EMUN

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ECOSOC

Topic A:Micro-Finance in Emerging and Conflict Hit Areas

Introduction

Out of the 7 billion people that inhabit this planet, about 3 billion live on less than 2 dollars a day. Most of these people work in the informal sector in emerging and third world countries, some of them wracked with conflict for decades. These people have little to no financial resources to expand and get trapped in a vicious cycle of poverty. One of the possible solutions is micro-financial services that have had tremendous social and economic impact, as well as encouraged entrepreneurship and the empowerment of women in several parts of the world. Micro finance helps those that most financial banks and institutions would consider too risky to help.

The key purpose of this committee is to increase micro financial services in countries that need to get their large populations that live under the poverty line services such as savings, insurance, and loans. This will increase their access to capital, and thereby help them grow financially and socially. Microfinance is a great tool for emerging countries to speed up growth, and for conflict affected countries to repair and recover the economy. There is a clear need for the ECOSOC to help establish formal micro financial institutions across the globe. Currently, on 25 percent of the demand for micro financial services are met, and 97% of the people who receive credit and loans from these services pay back their dues on time. Having a high impact on poverty alleviation, the microfinance market is thus, not only a developmental opportunity, but also a business opportunity for growth.

Definition of Key Terms

Micro-credit

These are loans offered on a very small scale to those who cannot afford banks, particularly people employed in the informal sector, in order to spur entrepreneurship and economic development amongst the poor.

Micro-financial Institutions (MFI)

Microfinance

Microfinance involves the granting of financial services and products on a small scale, such as very small loans to assist the exceptionally poor in establishing or expanding their businesses. Microfinance is used in developing countries where budding entrepreneurs do not have access to other sources of financial assistance.

These provide micro-financial services such as micro-credit and can range from small

Micro-leasing

In micro-leasing, credit is given in the form of a productive, income generating asset to the client. The asset is purchased by the leasing company and given on periodic rentals for a specified term (three to five years). As the title to the asset vests in the leasing company, no additional security or collateral is required.[4]

Micro-insurance

Micro-insurance provides various forms of insurance such as life insurance, property insurance, health insurance, and disability insurance to the poor at low premiums, in order to protect them from various perils.

Micro-savings

These are small deposits that can be stored for future use. This allows families with low income to save for emergency needs such as an illness or a natural disaster.

Sustainability (of MFIs)

Sustainability refers to the long-term continuation of MFIs. It implies that that appropriate systems and processes have been put in place and MFIs can provide products and services on a continuous basis to its clients.

Third world nations

Third world nations are most commonly marked by high rates of poverty, high birthrates, low HDI and economic dependence on the advanced countries. Classification of countries under this category is subjective.

SME

Small to Medium size Enterprise (SME) is generally defined as businesses with less than 250 employees.

Key Issues

Products and services of MFIs

Currently many of the poor are forced to borrow through informal mediums such as from money lenders, savings clubs, rotating savings and credit associations. Sadly, money lenders often exploit them with very high interest rates. Such informal relationships also increase chances of fraud. Moreover, they cannot exit the negative circle by going to the bank because banks do not consider the poor a viable market. Often the less fortunate neither have enough money to open a savings account, nor the collateral to secure a loan. With no formal employment they usually do not have a credit record, and in several cases, they are illiterate and cannot do the necessary paperwork. Micro-financial initiatives provide them with an opportunity to obtain fair and reliable financial services at the small scale required by them. Modern microfinance includes a variety of products and services. Today, these mainly include:

- **Micro-credit**: has proved effective enabling the poor to increase income and reduce their vulnerability to economic stress.

- **Micro-leasing**: ensures credit is used for a productive and income generating purpose. The rates charged are market based.

- **Savings product**: Mico-financial savings are extremely important for the sustainability of MFIs.

  Savings made by clients provide MFIs with the funds necessary to give out micro-loans. In the long term, these savings help them become more independent from external funding and grants.

- **Payment services**: These include a number of financial services requested by the poor such as money transfer. However, such services require greater managerial ability, more complex infrastructure and technology. At present, not too many MFIs provide payment services.

- **Insurance products**: such services help the poor reduce their vulnerability to risks. In many developing countries these services are difficult for MFIs to provide due to the limits in their ability to manage and define micro-insurance schemes. Hence it is often advisable to form partnerships with formal insurance providers, rather than offering micro-insurance products directly.

