

## Heidelberg National Model United Nations Conference 2020

### World Bank Group - IFC Board of Governors

#### Study Guide:



**WORLD BANK GROUP**

## Microfinance and Gender Equality

### I. Introduction

Honourable Delegates,

We welcome you to the World Bank Group Board of Governors at Heidelberg National Model United Nations Conference 2020.

Microfinance has been around since the mid-1970s. The idea sounds intriguing: The very poor that have no access to financial support get small loans to start businesses of their own, repay them, and live happily ever after. What has started with 42 villagers in Bangladesh, has spread to over 200 million people. We will examine if the story has been a successful one, and if not, if there is anything worth saving.

This study guide serves as an overview and an introduction to our debate. Some member states are stronger involved in microfinance activities, others are involved as large donor states of development assistance. To reach the commonly accepted positive goals: eradicate poverty, empower population and women in particular, in financial matters, and encourage entrepreneurial activity for healthier societies, member states have to carefully examine the past and discuss how the future can be shaped.

We will be gathering as Board of Directors of the International Finance Corporation (IFC), one of the World Bank Group constituent agencies. Its rules are listed in section VI-IX - it is advised to take a look at the provisions mentioned there.

We are very much looking forward to the conference. We are sure this weekend will be an exceptional experience for all of you, with interesting debates, great speeches, and of course meeting delegates from different backgrounds.

We are looking forward to meeting you all!

Your chairs

Angela Wilson & Lucas Marlow



## II. Committee overview: World Bank Group Board of Governors

The World Bank is part of the outcome of the United Nations Monetary and Financial Conference, better known as the Bretton Woods Conference, which took place in July 1944. It consists of two institutions: The International Bank for Reconstruction and Development (IBRD), founded in 1944 with the mission of financing the reconstruction of European nations devastated by World War II; and the International Development Association (IDA), added 1960, with the purpose of lending money to the poorest developing countries.



*The U.S. Secretary of the Treasury, Henry Morgenthau, Jr., addresses the delegates to the Bretton Woods Monetary Conference, July 8, 1944 (Credit: U.S. Office of War Information in the National Archives).<sup>1</sup>*

Over the years, special entities have been formed to target specific areas of financial aid. A total of five such institutions is organized as and called the World Bank Group, which consists of the two World Bank institutions, plus three more: the International Finance Corporation (IFC, founded 1956) to target the private sector in less developed countries; the Multilateral Investment Guarantee Agency (MIGA, founded 1988) offering political risk insurance, and the International Centre for Settlement of Investment Disputes (ICSID, founded 1966) as international arbitration institution.<sup>2</sup> All institutions have distinct regulations, but share a Board of Governors, being the ultimate policy makers of the World Bank.<sup>3</sup>

<sup>1</sup> Image Source: <https://www.worldbank.org/en/about/archives/history>.

<sup>2</sup> Membership to the five World Bank institutions varies: The IBRD currently has 189 member countries, the IFC 184, the MIGA 181, the IDA 173, and the ICSID 163.

<sup>3</sup> World Bank, Who We Are - Organization - <https://www.worldbank.org/en/about/leadership>.



*Structure of the World Bank Group<sup>4</sup>*

Today the World Bank pursues two goals: to end extreme poverty, and to promote shared prosperity. It aims to achieve these goals through granting low-interest loans, zero- to low-interest credit and grants to developing countries, assisting them in funding projects in areas such as education, infrastructure, healthcare, public administration, agriculture and environmental resource management.<sup>5</sup>

Microfinance activities of the World Bank Group follow a “multi-tiered approach”: supporting the microfinance industry with legislation, regulation, and supervision; at the mesolevel with support services and infrastructure; and at the microlevel with financial service providers.<sup>6</sup>

All powers of the Bank are vested in the Board of Governors. However, the Board of Governors has delegated the day to day Business to the Executive Directors, a group of 25 directors, each representing various countries.<sup>7</sup> In special cases the Board of Governors will convene to discuss specific issues. This committee will be such a convention.

The World Bank Group is pursuing microfinance activities through multiple of its channels. The International Finance Corporation (IFC) is a central point of these activities. It is in the capacity of the IFC Board of Governors that the convention at Heidelberg National MUN 2020 will be held.

<sup>4</sup> Image Source: [https://www.fin.gc.ca/bretwood/bretwd15\\_2-eng.asp](https://www.fin.gc.ca/bretwood/bretwd15_2-eng.asp).

<sup>5</sup> World Bank, Who We Are - What We Do - <http://www.worldbank.org/en/about/what-we-do>.

<sup>6</sup> The World Bank Group and Microfinance, 03/2015 - [https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/resources/the+world+bank+group+and+microfinance](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/the+world+bank+group+and+microfinance).

