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BIRRITU

No. 116 December 2013

Coffee has been a major export for the nation. While GDP growth rates are high, GDP per capital remains among the global laggards. In Ethiopia, the state owns all land, which is significant since agriculture accounts for over 40 percent of GDP. According to a New York Times report, Ethiopia has one of the most fertile lands in the African continent, giving it the potential to become the 'food basket of the world'.

በኢትዮጵያ ውስጥ በሥራ ላይ ያሉ የባንክና መድን ተቋማት
BANK AND INSURANCE INSTITUTIONS OPERATING IN ETHIOPIA

ማዕከላዊ ባንክ Center Bank	የኢትዮጵያ ብሔራዊ ባንክ National Bank of Ethiopia	☎ ስልክ ቁጥር Telephone 011-5-517430	📠 ፋክስ Fax 011-5-514588

No	Name of Banks	☎	📠
1	የኢትዮጵያ ንግድ ባንክ Commercial Bank of Ethiopia	011-5-511271/ 011-5-515004	011-5-514522
2	የኢትዮጵያ ልማት ባንክ Develpment Bank of Ethiopia	011-5-511188/89	011-5-511606
3	ኮንስትራክሽንና ቢዝነስ ባንክ Construction & Business Bank S.C	011-5-518171/ 011-5-512300	011-5-515103
4	አዋሽ ኢንተርናሽናል ባንክ አ.ማ Awash International Bank S.C	011-5-570065	011-6-627765
5	ዳሽን ባንክ አ.ማ Dashen Bank S.C	011-4-654127/ 011-4-661380	011-4-653037
6	አቢሲኒያ ባንክ Bank of Abyssina S.C	011-5-530663/ 011-5-514130/159966	011-5-510409
7	ወጋገን ባንክ አ.ማ Wegagen Bank S.C	011-5-523526/ 011-5-523800	011-5-523520
8	ሕብረት ባንክ አ.ማ United Bank S.C	011-4-655284/85 011-4-655222	011-4-655243
9	ንብ ኢንተርናሽናል ባንክ አ.ማ Nib Intenational S.C	011-5-503304/ 011-5-503288/503304	011-5-504349
10	.የኦሮሚያ ሕብረት ስራ ባንክ አ.ማ Cooperative Bank of Oromia S.C	011-5-506025/ 011-5-542352	011-5-150489
11	አንበሳ ኢንተርናሽናል ባንክ አ.ማ Lion Iinternational Bank S.C	011-6-627111/ 011-6-626000/626050	011-6-625999
12	ዘመን ባንክ አ.ማ Zemen Bank S.C	011-5-540057/69 0911-625748	--
13	ኦሮሚያ ኢንተርናሽናል ባንክ አ.ማ Oromia International Bank S.C	011-8-960001/ 011-1-561731	011-1-561585
14	ብርሃን ኢንተርናሽናል ባንክ አ.ማ Berhan Intenational Bank S.C	011-6-554724 011-6-554724	---
15	ቡና ኢንተርናሽናል ባንክ አ.ማ Bunna International Bank S.C	011-1-580831 011-6-554724	011-5-158314
16	አባይ ባንክ አ.ማ Abay Bank S.C	011-5-549731/37/41 011-8-302030/011-5-528851/61	011-5-528852
17	አዲስ ኢንተርናሽናል ባንክ አ.ማ Addis International Bank S.C	011-5-549774/73 011-6-627671/91	-
18.	ደቡብ ግሎባል ባንክ Debub Global Bank	011-8-501207/08	-
19	እናት ባንክ Enat Bank	011-6-614531/34	-

የኢንሹራንስ ኩባንያዎች ስም ዝርዝርና አድራሻ
Insurance Companies Name & Address

No	Name of Institutions	☎	📠
1	የኢትዮጵያ መድን ድርጅት Ethiopian Insurance Corporation	011-5-512400	011-5-517499
2	ብሔራዊ የኢትዮጵያ ኢንሹራንስ ኩባንያ አ.ማ National Insurance Company of Ethiopia S.C.	011-4-661129	011-4-650660
3	አዋሽ ኢንሹራንስ ኩባንያ አ.ማ. Awash Insurance Compay S.C.	011-5-570209 011-5-570205	011-5-570208
4	ሕብረት ኢንሹራንስ ኩባንያ አ.ማ. United Insurance Company S.C.	011-4-655656	011-4-653258 011-4-671934
5	አፍሪካ ኢንሹራንስ ኩባንያ አ.ማ Africa Insurance Company S.C.	011-6-637716/19 011-6-624579	011-6-638253
6	ናይል ኢንሹራንስ ኩባንያ አ.ማ. Nile Insurance Company S.C.	011-4-426000 011-4-425754	011-4-426008
7	ኒያላ ኢንሹራንስ አ.ማ. Nyala Insurance S.C.	011-6-626667/69 011-6-626707	011-6-626706
8	ግሎባል ኢንሹራንስ አ.ማ. Global Insurance Company S.C.	011-1-567400 011-1-560483	011-1-566200
9	ንብ ኢንሹራንስ ኩባንያ አ.ማ. Nib Insurance Company S.C.	011-5-535129/32 011-5-528194/96	011-5-528193
10	አንበሳ ኢንሹራንስ ኩባንያ አ.ማ. Lion Insurance Company S.C.	011-6-187000 011-6-632936/47	011-6632940
11	ኢትዮ ላይፍ ኢንሹራንስ ኩባንያ አ.ማ. Ethio-Life Insurance Company S.C.	011-5-549650/52	011-5-549653
12	ኦሮሚያ ኢንሹራንስ ኩባንያ አ.ማ. Oromia Insurance Company S.C.	011-5-503138 011-5-545131 011-8-959580	011-5-503192
13	አባይ ኢንሹራንስ አ.ማ. Abay Insurance S.C.	011-5-535300 011-5-535550	011-5-157690
14	ብርሃን ኢንሹራንስ አ.ማ. Berhan Insurance S.C.	011-4-674431 011-4-674423	-
15	ፀሐይ ኢንሹራንስ አ.ማ Tsehay Insurance S.C.	011-1-119827	-
16	ሉሲ ኢንሹራንስ አ.ማ. Lucy Insurance S.C.	0911-214675 0910-501036	-

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Editors' Note

Our esteemed readers, it is our great pleasure to meet you again with the 116th issue of Birritu. The editorial team as usual tries to appear with various topics of interest.

In the News column we choose three items which represent major accomplishments of the Bank in particular and the financial sector in general. The two topics selected for the research column has raised issues of current international significance. The education and miscellaneous sections contain topics that we believe will provide important information around the financial sector.

The improvement in the upcoming issues of Birritu largely relies on our readers that come through comments, suggestions and contributions. The Editorial Office always welcomes your comments and suggestions. Moreover, when you have articles for the different columns of Birritu, don't hesitate to send it. There is also incentive for your contributions!

Enjoy your reading and for your feedbacks, use the following:

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NEWS

The Core Banking Solution Project Become Operational

The Core Banking Solution of the National Bank of Ethiopia became operational. According to the Information Systems Management Directorate of the NBE, the new system has started operation side by side with the old system. After co-existing for a few weeks on trial basis, the new Core Banking Solution continued all by itself.

The Core Banking which integrates the major functions of the NBE with all the banks in the country also connects the Bank with the Financial Management Information System of the Ministry of Finance and Economic Development.

Core Banking Solutions project costs USD 3.6 million and the project was awarded to the Indian Financial Technology firm, Polaris, in the international competitive bid opened for potential consulting firms. Polaris,besides developing the system, has trained all the relevant NBE employees on the operation of the new Core Banking Solution System. According to the contract agreement the company will continue providing maintenance and other related services for a stated period of time.

IMF Executive Board Concludes 2013 Article IV Consultation with the Federal Democratic Republic of Ethiopia

On September 18, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Federal Democratic Republic of Ethiopia. In a press release dispatched on October 17, 2013, the Board issued a statement about the performance of the Ethiopian economy, monetary and fiscal stances.

As stated in the press release, recent macroeconomic developments are encouraging, with a significant deceleration in inflation and continued robust economic growth. The Board found this achievement remarkable as it came amidst the significant decline in coffee prices and supply bottle necks. As stated in the press release the growth remains robust, supported by better agriculture output and construction and other services activities.

The Board also witnessed the fact that Inflation declined from the peak of 40 percent in July 2011 to around 7 percent in June 2013. This achievement as judged by the Board has significantly eased the extent to which real interest rates were negative and most importantly have reduced the pressures resulting in foreign exchange shortages in the wake of the passing away of Prime Minister Meles Zenawi.

Fiscal policy at the general government level remains prudent, with cautious execution of the government budget. Overall revenue-to-GDP ratio is estimated to fall from 14 percent in 2011/12 to 13.2 percent in 2012/13. Reflecting the strong pro-poor focus, the ratio of poverty-reducing expenditure to GDP is being maintained and non-priority expenditure will likely be compressed in 2012/13. The government budget deficit, including grants, is estimated to be 2.8 percent of GDP.

