



Economic and Social Council

Sebastián Figueredo and María José Morales

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COMMITTEE GUIDE

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3. Topic 2:

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1. Presidents' Letter

Dear Delegates,

It is a pleasure to welcome you to this new edition of the Colegio Colombo Británico Model United Nations, and to the Economic and Social Council. We are María José Morales and Sebastián Figueredo, and we will be your chair for this model. We have both participated in several models, which have taught us many things, and we hope that we can pass on as much knowledge and experience as possible to you. We want you to know that nerves are something very normal, we all feel it, but we also know that those nerves only make us doubt ourselves, so we want you to leave those nerves behind and to know that making a mistake is not a failure, but helps you to grow.

For this model, we chose 3 issues that are affecting the world at the moment and that we know will create a very interesting debate. We hope that, with these issues, we can come up with some solutions to eradicate these problems, and that we start to become aware of issues that are affecting the world.

We are also aware that, as this is a Middle School Committee, some of you will be rookies, which means that this will be your first time participating in a UN model. We want you to put that worry aside and know that, even if you don't have the same experience or level as other delegates, you are still capable of going out there and giving your all! We will still be looking out for all of you and helping you, regardless of whether you have experience or not. Even so, we want you to do the necessary research to maximise your capabilities, as only with a thorough understanding of the topics will you be able to perform to your best level.

We want this 22nd edition to be the beginning of a new experience that will open many doors for you and which will leave you with a lot of knowledge. We would also like to remind you that we are here for you, if you have any questions or doubts you can write to us by mail or look for us and we will try to answer them either before or during the model.

Kind regards,

María José and Sebastián

ECOSOC Chair

ecosoc@ccbcali.edu.co

Topic 1: *Rise in homelessness in major cities*

I. History/Context



Figure 1: Homelessness in medieval times

Understanding the historical context of homelessness may highlight present aspects of it. Though it has always existed, the characteristics of homelessness have changed over time. As cities got bigger, homelessness became more of a problem; in Roman times, for example, there were many homeless people on the streets of Rome. Those who were unable to cultivate the land or who lost their livelihoods during the mediaeval era were prone to homelessness. About 20% of the population of Europe in the Middle Ages was homeless.

The promise of manufacturing jobs during the Industrial Revolution attracted people to growing cities. Homelessness increased as a result of the unfavourable and congested living circumstances of major urban centres. Many Americans lost their jobs and houses during the Great Depression of the 1930s, causing widespread homelessness.



Figure 2: First homeless shelter in London 1860s

There was a rapid increase in homelessness in numerous countries during the late 20th and early 21st centuries. This was because of dramatic changes in the economy during these times. Many industries in inner cities started to close

down which led to a process called deindustrialisation, causing a decrease in the manufacturing sector and the loss of many jobs. This happened for various reasons.

The emergence of free trade organisations like the World Trade Organization (WTO) reduced trade barriers between nations, and contributed to globalisation. As a result, businesses found it more affordable to create goods in nations with lower labour costs, especially emerging nations. For this reason, a large number of businesses relocated their plants abroad, which resulted in the loss of jobs in industrialised nations' manufacturing sectors. Further contributing to the process was the development of increasingly sophisticated robots and machines that could perform many manufacturing tasks more cheaply and efficiently than human workers; this process, known as automation, greatly reduced the need for manual labour in factories. In developing countries, more and more people decided to move to the cities where they could work in these new industries, creating problems of homelessness in these places.

The decline of trade unions was another factor in the deindustrialisation process; strong unions defend manufacturing jobs by negotiating better benefits, higher wages, and safer working conditions for their members. However, in recent decades, these unions' influence has declined due to factors like globalisation, deregulation of industries, and changes in laws that complicate worker organising. Companies now find it simpler to reduce expenses by laying off employees and rehiring with lowering wages and benefits. Many of the workers were left without the opportunities or skills needed to find different jobs as a result.

In addition, the growth of the service-based economy frequently resulted in lower pay and fewer benefits, which made housing more and more expensive, especially for low-wage workers. Service-based jobs provide some of the lowest paid jobs such as restaurant work or shop assistants. The National Low Income Housing Coalition of the USA calculated that in 2023, \$21.13 per hour would be the minimum salary required in the US to afford a two-bedroom rental property (n.a, 2019). Given that this is far more than the federal minimum pay of \$7.25 an hour,

many low-paid workers struggle to make ends meet. If there is no legislation in a country to help these people, they may often end up homeless.

A contributing factor to the increase in homelessness is urbanisation. In recent years, there has been a rise in homelessness due to rapid urbanisation. The need for housing rises as people move from rural areas to cities, increasing their numbers. The construction of new homes is frequently outpaced by this increase in demand, which raises housing costs and makes it more challenging for individuals, particularly those with low incomes, to find affordable accommodation. Consequently, this causes people to become homeless.

Gentrification is a process of urban redevelopment where poorer run-down areas are taken over by more affluent citizens because the properties are cheaper. This leads to resident displacement, as the rents and property values start to rise, affecting inner-city neighbourhoods inhabited by lower-class citizens. For example, according to a 2016 National Fair Housing Alliance research in the United States, gentrification was responsible for the displacement of Black renters at a rate that was more than twice that of White renters (n.a, 2016). This emphasises how gentrification processes might worsen racial inequities.

Homelessness involves more than just being without a place to live. It covers a broad spectrum of issues, including job loss, mental health, conflict and intrafamilial violence. A significant aspect is the length of homelessness. A prolonged condition, chronic homelessness frequently lasts for years or even decades, and these people often end up living on the streets. People who are homeless for an extended period of time may struggle with mental health issues, long-term medical disorders, or a lack of work skills. These conditions may further force individuals into a state of homelessness by causing a web of social isolation and making it difficult for them to access support networks.

