graph 2.13 : Loan Amount Needs: Private Sector Approach

The estimates above try to derive a general sense of the required loan amounts. Thus, they do not take into consideration the other financial service needs such as savings, insurance, remittances. The non-banked population has more diverse financial needs than just loans and currently there is a big gap that needs to be filled.

2.4 PROVIDERS OF MICROFINANCE

General Outlook

When we look at global examples, we see that there are more than one institutional model that successfully provide microfinance services. These could be non-governmental organizations (NGOs), commercial banks, non-bank credit institutions, microfinance banks or likes of these organizations.

Microfinance is quite a new idea for Turkey that was not prevailing 10 years ago, thus it does not have a recognition as a proper segment in formal financial system. However, the state-owned banks Ziraat Bank and Halkbank have long been providing subsidized credit to small and micro enterprises. As explained earlier Ziraat bank has the biggest branch network in Turkey and it targets the agricultural sector, while Halkbank complimentarily targets the tradesmen and service sectors. Although we cannot call their loans mirolending due to their size and their collateral requirements, these banks have been acive in lending to small and micro enterprises for a long time.

Ziraat Bank is the biggest bank in Turkey, both asset size and branch network wise with approximately 1300 branches as of 2008. Halkbank is the 7th largest bank with

approximately 620 branches.

(http://www.tbb.org.tr/tr/Banka_ve_Sektor_Bilgileri/Istatistiki_Raporlar.aspx) These state banks are engaged in traditional asset-backed lending just like the other commercial banks. The loans they administer require for up to 200 percentile collateral of the value of the loan being disbursed.

Halk Bank has provided 130,000 small and micro enterprises which were registered to TESK (Turkiye Esnaf ve Sanatkarlar Konfederasyonu) with the loans they required. Average loan size was about \$1,600. (Burritt, 2003) Nearly 100 percentile of these loans were given to men. It can be safely assumed that these borrowers were the high-end segment of the market given the fact that they have been formally registered with TESK. Most of the poor and the informal businesses cannot access to the credit through these formal channels. Women are especially vulnerable in that sense as well.

The average Halk bank loan is given for two years to the borrowers. Ziraat bank provides the operational loans for a time period of from 3 months up to a year, while its investment loans are for 3 to 5 years. The interest rates that these banks apply range between 4 percentile and 5 percentile.

These loans usually do not take the needs of the borrower into consideration, but rather follow the strict government policies on subsidized loans. In that sense, they are product-driven rather than customer-driven. Most of the credit is available for asset purchasing, rather than being used as a working capital. Thus, the loans are usually transferred directly to the suppliers. The distribution of loans are another problematic area. The established distribution networks are too bureaucratic and slow. It can take a loan applicant more than a year to actually receive the loan in some cases.

However, as in most of the state owned banks that are not run at the most efficient manner, around half of these loans have been non-performing loans or they had been restructured. So the lending practices of Ziraat Bank and Halkbank seem sustainable only if there is an outside subsidy for it.

There are just a couple civil society organisations that are active in microfinance in Turkey at the moment. Kadın Emegini Degerlendirme Vakfi -KEDV in short- (the Foundation for the Support of Women's Work) has founded Maya Enterprise for Microfinance in 2002, being

the first one in the country. There is also the Turkish Grameen Foundation which operates on similar principles. These two NGO's operate on smaller scales than banks but they have a more focused approach. Their operations will be discussed in details in the upcoming sections of this paper.

Loans offered by Maya and Turkish Grameen Project (TGMP) are discussed in details through out the rest of the paper.

Although private banks have certain credit lines and training programs to support the small enterprises, they still do not play an influential role in the microfinance sector's development. However, going forward the private sector participation in the sector is expected to increase.

State-owned Banks

Although the average size of the loans they disburse is bigger than the perceived size of micro-loans, it can still be said that the biggest players in the microfinance sector are the state banks: Ziraat Bank and Halk Bank. Due to the fact that they are subsidized state banks and their loan portfolios can be worse than the private banks although they have been trying to clean up their portfolios in preparation for privatization. As explained earlier, Ziraat Bank and Halk Bank are the main providers of small loans in Turkey due to their country-wide reach and their vast resources.

Subsidized treasury loans are given to Halk bank for the provision of micro loans to enterprises. However, accessing and receiving these loans can be cumbersome and bureaucratic due to the loan's supply driven nature rather than being demand driven.

According to a UNDP report 120,000 to 130,000 micro and small loans had been distributed through this channel as of June 2003. (Burritt, 2003) The total outstanding loan portfolio was approximately around \$200 million, which gives us an average loan size of circa \$1600. Halk Bank also provides a small number of loans to small businesses through non-subsidized means.

