ECOSOC

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United Nations

Economic and Social Council

Mitigating the Sharp Increase in Housing Prices

The Role of Microcredit and Microfinance in the Eradication of Poverty

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Chair Letters

Rotem Dvir

Dear Delegates,

I'm 17 years old and very excited to chair you!

I live in Haifa, and besides doing MUN I also like to read and hike. I love doing debate combined with diplomacy and English, therefore I also participate in "Tevel", a youth program of public diplomacy.

This is my third year in AtidMUN as a participant and my second year as a chair. I have been to over 10 committees, in which I have been a delegate and a chair.

In the ECOSOC committee, we are going to discuss two topics:

1. Mitigating the Sharp Rise in Housing Prices.
2. The Role of Microcredit and Microfinance in the Eradication of Poverty.

You need to come prepared for the conference! The study guide is your best way to educate yourself on the topic. You would also need to research additional information via your country to be able to understand the policy and to be able to handle difficult questions.

Enjoy this conference and be open-minded!

I wish all of you a lot of fun, learning, and friend-making.

Contact me via Email or WhatsApp: Rotemmun@gmail.com / 055-887-1714

Sincerely,

Rotem Dvir

Ofek Magrafta

Dear delegates,

It is my absolute pleasure to welcome you to the United Nations Economic and Social Council.

I've been doing MUN for over 4 years, and I especially like the Security Council and European Council committees, having under my belt a few TIMEMUN and AtidMUN and many other national conferences, have been both mentoring and participating in many MUN conferences. In this conference, we will be talking about Mitigating the Sharp Rise in Housing Prices as well as The role of Microcredit and Microfinance in the eradication of poverty. I look forward to seeing you talk and pass a creative resolution about these pressing issues.

If you have any questions please don't hesitate to contact and spam Rotem at:

Rotemmun@gmail.com / 055-887-1714

or Ofek's WhatsApp at 058-656-8222

Sincerely,

Ofek Magrafta

Introduction to the Committee

ECOSOC (Economic and Social Council) is at the heart of the United Nations system to advance the three dimensions of sustainable development – economic, social, and environmental. It is the central platform for fostering debate and innovative thinking, forging consensus on ways forward, and coordinating efforts to achieve internationally agreed goals. It is also responsible for the follow-up to major UN conferences and summits. (United Nations, 2022)

The UN Charter established ECOSOC in 1945 as one of the six principal organs of the United Nations. It is also responsible for the follow-up to major UN conferences and summits. Some examples of the issues concerning the council are coordinating humanitarian aid, the status of women, crime prevention, narcotic drugs, and science & technology.

ECOSOC oversees a complex ecosystem of subsidiary bodies, composed of regional commissions, functional commissions and expert bodies, standing committees, and ad hoc bodies (Committees that are formed for a specific purpose, usually appointed to solve a particular problem). The Council is entrusted with guiding and coordinating the work of its subsidiary and related bodies. It thus has an influence on a broad remit of the work of the UN system on development.