The pie chart shown in figure 1 shows 4 different categories of homelessness: Sheltered Chronic, Unsheltered Chronic, Sheltered non-chronic, and Unsheltered non-chronic in California 2020. This chart shows that there is a high proportion of

Homelessness in California in 2020

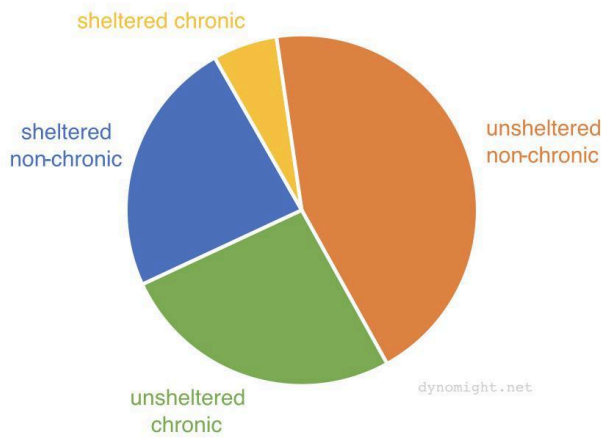


Figure 3: Homelessness in California in 2020

homeless people who can be placed in the category of chronic and unsheltered homelessness, which is a big concern as it means that they are longtime homeless people who do not have a shelter i.e. they live on the streets.

Non-chronic homelessness is when people have periods of homelessness. Episodic

homelessness represents a cyclical pattern with time of relative stability mixed with unstable periods. Events like losing one's work, experiencing abuse from a partner, or experiencing a brief mental health crisis can set off a homeless episode. While they may be able to obtain shelters or temporary accommodation, people who experience episodic homelessness often struggle to establish long-term security. Transitional homelessness occurs when a person suffers a major life event, such as losing their job or getting too ill to work. These people don't have family to help them out and can end up losing their homes. Programmes for transitional housing provide vital support services like childcare, mental health counselling, and job training. With the help of these services, families and individuals can close the gap and move toward long-term housing.

Hidden homelessness is when a person is living on a temporary basis with friends or family. This is a very difficult situation to be in because they may be asked to leave, or feel obliged to leave at any moment as they are putting a large burden on their host family.

II. Current Situation

The rates in homelessness in major cities worldwide has been increasing in recent years due to various economic, social, and policy factors. The COVID-19 pandemic, for instance, aggravated this issue, forcing a greater number of people into this state of living due to job losses, rising healthcare costs, and evictions. In addition, the lack of affordable housing and the increasing cost of living in urban areas are things that, when summed up, have ended up leading to the reduction of the respective capacity of social safety nets to support those in need.

Homelessness is caused by a combination of socio-economic factors, such as the shortage of affordable housing, poverty, domestic violence and conflict. It is estimated that more than a billion people live in substandard accommodation around the world.

Cities like San Francisco, London, and Sydney, for example, have experienced rising real estate prices, making it almost impossible for low-income individuals to find stable housing. Widening income inequality has also left a growing segment of the population unable to meet basic living expenses; many working-class individuals and families, despite being employed, cannot afford housing due to stagnant wages and rising costs.

Mental health issues and substance abuse are also causes and consequences of homelessness, even more so because cities often lack adequate mental health services and addiction treatment programmes, leaving many without the support they need to regain stability. Institutional failures, such as inadequate support for individuals leaving the foster care system, prison, or military service, also contribute to homelessness. A recent report from the University of Calgary stated that almost 70% of homeless people in North America had mental health problems.

Homelessness can often be caused by political problems, natural disasters, access to illegal drugs and armed conflict. Colombia, for example, has seen a rise in homelessness due to the number of Venezuelan migrants entering the country,

and a rise in the number of drug addicts, whilst in Ireland, the Health Research Board reported a 44% increase in people seeking treatment for crack cocaine use between 2018 and 2019, many of whom were homeless and unemployed. India has seen a huge rise in urbanisation as people move from the countryside looking for better opportunities in the cities.

Homelessness around the world

Homelessness rate, 2023

Population reported as experiencing homelessness at a single point in time per 100,000 people. The data is collected by counting the people living on the street or staying in shelters on one night of the year. Countries use different definitions and data collection methods and are harmonized to the extent possible.

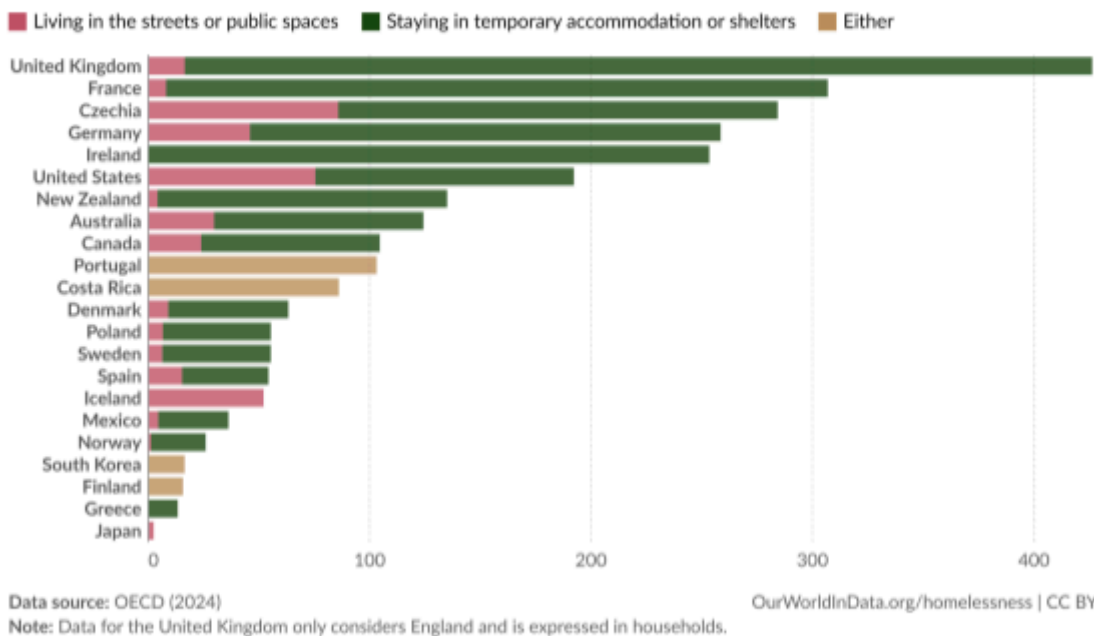


Figure 4: homelessness statistics 2023

North America

USA

In 2023, in the United States, 653,104 people experienced homelessness, with 111,620 children affected, including over 10,000 living outside shelters. Homelessness increased in 41 states, with New Hampshire, New Mexico, and New York showing the highest percentage increases, and New York, Vermont, and

Oregon having the highest per-capita rates. More than half of the homeless population resides in the nation's 50 largest cities, with New York City and Los Angeles accounting for a quarter of all of the homeless.