Although the common the vision of the state-owned banks is to raise funds from the public and reallocate those funds to the needed sector back in the public, this is not necessarily the

case. A very low percent of the bank’s assets is given as loans. The bigger portion of these assets is being used by the banks’ treasury departments in longer term government bonds and etc. in order to mitigate the risk and ensure stable income. Thus, only a small portion of the total assets are classified as “loans to customers” in the financial statements of banks.

T.C.ZIRAAT BANKASI A.Ş. BANK ONLY INCOME STATEMENT (FINANCIAL POSITION TABLE)			
ASSETS	THOUSAND TURKISH LIRA		
	PRIOR PERIOD		
	(31/12/2008)		
	TC	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY	7 792 291	1 583 306	9 375 597
II. FINANCIAL ASSETS WHERE FAIR VALUE CHANGE IS REFLECTED TO INCOME STATEMENT (Net)	640 943	22 636	663 579
III. BANKS	9 237	3 701 113	3 710 350
IV. MONEY MARKET SECURITIES	0	0	0
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	3 970 104	5 100 940	9 071 044
VI. LOANS AND RECEIVABLES	29 589 641	1 246 553	30 836 194
VII. FACTORING RECEIVABLES	0	0	0
VIII. INVESTMENTS HELD TO MATURITY (Net)	44 001 121	4 786 079	48 787 200
IX. INVESTMENTS AND ASSOCIATES (Net)	121 399	0	121 399
X. SUBSIDIARIES (Net)	65 112	449 879	514 991
XI. JOINT VENTURES (BUSINESS PARTNERS) (Net)	0	24 982	24 982
XII. RECEIVABLES FROM LEASING TRANSACTIONS	0	0	0
XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR HEDGING	0	0	0
XIV. PROPERTY AND EQUIPMENT (Net)	812 577	2 165	814 742
XV. INTANGIBLE ASSETS [Net]	8 952	2 342	11 294
XVI. REAL ESTATES FOR INVESTMENT PURPOSE (Net)	0	0	0
XVII. ASSETS FOR TAX	170 888	0	170 888
XVIII. PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND HELD FROM TERMINATED OPERATIONS (Net)	4 143	0	4 143
XIX. OTHER ASSETS	282 525	23 568	306 093
TOTAL ASSETS	87 468 933	16 943 563	104 412 496

Graph 2.14 : Example Balance Sheet of a Turkish Bank

Source: ([http://www.tbb.org.tr/tr/Banka ve Sektor Bilgileri/Istatistiki Raporlar.aspx](http://www.tbb.org.tr/tr/Banka_ve_Sektor_Bilgileri/Istatistiki_Raporlar.aspx))

The remaining portion of the total assets that becomes loans can only be utilized by the “better off” segment of the target audience due to the collateral requirements (usually property) of these loans. These collateral requirements become strict constraints that restrict the remaining lower segments from accessing and using those funds.

Although these state banks are not run as efficiently as the private banks and there are certain structural problems that disable them from reaching the really poor segments of the population, they are dominant players in the market and they will remain so in the near future. Their country-wide reach via expansive branch networks provides them a huge potential role in the future microfinance development, given the right funding and lending structure.

Commercial Banks

Although the formal banking sector has recently shifted its focus towards the SME clientele which constitutes the backbone of the economy, there is still a lack of interest in the micro segment. The SME lending has been increasing in volume in the past years while the banks are also coming up with strategies to educate the SME's in business know-how, financial management and accounting practices. Especially smaller scale banks such as Turkish Economy Bank (TEB) and Denizbank are focusing their attention on the SME market. TEB has started the project "Altin Bilezik" (golden bracelet) with UNDP and GIYAD, however the project rather aims providing credit to entrepreneurs with bright new ideas, rather than being a microcredit center. HSBC Turkey has a more comprehensive project on microfinance which comprises of a 5mn TL credit line between the years 2006-2011. Their aim is to reach 10.000 people during that period. As of 2008 year-end, 2mn TL has been disbursed and 3700 people have been reached. HSBC administers its microfinance project in conjunction with TOG (Community Volunteers Foundation), TISVA (Foundation for Waste Reduction) and Maya Foundation.

(<http://www.hsbc.com.tr/mikrokredi/hsbcvemikrokredi.asp>)

In a foreseeable term, commercial banks of Turkey do not seem to have any plans of becoming long term participants in the microfinance sector. Due to the fact that Turkish banking sector is still far from its peak potential, there is a more deepening yet to be expected. The margins are still high, and the return on investment is much higher than the European countries. Thus, at the moment there is no need for the Turkish banks to increase their frontier towards the microfinance segment. They are simply focusing on the existing segments and try to increase their market share instead of looking for alternative clients who has limited access to the financial markets. And the existing microfinance efforts are only short term projects rather than new business models for themselves.

