Volume 3 : Issue 02

FINANCE FORWARD:

Forces shaping the future of inclusive financial services

DEC 2012

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Cenfri is an independent, non-profit think tank whose mission is to promote financial inclusion in Africa. It does this by supporting the development of financial systems that allow consumers, particularly low-income consumers, to access and use appropriate financial services. Cenfri works at the policy and regulatory level as well as the market development level. Its work complements the efforts of government and the private sector, with the aim of facilitating better regulation to enable the market provision of financial services. The centre does this by conducting research, providing advice, developing capacity-building programmes for regulators, market players and other parties operating in the low-income market, and supporting market innovation.

Many people contributed to the completion of this issue. In particular, Cenfri would like to acknowledge the superb work of Timothy Gehring, whose editorial contributions helped pull all of our themes together; Mumbi Tenga Ng'andwe, who spotted meaningful information in our vast array of sources; and Catherine Denoon-Stevens who got us off on the right foot with her critical analysis. As always, a special thanks is due to Elizabeth Larter for keeping an academic document lively with her beautifully innovative design work; and to the rest of the Cenfri staff whose continued support makes this publication possible.

Introduction

In our globalised world, it makes little sense to formulate strategy for global issues based on the analysis of minute details in isolation. The rate of change is simply too high, the factors of our analysis are too interconnected, and we are increasingly dealing with complex global *systems* rather than mutually exclusive fields or topics.

> **“While we may be able to stay on top of the news and grasp the gist of the major issues, it is often helpful to take a step back and scan the larger, interlocking environments from which trends and issues emerge.”**

All of this makes it quite difficult to make informed decisions. At the same time, most of us lack the time required to thoroughly scan the horizon for emerging trends—other than those directly entering our line-of-sight or otherwise regarding our particular specialisations. While we may be able to stay on top of the news and grasp the gist of the major issues, it is often helpful to take a step back and scan the larger, interlocking environments from which trends and issues emerge.

> **“... *Finance Forward* is the product of a balanced and robust stream of information coming from journals, blogs, magazines, quarterlies, special reports, newspapers, and other periodicals.”**

Finance Forward approaches the field of inclusive financial services in Africa with this perspective. As the driving forces in one region are bound to affect other areas of interest in geographically disparate locations, this type of report will be of interest to anyone with an eye toward the trends that will be shaping the world in the years to come. *Finance Forward* synthesises disparate ideas and information from the business, economic, social, technological, political, and physical environments, which are constantly at work behind the scenes, co-producing global change.

The Centre for Financial Regulation and Inclusion (Cenfri) is working actively with stakeholders in the realms of financial inclusion and financial sector development to establish common understanding and to coordinate appropriate and informed action. By ‘widening our gaze’, even if just for a defined period, we can begin to recognize areas of strategic importance, coordinate research efforts with one another, and spot further developments as they take shape.

While it is impossible to thoroughly scan every periodical released, *Finance Forward* is the product of a balanced and robust stream of information coming from journals, blogs, magazines, quarterlies, special reports, newspapers, and other periodicals. (A list of the periodicals scanned is included at the end of this document.) The main section of the document consists of articles, which have been reduced in length—with the most relevant information retained. In most cases, the articles have been shortened to less than 50 percent of their original length. Rather than summarising the articles, they have been directly quoted, with the exception of a few longer journal articles. The only interpretation provided is in the form of an editorial, which follows this introduction.

> **“In the selection of articles, every effort has been made to select only those with an outlook toward the future or that carry implications for how the future will develop.”**

In the editorial, Cenfri highlight several themes that emerge from the articles selected. Each theme has been coded with a colour, which indicates the content related to that theme throughout the remainder of the document.

In the selection of articles, every effort has been made to select only those with an outlook toward the future or that carry implications for how the future will develop. The intention is not to review breaking news, although some news stories may be included due to their implications for the future. The intention of *Finance Forward* is rather to collect and present information for the purpose of synthesising an understanding of recent trends, driving forces, and issues. This helps each of us to interpret the contents based on the context of our own institutions, projects and aims and, finally, to create appropriate institutional strategy.

—Joel D. Carlman, Editor

Editorial

Welcome to the fourth edition of Finance Forward. In this issue we highlight four new themes—forces that are shaping the future of inclusive financial services in Africa and beyond. This issue builds upon the themes of three previous issues, and while the previous themes are not highlighted in this volume, they continue to take shape and exert influence on the future.

As with prior issues, each of the four themes presented here is highlighted with a distinct colour, which can be tracked throughout the entire selection of articles. Therefore, the document can be approached in a variety of ways: linearly, by theme, by environment, by scanning the titles and keywords at the beginning of each article, or by consulting the keyword index at the end of the document.

The box below lists briefly the themes from the three previous issues. Please visit www.cenfri.org for free downloads.

Themes : Issues 1–3

Issue 1

Theme 1: Money Goes Mobile
Theme 2: Africa is Coming Online
Theme 3: The Balancing Act—Climate and Growth
Theme 4: Africa in the Middle

Issue 2

Theme 1: The Most Versatile Tool—Software Unlocks the Mobile Phone's Potential
Theme 2: Interoperability in Branchless Banking—Reaching Across Platforms and Borders
Theme 3: Microcredit Facing Increased Scrutiny
Theme 4: Financial Inclusion in Natural Disasters and Human Migration
Theme 5: Uniquely African—Initiative and Innovation for African Development
Theme 6: The Rise of the African Consumer

Issue 3

Theme 1: Africa's Demographic Shift—Dividend or Liability?
Theme 2: The Next Agricultural Revolution?—Mobile Phones and Innovative Finance in African Agriculture
Theme 3: The Importance of Marketing Innovative Financial Services to Women
Theme 4: Syncing Up—Africa's Increasing Ties with the Global Economy

Theme 1: Government's Role in Supporting and Stimulating Financial Inclusion

This theme explores the various ways in which governments can stimulate and support inclusive financial sectors in their countries. Many governments are taking steps toward improving the reach, safety, and convenience of the formal financial system, such as Namibia's new regulatory framework for electronic money issued earlier this year.

According to CGAP, governments have three roles to play in this regard: 1) as promoters of front-end infrastructure (ATMs, POS devices, and retail agents) and back-end infrastructure (payment switches, credit bureaus, and collateral registries); 2) as rules-makers with respect to that infrastructure and its contribution to responsible market development; and 3) as drivers of transaction volume. This last role has increasingly taken the form of linking Government-to-person (G2P) payments, including social cash transfers, wages, and pension payments, to financial accounts. Because many of these payments are targeted at the poor, there is huge potential to bring financial services to the unbanked.

Rather than tying down innovators in red tape, more governments are taking a "test and learn" approach, and in the process they are learning about the actual risk profiles of the poor as they relate to money laundering, consumer protection, and corruption.

It is becoming increasingly clear that safe and efficient product delivery to the poor requires more than just vertically integrated business models on the part of financial service providers. Rather, an interconnected ecosystem of market actors is needed to drive both efficiency and scale. Governments have a large role to play in stimulating and supporting these financial ecosystems.

Theme 2: Reaching the "Next Level" of Financial Services for the Poor—How More Sophisticated and Tailored Products are Meeting the Financial Services Demands of the Poor.

Over the past 30 years, financial services for the poor has been primarily associated with the provision of various micro-credit instruments. In more recent years, the focus has expanded to include savings. Research over the past 5 years, such as the multi-country study Portfolios of the Poor, has indicated that the poor have much more sophisticated financial needs that extend beyond these offerings. This includes financial mechanisms to meet needs driven by education, healthcare, emergencies, and life events.

Researchers are suggesting that rural households be segmented specifically, and that their desires, resources, constraints, and capacities should be well-understood. The starting point is the understanding that rural households demand a range of products—payments, transfers, savings, credit, and insurance.

Financial service providers need to think creatively, focusing on customer desires, use patterns, and needs, and then translating these findings into viable products—for instance, integrating lottery aspects into insurance schemes

Editorial (cont.)

to increase uptake. Several ideas are emerging regarding the social design of innovative products including those that leverage social pressure through peer-approved withdrawals, preventing impulse purchases through all-or-nothing withdrawals, and preventing immediate access through a short waiting period before withdrawals.

The rapid growth of the African consumer market is also influencing the demand for financial services. Countries across the continent have witnessed rapid uptake of credit and debit cards, and more Africans are buying assets—homes and cars—and need to protect them. Insurance is a growing market. In an effort to increase penetration rates, insurers are using a "freemium" model, and tying insurance to mobile airtime purchases to encourage uptake as well as brand loyalty for their mobile network operator partners.

There is also the need for agriculture-specific products and financing models—small-scale equipment and input financing, agricultural credit, and weather-based index insurance are a few examples. As described in the theme below, agriculture is expected to be a major source of African economic growth in the coming years. Agriculture-specific financial products will aid in the sustained growth of the sector, which will further stimulate demand for formal financial services.

Finally, there is no one-size-fits-all approach to providing the "next level" of financial services for the poor in Africa. A tailored approach is needed in each market and each country, because the realities of each market are different. Simply providing financial services is not enough. One example of this reality is with mobile money. Most people seem to be aware of mobile money's availability. However, the lack of interoperability between providers is a barrier] to adoption. Appropriate products should not just be available, but should be integrated with the way people actually live.

Theme 3: Agriculture as the Key to African Macroeconomic Success

With the current challenges in the global food environment, the need to invest in Africa's agriculture sector has become more imperative than ever. Although African agriculture is a major area of growth—on current trends, African agriculture is on course to create 8 million wage-paying jobs between now and 2020—there is still a lot of potential left untapped. Africa has about 60% of the world's unused cropland. No Green Revolution has occurred in Africa as it did in Asia and Latin America in the 2nd half of the 20th Century, and food production has not kept up with population growth.

In most African countries, agricultural activities employ the majority of the labor force, but the sector represents a small fraction of GDP. In Namibia, agriculture makes up only 6% of GDP, but it's potential is many times that amount. Both public and private sectors have roles to play in ensuring that African agriculture lives up to its potential. It is in everyone's interest to stimulate this crucial sector of the economy. 70% of the world's poor are concentrated in rural areas, and agriculture is the main livelihood activity of the majority of rural households. Agricultural growth is 3.2 times more effective in reducing poverty than growth elsewhere, and it generates ample opportunities for tackling unemployment and increasing household incomes. The African Green Revolution Forum, convening in September 2012, brought together disparate partners working together to tackle global food insecurity, primarily by jumpstarting Africa's agriculture sector.

Many are signaling the need for larger, commercial farms. Simple tools still dominate, but higher technology equipment (such as tractors) is becoming more common. 80% of worked land in central Africa is cultivated manually. The number is 50% in eastern and southern Africa.

There have also been local pushes for a louder voice for women when it comes to agriculture. In Malawi and Mozambique, local theatre groups travel to rural villages encouraging women to take an active role in shaping future agricultural policy. Women produce more than 90% of the food on the African continent, yet they are largely excluded from decision-making.

A boom in agriculture is likely to last beyond the general commodity boom driven by Chinese and Indian demand as there is no hard economic barrier to considerable expansion of production. Improved communications and transportation is making it practical to expand intra-regional food trade. For several sub-Saharan economies, the share of agribusiness services and manufacturing is expected to account for at least a third of the GDP growth rate.

Theme 4: Cutting out the Cash—How Mobile Technology and other Developments Are Diminishing the Role of Cash and Increasing Financial Opportunity

This theme describes the transition away from cash that is being enabled by mobile and other technologies, and how this shift changes the landscape of inclusive financial services.

There are currently about 700 million mobile phone subscribers in Africa. More than 120 mobile operators now offer mobile-money services of various kinds, and another 90 will soon join them. Innovations in computer and informational technology (including fully digitized management information systems, mobile telephony,
tablets, geographical information systems, GPS mapping

Editorial

and tracking) are critical for making a difference in the outreach and scale of financial services for the rural poor. Brick-and-mortar locations are not cost-effective to reach low population-densities spread out over countries like Namibia. Innovators like Musoni and Frontline SMS:Credit are using mobile money transfer services to reduce the role of cash (therefore reducing the need for physical infrastructure) in micro-lending, without diluting the role of community or breaking up group dynamics.

Technologies that divert activity away from cash also help overcome barriers in G2P systems. These technologies can enhance the enabling infrastructure for greater financial inclusion for G2P recipients. In South Africa, MasterCard is unveiling one of the world's first debit card-based payment systems for welfare benefits and social security.

Taking cash out of the equation has many benefits including: passing savings on to the customer, increasing convenience, increasing security for client and financial service provider alike, increasing transaction speed, reducing fraud-related risks, and reducing money-laundering risks . It also nudges people toward an account-centered financial life—an idea not simply concerned with how many people have accounts, but how they use them. For example, setting up a customer with an account that still requires them to withdraw cash at a distant location doesn't protect them from the risk of theft.

Moving people away from the cash economy also has huge economic benefits, because it makes business as a whole more efficient. The ability to present and pay bills, or receive micro loans, is taken for granted in countries with typical banking infrastructure, but the addition of these services can lift GDP by more than 1% in the developing world.

Finally, moving people away from cash increases the opportunity for collecting data about low-income customers. This has been demonstrated in principle through data-collection efforts using mobile network subscriber data. Regarding subscriber accounts, the various kinds of data that are currently collected includes: timing, location, duration of voice and text-message and airtime purchases; the use of value-added services like ringtones, SMS, games, text message information systems, and surveys; Internet use; and financial transaction data. This data can be used to approximate credit ratings, to match people to types of insurance, or to help insurance providers tailor premium levels and payment methods to fit people's abilities and needs. As more data is generated in the transition away from cash, there are also major ethical implications as to how this data is used.

The articles in this issue branch into many other themes than those described above. We encourage each reader to glean from the entirety of the content presented here, and to apply the various concepts uniquely to their own organisation's institutional learning strategy.

The benefit of periodically scanning the business, economic, social, technological, physical, and political environments in the background of the "system" of financial inclusion is that we can continue to monitor and understand the implications of further developments in these trends and act upon our learning.

At Cenfri, we believe that by keeping an eye on the various forces at work behind the scenes of financial inclusion, we are better poised to take advantage of opportunities, anticipate trends, make research decisions, allocate funds, and work strategically with our partners.

It is our hope that this snapshot of recent developments proves both insightful and useful in the context of your organisation. Please enjoy.

—Joel D. Carlman, Editor

Themes : Issue 4

1: Government's Role in Supporting and Stimulating Financial Inclusion

2: Reaching the "Next Level" of Financial Services for the Poor—How More Sophisticated and Tailored Products Are Meeting the Financial Services Demands of the Poor

3: Agriculture as the Key to African Macroeconomic Success

4: Cutting Out the Cash—How Mobile Technology and other Developments Are Diminishing the Role of Cash and Increasing Financial Opportunity

Contents

ARTICLE TITLE	PUBLICATION	ARTICLE #
Business Environment		
What's Keeping Us From Innovating In Rural Finance?	*CGAP Microfinance blog*	2012-044
Microfinance Banana Skins 2012—Staying Relevant	*CSFI*	2012-045
In Kenya, Microfinance is Going Mobile	*GSMA Mobile Money for the Unbanked*	2012-046
What is Driving the Growth of Financial Services in Africa	*How We Made it in Africa*	2012-047
Turning Insights into Products: Applab Money	*CGAP Microfinance blog*	2012-048
From Oxcart to Wal-Mart: Four Keys to Reaching Emerging-Market Consumers	*McKinsey Quarterly*	2012-049
Liquidity is King: Mobile Savings Vehicles for Poor Individuals	*MobileActive.org*	2012-050
Tigo, Bima, and MicroEnsure Bring a "Freemium" Model to Mobile Insurance	*GSMA Mobile Money for the Unbanked*	2012-051
Micro-, Small and Medium-Sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity	*McKinsey Quarterly*	2012-052
Economic Environment		
Namibia: Orchid in the Sand	*African Business*	2012-053
Investment Boom Teeters on Africa's Spheres of Unrest	*Bloomberg Business Week*	2012-054
China Slowdown Depresses Prices	*African Business*	2012-055
Could Africa Be World's Next Manufacturing Hub?	*CNN Africa Marketplace*	2012-056
Nigeria Leads African Rebirth Charge	*African Business*	2012-057
Lions on the Move: 10 Things You Don't Know about Africa's Booming Economy	*Foreign Policy*	2012-058
Social Environment		
Africa: Economies Rising—But Are They Taking the People With Them?	*AllAfrica.com*	2012-059
"A Man Needs One Handshake, a Woman Needs 7 Points of Contact"	*Worldbank Blog*	2012-060
What's Wrong with "Banking the Unbanked?"	*Ashoka Changemakers Blog*	2012-061
Unlocking the Potential of Emerging Market Cities	*Mckinsey Quarterly*	2012-062
The Female Factor: Women Entrepreneurs Drive Growth in Africa	*New York Times*	2012-063
Women Farmers Can Influence Policy through Theatre	*Science and Development Network (SciDev.Net)*	2012-064
The Ideas Report: 23 ½ Biggest Ideas of the Year	*The Atlantic*	2012-065
Visa Study Reveals Mobile Money Drives Demand for Financial Services	*Visa*	2012-066

Contents (cont.)

ARTICLE TITLE	PUBLICATION	ARTICLE #
Physical Environment		
Harnessing Potential of Food & Agribusiness Sector is Key to Africa's Economic Development	*HR Future*	2012-067
Agriculture: Dawn of the Age of Machines?	*African Business*	2012-068
Africa: Disparate Partners Find Promise in Africa's Agriculture	*AllAfrica.com*	2012-069
Africa's Agricultural Revolution: Revitalizing Africa's Agriculture for Growth and Development	*Consultancy Africa Intelligence*	2012-070
Political Environment		
Financially Inclusive Ecosystems: The Roles of Government Today	*CGAP*	2012-071
Mobile Money as an Agent of Financial Inclusion: The New Regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia	*GSMA Mobile Money for the Unbanked*	2012-072
Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients?	*CGAP Blog*	2012-073
Implications of Cash Dominated Transactions for Money Laundering	*Institute for Security Studies*	2012-074
Financial Inclusion and Stability: What Does Research Show?	*CGAP*	2012-075
Mobile-Money Services—Let us in—Mobile Money Would Transform Even More Lives in Poor Countries if Regulators Got Out of the Way	*The Economist*	2012-076
Technological Environment		
How Mobile Puts Business at the Tip of Africa's Fingers	*BBC News*	2012-077
Can Digital Footprints Lead to Greater Financial Inclusion?	*CGAP*	2012-078
Social Security and Welfare Payments Go Biometric	*Fast Company*	2012-079
Africa Takes Off	*Foreign Policy*	2012-080
Six Degrees of Mobilisation—Technology and Society	*The Economist*	2012-081
SMS: Phones Help Level the Playing Field for the "Unbanked"	*Financial Times*	2012-082

Business Environment

2012-044

What's Keeping Us from Innovating in Rural Finance? by Mark Wenner. *CGAP Blog*. October 2012. www.cgap.org/blog

Keywords: rural finance, market segmentation, agriculture, risk management

'Formal financial services in rural areas have long been underdeveloped. This is due to a combination of factors—dispersed clients, low levels of financial literacy among rural households, the high cost of delivering services (especially low-value transactions), and the perceived high repayment risk associated with lending to agri-dependent households, which make up the majority of households in rural areas.'

'Even though 55% of the world's population is rural, 70% of the world's poor are concentrated in rural areas, and agriculture is the main livelihood activity of the majority of rural households, investments in agricultural and rural development have generally lagged. Public expenditures on agriculture as a share of GDP tend to be far less than proportionate given the real economic importance of agriculture in the economy. Meantime, empirical evidence indicates that agricultural growth is 3.2 times more effective in reducing poverty than growth in non-agricultural sectors.'

'Today national policymakers and development agencies have shown renewed interest in agricultural and rural development. They are responding to a confluence of interrelated opportunities and challenges. The question is how can formal financial services in general and agricultural credit in particular be successfully extended in a sustainable manner to rural areas?'

Know your client

'First, rural households have to be segmented and their desires, resources, constraints, and capacities well understood. Rural households demand a range of products—payments, transfers, savings, credit, and insurance. To achieve strong uptake and scale economies, the products have to match household capabilities and needs, including variability of cash flows.'

