The Role of Microfinance in Women’s Empowerment in Turkey

Cisem Dincer

Cisem Tiftikcioglu



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**Introduction**

Turkey, the world’s 16th largest economy, is referred to as a role model for the Middle East by international organizations, policy makers, some media, and the Turkish government itself. Yet, there are certain issues that diminish the accountability of Turkey to hold such a status. Although the studies of the World Bank and IMF show that Turkey draws the attention of international markets, especially after the global financial crisis, resulting in a subsequent high growth rate, there still exist numerous challenges in terms of socio-economic development. One of the main problems that slows down economic recovery in the medium and long term is unemployment.

Upon taking a closer look, it can be seen that a financially unserved and unrealized workforce that mainly consists of unemployed women carries huge potential to engage in entrepreneurial activities leading to a reduction in the unemployment rate. Therefore, in the long run supporting women’s participation to the labor force is the only viable solution to overcome the chronic unemployment problem of Turkey. In this regard, microfinance as a social innovation enables women to help themselves through entrepreneurship which creates a profound impact on the performance of women’s empowerment initiatives by promoting sustainable economic growth. It could also fuel development by eliminating gender inequalities.

This study aims at analyzing the role of microfinance and promoting microentrepreneurship in women’s empowerment in Turkey as of today. First of all, along with the short historical context the environment that drives microfinance initiatives has been evaluated. Following that the development of microfinance segment in the financial sector has been introduced with the current challenges and obstacles. Then some basic strategies have been identified to build a safe and sound microfinance sector in the financial system. In conclusion, this paper confirms that with its wide outreach microfinance could be a “life saving jacket” for female entrepreneurs by creating jobs to facilitate the transition toward inclusive and sustainable growth.

**What Drives Turkey to Microfinance**

According to UNDP Human Development Indicators, nearly half of the total 73.640 million population consists of women.[[1]](#footnote-1) Within that number only 24 percent of women participate in the labor force – a rate substantially lower than the global average of 52 percent.[[2]](#footnote-2) While the share of working women has risen since the 1980s in countries with a similar starting point, it has fallen considerably in Turkey – from 34.3 percent in 1988 to 21.6 percent in 2008. By 2006, Turkey had fewer women participating in its economy than any other country in the OECD or the Europe and Central Asia region.[[3]](#footnote-3) Moreover, Turkey is still amongst the lowest scoring countries, 132th out of 135, in terms of women’s economic participation and opportunity according to the 2011 World Economic Forum: The Global Gender Gap Report. If girls above the age of 15 are taken into this calculation, the ratio increases to 25 percent in 2008[[4]](#footnote-4), however, girls should ideally finish school, rather than work to support their families financially.

Due to Turkey’s socio-economic demographics, 50 percent of women informally work in farms to support their families in the agricultural sector.[[5]](#footnote-5) The other significant portion engage in home-based entrepreneurial activities, mostly small-scale commodity production. Whether it is formal or informal, women make up a significant part of the workforce yet they have very limited access to financial services. Therefore, microfinance could provide the best tool for lifting women out of poverty in Turkey. It offers women access to basic financial services such as small loans, savings accounts, money transfers and insurance products.

By taking advantage of income generating activities through micro lending, disadvantaged households can improve their living conditions, provide a better education to the next generation, improve household nutrition and provide an economic cushion to protect families from those unexpected economic setbacks in life. Over time, when these new microentrepreneurs learn how to manage their savings they could even convert their activities to small businesses. Thus, expanding financial services to women in need is crucial for sustainable economic growth not only in Turkey but also in any nation.

Before microfinance, the term micro credit was first promoted in 1970s as a solution to poverty by Muhammad Yunus the winner of the Nobel Peace Price in 2005. He worked on an action research project to provide credits targeting the poor in rural areas of Bangladesh. The project transformed into an independent bank in 1983 under the name of Grameen Bank Project[[6]](#footnote-6) with a mission to help the poor families to overcome poverty. It was particularly targeted to poor women who make up almost the overall client segment.[[7]](#footnote-7) In the following years the idea and its practices grew tremendously and was accepted primarily as an anti-poverty strategy by the developing world. As a direct channel to the individuals in need, it still creates a unique positive community-driven social impact in the society.

