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Demand Study for Micro-Finance in Turkey

Results from a Field Survey

Major Findings

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Content

Charts

Tables

1   Introduction

1.1 Background and Objective of the Study

36% of the Turkish population is considered economically vulnerable[1], i.e. 5.7 million households[2]. This is the total target group for poverty alleviation in Turkey. Microfinance is one of the recommended strategies to eradicate poverty in Turkey until the year 2015. However, the microfinance sector of Turkey is currently in its early stage of development: there is only a very limited supply of financial services to the poor.

It is against this background that UNDP-Turkey commissioned Bankakademie International (Germany) and the Turkish market research company Konsensus to investigate the demand for microfinance services in Turkey.

Currently, a number of commercial banks are exploring the microfinance sector for potential investments and government institutions are building their views for the draft Microfinance Law in Parliament. UNDP works with a number of institutions in order to raise awareness on microfinance and allow them to develop policies for development of an inclusive microfinance sector. However, there is no information on the demand side of microfinance and the potential impacts of microfinance on poverty reduction. Therefore, the purpose of this study is to deliver information on following topics:

- What are the financial service needs of poor people?
- To what extent are these needs met by existing financial service providers and products?
- What formal and informal mechanisms serve poor people?
- What would be suitable microfinance approaches, technologies and products to meet the demand and make the delivery sustainable (at least cost-covering)?
- What are potential clients able and willing to pay for microfinance services?
- What will be the profile of the potential target group for microfinance services?
- What would be the likely impact of microfinance in addressing the unmet needs of the target group with an MDG perspective?

1.2 Microfinance and Poverty

What can microfinance contribute to poverty alleviation? A CGAP study[3] summarised it very well:

"Microfinance, and the impact it produces, go beyond just business loans. The poor use financial services not only for business investment in their micro-enterprises but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter. (…) Unfortunately, poor people in most countries have virtually no access to formal financial services. Their informal alternatives, such as family loans, savings clubs, or moneylenders, are usually limited by amount, rigidly

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[1] Kiendell Burritt: Microfinance in Turkey; UNDP, August 2003
[2] Total population of Turkey was 71.3 million in 2004 (World Bank website information) and the average household size was 4.5 persons (State Institute of Statistics, 2000)
[3] Littlefield / Morduch / Hashemi: Is Microfinance an effective strategy to each the Millenium Development Goals? - Consultative Group to Assist the Poor (CGAP), Focus Note No. 24, February 2003

administered, or available only at exorbitant interest rates. The challenge ahead is to ensure access to financial services for the poor majority."

1.3 Research Design

The research design was developed in a process which involved various stakeholders. The first draft of the research design and the questionnaire was discussed with UNDP (Ankara) and member organizations of the National Microfinance Committee.

It was decided at the beginning of this study that it should focus on the market segment below the small enterprise sector because this sector has been already researched in detail one year ago[4]

The selected sample size was 384 households[5] in order to make the total result statistically significant for the entire target group (with allowance for 5% error). And as the selection of the research areas should reflect the socio-economic variety of Turkey, one area in the West, one in the center, one in the South-East and one in the North-East has been chosen. The Istanbul region has been excluded because there is already a microfinance institution (Maya Enterprises) which has done market research there6. As the target areas (sub-provinces) should have significant economic potential within the region, the poorest and least dynamic sub-provinces have been excluded. Moreover, migration areas were considered of particular interest. Considering all above aspects it was decided to do the study in the following locations: Şeferihisar (Izmir), Mamak (Ankara), Şahinbey (Gaziantep), Uzundere (Erzurum).

The final sampling within each sub-province was done according to the sector distribution. The number of households to be interviewed reflect the percentage of total population in that particular sector:

Table 1: Socio-economic characteristics of survey locations7

Province Sub-Province	Erzurum Uzundere	Ankara Mamak[8]	Izmir Şeferihisar	Gaziantep Şahinbey[9]
Population	11,556	101,934	34,761	949,559
Urban population (%)	41.67	n/a	50.42	89.89
Population growth (%)	-0.582	n/a	4.847	3.195
Population density (persons per km^2)	28	n/a	90	444
Dependent population / Working population (%)	67.97	n/a	40.44	70.79
Average household size	5.35	n/a	3.59	5.04
Literacy rate (%)	81.09	n/a	94.37	85.26
Infant mortality (per thousand)	49	n/a	53	44
Agriculture employment (%)	81	5	48	19
Industrial sector employment (%)	3	31	9	30
Service and Trade sector employment (%)	16	64	43	50
Unemployment rate (%)	7.75	18.91	6.59	13.50
Per capita GDP (mn TL)	21,475	n/a	85,251	148,064
Socio-economic index	-0.56759	n/a	1.50888	3.70467
Poverty Ranking	637	n/a	61	8

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[4] Maurer / Neumann / Sürel / Dedebas: Small Enterprise Finance in Turkey; Bankakademie International, March 2005, (Commissioned by KfW, implemented by Bankakademie International and Konsensus.)

[5] In fact, 388 interviews were finally conducted

[6] see report by Maya Enterprise: "Key Findings from Market Research; Report to the Board of Advisors", November 21, 2003

[7] Unless otherwise indicated all data are from DPT / State Planning Organization of Turkey, 2004

[8] Data for Mamak could not be obtained from DPT / State Planning Organization of Turkey. The data presented here is calculated on the basis of a publication by Abidinpaşa Training and Research Health Group Administration, 2002.

[9] No data could be obtained for Şahinbey. However, Şahinbey is part of Gaziantep-Büvükşehir and the data shown in the table refers to that entire sub-province.

1.4 Interviews

Based on the research objectives, the consultant team of Bankakademie developed a structured questionnaire which was reviewed by UNDP and Konsensus. After a pre-test, minor changes have been made to the questions. In February 2006, the Konsensus team conducted formal interviews with 388 households - mostly with the head of the households or their spouses. 87% of the interviewees appeared to be honest, but only 35% were judged knowledgeable about financial matters (in Şahinbey: 12%). We therefore have to judge some of the financial data with caution.

A total of 388 interviews have been conducted: 95 in Uzundere, 97 in Şeferihisar, 97 in Şahinbey and 99 in Mamak. 137 households belong to the agriculture sector (i.e. 35%), 75 households to the manufacturing sector (i.e. 19%) and 145 households to the service / trade sector (i.e. 37%); 31 interviewees were unemployed (i.e. 8%).

60% of the total sample are self-employed persons (in agriculture and non-agriculture sector), 32% are employed. This reflects a bias on purpose towards self-employed persons because this group was considered to be more interesting for microfinance.

1.5 Case Interviews

In addition to the formal interviews, 17 case interviews have been conducted by Ali Kapucu (Bankakademie International) according to following break-down:

Table 2: Case interviews

Locations	Main characteristics of selected people
Şeferihisar (İzmir)	2 Self-employed, 1 Irregular wage worker, 2 Farmers
Mamak (Ankara)	3 Self employed and 1 Unemployed
Uzundere (Erzurum)	1 Self-employed, 2 Farmers
Şahinbey (Gaziantep)	2 Self-employed, 1 Irregular wage worker, 1 Unemployed, 1 Farmer

The case interviews focus on self-employed assuming that they would be the most important market segment for microfinance.

2   Socio-economic Characteristics of Target Group

2.1 Household Size and Age

51% of the interviewees are female and 49% are male. The average age of the interviewees is 36 years and the average age of the second person in the household (i.e. in most cases the spouse or another adult) is 42. The average age is significantly higher in Uzundere (45 and 50), indicating that many younger people have left that area.

The average household size of the total sample is 4.15 persons, i.e. smaller than that of entire Turkey (4.5 persons in the year 2000). There are regional variations, with smallest household size in Şeferihisar (3.39) and largest in Şahinbey (4.82). However, family planning seems to be commonly applied in all regions. Irregular wage earners (most of them are in Şahinbey) have larger household sizes than all other employment groups. This indicates that poverty may be related to household size.

2.2 Migration

One third of the interviewed households have migrated to the present residence. In Mamak 51% of all households have migrated and 78% of the Mamak migrants came from another province (i.e. long-distance migration). This clearly illustrates the importance of migration in urban areas.

Self-employed people are the least likely to migrate[10] whereas irregular wage earners and unemployed persons are most likely to have migrated.

Of the 128 persons who said they migrated from somewhere else 87 (i.e. 68%) said that they came from another province, mostly from Central and South-East Anatolia (e.g. Yozgat, Sanliurfa, Adyaman). This illustrates the migration trend from East to West.

When asked why they migrated 51% of respondents said that it was for employment, 5% for self-employment and 42% for private reasons. The latter answer was mostly given by women who either got married and moved into their husband's house or who followed their husband to another place.

It is also interesting to note that only 7 of 61 self-employed persons who had migrated did so in order to get self-employed; in other words: most self-employed didn't want to become self-employed, but they may had no other choice.

When asked whether they are planning to leave the area in the near future only 14% of respondents said that they are considering this option. Surprisingly, the highest willingness to migrate can be found in Mamak. Thus, people who have migrated once are more likely to migrate again. The highest willingness to migrate can be found amongst unemployed people (35% of unemployed persons). When asked for the reasons why they plan to migrate 47% of the respondents said it is for employment, 43% for private reasons and 9% for self-employment.

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[10] This matches the findings of the study on "Small Enterprise Finance in Turkey" (KfW, 2005): 80% of small entrepreneurs have not migrated.

2.3 Head of Household

The question "Who is the head of the household?" sheds some light on the culture and attitudes in the different regions and employment groups.

95% of all respondents said that the main income earner is identical with the head of the household. This indicates that there may be an important link between women empowerment and their income earning potential.

People in Şahinbey and Uzundere are more likely to consider only the male as household head than people from Şeferihisar and Mamak. Although migration trends close the gap to some extent there still is a cultural gap between the conservative East and the more modern West of Turkey.

It is surprising, however, that almost 19% of households in Şahinbey say that the household head is a female. This can be explained by the fact that in Şahinbey many households are single mothers who earn irregular wages (41% of the irregular wage earners said that a woman is household head). These women suffer extreme hardship as we will see in the further course of this study.

2.4 Main Income Source

The main source of income for the households generally matches the sampling for the interviews. However, we were interested how many households relied on external income sources. 3% of the interviewees said that they mainly rely on money transferred from family members not living in the household. 2% of all households rely mainly on government subsidy or pensions.

39% of the unemployed households rely on money transfers and 10% on government aid and pensions. However, none of the irregular wage earners have money transfers or government aid and pensions as main income source.

Chart 1:   Main income source of households

What is the main source of income for the household?

Other 1%
Wage employment 24%
Irregular employment 11%
Government subsidy or pension 2%
Money or goods transferred from family members not living in the house 3%
Self-employment 59%
N = 388
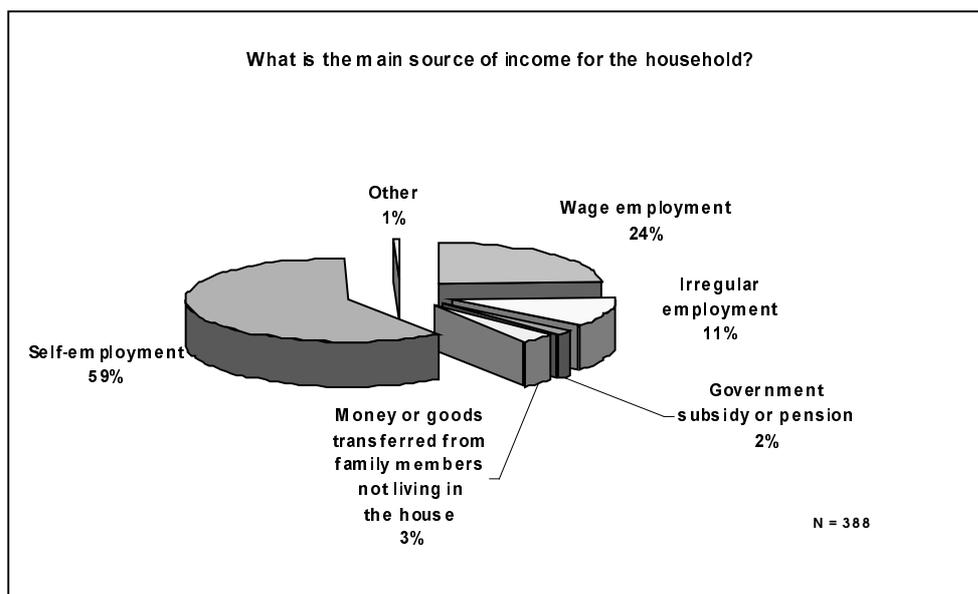
2.5 Education

149 interviewees (38% of total sample) have middle school, vocational school, high school or university education. Thus, the target group is quite well educated, esp. the younger generation (more than 50% in the age group 15-39 have education above primary school level).

The results showed that younger people (age 15 – 29) are better educated than older ones and that females are catching up with males.

