

## Study Guide

**GPH Model United Nations 2019 | 6<sup>th</sup> – 8<sup>th</sup> of February 2019**

**Forum:** Economic and financial council

**Issue:** Poverty trap

**Student officers:** Sarah Annamária Kuipers, Michaela Hartwich

**Position:** Chair, under chair

### Introduction:

In the economic and financial council, we will be discussing the topic poverty trap and the poverty itself, how it has changed from the past decades till today. Also, we will be seeking for possible solutions how to reduce poverty.

More than 3 billion people live on less than \$2.50 a day and an estimated 1.3 billion live in extreme poverty, making do with \$1.25 or less daily. Those people are trapped into the poverty cycle which they cannot escape.

Families with lower income than minimal wage will always remain poor, because of the cycle they are trapped in, that means they have either limited or no resources, such as financial capital, education, or connections.

Other major issue of the poverty cycle is that the government should provide basic needs to their citizens, such as education, work and health care but it is restricted because of the high corruption, tax avoidance debt and loan conditionalities. That means all the income which should be spent on the basic need of the citizens are kept in their own pocket.

That is why the poverty reduction is still a major issue for many international organizations such as the United Nations and the World Bank.

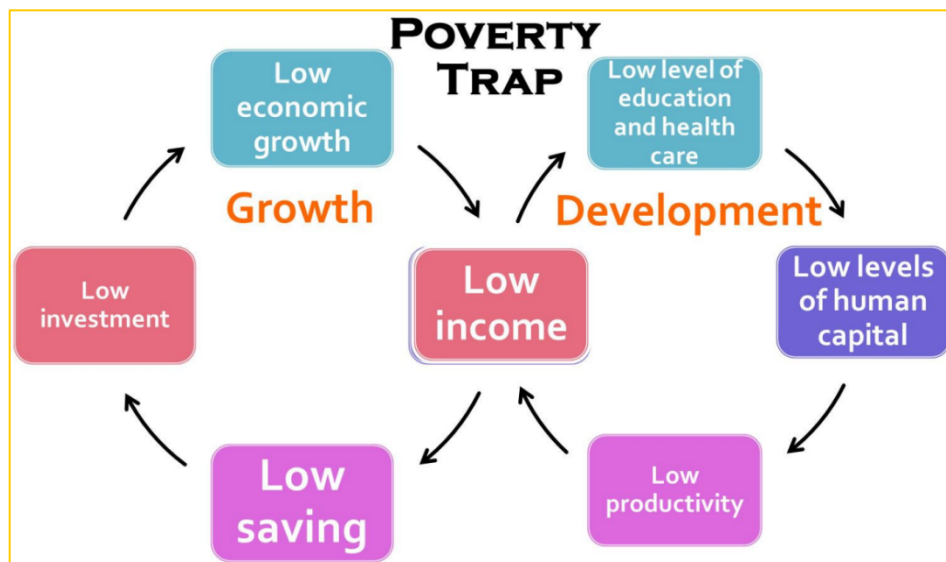
### Definition key:

**Poverty:** is the scarcity or the lack of a certain amount of material possessions or money. Poverty is a multifaceted concept, which may include social, economic, and political elements.

**Extreme poverty:** Extreme poverty is the total lack of a human's means of survival, including access to food, shelter, clothing, physical protection, and community, as well as the lack of means of improving one's life, through methods such as education, medical aid, or employment. Extreme poverty often leads to malnourishment and unemployment and this combination of factors does little to pull these victims out of their impoverished situation. This cycle is remorseless and destructive, and it affects multitudes of men, women, and children.

## Cycle of poverty:

Poverty trap is a spiralling mechanism which forces people to remain poor. It is so binding that it doesn't allow the poor people to escape it. Poverty trap generally happens in developing and under-developing countries, and is caused by a lack of capital and credit to people.



**World Bank:** is an international financial institution that provides loans to countries of the world for capital projects. The World Bank's most recent stated goal is the reduction of poverty

**IBRD:** The International Bank for Reconstruction and Development is an international financial institution that offers loans to middle-income developing countries.