Despite the growing awareness and implementations worldwide, today there is still little knowledge and discussion about the applicability of microfinance in Turkish financial system. The concept, however, has received attention of the policy makers and the government officials in recent years as an alternative model to the traditional banking and lending system. After the declaration of the year 2005 as an “International Year of Micro-Credit” by the United Nations, the first “National Microfinance Committee” meeting was held in Ankara as an effort to adopt an action plan to build a microfinance sector in Turkey. The participants pointed out that the establishment of the microfinance sector would not only improve levels of income, but also contribute to the deepening of the financial markets by providing financial services to the bottom of the pyramid which is otherwise unreachable. Several conferences, workshops and meetings were held in various cities and provinces to develop concrete recommendations to solve the problems of the underserved population who carry enormous economic potential.

However, due to the severe effects of the global financial crisis, the focus shifted to the recovery measures rather than creating a microfinance environment after 2007. In the following years Turkish government focused on policies which could promote growth in the short-term rather than considering new investment alternatives for the long-term development. Whilst maintaining the gradual recovery of the Turkish economy, in September 2011, the governor of the Central Bank of the Republic of Turkey gave a speech at the “Istanbul Finance Summit” in which he emphasized the necessity of introducing microfinance initiatives. He said “There is a very useful financial service called ‘microfinance’ and we hardly know the sector yet”. He also put his finger on the key issue and added “Microfinance is an innovation which helps the poor who have new ideas, willingness and desire to work to run their own businesses. It provides small loans as a start-up capital without any collateral requirement”. [[8]](#footnote-8) Six months later in April 2012, a global microfinance forum was held in Istanbul as well. Obviously, there is much more hope as of 2013 than previously, since policy makers, government officials and businesses are more interested in welcoming microfinance initiatives.

**History of Microfinance Activities**

Historically the provision of financial services to unbanked poor had been tied to the development programs in Turkey within a concept of providing loans through cooperatives mostly in agricultural contexts. The lending activities of cooperatives can be traced back to 1863 when the first activities took place amongst farmers, as it did in many other countries which form the basis of the microfinance concept today. However, comprehensive progress could not be accomplished until the 1920s since the world witnessed devastating effects of the World War I. Turkey (officially the Ottoman Empire at that time) joined the war and was occupied by the Allies which triggered a national movement towards the “Turkish War of Independence” led by the commander Mustafa Kemal Ataturk, the founder of the Republic of Turkey. After completion of the formation of the new nation, the activities of the cooperatives were considerably improved as a result of a section added to the Constitution in 1961 which is known as the most liberal constitution throughout the legislative history of Turkey. Seen by the governments as a landmark in economic legislation, the provisions were kept untouched in the Constitution of 1982, and programs related to cooperatives also took part in government’s “Five Year Development Plans”. As beneficiaries of the legislation, many new cooperatives and cooperative unions are formed and dominated by men according to the needs of the society and provided funds to the lower economic segments of the population.

Today, there are 26 different types and 84,232 active cooperatives in Turkey.[[9]](#footnote-9) However, through the years most of them could not use their capacity because of the low levels of membership, structural problems, lack of efficiency, capital and strategy. They therefore failed to meet the needs of their members. Consequently, they failed to solve the problems of the poor as well.

Moreover, instead of pointing out the real causes of failure, due to political motives to gain more power, governments provided subsidized loans/funds via state-owned banks to those people working mostly in the agricultural sector. Since those banks were under the control of the governments for years they could not be managed in the most efficient manner. Only when outside subsidies and donor funds were provided with low costs and long maturities through international organizations such as the World Bank and European Investment Bank (EIB), the distribution was made depending on strictly monitored rules and regulations. Above all, those loans could not reach out to women who were at the core of the total workforce especially in the rural areas.

