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MASTER'S THESIS

**THE EFFECT OF NON-BANKING CREDIT ORGANIZATIONS ON
GROSS DOMESTIC PRODUCT THE CASE OF AZERBAIJAN**

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DECLARATION

I hereby declare that this master's thesis titled as "The Effect of Non- banking Credit Organizations on Gross Domestic Product, the case of Azerbaijan" has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resources in the reference list. I verify all these with my honour.

14.05.2019

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ABSTRACT

Master's Thesis

The Effect of Non-Banking Credit Organizations on Gross Domestic Product

The case of Azerbaijan

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Poverty is one of the most important issues in the countries of the world. One of the biggest obstacles to poverty reduction is the absence of accessible financial services. For this reason, microfinance and microcredit concepts, one of the effective tools to fight with poverty, have developed rapidly since 1970's. The microfinance system is also expected to contribute to the fight against poverty and unemployment, which is one of the biggest problems in the world. In Azerbaijan, as in developing countries, the majority of the people cannot access financial services. This thesis helps to acquire knowledge about microfinance and micro-credit, understand its characteristics, weaknesses and strengths and its impact on poverty. In the thesis, the effect of microfinance on the economy was analyzed through the example of Azerbaijan and the development of microfinance services was shown not only on poverty but also on the financial market and suggestions were made in this direction.

Keywords: Microfinance, Microcredit, Poverty, Azerbaijan.

ÖZET

Yüksek Lisans Tezi

Bank Olmayan Kredi Kurumlarının Gayri Safi Hasıla üzerindeki Etkisi

Azerbaycan Örneği

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Yoksulluk, dünya ülkelerinin önemli konularından biridir. Yoksul insanların yoksulluktan kurtulmasının en büyük engellerinden biri ise ulaşılabilir finansal servislerin yokluğudur. Bu sebeple, yoksullukla mücadelede etkili araçlardan biri olan mikrofinans ve mikrokredi kavramları 1970'den beri tüm dünyada hızla gelişmiştir. Mikrofinans sisteminin, aynı zamanda en büyük sorunlardan biri olan yoksulluk ve işsizliğe karşı mücadeleye katkıda bulunması beklenmektedir. Azerbaycan'da, gelişmekte olan ülkelerde olduğu gibi nüfusun büyük kısmı finansal hizmetlere erişememektedir. Bu tez, mikrofinans ve mikro kredi hakkında bilgi edinmeye, özelliklerini, zayıf ve güçlü yönlerini, yoksulluk üzerindeki etkisini anlamaya yardımcı olur. Tezde ayrıca, Azerbaycan örneği üzerinden mikrofinansın ekonomideki etkisi analiz edilmiş, mikrofinans hizmetlerinin geliştirilmesinin sadece yoksulluk üzerinde değil, aynı zamanda mali piyasaya da etkisi gösterilerek bu yönde önerilerde bulunulmuştur.

Anahtar Kelimeler: Yoksulluk, Mikrofinans, Mikrokredi, Azerbaycan.

THE EFFECT OF NON BANKING CREDIT ORGANIZATIONS ON GROSS DOMESTIC PRODUCT THE CASE OF AZERBAIJAN

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ABBREVIATIONS

ACCION	: Americans for Community Cooperation in Other Nations
ADB	: Asian Development Bank
AMFA	: Azerbaijan Micro Finance Association
AZN	: Azerbaijan Manat
CBA	: Central Bank of Azerbaijan
CGAP	: Consultative Group to Assist the Poorest
CIS	: Commonwealth of Independent States
EC	: European Commission
EU	: European Union
FY	: Fiscal Year
GDP	: Gross Domestic Product
GEM	: Global Entrepreneurship Monitor
GNP	: Gross National Product
IMF	: International Monetary Fund
NGO	: Non-Governmental Organization
SME	: Small or Medium Enterprise
UN	: United Nations
USA	: United States of America

USSR : Union of Soviet Socialist Republics

WB : World Bank



INTRODUCTION

The majority of people in developing countries are poor. Poores are denied of gathering their physiological needs, such self-encouraging, dressing and cover and subsequently are in danger of survival under ordinary conditions.

According to professor Muhammad Yunus, poverty is not the only thing that creates poor people. The reason for poverty is that there are no supporting institutions that ppoors can use their own potentials. One of the most effective solution to this problem is the microfinance organization.

What is microfinance? Microfinance is to crediting very small sums for low-income people who do not have access to banking services. It is a way for poor people to access financial instruments.

Microfinance system was first found in 1973 by Muhammad Yunus in Bangladesh where poverty was very extraordinary. Microfinance provides not only loans, but also savings and insurance services to poor people. But the most advanced feature of microfinance is to provide loans, which is named microcredit. Microcredits' amounts are much smaller compared to the loans given by the banks and other lending financial institutions with very low interest rates.

Microfinance plays important role in financials system in Azerbaijan as it is developing country. According to the developments, it is very useful to analyze the effect non banking system which is the main institutions of microfinance to economy in Azerbaijan.

The objective of this paper is to examine the microfinance system, to investigate the impact of micro-credits on poverty and to show the effect of these loans on GDP by Azerbaijan example.

This study consists of four chapters. In the first chapter, the theoretical background of microfinance and micro-credit is mentioned. The first part discusses the concepts, principles, types and models of microfinance and microcredit.

In the second chapter, the impact of microfinance on poverty is mentioned. In detail, this chapter includes information on what poverty is like, how poverty is tackled, and the level of poverty in the world and in Azerbaijan. Additionally, the history and details of microfinance in Europe and Central Asia, which Azerbaijan is settled in, are given in detail and explained the effects of microfinance to overcome poverty.

The third chapter gives information about the state of Azerbaijan, its history, the state of microfinance system, its history and its types.

In the fourth chapter, the effect of the loans of non-banking credit organizations on GDP is analyzed. With this analysis, the importance of microfinance development has been shown by showing the effects of the microfinance sector of Azerbaijan on economy.

In the conclusion part of the study, suggestions about analyze of study are given.

CHAPTER ONE

MICROFINANCE AND MICROCREDIT SYSTEM

1.1. DEFINITION OF MICROFINANCE

Microfinance, rather than aids and donations to individuals who have a certain level of income for a variety of reasons, is use of low-sum loans to meet their needs through banks, non-governmental organizations, credit cooperatives and other official financial system elements. Thus, it is an economic system that serves to increase the existing welfare levels of these people and on the other hand indirectly in the production process with very small values and to increase the per capita income and growth rate (Christen et al., 2003: 5).

Microfinance means crediting very small sums to create new jobs or to expand existing small businesses for low-income people who do not have access to banking services (Karlan and Goldberg, 2007: 3). Microfinance is a system created to provide financial services to very poor people as a growing industry in the World (Ledgerwood, 1999: 9 and UNDP, 1999: 1 and Anderson et al., 2002: 95). In fact, it is the idea of doing business and giving loans to poor people who need a small initial capital to perform an income generating activity, but cannot obtain the capital they need by classical means (with the classical banking system) (COMCEC, 2007: 1). This financial system, which found its institutionalization in the 1980s, currently varies widely both on a corporate and a product basis and serves millions of poor people.

When it is evaluated classical financial services in general, households use these services in income-generating activities, in order to overcome external risks such as possible economic crisis, outbreak, natural disaster or internal risks such as death, disease. They also use this financial method in order to provide resources of accessing social services (Ledgerwood, 1999: 9). However, these classical financial services are very narrow in terms of the number of people who can reach financial support. People from some layers of society are excluded from this financing system. The poor people are

inadequate or unsuccessful in forming the capital that will be involved in the production process by revealing their own skills and therefore they need a safe system to evaluate their minimum savings (UNDP, 1999: 1). In conclusion, microfinance system is a way for poor people to access financial capital that they can use for expanding existing small businesses.

1.1.1. Historical Development of Microfinance

Microfinance system was first introduced in 1973 by Muhammad Yunus in Bangladesh. Until 1979, the project was developed under the sponsorship of the Central Bank of Bangladesh and other commercial banks. In 1983, under the name of Grameen Bank, a microcredit bank has been established to give credit to the poor (Dawla, 2006: 103). This development process of microfinance will be explained in detail in the following paragraphs.

In the mid-1970s in Bangladesh, where poverty was very intense, the struggle against hunger and the helplessness experienced with it, Dr. Yunus has proposed an alternative method to methods of poverty reduction that had been used until that day (Karapinar, 2009: 8). Professor Dr. Yunus, in a village in 1974, saw the poor people work very well with the personal skills, however, in order to present their products in the market, the credit withdrawals from commercial banks with appropriate interest rates are subject to indemnity that they have to show. And they could not get credit from commercial banks due to the shortcomings of the indemnity capital. For a long time, they provided the loan requirements from the usurers on the condition that they were subject to high interest rates. Borrowing from a usurer made them to continue to repay the debt with low income from the products they sell, by which they gained a low profit margin (COMCEC, 2007: 11). This situation became a vicious circle that resulted in repaying with high interest and gaining at a minimum level. According to Professor Dr. Yunus, the way to break this vicious circle lies in the financial means to be offered to the poor through a different system. Likewise, the poor people's poorness is not because they are uneducated, ignorant or incompetent; they are not able to hold their small capitals in the best possible way.

In this context, Yunus initiated the first microcredit project in 1974 with a pilot application. Immediately thereafter, in 1976, in the town of Jobra, Bangladesh, the Grameen Bank project was created. With the establishment of the Grameen Bank, Yunus has started to offer loans to the poor, with higher amounts of loan repayments, with larger sums. The transformation of Grameen Bank into a formal bank continued until 1983 (Korkmaz, et al., 2004: 51).

As the success of the microfinance system to combat poverty has increased the demand for microfinance practices by attracting the attention of many commercial and non-commercial institutions, the system has become widespread worldwide. In this process, national and international unions, which are in coordination with the World Bank and the UNDP, have been formed in a unity that manages the spread and the increase in demand. The most important of these organizations was CGAP (Solidarity Group for the Poorest). Through the CGAP, the World Bank cooperates with donors, individuals, institutions and international financial institutions to improve the capacities of microfinance organizations in order to bring financial services to the very poorest.

The Microcredit Summit Campaign, another important institution, was established in 1997 at the Microcredit Summit in Washington with more than 2900 participants from 137 countries. The aim of the Summit is to reach up to one hundred million families in the world, and especially the female members of these families until 2005. To this end, various micro-credit practitioners, educational institutions, donor agencies, international financial institutions and non-governmental organizations have been brought together (Daley-Harris, 2009:1).

In the Global Poverty Report, which was announced at the G-8 Summit held in Okinavva in 2000, the quantitative dimensions of the poverty problem and other problems created by poverty were discussed and solutions were sought. In this context, the United Nations has determined the Millennium Development Goals, which 191 countries have committed to fulfill until 2015. In order to eliminate extreme poverty, to strengthen women, and to achieve sustainable development, the issue of supporting people or

institutions who/which are excluded from traditional financial system and living in rural areas or war zones, has been highlighted (UN, 2009: 3-4). The basic framework that these goals point out, is the reduction of chronic poverty (Hulme, 2003: 399). With the declaration of the year 2005 by the UN as “Microcredit Year”, both the emphasis on the success of the microfinance system has been sharpened and it has become clear that the problem of poverty is associated with microcredit (Dolun, 2005: 1 and Levin, 2012: 111). Finally, in 2006, it was highlighted by Muhammed Yunus receiving the Nobel Peace Prize, that when the problem of poverty could not be solved in a large part of society, the peace process could not be achieved (Haris, 2007: 1-2).

In addition, in the international “Microcredit Year”, it is aimed to share the micro-credit practices that provide good results in order to reduce poverty. It was decided to further develop the financial sector to support sustainable pro-poverty financial services in all countries. (UN, 2003: 854). In addition, the following decisions were taken (IYOM, 2010):

- To promote and evaluate the contribution of micro-credit and micro-finance to the development objectives of the millennium,
- To increase the awareness of the public and to indicate that micro-credit and micro-finance is indispensable for development,
- To promote inclusive financial sectors,
- To promote sustainable access to financial services,
- To promote innovation and expand the success and benefits of micro-credit and micro-financing by increasing new partners and promoting strategic partners.

Microfinance has been successfully applied in 111 countries, mainly in the United States and Europe. By the end of 2003, 58 million families in the world benefited from these opportunities. The worst of this system has a very high repayment rate of 98%, the majority of which is 100%. Another remarkable point is that 48% of the micro-credit beneficiaries have exceeded the poverty line. Lastly, when the microfinance data of 2017 are analyzed, it is seen that the Southeast Asia and South America countries are the leading

countries in the world. As seen in Table 1, it is seen that the number of people using microcredit is significantly higher in countries with crowded population such as India and Bangladesh where poverty is very common (Microfinance Barometer, 2018: 2).

Table 1: Top 10 countries by number of microcredit borrowers (2017)

Rank	Country	Borrower FY 2017 & growth since 2016	Loan portfolio FY 2017(dollar) & growth since 2016
1	India	50.9 (+5.8%)	17.1 (+26.3%)
2	Bangladesh	25.6 (+3.5%)	7.8 (+17.0%)
3	Vietnam	7.4 (+2.8%)	7.9 (+18.9%)
4	Mexico	6.8 (-3.8%)	4.4 (+5.5%)
5	Philippines	5.8 (+16.3%)	1.3 (+17.5%)
6	Pakistan	5.7 (+25.9%)	1.8 (+39.6%)
7	Peru	5.1 (+9.5%)	12.6 (+17.0%)
8	Brazil	3.5 (+1.1%)	2.6 (+2.7%)
9	Colombia	2.8 (-0.7%)	6.3 (+5.6%)
10	Cambodia	2.4 (-4.7%)	8.1 (+21.6%)

Source: Microfinance Barometer, 2018: 2.

1.1.2. Purpose and Importance of Microfinance

According to most people, microfinance means opening and giving credit (microfinance) in very small amounts to help very poor families engage in producer activities or grow their small businesses (Bossoutrot, 2005: 2). Over time, the scope of microfinance has expanded to include a wider range of services (loans, savings, insurance,

etc.) as it is understood that poor people who do not have access to traditional formal financial institutions need a variety of different financial products.

Microfinance includes small-scale (micro) financial services provided primarily to individuals or groups of people, living in rural areas or farms in the urban areas of developing countries, who are dealing with renting livestock or machinery, instruments to other persons, farming, fishing or grazing, producing, transforming, selling and selling goods in small or micro scale (Robinson, 2001: 9). Accordingly, microfinance is a financing model that provides basic financial services such as loans, savings and insurance to poor people who may not otherwise be able to access financial services or can only borrow under very unfavorable conditions (Todaro and Smith, 2006: 752). Because, people who live in poverty need different financial instruments in order to carry out their works, to have assets, to balance their consumption and to protect themselves against risks (Altay, 2007: 61). Therefore, poor people need to benefit from many financial services including deposits, loans and other services (Littlefield and Rosenberg, 2004: 38). Accordingly, the issue covered by microfinance includes the financial services, working capital loans, consumer loans, savings, pension, insurance and money transfer services (Altay, 2007: 61). The fact that these services are named as micro is due to their very small amounts.

1.1.3. Characteristics of Microfinance

Objectives and characteristics of microfinance systems are almost the same everywhere vary from country to country in terms of their applications. (Christen et al., 2003: 6). The important characteristics of the microfinance system are as follows (CGAP, 2004: 1):

Poor people not only need loans but also various financial services that microfinance can supply.

Microfinance is a powerful tool in the fight against poverty. Sustainable financial services increase the resilience of tangible assets of poor people to external risks.

The microfinance system is sustainable with local financial institutions.

Microcredit does not always constitute an answer to poverty alone.

The task of the state is not to provide direct financial service; is to be included as a facilitator in the system.

1.1.4. Target Group of Microfinance

Customers of a typical microfinance institution are low-income individuals who do not have access to official financial institutions. They are often self-employed entrepreneurs. Microfinance activities in urban areas and regions are more diverse. They include groups such as shop owners, service providers, craftsmen, peddlers. In fact, anyone who wants to join the system within the national economy can benefit from the microfinance service. The system includes individuals, especially women, households and initiatives, groups, and the organizations such as financial institutions, governments and donors (Robinson, 2001: 263).

On the other hand, microfinance institutions should make detailed analysis of the characteristics of the poor people and micro-entrepreneurs in line with their own corporate mission and future objectives in determining the target customer group. Accordingly, there are two long-term main objectives affecting the decision-making processes of microfinance institutions. The first of these is to provide financial intermediation for individuals and entrepreneurs who cannot be served by traditional financial institutions, and another is to obtain sustainable income to cover the costs of the financial services they provide (Ledgerwood, 1999: 34). In this context, while non-microfinanced financial institutions (especially commercial banks) target at a certain level of income, microfinance institutions, the majority of which are formed by NGOs, choose people who are poor or non-income people as target customers.

Almost everywhere in the world, poor people are excluded from the formal financial system. While the exclusion is partial in developed countries, it is almost completely realized in underdeveloped countries. The lack of access to formal financial services by the poor has led to the introduction of informal and community-based institutions in access to financial needs (Brau and Woller, 2004: 3). The microfinance service can also exclude

informal institutions in terms of the diversity of the institutional structure in the form of an NGO or a financial institution. Despite the diversity of institutional structures, the common feature of those who benefit from microfinance facilities, are low-income, self-employed persons and small businesses. In the literature, people who benefit from microfinance are generally characterized as people living in rural areas, dealing with agriculture and animal husbandry, migrating from rural to urban areas and not having sufficient education opportunities in the place they live in (Dolun, 2005: 10). It is possible to classify the population as poorest, very poor, moderately poor and vulnerable to risks but not poor (Öner, 2007: 49).

The microfinance system, however, pays particular attention to the inclusion of poor women in this classification mentioned above. Because the main argument of the system is that women form the weakest and poorest part of society. Because women have fewer skills and often have responsibilities for home life. Therefore, many microfinance institutions aim to increase women's economic status and conditions in society. According to the microfinance system, the most important reason why women cannot be included in the economic system is to prevent the cultural structure from imprisoning women in their homes and to prevent access to financial services. While the role of the woman in the economy is to manage the savings and expenses of her house, it is unlikely that she will participate in production outside the home (UNDP, 1999: 3-4). Similarly, Bernasek (2003: 370) stated that in rural areas men are the protector of women and children, and women are home caregivers. Women are deprived of representation by society, compared to men, and need more help to earn subsistence money. In such a social structure, women are generally excluded from the formal labor market, which pushes them into the informal sector for income-generating activity. Withdrawal of women from formal labor market brings about economic recessions, the inadequacy of meeting the changing needs of the labor market and the increase of irregular urbanization. Empirical studies, based on all these arguments, have shown that the woman, who usually survived from her traditional role outside the home, is now a major source of income source of her home. Moreover,

the repayment rate of loans to women is higher than that given to men (Leach, 2002: 575-576). For these reasons women are potential target of microfinance systems.

The significant result of Osmani (2007: 714)'s research, applied to women using microcredit by Grameen Bank, is that women have increased their status and empowerment due to their income-generating activities. However, this empowerment couldn't achieve the intended level, due to the fact that the cultural structure is patriarchal and men use the credits given to the use of women themselves. A similar result was observed by Leach and Sitaram (2002) in India. Hiatt and Woodworth (2006: 476-477), who conducted a study on rural areas as well as studies focusing on gender-based empowerment, observed how the credit service offered by Village Banking in Central America affected poverty in rural areas. The credit service carried out by a non-governmental organizations reduced poverty and increased daily income according to economic criteria. The presence of positive developments increased the participation of people in the microfinance system and the living conditions were positively affected. The credits increased the self-confidence rate by increasing the micro-entrepreneurship among the poor. However, in his study on Grameen Bank Chemin (2008: 482) observed that the system is troubled in terms of access to rural areas.

1.2. MICROFINANCE INSTITUTIONS

1.2.1. Status of Microfinance Institutions

Microfinance institutions have emerged to overcome market failures and deficiencies in the financing of the poor and are aimed to provide financial services to low-income people (Littlefield and Rosenberg, 2004: 38). These institutions specialize in the presentation of microfinance services within the scope of their specific institutional and managerial structures (Altay, 2007: 61). More simply, microfinance institutions are agents that offer financial services to the poor, low-income, poor segments of the population. According to this, commercial banks, savings banks, credit unions or cooperatives, village banks and non-governmental organizations that are specialized in microfinance services and especially established for this purpose are also considered

within the scope of microfinance institutions. The pioneers of today's major microfinance institutions are non-governmental organizations that do not take profit and act with a view to social benefit. These organizations developed new credit techniques against the need for collateral, reduced the risk of non-repayment of loans with the group collateral method, assessed household cash flows and provided small (micro) loans to their customers (Littlefield and Rosenberg, 2004: 38). In this context, the type of loan, provided by a microfinancing agency, to the micro-entrepreneur in order to develop the commercial activity is called “microcredit”. Microcredits are generally provided for the purposes of meeting the working capital requirement, for the purchase of raw materials and materials, for the purchase of fixed equipment required for manufacturing (Dolun, 2005: 2).

Microfinance institutions have to adopt methods other than traditional banking principles for their financial activities. Microfinance-specific organizations need to be established at many other points such as immediate response to demand, funding, reimbursement, risk mitigation and marketing of credit. Dündar (2007: 7), in his study on microfinance practices in eight different countries of the world, found that successful microfinance organizations have the following characteristics:

Microfinance institutions develop new credit delivery methods that balance the needs of low-income borrowers and minimize the risk of the organization. Credit evaluation is often made on the basis of the cash flow of the entire household or the workplace of the customer and the customer's character. Asset-based collateral is in the second plan and non-traditional collateral, such as precious jewelry or household appliances, can also be accepted.

