

Assistance or Subjugation: The Impact of Microcredit on the Poor

Gökçe Günel
Koç University

Özge Aytulun
Koç University

With the changing definition of poverty, the poverty alleviation programs also take a different shape. Poverty reduction is no longer under the mere jurisdiction of the state and civil society: Market economy has also become an important actor. Microcredit, defined as a loan which financial institutions give to the poverty stricken people who do not have any collateral to start small businesses, is a significant tool, which has been encouraged both by international organizations like World Bank and UNDP, and by most developing country governments. In Turkey, microcredit has been initiated in 2002 by a civil society organization. Afterwards, the incumbent Justice and Development Party (JDP) government has paid special attention to microcredit: A member of the parliament from JDP, inspired by the Bangladeshi experience, started a foundation in association with the Grameen Bank. Currently, a microcredit bill that has been drafted by the same parliamentarian is being discussed. In this context, the traditional means of lending are being dissolved, while new opportunities are being laid out for major commercial banks and financial institutions. This article argues that through microcredit the poverty alleviation discourse is being used in order to promote market integration and deepening, thereby connecting the poor with the national and global economy. It is also a part of the neo-liberal governance structure, subjugating the poor to the market forces. Drawing on elite interviews with policy makers and civil society members, and in depth consultation with primary written sources, this study aims at contributing to the on-going debates by looking through the Turkish lens.

Introduction

While the second half of the 20th century has become an era of advanced technology, high economic growth and rising living standards for a number of industrialized countries, the rest of the world has not benefited from the advantages of globalization and neoliberal policy paradigms equally. Globalization has failed to create a just society; while enriching a minority, it left the masses dissatisfied. As a result, income inequalities and rising levels of poverty continue to persist in different parts of the globe, especially in the less developed countries, although the industrialized countries are not immune from the poverty problems.

Poverty is by no means a new phenomenon. However, in recent decades it is very much on the international agenda with the impact of organizations like the International Monetary Fund (IMF), World Bank (WB), International Labor Organization (ILO) and United Nations Development Programme (UNDP). The emergence and spread of microcredit programs as a new strategy of poverty alleviation, through which the poor receive small loans on the basis of their membership to self-regulating groups, has been inspired by this new concern on the part of global actors. Governments, NGOs and the private sector have worked in accordance in order to supply microcredit to the poverty stricken. This type of poverty alleviation mechanism emphasizes the unavailability of financial resources to the poor as a significant factor that induces poverty. Microfinance helps the poor become self employed and thus generates income and reduces poverty.

This paper focuses on the microcredit operations in the context of Turkey. Yet, it does not reach any conclusions as to whether microcredit is an effective strategy for solving poverty related problems. We underline that we do not have the data to assess the grassroots effects or responses to microcredit. Instead, our emphasis is on the elite discourse. We argue that the discourse of poverty alleviation is being exploited as a means to extend the reach of banking institutions. The poor have been reinvented as a new market segment that has many demands to satisfy. Microcredit institutions are organized in the way that turns the real need of the poor into real demand while ensuring that the institution profits from this operation, which is actually what makes this demand effective. Microcredit is portrayed to be a mere poverty alleviation tool with no benefits for the supply side. Still a close examination of the elites' voice provides us with the evidence that microcredit is actually just another financial instrument that is particular in its target market. For our analysis, we interviewed three elites from two microcredit organizations (Maya and Turkish Grameen Bank Project) that operate in Turkey¹. The interviews we conducted demonstrate that the elites perceive the poor as a huge market, and microcredit as a profitable business.

In this paper, first we will give a brief historical account of the development of microcredit. Later, we will focus on the Turkish case. Our exploration of this case will involve three different variables. We will discuss Maya which is the pioneer organization in Turkey. Then, we will articulate on the operations of Turkish Grameen Bank Project (TGMP). Finally, we will outline our projections regarding the involvement of commercial banks in this newly emerging sector.

A Historical Framework

The poverty-stricken segments of the society have always had their traditional methods of access to financial resources. Such means to financial resources have occasionally

¹ We have conducted three interviews. Two of the interviewees are from Maya; Didem Demircan and Belgin Güzaltan. One of the interviewees is Aziz Akgül, who is the founder of TGMP and also a deputy of Justice and Development Party for Diyarbakir.

exploited the poor, while at the same time serving their needs. Yet, it is only recently that formal financial institutions, which have evolved to serve the financial needs of the rich, have recognized the poverty-stricken as a potentially profitable market. Hence are the creation of microfinance institutions (MFIs) around the world, and the interest of commercial banks to involve with this marginalized segment of society.

For centuries traditional mechanisms have supplied the financial needs of the poor in many different parts of the world. So, why does the world pay so much attention to this emerging trend of business, or of poverty reduction, namely microcredit? Microcredit is defined as “a loan which a financial institution gives to the poorest people who do not have any collateral to start small businesses” (Tan, 1997, p.233). Banks offer services to people who have some form of collateral to guarantee that the credit is repaid. The microcredit concept switches this proposition, as it involves giving loans to the very poor in order to facilitate their self-employment and self-reliance. In the words of the founder of ACCION International, a large microfinance institution, microcredit is designed to facilitate the participation of the poor in the free market system. Microfinance is sustainable if and only if it is profitable. It actually overrides the idea of cost effectiveness as it is a profitable business on its own right. Also, it is argued to contribute to the empowerment of women in regards to their social and economic positions in the society via financial development.