According to the IMF Executive Board observation, foreign exchange supply came under pressure in the first half of 2012/13. The passing of Prime Minister Meles created uncertainty and excess demand in the foreign exchange market which was also reflected in a widening of the premium in the parallel market. Since its previous peak in October 2008, the real effective exchange rate (REER) reached the highest level in November 2012, although this has started to turn around with the recent decline in inflation.

Executive Directors commended the authorities for the Federal Democratic Republic of Ethiopia's strong growth performance and impressive progress in decreasing poverty and inequality under the Growth and Transformation Plan (GTP). Prudent macroeconomic management has ensured a significant deceleration in inflation. Going forward, Directors agreed that the Federal Democratic Republic of Ethiopia's public-sector-led strategy needs to be recalibrated, with greater participation by the private sector to sustain robust and inclusive growth and mitigate vulnerabilities. They emphasized the importance of policies to maintain fiscal sustainability, preserve low inflation, rebuild external buffers, and improve financial intermediation and the business environment.

Directors agreed that a continued cautious monetary stance is warranted to preserve low inflation. They underscored the importance of improving the efficiency and flexibility of monetary policy instruments, including through greater flexibility of nominal interest rates and the development of market-based liquidity management. Directors called for better coordination between exchange rate and monetary policies and for greater exchange rate flexibility to help reconstitute foreign exchange reserves, strengthen competitiveness, and eliminate the spread between the parallel and official rates.

Directors noted that the banking sector remains well-capitalized and profitable. They stressed the need to carefully monitor concentration of large exposures to single entities, and for strengthened capacity to ensure effective financial sector supervision and regulation. Directors encouraged policies to improve the private sector's access to finance and promote financial inclusion.

Another Successful year in the Financial Sector

Reports disclosed that the financial sector of the country has seen another successful year in 2012/13. According to the report from the Financial Institutions Supervision

Cluster of the National Bank of Ethiopia, the sector has been safe and sound during the year. Newly opened financial institutions and the expansion of branches have tremendously contributed to make the service more accessible to the public.

During the period under review (2012/13) 2 new banks and 440 branches were opened, raising the total number of banks to 19 and branches to 1728 respectively. As a result, the ratio of total bank branch to population ratio improved to 49,190 from 65,994 the preceding year. Similarly, 2 new insurance companies and 30 branches were opened raising the total number of insurance companies to 17 and their branches to 273. This shows a 13.3 percent and 12.3 percent growth respectively over the same period last year.

As indicated in the report, the total asset of the banking sector reached Birr 3314 billion from Birr 259.8 billion a year ago. The banks' total loan disbursement rose to Birr 134.8 billion from Birr 108.9 billion the previous year. In the stated period, the total savings mobilized by the banks topped Birr 236.1 billion showing a 28.58 percent increase over last year. The net profit of banks has been Birr 9.1 billion which is a 7.5 percent growth vis-à-vis last year's 8.5 billion.

The gross premium of the insurance companies operating in the country reached Birr 4.8 billion which is 20 percent higher than the previous year. The total asset of the insurers was Birr 5.6 billion, depicting a 21.3 percent growth to reach Birr 6.8 billion. While the sector's total capital registered a 31.5 percent increment, profit grew by 49.3 percent.

Meanwhile, the asset of the Micro-Finance Institutions totaled Birr 17.7 billion and their capital Birr 4.5 billion. The loan outstanding balance of MFIs was Birr 12.8 billion while they mobilized saving to the sum of Birr 7.6 billion. Compared to the previous fiscal year, total asset, loan outstanding, saving and total capital of MFIs increased by 33.3 percent, 37.6 percent, 40.2 percent and 20.9 percent, respectively.

RESEARCH ARTICLES

Capital Flight Risk

FINANCE & DEVELOPMENT, September 2013, Vol. 50, No. 3 Rabah Arezki, Gregoire Rota-Graziosi, and Lemma W. Senbet

THE Democratic Republic of the Congo, widely considered among the world's richest countries in terms of mineral deposits, also regularly sits high on various lists of the world's poorest countries. Each year, it loses billions of dollars in tax revenue as wealthy individuals and multinational corporations take advantage of weak tax legislation and enforcement to funnel profits abroad, including to foreign financial centers. A similar situation plays out repeatedly in many countries in Africa and other parts of the world.

Natural resources are indeed a window of opportunity for economic development. In principle revenues derived from their exploitation can help alleviate the binding constraints that governments in developing countries often face when attempting to transform their economies, boost growth, and create jobs. The experiences of resource-rich countries (especially those rich in hydrocarbon and minerals), however, suggest that resource wealth is not always a blessing. It can, in fact, be a curse. Over the past few decades, economic growth in resource-rich countries has, on average, been lower than in resource-poor ones (Frankel, 2012).

Blessing or curse?

There are several explanations as to why the exploitation of natural resources could have negative consequences for the economy (Frankel, 2012). One is the corruption of political and public administration elites. Because revenues derived from natural resources in many cases flow directly through the government's coffers, these elites may be able to take advantage of weak checks and balances to misappropriate those riches for themselves and channel them abroad.

Capital flight, here defined broadly as money or securities flowing out of a country, can take several forms. One form of capital flight for good reason has received a lot of attention in both academic and policy circles: illicit financial outflows. Global Financial Integrity, a research and advocacy organization working to curtail such flows, estimates that those from developing countries amounted to $5.9 trillion from 2001 to 2010. In comparison, major donors disbursed $677 billion in net official development assistance over the same period. Over the past decade, the democratization process in developing countries and the subsequent increase in transparency and accountability suggest that illicit financial outflows may be on the decline.

But while governments may be seeing more constraints, the globalization of trade and finance has made multinational corporations even more powerful, leaving some critics to argue that they have unfettered access to capital, labor and natural resources at the expense of the citizenry. In contrast to illicit financial flows instigated by political elites, the form of capital flight brought on by multinational corporations that manipulate prices and take advantage of loopholes in tax codes has received less attention. However, the latter may have far-reaching consequences for developing countries-especially the resource-rich ones whose wealth is concentrated in one sector.

In response to mounting criticisms, the Group of Twenty advanced and emerging economies (G20) has placed tax avoidance and profit shifting in general at the top of its agenda. In July 2013, the group adopted an action plan to rein in tax avoidance by multinational corporations, drawing from recommendations in a report by the Organization for Economic Co-operation and Development (OECD, 2013). The IMF is now engaged in a major effort to monitor the macroeconomic implications of cross-country spill overs from national tax design and practices (IMF, 2013).

Movers and shifters

Because multinational corporations operate in different countries and sometimes on different continents, they can readily pick and choose from varying regulations and tax laws across countries to avoid paying taxes both in the countries where they extract the wealth and where their headquarters are located. Specifically, some multinational corporations practice what is known as "transfer pricing" or "profit shifting," which involves attributing a corporation's net profit or loss before tax to opaque jurisdictions where taxes are low-so-called tax havens. Tax havens serve as domiciles for more than 2 million companies and thousands of banks. Some analysts estimate the wealth in those tax havens to be on the order of $20 trillion (The Economist, 2013)- yet it is hard to know with certainty given the secrecy prevailing in tax havens.

Multinational corporations can shift profits in a variety of ways. One of the most widely used methods is through "thin capitalization," when a company chooses to be more indebted than similar independent entities. Indeed, companies are typically financed (or capitalized) through a mixture of borrowing (debt) and stock issuance (equity). The way a company structures its capital will often significantly lower the amount of profit it reports for tax purposes, because tax rules typically allow a deduction for interest paid, but not for remuneration of equity (dividends). This debit bias is exacerbated for multinational corporations, which are able to structure their financing arrangements in such a way that their affiliates in high-tax countries pay deductible interest to their affiliates in low-tax countries, or tax havens, thereby minimizing their global tax burden.

What's at stake?

The resource sector is the main game in town in many developing countries. Governments should thus try to collect as much revenue as they possibly can from the hefty profits generated in this sector while remaining attractive to investment (see "Extracting Resource Revenue," in this issue). But striking the right balance to generate the most economic gains is often fraught with peril not least because the exploitation of natural resources, particularly minerals, oil, and gas, requires much technical expertise, which multinational corporations are not keen on sharing.

Tax avoidance, including through profit shifting by multinational corporations, is a serious problem for many developing countries, especially those rich in natural resources. For example, the Zambian government estimates that it loses $2 billion a year - 15 percent of GDP-to tax avoidance by corporations operating copper mines within the country. Profit shifting erodes the tax base in the countries in which multinational corporations operate but also in the countries where they are headquartered.

An important aspect of profit shifting is the loss of positive spill overs that natural resource exploitation can bring to a country, including through the development of the domestic financial system. Preventing capital flight that stems from multinational corporations operating in the resource sector would help the development of a domestic financial system, particularly an equity market with its attendant benefits in risk sharing and liquidity provision. This in turn would aid in the financing and development of the non-resource sector to diversify their economies and avoid economic growth supported only by nonrenewable natural resources.

The historical development of South Africa's stock market illustrates the potential benefits from discoveries of natural resources. In 1886, the discovery of gold was rapidly followed by the establishment of the Johannesburg Stock Exchange. The stock exchange helped raise money for the then-booming mining and financial industry. Today, the Johannesburg Stock Exchange has a capitalization of more than $800 billion and 411 listed companies, including an overwhelming majority in the non-resource sector.

