Committee / Council: ECOSOC

Issue: The role of microcredits in promoting economic development

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Introduction

What is microcredit?

Microcredit was an idea for aiding economic development first conceived by Professor Muhammad Yunus, who is the Nobel Peace Prize Laureate for 2006 and is also the founder of Grameen Bank. Grameen is a bank in Bangladesh that focuses on microcredit policy and on supporting the poor.

Generally, Microcredit refers to small loans that are being given to the poorest echelons of the population in order for them to find the funds necessary for a new start in life. We have to clarify that microcredit is not a synonym to microfinance, as microcredit has as main targets and goals to alleviate poverty, bring gender equity and support new entrepreneurs, whereas microfinance focuses more on saving accounts of the poor, which are supporting programs that give help to the poor by investing and managing their savings in a safe and effective way. Moreover, it should be highlighted that the people that are offered microcredit programs are the ones who do not have a steady employment and lack collateral. It should also be noted that microcredit works on behalf of the micro loaners that in most cases take advantage of the borrower. One of the most intriguing aspects of microcredit is that it wants to create an independent relationship between borrower-lender, so as soon as the loan is being repaid, the lender will be in a position to develop financially on his own, independently, whereas in other efforts to diminish poverty we cannot see similar results.

What is Economic Development?

Economic development essentially refers to the quality and improved conditions within an economy that should and must affect the largest possible percentage of the population. Economic development differs from economic growth. Economic growth refers only to the increase of goods and services that a country produces every year and it is measured in terms of GDP, whereas economic development leans towards promoting the standard of living.

Definition of Key-Terms

Despite having already explained to you what microcredit and economic development is, we feel obliged to provide you with a definition for these key-terms in order to help you understand these key-terms even better. According to Grameen Bank, which was the first bank to use microcredit programs, microcredit is: "programs extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families."[1] As far as economic development is concerned, it is: "the development of economic wealth of countries or regions for the well-being of their inhabitants."[2] I hope you delegates are now in a clear position to understand both of these terms.

Background Information

<u>How does microcredit work?</u>

For example, let's take a look at the charity efforts and events. After the money of a charity are being given for specific reasons, the people who are offered the goods will not be benefited in a long-term, thus leading to the short-term solution of poverty, but again and again as soon as this short-term ends, poverty will still remain to be an issue that has failed to be tackled successfully. Another intriguing aspect is the repayment success rate. According to the Grameen Bank and the information that provides to the public though its website, the repayment success rate is approximately around 96%, which is more than the repayment of the credit card debt in the United States of America. But there is another issue in this aspect. It is believed that many poor people take microcredit programs from other institutions in order to repay the loan that they had been offered by another one. Thus creating a vicious circle and making microcredit untrustworthy. It is considered that local and specialized banks, international institutions, social investors and philanthropists are usually the ones responsible for funding the loans and investing in them.

<u>How does microcredit affect the economy?</u>

Firstly, it should be stated that microcredit without the knowledge of the basics of business is not worth much, as it would struggle to bring economic development. Therefore, many of the institutions that provide microcredit programs, offer support and training programs so that the borrower can benefit in a long term in the most successful way. In this way more and more

[1] http://www.grameen-info.org/index.php?option=com_content&task=view&id=32&Itemid=91
[2] http://www.economics4development.com/

micro-enterprises would be created, thus leading to enhancing the local market. Unfortunately this great movement and effort to enhance and support the local economy can easily be overshadowed by the international corporations. Big local corporations would not easily support the newly created enterprises as they do not get enough attention due to the existence of the older and bigger corporations. Thus would lead the new investments to gradually fail and end up with debt issues, as they would not be able to join the formal credit market successfully and market their products. Through this we can easily understand that why the impact of microcredit on the economy still remains to be debated.

Why is microcredit important to the UN?

According to the Former United Nations Secretary-General, Mr. Kofi Annan[3], who spoke in front of the General Assembly on the topic of Microcredit and Microfinance, “Microcredit and Microfinance are important instruments for the reduction of poverty, gender inequality and woman empowerment in the world”. He continued by adding: "Observance of the International Year of Microcredit provides a significant opportunity to raise awareness of the importance of microcredit and microfinance in the eradication of poverty, share good practices and further enhance programs that support sustainable pro-poor financial sectors around the world". Through this speech it is clear to everyone that similar economic policies and development strategies may have huge contribution to worldwide financial development and social equality. It has also been stated that microcredit will help to reach the Millennium Development Goals and this is why microcredit is really important to the UN.

Microcredit in economic development

Here is the point where microcredit can make an actual difference. As we saw above, through the correct use of microcredit we can diminish poverty, raise the employment rate, build infrastructures for the new enterprises and with the support of the government by limiting the imports of goods that the country can produce, we automatically enhance and promote our local market. This is how economic development may have significant results, but unfortunately it is always difficult to cooperate and negotiate with corporations that their net worth is bigger than a country’s GDP.