As a result of failures in tackling particular socio-economic development issues based on women and gender inequalities, through the years women employment fell far behind that of men. According to Microfinance Information Exchange[[10]](#footnote-10) (MIX) Market data as of 2012 only 54,048 women used microfinance services in Turkey. The number reflects the tremendous gap between supply and demand since the current system is not responding the financial needs of the ¾ of the female population who are still officially unemployed. When compared with the other countries in the Eastern Europe & Central Asia region it is obvious that only Turkey underestimated the transformative power of microfinance services for women.

**Providers of Microfinance in Turkey**

In the international arena, there is more than one institutional model for microfinance services. Numerous different types of institutions are in the field serving customers with various different types of financial products. Globally, commercial banks, credit institutions, microfinance institutions (MFIs), non-banking financial institutions (NBFIs), non-governmental organizations (NGOs), and others are active in the sector. In contrast to the other parts of the world, microfinance is a quite new idea for Turkey. Only several NGOs and commercial banks are active in microfinance investments and the sector has not yet been established as a part of the formal financial system.

There is still falsely widespread belief in the society that government-subsidized programs managed by Ziraat Bank and Halk Bank, the two biggest state-owned banks, could be the only solution to solve the problems of the poor. As the oldest bank in Turkey’s history Ziraat Bank was established to promote the agricultural sector. Founded in 1950s Halk Bank’s primary goal was meeting the needs of mainly tradesmen and Small and Medium Enterprises (SMEs). After the policy measures taken by the government to restructure those banks, they focused on profitability, sustainable equity and asset growth in the last decade and broadened their services to support households and commercial sector. However, as a management strategy they have not focused on women-oriented credit lines and fell behind in fulfilling their needs.

Formally micro-credit was first introduced by MAYA in 2002, an officially registered for-profit company owned by the Foundation for the Support of Women’s Work (FSWW)[[11]](#footnote-11), a Turkish NGO. But in fact, FSWW began to work in micro-credit in 1995 with a mission to improve women’s economic well-being and their quality of life. After the Marmara earthquake in 1999 the organization reached out to many women not only by providing loans, but also by supporting them psychologically in times of despair. The biggest segment of micro-credit borrowers from Maya is businesses run by low-income women. Based on group lending, total loan payments are guaranteed by groups of 3 people. Besides MAYA, through social responsibility projects FSWW cooperates with Citibank and HSBC to collect the savings and expand the lending activities to more women.

The following year in 2003, the Turkish Grameen Microcredit Program (TGMP)[[12]](#footnote-12) was established as a joint venture between the Turkish Foundation for Waste Reduction (TFWR) and Grameen Trust, with a mandate to provide sustainable financial services to low-income families, especially women in urban and rural regions in Turkey. TGMP is the first organization to implement the Grameen model in Turkey. Until 2012, TGMP provided loans up to 58,000 women with a total amount of TL 138 million ($77 million).[[13]](#footnote-13) It started with 2 branches in Diyarbakir, one of the biggest provinces in the southeast region, and expanded its services to 64 provinces with 89 branches[[14]](#footnote-14) by 2012. TGMP now has a virtual monopoly on non-banking micro-lending, with around 96% of clients and 93.5% of loans.[[15]](#footnote-15) At the end of 2011, the first micro-insurance application was facilitated as a means of protection for its members in partnership with one of the private companies located in Istanbul. Furthermore, in order to improve efficiency, TGMP introduced a system based on POS machines for the collection of money and the installation of loans. The system includes service charges and savings to reduce the cost and increase the level of security of the transactions otherwise made by the employees on a weekly basis. In addition to the system improvement, TGMP collaborated with Turkcell[[16]](#footnote-16) and initiated a web-based platform entitled “Women Empowerment in Economy”.[[17]](#footnote-17) The project aims to promote the participation of women who have limited means in the economy and contribute to their social and economical empowerment by helping them start up income generating businesses or expand their existing businesses through social lending. The platform is first of its kind globally where a mobile operator collaborates with a microfinance institution to launch a "crowdfunding" model, enabling people who want to support low-income women by lending money via online and mobile payments.