Policy response

It is legitimate for developing countries endowed with natural resources to require affiliates of multinational corporations involved in the exploitation of their resources to pay a fair amount of tax and to avoid manipulating their capital structure for tax purposes. To prevent such practices, several countries have put in place a so-called thin capitalization rule, which essentially specifies a "safe haven" debt-to-equity ratio than limits the amount of deductible interest for tax purposes. It is designed to counter cross-border shifting of profit through excessive debt and thus aims to protect a country's tax base. The rule was first introduced in 1972 in Canada and is now in place in about 60 countries. It is often implemented in countries with large resource sector in which multinational corporations operate and was most recently introduced in resource-rich developing countries in Africa, including Sierra Leone, Uganda, and Zambia.

But trade-offs exist. Although the rule is designed to prevent excessive tax avoidance, the potential negative impact on foreign direct investment is the price countries may have to pay to avoid the erosion of their tax base and help their domestic financial system to develop. The implementation of the rule affects the financing of company operations by increasing their cost, because it limits the tax benefit resulting from deducting the interest paid on borrowed funds. In addition, in the absence of a well-functioning domestic financial system, the company's domestic

Profit shifting erodes the tax base in the countries in which multinational corporations operates.

Cost of equity capital would be higher. In that regard, the thin capitalization rule may, to some extent, deter foreign direct investment. However, these multinational corporations are likely to generate large internally generated funds from domestic profits, and they can channel them to investments at a lower cost of capital rather than shifting profits to foreign affiliates.

A thin line

Establishing whether the thin capitalization rule promotes more equity finance in the resource sector can also help determine if it improves the prices of countries' natural resource assets (and therefore helps with the development of a domestic stock market). Of equal interest is whether the sensitivity of host countries' external debt to the resource tax rate is altered by the presence of such a rule. To get some answers, we conducted an event analysis using cross-country variation in the timing and size of large oil, gas, and mineral discoveries for more than a hundred countries during 1970-2012. Our empirical framework controls for time-invariant factors, including the quality of institutions, that can play an important role in the development (or the lack thereof) of a stock market.

Results suggest that following a resource discovery, stock market capitalization decreases. This result is consistent with the work of Beck (2011), who found evidence that resource-rich countries tend to have less developed financial systems. However, our findings show that the presence of a thin capitalization rule allows countries to reverse the negative effect on capitalization of the resource discoveries. That effect is large in terms of its impact on the economy. Our results hold for mineral, oil, and gas discoveries, although the timing varies by the type of discovery. Following a large discovery, stock market capitalization increases by up to 20 percent of GDP in the presence of a thin capitalization rule, and the sensitivity of countries' external debt to the resource sector tax rate decreases. This occurs because the tax subsidy provided to corporations paying interest on their foreign debt is lower in the presence of the rule.

Changes afoot

The thin capitalization rule is a unilateral response to one of the main practices in aggressive tax optimization behavior by multinational corporations and looks to be the most viable option right now. It not only protects the tax base of resource-rich countries, but also helps link the financial development of these countries with the exploitation of their resources.

Yet other alternatives have been floated. Based on the U.S. experience, Nobel laureate Joseph Stiglitz recently proposed taxing the global profits of multinational groups and redistributing a proportion of those tax receipts to the country in which the value is created. This would be analogous to converging to a source-based tax system, which many multinational corporations are vehemently lobbying against. While Stiglitz's proposal is conceptually appealing, it might be impractical given the limited level of disclosure now required of such corporations, not to mention the difficulty in coordinating all the actors involve, including tax havens.

Several recent initiatives have contributed to the increase in the level of disclosure of multinational corporations operating in the resource sector. More disclosure is certainly an important step in the right direction. It will help make multinational groups more accountable to tax authorities in the countries where they operate and to the broader public. However, increasing transparency is only a first step toward tax base protection and does not deter tax avoidance through such tax optimization methods as thin capitalization.

Overall, the concern over massive capital flight from developing economies, particularly those rich in resources, should go well beyond illicit financial flows and consider the seemingly legitimate behavior of corporations and their growing ability to shift profits and minimize the tax base. Thus, effective mechanisms, such as a thin capitalization rule, should be in place to deter massive outflows stemming from tax avoidance schemes.

Rabah Arezki is a Senior Economist in the IMF's Research Department, Gregoire Rota-Graziosi is a Senior Economist in the IMF's Fiscal Affairs Department, and Lemma W. Senbet is the Executive Director of the African Economic Research Consortium (on leave from the University of Maryland as the William E. Mayer Chair Professor).

Beyond the Household

FINANCE & DEVELOPMENT, September 2013, Vol. 50, No. 3

Ralph Chami and ConnelFullenkamp

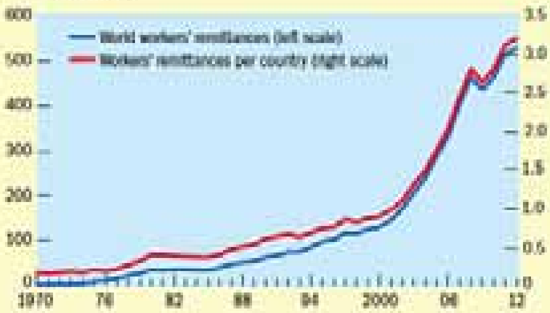
Remittances—private income transfers from migrants to family members in their home country—are good news for the families that receive them. Often sent a few hundred dollars at a time, the remittances increase disposable income and are generally spent on consumption—of food, clothing, medicine, shelter, and electronic equipment. They have been growing for decades (see Chart 1). Remittances help lift huge numbers of people out of poverty by enabling them to consume more than they could otherwise (Abdih, Barajas, and others, 2012). They also tend to help the recipients maintain a higher level of consumption during economic adversity (Chami, Hakura, and Montiel, 2012). Recent studies report that these flows allow households to work less, take on risky projects they would avoid if they did not receive this additional source of income, or invest in the education and health care of the household. In other words, remittances are a boon for households.

Chart 1

Funds from abroad

Remittances have grown over the four past decades, increasing sharply from 2002 to 2008.

(billions of dollars)



Source: World Bank, World Development Indicators database, 2013.

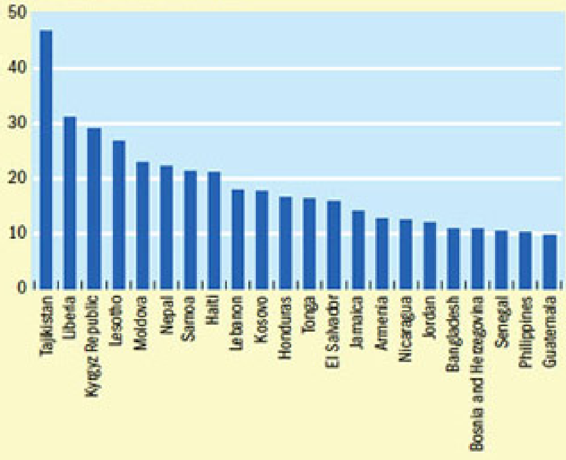
But what is good for an individual household isn't necessarily good for an entire economy. Whether remittances are also good for the economies that receive them is an important question because remittances are one of the largest sources of financial flows to developing countries. In 2012, workers sent home an estimated $401 billion or more through official channels, and it is likely that billions more were transferred through unofficial ones. These flows are often large relative to the economies that receive them. In 2011, for example, remittances were at least 1 percent of GDP for 108 countries; and 5 percent of GDP or more for 44 countries. For 22 countries, remittances represented 10 percent or more of GDP (see Chart 2). Moreover, remittance flows are typically stable and, from the perspective of the recipient, countercyclical—helping offset a turn of bad luck.

Chart 2

Remittance dependent

For a number of countries, remittances account for 10 percent or more of GDP.

(remittances, percent of GDP, 2011)



Source: World Bank, World Development Indicators database, 2013.

It is not only important to examine whether remittances have a positive or a negative impact on the overall (or macro) economy. Because policy makers and international organizations have come to view these flows as a possible source of funding for economic development, it is also important to examine whether remittances do, indeed, facilitate economic development and, if so, how. For example, have some countries that receive a great deal of remittances been able to develop faster as a result? This article assesses the macroeconomic effects of these flows, highlighting issues in managing their effects and providing policy advice on how to harness their developmental potential. Finding answers is not straightforward, because remittances affect an economy in many different ways. And, ultimately, their net effect depends on how they are used by the recipients.

A source of government revenue

Besides households, there is one other economic actor that benefits from remittances and whose actions are important to the economy—the government. Recently, Abdih, Chami, and others (2012) showed that remittances spent on the consumption of both domestically produced goods and imports increase the tax base, which in turn increases revenues from sales taxes, value-added taxes, and import duties. In other words, remittances can provide much-needed fiscal space—which allowed some countries to increase spending, lower taxes, or both, to fight the effects of the recent global recession.

