

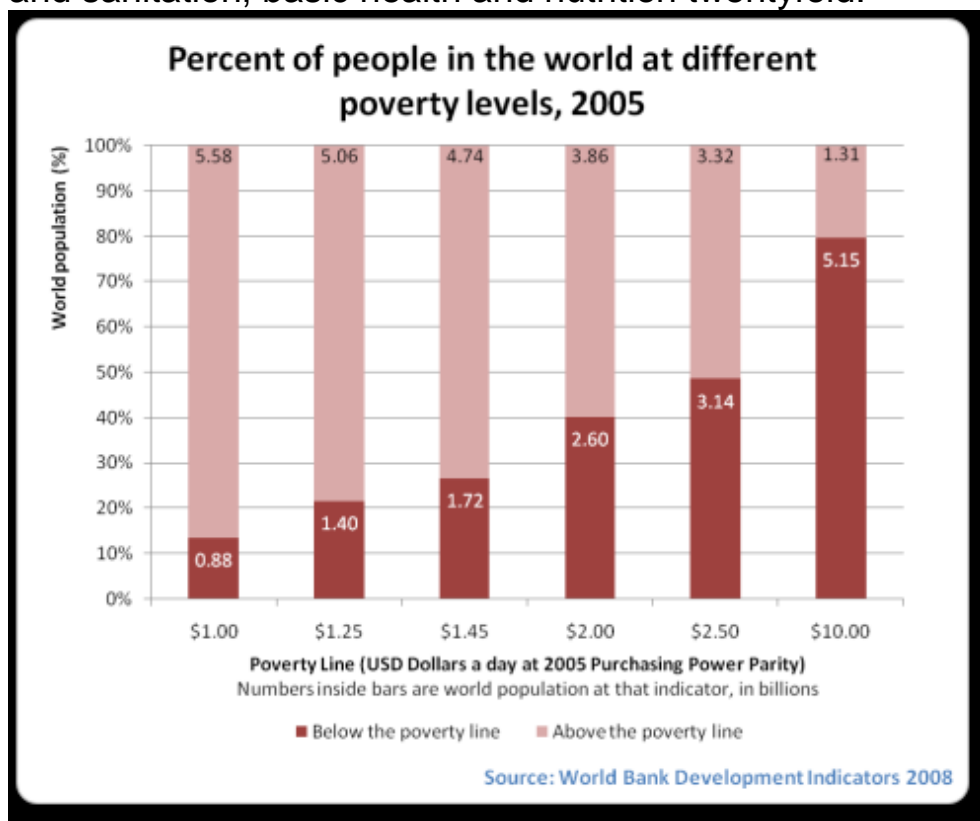
Research Report

The Chair of the second committee of the General Assembly

- The role of microfinancing in the eradication of poverty -

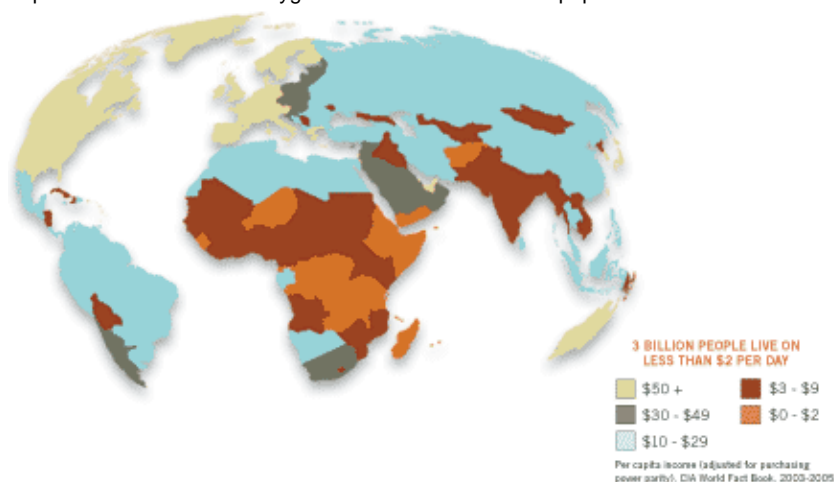
Description of the current situation:

