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Analysis of Microfinance as a Strategy for Financial Inclusion of Unbanked Women in Turkey

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Abstract

Microfinance is a financial strategy that can be utilized to alleviate poverty and empower women economically within the scope of Sustainable Development Goals. As of 2020, the global figures of microfinance confirm that it has impacted the lives of more than 140 million people with an estimated credit portfolio of \$124.1 billion throughout the world.

Microfinance in Turkey has radically transformed the lives of more than 200,000 financially challenged women. Despite the substantial efforts to supply credit through microfinance, the financing gap of unbanked women in Turkey remains high, with a demand of €10.6 billion and a supply of €1.3 billion, leaving the majority of €9.3 billion demand by unbanked population untapped. Therefore, the objective is to find the aspects and value of social impact of microfinance as a strategy for financial inclusion of unbanked women in Turkey.

This research paper provides a microfinance model of financial inclusion and social participation for unbanked women in Turkey. Women from 64 provinces of Turkey were selected for data collection. Interviews and focus group discussions were conducted with women to understand their opinion about the microfinance strategy. 1036 women joined the survey and 877 of them completed it.

The paper aims to analyze different aspects of the microfinance system for women with the purpose to provide a model for financial inclusion and social participation for the microfinance organizations, governments and the private sector.

Keywords: Microfinance, Poverty, Women, Inclusion

I. Rationales and Objectives

Microfinance has brought a change in the economic and social life of participants of the society by providing an opportunity to the financially challenged individuals to become financially independent. It is a financial strategy which specializes in microcredit with low interest rates and without any collaterals, which can be utilized to alleviate poverty and empower women economically within the scope of Sustainable Development Goals. Micro and small enterprises, as well as financially challenged individuals seeking access to savings deposits, microinsurance, and other financial services, are driving demand for microfinance services.

Microfinance is a significant part of our global economy. It gives underserved communities access to financing and improves the economic well-being of the world's financially challenged people. Microfinance benefits the economy by allowing new micro businesses to launch, and assisting them for growth, and changing the lives of those receiving the funding.

The eradication of global poverty by 2030 is the first of the UN's 17 Sustainable Development Goals (SDGs). Microfinance is one of its preferred and most essential approaches for achieving this goal, and it is also recommended for reaching seven other SDGs, including gender equality and women's economic empowerment, economic development and job creation, and inequality reduction.

Women account for 80% of microfinance borrowers, and they are often disadvantaged due to major barriers such as, poverty, lack of skills, knowledge and social constraints in the world. In order to promote economic growth and gender equality, some microfinance lenders prefer to focus primarily on providing funding to women.

The goal of microfinance is to give microcredit and financial services to individuals who would otherwise be unable to get credit. As of 2020, more than 7,000 microfinance institutions operate globally. The global statistics of microfinance confirm that it has impacted the lives of more than 140 million individuals with an estimated credit portfolio of \$124.1 billion throughout the world and a 98% credit repayment rate.

Despite COVID-19, portfolios of microfinance institutions are slowly expanding. Although the pandemic had a significant impact on microfinance, it still did not threaten the industry. Microfinance statistics from the Consultative Group to Assist the Poor (CGAP) show that credit portfolio growth in most parts of the world is about 2%, indicating that people can still have access to financial services. However, since lenders have focused on servicing existing borrowers' financing needs, the number of new borrowers has decreased.

Approximately 2 billion people worldwide do not have access to financial services. Despite the substantial efforts to supply credit through microfinance, more than 2 billion people in the world remain unbanked. Regardless of the fact that microfinance has increased significantly in recent decades, it remains unable to reach the majority of its target market.

Studies show that 55% of women are unbanked in Turkey, meaning they have no access to bank services, savings or insurance products. Despite the substantial efforts to supply microcredit through microfinance, the financing gap of unbanked women in Turkey remains high, with a demand of €10.6 billion and a supply of €1.3 billion, leaving the majority of €9.3 billion demand by unbanked population untapped.

Turkish Grameen Microfinance Program (TGMP) is the largest microfinance institution in Turkey. It is a private, non-profit microfinance organization founded in 2003 by Turkish Waste Prevention Foundation and Grameen Trust, as a joint venture. Since then, it has led the way in providing financial services to financially challenged women across Turkey.

In Turkey, microcredit activities have radically transformed the lives of more than 200,000 financially challenged women, with credit disbursement of more than TRY 1.2 billion. Therefore, the objective of this study is to find the aspects and value of social impact of microfinance as a strategy for financial inclusion of unbanked women in Turkey.

