IMPORTANCE OF MICROCREDIT IN FIGHT AGAINST POVERTY IN TURKEY

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Abstract

In the fight against poverty, social aids, which increase the overall income, are only a temporary solution. The long-term and healthy solution for eliminating poverty is to increase the number of entrepreneurs in cities or regions where poverty is pervasive. The best indicator of this situation is the fact that the number of entrepreneurships per capita in cities explains the 59% rate of people with a green card (health card for uninsured people in Turkey), which signifies the poverty on a city basis. One of the ways to increase the number of entrepreneurships is micro credits, which will be given to entrepreneurial-spirited poor people, and particularly poor women. While creating new job opportunities for poor people, microcredit will contribute to regional development by increasing the local demand and the added value of the region.

Keywords: *Fight against Poverty, Entrepreneurship, Microcredit, Regional Development*

JEL Classification: II3, O1, O2

1. INTRODUCTION

Regarding as an important social issue of poverty coincided in the early years of industrialization. Poverty acquired a massive dimension in parallel with the being poor of the working class in cities at the end of 18th century and the beginning of the 19th century (Açıkgöz, 2010).

1.1. Significance of the Issue, Scope and Objectives

The State of the Microcredit Summit Campaign Report (2009) states that about half of the world population, in other words 3 billion people, lives on less than 2 US $ per day and approximately 1 billion people live on less than 1 US $ per day. Thus, today fighting against poverty has come on the scene as a global issue. Chen and Ravallion (2008) mention that the although 1.9 billion people lived below international poverty line of 1.25 US $ per day in 1981, that figure declined to 1.4 billion people in 2005. This situation indicates that the poverty has followed declining trend since at the beginning of the 80's.

Bangladeshi economist Muhammed Yusuf has laid the foundation of microcredit idea which would change the history of humanity by distributing 27 US $ in his pocket among 42 poor women in consequence of the interviews with peasant women around university in 1976. In 1983, the Government of Bangladesh established the Grameen Bank which getting loan for poor people especially for women to perform this implementation through an official channel (TİSVA, 2009). Today, microcredit implementation, which is applied in many countries by successfully, is one of the permanent solutions to poverty. In this context, the year 2005 was declared by The United Nations (UN) which has conducted General Assembly as the International Year of Microcredit.

According to OECD Factbook 2010, in the middle of 2000's, the countries with the worst income distribution among OECD countries are Turkey and Mexico. While the Gini coefficient ranking of Turkey which is 29th among OECD countries in terms of inequality is 0.43; Mexico is 30th and her Gini coefficient is 0.47. According to the result of the 2008 Income and Life Conditions Survey of Turkish Statistical Institution (TSI), at the twenty percentile groups which were formed with respect to the equivalent households disposable income, while the last group with the highest income held a 46.7 % share of total income, the first group with the lowest income held a 5.8 % share of total income. Hereunder, the income of the group last 20 % is 8,1 times higher than the first group. The great inequality of income distribution is one of the most important factors that reinforcing the poverty. According to the data from TSI in 2009, in Turkey, 0.48 percent of individuals (339 thousand people) live below the hunger line which takes into account only food expenditures and 18.08 percent of individuals (12 million 751 thousand people) live below the poverty line which takes into account the minimum foods and non-food requirements. This indicates that in Turkey, one out of every five in other words 20 percent of population who with the least income are considered as poor.

Within this framework, the aim of this study is to show that to bring long term and sustainable solution to poverty which is the most important issue in this era, it is necessary to attend production process for poor people through micro-credit to live humanly by earning enough income. This research encompass the issue of analyze the effect of employment opportunity on decreasing poverty by assessing the results of regression analysis between the number of poor people denoted by green card holders on city basis and the number of enterprise is represented an honorable life through employment.

