

# Research Report

---

## Special Conference 2 on Globalization

Measures to promote responsible financing with regards to microcredit

MUNISH '11



Please think about the environment and do not print this research report unless absolutely necessary.

<b>Forum</b>	Special Conference 2 on Globalization
<b>Issue:</b>	Measures to promote responsible financing with regards to micro credit
<b>Student Officer:</b>	Liza Leimane
<b>Position:</b>	Deputy Chair

---

## Introduction

About 20% of the world's total population lives in extreme poverty (about on 1\$ per day). Most of these people living in the developing regions of the world (e.g. Asia, Africa). Most of these people are stuck in the cycle of poverty and are unable to get out because they don't have the means to.

Microcredit offers a solution to the problem. Microcredit is a very small loan to the poor. They are then able to invest this money and maybe start their own local enterprise.

Microcredit has had a major impact in some parts of the world, as investors and banks lend their money to the poor. Micro credit can be seen as a step towards reducing poverty and empowering the people to do something on their own. It helps people develop and reaches the ones in need.

## Definition of key terms

### Microcredit:

Small loans to the very poor in form of money. Microcredit aims help the poor to start an entrepreneurship even if they don't have much. It just gives the small boost that can get the business up and running. If the money is invested properly, it will pay back rather easily.

## General overview

Microcredit is a relatively new term in microeconomics, having been introduced only in the past few decades. Micro credits, as the name suggests, are small loans to people. It is said that the concept was created by Gramen Bank in Bangladesh. In Bangladesh, the poor have been empowered somewhat more and some have been able to exit poverty, building up their future using microcredit as their starting point.

Microcredit is very concentrated on one particular region or country. Unlike aid or big loans, it really reaches the local people and the ones in need. The very poor (the ones in need) are directly involved and there is no middle man or a third party. The agreement of the loan is between the lender and the receiver. With microcredit, locals have the starting investment for their business. It will most likely suit the demands of the local market and they will be able to respond very quickly to any changes. The small businesses would help to keep the money within the area that would be used there and in turn help to develop it. This, however, would be unlikely to happen in large corporations were involved.



Microcredit gives locals the opportunity to invest in their lives and build up their future. If it is used correctly, microcredit provides hope that they can achieve something and that they don't have to live in poverty their whole lives. With microcredit comes decision making and it makes them more aware of what they can or cannot do. With microcredit, the poor are able to stand on their own two feet, becoming less dependent on international aid or aid in general.

Microcredit helps in empowering the local people, engaging them and making them active, creating new work places if they set up their own business and in turn this develops the area where the money is used. If the money that is lend to them is used wisely, it is very likely that the poor can get out of the poverty cycle. About 75% of all people that have taken a micro credit are women. Micro credits help a lot in empowering women and for them to become more independent of men or independent in general.

As any other concept or loan microcredit has its negative aspects. Some creditors lend with a big interest rate that the very poor are unable to pay back if something goes wrong. this kind of lending abuses the whole concept, defeating its purpose to help the very poor and the ones in need. Because microcredit is a small loan, sometimes people don't think it through fully. They become tempted on not investing the money for future benefits but to spend it on food and other necessities that are needed at that moment but have no purpose in the long term run. They don't use it for the purpose that it was lent for and it might get in deep trouble. Since they make no investment, they have no means to pay back their debt.

## Major parties involved

Most of LEDCs are involved since their banks or investors are likely to give out microcredit to the ones in need. Although, this is mostly evident in developing Asian nations.

### Grameen Bank

It is considered to be the first (modern) microcredit lender. Grameen Bank was founded in Bangladesh. The bank strictly believes that charity is not the answer to tackle poverty. They say that charity takes away the freedom of people making them dependant on it. They embrace microcredit and micro lending, as one of the options of helping the poor.