II. Methodology

Social Return on Investment (SROI) analysis is stakeholder informed, not stakeholder lead. Therefore, in addition to stakeholder involvement, external research is used to understand changes. SROI analysis of TGMP is an evaluative analysis based on the operations of the organizations held in 2020. The following Social Value Principles are applied through the analysis:

- Involve stakeholders
- Understand what changes
- Value the things that matter
- Only include what is material
- Do not over-claim
- Be transparent
- Verify the result

III. Main Findings

Women's economic, political, and social empowerment is a prerequisite for sustainable economic and social development. Without women's inclusion in economy, SDGs cannot be achieved.

According to the International Center for Research on Women (ICRW) there are strong reasons to emphasize women's economic empowerment in development programs:

- Economic empowerment is one of the most powerful routes for women to **achieve their potential** and advance their rights.
- Since women make up the majority of the world's poor, meeting **poverty-reduction** goals requires addressing women and their economic empowerment.
- Discrimination against women is economically inefficient. National economies lose out when a substantial part of the population cannot compete equitably or realize its full potential.
- Working with women makes good business sense. When women have the right skills and opportunities, they can help businesses and markets grow.
- Women who are economically empowered **contribute more to their families**, societies and national economies. It has been shown that **women invest extra income in their children**, providing a route to sustainable development.

The points that are written in bold above have been found out in SROI Analysis too. Micro-entrepreneurs mentioned all those issues so, it can be confidently stated that microfinance is beyond money. It is the most important part of sustainable development.

The main objective of TGMP is to alleviate poverty through increasing financial inclusion of women by providing microfinance. The initial consequences of providing microfinance are; (1) creating income generating activities for women who had not joined business life before, (2) supporting existing micro businesses/ maintaining current businesses for women who have been running their own for a while. These two changes are just the beginning ring of a long chain of changes.

In order to identify the well-defined outcomes, all stakeholders were asked what the initial outcome has changed in their life (both positive and negative). Seven positive well-defined outcomes and two negative well-defined outcomes were identified as:

- Social network: Experienced by 81% of stakeholders
- Increase in quality of life: Experienced by 79% of stakeholders
- Improvement of family relations: Experienced by 60% of stakeholders
- Being respected by others: Experienced by 67% of stakeholders
- Increase in self-confidence:
 - Increase in financial literacy: Experienced by 83% of stakeholders
 - Increase in emotional wellbeing: Experienced by 85% of stakeholders
 - Increase in vocational wellbeing: Experienced by 76% of stakeholders
- Increase in quality of social life: Experienced by 49% of stakeholders
- Being able to cope with financial problems: Experienced by 72% of stakeholders
- Financial stress: Experienced by 41% of stakeholders
- Negative effects on family life: Experienced by 17% of stakeholders

A. Social Network

Social network outcome is based on repayment system of microfinance. Repayments are made through weekly meetings called “center meetings.” There are two important functions of center meetings:

- They provide a social environment for micro-entrepreneurs. In center meetings, women get to know each other closely. They share information and experience, such as how to use microfinance in the most effective way, what kind of difficulties they encounter, how to communicate with customers, etc. In time, according to their own statements, they have become “like a family”.
- Center meetings are the days of repayment. In this sense, they create a kind of “peer pressure” for repayment, because, if a micro-entrepreneur does not repay, other micro-entrepreneurs must make the repayment. Therefore, these meetings ensure that micro-entrepreneurs do not abuse microfinance repayment system. On the other side of the coin, they create mutual trust environment that makes them feel comfortable and like a family.

The SROI analysis showed how many stakeholders have experienced social network outcome, according to number of years that they have been in the microfinance system. In total, 704 of stakeholders (out of 877) have experienced “social network” outcome. It is clear that social network is an initial outcome. The percentage of stakeholders who experienced it is almost equal for new comers.

B. Increase in Quality of Life

Increase in quality of life is an outcome directly related with earning money and increase in income. The analysis found out that while 22% of women who established their own micro business with microfinance had no other income in their household, so they had to work; 73% of them had some income in their household, but it was not enough. On the other hand, 12% of women who had established their own micro business before joining microfinance system said that their household had no income so they had to work; 80% of them noted that their household had income but it was not enough.

Increase in income means increase in purchasing power. Stakeholders mentioned that they had more decent life after they joined in microfinance system. Being dependent on her husband and/or anyone for maintaining her life is dishonorable for any woman” said one of the stakeholders. All stakeholders stated that they want to buy their children’s needs on their own. They do not want to ask for money to anyone, even to their parents.

More than half of the stakeholders, 55%, who established their own income generating activities through microfinance mention that their income was not enough for their life expenses in 2020. This data indicates that joining microfinance system was important and urgent for this stakeholder group. Similarly, stakeholders who established their own micro business before joining microfinance had problems to balance income and expenditure in 2020. Again, 60% of this stakeholder group needed financial support in order to maintain their current businesses.

C. Improvement of Family Relations

Financial problems could cause stress and tension among family members. Our analysis has found out that 54% of micro-entrepreneurs who established their business with TGMP’s microfinance system got rid of emotional burden since they started working and are contributing household budget.

