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RESEARCH REPORT

COMMITTEE : UNITED NATIONS DEVELOPMENT PROGRAMME

ISSUE : SUPPORTING MICRO-CREDITS AND ALTERNATIVE CURRENCIES IN ORDER TO REDUCE PARALLEL ECONOMIES

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INTRODUCTION

In all advanced civilisations, people have tried putting in place a monetary system. Unfortunately, this system has always favoured the rich. This is why, in order to get by, poor countries have installed an economy of their own: an economy parallel to the wealthy ones. Today, what we call “parallel economy” **covers the so-called black economy** and unpaid exchanges or **barter**. The black economy is made up of the black market, where you can find illegal items such as stolen art or human organs; and of under the table activities. Not all activities **assimilated with** the black economy are illegal, it is the fact that they are not declared to the authorities in order to avoid taxes or regulations (like the minimum wage) that makes them illicit activities. In this era of development, these economies are considered a danger that has to be reduced.

Two ways forward without going back to traditional economic practices are micro-credits and alternative currencies. Various things have been already used to trade: silver, gold, paper, salt, wheat, tobacco and even sea shells. Some of them, gold and silver, can still be used today. Others have disappeared. These micro-credits and alternative currencies aim to empower local businesses, women in some countries and small entrepreneurs. With the process of globalisation expanding since WWII, the international market is ruled by T.N.C.s. Companies like McCain, Airbus or Microsoft will not be interested in local currencies or micro-loans, but remote regions can sometimes be forgotten. However they need become sustainable and this is why they might want to put in place a private currency: to support their local businesses and local agriculture for example. The role of the United Nation’s Development Programme will be to find solutions on how to support these credits and currencies in order to reduce parallel economies.

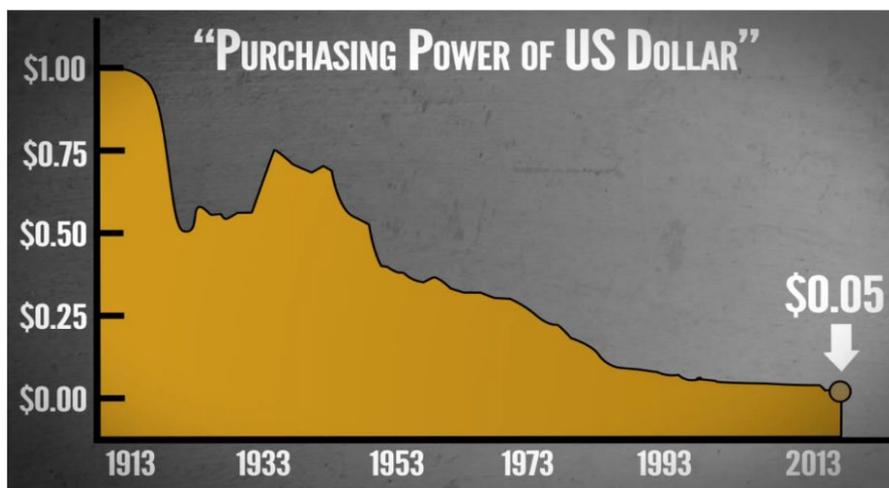
BACKGROUND INFORMATION

Alternative currencies serve here not only to **develop** and **empower** small economic regions; they also serve to encourage a certain type of behaviour. For example the SOL Project. This project started in France in 2007 and resulted in an alternative currency promoting sustainable development. A "sol" is worth 10 cents only in bio stores and equitable trade. Thus rewarding users if they invest in an eco-friendly store contrary to a normal supermarket, the GDP calculating the investments the same way, it will have no negative impact on economy.

Most of these private currencies don't aim to replace the dollar or the euro, even if it was so, their economic weight is too small. Their **political goal** is more about giving currencies to the poor. The slogan of the time-dollar is "Putting unsatisfied needs in touch with unused resources." The time-dollar is another private currency based on time: the client can work an hour for someone, their account will be credited after which they can use this in return for an hour-long service from another volunteer. Contrary to the sol or the German chiemgauer, the time-dollar encourages local solidarity, just like the Japanese kippu. Other alternative currencies can be the AOCs, the Ven, the NuBits and of course, the Bitcoin.

These currencies are particularly efficient during crisis: e.g. if we use time; even during economic hardships time **can't lose its value**, banks can't create more and everybody can help someone else, it is in a way based on exchange.