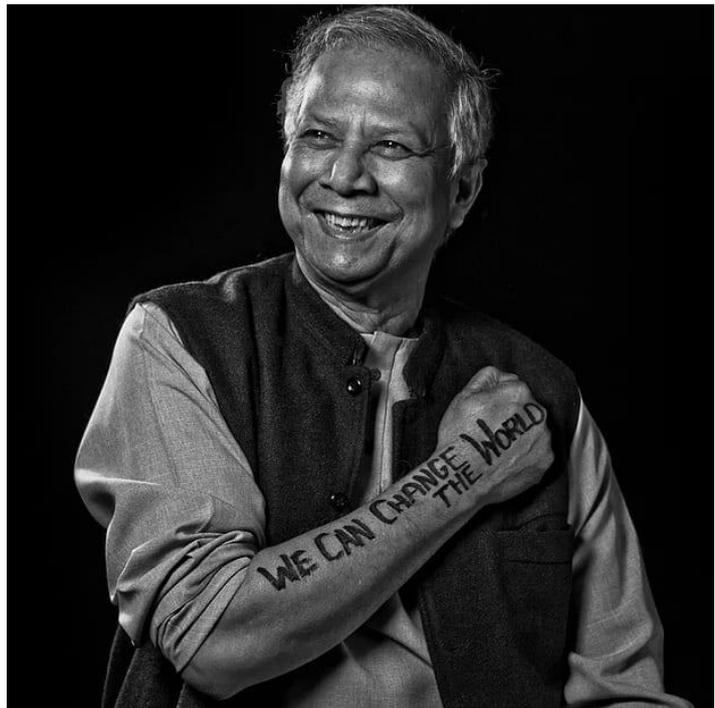
<sup>7</sup> World Bank, Who We Are - Organization - <http://www.worldbank.org/en/about/leadership/governors>.



### III. A Brief History of Microfinance

Microfinance describes financial services - such as loans (microcredit), and providing accounts - to individuals or small business that do not have access to conventional banks. The goal is to enable the poorest to help themselves while engaging in entrepreneurial activity. The concept has gained worldwide recognition dating back to the 1970s, when Muhammad Yunus started what turned into Grameen Bank in Bangladesh, which is engaged in giving out small loans. Yunus and Grameen Bank jointly received the Nobel Peace Prize in 2006. It was Yunus' belief that microfinance would "make a historical breakthrough in ending global poverty".<sup>8</sup>

In 1974, after a famine hit Bangladesh, Yunus found that 42 villagers had borrowed money from a money-lender, who in return secured slave-labor-like conditions; the total sum involved was 27 USD. Banks would not give out money to these villagers, considering them not creditworthy. When Yunus offered himself as guarantor, he discovered that all loans were paid back on time. His Grameen Bank is making profit, and works self-reliant without the need for extra donor money.<sup>9</sup>



Muhammad Yunus<sup>10</sup>

The need for access to financial services for the very poor is still enormous: The World Bank believes that nearly 3 billion people in developing countries have little or no access to formal financial services.<sup>11</sup> Microfinance is seen as a profitable business: large banks such as CitiGroup and Barclays have launched microfinance departments. While the typical amount of such loan ranges between 100 and 25.000 USD, the total microfinance industry is believed to amount to 60-100 billion USD, with 200 million clients.<sup>12</sup>

<sup>8</sup> Muhammad Yunus , Nobel Lecture - <https://www.nobelprize.org/prizes/peace/2006/yunus/26090-muhammad-yunus-nobel-lecture-2006-2/>.

<sup>9</sup> Ibid.

<sup>10</sup> Picture: <https://basicincome.org/news/2018/07/india-muhammad-yunus-says-its-time-to-introduce-basic-income/>.

<sup>11</sup> The World Bank Group and Microfinance, 03/2015 - [https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/resources/the+world+bank+group+and+microfinance](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/the+world+bank+group+and+microfinance).

<sup>12</sup> World Bank: Does Microfinance Still Hold Promise for Reaching the Poor? - <https://www.worldbank.org/en/news/feature/2015/03/30/does-microfinance-still-hold-promise-for-reaching-the-poor>.



## A theory of change for microcredit



Slawek Jurczyk, Fabio Testa, Richard Schumann, Juan Pablo Bravo, Taras Pastushchuk, Tina Abi Hachem, Sergey Zenin | Nounproject.com

13

Several points have been made what a good environment for ensuring beneficial effects of microfinance consist of. Firstly, the very poor not only need loans, but also savings, as well as insurance services. Therefore, the installation of a permanent system of such services for the special circumstances the very poor live in, is vital. It is important to note that governments can provide the necessary regulative framework for such system (this is in fact something the World Bank Group assists). In such regulative framework, interest rates and possible ceilings need to be closely examined. Transparency of such microfinance institutions, both financially as well as socially, are considered vital, too.