In Mamak the percentage of people who have an education level above primary school is much higher than in the other areas. This also holds true for women in Mamak. Moreover, permanent employees have overall better education than other employment groups. In conclusion one may say that city dwellers have better access to education and well educated people prefer permanent jobs; self-employment is mostly an option for people who have no other choice.

On the other extreme, in the group of irregular wage earners there are almost no people with education above primary school. Surprisingly, unemployed people do not fare worse than the average in terms of education. Maybe this sheds some light on the difference of unemployed versus irregular income earners: the former consider themselves unemployed because they are expecting a permanent job according to their education level, whereas the latter do not expect anything more than what they have.

2.6 Employment

Like for education, in employment too, young women (15-29 years) are catching up with males: permanent employment and self-employed is in closer reach for young women than for older ones. However, compared to males women are still more affected by irregular employment.

The interviewed households capture a wide variety of different sub-sectors. The most common sub-sectors outside of agriculture are related to basic needs, such as food manufacturing, textile manufacturing, retail trading and restaurants.

2.7 Unemployment

We interviewed 31 unemployed persons (21 male and 10 female) in different age groups. This small sample is not statistically relevant but it can give some trend indications.

The average age of the unemployed persons interviewed is 33 (slightly below average of total sample), and has been unemployed for 12 months, indicating long-term unemployment.

How do unemployed people survive? 38% depend on transfers from family members not living in the household. 36% of the households earn irregular wages and 10% have at least one regular wage earner in the household. Very few unemployed persons can rely on government pensions or subsidies as main income source (10%). This data indicates that 46% of unemployed households are economically active.

Chart 2:   Main income source of unemployed households

What is the main income source of your household?

Self-employment 3%

Other 3%

Wage employment 10%

Irregular employment 36%

Money or goods transferred from family members not living in the household 38%

Government subsidy or pension 10%

N = 31
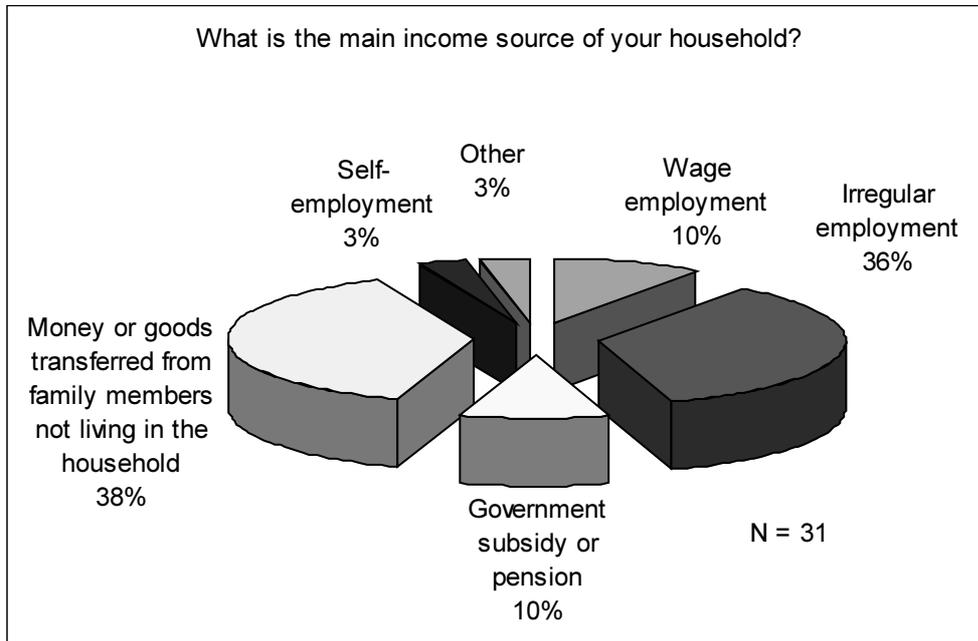
When we asked unemployed people about their future plans 71% said that they want a job and only 29% said that they want to start self-employment. Thus, self-employment is not a popular option for the unemployed – a fact that should be considered when designing support programs for these people.

When asked what kind of job people are seeking they were quite indifferent, indicating that unemployed persons have no clear vision for the future. However, those persons who said that they want to start self-employment had a clearer idea about what they would like to do. They mentioned retail trading, textile manufacturing, restaurant management and transport / communication. 23% of unemployed said that they would need a credit to start a business but they could give no further details. It seems that even those that are willing to be self-employed have not thought much about how to go about it.

2.8 Poverty

For this study poverty has been defined along the targets of the MDG which are relevant for Turkey: minimum income, food security, health and education.

64% of the surveyed households have no poverty incidence, 25% have one poverty incidence and 11% have two or more incidences. However, even though many households have no poverty incidence they may well be economically vulnerable in case of emergencies.

There is a clear correlation between poverty and the household's gross income, expenses and assets. The poorest (those who have two or more poverty incidences) have less available income, need to live on less expenses and could accumulate fewer assets. Thus we can conclude that poverty can be alleviated by microfinance if it helps to increase incomes.

Income and food insecurity are the most relevant poverty incidences encountered:

- 10% of households experienced "some days" during the last 12 months when the income was less than 1 USD per person/day. The highest figure was in Mamak (18%), the lowest in Uzundere (2%). Irregular wage earners are more affected (41%) than unemployed (29%).

- 12% of households had not always sufficient food during last 12 months. Uzundere is the most affected area (24%). Irregular wage earners and unemployed persons are more affected than others (23% and 29% respectively).

- 82 households have children under age 5. Of these households 12% had at least one child under-weight during last 12 months.

- Only 3% of all households have one or more family member aged 15-24 who cannot read or write. Irregular wage earners are most affected (4 households, i.e. 21%). There is no difference between boys and girls.

- 170 households have children aged 6-14. Of these households 11 said that one or more children have not been going to school regularly during the last 12 months. In 6 cases the reason is that they will start school one year later. In 3 cases economic reasons were stated, in one case disability and in one case that the child doesn't want to go to school.

- Child death occurred in 5 households.

- 171 households have children under 1 year of age. Of these households 97% have immunised their children against measles.

- 26 households had a birth during last 12 months. There was no case of maternal death and 9 cases of birth without medical assistance (5 in Sahibey and 3 in Uzundere).

It seems that the government's education and health programs have been quite effective for the target group. The case studies also illustrate that many poor have access to social security, free health service and higher education. However, a small group of hard-core poor (esp. single mothers) still is excluded.

When asked about how they coped with any of the above emergencies only 17 people responded: 59% said that they got help from relatives, 41% said that they used own savings or sold assets, 12% said that neighbours or friends helped, and 12% received government aid. Thus, the poorest have to rely mostly on informal help.

2.9 Living Standards

We have asked the households how their living standards have developed during the last five years and what their expectations are for the future. Living standards have been defined in five categories: basic needs (food, clothing), health, housing, education and the ability to save or buy assets.

Most people stated that there was no change or even a decrease in living standards during the last five years. Most improvements are felt in education (31% of households), in basic needs (31% of households) and in health (21%). This indicates that government health and education programs have made a positive impact and that the effects of the economic crisis are slowly vanishing.

There are no significant regional differences, but irregular wage earners and unemployed have experienced far less improvements.

Compared to the past there is a little bit more optimism amongst the target group as far as the future is concerned. 26% of the households expect a slight or even substantial improvement in their savings ability. People in Mamak seem to have the most optimistic outlook. Unemployed and irregular wage earners are more pessimistic.

2.10 Household Income and Expenses

The gross income of the interviewed households varies greatly. 9% of households have extremely low incomes (200 YTL per month and less), while 16% are doing quite well (above 1,000 YTL per month). 75% of all households had between 201 and 1,000 YTL monthly income.

The following table shows the median results for household income and expenses. Although households in Mamak earn more income than in other areas their expenses are also much higher and thus the savings potential is rather small. The savings potential is highest in Şeferihisar and in the group of permanent employees.

Although income in rural and under-developed areas (Uzundere and Şahinbey) is lower than in urban and developed areas the households also have lower expenses. Thus there is a savings potential in all areas. However, the savings potential of irregular wage earners is very limited and unemployed persons have no potential at all.

The total sample has a median savings potential of 90 YTL per month which can also be seen as loan repayment capacity.

Table 3: Median monthly savings potential for different locations and employment groups (in YTL)

	Income	Expenses	Savings Potential
Mamak	747	682	65
Şeferihisar	700	600	100
Uzundere	500	425	75
Şahinbey	500	420	80
Self-employed	650	555	95
Permanent employed	700	550	150
Irregular wage earners	300	260	40
Unemployed	400	500	-100
Median of all households (N = 388)	600	510	90

Looking at the break-down of household expenses we can see that almost 40% is spent on food and beverages. Housing expenses are very low (9.4%), indicating that most people live in their own house / flat or that rents are very low (see also next chapter on household assets indicating that 54% of the sample own buildings which are however mostly unregistered).

Other expenses have been differentiated as following: Clothes: 13%, Others: 11.2%, Education: 9.5%, Health: 6.8%, Business: 5.6%, Taxes: 5.9%.

Of the total sample, 49 households received pensions and 8 households (i.e. 2%) received government aid in the form of food, coals, unemployment benefit, disability benefit or sickness benefit. It could well be that these responses do not give a true picture: maybe the interviewees were worried that they would not get further support if they said that they already got support in the past.[11]

Bartering is not relevant for the target group. Only 5% of all households said that they are bartering goods or services. The median value of barter is 40 YTL per month.

Almost 69% of households experience seasonal peaks and lows for income or expenses. In Mamak this is very prominent (83%), whereas in Uzundere it is less common (45%). Irregular wage earners and unemployed persons are most affected (more than 80%). The summer is the period of highest income (45% of all households) and lowest expenses (56% of all households). During this time the savings potential will be very high for about half of the target group. The winter is the period of highest expenses (42% of all households) and lowest income (49% of all households). During this time about half of the target group may withdraw their savings or need loans.

This seasonal pattern is less pronounced in Şeferihisar and Uzundere, both agricultural areas. Farmers can sell their products in winter and need inputs in spring.

30% of households expect that their net income will develop better in future than it did during the last five years, only 8% expect a negative development. People in Uzundere are less confident about the future than people in other areas. Irregular wage earners are the least confident employment group.

2.11 Household Assets

36% of all households own land and 54% own buildings (house or apartment). The median value of household assets is 3000 YTL. There is a noticeable difference between the regions: households in Şeferihisar have the highest asset value, while Şahinbey has the lowest. Land ownership is very high in Uzundere because there are many farmers. Ownership of buildings is highest in Şeferihisar, indicating a rather wealthy region.

Table 4: Percentage of households owning assets and asset value (median, YTL)

	Land	Building	Household goods	Vehicles	Machinery	Animals	Jewellery	Cash, gold	TOTAL assets value per household
Mamak	22%	40%	95%	28%	11%	3%	5%	20%	**5000**
Şahinbey	4%	47%	98%	8%	4%	0%	3%	3%	**1000**
Şeferihisar	36%	76%	99%	37%	14%	23%	8%	10%	**8000**
Uzundere	81%	52%	94%	8%	17%	20%	0%	13%	**2000**
Self-employ.	48%	62%	96%	24%	18%	20%	4%	13%	**3000**
Perm. employ.	22%	38%	97%	20%	1%	2%	4%	12%	**3250**
Irregular wage earners	12%	53%	100%	3%	3%	3%	3%	9%	**300**
Unemployed	13%	39%	94%	19%	3%	0%	3%	3%	**1500**
Median of all households (N = 388)	**36%**	**54%**	**96%**	**21%**	**12%**	**13%**	**4%**	**12%**	**3000**

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[11] The Government supports poor families through the Social Solidarity Fund (SSF). It helps people in emergencies, usually in kind (food and coals) or with loans for self-employment projects. SSF also administers the Conditional Cash Transfer (CCT) for education and health. According to the Governor of Gaziantep Province e.g. the CCT has reached at least 10,000 households in his province. The average monthly cash transfer is 40 YTL per household. According to Şahinbey SSF, they have recently taken 20,000 applications for CCT and 10,000 households have been selected eligible so that they may get support in future. There is also the title deed support program: every farmer who owns land gets 200 YTL per hectare and year.

3   Savings

3.1 Savings Behaviour

12% of all households said that they have saved money or in kind during the last 12 months. These people are long-term savers accumulating net assets over a period of one year or more, while other households only accumulate short-term savings which they consume during low income periods within one year.

There is a distinct regional difference in long-term savings: 22% of all households in Mamak have saved whereas only 2% in Şahinbey (12% in Seferihisar and 11.6% in Uzundere). It comes as a surprise that even 6% of the unemployed and irregular wage earners have saved during the last 12 months.

When we asked how people invested their savings 47% of the long-term savers stated that they save in banks; thus, almost 6% of all households are already active bank savers. Ziraat Bank is by far the most popular bank for savings, followed by Akbank, Is Bank and Halk Bank.

