Sustaining growth in Latin America and the Caribbean

Despite continued global economic uncertainty, countries in Latin America and the Caribbean have experienced steady growth. Maintaining such expansion over the long term is the next challenge

By Luis Alberto Moreno, president, Inter-American Development Bank

The G20's Los Cabos Summit unfolds against a backdrop of global economic uncertainty. Although the worst fears about a slide back into widespread recession appear to have been dispelled, the crisis is not yet over.

This global uncertainty is felt – albeit moderately – in the western hemisphere. Latin America and the Caribbean have been growing at more than four per cent annually, and while this may slip this year, unemployment will remain at less than seven per cent. Such growth needs to quicken, but for that to occur, it is necessary for the storms that are currently battering other shores to abate.

It is common knowledge that drastic, sudden adjustments can lead to lost decades. Latin America's hard-won experience can serve as a valuable example to countries on the other side of the Atlantic to pursue the kind of policies that helped its region manage public debt problems and, ultimately, move back onto a growth path.

Thanks to these policies, Latin America and the Caribbean are today viewed as a region of promise and opportunity. Since 2002, it has lifted more than 50 million people out of poverty. It has significantly reduced its debt burdens and budgetary imbalances. If the region's growth were to average 4.8 per cent per year (a level only slightly above the average for the past 10 years), by 2030 its gross domestic product could double. And that, in turn, could push the region's poverty rate, now at 31 per cent, to as low as 10 per cent. Within just one generation, 500 million of its citizens could belong to the fast-expanding middle class.

What can be done to ensure that this promise of greater prosperity is realised? If there is one hard fact that should inform any forward outlook, it is that global growth is increasingly driven by demand from Asia, a continent that will need ever-increasing volumes of food, hydrocarbons, minerals and other raw materials. 'South-South' trade flows have been surging since the dawn of this new century, as Asia turns to Latin America and the Caribbean for these resources. Bilateral trade between Asia and the region has been expanding at an average of 20.5 per cent per year since 2002. It reached an estimated $442 billion in 2011.

Although market forces are driving this shift, governments need to play their part.

Diversifying exports

One key focus for the Latin American and Caribbean region is greater diversification in the basket of export goods. Free trade pacts, investment agreements and other such arrangements should spur manufacturing or agro-industrial ventures. Just as important is how the region can share policy successes and positive experiences. It has a wealth of experience in poverty reduction, agricultural modernisation, mining industry advances and urban development. Asia, too, has a storehouse of experience with first-class education systems, the technology leap and export policies to draw upon.

Latin America and the Caribbean must also expand and strengthen commercial ties across the southern hemisphere, where business and integration opportunities will increasingly be found. Now is the time to look to Africa, which, with its population of over one billion, represents great long-term potential for trade and investment.

Also, much still remains to be done in its own corner of the world. The Sixth Summit of the Americas, recently hosted by

Agriculture is one of many sectors in which Latin America and the Caribbean can profit from the increasing demand from Asia

Colombia, highlighted the need for Latin America and the Caribbean to cooperate and work together in the spirit of the meeting's theme, Connecting the Americas. Here, it is not only a question of developing physical infrastructure, which still lags so far behind as to constitute a barrier between neighbouring and fellow countries.

Virtual connections, logistics and bureaucratic procedures also need to be improved. Integration will open more and more doors. Integration requires political will, as well as the conviction that Latin American and Caribbean countries are stronger being united than if they operate as islands in a sea of missed opportunities.

The example provided by the region's business community, which has crossed borders, forged alliances and found opportunities, is proof of the benefits of operating in a regional marketplace. The first-ever CEO Summit of the Americas, organised by the Colombian government with the help of the Inter-American Development Bank (IDB) in Cartagena, brought together the top representatives of the hemisphere's business community with government leaders to foster closer ties and discuss issues that are vital to the region's competitiveness and productivity.

International success

There is a growing group of Latin American multinationals – the so-called 'multilatinas' – that are competing successfully around the world. Increasingly, more medium-sized companies are venturing into international waters. They must be encouraged to do so by ensuring that they have access to timely, competitive financing. In addition, regional supply chains must be created, so that even the smallest enterprises can participate in the process of adding value to the region's commodities and manufactured goods.

Amid the promises that the future holds, and with all that Latin America and the Caribbean have achieved in recent years in terms of controlling inflation, managing public debt and improving fiscal balance, several key concerns remain.

First among them is education. This is a critical challenge, not only in terms of spending or coverage of service, but especially in terms of education quality. International tests have shown that Latin American and Caribbean students underperform when compared to their peers in countries with lower incomes. This is partly a matter of teacher training, but also a problem of inflexible policies and poor management. Improving education will help to narrow the wide equity gap that characterises the region's societies, making Latin America and the Caribbean more productive and competitive, and enabling a culture of innovation to take root.

Consolidation requires political will, as well as the conviction that Latin American and Caribbean countries are stronger being united than as islands in a sea of missed opportunities

The second point is crime and insecurity, which top Latin American and Caribbean citizens' list of concerns. It is paradoxical that just when major advances in economic stability and increased incomes have been achieved, crime has reached levels far worse than during the 'lost decade' 30 years ago. Across the region, 350 people are murdered each day, more than in any other part of the world. It is time to mount a more coordinated response to this challenge, one that harnesses higher-quality information about crime and invests in professionalising those charged with maintaining law and order.

Raising living standards in cities

Progress in this area is essential to fulfil another pressing objective: improving the quality of life in the cities. While Asia is currently experiencing rapid urbanisation, Latin America made this transition some time ago. The region is home to some of the planet's most populous metropolitan areas, but also to some 500 cities that have populations of between 100,000 and two million. They must grow in a sustainable way, with transparent management to promote social inclusion and equity.

The Inter-American Development Bank's (IDB's) Ninth General Increase in capital resources, which came into effect in 2011, positions the bank to better address the region's growing financial needs. However, the surging growth of Latin America and the Caribbean, coupled with the uncertainties stemming from global economic conditions, has made evident a demand that already outstrips capacity. This is prompting IDB to explore solutions to respond more effectively to its clients, who value not only its lending capacity, but also the technical support and know-how of its experts.