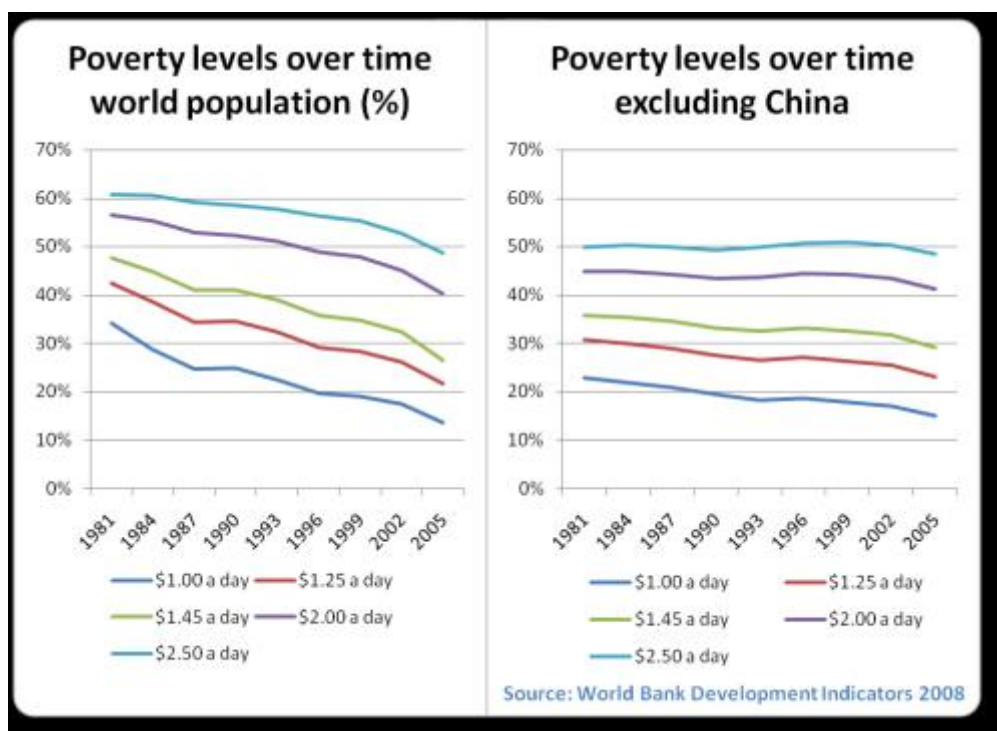
According to data of the worldbank in 2008 there was half of the world's population living on less than 2,5 \$ per day. In that very year the poorest 40% of the world's population were only able to gain 5 % of the world's entire income. According to UNICEF 25.000 children die each day because they live in poverty while the world spends 780 billions per year on military. An amount which would cover the estimated additional costs in order to make the world's population educated, supplied with water and sanitation, basic health and nutrition twentyfold.



<http://www.globalissues.org/article/26/poverty-facts-and-stats>

<http://www.csa.com/discoveryguides/microfinance/reviewf.php#v1>





<http://www.globalissues.org/article/26/poverty-facts-and-stats>

Proclaiming the second decade for the elimination of poverty in 2008 the UN emphasised once more that the latter was the greatest global challenge the world was faced with.

The international community reiterated that one measure which was considered of vital importance in order to reduce poverty was further promotion of microfinancing. Now it is the job of the second committee to evaluate its impacts its outstanding potential and its risk and then improve it in the end.

Definition of key terms:

The term microfinancing once only referred to loans which were given to poor people. The people adressed were involved in small businesses in agriculture, trading, craft and other economic opportunities but they were too poor to be an adequate client for a normal bank as the adminstrative costs would be unproportionately high compared to the actual volume of credit; the whole business would fall under a certain break-even-point, not to mention the high risk of repayments which fail.