45% of the long-term savers said that they invested in kind (e.g. gold, business assets) or kept it as cash at home. Just 2% use saving groups and other investment forms are not relevant.

Individual savings behaviour appears to be more dominant than joint family saving: 79% of the households that saved during the last 12 months said that either they themselves or their spouse was saving on their own; only 23% said that they are saving as a whole family. This behaviour is more pronounced in Mamak, amongst males and amongst self-employed people. The median value of savings was 2000 YTL p.a.

3.2 Savings Purpose

When we asked those households that have saved during last 12 months for what purpose they have saved 34% mentioned emergencies and another 34% private events (e.g. wedding, pilgrimage, circumcision). 19% saved for private assets (vehicles, gold, jewellery) and another 19% for business or farm assets. 13% saved for the education of their children and 11% for old age.

Clearly, private concerns are far more important for the target group than business concerns when it comes to savings. Even in the self-employed group only 41% said that they save for a business / farm asset.

3.3 Savings Management

More than 96% of those who had saved during the last 12 months are satisfied with the way they manage their savings. They see no need for change.

When we asked all households what their preferred way of savings management would be if all options were easily available. 39% stated that they would prefer cash or in kind savings, 33% want no change, 26% would like to save in a bank. Just 1% sated that they would use an informal saving group.

Thus there still is a substantial potential for banks to attract savers amongst the target group. However, we have to assume that these people are not long-term savers but rather short-term savers who save in peak income periods and withdraw savings during low income periods.

There is a distinct difference between the four locations: people in Uzundere are the least willing to make changes while households in Mamak and Şeferihisar are much more likely to use banks. People in Şahinbey have strong preference for cash or in kind savings. Therefore, savings mobilisation may be easier in developed areas where people have a more modern outlook.

The more developed a region is the more likely people are interested in bank savings accounts. In fact, 44% of permanent wage earners prefer bank savings - this is much higher than any other employment group. There is also a difference between women and men, as far as the preferred savings management is concerned: 27% of women are willing to save in banks versus 19% of males.

Respondents who said that they would prefer to save in a bank most frequently mentioned Ziraatbank (38%), Işbank (18%), Akbank (18%) and Halkbank (6%).

Overall most people have a priority for safety when it comes to savings. Convenience is the second most important aspect, while return on investment is the least important. There is a regional, employment and gender difference in the perception of savings priorities: return on savings and convenience is more important for households in Mamak and Şeferihisar, for permanent employees and for males. Thus, clients in developed regions are more demanding than those in less developed regions.

Although the rate of return is comparatively less important for most people the expectation for interest on savings is very high: the median value of all answers is 30% p.a., with large extremes (40% in Şahinbey and 2% in Uzundere). This indicates that most people have no clear idea about current savings interest rates and may still be remembering high inflation periods. This interpretation is confirmed by the fact that only 46% of all households had an opinion on this question at all.

4 Borrowing

4.1 Borrowing Behaviour

Borrowing appears to be more common than long-term saving for the target group. Almost 49% of all households have borrowed money or goods during the last 12 months, 31 % never borrowed at all and 17% said that they borrowed earlier. Very few people tried to borrow without success (5 households were rejected by banks and 3 by private persons).

There is a distinct regional difference: people in Şahinbey (67%) and Mamak (56%) relied more on borrowing than others; 37% of households in Uzundere have borrowed earlier but not in the last 12 months; 44% of households in Şeferihisar have never borrowed at all. It seems that urban people are keener on borrowing than rural people.

Irregular wage earners are particularly prone to borrowing (76%), whereas 52% of the unemployed said that they never borrowed at all.

30% of those households that did borrow during the last 12 months (i.e. 15% of all households) said that they borrowed from banks. 12 % borrowed from family members, 31% borrowed money from neighbours or friends, 19% borrowed goods only and 14% borrowed from shop-keepers or suppliers.

69% of all households borrow only for emergency. The median amount of emergency borrowing is 300 YTL. 4% of all households borrow regularly. The median amount of regular borrowing is 200 YTL, which indicates that it is most probably also emergency borrowing. 5% of households borrow for bigger investments only. The median amount for investment borrowing is 14,000 YTL. 21% say that they never borrow at all.[12]

Hence, the overwhelming majority of the target group does not plan borrowing ahead. It is an ad-hoc decision whenever there is an emergency. This phenomenon is particularly strong in Şahinbey (82%) and less pronounced in Şeferihisar (58%) and Uzundere (57%). There is no significant difference between the employment groups.

The decision whether to borrow or not are mostly taken by men: 83% of households say that borrowing decisions are taken by a male household member. There is no significant regional difference which indicates that even in regions that are more modern in outlook (i.e. where household decisions are taken by men and women together) borrowing is still a male domain.

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[12] There is a contradiction in this response to the earlier response when 31% said that they never borrowed (see chart 24). This contradiction could not be reconciled.

Chart 3: Borrowing frequency

Does the household borrow regularly?

No never
21,3%

Yes, regularly
4,5%

Only for bigger
investments
5,5%

No, only in
emergency
68,7%

N=380
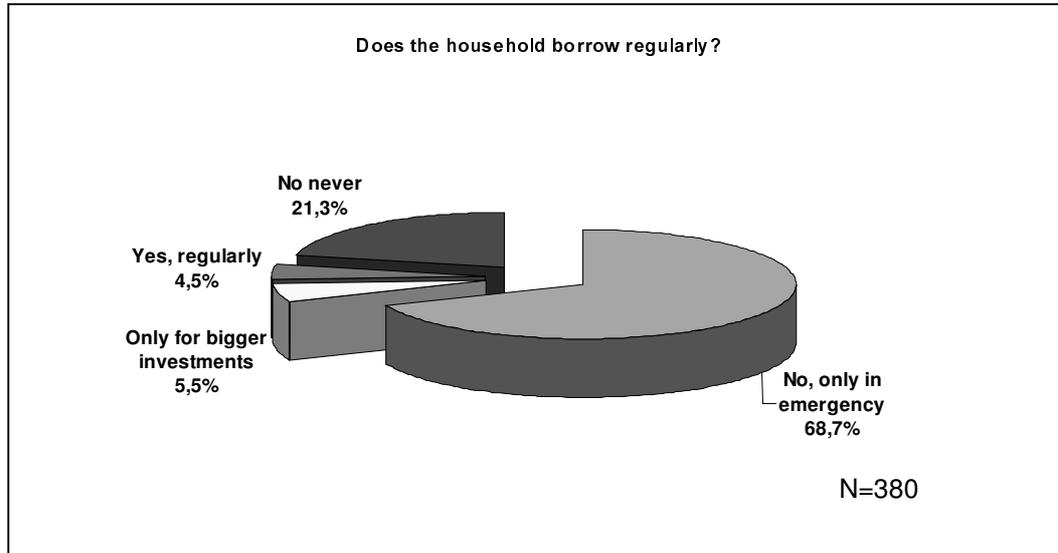
4.2 Borrowing Purpose

Those households that borrowed during the last 12 months did so for various purposes. Again, emergency borrowing appears to be the most frequent purpose (18% for doctor or medicine, 18% for food, 13% to pay small bills, 5% for education of children). Almost 20% of the households borrowed to buy a business or farm asset (for self-employed households the result is 34%). 10% borrowed for private events such as weddings and 9% borrowed to buy a private asset. 4.8% borrowed for the repair or purchase of a house.

61% of irregular wage earners have borrowed for doctor or medicine and 54% of unemployed to buy food. This illustrates again the dire circumstances these people are living in. - Males are more likely to borrow for business and farm assets (28%) while women are more interested in borrowing for health (29%) and food (21%).

4.3 Borrowing Management

78% of the households that borrowed during the last 12 months are satisfied with the way they manage their borrowing. The ratio is highest in Uzundere (94%) and lowest in Şeferihisar (64%). Women are less satisfied than men (67% versus 82%).

If all options were easily available 25% of all households would prefer not to make any changes; 22% would prefer to borrow from a bank; another 22% prefer borrowing from family members and 19% from neighbours or friends. Money lenders and non-bank financial institutions are not a preferred option for the target group.

Similar to what we have seen in savings preferences, people in Uzundere and the self-employed are least willing to make changes. Permanent wage earners and especially people in Şeferihisar are more willing to use banks. Şahinbey and especially irregular wage earners prefer borrowing goods rather than money. Women prefer borrowing from family while men prefer banks.

Chart 4: Preferred borrowing
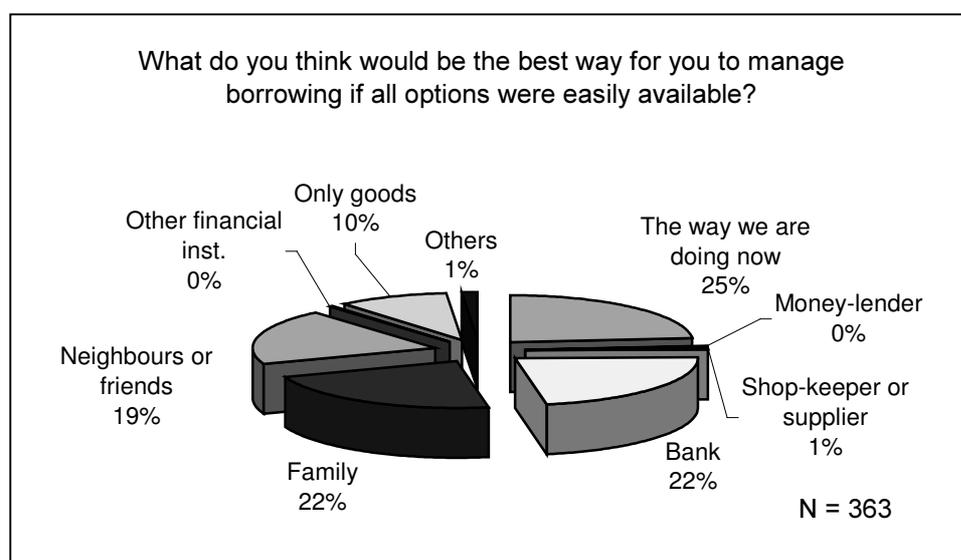
The priorities for borrowing money show a clear preference for trustworthy and friendly lender. For poor people it is more important who lends to them than at which condition. Nevertheless, collateral requirement, loan amount, repayment period, waiting time and total loan cost (interest plus fees) are important. Grace periods seem to be a little bit less important. The picture is the same in all areas except for Uzundere where many people had no opinion. Women, too, often had no opinion on this.

The respondents have been asked to give details on the preferred loan conditions. The median results are shown in the table below:

Table 5: Preferred loan conditions

	Max collateral value (% of loan)	Minimum credit amount (YTL)	Minimum number of months for repayment	Grace period without any repayment or only interest payment (months)	Interest rate per year (%)	Maximum number of days to wait to get a loan	Acceptable administration fee for 1000 YTL loan
Mamak	50	5000	12	6	10	5	100
Sahinbay	50	500	4	6	10	10	0
Şeferihisar	20	5000	24	12	8	3	40
Uzundere	18	5000	24	12	5	7	125
Self-employed	50	5000	12	12	8	7	50
Permanent wage earners	50	3000	12	6	10	7	50
Irregular wage earners	55	250	2	2	10	15	0
Unemployed	50	5000	21	6	10	3	100
Male	50	5000	12	9	8,5	7	50
Female	37,5	2500	12	6	10	7	50
Median of all households (N = 180 – 270)	**50%**	**5000 YTL**	**12 months**	**6 months**	**10%**	**7 days**	**50 YTL**

The expectation for the loan volume appears to be very high but not unrealistic from a client's point of view. A 5,000 YTL loan at 20% interest p.a. (current bank loan interest rate) would

translate into a monthly interest payment of 83 YTL, which is just below the actual savings potential of 90 YTL that we have calculated earlier. On the other hand it also shows that the target group is not considering principal repayment.

The expectation for the interest rate is very low (10%) compared to current bank rates (20% p.a. for business loans and 36% p.a. for credit cards). There could be several reasons for this, e.g. very few people are aware of current bank rates or people are used to subsidised loans

As far as the regional differences are concerned it is striking that people in Şahinbey need very small loans for very short time periods, indicating emergency loans. People in Şeferihisar and Uzundere (with a large share of agriculture) want large amounts for low collateral value, long repayment and grace periods, low interest rates and very quick processing. Farmers seem to be very demanding when it comes to loans.

Self-employed persons would prefer 12 months loans with bullet repayment at the end. Permanent employees need smaller loan amounts and shorter grace periods. Irregular wage earners need very small loan amounts for very short periods, again indicating emergency loans. Unemployed persons on the other hand would like large loans, very long repayment and grace period. Women need smaller loans than males and expect less grace period. They are prepared to pay higher interest rate than males.

There seems to be a wide-spread feeling that collateral value should only be around 50% of the loan value and that interest rate plus fees should be around 15% p.a. There is obviously also a broad need for quick loan processing. It seems that farmers have a more unrealistic expectation with regard to loans than other groups.