In contrast, in some countries such as Brazil, the commercial banks have entered the microfinance sector due to the decreasing profitability of the sector thus feeling the pressure to increase their customer base to the unbanked population. Since it is impossible to talk about such market pressure in Turkey yet, it is still a far possibility for commercial banks to enter the microfinance market with pure commercial aims.

Specialized Microfinance Banks

Currently, there are no specialized microfinance banks in Turkey. As will be explained later in the legal framework section, there is only a draft legislation under consideration of the Parliament that deals with the creation of the microfinance banks.

International development institutions such as EBRD (European Bank for Reconstruction and Development), World Bank and IFC (International Finance Corporation) have been active in creating microfinance organizations in countries such as Albania, Bosnia, Bulgaria, Moldova, Romania, Georgia, Kosovo, Serbia, Ukraine and Russia. Turkey could be the next country for such a microfinance bank that is financially and technically supported by the multilateral development institutions. Utilizing the private commercial capital is another possible way of founding an economically sustainable microfinance bank in the medium term.

Government-backed Funds

Social Assistance and Solidarity Fund of Turkey (Turkiye Sosyal Yardımlasma ve Dayanisma Fonu) has couple programs for credit lending to the bottom of the pyramid in the society. Although it is not exactly microfinance lending, it is a government supported program that is designed to provide access to finance to the poor.

These are mostly disbursed to the applicants on “2 year no payback + 3 year equal installments” basis to the applicants without applying any interest rate on the local currency loans. Although they are not “microcredit” per se due to their different characteristics, these loans have been disbursed to the poor in a total amount of up to USD 150mn until year 2005. These loans are used to support the individuals or groups/households to start their own income generations activities, or sustain their already commenced activities in a longer term. The preference is given to group/household loan applications in order to attain economies of scale in provision of technical assistance to the borrowers. There is no restriction on the subject of the income generation activity. The activities are supported by USD5000 in the urban areas, while the amount is USD3000 in the rural locations.

The main criteria while selecting the recipients of such loans are;

- i. the loan should aid in the income generation of the poor household in a sustainable manner

- ii. there should be a local/national demand for the output that will be produced as a result of the project
- iii. although not a necessity, it is regarded as the borrower's commitment to the project if a minimum 10 percentile of the loan amount is put in the project by the borrower as equity

(Burritt, 2003)

(<http://www.sydgm.gov.tr/tr/>)

NGOs and Civil Society Organizations

Partnering with a local NGO (non-governmental organization) is a common solution for many international organizations to access the local know-how in the microfinance sector. In other times, international or local NGOs can be the main players themselves in the microfinance arena.

Some NGOs serve as the proof that the microfinance can be a viable solution to the unbanked population's access to financial markets. They utilize new business models for microfinance to work and in that sense be the pioneers in the market. Some NGOs transform into licensed microfinance banks after certain time of successful operations.

In Turkey only a few NGOs have participated in microfinance delivery. The already weak NGO culture in Turkey, as well as the opaque rules and regulations regarding the permissions given to such NGOs for bank-like services are the main causes of this weak participation.

The most prominent initiatives taken by NGOs are the Foundation for the Support of Women's Work (KEDV)'s Maya Enterprise (founded in 2002) and the Turkish Grameen Project (founded in 2003) which replicates the Grameen project of Nobel Laureate Muhammed Yunus.

Although the NGOs have not been a major driving force in the Turkish society so far, they have recently started to gain more importance in various disciplines harboring wider support from the public. Although the legal status of NGOs who lend money is somehow unclear,

that legal ambiguity has allowed the NGOs to have a wider area for experimentation with their services. However, this legal ambiguity could also be a major drawback for some of the NGOs to commence their microfinance operations or increase their scope.

One should not undermine that NGOs are sources of innovation due to their close ties with the people and this provides the bigger commercial capital an already tested road to follow. With the increasing visibility of NGOs in Turkey, NGOs could now play a vital role in the emergence of the microfinance sector if they are given the right legal climate to continue the micro-lending practices. If the further development of the NGOs is not well supported by the public and by the government, it could partially block the innovations that are bound to spread with the NGOs.

Maya Enterprise for Microfinance

In 2002, KEDV (Foundation for the Support of Women’s Work) established a separate for-profit company to run its microfinance business: Maya Enterprise for Microfinance. Maya offers financial services to low-income women who works at home or at a shop, or who want to start up a new business. These women usually look for access to loans to manage a business and certain household activities. However, Maya is not a licensed bank in commercial terms.