2. THEORETICAL FRAMEWORK AND LITERATURE

Although it is difficult to explain poverty with all dimensions, it is possible to mention three related definitions of poverty. The first, absolute poverty is defined as the inability to purchase the basic of food needs which has usually expressed as minimum calorie requirements. The second, relative poverty is defined as the inability to purchase the basic of non-food needs such as clothing, shelter and energy. In recent years, concept of human poverty which is wider and includes those two definitions has emerged. Human poverty is defined as deprivation of basic human skills and conditions, such as illiteracy, malnutrition, short life, inadequate mother-child health, and contraction of preventable diseases (DPT, 2007). Thus, the definition of human poverty is based on the idea that a decent human living entails a set of economic, social and cultural opportunities alongside financial opportunities (Okumuş, 2010:75). In relation to micro credit, which plays an essential role in reducing poverty, Muhammad Yunus states that credit is a human right and that by obtaining this right it is possible to obtain other rights necessary for an honorable living. (Latifee, 2003). Micro credit extending institutions are non-profit organizations that aim to supply credit to poor people who have not been able to obtain a loan from conventional banks (Gutiérrez-Nieto, Cinca and Molinero, 2007:131). The credits with reasonable interest rates give poor people the opportunity to establish their own small businesses (Bakhtiari, 2006). When poor people obtain income by establishing their own businesses, this will also break the vicious cycle of poverty (Latifee 2003; Nader, 2008:655). While according to Latifee (2003), micro-finance programs encourage human capital investments, such as education, Nader (2008:655) stresses that increasing in the income and assets of women who use micro credit, increases their economic independence and self-confidence as well. In addition, micro credit has a positive effect on the welfare of the whole household because micro credit contributes to the redistribution of income as well as to the growth of local income (Khandker, 2003).

2.1. Literature

Many studies mention micro credit as an important instrument in fighting poverty. Nader (2008) tested whether or not micro credit has a positive effect on the socio-economic welfare of women. Although in consistency with the literature a high correlation was found between children's education, income, and assets, the idea that micro credit increases the health and harmony in the family was rejected. Mahjabeen (2008) found that in Bangladesh micro finance institutions increase the consumption and income level of households, increases welfare and decreases the inequality in income distribution. Shirazi and Khan (2009) determined that the micro credits extended by the Pakistan Fund for Fighting Poverty reduced poverty by 3.05 points over the period studied. Khandker (2003), using panel data analysis in his study estimated the long term effects of micro credit on the consumption and poverty of households in Bangladesh. The results indicated that as the poverty level increases, the poverty decreasing effect of micro credit increases. After a period of over 7 years, the poverty of the extremely poor micro credit users decreased by 18.2 percentage points, that of moderately poor decreased by 8.5 percentage points. Bakhtiari (2006) states that micro credit is an important instrument strategies aimed at fighting poverty. As micro credit services contribute to the development of resource allocation, support of markets and adoption of better technologies, they promote economic growth and development. In addition, the fact that micro credit users allocate resources to better nutrition, health, shelter and education will have a positive effect on development. Bakan, Ayrıçay and Eyitmiş (2010) evaluated the effect of micro credit applications in Turkey using the questionnaire method. It was found in the study that micro credit users' moral courage increased and their spouses, children and society start to support them, the occurrence of family violence decreased, and most importantly, their social reputation increased.

3. MATERIAL AND METHOD

In the study, a simple regression model was constructed to show the poverty decreasing effect of employment opportunities. In this model, the number of poor citizens which is used as the dependent variable is expressed in terms of the number of green card[1] holders in cities. The number of entrepreneurships in cities, which is the independent variable, represents the cities which are denser populated with people with high entrepreneurship potential. While the relatively high number of people with opportunities and potential for entrepreneurship in a city

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[1]In Turkey, within the framework of Law Nr. 3816 enforced on 18.06.1992, citizens with a low income who are not included in any social security system are given a green card that allows them to use healthcare services for free.

increases the number of enterprises in that city, it will decrease poverty. The regression analysis is conducted using the SPSS package program. The model used in the study is formulated as follows:

$$YK_i = \beta_0 + \beta_1\ GR\text{Ş}_i + \varepsilon_i \qquad (1)$$

YK_i = The ratio of the number of green card holders (as of December 2, 2010) in city İ to the population figure of the city (for the year 2009) represents the poverty in city İ,

$GR\text{Ş}_i$ = The ratio of the number of entrepreneurships (as of 2009) in city İ to the population figure of city İ (as of 2009) represents the density of the number of people with entrepreneurship potential.

ε_i = represents the random error term.

The number of entrepreneurship in cities and population data used in the model were obtained from the Turkish Statistics Institution, while the number of green card holders was obtained from the Ministry of Health.