As the G20 leaders gather for their summit, the ongoing fragility of the world's industrialised economies will naturally dominate discussions. But nobody should lose sight of the need to sustain the growth of the world's emerging economies, for their continued prosperity will be the key to an enduring global recovery. As John F Kennedy said: "Geography has made us neighbours, history has made us friends, economics has made us partners, and necessity has made us allies". ■

Free trade pacts and investment agreements can offer an incentive for agro-industrial ventures

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Latin American Reserve Fund

The only regional reserve pool in Latin America was established in 1978 as the Andean Reserve Fund (FAR) and later became the Latin American Reserve Fund (FLAR), to promote membership for all Latin American countries. It is an organisation where members make capital contributions to help each other deal with balance-of-payments difficulties.

FLAR enjoys strong support from member countries, to which it has provided net benefits as liquidity insurance during its 30-year-plus existence.

FLAR can play a much more relevant role in regional financial stability and continues to promote and encourage membership of all Latin American countries.

FLAR within the regional financial structure: performance in perspective

- FLAR is a unique institution at the Latin American level and one of the few in the world.
- The FLAR sub-region represents one-fifth of regional GDP.
- FLAR's financial assistance action has been expedite and timely throughout its history.
- FLAR has a *de facto* preferred creditor status in its member countries and imposes few conditions or requirements for granting credits.
- FLAR's member countries' commitment is proven by the continuous capitalisation of profits throughout its existence and the contributions of fresh capital.
- FLAR has strengthened its financial capacity by issuances in the international markets.
- FLAR is non-bureaucratic, efficient and flexible in order to meet the needs of member countries.
- FLAR is a highly specialised technical institution and has been greatly successful in the management and investment of international reserves and in providing services to central banks and public institutions of the Latin American region.

FLAR resources (US$ million) (March 15, 2012)

Member countries	Subscribed capital	Paid-in capital
Bolivia	234.375	197.937
Colombia	468.75	395.874
Costa Rica	234.375	234.375
Ecuador	234.375	197.937
Peru	468.75	395.874
Uruguay	234.375	234.375
Venezuela	468.75	395.874

Total subscribed capital: $2.343.750; **Paid-in capital:** $2.052.247
Prudential reserves: 10 per cent of paid-in capital: $205.224

Credit rating

The highest credit rating in Latin America. AA composite rating (Standard & Poor's, AA/A1+/stable; and Moody's, Aa2/P1/stable)

Lending instruments

FLAR has five types of credit lines, with a term from one day to three years: (i) balance of payments, (ii) Central Bank foreign debt restructuring, (iii) contingency, (iv) liquidity and (v) treasury.

Members can borrow up to 250 per cent of their paid-in capital contribution.

ROA (return on assets) average of past three years: 1.5 per cent

ROA (return on equity) average of past three years: 2.5 per cent

Investment guidelines

Investment objective

Real capital preservation within a three-year horizon and a confidence level of 95 per cent.

Strategic benchmark

- 33.3 per cent US TIPS
- 33.3 per cent US six-month T-bills
- 33.3 per cent one-month LIBID

Maximum tracking error: 100 basis points

Eligible instruments include short- and medium-term securities issued by:

- US Treasury and GSE.
- US Agencies MBS.
- Supranational and sovereign governments and agencies.
- Corporations and financial institutions.

Minimum credit ratings:

- For money market instruments, a credit rating of minimum A2/P2/F2 by Standard & Poor's and Moody's and Fitch ratings, respectively.
- For medium-term notes, a credit rating equal or higher than A-/A3/A- by Standard & Poor's and Moody's and Fitch ratings, respectively.
- For financial institutions and corporations, the maximum medium-term exposure by issuer is one per cent of the market value of the portfolio.

Other services provided

Asset management, term deposits, compliance and risk-management monitoring for investment portfolios, training and seminars.

Fondo Latinoamericano de Reservas
Ana María Carrasquilla, Executive President
dbriceno@flar.net | Tel: 57-1 6344360
Avenida 82 No. 12-18, piso 7, Bogotá DC, Colombia

Moving beyond complacency: towards a renewed development

The region has witnessed substantial progress in the economic and social fields. But challenges ahead remain complex and require a long-term vision and a mutually supportive agenda

By Enrique García, president and CEO, CAF – Development Bank of Latin America

Latin America is in a favourable but somewhat paradoxical situation in view of the great uncertainty of the global economy. It exhibits relatively high growth rates, enjoys an open democratic environment and has reduced – with some exceptions – its poverty rates. Many of the developed countries in North America, Asia and Europe are beginning to see the region as a key ally in their strategies to promote growth in their own economies. This has increased their interest in expanding their markets towards Latin America and in increasing foreign direct investment even in sectors that go beyond natural resources and activities linked to telecommunications.

Undoubtedly this is good news for Latin America but, at the same time, it is an opportunity for its countries to initiate a cycle of reforms and to address new challenges. These must be approached with responsibility and without complacency.

Latin America has been able to grow, after more than a decade of reforms, mainly because of a responsible fiscal policy, a stronger financial regulatory framework and, of course, high international commodity prices that have been reflected in a considerable increase of export earnings. The positive external situation, in the context of an adequate macroeconomic policy, has yielded its fruits.

The challenges for Latin America

Despite these macroeconomic successes, the problems are also apparent: the region continues to show high levels of inequality and poverty; employment is precarious; public institutions continue to be weak (as evidenced by the high levels of criminality and the low levels of citizen satisfaction with the rule of law); the export sector depends on producing low value-added goods and services; there are low levels of productivity in both the public and private sectors; investment in infrastructure is scarce; the rates of innovation and entrepreneurship are unsatisfactory; and high barriers to the financial system restrict enterprise development. At the same time, Latin America shows significant lags in adopting new energy-efficient technologies and developing a green economy.

Building on advantage

How, then, does the region face up to this agenda for change, taking advantage of the renewed interest? This is perhaps the true dilemma: either it remains in a 'comfort' zone that depends on the high prices of natural resources – assuming that this increase in income due to the hike in prices is permanent and running the risk of a technological change or of a decline in global demand – or it builds up competitive strengths on the basis of these comparative advantages, promoting a productive transformation that goes along with greater social equity.

This is what Justin Yifu Lin calls the "comparative advantage-defying" strategy: the adoption of policies that gradually build on the relative abundance of some factors in a sustainable way – in the case of Latin America, natural resources – to promote a process of productive transformation.