GENERAL	
Active members	712
Disbursed loan number	1350
Disbursed loan volume	960.000 TL
Average disbursed loan amount	760 TL
Late repayment	1 percentile
SECTOR	
Commerce	56 percentile
Production	40 percentile
Services	4 percentile
PLACE OF EMPLOYMENT	
Home	72 percentile
Shop	25 percentile
Workbench	3 percentile
BUSINESS LINE	
Handcraft	25 percentile

Petty wares production and sales	23 percentile
Cosmetic and Cleansing Products	20 percentile
Tailor	10 percentile
Jewelry and souvenir production and sales	5 percentile

Graph 2.15 : Maya in Numbers - June 2004 (latest data available)

<http://www.kedv.org.tr/index.php?page=maya>

A big segment for Maya is low income women with already established businesses. These businesses are usually run by women, and include small-size traders of home produced textiles, souvenirs, agricultural products, as well as tailors and etc. There are 3 types of loan products at Maya: MayaUs, MayaMe, MayaFamily. MayaUs can be between 100TL-900TL (55USD-500USD). MayaMe can be 100TL to 2000TL (55USD-1100USD). MayaFamily can be 100TL to 500TL (55USD-275USD). MayaFamily credit is for women who are in need of urgent cash for health expenses, education expenses and monthly bill payments. Only successful MayaMe and MayaUs credit borrowers can apply for MayaFamily loans. The amount is decided upon the payment capacity of the borrower. After the first loan whose maximum amounts are pre-set, the amount of the credit can be increased by 25 percentile in the subsequent loans.

MayaUs loan do not require any sort of collateral in the sense of what the banks ask for (tax/income evidence, etc). What is required is that at least 3 women should come together and form a “Support Group” and they apply to Maya as a group. Each person in the group can borrow accordingly with her personal needs, and the group can make the pay-backs as a group. This way, each group member becomes the other members’ guarantor, as well as the borrower herself. MayaMe and MayaFamily loans are applied personally (different from MayaUs). If this person is a member of a Support Group, this group can be the guarantor of her. If she is not a member of any support groups, another person can be the guarantor.

	MayaUs	MayaMe	MayaFamily
Aim	Business development Business diversification Raw materials purchasing	Business development Business diversification Raw materials purchasing	Bill payments Health expenses Other urgencies
Loan Amount	100 - 900 TL	100 million - 2000TL	100 - 500 TL
Loan Term	3, 4, 5, 6 or 8 months	4, 6, 8 or 12 months	1, 3, 4, 5 or 6 months
Installment Type	Monthly installments	Monthly installments	Monthly installments
Collateral	Support group	Support group Guarantor Gold/Foreign currency /vehicle	Support group Guarantor Gold/Foreign currency /vehicle

Graph 2.16 : Maya Loan Types

<http://www.kedv.org.tr/index.php?page=maya>

The loan is disbursed in 3-7 days for the first time borrowers. In this time frame, the borrower is informed about Maya's system, his/her business is reviewed and the income calculations are made. This time frame is shorter for repeat borrowers.

Maya has a guarantor system of 3 people, where the borrower's loan repayment is guaranteed not only by the borrower but also by the group she belongs to. Thus, as explained earlier, people of the same group are designated as responsible parties for each other. The number of people in a group used to be 5, now it is reduced to 3. Besides Maya, KEDV cooperates with Citibank and HSBC for a financing programme to organize collecting savings from members in order to lend the other members.

Maya's aim is to supply financial services to 8000 women (active borrowers) in the semi-urbanized areas of Istanbul, Izmit, and Adapazar. Maya will be able to make net profits once it reaches to that number. It also plans to put this profit back into the business in order to expand the services to a greater number of women.

Sample Payment Schemes for MayaUs Loan (for 500 TL):				
	If paid in 3 months	If paid in 4 months	If paid in 6 months	If paid in 8 months
Loan Amount	500 TL	500 TL	500 TL	500 TL
Contribution to the project	20 TL	20 TL	20 TL	20 TL
Net Loan Amount	480 TL	480 TL	480 TL	480 TL
Monthly installment	183 TL	140 TL	98 TL	77 TL
Total payback to Maya	548 TL	561 TL	586 TL	612 TL
Sample Payment Schemes for MayaMe Loan (for 500 TL):				
	If paid in 4 months	If paid in 6 months	If paid in 8 months	
Loan Amount	500 TL	500 TL	500 TL	
Contribution to the project	20 TL	20 TL	20 TL	
Net Loan Amount	480 TL	480 TL	480 TL	
Monthly installment	142 TL	99 TL	78 TL	
Total payback to Maya	566 TL	596 TL	624 TL	
Sample Payment Schemes for MayaFamily Loan (for 500 TL):				
	If paid in 3 months	If paid in 4 months	If paid in 6 months	
Loan Amount	500 TL	500 TL	500 TL	
Contribution to the project	20 TL	20 TL	20 TL	
Net Loan Amount	480 TL	480 TL	480 TL	
Monthly installment	184 TL	141 TL	99 TL	
Total payback to Maya	553 TL	566 TL	596 TL	