Microfinance institutions are close to people who have been given credit. The issuance of the loan and the collection of installments are usually carried out in the debtor's own place and not in the bank.

When pricing their products, microfinance institutions pay attention to the fact that the revenue obtained in order to profit in a reasonable period of time meets all the costs of the business. Relatively small amounts of loans demanded by poor and low-income

customers can lead to a high credit cost and, in this case, they are generally below the rates in the informal sector, but may require much higher interest rates than commercial banks. Microfinance institutions manage a very efficient operation to reach a large number of people. Each bank employee, depending on the lending method, usually serves the debtor, whose numbers range from 200 to 500, so that transaction costs are kept to a minimum in terms of the percentage of outstanding loan portfolios.

Instead of "targeting" the customer, microfinance institutions attract them. Instead of targeting a specific and narrow group, they develop their products to attract a poor group of customers, including the poor, the unprotected, the low-income population who cannot get bank service.

Microfinance institutions only offer financing services. As a general rule, successful Micro-Finance Institutions are organizations that do not offer non-financing services.

1.2.2. Microfinance Institutions Types

Microfinancing institutions, in some cases, have the structure of traditional financial institutions, but often serve the poor and act for social development. Village banks, developmental non-governmental organizations, savings and credit unions, private commercial banks, non-bank financial institutions and some public banks are able to continue their microfinance activities. Although these institutions have different working principles and structures, they transfer microfinance opportunities to the poor people who need to eliminate poverty (Dolun, 2005: 2). On the other hand, many of these institutions are organized as non-governmental organizations, however, the reduction in donations, which are the most important sources of income, forced these institutions to transform. For this reason, the term microfinance institution has started to express a wide variety of organizations.

For microfinance institutions, there are generally three types of organizations: "formal", "semi-formal" and "informal". In this context, formal institutions are public banks that grant subsidized loans to strategic sectors such as agriculture and small industries. However, private banks and financing companies have begun to focus on this, as

microfinance is a profitable business and the demand for mediation for state-funded programs has increased. The formal institutions providing microfinance services are regulated and supervised by the banking authorities. Semi-formal institutions mostly include civil society organizations, savings and credit unions or cooperatives. These are not regulated by the banking authorities but operate under the license and supervision of other public authorities. Moreover, it can be seen that financial cooperatives and unions are rarely subject to basic banking regulations. Informal institutions, on the other hand, consist of social structures that offer microcredit-like borrowing opportunities to individuals, such as usurers, relatives, friends, who are difficult to characterize as institutions. These structures are not regulated and controlled by the public authority. On the other hand, it should be known that these informal way of micro financing concept called “microfinance providers” instead of the term “microfinance institutions” in the literature because of the non-institutional, informal nature of the loans obtained from these social structures within the scope of microfinance activities (Ağdaş, 2009: 227).

On the other hand, it is possible to categorize the institutional structures that offer microfinance services more than two criteria according to their legal structure and lending method. Accordingly, microfinance institutions are divided into four categories, namely, savings and credit cooperatives, non-governmental organizations, village banks and microfinance banks. On the other hand, in terms of lending methods, these institutions are basically divided into three groups according to the group-based, individual and intermediary institution model.

1.2.2.1. Microfinance Institutions According to Legal Structures

According to classification based on legal structure, microfinance institutions are divided into four categories, namely, savings and credit cooperatives, non-governmental organizations, village banks and microfinance banks, as explained in the following paragraphs.

Savings and Credit Unions: Savings and credit unions, or credit unions, are established under the ownership of their customers, supervised by their customers and operate in

accordance with democratic rules. The profits of these institutions are distributed among the members or re-capitalized. Although credit unions (especially large-scale professional associations) are generally profit-oriented, they have prioritized the rights of their relatively weak members, thanks to their cooperative-based and member-based management approach. The rule of having equal voting rights for each member in the cooperative mechanism is a clear indication that the conception of self-sufficiency and weak members is dominant in this structure. Credit unions are registered either under the cooperative laws of their respective countries or under a specific category in banking law. However, there may not be effective supervision and authorization legislation in the country where union carry out activities. The unions establish national and regional networks that make it possible to transfer excess liquidity. Credit unions are a type of institution suitable for microfinance (Zeller and Johanssen, 2006: 6).

Non-Governmental Organizations: NGOs have proven to be effective distribution channels for the dissemination of microcredit use (Morduch and Cull, 2017: 12). However, the creation of new concepts, new institutions; the regulation of the new legal frameworks of these institutions requires experience and time. Today, most of the NGOs have gained experience in microfinance activities. However, NGOs face certain problems because they are not included in the formal financial structure. The most critical problem faced by NGOs is their difficulty in providing sufficient funds to lend to the poor. NGOs need to be involved in the formal financial structure in order to avoid this problem (Yunus, 2003: 4).

Village Banks: Village banks are member-based institutions that provide autonomy for their members, provide micro-credits as well as some complementary services and are supported by NGOs. Village banks, like credit unions, are semiformal institutions that are established under the ownership of their customers; however, its ownership is not officially registered. In village banks, members can decide on issues such as the determination of interest rates on the savings deposits generated within the bank and the lending to the accounts of the customers of the bank. These decisions on savings deposit

and loan rates are generally higher than those in the commercial banking sector (Zeller and Johanssen, 2006: 6).

Microfinance Banks: Microfinance banks are known as the most advanced form of microfinance institutions. The common and priority objectives of these institutions are to ensure financial sustainability. Microfinance banks are separated from commercial banks with two characteristics: First, microfinance banks aim to know and meet the financial demand of micro-entrepreneurs. However, they avoid using expressions such as poor and poverty in their job descriptions. Secondly, they use complementary services and other innovations, as in other microfinance institutions. Microfinance banks can also be established as public banks operating for social purposes. The main differences of these banks from credit unions, village banks and non-governmental organizations are that they do not consist of the members of the shareholders. These banks belong to private or legal persons. The legal entities that own the microfinance banks can be composed of the state, NGOs, private companies or all of them (Zeller and Johanssen, 2006: 8).

1.2.2.2. Microfinance Institutions According to Lending Methods

Microfinance institutions vary according to lending methods. It is necessary to briefly explain some of these as follows:

Group Based Lending Model: Large microfinance institutions prefer group-based lending. Because the use of credit groups allows microfinance institutions to lower transaction costs and reach poor customers more. Borrowing plans of large-scale aid groups are carried out by banks or non-governmental organizations (Zeller and Johanssen, 2006: 6).

Individual Lending Model: In institutions applying individual lending model, there is no group phenomenon or group pressure on credit repayment of loans. In this model, microfinance products and services are offered directly to the borrower. Credit unions and village banks often apply the individual lending model (Zeller and Johanssen, 2006: 7).

Intermediaries Model: In the intermediary institution model, there is an intermediary institution that allows the borrower to be sensitive about the repayment of the loan

between the debtor and the creditor. The intermediary institutions in this model constitute the collateral element between the debtor and the creditor. In addition, the intermediary institution plays an important role, especially in the acquisition and training of borrowers. Activities developed by intermediaries include funding, education and research. These activities can be carried out at all levels from the international level to the national level, from the regional to the local and individual levels. Intermediary institutions can be individual, NGOs, other microfinance institutions and commercial banks (within the scope of publicly funded programs). Lenders are composed of government agencies, commercial banks, international institutions and organizations (Dolun, 2005: 10).

1.2.3. International Microfinance Institutions

The main international organizations related to microfinance related programs, consultancy services, fund procurement are CGAP, World Bank (WB), Die Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), and Planet Finance. CGAP was established to carry out a financial system for the poor through the World Bank and is a consortium of 37 institutions. It provides consultancy, training and research services to development agencies, microfinance institutions, governments, auditing and rating agencies and transfers necessary information. In addition, it provides grants to organizations to help them use it during the installation phase or in consultation and training services. The organizations listed below represent the actual members of the consortium (CGAP website, n.d.).

African Development Bank (Department for International Development),
Agence Française de Développement,
Australian Government Department of Foreign Affairs and Trade,
Bill&Melinda Gates Foundation,
Cassa Depositi e Prestiti,
CDC Group plc,
Citi Foundation,
Denmark (Ministry of Foreign Affairs of Denmark),

European Commission,
European Investment Bank,
Federal Ministry for Economic Cooperation and Development (BMZ),
Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH,
Global Affairs Canada,
Inter-American Development Bank,
International Finance Corporation,
International Fund for Agricultural Development (IFAD),
Italian Agency for Cooperation and Development (AICS)
Japan (Ministry of Foreign Affairs of Japan)
KfW Bankengruppe,
Korea International Cooperation Agency
Luxembourg (The Luxembourg Government Ministry of Foreign and European Affairs),
Mastercard Foundation,
MetLife Foundation,
Ministry of Foreign Affairs and International Cooperation of Italy
Ministry of Foreign Affairs of the Netherlands,
Multilateral Investment Fund,
Netherlands Development Finance Company,
NpM (Platform for Inclusive Finance),
Omidyar Network
Swedish International Development Cooperation Agency (Sida),
Swiss Agency for Development and Cooperation SDC,
The Norwegian Agency for Development Cooperation,
The World Bank,
UK aid from the British People,
United Nations Capital Development Fund,
United Nations Development Programme,
USAID from the American People.

1.3. DEFINITION OF MICROCREDIT

Microcredit is all of the other financial services such as lending to people with low incomes, establishing loans for the establishment or development of their own businesses and savings services, business development programs.

These are the loans granted by a microfinance institution for the purposes of purchasing raw materials and products, purchasing the necessary machinery for the job, meeting the working capital needs, and generally for the small enterprises operating in the informal sector. The reason why the credits are qualified as micro is that the amounts are much smaller compared to the loans given by the banks and other lending financial institutions (Ateş and Ögütoğulları, 2012: 35).

Microcredit, which was adopted at the Microcredit Summit in Washington in 1997, is a small amount of credit programs that will be allocated to poor people for employment projects to be created to enable them to look after themselves and their families (Erdoğan, 2004: 13).

Microcredits are small-scale personal loans with very low interest rates for low-income individuals who are emerging as a means of development policy and have difficulty accessing official financial institutions. Microcredit customers usually have self-employed entrepreneurs working in their own homes. In rural areas and regions, people who deal with low-income activities such as small farmers and small shopkeepers use microcredits while shop owners, service providers, craftsmen, peddlers in urban areas and regions benefit from this service (Vatansever-Deviren, 2009).

Recent years, microfinance practices have evolved from supply-driven loans to demand-driven and sustainable services (such as loans, savings, insurance services) in order to develop specific targeted sectors. In other words, it has become the focal point of this practice to create sustainable and local institutions that can continuously respond to the financial needs of low-income sectors (Erdoğan, 2004: 13).

It is stated that financial services to be provided to producers with low income entrepreneurs can be the most effective tool in poverty reduction. However, commercial microcredit is important not only for the poor but also for the poor working and is also very important for people who cannot meet their basic needs such as food, medicine, housing and employment. In the case that the governmental assistance programs for the poor are used as complementary to the micro financing, the corporate commercial microcredit can play an important role in the reduction of large-scale poverty (Robinson, 1996: 154). Not only does it provide services to poor countries, microcredit also provides services to poor regions in the rich countries (Hollis et al., 1998: 1875).

In the literature, microcredit and microfinance are seen as interchangeable concepts (Şiriner, 2015: 56). Microfinance is used to express wider activities such as savings, microcredit, insurance, etc., while microcredit is a subset of microfinance services (Bayraktutan and Akatay, 2012: 6). The most important difference of microcredit from other monetary supports is that it insists on the repayment of the loan and sustainability of the economic activity, and provides the basis for bringing credit to the economic activity that small entrepreneurs have started. This difference is the most important principle of microcredit

1.3.1. Types of Microcredit

1.3.1.1. Traditional Informal Microcredit

In some countries, it is seen that family members, friends and neighbors provide serious microcredit services within the framework of socio-cultural factors such as traditions and strict family ties. In addition, the lending of traders under the name of “installment sales” or “on trust sales” are evaluated within the informal microcredit. However, none of these applications is accepted as a real microcredit application (Ceyhan, 2010: 62).

1.3.1.2. Cooperative Microcredit

The co-operative is an independent organization that is managed in a common and democratic way to meet people's economic, social and cultural needs in a voluntary way. Some cooperatives also provide financing services to their members in their agendas and to provide savings activities (Gökyay, 2008: 28).

1.3.1.3. Consumer Microcredit

In this model, microcredits are presented directly to the individual who wants to borrow. Within the framework of this model, it is envisaged that neither the group will be formed nor the pressure group for guaranteeing the repayment. (Gökyay, 2008: 28).

1.3.1.4. Group Microcredit

The basic philosophy of the Group Model is based on the fact that the disruptions and difficulties experienced at the individual level are overcome by the collective responsibilities and the various individuals come together and create a group by providing assurance. The formation of groups consisting of individual members has many different purposes (Gökyay, 2008: 29):

Training and awareness-raising activities,

To gain collective bargaining power, to create group pressure.

1.3.2. Characteristics of Microcredits

Micro credit is defined as a system that enables to provide a low level of credit, instead of donations or aids, to the poor through non-governmental organizations, banks, credit cooperatives and other official financial system, thus increasing their national income and welfare levels. The microcredit system also plays an important role in the elimination of income differences between regions and genders and in the fight against poverty (Kormaz et al., 2004: 17).

The main target group of microcredit programs is generally poor women. Because women have an important role in raising children and managing the house. Poor women, who have achieved economic independence by establishing their own business through microcredits, increase their families above the poverty line and contribute to the reduction of poverty. In addition, women play an important role in improving children's educational and health conditions and improving their welfare levels and preparing them for the future (Vatansever-Deviren, 2009).

The microcredit system can also be used for the purpose of eliminating the fluctuations that may occur in the income of poor people due to the crisis and similar economic events. With this way, individuals are expected to achieve a certain level of stability in their income levels (Korkmaz et al., 2004: 17).

The microcredit system is not an aid to people with income below a certain level. It is the allocation of loans to meet the needs of these people through banks, non-governmental organizations, credit cooperatives and other official financial system elements. This method is considered to be a means of developing and raising the economic and social status of poor people in labor markets and making them productive (Kandemir and Aktaş, 2011: 6). In addition to the economic contribution to the poor, microcredit also has also some additional functions such as providing micro groups with a sense of group building, responsibility and confidence, providing financial education (Sakarya, 2005: 9 and Gür, 2012: 88), encouraging birth control in women, reducing domestic violence, providing confidence to people (Ouma and Rambo, 2013: 2).

Microcredit in the world and in Turkey has been associated with a number of common features. These characteristics can be specified as follows (Çiftçi and Akkul, 2011: 4 and Ceyhan, 2010: 12).

It aims to support the poor, especially women, who are engaged in income generating activities by establishing their own businesses.

Due to the lack of bail, collateral and promissory notes, no execution proceedings are made for those who cannot pay the debt.

All loans are repaid in weekly installments including service costs.

In the beginning, members who receive loans may have the opportunity to increase the credit limit when they pay the loan and attend the meetings regularly.

Loan customers are monitored continuously and different credit supports can be provided when required.

The credit sector is generally characterized as a poor who are employed informal sectors.

1.3.3. Problems in Microcredits

Nader (2008: 650) argues that microcredit positively affects family cohesion if microcredit makes improvement

s in the family's economic situation and if the challenges in the home are reversible. However, microcredit can have a negative impact on family cohesion when it is perceived as a factor that disrupts the role of women in the family. The family harmony here refers to the level of living in the family without any problems.

The patriarchal structure and the existing social position of women make microcredit applications difficult. If weekly meetings are held by bank employees, women are not able to fulfill the role of cooking and home care in the family, which results in physical abuse by their wives. Ironically, most of the women who used credit stated that they took credit from the institution forcing them to use them for their own purposes. In other words, the woman is an intermediary between the bank and his wife. This leads to an increase in violence against women. On the other hand, Grameen Bank benefits from working in different ways than working with female members. When credit is granted to male members, they may face problems in the repayment of the loan, and bank employees may be threatened and subjected to violence by male members who do not want to pay credit debt (Mallick, 2002: 159).

Developments in women's productivity, mobility, access to markets, literacy, social status, and control of decisions at household level take time. At the same time, it is necessary to overcome the violent and destructive consequences of struggling with class

and gender discrimination. This situation requires significant commitment by development workers and a long-term investment in the processes of social change at the local level. This is especially the case when changes happen in social attitudes towards women's rights over resources and the contribution of women to household well-being are valued. However, because of increasing credit repayment and recovery, microfinance institutions can be insensitive to the needs of social development, in particular to the specific problems women face in developing their credit utilization capacities (Goetz and Gupta, 1996: 50). The economic empowerment of women through microcredit cannot guarantee that they reach an equal and free position within the family. Because the privileged role that gender relations assigns to man in the family does not change. From the feminist point of view, it is stated that poor men are almost as weak as the poor women in terms of accessing material resources in the public sphere, but their privileged position in the patriarchal structure of the family has never changed. Even in poor and traditional societies, the fulfillment of the duty of the man to control only his spouses and children is effective in strengthening his social position (Cheston and Kuhn, 2002: 20).

It is expected that individuals who receive microcredit will have a positive effect on their children's education. This may also have a positive impact on the schooling of children as the credit may increase the income. On the other hand, microcredit may also cause problems that will negatively affect the school life of children. Microcredit debts often cause more work for the provision of debt by individuals within the household. For example, a person who buys animals by microcredit needs labor force for the care of the animal which is tried to be closed with child labor (Islam et al., 2013: 46-47). As the repayment of debts is in weekly payments and with high interest rates, this also makes it difficult for children to return to their education in the long term. Because the short-term consideration of the debts may cause parents to myopic in the long term program point and to suspend plans for the future (Islam et al., 2013: 47).

In Bangladesh, the success of microcredit in reducing poverty is still controversial. In one of the two studies based on the same data, it was emphasized that there was an important added value in poverty reduction point, while in another study, it was observed

that there was no increase in the consumption of microcredit users compared to those who did not. Most of the loans granted for use in an income generating activity are used to meet the urgent needs of the poor. In this case, the creditors from the beginning of the system to cause a difficult situation in weekly payments (Hoque: 2004). Likewise, in India, women said that they could not convert their credits into new income and they used the loan for their immediate needs (Miller, 2006). In Bangladesh, only 7% of people who received microcredit from 2006-2007 were found to exceed the poverty line (BBC, 2013). Similarly, it has been observed that microcredit programs have increased in Africa, but it has been observed that individuals increase their employment or entrepreneurship activities in a very small scale (Buckley, 1997: 1091).

The beneficiaries of the microcredit pay an interest of 15-20% in the repayments under the name of the service fee. Sometimes the pressure of the bank officials on the loan payment may leave the beneficiaries of the loan in a difficult position. The main mistake here is that the lender of the loan is interested in paying the debt rather than what the lenders do. Because, rather than strict financial control, dealing with what people do, may cause the profits of the institution to decrease. At a meeting with one of the managers of Grameen Bank, the statement *“Why are you surprised? Grameen Bank is not a charity; it is a business”* that the manager said is important to understand the functioning of the system. (Karim: 2008: 18-19).

The basic logic of microcredit is based on “fishing” rather than “eating fish”. In this context, it is known that Muhammad Yunus found this system to save the poor from poverty and was acting with the vision of saving the poor people in Bangladesh from the informal sector (moneylenders). However, the main breaking point here is whether creditors use credit in short-term profit-making jobs. If a profit cannot be made in the short term, it is inevitable to fall into a new debt spiral. In such a case, once again, it is directed to informal sectors and the debt is closed. In the same way, the use of women's credit for men's needs and the difficulty of payment time are also another problem for women (Coşan and Çiloğlu-Yörübulut, 2017: 51).

CHAPTER TWO

THE IMPACT OF MICROFINANCE ON POVERTY

2.1. WHAT IS POVERTY?

Development economists see poverty as a problem in meeting basic physical needs such as food, clothing and shelter, which enables the survival of a people or a certain part of it (Todaro and Smith, 2006: 54). In this respect, poverty, in its simplest form, implies lack of basic necessities to sustain life. Poor people, even under normal circumstances, are deprived of meeting their physiological needs, such as self-feeding, dressing and shelter, and consequently are at risk of survival (Dixon, 1998: 1). In this definition, poverty is seen in all societies at all times; it reflects a complex phenomenon that leaves societies confronted with political and moral threats. The complexity of the phenomenon is due to the multidimensional nature of poverty, in other words, its close relationship with many areas of social sciences. For instance, the phenomenon of poverty is related to economics in terms of distribution of income and it is closely related sociology because the poor form a different social category. On the other hand, it is a psychological because poorness is not only due to objective criteria, but also because it is related to subjective perception. Poverty is also anthropological since the use of urban space differs between and poor and non-poor people (Şenses and Önder, 2006: 3).

The fact that the phenomenon of poverty has a multidimensional scope allows it to be conceptualized in different ways. However, each different concept that will be used for the phenomenon of poverty will lead to different ways of understanding the importance and meaning of poverty and, accordingly, varying the methods used to predict poverty (Dixon, 1998: 1).

Despite all the different approaches in the conceptualization, it would not be wrong to state that the phenomenon of poverty depends on two basic variables. These two variables are the size of national income per capita and inequality in the distribution of national income (Perkins, Radelet and Lindauer, 2006: 204). In particular, income

distribution inequality negatively affects countries in international relations, environment and health, and is one of the most discussed issues in the world today, both nationally and internationally (Weil, 2005: 21). Sometimes it is implied that inequality and poverty are the same thing. However, these two concepts are different. Inequality is an important determinant of poverty, but both concepts are independent (Todaro and Smith, 2006: 204).