TOPIC A: MITIGATING THE SHARP INCREASE IN HOUSING PRICES

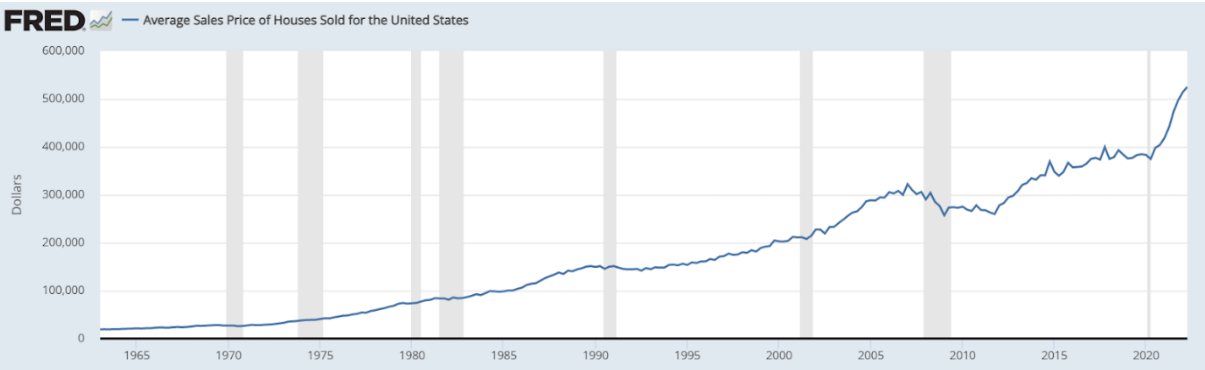
KEY TERMS

- **Recession -** A significant decline in economic activity that lasts months, and in some cases, even years. Experts declare a recession with a country experiences a falling GDP, rising levels of unemployment, reduced spending, for an extended period of time. (Rodeck, 2022)
- **GDP -** Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. (Fernando, 2022)
- **(Economic) Bubbles -** A bubble is an economic cycle that is characterized by the rapid escalation of market value, particularly in the price of assets. This fast inflation is followed by a quick decrease in value, or a contraction, that is sometimes referred to as a "crash" or a "bubble burst." (Kenton, 2022)
- **Housing Boom -** A rapid increase in the market price of real property until they reach unsustainable levels and then decline.
- **Subprime Mortgage -** A mortgage that's normally issued to borrowers with low credit ratings, out of concern for the loan being defaulted. Lending institutions often charge interest on subprime mortgages at a much higer rate than on prime mortgages to compensate for carrying more risk. (Kopp, 2022)
- **Deadweight Loss -** A deadweight loss is a cost to society created by market inefficiency, which occurs when supply and demand are out of equilibrium. Mainly used in economics, deadweight loss can be applied to any deficiency caused by an inefficient allocation of resources. (Tuovila, 2022)

BACKGROUND TO THE ISSUE

The rise and fall of home prices can be traced to many factors: mortgage rates, inflation, war, economic recessions, and many more. Between the 1950's and the 2020's, but mainly during the '50s to the '80s, we saw a significant change in home prices. Although the recession in the early '90s caused a major decrease in home prices, today, they are rapidly increasing.

In 1940, the median home value in the U.S. was just $2,938. Since then, prices have risen exponentially. For example, in 1980, it was $47,200, and by 2000, it had risen to $119,600 – over 40 times the home value in the '40s! Even adjusted for inflation, the median home price in 1940 would only have been $30,600.



Housing Prices in Recent Years

Housing Prices in the 1990's

Median home price (unadjusted): $79,100

Median home price (inflation-adjusted to 2020 dollars): $157,169

Price growth since 1950: 98.8%

The US housing bubble expanded throughout the '80s and reached its peak in 1989, with an average sale price of $151,200. When the average price fell in 1990, the bubble burst, and housing prices fell by 0.9% that year. Housing prices continued to collapse, reaching a 20% decrease, before bottoming out in 1996. (Wake, 2018)

Housing Prices in the 2000's

Median home price (unadjusted): $119,600

Median home price (inflation-adjusted to 2020 dollars): $179,331

Price growth since 1950: 126.8%

While the real-estate market had largely recovered from the housing crash of 1990 by the 2000's, another major blow would be coming its way later in the decade: In an attempt to make housing more accessible to disadvantaged citizens, with low credit scores and low amounts of savings, the US government's Federal Nation Mortgage Association began pushing out subprime mortgages in masses. (Kosakowski, 2021)

The subprime mortgage market became a bubble, booming throughout the early 2000's – As of 2002, government-sponsored lenders have extended more than $3 trillion worth of mortgage credit. When the millions of Americans who signed on subprime mortgages began defaulting on their loans, revenue fell and the bubble burst, leading to another economic crash. On Dec. 26, 2007, The New York Times reported that home prices had fallen for the 10th straight month and noted that based on economist Robert Shiller's calculations, "the decline in home prices is greater than at any time since 1941 when the housing market was faltering at the start of World War II." (Bajaj, 2007)

As a result of the 2008 US recession, many other countries around the globe were thrown into an economic crisis as well. More than 10 million Americans lost their homes and/or jobs during the Great Recession, and 46.5 million were thrust into poverty. Black Americans were also significantly impacted by the Great Recession, with the median net-worths of Black households falling by 53% between 2005 and 2009. White households only saw a 17%-decrease. (Johnson, 2021)

Housing Prices in the 2010's

Median home price (unadjusted): $221,800

Median home price (inflation-adjusted to 2020 dollars): $263,604

Price growth since 1950: 233.4%

The 2010s were a period of growth and development for the real estate industry – according to Federal Reserve Economic Data (FRED), the average sale prices of homes sold in the U.S. during the first quarter of 2010 was $275,300. That number rose to $384,600 during the fourth quarter of 2019 – an over $100,000 jump within just 10 years. During this decade, large urban centers across all price ranges shot past national price gains. According to PropertyShark, Sunbelt cities like Phoenix and Mesa, Arizona, also saw significant home price increases in the 2010s. (Johnson, 2021)

As home prices increased, so did the need for mortgages. People of color saw some of the highest denial rates for mortgages in the early 2010s.