This path can only be built jointly by the public and private sectors. The organisational complexities and the needs for investment cannot be the exclusive task of only one sector. This path must be based on the shared construction of entrepreneurial, social and institutional agendas.

On the issue of infrastructure, Latin America exhibits a deficit of investment.

Economic progress in resource-rich Latin America has forged ahead, with many countries enjoying high growth rates and increased foreign investment

The region invests less than three per cent of gross domestic product in this area, while China invests 10 per cent, and the average for advanced countries ranges between five and six per cent. Latin America should double its investment. To take on this challenge it must develop capacities and mobilise resources. Does it have the capacity to carry out the required task? The number of companies in Latin America capable of carrying out large infrastructure projects – such as the Panama Canal, or urban metro networks and railways to link cities – is limited.

There are a few large Brazilian and Mexican companies, but they could not satisfy the demand. There is, therefore, a huge space for foreign companies, which are already taking advantage of it, and there is a huge room for growth for local engineering services companies. The ability of local firms to take advantage of the opportunities will depend on the capacity to generate the necessary human resources and entrepreneurship. It is increasingly frequent to see transnational companies participating in international bidding processes, even those financed by multilateral organisations, as well as the emergence of some Latin American conglomerates in this area.

The role of the public sector

Does the region have the resources? It is hard to believe that the public sector by itself will be able to finance this effort. Inevitably, it will have to associate itself with the private sector, generating investment mechanisms for companies to participate, while at the same time mobilising individual savings by strengthening local capital markets.

Another critical case relates to employment and the growth of small and medium-sized enterprises (SMEs) and their internationalisation. Latin America must diversify its supply of exports to advance in its productive transformation and grow at higher rates. It is not possible to generate better jobs and expand exports of greater value added if it does not mobilise SMEs.

Although these enterprises generate a good part of total employment, they barely export and exhibit low productivity levels. Therefore, addressing these challenges is critical and requires shared agendas for competitiveness, innovation, entrepreneurship and access to financial resources.

The private sector must be the key promoter of these changes, but it is hard for it to do so alone as SMEs often face considerable market and information failures. Therefore the public sector, through development agencies, can catalyse greater levels of cooperation among enterprises to stimulate the creation of productive chains. It can take a role in coordinating public-private agendas regarding innovation and technological transfer and investing in infrastructure and logistics projects that increase the competitiveness of sectors with export potential. The public sector can also promote access to international markets, reduce financial barriers, develop mechanisms for quality certification and consolidate private sector institutions that promote the development of productive chains and companies.

The global financial crisis may be an opportunity for Latin America to engage in this transformation. As the recession in Europe may last two or three more years, Latin America could take advantage of Europe's industrial capacity by promoting direct investment of large companies but, above all, of SMEs. The SMEs of the developed G20 members are not small compared with their Latin American peers, and their high levels of technology and specialisation may represent a contribution to the region.

Therefore, both governments and the private sector should seriously consider the challenge of productive transformation and take advantage of the situation faced by the economies of the rest of the world to attract both international capital – from SMEs – as well as the knowledge and entrepreneurial capacity necessary to transform the productive chains with competitive potential.

The risk of complacency

Latin America has achieved great progress in the economic and social areas, but the challenges that remain are complex. The increase in income levels in the region as a result of higher commodity prices at the global level is a blessing, but also represents a real risk. Latin America must overcome the complacency that its abundance generates. This effort is not an easy one: it requires a long-term vision, public- and private-sector collaboration, and building solid institutions to design and implement innovative and adequate public policies. ■

Promoting sustainable development and green growth in Asia

Asia has made massive economic progress, but it is coming at a cost, both human and environmental. Action needs to be taken so more people can share in the wealth of the region in a sustainable way

By Haruhiko Kuroda, president, Asian Development Bank

Asia's stunning economic growth over the past two decades has raised living standards and helped to lift more than half a billion people out of poverty. But this socioeconomic progress has come with a high price tag, due to unsustainable and often inequitable economic growth patterns.

The region is consuming resources and polluting at a high rate, with a still rapidly growing population, expanding urbanisation and increasing demands from an expanding middle class. Public health and human well-being are suffering from degraded natural resources, threatened ecosystems, worsening water stress, natural disasters and increased waste generation, with the poor being hardest hit. Climate change – the most dramatic symptom of unsustainable development – exacerbates these problems and threatens the future of both the region and the world.

With 545 million malnourished people in the region and 700 million people still without access to modern forms of energy, food and energy security are of particular concern. Difficult choices are looming at the nexus of the food, water and energy sectors, particularly as agriculture and energy compete for declining water resources.

Weak governance and institutions continue to pose a challenge to the region's environmentally sustainable growth. While in some countries environmental policies, laws and institutions have been strengthened, few have implemented effective enforcement and compliance procedures. Efforts to build effective governance structures for green growth need to be deepened and expanded.

To get itself onto a sustainable path, Asia must improve the efficacy of resource use, environmental protection and economic growth, while ensuring equitable outcomes for its people. While these challenges are daunting, they also offer new opportunities for placing future development on an environmentally sustainable, low-carbon and climate-resilient path. Given that the region is extremely diverse, green growth strategies must be carefully adapted to national situations and investments prioritised, depending on specific environmental, social and economic contexts.

Consistent with the region's emerging green growth agenda, the Asian Development Bank (ADB) will help its developing member countries pursue economic growth and human well-being while using fewer resources and generating fewer pollutants and emissions per unit of gross domestic product. It will seek to support long-term transformational change; promote approaches that will produce multiple benefits covering environmental, economic and social aspects; promote integrated planning across resource flows; and address environmental challenges at local, regional and global levels.

Difficult choices are looming at the nexus of the food, water and energy sectors, particularly as agriculture and energy compete for declining water resources

ADB emphasises the need to address climate change, promote the development of livable cities and take a range of actions improving environmental policies, knowledge and management capacities. Its operations have three mutually supporting strategic directions: to promote sustainable infrastructure; to improve natural resource management and maintain ecosystem integrity; and to build sound environmental governance and management capacities, with response to climate change embedded as a cross-cutting issue. To achieve this agenda, ADB mobilises financial resources, maintains and builds new strategic partnerships and develops knowledge solutions.