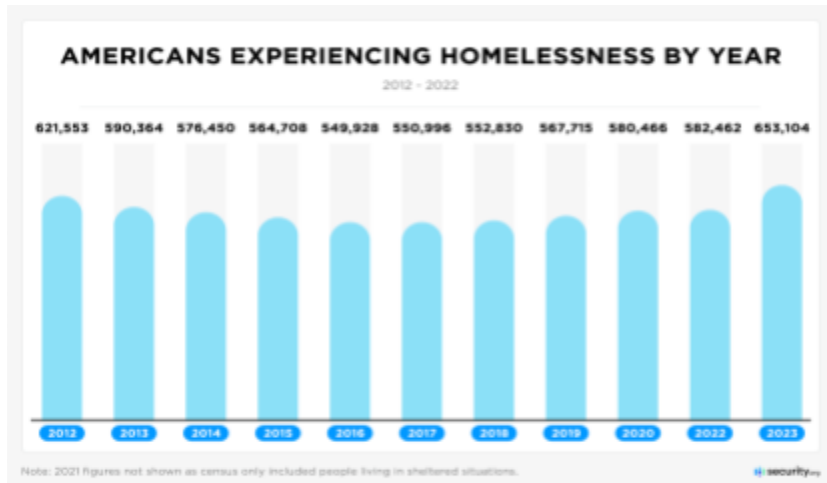


Figure 5: Americans experiencing homelessness by year.

Additionally, this is not an issue exclusive to a certain ethnic group, since every one of these groups saw an increase in homelessness, with the Asian community experiencing a 64 percent rise and Hispanics/Latinos having the largest numerical increase. Further analysis also showed that of the homeless population, 60 percent were sheltered in emergency facilities, transitional housing, or safe-havens, while 40 percent were unsheltered. Not only this, but families experiencing homelessness increased by 16 percent, along with the number of chronically homeless

The US homeless population hit the highest point in the last 15 years, rising 12% from last year alone



Figure 6: total homeless population per year in the United States

individuals (those homeless for over a year or repeatedly over three years) also rose, making up nearly one-third of the homeless population, the highest proportion since records have been taken. (Matthew Adkins, 2024)

Canada

The number of homeless people is rising, and the proportion of homeless families is increasing. Many are young people who may be fleeing dangerous home situations, and a lot of homeless are of the hidden homeless variety.

Latin America

The situation in Latin America and the Caribbean is very alarming. Nicaragua (78%), Bolivia (75%), and Peru (72%) have the highest rates of families experiencing homelessness, or poor quality housing, and even the country with the lowest rate, Costa Rica, still faces a drastic 18% rate (*The Lancet, October 2023*). These statistics should incentivise governments to focus their efforts and attention on the resolution of this problem, they should strive to address it more rapidly, and with greater effectiveness. However, this isn't the case for most nations. Brazil's situation, for example, is concerning, given that it has introduced new groups to the homelessness crisis - women (often mothers), children, and the unemployed with limited education. These people essentially become invisible to the eyes of the government, not only because little has been done to resolve their state of living, but because there's little data to show how much the COVID-19 pandemic affected them, and little incentive to inhibit the multiple other factors that lead to homelessness, especially poverty. Along with poverty comes hunger; many Brazilians have been forced onto the streets seeking food. This is a reality that affects 19 million Brazilians, who are left pretty much helpless, given the highly deficient emergency aid covers, which only help with half of the basic food basket. This country alone has faced a 140% increase in homelessness since 2012, magnifying the population of those driven by hunger, marked by stigma, vulnerable in the long-term, and unaddressed mentally and physically.

European Union

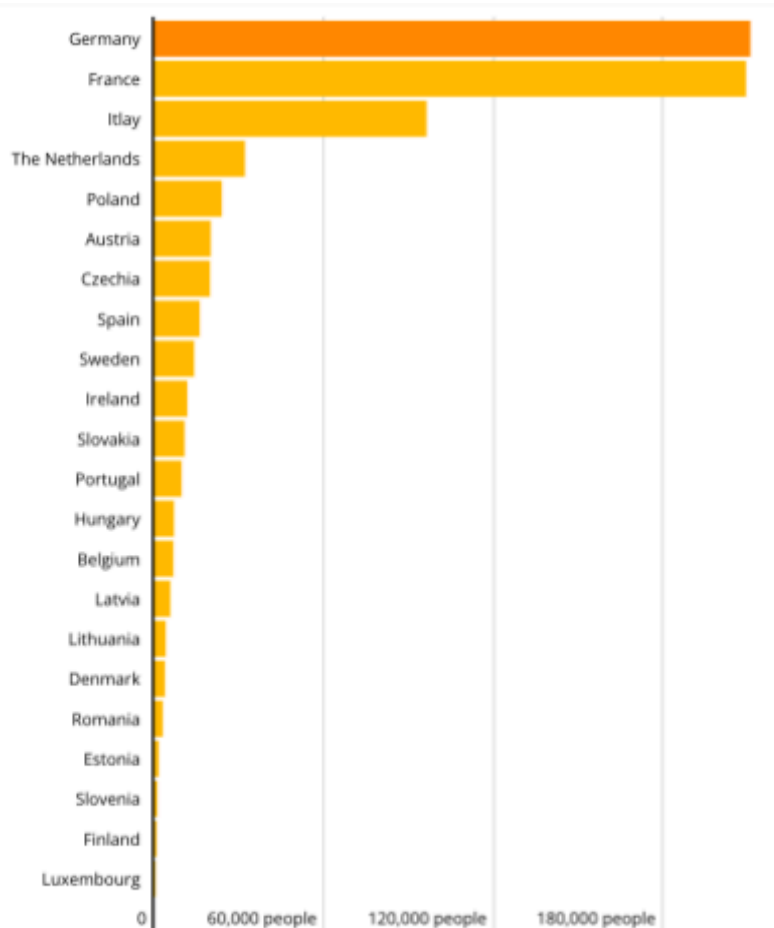
In the European Union, the number of homeless people has more than doubled since 2009, and an estimated 890,000 people sleep rough or in homeless shelters at any given time. This problem is not just about individuals sleeping in the streets, but also includes all those people who are incapable of affording and

sustaining a stable housing source: people in shelters; people residing in a friend's house; and prisoners who are leaving prison and can't be reinserted into society adequately.