The third organization KIVA[[18]](#footnote-18), an international NGO founded in 2005, partnered with MAYA in 2011 to bring a new dimension to microfinance activities by connecting more people via the internet. On one side there are borrowers who are in need of capital to invest in their micro businesses and on the other side there are lenders who are searching for the right person to help. By putting people in touch KIVA facilitates peer to peer lending through optional donations and utilizes other source of funding opportunities through grants, corporate sponsors and foundations all over the world. They basically work in a partnership with MFIs which administer the process to provide micro-loans and reach out the disadvantaged unbanked households who could not afford receiving any financial services elsewhere. By March 2013, nearly $416 million loans were disbursed to 1 million Kiva Borrowers globally.[[19]](#footnote-19) However, Turkey’s participation still remains very low[[20]](#footnote-20).

**Current Challenges in Microfinance Environment**

According to recent estimates of the World Bank, over the past 15 years, the rapid growth of the microfinance industry has reached approximately 130 million clients. Yet, the industry still reaches less than 20 percent of its potential market among the world’s 3 billion or more poor.[[21]](#footnote-21) Unfortunately, women make up a significant part of that startling number. As part of the solution to reduce the poverty level for women, besides numerous other efforts, two main focuses of international organizations have become maintaining employment and creating jobs. Putting this objective into practice, many initiatives were undertaken by NGOs and MFIs by gaining a more comprehensive understanding of the nature of the services and products that best fulfill the needs of the financially unserved communities in many regions of developing countries.

Even though Turkey is considered to be an upper middle-income country by the World Bank, regional policies[[22]](#footnote-22) present a diverse range of development challenges mainly in socio-economic growth and gender inequalities. As stated in the World Bank Report entitled “Female Labor Force Participation in Turkey: Trends, Determinants and Policy Framework” Turkey needs more women in the workforce for sustainable prosperity and profitability. According to the Report, increasing the number of women who are actively employed would reduce poverty, increase national economic output, and lead to improvements in social indicators like health and children’s education outcomes.[[23]](#footnote-23) Additionally, in his visit to Turkey in July 2011, the World Bank’s President Robert B. Zoellick pointed out the gender-gap issues when he was speaking about the success of policies on macro-economic stability. He said “the Turkish case presents a dilemma and participation of women in economic life is abysmal." Another significant study of the World Bank shows that increasing female labor force participation only from 24 percent to 29 percent could contribute to reducing poverty by up to 15 percent.[[24]](#footnote-24)

However, within the current infrastructure, there are still many obstacles for the vulnerable and poor women in accessing to financial services. Although women make up a huge component of potential financial services users, the bigger portion of loans are given to men. It is indicated in the World Bank’s recent study on financial inclusion data[[25]](#footnote-25) that 7 percent of men at age 15 and up borrowed loans form a formal institution in 2011, and the number is only 2 percent for women.[[26]](#footnote-26) The total borrowing rate is 5 percent, which reflects the second worst score after Uzbekistan when compared with 16 countries in the Europe and Central Asia region.[[27]](#footnote-27) Traditionally conservative values and beliefs such as “home is the best place for women”, an expression commonly used amongst men, prevents women to going outside and search for opportunities to break the “primarily mother and wife” label attached to them in general. As women have more children over the years, they are less likely to finish their education and work outside the home. Thus, their vulnerability increases due to the limited alternatives to provide affordable childcare and since wages are very low.

In addition, other factors such as urbanization and the decline in agricultural employment prevented women from having or seeking jobs.[[28]](#footnote-28) There is still lack of awareness about microfinance and its principles both in the financial sector and among the communities as well. Only a handful of studies focus on the concept of microfinance at the university level and very few studies are undertaken by the banking sector itself.