In this regard, without considering how poverty is defined, it is necessary to reveal the tripartite relationship between income distribution inequality, poverty and even economic growth. Accordingly, if a country's economy is growing and the inequality in income distribution in this country remains unchanged, the income of the poor will increase at the same level as other sectors. Similarly, if the per capita income remains the same and the inequality in the distribution of income increases, the poorest in the country will have less income, and a sector outside the poor is involved in the poor (Perkins, Radelet and Lindauer, 2006: 204).

The humanitarian poverty index included in the United Nations Development Plan is used in the measurement of poverty. This index is mainly applied in developing countries, and including the ratio of those who are at risk of death after age 40, the ratio of those who do not know the illiterate, the ratio of those who have not reached the health service, the ratio of those who do not have healthy water drinking, the proportion of infants who are under five or underweight. Another poverty index is the Human Development Index. In this index, literacy rate consists of life expectancy at birth, education level and living standards measured by GDP. Two types of poverty can be mentioned with the period of being in poor condition. The first is long-term or permanent poverty and the other is short-term poverty. The low level of this ratio indicates that a large part of the poor is likely to climb above the poverty line in a short period of time, while the height of the poverty line is high for a long time or always under the line of poverty (Taçyıldız, 2006: 13).

2.1.1. Causes of Poverty

There are a number of reasons in a country where people live in poverty. The way in which these reasons are put forward determines the strategy to be used in the fight against poverty. However, it is difficult to define the causes of poverty. Because the opinions about these reasons differ from country to country and within the country due to some factors (Şenses, 2006: 146). It is also a known fact that different types of poverty originate from different causes. For example, it is expected that the causes of poverty will differ according to the duration of poverty, since continuous poverty and short-term poverty cannot be attributed to the same reasons (Kösemen, 2004: 22).

Factors leading to poverty include environmental, economic, demographic and social factors, as well as factors related to health services and government (Vatansever-Deviren, 2009).

Environmental factors include erosion, forest opening, overgrazing and natural factors (climate change - environment) and geographic factors (access to clean water, energy, fertile land and other natural resources).

Economic factors such as capital outflow, unemployment, biofuels, high protectionism in agriculture, high taxes, tax evasion, lack of land reform.

Demographic and social factors include high rates of crime, excessive population growth, gender and racial discrimination, cultural factors, brain drain and historical factors.

In the scope of health services, factors such as the prevalence of diseases such as AIDS, tuberculosis and malaria, lack of nutrition, lack of health infrastructure, and alcohol and drug use are noteworthy.

The factors related to the government can be listed as the ineffectiveness of the governments in the administration, the multiplicity of corruption, the inefficiency of the resources, the lack of democracy, the failure of education and the failure of the legal system.

In addition to these factors, the global economic system further increases inequalities in income distribution; it plays a role in poverty becoming a global problem. The causes of poverty can be examined as micro-macro causes and personal-structural reasons.

2.1.1.1. Micro-Macro Causes

Some thinkers who contribute to the literature of poverty categorized poverty by micro reasons and macro reasons. While micro reasons emerge from the person's own characteristics, macro reasons arise from persons' environment. Accordingly, sources of micro-causes are as follows (Solar, 2009: 25):

Physical and mental health disorder,
Disability,
Bad habits such as drug abuse and gambling,
Low level of education,
Not having the necessary skills for existing works,
Divorce, abandonment, death due to reasons such as family disintegration,
Negative ethical values and wage problems related to the work,
Unable to find a job in the expected conditions,
Being a victim of crime,
Age, gender, such as features.

In addition to micro reasons of poverty, macro reasons of poverty listed below (SYDGM, 2008: 26):

Characteristics of the living geography (unfavorable conditions of water, soil, climate etc.),
Wars, natural disasters, economic crises,
Reduction in the need for manpower in parallel with technological developments,
Injustice in income distribution of the country,
High unemployment rate due to employment policies in the country or low wages in existing jobs,

Corruption,

Rapid population growth in the country,

Fast social changes in society (migration, distorted urbanization, shrinkage in family structure, etc.).

Apart from the macro and micro factors mentioned above, another negative situation that poor people have to cope with is social exclusion. Social exclusion is defined as the opposite or vice versa of social cohesion by joining society or being a member of society. Within the concept of social exclusion, economic, social and political processes are included. Social exclusion focuses on the exclusion of certain segments from the social whole and capital accumulation process and deals with less benefit of excluded people from economic growth (Öztürk and Çetin, 2009: 2661). Persons exposed to social exclusion are vulnerable to many risks.

Social exclusion and poverty are often concepts that can be used interchangeably. However, social exclusion is a wider concept. Therefore, every human exposed to social exclusion does not mean poor people. Social exclusion has a more dynamic and multifaceted meaning than poverty. In this respect, social exclusion may be both a cause and a consequence of poverty (Sapancalı, 2005: 68).

2.1.1.2. Personal-Structural Causes

Another classification of the causes of poverty is personal and structural reasons. The reasons arising from the personal attitudes, behaviors and deficiencies of the individual constitute “personal reasons”. The reasons arising from the failure of political authority or the state to take the necessary social, economic, political and legal measures to combat poverty are named as “structural reasons” (Seyyar, 2003: 48). The concept of personal inadequacy plays an important role in personal reasons.

The relationship between personal competence and poverty is based on a very old relationship. This relationship was due to the dominance of a number of understandings. The “laissez faire” (Let them do, leave alone, allow to do etc.), which has been dominant

since the 19th century, has limited the benefits of the aid to those who are deprived of help, by limiting the beneficiaries to those who do not work. This approach aimed to remove the obstacles to the formation of a competitive national labor market based on the contract between the worker and the employer (Nakiboglu, 2004: 21). This approach continues to dominate today. Nowadays, there are various poverty problems that prove this. These poverty problems are related to women, migrants, socially excluded groups, the elderly, and those with disabilities.

The sources of poverty constitute lack of some rights such as education, social security, health, monetary income and political rights (Nakiboğlu, 2004: 22). The reasons for personal insufficiency are claimed to be due to the lack of a variety of factors to be sought in processes that people cannot control. The basis of these factors lies in the concept of freedom. Poverty is especially the case about the lives that people actually maintain and the freedoms they actually have. For these freedoms, only formal freedoms, resources and income are not sufficient. Therefore, poverty refers to the inadequacy of rights that exist despite economic input and the lack of capacity to benefit from the opportunities offered by life (Insel, 2004: 381).

2.1.2. Types of Poverty

In the literature, there are different classifications such as absolute-relative, objective-urban, rural-urban and income poverty-humanitarian poverty related to the definition of poverty.

2.1.2.1. Absolute Poverty

Absolute poverty, one of the different approaches to the definition of poverty, was first described by Seebohm Rowente during the studies conducted in England in the late 19th century. Rowentree defined absolute poverty as inadequacy of total earnings in supplying food, clothing and so on needed for the continuation of biological existence. According to this definition, absolute poverty is associated with the minimum income and expenditure level that households or individuals need to sustain their biological existence

(Field, 1983: 51). In other words, absolute poverty takes into account the general consumption patterns of the individual and does not take into account the changing physical activities of the individual (Erdoğan, 2002: 3).

Absolute poverty is a definition that allows inter-country comparisons and is used for this purpose. For this purpose, in the context of absolute poverty definition, it is tried to determine a global poverty line that can be applied to every country regardless of the needs, welfare expectation, income level, resources and other socio-economic criteria vary from country to country and from region to region. This limit indicates a minimum level of consumption at which living under this level is not possible. The actual household or individual income compared by this poverty line to detect poor people. According to this, people or households who have income under poverty line are classified as poor and extreme poor (Aktan and Vural, 2002: 5).

2.1.2.2. Relative Poverty

The concept of relative poverty, which is based on the existence of human being as a social entity, is related to the comparison of the minimum living standards of the people they live in and the living standards that they have. In other words, relative poverty is expressed as the level of maintaining the biological existence of the household, as well as the level of survival in the social sense (Devas, 2004: 17). The important point here is how income and prosperity are distributed. In this respect, relative poverty is related to the distribution of income and the share of the poor in terms of national income. Therefore, relative poverty focuses on differences in the distribution of income and welfare rather than the absolute income level of different groups (Dumanlı, 1995: 213). On the other hand, since there will be a certain proportion of the poor in the general population in an economy, descriptively, there will always be a relative relative poverty rate whether or not they live in absolute poverty (Devas, 2004: 17).

2.1.2.3. Income Poverty

In the definition of income poverty, there is a minimum income and consumption level as a poverty line. According to this, the poverty resulting from the inability of the individual or household to achieve the level of income required to sustain life is called income poverty. In income poverty calculations, the poverty line required to provide the minimum level of living; a person who has an income or consumption level below this limit or a household is called poor (Aktan and Vural, 2002: 6).

2.1.2.4. Humanitarian Poverty

In the Human Development Report, human development is defined as the process of increasing the choices of individuals. These options can be infinite and variable, but there are three basic options at all stages of development. These options (UNDP, 2001: 9);

A long and healthy life,

Obtaining information,

To reach the resources to ensure a satisfactory life.

Apart from these, political freedom, guaranteed human rights and self-esteem are other options. According to this understanding, income is an important factor as an indicator of human development, but it is not sufficient by itself. In addition to personal income, access to credit facilities, public goods and efficient means of production is aimed at evaluating people's access to resources as a whole, such as transfers from relatives and friends (Şenses, 2001: 101). In particular, the indicators used in the measurement of human development and their composite expression indices are a great advance for humanity in this field.

In the definition of poverty, ignoring some non-monetary factors, based solely on monetary indicators and in particular on the basis of income, has been the subject of criticism in the circles working on poverty. Towards these criticisms, the absolute poverty

line was extended, revised by criteria, expanded by income poverty, humanitarian poverty. This concept, which was developed to cover expenditures related to non-food basic needs such as education, health, housing, transportation, clothing, etc., was first described in the Human Development Report published by the United Nations Development Program (UNDP) in 1997. According to the definition in the report, the concept of human poverty is based on the idea that it is necessary to have economic, social and cultural opportunities to meet the basic needs as well as the monetary opportunities for human development and human life (Aktan and Vural, 2002: 6). In other words, human poverty is not to have the opportunities and options for a tolerable life. The definition of poverty is not only the material that individuals need to sustain their existence, but also the means necessary to live in prosperity (UNDP, 1997: 15).

2.1.3. Ways to Overcome Poverty

The previously mentioned phenomenon of poverty can be reduced by microfinance without creating social tension. In addition, a microfinance project that will be implemented mobilizes small groups with the purpose of bringing together the small accumulations of the poor people with reasonable interest rate and with the spirit of social solidarity. Such an organization creates various sociological goals and influences in society. In this part of the study, mobilization of social capital, dissemination of entrepreneurship, and prevention of migration to cities will be examined in terms of overcoming poverty.

2.1.3.1. Mobilization Social Capital

It is a tangible capital that provides physical capital production. Human capital is the knowledge and skills that enable the person to perform production, which has a less tangible nature. The social capital is a new economic concept with a social content that aims to reveal the effects of social life on the economic activities of countries and is a more abstract concept compared to others. Although it is difficult to define, however it is possible to define social capital as the possibility of communication that can be established based on trust between at least two people, with a wider definition, enhances the

productivity of the society by facilitating the coordination activities among the individuals, society and non-governmental organizations and public institutions (Temple, 2000: 23). From an economic point of view, social capital is accepted as the reflection of the relationships based on trust between individuals and institutions on economic efficiency and production. Thus, social capital can be considered as a set of social relations that the entrepreneur or the collective actor can trust at any time. Social capital, then, is the type of capital that is in the network of relations between persons and is least tangible form of capital.

Many studies have been carried out on the effects of social capital. These studies and the conclusions reached are as follows; Coleman (1988: 96) found that social capital has positive effect on improving education success. Whiteley (2000: 445) concluded that it has positive impacts on the acceleration of economic growth Fukuyama (2000: 74) stated that social capital is very effective in the reduction of confidence-related transactions and costs. Wilkinson (2000: 46) found that social capital had positive effects in the correction of income distribution.

Various solidarity groups and microfinance practices play an important role in mobilizing social capital. For example, in South East Asia, “rotating credit unions” that are seen everywhere in the world, saving institutionally and saving as a source of economic development, consist of friends and neighbors who come together for a social and economic activity once a month. In practice, everyone contributes an equal amount of money and each time a draw is made for one person in these unions. This draw is repeated until every participant get their large amount in their own turn. This money can be enough for people to start a job or to team up (Coleman, 1988: 175). In addition to rotating credit unions, all solidarity activities and microfinance practices of similar nature are important elements that mobilize social capital. Social activities like this, awaken the group and constitute the driving force of social capital.

2.1.3.2. Dissemination of Entrepreneurship

Established in 1999 with the participation of 10 countries, Global Entrepreneurship Monitor (GEM) defined entrepreneurship as the development of a new initiative or a new job by self-employed people, to develop existing business or to establish new businesses. Traditional economic growth analysis connects economic growth with large companies' investments and rejects the role of small and new firms. GEM is concerned with the role played by all businesses in economic growth, regardless of their economic power, from a multifaceted perspective. Small companies bring about innovation, competition and efficiency (Kelley et al., 2011: 14). Therefore, they are important for the economic growth of a country.

Entrepreneurship reduces the negative effects of unemployment and eliminates despair. This influences the human capital to establish new firms by revealing the entrepreneurial talent. The decline in opportunity costs in the economy makes the entry of new firms into the market attractive (Audretsch et al., 2001). While the meaning of entrepreneurship has changed in the information society, the role of the entrepreneur has become important. The alternatives for economic growth have increased. Entrepreneurship is now used in conjunction with concepts of innovation, competition, efficiency, quality and employment. The role of entrepreneurship in the integration of the world economy is increasing. While entrepreneurship contributes to economic growth, it also motivates its environment. In almost every region of the world, entrepreneurship is adopted as a policy of unemployment and poverty prevention. Entrepreneurship organizations, programs, research, national and international aid and support policies can be shown as concrete examples.

Until today, the fight against poverty has shown that no sector and organization alone can be sufficient. For this reason, the fight against poverty, as a field where many different organizations are active at the international, national and local level, includes the struggle of the public, private sector and civil society (Şenses, 2006: 308). In this context, a concept called “social entrepreneurship” is used in the prevention of poverty. For these

reasons, social entrepreneurship activities, which are thought to provide a new perspective to social problems, are especially important for civil society. Social entrepreneurship brings a dynamism to the economy and serves as a catalyst in solving many important social and environmental problems (Glancey and McQuaid, 2000: 124). Both the demand for the environment and the social enterprise supply are increasing rapidly in the world for the development of social entrepreneurship. It is possible to determine the reasons of demands coming from the environment as follows (Nicholls, 2006: 2):

Increasing crises in the environment and health,
Increasing economic inequality,
Inadequate state in public service provision,
Increasing role of non-governmental organizations,
Competence in finding resources,
Free market ideology.

The reasons behind the development of social enterprises can be summarized as follows (Nicholls, 2006: 2):

Increase in global wealth per capita,
Acceleration in social mobility,
Increase in the number of democratic states
Increase in the number of the power of multinational enterprises,
Better education level
Increased communication.

When the reasons behind the dissemination of social enterprises are examined, it is possible to see that all of them are the results of globalization, which in fact are increasingly influential.

Social enterprises, which can be considered as organizations where social entrepreneurs continue to implement, provide solutions to many social problems facing the disadvantaged society, and also extend the helping hand to the poor who are suffering

from social exclusion, which the state and / or the private sector cannot achieve. For example, in a report of the International Labor Organization, the importance of social entrepreneurship and micro-credit applications are emphasized. The report focuses on the success of entrepreneurs in the world's poorest and socially excluded people by mentioning the successes of social entrepreneurs in their solutions to social problems (ILO, 2001).

2.1.3.3. Prevention of Migration to Cities

One of the factors that lead to poverty is the inability to access social services in areas such as health and education, lack of regional economic differences and lack of employment. Migration to large cities is usually done voluntarily by considering the lack of land, poverty, work and overstaying, or by taking into account the necessity as a result of feuding, terrorism, or sometimes inter-regional development. Although each migration causes different results depending on the reasons, the main reasons of the migrations are unemployment, social incompatibility, frustration and difficulties in almost every field (Ceylan, 2012: 8). Regional differences in terms of economic and social opportunities should also be considered as a factor that creates migration. In spite of the fact that economic growth is realized, the employment increase is not balanced between the regions. The insufficiency of the policies towards investment in the regions where unemployment is high is a factor that deepens the regional differences and makes the poverty permanent.

Lack of enough access to education and healthcare facilities is a serious productive factor that bring existing poverty to future generations. In particular, the lack of formal education opportunities and assistance, and the consequences of parents' directing their children to work in a school instead of sending them to school, are the main factors that reproduce poverty.

It is of great importance for the welfare of the society to consider the immigration phenomenon that carries a wide variety of serious problems with all its dimensions and produce social policies in this field. For this, economic and social measures should be

taken to prevent migration to large cities. The unqualified families who seek solutions to their economic problems based on the idea that they can achieve better living conditions should be supported socially and economically in order to stay in the lands where they are born. On the other hand, a filter system should be established for the families who insist on migrating. Additionally, for social integration, immigrant families should be guided to integrate with the urban life.

2.1.4. The level of poverty in the world

The poverty rate is increasing due to the unequal distribution of income and opportunities that are constantly increasing in different regions, classes, social sectors, countries and continents. With the effects of recent globalization, political and economic crisis, economic interdependencies, disruption of resource allocation due to structural compliance policies and inequalities in the region, poverty increases. On the other hand, distance between poor and rich also increases. The production activities and the advancement of technologies have made prosperous people become more prosperous. On the other hand, poor people become too much impoverished. The reason for this situation is that the poor countries cannot have a growth in their economy (Arpacıoğlu and Yıldırım, 2011: 64).

There are various aspects of poverty and different ways in which it can happen. Some definitions are more qualitative; others are more holistic. There is no single common and correct approach. There are a wide range of methods used in different countries and at different times. However, the generally accepted method is WB's method, which accepts people who are forced to live with income of \$ 1.25 a day or less than \$ 2 a day based on purchasing power parity. Accordingly, \$ 1.25 per day refers to the hunger limit. This limit only determines the minimum food need for human life. The level of \$ 2 represents the lowest level of having the right to minimum socialization, not just food, but also warming, dressing, living in a household (Memiş, 2014: 149).

Table 2: Poor Population (Million) Living Less Than \$ 1.25 per Day in Different Regions of the World

Region	1990	2005	2015	2020(Est.)
East Asia and Pacific	873	317	120	83
China	683	208	70	56
Europe and Central Asia	9	16	7	5
Latin America and the Caribbean	50	45	30	27
Middle East and North Africa	10	11	6	6
South Asia	579	595	388	352
India	435	456	295	268
Sub-Saharan Africa	296	387	366	352
Total	1817	1371	918	856

Source: Taş, H. Y., and Özcan, S. (2012). Türkiye’de ve Dünya’da yoksulluk üzerine bir araştırma. In International Conference on Eurasian Economies, s.425.

Table 2 and 3 show the proportional and numerical distribution of the World Bank's \$ 1.25 poverty line for specific regions of the world for the period of 1990-2020. According to these tables Sub-Saharan Africa, South Asia and India has the largest rate in terms of poverty rates.

Table 3: Poverty (%) Rates in Different Regions of the World

Region	1990	2005	2015	2020(Est.)
East Asia and Pacific	54,7	16,8	5,9	4,0
China	60,2	15,9	5,1	4,0
Europe and Central Asia	2,0	3,7	1,7	1,2
Latin America and the Caribbean	11,3	8,2	5,0	4,3
Middle East and North Africa	4,3	3,6	1,8	1,5
South Asia	51,7	40,3	22,8	19,4
India	51,3	42,6	23,6	20,3
Sub-Saharan Africa	57,6	50,9	38,0	32,8
Total	41,7	25,2	15,0	12,8

Source: Taş, H. Y., and Özcan, S. (2012). Türkiye’de ve Dünya’da yoksulluk üzerine bir araştırma. In International Conference on Eurasian Economies, s.425.

When Table 3 is examined, it can be observed that the poverty in the world decreased significantly between 1990-2015. It is interesting to note that, especially in the Pacific and East Asia, the poverty rates, which were observed in about 55% in 1990, dropped to 5.9% in 2015. In these positive rates, China's poverty policy and developed economy are considered to have a valuable impact. Looking at the forecast for the year 2020, it is foreseen that the poverty level in the world will decrease and the poverty level which is 15% in 2015 will decrease to 12.8% in 2020.

2.2. EFFECTS OF MICROFINANCE TO OVERCOME POVERTY

The microfinance system has been considered an important tool for reducing the effects of poverty, especially in the last two decades. Poor people in developing and underdeveloped countries are in great need of financial services and have high demands on these requirements. When they have access to liquidity and capital, they can generate higher incomes and evaluate economic opportunities in order to overcome poverty.

Benefiting from microfinance services contribute to low-income households and micro-businesses to stabilize their income and consumption, reduce their fragility against external shocks, improve their management skills, develop and diversify micro-enterprises, create investment opportunities or create investment assets, increase productivity and income, help improve the quality of life. Microfinance can be beneficial to poor people, but can also have a positive impact on macroeconomic level. Microfinance will increase the spending capacity of low-income people if they reduce poverty, as a result of this economic growth can be achieved (Yılmaz and Koyuncu, 2006: 67).