As we have suggested, the economic impact of remittances depends in part on how governments choose to use them. For example, Chami and others (2008) showed that governments can sustain higher levels of debt when the ratio of remittances to domestic income is high—which reduces country risk. Indeed, the IMF and the World Bank (2009) recently recognized the increased significance of remittances as a stable and countercyclical source of external financing in its assessment of how much debt low-income countries can safely handle. Remittances enable countries to borrow more, which permits them to use that extra borrowing power to fund investments that facilitate economic growth.

On the other hand, Abdih, Barajas, and others (2012) have found evidence that remittances hurt the quality of institutions in recipient countries, precisely because they increase the ability of governments to spend more or tax less. By expanding the tax base, remittances enable a government to appropriate more resources and distribute them to those in power. At the same time, remittances mask the full cost of government actions. Remittances can give rise to a moral hazard problem because they allow government corruption to be less costly for the households that receive those flows. Recipients are less likely to feel the need to hold the authorities accountable, and, in turn, the authorities feel less compelled to justify their actions. This reduces the likelihood that the fiscal space created by remittances will be used for productive social investments. In other words, the interactions that determine the impact of remittances on the overall economy are complex, which is why it is difficult to make generalizations regarding their net effects.

The business cycle

The complex effect of remittances on the economy is also apparent when the business cycle is taken into account. Because remittances increase household consumption, fluctuations in remittance flows can cause changes in output in the short term. But a shock that reduces economic output is also likely to induce workers abroad to send more remittances home, which then has the effect of reducing output volatility (Chami, Hakura, and Montiel, 2012).

However, the increase in remittances is also likely to weaken the incentive to work, which could lead to a more volatile business cycle.

Recipient countries also are affected by economic conditions in the countries that are the sources of remittances. Barajas and others (2012) showed that remittance flows increase the simultaneous occurrence of business cycles in remittance-sending and remittance-receiving countries. This effect is likely to be especially pronounced during economic downturns in the sending countries, which tend to be wealthier than the recipient countries.

So, again, the evidence is mixed. Remittances do stimulate consumption, which for some economies will help reduce the size of the swing between recession and growth by putting a floor under total demand. But for other economies, remittances may increase the severity of business cycles, by inducing workers to stay home when the economy turns down, as well as by linking the business cycles of some developing economies more strongly to the business cycles of remittance-sending countries.

Remittances and growth

Over the past decade, the most studied aspect of remittances has been their impact on economic growth, partly because of the policy importance of this issue and partly because of the many and complex ways remittances might affect economic growth. A useful way to organize the large and diverse body of findings on this question is to use a growth-accounting approach in which the effect of remittances on capital accumulation, labor force growth, and total factor productivity (TFP) growth is studied. TFP is essentially growth that is not accounted for by increases in traditional inputs such as labor and capital and encompasses such things as technology and finance.

Capital accumulation: Worker remittances can affect the rate of capital accumulation in recipient economies in various ways. First, they can directly finance investment. Remittance inflows can also facilitate the financing of investments by improving the creditworthiness of households, effectively augmenting their capacity to borrow. Remittances may also reduce the risk premium that lenders demand, because they reduce output volatility.

But if remittances are perceived to be permanent income, households may spend them rather than save them—significantly reducing the amount of flows directed to investment. And, in fact, the amount of remittances devoted to investment tends to be low. For example, remittance flows into the Middle East and North Africa region fuel the consumption of domestic and foreign goods, with very little going to investment. In addition, many households save part of the remittances by purchasing assets such as real estate, which generally doesn't increase the capital stock.

Remittances could stimulate increases in so-called human capital by enabling younger members of a household to continue schooling rather than having to work to contribute to household income. For example, evidence from the Philippines and from Mexico suggests that receiving remittances leads to increased school attendance. However, that extra education would likely have little effect on domestic economic growth if it simply makes it possible for the recipients to emigrate.

Labor force growth: Remittances may also influence growth by affecting the rate of growth of labor inputs. One channel through which remittances could affect labor inputs is in labor force participation—the percentage of the population that is working or seeking work. But as has been noted, those effects can be negative. Remittances enable recipients to work less and maintain the same living standard, regardless of how the distant sender intended them to be used (say, to increase household consumption or investment). Anecdotal evidence of this negative labor effort effect is abundant, and academic studies have detected such an effect as well. Thus, remittances appear to serve as a drag on labor supply.

Total factor productivity:
Researchers have identified two main ways through which remittances may affect the growth of TFP. First, remittances may enhance the efficiency of investment by improving domestic financial intermediation (channeling funds from savers to borrowers). That is, they may affect the ability of the recipient economy's formal financial system to allocate capital. For example, remittances may help GDP growth when the financial markets are relatively underdeveloped because remittances loosen the credit constraints imposed on households by a small financial sector. In addition, regardless of the state of the financial sector's development, remittances are likely to increase the amount of funds flowing through the banking system. This, in turn, may lead to enhanced financial development and thus to higher economic growth through increased economies of scale in financial intermediation.

The business cycle
A second way remittances may affect TFP growth is through the exchange rate. Barajas and others (2011) have shown how remittances can lead to real exchange rate appreciation, which in turn can make exports from remittance-receiving countries less competitive. The industries or companies that produce the exports may be transferring know-how to the rest of the economy or providing opportunities for other local companies to climb up the value chain. This is often the case, for example, with manufacturing. Therefore, if these companies become less competitive owing to exchange rate changes (which are themselves caused by remittances), then these firms must scale back or close, and their beneficial impact on productivity is reduced.

There have been many attempts to estimate the impact of remittances on growth. The earliest such study—by Chami, Fullenkamp, and Jahjah (2005)—found that whereas domestic investment and private capital flows were positively related to growth, the ratio of workers' remittances to GDP either was not statistically significant or was negatively related to growth. Since then, many studies have been performed, and their main findings vary widely. Some find remittances help growth and others find they hurt growth—and some find no discernible effects. When a positive effect of remittances on growth is found, it tends to be conditional, suggesting that other factors must be present for remittances to enhance economic growth. For example, some studies have found that remittances tend to boost economic growth only when social institutions are better developed.

Perhaps most disappointing is the lack of a remittances-growth success story: a country in which remittances-led growth contributed significantly to its development. Given that in some countries remittances exceeded 10 percent of GDP for long periods of time, one would have hoped to find at least one example of remittances serving as a catalyst for significant economic development. It is worth noting, however, that researchers have also failed to find clear and consistent evidence that other financial flows, such as capital flows and official aid, enhance economic growth and development.

Whither remittances?

The mixed evidence regarding the macroeconomic impact of remittances reflects a number of underlying truths about their role in an economy. First, they are unequivocally good for recipient households because they alleviate poverty and provide insurance against economic adversity. Second, there are many different paths through which remittances affect an economy. Third, none of these paths is necessarily active at any given time—that is, many economic and social conditions determine whether any given path is active or significant. And, finally, many of these paths have opposing or conflicting economic effects.

Remittances tend to boost economic growth only social institutions are better developed.

These realities shape the challenge faced by policy makers who wish to maximize the development potential of remittances. To make the most of remittances, governments will have to strengthen or facilitate the channels through which remittances benefit the overall economy while limiting or weakening others. This task is challenging not only because economists still do not fully understand all the ways that remittances affect the economy, but also because this task may put policy makers in conflict with households, which are used to utilizing remittances in particular ways. Nonetheless, there are several promising approaches for policy.

Each country wishing to make better use of remittances must study how the recipients actually use them. This is essential to ensuring that policy makers understand the specific obstacles that prevent remittances from being used to facilitate development, and the kinds of development-friendly activities (such as education, business formation, or investment) remittance recipients would be most likely to engage in. Obstacles to using remittances for development and opportunities for such use are likely to vary with the particular economic, social, and legal environment of each country.

Policy makers must take advantage of the fiscal space created by remittance flows by investing more in social institutions and public infrastructure. For example, the increased tax revenues that remittances generate can finance initiatives to increase the professionalism of civil servants and improve the enforcement of rules and regulations. Likewise, the government can take advantage of its increased borrowing capacity to finance improvements in infrastructure. One potential use would be to upgrade a country's financial system at all levels, including improvements in the payment system, availability of banking services, and financial literacy.

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Policy makers must design programs that are responsive to the needs of individual households and that give recipients the proper incentives to use remittances productively. Promoting the acceptance of remittance income as collateral for private loans used to finance productive investments is one way to direct remittance income into growth-enhancing investments. In addition, governments could subsidize education or business loans for which remittances are pledged as collateral. Policy makers will have to work closely with remittance recipients—and senders—to make these efforts work.

Increasing globalization and demographic changes, such as the aging of developed-economy work forces, mean that remittances are likely to increase in size and importance in the future. It is clear that remittances improve the welfare of households that receive them and, as such, should be encouraged. But, to be more helpful to recipient economies, governments must design policies that promote remittances and increase their benefits while limiting or offsetting any counterproductive side effects. Getting the most value possible out of remittances will require significant, thoughtful effort from national governments and the assistance of international organizations. For example, a review of governance and institutional quality is routinely undertaken as a part of the IMF's annual consultations. The incentive effects of remittance flows suggest that such reviews are of particular importance in remittance-receiving economies. Efforts like these enable countries to tailor their development strategies to the role that remittances actually play, which in turn increases the chance that they can be utilized to enhance development and growth.