The idea of microcredit has been invented by Dr. Muhammad Yunus, founder and managing director of the Grameen Bank, in Bangladesh. The idea sparked up when, in 1974, Dr. Yunus took his students to a field trip to a poor village. Upon interviewing a woman who made bamboo stools for a living, they learned that she had to borrow the equivalent of 15 pieces to buy raw bamboo for every stool she made. After paying the middlemen, sometimes at rates as high as 10% a week, her profit diminished to two pennies a day. Actually, she had become a bonded laborer to the trader whom she borrowed from. They thought if she can borrow at more advantageous rates, then she would be able to uplift her standards above subsistence level. When Dr. Yunus calculated the money forty-two people in one village needed were twenty-seven dollars, he was shocked. Thus, in 1983, Grameen Bank, meaning the village bank, was founded (Yunus, 1997). Dr. Yunus argues that conventional banking is designed to be biased against the poor. The existence of collateral is a simple proof of this. Also, Dr. Yunus observed that only 1% of the borrowers in Bangladeshi conventional banks were women. This signified a bias towards women as well. Thus, he decided to incorporate women in the banking system when he founded Grameen Bank. The clients of Grameen Bank do not have to show any collateral for the credit they borrow. They are not required to have a strong credit history. Instead, they are jointly liable for paying off the interest and the principal (Woodworth, 1997). Dr. Yunus accentuates that poverty is not created by the poor, but by institutions and policies. The inherent mindset of the people is structured in the way to accept poverty as a given (Yunus, 1997). Therefore, Dr. Yunus believes poverty has to turn into an artifact in a history museum: It should not belong to the world of today.

The biggest microfinance networks now are Opportunity International, FINCA, ACCION, ProCredit, Women’s World Banking and Grameen. These organizations mainly differ in their *raison d’etre*. On one hand, there are networks that were not intended to profit. Most of Grameen, FINCA and Opportunity International’s projects can be classified under this heading. They offer more relaxed repayment schedules and interest rates. Instead of seeking profit, these microfinance organizations look for methods that will enable the sustainability of their operations. Eventually, they have been able to generate donor funds through creating good publicity for their operations. Even though good publicity can help raise funds, the sustainability of donor funds has been questioned. A large number of microfinance institutions thus arrived at the conclusion that the best method to reach the poor people in the world is to become profitable and to operate like conventional financial

companies, thus granting sustainability and independence from donor organizations. It has been argued that profitability will transform microfinance from being a niche operation into a ubiquitous one.

A major change took place in 1992, when PRODEM, a small Bolivian non profit organization in the ACCION network, turned part of its operations into BancoSol, a commercial bank that targets the poor. In the beginning, BancoSol charged a 65% interest rate for its operations. Now, its annual percentage rate is 22%. The feasibility of these operations, even during times of economic downturn in Bolivia, called for further transformations in the ACCION network. ProCredit and FINCA followed this line of thought. Offering financial services to the poverty stricken did not attract any interest from large commercial banks due to the small amounts of money involved².

However, this attitude is also being transformed. Countries like Brazil, Venezuela and Colombia impose interest rate ceilings to commercial banks that lend to micro enterprises. It has been suggested that it is a bad idea to impose such interest rate ceilings as they make it impossible for the microlenders to cover the administrative costs for entering the markets that demand microfinance operations (Helms & Reille, 2004). Furthermore, it is argued that “the best way for governments and donors to lower interest rates without making microcredit unsustainable is to promote competition and innovation, both of which to improve efficiency and lower prices” (Helms & Reille, 2004: 14). A key assumption of this argument is that the poverty stricken people do not demand cheap credit, but *access* to credit. Therefore, it is reasonable for microfinance institutions to increase interest rates in order to widen outreach. The impact of increased interest rates on the segments served is another question. While restaurants and tailor shops, that make high margin investments, are able to benefit from microfinance, livestock raising, handicrafts and agricultural processing cannot afford such high interest rates, due to the moderate returns of their activities. As a result, the term “best practice” employed by microfinance institutions to describe the win-win conditions of microfinance brings forward questions regarding the definition of “best”. Is it best for economic efficiency with no concern for social equity? What is it good for, MFIs or the poor households? The target market of microfinance has been defined as the core poor, which is something between destitute households and richer households. A recent BancoSol study suggests that their clients are the richest of the poor or the non-poor, with poverty being based on access to a set of basic needs like shelter and education (Murdoch, 2000). Yet, there is an inherent irony in this story, as a sector, initiated by NGOs, is beginning to emulate the standards of the very industry that failed to meet the great demand for financial resources for the poor households in the first place (Dunford, 1998).

The Case of Turkey

The emergence of microcredit in Turkey has been very recent. There are only two institutions that offer microcredit in distinct parts of the country. One of these institutions is Maya, which is a commercial enterprise that belongs to Foundation for the Support of Women’s Work (FSWW). Maya offers credit in the Marmara region, in cities like Izmit, Adapazarı and Istanbul. The other is the Turkish Grameen Microcredit Project (TGMP), initiated by Turkish Foundation for Waste Reduction, which focuses its operations on the Southeast of Turkey. This institution has been founded by Aziz Akgül, the Development and Justice Party deputy for Diyarbakır.