Typical microfinance customers are low-income people who do not have access to formal financial institutions. Microcredit is mostly used in third world countries such as Thailand, Bolivia and many African countries. In most of the countries in terms of production, per capita GNP per capita is as low as \$ 365 per year (Microfinance Barometer, 2018 and World Bank, 2018).

Microfinance clients are self-employed entrepreneurs who usually work in their own home. In rural areas and regions, people are often engaged in low-income activities, such as small farming and small scale trade. In urban areas and regions, microfinance activities are more diverse and are available to shop owners, service providers, craftsmen, peddlers, etc.

Whether microfinance system decreases poverty or not should be discussed. The benefits of this system have been seen in most world countries. The issue that needs to be discussed today is how this system can be expanded and delivered to the poorer people.

2.3. SAMPLES OF MICROFINANCE APPLICATIONS

When microfinance applications in the world, it is seen that microfinance model has been successfully applied for 30 years in many developed and developing countries. Many studies in this area have shown that microcredit contributes significantly to the incomes of poor households, helps them to acquire securities and real estates and cause these individuals to be less affected by extraordinary negative developments (natural disasters, economic crises etc.). With the establishment of Grameen Bank in 1983, microfinance, which gained a corporate identity, passed a number of transformations in the course of time in order to make the system more effective and included some innovations.

When the global microfinance data shown in Figure 1 are analyzed, it is seen that a total of 114 billion dollars of microfinance is used across the world in 2017. With the exception of Latin America and the Caribbean, around 60% of the loans granted in all regions are used in the agricultural sector. As seen in the figure, it is seen that women benefit from more microfinance than men. As of the end of 2017, total loan borrowers increased by 5.6% and credit portfolio grew by 15.6%. In 2017, a total of 139 million low-income individuals benefitted from microfinance (Microfinance Barometer, 2018: 2).

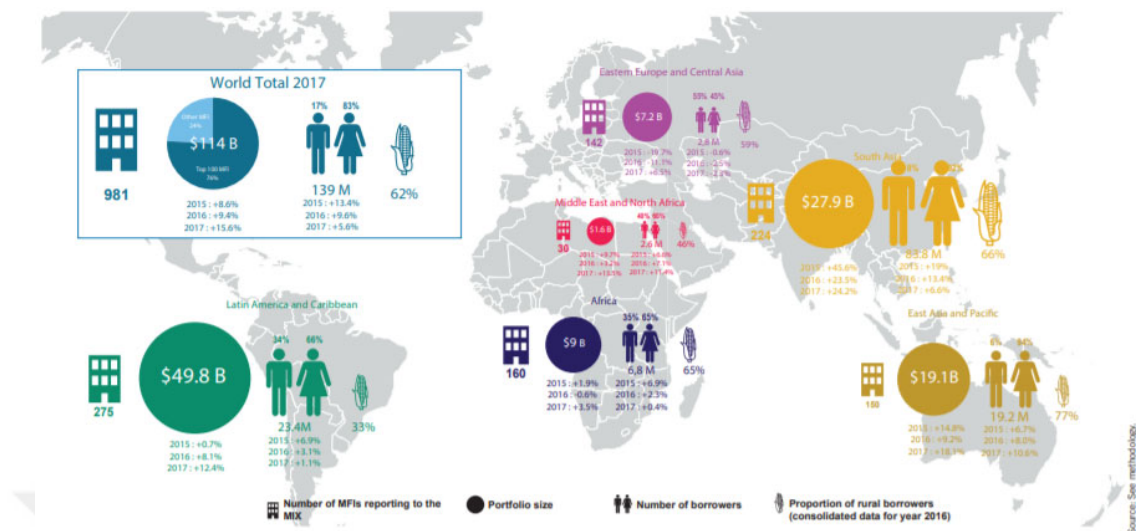


Figure 1: Microfinance global figures in 2017.

Source: Microfinance Barometer, 2018: 2.

2.3.1. Asia

Considering the data of the Microcredit Summit Campaign Report regionally, it is possible to say that the region where microfinance is the most developed is Asia-Pacific. Numerous studies comparing microfinance institutions in the region with those in Africa and Latin America suggest that institutions in this region hold higher amounts of savings and loans and serve more customers than other continents. However, this generalization implies some major differences within the region. Because it is known that microfinance institutions that provide this kind of service are particularly well in East Asia. Accordingly, the countries in which the distribution of loans, the circulation of savings and the number of customers served are highest in Bangladesh, Indonesia, Thailand and Vietnam. On the contrary, there are very few social assistance programs in India and China, which are the two most populous countries in Asia and where poverty is high. In addition, although there are various elements of microfinance in such countries as Afghanistan, Myanmar and Pakistan, there are few such social assistance programs (Weiss et al., 2003: 2).

The general characteristics of micro-finance services in Asian countries can be summarized as follows (Gökyay, 2008: 58):

Micro finance applications are the most widely available across Asia compared to other regions of the world.

This application offers a wider range of services in areas where the population is more concentrated especially in Bangladesh, India etc.

Other than some institutions, credits mainly consist of loans for the establishment of a business.

China and India, the two giant countries in Asia, have micro-finance institutions that offer very low levels of service in proportion to their population, one of the main reasons being the government intervention to the financial sector from the past to the present.

Bangladesh and Indonesia are among the most prominent countries in the application of micro-finance services. However, these two countries provide service delivery from only two different service points.

2.3.2. Europe

FACET, EVERS & JUNG and New Economic Foundation (NEF) have worked on political measures to improve the use of microfinance, which is part of the European Commission's Community Action Program for social exclusion. This thematic study is international in order to identify and define the most effective political measures in the field of self-employment or social exclusion, access to the combination of microfinance and related services for micro-business projects of people facing poverty (supporting education, guidance, equality, networking, supporting infrastructure etc.). used comparisons.

This project mentioned above, defines the political measures that make the conditions more viable for founding own business. The work identifies the bridges and barriers between the social welfare system, the employment / enterprise system and the financial system and seeks to remove or create existing ones. The study includes Czech Republic, France, Germany, Poland, Spain, Sweden, Britain and Romania. In the study,

which included eight countries, the research team analyzed six factors that would determine the specific country's self-employment conditions. Key factors include (EU / ACP, 2008);

Entrepreneurship framework: How entrepreneurship is in society and how much does society support community entrepreneurs?

Political conditions for micro-entrepreneurs: Are there political measures for promoting self-employment in general, and particularly for those who are socially excluded?

Welfare bridge: How has the system of bringing people from unemployment to employment (including self-employment) developed?

Legal framework for microfinance: Is there a supporting legal framework for microfinance services?

Financial bridge: Are basic financial services possible for self-employed and excluded groups?

Support and funding for microfinance providers: Is microfinance supported by direct and continuous funding?

2.3.3. America

The most important microfinance institution in the United States is the ACCION USA, founded in Latin America before, and then continued to work in New York in 1991. In North America, there are also centers of many international organizations dealing with micro financing (Taşpınar, 2013: 125). Opportunity International is a consortium of 28 institutions from various countries, which have been put together under the leadership of CGAP and the World Bank to form a financial system for the poor.

2.3.4. Africa

Another important region of the world in terms of the density of microfinancing institutions is the African continent. The African microfinance sector, which started to be built in the mid-1980s, is growing in terms of institutions and services provided by both institutions. In fact, microfinance institutions in Africa are among the most productive

institutions in the world in terms of the number of credit customers and the members who are savers. In addition, microfinance institutions in Africa show high performance in terms of portfolio quality compared to other regions (Lafourcade et al., 2005: 1).

On the other hand, as a result of a study conducted by the World Bank, it was concluded that nine microfinance programs were in the path of achievement. These programs were as follows;

Pride operating in East Africa,

Credit Rural and Credit Mutuel de Guinee, Credit Mutuel de Senegal and Village Banks Nganda operating in Senegal,

Reseau des Caisses Populaires and Sahel Action Project de Promotion du Petit Credit Rural in Burkina Faso,

Caisses Villageoises de pays Dogon and Kafo Jiginew in Mali.

According to this study report, all of the programs were installed in the closest location to their customers, they used simple lending techniques, and they worked using effective techniques to ensure high return, both in terms of lending and borrowing, in accordance with the cultural structure, they included most savings and even though they did not cover all costs, they priced their loans at a higher rate than the commercial debt ratios (UN, 1999: 4).

In 2017, the rate of benefitting from microfinance in Africa remained almost the same as in the previous year. In countries such as Benin, Mali and Senegal, growth in credit utilization remained in single households, and in Kenya, which suffered from instability, a contraction of 18% occurred (Microfinance Barometer, 2018: 2).

2.3.5. Eastern Europe and Central Asia

In 2017, there has been a difficult year in the context of microfinance in Eastern Europe and Central Asia. In 2016, the total loan amount shrank by 11.1%. In 2017, the total loan amount used after the downsizing in 2016 increased by 6.5%. The strict

regulations, which came into force especially in Azerbaijan and Tajikistan, have caused negative consequences for microfinance institutions in 2017 as well. In Tajikistan, the number of people using credit increased by 2.8% in 2017, while in Azerbaijan, the number of people using credit decreased by 25% while the loan portfolio shrank by 15% (Microfinance Barometer, 2018: 2).

Microfinance applications carried out in the Central Asian countries summarized as follows (Birgili and Abulaev, 2008: 306):

Tajikistan is the most politically and economically difficult one among Central Asian countries. For this reason, the number of institutions providing Microfinance Service is very small and consists of a total of 52 institutions. Accordingly, the low figures are also considered in the customer and credit profile. This may be the reason why the country has not been able to clear its population from the people's war and most of its fields cannot be cleaned from mines.

Kyrgyzstan is considered to be one of the most specialized in Microfinance among Central Asian countries. According to the relationship between the Commercial Bank and Microfinance institutions encountered in Kazakhstan, there are very close loan portfolios. However, the same situation is not the same for customers in Kazakhstan. Microfinance Institutions have a higher customer profile than Commercial Banks in Kyrgyzstan.

Although it has the highest population, natural resources and fertile land among the Central Asian countries, the number of institutions providing Microfinance services in Uzbekistan is very low and consists of only 32 institutions. However, the fact that the number of customers and the credit portfolio is higher than the number of institutions indicates that the loans received are mostly used for medium-sized agriculture and farms. In addition, leasing services are provided by microfinance institutions.

Commercial Banks have the largest share of microfinance services in Kazakhstan and credit unions and microfinance institutions follow commercial banks. Commercial Banks have a high customer and credit portfolio, which is composed of medium-sized enterprises rather than small-income and small entrepreneurs.

2.3.6. Latin America

In 1961, a voluntary charity organization in Venezuela was opened by an idealist law student, and later branches in Brazil, Colombia and Peru opened. This organization first established as a form of non-governmental organization then became an institution providing microcredits for poor people. After years of operation the institution found that the main problem was unemployment and small operators had difficulty in finding credit, and then it launched the first micro-credit application in Brazil in 1973 (Gökyay, 2008: 62). When these programs were successful and cost was met, the local banking sector was contacted by creating a new credit guarantee fund and thus more micro entrepreneurs were reached.

General characteristics of micro-finance services applied in Latin American countries can be summarized as follows (Gökyay, 2008: 60):

Among all continents, Latin America is one of the most established continents in the field of commercially sustainable micro-finance services in the field of micro-finance.

Most of the microcredits are given in the region by micro-finance institutions.

Among the institutions providing micro finance services, competition is particularly high in urban areas.

Located in Latin America, the ACCION International is a non-profit development agency that provides microfinance for Latin American people.

In 2017, the loans used in the context of microfinance in the Latin America and the Caribbean region have shrunk compared to the previous year. In 2016, the number of people using credit increased by 8.1%. In 2017, this rate was only 1.1%. In Mexico, the number of people using credit decreased by 3.8% while in Peru the number of people using credit increased by 9.5% (Microfinance Barometer, 2018: 2).

CHAPTER THREE

AZERBAIJAN REPUBLIC AND DEVELOPMENT OF MICROFINANCE

3.1. AZERBAIJAN REPUBLIC

3.1.1. Demography of Azerbaijan

Azerbaijan population has continued to grow since the mid-20th Century. While the population of Azerbaijan was around 4 million in 1960s, it has increased to about 10 million (World Bank, 2018). In Azerbaijan, there is 112 people per km². The annual increase in the population of Azerbaijan between the years of 2006-2016 realized as 1.4% (EC, 2018).

According to the data of December 2017, many peoples live together in Azerbaijan, with a population of 9,890,712 million. 91.6% of the country's population consists of Azerbaijan Turks, 2% Lezgins, 1.3% Armenians 1.3% Russians 1.3% Talishi and other minor ethnic groups. The rate of population growth of 0.89% is under 30 years of age in Azerbaijan (Azerbaycan Devlet İstatistik Komitesi Sosyal İktisadi İnkişaf 2017:121).

With a surface area of 86.6 thousand square kilometers Azerbaijan has the largest land in South Caucasus. Azerbaijan has borders with the Caspian Sea in the East, Armenia and Turkey in the West, Russia and Georgia in the North, Iran in the South. Azerbaijan is located between the Caucasus and the Lesser Caucasus Mountains, and is home to 8 of the 11 climate types in the world. The rich flora and fauna, oil, natural gas, copper and several other important reserves (National Encyclopedia of Azerbaijan, 2009: 9).

Population, total

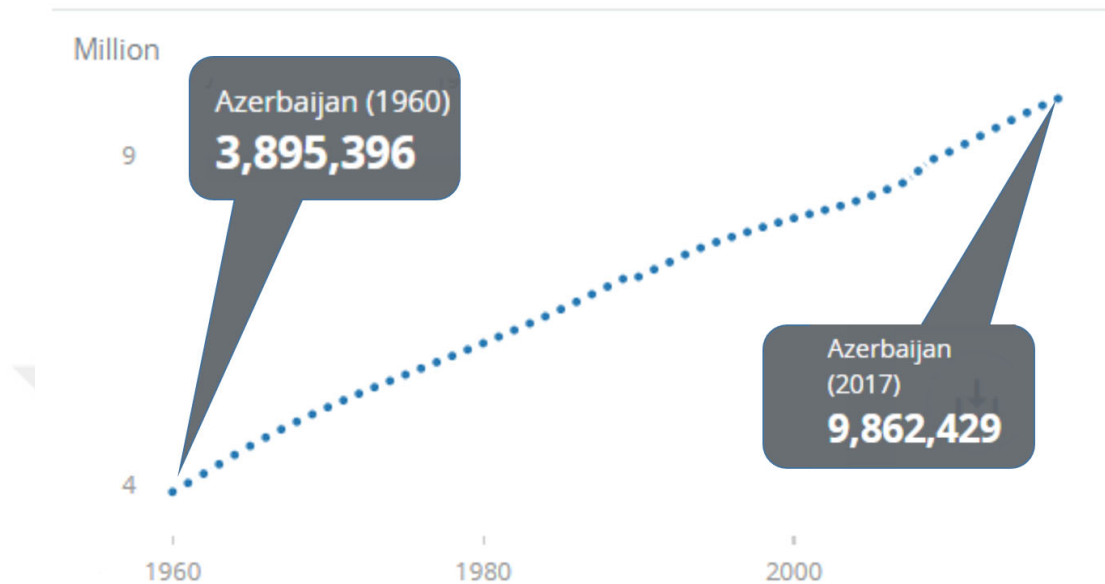


Figure 2: Population of Azerbaijan 1960-2017

Source: World bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

3.1.2 Azerbaijan economy

Azerbaijan, which gained its independence in 1991, initiated the transition from the state structure, which had only one voice in the production and ownership inherited from the USSR, to the free market economy. Then negative developments experienced by the country during this transition period (Deniz and Ablak, 2015: 271).

Azerbaijan officially declared its independence in 1991 and then faced with socio-economic and political problems which were common in all the former Soviet Republics. The first years of independence have been very difficult for the country due to both war and foreign relations and environmental impacts. With a negative growth rate of 20% and a pessimistic picture with inflation reaching 1000%, the share of private sector enterprises in all GDP has not reached even 20%. In addition to these, the problems of immigration due to the Karabakh war with Armenia caused many difficult problems which Azerbaijan

had to cope with. In this period, underground resources and the other sectors to develop the country could not be used due to the lack of the necessary infrastructure (Dikkaya and Çaylak, 2008: 133). Since the independence of Azerbaijan, economic restructuring and development have three basic periods. These periods will be examined in the following part of the study.

3.1.2.1. First Period Between 1991-1994

With the acquisition of independence, dramatic reduction in the production was experienced with the removal of economic ties with enterprises in the former USSR, as well as the loss of market share in other republics, as well as subsidies from the USSR period. In the same period, the country experienced political and military problems, such as the Armenian war, Russia's embargo on Azerbaijan and the inability to use oil pipelines due to the war in Chechnya. Another important problem for Azerbaijan is that the foreign capital cannot be withdrawn into the national economy and that privatization cannot be initiated in the industrial sector. In short, the first years of independence became a period in which the social and political problems in the country turned into a crisis, and there was a period of serious abuse in the transition period of the war environment and the market economy (Aras, 2003a: 41). In sum, the country's economy, in the first years of independence, has a negative picture with negative growth with the rate of 20% and inflation rates reaching 1664%. It is seen that the income of the population increased by 8.4 times between 1993-1994, but the price of food products increased by 20.1 times, non-food products were 16 times, and the price of services increased by 28 times. In 1993, prices in the consumption market increased by 18 times. In a short period of time, the country's economy faced a high contraction, production opportunities decreased, hyperinflation occurred due to product scarcity, as well as the problems of depression, civil war and political instability in the country were encountered (Ablak, 2014: 10).

After achieving political stability in the country and reaching a temporary ceasefire with the Armenians, attention has been focused on the economy. As a result of this, the first agreement which was named as the “Agreement of the Century” on 20 September

1994 covering the Azeri, Çirak and Güneşli Beds in the Azerbaijan-owned section of the Caspian Sea, was signed between Azerbaijan State Oil Company and world's largest oil companies, (Karaca et al., 2016: 22). With the "Agreement of the Century", Azerbaijan signed a 60billion dollar oil agreement with 33 companies from 15 different countries. The actual amount of foreign investment reached up to \$ 4 billion at these dates. Along with the agreement, oil production started to rise rapidly in the first years of independence, growth figures reached to 10%, and unemployment which had increased due to post-war migration, decreased to reasonable levels with the formation of new employment areas and infrastructure investments started to be made. Oil exports, which account for 75% of exports, have become an important source of external income and it is observed that half of the state budget is composed of oil revenues. Also, the socio-economic problems have started to reduce, income distribution problems have begun to be resolved, reforms have been put forward in the market (Növresl of 2010: 130).

3.1.2.2. Second Period Between 1995-2000

In this period in Azerbaijan, several important legal arrangements have been carried out in order to form free market in the economy, make privatization, developer of private enterprise in accordance with the requirements of the era, form new economic structure, customs, tax and financial system, liberalize the trade, increase social opportunities of the people, education and health conditions. Of course, the most important of these legal arrangements was the adoption of the first constitution of Azerbaijan on 12 November 1995, which would be the basis for other regulations. Thus, the legal basis of integration of the private property and private enterprise with the world economy has been laid. In this respect, the year 1995 can be accepted as the beginning of liberal economic regulations in Azerbaijan (Aras, 2003a: 3).

The economy of Azerbaijan, which had shrunk by 60% between 1991-95, has started to grow again as a result of the restructuring and privatization programs in the economy, which was initiated within the framework of cooperation with IMF and World Bank since 1995. The GDP growth, which was 11.8% in 1995, was 1.3% in 1996, 5.8%

in 1997 and 10% in 1998. In 2000, this increase was the highest level between 1990-2000 and it was realized as 11.4% (Aras, 2003b: 30).

In 1994-1997, the Azerbaijani government made some important legal and administrative arrangements in order to stimulate the economy and attract foreign capital to the country. Examples of these arrangements taken by the government, include the partial reduction of customs and tax rates, the protection of foreign capital. These regulations resulted in a flow of foreign capital to the country in a short time. Starting from 1994, the influx of foreign capital to Azerbaijan increased from year to year and reached its maximum level in 1998. However, with the impact of the Russian crisis in 1998, foreign capital in the country started to decline rapidly and it was in the last months of 2000 that it started to rise again. However, the economic recovery was mainly supported by foreign direct investments in the oil sector. A significant portion of the investments have been in the fields of oil production (Huseynov, 2009: 52).

Between 1994 and 2016, foreign companies have acquired a capital of approximately \$ 24 billion in the Azerbaijani economy. This figure is the highest among the countries of Eastern Europe and the Commonwealth of Independent States (CIS). In this period, Azerbaijan has become a country which had the highest amount of direct foreign investment per capita among the former USSR countries (Huseynov, 2009: 59).

3.1.2.3. Third Period Between 2001-2018

Haydar Aliyev signed the “State Program on Poverty Reduction and Economic Development” in March 2001 in order to ensure economic development for Azerbaijan, to create new employment areas and to increase the income level of the people. On July 2, 2001 the IMF Board of Directors approved the State Program mentioned above. The problems faced by investors were tried to be solved with the decrees which supported the entrepreneurship, signed by Aliyev in 2002. With the new regulations, it was tried to instill belief of a new era in the economy to the investors (Ahmedov, 2006: 12).

By 2003, the “State Program of Social and Economic Development of Azerbaijan Regions” covering the years 2004-2008 was prepared. This program aimed to realize 30 basic projects in 10 economic geographical regions, provide the share of private sector reach 85% in the GDP, and reach 16.8 billion dollars of investment volume, direct 60% of the investment volume to the regions. As a result of this program, investments in non-oil sectors increased 6 times, and the ratio of non-oil sectors in general investments increased from 27% to 69% (Oruclu, 2016: 12).