Problems faced by MFIs

Today, MFIs are far more technologically advanced and connected to international markets which make it difficult for them to sustain growth and efficiency in the midst of a global financial crisis.

Ethical Problems

MFIs can be looked at as profit making institutions. However, this should not distract them from achieving their sole purpose which, as a social service, is to give financial opportunities to the poor. This ideology of MFIs needs to be engraved in them as the moment this ideology is undermined, MFIs become similar to money lenders. Another major ethical problem that arises in such communities is corruption. This cannot be neglected and should be one of the key issues these institutions should pressure the government to address. In conclusion these problems can not only reduce efficiency but also impede the successes of such initiatives by significantly affecting the motivation to establish them, especially during an economic downturn.

Major Parties Involved

Bangladesh

Bangladesh, globally known as the “founder” of microfinance, has witnessed a number of successes in establishing micro-finance initiatives. The positive social and economic effect of microfinance was first seen in Bangladesh. Microfinance initiatives in Bangladesh have greatly encouraged entrepreneurship, empowered women, increased employment and diversified sources of livelihood.

World Bank

The World Bank is the world's largest microfinance donor. In 2002 the World Bank launched the project, Financial Services for the Poorest in Bangladesh to extend micro-financial services to the poor. World Bank also approved US$70 million to boost SMEs in Bosnia and Herzegovina. The World Bank has also been providing policy advice to governments, which is very important in increasing access to finance.

UNDP

The UNDP (United Nations Development Program) is committed to improving work in the area of microfinance. The UNDP has set up a number of programmes and focuses on supervision of the MFIs to increase their efficiency, transparency and accountability. It also emphasizes on the importance of trained staff and well planned strategies.

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Topic B: High-level policy with international financial and trade institutions

The recent global financial and economic crisis has witnessed alarming rates of unemployment, a global shrinking of credit, and drastically lower levels of trade and investment. In 2009, the United Nations (UN) convened a summit of world leaders in response to the worst global economic recession since the Great Depression. The international community gathered to identify immediate and long-term responses to address the impact of the crisis on children, women, the elderly, and other vulnerable populations. As part of the review of the global economy, a debate on the international financial architecture also commenced intending to incorporate a greater global view, especially developing country viewpoints. Developing and Least Developed Countries may have contributed the least to this global crisis but have suffered the most leading to predictions of entire "lost decades of development," which could have disastrous consequences for entire the international community. World leaders agreed on a set of measures to address the global financial and economic crisis and were adopted by the General Assembly in Resolution 63/303 –

Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development.

Although the cause of the global financial and economic crisis was found to be complex and multifaceted, the major underlying factors included "inconsistent and insufficiently coordinated macroeconomic policies and inadequate structural reforms, which led to unsustainable global macroeconomic outcomes." The international community did agree that there was "insufficient emphasis on equitable human development [that] has contributed to significant inequalities among countries and peoples." Currently, developing countries are unable to implement efforts to counteract the effects of the recent crisis. Restructured international financial practices could allow developing countries, and especially least developed countries, to attain adequate resources necessary for halting the recession and returning to economic growth.

To address the developmental needs of developing countries, the Conference of the World Financial and Economic Crisis and Its Impact on Development devised a number of reforms to the international financial and economic system and its architecture. First and foremost, the Conference reaffirmed the need for reform and modernization of international financial institutions covering all areas including "mandate, scope, governance, responsiveness, and development orientation" as a means to prevent future crises through improved "monitoring, surveillance, technical assistance, and coordination." Governance requires a reform of the Bretton Woods institutions, today the International Monetary Fund and World Bank Group, as a need to have fair and equitable representation of developing countries to enhance the participation of such emerging markets on global financial and economic issues becomes paramount.

Leadership of international financial institutions, especially the

Bretton Woods institutions, need to have appointments of top officials based on "open, transparent and merit- based selection processes, with due regard to gender equality and geographical and regional representation." Stress on an increase in representation of developing countries on "major standard-setting bodies" is necessary. Major standard-setting bodies that could use further developing country representation include the Financial Stability Board and the Basel Committee on Banking Supervision of the Bank for International Settlements among others.