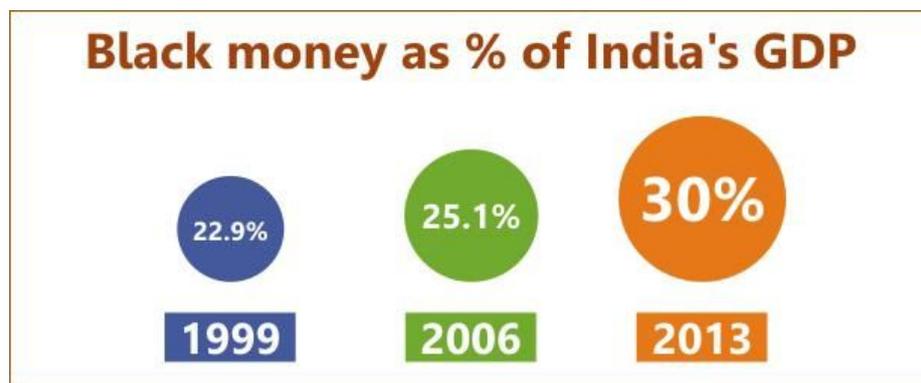
The bitcoin is the most successful alternative currency today. It is **decentralised**, meaning it is not owned by any government. Furthermore, being a cryptocurrency it cannot lose value, unlike other official currencies whose value depends on the market, inflation or even the number of bills available. Its attractiveness is due to the government's incapability to act upon it, it is digital (so easier to keep track of) and with the development of applications growing, so is the number of investors using bitcoin.



There is more than one recent event that made people turn towards alternative currencies. After the football world cup and the Olympics, Brazil is facing major inflation which made people create their own fake currency. The currency is called "the \$urreal" because of the surreal prices in the city: a simple salad reached 10€ and house prices have risen more than 15-20% in the past two years. The citizens are facing a real problem as many of them need to spend more than they earn. Another crisis situation is in Venezuela: their hyperinflation is predicted to reach 1500-1600% in 2017, a truly worrying figure. Trying to fight this, the government

decided to remove 100 bolivar bills from circulation and introduce bigger ones, forcing people from remote areas to come to the Central Bank. Venezuelans were left with a stack of bills they cannot use just before Christmas.

This decision might be inspired by India's prime minister Narendra Modi decision to remove 500 and 1000 rupee bills from circulation over night, thus making invalid about 85% of the current circulating cash. The intention of this decision was to fight against the constantly rising black money.



Indeed prime minister Modi was elected after his anticorruption campaign and after the figures revealed an estimated \$10 billion income on which taxes have not been paid, he decided to take action as encouraging people to declare their revenue wasn't helping. Of course this course of action is helping: owners of black money or fake bills cannot go to the bank to change the bills thus making this money disappear from circulation. Therefore the fake money used to fund terrorism or mafias will be gone, resulting in an increase in national security. Another effect is the stagnation of inflation.

However there are also significant negative effects: people rushing to exchange their bills, remote citizens not aware of the situation, corrupt powerful people who can exchange their money for gold.

The black market makes a country lose GDP points, it is only normal for governments to want to solve this issue. Some Italian and Russian politicians made deals with mafias: giving the mafia influence in exchange for the resources they are using. This encourages disloyal behaviour towards the system. This begs the question: are state administrations effective?

The microfinance economy started in the 1970s. Professor Muhammad Yunus, who in 1972 joined the economy department of Bangladesh's government. In 1973 he built the Grameen Bank Project and in 1983 it becomes an actual bank; bank he will direct until 2011. This project has since 1973 lent \$9.87 billions from which \$8.76 have been repaid and 97% of the borrowers were women. Yunus' project is at its

core a humanitarian one, he wanted to empower women in developing countries but also help some of the poorest families in the world survive. These micro-loans, also called micro-credits developed through the years and many organizations were built to empower poor entrepreneurs. In Argentina, Warmi is an organisation lending to people small amounts of money, without any guarantee they will pay them back. Their **loans are based on trust and communication** and give people the opportunity to build houses, enclosures or buy professional gear.

Rosario Quispe, the founder of the organisation thinks that a **healthy community** should be able to offer work and education to its members, thus also creating a university program in relation to the university of Cordoba.