Despite the global economic crisis in 2009, Azerbaijan achieved the highest growth in GDP with 9,3% in the world. In 2010 GDP growth was 0.1%, and 2.2% in 2012. Azerbaijan had a real growth rate of 5.8% in 2013. The main reason for Azerbaijan's growth rate at this rate is the rise of the mining sector in the mentioned period. In 2015, despite a serious decline in the oil sector, Azerbaijan achieved a growth rate of 1.1% (Karaca et al., 2016: 23).

In 2014, the GDP reached 75 billion dollars as a result of the introduction of oil revenues into the country and the proper implementation of development programs. However, due to the decline in world oil prices in 2015, the foreign exchange revenues of the country decreased and consequently the Central Bank of Azerbaijan (CBA) had to devalue twice (Mukhtarov, 2017, p. 21). CBA has tried to protect the Azerbaijani Manat with a tight monetary policy at the expense of the foreign exchange reserves in the hope of going back in the first stages of oil prices. However, this situation was only sustained until February 2015, and in 2015, Azerbaijan's local currency Manat has been devaluated twice in succession. The first devaluation was initiated with the decision of the CBA dated February 21, 2015 and the official exchange rate of US \$ 1 was raised from 0.78 AZN to 1.05 AZN. The second devaluation occurred at the end of December and the new exchange rate was determined at 1.55 AZN. Thus, in the history of Azerbaijan, the Central Bank devalued twice in one year. The first devaluation of the Central Bank was related to the transition to the basket with two foreign exchange and the second devaluation was related to the transition to the floating exchange rate regime (Eke and Atsan, 2018: 96; Suleymanov et al., 2017: 408).

In general, when the post-independence economic performance situation of Azerbaijan is evaluated, it is possible to divide this period into the four part. In the first part of this period, high negative economic growth and inflation between 1991-1996 was experienced, then stable economic growth between 1996-2004 and single-digit inflation was experienced. In the third stage, between the years 2004-2008, the rare economic growth in the world was achieved, however as of 2008, the period of relative slowdown has been experienced due to the contraction in the world economic conjuncture. In this context, these stages can be summarized periodically as follows (Erkan and Alakbarov, 2018: 56);

The period of crisis between 1991-1996,
The period of stabilization between 1996 and 2004,
The period of rise between 2004 and 2008,
a relative slowdown period starting from 2008.

Table 4 shows the macroeconomic indicators of Azerbaijan. When the table is examined, it is seen that the Azerbaijan economy experienced high inflation especially in 1994. In Azerbaijan, which is based on raw materials (almost 85%), it is seen that export revenues were significant during the period of 2007-2014 due to the increase in oil prices. During this period, there was also increase in GDP per capita. Moreover, especially in 1994 and 1995, inflation rates were very high in Azerbaijan, but since 1995, there has been a significant decline in inflation. While GDP was around 9 billion dollars in the early 1990s, it decreased to 3.5 billion dollars in the mid-1990s. The GDP, which has steadily increased since the 2000s, reached its highest level of \$ 75 billion in 2014. As a result of the decline in oil prices since 2014, the sharp decline in national income was approximately 41 billion dollars in 2017 (World Bank, 2018).

Table 4: Macroeconomic data of Azerbaijan (1991-2016)

Years	Economic Growth (%)	Unemployment (%)	Inflation (According to Consumer Prices %)	Industry (Annual Growth %)	GDP (ABD \$)	Export (Million \$)	Import (Million \$)
1991	-0,7	0,11	-	-	1209	-	3.623
1992	-22,6	0,17	-10,6	-	676	-	2.725
1993	-23,1	0,52	1,1	-25,1	530	-	3.019
1994	-19,7	0,65	1.662,20	-	436	-	1.015
1995	-11,8	0,8	411,8	-13,4	397	785	1.267
1996	1,3	0,9	19,8	7,3	409	793	1.765
1997	5,8	1,03	3,7	17,7	505	1.150	2.101
1998	10	1,13	-0,7	17,9	561	1.009	2.425
1999	7,4	16,25	-8,5	2,6	573	1.282	1.919
2000	11,1	11,8	1,8	-13,2	655	2.118	2.024
2001	9,9	10,9	1,5	8,3	703	2.369	2.130
2002	10,6	10	2,8	14,8	763	2.655	3.121
2003	11,2	9,25	2,2	12,5	883	3.038	4.769
2004	10,2	8	6,7	11,6	1045	4.123	6.312
2005	26,4	7,3	9,7	43,4	1578	8.140	7.007
2006	34,5	6,62	8,4	49	2473	13.714	8.133
2007	25	6,54	16,6	32,8	3851	22.355	9.424
2008	10,8	6,05	20,8	6,8	5574	31.889	11.464
2009	9,4	5,74	1,4	8,2	4950	22.759	10.235
2010	4,9	5,63	5,7	5,3	5842	28.235	10.941
2011	0,07	5,42	7,8	-2,6	7189	37.039	15.882
2012	2,2	5,19	1	18,6	7496	36.686	17.622
2013	5,8	4,97	2,4	1,8	7875	35.912	19.766
2014	2	4,91	1,4	-1,7	7891	32.557	19.718
2015	1,1	4,96	4,2	-2	5500	20.030	18.473
2016	-3,1	5	4,2	-4,2	3878	17.579	16.529

Source: World Bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

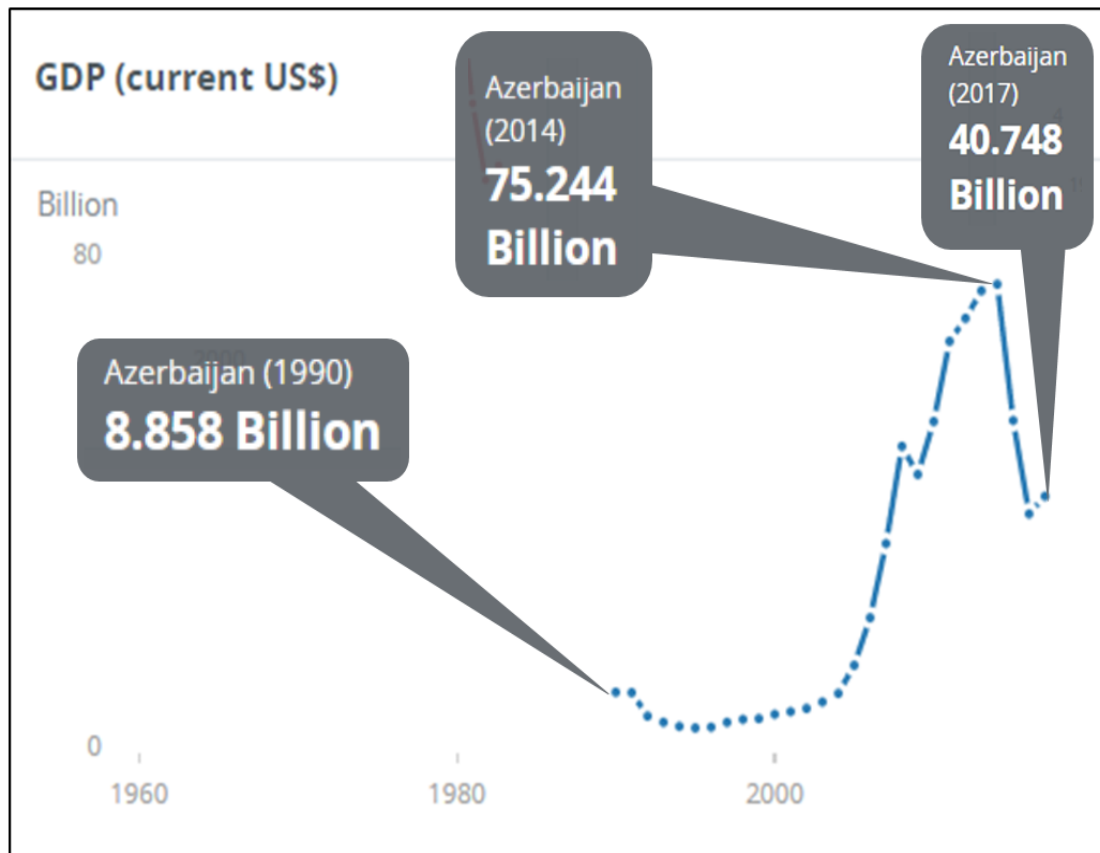


Figure 3: Azerbaijan GDP Trend 1990-2016

Source: World Bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

When the finance sector of Azerbaijan is analyzed in general, it can be seen that the banking sector has shrunk since 2015, as seen in Table 5. It is observed that the total assets of the banks have been decreasing since 2015. This decline is closely related to the decline in oil prices. In parallel with this, the loan portfolio of non-bank credit organizations also increased until 2015 and started to decline as of this year.

Table 5: Summary Banking Sector Statistics

No.	Banking Sector	2005	2010	2015	2016
1	Number of banks	44	45	43	32
2	Number of state-owned banks	2	1	2	2
3	Number of private banks	42	44	41	30
4	Assets (mln. AZN)	2,252.0	13,290.8	34,906.0	31,439.5
5	<i>Assets in GDP, in %</i>	<i>17.9</i>	<i>31.3</i>	<i>64.2</i>	<i>52.4</i>
6	Gross capital	388.3	1,897.1	3,654.0	1,908.8
7	<i>Gross capital in GDP, in %</i>	<i>3.1</i>	<i>4.5</i>	<i>6.7</i>	<i>3.2</i>
8	Total credits (mln. AZN)	1,441.0	9,163.4	21,730.4	16,444.6
9	<i>Total credits in GDP, in %</i>	<i>11.5</i>	<i>21.7</i>	<i>39.9</i>	<i>27.4</i>
10	<i>Total credit portfolio of nonbank finance institutions in mln. AZN</i>	<i>39.6</i>	<i>191.6</i>	<i>578.4</i>	<i>473.4</i>
11	The total loans in national currency in mln. AZN	542.9	5,865.3	10,994.5	8,663.2
12	The total loans in foreign currency in mln. AZN	898.1	3,298.1	10,735.9	7,781.4
13	<i>The loans to households in mln. AZN</i>	<i>389.2</i>	<i>2,700.8</i>	<i>8,383.6</i>	<i>5,858.7</i>
14	Total deposits in mln. AZN	1,368.7	7,625.8	23,431.4	22,091.0
15	Deposits in national currency in mln. AZN	280.2	3,205.3	4,301.7	5,459.0
16	Deposits in foreign currency (mln. AZN)	1,088.5	4,420.5	19,129.7	16,632.0
17	<i>Dollarization of deposits</i>	<i>79.5</i>	<i>58.0</i>	<i>81.6</i>	<i>75.3</i>
18	Deposits of households in mln. AZN	494.5	3,029.8	9,473.9	7,432.1
19	Deposits of financial organizations in mln. AZN	—	2,177	6,358.8	4,509.5
20	Deposits of nonfinancial organizations in mln. AZN	874.2	2,419	7,630.4	2,256.3
21	Foreign debt of banking sector	158.2	2,470.4	8,204.5	7,224.817

Source: Central Bank of Azerbaijan Republic (CBAR).

3.1.3 The level of poverty in Azerbaijan

The economy of Azerbaijan, which gained its independence in 1991, has developed rapidly in a very short time. In the first years of independence, Azerbaijan experienced great economic crises and it was one of the poorest countries in the world. Then in the following period Azerbaijan has recovered from the poverty due to the structural reforms in its financial system and oil rich natural resources.

The ratio of the poverty line to the population in Azerbaijan is decreasing over the years. When examined in Figure 4, approximately 16% of the population lived below the poverty line in 2007, while the World Bank's last data in 2012 decreased by 6% (World Bank, 2018). According to the data of the Asian Development Bank, as of 2016, the rate of the poor population is 5.9% (ADB, 2018).

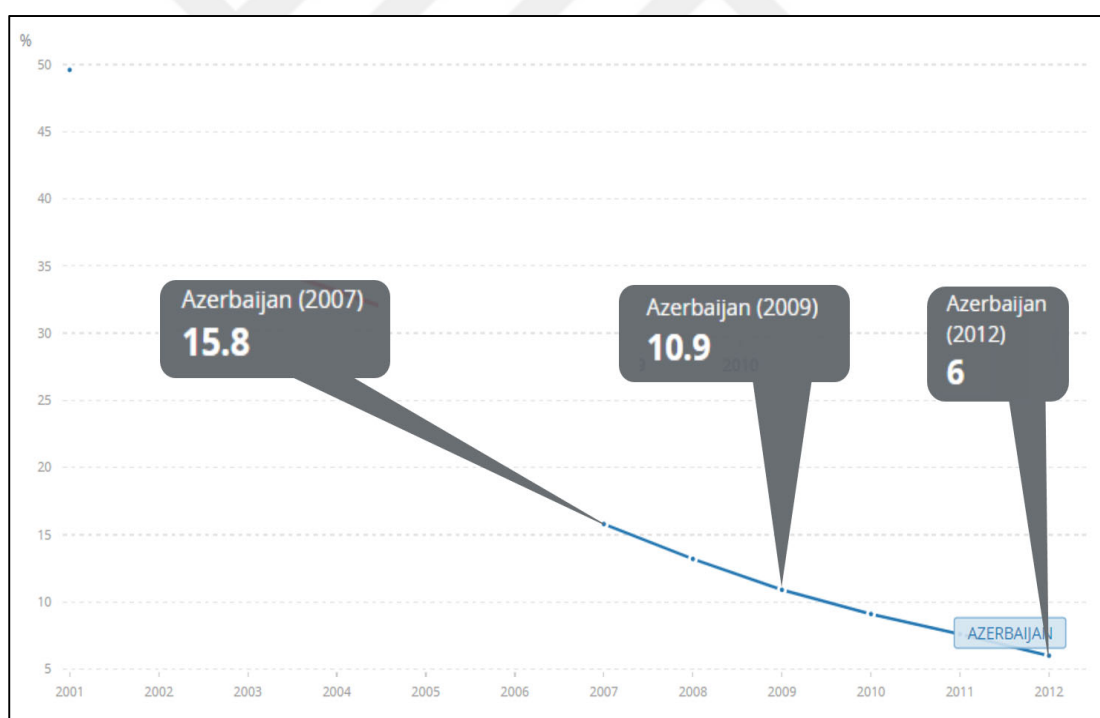


Figure 4: Poverty headcount ratio at national poverty lines (% of population)

Source: World Bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

When the poverty data of the Central Asian and Caucasian countries are taken into consideration, it can be seen that Azerbaijan is one of the countries with the lowest poverty rates after Kazakhstan in the region as seen in Figure 5 (ADB, 2018). Among these countries, Azerbaijan has the largest oil rich natural resources together with the Turkmenistan.

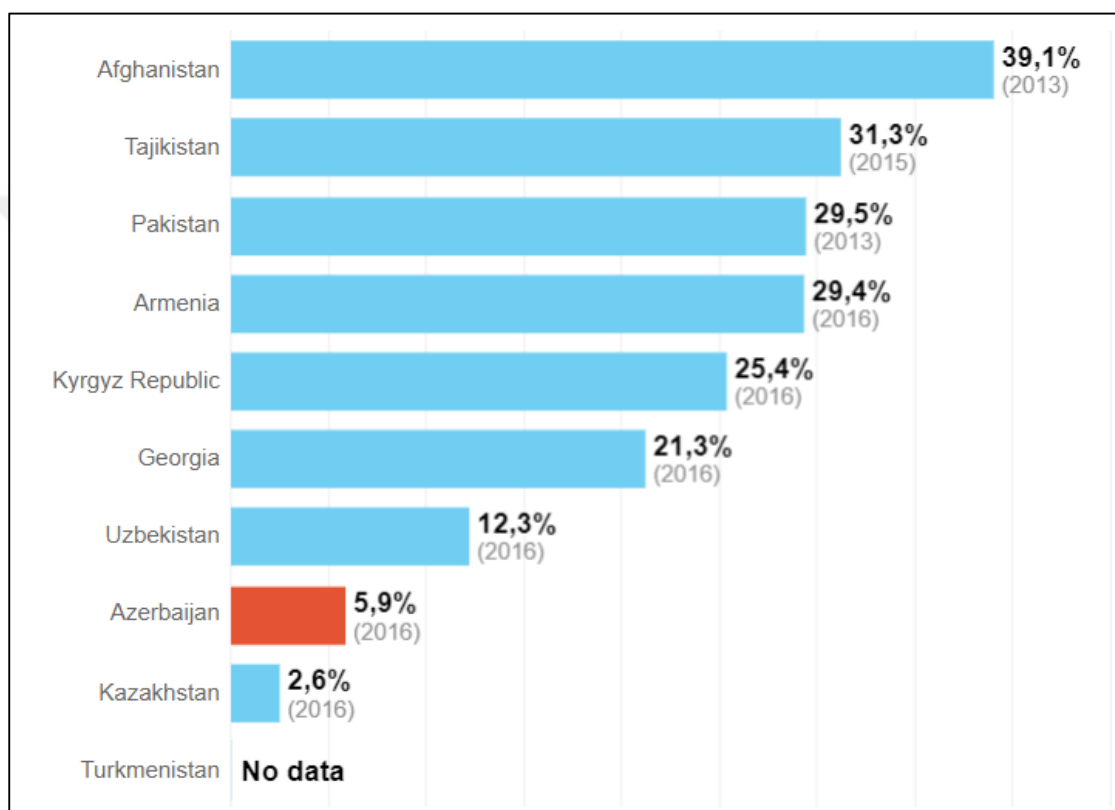


Figure 5: Share of Populatin below National Poverty Line

Source: Asian Development Bank, 2018. <https://www.adb.org/countries/azerbaijan/poverty>.

In Azerbaijan, the ratio of people living below the level of USD 1.9 per day to the population was 8% in the 1990s, but now it has fallen to zero as seen in Figure 6 It is seen that Azerbaijan is the very successful in this issue when it is seen that this rate is 10% worldwide (World Bank, 2018).

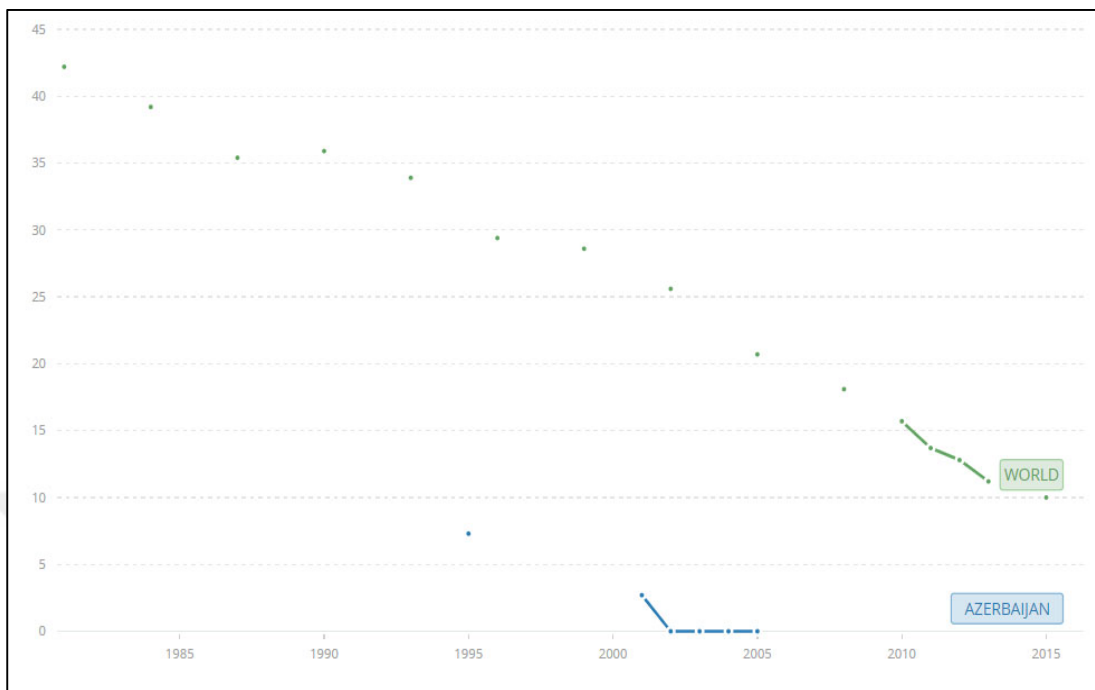


Figure 6: Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)

Source: World Bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

While the ratio of people with income below US \$ 5.5 per day was about half of the population in the 2000s, this rate fell below 8% in 2005. In the same year, the whole world showed that this rate was 60% and Azerbaijan achieved success in fighting poverty when compared to world's average value (World Bank, 2018).

As of 2016, the unemployment rate in Azerbaijan is 5%. In terms of unemployment data, it is seen that Azerbaijan is at a better level than other countries in the region (ADB, 2018). This employment rate provided great contribution to the Azerbaijan to overcome poverty problem.

As a result, it is observed that the poverty data of Azerbaijan has been improving continuously since the 1990s. Although the national income per capita in the country in recent years' declines compared to 2014, it is seen that the ratio of the number of people staying below the level of national poverty in the country is realized as 6%.