The Tent Protests

The social protest in the summer of 2011 (also known as "the housing/tent protest").

Is a series of protests combined with social actions and demonstrations that took place in Israel. The protest began with Daphne Leaf's action against the state of the housing market in Israel after a non-successful attempt to rent an apartment in Tel Aviv.

The protest started with a group on Facebook, which led to the setting up of tents on Rothschild Avenue in Tel Aviv. Later, tents were located in other cities and expanded into "tent cities" that included hundreds of tents (at the same time).

As a response, the Israeli government has decided to act.

The Knesset has approved freezing the real estate appreciation tax* on the sale of apartments (until July 2013). Doing so will encourage the wanting to sell apartments in the market.

In addition, on August 3rd, the Knesset approved the "Vedalim Law".

The Vedalim law is a committee that deals with the approval of plans for national housing, which are plans for the establishment of residential neighborhoods with at least 200 housing units. Those housing units will have small and large apartments so that they meet a variety of residential needs.

***The real estate appreciation tax** a tax imposed on capital gains arising from the sale of real estate in Israel or the sale of shares in a real estate association.

Problematic Consequences of the Solution

The real estate appreciation tax was a great solution, but it was a short-term one. the law only lasted until July of 2013, which caused a sharp increase in housing prices due to the sudden change in tax policies. In addition, the "Vedaim law" conference promoted a solution where "stuffed" buildings will be built to contain more people. Doing so created a lower level of life for the people in those housing situations and created a lower bar for housing quality and space.

Another aspect worth considering is that the reason the tent protest started was because of the high housing prices in Tel Aviv, a problem that was not resolved nor treated.

Current Situation

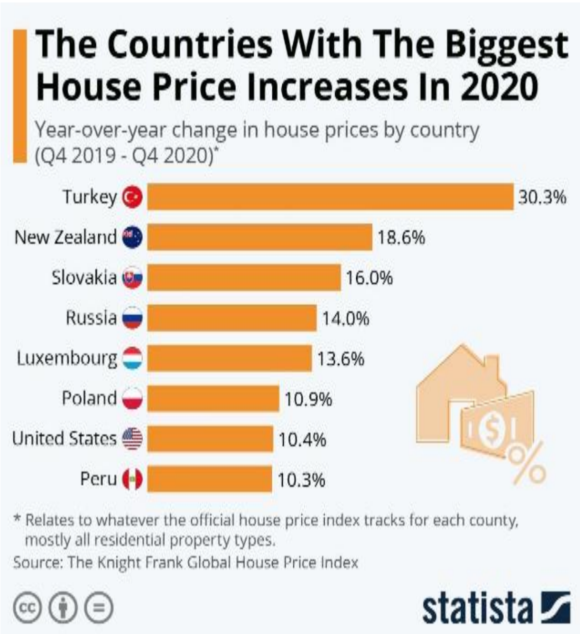
Median home price (unadjusted): $336,900

Median home price (inflation-adjusted to 2020 dollars): $336,900

Price growth since 1950: 326.1%

2020 was a record-setting year in housing prices, with the median cost of a home sold in August 2020 reaching $310,600, an all-time high. It was also a banner year for sales in general, with an inventory shortage and record-low mortgage rates keeping the market strong. Home prices skyrocketed due to several contributing factors, including millennials coming into their peak buying years and the COVID-19 pandemic creating a boom in remote/work-from-home opportunities, which has allowed many people to move virtually anywhere. (Johnson, 2021)

While many major cities have seen a price drop and a lower demand for homes, suburban and rural areas have seen the opposite. This may be due to homeowners' desire to find safer areas with lower infection rates and homes that offer more space both indoors and out.