² “The Hidden Wealth of the Poor”, *The Economist*, November 5, 2005

Maya

The first Turkish microfinance institution has been founded in June 2002 by FSWW in Izmit. The process actually began in 1995 when FSWW initiated a pilot project for 100 women in Istanbul. An interviewee from Maya emphasizes that it was the grassroots who demanded the capital in the first place: women approached the association, saying “we wish to found enterprises, but we do not have access to cash³”. Microcredit was the solution the association began to offer. FSWW had heard about microfinance before, but did not know how the Turkish setting would respond to the program. In the end of two years, the project turned out to be successful. The debtors did found new enterprises, while returning the money they borrowed on time. Thus, FSWW decided to enlarge its operations regarding microcredit.

However, the 1999 earthquake shook the association; their priorities were shifted to relief work. After the earthquake relief, hit the economic crisis in 2001. During this period, the donor agencies were not very interested in funding the formation of a Micro Finance Institution (MFI). Yet, in 2001 FSWW was offered a generous aid, and began working on Maya. Maya has been founded as a commercial enterprise that belongs to FSWW. Due to the absence of a clear legal framework regarding microcredit operations, FSWW had to put a lot of effort into the inauguration of Maya. An interviewee from Maya points out that “they even had to meet Kemal Dervis in person in order to receive the necessary permissions”. Finally, it was registered as a formal financial institution that lacks a certain legal status. When asked why this structure was preferred, the interviewee explains that providing credit has always been associated with banks, which are commercial enterprises. An MFI also generates money, like a bank, even though it does not profit from it. It only earns enough money to sustain its operations. Eventually, the income generating profile of MFIs has pushed the FSWW to adopt a business enterprise status. Yet, it should be emphasized that this decision is dependent on the regulations regarding the status of MFIs in Turkey. Therefore, the interviewee adds that they would reformulate this status upon the changes in the law. If the new regulations enforce them to remain a business enterprise, then they will do so, but if they entail a conversion, then they would follow up with that as well. Currently, Maya is entitled to pay banking insurance and to adhere to bank taxing laws, which requires the payment of transactional taxes and stamp taxes. Maya does not charge a separate tax from its customers, but includes the tax inside the credit debt.

This story carries the implication that NGOs that work on microcredit are actually utilized as tools that inspect the given micro-market, hence decreasing the risk involved with such entry for commercial banks. It reveals a re-framing of NGOs as market actors. Once they adopt the goal of becoming self sustaining companies, NGOs may alter their foci, concentrating on how to sustain their operations instead of a total elimination of their activities, which are mutually existent with poverty. In other words, NGOs’ existence depends on the existence of poverty and they intend to sustain such operations, which imply a continuation of poverty. The fact that Maya maintains the livelihood of its staff through credit operations should not be dismissed. Since the staff derives their resources from the poor themselves, their perception of the low-income women may be rendered into clients.

Maya’s mission is “to provide small loans to low-income women who wish to set up a business or develop their existing businesses”. The women who have been excluded from the conventional banking system are the target market. Yet, upon initiation Maya had a hard time communicating this mission. An association offering credit was unheard of. Eventually, only 37 people benefited from credit during 2002. As of December 2003, they had reached only

³ “İş kurmak istiyoruz ama nakit para bulamıyoruz.” See interview with Maya directors, 28/12/2005

356 women. However, word of mouth was an effective method in generating awareness and interest. By the end of 2005, Maya has 1350 active members. It has offered around 3000 credits in 3.5 years. Maya has different credit portfolios targeting different segments of the poor. One segment is the poverty stricken that cannot offer any collaborative for its borrowing. This segment is offered MayaWe, a group credit which involves the participation from three to ten women. The women have to form their own solidarity groups as they will be each other's guarantors once the credit is taken. Each member can borrow different amounts, but they pay back as a group. For another segment of the poor, MayaMe and MayaFamily loans are available. The applications are made individually for these loans. The applicant may have her solidarity group members as guarantors or find a third party as her guarantor. If she does not belong to a solidarity group, then the applicant needs to provide collateral. An interviewee emphasizes that during this process, they require two guarantors who are on a payroll. The possibility that people may lose their jobs pushes Maya to require two guarantors instead of one. They do not prefer the artisans as guarantors, as their income is pertinent to higher risk.

	MayaWe	MayaMe	MayaFamily
Purpose	Expanding business Business diversification Buying merchandise/ supplies	Expanding business Business diversification Buying merchandise/ supplies	supplies Paying bills Health expenses Emergency needs
Amount of Loan	100 - 900 million TRL	100 million - 2 billion TRL	100 - 500 million TRL
# of Installments	3, 4, 5, 6 or 8 months	4, 6, 8 or 12 months	1, 3, 4, 5 or 6 months
Frequency of Installment	Monthly installments	Monthly installments	Monthly installments
Collateral	Solidarity group	Solidarity group Guarantor Pledge of gold/ foreign currency/ vehicle/commodity	Solidarity group Guarantor Pledge of gold/ foreign currency

Table 1 Maya Product Portfolio (Source: KEDV website)

The above table, which outlines the activities of Maya, is actually a business development program. It includes market research, which identifies the poor as an emerging market, as well as marketing tools that are required to ensure the promotion of the product. It follows the business mentality that dictates the AIDA model for market entry: Awareness, Interest, Desire and Action. Also, it employs market segmentation in order to facilitate the diversification of a product portfolio. This business plan clearly demonstrates that the credit supplied by Maya is a product, which is not very different from any commercial item sold in a supermarket. The segmentation signifies a departure from the original intentions of poverty alleviation, as MayaMe and MayaFamily target a more selective income group. The real poverty stricken people are mandated to cope with the solidarity model which capitalizes on the trust base of the group in order to impose discipline and control. Even though microcredit is framed as a poverty alleviation tool, the inherent logic cannot escape that of a product's. Thus, Maya makes use of the poverty alleviation discourse in order to promote its product in a newly discovered market, which consists of the poverty stricken households.