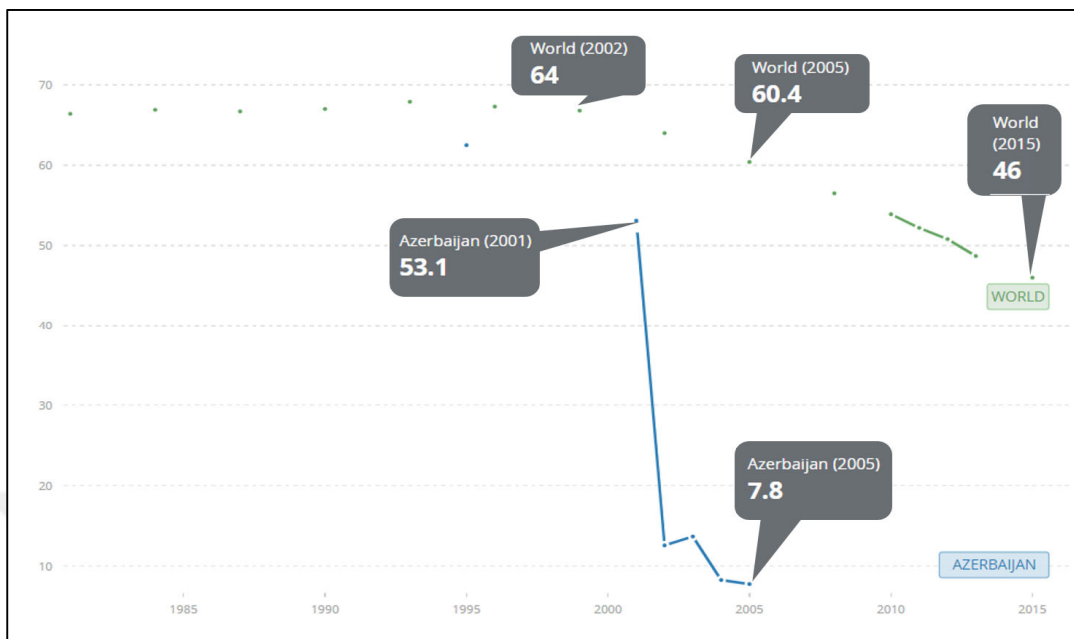


Figure 7: Poverty headcount ratio at \$5.50 a day (2011 PPP) (% of population)

Source: World Bank, 2018; <https://data.worldbank.org/country/azerbaijan/> (22.10.2018).

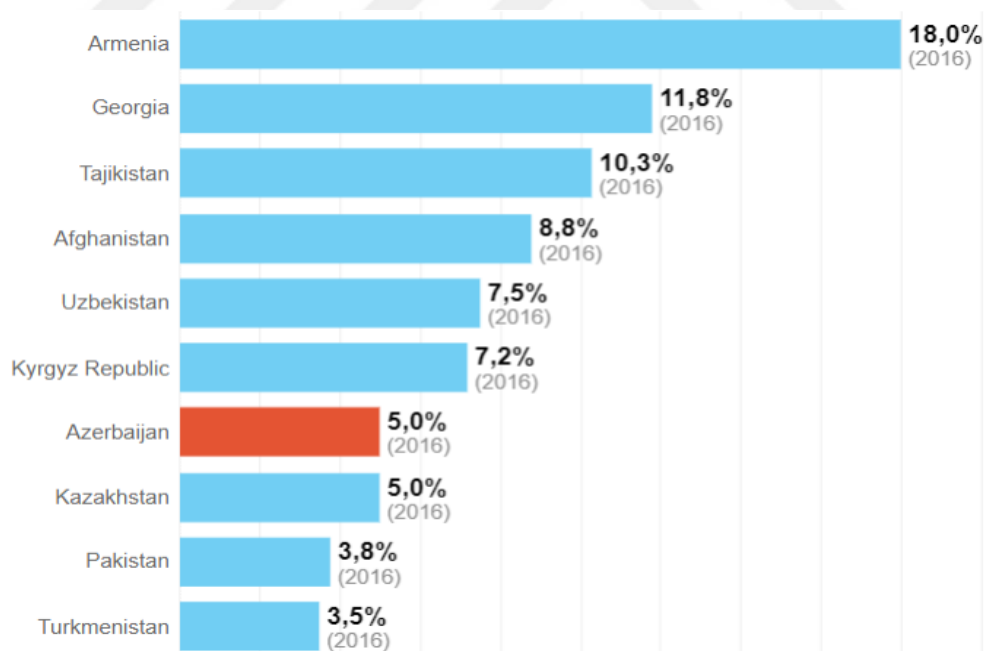


Figure 8: Unemployment Rate, Total (%)

Source: Asian Development Bank, 2018. <https://www.adb.org/countries/azerbaijan/poverty>.

3.2. THE HISTORY OF MICROFINANCE IN AZERBAIJAN

3.2.1. Non-banking credit organizations

As a result of the Nagorno-Karabakh conflict with Armenia since the mid-1990s, a number of policies were planned to meet the economic demands of more than 1 million people who migrated to Azerbaijan. Azerbaijan Microfinance Association (AMFA) was established to coordinate microfinance activities in the country. There are many microfinance institutions and credit unions affiliated with this organization (AMFA website, n.d.).

The first microfinance institutions of Azerbaijan were established in the mid-1990s, such as FINCA, Oxfam and World Vision. These organizations served in order to meet the financial needs of the poor and the migrants from Nagorno-Karabakh. In this context, the government of Azerbaijan has granted some tax deductions and privileges to these microfinance institutions. However, the Azerbaijani government did not recognize these privileges to institutions other than microfinance institutions supported by foreign humanitarian agencies (Conrad, 2012: 13).

Table 6: Summary of Microfinance Sector Statistics

Year	Number of microfinance institutions	Number of nonbank credit organizations	Number of credit unions	Number of customers	Assets (mln. AZN)
2015	157	48	109	600,000	614
2016	144	47	97	298,000	3,897.7* ¹

Source: Central Bank of Azerbaijan Republic (CBAR).

¹ The dramatic increase in assets is because of the International Bank's purification of toxic assets of 3 billion manat by Aqrarkredit, a stock credit organization.

In 2015, there were 157 microfinance services in Azerbaijan. While 48 of these institutions are non-banking microfinance institutions, 109 are credit unions. In 2016, there was a decrease in the number of microfinance institutions and number of customers compared to the previous year. In 2016, a total of 144 microfinance institutions served in the country. Of these, 47 are non-banking micro-finance institutions, while 97 are credit unions (Ibadoghlu, 2018: 5).

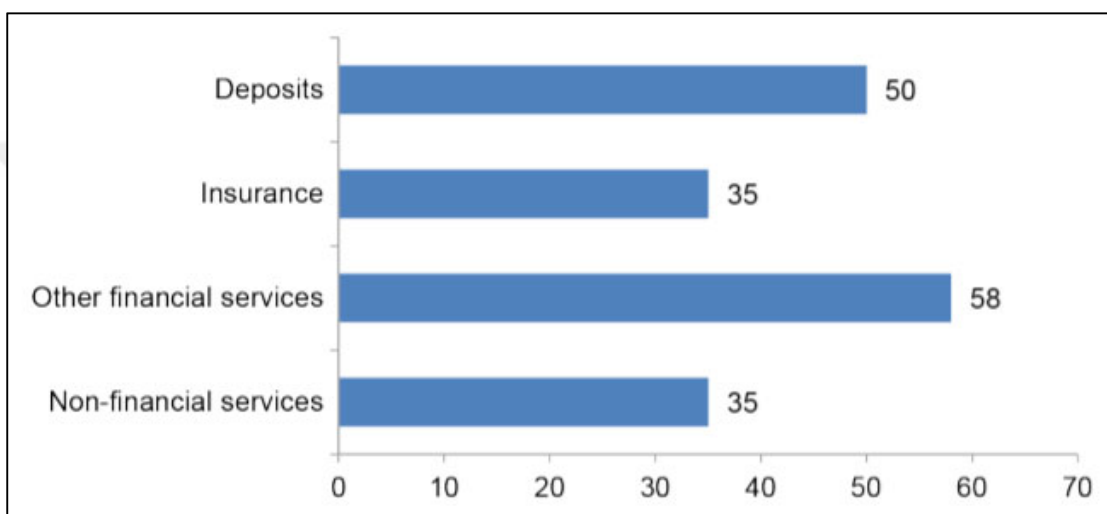


Figure 9: Product and Service Offering Non-Banking Credit Institutions

Source: Azerbaijan Micro-Finance Association (AMFA).

The services of non-banking financial institutions in Azerbaijan are shown in Figure 9. In fact, non-banking financial institutions, which were established to provide loans to the poor and small enterprises, diversified their products over time. In this context, health and travel consumer loans, education loans, and private loans were introduced by these institutions (Ibadoghlu, 2018: 4).

The credit figures of all institutions in Azerbaijan are shown in Table 7. When the table is analyzed, it is seen that non-banking credit institutions meet 2-3% of the total amount of the loan. It is understood that this level has not changed much in the last 10 years (Ibadoghlu, 2018: 9).

Table 7: The Structure of Loans to the Economy by Type of Credit Institution

Year	Total	State Banks		Private Banks		Nonbank Institutions	
	Loans	In AZN	%	In AZN	%	In AZN	%
2005	1,441.0	748.3	51.9	653.1	45.3	39.6	2.7
2010	9,163.4	3,901.9	42.6	5,069.9	55.3	191.6	2.1
2015	21,730.4	7,289.3	33.6	13,875.2	63.8	566.0	2.6
2016	16,444.6	5,749.2	35.0	10,222.0	62.2	473.4	2.9

Source: Central Bank of Azerbaijan Republic

3.2.2. The types of non-banking credit organizations

Non-banking credit institutions operating in Azerbaijan are credit unions and other non-bank financial institutions. In 2015, 48 non-banking credit institutions and in 2016 47 non-banking credit institutions served in Azerbaijan. On the other hand, in 2015, 109 credit unions served and this number decreased to 97 in 2016 (Ibadoghlu, 2018: 4).

The first credit union in Azerbaijan was established in 1997. The purpose of establishing these institutions is to obtain foreign funds. Therefore, the total assets of these institutions did not exceed 0.1% of GDP. Only the World Bank, through the Ministry of Agriculture and the Ministry of Finance, provided a fund of \$ 18 million to establish a credit union. In 2006, the number of credit unions reached 77. In 2010, there was an arrangement to limit credit for existing credit unions. As a result of this regulation, the number of credit unions reached 97 in 2011 (Conrad, 2012: 5). In 2015, the number of credit unions reached 109, but in 2016 this figure decreased to 97 (Ibadoghlu, 2018: 21).

3.3. THE EFFECT OF MICROCREDITS ON GDP IN AZERBAIJAN

3.3.1. What is GDP?

Gross domestic product (GDP) is defined as the value of the final goods produced within a country within the borders of a country, in which the citizens of the country and other nationals produce within a certain year (Ünsal, 2009: 6). GDP is derived from the gross national product (GNP). GNP is derived from the production values of the total goods and services produced by the settled producers in a certain period with by deducting the total of inputs used to produce them. When GDP is calculated, net external income factor revenues such as entrepreneurial income from abroad, profit transfers from activities abroad and financial investments interest income, remittances are deducted from GNP (Eğilmez and Kumcu, 2004: 25).

The change in production amounts and market prices change the nominal GDP value from year to year. Real GDP, which shows the value of the final goods produced within the country in a given year over the market prices in the base year, allows the measurement of the real monetary value of the changes occurring between periods in production (Ünsal, 2009: 10).

At the macro level in the economic system, GDP, which is the measure of both output and income, is a general indicator of productivity and general welfare. GDP data are used for three purposes: estimating the standard of living, measuring economic growth and determining whether the economy is in recession or expansion period (Mateer and Coppock, 2014: 586).

The measurement of GDP has some difficulties since the quality of the produced goods improved over time, the role of the household production in the economic system and the unregistered economic activities which cannot be taken under registration cannot be measured, and cannot be included in the national income accounts (Ertek, 2008: 41).

GDP is calculated by three methods: additive, income and expenditure approach. Total expenditure on government expenditures, consumption, gross investment and net exports is expressed through the total expenditure approach in a given year in a country (Ünsal, 2009: 44). In GDP with total income approach; fees, rent, interest, profit, indirect taxes and depreciation is obtained by collecting (Yıldırım and Şıklar, 2013: 15). All the goods and services produced by the companies are multiplied by their prices, the product value is obtained by reaching the value of the production value of the period according to the total production approach is obtained.

3.3.2. GDP in Azerbaijan

In the first years after the independence of Azerbaijan, the problems such as the drift of the country's economy, the war and the instability of the economy have diminished the growth rate of GDP. Only after 1996 the GDP began to grow, which increased oil exports and economic reforms in the country resulted in rapid growth of GDP (Memmedov, 1998: 48).

Table 8 shows a significant increase in GDP per capita from 1991 until today. The biggest factor that triggered the increase of GDP was the emergence of Azerbaijan oil in world markets after 1994. After the 2000s, the price increase in the world oil sector and the new oil agreements signed accelerated this growth. However, in December 2017, total GDP increased by 0.1% compared to the previous year and had the level of US \$ 41256 million, and the GDP per capita of was USD 4238. In the formation of GDP 40.1% industry, 10.4% trade and transportation vehicles repair, 9.5% construction, 6.8% transportation 5.6% agriculture, 2.3% tourism sector 25.3% remaining sectors have a share. In general, 62.8% of GDP was in sectors other than oil and natural gas, although this ratio was positive compared to previous years, but not enough to reduce the dependence of the national economy on oil and gas sector (Azerbaijan State Statistics Committee, 2017a: 13).

Tablo 8: GDP and GDP Per Capita in Azerbaijan (1991-2016)

Years	GDP (Million US \$)	GDP Per Capita (Million US \$)
1991	703,1	98,3
1992	1309,8	180,4
1993	1326,9	179,9
1994	1629,3	217,9
1995	2415,2	310,3
1996	3180,8	416,1
1997	3960,7	513,2
1998	4446,4	570,6
1999	4583,7	582,9
2000	5272,8	662,9
2001	5707,7	710,5
2002	6235,9	768,9
2003	7276,0	888,5
2004	8680,4	1048,5
2005	13238,7	1579,8
2006	20983,0	2471,6
2007	33050,3	3841,7
2008	48852,5	5603,3
2009	44297,0	5018,2
2010	52909,3	5922,0
2011	65951,6	7285,0
2012	69683,9	7594,3
2013	74164,4	7977,4
2014	75234,7	7990,8
2015	52996,8	5561,5
2016	37843,0	3926,5

Source: Azərbaycan Devlet İstatistik Komitesi, 2017b.

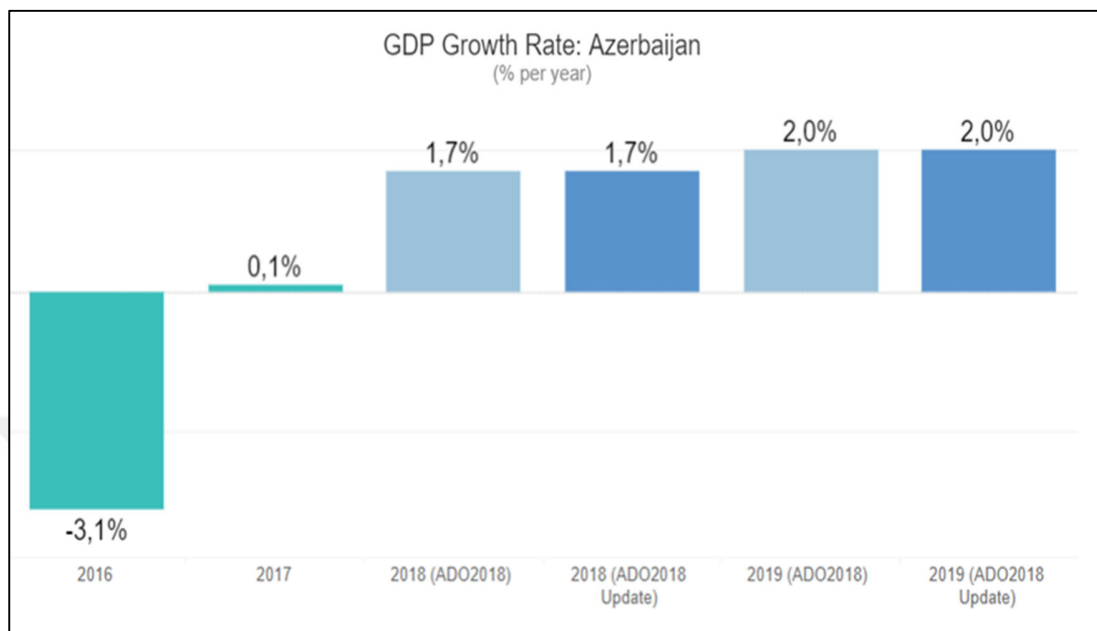


Figure 10: GDP growth (% per year)

Source: Asian Development Bank, 2018, <https://data.adb.org/dashboard/azerbaijan-numbers>.

3.3.3. Types of GDP: oil and non-oil

After declaring its independence, the investments made by foreign countries to Azerbaijan and the oil and natural gas exports led to the development of all sectors, notably the oil sector. But 80% of the investments made in the oil sector caused an explosion of income after 2005. As a result, oil revenues covered 45% of GDP.

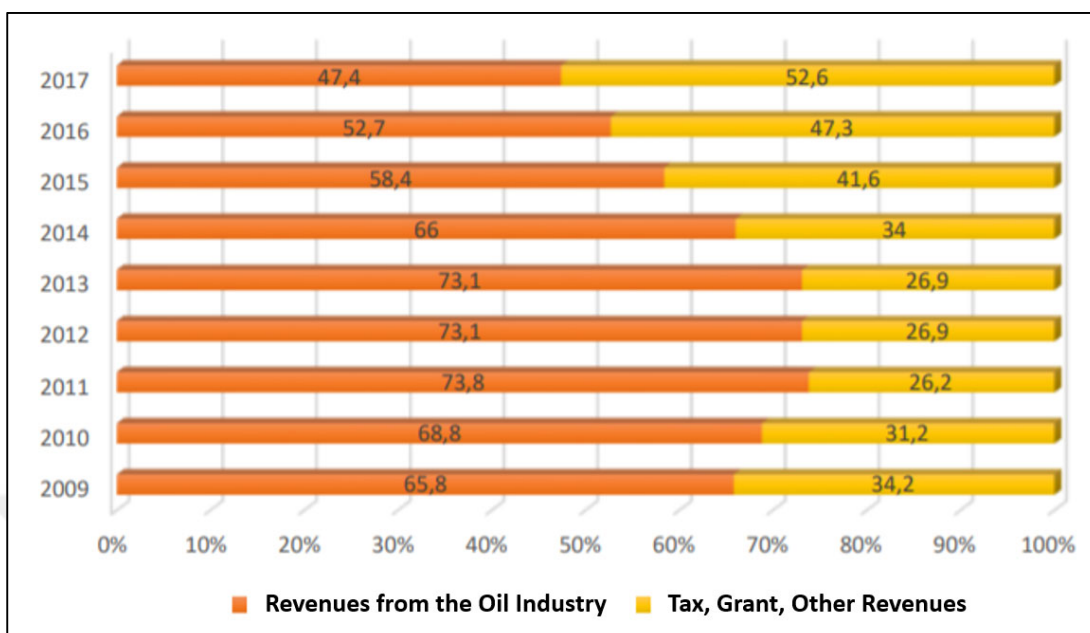


Figure 11: Revenues of State Budget between 2009-2017.

Source: Maliyyə Nazirliyi, 2017: 10.

As seen from Figure 11, more than 50% of revenues from the state budget in 2009 to 2016 cover revenues from the petroleum sector. The increase in income causes the living standards of the Azerbaijani people to live in high standards and the state to develop even more rapidly. However, in the economics literature, it is known that the economies of the countries that generate income from rich natural resources will not be strong in the long term. This understanding is known as the “heavy load of resources” paradox and claims that it can only reduce the poverty with the help of the natural resources, but cannot bring the employment to the desired level (Oruclu, 2016: 70).

3.3.4. The Factors Effect On Non-Oil GDP

The fact that a country's economic development is based solely on the export of energy resources causes the country to accept the reflections of the fluctuations in world energy prices on the economy and not to develop other sectors. This situation, in contrast to the principle of social justice, will cause negative consequences such as the income of

the energy source for only a certain part of the population in that country. Therefore, it is essential for the countries that base their economies on natural resources not to face both internal and external problems, from the economic point of view, from the oil to be directed to the development of other sectors and human resources. Thus, dependency on one sector in the economy will be prevented (Bulut and Süleymanov, 2012: 2).

Azerbaijan's non-oil GDP is currently growing at 2% per annum. In 2023, this rate will be increased to 3%. It is stated that services, communication, transportation, tourism and sports sector are effective in the expansion of the non-oil sector. However, it is considered that the construction sector has not contributed to growth due to the slowdown in public investments. Non-oil GDP was 0.5% higher in the first 9 months of 2018 compared to the previous year. (Israfilbekova, 2018).