When governments come in, the distinction to welfare and charity comes into the discussion. Generally, it is not the government's task to provide the financial services. But as microfinance relies on its beneficiaries having some chance of generating income for themselves, the absence of such chance clearly defines the recipients of charity.<sup>14</sup>

<sup>13</sup> Image Source: <https://www.povertyactionlab.org/policy-insight/microcredit-impacts-and-limitations>.

<sup>14</sup> Wikipedia, Microfinance standards and principles - [https://en.wikipedia.org/wiki/Microfinance#Microfinance\\_standards\\_and\\_principles](https://en.wikipedia.org/wiki/Microfinance#Microfinance_standards_and_principles).



#### IV. Microfinance And Development Aid

Since microfinance is targeting the very poor, aiming to get them out of poverty, the concept appealed as ideal tool for development aid. Following the example of Muhammad Yunus' Grameen bank in Bangladesh, similar initiatives were founded in many other developing countries. In the 1990s, for-profit microcredit institutions discovered an attractive business model, heavily increasing the volume of money involved. The World Bank Group has been a strong advocate of microfinance, supporting through its several branches. It also set up the Consultative Group to Assist the Poorest (CGAP) in 1995, with the specific aim to promote microfinance amongst donor agencies and the microfinance industry.<sup>15</sup>

In 2007, the shift from once-before non-profit institutions engaging in providing financial services to the poor to a very visible money-making for investors was displayed by the IPO of the Compartamos Banco in Mexico. Having started as non-profit bank in 1990, the management decided to transform into a for-profit business, raising more than 400 million USD when going public on the Mexican Stock Exchange.<sup>16</sup>

What has been called (local) microcredit crises followed: Markets in Andhra Pradesh (India), Bosnia-Herzegovina, Morocco, Nicaragua, and Pakistan had seen a rapid growth in amounts that were deployed in microfinance, mainly as loans. With several institutions competing for the same group of lenders, governance was let down, and multiple borrowing on the part of the clients ensued. Consequently, a stronger focus on social motivation, responsible governance and less focus on returns were deemed necessary.<sup>17</sup>

The next years saw a shift away from the focus on microfinance, mainly limited to microcredit loans. Instead, the general aim of financial inclusion of the poor was the main headline of microfinance activities of the World Bank Group. Prepared with assistance of CGAP, the G-20 established a 'Global Partnership for Financial Inclusion'. Access to credit remained a core pillar of the envisioned system. Savings and insurance were now seen as crucial additions to financial services required to really get out of poverty.<sup>18</sup>

For the G-20 'Global Partnership for Financial Inclusion' (GPFI), the World Bank's IFC serves as technical lead. As such, the IFC has been engaged in financial contributions within its Global SME

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<sup>15</sup> World Bank / Bhatnagar and Dewan, CONSULTATIVE GROUP TO ASSIST THE POOREST (CGAP), [http://siteresources.worldbank.org/INTEMPowerment/Resources/14872\\_CGAP-web.pdf](http://siteresources.worldbank.org/INTEMPowerment/Resources/14872_CGAP-web.pdf) ; the group now calls itself 'Consultative Group to Assist the Poor'.

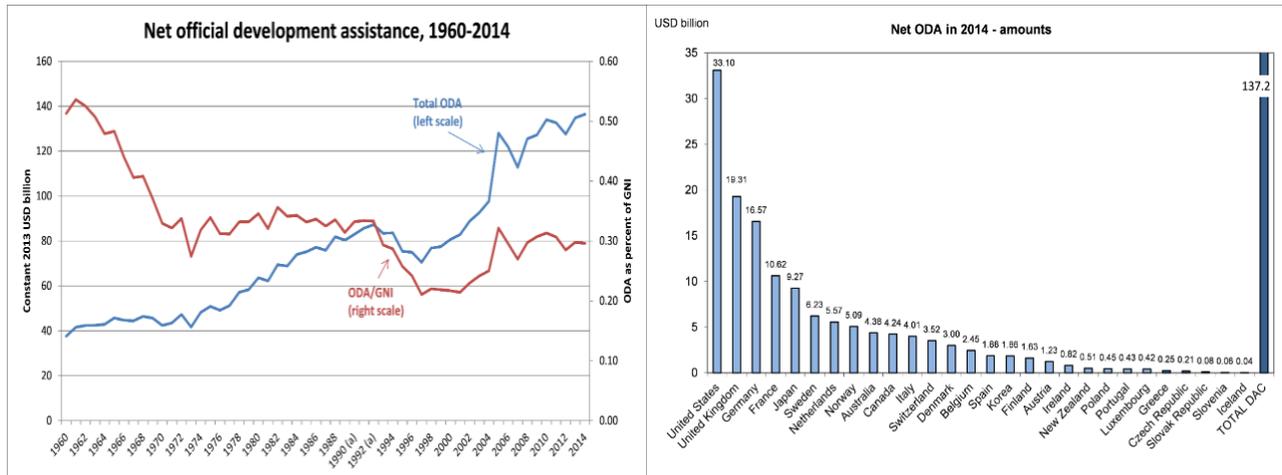
<sup>16</sup> Investopedia, Microfinance - <https://www.investopedia.com/terms/m/microfinance.asp>.