ADB plays an active role in channelling concessional financing to effective investments. It mobilises private sector financing and entrepreneurship through direct project lending, equity investments, risk reduction, carbon finance, technology development and diffusion, public-private partnerships and other innovative modalities.

Over the past 10 years ADB has supported 240 projects contributing to environmental sustainability amounting to more than $23 billion. Its investments in clean energy reached $2.1 billion in 2011. From 2008 to 2011, ADB invested more than $2.8 billion to provide access to energy for nearly 10 million households. In 2011, investments in urban transport and railways accounted for 15 per cent and 23 per cent, respectively, of its transport sector portfolio.

Through the Cities Development Initiative for Asia, it is promoting the development of 'livable' urban environments. ADB seeks to sustain its annual water investment at $2 billion to $2.5 billion during 2011–20, and a total of $20 billion to $25 billion by 2020. Several of its programmes support better management of natural resources and ecosystems, including the Coral Triangle Initiative, the Greater Mekong Subregion Biodiversity Conservation Corridors Initiative and the Heart of Borneo Initiative. In addition, its climate change adaptation programme helps its client countries build climate resilience.

G20 Los Cabos and Rio+20 Summits

To make the commitments on green growth made at the G20's 2010 Seoul Summit and previous summits operational, several areas require further action and increased funding:

An enabling policy framework for promoting transitions to green growth is needed. In recognition that policy and institutional frameworks must support transitions to green growth, including

Asian countries will need financial support in their efforts to invest in measures to mitigate the risks of climate change, such as flooding

low-carbon and climate-resilient development, a regional programme of green policy reform in the Asia and the Pacific could help promote needed changes, such as more efficient resource pricing, removal of perverse subsidies and green fiscal reform.

Technology development and transfer for green growth are required. Taking advantage of the establishment of the Technology Mechanism under the United Nations Framework Convention on Climate Change (UNFCCC) technology partnerships could be developed to promote skills transfer and capacity building. Such platforms could help exploit economies of scale leading to reduced costs, the mitigation of risks, the development of indigenous capacity and increased incentives for investment in research and development (R&D) over the long term. These partnership platforms may include knowledge sharing and collaboration in R&D, analytical work and project financing.

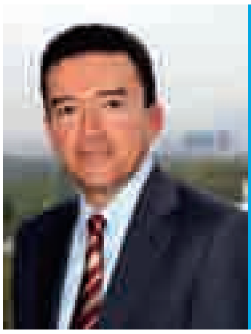
Critically important ecosystems must be conserved. To address the economic undervaluation of ecosystem goods and services in the market and the resulting loss of biodiversity and ecosystem degradation, further commitment is needed to explore and develop initiatives to expand new payment schemes and market mechanisms. Examples are the UNFCCC approach in Reducing Emissions from Deforestation and Forest Degradation (REDD) and Payment for Ecosystem Services (PES) schemes.

Social protection and poverty reduction are necessary. To ensure that there is a 'just transition' in the pursuit of green growth and low-carbon development, countries in the region must carefully design reforms to achieve environmental and equity objectives simultaneously. To this end, countries should be supported in their efforts to develop education and skills programmes to foster green job creation and social assistance and welfare programmes, especially for poor and vulnerable groups, including women.

Green growth requires financing. All these initiatives in developing countries will require strong financial support from developed countries, whether through multilateral or bilateral channels. In particular, the Green Climate Fund should be financed to serve as the principal multilateral mechanism for climate-related investments, especially to achieve significant increases in the availability of funding for measures to adapt to climate change. ■

BANSEFI, leading the way for financial inclusion in Mexico

BANSEFI helps people on low incomes across Mexico to gain access to secure, dependable financial services



Carlos Montaño
CEO, BANSEFI

Reforms in the regulatory framework set in place during the past 10 years have provided the foundation for the construction of a solid financial system in Mexico. A better financial system, together with responsible handling of fiscal policy throughout this time, have made the Mexican economy more resilient and capable of withstanding external shocks in a much better way than other economies.

The financial system plays a key role in the prospects for growth in any economy. The Mexican banking system still faces the enormous challenge of making services available to most of the population. In many areas of the country, financial services are still provided by informal schemes, making the otherwise common and safe task of saving a risky and uncertain one.

The legal framework aims to regulate the financial intermediaries currently providing these services, making trustworthy financial services available to all. To make this happen, development banks have played a key role, focusing on the attention of people on low incomes, typically underserved by the private financial sector. Financial inclusion is a priority for the Mexican government and is part of the main agenda of the G20 summit this year. Helping to achieve the goal of enabling every person to have access to financial services is one of the reasons the National Saving Bank and Financial Services (BANSEFI) exists. This development bank has become a key player in fostering financial inclusion in the country.

BANSEFI has become an essential tool for the Mexican government in achieving financial inclusion. BANSEFI has expanded the frontier of financial services to reach the low-income population, a market niche that the private banking sector has not fully reached. One of the main goals of BANSEFI is to be the first point of access to a financial system when no other financial intermediaries are present.

To offer access to financial services to this clientele, BANSEFI has created a network of 494 branches, spread out over the entire country. They offer financial products and services such as savings, remittances (both local and international), micro-insurances, and acts as a window for receiving payment of services (eg, utility bills).

The size and reach of this network is complemented with the joint venture between the members of the Popular Financial Sector and BANSEFI, known as L@Red de la Gente ('The People's Network'). This commercial alliance includes 287 financial intermediaries, increasing the number of offices to more than 2,300. L@Red de la Gente is the largest financial network in Mexico, with more presence than any other commercial bank.

BANSEFI has recently begun another commercial alliance via a correspondence bank. This began with DICONSA stores. These are community-owned shops, created by the government to sell food, basic products and agricultural supplies in Mexico's poorest rural communities. This network is made up of 25,000 stores that are located throughout the country. As many as 236 stores have been approved as BANSEFI correspondence outlets by the National Banking and Securities Commission. Many more are perfect candidates to enlarge BANSEFI's network, as they are placed precisely near the segment of the population intended to be reached by basic financial services.

In its 10 years of existence, BANSEFI has created the largest financial network in Mexico, with a presence in 2,380 municipalities (97 per cent of the municipalities). No other network has as wide a reach as BANSEFI. Last year, BANSEFI, through its financial network, made payments of more than 1.5 million international remittance transactions, for a sum close to \$600 million. In addition, the Institution manages 11.4 million accounts and \$15 billion in assets.

