SIMULATION COMMITTEE GUIDE

UNCSTD

UNITED NATIONS COMMISSION ON SCIENCE AND TECHNOLOGY

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Presidents' Letter

Dear Delegates,

Welcome esteemed delegates to CCBMUN XXI and to the United Nations Committee on Science and Technology for Development (UNCSTD). It is with great pleasure that we, Antonio Suárez and Luis Enrique Robles, seniors at Colegio Bolivar, assume the role of presidents for this distinguished committee. Our journey in Model United Nations has been one of dedication and passion, with Antonio's involvement spanning since sixth grade and Luis Enrique's since seventh grade. Over the years, we have accumulated invaluable experience, having participated in a variety of committees and amassed over ten models each. Today, we stand before you as presidents, excited to embark on this new chapter and share our expertise.

UNCSTD holds a special place in our hearts, as it embodies originality both in its approach and subject. It provides a platform for delegates to explore complex issues and tackle them through innovative and demanding means. We have long admired the committee's capacity to encourage creative thinking, problem-solving, and substantive debates. Now, as your presidents, we aim to utilise our extensive background as delegates to create an exceptional experience for all of you.

We understand that navigating a Model United Nations conference can be both challenging and rewarding. Therefore, we want to emphasise our commitment to supporting and guiding you throughout your journey in the UNCSTD Committee. Whether you have questions about the topics at hand, require assistance with understanding your country's position, or need any other form of guidance, we are here for you. Our role is to foster an inclusive and collaborative environment that enables fruitful discussions and effective resolution-building. Together, let us forge ahead with a shared determination to excel. We aspire to create an atmosphere where knowledge is deepened, diplomatic skills are honoured, and personal growth is key. Once again, welcome to CCBMUN XXI and the UNCSTD Committee. Let us embark on this exciting journey together, united by our shared dedication to promoting science, technology, and development on a global scale.

If you have any doubts, or questions, or are just looking for advice, we will always be happy to help. You can contact us through the committee email or through our mobile numbers 3024649492 (Luis Enrique) or 3162743494 (Antonio). Good luck delegates!

Yours sincerely,
Luis Enrique Robles & Antonio Suárez (UNCSTD Chair)
uncstd@ccbcali.edu.co

Simulation topic: *Implications of Decentralised Finance in Developing Countries*