<sup>17</sup> CGAP, Lessons from local microcredit crises, Annual Report 2010 - <https://www.cgap.org/sites/default/files/organizational-documents/CGAP-Annual-Report-Dec-2010.pdf>.

<sup>18</sup> CGAP, *ibid*.



Banking Advisory Services Program in around 50 countries; it has also performed a review of SME finance challenges, developing best practice advice.<sup>19</sup>



Development Assistance, 2014 totals / per country (source: OECD)<sup>20</sup>

The total funds of the World Bank Group's IFC flowing into microfinance activity amounted to 96 million USD in 2014 (n.b.: only IFC funds!). Compared with a worldwide total of around 140 billion USD in official development assistance, the percentage is a mere 0,06%.

However, one has to bear in mind that microfinance activity is largely carried out by private-sector entities. For 2014, the MIX-database more focused on commercial microfinance institutions states 1.064 financial service providers served 112,5 million clients with a total loan portfolio of 87 billion USD.<sup>21</sup> Market expectations range from 250 to 500 billion USD, albeit from times with slightly more positive outlook on the future of microfinance, in 2007 and 2008.<sup>22</sup>

<sup>19</sup> IFC, Microentrepreneurs and Small Businesses, 2014 -

[https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/priorities/mesm/microentrepreneurs+and+small+businesses](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/mesm/microentrepreneurs+and+small+businesses); IFC, SME Finance Advisory Solutions, 2019 -

[https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/priorities/sme+finance/sme+finance+advisory+solutions](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/sme+finance/sme+finance+advisory+solutions).

<sup>20</sup> Image Source: <https://www.oecd.org/dac/stats/final-oda-2014.htm>.

<sup>21</sup> Microfinance Information Exchange (MIX), 2014 - <https://www.themix.org/publications/2014-global-outreach-and-financial-performance-benchmark-report>.

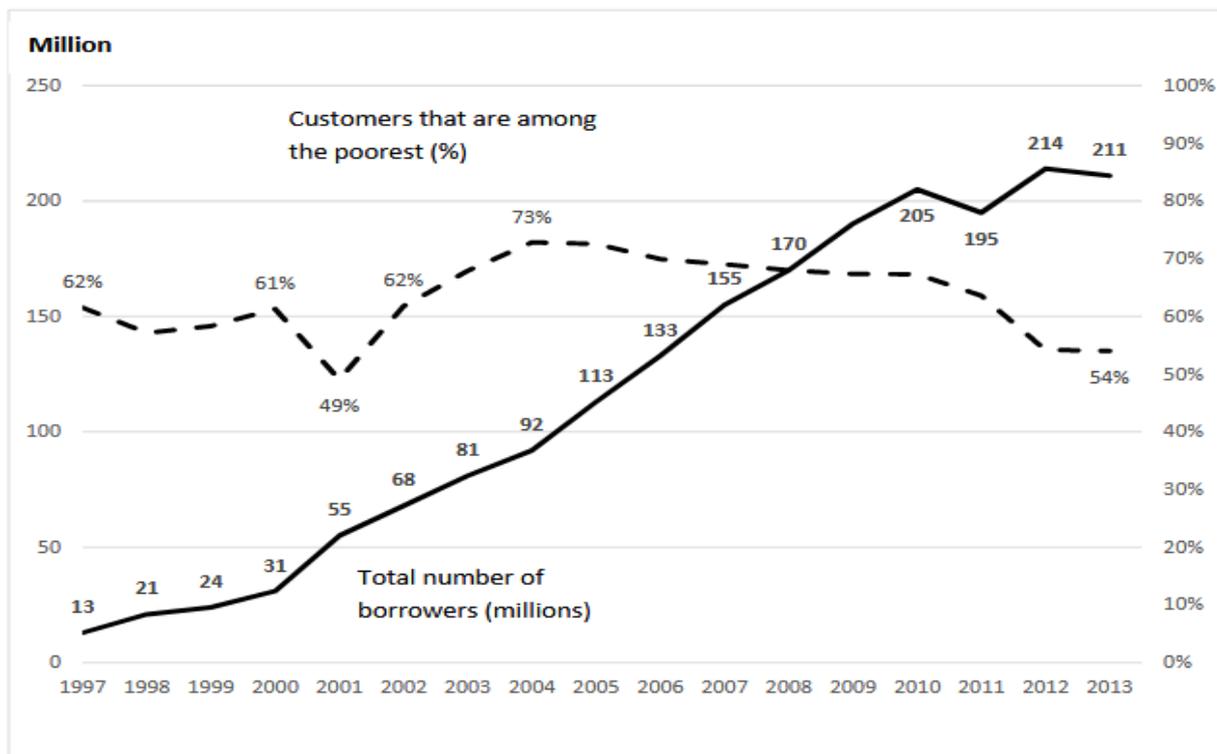
<sup>22</sup> Abdelmoumni, What resources to finance the development of the microfinance sector?, Private Sector & Development, 2009 - <https://blog.private-sector-and-development.com/2009/10/12/resources-to-finance-the-development-of-microfinance/>.