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"If you do build a great experience, customers tell each other about that. Word of mouth is very powerful."
Jeff Bezos, CEO Amazon.com

Educational and Informative Articles

TIPS ON MICRO-INSURANCE TRENDS IN AFRICA

The following abstract is selectively taken from a study/research,the landscape of micro insurance in Africa 2012. It is intended to provide tips on the current trends on micro-insurance developments in Africa. Reading the whole paper is very much advisable for professionals and others interested in the area.

Characteristics of Micro insurance in Africa-Micro insurance in Africa has multiple faces, and the industry is shaped by a variety of stakeholders: regulators, commercial insurance companies, intermediaries and delivery channels such as MFIs, banks, mobile phone operators, retail shops, community-based organizations, mutuals, faith-based groups and many more. Depending on which stakeholder group is dominant in a given country, the micro insurance market will look different.

Coverage- Micro insurance was identified in 39 of these countries. 44.4 million lives and properties covered in 39 countries. While 44.4 million lives and properties covered is impressive, they are not equally distributed over the continent. Currently, South Africa alone covers more than 60% of all lives and properties covered in Africa. South Africa combined with the eight other countries that have more than one million lives and properties covered accounts for more than 90% of all lives and properties covered in Africa.

Growth-Of the 39 countries reporting data for 2011, 31 also reported data to the previous landscape of micro insurance in Africa study. These 31 countries reported covering 14.6 million lives and properties in 2008. Over the intervening three years, coverage in micro insurance in Africa grew over 200%. Micro insurance coverage in 2005 was reported for 19 of the current countries 10 in the "Landscape of Micro insurance in the World's 100 Poorest Countries" 11 totaling 3.5 million lives and properties (though this study did not include South Africa, as it fell outside the 100 poorest countries). Over the past six years, these 19 countries have also grown nearly 200%, now covering ten million lives and properties.

Products - It is noteworthy that almost 70% of all reported products fall under health. This is mainly due to the large number of health mutuals with relatively few policyholders, predominantly in Francophone Africa.

Life Products- At the end of 2011, 31.7 million people, or over 70% of all African micro insurance clients were covered by some sort of life product. Adding 8.7 million people covered by credit life, the number of covered lives rises to 40.4 million. In 2011, the African life insurance industry generated a premium volume of US$ 46 bn. Premiums generated in life micro insurance from the study amount to about 1% of this total.

Regionally, Southern Africa accounts for over 75% (or 30.5 million) of all covered lives within that region. South Africa is home to 23.7 million lives covered through funeral insurance, equaling almost 60% of all life micro insurance clients in Africa

Health Products-the landscape study identified 417 individual health micro insurance products in Africa, which is by far the largest number per product category. These 417 products reach a total of about two million people. Including products that offer limited health cover as a secondary protection to their primary cover, the total number of covered lives rises to 2.4 million.

An analysis of health micro insurance schemes reveals that over 60% of all covered lives benefit from comprehensive health insurance, all of which are located in Francophone Africa (see. This achievement is the result of the prevalence of community-based schemes in these countries. The second most widespread cover is hospitalization, which accounts for almost one quarter of all covered lives. Primary health, dread disease and hospital cash are relatively rare covers. No dental insurance was reported.

In Africa, health micro insurance is dominated by community-based schemes, mutuals and NGOs. Many of these organizations are small in outreach, although they have been around for many years. The majority (65%) of health insurance schemes covers less than 10,000 lives each, and a mere five schemes reach more than 50,000 lives. One reason for the small size of schemes is explicit government policies.

Accidental Death and Disability Products- Micro insurance products providing cover against accidents as their main cover are not yet very common in Africa. A total of 2.1 million people are covered through eleven products in eight countries. Over 90% of all covered lives are found in one single country: Uganda.

The vast majority (92%) of all lives covered by accident micro insurance benefit from comprehensive cover, while 8% are covered against permanent disability only. Products providing cover against accidents during work or travel and against temporary disability together account for less than 5,000 covered lives.

Property Products- As a stand-alone policy, property micro insurance is not yet very common in Africa, numbering roughly 0.9 million primary and secondary policies. Property micro insurance policies predominantly cover fire and natural disaster.

Regarding geographic distribution, East and West Africa are the regions where most property micro insurance is found, with Kenya, Tanzania and Ghana home to the bulk of these products.

Agricultural Products- The 2010 landscape study (based on 2008 data) on micro insurance in Africa 19 identified fewer than 80,000 farmers benefiting from agricultural (crop and livestock) micro insurance at the end of 2008. By December 2011, the latest available figures suggested that African smallholders had reason to be cautiously optimistic.

The number of agricultural policies has tripled, and such policies now reach almost 240,000 farmers in 14 countries. This is still small, but important nonetheless.

Policy Characteristics-The total number of lives covered by individual and group policies is close to even, though when comparing the different product types, variances become apparent. For example, with life products, 52% of all life products identified cover only of individuals, and these products are responsible for 52% of all people covered by life micro insurance. This again is driven by funeral insurance in South Africa. For group life policies, 24% of the products cover groups, yet these represent 45% of all people covered by life micro insurance. The majority of accident and property products are group products, and similar to life products, these group policies cover significantly more lives and properties than individual policies. Of all lives and properties covered by accident and property products, 99% are covered by group policies. Agriculture products are unique in that they cover the most properties through products that can be either individual or group policies.

Micro insurance Providers- With in Africa, the research team identified 511 organizations offering micro insurance. These micro insurance providers include more than 12 different types of organizations, from commercial insurers to mutual and hospitals, to NGOs and MFIs taking on insurance risk themselves. The majority of organizations identified (77%) were community-based, with relatively few lives and properties covered. The second most common type of micro insurance providers were regulated commercial insurers 21, making up 13% of the organizations identified as taking micro insurance risk.

Despite the large number of community-based insurers providing micro insurance, they only cover about 12% of the total lives and properties insured in all of Africa.

Market Perceptions- The youth of the micro insurance industry in Africa and the rest of the world generates great excitement about the high potential for growth, but it also generates uncertainty regarding how micro insurance should be approached by various stakeholders. Micro insurance providers were confident about the past and future short-term growth of micro insurance. A little over half of the respondents (53%) agreed that their domestic micro insurance business had "grown considerably" in the preceding five years. In projecting market potential over the next year, 71% of respondents estimated that their micro insurance business would grow 10% or more, suggesting optimism about micro insurance expansion and the improvement of markets and delivery. However, providers were less confident about the future long-term growth of micro insurance.

Reinsurance - In general, information about the importance of reinsurance for the African micro insurance sector is limited. Of the 598 total products identified in this study, only about 35 products are covered by any particular reinsurance. These reinsured products represent less than 10% of all covered lives, but over 30% of all reported gross premiums. This is probably because companies are buying reinsurance protection for relatively expensive and/or more complex micro insurance products. As more complex products such as health, property (particularly catastrophe), and index-based agricultural are offered by more insurers, the involvement of reinsurers is likely to increase.

Regulatory Frameworks- In some countries globally, such as India, micro insurance has been propelled by a legal framework promoting and guiding its implementation and outreach. In Africa, micro insurance has grown without the benefit, or challenges, of a legal framework – which may comprise an act or a law, regulation, or other secondary instrument – that addresses the peculiarities of micro insurance. Recently, there has been much more activity in the region, focused on developing a legal framework from which micro insurance might expand further. Factors contributing to this activity include domestic recognition of the importance of micro insurance as well as significant pressure and external inputs from the International Association of Insurance Supervisors (IAIS), the Access to Insurance Initiative, the Micro insurance Network's Working Group on Regulation, Supervision, and Policy, and others, due to the high levels of informality found in countries such as South Africa.

Donors- Of the 39 countries identified with micro insurance, 17 were seen to have benefitted from some intervention in 51 institutions provided by at least one of 60 different donor organizations. These organizations include multi- and bi-lateral donors, foundations, international and domestic supporters, local governments, and others. At least USD 26.2 million has been provided, or committed, to the enhancement of micro insurance in those countries over the past five years. Of the 51 organizations receiving donor support, 27 of these only offer health micro insurance. The strong involvement in health is not surprising given the pressing need for better solutions and the notorious challenges in this area, coupled with the strong historical push from some donors for community-based groups.

	Grants (US $ MILLION)	% of total grants	#Covered in millions	Coverage ration
Kenya	6.3	24%	1.3	3.2
Ghana	3.0	12%	1.7	7.0
South Africa	1.8	7%	27.7	54.5
Rwanda	1.6	6%	<0.1	0.1
Ethiopia	1.3	5%	2.2	2.6
Totals	14.0	53%	32.4	

Outreach, growth and products

- Total outreach across all regions and product categories has tripled over the last three years: 44.4 million, or 4.4% of all Africans are now protected by micro insurance. Yet, if South Africa is excluded, coverage reaches a mere 1.7%.
- South Africa remains the dominant market, accounting for over 60% of all covered lives or properties.
- West Africa has experienced the highest growth rate since 2008, primarily because of its low volumes in 2008, followed by Southern and East Africa. Growth in Central and North Africa was only half that observed in West Africa.
- The expansion of life micro insurance was the main driver behind the impressive growth of the African micro insurance market.
- Crop and/or livestock micro insurance is now offered in at least 14 countries.
- Outreach in health micro insurance has stagnated in general over the last three years.
- Individual and group products cover almost equal numbers of lives.
- Life (excluding credit life) and health products are mainly sold on a voluntary basis.

