**Issue:** Improving the awareness of the availability of micro-finances
**Forum:** Economic & Social Council
**Position:** Deputy Chair
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## Introduction

A very big component of the financial system we have today is debt. Debt has been around for 4000 years. it is an indispensable part of the financial system we know today. Going by many different names which represent many different varieties, debt, like bank loans, gives people, like entrepreneurs the opportunity to achieve more in life.

There are two main types of financing available for companies: debt and equity. The biggest difference between the two is that debt financing works with loans and equity financing works with shares being given to entities financing the company.

This financing almost always includes quite big amounts of money. This means that poorer people in LEDCs often do not get the opportunity to make their dreams and ideas come to life due to a lack of money. These people rarely ever need a lot of money, but that is actually the problem. Most banks and investors don't think that it is worth it to finance these poorer people and entrepreneurs, while they actually often don't need more than a few hundred dollars to make a reality of their business ideas.

This is where micro-financing comes into play. Micro-financing programs and organizations are being set up to provide those people that are too poor for big financing with just the right amounts of money they need to start off their businesses. Micro-financing organizations also often include micro-saving accounts and micro-insurance. The things these programs offer are on their way of becoming very widely available to the people who need it, however, these people often lack quite a bit of awareness about the content of the programs these organizations offer, how they can help them, and the availability of these programs to them.

## Definition of Key Terms

Entrepreneur - An entrepreneur is a person who sets up a business or businesses. Entrepreneurship offers a lot of great opportunities, but it also carries big risks, as the entrepreneurs often start their business on loaned or their own private money **(capital)**. It is often quite hard to find this 'starting **or seed** money', but the risks mostly lie in the fact that whenever an entrepreneur's business idea fails, they often risk losing money they can't afford to lose.

Bank loan - In financial terms, a loan is the lending of money by one party to a second party, who can use this loan to set up a business plan or buy something that is generally too expensive for them, while paying the loan back in terms. Both the loaning and the lending party can benefit from this kind of deal, as the loan is often paid back with interest, meaning that the lending party will make money off of the loan. There is, however, always some risk involved as it can never be fully ensured that the loaning party will be able to pay back the loan.

Capital- wealth in the form of money or other assets owned by a person or organization or available for a purpose such as starting a company or investing.

Time value of money (TVM)- the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity. It is also sometimes referred to as 'presented discount value'

Debt financing - Debt financing is financing via loans that must be paid back, often with interest, this is the most common form of financing and loaning. It is attractive to the lending party because it seems like an easy way to make money for anyone who has money to spare but making sure you get all your money plus interest back is not always as easy. Debt financing is mostly done by banks but can also be done by private individuals and companies.

Equity financing - Equity investments do not need to be paid back, but it relinquishes ownership stakes to the shareholder. The financer has to believe in the company it is financing, as its profit completely depends on the course of the company. It is quite an attractive way of getting financing for companies, as there is no need to pay back any money given. Simply put, the financing party buys a part of the company it decides to invest in. Equity financing is often done by private investors and investment funds.

Cash flow - In accounting, cash flow is the difference in the amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance). Cash flow is not the same as profit or loss.

Microloans - Microloans are just like regular bank loans, except they often cover amounts so small banks might not consider it worth the money, time and effort. Microloans are a very effective way of getting people in LEDC's out of poverty and realising their dreams and ambitions.

Micro savings - A branch of microfinance, consisting of a small deposit account offered to lower income families or individuals as an incentive to store funds for future use. Micro savings accounts work similar to a normal savings account, however, are designed around smaller amounts of money.

Micro insurance - Micro insurance products offer coverage to low-income households or to individuals who have little savings and is tailored specifically for lower valued assets and compensation for illness, injury or death.

Non-profit organisation - An organization serves public or mutual benefits and interests. Being a non-profit does not mean that the organization does not generate profit, but simply that it doesn't generate revenue for the purpose of harvesting income. They typically serve a scientific, religious, educational, or charitable purpose.

For-profit organisation - Opposed to non-profit organisations, the primary goal of for-profit organisations is generating profit. micro-financing organisations being for-profit can seem quite contradictory, as their goal should be helping the poor and not making money off of them.

LEDCs - LEDCs stands for Less Economically Developed Countries and serves as a term to refer to nations that are least developed as a group instead of pointing out specific examples. There is an official UN list that is frequently updated with time as to keep track of these countries and their progress. This term was most commonly used more in the past but has now been frequently replaced with LDCs as it is a more general term.

# General Overview

### Loaning

For as long as there has been trade, even before there were real monetary systems, there have been loans. A lot of loans, especially the earliest ones have been one-on-one loans of physical trading products between individuals. The first recorded 'prototype banks' who created loans on a greater scale stem back to 2000 B.C. in Assyria, India and Sumeria. These 'banks' loaned grain to farmers and merchants. The first monetary loans would have been in temples in ancient

Greek and during the Roman empire. Loaning and lending are great ways for individual people, banks, or other instances to help each other and others get more opportunities in life. It is a construction that makes people help each other realise their plans and ambitions, while also being an opportunity to make some money for both. Of course, no prospect comes without any risk, and the same is with loaning. Because how safe things might look, we can never be sure if plans work out and money can be paid back eventually, loaning also carries quite great risks, for both the loaning and the lending party.