Helping low-income families

An outstanding result in financial inclusion for the Mexican government was achieved last year when BANSEFI created 6.5 million-worth of debit cards that were linked to bank accounts for the same number of people.

With financial inclusion high on the Mexican government's agenda, it was considered crucial to make all the people who are beneficiaries of the most important social programme in Mexico ('Oportunidades') account holders. They now receive their cash transfer through a debit card from BANSEFI. By opening these 6.5 million accounts, these low-income families now have a safe and reliable tool to save and make basic transactions in shops and via the ATM network.

In addition to the Oportunidades programme, BANSEFI distributes other government transfers, amounting to more than \$3 billion during 2011. Transparency and accountability are enhanced by the use of this tool. The positive effects are also found in reduced transaction costs, as Oportunidades' recipients do not have to travel miles to collect their benefits. Now the challenge is to provide further financial education to maximise the benefits of financial inclusion.

An important component of financial inclusion is financial literacy. BANSEFI has deployed a major programme of financial education for its network partners and customers. The aim is to have informed customers who will take better financial decisions and make the most of the financial services offered by the BANSEFI network.

BANSEFI offers financial education workshops to members of the popular financial sector who, in turn, will be able to replicate

Mexicans needed a reliable way to conduct financial transactions

financial literacy courses with their customers. BANSEFI also uses mobile units to give financial workshops in hard-to-reach towns. As part of the strategy of financial education, BANSEFI created a microsite called Finances for Everyone (www.finanzasparatodos.org.mx), where educational financial videos and information on financial planning, savings, credit, insurance and other services can be found.

BANSEFI has an ambitious agenda that seeks to consolidate and extend educational activities and financial inclusion by developing innovative and effective financial products that meet the population's needs, supplemented by the use of new technologies to expand the geographic coverage of financial services. To reach this goal, BANSEFI will foster the expansion of correspondence banking. This will significantly increase the BANSEFI network, while lowering the cost of opening full-service bank branches. BANSEFI will also work towards the use of mobile financial services that will facilitate transactions in areas where the cost of transporting funds are relevant. As more and more people use mobile phones and coverage increases throughout the country, the use of such technologies will reduce transaction costs and benefit millions of Mexican families.

BANSEFI, as the financial inclusion leader in Mexico, has shown remarkable achievements in offering access to financial services to the population, and especially to low-income families. Carrying out the BANSEFI agenda will keep Mexico on the right track, and technology will enhance financial inclusion in the country.

CONTACT INFORMATION
National Saving Bank and Financial Services (BANSEFI)
Rio Magdalena #115
Col.Tizapan San Angel
CP. 01090 Del. Alvaro Obregon
Mexico D.F.

Developing Africa

African economies have been growing robustly. The continent is rich in resources – both natural and human – but these need to be harnessed effectively if Africa's full potential is to be realised

By Donald Kaberuka, president, African Development Bank

Africa's robust growth during the 21st century has generated much enthusiasm for the continent's prospects for economic development and the reduction of poverty. Years of reforms have been followed by an increase in exports, foreign direct investment and domestic demand. Therefore, despite the global economic and financial crises and the recent sovereign debt problems in the eurozone, more than one in four African countries registered growth rates above five per cent in 2011.

Some of these growth rates were on par with those of China and India. This robust growth is helping Africa to reduce poverty which, based on a poverty line of $1.25 a day, has fallen from 58 per cent to 47.5 per cent since the beginning of the century.

This good performance has been largely driven by the booming mineral, oil and gas, and service sectors. There have been significant benefits for some groups, but their uneven distribution has increased inequality among households and regions. Swathes of the population are still trapped in deep poverty.

Yet there are three key windows of opportunity for Africa's growth and development in the medium term – good policies, the natural resource boom and the demographic dividend.

Strengthening good policies

Macroeconomic stability is crucial to preserving the benefits of the strong growth that Africa has witnessed. Recent inflationary pressures, especially in East Africa, have raised serious concerns about the impact on vulnerable groups. Fiscal discipline must be preserved as the key to sound macroeconomic management. On the structural side, a number of significant bottlenecks to growth and economic diversification, such as poor infrastructure, burdensome regulatory regimes and low skills, have to be addressed.

In the wake of reduced aid flows to Africa, governments must focus on mobilising domestic resources and good policies and practices relating to expenditure. Good governance should be a goal for many countries. Efforts to eradicate corruption and reduce the heavy toll that it imposes on governments' capacity to deliver services to the people should be pursued vigorously.

In making growth more broad-based, Africa must address the challenge of low agricultural productivity, which is a serious drag on the rest of the economy.

The potential for young people to become job creators in their own right through policies that support and nurture young entrepreneurs should be recognised and acted upon

Africa's agriculture is largely carried out by smallholder farmers. They are constrained in terms of finance, technical advice, farm equipment and market access. Thus, while it has been estimated that agricultural growth has a multiplier effect of 1.5 on the rest of the economy in sub-Saharan Africa, much more needs to be done before the sector's leveraging effect is felt more widely.

Abundant and efficient infrastructure is needed to enhance Africa's competitiveness and productivity and the delivery of services, but long-term financing will be needed to make a real dent on the infrastructure deficit. Governments need to encourage innovative approaches, including the use of pension funds, insurance schemes and other sources of domestic funding for infrastructure development. Several African countries are, for example, considering issuing infrastructure bonds. It might also be necessary to set up a number of public-private partnerships for the construction of infrastructure, notably in electricity generation.

Africa needs to help grow its private sector in a more purposeful manner. But while its potential is vast, impediments to the private sector remain pervasive. Apart from bottlenecks in infrastructure, access to finance and the availability of skilled workers are key constraints. Furthermore, the modern private sector in Africa has so far generated little employment. Many countries are revisiting the issue of industrial policy, based on the models of the Asian countries, in search of a workable model that takes into account their natural endowments.

Harnessing the natural resource boom

Africa has become a mineral prospector's paradise. No day passes without the announcement of a significant discovery of oil, gas or some other mineral. If properly harnessed, this resource boom could help accelerate Africa's growth on a sustainable basis and reduce absolute poverty. This will also mean less dependence on foreign aid.