Graph 2.17 : Sample Payment Schemes for Different Maya Loans

Source: (<http://www.kedv.org.tr/index.php?page=maya>)

There has been certain challenges that Maya had to overcome at the beginning of its operations. Because of the fact that clients are inexperienced about loans, they have been reluctant to access the offered services. With time, it was also evident that forming a microfinance market among women has certain difficulties of its own. Women has been mostly discouraged or even stopped from getting credit from an outside source if it means leaving home. Because most of the businesses who use Maya loans are informal businesses, there has also been fears about keeping that informal status while using a loan.

Turkish Grameen Project (TGMP)

The idea of microcredit has been first introduced by the economy professor Muhammad Yunus in Bangladesh in 1973. (Yunus, 2007) The first microcredit was \$6 to a young Bangladeshi woman who made bamboo handicrafts. Currently, the Grameen Bank which was founded by Muhammed Yunus has 7.9 million total number of borrowers. 97 percentile of these borrowers are women. It has has 2,557 branches. It works in 84,487 villages. Number of total staff is 23,323. Total amount of loan it disbursed since the beginning, is 8.17 billion USD. Out of this, 7.25 billion USD has been paid back. Loan recovery rate is 97.81 per cent. Between July 2008 and July 2009, Grameen Bank disbursed 1.04 billion USD. Monthly average loan disbursement over the past 12 month was 87 million USD. Since 1995, Grameen Bank does not accept any more donor funds. The deposits Grameen collects is enough repay its existing loans and disburse more credit. Over 54 per cent of its deposits come from bank's own borrowers. (www.gramen.org)

In Turkey, Grameen's model is used by the TIKVA Foundation (The Foundation for Waste Reduction) with the help of the Grameen Trust. The main site of the project is the eastern province Diyarbakir. The program is build upon Grameen Bank trained management staff and local employees. The Grameen project targets the poorest people in its operations.

The very first microcredit in Diyarbakır was given to 6 people in 2003. In a three month period, this number increased to 130 people. The loan amounts vary between 200-500 TL, and they are given for a 1-year period as in Bangladesh. The payments are in weekly installments. There was a service charge of 20 percentile of the loan amounts. (Turkish Grameen Microcredit Program, Annual Report 2007) In 2005, this service charge was decreased to 15 percentile with the help of economies of scale. Payments are collected while visiting the borrowers. During these visits no kind of treats nor gifts are accepted from the borrowers.

The users of microcredit are mostly occupied with sewing, handicrafts, livestock animals, washing clothes, selling milk, agriculture and etc. In order to receive a loan, the borrower should not own any lands bigger than 10.000 square meters, nor should have any social security. A group's members should be from the same village, but they cannot be relatives. The people in the same group should have similar profiles and there should be a bond of trust among each other.

As of December 2007, the disbursed loans reached to 7.6 mn USD, and the number of borrowers reached to 6925 people. There has been a payback over 99 percentile so far. As an example, a TGMP member who borrows microcredit in an amount of 500 TL should pay 13 TL every week for 46 weeks (except vacations). (Turkish Grameen Microcredit Program, Annual Report 2007) A more detailed information of the performance of TGMP can be seen below.

	2004	2005	2006	2007
Number of Villages	44	56	85	28
Number of Municipalities	5	8	20	28
Number of Groups	146	410	882	1734
Number of Members	720	2022	4050	7397
Number of Borrowers	672	1967	3885	6925
Percentage of Woman Borrowers	100 percentile	100 percentile	100 percentile	100 percentile

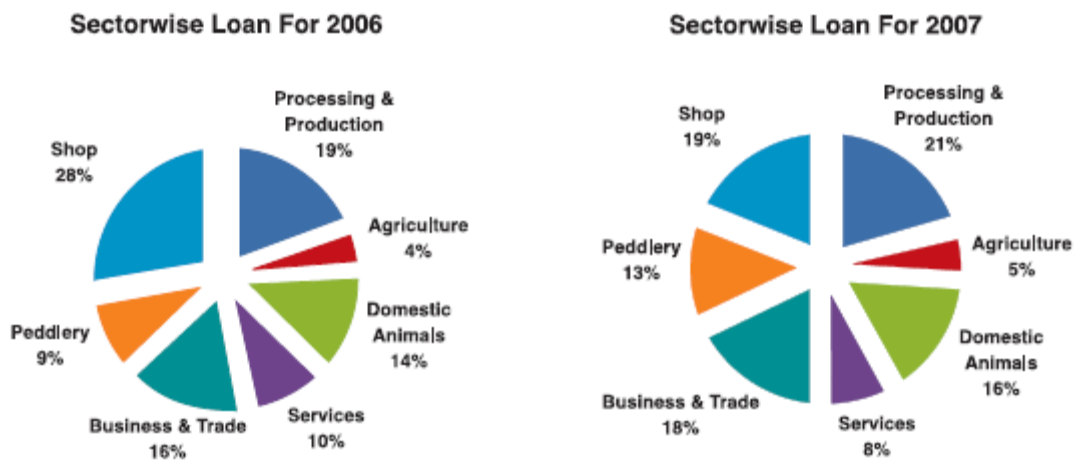
Graph 2.18 : Productivity of Turkish Grameen Microcredir Program (TGMP)