**IDA:** The International Development Association (IDA) is an international financial institution which offers concessional loans and grants to the world's poorest developing countries.

**MEDC:** more economically developed country is a sovereign state that has a developed economy and advanced technological infrastructure relative to other less industrialized nations.

**LDC:** Least developed countries are low-income countries confronting severe structural impediments to sustainable development. They are highly vulnerable to economic and environmental shocks and have low levels of human assets.

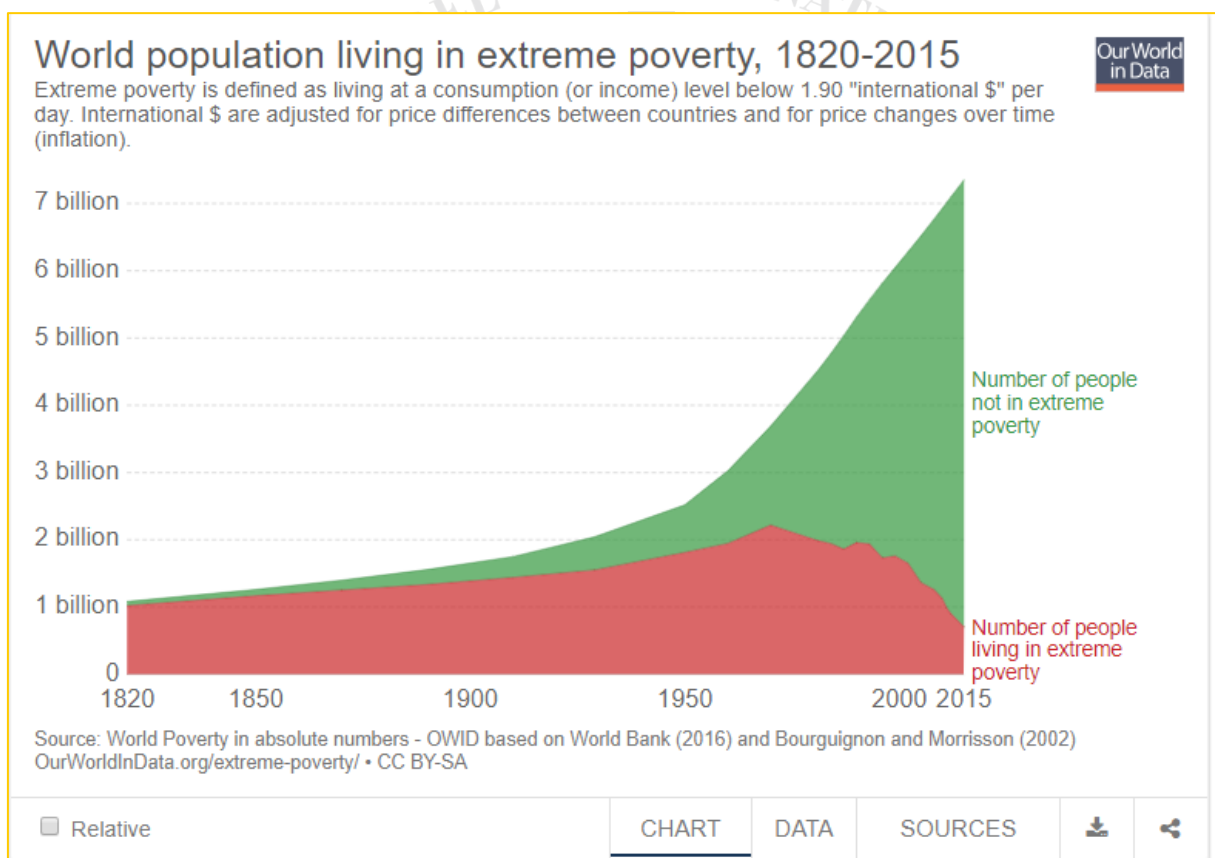
**GDP:** Gross domestic product is a monetary measure of the market value of all the final goods and services produced in a period of time, often annually or quarterly. Nominal GDP estimates are commonly used to determine the economic performance of a whole country or region, and to make international comparisons.