## Timeline of key events

mid-19th century	Lysander Spooner writes about the possible benefits of small loans and how they could help in tackling poverty.
1950s	Akhtar Hameed Khan begins group-orientated credit in Pakistan. However, his project fails because the government becomes too involved and favourism defeats the purpose of the project.
1976	Gramen Bank is founded by Muhammad Yunus; it is the first institution to start lending microcredits.
Late 1970s	BRAC and ASA are founded and follow the example that is set by Gramen Bank



1980s	Microcredit reaches Latin America
2006	Muhammad Yunus, founder of Grameen Bank receives a Nobel Peace Prize for his work on providing microcredit services to the ones in need

## Previous attempts to solve this issue

### International Year of Microcredit:

United Nations declared 2005 the year of microcredit. The purpose of this was to promote micro credit to the world and enlighten everyone what it was about, since not a lot of people really know what it is. There were five main goals of the year:

1. Assess and promote the contribution of microfinance and microcredit to the MDGs;
2. Increase public awareness and understanding of microfinance and microcredit as vital parts of the development equation;
3. Promote inclusive financial sectors;
4. Support sustainable access to financial services, and
5. Encourage innovation and new partnerships by promoting and supporting strategic partnerships to build and expand the outreach and success of microcredit and microfinance.

### The micro credit summit campaign:

a summit held to bring together micro credit practitioners, lawyers, international institutions, donor agencies and so forth. It works to exchange knowledge between those working in the field and so find new ways of efficiently implementing micro credit into micro economy.

### General Assembly Resolution

In 1998 the GA adopted a resolution on “role of microcredit in eradication of poverty”<sup>1</sup>. In this resolution, the UN is asking for member states, that are actively involved in reducing their levels of poverty, to incorporate microcredit as one of the solutions in tackling poverty as it recognizes microcredit as one of the ways of eradicating poverty.

## Possible solutions

One thing that could be done is promoting micro credit to the ones that would be needing in. Not a lot of promoting has been done, especially on a local scale, so getting people to explore their options might help in turning microcredit even more into a tool. Setting up small-scale campaigns could work. They shouldn't be large-scale because too much money is invested and it is very likely that not a lot of it will reach the ones in need. Something that could be done is to have people that have borrowed microcredit and benefited from it, to go talk to others. These people are relatable to the locals and they might see it as a real opportunity. Someone who is an expert in a field (eg. A bank employee) could go along as well, explaining more in depth about the pros and cons in order to prevent people from making rush decision or decisions that are not thought through well. This

---

<sup>1</sup> GA resolution 52/194 <<http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N98/768/37/PDF/N9876837.pdf?OpenElement>>



should be done because sometimes people underestimate themselves and borrow without thinking first. That might lead to negative consequences and microcredit will not help them as a result.

## Appendices:

- I. General Assembly Resolution on microcredit <<http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N98/768/37/PDF/N9876837.pdf?OpenElement>>
- II. UN Report: role of microcredit <[http://www.grameen.com/index.php?option=com\\_content&task=view&id=42&Itemid=92](http://www.grameen.com/index.php?option=com_content&task=view&id=42&Itemid=92)>
- III. Grameen Bank <<http://www.grameen.com/>>
- IV. Microcredit Summit <<http://www.microcreditsummit.org/>>

## Reference list:

"Microcredit". Web. 12 Sept. 2011

<<http://www.investopedia.com/terms/m/microcredit.asp#axzz1X6iz2AbG>>

Microcredit Summit. Web. 04 Sept. 2011 <<http://www.microcreditsummit.org/>>

Tina Rosenberg. "When microcredit won't do." *The New York Times*. Web. 04 Sept. 2011

<<http://opinionator.blogs.nytimes.com/2011/01/31/when-microcredit-wont-do/>>

*Wikipedia*. "International Year of Microcredit." Web. 12 Sept. 2011

<[http://en.wikipedia.org/wiki/International\\_Year\\_of\\_Microcredit](http://en.wikipedia.org/wiki/International_Year_of_Microcredit)>