Provider and delivery partners

- Community-based schemes make up 70% of all micro insurance providers but less than 9% of total lives or properties covered.
- Only 14% of all micro insurance providers are regulated commercial insurance companies, but they cover 78% of all lives or properties insured.
- Regulated commercial insurers are not more likely to have a specialized micro insurance department than other provider types.
- Commercial insurers tend to focus more on financial performance, while other providers focus more on client satisfaction and social performance.

Table of National Microinsurance Markets Grouped by Development Stages

Highflyer	Aspirant	Hidden Talent	Fledgling	Embryonic
South Africa	Ethiopia	Benin	Algeria	CAR
	Ghana	Burkina Faso	Botswana	Chad
	Kenya	Cameroon	Burundi	Comoros
	Tanzania	Malawi	Congo, R	Congo, DR
		Mali	Côte d'Ivoire	Djibouti
		Nigeria	Egypt	Eritrea
		Rwanda	Madagascar	Gabon
		Senegal	Morocco	Gambia, the
		Togo	Mozambique	Guinea
		Uganda	Namibia	Guinea Bissau
			Swaziland	Lesotho
			Tunisia	Libya
			Zambia	Mauritania
			Zimbabwe	Mauritius
				Niger
				Seychelles
				Sierra Leone
				South Sudan
				Sudan

Mobile Banking Innovation: The key to Improving Revenue in the Survivor's World

As an Introduction

Nowadays, it is observable that the human society is in profound transformations in to the modern world in which information technology plays a determinant role. In this technological world communication through networks takes most of the common activities. Companies are resorted to the use these networks in order to carry out a new type of commerce, the electronic commerce, through the internet. Banks, the central players of domestic as well as international transaction and financial providers, should play the leading role in adopting and resorting to the modern technological world.

It is possible to say that in the modern world internet has become a part of everyday life. As a lot of official figures indicate tens of millions of people are online every day engaging in various Internet activities out of which a large number of them engage in e-commerce. Technology has now made internet services available at the palms of everyone who could go with mobile phones. Following this, it has now become the requirement of the day to bring the products and services as near as the hands of customers.

The following Article has been taken from 'Infosy'sFinacle' for Birritu's Educational Column for the valuable piece of information we could share about mobile banking.

The banking industry is yet to come out of the crisis and its revenues are still facing the heat. Those banking institutions that survived the last global financial crisis are fighting hard to resolve their current crop of problems – including but not limited to, poor customer confidence, low borrowings, depressed asset value, lower interest rates and regulatory strictures on risk and capital management that have severely eroded revenue realization opportunities. But if there's a silver lining to economic crises, it's that they often breed innovation.

But in adversity, lies an opportunity for innovation.

So even as retail customers try to secure their post-crisis future by closely watching over their money and tracking their progress towards their financial goals, and corporate banking clients seek better visibility into their payables, receivables and cash flow, this new-found need for information is alerting banks to new opportunities. Similarly, the competitive crushin banked markets is forcing banks to look at tapping the massive revenue potential of the un banked and under banked segments.

What is common to the realization of these two, very different opportunities? Mobile banking innovation. One may wonder why mobile banking and not some other channel. The answer to that in one word – ubiquity. Banked customers are seeking to control their financial positions by being fully informed. In this age of high speed change and mobility, that implies having access to updated information at all times and at all places. At the other end of the spectrum, there are about 2.5 billion people around the world who don't use formal banking services – either because they cannot access them or because they are unable to furnish the documentation which is required for on boarding – but still have different financial needs. In order to satisfy the first group, banks need a channel that is open to customers in an "all time mode", whereas in order to attract the second, they need a mechanism that can reach far-flung locations as well as circumvent the rigorous documentation stipulated by branch banking. Only the mobile fulfills all these criteria.

There is revenue opportunity in customers' need for information in "all time mode".

With the arrival of the smart phone, the versatility of mobile phones has grown by leaps and bounds. They have evolved from voice communication and texting gadgets to connected Internet-enabled devices that are increasingly being used to access information, make purchases and conduct other non-financial transactions. This is corroborated by a report released by a leading independent PR agency in February 2011, which cited that consumers were using mobile phones to gain instant access to information over the Internet, which they needed for business purposes.

Mobile browsers and downloadable applications have also expanded the scope of mobile banking well beyond SMS-based enquiry services, to include features such as bill payment, and funds transfer. Their rising popularity is reflected in the findings of a study on mobile financial services in the United States, conducted every quarter by a leading provider of digital analytics, which showed that access of financial accounts using a mobile application in the last quarter of 2010, exceeded its year ago figure by more than 100%. Such developments are building a great plat form for the delivery of enriched information as well as other innovative services in all time mode retail and corporate banking customers, using which banks can upgrade the mobile from a supplemental channel to a mainstream one.

There is also revenue opportunity in un banked markets.

With the cost of mobile communication reducing to really affordable levels, mobile phones have achieved high penetration even among the low-income, financially excluded segments. Telecom operators, particularly in the developing markets of Africa and Asia, have been quick to exploit their massive consumer reach to deliver additional services to their subscribers, including basic money transfer services. If banks were to latch on to this opportunity to offer similar facilities, they could earn additional revenue in the short term, and in the long run, absorb some of these unbanked individuals into their mainstream banking customer base.

The mobile enables both opportunities.

Banks intent on pursuing the two strategies of providing greater information to existing customers, and services to the financially under served using the mobile channel, can leverage several innovations in this space. However, as the subsequent discussion explains,the choice of innovation must be guided by its relevance to the target users' needs.

Consider the first objective, namely, providing up to the moment information to customers at all times to help them track their finances. Young, educated, tech-savvy customers typical of Generation Y are likely to be the biggest takers for such services. An October 2009 study of over 1,000 U.S. customers revealed that people belonging to Generations Y and X were most in need of advice on the management of day today finances. What's more, despite the ravages of the crisis, they still looked up to their banks as the primary source of advice.

But even as these customers show a willing ness to continue their banking relationships, they're bringing new expectations to the table. First,they want the banking experience to be a lot more interactive. Next, they expect banking services to be available over the tools and channels that they use in their daily lives, namely mobile devices and audiovisual modes. Last but not least, they would like to consult peers and social communities while taking financial decisions.

Corporate customers, while currently not big users of mobile banking, would become interested if mobile banking could deliver tangible value by say, shortening the lead time to make and receive payments, or providinga unified view of all accounts held globally.At the same time, corporate customers needthe assurance that transacting on mobile iscompletely secure.

Each of these demands can be met through mobile banking innovation.

For instance, banks can include Personal Financial Management (PFM) tools within their mobile banking offering, so that users can see a consolidated view of their accounts, track expenses versus budget, or make investment decisions regardless of time or location. The earlier mentioned study by the PR agency found that mobile banking users were much more likely to manage their finances online than traditional channel users, which indicates that they would welcome the availability of mobile PFM tools. Here, it is worth citing the example of Jibun Bank – the first institution in Asia Pacificto leverage mobile banking as its primary channel – which offers several sophisticated products and services including PFM, foreign currency deposits and insurance, on that channel.

Customers' need for higher interactivity can be fulfilled through an audiovisual facility provided on the mobile banking channel, which enables them to connect with a bank executive when required.

The emergence of social networking has transformed the way in which consumers research products and make buying decisions. This retailing-world phenomenon has also spilt over into the consumption of financial services,such that today's consumers would like to compare their investment goals with others of a similar profile, discuss their banks' customer service, or seek advice before buying a particular product from existing investors. What is even more significant is that mobile phone users are apparently even more socially wired than desktop-based Internet users, which strengthens the argument in favor of allowing mobile banking customers to connect to their favorite social networks directly from the banking channel. Some banks like Hong Leong have already taken the lead by offering rich services through their mobile banking app, including PEx(Payment Express), a social payment facility that allows customers to instantly transfer money to someone else's mobile, from their own smart phone.

Evolution of corporate mobile banking has improved its security and features. And while there's still a long way to go to reach significant adoption, these are important steps forward.

Let us now consider the second objective, namely providing an alternative mode to fulfill the financial needs of those with limited or no access to banking. The target customers primarily seek an economical and secure method to send and receive money – one that involves minimal documentation, is simple to deal with, and is accessible in familiar surroundings. No mechanism matches up to these criteria as well as the mobile phone does – person to person lending and mobile wallets are but some examples of how mobile-led innovation is spreading financial inclusion.

But banks will have to overcome the challenges of mobile banking innovation before realizing its opportunities.

While banks have an opportunity to shore up their falling revenues by leveraging mobile banking and technology innovation, they also have their share of challenges. The first of these is by way of regulation. Given the industry's current preoccupation with regulatory compliance, the absence of clear legislation on issues like person to person lending and mobile money transfer is forcing many banks to adopt

a wait and watch approach to mobile banking innovation. Similarly, a lack of consensus on how to share revenue with two additional participants, namely network operators and device manufacturers, besides merchants and payment processors, is acting as a dampener. Unless these challenges are addressed, mobile banking will not grow to its potential.