## V. Effects Of Microfinance: Observations & Controversies

<p>“Give a man a fish, he'll eat for a day. Give a woman microcredit, she, her husband, her children and her extended family will eat for a lifetime.”</p> <p><i>Bono, NY Times, 09/21/2005</i><sup>23</sup></p>	<p>„[T]here is now a wealth of evidence from the field that Yunus's microcredit model has given rise to an episode of financial resource misallocation of major historic proportions, one that has under-mined sustainable development through the progressive de-industrialization, primitivisation and informalization of the local economic base.”</p> <p><i>Milford Bateman, Microcredit-critic, January 2014</i><sup>24</sup></p>
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Being in practice for more than 40 years, microfinance is often considered a proven development tool that can provide sustainable tailored financial services to the poor, and thereby enhancing their welfare.<sup>25</sup> Numbers from 2013 count more than 211 million clients reached by microfinance institutions, 114 million of which - or 54% - were living in extreme poverty.



*Microfinance Borrowers, 1997-2013, in millions (cited from Cull/Morduch (footnote 26), p. 7)*

<sup>23</sup> Citation source: <https://www.nytimes.com/2005/09/21/readersopinions/bono.html>.

<sup>24</sup> Citation source: [https://www.researchgate.net/publication/272241825\\_The\\_Rise\\_and\\_Fall\\_of\\_Muhammad\\_Yunus\\_and\\_the\\_Microcredit\\_Model](https://www.researchgate.net/publication/272241825_The_Rise_and_Fall_of_Muhammad_Yunus_and_the_Microcredit_Model).

<sup>25</sup> Zhang/Posso, How microfinance reduces gender inequality in developing countries, The Conversation 2017 - <http://theconversation.com/how-microfinance-reduces-gender-inequality-in-developing-countries-73281>.



The average loan size ranges between 290 USD and 1.900 USD, depending on the type of institution providing the loans (NGOs have the lowest figure, Credit Unions the highest).<sup>26</sup> Interest rates in the segment concerned had a median value of 35% in 2007, ranging from 60% in Mexico to 20% in Sri Lanka.<sup>27</sup> One has to keep in mind that in the market segments that the borrowed money is supposed to be used, revenue chances can go up to 500% per day (e.g.: buying vegetables at a wholesaler, and selling them to customers<sup>28</sup>); in general, in these non-efficient segments of their respective economy people profit from access to money, rather than having no access to the connected revenue prospects at all. Also, as the repayment cycle is usually very short - e.g. only 30 weeks, the interest rate is of much lower concern compared to a timeframe of 20 years.<sup>29</sup>

Another observation: of the poorest clients, more than 94 million - or 82% - were women.<sup>30</sup> Grameen Bank, founded by microfinance entrepreneur Muhammad Yunus, was even said to give out loans to customers that are 97% women - on purpose, having found out that “giving loans to women always brought more benefits to the family”.<sup>31</sup> These positive voices also mention, however, that microfinance alone may not be the sole cause of better involvement of women - but can set a base for more involvement of women in areas that they are barred from culturally, leading to better education of women, and eventually, better welfare.<sup>32</sup>

Broader observations have displayed both failure as well as success of microfinance activity. In the last years, too enthusiastic hopes have been heavily dampened. Positive views keep alive the assessment of useful financial services, negative talk of total failure.<sup>33</sup> From here, what path should be followed? As basis for more differentiated analysis, separate aspects and observations of microfinance activity are projected separately:

#### A. Observation: Creation and Growth of Businesses?

A general problem of impact assessment of microfinance is the limited data: it has not penetrated enough economies to be able to evaluate macroeconomic impact. Therefore, much smaller entities, the smallest being single households, are analyzed. With this limitation, microfinance

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<sup>26</sup> Cull/Morduch, Microfinance and Economic Development, World Bank Group Policy Research Working Paper 8252, 2017 - <http://documents.worldbank.org/curated/en/107171511360386561/pdf/WPS8252.pdf>.