**HDI:** Human development index is a statistical measure that gauges a country's level of human development

## Background:

The World Bank only publishes data on absolute poverty from 1981 onwards, but researchers have reconstructed information about the living standards of the more distant past.

In 1820, the vast majority of people lived in extreme poverty and only a tiny elite enjoyed higher standards of living. Economic growth over the last 200 years completely transformed our world, with poverty falling continuously over the last two centuries.



So, are we finally beating poverty?

## MEDC:

### Great Britain

The Gross Domestic Product (GDP) in the United Kingdom was worth 2622.43 billion US dollars in 2017. The GDP value of the United Kingdom represents 4.23 percent of the world economy.

As of 2017, 20% of UK people live in poverty including 8 million working-age adults, 4 million children and 1.9 million pensioners. Research by the JRF found nearly 400,000 more UK children and 300,000 more UK pensioners were in poverty in 2016-17 compared with 2012-13.

From April 2018, child benefit will be limited to the first two children, which will affect 150,000 families. Withdrawal of family element from new Universal Credit claims and tax credit claims for families with children will affect 400,000 families.

Single parents are particularly heavily affected by benefit sanctions. A 2018 report from Gingerbread and Trust for London showed that three times as many single parents were sanctioned under JSA in 2016/17 than 2005/06. These sanctions can compound the financial hardship of those already on a low income.

Some of the causes of poverty are disability, illness, mental illness, unemployment, underemployment.

### China

The Gross Domestic Product (GDP) in China was worth 12237.70 billion US dollars in 2017. The GDP value of China represents 19.74 percent of the world economy.

China is a heavily populated country in East Asia. Since the financial crisis in 2008, China has become the second largest economy in the world and the number one contributor to the world's overall growth.

In as recent as 2015, there were 55 million poor people in rural areas. The World Bank explains that because of China's fast-growing economy, it has brought on challenges such as high inequality, environmental sustainability issues and poverty. China is aware of these problems and works to eradicate poverty within its walls.

China has the goal to completely overcome poverty by 2020, which would make the country an overall prosperous society. Just in 2016, China was able to help put 12.4 million rural people above the poverty line. This surpassed their 2016 goal of bringing at least 10 million people out of poverty.

However, towards the end of 2016, China still had 43.35 million people under the poverty line of 2,300 yuan (about \$334) in annual income.

Because China has such a large population, officials are worried about population sizes in major cities. Consequently, rural residents are often forced to move to the outskirts of third-tier cities, which often have little infrastructure and a setting that makes it easier for Chinese residents to fall under the poverty line.

## **USA**

The Gross Domestic Product (GDP) in the United States was worth 19390.60 billion US dollars in 2017. The GDP value of the United States represents 31.28 percent of the world economy.

The United States is considered the richest country in the world, and yet millions of its residents live in poverty.

The face of poverty for most Americans is pictures of families in rundown housing in large cities where the industry has moved away. Impoverished families tend to have less education, more health problems and less access to nutritionally adequate food. They also are more likely to live in high-crime areas.

The true face of poverty, however, is found in rural areas of the South and Southwest regions of the U.S. where living conditions are even more run down and industry never really started up.

Seven of the 10 states with the highest poverty rates in the U.S. are in the South. That includes Mississippi (20.8% of population below the poverty line); Louisiana (20%), Kentucky (18.5%), West Virginia (17.9%), Arkansas (17.2%), Alabama (17.1%) and Georgia (16%) lead the way.

These areas have a long history of poverty and there are many factors contributing to it, but the most obvious are that they were agricultural economies first and foremost with light emphasis on education and innovation.

According to recent research, the number of households living on \$2 or less in cash income per person per day in a given month increased from about 636,000 in 1996 to about 1.65 million in mid-2011, a growth of nearly 160 percent.

What's more, over six percent of the population – including 7.1 million children – live in “deep poverty,” which experts define as having a household cash income of less than half the federal poverty threshold.

## **Russia**

The Gross Domestic Product (GDP) in Russia was worth 1577.52 billion US dollars in 2017. The GDP value of Russia represents 2.54 percent of the world economy.

