

Kalaycı İrfan

Professor of Economics, Ph.D., Faculty of Economic and Administrative Sciences,
İnönü University, Malatya, Turkey, Republic of Turkey

Hatice Özkurt Çokgüngör

Lecturer, Vocational School of Social Sciences,
İstanbul University-Cerrahpaşa, İstanbul, Republic of Turkey

WHAT KIND OF A STRATEGY IS MICRO CREDIT?

***Abstract.** While class contradictions deepened in the globalizing world, micro credit policy emerged for the poor class. The aim of this innovative financial system, which started with the Grameen Bank (Bangladesh) in the 1970s and became popular in some underdeveloped-developing countries in the 2000s, is to combat poverty by encouraging women-dominated small-scale entrepreneurship. Besides being a socio-economic development tool, micro credit is a state-directed positive discrimination strategy.*

***Keywords:** Micro credit, Poverty strategy, Grameen Bank*

Microcredit is a financial innovation originally based on the Grameen Bank (Bangladesh) founded by Prof. Yunus in the 1970s. Yunus received the Nobel Peace Prize in 2006 for this Bank's fight against poverty through micro-credit. Micro-loan was described on the cover of Time magazine dated March 24, 2008 as "One of the 10 ideas that changed the world". In addition, the United Nations declared 2005 as the "International Micro Credit Year" by looking at the prevalence and prestige level of micro credit.

According to Harris (2009), there were more than 100 million people receiving microloans, considering 2007 alone following this process. But sadly, there are around 3 billion people living on less than \$ 2 a day and about 1 billion people living on less than \$ 1 a day. According to the reports of micro-credit institutions (MFI), which Harris pointed out, as of the beginning of 2008, among the poorest people (almost 84% of the total), the people who took their first loans reached 110 million: The number of women among the applicants is around 89 million. Considering that

each family consists of an average of 5 people, the number of family members affected by microcredit will be around 550 million people. The number of MFIs increased to 3552 between 1997-2007, only 861 MFIs were established in 2008.

Micro credit can also be seen as a mix of monetary-fiscal policies applied against impoverishment. The target audience of the loan is people with a daily spend of \$ 1-5. Two basic vital goals are aimed with micro-credit, namely providing jobs for the unemployed and giving the poor a sigh of relief. Given its reasonable repayment period and negligible interest cost, micro-credit programs can be considered to be a popular “drug” (a drug with almost zero side effects) for the masses that it appeals to – especially women.

The causes and consequences of poverty that led to the "invention" of microcredit can be examined in an interactive relationship. One of the reasons can sometimes be regarded as the result of poverty (and vice versa): Odabaşı (2008) lists the macro-level causes of poverty as follows: Economic inadequacy, lack of education, lack of social facilities, physical and mental disability, old age, ex-convict, being alone due to spouse death and abandonment, etc. Some of these reasons lead to poverty, as well as poverty in some cases can cause these problems. Many of these reasons have the characteristic of being eliminated at the source, if adequate, correct and effective economic policies can actually be used in the civilized world.

Micro credit does not mean "micro finance", but a term that falls within its scope. Micro finance includes savings, insurance, money transfer and other financial products, micro credit offered to the poor and low-income people which is the target audience. Although the micro finance sector operates unprofitably, unlike the traditional commercial banking sector, it has a sustainable structure thanks to some income sources and financial support from governments. Micro credit, as a component of micro finance, refers to the unsecured, very small debts received from legal financial institutions by people without any income (Microfinance Gateway and Microloan Foundation).

Microfinance programs offer a striking set of opportunities for expanding markets that reduce poverty and promote social change. These programs, especially

on the basis of microcredit (as outlined by Yunus, the economics professor, its contemporary inventor), offer poor people the following promises: financial services, entrepreneurship opportunities, ending bad behavior of borrowers, and a place where poor people can create, manage and protect their own money.

On the other hand, micro credit is not a social aid - protection - transfer mechanism. This mechanism has three branches (as cited in Lindert, Şener, 2010):

- 1st pillar: “general supports” given to a particular social group, independent of income and employment status, such as support for families with children

- 2nd pillar: “social insurance practices” varying according to the employment status of the individual and the contribution made during employment, such as unemployment insurance and pension.

- 3rd pillar: aid to “special groups”, such as those generally below the poverty line or disabled people, depending on the average-test or income-assets.

Micro credit is a socio-economic development tool, a loan designed for small-scale enterprise capacity, job creation, trust-building and entrepreneur’s assistance in difficult times requiring initiative. As Srinivas (1997) states, micro-credit is the name given to programs based primarily on trust (pre-bankable) that distribute small loans to very poor people for personal employment projects in order to generate income for himself and his family. Definitions vary from country to country, but the following criteria are commonly used in all definitions:

- Size - loans in micro or much smaller size.

- Target audience - small entrepreneurs and low-income families.

- Utilization - use of funds to enable the community to benefit from common sectors such as health and education, as well as to generate income and develop a business.

- Terms and conditions - very long terms and repayment terms for micro loans, flexible according to the local life structure of the community.

In short, micro finance and its component microcredit is an option system that promises not to eradicate poverty altogether, but to alleviate poverty. It represents the compassionate face of capitalism, a product of which it is.

References:

1. Harris, Sam D. (2009). State of the Microcredit Summit Campaign Report 2009. Washington
http://www.microcreditsummit.org/uploads/socrs/SOCR2009_English.pdf
2. Microfinance Gateway. <http://www.microfinancegateway.org/>
3. Microloan Foundation. "How Microfinance and Microcredit Works" <http://www.microloanfoundation.org.uk>
4. Odabaşı, F. (2008). Yoksullukla Mücadelede Temel Yöntemler. V.Aile Şurası, Eylül.
5. Srinivas, H. (1997). So, What is Microcredit? The Global Research Center, The Microcredit Summit (2-4 Feb.), <http://www.gdrc.org/>
6. Şener, Ü. (2010). Yoksullukla Mücadelede Sosyal Güvenlik, Sosyal Yardım Mekanizmaları ve İşgücü Politikaları. TEPAV Politika Notu, İstanbul, Şubat.