In Europe's case, homelessness has been magnified by the rising cost of living, the migration crisis and a shortage of available housing, which can all be attributed back to rising population. The problem is certainly most critical in Germany with 210,000 homeless, followed by France with 209,000 people sleeping rough or in shelters.

In the UK, it was found that people who are homeless tend to die between the ages of 40 and 50. They are much more likely to experience

violent attacks and to commit suicide than other citizens. Although the UK has systems of benefits to help people financially, you need to have an address to receive this help, which means that homeless people cannot claim the benefits. Even if they get accommodation with the help of the government, these places are often substandard due to a shortage of affordable housing. There is a legal term called a no-fault eviction, which means that a landlord can make a tenant leave the property in the space of two months. They often do this so that they



Source: [Eight Overview of Housing Exclusion in Europe 2023](#), FEANTSA

Figure 7: number of homeless per country (Europe).

can raise the rent for new tenants. The old tenants then discover that they cannot afford any property as all the prices in the area have increased so much.

Africa

In Africa, the rapid pace of urbanisation has worsened homelessness in major cities, as the housing infrastructure is unable to keep up with growing demand due to mass migration towards the cities, as people look for “better economic opportunities”. This, in turn, has created a lack of affordable housing, as demand rises for an industry whose supply is lagging behind. This lack of affordable housing, paired with the weak social safety nets, has left many with no options other than to establish themselves in slum settlements and informal housing. For instance, in countries like Nigeria and South Africa, economic inequality and unemployment have aggravated the circumstances, and despite rising levels of homelessness, governments have been inconsistent in their responses. Even if they were to be consistent, the limited resources that they could dispose of to address the underlying issues of homelessness, would severely limit their efforts.

Asia

In Tokyo, homelessness is rising, especially among elderly individuals, to which the government has responded with measures such as increased shelter availability and employment support programmes. There is a cultural stigma around homelessness, which means that people will not admit to being homeless. Although government figures show a small level of homelessness, many citizens are forced to sleep in cybercafes or “capsule hotels” every night.

Poverty is the cause of homelessness in many countries of Asia. Myanmar and Timor-Leste have an extreme poverty rate of nearly 50%, for example. In China, although there is not a high proportion of people living on the streets, it is estimated that 300 million people are homeless. They are usually people who moved to the cities to look for work and who live in



Figure 8: Homelessness in India

crowded and unsanitary dormitories on the edges of the cities. India has the highest number of street children in the world, and it is estimated that some cities have as many as 150,000 homeless people.

Oceania

Australia

The cause of homelessness is often family problems, where young people or partners need to escape intrafamilial violence. The number of older people who become homeless is also increasing because their pensions are not enough to cover their living costs. Indigenous people are much more likely to be homeless.

New Zealand

New Zealand has one of the highest rates of homelessness in the world, although this is partly because of the way in which homelessness is defined compared to other countries. One of the biggest problems is the high costs of housing for low-income people. There is also a high number of homeless people from the LGBTQ+ community.

Combating Homelessness

To help resolve these challenges, various initiatives have been created around the world. One of these is the Housing First programme, a programme that tries to contribute permanent housing to homeless individuals without any preconditions whatsoever. Having been applied in cities like Helsinki and Salt Lake City with great success, the programme has played a role in helping to reduce their homeless populations. Finland is one of the only countries seeing a reduction in homelessness, with less than 800 homeless living on the streets in 2022. Freek Spinnewijn, director of FEANSTA, believes that Finland's success is due to the country's adoption of the Housing First approach (working on the principle of offering a permanent roof to homeless individuals first in order to help resolve the other health and social problems they may be facing). He also argued that the problem with previous approaches to this situation was that, *"in the traditional*

approach to homelessness... we try to treat and solve all the problems that homeless people might have in the shelter system. And then at the end, we provide them [with] housing” (Freek Spinnewijn, 2022).

Another strategy being applied is supportive housing, which combines affordable housing with other services like mental health care, job training, and substance abuse treatment; New York City and Los Angeles have expanded these supportive housing initiatives to address chronic homelessness. Another way nations have tried to inhibit the rising numbers has been through policy reforms, such as the moratorium on evictions made by the United States during the pandemic, granting immediate relief and preventing a further surge in homelessness. The moratorium meant that it was illegal to evict people from their homes when they got into financial difficulties during the pandemic. Extending and improving these protections can provide support to vulnerable populations, but it is also important to promote collaborations between government, the private sector, and non-profit organisations, as seen in cities like Toronto, where partnerships have facilitated the development of affordable housing units and the provision of more comprehensive support services.



Figure 9: Depiction of the chronically homeless.

In the United States, cities like San Francisco and Los Angeles are being highly affected by this crisis, and have come up with measures such as the "Project Roomkey" initiative in California, that provided temporary shelter in hotels during the pandemic. In Sydney and Melbourne, homelessness is worsened by high living costs and insufficient social housing, leading the government to invest in rapid rehousing programmes and rental assistance

schemes, but people have expressed their desire for more extensive investment in public housing and mental health services.