Source: Turkish Grameen Microcredit Program, Annual Report 2007

	Jun 2004	Jun 2005	Dec 2006	Dec 2007
Total Amount Disbursed (USD)	270 280	1 064 854	3 702 916	7 664 268
Total amount Outstanding (USD)	161 757	440 915	1 107 694	2 189 723
Rate of Repayment	100 percentile	100 percentile	100 percentile	100 percentile
Portfolio at Risk	0,0 percentile	0,3 percentile	0,5 percentile	0,5 percentile
Operational Self-sufficiency	40 percentile	78 percentile	100 percentile	100 percentile

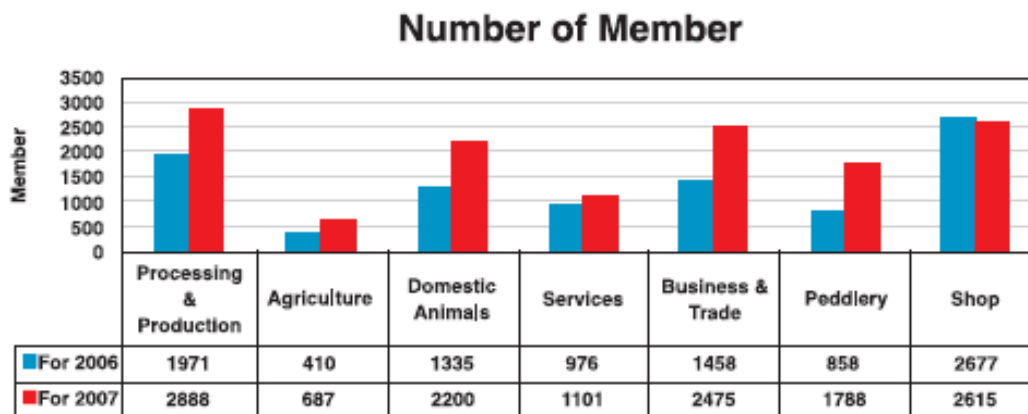
Graph 2.19 : Portfolio Quality of TGMP

Source: Turkish Grameen Microcredit Program, Annual Report 2007



Graph 2.20 : Sectorwise Loans

Source: Turkish Grameen Microcredit Program, Annual Report 2007



Graph 2.21 : Grameen Member Numbers

Source: Turkish Grameen Microcredit Program, Annual Report 2007

2.9 REGULATION OF MICROFINANCE IN TURKEY

Turkish banking system is well regulated in international standards and overseen by prudent banking laws and institutions such as BDDK (Banking Supervision and Regulation Agency). However, there is a certain gap in the laws and regulations governing the field of microcredit due to its infancy stage in the country.

The only microfinance related legislation that is present at the moment in Turkey is the draft act on micro-finance institutions. Currently, there are no clear and no specific guidelines for microfinance operations for non-bank organizations. There are different types of regulations for different types of entities such as NGOs and cooperatives. (Yoksullugun Onlenmesinde Mikrokredi Uygulamalari ve Turkiye, OIC/CCEC/2-07/CR(1)) If the new legislation passes, a special legal framework will thus be in place for NGO's and other non-bank organizations to provide services in the microfinance area with wider scale of operations.

The draft legislation sets a general framework that will enable the charitable organizations and associations to lend to micro-borrowers. It will also be setting up micro-finance specific standards for issues such as the required minimum capital and Capital Adequacy Ratio (CAR). While the minimum capital requirement will be lower, a higher CAR is expected from the micro-finance institutions if the draft legislation is put into force. The draft legislation will also set criteria on the products that could be served. (Burrirt, 2003)

Ownership structure is another area that is covered within the draft legislation. However, it still restricts the associations' equity ownership in a licensed microfinance bank. When international benchmarks are taken into consideration, it can easily be seen that many NGOs start their operations with limited donor funds, cumulate more money and experience over time, and then obtain a banking license by themselves or in partnership with other NGOs. They could also trade their loan portfolios for a stake in an existing microfinance bank in order to be able to collect savings and deepen their operations.