Nowadays in a broader context microfinancing as a key player to eradicate poverty encompasses not only small credit businesses but also access to further general financial service such as savings and insurance for the poorest people in the world.

Background:

The special benefit of microfinancing in the elimination of poverty is that it is not about one-off payment like for example subsidies. Granting small loans, administering little savings and profiting from basic insurance aim for an initiation for sustainable economic growth and action in order to escape poverty by gaining self-sustained income. The UN says: "Microfinancing is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise-sector".

The World Bank estimates that there are in total 7000 microfinancing institutions (MFIs) which provide basic financial service to 16 million people in poverty having an turnover of US\$ 2,5 billions.

The existing range of small non-profit organisations to commercial banks implies that microfinancing has not necessarily to be unprofitable. The Grameen Bank in Bangladesh whose founder Muhammad Yunus might be considered as the inventor of microfinancing has proven it with a repayment rate of 95 to 98 % while also other sources give similar data.

It has turned out that access to microfinancing can have a great impact on the escape of poverty. Studies have shown that during an eight year period, among the poorest in Bangladesh with no credit service of any type, only 4 percent pulled themselves above the poverty line. But with individuals and families with credit from Grameen Bank, more than 48% rose above the poverty line.

As one can see in general there is great potential concerning microfinancing in all LDCs especially with regard to its possible self-financing character and its aim to initiate economic development in whole regions by creating an inclusive bank system.

Nevertheless there are problems to monitor and experiences to learn about. For example there is a risk of hyperinflation if loans are granted under too cheap conditions. Furthermore the role of women addressed by microfinancing had its pros and cons. On the one hand data has proven positive impacts in regards to ameliorate their social and domestic status. On the other hand there is a risk that they may be "disempowered through shifting onto them the burden of family savings and debt for activities run by men and from which they derive little benefit. Women may not control their own incomes and/or men may divert more of their incomes to their own personal expenditure. Where women actively press

for change in gender relations this may increase tensions in the household and domestic violence”.

Besides that the microfinancing industry is generally underdeveloped considering the high demand of financial service. For instance in India data gives an estimated current supply of only 7 % of potential demand of microfinancing! Other specific country assessment reports broach the issue of unspecific portfolios of MFIs.

Timeline of events and measures taken:

Roots of microfinancing date back to the 1970s. Having signed the proclamation of the first decade of poverty eradication in 1995 microfinancing gained first real recognition of the UN in a resolution in 1997. In that very same year a microcredit summit was held which endorsed a global campaign to reach 100 million of the poorest people in the world with small scale loans in 2005. In 2005 UNDP (United Nations Development Program) and UNCDF (United Nations Capital Development Fund) which are the bodies concerned in terms of microfinancing within the UN organised the International Year of Microcredit. In 2008 the second decade for the eradication of poverty was proclaimed. At the moment UNCDF together with UNDP is present in more than 30 countries aiming for decentralisation, local development and inclusive financial sectors. In 2010 there will be another Microfinance Summit in Neapel.

Major countries involved:

The USA has invested 1 billion US \$ in microenterprise development abroad since 1988 . A precursor in Europe is Germany: The work of the German KfW bank and the GTZ (Deutsche Gesellschaft für technische Zusammenarbeit) has even been more appreciated by an report of CGAP (*Consultative Group to Assist the Poor*) which evaluates the effectiveness of microfinancing promoting institutions than the program of the UNCDF.

Especially in India microfinancing enjoys government-run national support while China prohibits non-financial institutions from offering financial services to the public. To solve this problem, governments and microfinance donors are granted temporary legal exemption for their projects. There was a price, however: these organizations are not allowed to operate as independent institutions. They receive funding from the Chinese government and must accept the strings that are attached. For instance, if the government wants to target some people with loans and not others, the institutions must comply.