The African Development Bank (AfDB) has estimated that Africa has more than 122 billion barrels of proven oil reserves; the potential reserves could even be higher.

Deposits of natural gas are equally plentiful, estimated at about 500 trillion cubic feet of proven reserves, and the equivalent in potential reserves. Africa is also endowed with vast amounts of non-oil mineral resources.

Globally, it produces 82 per cent of platinum, 24 per cent of phosphate, 25 per cent of titanium, 20 per cent of gold, 18 per cent of uranium and 5 per cent of nickel. Africa's ability to benefit from its mineral windfalls will depend on the quality of its public policies. New wealth must be invested in new technologies, skills development and infrastructure to ensure that even after the end of the boom, countries continue to prosper. There will be a need for fiscal regimes that raise revenue without hindering private-sector participation in mineral prospecting and development.

However, it is important for countries to negotiate fair deals. African governments receive only about 12 per cent of the royalties

Africa has the youngest population in the world, and a young, well-educated workforce is an important resource in its own right

on oil and gas production, compared to Latin America's 24 per cent. According to a recent AfDB study, foreign gold mining companies receive tax exemptions that far exceed the relevant tax codes of countries.

Africa has the youngest population in the world. Close to 20 per cent of its one billion people are aged between 15 and 24. It is estimated that by 2030, one in every four young people will be African. The youth bulge is considered a serious socioeconomic challenge in many African countries. However, the experience of Asia indicates that, if well harnessed, a large and youthful population provides many opportunities for raising productivity and growth.

In many Asian countries, governments gave priority to education in science and technology in the 1950s and 1960s, thereby putting in place an environment ready for the fast growth witnessed in the coming decades. Also important was the emphasis on the provision of quality health and education services, including those in rural areas.

Creating opportunities

The potential for young people to become job creators in their own right through policies that support and nurture young entrepreneurs should be recognised and acted upon. Several challenges have to be addressed, including the quality and relevance of education. While many young people are unemployed in Africa, many skilled jobs remained unfilled.

This mismatch needs to be addressed urgently. The resources expended by governments in scaling up the technical skills of their young populations will be more than rewarded in future years by a rapid pace of development. Human development should thus have the first call on the resources flowing from the natural resource boom. The green economy also provides opportunities for youth employment.

Sustaining Africa's growth and reducing poverty will require economic transformation – the extent to which it is able to transform inherited wealth into created wealth. Resources that require such transformation include Africa's minerals and its young people. For perhaps the first time since independence in the 1960s, Africa has the opportunity to embark on sustainable development and pull its population out of poverty. ■

DEVELOPMENT

India's story of agricultural growth

The historical struggles experienced by India in increasing and diversifying its food production are rarely discussed. Yet the country could make a unique contribution to the development debate

By Yoginder K Alagh, former minister of power, planning, science and technology; chair, Institute of Rural Management Anand, India

What are the major challenges facing India in economic development, especially in the food and agricultural sectors, and what effective strategies has it pioneered?

Jeffrey Sachs recently said that Sahelian Africa has much to learn from India's strategy of a broad policy architecture for spreading irrigation for small farmers in the 1970s. But the orthodox view at that time was that India could not feed itself.

William and Paul Paddock, in *Famine 1975!*, argued: "Today, India absorbs like a blotter 25 per cent of the entire US wheat crop. No matter how one may adjust present statistics and allow for future increase in the US wheat crop, it will be beyond the resources of the US to keep famine out of India." Others – the Hudson Institute, Keith Griffin, Francine Frankel, the Bretton Woods institutions, and Paul Streeten and Michael Lipton at the Institute of Development Studies in the United Kingdom – all took a dim view of India's agricultural prospects. Some argued that India also did not have medium-term growth prospects since poor agriculture would lead to a wage goods constraint. The World Bank and even India's ministry of finance felt that India would not achieve its target of 125 million tonnes of grain by 1978-79; estimates ranged between 118 million and 120 million tonnes.

At that time policymaking in India focused on resource allocation and policy support to agriculture. Indira Gandhi saw food security as a central issue. Once a plan was ready, she forced through resources for it even after the budget was passed. The Planning Commission, basing itself on large studies of sources of growth in India, produced its first agricultural sub-model under my supervision, making conservative assumptions on land reserves and productivity so that resource allocation for agriculture, particularly irrigation, received a high priority in the investment budget. Public-sector capital formation of Rs 5566 crore at 1993-94 prices in 1976-77 was not reached in any year in the 1990s, reflecting the lack of strategic policymaking for agriculture in the reform period. By 1978-79, India was producing 127 million tonnes and was a net exporter of grains.

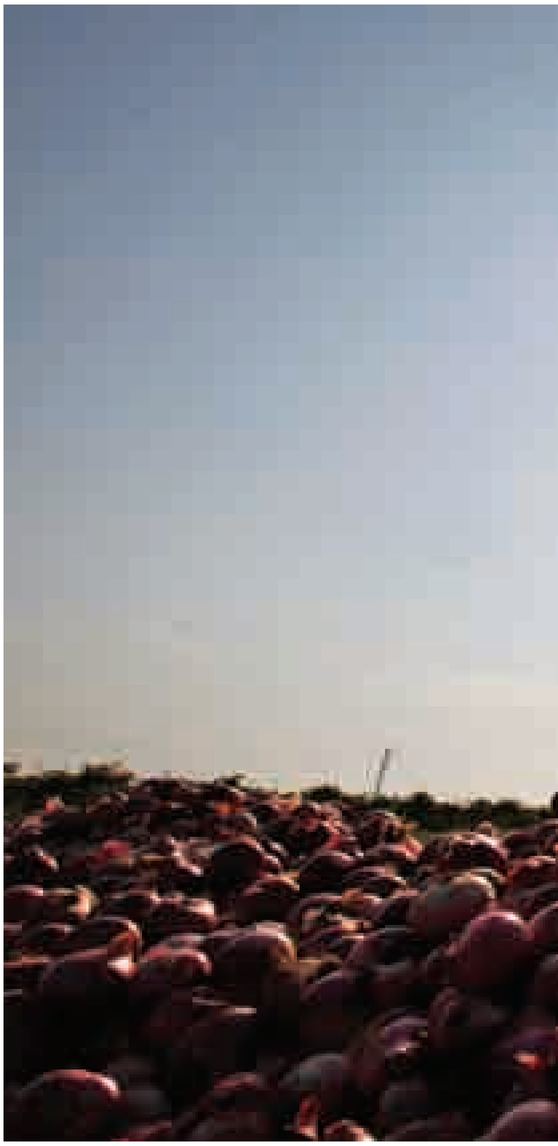
Diversification and demand

Having succeeded, the Indians soon realised that producing grain was not enough. Agriculture in this semi-continental country meant each of its 144 agro-climatic regions should grow what it was best endowed for. Rajiv Gandhi pushed this approach in the late 1980s. This time, now as a member of the Planning Commission, I saw the second plateau in 1989. The 1990s was a lost decade for agriculture in India, with growth rates halving and investment falling and lectures on reform and globalisation substituting for policy.