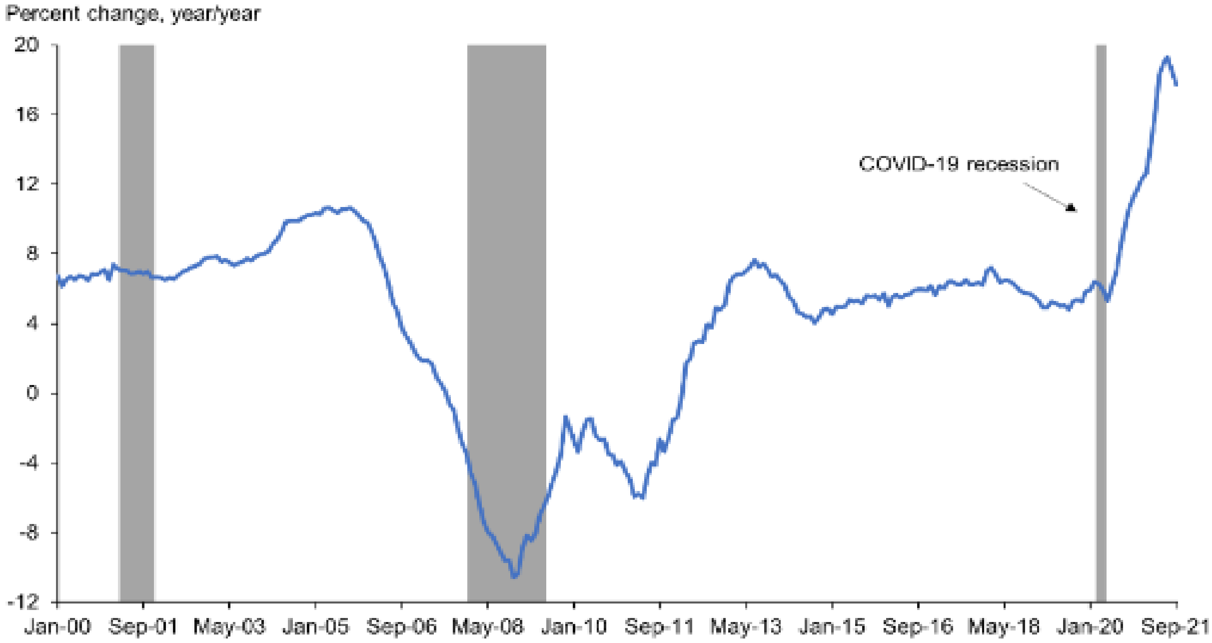
COVID-19 & HOUSING PRICES

The market has changed drastically since the beginning of the COVID-19 pandemic: While the number of house purchases has been rising and falling, house prices have remained high throughout and have even risen. In the wake of the short but steep COVID-19 recession, house prices have risen at record levels in recent months, hitting a 19.3% increase in July 2021. The rate of increasing house prices is alarming – in comparison, from early 2013 to early 2020, house prices rose at a moderate annual rate of ~5%.

The acceleration in house prices immediately following the COVID-19 recession was very different from the steep decline triggered by the subprime bust in the 2008 Great Recession. The stark dissimilarity owes to the recent and unusual combination of positive housing demand shocks, negative housing-supply shocks, and swift and decisive policies to support the economy. Unlike the lead-up to the Great Recession, homeowners were not overleveraged, and lending standards were not too loose.

During the pandemic, large transfer payments that included stimulus checks and extended/expanded unemployment benefits boosted household incomes. As a result, household incomes and housing demand did not collapse when unemployment spiked to a seasonally adjusted 14.8% in April 2020 (from 4.4% a month earlier). In addition, very low mortgage interest rates, reflecting market forces and very accommodative monetary policy, raised the demand for housing.

Chart 1
House Price Appreciation Accelerated as COVID-19 Pandemic Took Hold



Limited Supply of New Homes

These factors helped push up house prices. In standard times, new construction gradually increases the supply of housing, which limits upward house-price pressure. However, the recent supply response has been muted relative to the rise in prices, and the price response has been magnified by pandemic-related supply constraints. Those constraints include disruptions to supply chains for building supplies and restrictions on work practices.

Possible Solutions

Up-Zoning

Governments at the local level have started responding by up zoning single-family areas (for example Berlin, Germany), to allow the construction of up to several units per lot. These kinds of policies also promote social inclusion. (Planetizen, 2022)

The downside of such initiatives is the lack of scale. Densifying smaller lots is time-consuming and has limited impact. More efficient policies related to up-zoning would be to create entire neighborhoods to spur large-scale construction (for example, Williamsburg, Brooklyn).

Immigration Policies

Immigration policies affect housing production and supply, as the construction industry heavily relies on immigrant workers. Consequently, looser immigration policies can reduce housing costs by lowering developing costs and reducing labor shortages.

Subsidies & Fiscal Policy

Financial incentives are required to stimulate both the supply and demand sides: low-interest loans and tax abatements are effective tools. Not only can they buy down the overall capital costs on new housing projects and renovation, but they can also assist with the conversion of obsolete offices and hotels into residential ones.