Also, this model somehow conflicts with the former proposition, which emphasizes that the initiation of microcredit was upon the demand from the poor. If the poor households were in need of credit, how come they ignored it during its initiation? Maya admits that their reach was not as high as they expected and links this to the financial crisis that preceded their market entry. They argue that the use of the word "credit" was an offense to the poor as it

reminded them of their former borrowings from the banks, which had eventually failed. Even though this is a crude explanation to why there is less interest in credit than expected, it also contradicts the former argument that microfinance is a bottom up process, triggered by the demand from the poor. Microfinance, in other words, was an instrument invented by the market to convert the needs of the poverty stricken into effective demands. It was not bottom up – it was actually the market's perception of the poor that gave rise to microfinance activities.

Maya's members, or clients, are women. Most of them are single, divorced or widowed. Therefore, they have to make a living on their own. They do not become entrepreneurs out of freewill, but out of the conditions that they cannot control. Also, of the 1300 members, 350-400 are Roma people. Our interviewees point out that Roma people have a tradition of work that does not exclude women from business life. Also, when explaining the microcredit initiation process she touches upon how Izmit was a suitable place to begin, as the women in Izmit are more familiar with business environments. Thus, there is a clear bias towards women who are already immersed in a business understanding. This difference in women's relationship with men influences the activities that women handle. A woman that borrows from Maya is obliged to continue its reproduction of home based work, which is the only key to her survival and her repayment of debt. She specializes on what stereotypically are perceived to be women's work, like handicrafts, lacework, drapery production and sale or beauty and cleaning products. Actually, Maya capitalizes on these stereotypes in order to generate a livelihood for women. Yet, it also reinforces the boundaries between what is considered men's work and women's work, thus debilitating gender equality in a way.

Maya does not engage in legal action for the collection of debt, unless there is no other way out. They improve their dialog with the clients in order to ensure their return of the debt, once again utilizing social pressures in order to grant sustainability. An inherent reason to why Maya is not interested in legal action is the costs it entails. A lawyer that takes care of the legal action associated with 100 YTL charges the same amount when dealing with 100,000 YTL. Thus, the costs for legal action are immense when compared to the rotating amount of money. Eventually, Maya tends to escape from legal action as much as it can. This attribute also points out the ratification of sustainability over all else.

The Turkish Grameen Microcredit Project

The Turkish Foundation for Waste Reduction operates the Turkish Grameen Microcredit Project (TGMP), which underlies motives shared with the Grameen Bank. As an effect of the economic crises, which fostered a context of rising unemployment, low income women's demand for employment has increased immensely. Therefore, the NGOs in the region, cooperating with the government, began to orient themselves to develop activities that promote income generation. Most NGOs have adopted small income-generating activities for low income women as a solution to alleviate poverty in the region. Consequently, microcredit has risen as an alternative strategy that may foster the resolution of the given problem.

TGMP was born in a context of increasing poverty and unemployment, which was rendered permeable by the increasing number of NGOs that concentrated on the poverty struggle and that offered small income generating activities as methods enabling an independent escape from poverty. It was launched through an agreement between Grameen Trust and the Turkish Foundation for Waste Reduction, a foundation headed by Professor Aziz Akgül, the Diyarbakır deputy of the Development and Justice Party. It has been implemented by Grameen Trust under its Build, Operate and Transfer (BOT) model with the financial support provided by the Turkish Foundation for Waste Reduction. This project was materialized as a part of the Grameen Bank Replication Program (GBRP), which was begun

by Grameen Trust for providing worldwide technical and financial assistance to Grameen Bank Replication⁴.

The cooperation with Grameen Bank implies a mix of the global and the local. The global economic trends, which favor microcredit and somehow approve the operations of Grameen Bank, have outstretched to reshape the local realities of the Southeast. This direct appropriation of a global model for local problems instigates questions on how appropriate this model is for the Turkish context. It also leads to more general questions on how the relations between the global and the local should be arranged.