India's successes and tribulations in feeding itself, sustaining the food demands of a billion-plus population with limited land and water, are of global relevance

The current government formed by the United Progressive Alliance party since 2004 has put the sector back on its historical growth path. But India faces the demands of high growth on agriculture and struggles with diversification and expansion of food demand.

The Indian story of agricultural and broad-based rural growth is a tortured one, largely unknown in rest of the world. India's successes and tribulations in feeding itself, attempting to reduce hunger and sustaining the food demands of a billion-plus population now growing at one of the fastest rates anywhere, but with limited land and water, are of global relevance. In a world of knowledge dominated by major power centres, the story of private consultants, development bankers and large corporations is a common one, but the Indian story is not. It is understandable that India pushes the World Trade Organization's Doha Development Agenda, for India is willing to give in on the issue of subsidies for its



Women labourers work in an onion field in Pimpalgaon, north of Mumbai. India continues to struggle with diversification and expansion of food demand

parastatal organisations in return for a fairer trading regime and the freedom to follow the livelihood objective.

A realistic approach

Particularly since the 2010 Seoul Summit, India has followed the G20 with persistence. Since 1975 India has moved away from a fixed exchange rate and did not share the East Asian mercantilist fixation. Thanks to India's conservative banking system and strong regulatory tradition of central banking, India's leading economic government officials Y Venugopal Reddy, Rakesh Mohan and their successors have become widely recognised names in the global search for financial transparency. Having used the market increasingly in its larger economic policies, the Indians also took like ducks to water in the G20's consensus on pushing the Mutual Assessment Process into country-specific commitments, leading to the 2011 Cannes Action Plan. In terms of measurement and operations, India argues that commitments emerge from domestic policies and that there is not the necessary global push. It takes a somewhat realistic approach to the doctrine of rebalancing, recognising the scale of the economies of the United States and Germany, but asking for creative institutional experimentation for larger trade in the faster growing economies, needed to avert global crises. However, uncoordinated rebalancing, the Indians argue, may make things worse.

Large countries such as India will sup at the high table only if their concerns about water, energy and sustainable development are accommodated. This requires understanding and experience-based debates about real alternatives. Such talk must be followed by give and take. The world's poor need more take than give, but the magnitudes will remain debatable. The disappointing part is that this process is very, very slow. ■

SPONSORED FEATURE

Formalisation, productive inclusion and microcredit in Brazil

By Carlos Alberto dos Santos, technical director of the Bilian Service to Support Micro an Small Enterprises (Sebrae)

All over the world, best practices of microcredit systems show a range of possibilities in offering credit to productive businesses in the informal sector. Small sums of credit are allocated, governed by an assessment of the client's ability to pay the funds back, based on cash flow and, in the absence of concrete collateral, on alternative guarantee mechanisms. This innovative credit technology helps to reduce assymetric information and the moral hazards that are inherent in the process of offering credit, that created the so-called microfinance revolution of the 1980s and 1990s, with the Grameen Bank of Bangladesh as its iconic example.

The debate around the small size microcredit plays in Brazil's financial system continues, despite the successful and internationally known experience of the Banco do Nordeste's Crediamigo programme. Most experts on the issue point out the operational and logistical difficulties of establishing a microfinance system in a continental country such as Brazil – the so-called big-country dilemmas.

The challenge of expanding the offer of microcredit in Brazil has been taken on by the Brazilian Federal Government through the Crescer Program – a microcredit programme that is offered, alongside technical help, to productive enterprises. In its first six months, the public banks involved in the programme – which was launched in September 2011 – have reached the landmark figure of a million credit contracts and $600 million lent. At the core of the Crescer Program is a large network of public bank branches, public funding to finance the credit operations and a subsidised interest rate; the initiative's goal is to reach more than 3.4 million clients and lend up to $1.5 billion by the end of 2013.

The clients of microcredit are, traditionally, entrepreneurs from the so-called informal sector of the economy. In Brazil it is estimated that this segment has nine million people, most of whom work in the tertiary sector, in retail and services. The Crescer Program has the aim of reaching this sector through microcredit that is offered by the public banks taking part in the programme.

The high costs involved in extending credit to this sector through more traditional ways means it needs to be heavily subsidised which, in turn, explains the why so few private banks participate in this area.

On the other hand, the scattered portfolio of clients of those financial institutions that are not regulated by the Brazilian

Central Bank reflects the limited amount of funds available for microcredit working in the not-for-profit sector.

Has the microfinance sector in Brazil the certainty of being a exclusive part of public policy and subsidised credit schemes? Or, to put it another way, isn't there a possible alternative to offer microcredit on a more commercial basis, with a stronger role for private banks, cooperative unions and public banks?

The high costs involved in offering small amount of credit, and as a result, the difficulty of the microfinance sector to reach a wider clientele, are directly linked to the need to collect adequate and qualitative data to support credit analysis and risk assessment in a certain economic environment where the informal sector is the potential client.

A recent and powerful microeconomic reform that recently took place in Brazil could make an important contribution in overcoming this dilemma. The Complementary Law No 128/2008, officially applied after 1 July 2009, helped to radically reduce the costs and red tape of formalising a micro business in Brazil through the EI-Empreendedor Individual (Individual Entrepreneur), a new economic status for those who until then had opted to remain in the informal economy. This reform can be considered a silent revolution in the making in Brazil – it is a massive process of inclusion in the formal economy of millions of informal enterprises and entrepreneurs.