4. THE IMPORTANCE OF MICRO CREDIT IN THE FIGHT AGAINST POVERTY

In the historical process, the fight poverty has been fought with two basic groups of policies. The first are more social policies that were more widespread after WWII until the 1980s and that aimed at establishing a social security network to fight poverty in a direct manner. On the other hand, although the second group of policies, which can be considered a product of the period of "globalization", are not designed to directly fight poverty, these policies aim at indirectly reducing poverty by increasing economic growth through decreasing the unemployment problem, which is an important factor in poverty. The reason why policies based on a welfare state were abandoned from the beginning of the 1980s onwards is that the social security expenditures for the fight against poverty increase the load on the budget and that social security policies pose the risk of creating "dependence on aid" or a "poverty culture". An increase in the number of people living on social aid will reduce these people's fear of hunger or poverty which is motivated people to work on the market and thus, prevent these people to work (DPT, 2007). Similarly, Taşçı (2008) lists the negative aspects of social aid as in addition to psycho-social outcomes of these aids, such as labeling and humiliation; they may also cause laziness and dependence, and can be abused or may violate human rights. Dinçer (2008) stated that one problem encountered with social aid systems is that the advantages brought with social aid (green card,

payments higher than the minimum wage, etc.) sometimes encourages people to continue receiving aid instead of working or stay in informal labor. Moreover, it was stressed that in Turkey active social policies developed to help people who receive aid within the social aid system to become producers and to increase their opportunity of employment have proved insufficient.

The fundamental aim in micro credits is to make the extremely poor move above the poverty line and establish their own small business. The social aids the form of donations, which "reinforce the spread of a beggar culture" are not very effective in fighting poverty (Akgül, 2006). Yet, the basic aim in the newly introduced "micro finance" approach is to count poor people in the labor market and make them productive so that they can improve their social and economic status. (Altay, 2007).

In the field of micro credit in Turkey, two important applications were made. In June 2002 the first micro credit institution in Turkey, MAYA, was established as an economic enterprise of the Foundation for the Support of Women's Work. MAYA, the headquarters of which is in Istanbul, started its operations in Kocaeli, one of the cities most severely affected by the 1999 earthquake. As of December 31, 2008 MAYA has a total of 1.585 active members (http://www.kedv.org.tr/). The second structuring in the field of micro credit is the Turkey Grameen Microcredit Programı (TGMP) started in Diyarbakir by the joint effort of the Turkey Waste Prevention Foundation and Grameen Bank on July 18, 2003. By the end of 2009, TGMP had 55 branches operating around Turkey and had lend 27.440.252 US dollar to its 29.077 members (TİSVA, 2009).

5. FINDINGS

The estimation equation and the results of the regression analysis are presented in the table below.

Table 2. Estimation Results		
	Coefficients	
Variables	Non-standardized coefficients	Standardized coefficients
Constant	0,585**	-
GRŞi	-10,481**	-0,769**
	R^2=0,591	Adjusted R^2 =0,586
Anova-significance	0,000	
YK_i = 0,585 -10,481 GRŞ$_i$		
YK_i= The per capita number of green card holders in cities, GRŞi= The per capita number of entrepreneurships		

** indicates 1% significance, and *5% significance.

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There is a statistically significant and negative linear correlation between the per capita number of green card holders in cities and the per capita number of enterprise in cities. The independent variable, which is the per capita number of entrepreneurships in cities, accounts for 59% for the dependent variable, which is the per capita number of green card holders, i.e., poverty. The coefficient of the independent variable in the model is negative as expected. The model and regression coefficients are statistically significant ($p > 0,01$). A one unit increase in the per capita number of entrepreneurships decreases poverty by 10.48 units. This result shows that to fight poverty in Turkey, the number of entrepreneurships that will increase employment opportunities needs to be increased.

6. RESULTS AND DISCUSSION

The fact that in Turkey, people who benefit from aids of certain social aid system do not participate in the employment process and do not become producers makes poverty a chronic problem and renders poverty a "habit" or "fate" of aid receivers. It is at this point that the key role of micro credit in the fight against poverty appears. The philosophy underlying micro credit is "To teach the poor to catch fish instead of giving them some". Increasing number of businesses thanks to micro credit will allow creating income which required by poor people for living an honorable life on the one hand, and the other playing an important role in regional development by giving rise to increase in employment and local demand. The most important prove to this is that the number of entrepreneurships in cities accounts for the number of green card holders, which is representative of poverty, by a ratio of 59%.