Useful links:

First approach:

http://www.kiva.org/about/microfinance/?gclid=CNnQpLfz3Z8CFcSLzAodBgz_RQ
<http://www.gdrc.org/icm/data/d-snapshot.html>

Poverty facts:

<http://www.globalissues.org/article/26/poverty-facts-and-stats>

Links of relevant institutions, organizations and parties

<http://www.unitus.com/unitus-in-action/background-poverty-and-microfinance/resources/resources/>

UNCDF:

<http://www.uncdf.org/english/countries/>
<http://www.uncdf.org/search/index.php?cx=016494082687074386866%3Aawcu-dhgu3uo&cof=FORID%3A10&ie=UTF-8&q=microfinanciing&sa=Go#921>

UNDP:

http://www.uncdf.org/english/microfinance/undp_policy.php

Assessment reports:

<http://www.uncdf.org/english/microfinance/sectorDev/index.php>

Backgroundpaper “Innovative approaches to domestic resources mobilization”:

http://www.un.org/esa/analysis/devplan/cdpbackgroundpapers/bp2004_6.pdf

Sustainable livelihoods project (first page):

<http://www.google.de/search?hl=de&client=firefox-a&rls=org.mozilla%3Ade%3Aofficial&hs=Uh0&q=+SUSTAINABLE+LIVELIHOODS+PROJECT+++ANGOLA&btnG=Suche&meta=&aq=f&oq=>

Decade of poverty eradication:

<http://www.un.org/esa/socdev/social/poverty/2nddecade.html>

UN-Resolution Year of microcredit:

<http://www.gdrc.org/icm/iym2005/un-resolution.html>

Report of the SG of the role of microfinancing:

<http://www.un.org/documents/ga/docs/53/plenary/a53-223.htm>

<http://blog.givewell.net/2010/01/22/more-on-the-microfinance-repayment-rate/>

Microcreditsummit:

http://www.microcreditsummit.org/microfinance_links/
<http://microfinancesummitnepal.org/>

USA flies cash to Haiti:

<http://www.america.gov/st/business-english/2010/January/20100125173456berehellek0.4566767.html>

http://www.usaid.gov/press/spe_test/speeches/1998/spb696~1.htm

Evaluation:

<http://www.cgap.org/p/site/c/template.rc/1.26.1425/>

Research Report

The Chairs of the second committee of the General Assembly

Ending the economic, commercial and financial embargo imposed by the United States of America against Cuba

Description of the problem / Background information

The United States' embargo against Cuba, including economic, commercial and financial aspects, was imposed by the United States of America on Cuba in 1962.

Cuba, under Fidel Castro's leadership, was regarded as a threat to American national security due to its close relationship with the Union of Soviet Socialist Republics (USSR).

Despite that, the United States of America are the seventh biggest exporter to Cuba where 4.3% of its total imports are delivered from U.S.'s companies.

In fact the United States of America gave Cuba diplomatic recognition after the fall of the dictator Fulgencio Batista, but relations between both countries became worse rapidly. In response to the Cuban rapprochement to the USSR, the American president John F. Kennedy felt impelled to introduce measures against the communistic Cuba, a potential hazard.

Since "The government of Fidel Castro has demonstrated consistent disregard for internationally accepted standards of human rights and for democratic values" (United States of America; Department of State; **"TITLE XVII -- CUBAN DEMOCRACY ACT OF 1992"**) the United States of America justified its policy, declaring "to seek a peaceful transition to democracy and a resumption of economic growth in Cuba through the careful application of sanctions directed at the Castro government and support for the Cuban people" (United States of America; Department of State; **"TITLE XVII -- CUBAN DEMOCRACY ACT OF 1992"**).

The embargo aimed at controlling and limiting Cuban economic activity by, inter alia, a strict limitation of transfers of foreign currencies by persons, being in exile; a six-month ban to enter U.S. harbors of all ships having berthed in a Cuban port; sanctions against companies trading with the island.

According to Cuba's statement the embargo caused up to now a damage of 89 billion dollar. Therefore the island's government summarized its arguments towards lifting the embargo in one report and presented it to the General Assembly of the United Nations.