Despite the success of the Housing First approach in some cities, the homeless crisis in North America, and other parts of the world continues to worsen. Housing First was created in response to the traditional method of addressing homelessness, which required individuals to achieve sobriety or complete treatment programmes before being taken into account for housing. This approach was shown to be counterproductive by frontline workers and clinicians in the 1990s, who thought that having a stable home should be a prerequisite for solving other issues such as substance abuse or a deterioration of their mental health. This new more modern model has since been adopted widely, showing success in reducing homelessness and improving health outcomes.

When looking at this type of programme, however, it is important to remember that a severe lack of affordable housing is the root cause of homelessness. The Housing First model, while effective, can often only prioritise the most severe cases, leaving many people without the housing they need. In addition to this, the process of gaining access to Housing First programmes can be flooded with favouritism and corruption, complicating efforts to resolve homelessness in an effective manner.

Despite different efforts to combat homelessness, it is said that some people are just too hard to house, and that “they are wilfully and persistently chronically homeless” (*Carlyn Zwarenstein, 2020*). Some individuals have argued that the root cause of homelessness is precisely the fact that in many cases it is chronic. Despite various efforts and programmes aimed at providing housing and support, some argue that a subset of the homeless population remains persistently difficult to house due to a combination of mental illness, substance abuse, and other systemic barriers.

Examples of this so-called chronic homelessness can be appreciated across the entire world, but one particular example is worth noting. That is Ben Taparra’s story from Hawaii, a man who lived on the streets, and struggled with crystal

meth addiction and severe mental illness. He lived an isolated life, and was completely disconnected from his family and from the rest of the society that surrounded him. Yet in a matter of a year, Tapparra enjoyed a more humane life, being sober, housed and rebuilding relationships with his children. How was he able to attain this? Well it is precisely because of the belief of individual struggle as the cause of homelessness; Hawaii's only psychiatric street medicine team intervened in his life, and provided him with long-acting injectable medication for schizophrenia, as well as helping him overcome his addiction. His life story shows the extent to which targeted intervention can benefit the situation of someone enduring homelessness.



Figure 10: Activist painting a mural.

In order to combat chronic homelessness, effective solutions must address the root causes of homelessness, such as unemployment, economic inequality, lack of mental health services, and substance abuse treatment options. Some countries are in a better situation to offer a range of services to homeless people due to their level of development, but whatever the economic level of the

country, housing should be viewed as a basic human right, available to all citizens. Because of this, nations around the world should start applying policy changes at all levels in order to tackle the problems of homelessness in major cities in an effective way.

III. Key points of the debate

- Rising rates of homelessness and demographic trends
- Insufficient affordable housing and increasing cost of living in urban areas
- Inadequate social safety nets and institutional support

- Mental health issues and addiction as both causes and consequences of homelessness
- Successful initiatives and policy reforms in various cities and countries
- Chronic homelessness and targeted interventions
- Homelessness as a systemic issue versus individual failure
- Housing as a basic human right
- Effectiveness and challenges of the Housing First model

IV. Guiding questions

- 1.** What official or approximate data do you have on homelessness within your country? How is homelessness defined and monitored in your country?
- 2.** What measures does your country have in place to prevent homelessness and what is the response to the problem of inadequate housing?
- 3.** What are the social and economic factors, particularly in large cities, that increase the rate of homelessness in your country?
- 4.** What is your country's approach to the availability of low-cost housing, especially in urban areas where housing costs are on the rise?
- 5.** What programmes or policies, such as access to health care, mental health services or social assistance, has your country put in place to help homeless people?
- 6.** In what ways does your country cooperate at the international level with organisations or take part in global campaigns to tackle homelessness?
- 7.** What are the particular obstacles that your country faces in tackling homelessness, and what are the tactics that it has used to overcome them?
- 8.** How does your country balance the need for economic expansion and urban development with the need to alleviate homelessness and ensure that all residents have access to decent housing?

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Topic 2: *Implementing microfinance to alleviate poverty in developing countries*

I. History/Context

Microfinance has emerged as an important technique in the fight against poverty. It offers financial services to low-income individuals who lack access to traditional banking institutions. While its effectiveness is controversial, microfinance is undeniably a lifeline for many communities, especially women. Microfinance helps individuals to start and grow businesses, as well as invest in education and healthcare, allowing them to build resilience in the face of unexpected economic setbacks.

The microfinance sector comprises a diverse spectrum of institutions, including non-governmental organisations (NGOs), cooperatives, and even for-profit corporations. These Microfinance Institutions (MFIs) offer services beyond microloans. Microloans, sometimes referred to as microcredit, are given to underprivileged clients who do not have access to standard banking services. Usually, the purpose of these loans is to finance activities that generate revenue, such as beginning a business. Microloans give people the ability to escape poverty by giving them access to capital. Savings accounts help people build financial security. Insurance products lower the risks associated with illness or accidents while providing a safety net in times of need. Financial education programmes teach people how to budget and manage their money, encouraging them to make good financial decisions.

Major global MFIs, such as Grameen Bank in Bangladesh (founded by Nobel Peace Prize laureate Muhammad Yunus) and Banco Compartamos in Mexico, serve a vast customer base. Furthermore, many local MFIs serve specific populations and adjust their offers to the distinct environments in which they operate.

The impact of microfinance is clear. According to Impact Finance Barometer 2022 the sector's number of borrowers has increased, reaching 156.1 million in 2021 (Forster & Atienza, 2022). This translates into a 5.0% increase at the MFI level, which is closer to the annual pre-pandemic growth rates witnessed in 2017-2019 (6-10%). In terms of demographics, female consumers make up 53% of MFI borrowers as can be seen in the following chart.