'For example, commercially oriented smallholders that have been integrated into higher-value agricultural markets and have a certain profile—for example, those with proximity to a growing market, minimum farm size, use of irrigation or greenhouse technologies, improved input packages, forward contracts, or participation in tightly organized value chains including those with organic certification may represent "low hanging fruit" for financial intermediaries interested in extending production credit. They will be much more attractive than subsistence oriented farmers who produce little or no marketable surplus. On the other hand, households that are subsistence oriented but produce a surplus of staple food items that are sold on "open spot markets" may be attractive as clients of commitment savings and payment products but may be very risky as loan clients.'

Lower costs

'Serving a large number of clients demanding small valued transactions due to limited income and scale of business operations implies high operational costs for financial intermediaries. Therefore, innovations in both institutional arrangements (correspondent banking, value chain approaches, and other partner agent models) and the use of computer and informational technology (including fully digitalized management information systems, mobile telephony, tablets, geographical information systems, GPS mapping and tracking) are critical for making a difference in outreach and scale.'

Manage risk aggressively

'Risk management is of preeminent importance in agriculturally dependent households. It can take many forms. An integrated and layered approach that depends on good agricultural practices (GAP) as well as risk transfer mechanisms should be pursued to achieve sustainability. To date a host of pilots on weather based index insurance are underway, and a critical task is how to lower basis risk and overcome high startup costs. Moreover, value chain development approaches that reduce marketing risk and product quality assurance through the provision of technical assistance services and intensive monitoring are proliferating.'

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2012-045

Microfinance Banana Skins 2012—Staying Relevant by David Lascelles. *CSFI*. July 2012. www.csfi.org

Keywords: microfinance, risk, overindebtedness, survey

'Microfinance Banana Skins 2012 describes the risks facing the microfinance industry as seen by an international sample of practitioners, investors, regulators and observers. It updates previous surveys carried out in 2008, 2009 and 2011. This survey was conducted in April and May 2012 and is based on 360 responses from 79 countries.'

'This survey describes the risks facing the global microfinance industry in the early part of 2012, a time when it was struggling to recover from the global financial crisis,

Business Environment (cont.)

and from attacks on its reputation as a service to the world's poor.'

'For many practitioners and observers of microfinance, the current period is one of exceptional fluidity which could have a strong influence on the shape of this evolving industry as it moves into the next stage of its development.'

'The perception has arisen in some regions that the industry has allowed growth to go to its head, that it has lost sight of its social purpose, and given priority to more commercial objectives such as profit and volume instead. Hand in hand with this, critics see MFIs allowing their business and ethical standards to slip as they pursue business targets, disregarding the interests of their customers, and putting the industry at risk. As well as the reputational consequences of this shift, there is the practical concern that investors and donors could become less willing to fund an industry whose main objective is perceived to be profit.'

'According to more optimistic observers though, microfinance has already begun to emerge from this difficult period and is in a stronger state, having learnt its lessons and resolving to do better. Nonetheless, questions remain over the direction the industry will now take. Can it find a future which combines its social objectives with the more demanding commercial world in which it operates? As it navigates its way forward, what are the risks that it faces? Can it, as one respondent said, "stay relevant"?'

The Survey

'This survey, the fourth in the series originally launched in 2008, was conducted to seek answers to these questions and put the risks into perspective. Its focus is on MFIs with more than $5m in assets which are profitable and capable of commercial growth. These number about 650, according to estimates from MIX, and account for more than 80 percent of microfinance assets globally.'

'The survey asked a series of experts on microfinance (practitioners, analysts, regulators, investors etc.) to identify and comment on the biggest risks, or "Banana Skins", which they saw facing the microfinance sector over the next two to three years. Some 360 of them from 79 countries took part.'

The Results

'The overall message from the survey is that the immediate risks posed by the global economic crisis and by the controversy over the industry's mission have eased—but that larger questions about the future direction of microfinance remain.'

'The key finding of the survey is that overindebtedness among microfinance borrowers is now seen to be much the most pressing risk facing the industry. It was given a high score by respondents from over half of the participating countries, mainly because it has the potential to cause both financial and reputational damage to the industry, and thereby harm MFIs even in countries where the problem does not exist.'

Microfinance Banana Skins 2012
(2011 position in brackets)

1. Overindebtedness (-)
2. Corporate governance (4)
3. Management quality (7)
4. Credit risk (1)
5. Political interference (5)
6. Quality of risk management (-)
7. Client management (-)
8. Competition (3)
9. Regulation (6)
10. Liquidity (16)
11. Mission drift (9)
12. Back office (13)
13. Macro-economic risk (17)
14. Staffing (8)
15. External risks (-)
16. Technology management (11)
17. Too little funding (23)
18. Interest rates (21)
19. Too much funding (22)
20. Foreign exchange (24)

'Overindebtedness is widely seen to be symptomatic of deeper difficulties in the industry: an excess of lending capacity created by over-expansion and the arrival of new entrants, a lack of professionalism within MFIs, and an emphasis on growth and profit at the expense of prudence. It is also linked to the risk in the No. 4 position, credit risk, which relates to the heavy exposure of MFIs to the lending business at a time of economic uncertainty and bank unpopularity.'

'This also explains the presence of three other high-ranking Banana Skins. Corporate governance (No. 2) is widely perceived to be inadequate, failing to provide sufficiently strong leadership to keep MFIs on a healthy growth path. Management quality (No. 3) is also seen to be lacking in many markets, especially those where MFIs adopt aggressive lending practices to achieve growth targets, including the quality of risk management (No. 6) which is seen to be low or nonexistent in some sectors.'

'A related risk is that of client management (No. 7) which reflects concerns that MFIs are not focusing adequately on their clients' financial needs and abilities, and thereby contributing to the overindebtedness problem.'

'The risk of political interference (No. 5) remains high because of the continued perception among politicians that MFIs overcharge for their loans and use unethical lending and loan recovery practices. Although the risks in regulation have declined from No. 6 to No. 9, they continue to be present because regulation, though improving, is often seen to be oppressive or inappropriate.'

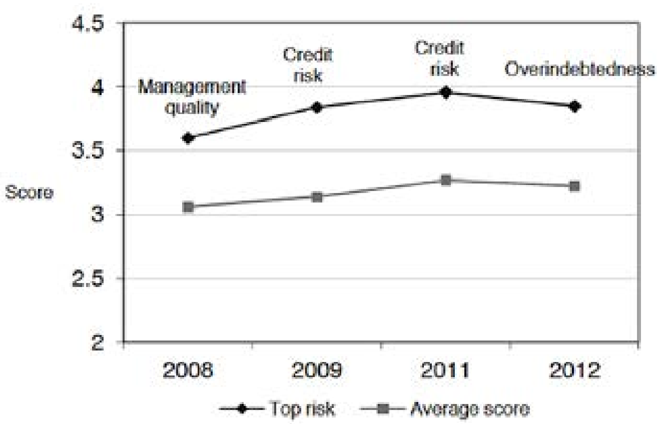
Business Environment (cont.)

'The risks from external events (war, natural catastrophes, etc.) are generally seen to be low (No. 15), though they spike in specific regions (civil war in the Middle East, earthquakes and floods in Asia and the Far East). Among the lower Banana Skins, the risks in the back office occupy a middling position at No. 12, though there is a widespread view that this is an area where efficiency and risk control could be greatly improved. Technology management is also seen to be a low order risk at No. 16, even though many MFIs face difficult decisions over investment in IT and new mobile delivery channels.'

'A breakdown of responses by type shows practitioners of microfinance to be chiefly concerned with the problems of overindebtedness and credit risk, while non- practitioners (investors, regulators and observers) put a heavier stress on institutional risks such as low corporate governance and management skills. Practitioners also see greater risks in the intensity of competition than other classes of respondent. Geographically, overindebtedness and related credit risks feature strongly in most regions, suggesting that this is not a localised concern where the picture is dominated by the fall-out from recent political controversies in India, and worry that these will curtail MFIs' access to funding.'

'In general, concerns about the health and image of microfinance are widespread around the world, but other risks, such as the quality of management, the intensity of competition, the appropriateness of regulation and access to funding tend to be localised.'

'The Microfinance Banana Skins Index provides a picture of changing "anxiety levels" in the microfinance business. The top line shows the average score given to the top risk over the last four years, and the bottom line the average of all the risks. After rising strongly up to 2011, both lines show a small downturn this year, suggesting that anxiety is beginning to ease from the stresses of the previous years, though the scores are still slightly higher than they were in 2009.'



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2012-046

In Kenya, Microfinance Is Going Mobile by Claire Penicaud. *GSMA Mobile Money for the Unbanked*. September 2012. www.gsma.com

Keywords: mobile payment systems, microfinance, Musoni, FrontlineSMS:Credit, Kenya

Musoni

'Musoni's vision is to substantially improve the quality and availability of financial services to low income, unbanked and underbanked individuals in the developing world through the establishment and support of best-practice MFIs with an emphasis on efficiency, transparency and client focus.'

'Musoni is the first MFI in the world to go 100% mobile, using mobile money transfer services for all loan repayments and disbursements. Musoni has successfully integrated its back office with the leading Kenyan mobile network operator, thus enabling seamless processing of all transactions.'

'[Musoni] branches are places for clients to visit to meet Staff and discuss issues on hand but not for Cash transactions which are done at Money Transfer Agents and Shops. After a little over two years, Musoni has set up five branches spread out in three cities, two of which are in and around the capital city of Nairobi.'

'Challenge #1: Reducing the cost of setting up MFI branches...

Setting up brick-and-mortar branches is quite expensive for an MFI, and Musoni made the bet that this cost could be substantially reduced if transactions were not in cash. For example, a strong room is an obvious requirement if cash is to be held at a branch. In addition, tellers are required in the branches to process the cash repayments. In many MFIs, a number of the costs associated with brick-and-mortar operations are eventually passed on the consumer. And it's not just about cost; it's also about convenience, speed of transaction processing and fraud related risks.'

'Going forward, Musoni has a better capability of setting up branches in more remote areas than a traditional MFI would due to its cashless nature.'

'Challenge #2: ... while improving quality of service

Loans are disbursed and repaid via mobile money enabling Musoni to disburse loans much faster than traditional cash and cheque based models. Musoni guarantees its customers loan money within 72 hours of application. The MFI enjoys lower risks, less paper work, better customer service, easier and more accurate transaction tracking.'

'MMU: What are the main challenges faced by MFIs trying to use mobile money?

Musoni: Creating the automated bridge between mobile money and the back end systems has been the greatest

Business Environment (cont.)

challenge. Customers not only pay for themselves, they pay for others within the group and beyond. Non customers also pay for our customers. There are individuals who make wrong entries even after rigorous training, including paying for the wrong person. So the technology must be "intelligent" enough to learn and accommodate these issues with the support of customer service personnel.'

'MMU: What advice would you give other MFIs integrating mobile money to their systems?

Musoni: We've learned a number of lessons over the past 3 years which could be beneficial to other MFIs willing to use mobile money:

- Rather than start with brick and mortar, why not leverage mobile? Setting up systems may be challenging, but the rewards are worth the trouble.
- It's critical to establish trust, particularly through face to face interactions. Cashless can never mean doing away with loan officers/relationship officers!
- Mobile money is a game changer; it streamlines the process and all other processes need to be adjusted accordingly.
- You must conduct market research to ensure that you are meeting customers' needs by offering loans through mobile money.
- Customers value reliability and convenience. As you establish your back end systems, you got to aim at 100% uptime.
- Customers want to know what you will charge for any transaction. Be transparent about any fees.
- Customers will take advantage of the flexibility to pay after working hours so you better be ready for that.
- A well trained customer makes things easier for the MFI, more so if you introduce technology'

'In addition, Musoni is now looking to license its innovative IT platform to non-Musoni MFIs, thus greatly increasing its potential outreach and social impact.'

FrontlineSMS

'FrontlineSMS:Credit's PaymentView software is an extension of FrontlineSMS's free, open-source technology that turns a laptop and a mobile phone or GSM modem into a central SMS communications hub. The tool enables users to send and receive text messages with large groups of people without the need for Internet access. With the PaymentView extension, users can also send, receive, and manage mobile money transactions. By expanding the uses of mobile money in developing markets, FrontlineSMS:Credit helps to fulfill the promise of mobile money to offer even the most underserved communities access to financial services and enable new business models that aid in development.'

'Challenge #1: Providing an easy and convenient way for groups to transfer money to the FSA...

The service implemented by FrontlineSMS: Credit allows representatives of groups to transfer money through M-Pesa directly to [their financial service association].'

'FrontlineSMS estimates that there has been a reduction of up to 50% in the cost of repaying loans and a reduction of up to 85% in the time spent on repayments, depending on how far away a savings group meets from the FSA office. The groups saving the most are those who are far away from the FSA, as almost every group meets within a short walking distance of an M-Pesa agent.'

'Challenge #2: ... without breaking group dynamics

The board of the FSA was initially worried that using mobile money would break down the group dynamics, which are very important to them. To face this challenge, FrontlineSMS: Credit has developed a process which allows FSAs to receive group payments through mobile money. A representative of the group collects money and transfers it to the FSA via mobile money.'

'The next step for the team is now to increase the number of FSAs using their service.'

'MMU: What are the main challenges faced by MFIs trying to use mobile money?

FrontlineSMS: Credit: We've noticed that software is a big problem. The ability of an MFI to find a software tool that enables them to easily process mobile payments is very limited, even in Kenya, where the use of mobile money for P2P transfers is very high.

In addition to this, a transition to a new mode of payment combined with the new business process required at an MFI's office to process these payments is not a small change. The technology is quite simple, but the human part can be a bit slower as clients adjust to repaying loans in a new way and MFI staff members adjust to a new process.

Finally, increased use of mobile money, especially larger transactions, can put strain on the agent networks in rural areas, who are not accustomed to processing larger amounts. For an individual to make a repayment, this may not apply, but if repayment is done at the group level, sometimes the nearest agent does not have sufficient float to make the transaction. However, increased cooperation between mobile money agents and MFIs or savings groups can alleviate this strain. Because groups meet and repay on the same day each month, a small amount of advance planning enables agents to retain sufficient float for group transactions.'

'MMU: What advice would you give other MFIs integrating mobile money to their systems?

FrontlineSMS: Credit: We would advise MFIs to plan carefully and make sure to walk through each part of the new, mobile money-enabled process, both from the perspective of an MFI staff member and a client. This enables an MFI to plan appropriately and mitigate any risks that they see in light of the new system. It also enables MFIs to design a system that fits well with their local context and customer base.'

'We would also advise MFIs or any organization or business adopting mobile money to start with a small pilot first to work out the best system for your organization before scaling up. This means try starting out with just loan repayments and with a few savings groups. During the pilot, carefully measure the impact of using mobile money on your operations. This can range from increase efficiency in payments processing to time and cost savings from clients to other kinds of intended or unintended effects. Be in touch with your clients and staff members frequently to get feedback and make changes to your system as needed.'

[47%]

2012-047

What Is Driving the Growth of Financial Services in Africa? by Kate Douglas. *How We Made it in Africa*. October 2012. www.howwemadeitinafrica.com

Keywords: financial sophistication, consumer class, micro-insurance

'"As our economies in Africa have grown there's an increasing demand for the sophistication of financial services products," said David Cooke, director at Actis [...].'

'Africa's growing consumer base and its US$1.9 trillion total purchasing power, means that the continent's comparatively immature financial services sector offers considerable growth opportunities.'

'Junior Ngulube, CEO of Munich Re Africa, said [...], "[Africans] are buying assets, they are buying their first homes and first cars some of them, and they need to protect those assets. That's a growing market for us as insurance companies, and the insurance penetration in this market is increasing as a result."'

'"There is a lot of rapid change going on in the financial services sector, right down to at the consumer level," added Cooke. "But we're starting to find some really interesting opportunities in this cross-over between how consumers are—if you will—consuming financial services products. The rise of debit cards, credit cards, is just tremendous."'

'Bisi Lamikanra, head of management consulting at KPMG Nigeria, said that one of the dimensions of growth that she has seen from working with banks is in the retail banking business. "It is clear, if you talk to every bank now, that the future is the bank that can grow its retail business in spite all the challenges that we have," said Lamikanra.'

'So what are some of these challenges and how can they be overcome? According to [Nicholas Young, COO for Citibank Africa], Africa is often seen as an enigma by outside investors. "It is very big, there is a lot of dynamics [...]. [T]he reality is that one needs to almost have a tailored approach for each market and each country. So having the flexibility to tailor your investment strategies, say for Kenya or Nigeria, they can be similar but they need to be different because the realities of the market in which one operates is different."'

[49%]

2012-048

Turning Insights into Products: Applab Money by Olga Morawczynski and Lisa Kienzle. CGAP Blog. March 2012. www.cgap.org/blog

Keywords: Innovative, Grameen, Uganda, health insurance, lottery

'If we want to move the mobile financial services sector beyond payments and create products that reach every level of society, we have to be creative. The industry requires product innovation that focuses on customer desires, use patterns, and needs, and then translates these findings into viable products.'

'While visiting a village in East Africa, we met a farmer named Arthur who enjoyed gambling in his spare time. We watched him spend $2 as an entrance fee to join three other players in a popular board game called Ludo. Arthur lost this round, and the entire pot of $8 was handed over to his neighbor. When asked why he played if there was a risk of loss, Arthur explained that the potential returns were very high—in fact, it would take him one week of intensive labor (such as digging on his neighbor's farm) to earn what he could win from one round of Ludo. If he won the pot, he would set aside half as an "emergency fund" for his family to protect against shocks—such as an unexpected illness—and reinvest the rest into the game.'

'Many institutions have found success in leveraging the excitement of a game by offering prized-linked savings products [...]. So imagine if Arthur had access to a formal financial product that provided what he needed (a safeguard against health emergencies) but also gave him what he wanted (the sensation of a game). What if Arthur could access health insurance that was structured like a lottery?'

'It might look like this: Each month, about $2 (the same it would cost him to play one round of Ludo) would be

Business Environment (cont.)

deducted from his mobile money wallet as his insurance premium. A portion of the premium would be allocated toward a lottery fund, which would pay out monthly and annual cash prizes via mobile money. Even if Arthur did not win the big prize, he would still protect himself and his family against health shocks.

If we want to create products that are useful and that excite the hearts and minds of our target market, we have to start pushing boundaries. A good first step is to ensure that the process of innovation is exciting for all players involved, especially the poor users we hope to capture.'

[49%]

2012-049

From Oxcart to Wal-Mart: Four Keys to Reaching Emerging-Market Consumers by Alejandro Diaz, Max Magni, and Felix Poh. *McKinsey Quarterly*. October 2012. www.mckinseyquarterly.com

Keywords: consumer class, emerging markets, retail

'In emerging markets the world over, multinationals struggling to get their products to consumers confront a bewildering kaleidoscope of strategic and operational challenges. At one extreme, they must grapple with traditional retailers: the chaotic array of shops, kiosks, street vendors, and other small proprietors who seem to offer neighborhood customers a little of everything, whether it be groceries or branded goods, such as beverages, small electronic devices, and personal-care products. At the other, multinationals must deal with modern retailers—global giants, including Carrefour, Tesco, and Wal-Mart, as well as local leaders...—that have become a powerful force in the emerging world's fast-growing cities.'

'Today, retail landscapes in emerging markets can be divided into three broad categories:

- *predominantly traditional* markets, such as India, Nigeria, and Indonesia, where small proprietors account for 98 percent, 97 percent, and 85 percent of the market, respectively
- *predominantly modern* markets, such as China, Mexico, and South Africa, where modern trade already accounts for more than half of sales
- *transitional* markets, where small proprietors currently prevail but are being rapidly elbowed aside by modern retailers; in Turkey, for example, their share of sales has shot up to 46 percent in 2011, from 26 percent in 2005'

[90%]

2012-050

Liquidity is King: Mobile Savings Vehicles for Poor Individuals by Lisa Kienzie. *Mobile Active*. June 2012. www.mobileactive.org

Keywords: savings, liquidity, money markets

'Liquidity is always top of mind especially for people near the bottom of the economic pyramid, of course. We tested several features, ranging from full *illiquidity* (can't touch the money until a specified future date) to full *liquidity* (take out any amount, anytime). But we also presented a few other options to the individuals in our test group:

- Applying social pressure (for example, what if a friend had to approve early withdrawals?)
- Preventing impulse purchases (what if early withdrawals were possible, but not in small amounts—everything had to be withdrawn at once, on the assumption that it was only for large emergencies?)
- Deferred access (what if early withdrawals required a 24-hour waiting period, to avoid impulsive spending?)'

