

**Final Declaration
of**

**“The International Conference on
Poverty Reduction Through
Microcredit”**

which was held on

9-10 June 2003
in İstanbul

Organized by

**Turkish Foundation for Waste
Reduction**

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&

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- Microcredit, small collateral free loans, is an effective tool to support the poor help themselves out of the poverty. Microcredit has been applied successfully in approximately 110 countries in all continents of the world, including the US and many countries in Europe. Microcredit is recommended as a strategy for poverty alleviation in Turkey, where there is great potential for the implementation of microcredit programmes.
- Microcredit projects should target the poorest people particularly women who are excluded from the formal financial system and have a clear measure for who are the poor.
- The microcredit program should provide convenient services to the poor with easy and quick procedures that clients find easy to understand.
- There should be strong leadership and transparent professional management of programs who will operate independently. A culture of commitment among management and staff has to be encouraged and developed. The organization that will be established for microcredit programmes has to have a clear strategy and management structure which strengthen people's capabilities and knowledge.
- Microcredit programmes from the beginning should strive for sustainability, without which it cannot reach the scale and outreach. Programs should have a sustainability plan from the outset which lays out the conditions in terms of borrowers outreach, loan sizes, growth in portfolio, and pricing policy. The pricing of the service will enable it to cover costs for the programme.
- The Government should undertake to create an enabling environment for the implementation of the microcredit projects, and help to remove obstacles for the implementation of the microcredit programmes. The Government should not be involved in actual operation of microcredit programme. Microcredit programmes should be allowed to determine their own policies and operate independently. When projects are initiated, they should be given the freedom and flexibility to design appropriate methodology and pricing policy, that will enable the programmes to scale up, become sustainable and reach significant numbers of the poor.

- In the implementation of “The Turkish Grameen Microcredit Project” initiated on June 11th 2003 in Diyarbakır with the participation of Prof. Dr. Muhammad Yunus, the architect of microcredit project, it should be considered to collect the one-year microcredit by weekly re-payments adding annually 24% service cost in order to ensure its sustainability for the borrowers.
- Social entrepreneurs, (those interested in solving social problems using market based principles or business models) and members of civil society who are interested investing in microcredit programmes maybe given incentives, e.g tax reductions.
- There should be institutionalized support to microcredit programs and also microcredit programs should be considered part of national financial infrastructure.
- It seems appropriate to reserve 75 million US Dollars of approximately 114 million US Dollars allocated by the World Bank in 2003 for Turkey so as to reduce the social risk, to be used for microcredit programmes.
- It seems appropriate to reserve 50 % of the total sum saved up in the Social Aid and Solidarity Funds in the year 2003 to be used in microcredit programmes.

Points to be considered in the Proposal of Law concerning Microfinance in Turkey:

- There should be a legal framework for microcredit programmes to become Microcredit Banks which can mobilize deposits both from clients as well as licenced to mobilize deposits from the wider public and which can raise funds in the money market. It is important to create the legal space for microcredit programs to begin operations, scale up and become sustainable entities.
- Government should encourage the creation of wholesale funds for financing microcredit programs. Such wholesale funds have been created in Bangladesh and other countries very successfully.
- NGO Microcredit programs should have the permission to mobilize savings from its clients only. A restriction can be placed on the program that mobilized deposits should not exceed the amount of its loans outstanding.

- The Microcredit Bank should also issue financial instruments such as bonds in order to find money in the financial markets.
- The necessary legal frameworks should be established to initiate the functioning of microcredit programmes, to scale them up and to make them sustainable institutions.
- A microfinance regulatory unit should be formed within the “Banking Regulation and Supervision Agency (BDDK)”, supervising and facilitating the activities of Microfinance Banks.
- The law for establishment of microfinance banks (MFBs) should be broadly crafted and avoid legislating regulatory issues. It should aim to promote competition, different methodologies, and non subsidized sustainable access to financial services for the poorest.
- The most important consideration is that the law should be designed in such a way that it makes it attractive for the NGOs to convert themselves into formal financial institutions.
- There should be a clear definition of microfinance institutions and their purposes in the law. The law should state clearly that a microfinance institution is one that provides loan to low-income/poor households in order to support their income generation and self-employment activities to improve their living in their community.
- There should be a clear definition of who is the target group of microfinance programmes. The law should state that microfinance programmes would target the bottom 15% of the population according to income level and the other criteria.
- The law may allow creation of microfinance banks with several options in terms of operational areas for MFBs. These levels may be defined by geographical areas such as, villages, sub-districts, districts, provinces, regions and the country, which ever is appropriate in the context of the country in which it operates. Defining by geographical areas would not only be convenient administratively, but also more meaningful in terms of making an MFB focus its services to a given area. Local efforts and pride may give impetus leading to success of the MFB, inter-area competition can also help improvement of efficiency of the MFB’s. An MFB

could be set up a **not for-profit company**, (which may be owned by borrowers) MFB could also be set as a **for-profit company**.

- MFBs should be allowed to take deposits from borrowers as well as from the wider public. The restriction on the amount that it can mobilize as savings can be related to the amount of loans outstanding of the MFB e.g. saving mobilization can not exceed a maximum of twice the amount of the loans outstanding.
- When projects are initiated, they should be given the freedom and flexibility to design appropriate methodology and pricing policy, that will enable the programmes to scale up and reach significant numbers of the poor.
- The microfinance sector should strive towards standardization of reporting and transparency. There should be a requirement for annual audit of the MFB.

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