CONCLUSION AND THE PROPOSED MICROFINANCE STRATEGY FOR TURKEY

Microfinance has a wide reach and a profound developmental effect on the society, since its beneficiaries are mostly the poor (or financially vulnerable) women and the unemployed. These small sums of credit given by the Microfinance institutions or NGO's end up enabling this unrealized workforce potential to engage in entrepreneurial activities and lift themselves out of poverty. Over 150 million people in the world had been reached by microfinance.

However, Turkish microfinance market still requires considerable efforts to be developed. Currently, there are couple small scale semi-SME semi-microfinance loans distributed by the commercial and state banks, however the outreach is limited, the access is quiet bureaucratic and they cannot be considered as real microfinance products due to their different characteristics. There are two NGOs that are currently involved in microfinance practices in small scales but they are still not sustainable. Currently, there is no microfinance institutions in Turkey either. Although there is considerable demand for microfinance with an estimated 5.7 million households, the supply is still not there at large.

According to a study conducted by Economist Intelligence Unit, Turkey has scored relatively low on regulatory climate, investment climate and institutional development factors for microfinance development. In Eastern Europe and Central Asia countries, Turkey was the lowest scoring country after Azerbaijan out of 7 countries in the group. In overall score, Turkey ranks the 44th out of 55 countries in the study. (Global Microscope on the Microfinance Business Environment, Economist Intelligence Unit, 2009)

Overall score			<i>continued</i>		
Rank	Country	Score	Rank	Country	Score
1	Peru	73.8	29	Yemen	42.1
2	Bolivia	71.7	=30	Sri Lanka	40.4
3	Philippines	68.4	=30	Tajikistan	40.4
4	India	62.1	32	Mozambique	40.3
5	Ghana	60.9	33	Nigeria	39.4
6	Ecuador	59.7	34	Rwanda	38.6
7	Nicaragua	58.7	35	Democratic Republic of Congo	36.8
8	Colombia	58.6	36	Indonesia	35.2
=9	El Salvador	57.5	37	China	34.1
=9	Uganda	57.5	38	Haiti	33.4
11	Pakistan	56.5	39	Senegal	32.6
12	Kyrgyzstan	56.2	40	Madagascar	32.3
13	Kenya	55.8	41	Cameroon	31.6
14	Cambodia	54.1	42	Ethiopia	31.3
15	Guatemala	51.8	43	Argentina	30.8
16	Panama	50.9	=44	Morocco	30.3
17	Paraguay	49.5	=44	Turkey	30.3
18	Honduras	49.3	=46	Mongolia	30.0
19	Tanzania	48.4	=46	Nepal	30.0
20	Chile	48.0	48	Lebanon	29.3
21	Mexico	47.3	49	Azerbaijan	29.0
22	Dominican Republic	47.0	50	Uruguay	28.4
23	Georgia	45.1	51	Venezuela	24.1
24	Brazil	44.0	52	Jamaica	23.7
25	Armenia	43.9	53	Trinidad and Tobago	22.9
26	Bosnia	43.1	54	Vietnam	21.6
27	Bangladesh	42.7	55	Thailand	21.2
28	Costa Rica	42.5			

Graph 3 : Microfinance Environment in Selected Countries

Source Global Microscope on the Microfinance Business Environment, Economist Intelligence Unit, 2009)

The Turkish microfinance market could follow a multi-stage development over the short-medium-long terms.

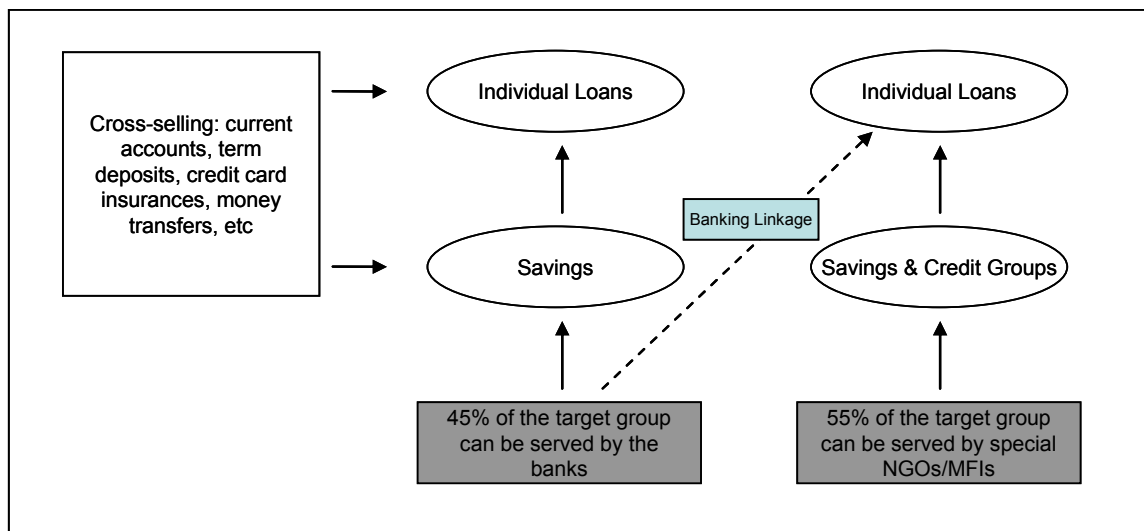
In the immediate short term, due to the difficulties in the global financial markets such as lack of liquidity and low appetite for new investments, the emergence of new players in the microfinance sector will be limited. The unclear legal framework also hinders the development of the sector. Thus, the supply seems to be current player such as Maya and the Grameen Foundation will need to develop more market driven products in order to deepen and widen their current reach.