'We found that people like the extreme options for the standard reasons: prohibiting them from accessing funds would help them save, while having access anytime assures them that they can manage any financial eventualities.'

'Though many individuals liked the idea of a friend as gatekeeper, others perceived goals as private and argued that changing their plan should be their individual choice.'

'The key is to build up discipline for saving. Having the right incentives or rewards can help users set money aside to meet different savings goals. Poor people need and want disciplined savings vehicles but they also need and want choice—the choice to leave funds untouched and out of sight, or the choice to tap into the pot if an emergency requires it.'

'Poor people can't afford to be illiquid, but they also can't afford to be unprepared. Savings goals are diverse in their nature and timeframe, so it is likely that people will want a variety of options. In a world where putting away money yields little reward and currency comes in the form of livestock and land, what's the best way to offer simple yet varied product features when it's no longer cash, but liquidity, that is king?'

[45%]

Business Environment (cont.)

2012-051

Tigo, Bima, and MicroEnsure Bring a "Freemium" Model to Mobile Insurance by Philip Levine. *GSMA Mobile Money for the Unbanked.* July 2012. www.gsma.com

Keywords: Tigo, Bima, MicroEnsure, mobile insurance, Ghana, Tanzania, freemium model

'MicroEnsure had originally experimented by partnering with MNOs to offer insurance directly to customers through the mobile money wallet. Customers would sign up for insurance directly on the phone or through an agent and pay premiums through their mobile money accounts. These schemes struggled to reliably collect premiums and secure consumer trust in an unfamiliar product through a non-traditional channel.'

'In Ghana, MicroEnsure tried a variation on this model that seems to have had more success. Through a partnership between Tigo, Bima and MicroEnsure[1], Tigo subscribers were offered so-called "embedded" insurance—a free benefit on an opt-in basis. Subscribers are awarded free life insurance coverage in proportion to the amount of airtime they use as a loyalty benefit. The purpose of the free insurance is to create brand loyalty for Tigo and reduce churn. The scheme has resulted in more than 1 million new individuals covered by insurance in Ghana and Tanzania (where a similar service was launched), 80% of who had never previously had insurance coverage.'

'In addition to the free embedded benefit, Tigo offered an option to double the insurance coverage for a monthly fee of GH¢1 (US$0.52). This might be called a "Freemium" model—offering a basic level of service for free to many customers in the hope that some customers will voluntarily upgrade to a more premium paid service.'

'By offering the free embedded product they have created a market of customers that want and understand insurance. This market is coming back to Tigo to buy more of the product.'

'[1]The roles between the parties are split as follows: Tigo provides the subscriber base and markets the product. Bima provides the technical interface, agency force to register users to the insurance service, and other supporting functions. MicroEnsure handles the insurance partnerships and claims administration.'

[62%]

2012-052

Micro-, Small and Medium-Sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity by Mutsa Chironga, Jacob Dahl , Tony Goland, Gary Pinshaw, and Marnus Sonnekus. *McKinsey Quarterly.* April 2012. www.mckinseyquarterly.com

Keywords: Emerging markets, MSMEs, banking

'This paper argues that the time is right for banks to step up their efforts to serve micro-, small and medium-sized enterprises (MSMEs) in emerging markets. There are three reasons for our optimism. First, an estimated 60 per cent of global banking revenue growth over the next decade will lie in emerging markets. Second, more and more banks in emerging markets are finding ways to overcome the difficulties of serving the important MSME segment. Third, innovations in technology, risk assessment and business models are increasingly facilitating their effort.'

The size of the opportunity

'Emerging market MSMEs looks a very attractive segment. We estimate that bank revenues could jump from $150 billion in 2010 to ~$367 billion by 2015—a growth rate of 20 per cent per annum (Exhibit 1).'

'Three factors will be responsible for this expansion: high GDP growth in emerging markets, increased penetration of the large number of unserved and under-served MSMEs and an increased take-up of more advanced and higher revenue banking products.'

'The inherent challenges of serving MSME bank clients—low revenue per client, high risk of credit losses and the need for a physical presence to lend to MSMEs—are no longer the obstacles they used to be. Revenue growth should therefore be profitable. Our research revealed that a few leading emerging market banks are making returns on equity (ROE) of over 30 per cent in the MSME segment, and many others are earning 20–30 per cent.'

Five leading practices

'We believe winning banks will do one or more of the following five things:

- **Develop a granular understanding of their markets.** With MSME clients typically widely dispersed banks must identify clear geographic concentrations of these businesses. It is equally important to understand the size of the potential banking revenue pool in the sectors in which MSMEs operate and the "nuance" of the financial needs of each sector.
- **Radically lower operating costs.** Given the low level of bank revenue per MSME client, banks have to find a highly efficient way of serving them. This requires bold new thinking in distribution (both remote and physical channels), product design and staff deployment.
- **Manage risk innovatively.** A people- and judgement-intensive approach to risk is likely to be too costly. Banks must develop new and creative ways to assess credit, such as psychometric testing, cash flow estimates, or qualitative credit assessment (QCA). All associated credit processes (e.g., loan origination, monitoring and collections) must be streamlined.
- **Empower MSME clients.** Financial and business illiteracy in emerging markets leads to poorly presented business cases, the single most important reason why banks decline credit applications. Banks should take the initiative to address this problem, for example, by organising seminars for existing MSMEs or providing start-up packages for new ones.
- **Engage with government.** Governments can be useful allies in overcoming challenging business environments—so banks must work with them by, say, establishing risk-sharing facilities and credit bureaus, or seeking out information that identifies under-served and unserved clients.'

'We believe these practices are complementary and that those banks adopting one or more of them will more likely be winners in the race to capture the emerging market MSME segment. We calculate that applying these practices could increase a bank's ROE in the MSME segment from ~14 to ~33 per cent and raise profits after tax from ~$50 to ~$130 million per annum.'

The strategic choices

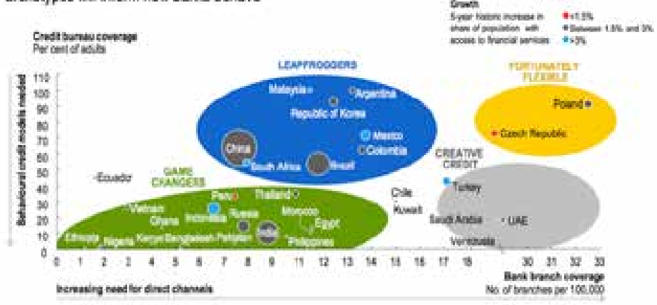
'Based on the size and growth of the MSME banking opportunity, we see three groups of emerging markets countries:

- **"Red hot"** countries have fast-growing, large and partly unserved MSME banking markets, such as China, India, Brazil, Indonesia, Russia and Mexico. Banks should invest disproportionately in these territories.
- **"Warm"** countries should see moderate growth in financial penetration of, say, 1.0–2.0 per cent per annum, yet they still represent an exciting opportunity for banks. These include Thailand, Nigeria, Vietnam, Argentina and Chile.
- In **"cool"** markets, financial penetration is increasing at less than one per cent per annum. Countries in this group are either close to saturation point (e.g., Poland and the Czech Republic) or are yet to create the conditions in which MSMEs will really thrive (say Pakistan or DRC).'

'We have also developed archetypes based on barriers to distribution and the management of credit risk. "Game changers" are countries in which both distribution and risk management are challenging. "Leapfroggers" have high credit bureau coverage but under-developed physical distribution. "Creative credit" countries typically have good distribution and low credit bureau coverage. And "fortunately flexible" countries have advanced distribution networks and credit risk methods (Exhibit 3).'

Exhibit 3

To understand how best to approach their chosen markets, four emerging country archetypes will inform how banks behave



SOURCE: McKinsey Global Banking Pool (GBP); World Bank – Doing Business; IMF Financial Access Survey 2008-10; McKinsey analysis

Getting started

'We see two main types of business models, though in some cases they could be combined. One is a credit-led proposition with low-cost physical distribution. Face-to-face contact with clients is critical, in addition to a strong end-to-end credit process. The other is a payment-led proposition with direct channel distribution. Banks that want to emphasise payment solutions in their MSME proposition will focus more on direct channels such as mobile, ATM and contact centres. In both models, all five leading practices should be applied, though their emphasis will be different.'

[7%]

Economic Environment

2012-053

Namibia : Orchid in the Sand by Tom Nevin. *African Business*. May 15, 2012. www.africanbusinessmagazine.com

Keywords: Namibia, macroeconomics, banking services, mining

Banking services in a vast country

'Namibia's largely rural economy brings pressure to banks to provide services to residents in far-flung regions, calling for specialised products and related infrastructure.' '"FNB has opened 15 new branches since 2007 mostly in the underdeveloped areas," reports Daniel Motinga, FNB Namibia's Senior Manager Research and Development. "Recent studies show that access to financial services and specifically banking services has improved drastically since 2007, with the banked population increasing from 45% in 2007 to 62% in 2011—a remarkable achievement."'

'Helping to spread the banking net wider are efficient telecoms and road infrastructure, and more has been allowed for in the current budget. According to FNB Chairman Claus Hinrichsen, the bank will continue to extend financial inclusion across the board by offering "more appropriate and affordable propositions to marginalised Namibians.'

'"The only effective way to do this," he adds, "is through electronic services that are more affordable, easy to use and safe. These new offerings require increased financial literacy from both existing and potential customers."'

Trading environment

'South Africa is by far Namibia's senior trading partner, followed by Europe, US and Canada. Namibia is an eligible country under the African Growth and Opportunity Act (AGOA), but has had limited success with exports under this programme. Namibia has been a willing suitor to Chinese and Indian overtures and the expectation is of more robust trade and investment in the immediate future.'

Mining—Harvesting Land and Sea

'Mining is the mainstay of the economy to the extent that Namibia is the fourth-largest exporter of non-fuel minerals in Africa and one of the world's largest producers of uranium. Rich alluvial diamond deposits and increasingly successful marine mining make Namibia a primary source for gem-quality diamonds. With the recent discoveries of major secondary onshore and offshore deposits, Namibia may well have the largest diamond reserves of any country on earth, at around 1.5bn carats.'

Full of tourism surprises

'Tourism has climbed the economic ladder to second place in Namibia's national earnings, behind mining. Last year, it contributed N$7.2bn ($1bn) to GDP. It has performed this robustly because a visit to Namibia is about as different a travel experience as is likely to be found anywhere, as an increasing number of visitors to this desert nation are discovering.'

Agriculture's room for improvement

'Although agriculture directly and indirectly supports 70% of the population, it contributes a disappointing 6% to the GDP. In the view of agronomy experts, its potential is many times that amount. The main activities are livestock, beef and mutton production, accounting for about 70–80% of the sector's gross income, while agronomic production is responsible for the remaining 20% to 30%.'

'Nevertheless, Namibia imports about 50% of its cereal requirements. One solution to reduce dependency on imports is the Green Scheme Programme, a government-led project to acquire land from traditional authorities in a public-private partnership that will develop large commercial farms under private management.'

[25%]

2012-054

Investment Boom Teeters on Africa's Spheres of Unrest by Roben Fazad. *Bloomberg Businessweek*. October 8, 2012. www.businessweek.com

Keywords: middle class, South Africa, Nigeria, unrest

'Five years ago, while in a cab from the airport in Lagos, Nigeria, I spied an enormous billboard towering out of a teeming, trash-strewn slum. It advertised not some foodstuff or vehicle, but the upcoming initial public offering of a hot Nigerian bank. Never mind that the mega-city's power grid and sewage treatment capabilities were notoriously substandard, or how Lagos was sinking under the weight of runaway overpopulation. The emergence of an eager Nigerian middle class was all that mattered. Cart-before-horse thinking was fine—de rigueur, even—if you were an intrepid investor who wanted in.'

'You heard much of the same about South Africa, the continent's largest economy. With apartheid behind it, the nation had so prospered from its mineral riches that it now ranked alongside Brazil and China in the standard-bearing MSCI Emerging Markets Index.'

Economic Environment (cont.)

'Now, Nigeria and South Africa, the two centers of continental economic gravity, are simultaneously being destabilized by internal strife. South Africa has had two months of strikes in the wake of the killing of at least 45 platinum miners by police in August.'

'Nigeria, for its part, has been dealing with an escalation of attacks by an Islamist sect bent on carving out its own state in the country's north; at least 1,000 people have been killed since the insurgency amped up in 2010. The Christian president has the unenviable task of keeping Nigeria's Muslim and especially impoverished north attached to its oil-producing, predominantly Christian south. Meanwhile, insurgents in its oil-producing Niger Delta, angry at having seen so little of the nation's petro-riches, have the region's officials and workers constantly fearing kidnap and sabotage.'

'What if things fall apart at the same time for sub-Sahara's two biggest economies? The stakes are huge for the region. Already the World Bank projects that South Africa's lackluster economic growth rate of 2.5 percent this year will shave a full 1.2 percentage points off the subcontinent's 6 percent growth rate.'

'The recent flareups of unrest demonstrate how the futures of these two disparate but continentally central economies boil down to how they handle their legions of restless, unemployed youth, says Larry Seruma, chief investment officer of Nile Capital Management, an investor in sub-Saharan Africa.'

'[Richard Dowden, director of the Royal African Society] writes that without work, "millions of poor and poorly educated young Africans ... linked to each other by the Internet and global social media" will become angry.'

'"How long," he asks, "before an explosion of that anger blows away investors for another generation?'

[46%]

2012-055

China Slowdown Depresses Prices by MJ Morgan. *African Business*. May 15, 2012. www.africanbusinessmagazine.com

Keywords: Commodities, exports, copper, China

'At around $140/t, prices are 20% down on their September high for iron ore. Ian Ashby, the head of world's biggest miner, BHP Billiton's iron ore division, made some rather pessimistic remarks about the industry's prospects, pointing to slower, single-digit growth in China—consumer of some 20% of the world's steel. China's economy is forecast to grow by around 8% this year; its steel consumption grew 40% over the past five years.'

'Nevertheless, iron ore demand is still expected to double by 2030 to 3.5bt and BHP is still investing in spite of these apprehensions.'

'Five years ago copper prices were more or less where they are today. Since then they have fallen as low as $3,000/t around the New Year in 2009 and as high as $10,000/t a little over a year ago. 2012 has seen copper prices rise 13% from $7,500/t to $8,500/t.'

'Currently, prices seem to be a trade-off between optimism about US growth versus pessimism about Chinese growth. Lately, rising stockpiles and strong signals from Washington that quantitative easing is over have weighed on prices. Barclays Capital estimates that the copper market will be 376,000t in deficit this year.'

'With the market still in deficit, Europe recovering, frequent production stoppages, strong emerging market growth (aside from possibly flatter Chinese demand, as with iron ore) and little new supply coming online, this year should be a solid one for the continent's copper miners.'

'The company believes that copper demand, driven most strongly by the urbanisation of China and India, mean that an additional 6.5mt of copper output will be needed by 2018.'

[43%]

2012-056

Opinion: Could Africa Be World's Next Big Manufacturing Hub? By Hinh Dinh. *CNN Marketplace Africa*. June 2012. www.cnn.com

Keywords: manufacturing, economic growth, labor

'With domestic labor costs rising, many Asian manufacturing producers are now looking to relocate their factories in other regions of the world. Could Africa replace Asia and/or China as the world's next manufacturing hub?'

'To be sure, Africa has a number of manufacturing advantages that it has yet to realize. Besides low labor costs and abundant resources, these include duty-free and quota-free access to U.S. and EU markets.'

'China dominates the global export market in light manufacturing, and its competitive edge far exceeds that of low income exporters that recently entered the global market.'

'But steeply rising costs of land, regulatory compliance, and especially labor in China's coastal export manufacturing centers have begun to erode the latter's cost advantage, a trend likely to accelerate in the coming years.'

'The ongoing redistribution of cost advantages in labor-intensive manufacturing presents an opportunity for Sub-Saharan Africa to start producing many light manufactures, enhance private investment and create millions of jobs.'

Economic Environment (cont.)

'Take the leather industry in Ethiopia. This sector employs about 8,000 workers and exported about $8 million in 2010, a fraction of similar countries in Asia such as Vietnam. Ethiopia's labor costs are lower than Asia's and the country has Africa's second largest cattle population, next to Sudan.'

'Manufacturing can be an unprecedented opportunity for Africa to industrialize and provide productive jobs to millions of Africans, especially young people who make up as much as 36% of the total working-age population.'

'But the emergence of China as a powerhouse producing a variety of manufacturing goods at very cheap prices thanks to the large scale and skilful exploitation of the supply chain means that not all manufacturing jobs will be transferred from China to Africa.'

'Due to widely varying country conditions, some African economies can take advantage of favorable wages and natural resources and benefit from taking timely measures to develop and export manufacturing goods.'

'But large-scale production requirements also mean that some jobs will be transferred to countries such as India, Bangladesh, Cambodia and Vietnam while others will move to China's interior.'

'In short, the invisible hand of globalization will work to ensure a redistribution of cost advantages to the benefit of the ultimate consumers around the world.'

[43%]

2012-057

Nigeria Leads African Rebirth Charge by Frederick Mordi. *African Business*. June 22, 2012. www.africanbusinessmagazine.com

Keywords: Nigeria, economics growth, BRICs, foreign direct investment

'Nigeria, the second-largest economy on the continent, offers an interesting case study in the ongoing African renaissance. Nigeria's large market, growing middle class and rapidly transforming economy continues to attract international investors, who find these opportunities irresistible.'

'Experts, who gathered recently in South Africa for an investment forum, predicted that the GDP in Nigeria and South Africa may reach $2.6 trillion by 2020, the year Nigeria aspires to join the premier league of the top 20 global economies, going by the current growth rate.'

'Based on this and other projections, experts have predicted that Nigeria may soon join the Brics (Brazil, Russia, India and China and South Africa), nations. Brics is a term used to describe emerging economies that have the potential to rival the G8 (group of eight industrialised) nations.'

'That Nigeria and other African countries are on the upward growth curve was underlined by the recently released Ernst & Young's 2012 *Africa Attractiveness Survey* with the broad theme: 'Building Bridges'. The survey stated that foreign direct investment projects in Africa doubled from 339 in 2003 to 857 in 2011. African GDP, the survey added, will grow between 4% and 5% per annum in the next decade, making Africa one of the fastest-developing economies in the world.'

'The report said: "In the last decade Africa has seen an increase in inward investment from 339 new projects to the continent in 2003 to 857 in 2011 (an increase of 153%). Investment has come from across the world, with strong growth in project numbers from rapid-growth markets and developed markets alike, with projects from the former increasing from 99 to 319 and developed markets projects from 240 to 538 since 2003. Intra-African investment has also been a key driver of this growth."'

'In spite of this good story coming out of the continent, Ernst & Young observed there are still lingering stereotypes of Africa, mainly among those who are averse to taking risks. Africa, the report noted, is seen as politically unstable, and more corrupt when compared to other regions. The report also said regional integration has yet to be fully achieved in Africa as free movement of people and goods across the continent remains a challenge.'

'The report, which also blamed poor infrastructure on Africa's underdevelopment, believes that massive investments in the transport, power and communication systems will promote rapid regional integration, and fast-track growth.'

'[Ajen] Sita, [Managing Partner, Africa at Ernst & Young] said: "Despite high optimism, high growth and high returns, the perception gap still exists and the African continent as a whole still attracts fewer FDI projects than India and far fewer than China. There is still clearly work to be done by Africans—government and private sector alike—to better articulate and "sell" the growth story and investment opportunity for foreign investors."'

'Sita added: "There has been a radical shift in mind-set and positioning over the last decade, with Africans themselves increasingly leading from the front by providing African solutions to Africa's challenges."'

[35%]

Economic Environment (cont.)

2012-058

Lions on the Move—10 Things You Don't Know about Africa's Booming Economy by Susan Lund and Arend Van Wamelen. *Foreign Policy*. August 31, 2012. www.foreignpolicy.com

Keywords: GDP, agriculture, manufacturing, labor force, consumer class

'Africa is no longer the "lost continent" of popular imagination. The region has been growing rapidly for over a decade, the private sector is expanding, and a new class of consumers is wielding considerable spending power.'

'To illuminate the opportunities and challenges ahead, here are 10 things you might not know about Africa's economic landscape:

1. Africa is booming.

'Africa has been the second-fastest-growing region in the world over the past 10 years. It has posted average annual GDP growth of 5.1 percent over the past decade, driven by greater political stability and economic reforms that have unleashed the private sector in many of the continent's varied mosaic of economies.'