Individual Enterpreneurs (EI) can be registered as micro businesess if they have an annual turnover of less than $30,000. The formalisation process can be completed at no cost in a matter of minutes using online forms: it is completely paperless, with no stamps and no bureaucracy.

In addition to the rights of becoming a formal business, an EI gains access to welfare services and retirement rights. It costs less than $20 a month and the process of payment is simple and can be done through a single form.

By drastically reducing the costs and the time involved in formalising a micro business in Brazil, this new law has already allowed, in less than three years, more than 2.5 million people in productive activities to formalise their businesses.

On average, 4,800 EIs are registered all over the country every day. As part of the formal economy the entrepreneurs give a clear signal to the financial institutions offering microcredit that their business activity is not seasonal, nor is it a part-time activity that they are engaged in while searching for a job. Last but not least, they signal that their business is not illegal. All illicit activities are informal, but not all informal activities are illegal. In the medium term, this massive formalisation process taking place in the Brazilian economy will have a tremendous collateral effect of exposing the illegal activities in the informal sector.

The bills that register trade transactions and the formal process of buying inputs and merchandise are also sources of information that will further reduce information asymmetry. It can provide, at a very low cost, information on a potential client's capacity to pay back loans.

Through the National File for Registered Enterprises the granting of microcredit to Individual Entrepreneurs helps counter the lack of incentive to lend as part of the risk mitigation process. This establishes the formation of a virtuous circle, generating more – and better – information that will allow risk mitigation and reduce the cost of credit analysis and operation, lower interest rates, generate a stimulus to the demand, and foster a large operational scale with lower operational costs.

The most important driven factors to the formalisation process should be its low cost and the simplicity of the process. This was the decision taken by the Brazilian Government when it decided to overcome the vicious circle of high costs and high bureaucracy that prevailed until recently. Advancing further in this direction is one of the major challenges for the social and economic development of Brazil.

Formalisation, inclusion and microfinance in Brazil are indeed great news.

Finance, governance, knowledge: pillars to protect the world's water

The era of 'easy water' has passed. We need to seek political engagement on the issue, find new types of financing and change public attitudes if we are to safeguard this resource for future generations

By Loïc Fauchon, president, World Water Council

The world needs growth. But the circulation of people and ideas demands that growth be fair for all humans and also for nature. The rapid expansion of the world population, its increasing concentration in large cities and the legitimate desire of each human to have access to a standard of living that satisfies that person's needs for food, sanitation, education and culture require significant growth. To achieve this growth, global peace and the capacity to make resources such as water and electricity permanently available must be guaranteed.

Securing water and energy is a prerequisite to the survival of the human, animal and vegetal worlds. There is no development without water. But not all the water can be dedicated to development. This is where the future of both water and the planet lies today. Securing global and local water resources and their usage has become one of the key priorities that the international community must take into account and guarantee.

This water security – which, slowly but surely, is becoming binding on all people, political decision makers and economic actors – covers several aspects.

The first is human security, which deals with essential needs or the obligation to make water available in both sufficient quantity and quality to feed and care for the planet's population. Existing and potential arable land exists in adequate quantity even if it is unevenly distributed on the Earth's surface. The capacity to water this land and ensure that it is not confiscated conditions the food security of more than a billion individuals.

Two conditions seem important. First, confidence in local farming – so often abandoned for many decades for the benefit of major agri-industrial groups whose existence is surely necessary but insufficient – must be restored. Second, feeding the world population is inconceivable without providing permanent access to healthcare. Access to water is the cornerstone of health policies. Water-borne diseases remain a principal cause of mortality, notably from diarrhoea in children and malaria. What would be the purpose of providing a sufficient quantity of food to people if one later lets them die for lack of healthcare?

The water-energy-security nexus

To this end, the world needs to get the right recipe for the water-energy-security nexus to consider coupling water and energy at the service of food and health security. Then one can talk about water for economic security to guarantee the availability of water to produce the goods and services required for development. In a global economy, no one can pretend to have economic self-sufficiency. Industrial production demands large quantities of fresh water to be treated later. The governments of those countries most lacking water resources will face choices based on the quality of the knowledge they gain about the quantities or even volumes of water required for domestic production of their own food commodities, cars and computers. The concept of virtual water will help guide economic and hence political choices. Rationalising the use of water stands now as an obligation for all governments.

Another aspect of water security concerns water that guarantees a proper ecological balance. Returning a sufficient quantity of quality water to the natural environment in order to ensure the proper balance of biodiversity and protection of ecosystems boils down to guaranteeing the life and survival of future generations.

Pipes feeding water to a hydroelectric power station. Governments must outline their priorities on water consumption by individuals, industry and public utilities

Securing water for essential needs, economic growth and ecological balance means fully enshrining the right to water as a human right, a guarantor for the dignity and freedom that each inhabitant of Earth is entitled to. None of this is possible if the world cannot manage to regulate and control the growing water demand and continue to increase its supply while respecting the balance of this natural medium.

Making larger quantities of water available for the global population requires increasing the productivity of each drop of water, but also developing smart technologies that produce without destroying. Deep-well pumping, water transfers over large distances, water desalination, recycling of wastewaters, rainwater collection and brackish-water emergence count among the key opportunities that leading-edge technologies offer for the near future.

Yet all this must be done with prudence and respect for the natural environment. Tomorrow's world will be able to cope with the thirst of the increasing number of inhabitants only by ensuring that the use of these technologies does not hinder the capacity of the continental water reserves for renewal through protection from pollution of all sorts.

Political leaders have an immense responsibility to guarantee a world in which access to water becomes universal. This concept lies on three pillars that form the bedrock of the priority given to water: finance, governance and knowledge. There can be no international, national or local water policies without clear and powerful interaction among these three pillars. This requires imagining new types of financing while prioritising budgets dedicated to the access to public services. It requires allowing for water governance as close as possible to the population while empowering citizens with a view to a better, more economical and rational use of water. And it requires increasing knowledge exchanges in order to develop the techniques best suited to local contexts.

Promoting public policies that will raise awareness of the fact that the time of easy water has passed is an obligation for all. Since taps must now come before guns, the future of water – beyond technical breakthroughs – clearly depends on political will. ■

MINING PRODUCES PRECIOUS THINGS: A BABY BORN WITHOUT HIV

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