Furthermore, lack of legal regulations keeps attention on other funding opportunities to SMEs provided mostly by state-owned banks as a part of social policies implemented by the government for poverty alleviation and promoting entrepreneurship. Even though those banks have been active in lending for many years, it is difficult to reach out to the core micro level segment. The application process is rather long, it is hard to meet requirements and start-up businesses are traditionally perceived as risky investments. Currently, the banking system is mostly shaped on asset-based collateral requirements and certain client types, which prevents micro-lending since there are no assets to be used.[[29]](#footnote-29) In comparison to the banking sectors in many countries, the Turkish banking sector records higher profits.[[30]](#footnote-30) Due to higher returns on assets and equity, the sector is still deleveraging its potential. Therefore, there is less market pressure for the banks to look for alternative clients and reach out to unbanked/underbanked populations.

**Opportunities for Building a Microfinance Industry**

It would be wise to look from a wider perspective and consider far reaching benefits of the development of the microfinance industry in Turkey. Today, in the international arena the sector is well positioned and there is much effort to strengthen existing infrastructure and overcome the structural weaknesses via market innovations. Globally, microfinance executives are discussing the latest strategies for overcoming the investment risk, discovering new distribution channels, and developing new products such as mobile banking usage to prevent or minimize the future incidences.

Unfortunately, the Turkish financial environment is still very immature for such developments, but it is obvious that there is considerable potential which could boost the overall economy. Even though there are challenges, microfinance as an emerging investment opportunity could bring a new approach to enable self-employment through entrepreneurial activity. It could also promote unrealized home-based women workforce potential by providing capital to their micro and small businesses.

The industry is ready to grow further since at least one institutional model is already implemented by existing NGOs and academia started to engage in some projects to support the development process. In this regard, a project named “10,000 Women” initiative launched in 2008 by Goldman Sachs is taking place in Turkey as the “10,000 Women Entrepreneurs Certificate Program” with the cooperation of Ozyegin University for the period of 5 years.[[31]](#footnote-31) The project mainly encourages women who are not educated enough but have business ideas and the potential to become entrepreneurs by expanding their small businesses. Although the program is tailored for SMEs run by women, it triggers social awareness and creates an impact for further steps.

Another significant academic contribution was undertaken by Okan University in Istanbul. The first microfinance center, "Muhammad Yunus International Centre for Microfinance and Social Business" was launched at the university in December 2011.[[32]](#footnote-32) The Center aims to contribute to poverty reduction by disseminating research in the academic world as well as practitioner communities to promote social business ideas and projects.

In addition to the increasing academic interest, due to the profound development effect on the society, international donors and agencies such as International Finance Corporation[[33]](#footnote-33) (IFC) and EIB[[34]](#footnote-34) also built partnerships with the financial institutions in Turkey to support microfinance mostly in the form of financing and policy advice. In December 2011, an agreement was signed with European Investment Fund (EIF) through Ziraat Bank under the “Micro-Credit Window of Competitiveness and Innovation Framework Programme”[[35]](#footnote-35) as a part of the pre-accession strategy to provide finance to micro-businesses.

Even though existing regulatory framework is not conducive to develop microfinance activities, some other commercial banks started to shift their focus to micro enterprises in the recent years as well. To create additional opportunities for women and strengthen the lending activities in an underserved market segment, IFC extended its support and provided $40 million through Abank[[36]](#footnote-36) in the fall of 2011 targeting businesses owned by women. In June 2012, IFC provided $30 million senior loan facility to one of the private banks Fibabanka[[37]](#footnote-37) with a condition to allocate at least 50 percent of the total loans to women-owned SMEs.[[38]](#footnote-38) IFC is currently working to mobilize funds to increase the total financing package for reaching more unbanked women entrepreneurs. Since the efforts are more solid comparing with the past, the timeline of the policy adjustments is crucial for reaching international funding opportunities and technical assistance to support a fully-fledged microfinance segment in the financial system.