Actually, the cooperation between Grameen Bank and Turkish Foundation for Waste Reduction was initiated before the microcredit project emerged in June 2003. After Aziz Akgül's second visit to Bangladesh in February 2003, Recep Tayyip Erdoğan, the prime minister of Turkey, invited the Grameen Trust to begin its microcredit operations in March. Following this invitation, a mission from Grameen Trust paid visits to Istanbul, Ankara, Diyarbakır and Siirt. Consequently, the foundation organized the "International Conference on Poverty Reduction through Microcredit" in June 2003 with the participation of the Turkish government, NGOs, banks, and press and donor organizations. The final declaration of the conference incorporated demands from the government which called for an enabling environment for microcredit delivery. The government is employed with the mission to promote the development of microcredit projects by providing tax exemptions for social entrepreneurs, which attempt to solve social issues by utilizing market based principles and business models. However, it is important to emphasize that the government has also been expected to stay out of this business in order to guarantee the independence of such operations and to allow them to develop their own working principles. The draft act prepared by the government should include incentives for the transformation of NGOs into formal financial institutions. Also, it should foster the foundation of microcredit banks. The final declaration suggests that the fund provided by the World Bank within the framework of the Social Risk Mitigation Project for 2003 should be used to finance microcredit projects. Another suggested fund for financing microcredit would be The Fund for Incentives for Social Assistance and Solidarity.

Thus, the Turkish Grameen Microcredit project involves not only a mix of the global and local, but also a mix of the government, the civil society, and the private sector. It fosters the strong cooperation of the stated actors, given the government's regulative and fund-raising role in promoting the advancement of microcredit. The regulations within this framework make microcredit delivery a sector permeable to both the private sector and the NGOs. Also, it shows that the government has played the role of a mediator in rearranging the relations of the civil society and the private sector, and also of the global and the local. This also implies that as a result of the dissolution of its monopoly of power over economic and social processes, the state is adopting a new role, as the mediator between multiple actors.

The Turkish Grameen Microcredit Project in particular enjoys the support of the governorship of Diyarbakır. The central TGMP office is located inside the governor prefecture. The interviewee from Maya points out that TGMP is different from their operations as it is subsidized by the governorship: The governor assists in the organizational structure of the project by lending them an office, vehicles and drivers. It even goes as far as paying the wages for some of the employees that work under TGMP. Aziz Akgül considers the governorship to be one of the three stakeholders in this project, which are TGMP, Grameen Trust and the Diyarbakır Governorship. He explains that the ones "who find the money, who collect the donations" are TGMP and Grameen Trust, while the local governance

⁴ Turkish Foundation for Waste Reduction web site (www.israf.org)

auspices the process. Moreover, the new draft law prepared as a part of the current public administration reform also fosters an increased role in microcredit for the local extensions of governmental actors. Aziz Akgül emphasizes that for the time being, local governance has to be incorporated in the project so as to supply a legal backing⁵. In the future other governorships may begin new microcredit projects in their own provinces.

In terms of its financial and organizational policies, Turkish Grameen Bank is an appropriation of the Bangladeshi experience. As noted before, it does not conceive poverty to be a result of individual incapacity but as a result of external actors and structural problems. Thus, the poor also have the ability to advance their status if they are given the necessary back up and initiation. In a TBMM discussion, Akgül openly states his belief in this principle:

The poor are as smart as the rich; the poor are as intelligent as the rich; the poor are as hard working as the rich; the poor are as productive as the rich; but when they are not given the potential to manifest these virtues, when there is no motivating force, unfortunately these virtues cannot be manifested. What is the point; it is capital. So, if we lend a small sum of capital to the poor it is possible to see that they are as productive as the rich, as hardworking as the rich, and as smart as the rich⁶.

Thus, the poor are no longer passive receivers of aid and charity but active players in the market. This struggle to survive is framed as a virtue of the poor rather than a reality imposed by uncontrollable conditions. Therefore, the microcredit project, which is born of coordination between multiple actors, like the state and the private sector, appoints the poor as actors that need to be mobilized. Poverty alleviation will only occur if the self-capacities of the poor are born out (Akgül, 2003).

TGMP launched its first loans in Diyarbakır on 18 July 2003. Three foreign experts from the Grameen Bank implemented it together with a local staff of nine people. After the completion of the project in a three year time frame, the administration will be transferred to a local organization. As of March 2006, 2,765 million YTL has been lent to 2802 women from the urban and rural communities in Diyarbakır, Bismil and Ergani. The project aimed at reaching 4,400 women by 2006, but this aim has only been partially satisfied as of March⁷. The credits, which range between 100 and 3000 YTL with an interest of 20%, are distributed on the basis of solidarity groups. The project is different from Maya as it instigates the foundation of these groups by bringing together people from the same neighborhood. Also, it does not allow the participation of relatives in the same group. Again, it is only women who can participate in the groups, but men can also take part in the operations that the supplied loans induce. The credits are repaid on a weekly basis. A year consists of 46 weeks, excluding 6 weeks of religious festivals and official holidays. This condition fosters saving as a habit, while also protecting women from having to return large sums of debt.

After the groups are formed, they receive a one week training on the system of credit. Akgül, during the interview, explains the this training as follows: “We give them a one week training, what we do in this one week is to prepare them for credit, you know 99.9% of these women are not literate. They are stuck in the vicious circle of poverty. They do not know

⁵ Special Provincial Administration Legal Code (İl Özel İdaresi Kanunu) Article 6 Available at: <http://www.tbmm.gov.tr/kanunlar/k5197.html> in Turkish.