A total of 22% of all households will certainly borrow in the near future, 19% only if the credit offered meets their expectations. The willingness to borrow is highest in Şahinbey, in Şeferihisar and amongst the irregular wage earners. The required median loan amount is 5000 YTL.

Chart 5: Borrowing plans – regional pattern

Do you have any plans to borrow in the near future?

N = 388
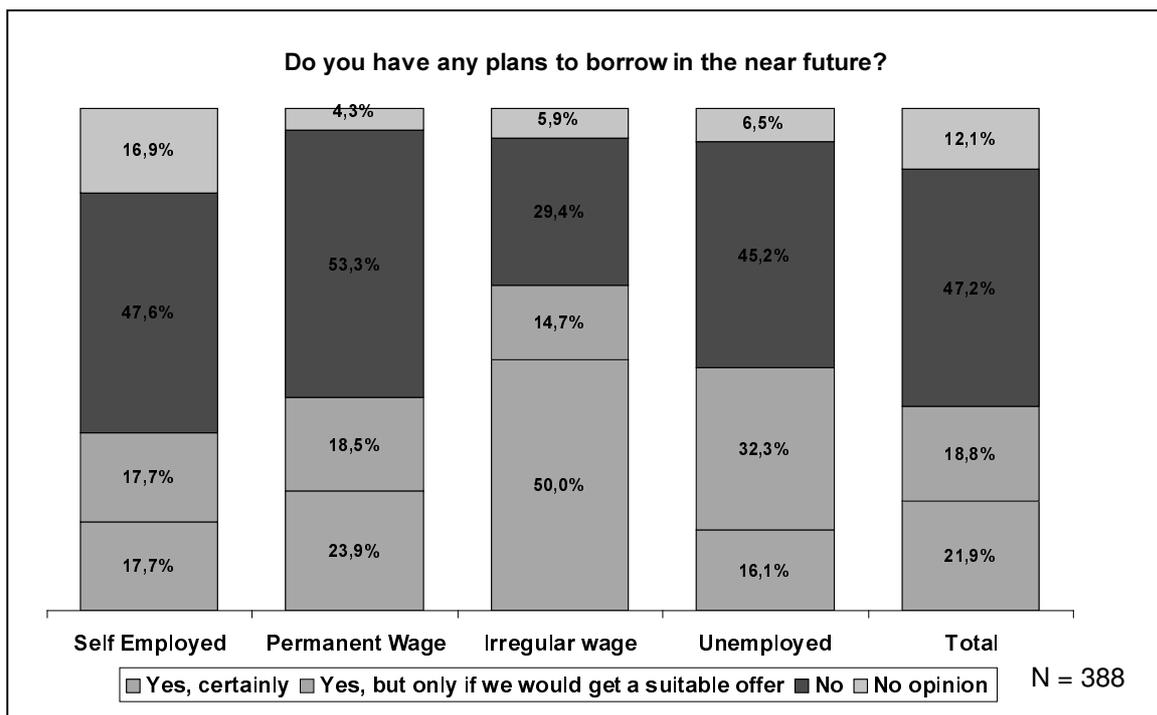
5 Other Financial Services and Providers

5.1 Other Financial Services

89% of all households have not used any financial services (other than loan and savings) during the last 12 months. 7% used money transfers and 1.5% insurance. Males use financial services more likely than females.

90% of those households that used financial services during the last 12 months are satisfied with the way they manage their financial services. However, when we asked all households what their preferred way of managing financial services would be 23% said they would like to use financial institutions.

22% of all households plan to use financial services in the near future, and 11% would use them if a suitable offer is available. The willingness is highest in Şeferihisar and lowest in Şahinbey.

Chart 6: Plans to use financial services other than loans or savings

Do you have any plans to use insurances, remittances or other financial services in the near future?

	Mamak	Şahinbey	Seferihisar	Uzundere	Total
No	58,8%	76,1%	60,4%	74,2%	66,7%
Yes, but only if we would get a suitable offer	17,5%	13,6%	7,7%	4,5%	11,4%
Yes, certainly	23,7%	10,2%	31,9%	21,2%	21,9%

□ Yes, certainly □ Yes, but only if we would get a suitable offer ■ No

N = 342
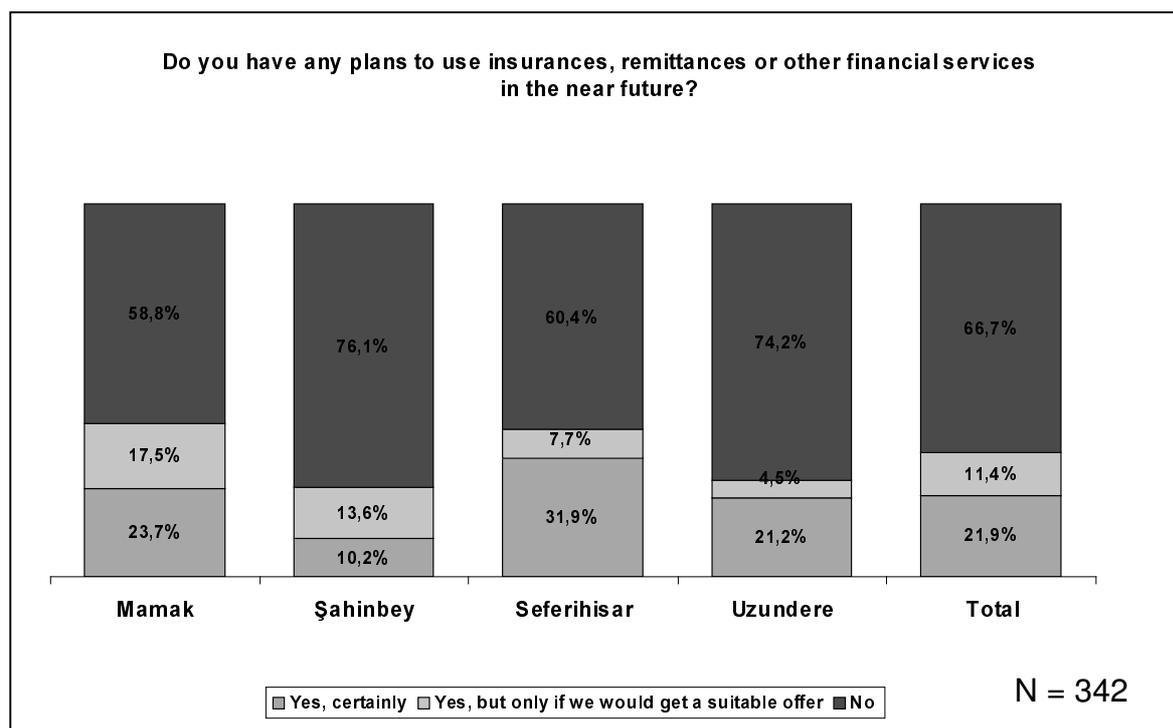
5.2 Savings or Credit Groups

Savings or credit groups (including co-operatives) are quite common in all areas and many people know about their existence. However, 37% of households are not members of any savings or credit group although they are aware of them. 15% of the people are members in a group.

In Uzundere this phenomenon is most pronounced: 63% are aware of groups but not members. In Şeferihisar, on the other hand, 37% are members of a group. Şahinbey and

Mamak have very low membership percentages – the reason could be that the poorer people and migrants have less access or knowledge of such groups.

The employment pattern shows another aspect: self-employed people are more likely aware of savings and credit groups and more likely members than other employment groups.

Chart 7:   Savings or Credit Groups – regional pattern

Are there any savings or credit groups in your village / town, which you could join or have joined already?

	Mamak	Şahinbey	Seferihisar	Uzundere	Total
No opinion	11,2%	12,4%	3,1%	13,7%	10,1%
No	60,2%	66,0%	17,5%	5,3	37,5%
Yes, I am member in a group	5,1%	2,1	37,1%	17,9	15,5%
Yes, but I am not member	23,5%	19,6%	42,3%	63,2%	37,0%

☐ Yes, but I am not member ☐ Yes, I am member in a group ■ No ☐ No opinion

N = 388
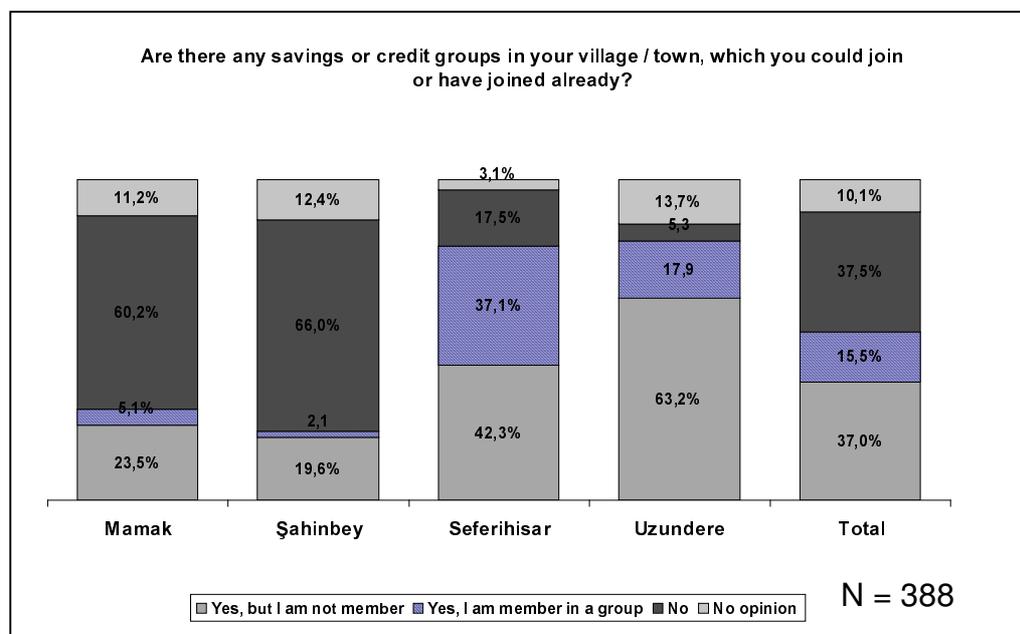
5.3 Banks

33% of all households have one bank branch near enough to use, while 42% have more than one near by. 24% think that there is no bank branch in their vicinity which they could use.

In Uzundere almost everyone is aware of the one and only bank that is close enough to be used (Ziraat Bank). In Şahinbey 71% of the people think that there is no bank branch which they could use and even in Mamak 20% think so. Obviously, the term "close enough so that you can use them" is a matter of personal perception not merely of distance in kilometres.

More than 48% of all households actually use a bank. The percentage is higher in Mamak and Şeferihisar, and much lower in Şahinbey. Men have higher bank access rates than women (59% versus 38%). Only 1.5% of households said that they have stopped or will soon stop using banks. Overall, 92% of the bank users are content with their bank.

Chart 8:   Actual bank access

Have you ever used a bank?

Mamak — 4,00% / 32,30% / 63,60%
Sahinbey — 0,00% / 75,30% / 24,70%
Seferihisar — 0,00% / 44,30% / 55,70%
Uzundere — 2,10% / 48,40% / 49,50%
Total — 1,50% / 50,00% / 48,50%

☐ Yes ☐ No ☐ Yes, I used in the past, but have stopped or will stop soon

N = 388
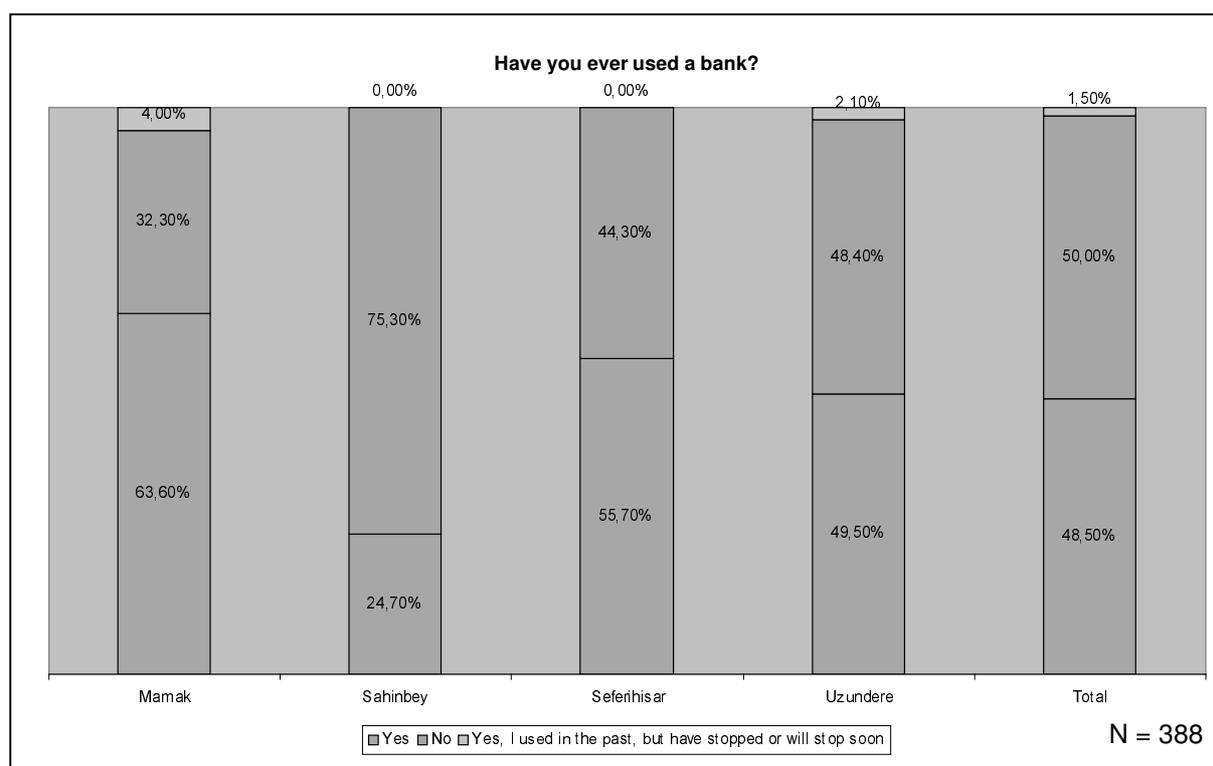
Although overall bank access is quite good (48.5%) the correlation between poverty and bank access is striking: only 15% of the poorest (more than two poverty incidences) and 33% of the very poor (two poverty incidences) use banks.