The poor in Russia are primarily families with children, the unemployed, the disabled, the single elderly living alone, and women. The homeless and previously institutionalized population as well as some refugees form a small but critical group of the poor.

The working poor are the largest group--66 %of the poor live in households where at least one adult is employed.

Unemployment is strongly linked with poverty, and an estimated 63 percent of households headed by an unemployed person were poor in 1993. Approximately 60 percent of unemployment benefit recipients are limited to the minimum benefit, and nearly 20 percent of the registered unemployed are involved in informal sector activities. Although the average duration of unemployment in Russia to date has been short (six months), it has increased, suggesting a rising number of long-term unemployed.

In richer regions, higher income results in lower migration outflows. However, in the poorest regions, increase in income results in higher emigration. This is consistent with the presence of the geographical poverty traps: potential migrants want to leave the poor regions but cannot afford to finance the move. Most Russian regions grow out of poverty traps bringing down interregional differentials of wages, incomes and unemployment rates.

## **Finland**

The Gross Domestic Product (GDP) in Finland was worth 251.88 billion US dollars in 2017. The GDP value of Finland represents 0.41 percent of the world economy.

Finland is rated among the top nations in the world for quality of life, financial equality and educational systems. As a welfare state it provides its citizens public services to protect against financial and social risks like accidents, disabilities, old age and unemployment. Thus, there are few causes of poverty in Finland.

The country also has one of the lowest poverty rates at approximately 0.04 percent of its 5.4 million citizens.

The high cost of housing is one of the main causes of livelihood problems. Housing costs for people with low-income have increased faster than the general price trend and at the same time the development of the level of housing benefits has been lagging and further cuts are being made.

Based on statistics extending up to 2015, 101,000 children (9.4 percent) live in poverty. The number of children living at risk of poverty and social exclusion is even bigger: approximately 15 percent of children live in households affected by the risk of poverty and social exclusion. Child poverty in single-parent families is considerably higher compared to families with two parents.

In the 21st century, food aid has become one of the most prominent sources of informal aid in Finland. The number of people relying on food aid vary, but according to estimates, around 20,000 people rely on food aid organized by NGO's, associations and religious communities weekly. A slight increase in the number can be expected, as in the public debate, several organizations have reported an increase in customer numbers.

Generally, the underlying cause of poverty is often prolonged unemployment, disadvantage inherited from generation to generation, low educational level, high number of children,



single parenthood or living alone, long-term illness or incapability to work due to disability, drug and mental health problems. There are also significant regional differences in poverty.

## LDC:

In 1971 as a special group establish of

developing countries characterized by a low level of income and structural impediments to growth and requiring special measures for dealing with those problems. The United Nations defines LDCs as countries that have low levels of income and face severe structural impediments to sustainable development. The countries categorized as LDCs are identified based on specific criteria and procedures, described in detail below.

As of 2018, 47 countries are included in the category (see figure I.1). LDCs comprise approximately 13 per cent of the world's population, but account for less than 1.3 per cent of world



### Democratic Republic of Congo

The country is in the unenviable position of being the poorest country in the world. There has been severe political unrest in recent years, as calls for President Joseph Kabila, who took power after the assassination of his father in 2001, reached a fever pitch in 2018.

Strong demand for key export commodities, including copper and cobalt, is expected to drive growth next year. Moreover, a sharp decline in inflation should buoy domestic demand.

## **Yemen**

Yemen is in the midst of massive civil war that has caused a catastrophic humanitarian crisis, which goes a long way to explaining the country's place on this list of the poorest countries in the world. Basic services across the country are on the verge of collapse, as half of the population is currently living in areas directly affected by the conflict and millions of Yemenis have been forcibly displaced.

Yemen is also facing the worst famine in a century, according to the United Nations, with 14 million people at risk of starvation. After peace talks failed to get off the ground in September, fighting only intensified. In recent weeks, the unofficial exchange rate has come under pressure despite a USD 200 million cash injection from Saudi Arabia into Yemen's Central Bank in October, while Yemenis around the country have protested for better living conditions.