Definition of Key Terms

Embargo An embargo is an extreme form of implementing economical sanctions in terms of a governmental export and import ban concerning one particular nation.
Positions of major countries involved

United States of America

The United States of America certainly imposed the embargo on Cuba in the interests of their policy and international goals and values. Based on Cuba's rapprochement to the USSR during the Cold War the government justified the embargo by regarding Cuba as a threat to American national security.

As a bridging of East and West had happened, the United States of America refer to domestic problems inside Cuba as a major argument towards maintaining the embargo by believing that there was no sign that Cuba's government is prepared to make any significant changes towards democracy or to undertake democratic opening, "so long as it continues to refuse to move toward democratization and greater respect for human rights".

It is the United States of America's purpose to establish a desire for democracy in the population. Moreover the government observes by its own account a deterioration of living-standards in Cuba. In the long term, the United States of America are willing to find a peaceful solution, including transition to democracy and the establishment and strengthening of the free-market economy in Cuba.

Barack Obama, the president of the United States of America, announced recently the relaxation of the embargo which includes not only the ability for Cuban-Americans to visit their relatives more frequently, as well as ease limits on the amount of money they can send to their families but also the reintroduction of scheduled flights between both nations so as to reach a better basis for negotiation.

Cuba

Cuba has always condemned the embargo imposed on it. From Cuba's point of view it decreases the well-being of the Cuban civil population and is equally prejudicial to humanitarian efforts within Cuba. According to the predecessor of Cuba's current foreign minister Bruno

Rodríguez Parilla, Felipe Perez Roque, the embargo caused a damage of 89 billion dollar, the last three years alone three billion dollar. Cuba accuses the United States of America of acting against human rights, stating that the embargo hinders programs aiming at development and improving quality of life.

European Union

The European Union believes that the embargo is a bilateral issue. It is the aim of the European Union to encourage a peaceful process of transition to a stable democracy and respect for human rights as well as fundamental freedoms, such as but not limited to freedom of speech and freedom of association.

The European Union welcomes Barack Obama's announcement to a relaxation of the trade policy concerning Cuba but remains concerned at the same time about the continuing violation of human rights within Cuba and the domestic Cuban policy which in the final analysis contributes negatively to its own economic development.

Timeline of events adapted and adopted from:

<http://www.historyofcuba.com/history/funfacts/embargo.htm>

Phase of initiation:

The trade embargo on Cuba was first imposed in 1960 as Eisenhower approved a covert action plan against Cuba which aimed at an overthrow of Fidel Castro. The plan included "the termination of sugar purchases and oil deliveries" as well as the continuation of the arms embargo from 1958. In the end of 1960 the USA imposed a partial economic embargo on Cuba that excluded food and medicine.

Later in 1962 under President Kennedy the partial trade restrictions imposed by Eisenhower were expanded to a ban on all trade with Cuba, except for non-subsidized sale of foods and medicines. Even the import of goods which were made from or containing Cuban materials but were manufactured abroad was prohibited later on. Additionally, **the Foreign Assistance Act** was amended to prohibit aid to "any country" that provided assistance to Cuba. Furthermore Cuba was expelled from the [Organization of American States](#) (OAS) in that very year which led to further reduction of diplomatic means.

After the Cuba Missile Crisis in October 1962 the Kennedy administration prohibited travel to Cuba and made financial and commercial transactions with Cuba illegal for U.S. citizens. Under the **Trading with the Enemy Act** all Cuban assets in the USA were frozen. In addition the

U.S. Department of Commerce announces the requirement of specific approval for exports of all food and medicine to Cuba.

Phase of first relief:

“In 1963 less than one month after President John F. Kennedy's assassination, U.S. Attorney General Robert F. Kennedy sought to end the travel ban to Cuba in a memo to Secretary of State Dean Rusk. He referred to the ban as "inconsistent with traditional American liberties," and difficult to enforce. The memo was not released to the public until June 29 2005.”

In 1975 the Organization of American States (OAS) voted to end political and economic sanctions against Cuba. This allowed member nation again to consider to restart diplomatic and trade relations with Cuba, which many had already established. As well the U.S. announced that it would allow foreign subsidiaries of U.S. companies to sell products in Cuba, and that it would no longer penalize other nations for trade with Cuba.