'Poverty is also on the retreat. A new consuming class has taken its place: Since 2000, 31 million African households have joined the world's consuming class.'

2. Africa is poised to have the largest labor force in the world.

'By 2035, Africa's labor force will be bigger than that of any individual country in the world—even bigger than economic behemoths like India and China. That offers the continent a chance to reap a demographic dividend, using its young and growing workers to boost economic growth.'

'As Africa's workforce grows, the number of children and retired people that each worker supports will fall from the highest level in the world today to a level on a par with the United States and Europe in 2035—the other part of the demographic dividend. With fewer mouths to feed and fewer dependents to support, African households will begin to enjoy even greater discretionary spending power, furthering driving economic growth.'

3. African workers are better educated than ever before.

'Today 40 percent of Africans have some secondary or tertiary education—and that share is rising fast. By 2020, the share of workers with some secondary or tertiary education will rise to nearly half.'

'While education rates are higher than many outside observers might assume, this is still an area where African countries need to make further progress to remain economically competitive.'

'Across the continent, the right kind of education and practical training programs can give the next generation of workers the soft skills needed to do any kind of job—not just basic literacy and numeracy, but also punctuality, communication, and dependability.'

4. Steady work is still hard to come by in Africa.

'But here's the bad news: Only 28 percent of Africans currently have stable, wage-paying jobs. To reap the benefits of its positive demographics and advancements in education, Africa needs to quickly create more jobs. Although Africa has created 37 million "stable" wage-paying jobs over the past decade, 91 million people have been added to its labor force.'

5. With a few reforms, massive job growth is within Africa's reach.

'The experience of other emerging economies shows that Africa could accelerate its creation of stable jobs dramatically. When they were at a similar stage of development as Africa today, Thailand, South Korea, and Brazil generated jobs at double or triple the rate as Africa. If current trends and policies continue, Africa looks set to create around 54 million more stable jobs by 2020, boosting the share of Africans with stable employment to 32 percent of the labor force.'

'Three sectors in particular already have a proven capacity to create jobs in Africa and can do so in the future: agriculture, manufacturing, and retail and hospitality.'

6. Africa can become the world's breadbasket.

'Africa has about 60 percent of the world's unused cropland, providing it with a golden opportunity to simultaneously develop its agricultural sector and reduce unemployment. On current trends, African agriculture is on course to create 8 million wage-paying jobs between now and 2020.'

7. It's often cheaper for Africans to buy goods made in China than those made at home.

'African manufacturing is declining as a share in most economies, and that needs to stop. Africa is on course to generate 8 million new manufacturing jobs by 2020 but could nearly double that tally if it can reverse this trend.'

'Rising labor costs and exchange rates across Asia give African economies an ideal opportunity to expand their manufacturing industries. There is already anecdotal evidence that Asian businesses are setting up factories in some African countries to regain their competitive advantage.'

Economic Environment (cont.)

8. Nigeria's four largest cities still have only six shopping malls.

'Africa's rising number of consumers is already driving growth in retailing, but the sector could grow much faster. The potential of retail still goes largely unrealized: In Ethiopia, Egypt, Ghana, and Nigeria, nearly three-quarters of groceries are bought in tiny informal outlets. If barriers to foreign players were removed and action was taken to boost the share of modern retail outlets, this industry could finally hit its stride.'

9. Africa needs more than petrodollars.

'Mining, oil, and gas contribute significantly to Africa's GDP, but these sectors employ less than 1 percent of the workforce.'

'Africa needs a job strategy, not just a growth strategy. Countries in this region need explicit programs to create jobs, targeted at labor-intensive sectors that enjoy comparative advantage. Governments, working with private companies, need to improve access to finance in those sectors, build the necessary infrastructure, cut unnecessary regulation and bureaucracy and create a more business-friendly environment, and develop the skills needed to support the industries of the future.'

10. The future for Africa looks bright—but there's still a lot of work to be done.

'More than 300 million Africans will remain in vulnerable jobs in 2020. And even if African governments are successful at promoting job creation, the number of Africans in vulnerable employment will keep on rising for at least another 20 years because the labor force is expanding so quickly.'

[42%]

Social Environment

2012-059

Africa: Economies Rising—But Are They Taking the People With Them? by Richard Dowden. *All Africa*. October 2012. www.allafrica.com

Keywords: economic growth, foreign investment, demographics, unemployment

'[Ernst and Young's] 2011 report *It's Time for Africa* said that the continent "has one of the fastest economic growth rates, enjoys the highest returns on investment in the world and is making strong progress towards political reform, macroeconomic stability and social development".'

'Africa is the world's last great untapped resource landmass, but there are two big questions: why hasn't it fulfilled the potential that these resources promised? And what has changed that makes them accessible now? I still cannot quite find the answers, but in the process I developed a set of rules for reporting the continent.'

'The first one is, don't make continent-wide generalisations. Africa is the most diverse continent on the planet—it has more than 2000 languages for example. Unqualified generalisations are useless. Every time you reach a conclusion you find several cases where the opposite is true.'

'The second rule is to rely mainly on African informants. The Ernst and Young survey, however, did not rely on African perceptions.'

'That is not to say [their] perception is wrong, but rather that I would treat it with caution. It comes from inside the air-conditioned bubble that expat and African professionals inhabit in every African city. From home to car to office and back to home they rarely, if ever, leave that bubble or listen to ordinary Africans in the street.'

'The third is to treat all figures with deep suspicion, especially if they are precise. I had always accepted World Bank figures as gospel until I realised that the Bank relies on African governments for most of its data. Remember Ghana in 2010? That year the Ghana Statistical Service "improved their national accounts series by incorporating new data sources and better estimation methods, classifications and standards" said the World Bank. That led it to "re-base" the estimates and revise the level of GDP for 2006 upwards by a modest 60 percent.'

'[A recent McKinsey and Co.] report says that 90 million Africans had joined the world's consuming classes by 2011 and that the continent is about to reap a "demographic dividend" by 2020 as there will be another 122 million people in the job market. Then comes the killer fact that makes the so-called dividend look more like a disaster: only 28 percent of the current labour force has stable wage-paying jobs. So technically Africa—were it one country—has a 72 percent unemployment rate. And where will new jobs come from? Resource extraction—namely mining, oil and gas—are notoriously low employers these days.'

'Without work, millions of poor and poorly educated young Africans will sit at home trying to make sense of why they spent so long in school and why their parents made huge sacrifices to send them there. But this huge rising generation will be connected, linked to each other by the internet and global social media. My guess is they will become angry. How long before an explosion of that anger blows away investors for another generation?'

'[In] Alcinda' Honwana's The Time of Youth [...] [s]he defines the situation of most young Africans as "waithood" —a never ending time waiting for life to begin when they will have a job, can get married and have a family. Dr Honwana concludes that the Arab Spring might spread across Africa. She writes: "Could this represent the beginning of an era in which young people will no longer allow themselves to be manipulated by the elites into fighting ethnic and religious conflicts but instead choose the fight for their own socioeconomic and political rights? Could this mean that the waithood generation in Africa is shifting the battlefield from identity-based conflict into class inequality and rights-based conflict?"'

'You won't read that in the business prospectus, but business in Africa needs to know about it too.'

[50%]

2012-060

"A Man Needs One Handshake, a Woman Needs 7 Points of Contact" by Angela Bekkers. *World Bank Blog*. October 2012. blogs.worldbank.org

Keywords: Middle East and North Africa (MENA), women entrepreneurs, financial literacy, access to capital

'The social and economic challenges of the Middle East and Northern African (MENA) region are all very well-known: the region has the world's highest general unemployment rate (10 per cent—versus a global average 6 per cent) and the lowest female labor participation (26 per cent in the MENA region versus 52 per cent on average in the rest of the world). But recently, there are signs that this is changing.'

'Valerie D'Costa, infoDev's Program Manager, and one of the panelists [at European Development Days, organized by infoDev, UN Women and Turkish economic research agency TEPAV], highlighted that there is room for catch-up all around the world, not just in MENA. A mere 5 percent

Social Environment (cont.)

of the technology start-ups in the US are women-led, in Europe that is 8 percent. "What are women's business obstacles? That's where we should focus our efforts. In general, women entrepreneurs in the developing world lack information, they lack supportive networks and they lack access to capital", she said.'

'Panelist Tara Dawood, CEO of the Pakistan-based Dawood Capital Management, tries to set such examples in her home country. "Traditionally, women kept their money at home or in gold. Most money is made in the informal, non-registered sector, and therefore, women have no economic voice. One handshake with a male investor is enough, with female investors it's seven points of contact before they trust you and are willing to invest, or put money in a financial institution," she added.'

'The World Bank's 2011 report on Women, Business and the Law notes as well that today, 103 out of 141 economies it analyzed still impose legal differences on the basis of gender.'

'[...] Ghada Whaly, the Managing Director of Egypt's Social Fund for Development, [explained] "In Egypt, there are two million women without an identification document, another two million without birth certificates. Their opportunities for economic empowerment, to scale up a micro enterprise, are very limited. And this is why we go out to the villages and make women financially literate. After all, the economic empowerment of women, to have female entrepreneurs, makes sense for everyone. It's good for communities, for the economy and for society overall".'

[53%]

2012-061

What's Wrong with "Banking the Unbanked"?

by Elizabeth Rhyne. *Ashoka Changemakers Blog.* October 2012. pulse.changemakers.com

Keywords: unbanked, financial inclusion, Global Findex, account activity

'When a person with a low income in the informal sector opens a bank account, the rest of their financial life may not change. It will take a more complex transition for an informal money manager to move to an account-centered financial life.'

'This observation suggests that we need a better measure of financial inclusion than bank accounts. I have one alternative to suggest.'

'When the Global Findex was released in April, it marked the first time that financial inclusion statistics from clients were available on a globally consistent basis. The Findex headline was about the number of people with bank accounts (41 percent of all adults in developing countries and 89 percent in the developed countries—see chart).'

'It is no surprise that policy makers use bank accounts as the top indicator of financial inclusion: most of them use bank accounts like I do. And although the bank account is perhaps the easiest financial inclusion number to track, at times, it seems that increasing the number of people with accounts—"banking the unbanked"—becomes a policy goal in itself.'

'The Findex data shows that many bank accounts in the developing world are relatively inactive. In high income countries, the vast majority of account holders (72 percent) use their accounts actively (that is, they make more than two withdrawals per month, a useful definition, though somewhat arbitrary).'

'Not only do fewer people have bank accounts in low- and middle-income countries, those that have accounts do not use them much. In fact, only 16 to 17 percent of those with accounts use them actively.'

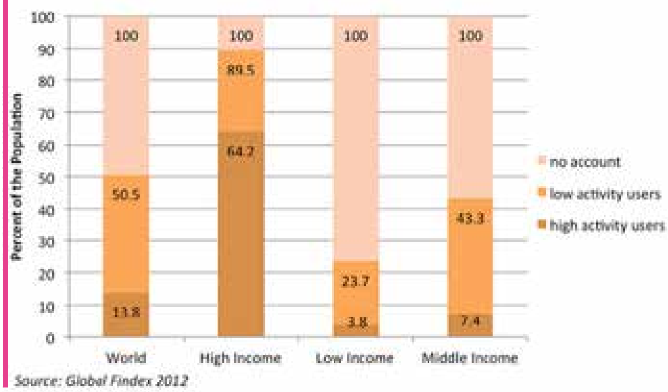
'Many people appear to use their accounts simply as a way to get paid or receive government benefits. Use of an account for such purposes is a decided improvement over counting out cash—it costs less and is more secure.'

'A village of coffee farmers I once interviewed in Uganda traveled most of a day to town where a marketing company clerk handed them their coffee proceeds in envelopes filled with cash. On the way home they were prey to highway robbers.'

'Later, they were given bank accounts, but the only change was that they now stood in the bank's withdrawal queue instead of the coffee company's queue. They still traveled to town, still took their cash home, and were still prey to robbers.'

'Their financial lives did not change in any significant way. However, they would now show up in national statistics as "banked."'

Bank Account Ownership and Activity, by Country Income Groupings



Source: Global Findex 2012

Social Environment (cont.)

'I propose to measure financial inclusion by active use of a bank account. By this count, 64.2 percent of adults in the rich world are financially included.'

'In the poorest countries, where fewer people have accounts and fewer still use them actively, only 3.8 percent of adults could be counted as included. In middle income countries the pattern is similar, though the numbers are somewhat higher.

By this measure, financial inclusion has a very long way to go.'

[57%]

2012-062

Unlocking the Potential of Emerging-Market Cities by Richard Dobbs, Jaana Remes, and Fabian Schaer. *McKinsey Quarterly*. September 2012. www.mckinseyquarterly.com

Keywords: urbanization, consumer class, emerging markets, cities, economic growth

'A massive wave of urbanization [...] will create an over-four-billion-strong global "con- sumer class" by 2025, up from around one billion in 1990. And nearly two billion will be in emerging-market cities. These cities will inject nearly $25 trillion into the global economy through a combination of consumption and investment in physical capital.'

Exhibit 1

Approximately 440 emerging-market cities are poised to deliver close to half of global GDP growth.

Cities' contribution to global GDP and GDP growth[1]

[1] 2,600+ cities, including large cities as well as smaller cities and rural areas.
[2] The top 600 cities by their contribution to global GDP growth 2010–25.
[3] Reflects market exchange rate.
[4] Prediction based on differences in per capita GDP growth rates of countries relative to the growth of US per capita GDP.

Source: McKinsey Global Institute Cityscope 2.0

'In a recent survey, we found that fewer than one in five executives makes location decisions at the city (rather than country) level. Few executives expected this approach to change over the next five years, and more than 60 percent regarded cities as "an irrelevant unit of strategic planning."'

'[...][M]any middle-tier emerging-market cities, however attractive, may be unfamiliar. Take Foshan, Porto Alegre, and Surat—cities that are unlikely to be high on the priority lists of global executives, though each has more than four million inhabitants, fast growth, and a vibrant base of con- sumers. Indeed, each of these cities will contribute more to global growth than Madrid, Milan, or Zurich.'

Exhibit 2

A city-specific lens can reveal urban areas with the highest growth potential in a given market.

Top cities by growth in given market, 2010–25

Emerging region
Developed region

Rank	Elderly higher-income consumers[1] (aged 65+)	Young entry-level consumers[2] (aged 14 or under)	Consumer spending on laundry care products[3]	Demand for commercial floor space[4]	Municipal water demand
1	Shanghai	Lagos	São Paulo	New York	Mumbai
2	Beijing	Dar es Salaam	Beijing	Beijing	Delhi
3	Tokyo	Dhaka	Rio de Janeiro	Shanghai	Shanghai
4	Tianjin	Ouagadougou	Shanghai	Los Angeles	Guangzhou
5	Mumbai	Khartoum	Mexico City	Tokyo	Beijing
6	São Paulo	Ghaziabad	Moscow	Washington, DC	Buenos Aires
7	Osaka	Sanaa	Bangkok	Dallas	Kolkata
8	Chongqing	Nairobi	Istanbul	São Paulo	Khartoum
9	Delhi	Luanda	Manila	Guangzhou	Dhaka
10	Nanjing	Baghdad	Johannesburg	Chicago	Istanbul

[1] With household income >$20,000 at purchasing-power parity.
[2] With household income of $7,500–$20,000 at purchasing-power parity.
[3] Based on city-level market-demand-growth model.
[4] Includes replacement floor space.

Source: McKinsey Global Institute analysis

'To illustrate the different panoramas of opportunity that appear when companies use a city-specific lens, we looked at five business sectors, each with different demand profiles. We then ranked cities with the highest growth potential for each of the sectors (Exhibit 2). Among the takeaways:

- Companies marketing health care products to seniors would find Shanghai and Beijing topping the list of cities with growing populations of older consumers whose incomes are sufficiently high (above $20,000 on a purchasing-power-parity basis) to afford these products. Tokyo and Osaka are the only developed-world cities among the top ten—a sign that well-off, aging consumers no longer are found exclusively in developed markets.
- Baby food is at the other end of the age spectrum. Combining income and demographic data—in particular, the numbers of households with young children—we found that cities in Africa offer great potential. More than half of the top ten cities enjoying rapid growth in the number of children who live in households with incomes from $7,500 to $20,000 (on a purchasing-power-parity basis) are in Africa.
- Sao Paulo, Beijing, Rio de Janeiro, and Shanghai rank highest in a targeted analysis of market growth for laundry

products. That's just a small shard in the global-consumption mosaic for emerging cities. We project that urban consumers in developing countries will spend an additional $14 trillion annually by 2025.

- By 2025, cities worldwide will need to spend at least $10 trillion more per year on physical capital—everything from office towers to new port facilities—than they do today.
- Urban water-related infrastructure, another pressing need, will require $480 billion in global investment by 2025, with 80 percent of that flowing to emerging-market cities.'

'In addition to supporting geographic priority-setting, a city-level view can help companies sharpen their marketing strategies. Product adoption rates often are tied to local preferences that can vary across different cities within the same country—preferences that marketers may miss when they follow the time-honored approach of plotting adoption curves that trace purchases by levels of household income and by product types within categories.'

[53%]

2012-063

The Female Factor: Women Entrepreneurs Drive Growth in Africa by Josh Kron. *The New York Times*. October 2012. www.nytimes.com

Keywords: women entrepreneurs, economic growth, Africa

'Data analysis from Google shows that since 2004, the most common single term related to searches from the United States for "Africa" has been "AIDS." This year, the charity Save the Children named Niger the "worst place to be a mother." On the United Nations' Web site, Africa is the only continent listed under "Issues."

It was into this world, and against it, says Bethlehem Tilahun, that her shoe company SoleRebels was born.'

'With SoleRebels, she said proudly, "We've inverted the whole paradigm."

Ms. Tilahun, 33, is one of a cresting wave of African entrepreneurs who are harnessing Africa's businesses and brands as the continent enjoys its greatest economic success in generations. The International Monetary Fund now forecasts, admittedly in a recession-plagued world, that Africa will have the fastest-growing economy of any continent over the next five years.'

'Many of the new entrepreneurs of Africa are women.'

'"We've flipped the concept of non-Africans writing the script," Ms. Tilahun went on. "We've basically taken back control of our destiny by controlling the marketing message."'

'Indeed, Africa may not be as badly off as indexes sometimes imply.'

'According to a World Bank report released this month, more than 20 sub-Saharan African countries, totaling more than 400 million people, have gained middle-income status.'

'This year, the World Bank said, one-third of the economies of the 49 sub-Saharan African countries will grow at a clip of 6 percent or more; meanwhile, the number of people living in poverty has fallen roughly 10 percentage points over the past decade.

It has as much, or more, to do with trade as aid. And it is compounding a surge of female entrepreneurs.'

'"In Africa, you see women working a lot," noted Markus Goldstein, a development economist in the gender department of the World Bank in Washington. "They are very active in the labor market." According to World Bank data, nearly two-thirds of women are participating in Africa's labor force.'

'In 21st-century Africa, businesswomen are pushing into the national scenes of their countries as movers and shakers of industry.'

'"But women are actually contributing a lot more than men. We always find ourselves multitasking," [Ms. Lovin Kobusingye, owner of Kati Fish Farms] said, between working and raising a family. "If it could be equated in terms of currency, it would be 80 percent of the economy."'

'The rate of female entrepreneurship is higher in Africa than in any other region of the world, the World Bank says. And even African countries criticized for abuses of human rights and civil liberties are progressive on gender.'

'It may not be a coincidence that a number of Africa's economies doing the best without many resources—like Ethiopia or Rwanda—have austere, orderly, patriotic, aid-efficient governments that simultaneously spurn charity aid and focus on foreign-direct investment and private enterprise.'

'In Rwanda, a change in land-title laws to allow wives to be registered alongside their husbands led to a nearly 20 percent increase in female-registered farms.'

'Both Ethiopia and Rwanda have been criticized for restrictions on civil liberties yet have also given birth to targeted marketing of U.S. consumers – including Rwanda's Bourbon coffee chain and Ms. Tilahun's SoleRebels—efforts that may help alter Africa's image.'

'As [Ms. Tilahun's] shoes have caught on, so has an image of Africa that consumers are willing to buy, and not simply fund.'

'SoleRebels has become one of Africa's best-known shoe companies, its products advertised in hip magazines from Toronto to Berlin. Consumers and investors from donor-aid nations have responded. Ms. Tilahun was named by Forbes magazine as one of 100 women to watch in 2012 and invited to speak at the 2011 World Economic Forum.'