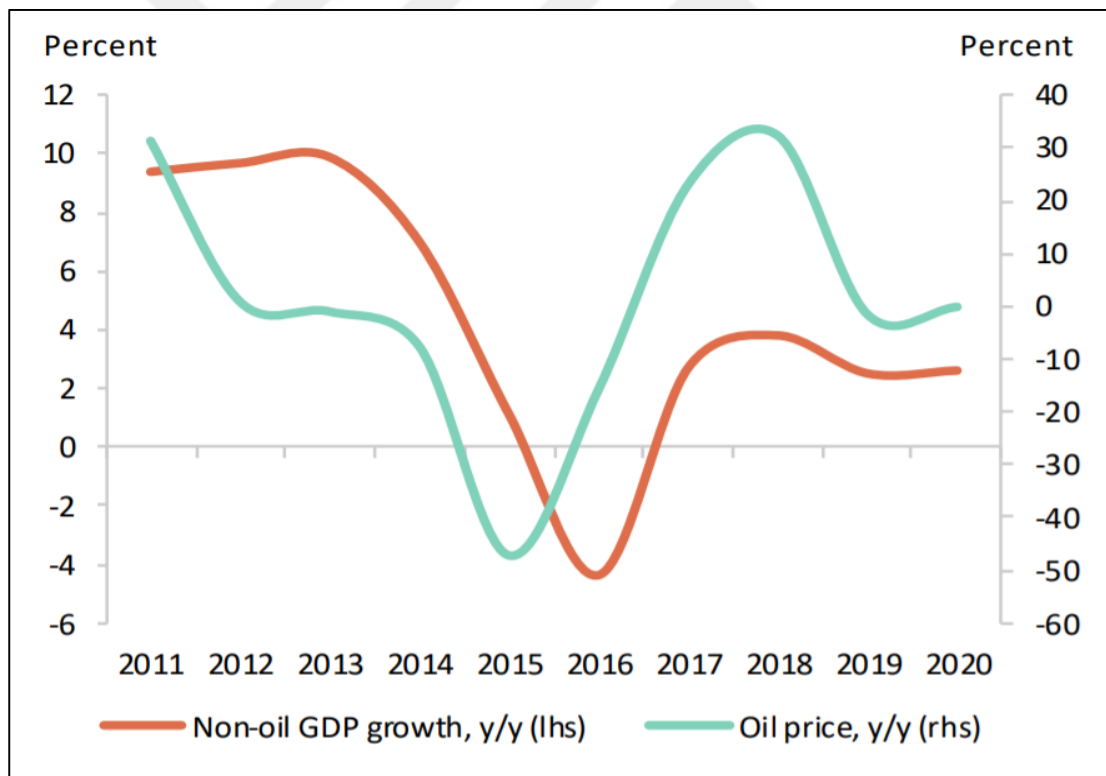


Figure 12: Azerbaijan / Non-oil sectors influenced by oil price

Source: World bank, <http://pubdocs.worldbank.org/en/293551524671526045/mpo-aze.pdf>

It is seen in Figure 3.11 that, as of 2010, oil prices in the world decreased and accordingly the non-oil GDP of Azerbaijan also decrease. Since 2015, there have been a continuously rise in oil price and accordingly there have been the increase in non-oil GDP. Therefore, it can be stated that there is a strong correlation between non-oil GDP and oil prices in Azerbaijan economy. Although the non-oil sectors produce or serve other than petroleum products, these sectors are understood to be sensitive to cash entering the country depending on oil.

3.3.5. The Effects of Microcredits On GDP

Micro-finance institutions operating in Azerbaijan since 1990s provided loans to 100 thousand people in 2006, this figure reached 400 thousand people in 2011. However, as of 2012, the total amount of microfinance loans did not even reach 1% of GDP. In 2012, the amount of microcredit provided by non-banking financial institutions and banks reached 1% of GDP. As a provider of microfinance, Accessbank and FINCA dominated 46% of the market (Conrad, 2012: 1).

In 2011, 27 microfinance institutions and 97 credit unions gave microfinance services in Azerbaijan. The leading 31 microcredit providers (16 microfinance organizations, 13 banks and 2 credit unions) are a member of AMFA. At the end of 2011, microcredit amounted to USD 0.7 billion (Conrad, 2012: 6).

In 2015, 88% of the market was owned by banks, 9.7% by non-banking credit organizations and 2.3% by insurance companies. The share of microfinance institutions in this share was low. It is important that microfinance institutions have more share in terms of supporting the future of the country's economy and SMEs. In this context, the number of microfinance institutions in 2011 reached 144 in 2016. However, despite this increase, microfinance loans still remained at 1% of GDP. In 2015, the number of people using microcredit was 600 thousand and in 2016 it decreased to 298 thousand people.

In 2016 and 2017, the use of microfinance decreased significantly in Azerbaijan due to the strict regulations of the government. According to 2016, the number of people

benefiting from microfinance in 2017 decreased by 25% and the loan portfolio shrank by 15% (Microfinance Barometer, 2018: 2). In 2017, the repayment of microcredits in Azerbaijan has trouble with the rate of 8,8% (Microfinance Barometer, 2018: 3).



CHAPTER FOUR

THE ANALYSIS OF AFFECTION OF MICROCREDITS ON GDP

4.1 PURPOSE OF STUDY

The purpose of this analysis is to examine the effect of Real Credit Amount given by Non-Bank Credit Institutions on Real GDP in Azerbaijan. From the variables used in the study, the GDP data were obtained from the official site of the State Statistics Committee of Azerbaijan and the loan amount belonging to the NBCO was obtained from the official website of the Central Bank of Azerbaijan.

4.2 DATA SET

The period examined in the analysis includes the first importance of 2005 and the fourth period of 2017 and it consists of 52 observations. Both of the variables were used as units of measurement, million manats. Descriptive statistics on variables are presented in Table 9.

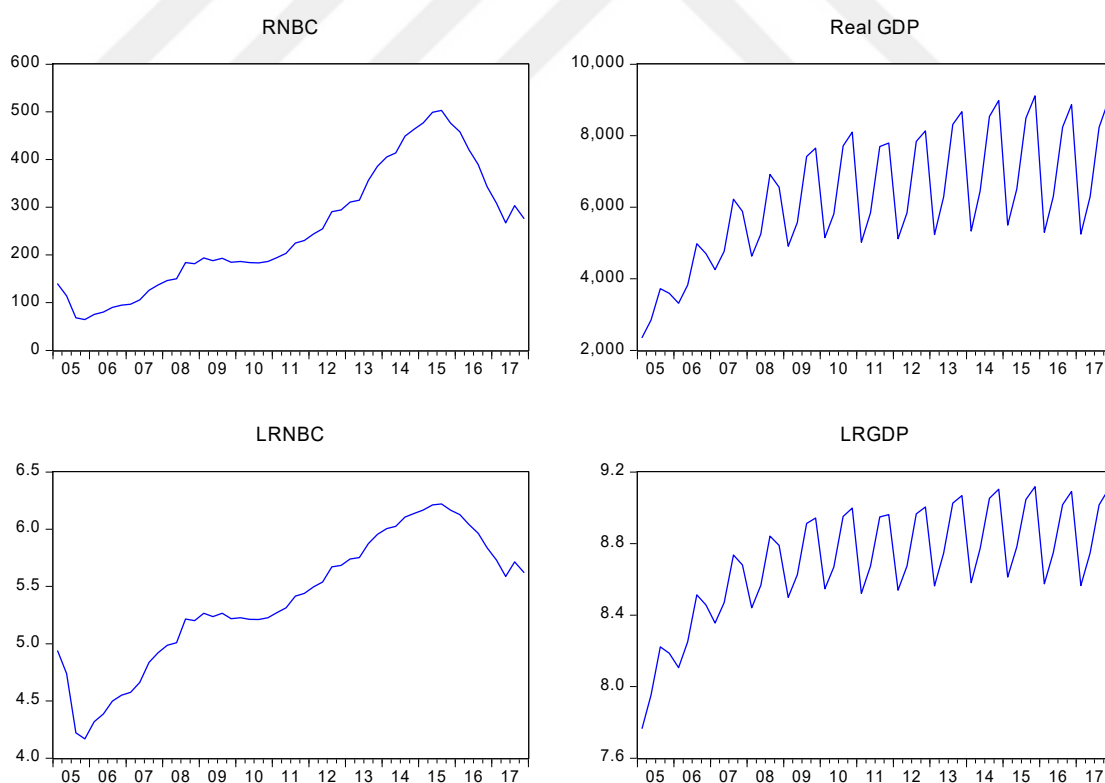
Table 9: Descriptive Statistics of Variables

	RNBC	RGDP
Mean	252.1620	6237.592
Median	214.1100	6051.450
Maximum	503.2635	9112.700
Minimum	64.57926	2361.300
Std. Dev.	129.9317	1759.701
Skewness	0.434678	-0.092210
Kurtosis	2.033463	2.130825
Jarque-Bera	3.661612	1.710532
Probability	0.160284	0.425170
Sum	13112.43	324354.8
Sum Sq. Dev.	860994.3	1.58E+08
Observations	52	52

According to the information presented in Table 9, while the average loan amount was 252.16 million manats during the analysis period, the average real GDP was 6 billion 237.59 million manats. The maximum amount of credit given by non-Bank credit

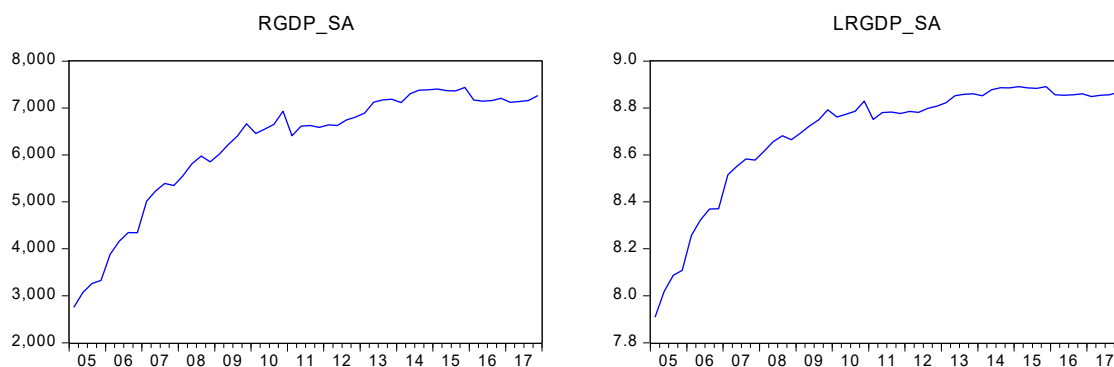
institutions within this period was 503.2635 million manats and the minimum amount was 64.57926 million manats. In the relevant period, the amount of RGDP was 9 billion 112.7 million manats and the minimum was 2 billion 361.3 million manats. When we look at the skewness values, it is seen that the loan amount is skewed to the right and GDP is skewed to the left. Based on this information, the loan amount was mostly below the average in the period examined. Because the GDP series has negative skewness, it can be said that most of the data for this variable is higher than the average. When the kurtosis values of the variables are examined, it is seen that the kurtosis values for both variables are less than 3. Therefore, both series are flat series. In other words, the variance of the variables is quite large. As can be seen from the skewness and kurtosis values, according to Jarque-Bera normality test statistics, both variables have normal distribution. After analyzing the descriptive statistics of the variables in detail, the variables are presented in Figure 13 by plotting the variables against time to determine the behavior of the variables.

Figure 13: Graphs of Variables versus Time



When we examine Figure 13, we can see graphs of logarithmic values of variables together with raw data of variables. Although the logarithm of the variables does not cause any changes in the structure of the series, it helps the model to be interpreted easily when the model is established, and especially if the variance problem does not occur. When the loan amount is analyzed over time, it is observed that the loan amount has decreased in 2005, but there has been a rapid increase in loan amounts since the beginning of 2006. Between 2007 and 2009, the loan volume remained flat. One of the main reasons for this is the World Crisis that erupted in 2008. The reason for the emergence of this crisis is that it is directly related to the banking system and the fact that all non-Bank Credit Institutions that are in Azerbaijan are foreign institutions and that the fact that they are connected to the US has not caused a serious decrease in the amount of the loan. It is seen from the graphs of the real GDP series that the series clearly include seasonality. Since the real GDP series includes seasonality, seasonally adjusted analysis time should be used. Therefore, the graph of the seasonally adjusted and obtained series with the Real GDP series Census-12 Multiplicative Seasonal Separation method is presented in Figure 14.

Figure 14: Seasonally Adjusted GDP



When the seasonally adjusted RGDP and LRGDP series are examined, it can be seen that the series increased rapidly from 2005 to 2009, and then the series has a clear trend, although the rate of increase has slowed down. Since the use of trend-containing variables in time series analysis directly affects the results of the analysis, the series used must be stationary. If the series are stationary, the series should be stabilized by the difference method. Traditional stationarity or unit root tests can mislead researchers on

the stability of series when there are any or more fractures in the series. Therefore, while applying unit root tests to series, test should be done by selecting the appropriate test according to the breakage of the series. Considering these, when the graphs of the series are reviewed again, there is a rapid decrease in the LRNBC series after 2015. Similarly, there was a remarkable decrease in the LRGDP series in 2011. In this respect, ADF unit root test is applied to the series and the results are presented in the tables below.

4.3 STABILITY TEST

Table 10: ADF Test Results of LRNBC Variable Level Values

Exogenous: Constant, Linear Trend

Lag Length: 2 (Automatic - based on SIC, maxlag=10)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.037558	0.9289
Test critical values: 1% level	-4.156734	
5% level	-3.504330	
10% level	-3.181826	

*MacKinnon (1996) one-sided p-values.

According to the ADF unit root test results presented in Table 10, the zero hypothesis indicating that the LRNBC variable is not stationary at the level cannot be rejected since the ADF test statistical value is absolute less than the critical values of ADF at 1%, 5% and 10% significance level. So, according to ADF unit root test results, LRNBC variable contains unit root.

Since LRNBC variable were not stable at the level, the first order differences of the series were re-tested and the results are presented in the table below.

Table 11: ADF Test Results of First Difference of LRNBC Variable

Null Hypothesis: D(LNBC) has a unit root		
Exogenous: Constant, Linear Trend		
Lag Length: 1 (Automatic - based on SIC, maxlag=10)		
	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.625163	0.0000
Test critical values: 1% level	-4.156734	
5% level	-3.504330	
10% level	-3.181826	

According to the ADF unit root test results presented in Table 11, the zero hypothesis indicating that the LRNBC variable is not stable at the level is rejected because the ADF test statistic value is absolute greater than the ADF critical values at 1%, 5% and 10% significance level. In other words, according to ADF unit root test results, LRNBC variable does not contain unit root.

Table 12: Seasonally Adjusted LRGDP ADF Unit Root Test Results

Null Hypothesis: LRGDP_SA has a unit root		
Exogenous: Constant, Linear Trend		
Lag Length: 0 (Automatic - based on SIC, maxlag=10)		
	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.691853	0.3593
Test critical values: 1% level	-4.148465	
5% level	-3.500495	
10% level	-3.179617	
*MacKinnon (1996) one-sided p-values.		

According to the ADF unit root test results presented in Table 12, the zero hypothesis indicating that the LRGDP_SA variable is not stationary at the level cannot be rejected because the ADF test statistical value is absolute less than the critical values of ADF at 1%, 5% and 10% significance level. That is, according to the ADF unit root test

results, the variable LRGDP_SA contains the unit root. Since seasonally adjusted LRGDP variables were not stable at the level, the first order differences of the series were re-tested and the results are presented in the tables below.

Table 13: ADF Unit Root Test Results for the First Difference of Seasonally Adjusted LRGDP Variable

Null Hypothesis: D(LRGDP_SA) has a unit root		
Exogenous: Constant, Linear Trend		
Lag Length: 0 (Automatic - based on SIC, maxlag=10)		
	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-8.028527	0.0000
Test critical values: 1% level	-4.152511	
5% level	-3.502373	
10% level	-3.180699	
*MacKinnon (1996) one-sided p-values.		

According to the ADF unit root test results presented in Table 13, the zero hypothesis indicating that the LRDGP_SA variable is not stationary at the level is rejected because the ADF test statistical value is absolute greater than the critical values of ADF at 1%, 5% and 10% significance level. That is, according to the ADF unit root test results, the variable LRGDP_SA does not contain the unit root. Although both LRNBC and LRGDP_SA variables are not stationary at the level, the first differences are stable. Since both variables are first order stationary, VAR analysis can be performed using these variables.

4.4 VAR (vectorautoregressive analysis) ANALYSIS

The purpose of the study was to examine how RGDP and RNBC variables mutually affect each other. The main condition for doing VAR analysis is that the variables are stationary. According to the ADF Unit Root tests given above, it is concluded that both variables are stable and their first differences are stationary. Therefore, in VAR analysis, first differences will be used rather than level values of variables. Another point to be considered when performing VAR analysis is to determine the correct number of lags. In order to determine the correct lag number, firstly the VAR model was established and the maximum number of lag was determined as 4 for determining the number of lag. The results are presented in Table 14.

Table 14: Number of Appropriate Lags

VAR Lag Order Selection Criteria						
Endogenous variables: DLRGDP DLRNBC						
Exogenous variables: C						
Sample: 2005Q1 2017Q4						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	81.15005	NA	8.63e-05	-3.681398	-3.599481	-3.651190
1	160.3809	147.4062	2.61e-06	-7.180507	-6.934758*	-7.089882*
2	162.1396	3.108390	2.90e-06	-7.076260	-6.666678	-6.925219
3	169.5341	12.38146*	2.49e-06	-7.234143	-6.660729	-7.022685
4	174.4172	7.722116	2.40e-06	-7.275217	-6.537971	-7.003344

* indicates lag order selected by the criterion
 LR: sequential modified LR test statistic (each test at 5% level)
 FPE: Final prediction error
 AIC: Akaike information criterion
 SC: Schwarz information criterion
 HQ: Hannan-Quinn information criterion

The criteria for the determination of the appropriate number of lags, SC and HQ criteria indicate that the appropriate lag is two. Therefore, the VAR model has 1 degrees. The results of the predicted VAR (1) model are presented in Table 15.

Table 15: Results for VAR (1)

Vector Autoregression Estimates		
Sample (adjusted): 2005Q3 2017Q4		
Included observations: 50 after adjustments		
Standard errors in () & t-statistics in []		
	DLRGDP	DLRNBC
DLRGDP(-1)	-0.175632 (0.13725) [-1.27965]	-0.595102 (0.48097) [-1.23728]
DLRNBC(-1)	-0.041724 (0.00914) [-4.56338]	0.948526 (0.03204) [29.6030]
C	0.245105 (0.05097) [4.80845]	0.306239 (0.17863) [1.71436]
R-squared	0.333386	0.966887
Adj. R-squared	0.305020	0.965478
Sum sq. resids	0.043329	0.532108
S.E. equation	0.030363	0.106402
F-statistic	11.75280	686.2010
Log likelihood	105.3270	42.62636
Akaike AIC	-4.093079	-1.585054
Schwarz SC	-3.978358	-1.470333
Mean dependent	0.017003	5.404934
S.D. dependent	0.036421	0.572672
Determinant resid covariance (dof adj.)		1.03E-05
Determinant resid covariance		9.10E-06
Log likelihood		148.2837
Akaike information criterion		-5.691346
Schwarz criterion		-5.461904

Since VAR model is an atheic model, it is not possible to interpret the coefficients obtained from VAR model in terms of economic theory. Therefore, Impact-Response analysis and Variance Separation analyzes based on VAR model results were developed.

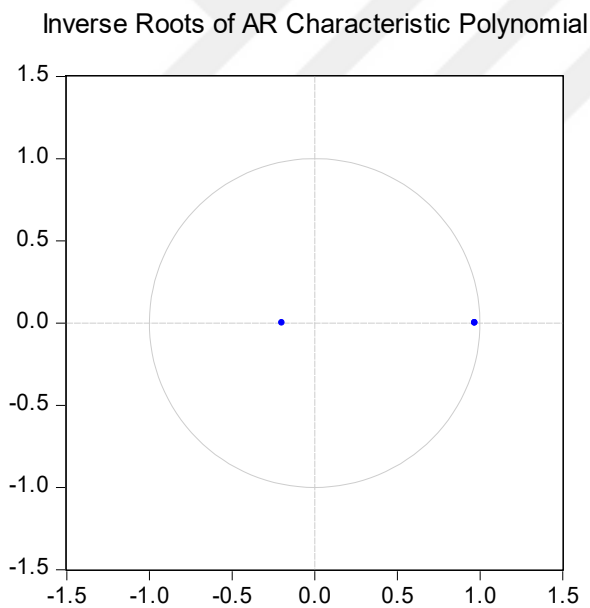
Before going to these analyzes, it is necessary to determine whether the model VAR (1) given in Table 15 is a stable model. In order to determine whether the VAR

model is stable, the characteristic roots of the VAR model must be less than absolute value or the characteristic roots must be within the unit circle. Table 16 and Figure 15 show the results of the characteristic roots of the VAR (1) model.