Besides several microfinance initiatives, United Nations (UN) recognized 2012 as the “International Year of Co-operatives” as a part of the long-term recovery plan.[[39]](#footnote-39) Basically, it was an acknowledgment that co-operatives drive the economy both socially and financially by supporting businesses and creating jobs along with the other financial institutions worldwide. As a response, the Turkish government declared her interest and will to support cooperatives in order to strengthen the relations between members, improve the quality of the services, redesign policies regardless of regional differences to bring new solutions to the ongoing problems. Furthermore, the “Turkish Co-operative Strategy Paper” was submitted to the High National Committee with a three tier plan including strategy, support and supervision and announced to public by the prime minister Recep Tayyip Erdogan in October 2012.[[40]](#footnote-40) With the Strategy and Action Plan, the government redefined the roles of public and private sector as part of a sustainable policy for cooperatives. There are 36 actions envisaged in the document that will contribute to the welfare and production levels of large segments of the society, particularly disadvantaged groups, agricultural manufacturers, tradesmen, craftsmen and SMEs. As a result of these efforts supported by the government and NGOs, along with other high impact initiatives one of the provinces close to Istanbul teamed up with FSWW to establish a Women’s Empowerment Co-operative Union and provided childcare services to working women in that region.[[41]](#footnote-41)

Another step was taken by removing the barriers to the businesses which hire women. The program subsidizes employers’ social security contributions for newly hired women for up to 5 years to increase women’s employment.[[42]](#footnote-42) The government is taking some concrete steps, but these efforts are not sufficient enough for all-around economic uplifting. The development programs should initiate schemes to promote social empowerment as well.

In fact, Turkish women highly appreciate the core values of family and kinship which creates a strong desire to feel empowered by supporting their spouses financially and managing the house independently. When they gain power by earning “like a man”, even when buying groceries and paying the bills their level of confidence increases enormously. It is obvious that when asked there is a potential demand for more jobs whether they are home-based or outside the house. Traditionally Turkish women used to cooperate and provide micro loans by peer lending to help each other. Almost half of the total women above 15 prefer to borrow from family members or friends since it is more costly to borrow from a financial institution. According to the World Bank’s financial inclusion data the borrowing rate from family and friends is 41 percent compared to the borrowing rate of 2.4 percent from a financial institution by 2011.[[43]](#footnote-43) As a result, Rotating Savings and Credit Associations (ROSCAs)[[44]](#footnote-44) are very common in Turkish society, which allow women to turn small savings into loans without any paperwork or storage costs. Those little savings could be collected in forms of “Republic Lira” original coins made of gold in different sizes or could be given in cash either in Turkish Lira or in US Dollars. The informal names given to the collection of gold or US dollar are “Gold Day” and “Dollar Day”. Women get together usually every month on a certain day of the week. The decision is made by the group members in consensus or via raffle to whom the money will be given next. If there is an urgent matter like a wedding or funeral, they could change the timing and the person to lend as well.

The best part of gatherings is those women become trainers and mentors to each other providing tremendous social assistance for free. They share almost everything about their lives, happiness and sorrows as well as their financial struggles within their families. ROSCAs develop resilience and solidarity among communities and provide a good source of group lending experience which is associated with joint liability in microfinance. Therefore, there is an inherent potential in the society and informal microfinance groups already exists deeply in the culture. Current experiences show that it is just a matter of establishing the ground for more substantive regulatory framework and building the infrastructure to make the sector grow both domestically and internationally.

**Strategies Through a Safe and Sound Microfinance Sector**

Turkey had gone through several financial crisis in the past which had devastating effects on the national economy. After the 2001 financial crisis, the Turkish financial sector moved rapidly towards a restructuring process and government has tightened control mechanisms by developing a more safe and sound banking system to become one of the major role players in international financial markets. Today, the banking system is well regulated and overseen by prudent banking laws and institutions such as the Banking Regulation and Supervision Agency (BRSA) and Savings Deposit Insurance Funds (SDIF). Therefore, the financial sector is robust and safe enough to welcome microfinance as a new segment in the current system, which will contribute to long term social change.

