Carmelitas Model United Nations Conference 2019

Study Guide

Economic and Financial Committee

Access to Microcredits in Developing Countries

ECOFIN

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Dear Delegates

Welcome to the 2019 Carmelitas Model United Nations, my name is Alexander Zea and I will have the pleasure to be serving as your director for the Economic and Financial Committee (ECOFIN) for the duration of this conference.

I graduated school from Colegio San Ignacio de Recalde in 2017, and I am currently studying Translation and Interpreting at Universidad Peruana de Ciencias Aplicadas (UPC) and attending to afternoon classes at l'Alliance Française de Lima. When I'm not trying to pass all of my courses, or studying for an exam, I enjoy going out with my friends, watching Netflix series, or reading a new book. I have a passion for languages and how they can create bonds between nations. The first time I had the chance to participate in a Model United Nations was in High School, in CarMUN. Even though at first, I was very shy, through practice and time I learnt abilities that would help me in future conferences.

I would like to recommend you all to prepare in due time, because this will give you important results and knowledge. Finally, this may be some people's first MUN committee, so let me give you a word of advice: although this may not be easy, remember to always have fun.

I'm looking forward to meeting you all soon,

Alexander Zea
Director

ECONOMIC AND FINANCIAL COMMITTEE

Access to Microcredits in Developing Countries

Microcredits are the extension of very small loans (microloans) to impoverished borrowers who typically lack collateral, steady employment, or a verifiable credit history. It is also designed to support entrepreneurship and alleviate poverty. Many of the recipients are illiterate, and therefore unable to complete the paperwork required to get conventional loans. As of 2009, it was estimated that 74 million people held microloans that totaled an amount of US$38 billion. A study made by Grameen Bank reports that repayment success rates are between 95 and 98%.

Microcredits are part of microfinance, which already provides a wider range of financial services, especially savings accounts, to the poor. Modern microloans are generally considered to have originated with the foundation of the Grameen Bank in 1983. Many traditional banks subsequently introduced microcredit despite initial misgivings. This is why, due to its aspects, Microcredits are a tool that can be helpful to possibly reduce feminization of poverty in developing countries.

The topic of this committee focuses on the access to these form of microloans in third world countries, especially in those whose economies fluctuate and change aggressively in little time. Even though this economic model tends to be one important factor to stabilize this type of economies by helping microentrepreneurs and poor citizens, nowadays is being pursued around the globe. In spite of this enormous popularity, there is actually skepticism about the model's ability to make a “major dent in the TW poverty situation”, especially in countries with high inflation rates or harsh economic politics.

In this study guide you will be able to find information about the topic of the committee, historical background, and the evolution of the topic since its beginnings until nowadays, and the current situation of the topic. Also, you will find relevant information about the existing debate around microfinance and third world countries (which is the main topic of this committee), and how they may or not help people escape poverty.

I. HISTORY OF THE COMMITTEE:

The Economic and Financial Committee, also known as ECOFIN is the second of the six committees of the United Nations General Assembly. It was formed with the rest of the General Assembly when the UN was established after the Second World War in 1945. The committee first met in London in January 1946.

Its primary roles include addressing issues related to economic growth and development with specific regard to macroeconomic policy on international trade and external debt sustainability, securing financing for sustainable development, poverty eradication, and globalization and interdependence. In recent times, the Millennium Development Goals and special situations related to Least Developed Countries and Landlocked Developing Countries, as well as recovery and restructuring in the aftermath of the 2008 Financial Crisis has been among the most prominent issues discussed in this committee.

The ECOFIN is open to all 193 member nations of the UN, each of which has equal representation and voting rights. Though resolutions adopted by the committee are not enforceable, they carry the weight of the international community's will. The GA also has the power to convene an emergency special session and act to ensure peace and security.

The ECOFIN is administered by one chairperson, three vice-chairpersons and one reporter. It regularly updates its working methods and practices to enable deeper debate and greater impact of the committee's deliberations and decisions. Additionally, this committee currently holds a dialogue with the Executive Secretaries of the Regional Commissions as well as a number of side events as part of its program of work.

II. HISTORY OF THE TOPIC:

A. The Beginnings:

Micro-finance has existed in various forms for centuries, and even longer in Asia, where informal lending and borrowing stretches back for several thousand years. However, the birth of 'modern' micro-finance is said to have occurred in the mid 1970s in rural Bangladesh. There, in the midst of a famine, Dr. Muhammad Yunus, professor of economics at the University of Chittagong, was becoming disillusioned with the abstract theories of economics that failed to explain why so many poor people were starving in Bangladesh.

Determined to find a practical solution, Yunus began visiting local villages. In one nearby village, Jorba, he found a group of 42 women who made bamboo stools. Because they lacked the funds to purchase the raw materials themselves, they were tied into a cycle of debt with local traders, who would lend them the money for the materials on the agreement that they would sell the stools at a price barely higher than the raw materials. Yunus was shocked to find that the entire borrowing needs of the 42 women amounted to the equivalent of US$27. He lent them the money from his own pocket at zero interest, enabling the women to sell their stools for a reasonable price and break out of the cycle of debt.