### Financing

When business-related, the act of loaning and lending is often referred to as **financing** or **funding.** It is the process of providing funds for business activities, making purchases or investing. Financial institutions such as banks are in the business of providing capital to businesses, consumers and investors to help them achieve their goals. The use of financing is vital in any economic system, as it allows companies to purchase products out of their immediate reach. Put differently, financing is a way to leverage the time value of money (TVM) to put future expected money flows to use for projects started today. Financing also takes advantage of the fact that some will have a surplus of money that they wish to put to work to generate returns, while others demand money to undertake investment (also with the hope of generating returns), creating a market for money. But one must understand that most loans are made by creating money (out of thin air).

As said there are two main types of financing available for companies: debt and equity. The biggest difference between the two is that debt financing works with loans and equity financing works with shares being given to entities financing the company. Both debt and equity have their advantages and disadvantages. For the loaning party, the biggest advantages of equity financing are that the investor assumes all the risk and there are no debts and interests to be paid back; The biggest disadvantage is that you must share ownership and control of your company. On the other hand, with debt financing, companies could get into difficult positions if it were to be experiencing cash flow issues. However, the loaning party does retain full ownership of the company. Most companies use a combination of both to finance operations. Nota bene: While loans can sometimes be transferred into shares, but shares can never be transferred into loans.

### Microfinancing and its benefits

Banks often don't really like lending small amounts of money (smaller than about $20,000), arguing that most of the time it is simply not worth it. That is where micro-financing organizations comes into play. Microfinance, also called microcredit, is a type of banking service that is provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. While institutions participating in the area of microfinance most often provide lending (microloans can range from as small as $100 to as large as $25,000), many banks offer additional services, such as checking and savings accounts, and micro-insurance products; and some even provide financial and business education. Ultimately, the goal of microfinance is to give impoverished people an opportunity to become self-sufficient. Most modern microfinance institutions exist in LEDCs and are a great tool to help the people become independent and self-sufficient and to help the economies blossom.

### History

Microfinancing is no new concept: Small operations have existed since the 18th century. The first occurrence of microlending is when Jonathan Smith introduced the Irish Loan Fund system, which sought to improve conditions for impoverished Irish citizens. In its modern form, microfinancing became popular on a large scale in the 1970s. The first organization to receive attention was the Grameen Bank, which was started in 1976 by Muhammad Yunus in Bangladesh. In addition to providing loans to its clients, the Grameen Bank also suggests that its customers subscribe to its "16 Decisions," a basic list of ways that the poor can improve their lives. The "16 Decisions" touch upon a wide variety of subjects ranging from a request to stop the practice of issuing dowries upon a couple's marriage, to keeping drinking water sanitary. In 2006, the Nobel Peace Prize was awarded to both Yunus and the Grameen Bank for their efforts in developing the microfinance system.

### How it works

Most micro-financing institutions work in such a way that people wishing to seek help from those institutions first have to take basic money-management classes in order to ensure that the given money will be used wisely as the often poor people seeking help from such institutions are usually quite inexperienced in the monetary world. Lessons cover understanding interest rates, the concept of cash flow, how financing agreements and savings accounts work, how to budget, and how to manage debt.

Once they have completed these programs, customers can apply for loans, exactly like at traditional banks, a loan officer oversees the process, helps the borrowers with applications and approves the loans. To wealthier people, the typical loans, sometimes not even exceeding $100, may not seem like a lot of money. To many impoverished people, however, often living off of not more than a few dollars or less a day, this money can make a big difference in the process of putting their ideas to work and becoming financially more independent, while being given the opportunity to thrive in the financial world.

### Benefits

Estimates by the World Bank state that more than 500 million people globally have, either directly or indirectly, benefited from microfinance-related operations. The benefits of microfinance also extend way beyond the direct effects of giving poor people a source for capital. Entrepreneurs, making use of the available micro-financing, create successful businesses, create jobs, trade and provide overall economic improvement within communities. Another benefit is that many microfinance institutions are working on empowering women in particular, this may lead to more stability and prosperity for families in many cases.

### Possible downsides

Despite countless success stories and very promising outlooks on the future for many people in LEDCs, there is also some criticism out there on micro-financing institutions. The biggest argument being put forward against these institutions is that, however, micro-financing institutions' interest rates are usually lower than those of banks, these institutions are making money off the poor people's backs. This point can be backed up by the fact that quite a few micro-finance institutions, like BankoSol in Bolivia, SKS Microfinance, and Mexico's Compartamos Banco, all have transitioned from being non-profit organisations (NPO's) into being for-profit organisations, meaning they have an objective of making money. In addition to these concerns, some critics also state that the loans are often too small to make a big difference. They say that individual microloans of $100 or so really are not enough money to provide independence—rather, they keep recipients working in subsistence-level trades, or just cover basic needs. A better approach, these critics maintain, is to create jobs by constructing new factories and producing new goods.