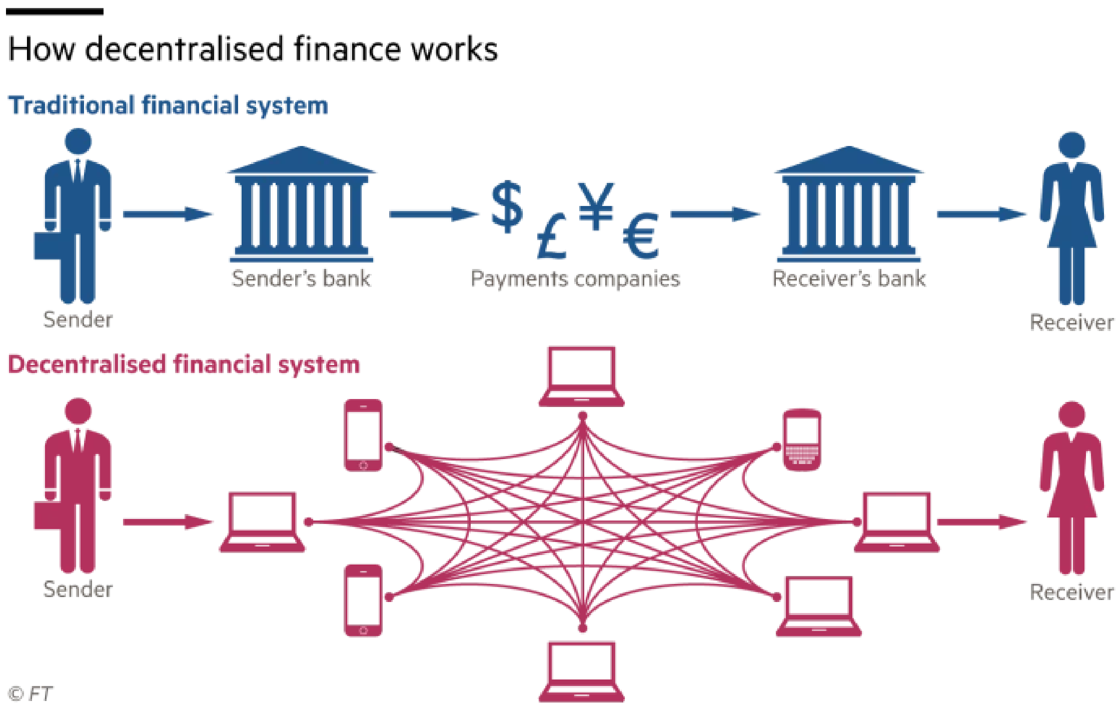
I. History/Context

When civilizations initially began to develop, trade mechanisms between various people consisted of the exchange of goods. For example, if one group produced grain and another potato, they could organise a mutual exchange of those two goods. This method of trade started to cause issues because the good that one community was willing to trade wasn't what another group needed, this was because an individual might have needed a good at a particular time but couldn't trade it for anything. In order to avoid this, the rulers of ancient civilizations began to use rare metal as a central currency to solve this, which first solved the problem of exchange.

For many communities, using gold and coins as a currency became unreliable. As a result, banks created the first paper bills of exchange which were essentially pieces of paper that, at the time, represented the value of a specific amount of gold. Nevertheless, the gold standard was only used until 1914. Today, central banks are in charge of settling on monetary policy, regulating currency flow, and establishing a baseline for interest rates. These objectives seek to preserve low inflation rates, price stability in the value of money, a stable real economy with high employment and economic growth, and financial stability with an effective payment system and the avoidance of financial crises. They are the backbone of a nation's banking system.

It is crucial to understand how these financial institutions primarily manage the flow of money between people and businesses, making it a highly regulated industry. These financial institutions earn a percentage of every financial and banking transaction made. To access anything from car loans to trading stocks and bonds, regular consumers must deal with several financial intermediaries, meaning there are extremely few paths for consumers to access capital directly without using banks. Throughout the past few years, traditional centralised finance has become unreliable for countries, mainly because of the period needed for transactions to be carried out. This issue affects developing countries the most, as it makes it physically impossible for its citizens to access a bank. For instance, in East Asia, 290 million people do not have a bank account, and only 18% have access to credit.

In 2009, the first cryptocurrency, Bitcoin, was introduced into circulation. In many ways, it was the very first DeFi application. Decentralised Finance, also known as DeFi, is an emerging financial technology (FinTech) that uses cryptocurrencies and blockchain technology to manage financial transactions between two people, removing intermediaries such as banks (Sharma, 2022). What makes DeFi a game changer in the financial sector is that it allows any individual to have control and visibility of their money, and it opens financial services to anyone regardless of their socioeconomic background, ethnicity, gender, etc. Any person with an internet connection who wants to get involved in the markets can do so without relying on centralised authorities, who may block payments or deny access to anything, making it an approachable, accessible, and fast method. See figure 1 to understand the difference between centralised and decentralised financial systems.



Gerard, D. (2020, January). Financial Times DeFi Diagram [Image]. Retrieved from https://davidgerard.co.uk/blockchain/wp-content/uploads/2020/01/ft-defi.png

As mentioned before, DeFi works with blockchain technology. In blockchain technology, transactions are recorded in blocks and then verified by other users, so the system is not controlled by a central group, but rather controlled by everyone who owns it. With these verifiers, the block is closed and encrypted, and then another block is created that contains information about the previous block within it. These blocks are "chained" together through the information in each proceeding block. Information in previous blocks cannot be changed without affecting the following blocks, so there is no way to alter a blockchain. It is an unhackable system. This concept, along with other security protocols, provides the secure nature of this technology. Blockchains guarantee the fidelity and security of a record of data and generate trust without the need for a third party.