⁶ “Fakirler en az zenginler kadar zekidir; fakirler en az zenginler kadar akıllıdır; fakirler en az zenginler kadar çalışkandır; fakirler en az zenginler kadar üretkendir; ama bunların bu hasletlerini ortaya çıkaracak bir potansiyel verilmediği için, bir itici güç olmadığı için, maalesef bu hususlar ortaya çıkamamaktadır. Bu husus nedir; sermayedir. İşte, fakirlere de küçük bir sermaye verdiğimiz takdirde, onların da en az zenginler kadar üretken olduklarını, en az zenginler kadar çalışkan olduklarını, en az zenginler kadar zeki olduklarını görmek mümkündür” See Republic of Turkey, TBMM Tutanak Dergisi, Term 22, session 104, vol.21. 9 July 2003. <http://www.tbmm.gov.tr/tutanak/donem22/yil1/bas/b104m.htm>

⁷ These figures were provided by Aziz Akgül during the interview

what to do if they borrow money. Yet we give them a shock treatment, have self confidence we say, you can produce a lot, you are great people, you are wonderful, you are this, you are that, we motivate them. It would take half an hour to explain this to a normal person, but that constant motivation is required when we are dealing with them”⁸. This statement displays the “othering” of the poor by the elites that train them. Akgül is proud of this training as he accentuates how people begin to have ideas towards the end of the training, like “I can rent a bicycle to the kids in the street”. The success of the training is therefore evaluated on the basis of how innovative their emerging business plans are.

In the beginning, only two members of the group are allowed to borrow. If these two members succeed paying regularly for four weeks, then two other members are also offered credit. Thus, the members are subordinated to the disciplinary measures of the group, like in the case of Maya. The group meetings are held on a weekly basis in the house of the group leader, with the participation of field workers as well as the branch manager. Members recite the Grameen credo in Turkish repeating after the group leader: “Disiplin, Birlik, Cesaret, Çalışkanlık” (Discipline, Unity, Courage, Hard Work). After saluting the staff, the members sit in rows on the knees, the group leader sitting at one end. Regular attendance to these meetings is another condition for further credit. In each meeting, the amount of credit received or repaid is noted by the field worker⁹. When explaining this ritual Akgül says, “for instance when we go to a meeting, it is preordained who is going to sit where in which order, who is the leader, who is the secretary, who will speak first, who will stand up, who will sit, everything is predetermined, it is disciplined just like in the military, and we obey this order”¹⁰. He further argues that discipline is highly required for the well functioning of any business.

The scope of activities triggered by TGMP is limited to their immediate environment. They raise live stock and wash clothes. They are involved in sewing and marketing activities. Their activities are not only confined to the environment, but also to low income. They are mostly labor intensive, but they do not bring back much profit. On the other hand, a recent issue of *Referans*, a business newspaper, carries one of the success stories of microcredit to its cover¹¹: Kabule Cengiz from Diyarbakır, with the 500 YTL credit that she received in 2003, set up a business of renting bicycles to the kids in her neighborhood. This, although departs from the previous critics of low income and labor intensity, is an example of informalization of economy through microcredit. However, the newspaper does not shy away from carrying this story to its cover, yet it also includes critical voices from the Central Bank directed towards the risk of informality that microcredit may generate. Therefore, the employment

⁸ “Onları bir haftalık eğitime alıyoruz, bir haftalık eğitimde yaptığımız husus, onları mikrokredi almasına hazırlamak neden biliyor musunuz şimdi mikrokredi almaya yönelik olarak şimdi bu kadınların yüzde 99.9’u okuma yazma bilmiyor, iki fakirlikten dolayı darmadağın, yani fakirlik tuzağına girmiş bu insanlar darmadağın, ne yapacaklarını şaşırılmışlar, iki e biz şimdi kredi alacağız da nasıl ödeyeceğiz, ne yapabiliriz ki, bizim şeyimiz yok, yapacak hiçbir şeyimiz yok, diye başlıyorlar orda, sonra biz onlara sok tedavi, yani biz onlara diyoruz ki, kendinize güvenin, çok şeyler üretebilirsiniz, su kadar çok iyi insanlarsınız, muhteşemsiniz iste şusunuz busunuz, onları motive ediyoruz, sonra günler geçince bir haftalık eğitim diyoruz ya orda aslında normal insana yarım saatte anlattığımız şeyler bunlar, ama o devamlı onları motive ediyoruz, o motivasyon eğitimi”
See interview with Aziz Akgül, 07/03/2006.

⁹ Turkish Foundation for Waste Reduction web site (www.israf.org)

¹⁰ “Mesela toplantıya gittiğimiz zaman kimin başta oturacağı kimin ortada oturacağı kimin en sonda oturacağı kimin o toplantının başında lider olduğu kimin sekreteryasını yürüteceği kimin ilk önce konuşacağı kimin sonra konuşacağı, kimin ne yapacağı herşey bellidir, bunun hepsini bilirler, toplantıya girdiğimiz kimin ne zaman kimin ayağa kalkacağı kimin yok öyle şey yok çok disiplinlidir bu iş ve çok riayet ederiz ona, ne o öyle gittik evlerine onlar sallana sallana geldiler, gelemezler, oturup her şeyin bir şeyi vardır yani, asker eğitimi gibi yani.”
See interview with Aziz Akgül, 07/03/2006.

¹¹ “Krediyle Aldığı Dört Bisikleti Kiralayıp 1000 YTL Kazanıyor”, *Referans Gazetesi*, March 25-26, 2006.

produced by microcredit has the tendency to create informality, to be labor intensive and low income generating.