Questions to Consider

Familiarizing Questions

- How many residents does my country have?
- What is the average housing price in my country?
- How have recent years affected my country's housing prices?
- What is the population density of my country?

- What is my country's GDP?

Clash-Oriented Questions

- What policies/programs have been implemented in my country to stabilize housing prices?
- How can the government assist the housing market without creating deadweight loss?
- What is the role of the government in regulating the housing market?
- Can (and should) the UN draft international guidelines and policies for sustainability in the housing market?

Suggested Reading

- FRED – Economic Research
- How it Happened – The 2008 Financial Crisis
- Why a 2022 Recession Would be Unlike Any Other | WSJ
- Insight & Analysis on Economics and Finances

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TOPIC B: THE ROLE OF MICROCREDIT AND MICROFINANCE IN THE ERADICATION OF POVERTY

IMPORTANT TERMS

- Microfinance is broadly defined as the provision of financial services such as credit, savings, insurance, and other essential financial products involving tiny (micro) amounts to poor and low-income people who lack access to traditional banking and financial services.

- Microcredit - the provision of credit in small amounts to impoverished people, mostly living in developing countries, often without requirements for collateral.

- Social business - A social enterprise or social business is defined as a business with specific social objectives that serve its primary purpose. Social enterprises seek to maximize profits while maximizing benefits to society and the environment, and the profits are principally used to fund social programs

- MFIs - MicroFinance Institutions

- Muhammad Yunus - considered to be the father of microcredit, he won the Nobel Prize for his "efforts through microcredit to create economic and social development from below." founder of the Grameen bank.

- Grameen Bank - the Grameen Bank is a microfinance organization, and community development bank started in Bangladesh that makes small loans (known as microcredit) to the impoverished without requiring collateral. The system is based on the idea that the poor have skills that are underutilized.

INTRODUCTION

It is no secret that wealth distribution is unequal around the world. One in every three people worldwide lives on less than $3.10 per day. According to the World Bank, nearly one in ten people live in extreme poverty, defined as earning less than $1.90 per day. The original goal of microcredit is to assist those people. It refers to poverty-focused programs that give financial and commercial services to poor people in order to generate self-employment and income.

WHAT IS MICROFINANCE AND MICROCREDIT

It is important to distinguish microfinance from microcredit. Microfinance encompasses more than microcredit - which is, at its core, a loaning service to the less fortunate. It includes multiple financial services, including savings accounts, insurance, and more. Essentially, microcredit is a subset of microfinance, as it's a financial service to the poor. An example of a service in microfinance that isn't microcredit is microinsurance and microsavings. Microsavings accounts are similar to traditional savings accounts but are designed for small deposits. These accounts are often characterized by no minimum deposit amount, no service fees, and flexible withdrawals. It was found that the poorest of the poor were usually net savers and that the most effective way to reach them was by offering savings accounts.

THE ORIGINAL PURPOSE OF MICROCREDIT

The invention of microcredit is credited to Muhammad Yunus. He believed that small loans could make a big difference in their lives. He started to give micro-credit to villagers, which meant providing small loans to marginalized communities without any extravagant collateral. Therefore, he lent $27 from his pocket to around 42 women. With this, they started a bamboo basket business that brought about a lot of profits that helped them pay back the money. Yunus's objective was to help poor people escape from poverty by providing loans on terms suitable to them and by teaching them a few sound financial principles so they could help themselves.

THE DEVELOPMENT OF MICROCREDIT

The microfinance world has developed a lot since Muhhammad Yunus and the foundation of the Grameen bank. There are approximately 10,000 microfinance institutions throughout the world. And although the sheer good in people goes a long way, it doesn't explain such an enormous number. However, money can explain it. Many MFIs like LOLC are for-profit businesses.

Although the entries of commercial players as a result of potential profit in the field of microfinance are undoubtedly helping to scale up the provision of microfinance to the poor, there is concern that the commercialization of microfinance would sacrifice the socially responsible lending principles of microfinance institutions and expose borrowers to potentially abusive lenders. The drift away from the non-profit orientation of early microfinance institutions is becoming a trend and has also fuelled a debate over which model is most appropriate to serve the needs of the poor.

TARGET CLIENTS FOR MICROFINANCE

Microfinance has traditionally, but not entirely, targeted low-income women, consistent with its early success with female clients and the good socio-economic repercussions of lending to women. Recent developments indicate that this is changing. In order to reach more disadvantaged individuals and new consumers, newer microfinance organizations have placed less emphasis on catering primarily to women. Still, today Women Make Up 80% of First-time Microfinance Borrowers.