Social Environment (cont.)

'There is an "urgent need," she said, to create more African-owned brands delivering world-class products to the global market, to drown out charitable organizations "selling their variety of messages about and images of Africa."'

[47%]

2012-064

Women Farmers Can Influence Policy through Theatre by Lindiwe Majele Sibanda and Sithembile Mwamakamba. *SciDev.Net*. October 2012. www.scidev.net

Keywords: agriculture, community theatre, food security, Malawi, Mozambique

'Women farmers produce more than 90 per cent of the food on the African continent, yet they are largely excluded from decision-making: their needs are rarely reflected in local and national agricultural policies and they have limited access to credit, fertiliser, labour, seeds and other production inputs.'

'In 2009 the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) embarked on a journey to strengthen the capacity of women farmers to influence agricultural policy through the Women Accessing Realigned Markets (WARM) programme. One of the programme's aims was to carry voices from the villages to the government through community theatre.'

'The programme used Theatre for Policy Advocacy (TPA), a culturally appropriate medium of communication, to explain agricultural policy to women farmers in rural areas of Malawi and Mozambique. It sought to empower, inform and mobilise them to express their needs and engage their communities in developing solutions to their problems.'

'What is clear from WARM's experience is that, with the right support, women farmers can identify their needs, package relevant messages and effectively communicate them to policymakers.'

Mobilising a Solution

'By the end of the project in May 2012, six community theatre groups had been formed and trained, three each in Malawi's Kasungu and Lilongwe districts, consisting of 79 women and 54 men. In Mozambique, two district theatre groups were formed and trained, consisting of 24 women farmers in Boane and Marracuane districts of Maputo province.'

'The project recognised that in wider society, the leaders are mostly male. So it was important that men were part of the process to endorse the work of the women actors.'

Articulated Needs

'Clear recommendations came out of both countries through the performances and post-performance dialogues. Among these were the promotion of farming as a business; the need to improve women's access to rural finance and inputs; and the need to enhance extension service delivery.'

'The development of infrastructure such as roads linking rural areas to markets and storage facilities to avert post-harvest losses was suggested as a priority. Another message that emerged is that policymakers must go beyond simply addressing agricultural constraints. Equal attention must be paid to sociocultural dynamics—such as gender-based violence—which continue to limit the productivity of women farmers.'

'FANRPAN and its local partners supported community champions to communicate these solutions to decision-makers and service providers.'

'In Malawi the performances were attended by more than ten thousand people. Participants included officers from the Ministry of Agriculture and Food Security, district representatives, members of parliament and representatives from farmers' organisations, community-based organisations, and non-governmental organisations.'

Something to emulate

'The project empowered women farmers, ensuring they gained the confidence and credibility to articulate their needs and call for policy change. In at least some of the villages, women farmers are now able to regularly engage policymakers. And the capacity built through this process can be applied to other policy issues in the future.'

[52%]

2012-065

The Ideas Report: 23 ½ Biggest Ideas of the Year. Selections by Jeffrey Rosen, Felix Salmon, Chrystia Freeland, Susan Cain, Don Peck, and Walter Kirn. *The Atlantic*. July 2012. www.theatlantic.com

Keywords: privacy, inter-bank transfers, social media, revolution, employment

The Right to Be Forgotten by Jeffrey Rosen

'Soon, citizens around the world may have the ability to selectively delete themselves from the Internet. At the beginning of this year, Viviane Reding, the European commissioner for justice, fundamental rights, and citizenship, proposed codifying a sweeping version of the right to be forgotten in European data-protection law.

But the right to be forgotten also gives people the right to demand the removal of embarrassing information that others post about them, regardless of its source, unless Google or Facebook can prove to a European regulator that the information is part of a legitimate journalistic, literary, or artistic exercise. This would transform Facebook and Google from neutral platforms into global censors and would clash directly with the principle, embedded in U.S. free-speech law, that people can't be restricted from publishing embarrassing but truthful information.'

The End of the Checkbook by Felix Salmon

'Today, roughly 40 percent of noncash payment in the United States is made by check, largely because the check remains the only way that most people can transfer money from one bank account to another without having to pay for the privilege.

[...][I]n most countries, transferring money directly from one party's account to another, without having to write a check, is easy.'

'[Banks] have little incentive to replace the credit and debit cards that use their check-clearing infrastructure and generate billions of dollars in interchange fees. Services do exist that work around the banks, but they generally require both the payer and the payee to set up an account with them first, and most normal people have no desire to do that.

If we're going to have a revolution in payments, the market isn't going to get there on its own. The Federal Reserve created and paid for our check-clearing system, and it should do the same with its replacement—a secure, free, instant method for anybody with cash to move. A simple mandate should do the trick. Otherwise, the U.S. will always remain behind the curve, crippled by billions of dollars in hidden and unnecessary fees.'

The Cost of Modern Revolution by Chrystia Freeland

'From Cairo to Lower Manhattan to Moscow, we have learned that the revolution most definitely will be tweeted, blogged, and pinned. Social media now make it easier to organize protest movements, even—or perhaps especially—in authoritarian regimes. And that is no longer merely a hopeful assertion made by digital evangelists. Some dictators, United Nations Secretary-General Ban Ki-moon said recently, "are more afraid of tweets than they are of opposing armies."'

'He's right. But we're also learning something sobering about the Twitter revolutions. The speed with which these movements develop comes at a price—one that gets paid after the activists win. Revolutions generally take time to build—they need leaders, and structure, and a core of devoted members. The virtue of drawn-out opposition is that the best old-school protest movements can become governments-in-waiting. Nearly a decade underground meant Solidarnosc was poised in the late 1980s not just to seize power in Poland, but to wield it. The same was true of Nelson Mandela's African National Congress and even of Vladimir Lenin's Bolsheviks.'

'Twitter-lutionaries are good at toppling regimes, but in the Mideast and North Africa, they're losing out to the Islamists, who've built protest movements the old-fashioned way. And in Moscow, the Mink revolutionaries, who are united by Live-Journal but not much else, were easy for Putin to outmaneuver. The next step for would-be revolutionaries: combine traditional community-organizing techniques with social media. Those will be the movements that dictators really need to fear.'

Hire Introverts by Susan Cain

'According to a team of researchers led by the Wharton management professor Adam Grant, introverted leaders typically deliver better outcomes than extroverts, because they're more likely to let proactive employees run with their ideas. Extroverted leaders, who like to be at the center of attention, may feel threatened by employees who take too much initiative (but do outperform introverts when managing less proactive workers who rely on their leader for inspiration).'

'Grant's research echoes other findings on the power of introverts. They're persistent—give them a difficult puzzle to solve, and they'll analyze it before diving in, then work at it diligently. ("It's not that I'm so smart," said Einstein. "It's that I stay with problems longer.") And they're careful risk-takers: less likely to get into car accidents, participate in extreme sports—or place outsize financial bets. (Warren Buffett is a self-described introvert who attributes his success to his temperament.)'

'Introverts are also comfortable with solitude—a crucial spur to creativity. When the psychologists Mihaly Csikszentmihalyi and Gregory Feist studied the lives of the most-creative people across a variety of fields, they almost always found visionaries who were introverted enough to spend large chunks of time alone.'

'Management literature is full of advice for introverted leaders on how to be more extroverted, says Grant: Smile more! Practice your public speaking! But extroverts might take a page from their introverted peers, too—by hiring good people and leaving them alone.'

Less Work, More Jobs by Don Peck

'Quick: How many jobs has the U.S. economy created each month in the past year? 125,000? 150,000? These are the numbers we see reported, but actually, over the past

Social Environment (cont.)

year of data, the private sector alone created more than 2 million new jobs a month—the problem is, each month it also destroyed nearly as many. The number we see reported is the difference between jobs created and jobs destroyed.'

'This isn't just trivia: the point is that the economy is much more dynamic than we may think. If we could keep creating 2 million jobs a month, while stanching job losses, we could get people back to work much faster.'

'"Work-sharing"—or "short-work"—could make this prospect a reality. Today, American companies facing weak demand typically lay off workers, even though that decision can be costly down the road (rehiring and training are expensive). A work-sharing program would allow companies to instead make temporary, across-the-board reductions in hours worked by (and wages paid to) the same number of employees; the government, instead of paying unemployment benefits to laid-off workers, would make up much of the difference in pay.'

'Work-sharing is not a new idea—Germany used this system throughout the Great Recession to help keep its unemployment rate low, and some U.S. states have work-sharing systems in place, although they tend to be poorly publicized and poorly funded—but it's an idea worth trying on a larger scale. It has garnered support from economists on the right and the left, and it won't break the bank. So why aren't we doing it?'

Knowledge of the Future Is Messing With the Present
by Walter Kirn

'To know what will happen before it happens has been our species' preeminent obsession ever since our hopes either failed to correspond with events (a volcanic eruption, say, or an outbreak of plague) or corresponded perfectly (in a bounteous harvest or an enemy's death). This desire to divine, predict, and, if possible, influence has resulted in schemes and systems of varying accuracy—from the reading of tarot cards to the computer modeling of weather patterns—but few have ever truly satisfied (or fully and finally been discarded). Progress has been made in this effort, though, and recently a lot of progress. Statistical methods such as sabermetrics have proved astonishingly successful in reducing the uncertainty involved in baseball, while number crunchers have equally demystified aspects of our presidential elections (the master statistician Nate Silver made his name predicting the 2008 popular vote within 1 percentage point). Measuring the tips of our chromosomes has, reportedly, allowed us to ascertain our likely life spans. Even obscure matters of artistic taste have, thanks to acts of algorithmic wizardry occurring somewhere in hidden server farms devoted to recommending books and music, been shown to be less obscure than formerly thought.'

'We ought to be happy—we've gotten our age-old wish, it seems. But has making life more explicable actually made it any more pleasurable? As predictability increases, do drama and excitement somehow diminish? Knowing that your risk for heart disease is low may enhance peace of mind, but knowing that your team will never take the pennant promotes a certain fatalistic gloom. In politics, understanding that your candidate is either virtually unstoppable or all but doomed saves a lot of emotion on the front end while ruling out euphoria on the back end.'

'Uncertainty doesn't make life worth living, quite, but it does make striving and gambling worth attempting. This is a vital matter to us humans because our conduct is governed by neurotransmitters attuned to gratification. As the future is clarified and the hidden is made visible, detachment will increase. But we will still have denial on our side—just go to Las Vegas and watch the blackjack players. In a world that's smarter than it used to be and, in some ways, smarter than it ought to be, stupidity has a way of making us seem all the more human.'

[26%]

2012-066

Visa Study Reveals Mobile Money Drives Demand for Financial Services. Anonymous. *Visa Inc.* October 2012. www.pressreleases.visa.com

Keywords: Visa, mobile money, financial sophistication, marketing, agent networks

'The Visa Mobile Money study analyzed the financial services needs and expectations of mobile money among nearly 2,500 consumers, mobile money agents, and merchants in Bangladesh, Ghana, India, Indonesia, Nigeria and Pakistan. The results reveal that consumers' needs for financial services are far more sophisticated than previously believed and go well beyond the established transaction set offered by mobile money services today.'

Key Findings

Awareness of mobile money is high
'The Visa study found there is high awareness of mobile money services and capabilities among consumers in developing economies. Across the six countries surveyed, average awareness stood at 56% and three countries stood out in particular: In Ghana, awareness was at 93% with MTN identified as the most known mobile money provider; in Pakistan 89% of the public are mobile money aware and easyPaisa is the most recognized brand; and 53% of

Social Environment (cont.)

consumers in Bangladesh were aware of mobile money and identified bKash as the leading brand.'

Consumers have complex, sophisticated financial services needs

'While many survey participants did not have a formal financial account, several examples of complex and sophisticated money management systems emerged across the six markets. Using a range of techniques, the majority of respondents shared how they set money aside for education, healthcare, emergencies and life events. The majority of consumers surveyed intend to use mobile money to send money to family members (81%), pay utility bills (56%) and save money for their family (52%).'

Ease of use, trust and lack of interoperability are barriers to adoption

'Across the countries where surveys took place, respondents cited ease of use (64%), lack of trust in mobile money providers and agents (55%), and lack of interoperability with other mobile money services (28%), as primary barriers to adoption.'

'In addition, lack of accessibility to mobile money agents, mobile network reliability, communication and education appear to be major barriers, preventing activation and usage of mobile money accounts.'

Best Practices

Listen to Your Customers

'The results of Visa's study suggest that fine tuning how a mobile money operator markets its service can have an impact on consumers' desire to adopt such a service. For example, the study found that "safe keeping" rather than "saving" money is a primary driver for why consumers in developing countries are interested in using mobile money services.'

'"One key learning from this study could be summarized as 'it's not what you say, it's how you say it,'" said Gavin Krugel, Head of Emerging Market Customer Strategy and Market Activation, Visa Inc. "This single insight has massive implications for the vernacular used in mobile money menu structures, the education of mobile money agents and consumers, and creation of mass market advertising."'

Build an extensive mobile money agent network

'Not having prevalent accessibility to mobile money agents is ranked as a key barrier to the adoption of mobile money. In order to drive adoption, cash and customer service will need to be readily accessible to meet expectations. 54% of consumers cited quick and easy access to cash as a key benefit of mobile money.'

'The Visa Mobile Money study was conducted February through August 2012. Visa surveyed nearly 2,500 individuals in six countries and 15 cities through a combination of field surveys, in-depth in-person interviews, and focus groups with men and women ages 18 to 44 years of age. Respondents had to own a mobile phone.'

[52%]

Physical Environment

2012-067

Harnessing Potential of Food & Agribusiness Sector Is Key to Africa's Economic Development
by Anonymous. *HR Future*. October 12, 2012.
www.hrfuture.net

Keywords: Private equity, agribusiness, Africa, competitiveness

'The potential of agriculture and its twin sectors of food and agribusiness in Africa is immense and if effectively harnessed will be key drivers of Africa's economic development and global competitiveness in the foreseeable future.'

'This is according to Ernest Tettey, Chief Portfolio Officer at the African Development Bank (AFD), who says that within the Sub-Sahara African (SSA) economy, agribusiness forms a significant and growing sector. "For several SSA countries, the share of agribusiness services and manufacturing is expected to account for at least a third of GDP growth rate."'

'He [Ernest Tettey] says that several countries in the SSA region have comparative advantages in agriculture in terms of land availability, soil fertility, good climatic conditions and water availability. "However, with the current challenges in the global food environment, the need to invest in the region's agriculture sector has become more imperative than ever.'

'"These investments will contribute to job creation, enhancement of food security, income generation, poverty reduction and skills transfer," says Tettey.'

'"Private equity investments of this nature also aim to support crucial infrastructure development. Under its mid-term strategy, the Bank seeks to increase selectivity and develop a more robust private sector," concludes Tettey.'

[31%]

2012-068

Agriculture: Dawn of the Age of Machines?
by Anonymous. *African Business*. May 15, 2012.
www.africanbusinessmagazine.com

Keywords: Agriculture, mechanization, food production, commercialisation

The Mechanisation of African Agribusiness

'It is true that simple tools, which require intensive use of manpower, are still popular in Africa. The hoe, as a low-cost but important piece of agricultural apparatus for the clearing of land for planting, is a popular and, for many African farmers, staple tool. There is little doubt that this modest but indispensable piece of equipment will continue to be crucial for farmers across the region.'

'But higher technology equipment is also becoming more common.'

'Farmers seem most inclined to use tractors in places where large areas of land are available and there are labour shortages. Such equipment is also gaining popularity in countries where agricultural wages or investments in agriculture are rising and machinery, which reduces manpower requirements, thus has more appeal for cost-conscious farmers.'

'Countries such as China, India and Brazil, armed with expertise, equipment and know-how from their own agricultural liftoffs are keen to provide the continent with much-needed state-of-the-art equipment to kick-start mechanization.'

'While African countries still lack the capacity to manufacture more sophisticated equipment such as tractors, activity in South Africa indicates that there is potential for the continent's only fully industrialised country to manufacture and distribute such products successfully.'

Commercialization is the Key

'With a growing number of countries, such as Malawi, Ghana and Rwanda, beginning to ramp up investment in agriculture to expand their production levels, investors, governments and aid organisations are focusing their attention on how to kick-start the single most important process for raising productivity levels: 'mechanisation'.'

'There is overwhelming consensus that mechanisation still has a long way to go in Africa. That is clear from figures which point to the fact that it is still overwhelmingly human manpower which drives agricultural production in Africa. For example, in Central Africa, 80% of worked land is cultivated manually and in eastern and southern Africa, this figure is 50%.'

'The mechanisation challenge that Africa faces becomes apparent when you consider tractor uptake in the region; tractors, as an indispensable tool for tillage and transportation, are a key piece of equipment for farming mechanisation.'

'Nonetheless, mechanisation still presents a number of challenges for investors. Firstly, equipment costs are still prohibitive for many farmers. There is also a dearth of companies providing spare parts in Africa, which means availability of these crucial products is also low and many farmers lack adequate training in how to operate and maintain them.'

'Experts recommend a number of measures to address this. They include boosting private sector investment in local manufacturing of equipment and spare parts and providing formal training to farmers in the maintenance and operation of their equipment.'

Physical Environment (cont.)

Rise of the Machines?

'The recent transformation in Africa's economic 'brand image' in the commercial world is probably one of the most dramatic in modern world history. As Africa rides the wave of a resources boom, its middle class swells, consumer demand mushrooms and conflicts become fewer.'

'Yet food-related statistics tell a much more mixed story. Although production is rising, half of Africans still earn less than $2 per day and one third remain undernourished. These are mainly amongst the two thirds of the population that live in rural areas and rely on subsistence agriculture.'

'The current situation is testament to the fact that a Green Revolution comparable to the one experienced by Asia and Latin America in the second half of the 20th century has not materialised in Africa.'

'Moreover, food production has not kept up with the explosion of Africa's population. While food production per capita has steadily decreased in the region over the last 50 years, the population has more than tripled and is projected to reach over 1bn by 2020.'

[13%]

2012-069

Disparate Partners Find Promise in Africa's Agriculture by Lauren Everitt. *All Africa*. September 2012. www.allafrica.com

Keywords: agriculture, African Green Revolution, international partnerships

'With the world's population climbing steadily, crops withering around the globe and weather patterns wrecking havoc on growing seasons, the world has a pressing problem on its hands: food security.'

'It's a daunting situation. But in an increasingly common mix of disparate groups uniting around addressing global challenges, governments, public sector organizations and private businesses have converged on the northern Tanzanian town of Arusha for the African Green Revolution Forum.'

'The event brings together leaders from all three sectors to tackle global food insecurity, primarily by jumpstarting Africa's agriculture sector through support for smallholder farmers, who grow an estimated 80 percent of Africa's food.'

'At the same time, existing agricultural methods could be improved, panelists and presenters say. Crop yields have stalled at only one-third of those produced by farmers in other developing countries. But simple interventions, such as doubling fertilizer use from three to six percent, could increase agricultural production by 50 percent.'

'It is into this environment that the public and private actors of the Agra forum hope to plant the seeds, quite literally, of the future.'

'"This is a partnership of different partners who have been working individually," [Salum] Shamte [of the Southern African Confederation of Agricultural Unions] says. "The challenge we are facing is changing the way people are doing business to address the needs of the farmers, and it's one of the areas we need to work a lot more on."'

'"What is most fascinating now is that the public sector is ... becoming more effective, more focused, more willing to take risks and make decisions in a short time frame so that results can be achieved," [Daniel] Gad [the managing director for Ethiopia-based Omega Farms] says.'

[38%]

2012-070

Africa's Agricultural Revolution: Revitalising Agriculture for Growth and Development by Leah Gatt. *Consultancy Africa Intelligence*. October 2012. www.consultancyafrica.com

Keywords: Agriculture, economic growth, employment, commercialization

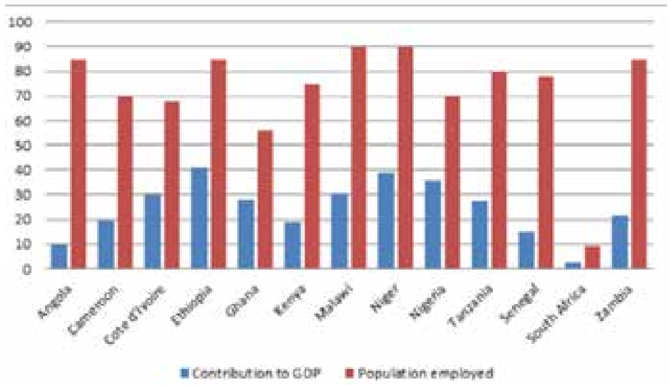
'Having been characterised by a lack of resources for decades, the agricultural sector in most [African] countries has withered, making African countries net importers of food, despite agriculture employing the majority of the population. The need to reinvest in agriculture to reverse this trend has become evident. This reinvestment holds a number of opportunities, not only for increased food security and the improvement of livelihoods, but also for economic growth and private sector development.'