Table 6:   Correlation between poverty and bank access

	Poverty Incidence									
	No poverty incidence		One poverty incidence		Two poverty incidences		More than two poverty incidences		Total	
	Count	Column %	Count	Column %	Count	Column %	Count	Column %	Count	Column %
Use Bank	126	51,00%	50	51,00%	10	33,30%	2	15,40%	188	48,50%
Never used Bank	117	47,40%	46	46,90%	20	66,70%	11	84,60%	194	50,00%
Stopped using Bank	4	1,60%	2	2,00%	0	0,00%	0	0,00%	6	1,50%
Total	247	100,00%	98	100,00%	30	100,00%	13	100,00%	388	100,00%

The bank services which are most popular for the target group are current account (23%), saving pass books (21%), ATM (20%), credit cards (16%), money transfers (11%), overdraft facilities (6%) and insurance (7%)

A substantial number of households plan to use business loans (26%), mortgage loans (22%), vehicle loans (17%), and private loans (16%). This indicates that people would like to use specific loan products instead of expensive credit cards and overdraft facilities, however, they may find it difficult to access specific loan products as they do noz fulfil the banks criteria.

Chart 9:   Bank services used by target group

Which financial services did you use, do you use and do you plan to use? (N = 388)

Legend:
- Used in the past but not any more
- Use regularly
- Want to use in the future
- Do not need
- No opinion
- No answer
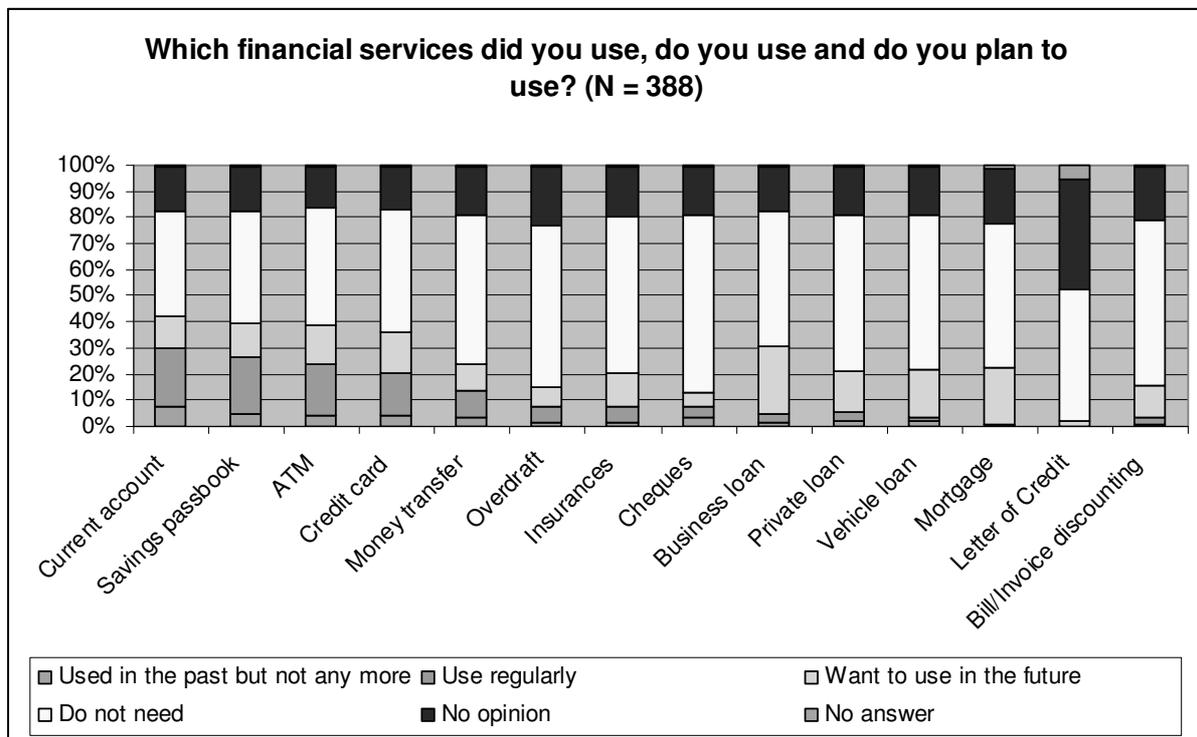
There are substantial regional differences. In Şahinbey people hardly use or plan to use financial services other than credit cards (almost 30% of households have a credit card or plan to use one). In Mamak even 44% of households use a credit card or plan to use it. Şeferihisar is the most active region for regular use of financial services: 40% use a current account, 17% use overdraft facilities, 21% use money transfer services and 40% savings passbooks. Even a remote place like Uzundere is quite well served by banks: 21% of all households have a current account, 13% use money transfer services and 6% have a business loan.

Overall, self-employed people use more financial services than others, esp. current account, overdraft, money transfer and savings passbook. However they use very few specific loan products. Credit cards are as popular amongst self-employed as amongst permanent employees. There is no significant difference between men and women in terms of financial service use.

The average household uses 0.7 different banks; in other words: most people use one bank or no bank at all. As expected, the figure is higher in Mamak and Şeferihisar and for self-employed and permanent employees.

6 Business and Farm Enterprises

6.1 General Characteristics

231 self-employed persons have been interviewed: 118 farmers, 36 manufacturers and 77 enterprises in the trade and service sector.

The average business / farm operation has been started 15 years ago. Thus, most self-employed persons are very experienced in what they are doing. In Mamak and Şahinbey the operations are somewhat less mature (9.5 and 8.5 years respectively).

79% of the enterprises are owned by a male and 72% are also managed by a male. Female ownership and management is highest in Mamak (26% and 32% respectively).

40% of business people or farmers started self-employment when they were unemployed, i.e. they were "forced" by the circumstances to become self-employed. This is most pronounced in Uzundere (67%) and least applicable to Mamak (18%) and Şeferihisar (21%).

54% of the entrepreneurs said that the next generation will continue the business / farm. In Mamak it is only 26%. This indicates that self-employment, esp. in urban migration quarters, may only be a temporary means for survival.

53% of businesses / farms are registered with the government (usually the tax department). In Şahinbey the share is 75% (mostly enterprises in the service and trade sector) and in Uzundere it is only 26% (mostly farms). Thus, a rather large portion of the non-agriculture enterprises are actually formal in so far as they are paying tax.

52% say that the financial matters of the business are separate from the household. 32% maintain separate financial records, such as profit and loss statements, cash registers and balance sheet.

39% of the businesses / farms are registered with an association or co-operative. In Mamak the share is highest (53%). The median registration fee for association membership is 50 YTL and the median annual fee is 27 YTL. It seems that membership in an association or co-operative is quite popular and entry barriers are low - except in Şahinbey (only 17% are members in an association or co-operative).

The median number of persons working in the business / farm was 2 when operations started and is still 2 today. This shows that the operations are mainly family concerns which create hardly any extra employment.[13]

44% of the enterprises are located on own premises separate from the home (in most cases these are farms), 35% operate on rented premises, 14% in the home and 5% need no premises for the business.

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[13] In the study on "Small Enterprise Finance in Turkey" (KfW, 2005) the average enterprise had nine employees. This illustrates that the sample of this survey really is below the segment analysed by the KfW study.

6.2 Business / Farm Economics

Median monthly business / farm expenses are reported to be 650 YTL and median income is 500 YTL. Respondents in all regions seem to exaggerate expenses and / or pretend lower income. Thus, the data is not very meaningful.14

Only 9% of enterprises barter goods, mostly on a monthly basis. The value is 50 YTL per month. 68% of enterprises experience peaks and lows for income and expenses, similar to the finding we have described earlier for households.

The median value of enterprise assets is 20,000 YTL, with marked differences in the regions: 6,250 YTL in Mamak; 10,250 YTL in Sahinbay; 38,500 YTL in Şeferihisar; 15,000 YTL in Uzundere. The difference can be explained by the different land market values. The following table gives an overview of the asset ownership and median values.
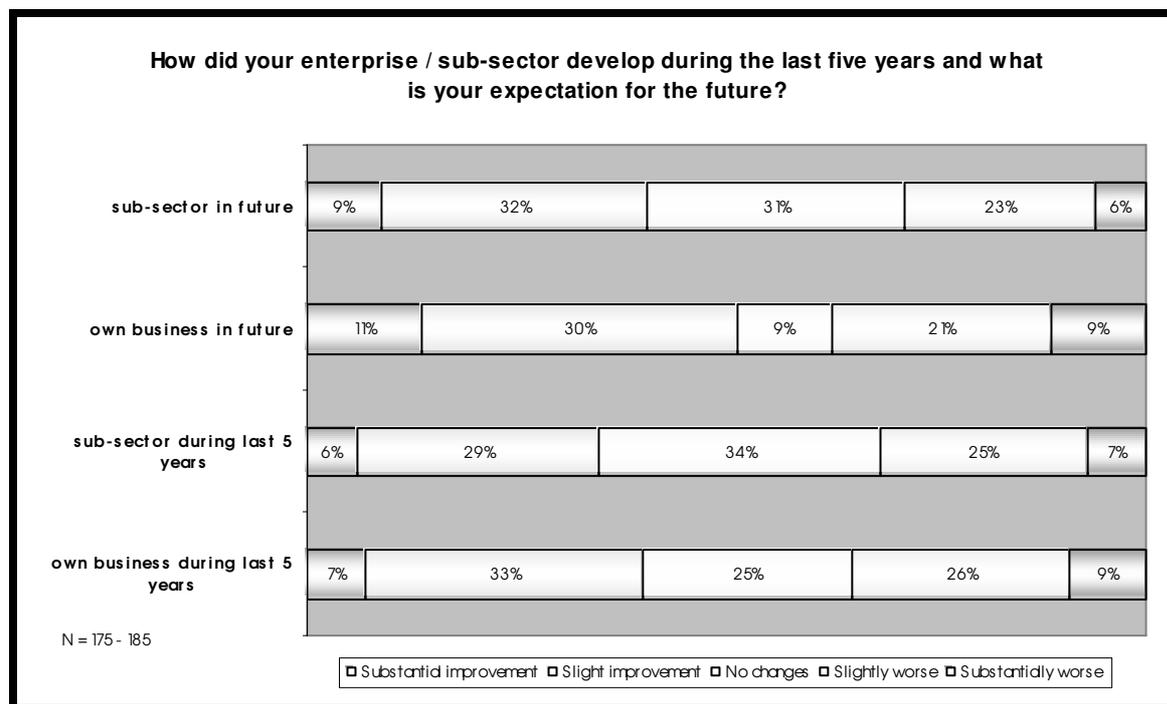
Table 7: Asset ownership and value

	Land	Building	Vehicles	Machines	Stock	Animals	Cash	Others
% enterprises that own assets (N = 163)	49%	17%	14%	33%	13%	15%	7%	4%
Value of assets (YTL, median)	20,000	20,000	9,000	2,500	4,000	2,000	5,000	11,000

The high share of land ownership can be explained by the large number of farmers in the sample. Apart from farm land there is only limited potential for physical collateral in the target group.

The business climate is cautiously optimistic. 11% of the respondents expect substantial improvement for their business in the future and 30% expect at least a slight improvement. This is in line with the overall sub-sector expectation and with the past experience during the last five years. The business people and farmers in Uzundere are the most pessimistic group: only 1% expects a substantial improvement and 16% foresee a slight improvement. Farming – at least farming in remote areas - appears to be the least dynamic sub-sector.