After the establishment of first Grameen Bank in 1983, many forms of microfinance investment models have been implemented worldwide. Along the way, the industry went through some difficulties and harsh debates whether micro lending is lifting poor out of poverty or pushing them into a debt trap. However, its legitimacy had already proven itself. Various studies, both quantitative and qualitative, document increases in income and assets and decreases in vulnerability of clients.[[45]](#footnote-45) Yet Turkey failed to adopt the changes in a timely manner and missed the opportunity to establish a regulated microfinance segment in the financial system. Historically, negative image of the co-operative sector influenced the ability to define principles of microfinance as well. Other than lending activities of existing NGOs, some micro loans were distributed to a very small group of women by a few private banks. Collaborating with the international development agencies and reaching available funds, they tried to expand their lending capacities to underserved client segments. But the numbers and the amounts of loans remained very low due to limited know-how in the field. Authorities should accept that Turkey could not solve the unemployment problem by ignoring its women population.

For years, discussions having been carried out on how to empower women financially and socially, but neither governments nor businesses took comprehensive actions. Strong cultural beliefs which keep women at home for a better family life is not sustainable any more. Women’s participation in the workforce is the only way to achieve long term prosperity and growth since the future of the economy overall does not look promising at all due to high current account deficit and high unemployment rate. The inflation rate increased –to 8.8 percent by July 2013, and there is a huge decline in the GDP rate from 8.8 percent to 2.2 percent in 2012 compared to the previous year.[[46]](#footnote-46)

Setting up medium and long term strategies to tackle with the challenges ahead, the Turkish government prepared the 9th Development Plan (2007-2013)[[47]](#footnote-47) which determines global goals and policy priorities to overcome unemployment, regional disparities, social imbalances, and gender inequalities. To fulfill the objectives stated in the plan and solve multiple challenges, the government should come up with a multi-staged development agenda and put microfinance on the top of the list as a short-term strategy to solve the women’s unemployment problem. Creating an enabling environment for microfinance, there is a need to broaden the financial system by enhancing its intermediation role, improve regulation, introduce innovative financial products to draw more domestic and foreign investments, and make collaborations with new partners worldwide.

In the coming years, the draft microfinance legislation,[[48]](#footnote-48) which has been waiting on the shelf for 8 years so far, should be reviewed according to the robust models overseas and enacted as early as possible. It could set a basic legal framework for NGOs, associations, businesses and charitable organizations to create a solid market segment. Strategic engagements with international foundations could also provide capital to start-ups through grants, donations and fund raising to promote entrepreneurial activities especially in rural areas. Implementing necessary legal and institutional regulations will enable the greater establishment of the microfinance sector by facilitating new and bigger participants from the private sector as well.

More research should be done to find successful microfinance development models that could easily be applicable to the current structure for better future investments. In this regard, researcher and academic work force should be improved in terms of quality and quantity at universities and in the private sector to implement the best practices. Investing in more Research and Development (R&D) activities could also generate innovative networking opportunities to reach more clients by adopting cutting-edge technologies such as mobile baking and e-money transactions.

Another critical area is improving the level of financial literacy in society by developing financial literacy standards in Turkey. However, there is still neither a national strategy nor specific programs focusing on this issue. As a starting point, the World Bank, Central Bank of Republic of Turkey and Capital Markets Board jointly worked on the implementation of a nationwide survey to establish a systematic approach. Developing a national strategy could be a milestone to elevate household’s financial literacy through financial education. For better financial decisions, the Turkish government should implement financial inclusion schemes to foster micro-entrepreneurship initiatives and savings in the long term. Not surprisingly, the general public, not to mention particularly women, do not know much about the financial markets since the main investments of households still consists of government securities and bank deposits. Limited financial product diversification utilized by banks drives clients to insufficient portfolio allocations as well. Moreover, due to lack of awareness about saving for future, domestic savings are very low in Turkey. An increasing trend in consumption expenditure and the dependency over short term foreign financing causes a current account deficit by jeopardizing growth and a decline in household savings. Recent decline in total savings, reaching 12.7 percent in 2010, was the lowest rate since 1980.[[49]](#footnote-49)