But once they are, mobile banking will stand areal chance of emerging as a mainstream channel and a major contributor to banks' top line and profitability.

Sai Kumar Jayanty
Lead Product Manager - Finacle, Infosys

"Your most unhappy customers are your greatest source of learning."
Bill Gates

12 fastest growing economies in 2012

India

GDP forecast in 2012: $1,858.9 billion

GDP growth: 7.82 per cent

World ranking: 9

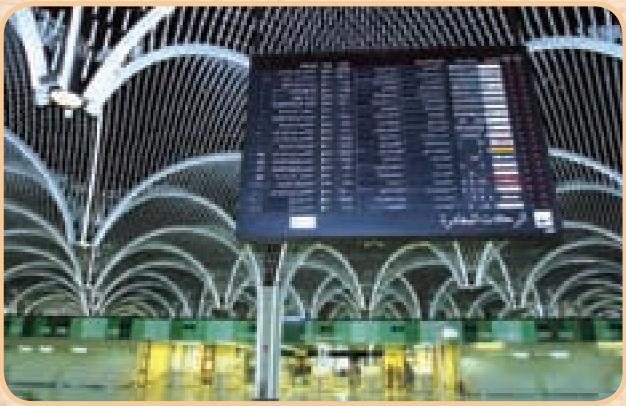
India is home to the second largest population in the world, would become the third largest economy in the world by 2035, just behind the United States and China. India has the advantage of size. The scope of growth and excess capacity present in terms of resources would drive growth in the future

Niger

GDP forecast in 2012: $7.38 billion

GDP growth: 15.4 per cent

World ranking: 1



Iraq

GDP forecast in 2012: $128.094 billion

GDP growth: 10.568 per cent

World ranking: 2

Economy: Foreign investment inflows are expected to increase in the wake of US Troop withdrawals. Oil exports, the impetus for the nation's wealth, have returned to pre-war levels. Adoption of free market principles, strengthening the legal framework for businesses, and developing Iraqi infrastructure are keys to the country's growth.

Angola

GDP forecast in 2012: $1.32 billion

GDP growth: 10.49 per cent

World ranking: 3

Economy: This OPEC member has 85 percent of its GDP come from oil production and related industries. The nation remains marred by corruption and the land mines left over from decades of civil war. Most Angolans practice subsistence farming to make a living.

Liberia

GDP forecast in 2012: $1.32 billion

GDP growth: 10.49 per cent

World ranking: 4

Throughout history, Liberia has been rated as one of the most prosperous economies in all of Africa – primarily because of strong cultural relations with America, as well as close trade. Unfortunately, in 1980 this changed dramatically due to a military coup. The good news is that in 2006, Liberia's GDP started to turn around

China

GDP forecast in 2012: $7,209.42 billion

GDP growth: 9.52 per cent

Economy: The world's largest exporter and second biggest economy has gradually transitioned from an isolated, state-planned economy and introduced elements of free markets. An aging population, decreasing farmland, lack of domestic consumption, and reducing regional imbalances are downside risks to Chinese GDP growth. China is on the forefront of alternative energy development, particularly in solar.

Haiti

GDP forecast in 2012: $9.21 billion

GDP growth:8.8 per cent

World ranking: 6

In 2006, Haiti signed the Haitian Hemispheric Opportunity through Partnership Encouragement with the United States as a means of improving exportation of apparel and investment by providing free access to the USA. Unfortunately, Haiti was overwhelmed in 2008 with four tropical storms and a massive earthquake in early 2010 that killed thousands of people and devastated the land.

Timor Leste

GDP forecast in 2012: $0.807 billion

GDP growth:8.63 per cent

World ranking: 7

Economy: Offshore drilling for oil and gas is the principal source of government revenues. The government has increased spending on infrastructure to continue to repair damages caused by Indonesian troops in 1999. Unemployment and dependence upon O&G are roadblocks to growth.

Ethiopia

GDP forecast in 2012: $32.3 billion

GDP growth: 8.02 per cent

World ranking: 8

Economy: Coffee has been a major export for the nation. While GDP growth rates are high, GDP per capita remains among the global laggards. In Ethiopia, the state owns all land, which is significant since agriculture accounts for over 40 percent of GDP. According to a New York Times report, Ethiopia has one of the most fertile lands in the African continent, giving it the potential to become the 'food basket of the world'.

Mozambique

GDP forecast in 2012: $12.9 billion

GDP growth: 7.80 per cent

World ranking: 10

Economy: Economic growth in Mozambique truly started in the late 80's when steps taken to improve the economy bore fruit. Today, macroeconomic reforms coupled with stability on the political front shows a definite growth spurt for the country.

Afghanistan

GDP forecast in 2012: $19.1 billion

GDP growth: 7.47 per cent

World ranking: 11

Afghanistan's natural resources include gold, copper, silver and zinc in the Southeast, precious and semi-precious stones in the North east and significant amount of petroleum in the North. The country's progress has, in the past decade, been disrupted by war and conflict.

Zambia

GDP forecast in 2012: $21.8 billion

GDP growth: 7.38 per cent

World ranking: 12

Economy: Privatization of copper mines provided an impetus for growth since the 1990s. Economic growth is vulnerable to price shocks in copper. The IMF forgave $6 billion of Zambia's debts in 2005. Along with high growth, the IMF also forecasts rising inflation in Zambia.

Sources: Rediff Business, Business Insider, Economy Watch

The world's 10 biggest insurance claims

From terrorist attacks to flu pandemics and floods, here are the 10 most expensive disasters to hit insurance companies around the world in the past decade, according to Zurich North America. The list is chronological and based on the number of lives lost, overall business impact, and the geographic scope and duration of the crises.

9/11

Nearly 3,000 people died in the September 11 terrorist attacks in 2001 which destroyed the Twin Towers of the World Trade Centre.

Insurance companies had to pay out around $40 billion in insured losses. Around a third of this total covered business interruption claims, while other claims included damage to property and vehicles, life insurance, liability insurance, aviation liability and workers compensation.

SARS

The 2003 global outbreak of severe acute respiratory syndrome (SARS) started in Guangdong province of China and within weeks spread to 37 countries around the world. There were 8,096 known infected cases of the pneumonia-like disease and 774 confirmed fatalities.

Airlines were forced to ground flights to infected areas, businessmen stayed away and in many areas shops, restaurants and hotels were forced to close due to so little business.

U.S. / Canada power outage

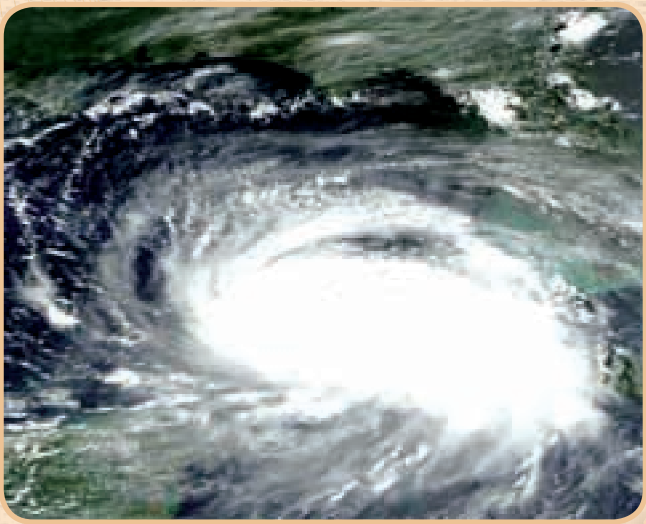
The Northeast blackout in 2003 affected an estimated 10 million people in Ontario, Canada and 45 million people in eight U.S. states.

Virtually all businesses suffered as a result – flights were grounded, trains were cancelled, traffic lights failed, the internet was down, mobile phone networks broke, factories were forced to shut, restaurants and hotels had to close. Many areas also lost water pressure because pumps didn't have power.

Indian Ocean earthquake and tsunami

The under sea earthquake in the Indian Ocean on Boxing day 2004 resulted in one of the worst tsunamis in history, killing 227, 898 people. Indonesia was the worst affected area, accounting for around 170,000 deaths. The economic impact of the disaster was also devastating, with countries affected suffering huge losses in the tourism and fishing industries. Insured losses for property were estimated at around $1.3 billion, life and heath at $250 million and travel losses at $50 million.

Hurricanes Katrina, Rita and Wilma



The Atlantic hurricane season in 2005 was the worst in history. There were an estimated 3,865 deaths and record damages of around $130 billion.

The economic consequences of the storms were also far reaching, resulting in speculative spikes in the price of crude oil and heavy damage to crops and harvests.

Financial crisis

The collapse of several banks and insurance companies such as Lehman Brothers, Northern Rock and Bear Stearns in 2008 triggered the worst financial crisis since the Great Depression in the 1930s.

Stock markets crashed, the credit crunch happened, businesses around the world went bust, governments were forced to bail out banks, the housing market suffered and unemployment hit an all-time high. All and all it has cost the insurance industry billions.