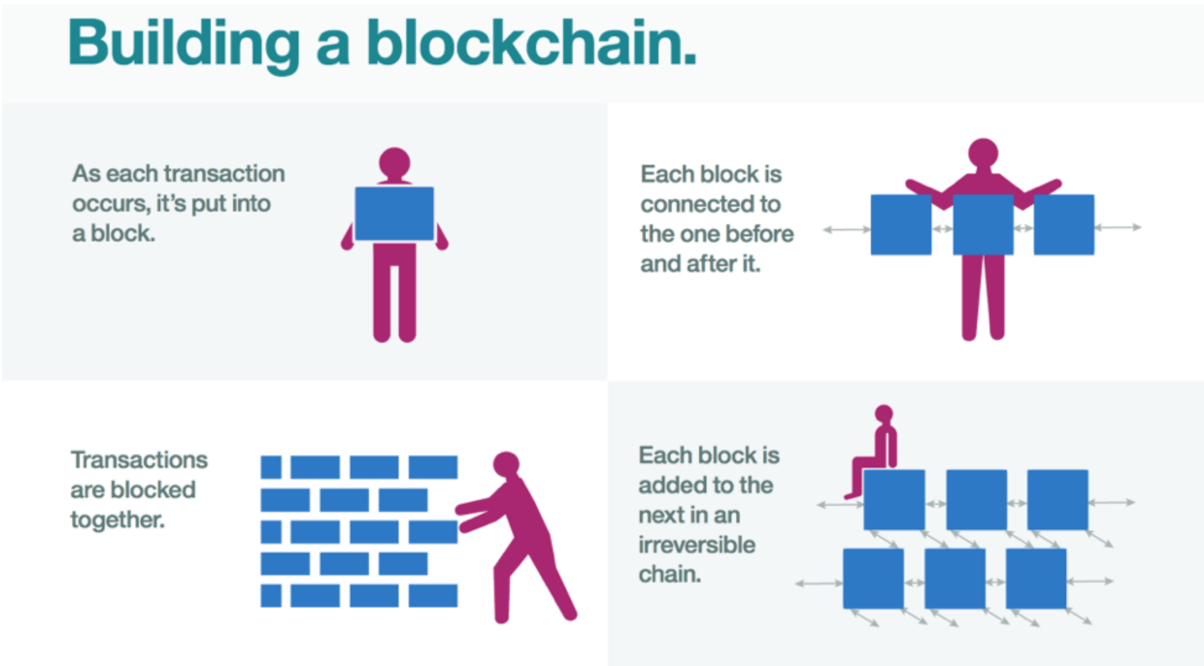


Figure 2. Block chain technology. https://s-pro.io/blog/wp-content/uploads/2018/04/blockchain-build.png

The following links are some useful sources about decentralised finance (DeFi) and blockchain technology for a better understanding of the mechanism:

- https://www.investopedia.com/terms/b/blockchain.asp

●https://www.investopedia.com/decentralized-finance-defi-5113835#:~:text=What%20Is%20Decentralized%20Finance%20

● https://ethereum.org/en/defi/#what-is-defi

II. Current Situation

According to a 2017 report from The World Bank, over 1.7 billion people do not have access to an account with a bank or mobile money provider in the World (World Bank, 2017). The largest percentage of this statistic is shared between China, where 225 million people do not have a bank account, and India, where 190 million do not have a bank account. Pakistan, Indonesia, Nigeria, Mexico, and Bangladesh follow the list of countries. The primary cause of this issue is the absence of a banking infrastructure in these nations, which is frequently a result of difficulties with the profitability of its citizens who are typically people with lower incomes and often come from rural communities. *Figure 3* shows that the most affected regions are South and Southeast Asia, Central Africa, and partly Latin America.