GEOGRAPHY OF MICROFINANCE

Geographically, Asia and Latin America have the most borrowers, whereas the Middle East, Northern Africa, and Central Asia have the fewest. Microfinance consumers in Latin America are primarily found in cities, where there are the poorest people, but the vast majority of clients in Asia are found in rural areas.

THE DEBATE OVER MICROFINANCE

There is a big debate regarding whether microfinance truly benefits the poor. Some believe it is a crucial means in the fight against poverty, while others argue that while the original intention of microfinance was good, the idea is problematic since it has an inherent conflict between profit and “doing good”. This debate has to do with the question of microfinance's effectiveness, mechanism, and consequences.

THE MECHANISM OF MICROFINANCE

TYPES OF MICROCREDIT INSTITUTIONS

Social Purpose Project

MFIs operating as a social purpose project work with the most vulnerable clients and typically provide subsidized loans and free business support services. As such, these MFIs are organized as non-profit organizations funded by government projects, charitable contributions, and corporate sponsorship. Some may strive to be operationally sustainable, but in general, they operate at a financial loss (compensated by a high-valued social impact).

Commercial Microlenders

Commercial microfinance institutions are typically non-banking financial institutions that have emerged at the beginning of the economic transition in Eastern Europe and, over time, have grown to become significant players in the MSME (Ministry of Micro, Small and Medium Enterprises) finance market. They operate on a purely commercial basis and, to some extent, compete with banks and other credit providers—but typically operate on the lower-end SME (Small and medium-sized enterprises) market.

Social Fringe Lender

MFIs acting as social fringe lender offer loans and potentially other support services to clients who are in transition from being funded by social purpose projects and more commercially oriented MFIs. Clients of these institutions are typically start-ups and early-stage enterprises, migrants, and other marginalized individuals facing access to finance challenges. Like Social Purpose Projects, Social Fringe Lenders are typically non-profit organizations and offer soft funding supported by a portfolio of grants and donations, although the loan capital may be obtained on quasi-commercial terms.

Social Enterprise Lenders

These MFIs provide loans and other financial services (such as guarantees) to social enterprises such as nonprofit organizations, arts and culture organizations, social purpose businesses, and similar entities. Social Enterprise Lenders can have different legal forms (non-profit foundations, cooperatives, non-banking financial institutions, etc.) and typically operate as a social enterprise themselves. They balance their social purpose with economic sustainability and are often operationally self-sufficient.

Collaborative Finance Organization

Collaborative MFIs include credit unions, savings, and credit associations, and financial cooperatives, as well as smaller cooperative banks. Due to their cooperative principles, they work with clients who are members and typically are limited to specific professional groups or members located in a given geographic area. Cooperative institutions are generally financially self-sufficient and funded by their members, although some may be able to accept external funding. Collaborative finance institutions also include various new forms of crowdfunding platforms that facilitate the sourcing of funds from a larger pool of lenders and donors. However, unlike cooperatives, such platforms are not financially regulated.

Market Gap Lenders

MFIs acting as Market Gap Lenders address gaps in the lending and credit market for micro and small businesses. These institutions may offer loans of a type and size below the threshold for local commercial banks, or factoring and leasing services that are unprofitable for larger providers. Market Gap Lenders are, in general, non-banking institutions with a profit objective, and as such, are regulated institutions.

THE BUSINESS MODEL OF THE DIFFERENT TYPES OF MFIS

A business model can be described as a set of components or building blocks that represent various business activities and processes that combine to determine how an enterprise creates value and positions itself in the market A microfinance business model can be described in six dimensions:

- Value Proposition: What is the mission of the organization, and how does it create value for its customers?
- Organization: What is the legal form, and how does the organization operate?
- Customers: Who are the customers and the prominent market segments served by the organization?

- Activities: What services does the organization provide, and what geographic areas does it serve?
- Delivery: What lending technologies does the organization apply, and what operational systems does it use to deliver its services?
- Financing: What are the revenue model and the level of sustainability, and how does the organization finance its operations?

The table in appendix 2 shows the business models of the different MFI types.

NOTE

Whereas the entries of commercial players as a result of potential profit in the field of microfinance are undoubtedly helping to scale up the provision of microfinance to the poor, there is concern that the commercialization of microfinance would sacrifice the socially responsible lending principles of microfinance institutions and expose borrowers to potentially abusive lenders. The drift away from the non-profit orientation of early microfinance institutions is becoming a trend and has also fuelled a debate over which model is most appropriate to serve the needs of the poor.