In the medium to longer term, an increase in supply via the entrance of the newcomers can be expected given the right conditions. The biggest positive factor would be the enabling legal and regulatory framework for the new entrants as well as the existing players. With a solid dedication of the legislators to the issue, the draft legislation can be put into force. Another encouraging factor would be having a successful new Microfinance Bank that will demonstrate the viability of the model to the other possible private sector players. A competitive microfinance industry will consist of different kinds of players from various institutional forms such as NGOs, private banks and non-bank financial institutions, and this way a wide market and customer coverage can be reached.

The long term prospects will most probably be focused on licensed microfinance institutions/banks, due to the size they will be able to amass. The NGOs will likely play to the niche market that the scalable institutions will not bother and thus become the innovators of new practices/products in the market. Again, the enabling legislations should be in place in order for big and small players alike to practice in a sustainable manner.

Given this wider framework, in the condition that commercial banks develop the right products (like emergency savings), 45 percentile of the target group can be served by the commercial banks. There could be a variety of loan products such as emergency loans, private loans and etc. There will also be an opportunity for cross-selling the different products such as current accounts and later on more detailed products such as insurance products as the consumer gets more educated about the system. The loans will be tied to the repayment capacity of the households rather than just the businesses, which will improve the repayment rates.

Non-governmental organizations and microfinance institutions can serve the remaining 55 percentile via group or individual lending. The model used for individual lending is explained in examples through out the paper. Basically, the individuals come together and form a group that can take a loan from a microfinance institution. The groups can be later on linked to the commercial banks as well for credit lines, and become regular borrowers. And, once the individuals have participated long enough in the group system, they can become individual borrowers from the commercial banks as well.



Graph 4 : Proposed Workflow for Microfinance

Source: Grossman, 2006

There is a long and viable path for Turkish microfinance sector to develop. Short term developments such as the legal framework will enable the longer term developments such as the new bigger participants in the sector. During this period, not only there will be new players in the sector but also the general perception about the viability of the microfinance will improve drastically as well.

These assumptions are still very much generalizations which are derived from what has taken place in Turkey so far. The next step would be a deeper study to investigate various microfinance models in different countries in order to find new institutional/business models which could be successful in countries such as Turkey. It would be doing a comparative study of the successful microfinance development models in different countries and try to develop an innovative model for application in Turkey, one with the assumption that the expected legislative framework to be in force in a foreseeable future.

ABBREVIATIONS

Association pour le Droit a l'Initiative Economique	: Adie
French Development Agency	: AFD
Banking Association of Turkey	: BAT
Banking Supervision and Regulation Agency	: BDDK
Capital Adequacy Ratio	: CAR
Community Volunteers Foundation	: TOG
European Bank for Reconstruction and Development	: EBRD
European Investment Bank	: EIB
European Regional Development Fund	: ERDF
European Social Fund	: ESF
European Union	: EU
Foundation for Waste Reduction	: TISVA
Gross Domestic Product	: GDP
Gross National Product	: GNP
International Finance Corporation	: IFC
Joint European Resources for Micro and Medium Enterprises	: JEREMIE
May Enterprise for Microfinance	: Maya
Microfinance Information Exchange Organization	: MIX
Microfinance Institutions	: MFI
Non-banking financial institution	: NBIF
Non-governmental Organization	: NGO
Small and Medium Enterprise	: SME
Social Solidarity Fund	: SSF
Southeastern Anatolian Project	: GAP
The Foundation for the Support of Women's Work	: KEDV
Tradesmen and Artisans Confederation	: TESK
Turkish Economy Bank	: TEB
Turkish Grameen Project	: TGMP
United Nations	: UN
United Nations Development Program	: UNDP