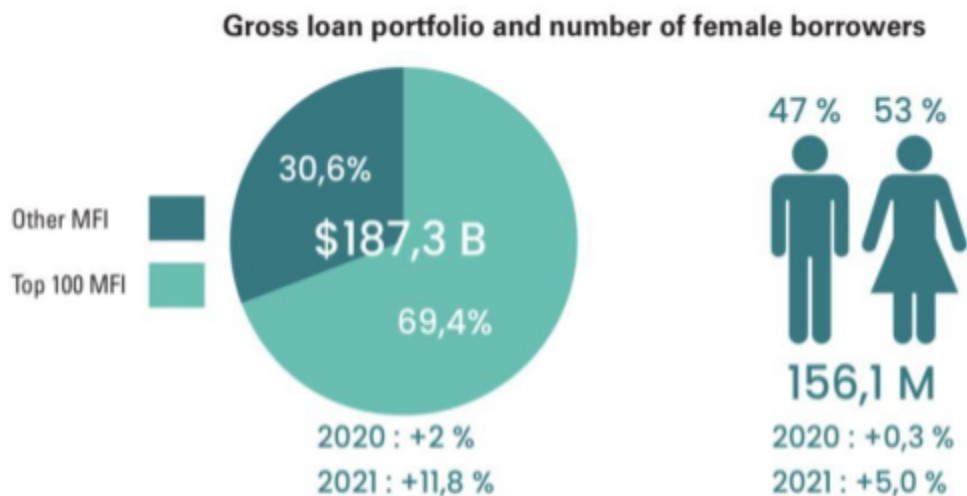


Figure 1: Gross loan portfolio and number female borrowers

Repayment rates are often high, with some locations having percentages that reach 90%. This means that almost all the people who borrowed money can manage to pay it back. Success stories abound, demonstrating the transformative power of microfinance. In Ghana, for example, microfinance programmes have enabled women to start small businesses, resulting in increased household wages and a significant improvement in living standards. As of the end of 2021, the area that continues to lead the sector regionally was South and Southeast Asia, accounting for 72.5% of all borrowers (Forster & Atienza, 2022). Similarly, in Rwanda, microfinance has enabled farmers to invest in higher-quality seeds and fertilisers, thereby enhancing agricultural productivity and cutting poverty. In 2021, Sub-Saharan Africa constituted 5.1% of global GLP and 6.5% of all

borrowers, totaling USD 9.6 billion in GLP (Forster & Atienza, 2022). In the following chart you will see a case study of the percentage of female clients from Ghana and Cameroon. (GHA: Ghana, CMA: Cameroon)

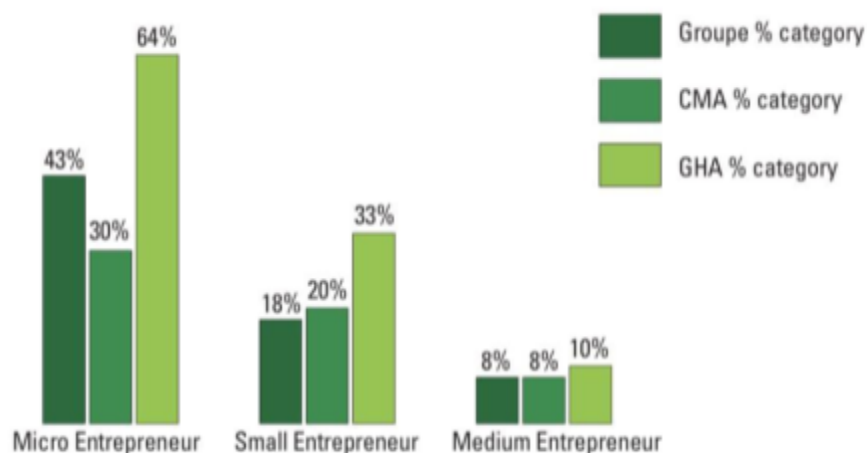


Figure 2: Percentage of Female clients per segment

Problems with Microfinance

Microfinance does not come without its obstacles. One major problem is that some MFIs may charge excessive loan rates. This raises concerns about affordability and the likelihood that borrowers would become locked in a debt spiral. Additionally, some people may take out a lot of small loans, which all add up to a much bigger overall debt.

Limited geographical reach can also make it difficult to receive MFI services, especially for people living in distant rural areas. If the restrictions on borrowing the money are too strict, this may discourage innovation and limit the growth of MFIs. Furthermore, several MFIs continue to struggle to strike a sustainable balance between social mission and financial viability, raising worries about whether this type of system can work over a long period of time.

Microfinance uses innovation to meet these difficulties and to broaden its reach. The integration of digital financial services is having a transformational impact. Mobile banking and digital wallets provide more access to financial services, particularly in remote areas where traditional banking infrastructure is limited.

In addition, new financial solutions are being developed to satisfy the unique demands of the poor. Micro-leasing programmes, for example, allow individuals to lease the equipment or assets needed to start or grow a business. Weather insurance protects you against financial losses caused by natural disasters such as floods and drought. These improvements hold considerable potential for expanding the reach and impact of microfinance in the fight against poverty.

Governments and international organisations play a significant role in developing and shaping the microfinance industry. Governments can provide critical assistance to MFIs through subsidies, tax breaks, and capacity-building programmes. Furthermore, fair and transparent regulatory frameworks are essential for safeguarding clients and encouraging responsible lending practices.

International organisations like the World Bank, the United Nations Development Programme, and other non-governmental organisations (NGOs) play a major role in supporting, promoting, and researching microfinance initiatives. Their contributions are critical to speeding innovation, ensuring the long-term survival of microfinance programs, and maximising their impact on poverty reduction.

II. Current Situation

In recent decades, microfinance institutions (MFIs) have emerged as a promising tool for alleviating poverty, particularly in developing economies where access to traditional banking services is limited. The premise behind MFIs is to provide financial services such as small loans, savings, and insurance to marginalised populations, including small-scale entrepreneurs and low-income households, who often end up being excluded from formal financial systems.

MICROFINANCE

Benefits of Microfinance



Figure 3: Scheme of the benefits of microfinance.

Poverty remains a challenge on a worldwide scale, and this has been the reason for the rise and establishment of these institutions. Currently, millions of people endure extreme deprivation, something that has worsened because of economic downturns and the COVID-19 pandemic. The World Bank defines poverty not only in terms of income, but also as a multidimensional problem that includes things such as health, education, and access to basic services.