In some of the poorest countries of the globe, women are the ones providing for their household. In the case of Haiti, women try to make a living by selling pepper or pottery. Half of them still live under the poverty line and it is all the more difficult to make a living as foreign finances are prioritised over local business. Fonkoze is an organisation forming groups of five or six women and giving them up to \$70 of micro-loan to start a small business. They also offer preparation on how to manage that money and how to deal with life problems (children, literacy, health...). This money comes from a financial institution called Sèvis Finansye Fonkoze (SFF), and has a \$7.7 million revenue from donations, churches, private individuals and from a philanthropic organisation called Fonkoze USA, a Haitian phone company... This organisation allows hundreds of women to provide for their family.

Microfinance has come a long way since it was born, what many people criticise today is that it has lost its humanitarian purpose. This new branch of the economy was thought to be profitable for a decade, however its potential was confirmed in 2007 when a Mexican NGO (Compartamos) providing micro-credits, entered the stock exchange and made \$458 million. Mexico is also where the interest rates are the highest, some of them over 100%. The gross margin in some countries is between 20% and 30%, and the creator of micro-credits called these countries "shameless". In India, hundreds of people killed themselves because of pressure from debt collectors. Micro-credits are also used in developed countries. In France, 97 000 micro-credits were issued, helped over 40000 enterprises (having an average lifespan of three years) and created over 100 000 jobs. In total 92.2 million benefit from micro-credits and 98% of these repay their debt in LDCs opposed to 90% in MDCs.

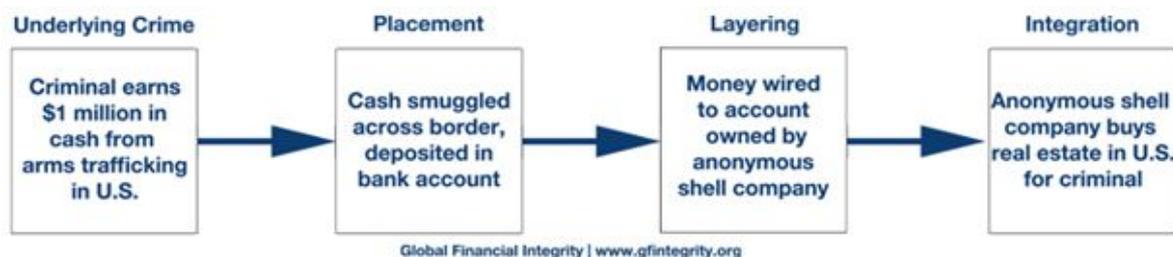
Many organisations have lost their charitable aim, micro-credits are now attracting private capital and the poor are indebted more and more: 93% of the poorest Pakistani families have debts. In South Africa household debts went from 54% in 1994 to 75% in 2013, this leading to the African Bank Investments Limited (ABIL) declaring bankruptcy. The problem was aggravated by the 2008 crisis: Johannesburg's stock market became a playground for western speculation, making

electricity, transport, house prices as well as inflation and unemployment skyrocket. Many expected, and hoped, for micro-credits to be a miracle solution to poverty, however once it entered the economy it was bound to be the prey of profit seekers. Millions of peasants as entrepreneurs are not yet seen as a future for the economy. Here are the impacts of micro-credits in some developing countries :

Outcome	Bosnia and Herzegovina	Ethiopia	India	Mexico	Mongolia	Morocco	Philippines
Business ownership	↑	—	—	—	↑	—	—
Business revenue	—	—	—	↑	—	↑	—
Business inventory/assets	↑	<i>no data</i>	↑	<i>no data</i>	↑	↑	—
Business investment/costs	—	—	↑	↑	<i>no data</i>	↑	↓
Business profit	—	—	—	—	—	↑	—
Household income	—	—	—	—	—	—	—
Household spending/consumption	—	↓	—	↓	↑	—	—
Social well-being	—	—	—	↑	—	—	↓

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These two solutions are probably the best candidates to **reduce** poverty and illicit money. However states do not always encourage these because an alternative currency equals a private currency equals a currency they have **little control over**. Even though illegal money makes them lose GDP points, the government would rather control the economy over some GDP points. Moreover both alternative currencies and micro-credits are **an obstacle to globalisation**: alternative currencies promote local business and micro-credits small enterprises (with an average lifespan of 3 years a microfinance based company will not make it internationally). These economies are therefore against TNCs and their bosses who often have influence with those who build the economy. Goldman Sachs is known to buy influence in Washington to make making money on Wall Street easier. HSBC is "Europe's largest bank by market value" according to Forbes magazine and was found guilty of laundering hundreds of millions of dollars between Mexico and the US. The bank agreed to pay \$1.93 billion to the US authorities, however the scandal is not yet over as recently (December 2016) the US was advised by Chancellor Osborne not to prosecute HSBC any further, to avoid "a global financial disaster".