<sup>27</sup> CGAP, Variations in Microcredit Interest Rates, 2008 - <https://www.cgap.org/research/publication/variations-microcredit-interest-rates>.

<sup>28</sup> Example taken of Mitra, Exploitative Microfinance Interest Rates, 2009 - [https://www.researchgate.net/publication/41846373\\_Exploitative\\_Microfinance\\_Interest\\_Rates](https://www.researchgate.net/publication/41846373_Exploitative_Microfinance_Interest_Rates).

<sup>29</sup> Hunter, The Interest Rate Myth In Indian Microfinance, Forbes India 2011 - <http://www.forbesindia.com/article/thunderbird/the-interest-rate-myth-in-indian-microfinance/22212/1>.

<sup>30</sup> State of the Campaign, Report 2015 - <http://stateofthecampaign.org/data-reported/>.

<sup>31</sup> Muhammad Yunus – Nobel Lecture (above footnote 8).

<sup>32</sup> Zhang/Posso, *ibid*.

<sup>33</sup> Cull/Morduch (above footnote 26), p. 8.



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loans have been found to most often supplement income, but not create shifts in employment patterns.<sup>34</sup>

An analysis of seven evaluations found that while such positive impacts were low, harmful effects were low, too - but microcredit did help households to better manage financial choices. For these borrowers, financial need was not derived from entrepreneurial plans, but was driven from the need to secure their existing economic position; it was suggested that this need profile can better be served through other, cheaper access to finance non-business expenditures (or focus away from loans to grants or subsidies, especially for the very poor<sup>35</sup>). It was also suggested to specifically target high-potential individuals with preexisting, larger or more profitable businesses, as these did have a positive impact on their community.<sup>36</sup>

These different conclusions on positive effect of access to finance - for non-business expenditures, and for high-potential entrepreneurial activity - are also debated to be incompatibly dealt with through microfinance. In this view, microfinance without a clear focus on high-potential entrepreneurial activity even develops an adverse effect, creating inefficient competition for the high-potentials.<sup>37</sup>

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<sup>34</sup> Cull/Morduch (above footnote 26), p. 20, 21.

<sup>35</sup> Cull/Morduch (above footnote 26), p. 26.

<sup>36</sup> J-PAL, Microcredit: impacts and limitations, 2018 - <https://www.povertyactionlab.org/policy-insight/microcredit-impacts-and-limitations>.

<sup>37</sup> Bateman, The Rise and Fall of Muhammad Yunus and the Microcredit Model, 2014 - above footnote 24; "The local financial system in the global South thus needs urgent change: it needs a reboot in the direction of community-owned and controlled financial institutions, such as credit unions, cooperative banks and municipal development banks, that by design lock-in the priority to promote sustainable development and equitably serve the poor, not simply maximise profit for a narrow spectrum of already wealthy supporters." Bateman, How the Bank's push for microcredit failed the poor, 2017 - <https://www.brettonwoodsproject.org/2017/12/banks-push-microcredit-failed-poor/>.



## B. Observation: Positive Impact on Gender Equality?

The general observation of high usage of microfinance by women has already been mentioned. A closer look on the distribution of the users of microfinance and the respective percentages of women provide a more difficult picture:

	<b>Total</b>	<b>Women</b>	<b>Poorest</b>	<b>Poorest Women</b>
Sub-Saharan Africa	7.6%	5.4%	7.6%	6.2%
Asia and Pacific	79.1%	85.8%	88.7%	90.6%
Latin America and Caribbean	8.2%	6.8%	2.4%	2.1%
Middle East and N. Africa	2.5%	1.8%	1.1%	1.0%
"Developing World"	97.4%	99.8%	99.9%	99.9%

*Regional client numbers as percentage of global totals / as of Dec 31, 2013  
(cited from Cull/Morduch (footnote 26), p. 8)*