China earthquake

The earthquake that struck China's Sichuan Province in 2008 was the deadliest earthquake to hit China since 1976 and one of the costliest natural disasters in Chinese history.

It killed around 68,000 people, left at least 4.8 million people homeless and caused an estimated $20 billion worth of damage – most of which was not covered by insurance. Millions of livestock and a significant amount of agriculture were also destroyed.

Swine flu pandemic

The swine flu or H1N1 pandemic has resulted in 18,000 deaths since it began in April 2009 - approximately 4% of the 250,000 to 500,000 annual influenza deaths.

In Mexico, where the outbreak originated, nearly all public services such as schools, theatres and restaurants shut and people would only venture outside wearing a mask.

However, many people have criticised the World Health Organisation (WHO) and the media for exaggerating the danger and spreading panic unnecessarily.

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Eyjafjallajokull

The Icelandic volcanic ash cloud crisis in April 2010 forced airports in the UK and across Europe to cancel flights for six consecutive days, leaving thousands of passengers stranded overseas.

Disruption to flights then continued for weeks, having a serious impact on businesses and the travel industry, with airlines losing millions of pounds each day.

Floods in Europe and Pakistan

The 2010 Pakistan floods, which began in July,were the worst the country has experienced in decades. It is currently estimated that over 2,000 people have died while millions others have been left homeless and jobless.

Meanwhile the floods in central Europe over the summer resulted in at least 37 deaths, while thousands more had to be evacuated. Poland was the worst affected area.

"Customers don't expect you to be perfect. They do expect you to fix things when they go wrong."
Donald Porter, V.P. British Airways

Miscellany Section

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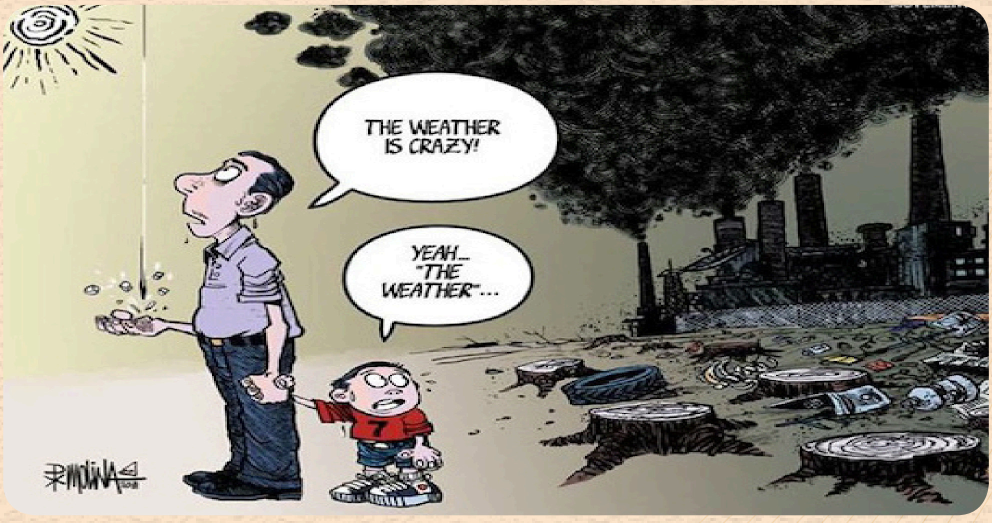

Is my life complete?

I was asking myself,
If I was living a complete life.

I thought I was not living it,
Having this, missing that.

Loving those who don`t love me,
Working for those who don`t work for me,
For them by praying,
To them by giving,
I wonder the pleasure
I am getting.
Now, I feel I am living fully,
By living for others,
Suffering, thinking for my
Sisters and brothers.

I learnt how life is complete,
Assorted a bit,
Today with sorrow,
Expecting pleasure for tomorrow.

Life, how complete it is?
Filled with ups and downs.

Filled with thoughts, suffering,
Pleasure and love,
I appreciated the sweet,
After testing the bitter a bit.

Now, my life is complete,
Filled with its journey kit.

By Flemen Rezene
Change Management &
Communication Directorate (NBE)

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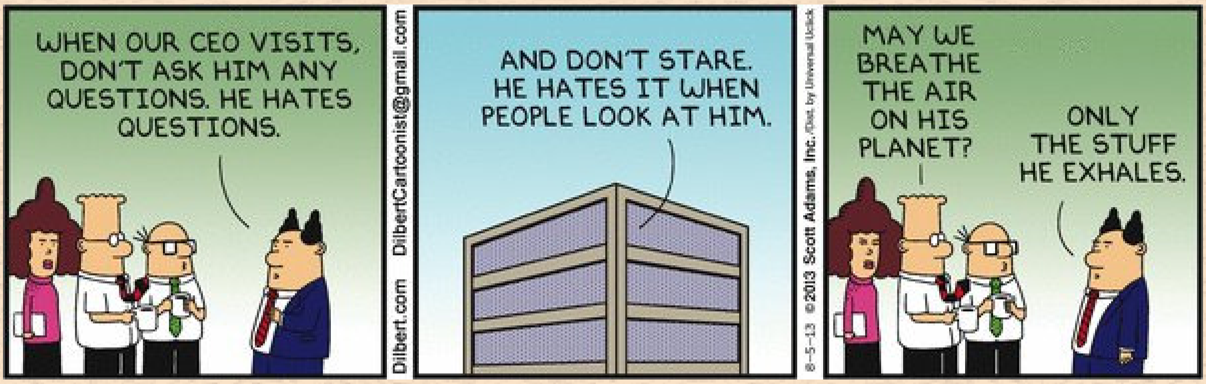

"Customers don't expect you to be perfect. They do expect you to fix things when they go wrong."
Donald Porter, V.P. British Airways

Micro Finance Institutions

No.	Name of Institutions	☎	⌨
1	Amhara Credit and Saving Institution S.Co.	058-2201652 091834056	251-058-2201733
2	Dedebit Credit and Saving Intuition S.Co.	034-4409306	251-034-4406099
3	Oromia Credit and Saving Intuition S.Co.	5524653/440911511407	251-011-5534871
4	Omo Micro Finance Institution S.Co.	046-2202053	251-046-22-20-52
5	Gasha Micro Financing S.Co.	6558830/340911240437	251-011-2756399
6	Wisdom Micro Financing Institution S.Co.	6463569	251-011-6293346
7	Sidama Micro Financing Institution S.Co.	046-2204704	251-046-2204704
8	Africa Village Financial Services S.Co.	6532052/53	251-011-3728771
9	Buusaa Gonofaa Micro Financing S.Co.	0114162621	251-011-4654045
10	Poverty Eradication & Community Empowerment Micro Financing Institution S.Co.	6521541/42 6520472/0911219506	251-011-6616985 251-011-4654088
11	Meket Micro Finance Institution S.Co.	033-21100882/033-2110037/0911972404	033-211-11-19/ 0332110148
12	Addis Credit and Saving Institution S.Co.	1572720/111512/13	251-011-1573124
13	Meklit Micro Finance Institution S.Co.	3484152	251-011-5504941
14	ESHET Micro Finance Institution S.Co.	3206451/0911875741	251-011-3206452
15	Wasasa Micro Finance Institution S.Co.	0911-67-38-22/ 0911426566/0113-384133	-
16	Benishangul-Gumuz Micro Financing S.Co	057-7750666/0577752466	251-057-7751734/ 251-057-7750060
17	Shashemene Eddirs Yelimat Agar Micro Financing Institution S.Co.	0461102052/1103881	251-046-1101534
18	Metemamen Micro Financing Institution S.Co.	6615398	251-011-6186140
19	Dire Micro Finance Institution S.Co.	025-1119246/47	251-025-110246 251-025-1111072
20	Aggar Micro Finance Institution S.Co.	6183382	251-011-6183383
21	Letta Microfinance Institution S.Co.	6636947/0911169263	-
22	Harbu Micro Financing Institution S.Co.	0116185510/0911512633 0911381242	251-011-6180654
23	Ghion Micro Financing Institution S.Co.	504408/1238338/ 1226771	251-011-5504409
24	Digaf Micro Credit Provider S.Co.	2132928/2787390	251-011-2772711
25	Harar Micro Microfinance Institution S.Co.	025-6663745/025-6664078	251-025-6661628
26	Lefayeda Credit and Saving S.Co.	6296976	251-011-6620827
27	Tesfa Micro Finance Institution S.Co.	0115526205/0911050568/ 0911758152	251-011-5512763
28	Gambella Micro Financing S.Co.	047-5511271	251-047-551089251 -551080277
29	Dynamic Micro Finance S.Co. (Approved 23/03/09)	552-62-05/ 5540390	257756983/87/ 0257752916
30	Somali Micro finance Institution S.Co.	257-756976/77	257756983/87/ 0257752916
31	Specialized Financial & Promotional Institution S.Co.	6622780	251-011-6614804
32	Lideta Microfinance Institution S.C.	0344450348	-
33	Rural Solar Microfinance Institution S.C.	0920244298/0911228710/ 0116181462	-

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