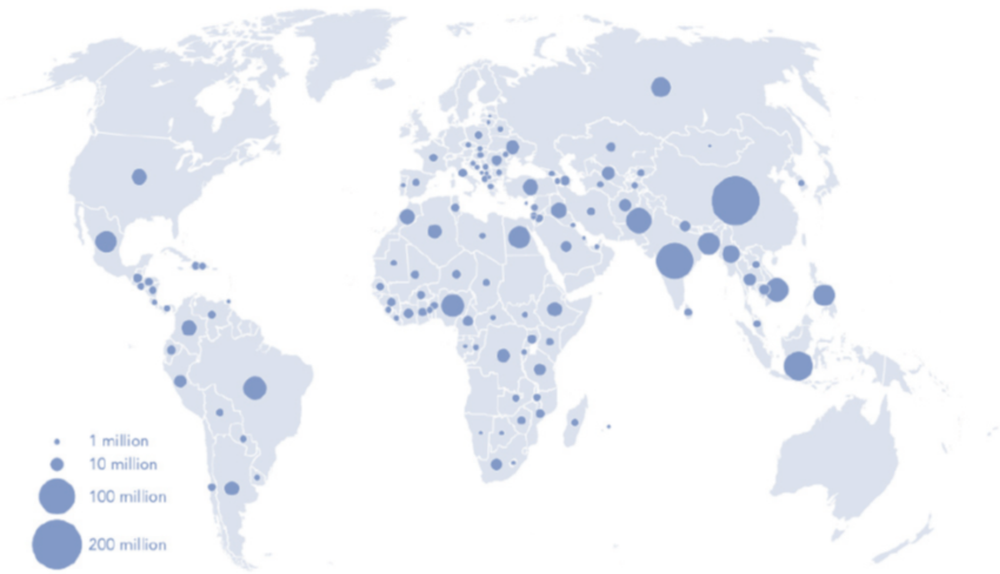


Figure 3. Demirgüç-Kunt et al. https://www.iemed.org/wp-content/uploads/2022/03/image-5.png

Decentralised Finance has been getting a lot of attention lately as it is considered a potential solution for the current flaws of the traditional financial systems. The advancements in blockchain technology, digital assets, and FinTech that the world is seeing today have made it possible to include more people in the financial system than ever before, especially in developing countries where banking options are limited. In comparison to developed countries who account for 30% of FinTech, developing nations are in less advanced stages by only using 10%. However, as decentralised finance uses stablecoins (cryptocurrencies whose price is pegged to an external asset, such as gold) it has the potential to offer lower-cost services to excluded communities and drive greater financial inclusion worldwide. With DeFi, the unbanked would start interacting through a network of decentralised platforms and participate more in global and local finance creation opportunities.

In Venezuela, citizens started to use decentralised finance using the Dash cryptocurrency (not Venezuelan bolivars) as an alternative payment method due to the hyperinflation the country is experiencing. The country's economy relies heavily on Dash transfers to function and provide necessities to their population. On the other hand, KBank, one of the most important and developed banks in Thailand, seeks to expand its presence in Southeast Asia. It has 16 million users on its app and is accountable for 40% of the nation's digital banking transactions. Developing proper decentralised financial institutions in these regions is critical, as they are known for their emerging markets. The Economy Southeast Asia Report 2021, found that the usage of all major digital financial services have increased with an annual growth rate from 9% to 48%.

Even though Africa could be the continent that is the most behind regarding the development of these technologies, there have been countless initiatives. For example, Kenya's Safaricom with Mpesa and Ghana's MoMo are among the leaders in the financial revolution of the continent. Many people in the continent are banking with the Savings and Credit Cooperative Organisation, which work on trust and lack of extensive documentation that is required for traditional financial institutions. These institutions provide quick access to monetary resources, although they charge high-interest rates. As a result, the lending process ends up slowing down and lacking accountability, while decentralised finance offers access to microlending and crowdfunding.

Taking into account that most developing countries still lack access to telecommunications digital infrastructures in rural communities, FinTech must play a role in digital transformation, policymakers must provide digital and financial literacy, as well as access to digital infrastructure. Figure 2 demonstrates that connection to the internet is already common at a global level and that the percentage change in internet access has been rising globally (Figure4). However, there are still continents with low percentages. These figures show that development interventions focusing on FinTech can be beneficial because there is a technology that supports adoption, and the intervention can work on expansion and advancing Internet access. For example, the EU recently launched its main infrastructure project, which promises to improve interconnectivity and provide a huge opportunity for investing in digital infrastructure.

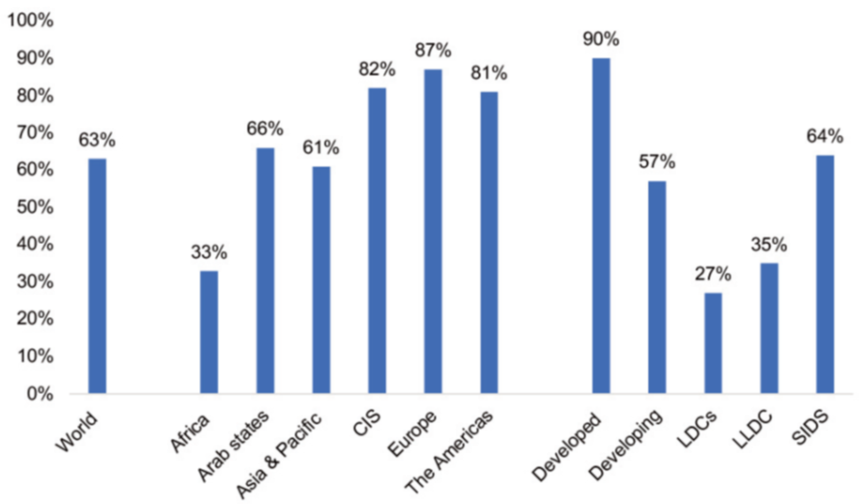


Figure 4. Retrieved from: https://www.iemed.org/wp-content/uploads/2022/03/image-6.png