As Cuban troops had started to leave Africa, from America's point of view Cuba's performance of Human Rights had slightly improved and the Soviet-Cuban military ties had been reduced President Jimmy Carter ended the ban on travel to Cuba and on U.S. citizens spending dollars in Cuba in 1977. While the Carter-administration further relaxed laws to allow U.S. residents to send money to relatives in Cuba and to visit them the following President Reagan strengthened restrictions against Cuba again:

Phase of reinforcement:

Reagan reestablished the travel ban and prohibited U.S. citizens from spending money in Cuba once more. He also restricted travel to the U.S. by Cuban government or Communist Party officials or their representatives.

In 1990 the Mack Amendment was passed in US Congress which “prohibited all trade with Cuba by subsidiaries of U.S. companies located outside the U.S., and proposes sanctions or cessation of aid to any country that buys sugar or other products from Cuba”.

In 1992 the Congress passed the Cuban Democracy Act which “prohibits foreign-based subsidiaries of U.S. companies from trading with Cuba, travel to Cuba by U.S. citizens, and family remittances to Cuba.” The law only allows private groups to deliver food and medicine to Cuba and

therefore restricts 70 % of Cuba's trade with U.S. subsidiary companies. As the latter 70% was trade of food and medicine.

Answering back the aforementioned act the United Nations General Assembly passed a resolution introduced by Cuba "asking" for an end to the embargo with 59 votes in favor, 3 against (the U.S., Israel and Romania), and 79 abstentions.

In 1993 and 1994 for the second and third time in a row the General Assembly passed resolutions aiming for an end to the embargo. Only Israel constantly has voted with the US .

Singning the *Cuban Liberty and Democratic Solidarity (Libertad) Act* (also known as the *Helms-Burton Act*) which "imposed penalties on foreign companies doing business in Cuba, permits U.S. citizens to sue foreign investors who make use of American-owned property seized by the Cuban government, and denies entry into the U.S. to such foreign investors" Bill Clinton in fact reinforced the embargo as it had been in 1963. The EU heavily opposed that act because it felt that the US was dictating how other nations ought to conduct their trade and challenged the American policy on that basis.

Second phase of relief:

In 1994 Washington implemented changes to the embargo, which concerned sales of some food and agricultural products to private individuals and non-governmental organizations, an increase in the number of charter flights to Cuba and a general transfer volume up to \$1,200 per year.

In 2002 the *US House of Representatives* voted 262 to 167 to end the travel ban and allowed the sale of American goods to Cuba. 73 Republicans vote against the embargo while the pressure of the international community had been increasing: The UN had for the eleventh consecutive year passed a resolution condemning the embargo imposed on Cuba.

In 2006 US-President G.W. Bush approved \$80 million to be used for "boosting democracy in Cuba" which is the "US policy towards Cuba after the eventual death of Fidel Castro."

On the 28th October 2009 the UN passed a resolution aiming for an ending of the embargo for the 18th time in 18 years.

During his election campaign President Obama pointed out "he would lift restrictions imposed by the Bush administration and allow Cuban-Americans to visit their relatives more frequently, as well as ease limits

on the amount of money they can send to their families”. So far under Obama the White House “has moved to ease some travel and trade restrictions as a cautious first step towards better ties with Havana, raising hopes of an eventual lifting of the four-decade-old economic embargo. Several Bush-era controls are expected to be relaxed. [...] The administration has moved to ease draconian travel controls and lift limits on cash remittances that Cuban-Americans can send to the island, a lifeline for hundreds of thousands of families.” Major “changes” remain outstanding.

Useful Sources and Links

http://www.state.gov/www/regions/wha/cuba/democ_act_1992.html
www.wikipedia.org

http://ec.europa.eu/index_en.htm

<http://www.historyofcuba.com/history/funfacts/embargo.htm>

<http://www.america.gov/st/texttrans-english/2009/October/20091029103753eaifas0.5596735.html>