B. The Grameen Bank and Rapid Growth:

The Grameen Bank project, which translates literally as "Village Bank", was born, and today works in over eighty-thousand villages with more than six million borrowers. It was conceived by Muhammed Yunus like an entity in which he would use his own money to give loans to poor villagers in order to help them establish a method for their subsistence, these loans did not pass the 27-32 $.

After seeing the success of the bank, it was followed by organizations such as BRAC and ASA. Inspired by the success of The Grameen Bank, the 1970s and 80s saw rapid growth in the number of new micro-finance institutions appearing around the world, many of them started by NGOs and funded by grants and subsidies from public and private sources. They demonstrated that the poor could be relied on to repay their loans, even without collateral, and hence that micro-finance was a potentially viable business.

During the 1990s, the industry began to realize that it could not continue to grow at such rates while still relying on grant funding. As a result, many began to restructure themselves to attract commercial investors, adopting more formal business practices and working to improve their efficiency and sustainability.

This was the case of many Latin American entities. While many Asian ones continued with the old model.

1998 saw the formation of Positive Planet (ex-Planet Finance), a not-for-profit organization whose initial objective was to use the internet and new communication technologies to reinforce the capacities of NGOs in various sectors. This soon evolved into the Positive Planet that we know today; an international NGO whose mission is to fight against poverty by developing micro-finance.

As enthusiasm for micro-finance as a tool for poverty alleviation increased, focus moved away from NGO models towards promoting a sustainable industry that could provide financial services to the poor at fair prices while offering a reasonable return to commercial investors. As well as the many micro-finance investment firms that exist today, several large banking institutions have also entered the industry, such as Credit Suisse, Deutsche Bank and Citigroup. By the end of 2008, nearly $15 billion of foreign investment had been channeled into micro-finance institutions, the majority still from government development organizations such as the World Bank, but with large amounts arriving from a variety of private and commercial sources.

C. Recent Innovations:

In recent years micro-finance has been the subject of various innovations and experiments, from leveraging the hugely popular mobile banking industry, where mobile phones are used to send and receive money, for the purpose of micro-finance; to the introduction of new loan products tailored to local contexts, such as machinery loans, harvest stock spaces, and cattle fattening loans.

Loan methodologies have also diversified, and the original model of supportive group loans pioneered by the Grameen Bank, which have become more complex and adapted to local realities. Currently, products such as micro-insurance and micro-savings, which previously took the back-seat to micro-credit, are seeing their popularity increase.

Over time, financial service providers have developed a better understanding of the wide range of financial needs of low-income people in both urban and rural areas. These needs might include asset building, managing irregular income flows, and coping with crises, such as sickness, death, natural disasters, and conflict. Many financial service providers now offer a wide range of products beyond credit, such as savings, insurance, and money transfers, to help poor people manage their financial lives.

III. CURRENT SITUATION:

The microcredit movement has been undeniably successful in opening up financial services to poor people across many countries. But what has its track record been when it comes to lifting people out of poverty?

Over the past decade, this question has occupied researchers, who have conducted randomized studies across a variety of countries and settings. The findings have not supported the original hope for microcredit: They can’t find evidence that the loans have been lifting families out of poverty on average. Many concluded that the classic conception of microcredit was based much more on anecdotes than on robust evidence. Those results have in turn cooled the development community’s enthusiasm for microcredit.

Even though microcredit isn't new, it has long faced some core difficulties. One basic issue with lending to extremely poor people is the cost: Because the loans are often small (averaging a few hundred dollars), the overhead costs are higher as a proportion of the loan, and it's harder to make lending profitable.

Another problem is predicting who will repay a loan. In poor communities, lending has long taken place locally between people who already knew each other (local moneylenders and family/friends), with social ties that could help ensure repayment. But organizations from outside a given community don't have access to information that could help them judge who to lend to or not. In the end, the access to microloans gets even harder for this population.

A. The Grameen model:

The original Grameen Bank model included a few core elements. The first is that after a loan for a microenterprise is granted, repayment starts immediately, with frequent, regular payments over the course of a year or so. The second is group loans, in which a small group of borrowers from different households receive loans together — which then puts pressure on the members to help each other repay. Finally, the model cuts overhead costs by having loan officers hold weekly meetings in villages to collect and disburse payments, obviating the need for physical bank branches.

Grameen Bank played a big role as a catalyst for microcredit's huge expansion (which some called a "revolution"). A huge number of organizations all over the world entered the scene over the next two decades (more than 3,000, as reported in 2015), though most borrowers are clustered in a few countries such as India and Bangladesh. Borrowers repay loans to microcredit institutions at very high repayment rates, upward of 96 percent on average.

Grameen Bank wasn't the first group to take on lending to the poor — the nonprofit *Accion*, working independently in Latin America in the 1970s, also developed a similar idea, and in Bangladesh, the nonprofit BRAC was an early pioneer — but it played a critical role in creating a powerful example of how microcredit for the extremely poor can work.