### The problem

The International Finance Corporation (IFC), part of the larger World Bank Group, estimates that, as of 2014, more than 130 million people have directly benefited from microfinance-related operations. However, these operations are only available to approximately 20 percent of the three billion people who qualify as among the world's poor. We have got to pump up those numbers. Besides that, the awareness of the availability of these micro-financing operations is very low too. Improving this awareness is a vital leg in the journey to make people in LEDCs more financially independent and decrease global poverty.

## Major Parties Involved

### The World Bank and its institutions

The World Bank is a unique global partnership working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. It has 187 member countries and locations in more than 130 countries, and it consists of five institutions:

- The International Bank for Reconstruction and Development (IBRD)
- The International Development Association (IDA)

- The International Finance Corporation (IFC)
- The Multilateral Investment Guarantee Agency (MIGA)
- The International Centre for Settlement of Investment Disputes (ICSID)

## Major micro-financing organizations:

### Kiva Micro Funds

Founded in 2005 and headquartered in San Francisco, Kiva Micro Funds is a non-profit MFI that operates in the United States and more than 80 other countries worldwide. Kiva's operational method for providing microfinance lending is through establishing  crowdfunding, or peer-to-peer (P2P) lending, a platform that allows individuals to lend directly to borrowers in other countries who lack access to traditional financing sources. Kiva provides interest-free financing for small businesses, education and health services such as clean water. As of 2016, Kiva has extended more than $850 million in microloans and has a network of approximately 1.5 million lenders and approximately two million borrowers. The organization's website states that it funds an average of $2.5 million in loans weekly.

### Grameen Bank

Grameen Bank, founded in Bangladesh in 1983, holds the distinction of being a Nobel Peace Prize-winning MFI. It originated as a result of the work of its founder, Muhammad Yunus, whose research pioneered the concept of providing micro-banking services and non-collateralized loans for the poor in order to alleviate poverty. As of 2015, Grameen Bank has more than eight million borrowers and a loan portfolio in excess of $18 billion. In addition to providing microcredit and other banking services, the bank also launched an award-winning low-cost housing program in 1998.

### BRAC

One of the oldest existing MFIs is BRAC, founded in 1972 in Bangladesh. BRAC provides a broad range of services in the areas of human rights, education, health and economic development, including grants and small business loans, housing assistance and micro savings services. BRAC operates in a dozen developing countries, stretching from Haiti to the Philippines. As of 2015, its gross loan portfolio was more than $1.4 million.

### Bank Raykat Indonesia

Bank Raykat IDR250 (BBRI.JK), also known as Bank Raykat Indonesia, is the oldest Indonesian bank, founded in 1896 in Jakarta, and has established itself as one the country's largest financial institutions, while operating primarily as a small-scale and microfinance lender, with more than 30 million retail banking clients conducting business with the bank through thousands of branches and rural service posts. The bank is 70% government-owned.

### 51Give

Founded in 2007 in Beijing, 51Give provides microfinance solution services for other MFIs. The organization offers an e-commerce platform that offers both online and mobile technology designed to connect individuals, companies, organizations and institutions with local MFIs, thus facilitating donations, investments and the delivery of microfinancing services. As of 2015, 51Give's platform was being used by more than 100 charitable organizations.

## Previous attempts to resolve the issue

### Month of Microfinance

Kiva, together with a few other parties, has recently named the month of April the "Month of Microfinance" (MoMF) - an entire month to explore microfinance's role in ending poverty and creating opportunity, a chance to help others understand what it is and how it works. it has transformed into a grassroots movement engaging student around the globe in a nuanced, informed dialogue around microfinance. While especially giving microfinance a lot of attention in the month of April, the movement also tries to do a lot for the awareness and the availability of microfinance outside of that single month. Their website is filled with information about micro-financing, how it works and how to spread awareness of it.

Many other micro-financing organisations and institutions have also set up their own programs, websites, and campaigns to ensure better knowledge and broader awareness of micro-financing opportunities worldwide and to try and improve the micro-financing system.

The International Finance Corporation (IFC), part of the larger World Bank Group, has also helped establish or improve credit reporting bureaus in their credit bureau program. Credit bureaus are companies which collect information relating to the credit ratings of individuals and makes it available to banks or finance companies. It has also advocated for adding relevant laws in 33 countries that govern financial activities.

## Possible Solutions

Although the issue states, "Improving the awareness of the availability of micro-financing" and not "Improving the availability of micro-financing", one major way to raise awareness of something is always to improve its availability. By making something more widely available, it will always become more well known to the people as a side effect.

Other possible solutions might involve campaigns including advertisements with posters, billboards, on the television or social media campaigns. Setting up projects with influential people who are willing to help spread awareness and improve the image that people have of micro-financing will also help greatly in solving this problem. Local governments too can help, by properly informing people about the availability of micro-financing and the possibilities and risks that come with it.

Another great way of improving the awareness of the availability of micro-financing is setting up all sorts of different programs and projects regarding micro-financing, to make the people in need more familiarized with the available opportunities. Such things are already done by many organisations, for example during the Month of Microfinance. Such programs and projects can include things such as but not limited to workshops, educational programs, and social media campaigns.

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