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[14] The study on "Small Enterprise Finance in Turkey" (KfW, 2005) came to the same conclusion and recommended to look at income trends rather than absolute figures.

Chart 10: Business development and expectations

How did your enterprise / sub-sector develop during the last five years and what is your expectation for the future?

	Substantial improvement	Slight improvement	No changes	Slightly worse	Substantially worse
sub-sector in future	9%	32%	31%	23%	6%
own business in future	11%	30%	9%	21%	9%
sub-sector during last 5 years	6%	29%	34%	25%	7%
own business during last 5 years	7%	33%	25%	26%	9%

N = 175 - 185

36% of the respondents have invested in their business / farm during the last 12 months.[15] The median value of this investment was 3,250 YTL. In Mamak and Şeferihisar it was 5,000 YTL. 34% of the business people and farmers say that they will also invest during this year[16], esp. in Şeferihisar (45%). The median value of expected investment is 3,000 YTL; in Mamak it is 7,000 YTL.

Regarding their plans, 21% of the enterprises plan expansion into existing markets, 13% want to upgrade their skills, 12% want to develop new products. 18% had no clear idea. 7.8% want to expand into new markets, 5.9% will employ new staff, 5.8% make general investments, 5.3% will upgrade their technology and 4.7% want to shift to new locations.

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[15] The study on "Small Enterprise Finance in Turkey" (KfW, 2005) came to a similar result: 39% of small enterprises invested during 2004. However, the average investment was much larger than in our sample: 49,000 EUR.
[16] The study on "Small Enterprise Finance in Turkey" (KfW, 2005) came to a similar result: 34% of small enterprises planned an investment for the year 2005. However, the average investment was much larger than in our sample: 40,000 EUR

The major problems businesses and farms face are lack of demand (78%), inflation (76%) and access to finance (70%), as can be seen in the following chart.

Chart 11: Business problems

What are the major problems you face in your business?

Infrastructure	68,6% / 63,0%
Lack of demand for my goods or services	66,7% / 78,4%
Access to new markets	66,7% / 64,6%
Access to suitable staff	62,7% / 58,9%
Access to technology	59,2% / 56,5%
Access to raw material	64,6% / 62,2%
Access to finance	63,4% / 70,4%
Inflation	66,0% / 75,8%

N = 207

◻ Very Important   ◻ Important   ◻ Neither important nor not
◻ Not important   ◻ Not important at least

6.3 Business / Farm Finance

Most entrepreneurs and farmers finance their business with own funds.[17] 5% of them used bank loans for start-up, 7% for past investment and 5% for working capital. The future expectation is more positive: 12 % of entrepreneurs plan to take business loans for investment and 11% for working capital.

The following table gives an overview of responses to the questions regarding past and future financing sources.

Table 8: Source of Enterprise Finance (% of enterprises)

	Start-Up	Past Investment	Future Investment (Plan)	Past working capital	Future working capital (Plan)
Own funds	81%	81%	75%	48%	76%
Family loans	16%	6%	4%	7%	4%
Friends	10%	5%	4%	6%	4%
Neighbours	4%	1%	1%	2%	1%
Banks	5%	7%	12%	5%	11%
Informal credit groups or associations	1%	2%	1%	2%	1%
Money-lender	0.4%	0.4%	0.4%	0.4%	-
Grants	0,4%	-	-	-	-
Supplier	-	-	-	2%	0.4%
Median Investment (YTL)	5,000	2,000 p.a.	2,250 p.a.	1,500 p.a.	1,850 p.a.

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[17] The study on "Small Enterprise Finance in Turkey" (KfW, 2005) came to a similar result: 75% of small enterprises used own funds for investment, 10% banks and 5% family or friends

The median expected business investment is 2,250 YTL and the median expected working capital need is 1,850 YTL p.a. This stands in contrast to the answers given by the entrepreneurs when asked about the ideal loan: the median loan amount would be 5,000 YTL for a duration of 12 months and with a 50% collateral value. The median desired grace period is 12 months but 44% said that they would accept monthly repayment. The expected interest rate is 8% p.a., well below present bank rates. And the desired waiting period for loan processing is 5 days median. A 5% fee charge would be acceptable. Comparing the reality with the ideal picture we can see that most entrepreneurs either have no clear picture about the loan market or that they consider the present market conditions for loans unacceptable.

Similar to the borrowing behaviour of all households only 4% of the enterprises borrow regularly. 52% borrow only for emergencies and 11% only for bigger investments. The median emergency loan is 1,000 YTL, the median investment loan 10,000 YTL and regular borrowers take 1000 YTL per loan.

87% of respondents are satisfied with the way they manage their business or farm finance. Those who are not happy mentioned problems such as: repayment period is too short, collateral requirements are too high, and there are too many strings attached to borrowing.

However, if all options were easily available, 29% of respondents would use a bank for financing the enterprise. Only 31% would need no change. 19% would use their family, 12% shopkeepers/suppliers, 11% their neighbours or friends, and just 1% informal saving groups.

Similar to what we have seen in household finance business people and farmers have a high priority for trustworthy and friendly lenders.

Chart 12: Priorities for enterprise finance
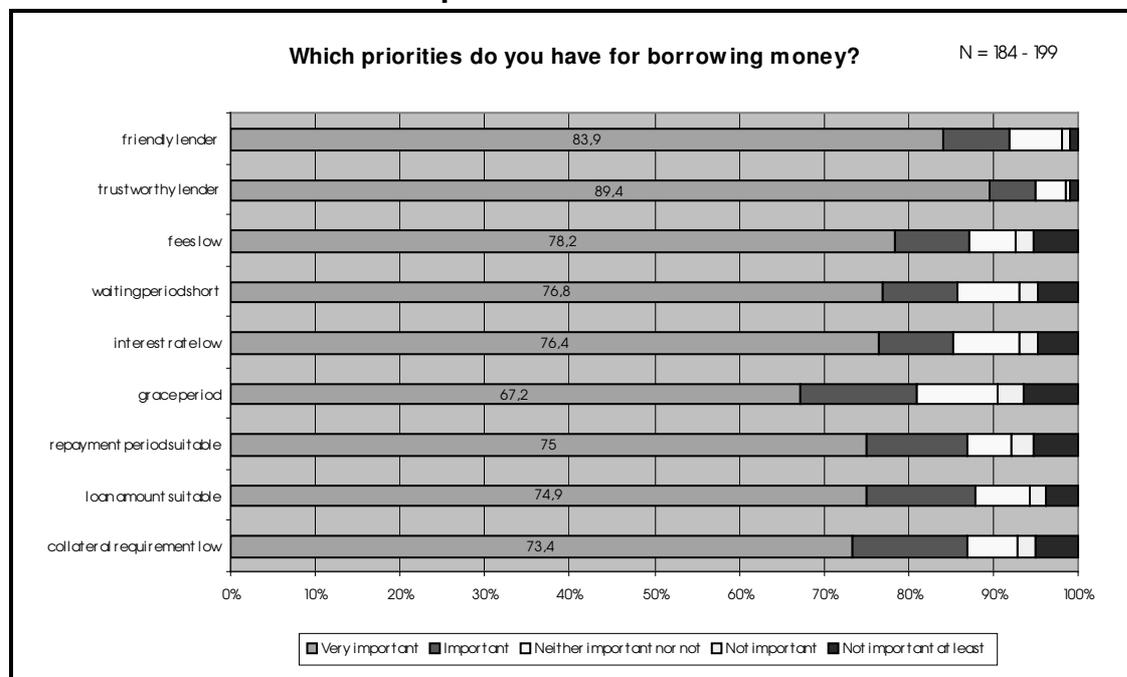
7 Conclusions and Recommendations[18]

7.1 Savings First

It has been proven many times in various countries: microfinance should start with savings services, not with loans. There are two good reasons to do so.

The first reason refers to the clients: poor people are usually desperately looking for safe places to deposit their small savings and it must be easy to deposit and withdraw money as needed. Most poor people save regularly to prepare for emergencies and lean income periods.

The second reason refers to the banks: savings accounts are the easiest way to build good relationships with poor clients and pre-select potential good borrowers.

So, why are poor people not just taking their savings to the bank? We have seen that most people are cautious about the future, they don't expect major improvements. The economic crisis is still felt in Turkey, especially by the poor. In this climate many people prefer to invest their surplus directly into an asset or keep it in cash at home. This will change as the overall economy is stabilised and if there will be more suitable savings products for the poor.

Nevertheless, the survey findings also show a substantial untapped potential for micro-savings:

21% of the target households are already using savings pass-books and will continue to do so. Since 6% of the target group are long-term savers the remaining 15% of bank savers must be short term savers.

26% of the target group are willing to save money in a bank. Data cross-checking revealed that 2% of these 26% are already bank savers. Therefore the additional potential for bank savers is 24% of the target group if the right products are offered. These people probably will only save short-term, 90 YTL/month for about 6 months of the year and withdraw their savings during times of low incomes and high expenses (usually in the winter period).

In conclusion we can assume that within a short period of time banks could serve 45% of the target group (i.e. approximately 2.6 million households in Turkey) through adequate savings products and marketing efforts. This finding refers particularly to Ziraatbank which is most popular amongst the target group and has the largest branch network in Turkey, followed by Halkbank.
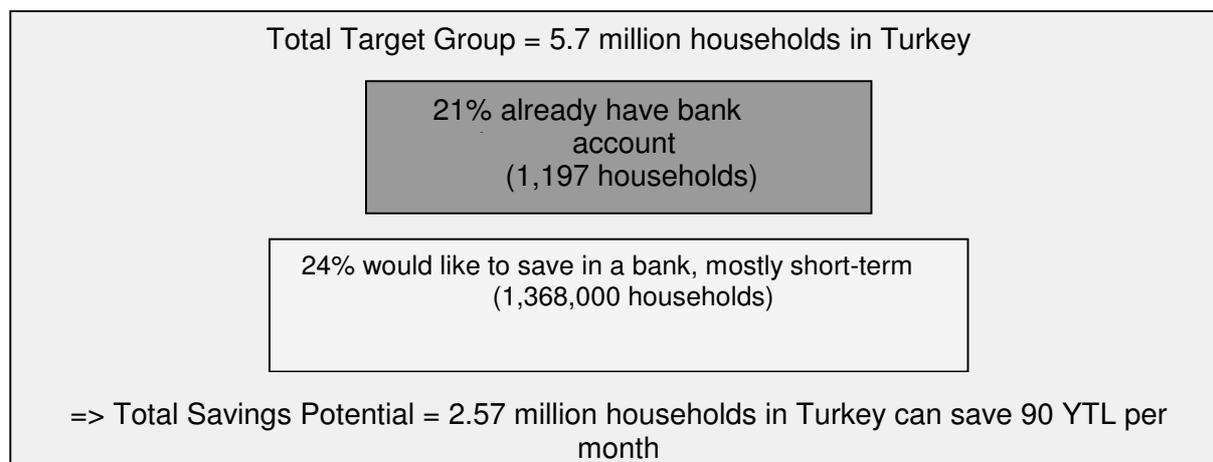
The following chart shows the actual status and the potential for micro-savings in the Turkish banking system.

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[18] For all demand projections in this chapter we have used the following assumptions:
- Turkey's population was 71.3 million in 2004 (according to the World Bank web-site)
- Average household size in Turkey is 4.5 persons (State Institute of Statistics, 2000)
- 36% of the population is considered economically vulnerable - we can consider these people the primary target group for microfinance in Turkey (according to a report published by UNDP: Microfinance in Turkey, Kiendel Burritt, August 2003).
- Thus the target group for microfinance is 5.7 million households.

Chart 13: Potential for micro-savings in banks

Total Target Group = 5.7 million households in Turkey

21% already have bank
account
(1,197 households)

24% would like to save in a bank, mostly short-term
(1,368,000 households)

=> Total Savings Potential = 2.57 million households in Turkey can save 90 YTL per
month

55% of the target group cannot be served by banks in the foreseeable future. However, this doesn't mean that there is no savings potential amongst them. In fact, most of them (except the irregular wage earners and the permanent employees, i.e. 17% of the target population) are saving in cash or in other assets. It would require a lot of effort to convince these people to deposit their savings in the banking system. Therefore, it is suggested to start with building solidarity groups and only later introduce savings products for these people (see chapter 7.8).

7.2 Savings Products

Considering the huge untapped potential for micro-savings we have to assume that part of the problem is on the supply side. What could banks do to capture the micro-savings potential?

From the clients' point of view a savings product should balance three aspects: safety, convenience and return on investment.

We have seen in the survey that poor people have a high preference for safety. This should be of no concern for bank savings products because deposits up to 50,000 YTL are insured by the State. However, people had bad experiences with bank deposits during the economic crisis and trust into the banking system has not been fully restored yet. In order to build this trust again the banks could advertise the state-guaranteed deposit insurance more actively amongst the poor.