While 81% of micro-entrepreneurs who had established their own micro businesses before joining TGMP’s microfinance system claim that their emotional burden disappeared too, they had another reason for that. They borrowed from their husbands or other family members in order to keep their businesses. The fact that they stopped asking for money from their husbands and/or other family members has brought peace in their relations.

Excessive stress is one of the worst consequences of poverty. Micro-entrepreneurs stated that they are now aware of wrong social codes such as women should be dependent on their husbands, women cannot work, and women are not capable of earning money. “If we are complaining about being poor, we have to do something about it. We have to produce; we have to work hard. Any woman can do it.” said one of the stakeholders. She thinks shouting out to each other does not solve their poverty problem. Children should see hardworking mothers and fathers, not stressful parents.

D. Being Respected by Others

Both groups (the micro-entrepreneurs who established their businesses with TGMP's microfinance system and others who did before joining TGMP's microfinance system) have experienced this well-defined outcome which indicates keeping a business running is as prestigious as establishing a new business.

Women, who did not work before joining TGMP's microfinance system, stated that there has been significant difference in being treated respectfully by other people after establishing their business. What they stated points out a very important paradox for women. Those women did not work because of the social codes. However, the very same society respects them more when they start to work and become independent. This well-defined outcome shows that women's status in society is positively related to their productivity.

The increase in respectability starts in the very beginning of the process. It is observed that 40% of new comers and 29% of the ones who had established their own businesses before joining TGMP's microfinance system, feel that they are respected by others.

E. Increase in Self-confidence

Increase in self-confidence outcome is analyzed under three subtitles;

- Increase in financial literacy
- Increase in emotional wellbeing
- Increase in vocational wellbeing

Stakeholders stated that their self-confidence has increased. "Self-confidence" is very broad term. In order to understand what they exactly mean by "self-confidence" they were asked about details; how they felt, what they thought and/or behaved before joining microfinance system and what has changed now? Answers of stakeholders were gathered under three different headings:

Financial Literacy: Stakeholders stated that they had learned to manage money so that they were not afraid to grow their businesses. Once they experienced managing repayments, they realized that they were capable of managing costs and income. Hence, they felt confident about running micro business.

Our analysis show that budget management is a learning process. Stakeholders could think that they learned how to use money effectively, marketing strategy in basic level, managing costs, etc. However, in time, they witness that there are different dimensions of budget management, so financial literacy is a continuous learning process.

It is important to note that %15 of women who had established their own micro business before joining microfinance system learned financial terms such as budget, savings, credit, insurance, investment, return, after they joined the microfinance system.

Emotional Wellbeing: Micro-entrepreneurs feel stronger when they realize that there is no boundary for them to be an independent person. This "strong and independent" character directly reflects positively on their children. They become important role models for their children, especially for their daughters. Besides, as they discover their potential, they do not feel unqualified anymore. They can work, they can produce, and they can take care of their children. Half of the of the women in our analysis define themselves as economically free. Accordingly, their self-confidence has increased.

Almost one quarter of the women, 22%, who established their own micro businesses with microfinance said that they realized that they did not need anyone to look after them and their children.

Vocational Wellbeing: Learning how to communicate with customers, understanding their needs and providing products accordingly were new concepts for women who established their own micro businesses with microfinance. While 60% became aware of their own potential for selling a product; 40% as became aware of their communication skills. Hence, the ability to achieve personal satisfaction and fulfilment from work, which were defined as a component of self-confidence by stakeholders, was experienced by micro-entrepreneurs.

The percentage of stakeholders who experienced vocational well-being is almost equal to the stakeholders who have been in the microfinance system for a longer time. Thus, it is clear that this component of “increase in self-confidence” is an initial outcome.

F. Increase in Quality of Social Life

This outcome refers to work life balance that affects women’s social life quality. During one-on-one interviews, increase in quality of social life was stated only by women who hired employees. However, according to survey results, 64% of women who have not hired any employees stated that they could take some time off for themselves. This result may be connected to two things:

- **Center Meetings:** Women socialize during these meetings. That particular period of time belongs only to them. Therefore, they might have ticked this option in the survey.
- **Having Their Own Businesses:** While they are working, they do not have to worry about house work. Therefore, for those women, work time is equal to sparing the time for themselves.

Even survey results do not provide reliable evidence for this well-defined outcome, knowing that half of stakeholders define a time period that is their own, after joining microfinance system, may contribute decision processes. That is the reason this point is not included in the analysis but included in report.

G. Being Able to Cope with Financial Problems

Keeping established business is another financial challenge for women. That is why 65% of stakeholders joined microfinance system, to keep running their business.