GROUP LENDING VS INDIVIDUAL LOANING

Group and individual loan methodologies represent dramatically different approaches to providing microcredit.

WHAT IS GROUP LENDING

Muhammad Yunus noted that his target customers (the poor) had no access to formal financial services because they could not post collateral and were considered to be high credit-risk borrowers. Instead of requiring collateral, Muhammad Yunus experimented with Group lending, where credit was extended based on a group liability arrangement. Although the loan was granted to an individual, the repayment was a collective responsibility of the group to which the individual belonged.

WHAT IS INDIVIDUAL LENDING

Individual Lending is defined as the process of providing credit to one client, thereby not requiring other group members to serve as guarantors, but rather to base loan eligibility on a client character assessment and cash flow analysis.

THE DIFFERENCES BETWEEN GROUP LENDING AND INDIVIDUAL LENDING

The primary difference between the loan methodologies is that for group loans, loan screening, monitoring, and enforcement, is managed mainly by group members themselves, whereas for individual lending, this responsibility shifts to the institution. The table below illustrates some of the key differences between individual and group lending in more detail.

REPORTED STRENGTHS/POSITIVE IMPACTS OF MICROFINANCE PROGRAMS

A variety of studies have found a few key strengths and positive impacts produced by the implementation of microfinance programs in poor and impoverished areas of the world. First, microfinance programs can be an effective way to provide low-cost financial services to poor individuals and families. Second, such programs have been shown to help in the development and growth of the local economy as individuals and families are able to move past subsistence living and increase disposable income levels.

In addition, many studies (primarily microfinance institution impact studies and academic researcher qualitative or case studies) have shown that microfinance programs were able to reduce poverty by increasing individual and household income levels, as well as improving healthcare, nutrition, and education, and helping to empower women. Furthermore, it has been demonstrated by some research that microfinance programs increase access to healthcare, making preventative healthcare measures more affordable to the poor. In addition, more children are being sent to school and stay enrolled longer.

Finally, it has been shown that such programs can help borrowers to develop dignity and self-confidence in conjunction with loan repayment, and self-sufficiency as a means for sustainable income becomes available. Since microfinance services are primarily focused on women, it is argued that this leads to the empowerment of women and the breaking down of gender inequalities, through providing opportunities for women to take on leadership roles and responsibilities.

REPORTED PROBLEMS/NEGATIVE IMPACTS OF MICROFINANCE PROGRAMS

In contrast to the various positive impacts and strengths of microfinance programs listed above, other studies (more quantitative, with appropriate treatment/control frameworks and comparisons made across larger samples) have found several fundamental problems and negative impacts produced by the implementation of microfinance programs in poor and impoverished areas of the world.

First, in a large proportion of borrowing households, the increase in income stalled or plateaued after initial progress. Lack of entrepreneurial skills and limited demand for the goods and services of microenterprises appear to have been responsible for this effect. Evidence from BancoSol of Bolivia, for example, showed that most did not have the entrepreneurial capacity to utilize the loans productively; whereas 25 percent of clients showed significant income gains after borrowing, 60 to 65 percent remained at the same level of income, and 10 to 15 percent went bankrupt.

Second, some studies have shown that microfinance programs benefit the moderately poor more than the needy, and thus impact can vary by income group (better-off benefit more from micro-credit). Third, most microfinance programs target women (due to higher repayment rates), which may result in men requiring wives to get loans for them.

Forth, examples exist of a vicious cycle of debt, microcredit dependency, increased workloads, and domestic violence associated with participation in microfinance programs. Fifth, studies have shown that there are low repayment rates in comparison with traditional financial institutions, thus possibly contradicting one of the critical strengths listed above, that such programs can lead to empowerment and increased self-confidence through responsible loan repayment. Finally, there have been reports of the use of harsh and coercive methods to push for repayment and excessive interest rates.

APPENDIX A: RELATED ARTICLES

KHANDKER'S 2005 ARTICLE, "MICROFINANCE AND POVERTY: EVIDENCE USING PANEL DATA FROM BANGLADESH." - A PAPER SUPPORTING THE THESIS THAT MICROFINANCE HELPS ERADICATE POVERTY

This research examined 1,638 households. Khandker found that moderate poverty in the sample villages declined by 17% between the two waves of the survey, and extreme poverty declined by 13%. Among those households that participated in the microfinance programs, the poverty rate declined 20% in the same period, with more than half of the nearly 3% annual moderate poverty decline among participants attributed to the microfinance programs alone. He further found that access to microfinance programs contributed to the reduction of both medium and extreme poverty of individuals (particularly women) as well as for the village as a whole—where the inflow of microfinance funds to rural areas impacted the local economy— and raised per capita household consumption for both participants and nonparticipants.