Moreover, the fact that women become the sole bearers of debt, while men can also participate in economic activities demonstrates how women are pushed to carry a social burden. The initial idea behind favoring women over men has been the suggestion that conventional banks have a bias against women. Akgül elaborates on the debt loyalty of poor women through an anecdote: “What does the woman do if she cannot join the meeting? Let’s say it’s 01.00 AM, and her child is sick, she has to go to the hospital, it’s 01.00 AM, can you imagine, at this time, in the middle of the night, she knocks on her neighbor’s door, I am taking my daughter to the hospital, she says, I have this much debt, take this money, and pay it tomorrow morning in the meeting. This is how the system works”¹². In line with this proposition, an interviewee from Maya openly suggests that women are better in paying back their debt, so should be preferred over men in lending money. Therefore, it can be argued that the insistence in targeting women is a matter of credit recovery.

The poor women are, thus, a logical segment to count on for ensuring profits. Microcredit is an instrument which is utilized to reap profits from the poverty stricken. In order to illustrate the use of the poverty alleviation discourse for raising profits, the interview with Aziz Akgül proves to be a valuable resource: “According to the data retrieved from the Turkish Statistical Institute, there are 18 million poor people in Turkey, and 59% of these poor people are eligible for direct credit. They are above the age of 18. That means there are 11 million people that are available, alright? Do you see the sector! 11 million clients! Right now, I can sell money to 11 million people!”¹³ This is direct evidence for how the elites of microcredit perceive their environment. They believe that it is a big market, with great needs and high profit opportunities. Following this exclamation, Akgül asks, “Smart people should enter this market immediately! Come on, are you conducting a feasibility in the name of the banks? Smart people enter the market, now Finansbank is trying hard to enter, HSBC is thinking about it, Şekerbank was considering, they have this kind of practice in their portfolio...”¹⁴ The draft act¹⁵, currently being discussed by the parliament, will facilitate the entry of the banks to the microcredit network, enabling tax benefits, and will also open up the way for the inauguration of microcredit institutions that will have a different status from banks or NGOs. The evolution of the draft act, coupled with words from Akgül and others, demonstrates that the financial environment is being prepared for the market rooted solutions to poverty reduction. Eventually, the poor are left with no other option but to be subjugated to market mechanisms applied through either microfinance institutions or national and international banks.

¹² “Ne yapıyor kadın, gece saat 1de kadın, diyelim ki çocuğu hastalanmış, hastaneye gidecek, gece 1de, olur mu öyle bir şey, gece 1de komşusuna, onlar komşu olur genellikle öyle yapıyoruz zaten, prensip itibariyle, çünkü o zaman taşıma yapmaktan zaten verdiğimiz 500 lira o zaman taşımaya gidecek, komşusunun kapısını çalıyor, ben hastaneye götürüyorum diyor kızımı, bu kadar benim de on lira taksitim var, bunu al, yarın sabahleyin ver, aynen böyle çalışıyor sistem” See interview with Aziz Akgül, 07/03/2006.

¹³ “Türkiye istatistik kurumunun verdiği bir bilgiye göre, Türkiye’de 18 milyon yoksul bulunur, yüzde 59u doğrudan kredi alabilir, yani 18 yaşının üstünde, 15 yaş altı bunlar, dolayısıyla mikro kredi alabilecek şu anda 11 milyon insan var! Tamam mi! 11 milyon müşteri! Sektörü görüyor musun! 11 milyon insana ben şu anda para satabilirim”. See interview with Aziz Akgül, 07/03/2006

¹⁴ “Zeki insanlarsa süratle girmeleri lazım. Siz onların adına feasibility study mi yapıyorsunuz, eeee, yok canım, akıllı insanlar girer, şimdi Finansbank uğraşiyor girmek için, HSBC düşünüyor, Şeker düşünüyordu, birleşme olmadı ama, onların bayağı geçmişlerinde de böyle şeyler var” See interview with Aziz Akgül, 07/03/2006

¹⁵ The draft act is available at <http://www2.tbmm.gov.tr/d22/2/2-0413.pdf> in Turkish.

The Emergence of Banks in Microcredit Delivery

The United Nations Development Program motivates the participation of commercial banks in the Turkish microcredit sector. Also, the UN plan of action involves the leadership of NGOs in starting MFIs that demonstrate the profitability of such investments. This will prompt commercial banks to enter the micro-markets, while facilitating an understanding of credit and finance among the poverty stricken households (Buritt, 2003). When the operations in Turkey are examined, the ultimate aim of the UNDP seems to be an overthrow of the responsibilities of NGOs and a welcoming of banks as the main actors in solving poverty problems. The UNDP strives to convince the banks that the poor are a profitable segment, thereby encouraging the resolution of poverty problems with an enabled access to credit.