This well-defined outcome was experienced by 72% of stakeholders. It is clear that this group is dependent on microfinance system in order to achieve sustainability of their financial inclusion. Our analysis shows that ratio of women who have been in the system for seven (and more) years is almost equal with new comers. This is directly related with Turkey’s economic conditions. High inflation rate causes serious financial problems for micro scale businesses. Microfinance system is an important support for women under this challenging economic environment.

H. Negative Outcomes

Despite the fact that during one-on-one interviews, stakeholders were directly asked whether they have experienced any negative outcomes, they did not mention any negative outcomes. However, according to external research in other programs related with microfinance, financial stress is cited as a common negative outcome. Additionally, taking social codes for women into consideration might cause a negative outcome. These two potential negative outcomes were added to survey

questions. It is identified that 41% of stakeholders experienced financial stress, and 17% of stakeholders experienced negative effects on family life.

Financial stress is mostly experienced by new comers, which is expected. Many of these stakeholders borrowed for the first time in their lives. Hence, feeling pressure is natural for them. The group with stakeholders who have been in the system for 7+ years has experienced this outcome because of not being able to get a loan at a given time and not being able to get the desired amount of credit. This group's businesses are relatively bigger than other groups. Therefore, their cash need is higher than others.

Negative effects on family life was experienced by 17% of stakeholders. The majority of this group consists of women who established their own business with microfinance. 'Working mother' is a new concept for their family and in time, family members might adapt. Even if this outcome is not very significant, it might be worth following it up in upcoming years. If this ratio decreases, it could be an indicator of normalization of women's financial inclusion in society.

IV. Research Implications

In Turkey, one of the most common social norms is that women should not work. This norm has shifted for women who participated in TGMP. The participants stated that they have been respected more by others since they established their own business. This indicates that financial empowerment and independence is a more powerful societal norm than so called "women should not work" norm.

There is significant evidence that women face with challenges and barriers which limit their ability to earn enough income to meet their basic needs. Some women even feel forced to resort to negative coping mechanisms, such as early marriage. In conservative societies, women are expected to do all the housework, such as looking after children, cooking and cleaning the family house. Instead of meeting these traditional gender roles, women should be encouraged to and to get involved in business life and contribute to the family income.

V. Conclusion

As microfinance is a financial strategy to create positive social impact in the chosen group, this research finds the relevance between microfinance and poverty alleviation in order to leave no one behind, particularly unskilled and unbanked women, in order to achieve the sustainable development goals. Unbanked women are empowered economically and could access finance through microfinance, while they could also have better social participation and recognition in the society.

The pursuit of development has taken the course of socioeconomic growth all across the world. Despite the fact that in the past, women, compared to men, were excluded and disadvantaged in numerous aspects of development, recently, both men and women are engaged in the development process. Throughout the history of the development process, development practitioners have attempted to establish approaches and techniques that would increase women's involvement in the development race. As a result, many initiatives such as microfinance lending have been targeted specifically towards women in order to enhance their socio-economic status.

Although microfinance is more common in developing economies due to its distinctive features, in terms of poverty alleviation, microfinance creates jobs and generates income, boosting social well-being among the poor and serving as an important tool for poverty reduction in both developing and developed economies. Microfinance services, such as microcredit, have been found to enhance

people's living conditions, raise income and create jobs through entrepreneurship, and stabilize seasonal consumption among societies of developing world. Increased earnings can help low income people create assets and enhance their living conditions, consumption level, and health.

Microfinance's main goal is to increase financial inclusion and reach out to underserved areas of the economy. It is dedicated to the empowerment of the poor, particularly unbanked women through financial emancipation and a simple approach to provide loans and other financial services to financially challenged individuals in order to enhance their income generating ability and promote economic activity in low-income areas.

Women are the primary objective of microfinance. Microfinance services contribute to women's empowerment by boosting their overall socio-economic condition and positively influencing their decision making ability, which is in line with the essential Sustainable Development Goal of achieving gender equality and empowering women. Overall, there are three reasonable explanations for focusing on female borrowers. First of all, in terms of cost efficiency, women's payback rates are significantly greater than men's; empirical studies show that women are more dependable and creditworthy than men. Secondly, by focusing on women, the ever present issue of gender inequality could be addressed, particularly in terms of employability in developing countries. Thirdly, women are more concerned about their family's well-being and they invest more in education, resulting in a multiplier effect that boosts the credit fund effectiveness of a microfinance program.

Overall, microfinance is regarded as vital tool for the socio-economic growth of developing countries. The role of these institutions is described as encompassing a broad spectrum of economic activity. Microfinance organizations work to improve people's economic conditions by providing skill-based income generating activities in addition to savings and microcredits. As a result, its ability to ensure socio-economic justice through its support to the less-reached by commercial banking system, has become a solid foundation for the emphasis on microfinance institutions in developing nations.

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