Including having greater participation in global economic governance, developing countries also need medium and long-term assistance from regional development banks. The international community recognized the need for increased financial and lending capacity of regional development banks and "other regional, interregional, and sub-regional initiatives and arrangements aimed at promoting development, cooperation, and solidarity among their members." International trade also needs reform to support sustainable economic growth of the international community.

Current Issues

World Trade Organization reform

The international community reaffirmed at the Conference a commitment to a "universal, rules-based, open, non-discriminatory, and equitable multilateral trading system." In support of reaching of this goal, the Conference called for an "early, ambitious, successful, and balanced conclusion to the Doha [Development] Round [of trade negotiations] that increases market access, generates increased trade flows, and places the needs of developing countries at its centre." Developing and least developed countries should also receive special and differential treatment, such as duty-free and quota-free access for exports, fulfill aid-for-trade pledges, and substantial reductions in trade-distorting domestic support as stated in the World Trade Organization's Hong Kong Ministerial Declaration.

Reform of the International Monetary Fund

Normally, the International Monetary Fund (IMF) provides support to developing countries through loans and policy advice in times of economic difficulties. The *Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development* sought to reform the policies underpinning the efforts of the IMF to achieve macroeconomic stability and reduce poverty, particularly conditionalities. The IMF places conditionalities on loans provided to governments during times of economic difficulty. Conditionalities are focused on instituting national economic reform ensuring growth and poverty reduction, as well as bringing about conditions for the borrowing country to repay the loan. The international community agreed on a streamlining of conditionalities "to ensure that they are timely, tailored, and targeted and support developing countries in the face of financial, economic, and development challenges."

As an intergovernmental oversight body for international monetary affairs, the IMF plays a role in a desire to reform the current global reserve system. This includes a "study of the feasibility and advisability of a more efficient reserve system, including the possible function [Special Drawing Rights] SDRs in any such system and the complementary roles that could be played by various regional arrangements." The IMF created special Drawing Rights in 1969 to support a fixed exchange system, which has since changed to a floating exchange rate system. In recent times, SDRs have served as an international reserve asset to supplement member countries' official reserves and support international trade by allowing for purchase of domestic currency in foreign exchange markets.

The Conference also recognized "the need for even-handed and effective IMF surveillance of major financial centers, international capital flows, and financial markets." One underutilized method for such surveillance is the use of early warning systems to provide warning of macroeconomic and financial risks to the international economic system. Most importantly, a comprehensive reform of the IMF needs to foster its credibility and accountability. In 2010, the IMF Executive Board agreed to a shift in quotas and accordingly voting power and representation within the IMF. However, there has yet to be an implementation of reforms by the members of the IMF.

Future Outlook:

One of the most contentious outcomes from the Conference on the World Financial and Economic Crisis and Its Impact on Development has been the establishment of an ad hoc panel of experts. This ad hoc panel of experts is supposed to provide independent technical expertise and analysis under the Economic and Social Council. However, informal negotiations did not reach an agreement and did not establish any such panel as of today. While the Group of 77 and China have urged for the creation of the panel to help provide technical expertise, the European Union and United States have opposed any efforts because other bodies can provide the same support. The European Union has viewed UN organizations such as the Department of Economic and Social Affairs and regional commissions, such as the Economic Commission for Latin America and the Caribbean, as able to provide and incorporate independent technical expertise for issues regarding global economic governance.

While the UN has been slow in fulfilling many of the recommendations from the Conference on the World Financial and Economic Crisis and Its Impact on Development, other countries have taken the lead on coordinating economic and financial affairs. The Group of 20 (G20) held an economic summit in Pittsburgh, Pennsylvania in 2009 and was announced as the new council for international economic cooperation, replacing the Group of 8. The G20 was formed to increase representation of world economic production with the inclusion of significant developing economies such as Brazil, China, and India. More than 90 percent of the world economy is represent by the G20. Although the G20 has increased representation for developing countries significantly, many still believe the G20 has inadequate representation of many interests. In response, many other countries have formed the informal Global Governance Group (3G) as a forum to channel issues of mutual concern to the closed membership of the G-20.

Focus Questions:

1. How has your country been affect by the 2008 Financial and Economic crisis?

2. Is your country a member of the G20, 3G, or G77?

3. Does your country have any unique development interests, such as being a least developed country, landlocked, or Small Island developing state?
4. Has the IMF or World Bank contributed to the development of your country? If so, how have they and what reforms could be beneficial to your country or others?