To conclude, although micro credit applications in themselves are not sufficient to eliminate poverty permanently, they are an important tool in fighting poverty. Increasing the spread of micro credit and allocating more resources for micro credit rather than for social aid in the form of donations will be a more effective mechanism in to fight the poverty in Turkey.

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Appendix Table: Data set used in the analysis

S.No	Cities	YK	GRŞ	S.No	Cities	YK	GRŞ	S.No	Cities	YK	GRŞ
1	Adana	0,1688428	0,0367617	28	Edirne	0,1011725	0,0509049	55	Malatya	0,1816473	0,0349404
2	Adıyaman	0,4118289	0,0284787	29	Elazığ	0,173397	0,0344982	56	Manisa	0,110945	0,044355
3	Afyon	0,0874971	0,0395921	30	Erzincan	0,1220181	0,0350324	57	Mardin	0,3930504	0,0280137
4	Ağrı	0,5772814	0,0193875	31	Erzurum	0,3204996	0,0292829	58	Mersin	0,1400851	0,0437568
5	Aksaray	0,1880676	0,0362742	32	Eskişehir	0,0471614	0,0401945	59	Muğla	0,0438458	0,073586
6	Amasya	0,1128727	0,0386193	33	Gaziantep	0,1530844	0,0389763	60	Muş	0,4712696	0,0181367
7	Ankara	0,0357826	0,0486886	34	Giresun	0,1445432	0,0425023	61	Nevşehir	0,1077264	0,0480415
8	Antalya	0,0552557	0,0656754	35	Gümüşhane	0,1844842	0,0335176	62	Niğde	0,1647853	0,0364232
9	Ardahan	0,3034326	0,0276697	36	Hakkari	0,4800418	0,0194617	63	Ordu	0,1713418	0,0373086
10	Artvin	0,1030136	0,0486713	37	Hatay	0,2072903	0,0360214	64	Osmaniye	0,1694199	0,0338827
11	Aydın	0,0957724	0,0544827	38	Iğdır	0,3735598	0,0370546	65	Rize	0,0682951	0,0472637
12	Balıkesir	0,0794336	0,0491586	39	Isparta	0,077698	0,0403735	66	Sakarya	0,070433	0,0455436
13	Bartın	0,0769492	0,0405149	40	İstanbul	0,0270418	0,0584477	67	Samsun	0,1405147	0,0376897
14	Batman	0,4376905	0,0221949	41	İzmir	0,0442811	0,0534466	68	Siirt	0,427087	0,017502
15	Bayburt	0,2090215	0,033891	42	K. Maraş	0,2482267	0,0318624	69	Sinop	0,105283	0,0404308
16	Bilecik	0,0492624	0,0378351	43	Karabük	0,0465264	0,0453185	70	Sivas	0,1585608	0,0321814
17	Bingöl	0,4671411	0,0216505	44	Karaman	0,1139982	0,0388749	71	Şanlıurfa	0,3629135	0,0294112
18	Bitlis	0,4980623	0,0218059	45	Kars	0,3800793	0,0284371	72	Şırnak	0,4863553	0,0370542
19	Bolu	0,042829	0,041146	46	Kastamonu	0,0949022	0,0443663	73	Tekirdağ	0,0525296	0,0490687
20	Burdur	0,0739217	0,0552813	47	Kayseri	0,0743761	0,0367087	74	Tokat	0,1656639	0,0324964
21	Bursa	0,0415977	0,045937	48	Kırıkkale	0,0736627	0,0346326	75	Trabzon	0,0949712	0,0421499
22	Çanakkale	0,0520833	0,0538458	49	Kırklareli	0,0666969	0,049721	76	Tunceli	0,2520196	0,0324942
23	Çankırı	0,0662797	0,0274729	50	Kırşehir	0,1409893	0,0345268	77	Uşak	0,0908325	0,0479366
24	Çorum	0,1512602	0,0377933	51	Kilis	0,2697455	0,0385245	78	Van	0,514612	0,0268431
25	Denizli	0,0537328	0,0525561	52	Kocaeli	0,0383688	0,0428466	79	Yalova	0,0722408	0,0547768
26	Diyarbakır	0,37732	0,0233959	53	Konya	0,1035743	0,0424394	80	Yozgat	0,1795123	0,0343603
27	Düzce	0,073515	0,0428785	54	Kütahya	0,0647547	0,0382893	81	Zonguldak	0,0524627	0,0407495