KAH, OLDS, AND KAN 2005: "MICROCREDIT, SOCIAL CAPITAL, AND POLITICS." - A PAPER OPPOSING THE THESIS THAT MICROFINANCE HELPS ERADICATE POVERTY

Despite the very positive results reported by Khandker, other studies reported more findings that were much muddier. Kan, Olds, and Kah studied the evolution, sustainability, and management of ten microcredit institutions in Gossas, Senegal, using a mixed-methods approach to study design, utilizing socioeconomic surveys, semi-structured interviews, and ethnographic research over a period of three years. They found that microcredit institutions have helped to create some positive change, but that there was no clear and marked evidence of poverty reduction that was attributable to the microfinance programs studied and stated that the expectations of what microcredit can do to help lift communities out of poverty is "a bit too optimistic".

CONCLUSION REGARDING THE EFFECTIVENESS OF MICROFINANCE IN THE ERADICATION OF POVERTY

Despite the popularization of microfinance in the mass media and the many positive findings that are reported in some feasibility and impact studies, there are also many studies that report some negative impacts of such programs and fail to find a direct link between microfinance program involvement and poverty reduction. Thus, at this point, NGO leaders and government policymakers must exercise caution and restraint in applying the microfinance approach universally as a means of eradicating poverty, although it is possible for it to be a tool in the fight against poverty.

QUESTIONS TO CONSIDER

- What can we do to better understand the effectiveness of microfinance?

- What parts of microfinance are more accessible to the poor?
- How can we address the problems with microfinance?
- What is your country doing regarding microfinance?
- What regulation is there on microfinance? Should there be more regulations in place?
- Do you want microfinance to be more widespread? If so, how?
- What types of MFIs operate in your country if any operate at all?
- What can we do to improve the system of microfinance?

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APPENDIX B

	Purpose	Organisation	Customers	Activities	Delivery	Financing
Social Purpose Project	Charitable assistance in economic and social inclusion of vulnerable individuals	Non-profit / charitable organisation	Socially marginalised and excluded individuals and informal enterprises	Mixed activities, BDS and social services plus soft loans or grants	Traditional relationship, close and intensive contact with customers	Predominantly if not exclusively grant funded
Social Fringe Lender	Financial inclusion and financial services for the excluded and underserved individuals	Various types, typically non-profits, associations, NBFI with a strong social mission	Low-income individuals and microenterprises that do not have access to the mainstream financial system, often start-ups and self-employment	Loans and BDS	Typically, traditional relationship lending plus training and other BDS	Subsidised at various levels and from different sources
Social Enterprise Lenders	Financing for social enterprises and non-profit organisations that are not targeted by banks	Various types, typically non-profits, associations, NBFI with a strong social mission	Social enterprises, social projects	Loans, BDS, linkages to other social programs	Traditional relationship-based processes	Subsidised funding from various sources

	Purpose	Organisation	Customers	Activities	Delivery	Financing
Collaborative Finance Organisation	Access to finance for specific groups members of cooperative-type institutions	Financial cooperatives, credit unions	Members of a specific social group or location (e.g., rural area)	Loans and other support services	Traditional rule-based lending with some elements of credit scoring and risk pricing	Self-financed by members
Market Gap Lenders	Micro- and small businesses that experience challenges in receiving funding from the banking sector	Various (non-profit, NBFI, savings house, etc.)	Micro- and small businesses that do not have adequate access or want to broaden their access to finance	Loans and other financial services (e.g., guarantees, factoring, etc.), some may offer BDS through partnership with specialised organisations	A mix of traditional relationship lending and technological application, typically not a fintech	Equity from investors plus a mix of subsidised and commercial funding, often using retained earnings to expand lending
Commercial Microlenders	Individuals and microenterprises seeking additional "fast & easy" access to cash	NBFI, private commercial enterprise, fintech	Low-income individuals with weak access to banks, microenterprises seeking fast cash	Consumer and business loans	Digital data-based lending through mobile and online tools	Equity from investors plus commercial lenders

LENDING PROCESS ACTION	INDIVIDUAL LENDING	GROUP LENDING
GUARANTEES		
COLLATERAL AND INCENTIVES	• Pledge of assets/collateral • Guarantor/co-signers	• Group guarantee • Compulsory savings