The Role of Agriculture in the Economy

'[...][I]n most African States, agriculture is mainly subsistence-based and made of small-holder farms, and African farm yields are the lowest in the world. Between 2005 and 2009, only 10 African countries had allocated over 10% of Government budget to agriculture. In addition, 18 countries allocated less than 5% over the same period. These figures are striking when one considers that agriculture remains the largest employer, employing over 60% of the population in the majority of countries (Figure 1).'

Physical Environment (cont.)

Figure 1: Contribution of agriculture to gross domestic product (GDP) and population employed in the agriculture sector for selected African countries (%)



Contribution to GDP

'As Figure 1 illustrates, with the exception of South Africa, despite employing a significant percentage of the population in most countries, agriculture also contributes relatively little to overall gross domestic product (GDP). In Angola agriculture contributes only 9.5% to the country's GDP despite employing over 80% of the population. Similarly, in Kenya, agriculture makes up less than 20% of GDP while employing 70% of the national labour force. Indeed, agriculture employs an average of 65% of the total African labour force. This suggests a significantly large labour force in place that remains small-holder and mainly subsistence-based. This small-scale farming contributes little to the economy and makes the development of economies of scale difficult to achieve.'

'Most African countries import more food and agricultural products than they export. [...] Africa imported 25% of its food grains in 2008. This is an unwelcome situation particularly for food security. Indeed, the growing demographics on the continent signal a continuously increasing demand and little means of sustainably feeding populations domestically.'

The Impact on Livelihoods of an Agriculturally More Productive Africa

'In this context, a refocus on agriculture that works to meet domestic demands could have a significant impact on Africa's food security. As well as reducing foreign dependence on food imports and lowering domestic food prices, it could also create important opportunities for tackling unemployment and increasing household incomes. Unemployment is high in a number of countries. [...] [A] rejuvenation of the agricultural sector that were to see a shift from small-holder and subsistence farms to commercial farming could potentially absorb a large percentage of the unemployed youth.'

The Potential to Change Perceptions

'At present, the image of agriculture and farming as financially unrewarding and physically taxing serves to discourage young people from working in the sector. This image also dissuades young people from pursuing studies in agriculture. The effect is especially damaging on future productivity and the lack of students and researchers in agricultural disciplines is a major impediment to the development of the sector.'

The Significant Potential for Return on Agricultural Investments

'The large and ever-increasing demand on the sub-continent, the number of people already employed in the sector, the lack of competition for economies of scale, and the substantial arable lands available for large scale farming suggest that opportunities for agri-business are remarkable. Furthermore, there is already a history of success in some African countries where conditions are appropriate.'

'[...] [I]n countries where land is suffering from poor mineral soil content, companies could provide services to local farmers that enrich that soil content. In this way, the creation of advantage through the production and delivery of value-adding products and services to the agricultural industry could be extremely rewarding. Importing fertiliser is costly in inland African countries and farmers can easily pay up to twice as much as European farmers for fertiliser due to high transport costs. For African farmers looking to move from subsistence to commercial farming, one of the major challenges is meeting international standards for trade. In this situation, the development of mechanisms and services aimed at supporting small-holder farmers seeking to produce commercially to meet international quality standards could be especially beneficial.'

The Role of Government and the Private Sector

'The past decades have shown that market forces alone are not sufficient to generate the resources and infrastructure needed to encourage the agriculture sector. Furthermore, the link between food security and agriculture is too close to allow for total privatisation. [...] [T]he State has an important role to play in encouraging agricultural production through incentive schemes and supportive policies.'

'Led by African Governments, the [Comprehensive Africa Agricultural Development Programme] aims at increasing agricultural productivity by 6% a year, as a means of encouraging food security and increasing incomes. The CAADP has encouraged countries to identify key areas for their country's investment agreement and sign 'compacts'. Through these compacts, Governments set out individual road maps for their country's agricultural development and commit to investing 10% of their national budgets to agriculture.'

Physical Environment (cont.)

‘Government can re-introduce price-support systems and act as buyers of last resort. This would guarantee farmers that their production will be bought, thus encouraging productivity. Subsidies provide another option. Following a food crisis in 2005, Malawi’s former president Bingu wa Murtharika re-introduced subsidies to farmers for fertilisers and seeds. Despite being met by significant criticism from international donors, the policy has since seen a significant increase in the country’s agricultural production. This has caught the attention of other countries and Zambia and Rwanda have both introduced support schemes. The results have been significant. Rwanda, which has since 2006 been subsiding the cost of fertiliser transport, has similarly seen an increase of 16% and 73% for wheat and maize yields respectively.’

‘Governments which buy bulk products from small-holder farmers can provide new opportunities for private firms to offer services such as packaging, preservation and storage facilities for purchased products.’

‘Large-scale farming however may not require such extensive support and research has shown that interventions can actually impede their development. [...][Q]uality infrastructure to transport goods, secure property rights backed by a rule of law that instills [sic] confidence in settling land claims and disputes and reliable power supply to rural areas, may prove more helpful than subsidies and tax cuts.’

‘Finally, Governments should divert resources towards supporting agricultural research in African institutions. It is only through the production of locally relevant knowledge that the green revolution can be “uniquely African” and that agricultural solutions can be generated in ways that serve to avoid the dominance of one-sided perspectives on research outcomes, policy design and actual intervention.’

[47%]

Political Environment

2012-071

Financially Inclusive Ecosystems: The Roles of Government Today by Tilman Ehrbeck, Mark Pickens, and Michael Tarazi. *CGAP Focus Note.* February 2012. www.cgap.org

Keywords: regulation, government, G2P, financial inclusion

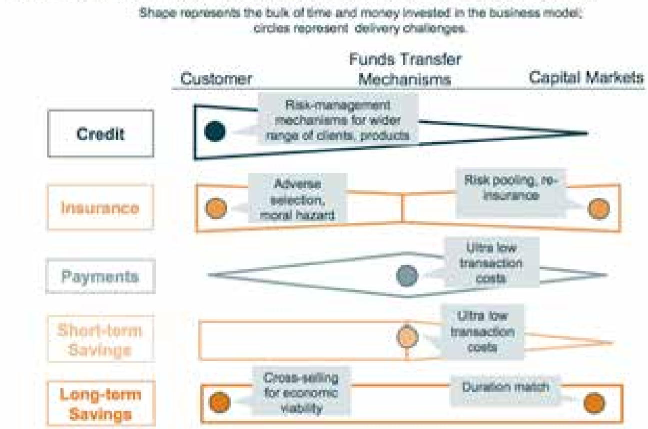
'Two separate but related developments have spurred this more holistic approach to financial inclusion. First, a growing body of research is demonstrating that poor people use and need a wide array of financial products, not just credit. Second, innovative lower cost business models—especially electronic and agent banking models—hold the promise of reaching unbanked populations with a fuller range of products better suited to their needs.'

'A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to the poor. And many are asking what roles a government can or should play in the development of these financially inclusive ecosystems, especially in light of innovation in financial services delivery.'

The Broader Financial Inclusion Landscape

'[...][P]oor households are astonishingly active money managers, using a large number of financial instruments to move money between times when they receive it and to prepare for other times when they will need to spend it. The now well-known study presented in *Portfolios of the Poor* broke new ground by demonstrating that poor households in Bangladesh, India, and South Africa use on average eight different kinds of savings, insurance, payment, and credit instruments throughout the year (Collins, Murdoch, Rutherford, and Ruthven 2009).'

Figure 1: Commercial Challenges for Providers of Different Financial Products



'An ecosystem involving multiple businesses may work better for poor people in terms of both increasing the range of options for services and making these options available to poor people in an affordable way. Such an ecosystem represents a shift from vertically integrated business models that limit efficiency and scale. However, these ecosystems do not always develop easily, or quickly, on their own. In fact, competitive forces may stifle the emergence of some cooperative relationships, such as with payment service providers who have invested so heavily in distribution infrastructure that new entrants find it difficult to compete.'

Government Roles Today

'This Focus Note explores three [government] roles that have the potential for significant impact: (i) promoter of front- and back-end infrastructure, (ii) rules maker with respect to that infrastructure and its contribution to responsible market development, and (iii) driver of transaction volume.'

Figure 2: Roles of Government in Financially Inclusive Ecosystems

Government as Promoter of Retail- and Market-Level Infrastructure

'Governments have attempted to bridge the financial infrastructure gap in a variety of ways, focusing on both front-end infrastructure (the point of contact with customers, including ATMs, POS devices, and increasingly, local businesses serving as retail agents of financial services providers) and back-end infrastructure (the backbone needed for efficient financial services, including payment switches, credit bureaus, and collateral registries).'

'Governments have long been involved in promoting market-level infrastructure, but rarely with an eye toward financial inclusion. Due to the systemic importance of large funds transfers, governments play an active role in the development and ownership of payment and settlement systems, such as real-time gross settlement systems, automated clearing houses (ACHs), and other payment system components, including retail payment switches.'

Political Environment (cont.)

'However, governments have become increasingly aware of the need for market-level infrastructure to serve financial inclusion. For example, over- indebtedness crises in some saturated microcredit markets has spurred new government interest in promoting reliable credit reporting with more comprehensive borrower information.'

'Governments are also involved in creating unique forms of ID that can enable access to the financial system. An inability to comply with customer ID requirements is perhaps the largest single infrastructural obstacle to financial inclusion since many low-income individuals do not possess reliable forms of ID, effectively excluding them from formal financial services.'

Government as Rule Maker

'As rule makers, governments determine not only what efforts may be undertaken to promote financial inclusion, but also by whom, how, and when. In addition to prudential and consumer protection rule making, this involves the potential to enable innovative financial inclusion business models, including permitting the entry of new actors into the financial service sector.'

'As branchless banking continues to expand financial access, the questions of payment systems interoperability and shared agents present challenges to developing rules for the broader ecosystem needed for fuller financial inclusion. Interoperability and nonexclusive agents can expand financial access by opening more access points to a greater a number of customers. They could also increase competition that could drive costs down, though this ultimately depends on pricing—freely negotiated or government imposed—for cross-network transactions. But what is the best path to interoperation?'

Government as Driver of Transaction Volume

'Perhaps the government's most powerful tool to drive transaction volume is government-to-person (G2P) payments—the spectrum of social transfers, wages, and pension payments made by governments to 170 million poor people worldwide. G2P payments can promote financial inclusion when payments land in accounts that (i) enable recipients to store funds and use them for other transactions within the general purpose payments infrastructure (the "transactional account" requirement) and (ii) are accessible to customers in terms of cost and proximity (the "accessibility" requirement). At present, less than a quarter of G2P payments meet these requirements.'

Keeping the Momentum

'Governments are increasingly interested in promoting financial inclusion. More than 45 countries have drafted financial inclusion strategies, and more than 100 countries track key inclusion indicators. Government institutions from 78 countries have joined the global Alliance for Financial Inclusion, a regulator network launched in September 2009. Supra-national bodies are also focusing on financial inclusion. In 2010, the G-20 recognized financial inclusion as one of the key pillars of the global development agenda, not only endorsing its Financial Inclusion Action Plan but also creating the Global Partnership for Financial Inclusion (GPFI) as an implementing body open to G-20 countries, non-G-20 countries, and other relevant stakeholders.'

'The key is to identify what government initiatives work best under what conditions, taking into account local factors, such as market structure and maturity, government philosophy toward market intervention, and supervisory and other governmental capacity. Government actors need evidence from quantitative research, diagnostic tools, case studies, and consumer research to evaluate not only what options exist but also the likely impact of such options on financial inclusion. The development community can support government actors to focus their efforts on this new inclusive ecosystem by supporting (i) demonstration effects to crowd-in the private and social sector players needed for a vibrant ecosystem for the poor and (ii) the provision of public goods, where the private sector cannot or will not invest or coordinate (such as regulation and basic infrastructure).'

[20%]

2012-072

Mobile Money as an Agent of FInancial Inclusion: The New Regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia by Simone di Castri. *GSMA Mobile Money for the Unbanked.* June 2012. www.gsma.com

Keywords: Namibia, e-money, mobile payment systems, regulation

'In March this year, Bank of Namibia released a new regulatory framework for electronic money. The new framework aims to improve reach, safety and convenience of the formal financial system, enabling innovation and competition in the provision of payment services.'

'MMU: Sergio, why is financial inclusion a priority for Namibia?

SdS: Namibia has a population of approximately 2.1 million, spread thinly across 824,292 square kilometres. Namibia is classified as a middle-income country with GDP per capita of US$7,300, but that income is unequally

Political Environment (cont.)

distributed resulting in one of the highest Gini coefficients in the world. The high costs and difficulty associated with serving a low-density population has excluded much of the poorer population from the formal banking sector.'

'MMU: What makes mobile money functional to achieve financial inclusion?

SdS: According to a recent study 62% of Namibians are banked, but for 49% of them it still takes more than one hour to go to a bank. Low population density spread across the country means that traditional brick-and-mortar solutions are not cost-effective to reach the 38% of people who are financially excluded. [...][A]lternative distribution channels such as mobile phones are key to driving financial inclusion, and also to making the financial system more efficient for the people who are banked but cannot easily get daily access.'

'MMU: The Central Bank has adopted a "test and learn" approach, with at least one deployment launched before the regulation was issued. Is that correct?

SdS: BON received its first application from a non-bank to provide Mobile Payment Services (MPS) at the end of 2009. The first full license for MPS in Namibia was issued in 2010, before any specific regulation for mobile payments was in place. Driven by the objective to promote financial inclusion and seeing the potential of MPS in contributing to this goal, BON used the existing regulatory framework for payment systems to issue this license.'

'MMU: Then BON has decided to develop a regulation for electronic money...

SdS: After issuing this first license, BON realised the need to develop a specific regulation that catered to the uniqueness of MPS and the adopted technology. The aim was to develop a regulation framework that safeguarded the national payment system and the public; enabled innovation and competition in payment services that could promote financial inclusion; and provided clear guidance to potential electronic money (E-Money) issuers.'

'MMU: Both banks and mobile network operators can apply to receive a license that would allow them to issue E-Money. What is the rationale?

SdS: A key policy decision taken was to allow both bank and non-banks to become E-Money issuers. The reason for this is to allow for greater competition and innovation. It is believed that with more players in the market there is a greater likelihood of reaching more of Namibia's predominantly rural population. While some may have fears to allow non-banks to play in this space, BON believes that the risks are sufficiently mitigated in the approved regulatory framework to allay such concerns.'

[50%]

2012-073

Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients? by Sarah Rotman. *CGAP Blog*. March 2012. www.cgap.org/blog

Keywords: G2P, social cash transfers, financial infrastructure, agent distribution networks

'[Government-to-person] (G2P) payments include the spectrum of social cash transfers, wages and pension payments paid by governments to its citizens. Because many of these payments, especially social cash transfers, are specifically targeted at the poor, this presents a huge potential to bring financial services to the unbanked by linking these payments to financial accounts.'

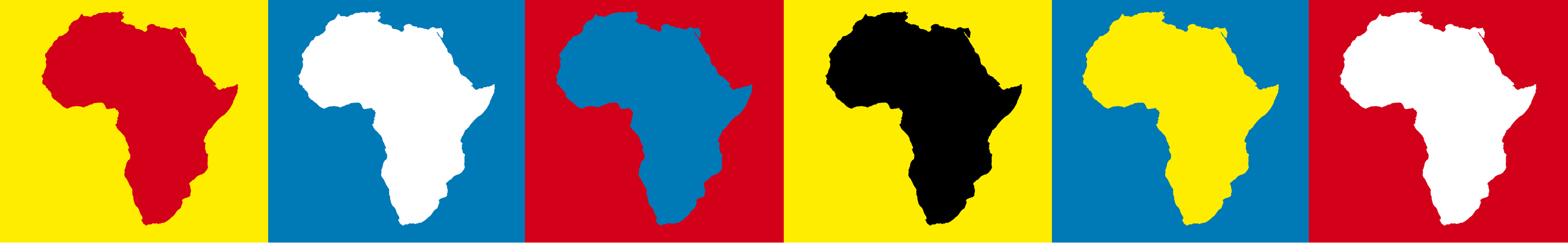
'The link between financial inclusion and G2P payments must take into account the interests and needs of three main constituencies:

- The *governments* that are providing these payment funds whose main focus is cost reduction and increased efficiency
- The *financial* providers that are making the payments to recipients whose main focus is the business case for such activity
- The *recipients* whose main focus is the convenience of the payments process and the functionality of the financial products offered to them'

'There are two main barriers that make [aligning these incentives] difficult: the prevalence of cash and the lack of proximity to recipients. The use of new technologies and new distribution channels such as cash-in and cash-out agent points can provide the enabling infrastructure for greater financial inclusion for G2P recipients.'

'Here are some of the main headlines [from recent CGAP research]:

- When the Ministry of Social Development in Brazil started making Bolsa Familia payments directly into the bank accounts of recipients held at the state-owned bank CAIXA, government costs decreased by 31% (compared to payment on a prepaid debit card with no store of value).
- The South African Social Security Agency pays a fee that is 54% lower when a recipient receives her payment into a mainstream financial account held at a commercial bank.
- The switch to electronic payments in Colombia turned out to be more expensive for the government than previous payments in cash since the agent distribution network had to be built from scratch, as opposed to leveraging existing networks in Brazil and South Africa.
- Recipients welcomed the convenience of electronic payments over cash. However, few recipients automatically used the new bank account to save or for much else beyond withdrawing benefits.



Political Environment (cont.)

•The business case for the banks depends on receiving a regular fee from government. If this fee is at an adequate level, the business case can be attractive. But generating revenue on float or from cross-selling additional products is simply not a viable option for banks at this point in time.'

'When the payment arrangements use existing financial infrastructure, such as agents and ATMs in Brazil and South Africa, the cost of making payments into bank accounts will be lower than the alternatives. However, if dedicated infrastructure need to be set up only for the purposes of paying cash transfers to program recipients (as in the case of Colombia), then the cost will likely be higher. Likewise, an efficient widespread branchless banking agent distribution network is the key factor for banks in reducing cost of opening accounts and servicing G2P client transactions.'

[64%]

2012-074

Implications of Cash-Dominated Transactions for Money Laundering by Humphrey PB Moshi. *Institute for Security Studies*. October 2012. www.issafrica.org

Keywords: informality, money laundering, cash-based economies

'Money laundering has traditionally been associated solely with banks. Action to combat money laundering has therefore focused on the banks, reflecting the historical emphasis on the laundering of street cash derived from the sale of drugs. It must now be recognised that products and services offered by other types of financial and non-financial institutions are also attractive to the launderer.'

'In a cash-based economy, the dominance of cash transactions cuts across formal and informal institutions and markets. For example, services provided by formal institutions (water, electricity, etc.) are paid for in cash by the beneficiaries of such services, regardless of their formal or informal status. Likewise, formal government institutions, like revenue and customs departments, may collect taxes from many of their clientele in the form of cash. Even when clients do have bank accounts, they may have to draw cash with which to pay for the service or tax.'

'A cash-based economy is one in which more than 50 percent of the economic transactions in all sectors are conducted in cash, and in which the majority of the population are unbankable.'

Laundering the Proceeds of Crime

'Cash-based economies are thus more prone to money laundering as the dominance of cash transactions, coupled with the narrowness of the financial sector (low levels of penetration), makes it easier for the proceeds of crime to be integrated into the rest of economy, without the involvement of the financial system in the initial stages. At a later stage, the use of the financial system may be unavoidable but money laundering would have already taken place by then.'

Addressing the Challenges

'To address the challenges raised by cash-based economies and informality, a number of proposals are made. First, there is a need to raise the awareness of key stakeholders in order to develop a better understanding of the distinction between 'cash-based economies' and 'informality'.'

'Second, comprehensive policy, legal and institutional frameworks must be put in place to combat money laundering.'