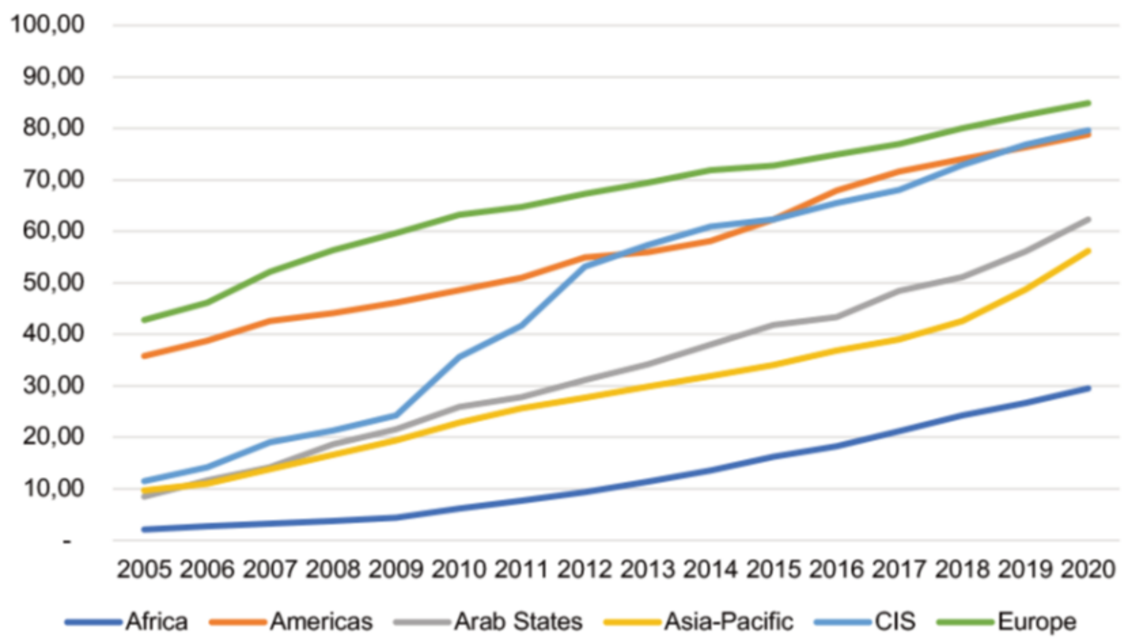


Figure 5: Retrieved from: https://www.iemed.org/wp-content/uploads/2022/03/image-7.png

Increasing access to cryptocurrency asset markets with decentralised finance will result in greater financial inclusion for developing countries. It is noteworthy to emphasise that one of the United Nations Sustainable Development Goals is to provide access to digital financial services, and DeFi is at the forefront of this frontier. The U.N. notes that inclusion is a vital part of other sustainable development goals, such as reducing inequality, eradicating poverty, ending hunger, and economically empowering women. Thus, DeFi, with its zero-marginal-cost and internet-native services, can assist vulnerable people by allowing access to financial services which can help to achieve the SDG goals if used effectively.

III. Key points of the debate

- Creation of economic infrastructures in developing countries
- Governmental intervention in DeFi
- DeFi's repercussions in International Commerce
- Socioeconomic effects DeFi has on rural communities
- International and regional cooperation for and between developing nations

IV. Guiding questions

1. What is your country's stance on decentralised finance?
2. Is your country currently using decentralised finance? If so, please describe how
3. Has your country adopted fintech?
4. If not, does your country use other technological financial systems?
5. What is the current status of your country's economic infrastructure?
6. Does your country financially aid developing countries to evolve their economic infrastructure?
7. Does your country believe governments should intervene when regulating DeFi in order to protect consumers and small businesses?

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