## **Haiti**

Haiti is extremely vulnerable to extreme weather and natural disasters with 90% of the country's population at risk according to the World Bank. These natural disasters batter the country in more ways than one, including the economy. The 2010 earthquake for example did damage equivalent to 32% of the country's GDP.

Although there is some positive sentiment over Haiti's political situation, as new president Jovenel Moïse took office in February of last year and the new parliament and cabinet were ratified later in the year, which should allow the country to accelerate reforms and move public programs forward to create a more sustainable development for all Haitians, the country remains the poorest in the Americas.

## **Ethiopia**

Ethiopia is located in the Horn of Africa, which gives it a great strategic jumping off point, as it is close to the Middle East and its markets. Although it is technically landlocked, its tiny bordering neighbour, Djibouti acts as its main port. Ethiopia has grown rapidly since the turn of the century and is currently the fastest growing country in Africa.

To sustain its economic growth and poverty reduction, good governance is needed, however, significant public unrest has taken hold in Ethiopia of late over the country's authoritarian regime.

## **Uzbekistan**

Uzbekistan is last on the list of poorest countries according to 2019 GDP per capita, which is forecast to come in at USD 1350. The country's economic growth was fast between 2004 and 2016, lifting significant portions of the country out of poverty. A country rich in commodities, Uzbekistan was aided by high commodities prices and increased exports of gas, gold and



copper, which generated state revenues that financed large increases in investment and wages that bolstered private consumption. Unfortunately, in the period between 2013 and 2016, commodities prices came crashing down along with the weak performance of Russia and China, key trade partners, adversely affected the economy. Despite the external environment weakening, the government's countercyclical fiscal and monetary policies allowed growth to slow only slightly, however, poverty reduction has largely stagnated.

## Possible solutions:

In the economic and financial council we are seeking for some possible resolutions such as establishing an organisation which will regulate the income of MEDC and which will help the LDC. You should also consider some higher taxes which will send a percentage to the LDC for further medical and social development.

## Sources:

<https://www.slideshare.net/ajmccarthy/53-barriers-to-development>

[https://en.wikipedia.org/wiki/Developed\\_country](https://en.wikipedia.org/wiki/Developed_country)

[https://www.google.com/search?tbm=isch&q=extreme+poverty+chart&chips=q:extreme+poverty+chart,online\\_chips:global&sa=X&ved=0ahUKEwiXk4j9yNvfAhWFEywKHexuCCkQ4lYIJygC&biw=1366&bih=608&dpr=1](https://www.google.com/search?tbm=isch&q=extreme+poverty+chart&chips=q:extreme+poverty+chart,online_chips:global&sa=X&ved=0ahUKEwiXk4j9yNvfAhWFEywKHexuCCkQ4lYIJygC&biw=1366&bih=608&dpr=1)

<https://ourworldindata.org/extreme-poverty#historical-poverty-around-the-world>

[https://en.wikipedia.org/wiki/Cycle\\_of\\_poverty#Causes\\_of\\_the\\_cycle](https://en.wikipedia.org/wiki/Cycle_of_poverty#Causes_of_the_cycle)

<http://www.theworldcounts.com/stories/Poverty-in-the-World-Today>

<https://economictimes.indiatimes.com/definition/poverty-trap>

<https://www.google.com/search?q=GDP&oq=GDP&aqs=chrome..69i57j0j69i60j0l3.2255j0j4&sourceid=chrome&ie=UTF-8>

<http://montessori-mun.org/wp-content/uploads/2014/05/UNDP-Eradication-of-Poverty.pdf>

[https://en.m.wikipedia.org/wiki/Poverty\\_trap](https://en.m.wikipedia.org/wiki/Poverty_trap)

<https://www.slideshare.net/mobile/ajmccarthy/53-barriers-to-development>

<https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/2018CDPhandbook.pdf>

<https://www.un.org/development/desa/dpad/publication/handbook-on-the-least-developed-country-category-inclusion-graduation-and-special-support-measures-third-edition/>

<https://www.focus-economics.com/blog/the-poorest-countries-in-the-world>