In many countries, a significant portion of the population lives below the poverty line, struggling with inadequate resources for adequate living, especially in rural areas. Typical approaches to poverty alleviation, including large-scale loans from international institutions, have fallen short of their intended outcomes. This failure has caused a shift towards microfinance, led by institutions such as the Grameen Bank in



Figure 4: A microfinance initiative in Benin

Bangladesh, which pioneered the first attempts of the concept of providing small loans to grant economic aid to impoverished communities.

The theory behind microfinance is that by providing access to credit, people can then invest in income-generating activities that in turn improve their economic potential, and progressively reduce poverty. However, empirical evidence drawn from a number of studies has led to a mixed set of findings and conclusions, causing questions to be raised about the ultimate effectiveness of microfinance. While some studies have been able to highlight this approach as beneficial in terms of increased household income, and the betterment of economic resilience, others have questioned the true extent to which poverty has been alleviated exclusively by microfinance.



Figure 5: Ideal role of microfinance on poverty reduction.

A study conducted in Zimbabwe, led by the Department of Accounting Sciences of the Midlands State University, aimed to determine whether microfinance loans helped to alleviate poverty. Surprisingly, the findings revealed a noticeable relationship between poverty levels, microfinance growth, small and medium

enterprises (SMEs), and agricultural development. Contrary to what was expected, microfinance was found to potentially increase poverty over time, showing that poverty depends on a mix of complex economic factors. The study also pointed out that while small businesses and farming helped reduce poverty, the rise in microfinance loans seemed to be more a result of existing poverty rather than a solution to it. This suggests that just giving financial resources through MFIs isn't enough; other support is needed to make sure the loans are used effectively and have a lasting positive impact on the economy.

Critics have questioned whether microfinance always reduces poverty, saying its success depends on factors like a country's development level, financial knowledge, and community strength. While microfinance can help poor communities and increase financial access, its ability to truly reduce poverty needs ongoing changes to fit a constantly shifting world. Offering more than just loans, such as savings, insurance, and money transfers, can help make microfinance more sustainable. Also, fixing regulatory gaps and strengthening institutions is key to making microfinance more effective in achieving long-term poverty reduction.

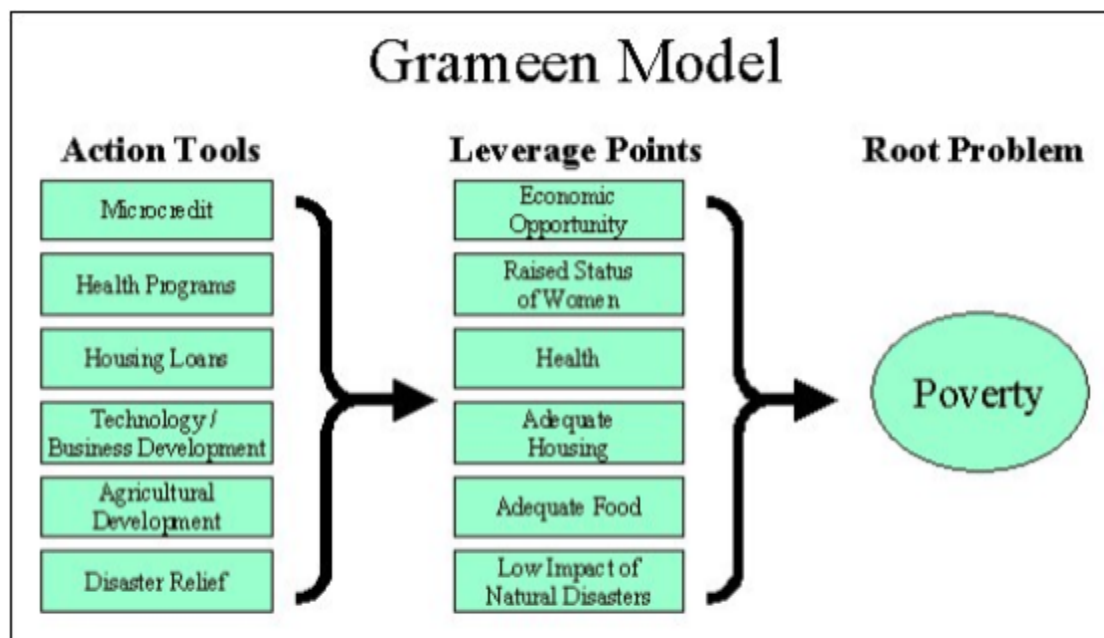


Figure 6: The Grameen Model.

In countries like Bangladesh, microcredit was introduced by institutions like Grameen Bank, founded by Muhammad Yunus, and initially helped reduce poverty in the short term. However, lasting poverty reduction needs more than just temporary financial help; it requires creating long-term wealth and economic stability for families. As a result, while microfinance in Bangladesh initially lowered poverty, its effectiveness gradually decreased over time, and poverty levels remained high even after several years of using microfinance.

In some countries, microfinance has brought many benefits, but in places like Vietnam, it has faced criticism for offering mostly loans and lacking other options like savings and insurance. To improve, Vietnam's microfinance sector needs to include a wider range of financial services to better tackle poverty and help vulnerable communities.

A study by Kamel Bel Hadj Miled (*Does microfinance program innovation reduce income inequality? Cross-country and panel data analysis*) found that countries with higher microfinance loans per person tend to have lower income inequality. This shows that microfinance can help reduce inequality on a larger scale. The study also suggested that microfinance gives low-income borrowers the chance to contribute to economic development, increase their income, and improve their living conditions.

“Since microfinance specifically targets the poor and economically excluded, it provides these people with new financial opportunities to initiate or maintain income-generating activities, thereby increasing their income and well-being, and effectively reducing income inequality”.
(Kamel Bel Hadj Miled, 2022)

In the future, small business owners will need more credit to grow their businesses. With larger microloans and access to extra services like health and nutrition programs, they could increase their income and help reduce income inequality. However, the study highlights the need for policymakers to create

strategies that improve access to microfinance and banking services, ensuring that financial institutions better meet the needs of poor communities.

IN THE UNITED NATIONS:

Microfinance was first introduced during the UN's International Year of Microcredit in 2005, and was thought to be a crucial tool for financial inclusion, since it offered small loans to empower the poor and help stimulate economic systems. Over the past decade, however, the UN has been uncertain about the actual benefits of it, and the effectiveness it has in achieving these goals has been questioned, especially when it comes to its adherence to the Millennium Development Goals (MDGs), as well as the Sustainable Development Goals (SDGs).