Although the total accounts of both males and females at a formal institution are relatively higher than the other countries in Europe and Central Asia region, saving and borrowing ratios are very low. The total savings at a financial institution was only 4.2 percent (female savings rate was 2 percent[[50]](#footnote-50)) in 2011, ranked 11th out of 16 Europe and Central Asian countries in the region.[[51]](#footnote-51) Determining a policy to increase savings, another significant report issued by the World Bank, entitled “Sustaining High Growth: The Role of Domestic Savings” states that Turkey could learn from the experiences of Malaysia and Thailand which have both well-developed financial markets and high savings rates.[[52]](#footnote-52) Although greater gains in terms of building a successful microfinance environment have been seen in countries such as Peru, Bolivia, Pakistan and Kenya compared to Malaysia and Thailand, the implementation of smart economic policies boosted growth and reduced poverty dramatically in both countries. In comparison with Turkey the number of females over 15 who borrowed from a financial institution in 2011 is 9 and 5 times, and even worse the number of females who saved at a financial institution is 22 and 15 times less than Thailand and Malaysia, respectively.[[53]](#footnote-53) Moreover, Turkey reflects the lowest female savings ratio (7.8%) among forty upper middle income countries. Despite facing a number of financial and social challenges, a tremendous movement toward financial inclusion has been built in those countries. The governments launched microfinance programs in cooperation with the state-owned banks[[54]](#footnote-54) to finance the disadvantaged poor by offering different range of services.[[55]](#footnote-55) In May 2011, the Bank of Thailand[[56]](#footnote-56) allowed other banks to engage in microfinance activities to broaden the outreach by issuing new regulations. Only two months later the World Bank upgraded Thailand to an upper-middle income country due to its success in poverty reduction and sustained economic growth.[[57]](#footnote-57) Micro credit and debt restructuring programs are very popular in the country since the government is trying to increase availability of financial services to grassroots consumers.

Unlike Turkey, in recent years financial inclusion reforms are at the core of the policy agendas of the regulators and government officials in many countries.

**Conclusion**

Since the financial system is still far from providing loans to the bottom of the pyramid and promoting entrepreneurship, increasing savings will continue to be a particular concern for Turkey. In order to broaden the current outreach, Turkish financial institutions should design special credit and saving schemes. In this regard, microfinance could be a new segment in the current banking system.

As primary suppliers of loans to SMEs, both Halk Bank and Ziraat Bank could play a prominent role in the development of microfinance, not only by their lending activities but also with their saving services. Their nationwide branch network is literally tailored for reaching out unbanked and underbanked to serve more clients. Location wise, the distribution channel is wide enough to implement positive government models. Building a competitive microfinance industry, however, could only be possible by developing private sector provisions and attracting business investments to the field. The private sector has the capacity to mobilize capital and provide technical assistance to financial institutions and NGOs. After redesigning the current framework towards the establishment of a safe and sound microfinance sector through new regulations, the priority could be given to women.

Microfinance with its wide reach could be a “life saving jacket” to cover the financial needs of women and lift them out of poverty by boosting female entrepreneurship. In a fast-growing environment micro-businesses run by low-income women also need to adopt and manage sound businesses. Loan policy priorities should be given to those underserved women entrepreneurs through microfinance initiatives.

To sum up, microcredit is really nothing new; it has provided a way out of poverty in many parts of the world for almost four decades. But today it is getting more attention from potential investors and international organizations because of its profound social and economic impact. Women entrepreneurs are the key beneficiaries of microfinance programs.

By being at the forefront of job creation with a potential to change the current dimensions of the unemployment problem, involving female talent in the economy would be a smart move. Microfinance could play a prominent role in empowering Turkish women and for facilitating the transition toward inclusive and sustainable growth. As the main contributors of the welfare system, investing in women pays off. It is just that simple, give them a chance and make them believe in themselves.

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