The second aspect is convenience. Opening an account must be easy and cheap. It has been reported that some poor people in Turkey have no identity card, drivers licence or passport, so that they cannot open an account. This is a constraint which cannot be changed by banks. Cost is another barrier: opening a savings account is usually free of charge in Turkey. However banks charge for account maintenance: one large Turkish bank, for example, charges 1 YTL per page of the account statement which is sent out monthly; this translates into a hefty fee of 1% fee per month if a client has a 100 YTL deposit.

Another aspect of convenience is the possibility to deposit and withdraw money without restrictions or costs, even very small amounts. This is usually no problem in savings accounts. However, poor people also consider the distance from the home to the bank branch as a cost. From our survey we know that most people have at least one bank branch

in their vicinity and half of the target group already uses banks for various services. Thus, deposit and withdrawal convenience should not be a big problem.

A third convenience aspect is service quality. We have seen in the survey that poor people expect trustworthy and friendly service. This is an aspect which may need more attention by the banks in Turkey because most of them are not geared towards poor people's perception of good service. Bank staff should be familiar with the clients and open for their concerns. Ideally they should belong to the local communities. Opening hours must be conducive for poor people many of whom work long hours. Psychological barriers to enter a bank branch can be overcome by "dressing down" the public area and staff. There is also a possibility to attract poor savers by adding extra services to savings accounts, e.g. a lottery system as practised by BAAC in Thailand or by linking savings to preferential treatment for loans, insurances, money transfers, etc. In fact, the service part of microfinance has been overlooked by many banks world-wide.

Finally there is the return on investment. It should be at least equal to the inflation rate (7.7% p.a. in 2005) although for short-term savings this may not be of big concern to poor clients. A large Turkish bank, for example, presently pays 13% p.a. for a demand deposit but only 1% p.a. for an account at call. It seems that the interest rate structure of Turkish banks does not encourage short-term savings.

Let's have a look at the banks' interests in savings mobilisation. They consider three aspects: profit, liquidity and cross-selling potential. The costs are calculated by adding transaction costs and interest payments. The income derives from fees and investment of the savings deposits. Although actual figures on costs and income for savings in the Turkish banking system are not available one can assume that micro-savings, esp. short-term deposits, are not very lucrative for the banks: transaction costs are the same for a micro-savings account as for larger deposit accounts but income on micro-savings is generally less because they are short-term and therefore cannot be invested by the bank for longer terms. Liquidity risk is another constraint of short-term micro-savings. Banks have to maintain large cash balances to meet the withdrawal options of short-term savings.

Due to profit and liquidity constraints banks may prefer larger deposits and institutional borrowing to meet their liquidity needs. However, as the Turkish economy picks up and private borrowing will increase the liquidity need of banks may increase and thus micro-savings may become more interesting.

The cross-selling potential with micro-savers is probably the biggest attraction for banks at the moment. Regular savers are good clients and the bank can sell other products to them at minimal risk. Therefore, micro-saving products should be linked to loans, credit card options, insurances, money transfers and other bank services.

In order to market micro-savings products banks will have to do their own detail market research and customer segmentation. This study indicates that urban and developed areas, especially permanent wage earners are prime market segments because they have reliable and higher than average savings potential. Women are more likely to save in banks than men. The following two product ideas may give a general direction for banks to develop their own savings products.

Table 9:   Possible micro-savings products

	Customer segment	Conditions	Cross-selling potential	Marketing aspects
Emergency Savings Account	Households planning to save for emergencies such as low income periods, health problems, unforeseen bills, etc.	No charge for account opening and management. No minimum opening savings balance. Daily withdrawal option or fixed term / demand option. Current market interest rates: 1 - 13% p.a.	Link to emergency loans: after six months of regular deposits the client is entitled to an emergency loan at the double value of the deposit. Offer life and health insurance, current account and money transfer services.	Stress the safety of the deposit (state guaranteed deposit insurance)[19] and the link to the emergency loan option.
Target Savings Account	Households planning to save for a target: e.g. children education, old age, private events (weddings, pilgrimage, etc.), purchase of business and private assets.	No charge for account opening and management. No minimum opening savings balance. Fixed term (6 and more months). Current market interest rates: 13% p.a.	Link to investment and private loan products: after six months of regular deposits the client is entitled to a loan at the double value of the deposit.	Stress the safety of the deposit (state guaranteed deposit insurance) and the link to loan options. Market especially to women and as separate sub-products, e.g. Education Savings Account, Wedding Savings Account, etc. Offer additional options, e.g. monthly lottery, gifts.

7.3 Examples of Savings Products from other Countries[20]

In this chapter we present some savings product examples from other countries. This may give an idea how banks in other countries reach out to micro-savers and how they link micro-saving to micro-credit and other financial services.

After conducting extensive market research to determine the needs of their target markets, BURO, Tangail in Bangladesh designed products for a wide range of community members. Very low opening balances (US$0.22) and open access for their passbook savings accounts meets the needs of poor community members. Contractual time deposits (3-10 years) with the same low opening balances are also geared toward poor community members. Other time deposits are geared toward attracting higher-income community members with terms of 3 months to 5 years and minimum balances of $111.

In order to attract a variety of customer market segments, the Kenya Post Office Savings Bank offers a wide range of savings products geared toward low-, middle- and high-income clients. Minimum opening and maintenance balances range from $2.86 to $142.90 and interest rates range from zero to 10%, based on outstanding balance and length of deposit. To further meet the needs expressed by their customers, KPOSB has enriched existing products with special features for which they charge commissions, such as direct deposit of salaries. Also to meet client demand, KPOSB offers an International Visa Card to premium savings account depositors. Cardholders have ATM access to a number of banks.

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[19] Microfinance Institutions which are not banks can deposit their members' savings in commercial or public banks to ensure that their money is safe.
[20] All Examples are quoted from: Marketing for Microfinance Depositories – A toolkit; Published by German Technical Cooperation (GTZ) and prepared by Bankakademie; Eschborn, 2000

BAAC in Thailand offers a variety of specialised products tailored to the special needs of their customers in the rural Thai milieu, in addition to offering a standard range of savings and time deposits. Their specialised products include savings for religious pilgrimages, funeral aid associations and personal accident insurance.

Sonapost in Burkina Faso has entered into partnership with a local insurance company to provide life insurance to depositors holding checking and passbook savings accounts. This simple, inexpensive insurance has an annual premium of $10.50. Subscribers have the right to $750 for illness-related death and $1,500 for accident related death. Sonapost has launched this product to meet customer demand, promote their savings products, gain an edge over their competitors, and increase their profits.

7.4 Household Loans

The first golden rule of microfinance is "Savings First". The second rule is "Lend to people not to projects". In other words: loans should consider the repayment capacity of the entire household, not just the business part of it. This does not mean that loans are given for any purpose and without looking into the investment proposal. In fact micro-loans are generally granted for productive investments (i.e. a project). However, the repayment capacity of the entire household and not only the repayment capacity of the project (business) is considered during the loan appraisal.

From the customer's point of view this makes perfect sense because money is fungible: people spend it where it is most needed and lenders find it generally impossible to control its use. Therefore, micro-entrepreneurs often use business loans for household needs rather than for business investment.

Fikret Adaman from Bosporus University has observed the same phenomenon during his research on two microfinance programs of Turkey: *"It is understood from the interviews that this total sum of money that can be acquired from microfinance system could be (…) used to arrange wedding ceremonies, to repay previous debts, to buy supplies for construction or to pay for emergency health expenditures. The survey results also supported this finding. However, this reinterpretation of the microfinance system should not be readily criticised as the corruption of the system or ill-selection of the borrowers."*[21]

From the lenders' point of view household loans make also more sense than micro-business loans because the household's repayment capacity is generally larger than the enterprise repayment capacity and because household income is more diversified than enterprise income, which reduces the risk of loan repayment default.

So, what kind of micro-loan customer segments could be interesting for banks in Turkey? Let's look at our survey results:

Around half of the self-employed do not maintain their business separate from the household, i.e. income and expenses cannot be separated. For this group a separate business loan doesn't make much sense; the loan appraisal wouldn't capture the reality of the total household-business cash-flow. This is particularly true for small farmers.

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[21] Fikret Adaman: translation of the executive summary of a study on microfinance in Turkey; Bosporus University, 2005.

But even for most other micro-enterprises it is more meaningful to consider the business as part of the household because they are family concerns (median number of persons working in the enterprises is 2, usually the owner and a family member). Family businesses may maintain separate books for tax purposes but these books do not reflect the financial reality.

Finally, there is another reason why household lending makes more sense than micro-enterprise lending: as we have seen in the survey a great portion of the entrepreneurs (46%) are not sure that the business will be continued by the next generation, and 40% have been pushed into self-employment due to unemployment. In other words: these people are not entrepreneurs by free choice but by necessity (so-called "survival entrepreneurs"). They will not invest much money into their business nor will they take big risks. If a permanent employment opportunity arises they may just give up their business.

We therefore strongly recommend household loans instead of micro-business loans. There is sufficient credit demand amongst permanent wage earners and self-employed persons. The interest repayment capacity is equivalent to the savings potential (90 YTL per month), without taking into consideration increased income through loan investment.
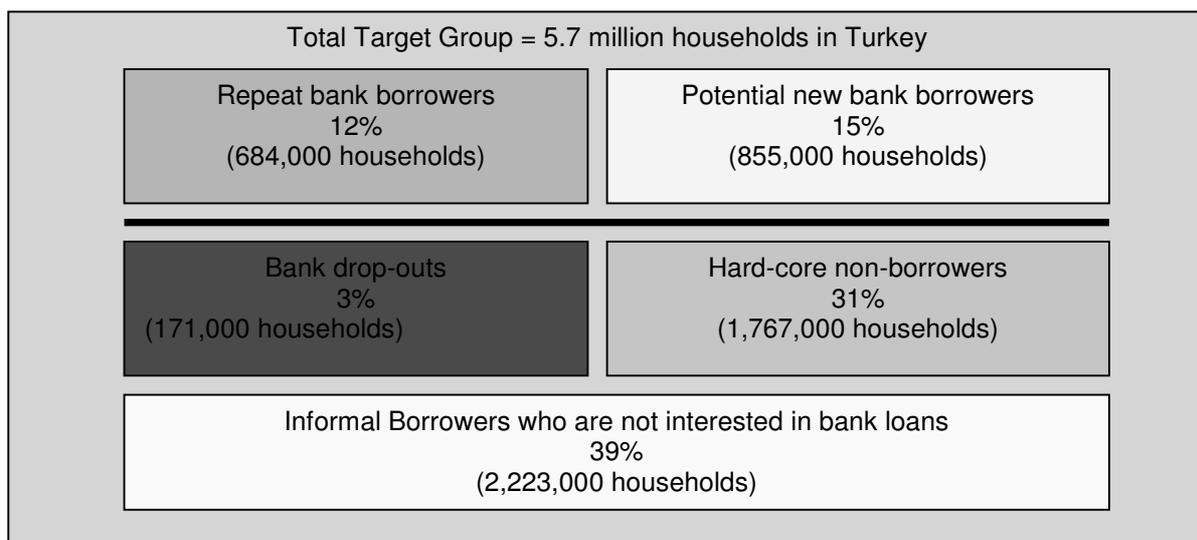
How much demand for micro-loans can banks expect?

15% of the target group have borrowed from a bank during the last 12 months. 78% of the households are satisfied with the way they managed their borrowing during the last 12 months and 22% are likely to stop borrowing from a bank. Thus approximately 12% of the target group are repeat bank borrowers and 3% are drop-outs.

22% of the households said that they would like to borrow from a bank. In a data cross-check we found that this includes 7% who already borrowed from banks. Therefore an additional 15% of households could become bank borrowers if suitable offers were available.

Thus, a total of 27% of the target group (1,539,000 households) have an immediate demand for bank loans if suitable products are offered.

Chart 14: Potential for micro-credit in banks

Total Target Group = 5.7 million households in Turkey	
Repeat bank borrowers 12% (684,000 households)	Potential new bank borrowers 15% (855,000 households)
Bank drop-outs 3% (171,000 households)	Hard-core non-borrowers 31% (1,767,000 households)
Informal Borrowers who are not interested in bank loans 39% (2,223,000 households)	

A large portion of the requested loans may be emergency loans at a median value of 300 YTL. The peak demand for such loans can be expected in the winter period. A very small number of households will seek investment loans at a median value of 14,000 YTL.

There is also a specific potential to lend to self-employed persons. 12% of them plan to take investment loans from banks (median loan size 2,250 YTL), and 11% plan to get working capital loans (median loan size 1,850 YTL). 29% of enterprises would like to borrow from banks if suitable offers were available.