	<b>Total Clients (million)</b>	<b>Percentage within each region</b>		
		<b>Women</b>	<b>Poorest</b>	<b>Poorest Women</b>
Sub-Saharan Africa	15.9	53.8%	54.7%	36.8%
Asia and Pacific	166.9	81.0%	60.8%	51.2%
Latin America and Caribbean	17.4	61.6%	15.8%	11.5%
Middle East and N. Africa	5.3	52.8%	23.7%	17.2%
"Developing World"	205.5	92.0%	55.5%	45.9%

*Microfinance heterogeneity / as of Dec 31, 2013  
(cited from Cull/Morduch (footnote 26), p. 9)*

Firstly, the vast majority of microfinance lenders come from 'Asia and Pacific' (79%, or 167 million). There, a visibly high percentage of clients are women (81%), while other regions range around half (52-61%). Secondly, the reach into the 'poorest' differs greatly: 'Asia and Pacific' has a high reach of 51% of the poorest women, while the percentages in 'Latin America and Caribbean' are at the lowest (11,5%)<sup>38</sup> - as with reach into the poorest altogether. The very different reach into female population makes assessment of cultural differences and resulting disadvantages a difficult task.

Widespread positive effects of microfinance on women's empowerment could not be observed in the analysis of several microfinance research projects with worldwide geographical focus.<sup>39</sup> However, other research revealed that targeting women in microfinance activity was also said to

<sup>38</sup> The Gross Loan Portfolio of 'Latin America and Caribbean' according to MIX-data amounts to 40 billion USD or 47% of the worldwide total 87 billion USD; this indicates a different scenery for microfinance institutions. Cf. data in above footnote 21.

<sup>39</sup> J-PAL, above footnote 36.



lead to fewer defaults than men.<sup>40</sup> Also, a decline in gender inequality was believed to be connected to involvement of women in microfinance, though also stressed that microfinance alone does not guarantee such effect.<sup>41</sup> It was also suggested to identify entrepreneurial ideas that are particularly suited for women.<sup>42</sup>

The UN Sustainable Development Goal #5 - Gender Equality - does include to undertake reforms to give women equal rights to economic resources and financial services (target 5.A).<sup>43</sup> Even though microfinance appeals to this notion, efforts might need to be focused more than they have been before.

### C. Observation: Abuse and Market Failure

Microfinance is not only a case for development assistance; it is probably even more a business. The business side of it focuses on the commercial prospects - in the loan world, this is interest rates, and the likelihood of default. Generally, microfinance interest rates are higher than traditional banking rates; they are said to be still lower than the rates of moneylenders, that are accused of exploiting those in need.

Even if moneylender rates - said to range up to 1.000% - are not reached by microfinance institutions, allegations of hiding the real cost of their loans have been widespread. To limit the risk of such 'bad' behavior, interest rate caps have long been in discussion. Due to high costs especially for very small loans, however, interest rate caps threaten the microfinance system altogether - as only one third of microfinance institutions is said to be really profitable.<sup>44</sup>

Especially when donor money is involved to mitigate some of the risks involved in giving out loans to the very poor, safeguards against abuse are wanted, but not easily set. Market efficiency is supposed to bring down interest rates in the long run; this would not hold true if the money deployed in microfinance is enough to satisfy the current need. Comparing given-out loan totals with - albeit enthusiastic - demand estimates (cf. section IV above), hoping for market efficiency might not be the best way to pursue.

### D. Observation: Risk of Overindebtedness

Over-lending by microfinance providers and over-borrowing by customers has produced heavy crises in Cambodia, Bangladesh, Bolivia, and Bosnia. This was connected to the use of loans not to create a higher income, but for non-entrepreneurial expenses without the desired long-time effect on financial development. It was also said to be connected to microfinance institutions

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<sup>40</sup> Wikipedia, Microfinance - Gender - <https://en.wikipedia.org/wiki/Microfinance#Gender> (with paywall references).

<sup>41</sup> Zhang/Posso, above footnote 25.

<sup>42</sup> Global Partnership for Financial Inclusion, Subgroup SME Finance - <http://www.gpfi.org/subgroup-sme-finance>.

<sup>43</sup> UN, Sustainable Development Goals, #5 - <https://www.un.org/sustainabledevelopment/gender-equality/>.

<sup>44</sup> Cull/Morduch (above footnote 26), p. 20.



strengthening their efforts to secure (or even enhance through higher revenue) their investments, thereby forcing their customers into overindebtedness. The Indian state of Andhra Pradesh has gained worldwide news coverage when more than 80 deaths were said to be connected to pressure from microfinance institutions.<sup>45</sup> As with the perception of abuse and market failure, voices called for more regulation of the microfinance industry.

#### E. Observation: Effects of Technical Innovations

Technology advances are connected with high hopes for several areas of development. For the financial sector, the hope is that digitized financial transactions can greatly reduce costs, while at the same time be more widely available even in rural areas. Combining access to finance with easy-access education in related areas, further improvement especially for the very poor might be in sight.