The UN meeting held in 12-13 December 2005 in Istanbul included remarks related to the legal framework of microfinance in Turkey, and also to the commercial viability of these operations¹⁶. Participants to the conference were mainly representatives from major commercial banks, such as Şekerbank, HSBC and Finansbank. First, the two-day meeting gave the impression that the UN, a major international organization, is also working in parallel to the government. It is also a regulatory body that tries to enhance the participation of the market in social issues. While the government assumes the role of mediation, the UNDP, as a pressure group, bids for an extended regulation of the macro economic environment, so as to attract commercial bank involvement. Second, this illustrates how UNDP, as a development agency, perceives development to be derived of commercial bank participation to poverty alleviation, therefore of profits arising from the poor. This is not only a poverty alleviation method, but also the discovery of a new segment from which the banks can benefit. The UNDP supplies the missing link between the poor segments and the commercial banks by showing the prior work conducted by the NGOs to bank representatives with frequent conferences. An announcement calling for participants for the next meeting, which will be held in Istanbul in June, 6 2006, says, "Currently, increasing number of commercial banks is exploring the microfinance sector for potential investments. However, there is no information on the demand side of microfinance and the potential impacts of microfinance on poverty reduction as well as what kind of special banking products could be designed to meet the needs of the poor. 36% of the Turkish population is considered economically vulnerable, i.e. **5.7 million households**. This is the total target group for poverty alleviation in Turkey. Microfinance is one of the recommended strategies to eradicate poverty in Turkey until the year 2015. However, the microfinance sector of Turkey is currently in its early stage of development." The numbers do not overlap with those of Aziz Akgül, but imply the same meaning.

So, how involved are the banks? In the end of 2001 Garanti Bankası has begun serving Maya. Maya signed a contract with Garanti, and the UN report claims contract to be beneficial for both sides. Şekerbank also considers investing in microfinance. Actually, it is planning to open a separate unit that will specialize on this newly emerging business. FinansBank, which has also been a donor for the Turkish Grameen Project, serves the poor via a Rotary project that was initiated in February 2005¹⁷.

Does this mean that market economy will solve the problems that it created itself? The participation of financial institutions, like conventional banks, in poverty alleviation is actually very ironic. An interviewee from Maya, when asked what she thinks about this issue, replies that she is content with the new developments. She says that if banks take over the business of microfinance, then they can start offering microinsurance, which is another need

¹⁶ http://www.undp.org.tr/undp/PressRelease_13dec05_docs.asp

¹⁷ Türkiye'de Mikrofinans Alanında Yapılanlar, a leaflet prepared by UNDP Turkey

that they have recognized. Thus, banks will have assisted them in their poverty alleviation aims, though remaining independent of social concerns. The further effects of such a program will be interesting to observe.

Conclusion

The introduction of microfinance programs coincides with the WB and IMF's keen interest in poverty. Adverse social impacts of the Structural Adjustment Programs (SAPs), which generally entailed the implementation of economic austerity measures, liberalization and privatization, have become apparent by the 1990s. The IMF and WB responded to calls for 'adjustment with a human face' by incorporating poverty reduction programs within the framework of SAPs often under the heading of social safety nets (Elyachar, 2005).

The implementation of microcredit programs, in a way, enables the implementation of neoliberal policies at the local level. The poor are no longer protected with the social policy provisions once provided by the state. Instead, they become dependent on the market. With microcredit schemes, even the poorest segments of the society are targeted to become subjugated to functioning of the market and neoliberal policies are able to permeate every segment of society with great success. Therefore, microcredit applications should not be thought separate from the broader agenda of financial liberalization. Financial liberalization is portrayed to be creating opportunities to empower the poor through enabling them to engage in entrepreneurial activities. Hence, microcredit was employed to counter social protest or political dissent, while at the same time promoting the neoliberal agenda through discourses of entrepreneurship (Weber, 2004). Microcredit departs from other approaches to poverty reduction, in the sense that it is embedded in a commercial framework. The poor are treated as economic units and they become subject to functioning of the free market, thereby becoming even more susceptible to the adverse effects of market and globalization.

This paper provides a brief overview of the development of microfinance in the world and in Turkey. First, it reports how the initial idea of microfinance has been created. Next, it outlines the development of microfinance in the context of Turkey and gives information on the operations of microcredit organizations (namely Maya and TGMP), and finally offers a brief account of present situation concerning the commercial bank presence in microcredit schemes.

This paper does not draw any conclusions concerning the effect of microcredit in poverty alleviation. Rather it emphasizes that the poverty discourse is used as an instrument of extending the reach of financial institutions. As such, it views microfinance as an instrument of market expansion. In this process, NGOs have been used as tools for assessing the newly emerging market, namely the poor, and delivering information on the profitability and sustainability of microfinance operations. The government, while being kept away from imposing direct social and economic policies due to liberal world trends, adopts a new role in this process as the mediator between the NGOs, the financial sector and the public. It is expected to lay out the comfortable environment for the advancement of microfinance delivery, as it is apparent in the draft act concerning the foundation of Micro Finance Institutions in Turkey. We would welcome an incorporation of microcredit programs with a more active government stance. What we oppose is the option that totally excludes the state and leaves the solution of the poverty into the hands of the market mechanism. Still, we adopt a dubious position as to the effects of microcredit on the poor and poverty alleviation. In order to draw more concrete conclusions, this study requires further analysis of elite discourse as well as grassroots responses to microcredit. Also, a comparative analysis regarding different

applications of microcredit in various parts of the world, and their impacts on poverty eradication would be useful in gaining insight towards the Turkish case.

Microfinance has been framed as the ultimate opportunity to combine humanitarian aid with profitable investment opportunities. However, this should not make it the sole option everywhere. Before welcoming the microcredit as a way out of poverty, possible adverse impacts, like the possibility that it can promote informality, should be taken into consideration. For the Turkish context, specifically, the application of the microcredit is a recent development and therefore requires some critical thinking before being taken as panacea to poverty.

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