There is some concern in Turkey that subsidised loan schemes and low business profit margins will be a serious constraint for micro-loans. This argument most probably will not hold true: Firstly, subsidised loans will not be available for many people as state resources are limited. Secondly, experience in other countries shows that micro-loan product design (quick and easy access to loans) is more important to poor people than interest rate; the popularity of credit cards even amongst poor people proves this statement. Subsidised loans, on the other hand, usually have very cumbersome procedures, disbursement is often delayed and loans are only meant for investment, not for working capital or private consumption. Thus, there is no real competition between subsidised loans and commercial micro-loans. - While it might be true that many enterprises do not have sufficient profit margins to finance long term and larger investments at current interest rates they still have adequate short term returns to finance urgent working capital on market interest rates.

7.5 Lending Technology and Products

The recommended lending technology for bank clients is individual lending for various reasons: building groups is a time consuming and expensive exercise which banks cannot do; moreover they have no experience with group lending; and bank clients usually do not like group borrowing but prefer tailor-made loans with flexible repayment schedules. The group lending approach is better suited to the poorer section of the target group.

This recommendation matches the findings of a report published by a Turkish microfinance provider, Maya Enterprises[22]: "…women entrepreneurs need much more flexible and individual borrowing options to meet their financial needs." Maya Enterprises started off with a group loan but after a market survey they decided to offer three loan products: (a) Individual loans from 100 – 2,000 YTL and terms of up to 12 months, guaranteed by group, external persons or assets; (b) emergency / all purpose personal loan from 100 – 500 YTL and terms of up to 6 months, guaranteed by group, external persons or assets; (c) group loan for business purposes from 100 – 750 YTL with terms of up to 8 months, guaranteed by group.

Similar to the findings of Maya Enterprise the results of our survey suggest three possible micro-loan products: emergency loans, private loans and investment loans. These products are particularly suitable for the two main market segments, "Permanent Wage Earners" and "Self-employed". The loan products are linked to the recommended savings products: emergency savings accounts are linked to emergency loan options; target savings are linked to investment loan or private loan options. Banks could also link the loan products with credit cards, current accounts and overdraft facilities, thus reducing their transaction costs.

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[22] Key Findings from Market Research; Report to the Board of Advisors; Maya Enterprises, November 21, 2003

Table 10: Possible micro-loan products

	Customer segment	Conditions
Emergency Loans	Purpose: paying small bills, purchasing for basic needs	Pre-condition: regular savings in emergency savings account for six months. Loan amount: 100 - 500 YTL or double of savings balance Administration fee: 5% of loan amount Loan duration: 3 – 12 months Grace period: max. 3 months Collateral: personal guarantor and savings balance Current market interest rates: 20% p.a. Repayment schedule: monthly Processing time: max. 7 days
Private Loans	Purpose: foreseeable expenses for private events such as weddings, pilgrimages, children education; could also be used for small working capital needs.	Pre-condition: regular savings for six months. Loan amount: 500 - 2000 YTL or double of savings balance Administration fee: 5% of loan amount Loan duration: 6 – 12 months Grace period: none Collateral: personal guarantor and savings balance Current market interest rates of private loans: 20% p.a. Repayment schedule: monthly Processing time: max. 14 days
Investment Loans	Purpose: purchase of private and business assets such as vehicles, houses, household goods.	Pre-condition: regular savings for six months. Loan amount: 2000 – 15,000 YTL or double of savings balance Administration fee: 5% of loan amount Loan duration: 12 - 36 months Grace period: max. 6 months Collateral: land title (for housing loans), purchased asset and savings balance Current market interest rates of business loans: 20% p.a. Repayment schedule: monthly Processing time: max. 14 days

The recommended loan products build on best practices in micro-lending:

• Regular savings are a pre-condition for borrowing.

• The loan conditions fit the loan purpose.

• Loans are given for people who have experience in what they are doing. Business start up loans are the exception.

• Repayment schedules should be flexibly designed according to the repayment capacity of the household.

• Collateral is not the main concern for the lending decision. However, there should be a collateral or guarantee, at least for psychological reasons. Even though 36% of the households own land and 54% own buildings it is doubtful whether this can be used as real collateral for loans because many people may not have a land title. The issuing of land titles by the government would be a big advantage for clients and lenders.

• Loan limits should gradually increase from one loan to the next. Good clients are rewarded by larger limits and/or reduced fees.

- Interest rates are not subsidised because international experience suggests that this does not help the poor. Subsidised loans attract better-off people who thereby exclude the poor. Moreover, the total transaction costs and the opportunity costs of subsidised loans are often more expensive than normal loans, e.g. because of excessive paper-work and long waiting periods. Experience also shows that micro-enterprises operate on higher profit margins than other businesses and have shorter turn-over periods; therefore they can manage higher interest rates. It is not exploitation of the poor if micro-lenders charge higher interest rates due to higher transaction costs. However, banks should try to reduce transaction costs by cutting down costs and by innovative technologies. And there is no reason to charge a high risk premium because micro-credit has very good repayment rates if it is done properly.

- Strict loan monitoring, regular client contact and immediate follow-up in case of default are crucial. Otherwise moral hazard will take place.

- To achieve these best practices a bank will need specialised micro-loan officers.

Fikret Adaman of Bosporus University who did a survey of two Turkish microfinance programs in 2005, came to similar conclusions: *"Contrary to the prior expectations, the qualitative field study disclosed the fact that what causes increase income level is not, in most of the cases, engagement in a novel income-generating activity; but increase of capital invested in already existing economic activities which either enhances the scale of their business or help them overcome liquidity problems. (…) The microcredit borrowers interviewed expressed their demand for diversified credit schemes that can be introduced to the system in parallel to the microenterprise credit.(…) Considering the fact that the poor are usually not covered by any insurance or social security system, the provision of emergency credit can contribute to the success of microfinance projects in alleviating poverty. Only existence of a credit scheme as such would create a sense of security in the target group even if they do not yet need to use it (…)the borrowers who are engaged in different income-generating activities prefer different repayment schedules.* [23]*

7.6 Financial Services and Providers

75% of all households say that they have one or more bank branches close enough to use. 48% of all households already have a relationship to a bank. Hence an additional 27% of the target group could easily be reached by banks, esp. by Ziraatbank and Halkbank.

Those that have access to banks show a preference for current accounts, pass-book savings, credit cards, money transfer, ATM, and to a lesser degree insurances, billing services, cheques and overdrafts. There are no obvious constraints for the target group to access these services.

Transfer services, for example, are reasonably cheap: one large Turkish bank charges 2 YTL commission and an optional surcharge of 2.5 YTL for communication costs on transfers below 200 YTL within the same bank; for external transfers below 1,000 YTL they charge 5 YTL.

Current accounts are free of charge, but one has to pay an opening fee (one Turkish bank reported 14 YTL opening fee). Overdraft however are rather expensive (around 3% per

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[23] Fikret Adaman: unofficial translation of the executive summary of a study on microfinance in Turkey; Bosporus University, 2005.

month) and cheques too. One large Turkish bank stated that issuing a cheque will cost a minimum of 10 YTL and depositing a cheque would cost 20 YTL. This explains why cheques are not so popular amongst the target group.

Credit cards are also an expensive service (e.g. around 3% charge on purchases and cash withdrawals). Nevertheless they are quite popular due to the convenience they offer.

Hence, 75% of the target group should have no problem to access various bank services. 25% of the target group, however, have problems; these are the poorest of the target group. They can probably not afford bank services or encounter psychological barriers. It is recommended to organise these people in solidarity groups and deliver simple financial services to them through a group mechanism, e.g. one group current account to manage money transfers.

Emergencies are a big issue for the target group as we have seen in the borrowing behaviour. However, insurances are not popular yet. Experience shows that it takes a lot of effort to convince poor people to buy health or life insurances because these are quite complex products. Therefore, in the short run savings management coupled with emergency loans seems to be a better option. Banks can try to cross-sell insurance products to their savings clients in the long run. Life insurance is usually the easiest product to start with. There may be no demand for health insurance because of the government's "green card" system for the poor.

7.7 Special Target Groups

International experience suggests that not all poor people can benefit from microfinance. The prime target group of microfinance are the economically active poor. People who have no reliable income source or people who live under permanent emergency situation cannot participate in main-stream microfinance. Nevertheless, they can be prepared for it.

The survey results indicate that unemployed and irregular wage earners (17% of the target group) have no or minimal savings potential or loan repayment capacity. In this group of people we find recent migrants, single mothers and agriculture labourers. Due to their circumstances, their education level and their social background they may be excluded from mainstream society and probably even government support (either because they don't know about it or because they don't have the necessary connections to the responsible officials).

What these people need is not a loan but a regular income opportunity. Pushing people into self-employment with start-up loans may not be the right answer for everyone, although as we can see in the case studies there are positive exceptions. Before giving start-up loans to unemployed and irregular wage earners it may be necessary to offer free education, vocational training and job opportunities. Specialised NGOs could be contracted to build up solidarity or self-help groups. At a later stage savings and loan services can be added. Emergency loans are the most important consideration for these people.

Poor farmers are another special target group. In remote and under-developed areas they tend to be very conservative. They are reluctant to save money in banks or borrow from banks unless it is subsidised credit. Agriculture co-operatives do not target the poor farmers as members. Therefore, it may be necessary to focus microfinance support on younger farmers who are willing to innovate. These farmers need more than just financial services; they need training in modern farming techniques, marketing and financial management.

Another concern relates to the question whether only women should be targeted for microfinance. In terms of savings products this could indeed be a very suitable option because women are generally more concerned with family welfare and they are more disciplined in terms of savings. In terms of lending however there might be cultural barriers. Non-Government Organisations may find it much easier than commercial banks to target women directly. Nevertheless, even bank officers should interview female spouses of borrowers during the household loan appraisal and these women should also sign the loan agreement. This will certainly enhance the loan repayment rate.

7.8 Strategy

Taking all findings and recommendations together a short-term microfinance strategy for Turkey emerges. The following chart shows the key elements of this strategy.

Chart 15: Proposed short-term microfinance strategy
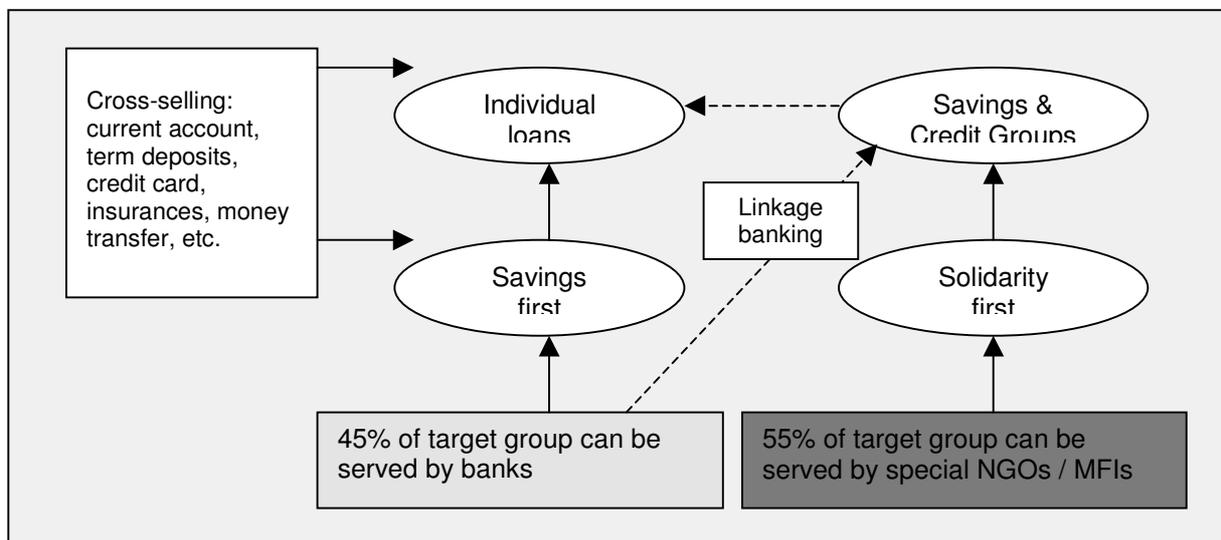
45% of the target group can be served by commercial banks if they develop suitable savings products (e.g. emergency savings and target savings). The bank savings products are linked to loan options if clients are saving regularly. The appraisal of the individual loans will be based on the household's repayment capacity. Loan limits will increase gradually. Loan products could be emergency loans, asset loans and private loans. Cross-selling starts with simple, low-risk products (e.g. current account) and gradually becomes more complex (e.g. credit card, insurances).

55% of the target group can be served by specialised Non-Government Organisations (or Microfinance Institutions once the necessary legal frame is established). The survey showed that informal savings or credit groups are already quite wide-spread. 15% of the households are already members and another 37% know about a group but are not members. This could be a possible entry point for microfinance amongst the non-bankable households. With external support the solidarity groups can start savings collection and inter-se lending. Mature groups can later take up external loans from Microfinance Institutions (MFI). As an alternative to MFIs Non-Government Organisations can help to link savings and credit groups to commercial banks which will collect group deposits and grant group loans. The most mature group members have an option to "graduate" from the groups and become individual borrowers either in a MFI or in a bank.