The state has numerous factors to take into account before encouraging these economies: the investments coming from the black market (Thailand would lose about 18% of its GDP by cutting sexual tourism), the “economic maturity” of its citizens (is India ready for cashless transactions?) as well as their political orientation, the country’s part in globalisation...one thing we can say for sure is that an economy built on local businesses isn’t in the near future.

There are different ways to make the world a better place and microfinance can be one. Since it is seen as a key poverty solution to poverty and to of illicit money, it is highly encouraged in countries that have not yet started this policy. Although the issue of parallel economy is continuously growing, the possible resolution of changing money out of the blue is still to be tested. The world has a long way to go before reaching political and economical stability because of the growing population and different world crises like poverty, terrorism, global warming and so on. One way or the other, one step at a time, we have to close on these goals.

KEY TERMS :

Black/underground economy: an economy made of under the table activities in order to avoid taxes or regulations (minimum wage...)

Barter: an economy based on negotiations and the trade of goods or services without money

Microcredits: small amounts of money loaned to small entrepreneurs who lack collateral or stable income and can’t get a bank loan (women in developing countries...). It is given in order to support small businesses and reduce poverty.

Alternative currency: (private currency) is a currency used on a local scale and independent from the government. It helps regional financial flows and supports

local economic activities.

Devaluation: officially lowering the worth of a public currency.

Purchasing power: value of a currency, estimated by the quantity and quality of goods and services it can buy.

Speculation: risky investment in a fluctuating market with the hope of gain but also the possibility of loss. It encourages baseless investments thus supra-evaluating the price of certain goods or services.

Capital flight: a phenomenon that is caused by a sudden economic change and results in large amounts of money leaving the country rapidly

Recession: «temporary economic decline during which trade and industrial activity are reduced, generally identified by a fall in GDP»

Money laundering: process of converting money from illegal activities into the legal financial system by going through banks and companies to look like it comes from a legal activity

TIME OF EVENTS

1945: World Bank

1970: project of micro-economy by Muhammad Yunus

1983: opening of Grameen Bank, first financial institution of micro-credits

1995: the World Bank creates the Consultative Group to Assist the Poor (CGAP)

2002: Microfinance Information Exchange (MIX)

2005: the UN declares 2005 as the international year of micro-credits

2007: first micro-finance providing company to enter the stock exchange

2012: HSBC pays 1.9 billion fine after found guilty of money laundering

2016: Panama papers scandal: publication of accounts of 214000 offshore companies

PAST RESOLUTIONS

- India removing 500 and 1000 rupee bills from circulation in November 2016
- Venezuela removing 100 bills from circulation
- Economic embargo on Yugoslavia in 1992/1993 to stop the parallel market rules by the Serbian mafia

POSSIBLE RESOLUTIONS

Changing currency can be seen as a simple solution to reduce black money. If a country decides to change the currency, it should not give much time for people to convert it to new currency. A short amount of time should be given (one month for example). The plan of the currency change should not be announced and should be planned properly, the currency requirement should be estimated, all required currency printed and the date of announcement should be decided. It should also be requested that people deposit all their “old” currency in banks and withdraw only required amount as new currency. Identification should also be implied in order to acquire the “new” currency.

Blockchain:

(https://www.ted.com/talks/bettina_warburg_how_the_blockchain_will_radically_transform_the_economy)

MORE INFORMATIONS

- **India** (making bills invalid)
- **Thailand** (sexual tourism 18% gdp)
- **USA** (TNCs but also huge black market)
- **Nigeria** (agriculture based on m-credits)
- **Argentina** (many alternative currencies)
- **Mexico** (huge interest rates, first to enter the stock exchange)
- **Venezuela** (hyperinflation + change of bills)
- **Brazil** (fake currencies due to poverty)
- **Colombia** (drug trafficking making \$\$\$)
- **Iran** (organ trafficking legal)
- **Russia & Italy** (deals with mafia)
- **South Africa** (Africa's main power)
- **Japan** (old people unable to work)
- **Madagascar** (poorest country in the world)
- **Bolivia**
- **Indonesia**
- **Pakistan**
- **United Kingdom**
- **China**
- **Saudi Arabia**
- **Norway**
- **France**
- **Germany**

Neutral interesting countries: Ireland, Australia, Sweden, Canada

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