'The law enforcement and financial sector supervision elements of strategies around anti-money-laundering (AML) and countering the financing of terrorism (CFT) should be seen as complementing each other. The interdependence of these two components is not always fully recognised and reflected in national AML/CFT strategies. Most cash-based economies tend to have very limited law enforcement capacity and are under pressure to address numerous other law enforcement priorities.'

'There is a need also to design and implement strategies aimed at enhancing the role of financial intelligence units (FIUs) in cash-based economies by ensuring that the institutions are empowered to work with non-formal institutions, so they can receive information on suspicious transactions from the informal sector.'

'Third, the issue of the 'unbankable' population needs to be tackled pragmatically. Whereas the call to increase bankability by broadening outreach is non-contestable, the strategy of using electronic and mobile telephony as channels for payment and money transfer needs to be well regulated to curb cyber crimes and money laundering. It is also important to bear in mind that strategies to broaden outreach should also be accompanied by efforts to boost efficiency and effectiveness of the financial sector institutions as a way of discouraging the use of alternative remittance systems, as well as enhancing trust in formal institutions.'

'Fourth, 'know your customer' programmes, which are the basis for recognition and reporting suspicious transactions, are a critical element of any anti-money laundering programme. In both cash-based economies and the informal

Political Environment (cont.)

sector, gaining sufficient information about customers' or prospective customers' identities is extremely difficult. In the absence of such information, the effectiveness of 'know your customer' programmes is highly compromised. It is thus important to tackle hurdles that undermine customer identification.'

'Fifth, corruption is a serious problem in most economies. It erodes not only the norms of integrity, responsibility and accountability, but also institutionalises impunity. This being the case, it needs to be fought rigorously, to avoid the accumulation of economic and financial power by unscrupulous politicians and criminals leading to the subsequent undermining of national economies and adherence to good governance principles.'

'Sixth, the recommendations and regulations made by FATF seem not to be informed by the realities of cash-based economies. In most cases, they appear to have been underpinned by the operations of the financial sector in the high- or medium-income countries, where the problem of unbankability and informality is less significant. To that effect, most of FATF's recommendations are being adopted by the cash-based economies but without being adapted to their realities. This being the case, there is need for the FATF, in collaboration with other international (World Bank, IMF, etc.) and regional (ESAAMLG, GIABA, AfDB, etc.) institutions, to propose and implement strategies to ensure that the FATF recommendations adequately address the challenges of cash-based economies.'

[18%]

2012-075

Financial Inclusion and Stability: What Does Research Show? by Robert Cull, Aslı Demirgüç-Kunt, and Timothy Lyman. *CGAP Brief.* May 2012. www.cgap.org

Keywords: financial inclusion, consumer protection, financial integrity, stability

'A growing body of research suggests that whether broad-based access to formal financial services promotes financial stability depends on how that access is managed within the regulatory and supervisory framework, especially in terms of financial integrity and consumer protection. Four factors come into play: financial inclusion, financial consumer protection, financial integrity, and financial stability. These factors are inter-related and, under the right conditions, positively related. Yet failings on one dimension are likely to lead to problems on others.'

'There is limited empirical work exploring the specific linkages between financial inclusion and financial stability. Studies have focused largely on the impact of financial development on growth, income inequality, and poverty reduction.'

'Most cross-country evidence relates to the benefits of financial depth rather than to broad financial inclusion. Deep financial sectors are not necessarily inclusive ones, if financial access is tilted heavily toward the wealthy. Our lack of knowledge about the macro-level effects of financial inclusion stems, in part, from the challenges associated with measuring it on a consistent basis both across countries and over time based on surveys of users and potential users of those services.'

Which broad channels of financial inclusion promote income equality and reduce poverty?

'While the challenges associated with measuring financial inclusion are now being better met, we still lack clear understanding about the specific ways in which financial inclusion promotes income equality and reduces poverty—though recent user studies in individual developing countries are beginning to offer important clues. For example, field experiments based on randomized controlled trials are helping to identify the causal pathways through which access to formal financial services improves the lives of the poor in developing countries, especially with respect to savings products.'

What are the micro-level links among financial access, improved livelihoods, and financial stability?

'If financial inclusion leads to a healthier household and small business sector, it could also contribute to enhanced macroeconomic (and financial system) stability, though again we are unable to point to specific research that supports that conjecture at this point. Also more research needs to be done to identify the specific financial tools needed by the poor. The "wrong" financial tools—or irresponsibly delivered financial services— have been correlated with adverse effects, such as lower levels of educational attainment, suggesting the importance of effective consumer protection in particular to ensure positive effects on micro stability.'

'Another link between inclusion and micro stability is through the entry, capitalization, and growth of new non-financial firms. At the firm level, the macro- level evidence shows that financial development is associated with more efficient allocation of capital. The entry rate of new firms and their growth are also positively associated with financial development, and the effects of relieving financial constraints are especially strong for small firms' growth rates. [...][G]reater financial inclusion in terms of access to credit might also coincide with greater stability at the level of providers of financial services.'

What are the macro-level links between financial inclusion and financial stability, and what about financial exclusion?

'At the country level, evidence suggests that financial inclusion can lead to greater efficiency of financial intermediation (e.g., via intermediation of greater amounts of domestic savings, leading to the strengthening of sound domestic savings and investment cycles and thereby greater stability). Greater diversification in clientele served associated with financial inclusion might also be expected to lead to a more resilient and more stable economy. The reduction of income inequality through financial development and inclusion could lead to greater social and political stability, which in turn could contribute to greater financial system stability (though here, too, the links merit further exploration).

If financial inclusion can promote greater stability, could financial exclusion likely lead to greater instability? [...][F]inancial exclusion imposes at the very least large opportunity costs. Also, the evidence suggests that underdeveloped financial systems have disproportionately negative effects on small firms and low-income households, which in turn is likely to have adverse effects on societal cohesion. In the extreme, informal services can themselves be a source of instability. For example, pyramid schemes organized as informal savings and investment opportunities have been known to trigger both political and social unrest and lack of confidence in the banking system.'

Evidence gaps and the road ahead.

'[...][I]mportant gaps remain, including the following:

• How does financial inclusion contribute to political and social stability, and in turn to financial stability? What threats to financial stability flow from financial exclusion?

• What specific contributions to making financial inclusion pro-stability do effective financial consumer protection and financial integrity offer? How do we measure *responsible* financial inclusion (i.e., quality, not just quantity)?

• What financial "tools" best suit the needs of excluded households? What consumer protection and financial capability measures will ensure responsible delivery?

• What channels of financial inclusion work best to promote income equality and reduce poverty?

• What specific impact can increased formal savings have?'

[48%]

2012-076

Mobile-Money Services: Let Us In. Anonymous. *The Economist*. August 2012. www.economist.com

Keywords: mobile banking, consumer protection, M-PESA, G2P

'More than 120 mobile operators now offer mobile-money services of various kinds, and another 90 will soon join them. There has been a particular push in east Africa. Yet in many poor countries where mobile money should be flourishing, it isn't.'

A Bank in Your Pocket

'More than half of all the world's mobile-money transactions are handled by Safaricom. Mobile money is popular in one or two chaotic countries, such as Sudan and Somalia, but barely used in most places where it could do immense good, including India and China.'

'In Kenya the government took the enlightened approach of allowing M-PESA to go ahead, rather than tying Safaricom in red tape. Many of the poor countries that would most benefit from mobile money seem intent on keeping its suppliers out—mainly by insisting they should be regulated like banks.'

'The security worries are usually fairly easily dealt with. Placing a limit on the size of transactions and the total balance that can be stored reduces the risk of mobile money being used to launder cash. Accordingly, there is no need to apply the strict "know your customer" rules required in banking. Most of what a government needs to know is to be found in the mobile-phone contract every customer signs.'

'Another concern is consumer protection: dodgy operators could filch cash. One compromise, which has been adopted in several African countries, is to get operators to form partnerships with banks. An alternative, tried in the Philippines, is to let mobile operators run their services unhindered, provided regulators are given unfettered access behind the scenes.'

'Indeed, rather than fighting mobile money, governments should use it themselves. Afghanistan pays policemen and other officials their wages using the local version of M-PESA. Tanzania accepts tax payments by mobile-money services. They can also be used to deliver welfare or aid payments. Other countries should watch and learn.'

[46%]

Technological Environment

2012-077

How Mobile Puts Business at the Tip of Africa's Fingers by Meredith Baker. *BBC News*. July 2012. www.bbc.co.uk

Keywords: SlimTrader, mobile commerce, Umuntu, Mimiboard

'[...][T]he surge in mobile phone use—there are currently 695 million mobile phone subscribers in Africa—has given Africans a simple and pervasive means of sharing information and conducting business.'

'SlimTrader, founded by Nigerian-American Femi Akinde, is an e-commerce firm that is meant to ease the exchange of goods and widen the online markets for Africans.'

'Mr. Akinde and the SlimTrader team created Mobiashara, a mobile technology that allows users to search for and purchase products via text message.'

'Umuntu Media is another African-based host website that caters to the mobile world. Umuntu was founded only one and a half years ago by Johan Nel, a native of Namibia.'

'Umuntu provides local news, job listings, and directories specific to each country and region in which it operates.'

'After only 18 months of operation, Umuntu has portals in nine countries, and its Namibia portal, iNamibia, is already the largest local website in Namibia.'

Brainchild

'After Umuntu took off in web and mobile form, Mr Nel had a vision to use it as a springboard to further tap into mobile e-commerce with the creation of the mobile site, Mimiboard, which has been live for a month.'

'Mimiboard ('mimi' means 'I' in Swahili) is Mr Nel's brainchild to deliver hyper-local content in the form of a traditional notice board.'

'The Mimiboard team has created its own currency, mimibucks, which incentivizes mobile transactions for users.'

'In Mr Nel's words: "If someone wants to sell their car through a specific mimiboard, the person who created that mimiboard will receive a micropayment for the transaction."'

'He anticipates that Mimiboard will have a million users in the next ten months with the help of mobile bank and mobile advertising collaborations.'

Mobile Demographic

'One such collaboration of Umuntu/Mimiboard is the relationship the company has with Primedia Online, which represents Umuntu in the digital ad business.'

'Primedia business development manager Susan Hansford explains that advertising on mobile phones is more competitive now amongst companies.'

'"E-commerce shouldn't be in desktop form for Africa, I think the focused efforts on the mobile side of e-commerce will change the way business is done in this continent," she says.'

'The mobile demographic is expanded to consist of people in small villages, and so it wouldn't make financial sense for an advertiser of high-priced consumer goods to advertise to this demographic.'

'Ms. Hansford notes that the mobile environments in Africa are better suited to financial services, citing cheap funeral insurance and student loans as some of the top mobile advertisers.'

[48%]

2012-078

Can Digital Footprints Lead to Greater Financial Inclusion? By Kabir Kumar and Kim Muhota. *CGAP Brief*. July 2012. www.cgap.org

Keywords: digital footprints, credit scoring, privacy, ethical data use

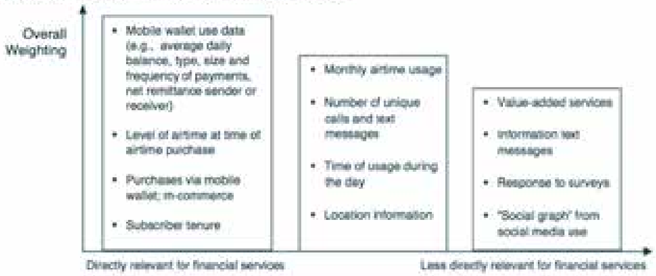
Data behind digital footprints

'There are four basic kinds of data generated by mobile phone use:

1. Timing, location, and duration of voice and text-message and airtime purchase: Mobile phone use for voice calls and text messages generates a call detail record (CDR) that is recorded by mobile network operators (MNOs) to accurately bill customers.
2. Use of value-added services, such as ringtones, text-messaging-based services: People also download ring tones, play games, subscribe to text-messaging-based information services (e.g., sport scores, agriculture pricing, health alerts, etc.) and respond to text-messaging-based surveys.
3. Internet use: While the poor have traditionally not used the Internet much, the rate of usage among those living at or near the poverty line is expected to rise as it becomes cheaper and easier to access Internet services.
4. Financial transactional data: As the volume of mobile money transactions continues to grow, providers will have access to a deeper well of data.'

'As shown in Figure 1, the variables from these data can be placed on a continuum from direct financial transaction data and other data that map a user's use of money, to data that is nonfinancial and less obviously related to financial services, but could be insightful. The challenge is determining how to weight the variables to build an accurate profile of the customer relevant for financial services.'

Figure 1: Value of variables for financial services



Use of digital footprints for financial services

'While no one variable in isolation is likely to be adequate to profile a customer's credit risk, our premise was that certain variables in combination might be able to do so. For example, a customer who has been active for three years, reloads the same amount of airtime minutes every Friday, and rarely lets his prepaid balance run down to zero could be rated "low risk," while a customer who had just activated his SIM and reloaded a low number of minutes now followed by periods of inactivity might be rated "high risk."'

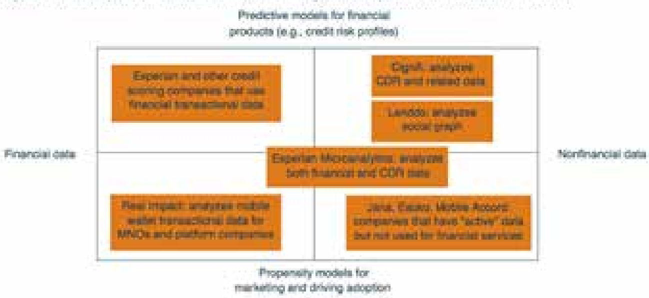
'Cignifi built a credit scoring model using CDR data and tested it in Tanzania and Brazil. It built a model in Brazil using 50 variables from 2.3 million prepaid customers of MNO Oi's mobile business and back-tested the model against historical lending data from approximately 40,000 borrowers of Oi's lending business, Oi Paggo. The test showed the model was an accurate predictor of default—its scores were positively correlated with default across the lending portfolio.'

'Digital footprints could help match people to types of insurance and help providers tailor premium levels and payment methods to fit people's abilities and needs.'

Businesses using digital footprints for financial services

'As shown in the Figure 2, companies involved in the use of digital footprints can be categorized based on the type of data—financial or nonfinancial—and whether data are used for predictive or propensity models.'

Figure 2: Example of businesses that use digital footprints for financial services



Protecting consumers' privacy, security, and ethical use of their digital footprints

'Even though there are opportunities for innovation by providers, there remain significant privacy, security, and ethical use concerns with the use of these data.'

'Some countries clearly regulate the ownership, use, handling, storage, and transfer of personal data. Regulations in Mexico differentiate between customers as "data owners" and providers as "data custodians." However, in most countries, data privacy laws are not well developed. It is unclear if poor people even have rights to the digital footprints data generated from their own mobile phone usage and exactly how they would consent to the use of these data.'

Conclusion

'The following will need to happen for digital footprints from mobile phone use to make a difference to the unbanked poor:

- Better understanding of the availability and quality of data
- More openness to experimentation by providers, either in partnership with existing analytics companies or through investments in their own home-grown analytics teams
- Improvements in regulation and clear guidance to providers on protection for consumers when it comes to data privacy, security, and ethical use'

[45%]

2012-079

Social Security and Welfare Payments Go Biometric by Neal Ungerleider. *Fast Company*. September 2012. www.fastcompany.com

Keywords: biometric, debit cards, South Africa, MasterCard, G2P

'In South Africa, MasterCard has unveiled one of the world's first debit card-based payment systems for welfare benefits and social security. Unlike normal debit cards, the South African cards require users to have their fingerprints and voices digitally analyzed by computers.'

'The South African government hopes the new cards will cut down on fraud, and MasterCard hopes the program will introduce card services to millions of poor people with no bank accounts.'

'In order to have funds disbursed onto their card, aid recipients have to verify their fingerprints and voices with a biometric reader.'

Technological Environment (cont.)

'MasterCard is involved in a similar partnership with the United Nations World Food Program and has been exploring similar programs in Nigeria, the United Arab Emirates, and India. Because South Africa is building their electronic payments disbursement infrastructure from scratch, MasterCard and their local partners were able to quickly implement a biometrics-based system.'

'South Africa is currently in the process of transitioning over to the new card-based disbursement system. According to MasterCard's Elise Mazzetti, more than 3 million South Africans have already received biometric cards since the program launched in March 2012. By March 2013, more than 10 million South Africans--nearly one-fifth of the country's population--will be using the biometrics cards to receive their welfare and social security payments.'

'While the new biometric cards will sharply reduce fraud and save the South African government money, they're likely to hit welfare and social security recipients in the wallet. South African aid recipients will be charged an $.90 fee for cash withdrawals at ATMs after a free initial withdrawal. For South Africans depending on cash to purchase groceries, pay for rent, and for other goods and services, this can quickly become an expensive proposition or lead to the withdrawal of large sums of money--which comes with its own set of issues.'

[Video available at: http://www.fastcompany.com/3001575/social-security-and-welfare-payments-go-biometric]

[33%]

2012-080

Africa Takes Off by G. Pascal Zachary. *Foreign Policy*. June 2012. www.foreignpolicy.com

Keywords: economic growth, Africa, commodity prices, innovation, stability

'In the first decade of the new millennium, six of the world's ten fastest-growing economies (Angola, Nigeria, Ethiopia, Chad, Mozambique, and Rwanda) were from this region. And in eight of the past ten years, it has grown faster than Asia.'

'To be sure, some of the region's growth stars owe their success in part to the global boom in commodity prices, most notably in oil. But Ethiopia managed to grow by 7.5 percent last year without producing a drop of petroleum.'

'But according to the IMF, the region is on track to grow by six percent this year, about the same as Asia. Indeed, in the World Bank's view, Africa "could be on the brink of an economic take-off, much like China was 30 years ago, and India 20 years ago."'

'Trade between Africa and the rest of the world tripled in the last decade. And by no coincidence, Africa has attracted more private foreign investment than official aid since 2005.'

'No true "innovation cluster" yet exists in Africa. But the nexus of mobile telecom networks and financial services has spawned a collection of tech-oriented businesses in Nairobi, with Safaricom, Kenya's largest mobile supplier, at its hub. The not-fully-realized value of wireless technology is encouraging entrepreneurs to think big.'

'[Zambia's] economy has been averaging five percent-plus growth over the past seven years. That's due in part to the cyclical boom in copper prices, Zambia's chief export. But Zambia's agricultural sector is doing very well, too. The production of corn, a staple, leaped by 50 percent in 2010. The record harvest, by the way, illustrates the importance of good governance; Accra's timely distribution of subsidized fertilizer to small farmers made a big difference in yields.'

'The Zambian experience has been matched in neighboring Malawi, long a country plagued by food shortages and famine. Several years ago, the government launched a program (against the advice of international aid agencies) to both subsidize fertilizer and to support corn prices through purchases. Malawian farmers are now growing enough corn to satisfy domestic demand and have some left for export [...].'

'There are good reasons to believe that this agricultural boom will endure beyond the general commodities boom driven by Chinese and Indian demand. First, Africa possesses 60 percent of the world's uncultivated arable land. So while the region is still a net importer of food, there's no hard economic barrier to considerable expansion of production. Second, improved communications and transportation is making it practical to expand intra-regional food trade.'

'Another reason for optimism about the sustainability of growth is the reduced likelihood of war. Scott Straus of the University of Wisconsin estimates that "African civil wars in the late 2000s were about half as common compared to the mid-1990s." What's more, "contemporary wars are typically small-scale... and involve factionalized insurgents who typically cannot hold significant territory or capture state capitals."'

'The U.S., Europe and Japan, the leading suppliers of technical assistance, grants and loans to Africa, still largely build policies on the premise that the region is mired in poverty and that the prevention of the worst forms of human degradation—death by untreated disease, starvation, lack of clean water and physical security—is a much higher priority than the more complex issues of building institutions that support macroeconomic stability, public infrastructure and efficient market incentives.'

Technological Environment (cont.)

'Population expansion also casts a cloud over Africa. So when computed on a per capita basis, GDP growth remain substantial—but not as substantial as one would like. Here, too, though, the big story is positive: Fertility rates are falling almost everywhere in Africa.'

'Sub-Saharan Africa really does seem to be following other regions in building solid economies on the rock of institutional stability, free markets and more open trade, especially between African countries. Yes, ordinary Africans would benefit if international donors to acknowledged the new realities—and there is a lot more that could be done by outsiders to accelerate positive changes.'