#### F. Observation: Microfinance as Part of (Broader) Financial Inclusion?

While the original focus of microfinance was to enable the poor to establish their own business that they can live of, a broader approach of microfinance is gaining momentum: understanding microfinance as one of many elements of 'financial inclusion'. Microfinance in this respect is a means to get quick access to financial liquidity when needed, outside the standard banking infrastructure of a country. The element of sustainability of the spending target - i.e. entrepreneurial activity with long-term effect - may be lacking, but it might be true that customers - i.e. 'the poor' - see microfinance already as exactly this: a source of basic household finance.<sup>46</sup> Access to finance is meant as only one aspect, the other being the ability to perform financial transactions, payments, establish savings, and insurance.<sup>47</sup>

## VI. Questions A Resolution Should Answer

Based on the above information, delegates should try to determine their countries' general stance to microfinance activity that is pursued under the general hood of development aid. As research mainly focuses on single examples, there is lots of room for forming own opinions. Starting points for a development of such might be circumscribed by the following questions:

- Should microfinance activities be further pursued by the World Bank Group?
- If no: What other activities could lead to positive impact in the areas concerned?

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<sup>45</sup> BBC, India's micro-finance suicide epidemic, 2010 - <https://www.bbc.com/news/world-south-asia-11997571>.

<sup>46</sup> Cull/Morduch (above footnote 26), p. 4.

<sup>47</sup> World Bank, Financial Inclusion - <https://www.worldbank.org/en/topic/financialinclusion/overview>.



- If yes:

- How can measurement and understanding of microfinance activity be improved?
- How can regulation play a role in enabling microfinance to achieve better results?
- Should gender equality be upheld as aim related to microfinance activity?
- Should the very poor be targeted by special programs? Of what kind?
- How can advances in technology be best applied here?

## VII. Voting and Resolutions

Voting in the World Bank Group - IFC Board of Governors will not adhere to the one country one vote principle that is normally used in UN Assemblies. Votes in the World Bank are dependent largely upon the amount of money contributed by each member country. Hence some countries have more Votes than others.

The exact shares of votes can be found here:

<http://pubdocs.worldbank.org/en/280961541106482420/IFCCountryVotingTable.pdf>

Since this committee will feature a IFC Board of Governors reduced to a number of countries below quorum, we will not enforce Article IV section 2 lit f of the Articles of Agreement.

All procedural votes will be held according to the ordinary MUN principle, one country (or here: one governor), one vote. Votes on the final resolutions on the other hand will be held according to the World Bank principle. Unless the Resolution contains a change to the articles of agreement, a simple majority will suffice. To change the Articles of Agreement, a resolution will need four fifths of the votes.

Furthermore, resolutions of the Board of Governors take a different form than UN resolutions. They do not have perambulatory clauses. They rather have the following form:

**WORLD BANK GROUP  
INTERNATIONAL FINANCE CORPORATION  
BOARD OF GOVERNORS**

*Resolution No. [XXX]*

**[Title]**

**[Preambulatory Clauses]**



RESOLVES:

1. THAT [...]
2. THAT [...]
3. THAT [...]

(Adopted on [Month] [D], [YYYY])

An example of such a resolution can be found here:

<http://documents.worldbank.org/curated/en/384591468266414589/International-Finance-Corporation-IFC-Board-of-Governors-resolution-no-249-membership-of-the-Republic-of-Kosovo>

## VIII. References and further research (apart from footnote references)

*On the World Bank:*

<http://www.worldbank.org/en/about>

<http://www.worldbank.org/en/about/leadership/governors>

- IFC Articles of Agreement

[https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/ifc+governance/articles/about+ifc+-+ifc+articles+of+agreement](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/articles/about+ifc+-+ifc+articles+of+agreement)

(n.b. article I - purpose, article IV section 3 - voting; see below IX for vote allocations)

- By-Laws for Meetings of the Board of Governors

[https://www.ifc.org/wps/wcm/connect/corp\\_ext\\_content/ifc\\_external\\_corporate\\_site/about+ifc\\_new/ifc+governance/articles/about+ifc+-+ifc+articles+of+agreement+-+by+laws](https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/articles/about+ifc+-+ifc+articles+of+agreement+-+by+laws)

(n.b. section 9 on voting)

*On the future of microfinance:*

<http://stateofthecampaign.org/2015/12/09/read-the-full-2015-report/> - “Six Pathways”

All sources were last reviewed on the 3<sup>rd</sup> of January 2020.



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## IX. Voting Weights

\*\* will be added within the next days \*\*