The implementation of microfinance has seen inconsistent results around the world; some countries like Bangladesh and China being successful in using microfinance to reduce poverty, particularly in rural areas where traditional banking services are scarce, but in other regions, such as Sub-Saharan Africa, it failed due to challenges such as high costs and limited outreach. This has allowed critics to argue that microfinance's impact is actually marginal in reducing poverty compared to creating substantial job opportunities.

With so many different opinions about microfinance, a question arises: is it really a good system, or does it just hide its flaws? Even though microfinance has received about \$34 billion in funding and has spread worldwide, it still struggles to replace informal moneylenders and loan sharks (a private individual who loans money at very high interest rates, often using threats to get back the money) in many areas, raising doubts about how effective it really is. The idea behind microfinance is simple: give small loans to entrepreneurs and small businesses in poor communities so they can make money and improve their lives. Supporters believe that access to credit will help break the cycle of poverty and lead to self-sufficiency. However, in reality, the results have been more complicated and less hopeful than expected.

Microfinance is, in fact, unable to effectively compete with informal moneylenders who continue to operate in many parts of the world despite access to formal microfinance institutions (MFIs). These informal lenders operate outside regulatory frameworks, and offer quick but draining loans that appeal to vulnerable borrowers who lack access to mainstream financial services. Because of this, while some borrowers benefit from increased economic opportunities and improved living conditions, others, particularly the poorest of the poor, won't experience any advantages, increasing existing socio-economic inequalities within communities. The persistence of these in the market has helped uncover some of the deeper issues that deter greater benefits from microfinance.

Microfinance is often designed to give loans to people with small business ideas, but many people do not have the ideas or academic level to start up businesses - what they need are stable jobs so that they can take home a decent wage. They may take out microloans for everyday purposes, such as buying food and school uniforms, which they are then unable to pay back.

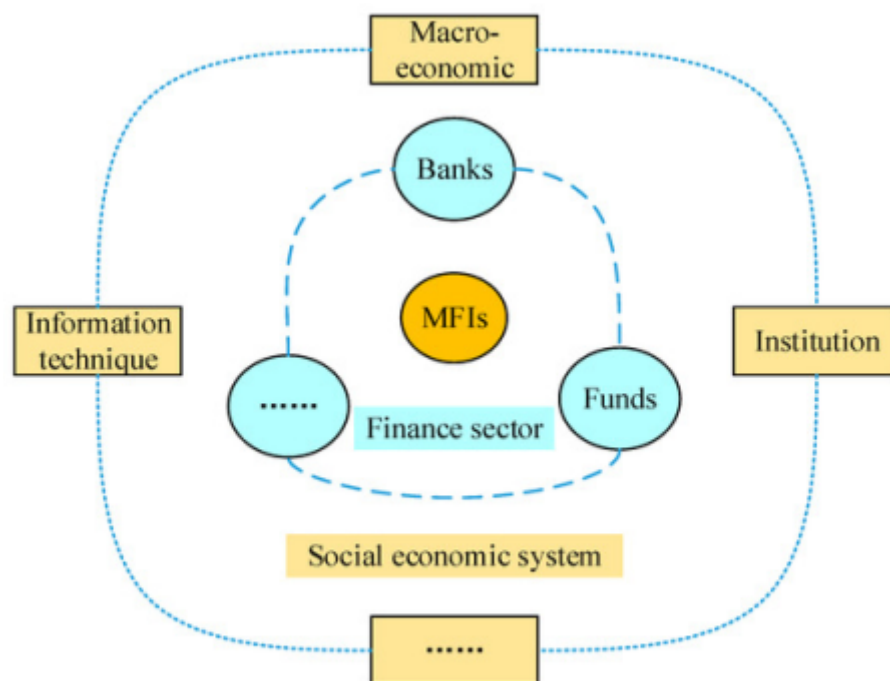


Figure 7: Gaps in the financial sustainability of MFI's.

To make microfinance more effective, some important changes are needed. First, there must be better evaluation and transparency in how microfinance programmes are assessed. Instead of using simple measures of success, research should focus on how microfinance fits into local economies and informal financial systems. Second, microfinance institutions need to fix internal management problems by improving staff training, better targeting borrowers, and strengthening oversight. Collaboration between microfinance institutions, governments, and regulators is also key to promoting financial inclusion and protecting borrowers from harmful practices. While microfinance aims to reduce inequality, it's not perfect. To maximise its benefits, we need to understand how much it really helps and what can be done to improve its impact.

III. Key points of the debate

- Microfinance's role in reducing poverty by enabling low-income individuals to create businesses and access education and healthcare.
- The impact of microfinance on women's economic opportunities and gender equality
- The risk of high-interest rates in microfinance leading to a debt cycle for borrowers
- The effectiveness of mobile banking innovations in expanding microfinance access to remote areas
- The importance of MFIs offering additional services like savings accounts, insurance, and financial education
- Microfinance's contribution to economic growth and job creation through support for SMEs (small and medium enterprises)
- The role of governments and international organisations in enhancing MFI effectiveness through subsidies, tax breaks, and capacity-building
- The problem of weak regulations and poor institutional support makes it hard for microfinance programs to last and grow.
- The potential of innovations like micro-leasing and weather insurance to expand microfinance's impact on poverty reduction

IV. Guiding questions

1. What microfinance services are offered in your country? Are they accessible to low-income individuals and small businesses?
2. What role has microfinance played in your country's economy, particularly for low-income individuals?
3. What obstacles does your country face when it comes to executing effective microfinance programs?
4. What specific policy measures or regulatory reforms has your country explored or done to solve issues with microfinance implementation?
5. Is there any current government initiative or partnership with microfinance institutions to promote financial inclusion and poverty alleviation?
6. How well do microfinance programs in your country help low-income individuals and encourage financial inclusion? What obstacles need to be overcome for this to continue to be the case?

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