B. A long Debate:

There's also been a long-running debate about what level of interest is acceptable versus exploitative. On average, institutions offer loans at annualized interest rates of around 20-30 percent, though some rates are much higher. While some people have argued interest rates above a certain level means that microcredit firms have turned into predatory loan sharks, others counter that the rates sometimes have to be high to cover costs of sustainably lending to the poor. For example, the fact that the global average for these is 35 % but the average in countries such as Uzbekistan is between 50% and 85%, while in Sri Lanka is 17%, is dramatic. Microloans are a "high-touch" business, and microfinance institutions (MFIs) have to process thousands of these transactions. But an analysis of average loan balances against portfolio yields shows pretty much how the loan size is only one of the factors that explain the differences between interest rates. Where do these considerable differences come from, then?

There was some more systematic research to back up the claim: One of the main studies that supporters pointed to was a study published in 1998 by researchers Mark Pitt and Shahid Khandker, which claimed that borrowers — especially women — were getting out of poverty at significant rates in Bangladesh.

However, when Jonathan Morduch and David Roodman reanalyzed the study, they found issues that made them question the reliability of the results. (Morduch first commented on the original study, which led to a series of replies, and replies to the replies, that continued for a period of more than 15 years.) This, along with the lack of other rigorous studies, meant that there was a big evidence gap for the first few decades of microcredit's expansion.

The most recent six microcredit studies, published in 2015, were conducted by economists working independently across six countries. The studies found fairly consistent results: None found evidence that income went up on average among those offered credit. A few saw modest positive effects, such as people choosing to spend more time on their small businesses and some changes in spending habits. Abhijit Banerjee, Jonathan Zinman, and Dean Karlan sum up the studies, concluding, "We note a consistent pattern of modestly positive, but not transformative, effects" — not the result that many people had hoped for.

But in some ways the findings were also good news. For one thing, they countered the backlash that had been brewing against microcredit: Some critics argued that microcredit hadn't just failed to lift people out of poverty, it was in fact even systematically harming people by trapping them in debt. But the RCTs didn't find systematic evidence of this claim.

For another thing, these results are only a disappointment if one thought that microcredit would get most participants out of poverty. To be sure, this was a common belief, but many researchers say that that hope wasn't realistic to begin with.

In a recent discussion about the history of microcredit, economist Bruce Wydick compared microcredit in poor countries to introducing credit cards in rich countries, as a way of explaining why we shouldn't be surprised. "When they introduced credit cards in the US, so that almost everybody had access to a credit line, did that pull millions of people out of poverty? No," Wydick says.

IV. QARMAs:

For a Resolution to be accepted, it has, at its minimum, to deal with the following issues:

1. How to target informality in relation to the access to microcredits in third world countries?
2. Which policies should be assumed by each nation in order to make microcredits more accessible for their population?
3. Which environment should a country have in relation to its financial system to facilitate access to microcredits?
4. Which international cooperation mechanisms can be implemented in the development of third world countries through the use of microcredits?
5. How can new technologies be implemented in order to ease microcredits?
6. Which procedures should be considered by each nation to understand how effective is the use of microcredits in social development?

V. CONFERENCE PREPARATION:

A. Further Research:

The success you may have in your experience in CarMUN is going to depend on how much preparation you put in before the conference. Although making research about any topic may not be as exciting or fun as the conference itself, it plays an important role on the way you are going to be prepared to write your draft resolutions and working papers. If you put the necessary effort, it will pay off during the debate.

You will be more confident to deal with whatever comes your way, if you have the knowledge. And that is what this is about. As you do your research, you may want to keep a page of notes on key facts, figures, policies and other important information. Bring a copy of your notes to the conference in order to use them as a reference **(bear in mind that electronic devices are not allowed during committee sessions).**

B. Position Paper:

Each delegate must turn in a position paper before the start of conference. The purpose of a position paper is to give each delegate the chance to summarize their understanding of the issue at hand, to delineate a nation's stance on the issue, and to propose possible solutions that could be debated in committee.

When writing your position papers, there is a simple format that you should follow; it will make it easier for you to write and for me to read. The first paragraph of your position paper should describe what you feel are the most pressing and pertinent aspects of the issue, as well as the stance your country will be taking and what unique aspects of your nation relate to the issue at hand. The second paragraph should be used to describe what has the international community done regarding the topic, and how has your country cooperated with those actions. Finally, your third and last paragraphs should contain your ideas for possible solutions as well as courses of action that you believe should be included in a resolution. When writing, make sure you use the third person; instead of saying "I believe" or "we believe", instead say, "the delegation of Nation X believes" or something similar.

Each delegate is required to submit one position paper. This should be written in Times New Roman 12-point font, single-spaced, and approximately one page in length. Once it is ready, it must be emailed to alexander.odicio@gmail.com before the deadline established in order for the delegate to be eligible for an award.

VI. BIBLIOGRAPHY:

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