The significance of the economic development

Economic development is of utmost importance to the global community and international economy in general as through this people may pursue a more sustainable world and enhance their human and institutional capacity and subsequent quality of life. There is an old Chinese proverb that can be used in

[3]http://www.gdrc.org/icm/iym2005/news-1.html

order to show to people what economic development really is "*Give a person a fish: you have fed the person for today. Teach a person how to fish: you have fed the person for a lifetime.*" People nowadays also add: "*teach the person how to process and package fish for export and market it, and you have stimulated economic development*" [4] in order to explain and clarify the meaning of it and its significance in the global market. More specifically, this aims to pinpoint that in developing countries economic development can be greatly influenced and stimulated by improving the technical capacity of their workforce through educational programs. This leads to a competitive labor market characterized by competent professionals available in a plethora of professions. That brings us automatically to the pleasant state of finding new paths to economic development, as through a competent and varied workforce innovative ideas and an economy ever expanding due to the interest of both domestic and multinational companies would create further job opportunities, raise government revenue and generally raise living standards. As we can see, economic development is a massive contributor to the global economy but unfortunately its complicated nature makes it susceptible to many other factors that keep it from actually taking root such as poverty, unemployment, lack of infrastructures and large international corporations that overshadow small enterprises that try to promote and enhance their local market.

Major Organizations Involved

Grameen Bank

Grameen Bank was founded in 1976 by Professor Muhammad Yunus in Bangladesh and was the first bank to implement and follow the concept of the microcredit, which was originated by its founder. According to its website, the Bank follows certain objectives, which are:

- Extend banking facilities to poor men and women;
- Eliminate the exploitation of the poor by money lenders;
- Reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

[4] http://www.worldexpertise.com/Engineering_Capacity_Building_in_Developing_Countries_to_Promote_Economic_Development.htm

- Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves; [5]

Something really significant about this Bank, is the fact that its currently owners are the rural poor people who actually borrow from it, and form the 90% of its shareholders, while the other 10% is owned by the government

Here is a balance sheet of the Grameen Bank on 2009 and 2010:

Taka (BDT) is the currency in Bangladesh and it is estimated to be 102.39 Taka per 1 euro or 81.83 Taka per 1 USD.

Property and Assets	***2009***	***2010***
(Average Taka/Dollar conversion rate)	*69.10*	*70.39*
Cash in hand	*16,201*	*12,723*
Balance with other Banks	*18,745,464*	*18,620,430*
Investment	*546,320,284*	*678,465,505*
Loans and Advances	*815,615,470*	*815,615,470*
Fixed assets-at cost less accumulated depreciation	*17,688,617*	*19,600,176*
Investment property (at cost less accumulated depreciation)	*1,614,446*	*1,541,981*
Other assets	*90,668,957*	*90,668,957*
Total	***1,490,669,439***	***1,490,669,439***

[6]

Through the data given in the table above, we can see how much Grameen Bank supports the rural areas in Bangladesh. It is estimated that the average loan is around 100 USD and that more than 54% of the people that borrowed from the Bank have crossed the poverty line, something that is really important and comes with great significance.

[5] http://www.grameen-info.org/index.php?option=com_content&task=view&id=19&Itemid=114

[6] http://www.grameen-info.org/index.php?option=com_content&task=view&id=179&Itemid=424

MICA.Inc

In Africa, microcredit is focusing more on bringing gender equality. Women there are forced to work and take care of their families without having the right to stand for themselves or speak up. Nowadays there is an organization identified as MICA.Inc, which is willing to support women and bring gender equality. MICA.Inc stands for "Microcredit in Africa". According to their website and the information that they provide us with MICA is a Non-Governmental, Tax Exempt Organization serving Women and Children in Africa through Bold Humanitarian Initiatives[7] and three main objectives:[8]

1. To improve the socioeconomic position of women and empower them so that they can have their own income and economic autonomy.
2. To improve education, nutrition and health through microcredit projects.
3. To support cultural exchange among African women from all over the world.

To achieve this, they have come up with many projects[9] such as: Oxcart Project, Seed Project, Education Project and Village Pharmacy Project. The oxcart project supports women financially. Women are being given an ox and a cart that they usually rent to other people in their village. Through this they increase their revenue and provide the community with transportation. After a small period of time, as women have gathered a satisfying amount of money, they can own the ox-cart by paying for it at MICA. The seed project refers to the supply of fertilizers and other seeds to the people that have agriculture as a main source of income. In this way, women, who work around 15 hours per day in agriculture, are helped and supported as MICA.Inc provide them all the necessary equipment to improve agriculture and their quality of life. To continue, the education project has as main goal to educate and train people that are in this need. AIDS education and job skill training are the main goals of this project. They also offer PC training by using donated used PCs. Last but not least, there is the Village Pharmacy Project. Through this project MICA.Inc wants to provide villagers with a first aid kit in exchange of a symbolic fee.

Possible Solutions

I believe all the delegates have recognized and pinpointed the problem and the malfunction on this issue. Microcredit is an economic way to economic

[7] http://www.microcreditinafrica.org/
[8] http://www.microcreditinafrica.org/statement/index.html
[9] http://www.microcreditinafrica.org/projects/index.html

development and should be supported but should also be taken good care of, by monitoring and making sure that the repayment rate remains at the same level as it is. The question now is, how do we promote economic development through microcredit? By taking a good look at your countries tax incentives or imports/exports and a better look at your GDP and how your country contributes to the global market, you could be able to open your market, enhance and support your economy, thus leading to a higher employment rate. As the domino effect goes on, the higher employment rate will help the poor gain some funds in order to start a “new life”. In combination with microcredits the poor can cross the borderline of poverty and experience financial growth and development in a really fast pace.

Conclusion

This study guide should provide you with all the basic and some more interesting pieces of information about this topic. I encourage all the delegates to focus and study the economic situation and position of your country, in order for you to be able to have a better and more efficient communication with the other delegates. We should all aim to take the most out of this experience especially when we are referring to topics that will follow us for the years to come. I hope you all like this subject and find this study guide useful.

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