[49%]

2012-081

Six Degrees of Mobilization: Technology and Society. Anonymous. *The Economist.* September 2012. www.economist.com

Keywords: social mobilisation, social networking, MIT, DARPA

'In 2011 Facebook analysed the 721m users of its social-networking site and found that an average of 4.7 hops could link any two of them via mutual friends.'

'Can this be used to solve real-world problems, by taking advantage of the talents and connections of one's friends, and their friends? That is the aim of a new field known as social mobilisation, which treats the population as a distributed knowledge resource which can be tapped using modern technology. It could potentially be used to help locate missing children, find a stolen car or track down a suspect.'

'One of the first examples was the Red Balloon Challenge, staged in 2009 by DARPA, the research arm of the American Department of Defence. Its aim was to determine how quickly and efficiently information could be gathered using social media. The challenge was simple: competitors raced to locate ten red weather balloons that had been tethered at random locations across the United States in return for a $40,000 prize. In some ways this was similar to the way in which Ushahidi, a non-profit website, gathers information in situations such as the earthquake in Haiti and the terrorist bombings in Mumbai. The difference, however, was that the Red Balloon Challenge was not a crisis, so participants had to find another way to motivate others to report sightings of the balloons.'

'The winning team, led by Manuel Cebrian and Sandy Pentland of the Massachusetts Institute of Technology (MIT), found all the balloons in just nine hours, using a clever incentive-based strategy to encourage participation. The first person to send the correct co-ordinates of a balloon received $2,000, but whoever recruited that person received $1,000, and the recruiter's recruiter received $500, and so on. This scheme proved to be highly optimised for the task, says Iyad Rahwan, who later joined the MIT team.'

'In March this year DARPA staged a new contest, the Tag Challenge. This time the goal was to locate and photograph five people, each wearing unique T-shirts, in five named cities across two continents. All five had to be identified within 12 hours from nothing more than a mugshot.'

'With the Red Balloon Challenge, the team recruited more than 5,000 people, with some referral chains containing as many as 16 people.'

'Eventually, says Dr Jennings, smartphones might have a "social mobilisation" search app that can query people all over the world, who then steer the query towards the people with the right information. Perhaps some kind of social currency could be used as a motivator. In the meantime, social mobilisation seems to work best when it is done in a good cause, or offers a financial incentive.'

[52%]

2012-082

SMS: Phones Help Level Playing Field for the 'Unbanked' by Jane Bird. *Financial Times.* October 16, 2012. www.ft.com

Keywords: micro-insurance, SMS, mobile phones

'Few people in Ghana have life insurance because traditional policies—that require customers to fill in and sign forms—are too complex and expensive to administrate.'

'Moreover, collecting payment can be laborious for policies paid by weekly or monthly debits.'

'This excludes the many people in Africa who do not have bank accounts. However, they often have mobile phones. So MFS has devised a scheme to provide life insurance via mobile telecom networks.'

'Launched in Accra in March 2012, the policies are selling at the rate of several hundred a day, and MFS plans to launch in Ivory Coast and Cameroon this year.'

'Such services could be provided in the developed world, but there innovators tend to focus more on the internet, tablets and smartphones, says Mr Okondjou. "We started with the phone in Africa because that is what we have."'

'The ubiquity of mobile phones in the developing world is creating a huge market for financial services.'

Technological Environment (cont.)

‘Although 100m people worldwide have begun using banking-type services—referred to as “banked”—using mobile technology in the past 10 years, the GSMA, which represents mobile operators, points out that 2.5bn adults still lack access to formal financial services such as savings, payments, loans and insurance.’

‘As an illustration of the quickening pace of the growth of services using mobile technology, UK-based Juniper Research forecasts that the number of newly banked people will double this year to 200m.’

‘Hannes Van Rensburg, chief executive of Cape Town-based Fundamo, a mobile financial services company acquired last year by Visa, says the banks they join are not traditional ones with branches. Instead, they use local agents—typically shopkeepers or small businesses—to pay cash in and take cash out using their mobile phone accounts as digital wallets.’

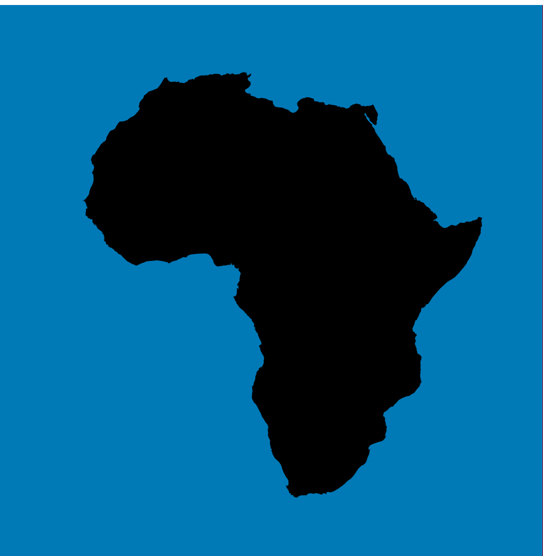
‘“In effect, they have bank accounts, but they don’t think of them this way,” Mr Van Rensburg says. “They see them more as a replacement for cash. The agents are effectively human ATMs.”’

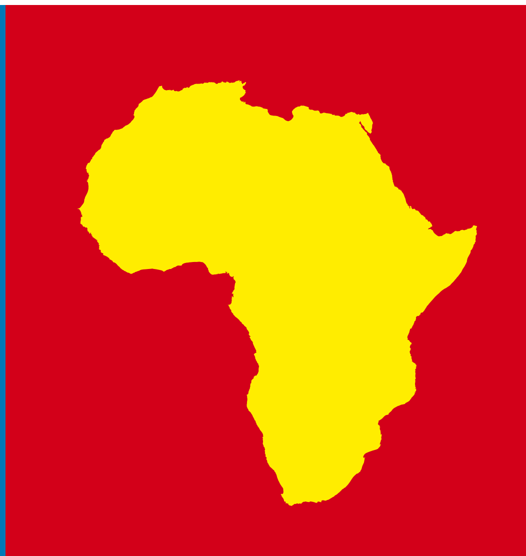
‘Moving people away from the cash economy has huge economic benefits, because it makes business more efficient. The ability to present and pay bills, or receive micro loans, is taken for granted in countries with typical banking infrastructure, says Nick Wilde. “But these services can lift GDP by more than 1 per cent in the developing world.”’

‘Banks are under pressure to provide such services, because of the competition they are facing.’

‘As customers become more prosperous, they are more likely to move to conventional banks, but banks will have to fight hard with each other to win the clients, says Mr Wilde. “If they had a proper strategy for banking the unbanked, they could not only make money by doing good, but gain clients who will buy more services as their prosperity grows.”’

[42%]





Index of Keywords

KEYWORD	ARTICLE #	ARTICLE TITLE
access to capital	**2012-060**	"A Man Needs One Handshake, a Woman Needs 7 Points of Contact"
account activity	**2012-061**	What's Wrong with "Banking the Unbanked?"
Africa	**2012-063**	The Female Factor: Women Entrepreneurs Drive Growth in Africa
	2012-067	Harnessing Potential of Food & Agribusiness Sector is Key to Africa's Economic Development
	2012-080	Africa Takes Off
African Green Revolution	**2012-069**	Africa: Disparate Partners Find Promise in Africa's Agriculture
agent networks	**2012-073**	Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients?
	2012-066	Visa Study Reveals Mobile Money Drives Demand for Financial Services
agribusiness	**2012-067**	Harnessing Potential of Food & Agribusiness Sector is Key to Africa's Economic Development
	2012-070	Africa's Agricultural Revolution: Revitalizing Africa's Agriculture for Growth and Development
agriculture	**2012-070**	Africa's Agricultural Revolution: Revitalizing Africa's Agriculture for Growth and Development
	2012-044	What's Keeping Us From Innovating In Rural Finance?
	2012-058	Lions on the Move: 10 Things You Don't Know About Africa's Booming Economy
	2012-064	Women Farmers Can Influence Policy Through Theatre
	2012-069	Africa: Disparate Partners Find Promise in Africa's Agriculture
	2012-068	Agriculture: Dawn of the Age of Machines?
banking	**2012-052**	Micro-, Small and Medium-Sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity
banking services	**2012-053**	Namibia: Orchid in the Sand
biometric	**2012-079**	Social Security and Welfare Payments Go Biometric
BRICs	**2012-057**	Nigeria Leads African Rebirth Charge
cash-based economies	**2012-074**	Implications of Cash Dominated Transactions for Money Laundering
China	**2012-055**	China Slowdown Depresses Prices
cities	**2012-062**	Unlocking the Potential of Emerging Market Cities
commercialisation	**2012-068**	Agriculture: Dawn of the Age of Machines?
commodities	**2012-055**	China Slowdown Depresses Prices
	2012-080	Africa Takes Off
community theatre	**2012-064**	Women Farmers Can Influence Policy Through Theatre
competitiveness	**2012-067**	Harnessing Potential of Food & Agribusiness Sector is Key to Africa's Economic Development

Index of Keywords (cont.)

KEYWORD	ARTICLE #	ARTICLE TITLE
consumer class	2012-049	From Oxcart to Wal-Mart: Four Keys to Reaching Emerging Market Consumers
	2012-058	Lions on the Move: 10 Things You Don't Know About Africa's Booming Economy
	2012-047	What is Driving the Growth of Financial Servies in Africa?
	2012-062	Unlocking the Potential of Emerging Market Cities
consumer protection	2012-075	Financial Inclusion and Stability: What Does Research Show?
	2012-076	Mobile-Money Services—Let us in—Mobile Money Would Transform Even More Lives in Poor Countries if Regulators Got Out of the Way
copper	2012-055	China Slowdown Depresses Prices
credit scoring	2012-078	Can Digital Footprints Lead to Greater Financial Inclusion?
DARPA	2012-081	Six degrees of Mobilisation—Technology and society
debit cards	2012-079	Social Security and Welfare Payments Go Biometric
demographics	2012-059	Africa: Economies Rising—But Are They Taking the People With Them?
digital footprints	2012-078	Can Digital Footprints Lead to Greater Financial Inclusion?
e-money	2012-072	Mobile Money as an Agent of Financial Inclusion: The New regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia
economic growth	2012-062	Unlocking the Potential of Emerging Market Cities
	2012-070	Africa's Agricultural Revolution: Revitalizing Africa's Agriculture for Growth and Development
	2012-080	Africa Takes Off
	2012-063	The Female Factor: Women Entrepreneurs Drive Growth in Africa
	2012-056	Could Africa Be World's Next Manufacturing Hub?
	2012-057	Nigeria Leads African Rebirth Charge
	2012-059	Africa: Economies Rising—But Are They Taking the People With Them?
emerging markets	2012-049	From Oxcart to Wal-Mart: Four Keys to Reaching Emerging Market Consumers
	2012-052	Micro-, Small and Medium-Sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity
	2012-062	Unlocking the Potential of Emerging Market Cities
employment	2012-065	The Ideas Report: 23 1/2 Biggest Ideas of the Year
ethical data use	2012-078	Can Digital Footprints Lead to Greater Financial Inclusion?
exports	2012-055	China Slowdown Depresses Prices
financial inclusion	2012-071	Financially Inclusive Ecosystems: The Roles of Government Today
	2012-075	Financial Inclusion and Stability: What Does Research Show?
	2012-061	What's Wrong with "Banking the Unbanked?"
financial infrastructure	2012-073	Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients?

Index of Keywords (cont.)

KEYWORD	ARTICLE #	ARTICLE TITLE
financial integrity	2012-075	Financial Inclusion and Stability: What Does Research Show?
financial literacy	2012-060	"A Man Needs One Handshake, a Woman Needs 7 Points of Contact"
financial sophistication	2012-047	What is Driving the Growth of Financial Servies in Africa?
	2012-066	Visa Study Reveals Mobile Money Drives Demand for Financial Services
food production	2012-068	Agriculture: Dawn of the Age of Machines?
food security	2012-064	Women Farmers Can Influence Policy Through Theatre
foreign direct investment	2012-057	Nigeria Leads African Rebirth Charge
	2012-059	Africa: Economies Rising—But Are They Taking the People With Them?
FrontlineSMS:Credit	2012-046	In Kenya, Microfinance is Going Mobile
G2P	2012-071	Financially Inclusive Ecosystems: The Roles of Government Today
	2012-073	Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients?
	2012-076	Mobile-Money Services—Let Us In—Mobile Money Would Transform Even More Lives in Poor Countries If Regulators Got Out of the Way
	2012-079	Social Security and Welfare Payments Go Biometric
	2012-058	Lions on the Move: 10 Things You Don't Know About Africa's Booming Economy
Global Findex	2012-061	What's Wrong with "Banking the Unbanked?"
government	2012-071	Financially Inclusive Ecosystems: The Roles of Government Today
Grameen	2012-048	Turning Insights into Products: Applab Money
health insurance	2012-048	Turning Insights into Products: Applab Money
informality	2012-074	Implications of Cash Dominated Transactions for Money Laundering
innovation	2012-080	Africa Takes Off
	2012-048	Turning Insights into Products: Applab Money
inter-bank transfers	2012-065	The Ideas Report: 23 ½ Biggest Ideas of the Year
international partnerships	2012-069	Africa: Disparate Partners Find Promise in Africa's Agriculture
Kenya	2012-046	In Kenya, Microfinance is Going Mobile
labor	2012-056	Could Africa Be World's Next Manufacturing Hub?
	2012-058	Lions on the Move: 10 Things You Don't Know About Africa's Booming Economy
liquidity	2012-050	Liquidity is King: Mobile Savings Vehicles for Poor Individuals
lottery	2012-048	Turning Insights into Products: Applab Money
M-PESA	2012-076	Mobile-Money services—Let us in—Mobile Money Would Transform Even More Lives in Poor Countries If Regulators Got Out of the Way
macroeconomics	2012-053	Namibia: Orchid in the Sand
Malawi	2012-064	Women Farmers Can Influence Policy Through Theatre
manufacturing	2012-058	Mobile-Money Services—Let Us In—Mobile Money Would Transform Even More Lives in Poor Countries If Regulators Got Out of the Way
	2012-056	Could Africa Be World's Next Manufacturing Hub?

Index of Keywords (cont.)

KEYWORD	ARTICLE #	ARTICLE TITLE
market segmentation	2012-044	What's Keeping Us From Innovating In Rural Finance?
marketing	2012-066	Visa Study Reveals Mobile Money Drives Demand for Financial Services
MasterCard	2012-079	Social Security and Welfare Payments Go Biometric
mechanization	2012-068	Agriculture: Dawn of the Age of Machines?
micro-insurance	2012-047	What is Driving the Growth of Financial Servies in Africa
	2012-082	SMS: Phones Help Level the Playing Field for the "Unbanked"
	2012-051	Tigo, Bima, and MicroEnsure bring a "Freenium" Model to Mobile Insurance
microfinance	2012-045	Microfinance Banana Skins 2012—Staying Relevant
	2012-046	In Kenya, Microfinance is Going Mobile
middle class	2012-054	Investment Boom Teeters on Africa's Spheres of Unrest
Middle East and North	2012-060	"A Man Needs One Handshake, a Woman Needs 7 Points of Contact"
Africa (MENA)	2012-077	How Mobile Puts Business at the Tip of Africa's Fingers
Mimiboard	2012-053	Namibia: Orchid in the Sand
mining	2012-081	Six Degrees of Mobilisation—Technology and Society
MIT	2012-076	Mobile-Money services—Let us in—Mobile Money Would Transform Even More Lives in Poor Countries If Regulators Got Out of the Way
mobile financial services	2012-077	How Mobile Puts Business at the Tip of Africa's Fingers
mobile commerce	2012-051	Tigo, Bima, and MicroEnsure bring a "Freenium" Model to Mobile Insurance
mobile financial services	2012-066	Visa Study Reveals Mobile Money Drives Demand for Financial Services
	2012-046	In Kenya, Microfinance is Going Mobile
	2012-072	Mobile Money as an Agent of Financial Inclusion: The New regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia
mobile phones	2012-082	SMS: Phones Help Level the Playing Field for the "Unbanked"
money laundering	2012-074	Implications of Cash Dominated Transactions for Money Laundering
money markets	2012-050	Liquidity is King: Mobile Savings Vehicles for Poor Individuals
Mozambique	2012-064	Women Farmers Can Influence Policy through Theatre
MSMEs	2012-052	Micro-, Small and Medium-Sized Enterprises in Emerging Markets: How Banks Can Grasp a $350 Billion Opportunity
Musoni	2012-046	In Kenya, Microfinance is Going Mobile
Namibia	2012-072	Mobile Money as an Agent of Financial Inclusion: The New regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia
	2012-053	Namibia: Orchid in the Sand
Nigeria	2012-054	Investment Boom Teeters on Africa's Spheres of Unrest
	2012-057	Nigeria Leads African Rebirth Charge
overindebtedness	2012-045	Microfinance Banana Skins 2012—Staying Relevant

Index of Keywords (cont.)

KEYWORD	ARTICLE #	ARTICLE TITLE
privacy	2012-065	The Ideas Report: 23 1/2 Biggest Ideas of the Year
	2012-078	Can Digital Footprints Lead to Greater Financial Inclusion?
private equity	2012-067	Harnessing Potential of Food & Agribusiness Sector is Key to Africa's Economic Development
regulation	2012-071	Financially Inclusive Ecosystems: The Roles of Government Today
	2012-072	Mobile Money as an Agent of Financial Inclusion: The New regulation for E-Money Services in Namibia—Interview with Sergio de Sousa, Bank of Namibia
retail	2012-049	From Oxcart to Wal-Mart: Four Keys to Reaching Emerging Market Consumers
revolution	2012-065	The Ideas Report: 23 1/2 Biggest Ideas of the Year
risk	2012-045	Microfinance Banana Skins 2012—Staying Relevant
	2012-044	What's Keeping Us From Innovating In Rural Finance?
rural finance	2012-044	What's Keeping Us From Innovating In Rural Finance?
savings	2012-050	Liquidity is King: Mobile Savings Vehicles for Poor Individuals
SlimTrader	2012-077	How Mobile Puts Business at the Tip of Africa's Fingers
SMS	2012-082	SMS: Phones help Level the Playing Field for the "Unbanked"
social cash transfers	2012-073	Can Branchless Banking Facilitate Financial Inclusion for G2P Recipients?
social media	2012-065	The Ideas Report: 23 1/2 Biggest Ideas of the Year
social mobilisation	2012-081	Six degrees of mobilisation—Technology and Society
social networking	2012-081	Six degrees of mobilisation—Technology and Society
South Africa	2012-054	Investment Boom Teeters on Africa's Spheres of Unrest
	2012-079	Social Security and Welfare Payments Go Biometric
stability	2012-075	Financial Inclusion and Stability: What Does Research Show?
	2012-080	Africa Takes Off
survey	2012-045	Microfinance Banana Skins 2012—Staying Relevant
Uganda	2012-048	Turning Insights into Products: Applab Money
Umuntu	2012-077	How Mobile Puts Business at the Tip of Africa's Fingers
unbanked	2012-061	What's Wrong with "Banking the Unbanked?"
unemployment	2012-059	Africa: Economies Rising—But Are They Taking the People With Them?
unrest	2012-054	Investment Boom Teeters on Africa's Spheres of Unrest
urbanization	2012-062	Unlocking the Potential of Emerging Market Cities
Visa	2012-066	Visa Study Reveals Mobile Money Drives Demand for Financial Services
women entrepreneurs	2012-060	"A Man Needs One Handshake, a Woman Needs 7 Points of Contact"
	2012-063	The Female Factor: Women Entrepreneurs Drive Growth in Africa

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Council of Foreign Relations
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D
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Fast Company
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Futures
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Harvard Business Review
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iAfrica
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Knowledge@Emory
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Lancet, The
Long Range Planning
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Marketing Stylee Blog
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O'Reilly Radar
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Politikon
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R
Reuters

S
Science
Science and Development Network (SciDev.Net)
Slate
South Africa Good News
Statistics South Africa
Sustainable Development

T
Transition in Africa
Technology Forecasting and Social Change
Technology in Society
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Technovation
Texas in Africa
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25 Degrees in Africa

V
Visa

W
The Washington Post
Wired
Womens International Perspective
World Bank Africa Blog
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