Table 16: Characteristic Roots

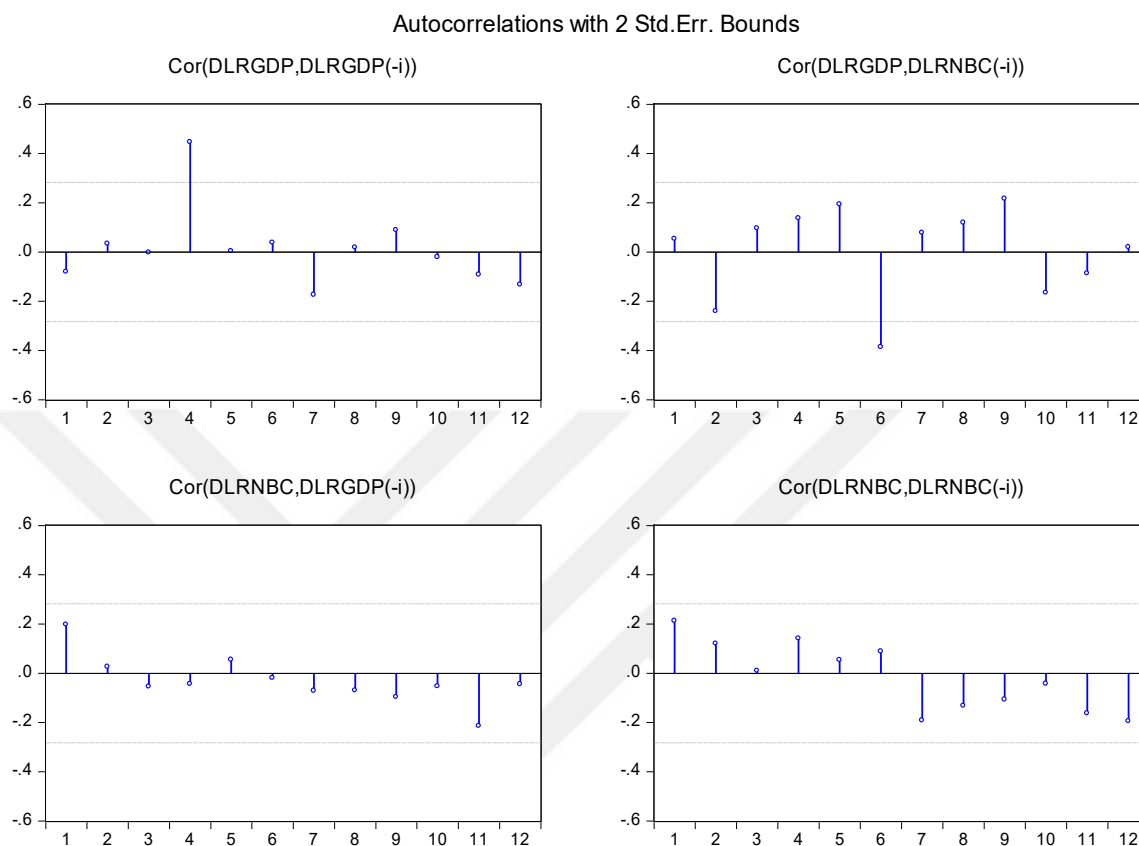
Roots of Characteristic Polynomial	
Endogenous variables: DLRGDP DLRNBC	
Exogenous variables: C	
Lag specification: 1 1	
Root	Modulus
0.970196	0.970196
-0.197302	0.197302
No root lies outside the unit circle.	
VAR satisfies the stability condition.	

Figure 15: Characteristic Roots



As can be seen from Table 16 and Figure 15, the characteristic roots of the VAR (1) model are in absolute or less than one or more characteristic roots. According to these results, it can be said that the VAR (1) model provides stationary condition.

Figure 16: Correlogram Test



As seen from the corelograms, there are autocorrelation in lags 4 and 6.

Table 17: LM Test for Autocorrelation

VAR Residual Serial Correlation LM Tests
Null Hypothesis: no serial correlation at lag order h
Sample: 2005Q1 2017Q4
Included observations: 50

Lags	LM-Stat	Prob
1	28.49790	0.0000
2	3.474112	0.4818
3	0.670181	0.9550
4	14.00513	0.0073
5	3.032599	0.5524
6	10.35987	0.0348
7	5.021886	0.2851
8	2.155561	0.7072
9	4.482606	0.3446

10	2.256008	0.6888
11	6.193531	0.1852
12	3.428527	0.4888
Probs from chi-square with 4 df.		

The results of the LM test are similar to those given in Figure 17 to determine whether the errors obtained from the VAR (1) model involve autocorrelation. As can be seen from Table 17, the zero hypothesis that no autocorrelation is rejected because the probability values at 1, 4, and 6 lags are less than 0.05 at 5% significance level. The main reason why the errors obtained from the VAR (1) model included autorelation is the exclusion of variables. In addition to the fact that Labor and Capital, which is theoretically thought to have serious impacts on GDP, is not taken into consideration, the fact that oil prices, which play an important role in the formation of Azerbaijan's GDP, are not taken into consideration is an indication that they are excluded variables. Since the interest rate, which is one of the important variables affecting the NBC variable, is not considered, it is an excluded variable in the model. The biggest side effect of excluding the relevant variables from the model is that it causes autocorrelation in errors. In the case of autocorrelation, the estimators lose their effectiveness even though the model parameters are predicted without any deviation and consistency. For this reason, VAR (1) model was expanded and VAR (2) and VAR (3) models were estimated. However, since there is a first order autocorrelation in the errors of this model, VAR (4) model is estimated and the results are given below.

Table 18: Results for VAR (4)

Vector Auto regression Estimates		
Sample (adjusted): 2006Q2 2017Q4		
Included observations: 47 after adjustments		
Standard errors in () & t-statistics in []		
	DLRGDP	DLRNBC
DLRGDP(-1)	-0.151752	0.408474
	(0.12643)	(0.31313)
	[-1.20032]	[1.30449]

DLRGDP(-2)	-0.028616 (0.12469) [-0.22950]	0.136948 (0.30883) [0.44344]
DLRGDP(-3)	-0.007411 (0.12417) [-0.05969]	-0.335077 (0.30753) [-1.08957]
DLRGDP(-4)	0.463373 (0.11797) [3.92795]	-0.264750 (0.29218) [-0.90612]
DLRNBC(-1)	-0.019801 (0.05805) [-0.34110]	1.047079 (0.14378) [7.28249]
DLRNBC(-2)	0.000959 (0.08915) [0.01076]	0.450036 (0.22081) [2.03814]
DLRNBC(-3)	0.004697 (0.08739) [0.05374]	-0.571405 (0.21646) [-2.63981]
DLRNBC(-4)	-0.001800 (0.04051) [-0.04443]	0.036446 (0.10034) [0.36322]
C	0.245105 (0.05097) [4.80845]	0.306239 (0.17863) [1.71436]
R-squared	0.487274	0.988131
Adj. R-squared	0.379332	0.985633
Sum sq. resids	0.022637	0.138865
S.E. equation	0.024407	0.060451
F-statistic	4.514209	395.4618
Log likelihood	112.8103	70.18333
Akaike AIC	-4.417461	-2.603546
Schwarz SC	-4.063177	-2.249262
Mean dependent	0.013007	5.479523
S.D. dependent	0.030980	0.504331
Determinant resid covariance (dof adj.)		2.17E-06
Determinant resid covariance		1.42E-06
Log likelihood		183.0865

Akaike information criterion	-7.024956
Schwarz criterion	-6.316389

Characteristic roots have been found to determine whether VAR (4) model satisfies stationary condition and the results are given below.

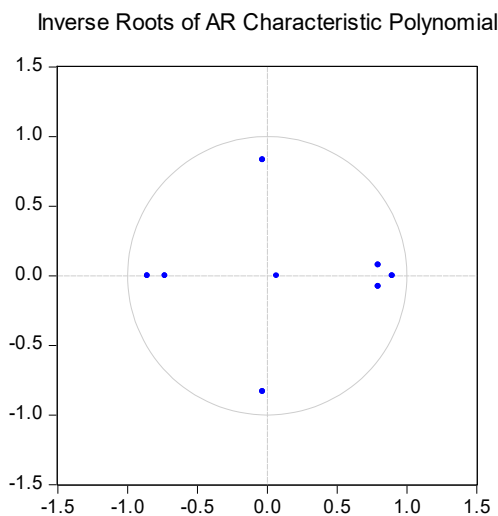
Table 19: Characteristic Roots VAR (4)

Roots of Characteristic Polynomial
Endogenous variables: DLRGDP DLRNBC
Exogenous variables: C
Lag specification: 1 4
Date: 07/03/19 Time: 14:05

Root	Modulus
0.896073	0.896073
-0.857867	0.857867
-0.032790 - 0.831942i	0.832588
-0.032790 + 0.831942i	0.832588
0.794169 - 0.077270i	0.797920
0.794169 + 0.077270i	0.797920
-0.731745	0.731745
0.066107	0.066107

No root lies outside the unit circle.
VAR satisfies the stability condition.

Figure 17: Characteristic Roots VAR (4)



When the results of VAR (4) model are examined, it is seen that characteristic roots are smaller than absolute value. So the VAR (4) model is stable. Corlogram and LM tests were performed to determine whether the VAR (4) model errors were autocorrelated and the results are given below.

Figure 18: Correlogram Test VAR (4)

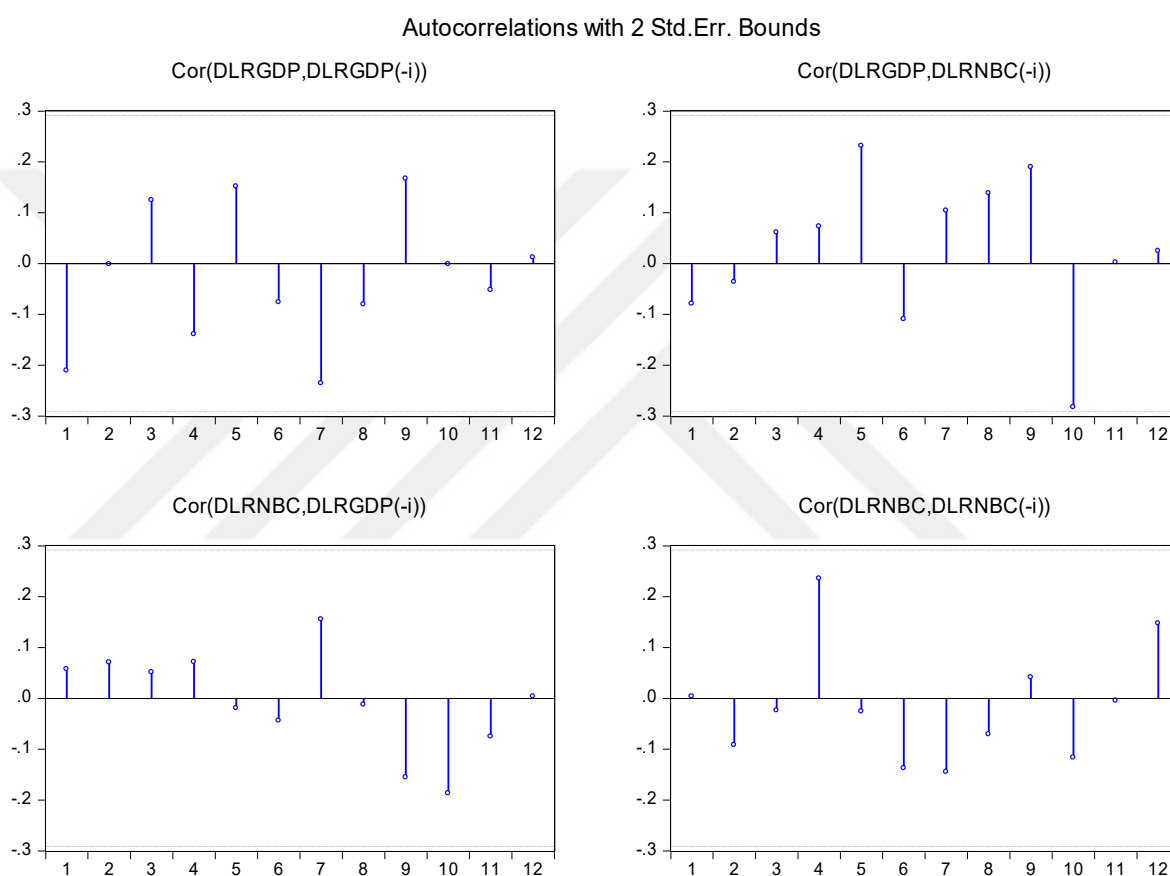


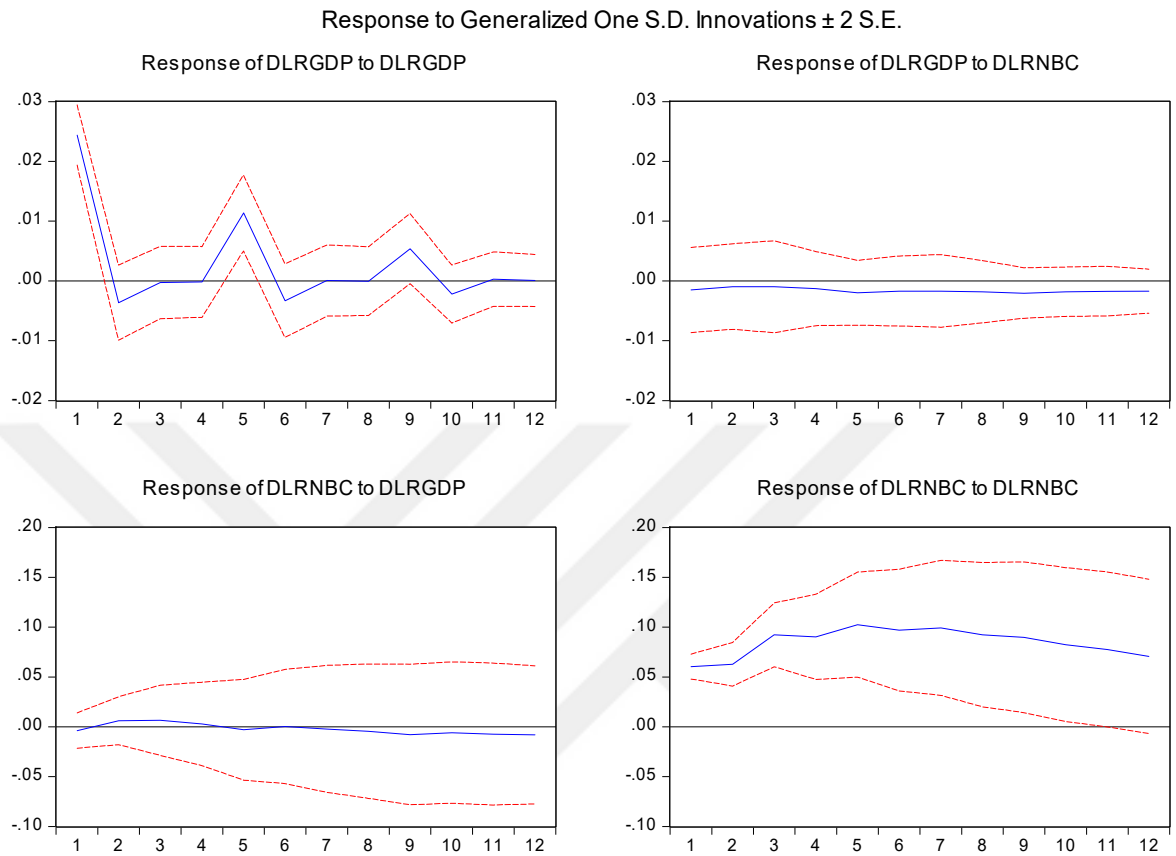
Table 20: LM Test for Autocorrelation

VAR Residual Serial Correlation LM Tests			
Null Hypothesis: no serial correlation at lag order h			
Sample: 2005Q1 2017Q4			
Included observations: 47			
	Lags	LM-Stat	Prob
	1	4.889733	0.2988
	2	2.368878	0.6683
	3	1.994389	0.7368
	4	6.500417	0.1648
	5	6.019515	0.1977
	6	3.569560	0.4674
	7	4.859177	0.3021
	8	1.977167	0.7400
	9	5.430157	0.2459
	10	11.16623	0.0248
	11	0.384497	0.9837
	12	2.101543	0.7171
Probs from chi-square with 4 df.			

There is no autocorrelation in VAR (4) model errors, as can be seen from the corelogram and LM test results. Since the model is stationary and there is no autocorrelation in errors, it is possible to state that the model parameters are deviant and effective.

As stated earlier, since the VAR model is an atheic model, it is impossible to make any economic comments due to the coefficients obtained from the model estimation. In order to complete this deficiency, comments can be made based on the impact-response analyzes obtained from VAR models.

Figure 19: Impact Response Analysis Results



As seen in the graphs presented in Figure 19, when a standard deviation shock comes to RGDP, while RGDP reacts positively and statistically significant for a period, its reactions in other periods are statistically insignificant. The RGDP's response to a standard deviant shock to RNBC is also statistically insignificant. Despite a standard deviation shock to RGDP, RNBC reacts positively but is statistically insignificant. RNBC showed a positive and statistically significant response to a standard deviation shock to RNBC. The impact of a standard deviant shock to RNBC on itself continues for a long time (Helmut Lutkephol A new Introduction to Multiple Time Series, p119).

Table 21: Variance Decomposition

Variance Decomposition of DLRGDP:			
Period	S.E.	DLRGDP	DLRNBC
1	0.024407	100.0000	0.000000
2	0.024704	99.76615	0.233849
3	0.024727	99.59915	0.400847
4	0.024762	99.32207	0.677929
5	0.027272	99.22081	0.779186
6	0.027540	98.74308	1.256918
7	0.027593	98.36930	1.630702
8	0.027654	97.93518	2.064821
9	0.028226	97.65036	2.349636
10	0.028380	97.19731	2.802692
11	0.028433	96.84485	3.155149
12	0.028485	96.49220	3.507797
Variance Decomposition of DLRNBC:			
Period	S.E.	DLRGDP	DLRNBC
1	0.060451	0.394144	99.60586
2	0.087641	0.655561	99.34444
3	0.127812	0.561364	99.43864
4	0.156668	0.405897	99.59410
5	0.187200	0.311324	99.68868
6	0.210940	0.245338	99.75466
7	0.233140	0.209437	99.79056
8	0.250781	0.212937	99.78706
9	0.266384	0.275201	99.72480
10	0.278837	0.296246	99.70375
11	0.289433	0.340370	99.65963
12	0.297931	0.394693	99.60531
Cholesky Ordering: DLRGDP DLRNBC			

4.5 CAUSALITY TEST

As can be seen from the Variance separation given in Table 21, RDGP and RNBC variables explain the changes in their values themselves. In other words, approximately 95% of the RGDP and RNBC are dependent on changes in their values.

However, Granger causality test was performed to obtain information about the direction of causality between the two variables used in the analysis and the results are presented in Table 22.

Table 22: Pairwise Granger Causality Tests

Pairwise Granger Causality Tests			
Sample: 2005Q1 2017Q4			
Lags: 4			
Null Hypothesis:	Obs	F-Statistic	Prob.
DLRNBC does not Granger Cause DLRGDP	47	7.83255	0.0012
DLRGDP does not Granger Cause DLRNBC			0.42017

Although the RNBC variable RGDP variable is the Granger cause according to the information presented in Table 22, the RDGP variable is not the Granger cause of the RNBC variable. This result is an expected result for the structure of the Azerbaijani economy. That is to say, non-Bank Loan Institutions that are active in Azerbaijan are fully dependent on foreign capital and generally lend to low-income people living in rural areas of the country. Consequently, Granger causality on RGDP has been found to be due to the fact that the loans granted through these institutions tend to increase the consumption and agricultural production of people living in low income areas of the country. Since RNBC is fully dependent on foreign capital, changes in RGDP do not have Granger causality on RNBC.

CONCLUSION

One of the biggest difficulties people face in the world is poverty. Countries are making great efforts to reduce poverty. Some of the efforts to reduce the unemployment and improve on working conditions are opening new employment areas, improving minimum wages, providing social aids to poor people by government, providing credits to poor people for their business establishments. Microfinance and Microcredit are one of the most important arguments for increasing income and productivity. Microcredit is the credits given to small enterprises who want to start their own business, to get raw materials, materials, machinery and working capital. Microcredit is provided by non-banking credit organizations and financial institutions.

In this study, the effects of microcredits on GDP given by non-banking credit organizations in Azerbaijan, where microcredit is widespread is analyzed.

Azerbaijan is a developing country. Therefore, majority of poor people unable to access financial instruments in the country. Microfinance and microcredits are important for reducing poverty due to inability to get loans from banks for poor people driven by income inequality because of high unemployment rate in Azerbaijan. For this reason, the decreasing effects of microcredit on poverty are investigated and analyzed between 2005 and 2017 in Azerbaijan. According to the results of this analysis, micro-credits have positive, but not material impacts on GDP and the results are presented in the study. Moreover, considering that most of Azerbaijan's national income is provided from natural resources.

It is considered that there are suitable environments for the development of microfinance due to the fact that the population of Azerbaijan is not crowded, the development of agriculture, the people living the agricultural works in the villages, husbandry and handicrafts. The government needs to focus on the development of agriculture in rural areas. On the other hand, since large-scale enterprises with low capital require a longer period of time to profit, usage of microcredit does not seem attractive for

small cities. In addition, the credit culture is not developed enough for reasons such as the uncertainty of the economic future in Azerbaijan, the weakness of the banking system and the recent devaluation on Manat.

As a result of this analysis, it was observed that microcredits had not only improved the quality of life of poor people but also had a positive but not material effect on the GDP of Azerbaijan. It is understood that the government and governments institutions should give more incentives for the development of microfinance. Additionally, if the government provides such facilities as additional incentives or postponing of the debts for tax and other government payments over certain periods of time, healthier growth may be observed in enterprises established using microcredit. It is expected that new employment areas will be formed in the enterprises established with microcredit and this will decrease the unemployment in the long term.

In recent years, people who use microcredit have complaints due to high interest rates. In order to ensure the development of the Microfinance of the Azerbaijani state, interest rates must be kept in balance. At the same time, if it is considered that the borrowers are poor people, further advance of the repayment may be more attractive for microcredit use. Government may postpone tax and other payments to be received from these enterprises and ensure healthy growth of enterprises and a healthier environment for the repayment of loans. In addition, the training about microfinance and microcredit to people can provide more conscious action on credit usage and repayments. At the same time, if microcredit institutions conduct regular market research, they can offer products that meet customer needs and assure product diversity.

As a result of this study, it is predicted that development of microfinance reducing poverty in countries, opening new employment areas, creating additional tax revenues to the state and observing increases in national income will increase the level of welfare in the country. The biggest responsibility on this road is over the government.

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APPENDICES

